

“my 15min chat with a bank CEO”

Frank Ileri & Habil Olaka

Chat Summary

Thursday, 19th July 2012

Topic: Mortgages and Real Estate

Time: 2:00pm – 2:50pm



If you had the opportunity to chat with a Bank CEO, what would you talk about?

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Mortgage Industry Growth

jwahome: I would probably want to ask why the mortgage uptake is so low in Kenya

FrankIleri: Thank Jwahome for getting us started...several challenges: cost of homes; mortgage requirements ie closing costs: interest rates...Mostly we find that homes are expensive because of high cost of land, high cost of infrastructure and high inflation...on closing costs - there,s deposit to be made as well as legal fees, valuation and stamp duty which can account up to 15 pct of the house cost...i hope this helps answer your question

ceochat: A question came in earlier via email...Why the slow progress on Reits

FrankIleri: thats a good question...REITs are a work in progress...in fact today there is a workshop going on between the CMA and the stakeholders...so it is our hope the final regulations will be completed in the next few months

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Mortgage Industry Growth (Continued)

DreamCatcher: @FrankIleri, What are some of the implications of having a Land Commission & the new Lands Act?

FrankIleri: Thank you DreamCatcher, the act has gone a long way to protect the borrowers...to ensure for married people both spouses approve, assent to the borrowing...also financiers/banks have to FULLY explain the implications and costs of the borrowing...so generally the spirit of the new Laws are to protect borrowers which banks will fully adhere to

ceochat: Can Kenyans living abroad access financing?

FrankIleri: On external demand, there are banks that offer real estate financing to the diaspora...in fact we have seen that the US and the UK are the most active markets for Kenya RE

softie: Frank,a question towards HF,what do we expect in the next 5-10 yrs,

FrankIleri:Lets talk about the future of RE in Kenya... We foresee a lot of activities in the counties...as we devolve, we see the creation of a lot of satellite cities as our road infrastructure improves across the country...with this in mind people should look to invest beyond Nairobi

DreamCatcher: @FrankIleri. I remember countries like Singapore being a shanty city but today they are a middle income country with housing units for a majority of their citizens. What part will the Ministry of Housing, NHC & HF play in order to upgrade slums such as Kibera?

FrankIleri: I see a question about slum upgrading...and the Ministry of Housing...the Ministry has taken the lead in upgrading some parts of NBI slums...we expect to see much more of this as we devolve as a country

DreamCatcher: @FrankIleri. What has HF done in order to **/**ist the youth & Kenyan m**/**es to own their own homes? Are we experiencing a housing bubble where we have seen the prices of land more than triple since 2003?

FrankIleri: DreamCatcher, HF has come up with products eg 1stHOP to encourage youth to save towards owning their own homes...in my opinion, i dont think we are experiencing a housing bubble...because the demand for housing is still much, much higher than the supply...in fact we have seen demand locally as well as from Kenyans in the diaspora

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Mortgage Industry Growth (Continued)

DreamCatcher: @FrankIleri. Thank you for the candid responses. I believe there is a lot of room for banks to mentor the youth on investment avenues such as real estate. Keep up the good work & I hope to see more from HF.

FrankIleri: I saw a question about mentorship of youth...many banks through their CSR/social responsibility programs hold forums for youth to mentor them on banking, and investment...at HF we do barazas across the country to educate the public on property investment

Mortgages and Interest Rates

ALFIX: Are the rates really going to come down to what they used to be 12-15%

FrankIleri: thanks Alfix for your question...this will really depend on our ability to manage inflation...it is our hope that this will be achieved within the year

Caroline: When the MPC set the CBR at 18% they said that they were managing inflation and they have now reduced it. Do you think this reduction will continue?

FrankIleri: Thank you Caroline...i believe so especially with the recent reduction of fuel/petrol prices, which is one of the key inflation drivers

jwahome: Frank I understand interest rates can be lowered by attracting cheaper long term funds. What's your take on the ability to attract such funds as a Mortgage finance provider?

FrankIleri: That is a very good suggestion Jwahome...so far this year for example, HF has gotten funding from European Investment bank and Ghana international bank...you should expect to see more players doing the same

FrankIleri: a question i've also seen is what are the requirements for a mortgage...i think it's good to mention this... requirements for mortgage: downpayment, legal fees, stamp duty etc. a sale agreement, proof of ability to repay...these are some of the general things that banks look for

Caroline: Mortgages are usually for many years, up to 20 or 25. Do I have to take a loan for that long? And if I want to pay it off before that what do I do?

FrankIleri: Caroline, you can take a mortgage loan in this market for as short a period as you wish...on early repayment some banks charge others don't

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Mortgages and Interest Rates (Continued)

jwahome: How can self employed Kenyans who are unable to have steady income streams take up mortgages?

FrankIleri: Thanks Jwahome there are some products that peg ones repayment to their income cycle...for example farmers who may get a crop every 3 months will have their repayment scheduled to that cycle

softie: Frank,if one has a piece of land,is it possible for you to build a commercial building then collect the income as part payment till yhe loan is done??

FrankIleri: Thanks softie, there are several banks in the market that do commercial lending and use the rentals to repay the mortgage...it is always advisable to shop around because conditions vary from bank to bank

softie: thanx Frank,what of HF

FrankIleri:softie...yes HF and several other banks

Caroline: Most banks give customers similar interest rates and do not consider the individual and that individual's risk . Is this going to change so that good customers can access better rates?

FrankIleri: Caroline you raise a good point...with the introduction of credit information sharing we expect to see banks differentiating between good risk and poor risk customers...banks will soon begin sharing positive information about their customer loan history...this means good borrowers should be in a position to negotiate for lower interest rates

softie: Majority of Kenyans are middle income earners but would like to own a house,with the interest rates surging and inflation expected to rise due to the election mood,are these kenyans ever going to be included in owning a house

FrankIleri: On home ownership and interest rate fluctuations, the industry is working towards more fixed interest rate products for home buyers

Softie: thanks Frank,hope that will be soon.

DreamCatcher: @FrankIleri. In your opinion will we in Kenya at any time see flexible mortgages that one can move from one house to another?

FrankIleri: DreamCatcher please clarify your question on flex mortgage

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(Continued)

Title Deeds and Processing

Caroline: Is the Ministry also helping release title deeds? The problem with trying to buy outside Nbi is that we can't get a title deed and then we can't get a loan

FrankIreri: I saw a question about title deeds...once the ongoing automation in the ministry of lands is complete, we believe the next step is to address the issue of title deeds across the country...and thus make it easier for people to get mortgages

mungaits: Frank, when will the mortgage process be simplified and shortened to allow more people to access to housing?

FrankIreri: Thanks Mungaits, a lot of mortgage finance lenders are or shall shortly be upgrading their banking systems to enable online document management and also as an industry we are happy to note that the ministry of lands is in the process of automating its records....we believe the whole process can be reduced to 30...sorry...reduced to 30 days

Mungaits: great! most prospective home owners back off after what look/feels like being taken round in circles. Even with all requirements, closing a mortgage takes as long as 6 months

Real Estate Investments

jwahome: Frank what your comment on what happened in Kitengela, won't such similar actions in counties with undeveloped infrastructure slow down housing development?

FrankIreri: jawahome I think what we can talk about is that the proposed 2012 housing bill will address the issue of infrastructure as the government is committing to setting aside a substantial amount of money to improve infrastructure across the country

ceochat: A question came in earlier via email...Is now a good time to invest in real estate..Estate

FrankIreri: i think that this is a good time to invest because demand is low and one can then get good deals and also because after the forthcoming successful elections demand is most likely to increase and hence RE prices will go up

mungaits: Most of the mortgage products in the market are mostly for people looking to buy houses. How about people already with land looking for funds to build?

FrankIreri: Ive seen a question about construction finance...there are several banks offering this product...

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(Continued)

General Comments

FrankIreri: Habil, thanks for joining...would you like to add any comment?

HabilO: Thanks, Frank. Have just joined in from Malaysia and in deed it is revealing how an economy that was at our stage has through continuous improvement in addressing similar challenges been able to move so far. I am visiting the bankers association and will be bringing home some lessons

FrankIreri: Thanks Habil...we look forward to learning from your visit to Malaysia

FrankIreri: Habil, any last comments?

HabilO: Thank you, Frank for this session. As indicated there are important lessons here in the east and the link of SMEs and access to finance for housing development is one that we share with Malaysia but they are developing other areas like islamic finance to bring resources into circulation, which are all very relevant and food for thought for us.

Feedback

mungaits: Thanks Frank, appreciate your responses.

jwahome: Thank you for you time and work at HF... keep up the good work sir

FrankIreri: I have enjoyed this...KBA keep it up

Unanswered Questions

Caroline: And if it is a good time to invest in real estate, what is the best type to invest in?