



# Structured Finance

## Kingdom Installment Company (KIC)

### HIGHLIGHTS

- First *Sharia*-compliant asset-backed securitization transaction in the Gulf Cooperation Council (GCC) countries
- First residential real estate-backed securitization in Saudi Arabia
- Key transaction in the development of the long-term source of funding for housing finance in the GCC

### THE COMPANY

Kingdom Installment Company (KIC) is a private housing finance company in the Kingdom of Saudi Arabia (KSA) and a pioneer in *Sharia*-compliant housing finance products. KIC's core business is the provision of finance for individuals seeking to purchase a home or a developed land parcel. KIC achieves this by purchasing real estate within the country from property developers and reselling it to consumers on a *Sharia*-compliant installment basis. KIC has financed more than 3,000 home purchases since its establishment in 2000.

KIC's main product is the *Ijara* contract, a Lease to Buy arrangement under which KIC leases houses to individuals with an option to purchase the leased asset at the end of the lease period. KIC was the first company to offer 20-year residential real estate leases in the Saudi Arabian market with a focus on the middle-income segment of the market.

### FINANCING OBJECTIVES

As an installment company, KIC is not authorized to take deposits. In addition, due to the scarcity of long-term funding in Saudi Arabia, KIC has had to rely primarily on shareholders' loans for funding. As a result, KIC was in need of new sources of funding to meet its growth and financing needs that are estimated at approximately US\$300mn over the next 3 years. At the same time, there was an estimated

US\$200bn of liquidity in the GCC region from investors looking for products that were compliant with Islamic rules. A securitization transaction was suitable as it made it possible to bridge both KIC's and the Saudi housing finance market's needs for funding with Islamic investors' need for *Sharia*-compliant investment products.

KIC has a program to issue approximately US\$300mn of residential real estate-backed securities (RRBS) over the next 3 years. IFC has committed to support this program through the provision of up to US\$30mn in *Sharia*-compliant credit enhancement.

### THE STRUCTURE

KIC issued in July 2006 US\$18.3mn in certificates (called *Sukuk*) backed by a US\$23.5mn pool of receivables. Credit enhancements benefiting the certificate holders included over-collateralization of 28% (the amount by which the purchased assets exceed issued debt), a *Sharia*-compliant IFC guarantee of 10% of the outstanding principal balance of the *Sukuk*, and an additional first-loss guarantee from a real estate development company, Dar Al-Arkan (DAAR), in an amount equal to 10% of the original balance of the *Sukuk*. The combination of these credit enhancements allowed the *Sukuk*

to achieve a rating of A- from Capital Intelligence, a Cyprus-based international credit rating agency.

KIC sold the leased properties and assigned all its rights under the underlying lease agreements to a Saudi-based company (KSA SPV), a company established for the sole purposes of this transaction. The Issuer, a limited liability company incorporated in the Cayman Islands, entered into a Real Estate Rights Transfer Agreement with the KSA SPV and the Issuer KSA Agent. The *Sukuk* certificates are backed by financial rights under the *Ijara* agreements as well as real estate rights arising from ownership by KSA SPV of the leased properties. KIC is the originator of the lease assets and will continue to service the leases throughout the term of the transaction. With this structure, the Issuer and *Sukuk* holders were able to benefit from all of the legal and economic rights of the lease and property portfolios without having direct ownership, as real estate ownership for cross-border investors is not possible under Saudi law.

## OUTCOME

The active role of IFC as a structuring investor enabled KIC to issue the first true-sale securitization from a GCC-member country. The *Sukuk* backed by *Ijara* contracts provided an important alternative source of funding for KIC as well as a *Sharia*-compliant, fixed-income investment product (similar to a mortgage-backed security) to GCC-based and other international investors. The merging of traditional *Sharia* structures with modern conventional finance represented a significant step forward in the evolution of Islamic finance and served as a useful benchmark for future securitizations from the GCC region.

The transaction also helped to address Saudi Arabia's housing deficit and to improve the affordability of home buying for middle-income families. Additionally, this ground breaking transaction can be replicated for many asset classes in all other GCC countries.

## TERMS AND CONDITIONS

<b>Amount</b>	US\$18.3mn backed by a housing finance lease pool of US\$23.5mn
<b>Currency</b>	US Dollar
<b>Issue Date</b>	July 7, 2006
<b>Legal Maturity</b>	March 2027
<b>Interest Payment</b>	6.55% fixed rate, paid quarterly (about 90bps over the 3Y US\$ mid swap rate)
<b>Principal Payment</b>	As per amortization schedule
<b>Rating</b>	A- by Capital Intelligence, a Cyprus based international rating agency
<b>Enhancement</b>	Excess spread; 28% over-collateralization; DAAR first-loss guarantee of 10% of original balance; IFC second-loss guarantee of 10% of outstanding principal balance
<b>Transaction</b>	Residential Real Estate-Backed Securities (RRBS)
<b>Issuer</b>	KSA MBS International Sukuk Company
<b>Servicer/Originator</b>	Kingdom Installment Company (KIC)
<b>Collateral</b>	Residential leases and real estate rights on properties which meet the eligibility criteria
<b>Purchase Undertaking</b>	KIC is obligated to repurchase notes and underlying contracts 36-months from date of issue. This repurchase obligation is supported by a guarantee from DAAR.