

“my chat with a bank CEO”

Jeremy Awori

Chat Summary

Thursday, 23rd May 2013

Topic: Mortgages

Time: 10:0am – 11:00am



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

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Jeremy's Opening Remarks on Mortgages:

JAwori: Good morning happy to be here...looking forward to the Chat about Mortgages I think the mortgage area is an exciting area for growth for Kenya given the relatively low numbers of mortgages in the industry compared to other countries, as well as compared to the demand with the growing middle class.

Mortgage costs & rates:

CapitalFMfans: Barclays has introduced a 3 year fixed mortgage rate policy for new mortgages, but why should customers bear the cost of fluctuating rates when the contract entered agreed a certain percentage. More so since rarely are there cases where if the economy improves the rate is never reduced but if the economy suffers, it's the customer who bears the cost?

JAwori: Thank you CapitalFM for your question...there are different types of mortgages...you can have floating rates where the rate goes up and down/fluctuate depending on market a fixed rate mortgage on the other hand does not fluctuate because it is pegged on a fixed rate at the time of signing the agreement

JAwori: I saw a question from earlier about what banks are doing to lower the cost of mortgages from from Cjullens.

JAwori: Banks would like to see much more affordable mortgage rates as a general principle and we want to see the mortgage industry grow...banks however also are working to reduce their operating costs and improve their efficiency over time to help reduce these costs so someone with a good credit history will pay less than someone with a poor credit history.

Banks are also working to reduce other costs associated with booking a mortgage such as the need for automation of land registries, faster transfer of titles, whilst this is not under our direct control; we are working with the stakeholders through the Kenya Bankers Association to address these issues.

kamaukinyua: Jeremy, advice what factors you consider when considering the interest rate considering there is no risk factor involved. Other loans especially unsecured have high rates due to the security factor.

JAwori: KamauKinyua, thanks for your question. Interest rates on loans are determined by a number of factors, including the cost of raising long term funds. It is often a challenge to raise long term funds as most customers want to keep their deposits in a bank account for less than one year...yet a mortgage is typically for 15 to 25 years therefore there is a funding mismatch which banks have to manage and include in the pricing of the mortgage. Banks are also deliberately looking to raise long term funds through the bond market...

Leken: I have a problem with loan processing/facility fees charged on mortgages, I feel as if I am being punished to get into business with the bank? What is the rationale behind this considering that interest is charged already - and that, per annum?

JAwori: Leken thank you for your question. Banks all over the world will levy an application processing fee to cover their costs for the application process.

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Mortgage Costs & Rates (Continued)

CapitalFMfans: Clare asks: considering Banks rake in billions in profits, what measures are banks looking into towards reducing the interest rates for mortgages especially towards empowering Kenyans to own homes. I believe it would encourage even more Kenyans to take up mortgages. Say maybe less than 10% since its asset-based.

JAwori: Claire, thank you...we've covered the point on how banks are working to reduce cost of mortgages. I noted that banks want to see lower mortgage rates...I might add that mortgage rates will never be lower than the risk free treasury bill or bond rate...so until the risk free rates come down, mortgage rates will be relatively high.

Mortgage opportunities for low & middle income earners:

znasser: Are self-employed people eligible for mortgage?

JAwori: ...yes, self-employed can apply for mortgages as long as they can demonstrate consistent income and ability to repay the mortgage in the long run.

manan001: What are banks doing to attract, protect and entice middle income earners to embrace mortgage facilities?

JAwori: Manan001 thanks...banks want to make the process of applying for a mortgage easier and convenient for customers...banks are also working with property developers to help attract prospective buyers

JAwori: I saw a question earlier from Jthenya on early repayment fees...as at now there are not fees for early repayment of loans.

mbatia: What basic aspects should a beginner like me know about real estate investment and mortgage.... I'm sure am not alone on that peddle

JAwori: Mbatia I see where you are coming from...when you buy a house it is your single largest purchase that you are ever going to make and therefore it is important that you consider all the factors before you commit

Requirements for getting a Mortgage:

Qoe: What are the requirements for getting a mortgage?

JAwori: When you are buying a house to live in, it is important that you buy something that you can afford, given your various income streams you therefore need to consider all the costs associated with the transaction some of which are the stamp duty, legal fees, valuation fees, and insurance...these are fixed costs and should be understood before signing a sale agreement. These fixed costs typically amount to 7pct of the home purchase.

You also need to have raised your deposit, which ranges from 10 to 30 pct of the home value. Then of course there is the monthly repayment which should largely be affordable relative to your net pay...a good guide is that the mortgage repayment should not be more than 50pct of your net pay...to avoid you being financially stretched

Other Questions:

DreamCatcher: What causes the income disparity between mortgage monthly payments and rental incomes?

JAwori: To answer your question there needs to be significant consideration if you are taking a mortgage for investment or to let the property...as it is conceivable that the mortgage repayment may be higher than the rental...this varies based on property location, amount borrowed, and the rate applied.

When you see the differential between mortgage repayment and rental income...this is a signal that is a supply constraint i.e. fewer houses than the demand ...and therefore the amount of money you are likely to borrow towards the property is high and therefore the rental income is obviously going to be lower than the repayment. I think people should be looking to take a mortgage for a property they want to live in before they consider property for investment.

ney: if a mortgage is for 15 years can one clear the payment before the 15 years if they have the means to?

JAwori: Ney. Thanks for your question around early settlement of your mortgage. You can repay your mortgage early at no extra cost should you decide to do so.

khamab: Morning Jeremy, I trust you are well. My Question first question the potential in the mortgage industry is big yet only less than 30,000 have mortgages what initiatives has your bank done to capitalize on the same, am thinking in terms of partnerships?

JAwori: Morning Khamab, there is a supply demand gap on the number of houses actually available for one. Banks are working with developers to address this. Currently there is a shortage of about 200k units per year according to the national bureau of statistics. Having said which banks are working with developers to address this gap on the supply demand side...we are also encouraging customers where they can afford it to consider buying finished properties as opposed to building their own

CapitalFMfans: Tom asks: What are your thoughts on speculation that the property boom or balloon in Kenya is likely to burst, especially considering how property firm are charging way more than the actual value of the houses?

JAwori: I saw a couple of questions about a possible property bubble...and investors paying higher than the value ...the simple answer to that is that as long as you have a housing shortage, you are not likely to have a bubble...and what customers are willing to pay for the house is not wildly out of line with the

value of the house; however, you need to be aware that certain segments e.g. up market segment may have a lot of supply and not enough demand...so in this case could have mini bubbles within the overall economy.

CapitalFMfans: Clare asks: Equity bank took started an initiative to develop affordable housing for its customers for its mortgages, is this avenue likely to be followed by other banks?

JAwori: To answer Clare...banks typically will focus on the banking business as opposed to being property developers. However different banks may take different approaches to this as part of their strategy.

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Other Questions (Continued)

mbatia: On the issue supply, demand. For instance I develop an estate n then hand it over to the bank, who in return will pack it as mortgages to potential prospects, what barriers do investors face when trying to initiate such businesses?

JAwori: Mbatia...on barriers investors may have...I think one of the barriers is raising the initial finance to raise the projects off the ground...the second would be the track record of the developer such that potential customers trust that they would finish the project on time, at the right quality so the purchaser of the property does not get let down.

khamab: Morning Jeremy, according to my observation the mortgage repayment has put many from taking up mortgage, is there a possibility of increasing the period to 30 years in years to come?

JAwori: Khamab ...banks are interested in affordable mortgage repayments, so to respond to your point about 30 year mortgages, the challenge lies around getting long term funding for those mortgages...banks are however trying to find longer term financing such as bonds to avoid the funding mismatch.

@manitaslim: @KenyaBankers Hi, I work in a foreign country, Bahrain. I am interested in acquiring a house in Nairobi. Can I get a mortgage plan?

JAwori: We received a question on mortgages for people in the diaspora...various financial institutions do offer these products to people in the diaspora; however it is more complicated to process by virtue of the fact that people are not physically in the country and verification of documentation can sometimes be a challenge

JAwori: Jthenya asked earlier about GLA tiles...a GLA title is a title issued under the Government Lands Act (GLA). ...unfortunately the process can take a lot of time and is coordinated by lands office therefore banks have little control of this.

Banks will need to focus more on making the process simpler for applicants and helping ensure that they understand fully what is required when they enter into these transactions... the Government is also taking some positive steps of simplifying the registration process through automation of various

registries...and there are positive developments as well in the judicial process which is helping to make the process more efficient.

JAwori: Rose asked a question about basic documents to apply for a mortgage as a self-employed person...standard documents would include proof of identification, bank statements, source of income, a credit report from a credit reference bureau...when you are self-employed, especially in the informal sector, it is important to 'formalize' income streams through your bank account, as well as ensure that your business is registered as this will assist with your application.

Unanswered Questions:

@JohnNgetuny: @KenyaBankers Am based in USA and need a diaspora checking account that will guarantee a good mortgage return, advice.

mbatia: what happens when the economy shifts and hence the rates, how can you be protected from such scenarios?

khamab: Second question In the spirit of devolution how has the bank aligned to capitalize on the mortgage space within the counties?

khamab: Jeremy, I'd like to hear your thought on the unit trust geared for mortgages which was recently sanctioned by CMA?

General Comments and feedback

JAwori: As your questions come in, allow me to share some thoughts...It is important to stress that banks are keen to see the mortgage market grow and we are keen to see the customers are able to achieve their life aspirations of owning a home at an affordable rate.

JAwori: Thanks for logging in and for the great questions...

Khamab: Thank you for your time and thoughts on the mortgage

Ceochat: We have been online since 10am with Jeremy Awori, Barclays Kenya CEO. There are some questions we didn't get to answer...our apologies. Please log on next week for our chat events on SME and the other on Interest Rates