



Saudi mortgage market A decade of reforms towards Vision 2030 targets

Saudi Arabia mortgage market overview

The Housing Vision Realization Program under Saudi Vision 2030 sets a target to increase home ownership for citizens to 70% by 2030 and to raise the total mortgage loans to SAR502 billion by end-2020¹ from SAR290 billion, representing an increase of 73% from the mortgage book in 2017-18.

If this is achieved, there will need to be a significant increase in housing supply, as well as a more active mortgage and refinancing market.

The Saudi Arabian Monetary Authority (SAMA) has introduced several measures in the last decade to enhance the regulatory framework and improve access to financing, starting with the Real Estate Mortgage and Financial laws; a package of related legislation comprising five laws, announced in 2012.

This paper explores more recent developments in mortgage registration guidelines, incentives for home loan companies and applicants, as well as government measures designed to stimulate a refinancing market.

Legal framework

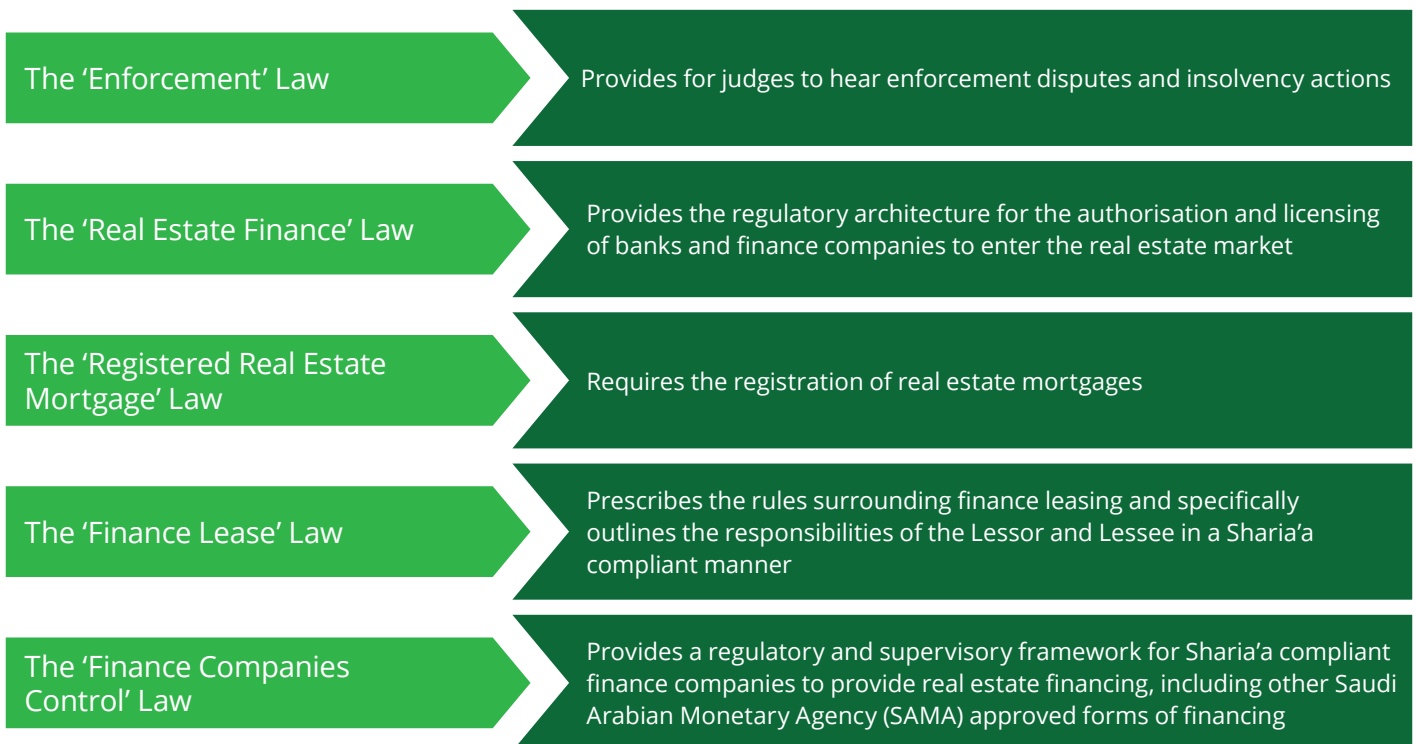
Following the release of the implementation framework for the Real Estate Mortgage and Financial laws in 2014², the progress to register mortgages has been slow, primarily due to the manual maintenance of property records administered by notaries and the latter's concerns around notarising mortgages in favour of banks or other lenders, given the matter of interest charged, being in violation of Sharia'a principles.

To address these concerns and avoid securing mortgages against the borrower's home, banks and other lending institutions have historically used the Ifragh arrangement, which required the borrower to transfer legal title to the lender's real estate special purpose vehicle until the loan was repaid, with an agreement to retransfer the title once the outstanding amount was repaid³.

In May 2017, SAMA issued a circular stating that the Ifragh structure was no longer permissible and all security against real estate needs to be registered as a mortgage. The circular further advised that all active Ifragh agreements should be registered as a mortgage within three years, i.e. by May 2020. Notaries have since issued guidelines to banks and other financing institutions to confirm that the mortgage structure is a Sharia'a compliant transaction, i.e. a tawarruq, or murabaha and SAMA have released standard documentation to be used by companies when providing real estate finance.

These regulatory developments, coupled with incentives for first time buyers highlight the government's commitment towards enhancing home-ownership and improving mortgage penetration rates in the Kingdom.

Figure 1: Summary of Real Estate Mortgage and Financial laws enacted in November 2014 by SAMA



Source: Deloitte

¹ Saudi Vision 2030

² 201411 SAMA Full Implementation of Finance Laws and Regulations

³ Simmons & Simmons | Saudi Arabia: Banks ordered to convert Ifragh real estate security into legal mortgage

Access to finance

According to the latest annual figures released by SAMA, the total value of real estate loans to individuals in Saudi Arabia increased by 16% year-on-year to SAR155 billion in 2018. Banking sector loans make up the majority of property loans to individuals, accounting for approximately 91% of the total real estate loans in 2018, compared to 86% of the total in 2017. The remaining loans are offered by specialist home financing companies whose foray into the Saudi market and ability to compete with commercial banks following the mortgage law of 2014, was impacted by preferential terms and subsidies offered to banks by SAMA, including offerings through the state-owned Saudi Real Estate Development Fund (REDF). Additionally, the inability to cross-sell mortgages alongside other products, as offered by commercial banks through large branch networks, limited the scope for home finance companies to widen their customer base.

In order to create a broader mortgage ecosystem and enhance the offerings for home buyers, the Government has introduced a range of initiatives for mortgage providers and incentives for borrowers.

Loan-to-value ratios

SAMA made amendments to the regulations in 2016, raising Loan-to-Value (LTV) ratios only for financing companies to 85%, compared to the earlier 70%⁴ as introduced in 2014. This was followed by an announcement in 2017 permitting 85% LTV cap for citizens seeking first home ownership through banks, which was further raised to 90% in 2018.

Financing programmes

In 2015, it was announced that the REDF will be turned into a bank, offering mortgages for existing homes and for the development of new homes. The REDF now provides a range of mortgage subsidies through banks, including a guarantee that is worth 5% of the property value as down payment, up to a maximum limit of SAR500,000 which is determined based on family size and income⁵.

Additionally, in 2016 SAMA announced the development of the subsidised Mortgage Product⁶ to finance housing for eligible citizens in coordination with the Ministry of Housing and Ministry of Finance. The product makes the borrower responsible for a down payment of 15% of the property value, with commercial banks financing 70% percent and the remaining 15% being guaranteed by the Ministry of Finance.

Affordable housing programme

Historically, there has been a mismatch between financing options and the availability of affordable housing offered by private developers, thus limiting home ownership among Saudi households. According to the latest available data from the Housing statistics Bulletin released by General Authority of Statistics (GASTAT)⁷, dwellings owned by Saudi nationals had reached 54% by mid-2018.

Alongside promoting competition in the mortgage provider landscape, Government housing initiatives have also been launched to increase the opportunity for Saudi nationals to own property. Under the Sakani Affordable Housing Programme launched in 2017 by the Ministry of Housing, financing products including mortgage loans, land plots and residential units are allotted to beneficiaries⁸.

According to the state-run Saudi Press Agency, more than 57 housing projects are being developed across the Kingdom and are at different stages of construction. Among these are two under-construction projects launched in March 2020 in the Jeddah governorate, to be developed in partnership with the private sector, providing 8,083 housing units.

While the government is working to increase affordable housing supply, the provision for providing mortgage-backed securities to investors has also received a boost in recent years through the creation of the Saudi Real Estate Refinance Company (SRC), a subsidiary of Saudi Public Investment fund (PIF), in 2017.

4 201603 SAMA Raising LTV Ratio for Real Estate Finance Companies

5 Oxford Business Group | The Report: Saudi Arabia 2020

6 201602 SAMA Subsidized Mortgage product

7 General Authority for Statistics Saudi Arabia

8 Ministry of Housing Saudi Arabia

Figure 2: Initiatives under Vision 2030 to improve access to finance

Initiative	Description	Champion	Desired outcome
Housing support for military personnel (Real Estate Loan)	Financial support to military personnel by providing financial support for the first instalment of funding to a maximum SAR140,000 in the form of an interest-free loan. Criteria for acceptance in the program: <ul style="list-style-type: none"> To be on a waiting list in the Ministry of Housing or Real Estate Development Fund To be on active duty 	Real Estate Development Fund	Increase home ownership rates among military personnel.
Mortgage guarantees	Provision of real estate funding guarantees to enable quasi-bankable beneficiaries to access funding packages, especially particular private sector employees and/or entrepreneurs who are often not considered creditworthy by reputable lenders, forcing them to use usurers. The initiative also supports applicants in remote areas and retirees, other groups who have little access to funds because of banks' lending restrictions.	Real Estate Development Fund	Grow home ownership to 60% by 2020.
Guarantee for off-plan sale and self construction	Guarantees to enable applicants access to funds for self-construction projects and to buy from off-plan developers, options rarely supported by banks because of risks inherent in building, materials or the inability of the developer or contractor.	Real Estate Development Fund	Increasing owner rates from self-construction and off-plan sales, and guarantee projects to be awarded by the Partnerships Team at the Ministry of Housing.
Real Estate Development Fund certificates	Issue financial documents or certificates of equal value, representing common quotas in the ownership of Fund assets that already exist, or will exist out of subscription revenues. This will contribute to the liquidity necessary for the Fund to meet its obligations and achieve its investment objectives. It will also support the real estate funding market and the Saudi debt instruments market.	Real Estate Development Fund	<ul style="list-style-type: none"> Provide liquidity necessary for the Fund to meet its obligations Provide liquidity necessary for the Fund to achieve investment objectives Support the real estate funding market in the Kingdom Support the Saudi debt instruments market
Lease-to-own	Financial support for home ownership to beneficiaries not entitled to housing support, in the form of subsidized lease instalments.	Real Estate Development Fund	Beneficiaries not entitled to funding or developmental housing on the pathway to home ownership, contributing to an overall improvement in social conditions.
Financial support for beneficiaries entitled to housing support	Financial support targeted at beneficiaries to access funding through partnerships with the finance sector in the form of a grant of up to SAR500,000. The size of the grant is assessed according to family income size according to an approved matrix. The initiative also covers added fees payable on the support.	Real Estate Development Fund	Providing housing support programs to suit all available funding solutions at participating funding entities, in order to provide suitable housing to beneficiaries in housing support programs by the end of 2020.
Down payment subsidy program (zero-interest loan)	Financial support targeted at beneficiaries aged 45+ in the form of a 10% to 20% subsidy on their first housing repayment to a maximum of SAR140,000 depending on family income and size. This is given as a loan repayable at the end of the funding period. Beneficiaries must be referred to the program, over 45 years of age, and on a salary less than SAR14,000.	Real Estate Development Fund	By 2020, to provide financial support to target group covering up to 20% of the property value to a maximum value of SAR140,000.
Cooperative program with Ministry of Finance to facilitate housing loans for government employees	A joint program by the Ministries of Housing and Finance to facilitate housing finance for government employees. This is done by issuing official guarantees for bank loans granted to bankable applicants in the public sector.	Ministry of Finance	Increase the ability of beneficiaries to access funding and to build a savings culture amongst the people.

Initiative	Description	Champion	Desired outcome
Provide loans to improve uninhabitable homes	Those with homes not built with concrete are not part of the 50% ownership baseline of the Housing Program. These people are eligible for financial support to help with home improvements, with the aim to enable the transition from unreinforced concrete houses to reinforced concrete dwellings.	Real Estate Development Fund	Raising the ownership rate of reinforced concrete units.
Program to support citizens who are unable to pay housing rent (Rent Support)	Supporting the citizens who are unable to pay housing rent in accordance with the Bureau of Experts Decision No. (405), through the payment of the rent for those against whom an execution order had been issued and list them on developmental programs to help them not to fall in distress again. Supporting citizens rent who are unable to pay the instalments of housing real estate finance, in which an eviction order had been issued on the house and sell it to settle the debt of the financier, through applying the same standards and mechanism to be applied on those having difficulty in paying the house rent.	Ministry of Housing	Reducing difficulty in paying house rent and offering financial stability.

Source: The Housing Program, Saudi Vision 2030

Development of a secondary market

The absence of refinancing firms in the Saudi mortgage market had until recently limited the ability of banks to expand their loan books in any one sector. However, with the establishment of the SRC, loan portfolios can be packaged into mortgage-backed securities and sold to investors. As of March 2020, the firm was planning to buy more than SAR23 billion of mortgage portfolios from banks in 2020.⁹ This is a significant increase from the SAR2 billion it held at the end of 2019, driving the government push to boost homeownership.

In light of the temporary slowdown expected in housing demand from the COVID-19 related lockdown measures, the SRC reduced rates by 15 basis points for its long-term fixed-rate mortgages (LTFR) in April. The firm also announced a 'forbearance program' in May¹⁰ for private sector employees (excluding financial institutions, healthcare sector and self-employed citizens, allowing the option to defer mortgage payments for at least three months without any additional cost.

Looking ahead

In the short-term, COVID-19 and declining oil prices are expected to have an impact on the pace of construction and demand for housing, reflecting sluggish activity. Additionally, the cancellation of the cost-of-living allowance for civil servants and pensioners, amongst other fiscal measures announced on 12 May 2020, could lead to a realignment of spending allocation for the housing initiatives under Vision 2030 outlined above. However, the combined impact of these factors remains to be seen.

In the medium term, banks will continue to lead lending activity, whether as originators of transactions or potential refinancers, even as the entry of more global home loan institutions in the coming years may alter the Saudi mortgage market structure with a broader participation of specialist lenders.

⁹ Bloomberg
¹⁰ Saudi Gazette

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