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## SAUDI MORTGAGE LAW TO USHER IN NEW FINANCING BOOM

**JEDDAH:** The Saudi mortgage law, which has been in planning stages for almost a decade, is likely to be passed in a few months from now. The implementation of the mortgage law is expected to drive Saudi housing demand and prices as more people access the market.



Experts say if the law is finally put into place, it could usher in a new boom period for mortgage financing in Saudi Arabia - an area traditionally avoided by financial institutions due to a lack of proper regulation.

Capitas Group International (CGI), a leading specialist in Shariah-compliant mortgage finance, focused in its latest report on the importance of affordability, customization and consumer education for mortgage financing in the Kingdom.

Housing markets are critical for the development of every economy. They are a source of national wealth in that home ownership enables families to safeguard their earnings in a stable, long-term asset. As the critical link between supply and demand, the finance industry forms the foundation of any functioning housing market.

The CGI report said although a mortgage law has yet to be enacted and its mortgage industry is nascent, Saudi Arabia has historically maintained successful financial industry regulation and economic policies. In order to extend its track record of successful regulation into the mortgage industry, Saudi Arabia must extrapolate key lessons from the subprime crisis, maintain a prudent regulatory stance toward credit risk management with mortgage affordability as its cornerstone, and promote effective consumer protection and consumer education policies.

"The enactment of mortgage law will open up liquidity in the Saudi market and the availability of mortgage financing will likely give a boost to the real estate market," Naveed Siddiqui, CEO of CGI, said.

In the context of a nascent mortgage market such as Saudi Arabia where current mortgage lending represent only 2% of GDP in Kingdom compared to 50% in Germany and 30% in Malaysia. The Saudi mortgage law, which has been in planning stages for almost a decade, is likely to be passed in a few month from now. The implementation of the mortgage law is expected to drive Saudi housing demand and prices as more people access the market. Experts say if the law is finally put into place, it could usher in a new boom period for mortgage financing in Saudi Arabia- an area traditionally avoided by financial institutions due to a lack of proper regulations. Capitas Group International (CGI), a leading specialist in Shariah compliant mortgage finance, focused in its latest report on the importance of affordability, customization and consumer education for mortgage financing in the Kingdom. Housing markets are critical for the development of every economy. They are a source of national wealth in that home ownership enables families to safeguard their earnings in a stable, long-term asset. As the critical link between supply and demand, the finance industry forms the foundation of any functioning housing market. The CGI report said although a mortgage law has yet to be enacted and its mortgage industry is nascent, Saudi Arabia has historically maintained successful financial industry

regulation and economic policies. In order to extend its track record of successful regulation into the mortgage industry, Saudi Arabia must extrapolate key lessons from the subprime crisis, maintain a prudent regulatory stance toward credit risk management which mortgage affordability as its cornerstone, and promote and consumer education policies. "The enactment of mortgage law will open up liquidity in the Saudi market and the availability of mortgage financing will likely give a boost to the real estate market," Naveed Siddiqui, CEO of CGI, said. In the context of a nascent mortgage market such as Saudi Arabia where current mortgage lending represents only 2 percent of gross domestic product (compares to 50 percent in Germany and 30 percent in Malaysia), it may be concluded that a limited degree of regulation is needed in comparison to more developed mortgage markets, the report said. Siddiqui said: "In crafting the regulatory architecture for this nascent industry policy, makers should ensure that adequate attention is given to consumer protection and credit risk management. With these areas of regulation properly addressed the prospects for maintaining a stable mortgage market are vastly increased. The challenge for regulators will be to enact sufficient regulation which protects consumers and sets adequate mortgage lending in corporate governance standards for financing institutions while at the same time not over regulating to the point of creating excessive restrictions on a burgeoning industry." Examining the regulatory framework for mortgage lending in Saudi Arabia, which is currently in draft legislation, the report notes that the Mortgage Law is a package of five laws: the Mortgage Registration Law, which provides for the use of mortgages in real property financing, including the mortgage registration; Execution (Enforcement) Law, which expands a judicial court's authority to provide injunctive and declaratory relief, and to enforce such orders; Financial Leasing Law, which regulates the incorporation activities and governance of financial leasing companies; Real Estate Finance Law, which regulates the incorporation, activities and governance of companies engaged in real estate financing and Control of Finance Companies Law, which regulates the incorporation activities, and governance of finance companies. With regard to affordability, CGI's analysis underlines that the median household income level in the Kingdom is high compared to other emerging markets. Therefore, setting reasonable leverage limits will not overly restrict the mainstream market's access to mortgage financing. Instead, prudent down payment requirements will promote positive consumer habits by encouraging homebuyers to focus on affordable housing options. Deteriorating lending standards induced the global mortgage crisis. The push for increased homeownership, even among lower income households created a tenuous overly leveraged global mortgage market. A key take away from this series of events is that only effective risk management is driven by prudent regulatory policies can create a climate of safe lending. Maintaining prudent lending standards that cap the amount of financing offered to consumers based on their existing income, credit profile, and current foreseeable financial obligations is a critical element in maintaining a healthy and sustainable mortgage market. Following the passage of Saudi Arabia's mortgage law, CGI will be launching a Shariah-compliant mortgage finance company in the fourth quarter of this year under the sponsorship of the Islamic Development Bank Group (IDB) and the Public Investment Fund (PIF), Siddiqui said. Recently ICD's (the Islamic Corporation for the Development of the Private Sector's) CEO Khaled Al-Aboodi and Siddiqui signed an agreement to create a joint venture between Capitas Group LLC and the ICD, which was established to build and launch Shariah-compliant finance platforms in Saudi Arabia and other OIC (Organization of the Islamic Conference) member countries.