

Responsible Lending Principles for Individual Customers

Responsible Lending Principles, issued by SAMA under Circular No. (46538/99) dated 02/09/1439H (17/05/2018),

Amended by SAMA's Circular No.)40694/1) dated 09/09/1439H (24/05/2018).

Note: This translation is provided for guidance. The governing text is the Arabic text.



Ramadan, 1439H (May 2018)

Relevant Laws and Instructions

SAMA has issued these principles based on the powers vested therein under the relevant laws, regulations, and instructions.

The principles herein should be read in conjunction with the following:

- a. Banking Control Law, issued by Royal Decree No. M/5 dated 22/02/1386H;
- b. Finance Companies Control Law, issued by Royal Decree No. M/51 dated 13/08/1433H and its Implementing Regulation, issued by H.E. Governor's Decision No. 2/MFC dated 14/04/1434H;
- c. Real Estate Finance Law, issued by Royal Decree No. M/50 dated 13/08/1433H and its Implementing Regulation, issued by H.E. Minister of Finance's Decision No. 1229 dated 10/04/1434H;
- d. Finance Lease Law, issued by Royal Decree No. M/48 dated 13/08/1433H and its Implementing Regulation, issued by H.E. Governor's Decision No. 1/MFC dated 14/04/1434H;
- e. The Updated Regulations for Consumer Financing, issued by Circular No. 351000116619 dated 10/09/1435H;
- f. Regulations for Issuance and Operations of Credit and Charge Cards issued under Circular No. 361000090389 dated 26/06/1436H;
- g. Regulations and Procedures for the Process of Payment Collection for Retail Clients, issued by SAMA Circular No. 391000083340 dated 26/07/1439H (12/04/2018);
- h. Banking Consumer Protection Principles, issued under Circular No. 341000095960 dated 03/08/1434H; and
- i. Finance Consumer Protection Principles, issued under Circular No. 361000110320 dated 14/08/1436H.

Chapter I

Definitions

1. The following terms and phrases, wherever mentioned herein, shall have the meaning assigned thereto unless the context requires otherwise:

SAMA: Saudi Arabian Monetary Authority.

Governor: Governor of Saudi Arabian Monetary Authority (SAMA).

Creditor: Banks and finance companies, supervised by SAMA and licensed to practice one or more activities of finance.

Principles: Responsible Lending Principles for Individual Customers.

Consumer: An individual who obtains or applies for a finance loan or at whom such finance is directed.

Finance Amount: The limit or the total amount made available to the consumer under a finance contract.

Term Cost: The term cost due by the consumer under a finance contract, which may be expressed as a fixed or changed annual percentage of the Finance Amount provided for the consumer.

Variable Term Cost: The term cost specified according to an index or a reference rate which must be explicitly stated in the finance contract; such a cost will change in accordance with the change in such an index.

Total Amount Payable by the Consumer: Finance amount plus all due costs that the consumer must pay as per provisions of finance contract, including term cost, fees, commissions, administrative costs, insurance and any expenses deemed necessary to obtain finance and excluding any expenses that the consumer can avoid, such as costs and fees customer must pay upon his/her violation of any obligations mentioned in the finance contract.

Monthly Credit Obligations: Total amount payable by the consumer, which is calculated on a monthly basis, as per the credit report issued by licensed credit bureaus and the consumer's disclosure.

Gross Salary: The basic monthly salary (after deducting pension or GOSI contributions) plus all fixed allowances paid to the consumer by the employer on a monthly basis.

Total Monthly Income: The monthly average income of the consumer from any periodical income whether received on a monthly, annual or other periodic basis, including gross salary or any other income (allowances and compensation that are paid periodically, rental income, revenues of other investments, etc.) which can be reasonably verified, calculated as per provisions of Paragraph (17) hereof.

Monthly Disposable Income: The remaining amount of the consumer's total monthly income for spending, investment or savings after deducting current or expected basic expenses and monthly credit obligations, calculated on a monthly basis.

Deductible Ratio: The ratio of consumer's monthly credit obligations to total monthly income, calculated as per terms and conditions stated in Chapter IV on Quantitative Principles of Responsible Lending.

Deduction: The act of deducting an amount from the consumer's gross salary or monthly pension.

Chapter II

General Provisions

2. The principles herein aim to encourage responsible lending that meets the actual needs of consumers, especially those related to owning housing and assets rather than consumer purposes. The principles also aim to enhance financial inclusion by providing adequate financing for all segments of society, taking into account reasonable deductible ratios that the consumer can afford. In addition, the principles focus on ensuring fairness and competitiveness among creditors to make sure that their procedures and mechanisms are effective and efficient.
3. The principles apply to all creditors and finance activities directed at consumers. These activities encompass all credit products and programs designed for individuals, including, but not limited to, personal finance, vehicle finance, credit cards and real estate finance.
4. The creditor must set appropriate internal controls and procedures to ensure compliance with the principles herein, other relevant laws, regulations, and instructions. It must also pay special attention to documenting information and maintaining documents provided by consumers, thereby gaining an acceptable degree of reliability.
5. If the creditor assigns certain related work to another party or other parties, it must ensure that those parties act in compliance with the principles herein and that they do not contravene the provisions hereof, other relevant laws, regulations and instructions.
6. The creditor must take necessary measures to ensure that the principles herein are fully understood and adhered to by its staff and are shared with its consumers. It must not only focus on the number of financing agreements or the value of finance, but it must also take into account such principles when preparing its incentive programs for its staff. It must ensure that no programs are developed in a way that may lead to irresponsible finance.
7. The creditor must keep sufficient records that show its commitment to the principles herein, other related laws, regulations, and instructions.

Chapter III

Qualitative Principles of Responsible Lending

8. The creditor must adopt a clear, transparent and documented scientific method, criteria and procedures to evaluate the creditworthiness of the consumer and his/her ability to repay. These methods, criteria, and procedures must be in accordance with the best practices in this area without prejudice to the principles herein. The board of directors of the creditor must adopt, revise annually, and update when necessary these criteria and procedures. The creditor must apply these procedures and document this application in the finance file before granting finance.
9. Upon the consumer's consent, the creditor must examine the credit record of the consumer to verify his/her solvency, ability to meet the monthly credit obligations, and his/her credit behavior. The information obtained must be documented in the finance file. The creditor must ask the consumer to disclose, in writing, any other credit obligations he/she has, such as loans from his/her employer, friends or relatives, whether current or expected, and this must be documented in the finance file. Upon granting the finance, the creditor must, in accordance with the provisions of relevant laws, regulations and instructions, register all credit information relating to the finance granted to the consumer with licensed credit bureaus after obtaining his/her consent. The creditor must then update such information throughout the period of dealing with the consumer. The creditor must reject a finance request if it does not obtain the consumer's consent to all matters stated in this paragraph.
10. The creditor must assess the ability of its consumers to meet monthly credit obligations, especially in cases where consumer's deductible ratios are close to the maximum deduction limits set out herein. The assessment of the ability to meet monthly credit obligations is primarily based on the assessment of the consumer's monthly disposable income that can be used to meet his/her monthly credit obligations. Basic expenses that vary according to several factors, such as income levels, number of dependents, and residence place, whether the consumer owns such a place, rents it, or otherwise, must be taken into consideration, the creditor should develop appropriate rules in line with best practices to apply comprehensive factors to various categories of consumers. The finance is considered bearable if the consumer's total monthly credit obligations, upon granting him/her finance, are less than the consumer's monthly disposable income. This must also be consistent with the deductible ratios stated in Chapter IV on Quantitative Principles of Responsible Lending, Paragraphs (15, 16, and 17) hereof.

11. Based on a credit study and assessment of consumer's monthly disposable income, the creditor must use financial models and tools to measure the consumer's ability to meet monthly credit obligations and to what extent such finance suits his/her needs and circumstances. Such models depend on some basics, including identifying and classifying the regular basic expenses of various consumers. Basic expenses cover, as a minimum, the following groups:

- a. Food expenses, which are affected by the number of dependents;
- b. Housing (rent) and services' expenses, which depend on whether the consumer is the owner or tenant of the house or otherwise;
- c. Wages for domestic worker;
- d. Education expenses, which are affected by the number of dependents;
- e. Health care expenses, which are affected by the number of dependents;
- f. Transportation and communications expenses;
- g. Insurance expenses for individuals and their dependents, as the case may be; and
- h. Any expected costs or expenses.

In addition to the above-mentioned expenses, existing monthly credit obligations, which can be verified through licensed credit bureaus; finance granted by the consumer's employer, friends, or relatives; and any other finance that is repaid through installments on a monthly, semi-annual, or other basis must be considered.

12. The creditor must ensure both the efficiency and effectiveness of such financial models and tools, used to measure the consumer's ability to repay finance. It should benefit from its information and data, as well as legally available general statistics sources. The methodology of such models and tools must include, as a minimum, the following:

- a. A mechanism to calculate and analyze total monthly income;
- b. A mechanism to calculate and analyze monthly credit obligations; and
- c. A mechanism to calculate and analyze basic expenses, including the following:
 - o A list of basic expense indices compared to verified data;
 - o The ability of changing basic expenses according to income levels; and
 - o The ability of changing basic expenses according to the number of dependents.

Chapter IV

Quantitative Principles of Responsible Lending

13. Terms for calculating the consumer's monthly credit obligations must be observed as follows:
 - a. The monthly credit obligation of a credit card must be equal to the minimum repayment of the credit ceiling for each credit card issued to the consumer.
 - b. Monthly credit obligations include all credit obligations to creditors and specialized government lending institutions; any other credit obligations, such as loans from employers, friends, or relatives; and other types of finance.
 - c. Before granting finance with variable term cost and upon calculating the monthly credit obligations of such finance, the creditor must take into account including additional margin in the term cost. The term cost and the additional margin must be considered when documenting the monthly credit obligations for such finance in the consumer's credit report in the credit bureau in order to avoid risks of changes to term cost.
 - d. Upon granting finance, the creditor must be responsible when the deductible ratio exceeds the permitted limit hereunder if it is due to a change in the term cost. If this happens, the creditor must reschedule the repayment periods of the finance and must not add a term cost that may lead to exceeding such limits.
 - e. Monthly credit obligations of finance where all installments are not equal must be calculated based on monthly installments that are fixed at the monthly average level for all installments regardless of whether such finance is payable by equal repayments or requires a final payment.
14. Terms for calculating the total monthly income of the consumer must be observed as follows:
 - a. Gross salary, as documented by any means by the employer, must be included in such calculation.
 - b. As for other income, half of the monthly average of the total amount earned by the consumer from any periodical income, whether monthly, annual or other, must be included in such calculation. The other income must include periodically-paid allowances and compensation, rental income, revenues of investments, dividends, etc., which can be reasonably verified via, at least, a two-year bank statement or official documents proving their continuity.
 - c. Government subsidies, such as those given through the Citizen Account Program or social security, must not be counted as part of the total monthly income of the

consumer. However, government subsidies that are documented through contracts with a citizen and that are provided by the Ministry of Housing or the Real Estate Development Fund may be incorporated in the total monthly income of the consumer in real estate finance products.

15. Deductible ratios for consumers whose total monthly income is SAR 15,000 and less must be subject to the following restrictions:
 - a. The monthly credit obligations of finance, which are linked only to the monthly deduction of the gross salary of consumer, must not exceed **33.33%** of the gross salary for employees and **25%** for retired consumers.
 - b. Monthly credit obligations, excluding monthly credit obligations for real estate finance, must not exceed **45%** of the total monthly income of the consumer.
 - c. Monthly credit obligations of finance must not exceed **55%** of the total monthly income of the consumer. However, for the consumers who are benefiting from the Ministry of Housing or the Real Estate Development Fund for mortgage products, the monthly obligations of finance must not exceed **65%** of the total monthly income.
16. Deductible ratios for consumers whose total monthly income is more than SAR 15,000 and less than SAR 25,000 must be subject to the following restrictions:
 - a. The monthly credit obligations of finance, which are linked only to the monthly deduction of the gross salary, must not exceed **33.33%** of the gross salary for employees and **25%** for retired consumers.
 - b. Monthly credit obligations, excluding monthly credit obligations for real estate finance must not exceed **45%** of the total monthly income of the consumer.
 - c. Monthly credit obligations of finance must not exceed **65%** of the total monthly income of the consumer.
17. Deductible ratios for consumers whose total monthly income is **SAR 25,000** and more must be subject to the following restrictions:
 - a. Monthly credit obligations of finance, which are linked only to the monthly deduction of the gross salary, must not exceed **33.33%** of the gross salary for employees and **25%** for retired consumers.
 - b. Credit obligations of finance are subject to the credit policies of the creditor. The creditor must assess the ability of its consumers to meet monthly credit obligations stated herein.
18. Finance term must not exceed (5) years or (60) months from granting such finance, except for real estate finance and credit cards.

19. SAMA may review and amend periodically the ratios in Paragraphs 15, 16, and 17 hereof, taking into account the soundness and stability of the financial system and the forecasts for economic growth.

Chapter V

Publishing and Coming into Force

20. The Principles hereof are issued by a decision of SAMA Governor and published on SAMA website.
21. The provisions of Paragraphs 15, 16 and 17 hereof must be applicable as of the date of circulating such principles.
22. All provisions hereof must come into force as of 01/12/1439H (12/08/2018). The principles herein must be fully observed from that date.
23. The principles herein must supersede any provisions to the contrary.

P.O. Box 2992 Riyadh 11169,
Kingdom of Saudi Arabia
Tel.: +966 11 463 3000
www.sama.gov.sa
