

Local banks put slightly at ease

Decline in negatives helps financial houses temper down mortgage lending

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Dubai: A sharp decline in loan delinquencies over the last two quarters has got local banks to ease up ever so slightly on their mortgage lending. And nowhere is this more apparent than in Abu Dhabi.

The new found confidence is reflected in Abu Dhabi Finance just coming up with a 5.75 per cent offer, while Abu Dhabi Commercial Bank has tied up with Sorouh Real Estate to offer Sharia-compliant mortgages for the latter's soon-to-be-completed Sun Towers development.

The local banking sector had concerns at the start of the year of a rash of loan delinquencies, and especially on the mortgage side, hitting the marketplace. Anecdotal evidence suggests such a dire situation has not come to pass.

Delinquencies

"Loan delinquencies have [come] down across all retail categories — auto, personal, credit cards and not just mortgages, and this I believe is true for all of the leading banks in the past six months" a senior official of a local bank said.

"A lot of restructuring has taken place on the loan portfolios and the banking sector is now starting to see the benefits from that. The entire system has been sensitised.

"By aligning with the right developer for the right project, mortgage providers in Abu Dhabi are now in a much stronger position to push through their financing options. There is a correlation between rate of loan and rate per square foot at which the property is available. It now works to make home-financing more affordable for a wider base of potential buyers."

Yes, the emphasis is on completed projects or those in sight of that, and from the second quarter onwards Abu Dhabi will be seeing a fair share of them. It remains to be seen whether other leading providers would come up with competing offers to Abu Dhabi Finance's sub six per cent package.

Individual circumstances

"The mortgages we offer to individual clients will always be determined by their individual circumstances, and in-line with our commitment to responsible lending," a spokesperson with ADF said. "The 5.75 per cent interest rate is applicable for all our approved developers and projects.

"There are many factors that impact on the interest rate any organisation can offer, and we have been working to lower our rates since launch. Abu Dhabi Finance is a commercial organisation and we can see long-term commercial benefits in our new pricing strategy, and in leading the market with these competitive rates."

Talking to Gulf News, officials at other leading mortgage entities said they would consider softening their own rates only on a need-to basis. "Each mortgage provider has to balance his cost of funding, processing fees and the cushion he would need to set for possible delinquency," a senior official at a local mortgage firm said. "One cannot just ignore these factors and bring rates down arbitrarily."

Meanwhile, the average tenor of a mortgage loan remains around 20 years. "However, the loan closure period could come down, which in the more mature markets is eight or nine years," an official said. "This is a direct result of rentals having come down over the past year and people being able to save more.

"Whereas the rental component of their incomes earlier were 50 to 60 per cent, it is now 25 to 30 per cent. This will work in favour of an earlier loan closure period, but gradually."

But with the mortgage market on the mend, the home loan providers are willing to take the long-term view.

New approach

Though mortgage refinancing options have been tried and tested in the local market, banks remain steadfastly cautious about this.

"Let's say banks are less comfortable with this option," a senior official of a local bank said. "Refinancing is available primarily for those investors only on their second or third property and at higher rates.

"This is because with primary financing, the mortgage provider knows it goes directly to the developer. But with secondary financing, this option is not available to them," he added.