EMRC's GUIDE TO PRIMARY MORTGAGE LENDERS

Introduction

This summary outlines the provisions of the Credit Policy (the Policy) of the Egyptian Mortgage Refinance Company (EMRC). Please note that whenever possible, EMRC wishes to conduct business with its shareholders.

EMRC is a member owned financial intermediary. EMRC's mission is supporting primary lenders in providing longer-term, market-based, cost-effective mortgage loans financing for residential housing whilst maintaining a robust portfolio and positive returns to our shareholders.

The financial products and services offerings described in this Guide are designed to meet the needs of the EMRC's members. The EMRC stands ready to modify its products and services to meet the specific funding needs of members whenever reasonably possible, while protecting the financial integrity of the EMRC and producing a profit sufficient for the payment of a dividend to its members.

1 Eligibility Criteria

Loans refinanced by EMRC must meet the following eligibility criteria:

1. Fully disbursed loans for the purchase, construction or renovation of a residential unit;
2. EMRC will accept first liens ONLY as required by the Executive regulations of Law 148 of 2001 i.e. registered mortgages or mortgages eligible for registration;
3. The mortgage loan should at the time of refinance have a remaining life which expires on or after the maturity of the loan;
4. The mortgage loan has not been in default within the most recent 6-month period, and no payment is overdue by more than 60 days ;

5. Maximum loan to value (value being the lower of property price or appraised value) of 80%;

6. In the case of mortgage collateral, does not secure indebtedness on which any director, officer, employee, attorney, or agent of EMRC is personally liable.
7. The value per loan does not exceed EGP 3 million with the total value of loans between EGP 2 million to EGP 3 million not to exceed 10% of the pledged portfolio;
8. To the best knowledge of the Primary Mortgage Lender (PML) no bankruptcy proceedings have commenced against the borrower; and
9. To the best knowledge of the PML the borrower is not deceased;

10. The borrower is a natural person;
11. The mortgage property is insured against fire and other perils up to its full insurable value with a loss payable endorsement designating the PML as payee;
12. There should be adequate provisions in the mortgage instruments enabling the mortgagee to transfer the charge or assign all its rights and interest under the mortgage instruments to any person as the mortgagee deem fit.

2 Principals of Refinancing, and Replacements

The availability of advances to each member is based on the financial condition of the member, the adequacy of collateral pledged to the EMRC to secure such advances, and the member’s compliance with the prevailing laws and regulations.

A member’s access to advances is contingent upon:

1. Shareholding in the EMRC. Members also include Primary Mortgage Lenders (PML's) which have indicated their commitment to participate in EMRC's capital provided they present a commitment to participate as shareholders in the coming fiscal year and to inject the funds required upon receipt of a letter from the Board of EMRC indicating the exact amount to be injected;
2. Demonstration and maintenance of creditworthiness and the required commitment to residential housing finance as required by applicable laws and executive regulations;
3. Execution of an appropriate Advances Agreement;
4. Adequate collateral as per Qualified Collateral covering at least 120% of requested borrowing; and
5. Full recourse on the member in case of any default on the underlying mortgage loans.

Prior to accepting a commitment for an advance or disbursing an advance, credit and collateral analyses will be performed to ensure compliance with MFA's regulations and advances guidelines, and to verify the borrowing institution's financial integrity.

Borrowing capacity, as determined by the member's ability to repay principal and interest, will be reviewed as outlined below. At a minimum, the following will be reviewed:

1. capital adequacy at least 10% for banks and mortgage finance companies ;

2. availability of qualified collateral;

3. trends in operating ratios;

4. nonperforming-asset ratios;

5. adequacy of reserves;

All extensions of credit to shareholders by EMRC must be secured by sufficient qualified collateral at all times. In accordance with applicable regulations, EMRC is not permitted to lend to members on an unsecured basis. In addition to qualified collateral EMRC will have full legal recourse to members. A detailed listing of the types of collateral that EMRC is able to accept is included in APPENDIX A of the Policy. The amount of collateral pledged establishes a ceiling on the member's borrowing capacity with EMRC.

EMRC's senior management, with the approval of the Board, may grant exceptions to the provisions of this policy when necessary or in EMRC's interest.

Extensions of credit will be:

- In compliance with MFA's regulations and advances guidelines; and
- In accordance with the Mortgage Finance Law and relevant executive regulations.
- In conformance with EMRC's credit and collateral requirements.
- Properties must be valued by appraisers approved by MFA.

Total borrowings obtained from EMRC should not exceed the value of a member's qualified collateral. Qualified collateral is computed according to APPENDIX A of this policy.

- For the purposes of this computation, "advances" comprises all extensions of credit and credit services.

- A member that does not comply with any of its regulatory capital requirements may be subject to maturity and/or other borrowing restrictions. Certain restrictions may also apply to members that are affiliated with a holding company or other financial institution that is not in compliance with its regulatory capital requirements.

- EMRC may curtail the availability of advances without prior notice when EMRC determines that market or other conditions warrant such restrictions. EMRC may also change the terms of this policy at any time. In determining the availability of advances and lines of credit, EMRC will consider a number of factors, including EMRC's practical funding constraints, statutory and regulatory restrictions, and its responsibility to preserve its financial integrity and long-term viability as a prudent and profitable institution.

- EMRC may determine not to extend new credit to a member that is insolvent on a tangible capital basis. In its sole discretion, EMRC may renew maturing advances to such a member. EMRC may require the repayment of these maturing advances in an expeditious manner.

  For EMRC's purposes, tangible capital includes capital defined in accordance with generally accepted accounting principles less goodwill and other intangible assets.

In order to protect the quality of its portfolio and shareholders' investment in EMRC, advances of funds, and other extensions of credit or credit services (collectively, "advances") are provided only on a secured basis against qualified collateral and with full recourse to the members.

EMRC's Agreement for Advances, Collateral Pledge, and Security Agreement establishes a blanket lien to secure all advances made to the member by EMRC.

Members are required to maintain at all times an amount of qualified collateral that satisfies the collateral-maintenance level established by EMRC. (See APPENDIX A and APPENDIX B.)

All borrowing members must submit to EMRC, on at least an annual basis, an audit opinion that confirms the member is maintaining sufficient amounts of qualified collateral in accordance with this policy.

The opinion may be provided by the member's external auditor provided that the collateral verification process is conducted in accordance with collateral review procedures specified and approved by EMRC.

Qualified Collateral is limited to collateral that is listed in APPENDIX A

All Members are required to execute a Representations and Warranties document with respect to any mortgage loans pledged as collateral to EMRC. This document requires the Member to certify to knowledge of the foregoing policies, and compliance with those policies. In the event that any loan in a collateral pool is (i) found not to comply in all material respects with applicable laws, or (ii) not accepted as Qualified Collateral as defined herein, the Member agrees to immediately remove said loan and replace it with Qualified Collateral of equivalent value. The Member agrees to indemnify and hold EMRC harmless for any and all claims of any kind relating to the pledged loans.

EMRC will take such steps as it deems necessary to protect its security position as to outstanding advances. These steps may include, but are not limited to, requiring the delivery of additional collateral, whether or not such additional collateral would be eligible to originate an advance.

Unless otherwise specified by EMRC to a member in writing, the collateral-maintenance level for a member is the aggregate amount of qualified collateral that has a value at least equal to 120% of the aggregate amount of the member's outstanding advances from EMRC.

In computing a member's collateral-maintenance level, the types of property and the valuations that EMRC will generally accept are contained in APPENDIX A.

Because of the potential contingent liability of affiliated institutions within a holding company structure, EMRC will closely review the financial condition of a member's parent holding company and/or affiliated institutions.

Members:

1. Are required to segregate, label as "Collateral for the Egyptian Mortgage Refinance Company," and provide a listing to EMRC identifying specific qualified collateral sufficient to satisfy the collateral-maintenance level. Such listing must be updated at least semi-annually, or more often as EMRC may require.

2. May not use, commingle, encumber, or dispose of collateral that has been segregated, labeled, and listed without the express written consent of EMRC.

3. Agree to permit EMRC personnel to make periodic on-site verification of collateral pledged. An audit will be carried covering a sample of the portfolio representing at least 5 percent of the mortgage loans assigned and will be selected randomly. Auditors must review all conditions set by company, including those on eligibility, accuracy, and adherence to the reported information on defective and prepaid loans. Any anomaly is subject to replacement. In case of problems, EMRC could require a second, more intensive auditing. The member may be required to provide additional compensatory collateral on the whole portfolio of this member if the more intensive audit reveals anomalies.
4. Provide EMRC with full legal recourse .

Members, which in EMRC's sole discretion, show a worsening of their financial status, are subject to certain restrictions. Any restrictions determined to apply to these members will be communicated by letter and through discussion with the member’s senior management, and will remain in effect until the member is notified of a change in status. EMRC may limit the terms for new advances and renewals of advances.

If the value of a member's collateral declines below 120% of advances because of loan amortization, or loan payoffs, EMRC may, at its discretion, require the member to substitute qualified collateral that is acceptable to EMRC to offset the decline in the value of the collateral held by EMRC.

EMRC may require, in its sole discretion, further steps by a member in order to perfect EMRC's security interest in collateral provided by the member.

All fees and costs incurred by EMRC in connection with its collateral requirements will be charged to the member as per attached contract.

3 Summary of Mode of Operations of EMRC

3.1 Master Refinance Agreement

Prior to the approval of any advance request and disbursement of advance funds, each member requesting an advance must have a fully executed Corporate Certificate of Authority, Signature Card for Advances, and a fully executed current borrowing agreement on file with the EMRC. Only those officers whose names appear on the Corporate Certificate of Authority and Signature Card for Advances are authorized to request and sign for commitments and advances.

The Primary Mortgage Lender (PML) executes a Master Refinance Agreement with EMRC before it may avail refinance loans from EMRC. The Master Refinance Agreement sets out the general terms and conditions governing the pledge of mortgage loans to EMRC and incorporates a declaration by the PML that it holds the mortgage loans pledged to EMRC, the mortgage instruments and all monies received but not paid to EMRC in trust for EMRC. The charges over the property used to secure the mortgage loans continue to be registered in the name of the PML and the assignee of the rights to the property is the PML.

3.2 Refinance Contract

Members requesting funding do so by providing written instructions to EMRC. Instructions for executing advances are recorded, stored and archived to provide for future review and verification. Members must verify the terms of the transactions to ensure that they are properly recorded for audit purposes. The EMRC provides members with confirmations of advances, reflecting the terms of the associated advance and commitments.

All information provided to the EMRC may be reviewed by the EMRC when considering each request for an advance. Members should be aware of the representations and warranties in their borrowing agreements regarding the truth and accuracy of information submitted to the EMRC, and the possible contractual consequences of the breach of such representations and warranties.

The EMRC's obligation to release funds on advance commitments is subject to the continued eligibility of the member for advances as determined by the EMRC under applicable law.

Advance proceeds will be credited to the member's requested bank account.

For each refinance of a group of loans by EMRC, the PML executes a Contract by which the PML pledges the mortgage loans to EMRC. By virtue of such agreement the PML conveys, assigns and transfers the mortgage loans to EMRC.

3.3 Refinance Value

EMRC refinances the mortgage loans at book balance of the mortgage loan after deduction of (a) 20% and (b) any unearned interest (if any),

3.4 EMRC Rate

Products and services are priced in accordance with applicable regulations, taking into account the EMRC's nature, the cost of raising funds in the capital markets, and its financial objectives. These objectives include preserving the value of our members' investment in the EMRC while producing earnings sufficient to pay a dividend to our members after paying the EMRC's obligations.

The EMRC prices advances at or above the marginal cost of raising matching maturity funds in the marketplace, including the administrative and operating costs associated with making advances.

EMRC prices its credit products consistently to all members applying for advances. EMRC does not price its advances below its marginal cost of matching term and maturity funds in the marketplace, and the administrative cost associated with making such advances to members. However, EMRC may price advances on a differential basis, based on tenor, volume, or other reasonable criteria applied consistently to all members.

3.5 Review Date

The review date represents the last date of the refinance period. On this date the PML has the option to roll-over the loans at the then prevailing EMRC rate or to settle the loans.

3.6 Right of First Refusal

As the owner of the mortgage loans EMRC has the right to sell at any time these loans either to the PML for which it had refinanced these loans or to a third party. Provided that prior to any sale to a third party, EMRC will first offer the mortgage loans for sale to the PML for which it had refinanced the loans.

3.7 Compulsory Repurchase

Upon the loan becoming defective and /or in default the PML is required to replace the related refinance loan with qualified collateral.

3.8 Payment of EMRC Installment

For mortgage loans refinanced by EMRC the PML is required to collect the monthly mortgage installments from the borrowers and remit to EMRC the EMRC installment based on the contracted EMRC rate on a semi annual basis.

3.9 Accounting Record

The PML shall establish and maintain accounting records in accordance with any applicable instructions issued by EMRC, the Central Bank of Egypt and the Mortgage Finance Authority

3.10 Reports

The PML shall prepare and submit to EMRC defective loans and partial prepayments reports on a quarterly basis.

3.11 Audit

EMRC shall have the right to request the PML to appoint authorized agents to examine and audit all records pertaining to the mortgage loans refinanced by EMRC.

3.12 Prepayment of Advances

This prepayment policy applies to advances granted or renewed. Prepayments will be subject to a prepayment fee negotiated in advance. In the event that, for any reason, such a loan becomes due and payable prior to its originally scheduled maturity date, the EMRC will charge a prepayment fee sufficient to render the EMRC indifferent to such prepayment. Members should consult agreements directly to obtain prepayment policies and fees applicable to advances made. Prepayment fees are due and payable on the date the advance is prepaid.

4 SPECIAL PROVISIONS

4.1 EXCEPTIONS

Exceptions to this Policy may be made only by the Board or by management of the EMRC under properly delegated authority from the Board.

4.2 DEFAULT

The borrower must repay to the EMRC independent of the actual performance of underlying mortgage loans. If the borrower fails to honor its obligations, EMRC, as the full owner of the mortgage portfolio, cashes all related repayments with priority above any other depositor or lender to the defaulting PML.

In the event of a default on the payment of interest or principal on any advance, or in the event of any other default as defined in the EMRC's borrowing agreements, the EMRC is authorized to declare all debts owed to the EMRC immediately due and payable, and subject to any and all prepayment fees and charges.
PML default will occur upon:

- Failure to make prompt payment on interest or principal
- Representations and warranties (made by PML) are misleading or incorrect
- PML is facing liquidation or winding up
- PML becomes insolvent
- PML fails to comply with any of the terms and conditions of the Agreement.

If any of the above occurs EMRC at its sole discretion can require PML's to either:

1. settle all the mortgage loans outstanding or any mortgage loan outstanding.
2. transfer all rights and interest in the mortgage to EMRC or a third party
3. a combination of 1 and 2

4.3 MEMBERSHIP TERMINATION & WITHDRAWAL

Any member that has submitted a letter of intent to withdraw from membership in the EMRC may not borrow under any advances program with a maturity date beyond the effective date of the member's withdrawal.

When a member has submitted a letter of intent to withdraw from EMRC, any outstanding advances with maturities extending beyond the date of withdrawal are subject to immediate prepayment of principal and interest, as well as appropriate prepayment fees, either on or before the withdrawal date. In the event of an involuntary termination of membership, whether by merger, acquisition, regulatory action, or otherwise, EMRC may allow a nonmember to assume the outstanding advances of the former member. If EMRC allows the nonmember to assume the outstanding advances, these advances must be fully secured by qualified collateral delivered to EMRC.