Egypt Social Housing Program

MAY ABD-EL HAMED CEO of Social Housing and Mortgage Finance Fund

November 2019
104 million Egyptian population, 24.3 million households. Average Household size 4 person (3.9 for urban and 4.2 for rural)

500,000 units per year is the expected increase in housing demand.

Real estate stock is 43 million units in 2017 compared to 25 million units in 2006 with an increase of 53.9% over 10 years.

Source: CAPMAS report 2019
EGYPT DEMOGRAPHICS MARKET DATA

1.03% population growth annually and 26% of the working force is between 15 – 29 years.

0.8% of the existing housing stock need replacement

Tenure for Urban Egypt: 75.9% Home ownership, 7% old rental law, 6.2% new rental, and 10.2% donated houses.

17.5% average family spending on housing of the monthly income.

42.2% of the household lives in Urban areas, while 57.8% in Rural areas.


Source: CAPMAS report 2019
Mortgage Finance Market Overview
Legal Framework & Infrastructure

A. An urgent need, for a mortgage law to facilitate access to housing specially for low and middle income groups due to limited affordability.


C. Mortgage Finance Law allow creation of mortgage companies to avail the necessary financing together with banks as follows:

1. Maximum LTV of 90%, Maximum installment 40% of monthly income & 35% for low income.
2. Maximum loan offered to single person/family not to exceed 10% of MFC equity.
3. Unit down payment is 10%.
4. Licensed appraisers to valuate properties before financing.
5. Amortization of term loans must be predetermined.
6. Income must be verified and accepted by banks.
7. Article 35 of the Law provides for the establishment of a low-income insurance and support fund with general legal personality.
8. A Presidential decree was issued 2003 to establish “Mortgage Finance Fund” to expand affordability through channeling subsidies to eligible household.
9. MFCs offer Mortgage (regulated by FRA) along with banks & Mortgage contracts standardized.
10. Property registration fees have been reduced (from 12% to a flat fee of LE. 2000)
11. Simplified foreclosure process set by law & successfully tested in court.
Mortgage Finance Market Overview
Credit Scoring and Egyptian Mortgage Refinance Company

- Credit scoring company created in 2004.
- Securitization law and regulations have been issued in 2004
- EMRC established June 2006 as a liquidity facility with current paid in capital of EGP 373.3 million as of 2017.
- Subscribed to by the CBE, GSF, IFC & 30 banks and mortgage finance companies; They are the only entities that are allowed to borrow from the EMRC.
- Such facility is the base of the secondary market; Its business is refinancing of longer-term residential mortgage loans originated by primary lenders for which it will raise term funding by issuing bonds.
- The company started financing its activities through its equity and a World Bank loan of LE 214 million. The ultimate goal of the company is to become a regular issuer of bonds in the capital market, once market conditions are conducive.
- Banks holding securities issued by EMRC are allowed to include such securities in the numerator of local currency liquidity ratio.
- To date EMRC refinanced mortgage contracts to value of EGP 2.587 Billion as of April 2019 and has not tapped bond market yet.

Source: FRA. 2019
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Source: FRA, 2019

**Mortgage Finance Market Starting June 2006 to Sep. 2019**
# Mortgage Finance Development


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Source: FRA. 2019
MILLION UNITS PROGRAM 2015-2020

• Article (78) of the Egyptian Constitution stipulate “The State guarantees citizens the right for adequate, safe and healthy housing”.

• Issuance of the Social Housing law in 2014.

• Creation of a new entity Social Housing Fund (SHMFF) to ensure sustainable finance to be available for a housing program that sets Housing Policies, regulations and program guidelines.

• Demand side subsidy which enhanced efficiency where the transparent and targeted subsidies reduces the down-payment requirement for income-constrained households.

• Cash Subsidies are set to increase with decreasing income levels, and are linked to a maximum affordable mortgage loan by a financial institution.
| SHP Mandated: | Cash subsidies using WB loan proceeds ($500 million) for targeted beneficiaries. | Providing finance needed to Building 1,000,000 units by Government of Egypt by 2020. | Contracting through private sector. | Providing Units in new cites and old cities; Units sold at cost plus 5% | SHMFF handle applications processes and delivery of units to applicants | Monitoring occupancy and proximity to work centers. | SOCIAL HOUSING FINANCE PROGRAM 2015 - 2020 |
SOCIAL HOUSING FUND (SHF) PROGRAM TO ACHIEVE SDG 5, 6, AND 11 GOALS
One of the program main core is empowering women and give them equal opportunity to apply and be allocated a housing unit with full property rights based on their income criteria and with priority given to female in the worst housing conditions (widow or widow with kids, divorced or divorced with kids) and ensures that contractual provisions are in place to protect women if they financially contribute to installments alongside their spouses.

All social housing units are connected to basic infrastructure to provide inhabitants with an easy access to clean water.

Social housing program make a major contribution to achieve Sustainable Development Goal 11 in the majority of Egyptian cities addressing serious service shortage in a participatory matter, and bridging the affordability gap by innovative digitalized Affordable Housing Program which targeting over million units distributed over 283 cities in Egypt.
The World Bank worked with SHF, to develop a national demand-side subsidy program designed to minimize the required subsidy amount to reach low-income households.

Main obstacle was high inflation rate of the post-revolutionary period which brought both house construction and mortgage lending to a pause; Mortgage rates reached more than 20 percent in 2012 up till now.

In May 2012 the CBE initiated a LE 20 billion stimulus package for the housing sector, providing banks with low-cost funds which banks would on-lend to eligible low-income households under the AMP at a highly subsidized fixed rate of 7 percent for 20 years and a minimum down payment.

Banks participating in the AMP were allowed a fixed margin of 4.5%, thus allowing the program to reach a wide geographical area.

In May 2015 the World Bank provided a loan for the Inclusive Housing Finance Program to support the SHF in scaling up its program and expand and strengthen it as an institution.

The specific components of the subsidy package under the CBE program remained the same but the values of the down payment subsidy, the maximum house prices, and related loan amounts have been updated over time with inflation.

The current program features are as follows:

(a) A relatively small down payment subsidy that is progressive with incomes, that is, the lower the income the higher the subsidy, and has a maximum value of LE 40,000 (equivalent to 15 percent of the current house price of LE 260,000) and an average of LE 20,000 (8 percent of the current house price).

(b) A down payment by the beneficiary of a minimum of 15 percent of the house price and a maximum of 50 percent.

(c) A 20-year loan at a subsidized rate of 7 percent with an amortization schedule that increases the monthly payment by 7 percent each year, based on the legal requirement to increase public salaries by 7 percent annually.

As of February 1, 2019, the CBE liquidity funding for AMP mortgages to the banks has been utilized entirely and a new initiative introduced by MOF whom will cover the differential rate between subsidized and market interest rate to continue offering affordable conditions and banks use their own funds to finance mortgage loans.
FINANCING TOOLS

CBE allocated LE 20 billion on two tranches with 20 years maturity directed to real estate financing for low-income and middle-income housing projects in new urban communities for banks to re-lend in accordance with the following conditions:

- Interest rates are fixed throughout the loan maturity.
- 5% & 7% interest rate offered for subsidized loans where market rate is 18-20%.
- The amount needed by the banks are made available to them in exchange for treasury bills or treasury bonds renewed periodically.
- 28 lenders from public and private banks as well as MFC’s where working with the CBE initiative.

New initiative initiated whereby MOF will cover differential between subsidy and market rate to continue offering affordable conditions. Estimated offered differential over a period of 20 years for 300K units cost LE 77 billion.

Current balance of loans offered to low income is EGP 27 billion.
**MANAGING DEMAND**

**Eligibility Conditions & Policies**

- Be Egyptian citizen.
- Age from 21-50 years old.
- Program serves households with incomes between LE 50,400 for individuals annual income, and family LE 68,400 which is reviewed periodically. Income investigated by private checking companies contracted by the fund and second level of checking is done by banks when underwriting the loan.
- Not own a private Residential property
- Minimum monthly income for loan (LE1300 ~ $80)
  - First-time citizen home buyers.
  - One flat per household
  - low-income citizens.
  - Family / Single.

- Unit price should not exceed LE200,000 for semi-finished units and LE250,000 for fully-finished units or as approved by the Board of Directors.
- Units should be evaluated by a real estate expert who is registered with the Financial supervisor Authority (FSA).
- Units must be registered or registrable
- Any other additional conditions determined by the SHMMF Board of Directors mentioned in the announcements or advertisement or the request for proposal (RFP).

**Primary target group:**

- Customer should occupy unit during first 7 years of ownership-no resale or renting
• Distributed over 188 cities/1023 project in all Egyptian governorates for law income.

Ownership program

Rental Program

• Income below LE 1,500
• Offered 6,000 units over 24 cities

 Syndicate Program

• 16000 applicant are under investigation and sent to banks for funding.

SOCIAL HOUSING FUND PROGRAMS
STATUS 2014 – ON GOING
TOTAL NUMBER OF APPLICANT FOR SOCIAL HOUSING PROGRAM

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<td>81522</td>
<td>230890</td>
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1,003,951 Total number of applicants
GEOGRAPHICAL DISTRIBUTION & CURRENT STATUS OF PROGRAM UNITS

Program Units Current Status

Total number of units 1,000,000 unit,

- 35% Under construction
- 37% Finished Units
- 7% Under planning
- 35% Planed To Build

Geographical Distribution of Units

- Delta Region: 18%
- Canal Region: 54%
- Cairo Region: 17%
- Asyut Region: 4%
- South Upper Egypt Region: 8%
- North Upper Egypt Region: 6%
The Social Housing and Mortgage Finance Fund has been keen on engaging the largest number possible of financing entities in the social housing project, through enabling banks and real estate companies to provide finance to the social housing beneficiaries.

- The Program succeeded in cooperation with 29 banks and mortgage finance companies to serve the Egyptian national plan for financial inclusion through applying digital payment mechanisms and enhancing dealings with lending banking authorities.

- Million citizens applied to the program 65% of which dealt for first time with banks, or opened a new bank account.

- The banking sector broadened its participation in financing the Social Housing Programs abiding with banking principles to ensure efficient collection system from citizens, consequently maintaining financial sustainability. In this respect, 25 lending entity (banks and mortgage finance companies) are from the private sector participating in the Program.

### MORTGAGE FINANCE WITH LENDING ENTITIES

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<th>Fiscal Year</th>
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<td>9,501,720,081</td>
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<td>Total</td>
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**Mortgage Finance lending LE 24 billion**
The average subsidy LE 16,000 per household

Subsidy decreases with increased income.

TOTAL SUBSIDY BENEFICIARIES (SEP. 2019)
TOTAL SUBSIDY AMOUNTS FOR LE 4.2 BILLION

Beneficiaries according to work classification:
- PRIVATE SECTOR: 49.0%
- GOVERNMENT SECTOR: 31.6%
- SELF EMPLOYED: 19.2%
- OTHER: 0.2%
SUBSIDY BENEFICIARIES AS OF SEP 2019

**ACCORDING TO AGE GROUP**

- 30-41: 18%
- 40-51: 52%
- 50-61: 10%
- More than 50: 3%

Average age of beneficiaries = 37 years

**ACCORDING TO INCOME GROUPS**

- 1000-1500: 33%
- 1501-2000: 19%
- 2001-2500: 9%
- 2501-3000: 3.6%
- 3001-3500: 0.9%
- 3501-4000: 0.5%
- 4001-4500: 0.3%
- 4501-4750: 0.3%
- More than 4750: 0.9%

Average Income of beneficiaries = 1,900 L.E

Total Units Beneficiaries, 20.5% are female and 79.5% are male
Priorities for unit allocation depends on social status (Married with kids - Married – singles and younger are also priority).
SUGGESTED PUBLIC-PRIVATE PROJECT

- Development of new PPP guidelines under which new proposals for 10,000 PPP pilot projects
- Providing 125 thousand housing units through the private sector
- Provide funding and subsidy to eligible beneficiaries
- Ensuring that units prices are affordable for low-income citizens. Through setting price ceiling for units adjustable periodically

- Ensuring that units prices are affordable for low-income citizens. Through setting price ceiling for units adjustable periodically
COST AND ENERGY EFFICIENT NEW CONSTRUCTION

Decrease in the growth of informal settlements, which in turn lead to reducing associated negative environmental impacts.

Careful selection of projects location to reduce commuting times to employment, schools and other destinations. Resulting in lower environmental impacts from traffic.

Using pre-paid electricity power meters and water meters.

Using solar cells and solar energy heaters for energy savings.
Program beneficiaries expected to reach more than 3.6 million individuals or close to 725,000 households with an average household size of 4.3 individuals.

SHMFF will indirectly contribute to generating job opportunities for skilled and unskilled labor. In the construction sector of 1.5 million job over a six year period.

The decrease of expansion of informal housing on agricultural land and the related impact on agricultural output.

The Program expected to increase GDP by 0.6 percent in year one and close to 2 percent in subsequent years.
CUSTOMER SERVICES FACILITIES

Call Center (5777-5999-1188-090071117)
7.43 million call (SEP 2019)

SMS Service (1124)
2.93 million message (SEP 2019)

WWW.mff.gov.com
25.8 million visitor (SEP 2019)

15 new customers’ service centers covering the majority of cities and governorates that have witnessed high demand on social housing program
Egypt Case Challenges

Amending land registration system / Legislative amendments required

Cash subsidy needs to increase to low income citizens due to increase in unit prices driven by floatation of local currency, in addition to VAT.

Scarcity of available land in the governorates, especially Lower Egypt

Depending entirely on self-financing
Thank you