

Presentation to the US Appraisal Summit Appraisal As A Tool In Promoting International Development and Private Property Rights

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Objectives

- To briefly introduce CHF International and its work to you.
- Review key contributors to a successful mortgage market and the importance of a strong appraisal industry to mortgage lending.
- To share information about how the appraisal industry differs across emerging markets.
 - Thailand
 - Turkey
 - Mexico
- Introduce CHF mortgage market-related work in Palestine/West Bank.

Our Mission



Children impacted by the 2004 tsunami in Banda Aceh, Indonesia now have a more hopeful future

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Our Mission:

CHF International is an international development organization founded in 1952 that works in post-conflict, unstable and developing countries.

CHF is a politically neutral, nonprofit 501(c)3. Each year, 91-95% of our income is spent on programs. In 2009, CHF's projects directly benefited over 22.2 million people.

We partner with communities around the world to help them direct the improvement of their lives and livelihoods. We believe that the people best suited to decide what a community needs are the people of the community itself.

CHF

International Building a Better World

www.chfinternational.org

What we do



CHF currently operates in more than 26 countries throughout Asia, Africa and the Middle East, Latin America and the Caribbean, and Europe and the Caucasus.

Areas of Practice:
Economic Development
Emergency Response & Transition
Global Health & HIV/AIDS
Governance & Civil Society
Housing & Infrastructure
Urban Development
Microcredit
Mortgage Finance

In Haiti, CHF is constructing USAID-funded transitional housing with local labor.

Necessary Pre-Conditions for a Successful Housing Finance System

- **Lenders able and willing to lend**
 - Mortgages
 - Construction
- **Lenders able to manage the risks tied to mortgage lending**
 - Credit risk
 - Liquidity risk
 - Interest rate risk
 - Prepayment risk
 - Operational risk
- **Political and macro-economic stability**
- **Educated consumers**
- **Rational taxation policies**
- **A stock of clean, safe affordable housing**
- **Standardized lending practices**

Necessary Pre-Conditions for a Successful Housing Finance System

- **Strong legal framework**
 - Foreclosure
 - Consumer protections
 - Sectional title/condominium laws
- **Efficient and secure system of registration**
 - Titles/ownership
 - Mortgages and other liens
- **Centralized consumer credit bureau**
- **Professional intermediaries**
 - Sales brokers
 - **Appraisers**
 - **Associations**
- **Data**
 - **Industry-wide mortgage performance**
 - **Property sales prices**

Mortgage Market Best Practices -- Origination

- **The “C’s” of Underwriting**

- **C**apacity to repay = ability to repay

- Income Verification
- Debt-to-Income ratio

- **C**reditworthiness = demonstrated willingness to repay

- Credit Bureau and “Black List” checks
- Past Financial Obligation track-record

- **C**haracter = borrower “stability”

- Know-Your-Customer
- Borrower job history, use of credit, etc.
- Guarantor required (in certain circumstances)

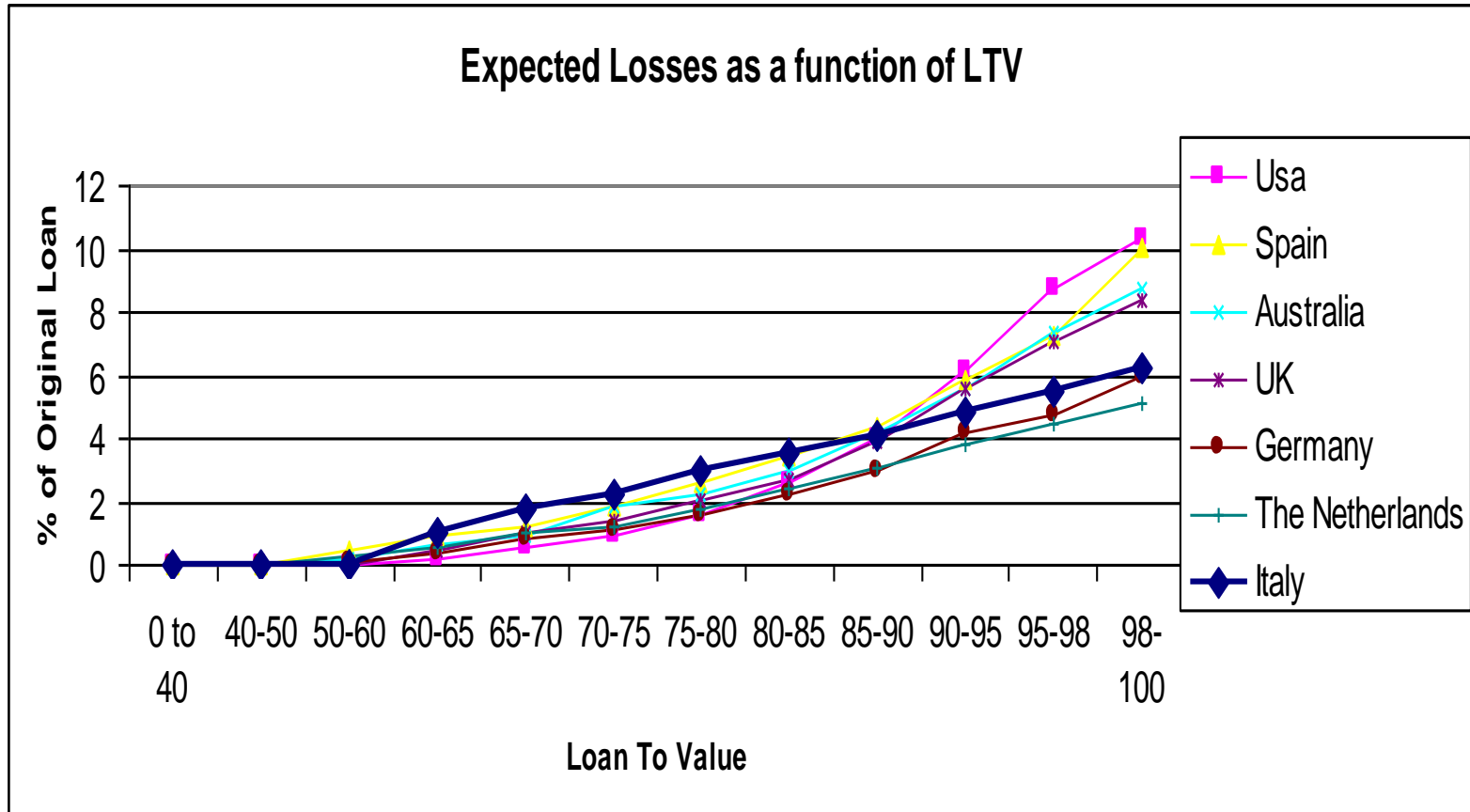
- **C**ollateral = the property securing the loan

- The Appraisal
- Property Eligibility Standards

- **C**apital = the downpayment

- 20% required unless there is mortgage insurance or a guarantor, in which case 10% may be permitted

Risk Grows with Higher Loan-To-Value Loans



Source: PMI analysis on Fitch Ratings default models for a BBB scenario in Australia, Germany, Italy, The Netherlands, Spain, UK and USA.

Thailand

- The valuation industry is regulated by the Thai Securities and Exchange Commission.
 - Valuation companies do not necessarily specialize in just single family, residential properties.
- Valuers are expected to take approximately 20 hours of continuing education per year and a re-certification exam every 2 years.
- The typical appraisal:
 - 3 valuation methods are used (comp, cost, and income).
 - Appraisals consist of 3-5 total pages of analysis.
- Market challenges:
 - No central data base of property values.
 - Developers “including” cars and other valuables into the purchase of a property.
 - No standardization of appraisal format across the industry.

Turkey

- New mortgage market law promulgated in March 2007.
- The Capital Markets Board (CMB) regulates real estate appraisal companies. Post the new law, the CMB:
 - Sets qualifications and standards
 - Requires that assets serving as collateral for mortgage capital market assets to be appraised by a qualified firm.
- A real estate appraiser is required to become a member of the Association of Appraisal Specialists of Turkey within 3 months of receiving his/her license.
- The Association:
 - Engages in research to facilitate the development of the real estate market and real estate appraisal practices
 - Provides training and does the licensing
 - Prepares and publishes regional and national statistics

Mexico

- The appraisal industry has been regulated by Sociedad Hipotecaria Federal since 2003.
 - Establishes appraisal guidelines and methodologies
 - Develops minimum capitalization levels and insurance requirements for appraisal firms.
 - Certifies appraisers annually.
- Appraisal firms keep their own databases, but also are now required to input about 40 data elements into a central database maintained by SHF and available to the public
- Most appraisers belong to either an architectural or engineering society.
- There had been a significant amount of new construction prior to the Financial Crisis, and each property was fully evaluated – no master appraisals used.

Mortgage Practices That Offset a Nascent Appraisal Industry

- Banks will:
 - Limit LTVs
 - Require guarantors
 - Not lend outside of urban areas where it is harder to find comps
 - Automatically order two appraisals done per property and use the lower of the two or order a third if the first two are significantly different
 - Record 20-30% more than the actual mortgage debt

Strengthening the Mortgage Market in Palestine

- The establishment of the Affordable Mortgage And Loan Co. (AMAL)
 - Owned by the Palestine Affordable Housing Association, The Bank of Palestine, CairoAmman Bank, and two US nonprofits: CHF International and the Middle East Investment Fund
 - US\$500 million mortgage finance program that will provide up to 25 year variable-rate and fixed-rate mortgages
 - Funded by the US Overseas Private Investment Co, International Finance Corp, Palestine Investment Fund and two Palestinian banks
- The Mortgage Market Development Program
 - Homebuyer education
 - Condominium self-governance
 - Bank loan officer training
 - Appraisal standard development

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