

# ESAF & the Mortgage Market



For many people in the Palestinian Territories, owning a home is a lifelong dream, but the lack of affordable housing and awareness about housing finance options prevent many low and middle income citizens from making this dream a reality.

In response to rapidly growing housing demand in the West Bank and Gaza, USAID's ESAF program is supporting the development of the nascent Palestinian mortgage finance market through interventions at multiple levels: consumer, retail, and regulatory levels.

**ESAF's Mortgage Market Development Program (MMDP)**, implemented by CHF International, began in April 2010 with the objective of supporting the development of a sustainable long-term mortgage market in the Palestinian Territories. The program provides technical assistance and education at all levels of the market—from potential homebuyers, to current apartment owners, to bank loan officers, to local appraisers. The program supports USAID objectives in West Bank and Gaza by building a more inclusive financial sector that promotes sustainable affordable housing finance and

supports the expansion of mortgage financing options. By supporting the development of a long-term mortgage financing market, MMDP facilitates the purchase of the affordable housing units and plays a significant role in supporting economic development and community stability within the Palestinian Territories.

The MMDP addresses these needs through four key enabling components:

1. Piloting **homebuyer education** for the public
2. Strengthening **bank capacity** in mortgage underwriting
3. Strengthening **condominium self-governance**
4. Strengthening the **appraisal profession**.

## **Component 1: Mortgage Education for the Public**

Mortgages are relatively uncommon within the Palestinian Territories. They are not offered in most local banks and even when available, most citizens are reluctant to take on the risks of borrowing over such a long term when they do not fully understand the product or their own rights and responsibilities under a mortgage agreement.

To increase Palestinian households' understanding of the home buying process, MMDP piloted a multifaceted program to educate potential homebuyers in the requirements, responsibilities, risks, and benefits of borrowing for a home purchase or home improvement. As part of the Home Buyer Education Pilot, CHF is developing a customized Home Buyer Education Workbook in Arabic, conducting educational workshops for interested citizens and sharing their results with other local initiatives focused on financial literacy and consumer affairs in the Palestinian Territories. In an effort to

### **At-a-Glance:**

#### **In its lifetime, ESAF will provide:**

- **5,000** Home Buyer Education Workbooks
- **24** Home Buyer Education Workshops delivered to **600** prospective buyers
- Mortgage underwriting training to **120** bank loan officers from **8-10** banks
- **10** self-governance trainings for condominium Homeowners' Associations (HOA)
- **7** full-day training classes for appraisers licensed under the PCMA
- One draft mortgage law, with support from the PCMA

address sustainability of the initiative, CHF is also designing a highly interactive on-line learning tool in Arabic that enables an individual to access all the mortgage education materials through a website.

### **Component 2: Mortgage Underwriting Capacity Building**

Since few local banks offer mortgages, most have not developed the in-house expertise needed to properly underwrite long-term mortgage loans. However, with the expansion of affordable housing developments on the Palestinian horizon, the banking sector has acknowledged that they need to prepare their staff for the new demand. To meet this need, MMDP conducted individual bank assessments to determine what information is most needed by loan officers.

In 2011, MMDP is conducting 2 phases of bank training for 7-8 partner banks and over 200 banking staff introducing them to mortgage concepts, underwriting and sales and marketing of mortgage products. Trainings are offered to lenders who currently originate mortgages, as well as to those who have not yet started offering the product. Banks will also be introduced to newly adopted appraisal techniques put in place by the Palestinian Capital Markets Authority (PCMA).

### **Component 3: Condominium Self-Governance**

Thousands of condominium units are scheduled to be built in the Palestinian Territories over the next five to seven years, ensuring that condominiums will remain an overwhelmingly popular way for low and middle income citizens to gain access to their home ownership dream. Good self-governance practices for home owners associations helps to protect the long-term maintenance and viability of the buildings ensuring the entire collateral of any mortgage loan remains intact. While condominium laws do exist, there is an absence of knowledge of these laws among the public. In the absence of formal regulations in this area that would help condominium owners enforce and formalize their own by-laws, the MMDP has developed a framework to help new owners of condominiums

efficiently govern themselves and maintain their buildings by establishing homeowners' associations. To do this, MMDP conducted legal research to identify the appropriate process a group of condominium owners would use to form an association within the existing legal environment and to identify best practices in condominium homeowners associations. Based on this research, a legal toolkit was created to share with condominium owners interested in starting an association. To disseminate this information, CHF has incorporated Homeowners' Associations (HOA) information into its home buyer education courses, and is facilitating six half-day workshops for interested groups of existing condominium-owners, that will provide practical and legal/regulatory information about the formation of HOAs.

### **Component 4: Appraiser Licensing & Education**

To complete all sides of the mortgage market development, MMDP will also lay the groundwork for more accurate valuation of residential properties for individuals and banks requesting the service for the underwriting of their mortgage products. MMDP is working closely with the Palestinian Capital Markets Authority to develop standards and qualification criterion for appraiser licensing, as well as a standardized appraisal format. Additionally CHF has delivered training courses for appraisers—to enhance their skills and learn different methods of international best practices of valuation which are not yet practiced in the current market (such as market-based methods).

### **Legal and Regulatory Reform**

In addition, ESAF is providing a customized package of technical assistance to build the capacity of the key regulator of the mortgage financing sector, the Mortgage and Leasing Directorate of the PCMA. Specifically, FHI 360\* is undertaking a comprehensive legal review expected to result in a draft mortgage law approved and supported by the PCMA, which when passed will strengthen and streamline the national housing registry and foreclosure process, among other issues.

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*The Expanded and Sustained Access to Financial Services (ESAF) program is a three-year \$36 million program, funded by USAID, and designed to build a more inclusive financial sector in the West Bank and Gaza, for Palestinian households and enterprises. The program is implemented by FHI 360\* in partnership with The William Davidson Institute at the University of Michigan, Shorebank International, CHF International, CARE and Save the Children. ESAF is an Associate Award under USAID's FIELD-Support Leader with Associates cooperative agreement, which is managed by FHI 360. <http://kdid.org/projects/field-support/esaf>. The content of this factsheet is the sole responsibility of ESAF and does not necessarily represent the views of USAID or the U.S. government.*

*\*On July 1, 2011, FHI acquired the programs, expertise, and assets of AED to form FHI 360. Visit us at [www.fhi360.org](http://www.fhi360.org)*