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REGULATIONS FOR 3 OF FIVE NEW SAUDI MORTGAGE LAWS ISSUED

Regulations for 3 of five new Saudi mortgage laws issued

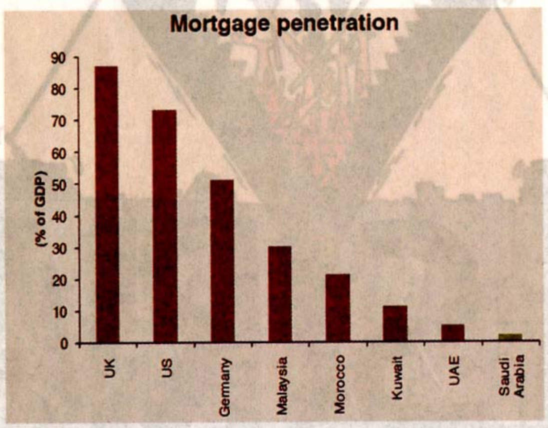
RIYADH – Saudi Arabia issued final regulations on real estate financing, leasing and supervision of financial companies as the Kingdom works to ease a housing shortage by opening up its mortgage market and enacting the country's first home-loans law.

The regulations outlining three of the five laws that make up the package of changes were posted Sunday on the website of the Saudi Arabian Monetary Agency. Rules on the enforcement of foreclosures and mortgage registrations have yet to be completed.

The package goes into effect when regulations for the two remaining laws are finished and once the final version of the legislation are publicized in the official newspaper, which should be in the next few weeks, said Abdulaziz AlGasim, the managing partner at Abdulaziz AlGasim Law Firm who was involved with drafting the mortgage measure.

Mortgage lenders in Saudi Arabia must have minimum paid-up capital of SR200 million, the state-owned Saudi Press Agency said Sunday. They will be given two years to comply with all new requirements set for mortgage providers. They also must inform Saudi Arabia's central bank, which will regulate them, of their plans to conform with the regulations within nine months of their enactment, SPA said.

The regulations also bar mortgage lenders from providing loans for other purposes and prohibit home-financing providers from developing property.



The mortgage law, which has been debated for more than a decade, will overhaul the kingdom's home-finance market, from registering mortgages to allowing judges to prosecute police officers who fail to carry out eviction orders. The changes could boost residential lending to about $32 billion annually, according to estimates by Capitas Group International Ltd., a Saudi company focused on Islamic finance.

The law "will transform home financing in Saudi Arabia to property-secured lending from the current practice of extending loans based on salary assignment, or banks' automatic deductions from borrowers' salaries to repay home loans," according to a Standard & Poor's Ratings Services report Feb. 18.

Home lending in Saudi Arabia grew at the fastest pace in at least four years in the second quarter of 2012, evidence that banks in the largest Arab economy are more willing to take risks as the mortgage law progresses. Real estate financing jumped 83 percent to a record SR48 billion ($12.8 billion) from the year-earlier period, according to central bank data.

Consumer real estate financing, after surging in 2012, accounted for 5.1 percent of total loans as of June 30, which is less than 5 percent of gross domestic product, according to S&P. That's much lower than residential mortgages penetration at other G20 countries, which is about 40 percent in France and roughly 50 percent in Germany, S&P said, citing the International Monetary Fund.

Most buyers rely on savings or help from family to buy homes in the kingdom. The government's Real Estate Development Fund provides low-income buyers with interest-free loans.

The rules will lead to the creation of licensed private mortgage providers as well as a state-run company for refinancing resembling Fannie Mae and Freddie Mac in the US. The Saudi Real Estate Refinancing Corp. would be responsible for issuing Islamic bonds or securities backed by mortgages or real estate, AlGasim said. — SG/ Agencies

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