

The new UAE mortgage regulations

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The Circular accompanying the Regulations states that the Regulations will come into effect a month after they are published in the Official Gazette. The Regulations were published in the Official Gazette on the 28th November 2013.

The Aim of The Regulations

In effect, the Regulations define the eligibility of various categories of borrowers based on a loan to property value ratio ("LTV"). The Regulations state that the aim of the Central Bank is to ensure that banks, finance companies and other financial institutions providing mortgage loans to UAE nationals and expatriates do so in accordance with best practice and have control frameworks in place. The Regulations will also apply without exemption to banks and institutions providing shariah compliant loans for the purchase of properties. In essence it would appear that the Regulations are an attempt by the Central Bank to regulate borrowing in the market by reducing the level of leverage currently available to borrowers and increasing equity in property investments.

The Effect of the Regulations

So what do the Regulations actually say?

In the case of UAE nationals, for properties valued at AED 5 million and below, the LTV will be a maximum of 80 per cent of the value of the property. In cases where the property value exceeds AED 5 million, the LTV shall be 70 per cent of the value of the property. Each borrower is only entitled to seek a loan for one property falling within these two categories and therefore it would appear that these LTV ratios are intended for owner occupiers.

If UAE nationals seek loans for a second home or investment property, the LTV must not exceed 65 per cent of the value of the property.

In the case of non UAE nationals, the Central Bank has set the mortgage limit for the first property at 75 per cent of the value for properties that are valued at AED 5 million or less. If the value of the property is more than AED 5 million, an expatriate borrower can borrow a maximum of 65 per cent of the value of the property. Once again each borrower is limited to one loan for the purchase of properties within these categories.

In the event of a second home or an investment property purchase by a non UAE national, the Regulations state that the maximum loan available will be 60 per cent of the value of the property.

For the avoidance of doubt, GCC citizens would fall under the non UAE national category and the Regulations would apply accordingly.

The above LTV's apply to properties that are completed. The Regulations set different rules relating to properties which are incomplete and therefore purchased off plan. The Regulations state that irrespective of whether the purchaser is a UAE national or non UAE national, the maximum loan amount for the purchase of an off plan property shall be 50 per cent of the value of the property. This is regardless of how

many other properties the purchaser owns and whether the purchaser intends to be an owner occupier of the off plan property.

The only current exception to the above LTV's are in the case of loans to UAE nationals under Government Housing Programmes.

The Regulations further state that mortgage loans with deferred principal repayment (i.e interest only mortgages) should only apply to "investment loans" and that such loans should not allow for non-payment of the principal for longer than 5 years from the date of first drawdown of the loan. Investment loans are not defined in the Regulations.

Inserted table is an overview showing the LTV ratios set by the Regulations as discussed above.

	<i>UAE National</i>	<i>Non UAE National</i>
<i>First Property (Built)</i>	<i>Property valued at AED 5 Million or less: LTV = 80%</i>	<i>Property valued at AED 5 Million or less: LTV = 75%</i>
	<i>Property valued at more than AED 5 Million: LTV = 70%</i>	<i>Property valued at more than AED 5 Million: LTV = 65%</i>
<i>Second or subsequent Properties (Built)</i>	<i>LTV = 65% (irrespective of value of property)</i>	<i>LTV = 60% (irrespective of value of property)</i>
<i>Property bought off plan</i>	<i>LTV = 50% (irrespective of value of property)</i>	<i>LTV = 50% (irrespective of value of property)</i>

Mortgage providers are required by the Regulations to have in place a board approved list of independent valuers for the purpose of property valuations. The valuer to be used in each case must be a suitably qualified third party who is independent of the seller, borrower, developer/contractor and the loan decision process.

In addition to setting the LTV ratios the Regulations state that the maximum term of a mortgage is set at 25 years and the maximum age limit of a borrower at the date of the last repayment due on the loan is to be 70 years for UAE nationals and 65 years for non UAE nationals (or 70 years if self employed).

The Regulations require mortgage providers to put in place proper processes and procedures to ensure that accurate information is collected regarding a borrower's income in order to determine a borrower's ability to repay the loan. Loan providers are required to develop standard Debt Burden Ratio ("DBR") calculation templates for this purpose. The DBR cannot exceed 50%. In addition, the maximum financing amount allowed for UAE nationals is set at eight times their annual income and at seven times for non UAE nationals. The calculation of the DBR should disregard any promotional or introductory interest rate being offered by the lender.

So what happens next?

There is much speculation about how the Regulations will affect the property market in general once the Regulations come into force. Some welcome the Regulations as a long awaited tool to govern what they see as an otherwise unregulated market in terms of borrowing and cooling down an overheated property market by putting checks on speculators. Others are worried that this type of regulation will not in fact curb speculation and will instead have a negative impact on the first time owner occupiers with a genuine interest in purchasing a home in the UAE. The Regulations have clearly opened up an interesting debate and the effects, remain to be seen.