

Mortgage Watch FAQ's By Home Matters



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The UAE has recently changed from a frontier market to an emerging market and the retail banking sector is keen to follow suit.

Considering the banks were hit pretty hard during the financial crisis, they seem to have rebounded very well. The banking sector is moving in the right direction with the recent introduction of non-resident and under construction finance. Transparency is something that was lacking before, however this is another area where the banks have vastly improved, their products are not as complicated as they once were and their charging structures are now very linear.

Below are some of the frequent questions asked by potential mortgage clients:

WHAT TYPES OF MORTGAGE RATES ARE THERE IN THE UAE?

There are three types of mortgage rates currently available in the UAE. Fixed rate – is a mortgage that has a fixed interest rate for a term between 1 to a maximum of 5 years. The benefit of a fixed rate mortgage is that the home owner will not have to contend with varying loan payment amounts that fluctuate with interest rate movements. Upon expiry, the fixed rate will revert to either a bank variable rate or to an EIBOR linked rate; EIBOR rates – Set by the Central Bank, The Emirates Interbank offered rate is the average interbank borrowing rate of 11 lending banks and published daily on the central bank website and deemed completely transparent. Variable rate – usually predetermined by the bank itself, it takes into account various factors such as internal costs, liquidity, risk, default rate among other factors.

WHAT IS THE MAXIMUM AMOUNT I CAN BORROW AGAINST A PROPERTY?

Lending prior to 2014 was available at up to 85% for expats and 90% in some cases for UAE Nationals. However due to a change in Central Bank policy, all lending for expats has now been capped at 75% loan to value for property purchase prices under 5m AED and 65% loan to value for purchases above 5m AED. UAE Nationals can secure a further 5% uplift on these loan to value ratio's. All second property and/or investment property is now capped at 60%, with off plan/under construction being capped at 50%.

Affordability is one of the main drivers of whether a mortgage can be sought or not and at what level. We have perhaps all heard of the Debt to Service ratio, but what is it and how does it apply? The debt service ratio (DSR) in the UAE is the affordability calculation set by the central bank; in a nutshell, if you add up all of your monthly liabilities, plus your projected new mortgage repayment, this amount cannot exceed 50% of your monthly income.

IS 'UNDER CONSTRUCTION' FINANCE AVAILABLE FOR ALL DEVELOPMENTS?

Only a handful of banks will lend on certain off plan developments and usually only to the bigger developers in Dubai (Nakheel, EMAAR and Dubai Properties), however with the influx of under construction or off plan units and developments available, the banks are currently re-addressing their stance with a view to adding more developments.

CAN A NON-RESIDENT SECURE A MORTGAGE IN THE UAE?

Non-residents can now access finance at up to 75% with rates as low as 4.75%, however the choices are limited. With Expo 2020 looming, we are seeing a sharp increase in enquiries from non-residents who are contemplating an investment in the UAE real estate market.

HOW LONG WILL THE MORTGAGE TAKE TO PUT IN PLACE?

The average time frame for most mortgages is around 4-5 weeks in total, do not be fooled by anyone who tells you that a final mortgage approval can be done in 5 working days, it is rare and does not manage your time expectations. The mortgage process becomes more arduous when the bank providing you with the mortgage has to clear the mortgage of the seller. This process can add an additional 2 weeks to the overall time frame.

I THINK I AM PAYING TOO MUCH FOR MY MORTGAGE?

This could be the case, especially if you purchased between 2005-2010 as interest rates were high at that time. It would be advisable to consider a review of your existing facility with a view to refinance to a better rate and/or more flexible product. Some banks offer reduced or zero processing fees for clients looking to change lenders.

CAN I RELEASE SOME EQUITY FROM MY EXISTING PROPERTY?

Most banks will allow you to remortgage your existing unit to release funds. Some banks limit their loan to values and others would only allow an equity release for a specific purpose i.e. to purchase a further property in the UAE. The same affordability model applies as a purchase, however the costs associated are a lot less as there is no agent or land department transfer fees.

WHY SHOULD I USE A BROKER OR CONSULTANT?

With around 33 lending banks in the UAE combining over 100 mortgage product combinations, the choice to the borrower is relatively extensive. While you can shop among as many lenders as you want, the reality is that you are limited in the number of banks you can contact. A good mortgage broker would have contact with many different lenders and access to discounted pricing and favorable terms that individual borrowers can't access.

Home Matters have a large market share, have been established in Dubai since 2006 and are the biggest consultancy in the UAE both in terms of staffing numbers and volumes of business placed with the banks. This gives us some leverage and from time to time can offer our clients better rates and terms compared to applying directly to your bank. In many cases, we also achieve faster turnaround times.

One thing to check when dealing with brokers or consultants is their independence! Are they independent from a bank(s)? Are they independent from a realtor?

Investors the world over seek quality advice from professionals before investing their money. Committing to a mortgage should be no different. Why should anyone run the risk of trying to tackle the sourcing of a mortgage without seeking the best independent advice?

If you would like further information please call Home Matters Mortgage consultants on:

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