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LIQUIDITY IS KEY TO FUTURE STABILITY OF SAUDI MORTGAGE INDUSTRY, REVEALS CAPITAS GROUP'S WHITE PAPER

The creation of a mortgage liquidity center is a critical milestone for developing a stable and effective mortgage market. Drawing on their experience and expertise in developing, launching and managing Shari'ah compliant financial services platforms, Jeddah-based Capitas Group International (CGI), an affiliate of the Islamic Corporation for the Development of the Private Sector (ICD), has released a whitepaper entitled *Expanding the Saudi Mortgage Market: The Path to Homeownership*. The whitepaper highlights the key stages of mortgage industry development, examines the role that mortgage liquidity centers have played in other emerging markets, and outlines the best solution for Saudi Arabia. As the first stage of mortgage industry development the foundation needs to be set by establishing a minimum set of legal, regulatory and primary market infrastructure provisions. In order to spur lending and grow the sector a mortgage liquidity center should be created through government sponsorship as primary lenders require a source of long term liquidity. As the mortgage industry matures, deeper secondary market access is created through direct access to capital markets and mortgage lenders can move beyond relying solely on centralized liquidity centers. The main role of a mortgage liquidity center is to make capital available to primary lenders such as banks and specialized non-bank mortgage lenders. Typically, mortgage liquidity centers supply funds to primary lenders in two ways: either through wholesale loans or through loan purchases. Mortgage liquidity centers can play an important role in shaping the standards and regulations needed to avoid pitfalls, as experienced during the subprime crisis in the USA. Further, mortgage liquidity centers serve as a vehicle to achieve standardized underwriting and documentation procedures, increase competition in the mortgage market, expand sources of credit for home financing by offering products for institutions with long term investment horizons, and broaden product options for primary markets. They also enable banks to leverage short-term liabilities for longer term lending assets. "Based on our studies nearly SR1.2 trillion in mortgage funding will be needed over the next 10 years to meet consumers' demand in Saudi Arabia. It's critical that the national mortgage system strategy include a plan for liquidity management. Currently and in the foreseeable future mortgages are being funded through bank's short term deposits," said Naveed Siddiqui, CEO of Capitas Group International. "This source of liquidity alone will not satisfy future demand. Moreover the use of short term liabilities to fund long term assets such as mortgages creates an asset/liability mismatch which means financiers cannot commit to providing long term fixed rate mortgages to consumers without the assistance of an intermediary such as a mortgage liquidity center." Various mortgage liquidity center structures exist throughout the world. In its white paper CGI examines the experiences of five countries with mortgage markets and mortgage liquidity centers in various stages of development. Despite the different strategies and features of mortgage liquidity centers in these countries, the goal of each remains the same - to expand home ownership and develop the local secondary markets. "There are several successful models throughout the world that can serve as a guide to what might be feasible in Saudi Arabia. However our position is that every country, every market is unique and requires a localized solution," said Nasser Al Nubani, Executive Vice President and General Counsel of CGI. "What worked in Malaysia does not necessarily mean it will work in Saudi Arabia." In order to maintain Shari'ah compliance the Saudi mortgage liquidity center model proposed by CGI involves the direct purchase of mortgages from primary lenders rather than extending loans. Moreover the model introduces a unique Waqf Fund structure as a government sponsored guarantee program to entice secondary market investment in Saudi mortgage assets. "Core attributes of a Saudi mortgage liquidity center model should be the guarantee of principal and rent payments to certificate holders, standardized underwriting and efficient processing mechanisms," said Wahid Sarij, Executive Vice President of Strategy at CGI. "Our recommended model for a Saudi mortgage liquidity center will not

directly originate mortgage assets, but will accumulate mortgage assets through a participation/purchase program with banks and independent financial institutions." The creation of a mortgage liquidity center in Saudi Arabia will offer key advantages. It provides a transformative and scalable mechanism for meeting Saudi Arabia's goals of developing a robust capital market to support its mortgage industry's development, and engages financial institutions to participate in the growth of the mortgage industry at a controlled and prudent pace by providing them with measured access to liquidity. Capitas Group International is a Shari'ah compliant firm made up of international finance experts. It has chosen Saudi Arabia as its headquarters in order to provide advisory and management services to public and private sector institutions throughout the OIC. Most recently CGI has been entrusted with the task of developing, launching, and managing the creation of a SR2bn mortgage financing company in Saudi Arabia, geared to provide financing to small and medium sized developers and middle income homebuyers. The Ministry of Finance through its Public Investment Fund is a main sponsor having committed SR400m to the project.