



OPINION

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## ARE UAE BANKS MISSING OUT ON THE FOUNDATION OPPORTUNITY?



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In March, Bloomberg sounded the alarm [See: [The Future Lives in the Middle East](#)]: credit quality was weakening in the UAE, and a drive towards loan restructuring was imminent.

The article reported that most regional lenders had been proactive in cutting exposure to Covid-19-affected sectors — service, hospitality and trade — while increasing or maintaining stable positions in less affected areas.

On that basis, UAE banks were well positioned to capture upside, particularly those lending against healthy collateral.

And where to turn for the healthiest collateral of them all? Real estate.

Rather timely, as a high number of quality, high-value, often unmortgaged real estate assets are being consolidated under domestic foundations.





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70 out of a sample of 100 ADGM/DIFC foundations set up by M/HQ were registered specifically (but not exclusively) with real estate consolidation in mind [See: [OPED - foundations who is using them - 30.05.21](#)].

Foundations are exploding in popularity, with 300 active in the UAE today, of which 75% were created in the last 18 months, and one third since January 2021. One would expect most UAE financial institutions to be rolling out all-encompassing offerings aimed at servicing foundations and entrepreneurial, forward-thinking families that operate them.

Surprisingly, this is not the case: only a minority of banks operating in the UAE are currently lending against real estate held by domestic foundations.

### **Out of 37 financial institutions surveyed, only one specifically targets servicing foundations.**

M/HQ recently polled 37 financial institutions operating in the UAE. To ask simply: do you lend against real estate held by domestic foundations, and if so, do you have specific strategy aimed at servicing these structures?

The results beggar belief.

Out of 37 financial institutions, five claimed a relevant service offering. But only one had a specific strategy for servicing these structures.

14 institutions do not offer the service at all. It is safe to assume that those institutions that did not answer – just under half of those approached, despite multiple attempts to senior people within these firms – do not offer the service either.

### **Which bank/s will recognize and capitalise on this low risk, high upside opportunity?**

One can understand the 'We do not lend against [any] UAE real estate because of country/regional risk' argument.

But refraining from lending against UAE real estate held by foundations while otherwise lending against the same real estate held in individual name doesn't hold water; it demonstrates poor knowledge of both the increasing demographic of the tool's users, and the tool's benefits.

Foundations are equally effective for Muslims and non-Muslims, and enable families to circumvent local probate and plan as they wish. Per M/HQ's statistics, half of users are Muslims but only a small minority [6%] of these families declare wishing to strictly follow Shariah as far as succession.

Foundations ensure business continuity by removing the person risk, thereby improving the bank's position. A foundation – the customer – is a perpetual counterparty. The mortgage remains backed by the real estate assets irrespective of who holds the title deed.

UAE banks are well positioned to capture post COVID upside, particularly for lending against real estate. Combining such lending with a domestic fiduciary structure should be an absolute no-brainer for both users and lenders.

Entrepreneurial families recognise the value of the tool and are taking action. Which bank/s will recognize and capitalize on this low risk, high upside opportunity?

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### ABOUT M/HQ

We are a multi-services platform catering to a broad spectrum of clients – from individual entrepreneurs and local SMEs to wealthy international families, to established blue-chip companies and multinationals. Our one-stop-shop offering is unique in the Middle East: a holistic and cross-disciplinary combination of a market-leading corporate services firm, a law firm's specialist expertise and a regulatory & compliance services practice, all through one single platform.

We have broad experience in facilitating entry-to-market for businesses across all major fields of activities. We have a one-of-a-kind practical expertise understanding and handling complex corporate structures.

Headquartered in the UAE, we are an entrepreneurial firm for entrepreneurial clients.