

# First Shariah-compliant housing finance company established

## MERCURY REPORTER

SIMON Stockley, the Durban lawyer who founded SA Homeloans, has helped establish the first Shariah-compliant housing finance institution in the Kingdom of Saudi Arabia.

Stockley has been based in Riyadh for the past 18 months, where, as an independent consultant, he structured the transaction.

The International Finance Corporation, the private sector arm of the World Bank Group, signed an agreement with Arab National Bank Dar Al-Arkan Real Estate Development Company and Kingdom Instalment Company last week to create the new housing vehicle with a market capitalisation of almost R2 billion.

"We are delighted with the outcome of some intense and, at times, difficult negotiations," Stockley said.

The result of the deal, in a challenging regulatory environment, has led to the creation of the Middle East's and North Africa's largest specialist mortgage finance company.

"The ability of South African mortgage bankers to hold their own in the international arena is testament to the level of sophistication and evolution of the local market and our experience in operating in emerging economies," Stockley said.

The shareholders of the new venture include Arab National Bank, the kingdom's sixth largest commercial bank with an established track record in the consumer banking sector; Dar Al-Arkan Real Estate Development Company, the kingdom's largest residential property developer, and Kingdom Instalment Company, the captive financing arm of Dar Al-Arkan Real Estate and



SIMON STOCKLEY

the pioneer of Shariah-compliant housing finance in the country.

"We were able to lever off the experience gained in establishing SA Home Loans by pairing up a retail bank, a developer . . . and expertise of the International Finance Corporation, to create a world-class housing institution," Stockley said.

By increasing the availability and affordability of housing, the new company, Saudi Arabian Home Loans, intends to make long-term mortgage financing available to Saudi locals in a Shariah-compliant manner, which is expected to promote home ownership to the middle and lower income segments of the kingdom's population.

"We are delighted with the establishment of Saudi Home Loans Company," said Jyrki Koskelo, the International Finance Corporation's Director for Global Financial Markets.

"Our investment provides a strong driver for the development of the nascent housing finance market, not only in Saudi Arabia, but for the whole region. Without increasing the availability of long-term funding for housing finance, the lower-income segments of the market will continue to be under-served and denied the chance of home ownership."

Technical assistance to the programme will be provided by Housing Development Finance Corporation, India's leading mortgage finance provider, which will train the new company's management in the areas of credit risk management, operations and management information systems.

"This alliance will allow us to rapidly and aggressively expand our financing programme so as to offer consumers greater choice and flexibility in respect of their housing finance requirements," said Youssef Al-Shelash, Chairman of Kingdom Instalment Company.

Robert Eid, Arab National Bank CEO, said: "This project is an important part of the bank's strategy to develop housing finance as a core growth sector for the bank, and to develop and provide Shariah-compliant financing solutions to the bank's clients in relation to purchase of homes.

"The insights and experiences learnt from the evolution of other emerging property markets (such as in South Africa) will be a key determinant in the success of the venture."

The area of Shariah-compliant housing finance – property finance that conforms to the principles of the Quran – is undergoing rapid growth and expansion, with a number of South African banks establishing Islamic finance divisions to serve the demand of their customers for compliant lending products.

"One of the benefits of the transaction from a local perspective," said Stockley, "is that we anticipate an inflow of technology back into the South African market, which is currently undeveloped in respect of Sharia-compliant product."

