



Technical Assistance Report

Project Number: 39427
December 2005

Technical Assistance Republic of Indonesia: Secondary Mortgage Facility (Financed by the Japan Special Fund)

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 11 August 2005)

Currency Unit	–	rupiah (Rp)
Rp1.00	=	\$0.0001020
\$1.00	=	Rp9,806

ABBREVIATIONS

ADB	–	Asian Development Bank
BTN	–	Bank Tagungan Negara
MOF	–	Ministry of Finance
PT SMF	–	PT. Sarana Multigriya Finansial
SMF	–	Secondary Mortgage Facility
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Finance
Subsector	–	Capital markets and funds, housing finance
Themes	–	Sustainable economic growth, private sector development and capacity development
Subthemes	–	Promoting macroeconomic stability, private public partnership and private sector investment, institutional development

NOTE

- (i) In this report, "\$" refers to US dollars.
- (ii) The fiscal year of the Government of Indonesia and its agencies ends on 31 December.

Vice President	J. Eichenberger, Vice President (Operations 2)
Director General	S. Akhtar, Director General, Southeast Asia Department
Team Leader	F.C. Kawawaki, Office of Director General, Southeast Asia Department

I. INTRODUCTION

1. The Government of Indonesia has requested technical assistance (TA) from the Asian Development Bank (ADB) for the Secondary Mortgage Facility (SMF). In February 2005, the President issued a decree on secondary mortgage financing to facilitate long-term financing for mortgages through securitization.¹ The TA supports the start of operation of SMF. This is in line with the country strategy to promote capital market development and financial market diversification and innovation. The TA will establish operational guidelines, standardize documentation, build capacity for the initial operations and formulate further financial assistance project by ADB. The TA also will identify impediments to successful SMF operations, and suggest remedies. The design and monitoring framework is in Appendix 1.²

II. ISSUES

2. The demand for housing in Indonesia is significant and increasing. The backlog from low- and middle-income³ groups is high, driven in part by the rapid urbanization of the population. An impediment to new construction is the lack of affordable financing.⁴ With the Government's policy to continue fiscal consolidation, the public sector is unable to meet all the underserved households.⁵ Sustainable and fiscally affordable solutions would include significant investment from the private sector and households. Estimates show that only about 20% of housing has been built using formal financing despite liquidity in the banking system. Without suitable housing finance, private developers are reluctant to enter the middle or lower housing market.

3. After a decline in 1998, mortgage lending has increased in the last six years. Outstanding housing loans totaled Rp42 trillion in 2004, compared with Rp12 trillion in 1997. However, outstanding loans for housing and apartment ownership make up only 7.6% of the total loan assets of the financial sector.⁶ Financial institutions' unwillingness to enter the middle- and low-income sector for mortgage financing is mainly due to (i) lack of cost-effective, long-term matched local currency financing; (ii) lower profitability for smaller mortgages, because the lack of standards raises the cost of documentation and administration of these loans; and (iii) lack of track record for the middle- and low-income sector. This is especially true for smaller commercial banks, regional development banks and finance companies. These institutions have the most potential for servicing the middle and lower income housing sector.⁷ Land titling and foreclosure has been raised as issues for all mortgages.

(i) Short-term deposits⁸ are the main source of financing for mortgages. This creates a maturity mismatch for financial institutions, and thwarts the development of mortgage products with longer tenors. The domestic bond market has developed significantly, surpassing the issuance and maturity levels before the Asian financial crisis that erupted in 1997. However, only a few mortgage providers have issued long-term bonds in the domestic market⁹, possibly due to the higher cost of financing for these issuers. Access for mortgage

¹ Presidential Decree of the Republic of Indonesia Number 19 of 2005, Concerning Secondary Mortgage Financing.

² The TA first appeared in *ADB Business Opportunities* (internet edition) on 13 July 2005.

³ Low and middle income group is defined as those with income of up to Rp 2 million per month. The value of housing that would be available to this income group would be at maximum Rp 32 million. (Source: ADB. 2001. *Housing Finance for the Poor Indonesia*. Manila)

⁴ Hoek-Smit, Marja C. 2002 *Implementing Indonesia's New Housing Policy: The Way Forward*. Kimpraswil: Government of Indonesia and World Bank

⁵ For 2005, the Government plans to provide subsidies for 210,000 units or Rp735 billion. This is only 14% of the annual demand for the low-income group characterized as those with monthly income of Rp1.5 million and below. Source TA 4368-INO (ADB. 2005. *Technical Assistance to the Republic of Indonesia for the Financing Integrated Settlements Development Project*. Manila (Phase 1 report).

⁶ The housing loans make up 30-34% in developed markets.

⁷ Consultants for Financing Integrated Settlements Development Project found that funding mortgages and the capacity of the regional development banks have been two key issues for the availability of financing to low income home buyers.

⁸ At the end of 2004, 59% of deposits (including time deposits) were for a maximum of 1 month, while only 19% were for more than 1 year.

⁹ Only three commercial banks have issued domestic bonds for 10 years.

providers to long-term financing through the securitization of mortgages, or even the creation of a secondary mortgage market, is difficult because the quality of loan documentation and appraisal procedures varies for each financial institution.

(ii) The lack of standard documentation or appraisal methods raises the fixed costs per transaction by requiring a case-by-case approach. The costs drive down the profitability for the smaller mortgages that lower- and middle-income buyers need.

(iii) Bank Tagungan Negara (BTN), which plays a predominant role in providing credit for the lower and middle income portion of the housing sector, is the only institution which has significant track record.¹⁰ Other commercial banks have been more conservative on risk valuation due to the lack of a track record. Thus the decision based more on the credit of the borrower rather than the collateral value of the home. The banks have been inflexible about lowering the requirement for 30% down payment, which creates another challenge for lower- and middle-income buyers.

4. There are three SMFs in the region, CAGAMAS Berhad (Malaysia), Korea Mortgage Corporation, and Hong Kong Mortgage Corporation. All three have been successful in contributing to increasing the affordability of housing through the creation of a secondary mortgage market as well as development of the capital markets through lengthening maturity and spreading availability of mortgages.

5. Pursuant to a Presidential decree, PT. Sarana Multigriya Finansial (PT SMF) was recently established by the Government to provide a market-driven approach to increasing mortgage loans by addressing the main issues mentioned in paragraph 3.¹¹ PT SMF is scheduled to begin operations in the first half of 2006. The function of PT SMF will be to purchase qualified mortgages from financial institutions and issue bonds backed by these assets. Since qualifying mortgages may not be available from the start of operations, during the first 3 years, PT SMF will lend to financial institutions, which will on-lend for qualifying mortgages. These loans will help build qualified mortgage portfolios for purchase by PT SMF, as well as a track record for lower- and middle-income sectors. The target market for these mortgaged-backed securities will be long-term investors, such as insurance companies and pension funds, which have a natural appetite for bonds with long tenures.¹² The Government has invested initial equity of Rp1 trillion to PT SMF. After the start of operations, equity investment will be solicited from the private sector with the aim of decreasing government ownership to one third of total equity.

6. To be qualified for purchase by PT SMF, the loan will have to be documented and underwritten with standard procedures prescribed by PT SMF. In this way, PT SMF will provide economic incentive for financial institutions to use standard documents and procedures by providing secondary market for mortgages. This will lower the costs of administering mortgages for the financial institutions, as well as promote industry standards for prudent lending. PT SMF will train the financial institutions on the standard documentation, suggested underwriting guidelines, and appraisal procedures.

¹⁰ Out of the 30 banks who participate in the government subsidy scheme to support the lower income households, BTN finances almost 67% of the housing units (140,700 of 210,000 units). The Government aims to decrease the subsidy.

¹¹ The SMF concept was developed initially through ADB TA (ADB. 1996. *Technical Assistance to the Republic of Indonesia for the Secondary Mortgage Facility*. Manila).

¹² Although sector reform is continuing, regulatory reform of the insurance and pension sector was addressed in Loan 1965-INO (ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for the Financial Governance and Social Securities Reform Program*. Manila). Insurance firms and pensions may invest up to 20% of their portfolios in bonds issued by Indonesian entities (Financial Minister Decree No424/KMI, 06/2003 and No. 511/KMK 06/2003). The investments of these financial institutions grew to Rp105.2 trillion in 2003, from Rp55 trillion in 1999.

7. The Government has identified a set of legal and regulatory issues that need to be addressed to accelerate the development of the secondary mortgage market and mortgage securitization. The main issues are (i) taxes, (ii) absence of a trust law and a securitization law, (iii) land titles, and (iv) legal processes for foreclosure.¹³ The Government plans to coordinate the reforms in these areas to create an enabling environment for effective structuring of transactions. With respect to (i) and (ii), preliminary drafts of regulations have been prepared to allow for tax-free transfer of mortgages for securitization and securitization and trust laws have been drafted and is under discussion. (iii) and (iv) have been identified as issues for both primary and secondary market. With respect to (iii) the World Bank is helping the Government develop the land policy and regulatory framework, including land titling; and build the capacity of local governments.¹⁴ ADB is assisting on a per project basis through Financing Integrated Settlements Development Project.¹⁵ With respect to (iv), the principal problem is the attitude of the courts and auction office which is being addressed through judicial reform. This is seen as less of a problem for smaller sized loans.¹⁶ In the bond market, ADB has been providing input on the new Capital Market Law that will be submitted to Parliament by the end of this year. To strengthen the regulations further, the Minister of Finance endorsed the Action Plan for Improving Regulation and Supervision of Non-bank Financial Institutions. ADB supports the implementation of this Action Plan through technical assistance for the Establishment of Financial Supervisory Authority.¹⁷

8. In the Financial Governance Reforms Support Project, ADB supported plans to establish an SMF in 1998.¹⁸ The adverse changes in market conditions after the Asian financial crisis that erupted in 1997 made the environment unsuitable for an SMF. In addition, the amended Bank of Indonesia Act precluded the central bank from taking a stake in SMF. The SMF loan and equity investment component of the project was canceled in June 2001. Through reforms, financial markets have stabilized and regained momentum. ADB supported the Government's efforts by providing urgently needed financial support immediately after the crisis, as well as assistance for fundamental longer-term reforms.¹⁹

9. Greater macroeconomic and financial stability in Indonesia and reforms discussed above again have created conditions conducive for establishing an SMF. The volumes of the bond market and housing finance market are higher than before the financial crisis, while consolidation has strengthened the banking sector. SMFs are key elements in the development of capital markets. SMFs help broaden and diversify the product base through the issuance of long-term securitized bonds, which provide a stable source of funds and mitigate risk.²⁰ Moreover, the establishment of a highly rated frequent issuer in the local bond market would create an attractive investment for regional investors. Working Group One of the ASEAN+3-supported Asian Bond Markets Initiative²¹ has explored ways to increase new instruments to attract domestic and regional investors. The creation of PT SMF, which would be a periodic bond issuer, would be in line with this objective.

¹³ Although cumbersome and inefficient, securitization is possible through existing laws.

¹⁴ Land Management and Policy Development Project approved in March 2004.

¹⁵ TA 4368-INO (ADB. 2005. *Technical Assistance to the Republic of Indonesia for the Financing Integrated Settlements Development Project*. Manila).

¹⁶ The lack of legal and judicial certainty has been identified as the weakest part of the financial system. Banks prefer to deal with smaller borrowers since it is less likely for them to buy the type of justice that suits him/her (ADB. 2005. SERD Occasional Paper No.05-01 INDONESIA An overview of Recent Developments and Pending Issues In the Financial Sector)

¹⁷ TA 3850 (ADB. 2002. *Technical Assistance to the Republic of Indonesia for the Establishment of a Financial Services Authority*. Manila).

¹⁸ Loan 1618 INO (ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Republic of Indonesia for the Financial Governance Reform Sector Development Program*. Manila) which included equity investment for SMF was approved in June 1998. The structure envisaged was for Bank of Indonesia and ADB to each hold 10% of the SMF, with 10 or more financial institutions holding the balance. The weakened banks and financial institutions no longer had the capacity to invest in SMF. The assistance comprised a \$1.4 billion program loan, \$47 million investment loan for SMF, and \$3 million equity investment.

¹⁹ ADB. 2004. *Project Completion Report on the Financial Governance Reforms: Sector Development Program (Loan 1618-INO)*. Manila.

²⁰ Strategy 4.3, Promoting Development of Derivatives and Other Types of Securities, in the Master Plan 2005–2009 issued by Capital Market Supervisory Agency mentions securitization as one of the instruments that should be enhanced.

²¹ The 10 ASEAN countries, PRC, Japan, and Republic of Korea launched the Asian Bond Market Initiative in 2002 to develop the local and regional bond markets. Working groups have been set up to explore topics that would hasten development. ADB has assists the working groups through provision of technical assistance.

10. The Government has approached ADB, the International Finance Corporation and the Islamic Development Bank to help establish an SMF. United States Agency for International Development and the Netherlands Development Finance Company also are interested in providing grant assistance. ADB has been coordinating with the other funding agencies to avoid duplication and encourage synergy.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

11. The intended impact of this TA is to increase access to affordable mortgages for low- and middle-income earners. The desired outcome is for PT SMF to start operations in 2006 and start the secondary mortgage market. PT SMF will give access to long-term funds for mortgages, lower costs for lower and middle income mortgages by giving economic incentive for financial institutions to adopt standard documentation and appraisal procedures, and facilitate the issuance of mortgage-backed bonds.

B. Methodology and Key Activities

12. The TA will cover three areas. In the first two areas, the TA will establish the foundations for PT SMF operations. The third area will prepare a proposal for ADB financing for PT SMF. During the development of the detailed business plan, consultants will identify impediments to secondary mortgage market development, and recommend solutions. These will be discussed with the Government as a part of overall policy dialogue.

13. First, the TA will help prepare for the start of PT SMF operations. International best practice will be taken into account as basis for finalization of the guidelines and standards to be prescribed to the financial institutions. Inputs from relevant stakeholders will be sought and incorporated throughout the TA since their buy-in is vital for success of PT SMF. The consultants will manage these sessions and act as facilitator and rapporteur. The TA will help three main areas. (i) The consultants will finalize the detailed business and financing plans. The plans will be based on a five year demand estimate that will be confirmed by the consultants. The business plan will include the marketing plan and set targets for financial institution membership (especially a strategy for small commercial banks, regional development banks and finance companies), and lending/purchase of mortgages. The financing plan will include the amounts and types of financing as well as the plan for accessing the bond market. Preparation and timing for obtaining rating from credit rating agency and discussion on structuring should have detailed implementation plan. (ii) The consultants will finalize the draft internal procedures and guidelines, including those for on-lending, treasury activities, risk management, mortgage purchase, securitization and problem debt resolution. (iii) In finalizing the standards, consideration for changes in market environment will be taken into account as well as ease of use by the financial institutions. The consultants will complete the guidelines on product designs for mortgages including the rationale for the structure (i.e. tenure, floating/ fixed interest rate, amortization, balloon payments etc.) and risks for the borrower and the lender. Model documents such as the mortgage deed, model deed guarantee and mortgage facility agreement will be documented for ease of use and transferability to different structures. Property appraisal, valuation and underwriting guidelines will be finalized with recommendation for implementation including the skill mix necessary and monitoring mechanism.

14. Second, the TA will train the key staff of PT SMF to train financial institutions, who will be responsible for training others (training of trainers). The training program will consist of familiarization with the standards (component 1.ii), case study of the underwriting process for mortgages according to the standards, evaluation of past mortgages in comparison with the standard and on the job training with financial institutions. Manuals will be produced for ease of

replication. The training missions are planned to allow key staff to experience the operations of SMFs in the region, and to help create links for regional cooperation with other secondary mortgage companies.

15. Third, the TA will support MOF and ADB in preparing further financial assistance for the PT SMF. The consultants also will identify issues and recommend remedies for minimizing the risks to PT SMF operations. These recommendations will be a part of the policy dialogue with the Government on capital market development and housing finance. The consultants will propose the best package of financial support from ADB in accordance with the business and financing plan. These may include local or foreign currency loan for on-lending to financial institutions, bridge loan facility for purchase of mortgages and/or as liquidity facility for securitization, partial credit guarantee to lengthen the maturity and lessen the interest burden for initial bond issuance by PT SMF and/or mortgage backed securities packaged by PT SMF and equity investment in PT SMF.

C. Cost and Financing

16. The estimated cost of the TA is \$750,000 equivalent, including foreign exchange costs of \$412,000 and local currency costs of \$338,000 equivalent. The Government of Indonesia has asked ADB to finance \$600,000 equivalent on a grant basis from the Japan Special Fund, funded by Government of Japan, covering the entire foreign exchange costs and local currency costs of \$188,000 equivalent. The Government of Indonesia will provide \$150,000 equivalent to finance counterpart staff, office facilities, and other expenditures (Appendix 2).

D. Implementation Arrangements

17. MOF will be the Executing Agency for the TA, while MOF Directorate General Financial Institutions will be the Implementing Agency. MOF will appoint a project director who will coordinate the MOF team and PT SMF staff. The TA will engage international consultants for 10 person-months and domestic consultants for 30 person-months. The international consultants will have extensive experience in legal aspects of mortgages, secondary mortgage financing, and financial markets. The domestic consultants will have expertise in financial markets, mortgage lending, and operations of government entities. The outline terms of reference and reporting arrangements are in Appendix 3. Consultants will be recruited individually. Consultants who worked extensively on past studies of the mortgage market in Indonesia have been identified. Consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for selecting and engaging domestic consultants. Procurement under the TA will be in accordance with ADB's *Guidelines for Procurement*. The TA will begin in December 2005 and be completed by July 2006.

18. An inception report, which will lay out detailed deliverables and clear responsibilities, will be produced within three weeks of commissioning. Within three months of commissioning, the consultant team will report on the possible hurdles and remedies for PT SMF operations, as well as on possible ADB investment. The team leader of the consultants will prepare monthly reports to MOF and ADB outlining the progress of the TA. The consultants will submit the final standard documents and guidelines under the scope of the TA. A draft final report will be provided in the seventh month.

IV. THE PRESIDENT'S DECISION

19. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$600,000 on a grant basis to the Government of Indonesia for the Secondary Mortgage Facility, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Low- and middle-income earners have increased access to affordable mortgages</p>	<p>Increase in housing starts for middle and lower income housing by 5-10% by 2010.</p> <p>Increase in percentage of small and medium sized housing loans¹ by 5-10% by 2010.</p> <p>Increase in the duration of mortgages by 5–10 years by 2010.</p>	<ul style="list-style-type: none"> • National housing survey • Ministry of Housing data • Survey of select commercial banks • Quarterly financial reports of PT SMF 	<p>Assumptions</p> <ul style="list-style-type: none"> • Relative stability of housing markets • Sufficient volume of primary mortgages • Securities and Trust Law passed within two years of establishment • Many member financial institutions <p>Risk Financial institutions lose interest or become unable to increase mortgage lending</p>
<p>Outcome Secondary mortgage market is started by PT SMF</p> <p>Financial institutions underwrite mortgages under standards prescribed by PT SMF</p>	<p>\$25-50 million on-lending of PT SMF to financial institutions for qualified mortgages by June 2007.</p> <p>\$25-50 million mortgages purchased by PT SMF by June 2008.</p>	<ul style="list-style-type: none"> • PT SMF annual report • Survey of selected financial institutions 	<p>Assumption</p> <ul style="list-style-type: none"> • Banks accept the standard documents and procedures
<p>Outputs 1. Business and financing plan.</p> <p>2. Internal operational procedures/guidelines, and standards for qualified mortgages in accordance with international best</p>	<p>1. Government of Indonesia adopts business plan and financing plan by 2006</p> <p>2. PT SMF adopts operational procedures and guidelines by 2006</p>	<p>1. PT SMF business and financing plan</p> <p>2. PT SMF operational handbook and guidelines for membership</p>	<p>Assumption</p> <ul style="list-style-type: none"> • Views provided in market consultations reflect the majority market opinion

¹ By current market loans up to Rp 32 million would be included however this would have to be adjusted by the inflation level for measurement in 2010.

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>practice.</p> <p>3. PT SMF staff able to train financial institutions on standard documents, procedures, and guidelines</p> <p>4. Proposal for ADB financial assistance</p>	<p>3. 5–10 PT SMF staff trained to train financial institutions by 2Q 2006</p> <p>4. ADB approves funding proposal by 3Q 2006</p>	<p>3. TA final report</p> <p>4. Proposal for ADB Financing</p>	
<p>Activities with Milestones</p> <p>1.1 Revised draft of business and financing plans (consultant appointment + 1 month)</p> <p>1.2 Draft of impediments and recommended remedies identified by consultants (consultant appointment + 2 months)</p> <p>1.3 Initial demand estimates for the next 5 years made by consultants (consultant appointment + 2 months)</p> <p>1.4 Action plan for recommended remedies finalized (consultant appointment + 3 months)</p> <p>1.5 Business and financing plan approved by MOF (consultant appointment + 4 months)</p> <p>2.1 Drafts finalized and first market consultation (consultant appointment + 2 months)</p> <p>2.2 Views incorporated for second market consultation (consultant appointment + 3 months)</p> <p>2.3 Documents finalized (consultant appointment + 4 months)</p> <p>3.1 Training material produced (consultant appointment + 5 months)</p> <p>3.2 Selection of PT SMF trainers (consultant appointment + 5 months)</p> <p>3.2 On-the-job training of PT SMF staff during training session for market participants (consultant appointment + 6 months)</p> <p>4.1 Financing proposal for ADB finalized pursuant to overall business and financing plan (consultant appointment + 6 months)</p>			<p>Inputs</p> <ul style="list-style-type: none"> • ADB \$600,000 Consultancy 10 person-months international (\$324,000) 30 person-months domestic (\$150,000) • Government of Indonesia \$150,000 Staff and office accommodations

ADB = Asian Development Bank, MOF = Ministry of Finance, PT SMF = PT. Sarana Multigriya Finansial, TA = technical assistance.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total
A. Asian Development Bank Financing^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	324.0	-	324.0
ii. Domestic Consultants	0.0	150.0	150.0
b. International and Local Travel	30.0	-	30.0
c. Reports and Communication	8.0	-	8.0
2. Equipment	-	8.0	8.0
3. Training, Seminars, and Conferences ^c	24.0	8.0	32.0
4. Miscellaneous Administration and Support Costs	1.0	7.0	8.0
5. Contingencies	25.0	15.0	40.0
Subtotal (A)	412.0	188.0	600.0
B. Government Financing			
1. Office Accommodations and Transport	-	50.0	50.0
2. Remuneration and Per Diem of Counterpart Staff	-	60.0	60.0
3. Others	-	40.0	40.0
Subtotal (B)	-	150.0	150.0
Total	412.0	338.0	750.0

^a Financed by the Japan Special Fund, funded by Government of Japan.

^b Includes computer, copier, facsimile machine, and scanner.

^c Includes overseas short-term training missions to the regional Secondary Mortgage Facilities for hands-on training.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Introduction

1. The outline terms of reference require that the experts to be recruited be flexible enough to realign their tasks and duties to meet the emerging needs of the Government of Indonesia and the Asian Development Bank (ADB) throughout the technical assistance (TA). As the TA will run parallel to, and assist with, the consideration of further ADB financial assistance for the PT. Sarana Multigriya Finansial (PT SMF), TA experts will provide inputs and expertise in the design and implementation of the program. The scope of the PT SMF was defined in the presidential decree of February 2005, and will act as the cornerstone for the assistance.

2. The TA will require a combination of international and domestic experts. The international consultants will have to be familiar with the Indonesian financial and mortgage framework, as well as capacity building. The Indonesian experts must have substantial experience in dealing with capital markets and mortgage lending, running government institutions, and building capacity. About 10 person-months (on intermittent basis) of international consulting inputs are envisaged. About 30 person-months of domestic consulting inputs also will be needed. Coordination with other potential funding agencies including their respective TAs will be required.

B. International Consultants (10 person-months)

1. Financial Market Consultant (5 person-months)

3. This consultant, who will be the team leader on the international and domestic consultancy team, will be an international financial markets expert with significant experience in (i) securitization, (ii) government financial entities, (iii) operation and establishment of financial entities, and (iv) dealing with financial institutions. The adviser will have extensive knowledge and experience in Indonesia. As team leader, the consultant will guide the team, evaluate its performance, and be responsible for the quality of the outputs. The financial market consultant will:

- (i) Function as an integral part of the Ministry of Finance (MOF) and ADB team.
- (ii) Coordinate and oversee the inputs of other experts working on the TA regarding the development and implementation of a management plan to ensure that ADB assistance in this area is fully integrated and consistent.
- (iii) With input from domestic consultants, monitor key legal and regulatory developments and changes in near- or medium-term operational priorities of the concerned ministries, including, Ministry of Justice, Ministry of Housing, MOF, and Bank of Indonesia, among others.
- (iv) Based on work completed, and with input from other experts, be responsible for helping MOF to finalize detailed business plan and financing plan.
- (v) With inputs from other consultants, prepare for ADB financing operations by assessing the market, and identifying issues and remedies.
- (vi) Based on work completed, input from other experts, market consultation, and consultation with relevant government counterparties, be responsible for activities and deliverables to finalize:
 - (a) Procedures and guidelines for
 - (1) lending operations,
 - (2) investment operations,

- (3) mortgage portfolio purchase (including valuation),
- (4) securitization,
- (5) risk management (including accounting and auditing procedures),
- (6) foreclosure procedures,
- (7) data collection from secondary housing market;
- (b) Organizational setup, including
 - (1) organizational structure and staffing,
 - (2) terms of reference for senior management staff,
 - (3) human resource policies,
 - (4) staff code of conduct;
- (c) Market standards, including
 - (1) standard product designs for mortgages,
 - (2) standard mortgage loan documentation (including application forms),
 - (3) standard third-party guarantee documentation,
 - (4) standard appraisal procedures,
 - (5) memorandum of understanding between PT SMF and participating financial institutions,
 - (6) underwriting guidelines for mortgage financing,
 - (7) servicing manual—loan administration.
- (vii) Conduct and facilitate market discussion forums and market consultation seminars for socialization of secondary mortgage financing. Identify hurdles and remedies within the consultants' scope of expertise for successful PT SMF operations.

2. Mortgage Market Consultant (3 person-months)

4. This expert will be an experienced primary and secondary mortgage consultant, with significant experience in (i) operations of secondary mortgage facilities in markets comparable to Indonesia, (ii) institutional framework and setup of secondary mortgage facilities, (iii) mortgage origination, and (iv) developed and developing markets background and understanding of the overall Indonesian mortgage financing and capital market. The mortgage market consultant will provide inputs to the financial market expert, in accordance with his or her area of expertise, for:

- (i) Procedures and guidelines for
 - (a) mortgage portfolio purchase (including valuation),
 - (b) securitization,
 - (c) risk management (including accounting and auditing procedures),
 - (d) foreclosure procedures,
 - (e) data collection from secondary housing market;
- (ii) Organizational setup (primarily for review and comment), including
 - (a) organizational structure and staffing,
 - (b) terms of reference for senior management staff,
 - (c) human resource policies,
 - (d) staff code of conduct;
- (iii) Market standards, including
 - (a) standard product designs for mortgages (primarily for review and comment),
 - (b) standard mortgage loan documentation (including application forms),
 - (c) standard third-party guarantee documentation,

- (d) standard appraisal procedure (primarily for review and comment),
- (e) servicing manual—loan administration (primarily for review and comment).

5. The consultant will also (a) contribute to market discussion forums, market consultation seminars for socialization of secondary mortgage financing, (b) identify hurdles and remedies within the consultants' scope of expertise for successful PT SMF operations, and (c) make training plan and provide initial training of trainers on the market standards and operational procedures.

3. Legal Consultant (2 person-months)

6. The legal consultant will have extensive experience in secondary mortgage market and securitization in civil law countries. The consultant will review the work of the domestic legal consultant to draft and finalize documents, as well as review documents for operational procedures and guidelines. The legal consultant will provide inputs to the financial market expert, in accordance with his or her area of expertise, on the following documents:

- (i) standard mortgage loan documentation (including application forms),
- (ii) standard third-party guarantee documentation,
- (iii) foreclosure procedures,
- (iv) memorandum of understanding between PT SMF and participating financial institutions, and
- (v) others as ADB reasonably requests.

7. The consultant also will review, among others, operational documents and comment based on legal considerations. Further, the consultant will identify hurdles and remedies within his or her scope of expertise for successful PT SMF operations.

C. Domestic Consultants (30 person-months)

1. Financial Consultants (2 persons, 6 person-months each)

8. Two domestic financial consultants will be engaged, with one acting as lead. The lead domestic financial consultant, who also will serve as deputy team leader, will be an Indonesian financial markets expert with significant experience in (i) operations of government entities, (ii) operations of financial entities, (iii) dealing with financial institutions in Indonesia, and (iv) securitization. The expert will coordinate the domestic team to provide inputs and updated drafts for the consultancy team. The junior financial consultant will have a similar background, with primary responsibility for research and other assistance to the lead consultant. The lead specialist will guide and evaluate the performance of the junior specialist, and will be responsible for the quality of the output. In addition to coordinating, the financial consultants will have review and incorporate agreed comments for finalization of draft procedures and guidelines for (i) lending operations, (ii) investment operations, (iii) securitization, (iv) risk management (including accounting and auditing procedures), and (v) staff code of conduct.

9. The consultants will provide relevant market information for processing ADB's assistance to the Secondary Mortgage Finance (SMF) Project, and identify hurdles and remedies within their scope of expertise for the successful PT SMF operations.

2. Legal Consultants (2 persons, 6 person-months each)

10. The lead consultant will be an experienced Indonesian lawyer with significant expertise in Indonesian banking, capital market law, and regulations, including (i) mortgages; (ii) securitization; and (iii) land issues, especially land titles, liens, and taxes. The junior expert will have a similar background, with primary responsibility for research and other assistance to the lead legal consultant. The lead specialist will guide and evaluate the performance of the junior specialist, and will be responsible for the quality of the output. The work will include reviewing and incorporating agreed comments for

- (i) standard mortgage loan documentation (including application forms),
- (ii) standard third-party guarantee documentation,
- (iii) foreclosure procedures, and
- (iv) memorandum of understanding between PT SMF and participating financial institutions.

11. The consultants will review, among others, operational documents and comment based on consideration of Indonesian law, as ADB reasonably requests. Further, the consultants will identify hurdles and remedies within their scope of expertise for the successful PT SMF operations.

3. Mortgage Consultants (1 person, 6 person-months)

12. Two domestic mortgage consultants will be engaged, with one acting as lead. The lead consultant will be a primary mortgage financing specialist with significant experience in (i) underwriting mortgages; (ii) risk management of mortgage portfolios; (iii) market participants in the mortgage field; and (iv) operational implications of current market practice, rules, and regulations. The other mortgage consultant will have a similar background, with primary responsibility for research and other assistance to the lead mortgage consultant. The lead specialist will guide and evaluate the performance of junior specialist, and will be responsible for the quality of the output. The work will include:

- (i) Review and incorporate agreed comments on procedural guidelines for
 - (a) mortgage portfolio purchase (including valuation), and
 - (b) data collection from primary housing market.
- (ii) Review and incorporate agreed comments and facilitate market consultation for
 - (a) underwriting guidelines for mortgage financing,
 - (b) servicing manual—loan administration, and
 - (c) standardized appraisal procedure.
- (iii) Review draft of
 - (a) standardized appraisal procedure,
 - (b) servicing manual—loan administration,
 - (c) risk management (including accounting and auditing procedures),
 - (d) foreclosure procedures,
 - (e) data collection from secondary housing market, and
 - (f) staff code of conduct.

13. The consultants also will (i) provide relevant market assessment and information for the business plan and processing of ADB's assistance to the SMF Project; (ii) identify hurdles and remedies within their scope of expertise for successful PT SMF operations; and (iii) assist the

international mortgage consultant in producing the training plan, and provide initial training of trainers on the market standards and operational procedures.