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SECURITIZATION OF INTERNAL DEBTS WITH REFERENCE TO SAUDI ARABIA

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ABSTRACT
Securitization of debts is considered as a modern financial instrument and one of the activities which is closely linked to the stock market. This activity has become especially prominent as a phenomenon in the 1980s of last century in the United States as several US banks have endeavored and tended to securitize their debts. Although securitization is a modern idea in the international financing economies, it has become a phenomenon imposing itself on the stock markets and its effects spread over the fiscal and monetary policies either at the domestic level or the international one, a matter which pays the attention to investigate into this phenomenon and define its advantages and disadvantages. The research aims to determine and define the concept of securitization as a modern phenomenon through an overview of its development, motivations, techniques and types. In addition, the research shows the main steps in the path of securitizing debts and clarifies the advantages and disadvantages resulted from the process of securitization.
The research is based on the essential hypothesis that securitization is a modern phenomenon requires a long period of time for its possible implementation in the Arab banks. The research adopts the descriptive and analytical technique by describing and analyzing the securitization phenomenon as it is considered as one of the contemporary economic issues, which has a great importance at the levels of governments, companies and individuals? The research includes six parts besides the introduction. Finally, the research draws a number of concluded results and policy implications.

Keyword: Internal debts, Securitization, Financial instrument, Banks.

1. INTRODUCTION
Securitization of debts is considered as a modern financial instrument and one of the activities which is closely linked to the stock market. This activity has become especially prominent as a phenomenon in the 1980s of last century in the United States as several US banks have endeavored and tended to securitize their debts. This activity is expected to witness a remarkable spread in the stock market particularly in the field of financing and marketable securities in the future. The activity of securitizing the debts is considered as a type of financing innovations in the large credit institution, particularly, banks through transforming the debts into securities such as the bonds (Leon, Kendall, 1996).

Some economists believe that securitization will provide liquidity through transforming the illiquid assets into liquid money, vary the financing sources and expand the investors' base by assembling necessary capitals for financing the activity and generate new assets that conform the assets’ terms to liabilities in order to curb the risks that may occur (John, Henderson and Jonathan, Scott, 1998).

In the United States, the volume of securitization of debts through transforming them into securities such as the bonds has further increased as compared to other countries. The securitization process volume in the United States has reached about $625 billion in the year 2007 as compared to $312 billion in Europe for the same year, while in the new markets in the Eastern Europe, North Africa and the Middle East the securitization processes estimated $9.7 billion of which Russia and Turkey have dominated the largest share.

In the Arab world, the securitization processes volume is so little and does not exceed $2.5 billion of which the Gulf States have dominated the largest share (El-Sheikh, Essam, 2007). With the advent of the year 2008, the Gulf States' companies have tended to raise about $250 billion through issuing securities with the guarantee of assets by the advent of the year 2010, so as to meet the increasing demand on real estate and infrastructure financing (El-Batani, Mohammed Abdallah, 2006).

The volume of the global securitization market reaches about 2.57 trillion U.S. dollars in 2006, before one year from the start of the collapse of securities guaranteed mortgages in the United States. In 2009, the value of this market decreased to reach about 330.6 billion dollars and in 2012 increased the value of the global securitization market to reach about 511.6 billion dollars. The total sales of bank JP Morgan in the securitization sector reach about 66.2 billion dollars, with rate of 12.9 % of the total trade volume of securitization, and the British Barclays Bank came in second place with share of 10%, then Bank of America in third place with a share of 8.7 % (Journal of Egyptian Stock Market, 2012).

2. THE RESEARCH OBJECTIVE

The research aims to determine and define the concept of securitization as a modern phenomenon through an overview of its development, motivations, techniques and types. In addition, the research shows the main steps in the path of securitizing debts and clarifies the advantages and disadvantages resulted from the process of securitization. The research handles the case of Saudi Arabia in the light of securitization process. Finally, the research draws a number of the concluded results and recommendations.

3. THE PROBLEM STATEMENT

Although securitization is a modern idea in the international financing economies, it has become a phenomenon imposing itself on the stock markets and its effects spread over the fiscal and monetary policies either at the domestic level or the international one, a matter which pays the attention to investigate into this phenomenon and define its advantages and disadvantages. In this concern, the research raises up the question that is it possible to implement that phenomenon in Saudi Arabia?

4. THE RESEARCH HYPOTHESES

The research is based on the essential hypothesis that securitization is a modern phenomenon requires a long period of time for its possible implementation in the Arab banks. In addition, there is another hypothesis that is based on the growing of this phenomenon under what is known as the globalization of financial markets. Besides, the research handles the retreat of the financial mediation role following the tendency towards the securitization processes as compared to the previous situation.

5. THE RESEARCH METHODOLOGY

The research adopts the descriptive and analytical technique by describing and analyzing the securitization phenomenon. The research has relied on the periodicals and published scientific books which are relevant and closely related to its topic.

6. THE RESEARCH SIGNIFICANCE

The theme of debts represents a paramount importance at the levels of individuals, companies or governments as follows:

- At the individuals' level: in most countries of the world, the statistics indicate that debts constitute nearly 90% of most of the individuals' monthly incomes represented in the settlement of debts resulted from the termed purchase such as houses, cars, furniture and the banking loans (John, Thomson, 1999) .
- At the companies' level: the debts are the main financing sources as the world money markets have become markets for debts rather than markets for the shares equity. The companies prefer to issue the debts securities rather than the contribution or equity shares. In the United States, statistics indicate that shares only represent 4.5% out of the total financing sources for the venture companies in the money markets, while the debts securities issuance and banking loans represent 93% of them (Peter, Rose, 1999).
- At the government's level: statistics indicate that the government owed debts in some countries exceed 100% of the state's gross domestic product. The government's loans in the Untied States exceed 50% of the public's total annual savings; a matter which leads to the payment of annual loan's interests reached $ 500 billion (John, Thomson, 1999) .In addition, about 70% of Italy's taxes returns are allocated to settle the government loans' interests. That is besides the developing countries' indebtedness to the developed industrialized countries that some countries are unable to pay the original debts' due interests.

7. SECTION 1: DEVELOPMENT AND DIFFICULTIES OF SECURITIZATION AND THE MAIN REASONS BEHIND BORROWING:

7-1. the main reasons behind borrowing: The indebtedness is considered as a new phenomenon particularly in the recent decades either at the levels of individuals, companies or governments. Below are the main reasons behind the indebtedness (Jess Lederman, 2003):

- At the individuals' level: Because of the incomes' lower standard, stability and inconformity with the prices' level, the individuals tend to debts. Most individuals tend to borrow in order to provide the required daily life needs. The insurance programs with its all different forms either programs of pensions, unemployment, health insurances or others helped increase the safety degree to the financial institutions and the trading companies to provide loans and different types of credit to the majority of the society's individuals.
- At the companies' level: Most companies aim to achieve profit and find in borrowing a good financing means in order to achieve profit. As loans are considered a cost according to the accounting criterion and thus lessens the taxes basket on the part of the company after subtracting the debt installments out of its annual income. Whenever the company issues new equal shares to the borrowed sum, this step incurs paying a high cost to the taxes authority.

- At the governments' level: Similar to other institutions, the government needs financing. However, the government non-profit activity differs from those institutions and its financing entails the dependence on taxes' income or the loans. The government expenditures are huge as compared to the companies' expenditures, a matter which entails providing huge capitals and constitutes a burden on the coming generations. The consistence between the government's returns and its expenditures forces it to the borrowing and indebtedness in order to equalize the returns to the expenditures of the state's public budget.

7.2. Development and difficulties of Securitization: Although the term of securitization is a newly used one it is closely linked with the emergence of the external debts crises of some developing countries in the beginning of the 1980s. This idea's roots are related to the real estate mortgage securities that represent the main base of the stock market activity and they are the newly developed markets and linked to the term securitization (Ross Levine and Sara Servos, 1996).

The term firstly appears in the Wall Street newspaper in the United States in the year 1977 by Lowis Raniari in relation to the Solomon Brother Corporation's process of issuing a marketable security enjoying the legal and tax protection as an alternative to the guaranteed mortgage securities which had met problems related to the additional guarantees (Lewis, Raneiri, 1996). Since then, the term has spread in the fiscal and monetary circles at the world level.

The securitization concept has been met by two fundamental obstacles; one is legal while the other is taxable, when the working group- consisting of Solomon Brother and Bank of America- has attempted to benefit from the federal taxation law known as the Grantor Trust Rules which are rules implemented in the case of imposing taxes on the credit resulting from transferring assets from the parents to the under-age children (Lewis, Raneiri,1996) .Although the new note has a highly assessed level, many states' laws were not consistent with the new issuance.

When the housing crisis has inflamed in the United States and the securities institutions were unable to meet the market's needs of real estate loans, a coordination was done with Freddie Mac, which is a real estate mortgage market associated with the united authorities, and thus it does not subject to the US laws and taxes legislations.

Therefore, it was possible to benefit from the taxes exemption which that institution enjoys and the marketable securities issuance could be done and the Wall Street was able to widely distribute them and the first securitization process was done by Freddie Mac and Solomon Brother through the Perpetual Savings which is an entity whose headquarter is located in Washington (Peter, Rose, 1999).

The Freddie Mac institutions had established under the law issued in the year 1970 in the United States a special department for financing the houses in the emergent cases. This institution used to collect the purchased mortgages then issue equivalent securities with the guarantee of these securities.

The concept reflected the united government's desire of developing the secondary markets for the traditional mortgages of houses (Leon, Kendall, 1996). As the Freddie Mac institution was not to issue securities whose duration is not less than 30 years, thus, it was impossible to issue the new securities for duration less than the early mentioned one, a matter which delimited the number of investors as they preferred the securities whose duration ranged between 2-10 years.

Hence, the nest creation of securitization appeared which was represented in creating Collateralized Mortgage Obligation (CMO). It is based on the concept which does not consider the mortgages basket as one group of the 30-year mortgages, instead it considers a series of annual monetary flows divided into independent categories by a group of maturity dates ranged between one-30 years and each category bears a priced independent coupon according to its maturity date. However, the Department of treasury has restricted the issuance to be tripartite categories. The difficulties continued till the Congress has approved a draft law which encourages the Secondary Mortgage Market Act of 1984 (SMMEA) and sets free the mortgage securities from subjecting to the States' laws.

Furthermore, the taxes reform law was issued in the year 1986 which creates a new taxation tool called Real Estate Mortgage Investment Conduits (REMICS) and became a multi-category securitization system (Peter, Rose, 1999).

8. SECTION 2: CONCEPT, MOTIVATIONS AND TECHNIQUES OF SECURITIZATION:

8-1. Securitization concept: Banking securitization is a newly developed financial tool which means that the financial institution mobilizes a group of homogeneous and guaranteed debts, such as assets, and merge them into one creditably reinforced debt then offers it to the public through a specialized securities underwriting establishment in order to lessen the risk and ensure the continued flow of the monetary liquidity to the bank (Kane, Carl, 1992). Securitization is the true sale of fixed income assets into a "Special purpose vehicle"(SPV) financed by issuance of new securities (Hussein Osman, 2002).

Securitization offers traditional and none. Traditional financial in termed Aries a source of low cost funds by packaging homogeneous receivables for sale to investors via the capital and money markets (Joseph, & Michael J. 1995).

As such the securitization system ensures the transformation of financial assets from the original lender to others or transforming the loans into marketable securities. The debts to be securitized should be attractive to investors, a matter which entails that qualified debts for securitization should have important features such as the good historic record that certifies the punctual payment.

This matter requires the debts portfolio analysis of the original creditor and defines the debtors who punctually meet their liabilities to the original creditor, a matter which proves they will not expectedly stumble in their payment during the securitization period and achieve continued and punctual income along the program period (El-Hendy, Adnan, 1995).

Therefore, the banking loans seem to be temporary or bridging loans, i.e. the loans transform through which from the banking loan formula to the securities formula. The securitization technology is mainly based on the continued creations in the assets structure and their rating in a way which helps assess its performance on the one hand and provide the financing on the other in order to achieve the income and get rid of the bankruptcy risks. Consequently, the securitization process leads to the conversion of the loans from illiquid assets to marketable securities.

8-2. Motives of the securitization processes: Perhaps, the main reason that directs the banks and financial institutions towards the securitization processes is represented in the liberalization of the sheet balance's restrictions as the accounting and financial rules requires the observation of the capital sufficiency principle and assign allocations to meet the doubted debts, a matter which generally hinders the financing activities, necessarily slows down the capital cycle and subsequently lessens the bank profitability.

In that case securitization is considered as a suitable alternative which allows the recycling of part of the liquid assets resulting from the securitization of its illiquid assets that guarantee its debts owed by others without inevitably increase the allocated part for risk in the bank' s balance sheet, i.e. without opposite allocations in the balance sheet (John, Diverter, 1995).

The securitization process is used to serve the crediting financial institutions and provide them with adequate cash liquidity to enter new financing processes or expand their activity. It also helps the financial institution improve its financial statements by setting it free from the restrictions of capital sufficiency principle and the debts allocations.

The securitization process helps the financial institution as well through transforming the illiquid assets into liquid assets that could be reemployed once again. It helps also distribute the credit risks to a broad base of creditors. The securitization process' legalization and finding a market for it serve the sectors which needs a long term financing such as the real estate mortgage financing and other types of the existing financing on the assets as granting the financing from a financial institution has become like a bridging to attain the securitization process, a matter which encourages the financing institutions to enter the long term financing processes. In addition, the securitization process leads to the expansion and activation of the financial market by mobilizing the different financial resources and varying its offered investment tools (Paul, Feeney, 1995).

8-3. Securitization techniques: Securitization could be done through one of the following techniques (Jason, Kravitt, 1996):

- The debt replacement: the attainment of securitization process through this technique allows the replacement the original rights and liabilities by new ones. This technique entails, however, obtaining the approval of all parties concerned with the loan to its partially or totally conversion to a security.
- Accession: It means the accession of the assets for the creditors or lenders' sake. This technique is widely used in securitizing the debts resulted from selling or renting some assets. In the rental or selling agreements, the installments are continually paid to the original supplier who, in turn, either transforms them into the debts buyer or pays them by a series of an agreed upon money orders at the securitization process and on the opposite collects back the money from the renters.
- The partial contribution: this technique entails that the original creditor sells the debts to a specialized bank in buying the debts and financing them. The debt' seller bears, then, any liability should a debtor fails to pay. Thus, the debt buyer should make sure of the debtor's merit and his credit ability. It is noticeable that there are various means to protect that buyer through obtaining a real estate guarantee and his rights as a trustee to manage the debt.

8-4. the main components of securitization: Securitization is based on the following main components (Theodon, Wymeersch, 1996):

The borrower either as a normal person or a juristic person: The purpose of borrowing could be meeting the financial stumble, restructuring or using the borrowed money in meeting accrued debts and replacing a long term loan debt to these debts.

The assets in the securitizing position: the debt is embodied in a shape of debited securities and the assets guarantee the debt in the securitizing position are always high value assets. Thus, they often become a formal mortgage rights for the bank on buildings or movables possessed by mortgagor who owes the bank.

The preceding steps of the securitization process: several steps precede the securitization process ending by the agreement of the bank that seeks obtaining quick cash liquidity for its debts against the conversion of assets' possession. The preliminary steps are represented in the bank or

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the financial institution taking their debtor clients' views regarding the securitization of their debts. In the case of their approval, the bank should organize the new detail relationship between the debtors and the new creditor.

There are as well several tasks occur in the securitization framework which need a care and specialization, first of all: actual assessment of the assets value, the determination of suitable price for the securities intended to be raised for underwriting, planning the programs for the underwriting promotion, the preparation of cash flows related studies.

The assets management: in spite of transforming the assets possession which guarantee meeting the securities value issued from the banking taking over the securitization for the new creditors, the actual practice has proved that in most deals the bank is responsible for managing and investing these assets portfolio and guaranteeing them during the accomplishment or implementation of the securitization processes.

9. SECTION 3: TYPES AND STAGES OF SECURITIZATION:

Securitization could be classified into two main types (Kane, Carl, 1992): The classification of securitization according to the type of guarantee: Securitization by fixed assets guarantee and Securitization by deferred collections.

The classification of securitization according to its nature: Transforming the assets through an accrual selling against certificates of possession conversion to be resold, distributing the financial flows according to determined shares. Hence, the securities become a bridging to achieve this target.

The transforming the assets efficiently in a shape of indebtedness management, issuing various securities (bonds) which differ according to its classification, the quick payment and the possible separation of the asset payment from the interest. The securitization deal could be financed one of the following alternatives (Nyse, Glassary, 1997):

The commercial loans: the necessary finance could be provided to buy the assets (the debts) that are being securitized by using the commercial loans, while observing the coincidence of payment timetable related to the debts in the position of securitization with the payment obligations of the lenders.

The issuance of debt securities: in that case the company issues an equal valued securities to the debts value in the position of securitization according to the guarantees of these debts, as the securities' underwriting outcome could be used in buying these debts while observing the conformity of these securities' maturity dates and returns with the maturity dates of debts' installments and interests in order to allow the payment by the advent of accrued dates.

9-1. the main steps in the debts securitization method

The securitization objective is to directly link the original debts with the securities through mobilizing debts in the shape of portfolio and portfolio order, then, issue securities against that guaranteed portfolio (assts related guarantees). The real estate financing law necessitates the existence of the bank guarantee over the issued securities in the shape of bonds that could be established as an alternative for the debts (El-Hendy, Adnan, 1995).

Therefore, the securitization of financial rights necessitates the mobilization of similar debts or loans package of the continually cash flows in the future and which are guaranteed by determined assets and the issuance of asset-guaranteed securities.

In other words, the institutions concerned could raise securities against a group of income generating debts such as guaranteed-mortgage debts (buildings, machines, etc.). Whenever the borrowers (or the debtors) pay these debts and their interests, the securities holders could benefit from these cash flows.

Some of the real estate lending companies tends to a package selling of the real estate mortgage to the securitization company which holds and finances these loans by issuing asset-backed securities, so as the securities' revenue could help these companies buy the loans from the originator and these loans are real-estate guaranteed mortgages loans.

Thus, securitization means the constitution of pools of real estate loans, the, retransforming them to the investors by issuing securities which are often bonds of fixed and regular return. The investor or the bond holder collects regular interests besides the bond-asset sum, while observing the conformity of these securities' maturity dates and returns with the maturity dates of debts' installments and interests.

The real estate mortgage secondary market or the securities marked could be created in which the demand side could be represented by the pension and insurance funds, investment funds, financial and investment companies, insurance companies and the individual investing in buying the bonds and those who are looking for fixed returns (Diane, Andino, 1999).

Consequently, the banks or the real estate lending companies could benefit from the money resulted from selling the securities in the stock exchange market where they are reemployed by granting new loans or other similar functions.

Finally, the securitization process could be summarized in the following steps (Leon, Kendall, 1996): First, the financial institution sells some of its guaranteed assets with reduced price to an establishment whose purpose is only buying the assets that the institution wants to securitize and which are termed as special purpose vehicle (SPV). As such these assets are out of the financial institution's liability and become away of the bankruptcy risks of the selling financial institution. Second, the assets with their guarantees are transformed – they are indebtedness on the financial institution's debtors guaranteed by a mortgage or a possession to the financial institution- to the special purposes establishment. Third, the special purposes establishment issues – it is called the issuer- equal value securities to the debts that are being securitizing to obtain the liquidity through selling them to the investors. Fourth, the special purposes establishment uses the collected liquidity from selling the securities in paying the assets value to the financial institutions. Fifth, the securities' interests are conformable to the original debts' interests.

10. SECTION 4: ECONOMIC ADVANTAGES AND DISADVANTAGES OF SECURITIZATION:

The securitization process leads to the achievement of some economic benefits and at the same time leads to some risks and costs as follows:

10-1. the economic advantages of securitization: Below is a group of benefits that securitization provides to the banks and financial institutions (Frank, Fabozzi, 1998):

- Improving the efficiency of productive and financial cycle and its rotation rate through the illiquid assets transformation into liquid assets and reemploy them once again, a matter helps expand the establishments' business size without the need for increasing the equity rights.
- Lessening the credit risks through distributing the financial risks over a broad base of various sectors.

- Delimiting the possibilities of exposing the investors for financial risks and booming the stagnant debt market.
- Activating the primarily market in certain economic sectors such as real estates and cars.
- Activating the money market through mobilizing new financing sources, varying the offered financial products and activating the current markets of securities.
- Helping achieve transparency and improving the information infrastructure as it requires several procedures and the entry of several institutions in the process of lending, a matter which provides further information in the market.
- Allowing the companies of lowered credit classification and low capital base such as the small enterprises to borrow money with the rates that the excellent categories obtain.
- Attracting a group of varied investors and as such the debts market will be widen.
- Providing the foreign currencies in the case of overseas securitization whenever it is possible to deal with one of the institutions concerned with the expatriates' transformations or with the credit cards and others.

10-2. the economic disadvantages resulted from the securitization of debts: The economic stability constitutes the aspects of sound economic condition that achieves the growth and welfare. Stability means the economic system soundness of the shocks effects that hamper the economic growth process. Because of the debts securitization, certain markets emerged dealing with the sale of debts. This step represents instable economic condition.

In addition, the creditor's worrisome feeling towards the future pushes him to securitize his debts due to the fear of the debtor's failure to pay and settle on the accrued dates. In the case of the deterioration of the debts documents' prices, negative results would be generated. For instance, the financial institutions' ability to attract capitals and maintain the local currency's stability as happened in Mexico in the year 1995 and its negative results. These results led the economic instability because of the interest rates rising in the United States.

In addition, the securitization technique success cannot be attained without a cost or risk. The cost is represented in the debts financing cost, the issued loans and the accompanied administrative expenditures to establish the debt. It also includes the costs of improving the creditworthiness and wages and the legal and accounting consultation costs. Furthermore, the cost includes special costs of the rating agencies and the cost of changing and developing the appropriate systems to the securitization system.

The securitization risks are namely the credit and guarantees risks, the cases of the bankruptcy of some borrowing institutions and the market risks. They also include the institutional risks of the financial institutions working in the securitization, the risks related to the administration and operation of the securitization process and the risks of the interest rates fluctuation (Leon, Kendall, 1996) . In addition to the previously mentioned advantages and risks, there are some points that should be taken into consideration when determining the debt that could be securitized. Some of these most important points are as follows (Sediky, Maha, 2003):

- The debt should be made in one of the free convertible currencies. Otherwise the currency exchange difference will cost the borrower unnecessary high cost which could exceed the expected return of reducing the debt's interest. The interest of the debt securitization process is usually fixed. The buyer's granted finance should be settled according to the agreed upon payment timetable without modification.

- The forfeiter bears the responsibility of the changing currency risk, the interest rates fluctuation, the credit risks resulted from the social, economic and political conditions in the country risk. In addition to the results of the guarantor bank's inability of payment whenever the borrower could not meet the accrued debt.
- The procedures easiness and the required documents simplification are necessary for fulfilling the debt securitization process.

11. SECTION 5: SECURITIZATION OF INTERNAL DEBTS IN SAUDI ARABIA:

Saudi Arabia is one of the best countries of the Group of Twenty in terms of economic performance, investment climate and credit system as the Saudi economy has not been affected significantly by the global financial crisis and has been able to surpass the crisis with minimal losses in comparison with other countries which their financial institutions went bankrupt and their development projects stalled and were overwhelmed by internal debts. where credit growth in Saudi Arabia is still strong and the performance of banks is good in terms of capital and profitability, where Saudi Arabia represents one of the engines of growth for the global economy, at the time when the economies of many countries in the developed world are still suffering from the results of global economic crises (Journal union Arab Banks, 2008).

Saudi Arabia is still committed to its long-term objective of transformation of the Saudi economy from oil -based economy to a knowledge-based economy. Saudi Arabia has been able to pay a large part of the public debt accumulated previously, where the size of the public debt fell to 98.85 billion riyals at the end of 2012, in comparison with 135.5 billion by the end of 2011, with an average decline of about 27 %. The decrease of public debt is caused for two reasons: The first is the direct reduction in the size of the public debt as a result of the sequential regularly payment for parts of the public debt in the previous years, along with the surge in the volume of GDP. It is expected that Saudi Arabia of finishes its foreign debts in 2015 in the case of the continuation of the policy of financial reform. Saudi Arabia is the third state with fewer debits in the world (Saudi Arabian Monetary Agency, 2012). Consuming debt has risen in the Saudi society to reach about 246 billion riyals; which means that a large proportion of the members of the community have become loans hostage; since the monthly installments of the debt constitute between 30-50% of the individual income.

The total debt of individuals and companies reached about trillion SR, and the largest amount of debt held by individuals estimated about 140 billion SR at local banks, in addition 120 billion SR debt of Saudis from Real Estate Development Fund, and the debt of 100 billion SR from the Fund Industrial Development, and 5 billion SR from the agricultural Bank. The percentage of consumer loans and personal struggling reimbursed by the individuals reached about 5%, amounting to about 10 billion SR, while the total number of individuals delinquent in payment about 140 thousand clients (Middle East Journal, 2012).

The debt is due to what is known as the phenomenon of consuming boasting because of social customs and harmful cultures that leads the individual to borrow. The banking sector is the first responsible for indebting society without controls which haves led to increasing numbers of insolvents on the repayment of loans, involving in Legal disputes and stumbled banks because of promotional campaigns for loans and credit cards. The percentage of use of credit cards has increased at a rate of 300% in recent years. The problem is that many of the holders of these cards in the Gulf in general are dealing with them as a tool to get the accelerated loan which means that it was transformed from a way to organize the payments into a loan. The reasons for borrowing from banks vary from person to another, but most of them lie in the housing sector and the real estate for a private residence by 60-70%, and the rest in other luxury uses (Basant, fahmy, 2011).

The real estate activity in Saudi Arabia is an important engine of economic growth due to being a locomotive for many industries and activities directly or indirectly, up to more than a hundred industry such as cement, iron, marble, ceramic, stone quarries, sanitary ware, electrical appliances, timber and other related business and professions. Real estate finance is known as funding investment in the fields of acquisition, construction, renovation or improvement of houses, administrative units, service facilities, and shops by ensuring the right of privilege on the real estate, mortgage formally or other guarantees that are accepted by the taxpayer in accordance with the rules and procedures prescribed by the executive chart for the Law of real estate finance.

The Ministry of Finance jointly with the Ministry of Housing and some concerned authorities has been assigned to prepare a system of law, and the Saudi Arabian Monetary Agency supervises and controls finance companies and activities. The system of real estate finance is represented in establishing mechanism by which a person can own a residence during a certain period in exchange for paying installments that were almost paid by the tenant for a real estate; till the payment of the value of the real estate. The ownership of the house with all the terms of mortgage initially is transferred to the real estate taxpayer who paid all the property value to the seller. In the case of the failure of the buyer to pay the due installments under the terms of the contract, the real estate taxpayer has the right of expropriation of the mortgaged property by converting the bonds of personal debts into tradable securities on the stock market (securitization).

Saudi Arabia suffers from a housing crisis because of the weakness in the real estate finance activity as banks and financial institutions are not able to finance the purchase of long-term housing, as a result of their inability to finance long-term, because a large part of their resources and deposits are short-term, and the lack of a secondary market for the long-term financing bonds that enables banks of monetization of these assets to when they need, besides the difficulty of mortgaging real estate directly to the bank, as a large segment of customers refuses to deal with the bank because it retains ownership of real estate until the completion of the payment of installments. In order to solve this problem, the Saudi government has established Real Estate Development Fund to finance housing loans for citizens who do not have houses this market has rebounded after the collapse of the stock market and rose by 25%. But the fund was unable to accommodate the increasing demand for housing, year after year, which requires other complementary alternatives, so the idea of real estate finance law appeared (Maher Hasan, 2012).

In July 2012, the Saudi government approved the real estate finance law, and the law includes the (system of financial leasing, real estate finance system, and the system of finance companies. The law includes controls to protect the creditor, the debtor and the guarantor in the process of credit, with a statement about the nature of the assets subject of mortgage, procedures of mortgage contract, the conditions required to be held and cases of expiry, as well as to determine the rights of the parties in the mortgage contract and obligations and to achieve the necessary flexibility to obtain financing compatible with Islamic law. In light of this, the Saudi Arabian Monetary Agency (central bank) in 2012 granted 14 licenses for practicing the activity of real estate finance and financial leasing in the UK at the rate of 6 companies and 8 Banks. The Saudi real estate market is suffering a number of problems, most notably the severe shortage in supply, the continuous increase in the prices of rents, land speculation and the length of time to obtain licenses in addition to the lack of financial ability among most classes in which the demand for real estate is concentrated. Most of the demand for real estate is concentrated between the low-and middle-income people, who do not exceed the salary of eight thousand riyals (2133 dollars), and they cannot be qualified for bank loans to buy homes, where they spend a large part of the income on rents in the average range of 7-10% annually. According to the Saudi Arabian Monetary Agency, the growth in real estate loans for individuals in Saudi Arabia increased from 8% in 2008 to 18% in 2012. The new in the real estate law is the establishment of mortgages did not exist before in the Kingdom of Saudi Arabia., Which means providing more competitive products and financing for the Saudi population and working on resolving any disputes arising between the parties. The new law also protects investors from losing their investments easily in case of default in payment of installments, and is also working on improving the confidence in the system and leading to increase the funding amount available for the population. Examples of current products available in the market are buying homes based on real estate finance of Saudi Arabian British Bank (SABB), a loan compatible with the provisions of Islamic law in the amount of funding up to five million Saudi riyals, with a 5% down as first payment, and 3% fee of early payment. This is besides other products such as buying land and building houses from Al Rajhi Bank, and it is expected that about 60% of Saudi families own their own homes during the next four years (Journal Union Arab banks, 2012).

The application of standards of (Basel 3) of the capital in January 2013 was a direct response to the extent of the risk of excessive financing and inflation of indebtedness of banks after the failure of the Basel 2 in the protection of international banks from credit pressures. Since the phenomenon of securitization of debt appeared, there was not enough capital or what equals it, so the importance of doubling capital emerged within the standards of (Basel 3) to increase the size of bank reserves, because many banks faced financial crises because they were not ready to absorb the losses that happened to them on one hand, and inflation of debts on the other hand (Research Center of Finance and Banking, 2012).

12. THE MOST IMPORTANT BENEFITS THAT THE PARTIES CONCERNED OF THE DEBTS SECURITIZATION PROCESS ENJOY:

12-1.The borrower: The borrower often represents an institution or company going a suffocation stage in settling its indebtedness and needs liquidity to more effectively manage the working capital elements. This indebtedness may take the following shapes(banking loans and the facilities of international trading processes) provided that it is valued in any of the free marketable currencies, the borrower gain the following benefits (Sediky, Maha, 2003):

- The long-term banking loans to finance the company’s assets or the expansions of its activities.
- The credit facilities obtained from the banks to finance the working capital.
- Ability of cash payment to the foreign exporter following the attainment of the best prices.
- Debt settlement on a later date to locally marketing the goods without the occurrence of any cash suffocation.
- The debts’ accrued interests are usually less than its high profitability.
- Providing the opportunity to introduce new financing and marketing tools to a elected group of customers as an additional service which the banks introduces to ensure supporting the customers under competitiveness in the money market.

- Providing the ability of reinvesting these funds in other fields while registering the old debt in the bank's systematic accounts against the bank's guarantee of the customer's debt to the buying foreign body of the debt (forfeiter).
- In the case of international trading processes, the bank collects fees for guaranteeing the debt tool for the buyer's sake, a matter which is considered as an additional income for the bank.
- The foreign-institution finance help to achieve liquidity for the local bank and overcome the problem of providing the foreign currency.
- Obtaining the finance necessary for preparing the goods to be exported.
- The ability of giving facilities to the foreign importer, so as it provides the competitive opportunities to the exporters in the foreign markets regarding the quality and prices.

Therefore, the borrowing financial institution through securitizing its debts keeps untainted indebtedness record besides improving the liquidity position and reducing the paid interest ratio.

12-2. The original lender is usually the bank (and perhaps the foreign supplier) that the lending institution deals with. The lender gains several benefits such as: whenever performing the borrower's debt, the lender collects in advance the original debt besides the interests till the liability date with its current value (i.e. deducted according to the agreed upon liability rate). In this case the debt would not be included in the lender's loan portfolio and thus ensures a clean portfolio of the doubted debts on the one hand and gives another opportunity to the borrower on the other.

12-3.Forfeiter: Currently several foreign financial institutions have unused financing limitations for the Saudi banks. Under the Saudi economy's boom and the rating of Saudi, as a country which has good investment opportunities, by world economic and financing institutions such as – Moody's IFC Standard & Poor's FTTCHIBCA- the Saudi market could be considered as a relatively low-risk market, a matter which attracts these institutions to direct their available finance to Saudi Arabia and the increase of their desire to exploit the unused financing limitations through the debts securitization processes which achieve higher profit margin than that achieved by the syndicated loan existed in the Saudi market for several years. The forfeiter requires a banking guarantee the debt tool (invoice bills or security bond) which issued for each process to insure the borrower's obligation of the settlement according to he agreed upon restructure. In the future with the national economy growth and the number increase of national credit rating companies, it is possible that these companies buyer would accept the issued debt tool by these companies without the need of reinforcement or guarantee from the local banks.

12-4.The company managing the process: The Company performs the coordinator's role between the parties concerned with organizing the deal with the borrower, then, the lender to ensure the availability of suitable conditions for the buyer in the foreign money markets on the purpose to getting the optimal conditions for the entire lender, the borrower and the buyer. The company gains, in turn, a suitable commission according to the introduced financing volume.

13. SECTION 6: RESULTS AND POLICY IMPLICATIONS:

The study has concluded the following important results based on what have been introduced:

- Securitization is considered as one of the new financing arts that have appeared in the beginning of the 1980s of the last century in line with what is know as the Financial Engineering.

- Securitization is the conversion of illiquid loans and debts tools to marketable liquid securities (bonds and shares) in the money markets.
- The non-restriction of securitization certain fields such as loans of commercial real estates, cars and houses, but if it has exceeded these fields to include the third world debts securitization after the emergence of foreign indebtedness crises and the cease of some countries to settle their indebtedness (Mexico in the year 1982).
- In the international financing markets, the securities represent nearly 90% out of the total of the loans of the securitization processes.
- The Arab world's securitization volume is still limited and does not exceed $2.5 billion as compared to nearly $625 billion in the Untied States.
- Securitization largely helps provide liquidity, vary the financing sources and expand the investors' base.
- Securitization plays an important role either at the levels of the individuals, the governments or the companies.
- Securitization has not widely spread in all the world countries because of the non-existence of legislative infrastructure for that new financing type except in the United States.
- The main resource behind the banks and the financial institutions' tendency towards securitization is attributed to the desire of liberalization of the balance sheet's restrictions, observing the capital sufficiency principle and creating allocations for the doubted collected debts.
- The partial contribution technique is considered as the best technique of debts securitization because of the debt seller's irresponsibility of any liability in the case of the debtor's failure of payment.
- Overseas securitization helps provide the foreign currencies.
- Securitization helps lessen the credit risks through the financial risks distribution over a number of different sectors.
- Probably, securitization could lead to a case of economic instability whenever the prices deteriorate while the interest rates soar up.

Based on the study, for the success purpose of the securitization process, curbing the subsequent risks and engross its return, it is necessary to have a good institutional framework providing the suitable investment environment for the securitization process through the following:

- The existence of active market in the securities field.
- The existence of specialized companies in marketing the securities to encourage investment and activate the market.
- The existence of an integrated institutions system, among which are: the real estate financing companies or the real estate lending, supporting companies such as information offices of the customers and credit rating agencies, as rating plays a prominent role in the securitization deals. It is difficult to marketing the exported securities without rating which helps enable the investors to accurately measure the securities risks, besides assets evaluation companies and insurance companies.
- The attempts to formulate a group of organizing, cash, economic and financial legislations that help encourage and discipline the securitization performance.
- Creating a more-developed technique system and its link to all activities related to the securitization process.

- Benefiting from the world experiences in the countries that have been implementing the securitization processes, particularly the United States in order to ensure the conversion of Arab banks to world banks in the field of comprehensive exchanging and the transformation away from their geographic boundaries.

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