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Publication: Arab News

Date: July, 7 2012

Country: KSA

Page: Front Page

CALL FOR SYSTEMATIC IMPLEMENTATION OF THE MORTGAGE LAW IN KINGDOM

Courtesy: Capitas Group International (www.capitasgroupintl.com)

The passage of the mortgage law in Saudi Arabia is a much-awaited milestone for the country's real estate and housing markets. The law will pave the way for broader home ownership and healthier real estate market overall, bringing the Kingdom to a level playing field with other countries and securing the growth and stature of the Saudi market globally.

The possibilities now available in the market are extremely exciting, from a broader choice of financing products to the development of a viable secondary market and more. But the passage of the law will not flip a magic switch that automatically opens floodgates of home financing, turning renters into homeowners. Nor will it secure the rights of borrowers and financiers in a single day. Once the dust settles, the Mortgage Law can only deliver on its long-term objective of increasing homeownership through systematic implementation.

The first step in implementation requires the law to be transformed into effective regulations and enforcement mechanisms. Regulations will provide the guidelines, procedures, paperwork and timelines that financiers need to legally provide home finance and, more importantly, to manage the foreclosure process in case of customer default. Regulations must also guarantee consumer protection measures to allow defaulting parties due process and to make sure they are not treated unjustly during enforcement.

Saudi Arabian Monetary Agency (SAMA) is now expected to issue regulations within 90 days of the mortgage law's passage. The Ministry of Finance and the Ministry of Housing will also collaboratively issue policies and procedures for real estate financing which will need to be approved by the Council of Ministers.

A careful balance will be required. Over regulation through impractical standards, stringent oversight and unnecessary procedures can stifle the industry at this early stage. At the same time lax standards can lead to an unstable market with far reaching economic and financial repercussions. The lessons learned from the mortgage system failures in the region and globally over the past few years are the important harbingers for Saudi Arabia. Saudi policy makers must not allow the drive to promote homeownership to undermine regulations that support prudent risk standards and credit underwriting. In many parts of the world, the public policy objective of promoting homeownership eventually trumped the importance of adhering to sound underwriting practices. Policymakers became so focused on increasing homeownership that they failed to create regulations to control the lending practices of financiers preying on customers who did not understand the impact of homeownership on their finances. This is fundamental in Saudi Arabia, where much of the population will need to be educated about the benefits and responsibilities of home ownership as the market develops.

Once regulations are framed, the final test will be how regulators manage the sector and how financiers translate the benefits of the law into better terms and protections for the market. The interplay between public policy and private sector dynamics must be constantly measured to make sure the key stakeholders balance the government's vision of home ownership with corporate profit motives while safeguarding the public interest.

Looking ahead, the mortgage law will no doubt set a strong foundation for a market poised to expand significantly. In the coming phases we are likely to see the emergence of a specialized non-bank real estate finance sector with a variety of differentiated financing products for home purchase, commercial real estate investment, and construction/project finance for developers. The pent up demand for home finance will find relief in the law's effective regulation but it will take time for the system to develop fully. In due time, we will observe financiers creating new financing products and granting construction/project finance more readily. As the real estate and finance sectors interact more frequently under the umbrella of effective regulation, developers will be motivated to invest more in the creation of much needed supply for the market. All of this will culminate in more choice and increased ability for the homebuyer, which is the ultimate goal of the Saudi mortgage law.