

Overseas Private Investment Corporation

Housing and Mortgage Finance: Building Opportunities



OPIC



OPIC is the primary U.S. government agency focused on supporting private sector investment in the developing world. OPIC's mission is to assist the flow of investment to developing countries and encourage the growth of emerging economies.

But people need to be adequately housed to have the stability and security to pursue the longer-term benefits of economic growth. In funding, guaranteeing, or insuring housing related projects, OPIC provides a catalyst for this future growth, enables host countries to meet a pressing social need and helps to unleash the power of robust housing and mortgage markets to build domestic wealth and increase local savings.

OPIC's housing programs also help U.S. small businesses in the housing sector to expand and grow through overseas investment. This includes activities such as land development, house construction, establishment of modern land title systems, development of new capacity for mortgage loans, and creation of risk-sharing mechanisms that help make loans for housing more affordable and accessible to low and middle-income families.

Fulfilling OPIC's Mission

Developmental Impact

Homeownership supports community development and strengthens society because homeowners have a vested interest in maintaining their property and their neighborhood for their children and grandchildren. A strong base of housing construction activity generates thousands of jobs for unskilled workers as well as opportunities for development of small businesses that provide the materials and components for new construction. Effective land titling and modern property registration systems not only help families to build wealth for the future, but also generate revenue for local governments that will allow them to pursue badly needed infrastructure improvements. OPIC's housing projects often include the development of new water treatment facilities, power generation, roads and other community services which are vital to fast-growing urban centers.

In the financial sector, the OPIC mortgage finance and mortgage securitization programs have enabled the creation of new structures for longer-term and lower-cost mortgages for local homebuyers. When families are not able to afford the down payment for a house, the lease-purchase program allows them to purchase their house gradually, with only a small deposit. At the same time, local financial institutions are introduced to the latest in U.S. mortgage lending and capital markets techniques.

Transfer of U.S. Capacity and Technology

The OPIC program facilitates the introduction of more efficient building systems and large-scale housing and community development processes in markets where the shortage of housing is critical. This efficiency leads to lower costs and greater affordability, but it also provides a more stable job base and an opportunity for workers to learn new skills and ultimately create their own construction companies to replicate what they have learned.

The U.S. experience in creating a deep capital market-funding base for mortgage lending is studied in many countries. While the system itself is unique and not easy to replicate, OPIC helps developing countries to access this deep pool of capital to jump start local capital markets development, and to help create a track record that will attract new local and international investors. By supporting risk-sharing mechanisms such as title insurance, private mortgage insurance and bond insurance, OPIC helps to transfer the U.S. experience to countries that can then adapt that experience to their needs.



Achieving Key Objectives

Housing project proposals should help to advance one or more of the following objectives:

1. Increase affordability and access to safe, quality housing for low and middle-income families.
2. Create a new stable base for employment in construction trades and financial services.
3. Transfer U.S. building technology and housing development skills.
4. Develop primary market infrastructure for mortgage and home improvement lending.
5. Encourage development of property rights.
6. Develop instruments that support long term funding of mortgages by local and international investors.



Potential U.S. Sponsors

Sponsors of OPIC housing projects can be small or larger U.S. businesses who have been successful in the United States and wish to transfer that success to a developing country. Sponsors generally fall into the following categories:

1. Builders and developers
2. Housing systems manufacturers
3. Financial institutions
4. Title insurance companies
5. Mortgage insurers
6. Entrepreneurs/experts in mortgage finance, IT, housing development and micro-finance



Eligibility



OPIC provides loan guaranties which are typically used for mortgage securitizations, and direct loans which are reserved for projects sponsored by or significantly involving U.S. small businesses and cooperatives. The eligible U.S. small business must own at least 25 percent of the equity in the project, although other significant involvement in the project by U.S. small businesses will be considered for purposes of eligibility determination. Guaranties and political risk insurance can be issued to U.S. citizens or legal entities created under the laws of the United States, any state or territory, or D.C. that are more than 50 percent beneficially owned by U.S. citizens ("eligible investors").

Housing Programs

Every OPIC project tends to be unique in some way. However, OPIC has taken a standardized approach to each of the following types of transactions:

- 1. Mortgage Finance**
- 2. Construction and Development Financing**
- 3. Lease purchase**
- 4. Mortgage securitization**
- 5. Political risk insurance**

Mortgage Finance

The OPIC Mortgage Finance Program is designed to provide access to long-term funding to homebuyers through mortgages. OPIC does not fund these loans directly, but provides a loan to a borrower that purchases the mortgages from local financial institutions that originate and service the loans on behalf of the borrower. The borrower must meet OPIC's U.S. ownership and capitalization eligibility requirements.

The borrower may be an operating company with master servicing and quality control capabilities, or it may simply be a trust that is created for the sole purpose of holding the mortgage assets on behalf of its shareholders and OPIC. The borrower may choose to hold the mortgages to term, or may hold them until a successful bond issuance, the proceeds of which will be used to replenish funds for future lending.

Construction and Development Financing

Short-term funds to build houses for sale supports secondary infrastructure development as well as construction of houses.

Lease Purchase

The installment sales or lease purchase variation of this program allows a developer to offer long-term financing to buyers via a conditional sale or installment sales agreement. OPIC makes a loan to the developer, which is secured by the mortgage collateral. In this case, it is necessary for the developer to partner or contract with a financial institution to support the origination and servicing functions.

Housing Programs

Mortgage Securitization

OPIC may offer a guaranty to make bonds more attractive to U.S. institutional investors, which can help to jump start local capital market acceptance of mortgage bonds. OPIC expects that these bonds will be rated by one of the rating agencies.

An OPIC guaranty is a guaranty that has the full faith and credit of the U.S. government. It covers timely interest and ultimate principal payment. OPIC may issue a partial guaranty in which OPIC accepts a second or third loss position. Alternatively, OPIC can issue a guaranty of a certain percentage of the total bond issuance.

Political risk insurance

OPIC political risk insurance protects investments against the risks of expropriation, political violence, and inconvertibility/transferability of local currency to the United States. OPIC political risk insurance is available to eligible investors for a wide variety of investments (such as equity, debt, covered property, technical assistance, bid and performance bonds) in all types of housing projects.

In securitization transactions, OPIC can offer an inconvertibility/transferability coverage which protects eligible bond investors in the event that the local issuer is unable to convert local currency to dollars to pay the bondholders on time. It covers timely principal and interest payments. Inconvertibility coverage may enable a bond to obtain investment grade rating, thereby improving financial execution for the issuer. It may allow a bond issue rating to "pierce the sovereign ceiling" and thereby access international investors.

For issues that have the benefit of a sovereign guaranty (may be available when the issuer is a government housing agency or a government owned bank) OPIC may be able to offer a version of its expropriation coverage that protects eligible investors in the event the government does not honor its guaranty obligation. This coverage is available on a limited basis only in countries with sovereign rating of BB- or better.

OPIC's insurance program encourages U.S. political risk insurance companies to develop programs for emerging markets while sharing risk with OPIC.

The OPIC Application for Financing and the OPIC Application for Political Risk Insurance may be found on OPIC's website (www.opic.gov/forms/forms.htm).

General Guidelines: Mortgage Finance Program

Target Income Level:	Low to middle income, local citizens are preferred.
Loan Amount:	Maximum \$250 million. Given the complexity of structuring a mortgage facility, loan amounts less than \$20 million are generally not practical.
Leverage:	Based on loan to value. Value has to be independently verified by a property valuation firm acceptable to OPIC.
Property Type:	Single family detached, apartments, duplexes. Mixed use may be considered if typical for the area.
Purpose of Mortgages:	Purchase for occupancy, home improvement. Refinancing generally not permitted. Purchase of an existing portfolio can be considered so long as the proceeds will be reinvested in new mortgages to the appropriate target population.
Term of OPIC Facility:	The term of the facility is matched as closely as possible to project cash flow.
Pricing:	A spread over the applicable U.S. Treasury rate. Spread is determined by country risk, loan characteristics, assessment of local mortgage and property markets, capacity of mortgage servicing entity, other credit enhancements, such as first loss or recourse provisions by sponsors or originating banks.
Government Guarantees:	Acceptable subject to analysis of sovereign creditworthiness and nature of the guaranty.

General Guidelines: Mortgage Finance Program

- Equity Composition:** The equity requirement will vary depending upon the structure of the borrower that purchases the mortgages and receives OPIC funding. Components of equity may include cash contribution, subordinated debt, and guaranties by originating banks or other loss-sharing provisions.
- Collateral:** Comprised of the mortgages themselves (or the installment sales contracts), debt service reserve funds, other fee reserve accounts, pledge of shares in the borrower, letters of credit or guaranties. OPIC will usually require an assignment of the cash flows of the mortgages as well as the mortgage collateral itself. Value of the collateral has to be established by an independent valuation.
- Key Credit Issues:** Currency risk is critical in the mortgage program, since OPIC generally funds in dollars and has to be repaid in dollars whereas the mortgage loans are often denominated in the local currency. It also includes credit risk that exists when homebuyers receive income in local currency but the borrower has to repay in dollars. Other credit risk issues that should be addressed in the business plan include the following:

Management capacity and lending policies/procedures of the institutions that will originate and service the loans.

Underwriting criteria to be used for the loans, and justification for ratios to be used, as well as any special arrangements for automatic deduction of payments from accounts or wages.

Repayment of OPIC loan will be primarily from the payments on the underlying loans. Therefore, it will be critical to establish the ability of local buyers to repay their loans and the ability of the local financial institution to manage the portfolio to mitigate losses.

Credit enhancements or other guaranties to be offered as support in the event of excessive defaults on the mortgages.

Legal issues related to land title, ownership transfer, validity of liens, assignment of mortgages, foreclosure and eviction practices, existence of trust structure for holding mortgages, etc.

Issues: Originating Banks

(This is not a comprehensive list)

1. Acceptability of credit policies and procedures.
2. Standardization of servicing requirements, data sets, reporting for each market and each bank.
3. Track record in consumer lending and/or mortgage lending. Delinquency and default ratios, loss ratios, internal process efficiency and quality control.
4. Financial capacity and management experience.

Issues: Legal and Market Risks

1. Legal title for property.
2. Costs involved with transfer of mortgage interest, efficiency of registration, etc.
3. Foreclosure process, timing, and costs.
4. Availability of insurance.
5. Macroeconomic factors.
6. Affordability - how many people can afford the product and how quickly can the product be disbursed.
7. Competition - who else is lending, what are rates and terms. Expected developments in the market.
8. Tax concerns - local and cross-border.
9. Availability of back-up servicers, paying agents, collateral agents, trustees, etc.

Issues: Originating Bank's Credit Standards

1. Leverage based upon loan to value ratio. The acceptability of ratios will be determined by the level of liquidity for re-sales in the market and depth of existing lending programs.
2. Automatic debit of wages or deposit accounts preferred, but not required.
3. Condominiums acceptable, subject to appropriate management agreements.
4. Owner-occupied only.
5. Appraisal process - independent or professionally trained staff.
6. Credit process - how to analyze credit in the absence of credit bureau or other rating systems.
8. Life insurance preferred, property insurance required.
9. Purchase money preferred, but in some markets home-equity loans for improvement or small business may be acceptable in limited amounts.
10. Diversification of portfolio.
11. Other credit standards should be well defined in operations manuals, and verified through quality-control processes internally as well as through the borrower.

To Apply for OPIC Support:

The OPIC Application for Financing may be found on OPIC's website:
www.opic.gov/forms/forms.htm

In support of the application, please provide the following:

OPIC Sponsor Disclosure Reports in Support of an Application for Financing (form to be found on OPIC's website)

Business plan, which contains the following:

- Proposed structure
- Sources and uses of funds for the transaction
- Cash flow projections and pro forma financials, including projections of default and recovery rates and costs of foreclosures and recoveries
- Financial statements for the sponsoring entities (see application form)
- Management capabilities, track record
- Background information on the financial institutions that will originate and service the mortgages
- Market feasibility assessment, and general market background on housing, mortgages in subject country
- Description of projects to be financed, if available
- Marketing plan
- Legal issues
- Copies of any agreements, contracts between joint venture partners, employers and government entities
- Summary qualifying criteria for local banks, including loan criteria and qualifications of buyers
- Summary underwriting and servicing criteria for originators and servicers
- Sample servicing agreement, loan purchase agreement and other standardized reports that will be required from seller/servicers
- Internal procedures for monitoring banks, loan portfolio performance and other responsibilities listed above (If this is to be contracted out, then the procedures, capabilities, and track record of the proposed contractor are required)

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OPIC helps U.S. businesses compete in emerging markets and meet the challenges of investing overseas when private sector support is not available. OPIC offers up to \$250 million in long-term financing and/or political risk insurance to U.S. companies investing in over 150 emerging markets and developing countries. Backed by the full faith and credit of the U.S. government, OPIC advocates for U.S. investment, offers experience in risk management, and draws on an outstanding record of success.

General Information

If you have access to the Internet, visit OPIC's website at the address below for a wide variety of publications, application forms, press releases, OPIC's free electronic newsletter and other information, including a list of eligible countries.

www.opic.gov

Electronic Mail

To obtain general information via electronic mail, requests may be sent to: info@opic.gov

Written Inquiries

Written requests for general information may be sent to:

Overseas Private Investment Corporation

Information Officer

1100 New York Avenue, N.W.

Washington, D.C. 20527

The OPIC Info Line

OPIC maintains an automated, 24 hour a day system to provide callers with general information on OPIC's insurance and financing programs. The OPIC Info Line telephone number is: 202-336-8799.

The Overseas Private Investment Corporation
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