Central Bank of the U.A.E.

نظام قروض الرهن العقاري

Regulations Regarding Mortgage Loans
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Regulations
Regarding Mortgage Loans

Circular No: 31/2013
Date: 28/10/2013

TO: All Banks & Finance Companies

Subject: Mortgage Loans

INTRODUCTION

The Central Bank is seeking to promote the proper development, organization and regulation of the mortgage loans market in the United Arab Emirates (UAE).

In introducing these Regulations the Central bank wishes to ensure that banks, finance companies and other financial institutions providing mortgage loans to UAE nationals, GCC nationals and expatriates do so in accordance with best practice.

The Central Bank is also seeking to ensure that financial institutions have and maintain effective business standards and control frameworks in place for the granting of mortgage loans.

These Regulations make a distinction between loans to owner occupiers of residential property and investors in residential property since the risk profile and due diligence required is distinctly different for each type of borrower.
OBJECTIVE

The objective of these Regulations is to set minimum acceptable standards for granting mortgage loans with a view to:

i. protecting the financial sector;
ii. fostering consumer protection; and
iii. enhancing financial stability.

These Regulations are issued pursuant to the powers vested in the Central Bank under Articles (5), (18), (94) and (96) of Union Law No (10) of 1980 concerning the Central Bank, the Monetary System and Organization of Banking.

APPLICATION

These Regulations apply to:

a. Banks
b. Finance companies
c. Other financial institutions providing mortgage loans

For the purpose of these Regulations banks, finance companies and other financial institutions that provide mortgage loans are collectively referred to as 'mortgage loan providers'.

These Regulations set minimum standards and regulated financial institutions are encouraged to apply higher standards in order to protect the financial soundness of their business. Nothing in these Regulations prevent mortgage loan providers from adopting more conservative limits in relation to granting mortgage loans where deemed appropriate.

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Article (1): Definitions

1. **Mortgage loan**: A loan that is collateralized against a residential property granted for the purpose of constructing, purchasing or renovating a house for owner occupier or investment purposes. It also includes loans granted for the purchase or the development of land for these purposes.

2. **Collateral**: Property upon which the residential real estate loan is secured.

3. **Collateral Management**: All tasks and processes within granting of mortgage loans where collateral is involved, e.g. appraisal and constitution of collateral; confirmation of its legal existence and enforceability.

4. **Debt Burden Ratio**: Ratio of debt burden to income.

5. **Down payment**: Up-front payment from the buyer for a portion of the purchase price, which reduces the value of the loan against the property.

6. **Equity**: Difference between the appraised value of the property and the total claims held against the property.

7. **Loan-to-Value (LTV)**: The ratio of the amount of the loan outstanding to the appraised value of the residential property.

8. **Property appraisal**: a comprehensive assessment of the property characteristics including the determination of the collateral’s value.
9. **Mortgage loan providers:** All banks, finance companies and other financial institutions that provide mortgage loans.

10. **Tenor:** The initial term length of a mortgage loan.

**Article (2): Risk Management Requirements**

1. **Lending Policy**

   All mortgage loan providers must have a separate mortgage lending policy in place which has been approved by the board of directors of the concerned institution.

   Mortgage loan providers should set a limit for this type of lending in relation to (a) exposure to property lending and (b) the overall loan book.

   The lending policy for mortgage loans must make a clear distinction between financing for owner occupiers and financing for investors and take account of the different risks involved.

   Lending policy must include, inter alia, detailed requirements in relation to verification of income and assessment of the borrower’s ability to repay, the maximum loan-to-value and tenor allowable for each type of loan, effective collateral management procedures for taking security against the loan and the application of the risk management framework in relation to this area of business.
Mortgage loan providers are required to have robust procedures and processes in place to monitor completion schedules for the financing of properties being constructed. Where stage payments are to be made as part of the financing agreement, the mortgage loan provider must first use owner’s equity portion of the construction price to pay the developer/contractor before the mortgage loan provider provides any of the loan monies.

Payments to the developer/contractor should be based upon prescribed completion milestones that must be physically confirmed either by the mortgage loan provider or by a suitably qualified professional agent who is independent from both the borrower and the developer/contractor.

Lending policies must be reviewed and signed off by the board of directors of the mortgage loan provider, at least annually, and updated or amended as and when appropriate.

### 2. Effective Verification of Income and Other Financial Information

A key input to effective management of mortgage loans granting process is properly verifying the borrower’s ability to service the loan. Accordingly mortgage loan providers must have in place proper processes and procedures to ensure effective and accurate verification of income and other financial information which the lender will rely on to determine the borrower’s capacity to repay.

ويمكن أن تكون الدفعتات التي تسمى إلى المقاول/المالك قابلة على أسس تعود مراجعة إنجاز محددة، وتتبع تتبعها من خلالها، إما بواسطة موفر فروض الرهن العقاري، أو بواسطة وكيل مهني مؤهل يكون مستقلاً عن المقرض والمقرر المالي.

ويمكن مراجعة سياسات الإفراط والتوقع عليها بواسطة مجلس إدارة موفر الرهن العقاري، على أساس سنوي وليس، على الأقل، وتحديد أنها كما وقعت، كما وقعت، وفقاً للإمكان.

2. تثبت فعال من الدخل والمعلومات المالية الأخرى

أحد المدخلات الرئيسية التي تحتاجها الإدارة الفرعية لعملية مفقة فروض الرهن العقاري، هو التثبت المناسب من قدرة المقرض على خدمة الدين. وعليه، يجب على موفر فروض الرهن العقاري أن يستخدم إجراءات وتقييمات سليمة لضمان التحقق الفعال والدقيق من الدخل، والمعلومات المالية الأخرى التي سيعتمدها المقرض في تحديد قدرة المقرض على السداد.
Loan documentation should be designed to collect a full income and liabilities history for each applicant. A detailed record of the steps taken to verify income capacity along with full documentary evidence to support the decision (including a formal sign off by the appropriate approval authority) should be maintained on file and be available for inspection by the Central Bank’s examiners if required.

3. **Reasonable Debt Service Coverage**

Prudent granting of mortgage loans requires an accurate assessment of the borrower’s ability to repay the loan. This is an important factor in the context of:

a. minimizing defaults and losses to the mortgage loan provider.

b. limiting the possibility of consumer over-indebtedness; and

c. maintaining stability in the financial system.

Mortgage loan providers must establish appropriate processes to assess the borrower’s ability to repay the loan, review the processes regularly and maintain up-to-date records of such processes.

In making this assessment the mortgage loan providers must take into account all relevant factors that could impact on the ability of the borrower to repay the loan, including, for example, other debt servicing obligations (including credit card debt), security of employment and

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the individual's particular 'lifestyle' expenditure. Only reliable and sustainable income should be included when making the assessment. Bonuses and other non-standard or temporary income should be suitably discounted or if not guaranteed excluded from the assessment of repayment.

Mortgage loan providers should develop standard Debt Burden Ratio (DBR) calculation templates that enable lenders to gain a full understanding of the borrower's financial capacity in order to make an informed decision on the borrower's ability to service the new loan. The DBR assessment should include an appropriate amount calculated to cover normal recurring household expenditure commitments in addition to other liabilities.

Where the loan extends beyond normal retirement age, lenders must take account of the adequacy of the borrower’s retirement income to repay the loan in making the assessment.

Also, the prevailing interest rate environment shall be taken into account, as such a stress test should be carried out to determine whether the borrower could continue to repay the loan should interest rates rise.

In the case of mortgage loans with deferred repayment of the principal in the first stage and interest only is paid, lenders must be satisfied that the borrower will be able to meet principal and interest payments arising at the end of that period, when assessing the borrower's ability to repay the loan.

وفي حال انتهاء الديون إلى ما بعد سن التقاعد، يجب على المقرضين عند إجراء التقييم أن يأخذوا في الاعتبار مدى كفاءة دخل التقاعد لسداد الديون.

كما يجب الأخذ في الاعتبار موضوع أسعار الفائدة السائدة، ولذا الغرض يجب إجراء اختبار الجهد لتحديد ما إذا كان بإمكان المقرض الاستمرار في سداد الديون إذا ما ارتفعت أسعار الفائدة.

وفي حالة قروض الرهن العقاري التي تبدأ بفترة ساحل لسداد المبلغ الأصلي للقرض وتستند الفائدة عليه في البداية، يجب على المقرضين إجراء تقييم سليم لقدرته المقرض على دفع المبلغ الأصلي والفائدة عند نهاية الفترة.
The assessment of the borrower’s ability to repay should not be based on future property price appreciation or an expected increase in the borrower’s earning capacity.

4. Appropriate Loan to Value Ratio (LTV)

The taking of collateral is an important element in the lending decision. Accordingly, the Central Bank expects mortgage loan providers to adopt prudent LTV ratios when granting loans.

Lenders must ensure that all loans granted are subject to an appropriate LTV that takes into account current, latent, or emerging risk factors that may impact on the value of the collateral and the lenders’ ability to realize it. The value of collateral should be suitably discounted to take account of these risk factors.

The level of down payment required from the borrower should be drawn from the borrower’s own resources and not from other sources of borrowing (including personal loans or credit cards). The Central Bank expects mortgage loan providers lending policy to be explicit in this regard to ensure the borrower has an appropriate level of financial interest in the collateral.

It is also important to note that the LTV ratios set out in these Regulations are the maximum allowable. Ultimately mortgage loan providers are responsible for ensuring their institutions remain financially sound. Accordingly, mortgage loan providers should adopt more conservative LTV ratios where the

ويعود في قرار الاقتراض إلى القيمة المقدمة للمالك، أن تكون المصارف الملموسة في الاقتراض، والكابحة، والناشئة، التي يمكن أن تؤثر على قيمة الضمان أو على قدرة المقرض على تحقيقها. يجب تطبيق خصم مناسب على قيمة الضمان لأخذ عوامل المخاطر المذكورة في الاعتبار.

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underlying risks in lending markets or segments of the lending markets are higher.

Lending decisions should not be based solely on the security available and it is important that lenders do not rely on the LTV as an alternative to assessing repayment capacity. Mortgage loan providers must ensure that appropriate processes and procedures are in place to capture this risk.

5. Effective Collateral Management

Mortgage loan providers are required to have adequate internal risk management and collateral management processes in place that ensure property appraisals are realistic and substantiated. Property appraisal reports should not reflect expected future house price appreciation.

Prior to any irrevocable commitment to lend an independent on-site valuation of the property must be undertaken by a professional third party who is suitably qualified and independent of the borrower, seller, developer/contractor and the loan decision process.

Based on clear evaluation criteria, each bank and finance company should have in place a board approved list of independent Valuers.

All legal titles must be free from encumbrances and contain no impediments for the registration of security interests. In the case of land gifted to UAE Nationals confirmation of
the gift from either the relevant Diwan, or Housing Program, as well as confirmation from the land department is
required.

6. Due Diligence

In order to limit and mitigate the risk arising from mortgage loans business, mortgage loan providers must have in
place a clear written program of due diligence (legal and other) to be followed during all stages of the application process
to ensure lending policies are being implemented correctly. Procedures must also be in place to ensure that, prior to
drawdown, all conditions attaching to the loan have been (or are being) complied with.

Article (3): Important Ratios

1. Debt Burden Ratio (DBR)

The maximum DBR allowed is set out in “Regulations Regarding Bank Loans and Other Services Offered to Individual
Customers” - i.e. 50 percent of gross salary and any regular income from a defined and specific source at any time’. It is
important however that when making an assessment of the borrower’s ability to repay, financial institutions do not
automatically apply the maximum DBR and take into account the specific circumstances of the borrower and the
exposure to the institution.

In arriving at the DBR, mortgage loan providers are required to stress test the loan at (2 to 4) percentage points above
the current rate of interest on the loan, depending upon what level interest rates are at in the cycle. Where an introductory

ووجبة تدقيق تأكد بالمنحة من
الديوان أو برنامج الإسكان ذي الصلة،
بالإضافة إلى تأكد من دائرة الأراضي.

إجراءات الحيطة والحذر

لكي ينسى تقليل وحصر المخاطر الناشئة عن
أعمال الإقرارات العقاري، يجب أن توفر لدى
موفر قروض الرهن العقاري برامج واضحة
مكثفة لإجراءات الحيطة والحذر (القانونية
وغيرها) التي يتعين إتباعها خلال كافة مراحل
عملية تقديم طلبات القروض، بهدف التحقق من
أن سياسات الإقرارات يتم تنفيذها على نحو
صحيح. كما يجب أن توفر إجراءات التحقق
من أن كافة الشروط والأحكام المطلقة بالقرض
قد تم استيفاؤها قبل سحب الفائدة.

المادة (3): نسبة عبء الديون

1. نسبة عبء الديون

الحد الأقصى السوِّح ينصوص عليه في "نظام القروض المصرفية
والخدمات الأخرى المقدمة للعملاء الأفراد":
وهي 50% من الراتب الإجمالي، وأي دخل من
 مصدر معروف ومحدد، في أي وقت من
الأوقات. عبر أن من المهم أن يحصى
المؤسسات المالية، عند تقييمها لقدرة المقرض
على السداد، على عدم تطبيق نسبة عبء
الدين بصورة تلقائية، واخذ في الاعتبار
الظروف المحددة للمقرض، وانكسافة
المؤسسة.

واللتوصل إلى نسبة عبء الديون، يطلب من
موفر قروض الرهن العقاري أن يجزوا
اختبار جيد للقرض عند (2 إلى 4) نقاط منوية
فرق معدل النائدة الحالياً على الفائدة، بناء
على المصدر الذي تكُّون عليه
interest rate applies the stress test should be carried with reference to the rate that will apply on cessation of the introductory rate.

Where the property is for investment purposes mortgage loan providers are required to make a deduction of at least two months’ rental income from the DBR calculation to assess the borrower’s ability to repay taking account of non-rental periods.

Where the loan repayment schedule extends beyond the expected retirement age, mortgage loan providers are required to ensure that the balance outstanding at that time can continue to be serviced at a DBR of 50 percent of the borrower’s post retirement income.

2. Loan to Value Ratio (LTV)

The maximum Loan to Value (LTV) ratio are as follows:

A. UAE Nationals
   • First House/Owner Occupier
     Each borrower can only claim one property under this category.
   a. Value of Property less or equal to AED 5 million - maximum 80% of the value of the property.
   b. Value of Property more than AED 5 million - maximum 70% of the value of the property.
• **Second and Subsequent House or Investment Property**

  65% of the value of the property, regardless of value.

B. **Expatriates**

  - **First House/Owner Occupier**
    Each borrower can only claim one property under this category.
    
    a. Value of Property less than AED 5 million - maximum 75% of the value of the property.
    
    b. Value of Property more than AED 5 million – maximum 65% of the value of the property.

• **Second and Subsequent House or Investment Property**

  60% of the value of the property, regardless of value.

C. **All Categories - Property purchased off plans**

  Given the long term nature of the development process and the higher level of risk to completion, the maximum LTV for mortgages on property being purchased off plans is 50% regardless of purpose, value, or category of purchaser.

3. **Maximum Term of Loan**

  The maximum tenor of the mortgage loan is 25 years.
The maximum age at the time of the last repayment is 70 years for UAE nationals and 65 years for Expatriates (or 70 years if self-employed).

4. Maximum Financing Amount

As per Article 3.1, the DBR cannot exceed 50%.

In addition, the maximum financing amount allowed is as follows:

- **UAE Nationals**: up to 8 years annual income.
- **Expatriates**: up to 7 years annual income.

5. Source and Frequency of Repayment

Repayment should be made from salary or verifiable business or rental income. The use of 'End of Service Benefit' is not allowed.

Principal and interest repayments should be made on a reducing balance basis (except for mortgage loans with differed repayment of principal – treated as per 6 below).

Repayments should be at a frequency not less than quarterly. The Central Bank would expect there to be minimum exceptions to this policy.

6. Interest Only Period

Mortgage loans with deferred principal repayment should only apply to investment

ويمكن الحد الأقصى لعمر المُقرض عند وقت سداد الدفعة الأخيرة 70 سنة بالنسبة للمواطنين و65 سنة بالنسبة لغير المواطنين (أو 70 سنة إذا كان المُقرض يعمل لصالح نفسه).

الحد الأقصى لملعمة التمويل

بموجب أحكام المادة 3-1، يجب أن لا يتجاوز الحد الأقصى لسنة عبء الدين 50%.

إضافة لذلك، يكون الحد الأقصى لملعمة التمويل على النحو التالي:

- بالنسبة للمواطنين: الدخل السنوي الإجمالي لـ 8 سنوات.
- بالنسبة لغير المواطنين: الدخل السنوي الإجمالي لـ 7 سنوات.

مصادر السداد ومدتها الزمنية الفاصلة

يجب أن يتم السداد من الراتب، أو من دخل أعمال يمكن التحقق منه، أو دخل إيجار. ولا يسمح باستخدام "مستحقات نهاية الخدمة".

كما يجب أن تكون مبلغ المبلغ الأصلي للقرض والفواتير قائمة على أساس الرصيد المتناقص (عدا في حالة قروض الرهن العقاري التي تدفع بفترة سماح لسداد المبلغ الأصلي – تتعامل كما هو المذكور في 6 أدناه).

ويجب أن يتم سداد القروض بفترة زمنية فاصلة لا تقل عن ربع سنة. ويتوقع المصرفي المركزي أن تكون الاستثناءات عن هذه السياسة في الحد الأدنى.

فترة سداد القائدة فقط

يجب أن لا تطبق قروض الرهن العقاري مع فترة سماح لسداد المبلغ الأصلي للقرض الأصلي لفترة سداد القائدة فقط.
loans. These loans should not allow for
non-repayment of principal for longer
than 5 years from date of first drawdown
of the loan.

7. Acceptable Collateral

A first class mortgage in the name of the
mortgage loan provider must be taken on
all financed properties.

In cases where the property being
financed falls under the various
Government Housing Schemes and a
first charge cannot be created, mortgage
loan providers should have other means
in place to protect the loan collateral
including the taking of a second charge
on the mortgaged property where
possible.

Article (4): Disclosure and Transparency

Lenders should provide the borrower
with sufficient and transparent
information, including costs and risks
associated with the loan, to enable the
borrower to make an informed
assessment of the suitability of the loan
to their needs and financial
circumstances.

There should be transparency in
preparing and publishing all fees,
charges and interest rates (or profits)
including the method of calculating
interest /profit.

Loan documentation should include,
inter alia, the details of the property or
the development, the borrower's
contribution, the amount of the loan, the

7. الضمان المقبول

يجب الحصول على رهن من الدرجة الأولى
باسم موفر قرض الرهن العقاري، على كافة
العقارات الممولة.

وفي الحالات التي يكون فيها العقار ممولاً تحت
أي من المخططات الحكومية المختلفة،
ولا يكون ممكناً من ثم الحصول على رهن من
الدرجة الأولى، يجب أن تكون لدى موفر
قرض الرهن العقاري طرقاً أخرى معتددة
لحماية ضمانات القرض، بما في ذلك الحصول
على رهن من الدرجة الثانية على العقار، حيثما
يكون ذلك ممكناً.

المادة (4): الإفصاح والشفافية

يجب على المقررين تزويد المقترض
بمعلومات كافية وشفافية، بما في ذلك التكاليف
والمخاطر المصاحبة للقرض، كي يتمكن
المقرض من إجراء تقييم مذروین لمدى
ملاءمة القرض لاحتياجاته وظروفه الحالية.

كما يجب أن تتوفر الشفافية في إعداد ونشر
كافة الرسوم، والخصومات، وأسعار الفائدة (أو
الربح) بما في ذلك منهجية حساب
الفائدة/الربح.

ووجب أن تتضمن وثائق القرض، من بين أمور
أخرى، تفاصيل العقار أو المشروع التطويري،
ومساهمة المقرض، ومنع الاقتراض، ومدة

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repayment period, the periodic installment, the interest/profit rate, insurance requirement, mode and method of disbursement, the milestones required for progress payments in case of properties under construction with a clear pre-payment policy. For fees and charges it should be detailed in a separate schedule to be attached to the loan contract.

Borrowers should be provided with information setting out the total cost of the loan during its lifetime. The borrower must sign each page of the loan documentation and be given a copy signed by both the mortgage loan provider and the borrower.

The maximum charges to refinance with other banks or financial institutions or for early repayments are the actual cost (to break fixed loans) to the lender and/or fees and charges as set out in Regulations No. 29/2011. There should also be no impediment for borrowers to refinance with other institutions.

Financial institutions should also follow the transparency and disclosure requirements for real-estate lending in accordance with Regulations No. 29/2011.

Mortgage loan providers are not allowed to alter or vary terms and conditions of the loan or the facility during the tenor of the loan or the facility, unless agreed to in writing by the borrower. In case of changes to the commissions or fees, customers must be notified, at least, two months prior to implementation of such changes.

لا يجب تمثيل المقرضين بمقاولات توضح التكلفة الكلية للقرض خلال مدة سماحها. يجب أن يوقع المقرض على كل صفحة من وثيقةقرض، كما يجب أن يمنح نسخة مرخصة بواسطة مؤسسة قروض الرهن العقاري المقترض.

كما يكون الحد الأقصى لإجمالي الرسوم المفروضة على إعادة التمويل لدى بنك آخر، أو على السداد المبكر، معالجًا للتكلفة الفعلية التي يتكبدها المقرض (أي قرض محدد المدة)/وأو الرسوم والخدمات المنصوص عليها في النظام رقم 29/2011. ويجب أن لا تكون هناك أي عوائق تحول دون قيام المقرضين بإعادة التمويل لدى مؤسسات أخرى.

ويجب على المؤسسات المالية أن تستوفي متطلبات الشفافية والشفافية بالنسبة للإقرارات العقاري بناء على أحكام النظام رقم 29/2011/29.
Article (5): Housing Programs

The Central Bank wishes to support specific Government housing programs that are established for the purpose of serving society for the betterment of communities and individuals.

The Central Bank will engage with such programs directly and seek to agree a more preferential regulatory treatment where loans under such programs are guaranteed by the Government.

Where the loan amount advanced to a UAE National to construct or purchase a property for ‘owner occupation purposes’ under a local housing program is guaranteed, the maximum DBR allowable is increased to 60 percent.

The maximum LTV allowable may be increased to 85 percent when the value of the property is AED 5 million or less.

Article 6: Shari’ah Compliant Finance

Certain mortgage loan providers will be providing mortgage finance in accordance with Shari’ah principles.

While it is recognized that Islamic finance has specific features, an institution offering Islamic financial services is generally exposed to the same types of risks as a conventional mortgage loan provider.
In addition to observing the specific requirements set out by the Shari’ah advisory committees given under each mode of financing separately, the requirements laid down in these Regulations should also be complied with while granting mortgage loans under Shari’ah principles.

Article (7): Reporting

Reporting requirements will be as set out in the Central Bank’s online periodic Banking Return Forms system.

Article (8): Monitoring and Supervision

The Central Bank will monitor and supervise the implementation of these Regulations and take appropriate regulatory action where breaches occur.

In implementing these Regulations the Central Bank expects mortgage loan providers to apply ‘substance over form’ in making lending decisions and have appropriate policies and procedures in place to ensure that requirements of these Regulations are not circumvented. The Central Bank will be mindful of schemes or vehicles some mortgage loan providers may establish to circumvent these Regulations and shall take appropriate action as necessary.

The Central Bank reserves the right to alter any of the "Important Ratios" contained in these Regulations either globally, or for an individual mortgage loan provider, where it so deems appropriate.

In this case, the lender shall apply the Shari’ah principles outlined in these Regulations.

The monitoring and supervision of these Regulations will be carried out by the Central Bank, and the results of this supervision shall be presented to the relevant authorities.

The Central Bank reserves the right to alter any of the "Important Ratios" contained in these Regulations either globally, or for an individual mortgage loan provider, where it so deems appropriate.
Article (9): Interpretation of Regulations

The Legal Development Unit of the Central Bank shall be the reference for interpretation of the provisions of these Regulations.

Article (10): Cancellation of Previous Notices

Notice number 3871/2012 is withdrawn from the date these Regulations become effective.

Article (11): Publication and Application

These Regulations shall be published in the Official Gazette in both Arabic and English and shall come into effect one month from the date of publication.

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