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## New SAMA regulations to boost home mortgage

The Saudi Arabian Monetary Agency (SAMA) has started issuing much-awaited regulations on real estate financing, leasing and supervision of financial companies as the Kingdom gears up to open up its mortgage market.

SAMA is requesting the public to review the draft regulations and submit their comments and observations using within 30 days of its publication. The regulations have been published on its website.

Nasser Nubani, executive vice president of Capitas Group International, said: "The draft mortgage regulations clearly show that SAMA is taking a careful approach and is looking to defend against problems that have arisen in other markets due to lax regulation standards."

For example, he said the drafts include:

- Clear restrictions on mortgage companies' profiting from real estate transactions other than through financing activities (i.e. no buying and selling of real estate)
- Limitations on financing through off plan sales
- Sizable capitalization requirements (SR 500 million) for home financing activities
- Extensive compliance standards and compliance reporting to SAMA, and
- Transparency in lending requirements to protect consumers from predatory lending practices.

Nubani said certain areas seem overreaching and could cause bottlenecks. SAMA must protect the industry without restricting the companies' ability to operate efficiently, he said. Some examples are:

- SAMA approval required for hiring of any non-Saudi employees
- SAMA approval required for appointment of CEO, GM, department head, compliance officer, internal audit and
- SAMA review and approval required for all product documentation.

Commenting on SAMA's regulations, Basil Al-Ghalayini, CEO of BMG Financial Group, said: "SAMA's involvement in mortgage financing reflects another heavily regulated financial service sector in the Saudi market. This, in my opinion, may prove to be healthy over the long run in order to protect all parties' rights."

The Saudi housing market continues to expand on the back of high population growth and increasing availability of financing alternatives.

According to the National Commercial Bank (NCB), the total housing stock is expected to expand from 4.6 million units in 2010 by 2.4 million units during the next 10 years, with annual demand rising from 195,000 in 2011 to 264,000 units by 2020.

Key regulatory initiatives such as Custodian of the Two Holy Mosques King Abdullah's injection of SR 250 billion into the construction of new homes, the Real Estate Development Fund (REDF) that allows banks to offer bridge financing and



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the new mortgage law will stimulate demand for housing in the medium to long-term. Demand for housing across the Kingdom has centered around the three major regions, which include Makkah, Riyadh and the Eastern Province.

The housing concentration in these three regions are largely based on population count, housing development and availability of financing.

An estimated 50 percent of the total stock of housing units in the Kingdom is occupied by renters, while 41.6 percent is occupied by property owners.

Despite the lack of a mortgage law in the Kingdom, local banks have been offering residential finance to their customers.

According to SAMA, the total real estate financing by local banks reached SR 29.3 billion in 2011.