Saudi Arabian Monetary Agency (SAMA)
Head Office
Office of the Governor
No.: Date:
Enclosures: Corr. to:

Saudi Arabian Monetary Agency (SAMA)
Head Office
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No.:
Enclosures: 1

Ref. No.: 46538
Date: 2/9/1439H
Encl.: Nil

Circular

Messrs/ ______________

Greetings,,,

Subject: Principles of Responsible Financing for Individuals

Based on the powers vested to the Saudi Arabian Monetary Agency (SAMA) by virtue of the relevant regulations, bylaws and instructions; and in order to achieve the goals of SAMA for keeping the soundness of the financing sector and the fairness of its transactions as well as protecting the customers;

Please find enclosed a copy of the Principles (Guidelines) of Responsible Financing for Individuals issued on 2/9/1439H. SAMA would like to stress for the banks and financing institutions to promptly proceed with the actions guaranteeing the full compliance with these instructions on 1/12/1439H corresponding to 12/8/2018, given that the provisions of paragraphs 15, 16 & 17 of these principles (guidelines) shall become effective as of the date hereof.

For your information and action.

Very truly yours,,,

(Signed)
Ahmed Abdulkareem Alkheleifi
The Governor

<u>Distribution</u>:

- Banks operating in the Kingdom
- Financing Institutions operating in the Kingdom
- Control Agency Departments
- The Directorate General for Legal Affairs

Saudi Arabian Monetary Agency (SAMA)

Principles of Responsible Financing for Individuals

Saudi Arabian Monetary Agency (SAMA)
Head Office
Office of the Governor

No.:	Date:
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Ramadan 1439H – May 2018

Preamble

The Saudi Arabian Monetary Agency (SAMA) issued these principles (guidelines) based on the relevant regulations, bylaws and instructions.

Reading these principles (guidelines) must be associated with:

A. Bank Control Regulation issued by the Royal Decree No. M/5 dated 22/2/1386.

B. Financing Companies Control Regulation issued by the Royal Decree No. M/51 dated 13/8/1433 and its executive bylaw issued by the governor's decision No. 2/MUV dated 14/4/1434.

C. The Real Estate Financing Regulation issued by the Royal Decree No. M/50 dated 13/8/1433 and its executive bylaw issued by the Minister of Finance's decision No. 1229 dated 10/4/1434.

D. Financing Lease Regulation issued by the Royal Decree No. M/48 dated 13/8/1433 and its executive bylaw issued by the Minister of Finance's decision No. 1/MUV dated 14/4/1434.

E. Updated Consumer Financing Controls issued by virtue of the circular No. 351000116619 dated 10/9/1435.

F. Controls on issuing and operating credit cards and direct discount cards issued by virtue of circular No. 361000090389 dated 26/6/1436.

G. Individual clients collection controls and procedures issued by the Saudi Arabian Monetary Agency's circular No. 391000083340 dated 26/7/1439 corresponding to 12/4/2018.

H. Principles of bank clients protection issued by virtue of circular No. 341000095960 dated 3/8/1434.

I. Principles of financing companies clients protection issued by virtue of circular No. 3610000110420 dated 14/8/1436.

Chapter One

Definitions

1. The following terms and phrases shall refer to the meanings opposite to them unless the context otherwise requires wherever provided herein:

Agency: The Saudi Arabian Monetary Agency

Governor: The Governor of the Saudi Arabian Monetary Agency

Financier: Banks and financing companies subject to the supervision of SAMA that are licensed to practice one or more financing activities.

Principles: Principles of responsible financing for individuals.

Client: Natural person who obtains finance or who applies for the financier requesting finance or to whom financing is addressed.

Financing Amount: The maximum or total amounts available to the client by virtue of the financing contract.

Credit Cost: The credit value required from the client by virtue of the financing contract which can be expressed by a fixed or changing annual percentage from the financing amount provided to the client.

Changing Credit Cost: The credit cost determined according to a referential indicator or rate which is clearly determined and provided in the financing contract which changes when the indicator changes.

Total amount payable by the client: The financing amount plus all the costs that the client is committed to pay according to the financing contract provisions, including credit cost, fees, commissions, administrative services costs, insurance and any costs necessary for obtaining the finance, excluding any costs that the client may avoid such as the costs or fees that fall due on the client as a result of his violation of any of his obligations provided in the finance contract.

Monthly Credit Obligations: Total amounts payable by the client pursuant to the credit report issued by the licensed credit information company and the personal disclosure of the client to be calculated on a monthly basis.

Total Salary: The monthly basic salary (after deducting retirement or insurance dues) plus all the fixed allowances given to the employee by his employer on a monthly basis.

Total Monthly Income: The monthly average of the amounts obtained by the client from any other periodical income source whether being monthly, annually or any other periodic period. This include the total salary or any other income including any allowances or bonus paid periodically or asset leasing returns or any other investment returns or otherwise that can be reasonably verified calculated according to the provisions of Paragraph 17 hereof.

Net Available Monthly Salary: The amount remaining from the monthly income of the client for spending, investment or saving after deducting the current or future basic expenditures and the monthly credit obligations to be calculated on a monthly basis.

Deductibles: The monthly credit obligations of the client ratio to the total monthly income of the client calculated according to the terms and conditions stated in Chapter 4 pertaining to the quantative principles of the responsible financing.

Deduction: Deduction form the total salary of the client or from his monthly wages.

Chapter 2
General Provisions

2. These principles (guidelines) aim at encouraging responsible financing that meets the actual requirements of the clients, particularly those related to obtaining housing and assets rather than consumable items. It also aims at enhancing the financial integration through the provision of the suitable financing for all the categories of the society and consider the deductibles within the range that the client can tolerate. These guidelines also aim at guaranteeing the fairness and competitiveness among competitors among the financiers while maintaining the effectiveness of the procedures and mechanisms adopted by them and ensuring their effectiveness.
3. These guidelines apply to all the financiers and control all the financing activities addressed to the clients which contain all credit products and programs addressed to the individuals including but not limited to personal financing, vehicle financing, credit cards and real estate financing.
4. The financier shall draw the internal controls and procedures to guarantee the continued compliance with these guidelines, regulations, bylaws and other relevant instructions, and shall give special attention and keenness for documenting the information and documents provided by the client in order to give the same an acceptable degree of reliability.
5. If the financier assigns some of the relevant works to third parties, he shall insure their compliance with these guidelines and their non-violation of the terms of these guidelines, regulations, bylaws and other relevant instructions.
6. The financier shall take the necessary actions towards the full understanding of his employees of these guidelines and their compliance to apply them and to share the same with the clients and making them aware thereof. He shall also take into consideration when preparing incentive programs for his employees to abide by these guidelines and not to draw programs leading to non-responsible financing and not to suffice with the reliance on the number or value of the granted financing.
7. The financier shall maintain sufficient records to prove his compliance with these guidelines, regulations, bylaws and other relevant instructions.

Chapter 3

Qualitative Principles of Responsible Financing

8. The financier shall adopt a scientific approach and clear transparent and written standards to evaluate the credit worthiness of the client and his ability for repayment according to the best practices in this field without contradiction with these guidelines. The board of directors of the financier shall approve these standards and procedures, revise them annually and update them when needed. The financier shall apply these procedures before granting the financing and endorse the same in the financing file.

9. The financier shall examine the credit record of the client after his approval, in order to verify his financial solvency and his ability to sustain the monthly credit obligations and his credit behaviour and shall endorse the same in the financing file. The financier shall ask a written disclosure from the client for any other credit obligations shouldered by him such as employer's loan or loans from friends or relatives or other obligations, whether existing or expected and shall endorse the same in the financing file. After granting the financing, the financier shall, pursuant to the provisions of the relevant regulations, bylaws and instructions, register the credit information related to the financing granted to the client, after his approval, with the licensed credit companies and update such information throughout the transaction period with the client. The financier shall reject the financing application in case of not obtaining the client's approval on all the contents of this paragraph.

10. The financier shall subject all of his clients for the evaluation of the ability to tolerate the monthly credit obligations, particularly in the circumstances when the deductibles of the client are close to the maximum limits stated herein. The evaluation of the ability of enduring the monthly credit obligation basically depend on the evaluation of the net monthly income available for the client that can be used in meeting his monthly credit obligations, provided that the difference in the basic expenditures shall be taken into consideration based on several factors such as the income levels, number of dependants, place of residence and whether the client is the owner of his house or a lessee or otherwise. It is expected that the financier shall draw appropriate rules in

accordance with the best practices to apply comprehensive factors on the various categories of clients. The financing is considered as endurable/sustainable if the total monthly credit obligations of the client after granting the financing are less than the net monthly income available to the client without contradicting the deductibles stated in Chapter Four pertaining to the quantative principles of the responsible financing (paragraphs 15. 16 & 17 hereof).

11. The financier shall use financial forms and tools to measure the ability to tolerate the monthly credit obligations and the extent of the appropriateness of the financing to the needs and circumstances of the client based on a credit study and an evaluation of the net monthly income available to the client. Such type of forms is based on basics, the most prominently of which is to reckon and classify the basic expenditures customary to the various categories of clients. The minimum basic expenditures include the following groups:

    A. Food expenses which is affected by the number of dependants.

    B. Housing expenses (rent) and services which depend on whether the client is the owner or a lessee of his house.

    C. Domestic labor charges.

    D. Education expenses which is affected by the number of dependants.

    E. Health care expenses which is affected by the number of dependants.

    F. Transportation and telecommunication expenses.

    G. Insurance expenses for the individual himself and his dependants as the state may be.

    H. Any forecasted future expenses or costs.

    Add to this, the existing monthly credit obligations that can be verified through the licensed credit information companies and the financing granted by the employer, friends or relatives or other finances repaid through monthly, semi-annual instalments or otherwise.

12. The financier shall guarantee balancing between the efficiency and effectiveness in the financial forms and tools used for measuring the tolerance. The information and data available to the financier as well as the lawfully available public statistical sources may be utilized. The contents of these forms and tools shall include the following as a minimum:

    A. The mechanism of calculating and analysing the total monthly income.

    B. The mechanism of calculating and analysing the monthly credit obligations

    C. The mechanism of calculating and analysing the basic expenditures including the following:

       - List of the basic expenses indexes compared to the verified data.
       - Ability to change the basic expenses according to the income levels.
       - Ability to change the basic expenses based on the number of dependants.

Chapter 4

Quantative Principles for responsible Financing

13. The conditions for compliance with the calculation of the monthly credit obligations of the client shall be adhered to as follows:

    A. The monthly credit obligation for the credit card shall be equal to the minimum limit of the repayment of the credit ceiling for each credit card issued for the client.

    B. The monthly credit obligations shall include all the credit obligations towards the financiers and the specialized government lending institutions as well as any other credit obligations such as employer's loan or loans from friends or relatives or other financings.

    C. Before granting the changing credit cost financing, the financier shall add an assumed margin on the credit cost upon granting the financing when calculating the monthly credit obligations for this financing, provided that the monthly credit obligations shall be documented for this financing on the basis of the credit cost upon granting the financing in addition to the assumed margin in the credit report of the client at the credit information company in order to confront the risks of the change in the credit cost.

    D. After granting the financing, the financier shall be responsible for exceeding the ratio of enduring the credit obligations of the client beyond the limit allowed hereunder, unless such exceeding is the result of the change in the credit cost. If such thing takes place, the financier shall reschedule the repayment periods of the financing and the financier may not then calculate a credit cost that lead to exceeding these limits.

    E. The monthly credit obligations for financing wherein all the instalments are not equal and calculated by the assumption that the monthly instalment is fixed at the monthly average level of all the instalments, regardless whether the financing is payable through equal instalments or requires the payment of a final payment.

14. The conditions of calculating the total monthly income of the client in the following manner shall be complied with:

    A. Only the items documented through any means by the employer shall be calculated within the total salary.

    B. From the other income, half of the monthly average of the amounts obtained by the person from any income source whether being monthly, annual or other periodical period or asset leasing returns or investment returns or distributions of company profits or otherwise, which can be verified based on the statement of account of the client for two years at least or by virtue of official documents proving their continuity.

    C. Governmental subsidies obtained by the client such as the citizen account program or the social security may not be calculated within the total monthly income of the client, however, the governmental subsidies proved by virtue of a contract as provided by the Ministry of Housing or the Real Estate Development Fund may be calculated within the total monthly income of the client for the real estate financing products.

15. The deductibles for the clients whose total monthly income exceeds SR 15,000 and less shall be subject to the following restrictions:

    A. The monthly credit obligations resulting from the financing and associated only with the monthly deduction from the total salary of the client shall not exceed 33.33% and the retired clients 25% of the salary.

    B. The monthly credit obligations other than the monthly credit obligations resulting from the real estate financing shall not exceed 45% of the total monthly income of the client.

    C. The monthly credit obligations resulting from the financing shall not exceed 55% of the total monthly income of the client, however, with respect to the clients benefiting from Ministry of Housing or the Real Estate Development Fund for the real estate financing products, such percentage shall not exceed 65% of the total monthly income of the client.

16. The deductibles for the clients whose total monthly income exceed SR 15,000 up to SR 25,000 shall be subject to the following restrictions:

    A. The monthly credit obligations resulting from the financing and associated only with the monthly deduction from the total salary of the client shall not exceed 33.33% and the retired clients 25% of the salary.

    B. The monthly credit obligations other than the monthly credit obligations resulting from the real estate financing shall not exceed 45% of the total monthly income of the client.

    C. The monthly credit obligations resulting from the financing shall not exceed 65% of the total monthly income of the client.

17. The deductibles for the clients whose total monthly income exceed SR 25,000 shall be subject to the following restrictions:

    A. The monthly credit obligations resulting from the financing and associated only with the monthly deduction from the total salary of the client shall not exceed 33.33% and the retired clients 25% of the salary.

    B. The credit obligations resulting from the financing shall be subject to the financier's credit policies and the financier shall subject all of his clients to the evaluation of the ability to tolerate the monthly credit obligations stated herein.

18. the term of financing shall not exceed 5 years or 60 months as of the date of financing, excluding the real estate financing and credit cards.

19. SAMA may periodically revise the percentages stated in paragraphs 15, 16 & 17 hereof and modify them taking the soundness and stability of the financial system into consideration as well as the economic growth forecasts.

Chapter 5

Publication and Validity

20. These guidelines shall be issued by virtue of decision taken by SAMA governor and shall be published on SAMA website.

21. The provisions of paragraphs 15-17 of the Principles of Responsible Financing for Individuals shall become effective as of the date of circulating them.

22. All the provisions of these guidelines shall be valid as of 1/12/1439H corresponding to 12/8/2018 and full compliance therewith is mandatory.

23. These guidelines supersede whatever contradicts them.