BD Explained

How State decides who gets affordable housing loans

FINANCE
CONSTANT MUNDA

Successful applicants get as much as 105pc funding of value of the home, which is higher than average of 90pc

The Kenya Mortgage Refinance Company (KMRC) allows prospective homebuyers to borrow money through their banks or savings and credit cooperative societies (saccos) at single-digit rates with a repayment period of up to 25 years.

Successful applicants get funding as much as 105 percent of value of the house, higher than an average of 90 percent loan-to-value ratio under commercial terms in the banking industry.

This is meant to cover incidental costs such as legal fees and stamp duties, enabling homebuyers to occupy houses without upfront costs.

The KMRC disburses the mortgage cash to banks and saccos to facilitate the successful applicant to buy and move into the house being bought.

Can a home owner get KMRC-backed loans to buy a second home?

No. KMRC eligibility criteria provides for lending for owner-occupier homes, meaning you must occupy the house that you buy through the subsidised mortgage.

The mortgage refinance company says a majority of people who need homes are those who do not have one already. It is mandate, therefore, is to facilitate households to own their first home.

The KMRC argues that a majority of persons looking to buy a second house do so investment purposes. Such persons, it adds, can afford commercial terms from primary mortgage lenders —banks and saccos.

Does it mean persons who own houses are locked out of KMRC-backed loans?

No. If you own a house which you have rent out and are looking for mortgage to buy or construct another house to live in, then you qualify for KMRC-backed loans.

How does KMRC ensure the loans originated by primary lenders are only for first-time home owners?

KMRC provides an eligibility criteria for loans to the primary mortgage lenders which is what financial institutions use to generate home loans that meet KMRC requirements. Financial institutions are instructed to strictly follow the criteria when originating mortgages.

KMRC does what is technically called a portfolio review before it accepts home loans that are eligible for refinancing. Since primary lenders would have to originate loans and advance loans before going to KMRC for refinancing, the refinancier reserves the right to reject loans that do not meet its requirements.

What options do parents who want to buy adult children with no income have?

KMRC insists that prospective homebuyers need to provide proof of income, which they will use to repay the mortgage. The mortgage refinancier says: "These home loans are available to our young people, including Gen Z. In fact, this is our key target group. If they have funds to pay rent, their rent would be sufficient to repay the home loan."

SUMMARY

- The mortgage refinancier says the home loans are available to young people, including Gen Z, the key target group.
- Persons in informal sector such as onwers of a small hardware, salon, restaurant, bar and shop will need to prove that that they have a source of income enough to repay a loan.
- The KMRC says its product offering includes options for buying land and building houses to occupy.
- The plot must, however, meet the environmental and social impact threshold, meaning it should not be in area which is prone to floods, a heritage site or a road reserve.
- The admission of non-shareholding institutions is still under review.
- The KMRC provides an eligibility criteria for loans to the primary mortgage lenders, which the financial institutions use to generate home loans.

How can banks and saccos ascertain the creditworthiness of a person with irregular income working in informal or Jua Kali settings for purposes of issuing KMRC-backed home loan?

KMRC says persons in informal sector such as onwers of a small hardware, salon, restaurant, bar and shop will primarily need to prove that that they have a source of income enough to repay a loan.

Their credit history will be ascertained using informal lending channels such as micro loans and digital lending, including mobile loans. In determining their creditworthiness, alternative credit assessments mechanism is under consideration as part of the planned roll out of Risk-Sharing Facility (RSF) through the Kenya Mortgage Guarantee Trust.

This will include leveraging bank statements, M-Pesa transactions, and other business-related records. These assessments will establish the borrower's income streams, allowing primary lenders to assess the borrower's ability to service the home loan.

Can one get KMRC-backed loans to buy land and build their own homes rather than buy an already built house?

KMRC says its product offering includes options for buying land and building houses to occupy. That enables people who prefer to build a house on existing plots or buy a plot and then build it to get KMRC-backed funding. The plot must, however, meet the environmental and social impact threshold, meaning it should not be in area which is prone to floods, a heritage site or a road reserve.

What are limits on loan size under the KMRC-backed house financing model?

The KMRC removed loan limits for prospective homeowners in a bid expand access to affordable housing.

The firm, nonetheless, considers a limit of Sh10.5million as a benchmark to enable the "right people to access affordable home loans". The use of a loan limit and the income threshold of the borrower was previously flagged for creating implementation challenges for primary lenders. KMRC, however, maintains the maximum loan size ensures that the product continues to target the low and middle-income segment of the market. These product enhancements, the firm argues, have been driven by the prevailing economic conditions affecting the purchasing power of Kenyans and property prices. The product offering will continue to be reviewed in line with market dynamics.

Where can one apply for and get KMRC-backed loans?

The KMRC has been refinancing home loans through 20 participating banks and saccos, which on-boarded as shareholders before it started operations in late-2020. However, it opened up to all mortgage lenders regulated by either Central Bank of Kenya or Sacco Societies Regulatory Authority under current 2024-2029 strategic plan whose implementation began in July 2024, with an emphasis on financial growth and sustainability.

The admission of non-shareholding institutions is still under review.