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Saudi Arabia Moves Mortgage Law Forward With Finance Rules

Zainab Fattah Nov 20, 2012 8:15 am ET

(Adds mortgage-growth estimates in third paragraph, analyst comments in last.)

Nov. 20 (Bloomberg) -- Saudi Arabia's central bank issued regulations on real estate financing, leasing and supervision of financial companies as the kingdom attempts to ease a housing shortage by opening up its mortgage market.

The changes were announced yesterday on the website of the Saudi Arabian Monetary Agency, or SAMA. Regulations governing the enforcement of foreclosures and mortgage registrations as part of a broader package of changes haven't been issued yet.

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 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 U.S. The Saudi Real Estate Refinancing Corp. would have minimum capital of 2 billion riyals (\$533 million) and would be responsible for issuing Islamic bonds or securities backed by mortgages or real estate, according to a draft of the regulations.

The central bank says regulators must approve any new financial products before they are put on the market. It also requires lenders to get approval to hire senior managers.

Cumbersome Rules

Those requirements may prove cumbersome to financial companies and may delay the introduction of products that could help them to be competitive, said Nasser Nubani, general counsel at Capitas.

SAMA is "erring on the side of caution and that is completely justified in this economic environment," Nubani said. "However, there needs to be an assessment of how much these supervision regulations will affect the day-to-day business of these companies. They may have to amend that requirement."

The central bank is seeking comment on the draft regulations within 30 days.

Home lending in Saudi Arabia grew at the fastest pace in at least four years in the second quarter, evidence that banks in the largest Arab economy are more willing to take risk as the mortgage law progresses. Real estate financing jumped 83 percent to a record 48 billion riyals from the year-earlier period according to central bank data.

Even so, fewer than 4 percent of all home purchases in the kingdom have been funded through mortgages. Currently, most buyers rely on savings or help from family. The government's Real Estate Development Fund provides low-income buyers with interest-free loans.

The regulations "fully tackle issues" facing the real estate market including speculation and price bubbles and the need for a property price index, Mahmood Akbar, an analyst at Saudi Arabia-based NCB Capital, wrote in a report today.

--Editors: Ross Larsen, Jeff St.Onge.