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Tuesday 15 June 2010

Session 3 - Bottlenecks to Mortgage Market Development

The panel was moderated by **Richard Banks** (RB), Director, Middle East, Euromoney Conferences, with panelists: **Ahmed Taher** (AT), Chairman and CEO, Solutions Consulting; **Sahar Nasr** (SN), Lead Financial Economist, World Bank; **Gus Freeman** (GF), Managing Director, Arabian Research Bureau; **Ahmed Haggag** (AH), Mortgage Consultant, Sakan Finance; and **Rasha Elganzouri** (RE), Senior Lawyer, Trowers & Hamlin. Below are excerpts from the session.

RB: We have two sessions this afternoon picking up on themes discussed this morning. We have a more varied panel than the one this morning. If we go over anything we went over this morning I apologize. What I understand from what was discussed this morning we want to look at licensing, the title of ownership, culture and products, access to long term funding and also segmentation and market research. Gus, from your perspective is the proper segmentation of the market challenging? Should more work be done?

GF: We saw this morning some good work on this topic. Everyone says there is a big market and for sure there is we can see through the macro indicators. When the debate is about mortgage financing being available further down the scale there needs to be better understanding of the segmentation. It will be less profitable as we go down the scale so naturally we tend towards the top end. This doesn't mean that the lower end is not profitable and I think it is up to financiers to provide this. There are many fish in the market: bankers, mortgage financiers and companies. Over time there will be more housing finances.

RB: Research implies not just collecting but also analyzing and verifying it as reliable. How would the market go about creating better market research to address segmentation?

GF: Stakeholders or the government should be involved in this. In fact I definitely think that stakeholders should request this.

AH: After 6 years I would say segmentation at this stage is still a little premature. We finance the property. We are creating the commodity first and then afterwards we can start financing. We offer financing of EGP 50,000 to everyone no matter what the product is, as long as it is something that can be financed. Afterwards we can talk about the available property to be financed and registration.

RB: A lot of people are saying segment according to income. You don't. What methodology do you use?

AH: We put everything together and judge on a range of things, at the first stage we are focusing on developing a database and a consumer portfolio that we can segment later.

AT: Markets don't start by segmentation; they start by positioning the product first. More than 70% of those who need this financing don't have a clear idea of what mortgage finance is and to start there has to be understanding as to what mortgage financing does and what it does not, as well as what it is and what it is not and this information has to come from a credible source. Why do we regulate? So we can ensure healthy growth and I think the regulator is in a position to promote and position mortgages.

RB: This promotion can't come from the industry itself?

AH: No it would lose its credibility because the public doesn't like what they don't understand, and because of this they already distrust mortgage financiers.

AT: There is a fear amongst lower income customers because they are far away from banks and fear them.

AH: I think the problem is bankers think like bankers.

RE: Why haven't we seen mortgage financiers and developers collaborate to provide a package to the end user. I have spoken to some banks who have even said developers are our competitors.

AH: We are not after that competition but it is true.

RB: Why are developers in this market?

GF: because there was a gap in the market and banks and mortgage financiers could not fill this.

AH: I think it's more complicated than that. The market is very big and needs a lot of players if all needs are to be addressed.

RE: Isn't it a case of trust I would trust Palm Hills over a bank.

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AH: Simply it's about disclosure at the end of the day. The developers have their own battles to fight. If I am going to pay the full amount I want to request to start the registration process right away.

RB: If I have a new property I can choose between developer financing or property financing right? So it's really a choice?

AH: If developers can finance over 20 years, then they are welcome to do so. The majority does not and don't have the capability to either.

AT: Consumer perceptions are not shaped by reality. Perceptions are shaped by awareness. Which do you know better, Palm Hills or mortgage companies? Which do you understand better? The perception is the developer is a safer bet.

RB: It would seem to me that what the developer is offering and what you are offering are different products.

AH: Developers do not offer mortgages they offer off plan installment plans and we haven't seen developers offering plans that extend past 4 years except over the last few years.

RE: Why wouldn't I buy from the developer? The developer doesn't own the land the government does so you really don't have security because you don't have the collateral that would make this investment safe.

GF: If this mortgage bank was an animal what would it be? Some people say it would be a snake and some people would say it was my savior because it's affordable and it saved me.

RB: How do Egyptians perceive a mortgage? Are they looking at the total cost?

GF: I think regionally and from my experience in the Gulf and Amman to my surprise we are finding these people looking at the total lifetime cost. If you are in a country where there is high inflation it's not an issue but where the inflation is stable when you add it up the total payments you will make during your lifetime are double or triple the original value.

SN: We have to differentiate between different sectors. I think there are several building blocks for mortgage financing. The government worked on affordability and now they are working at mortgage access and obviously developers haven't been able to create this access.

RB: The first thing I was taught was the difference between demand and need. If you can't afford it you don't need it. Is there really demand? Are these people really going to be able to afford it genuinely?

AT: If you are talking about EGP 900 per month for 15 years then yes.

RE: What we are trying to do is allow and enable access to mortgage loans.

RB: Ahmed, are you willing to provide this loan?

AH: If there is a property at this price. The first thing is the property and the second thing is looking to the products which are all made for middle income clientele.

SN: This program was developed so people could access financing for low and middle income over 9 -10 years. The crucial balance is between access and risk.

RB: A lot of the problems in the US were generated by politically driven lending and a part of the reason for the crash was financing low income sectors. Low income financing has risks.

SN: Egypt did weather the crisis and this was because of the very good and safe measures implemented by the banks.

RB: Egypt didn't get hit because you weren't taking the same amount of risk.

SN: I would say the difference is we focused on safe lending. We are continuing to expand but safely, and the numbers show that.

RB: Yes, Egypt is very advanced and they had their crisis before everyone else but to maintain the mortgage financing system we do have to have more credit. Ahmed you said I am willing to lend if they have the title.

AH: Under article 2 of Egyptian law, we can take additional safety measures by registering the property under our own name. We take these guarantees on, until we can put the clients name on the property. Today it takes 6-8 months if everything is going smoothly. There is great demand but there is a demand mismatch.

RB: What can we do about title problems?

AH: We need an interim solution but as long as everyone wants to take their rights on the day of the deal we will never have this. This is a legal issue it has to do with the ministry of housing, the ministry of investment, the ministry of justice and the EFSA.

RE: Over 80% of property in Egypt is registered and 99% of urban population is not registered either. People are fine with the process of not having their property registered until we get mortgage financing. With mortgage financing, you first have to register your property, and that can take up to 2 years and only then after this, can you file for your mortgage, which can take up to 6 months.

AH: I think it's obvious that the problem goes back to lack of awareness. If you ask a person to step in to his apartment without any type of document he will be happy to do so, simply because he is not aware of the importance of this document.

RB: One of the themes that keeps coming up are gaps in the market. A seller doesn't want to go through these procedures the responsibility is on the buyer and then there will be a period, about a year when the person has no finance. What is needed is a product that can bridge this gap. Is this idiotic?

AH: Once we have a property that is able to be registered we finance in 5 days. Right now we don't need registration documents, just an ID and an HR letter and the title comes later so we are literally financing the property. It's not about financing a client you are financing a property.

GF: Mortgage finance is a means to an end. The goal is to provide housing for all so people can live at a certain standard. If this so called mortgage loan is not going to fit Egypt today, there needs to be something that works until the loan system can be adjusted.

RE: Mortgage leasing. They will buy your property and the company owns it and at the end of the lease they hand it to you.

Q&A

1) Who should be taking the first steps in mortgage financing?

RE: The developers. There is certainly more room for expansion. I think at some point more players have to enter the market.

RB: I am detecting risk aversion. How can we mitigate this?

GF: There is this big demand out there but there needs to be an estimated size, and of course there is uncertainty.

RB: What do we need to do for people to take the first step?

SN: We can't compare the Egyptian market with others we only started reforming recently. Interim reforms, registration, and so on have improved this, now we are focusing on the access to funding and then you have to think about the establishment of liquidity. Things sometimes take time there is some progress, developers have to take a more active role and there has to be more coordination between key players. There is more to be done.

RB: We are not sitting here blaming the government clearly the problem is multifaceted. Ahmed you wanted to say something?

AH: My recommendation is blanket registration, 68% of the mortgage finance goes to new housing. All the properties which are new and paid in full would be registered right away.

RB: Blanket registration. Does it work?

RE: If you think about it you have an EGP 2,000 flat fee rate for title registration, but then you have the lawyer's fee and other fees and by the end you are talking about EGP 18,000. Who is going to do that?

2) What can we do to help people access mortgage finance?

AT: Perception management within the boundaries of reality is what it is needed.

RB: You said you need to quantify what mortgage finance is. How big a task is that?

AT: That's a 6 month task and then a consumer awareness campaign can be done.

RB: What are we talking about for this survey?

AT: \$ 100,000. People don't understand what mortgage can do for them they don't understand the risks.