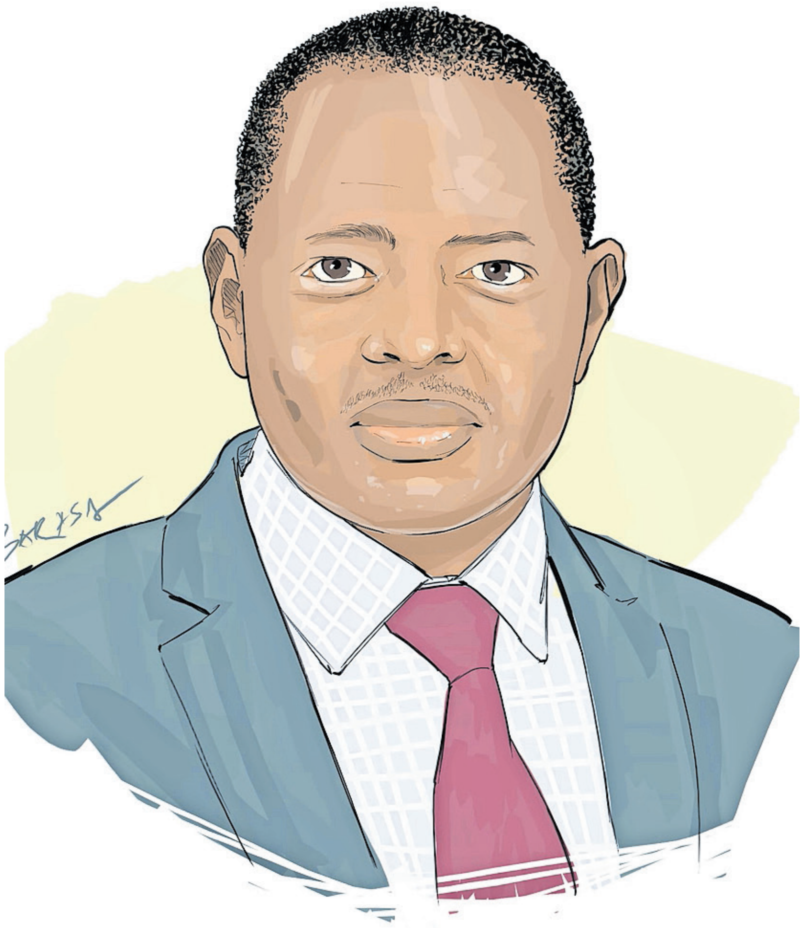
BOSS TALK

How mortgage lender KMRC plans to ensure hustlers get cheaper loans to buy homes



Johnstone Oltetia

'We have been told by lenders that people with lower income are honest, and those who own and occupy a home will not want to default.'

INTERVIEW
CONSTANT MUNDA

The Kenya Mortgage Refinance Company (KMRC) started operations late 2020 with a mandate to derisk access to home loans. The firm offers long-term funding to banks and saccos at an interest of five percent for onward lending to potential homebuyers at single-digit rate. KMRC, owned 25.3 percent by the government, has embarked on implementation of a new strategic plan, succeeding the inaugural one which lapsed mid-last year. The firm closed last year with a loan book of Sh11.89 billion and a net profit of Sh1.32 billion, a 55.94 percent jump year-on-year. Chief executive officer Johnstone Oltetia spoke to *Business Daily* on next phase of growth.

How does your new strategy differ from the previous one?
We started our first strategy in 2020 which ran up to July last year. We have now shifted into a growth phase which is essentially where KMRC is right now. The initial one was about operationalisation, and so we were focused mainly on policies and strategies that will help the business to grow sustainable home ownership.

What do you aim to achieve with new strategy?
We are still focused on promoting sustainable home ownership. We have six pillars. But the key focus areas include financial growth and sustainability where we have opened up for additional participating primary mortgage lenders. We aim to cover every institution in the country that is offering mortgages as long as they are prudentially regulated by either the CBK [Central Bank of Kenya] or Sasra [Saccos Regulatory Authority]. That way we should see affordable [home] loans spread across the country. We will do that by ensuring we continue to build our resources and manage our costs. We are also focusing more on research and development where we want to have evidence-based decisions on products. Research will inform the kind of products that we will develop for growth. For example, we are looking at things such as tenant purchase arrangements and green mortgages.

You are already in growth phase, but some people feel you are not visible enough to end-customers in banks' and Saccos' halls?
It could be true that some primary lenders may not be promoting our mortgage much unless someone knows, comes and asks. This could be because the margins are low compared with other products that they have. Our product is far more competitive than the one provided by financial institutions in terms of pricing.

What are you doing to increase awareness of your mortgages?
We are doing a lot of marketing of late in the counties. We have gone out and focused more on primary lenders because they are the ones who provide the service on our behalf. The idea is to significantly increase the capacity of the primary lenders on KMRC products because they are the ones who do origination. They need to understand the product, the eligibility, requirements, etc. That has increased the visibility of KMRC significantly because now as the customers approach the primary lenders [banks and saccos], the staff can advise them that we have two mortgage products: KMRC-backed mortgage and the primary lender's product.

You talk of ensuring that the KMRC-backed mortgages are 'spread across the country'. What are you doing to ensure persons with irregular income, operating in informal setting access the subsidised loans?
The informal sector contributes an estimated 40 percent to the GDP and accounts for 15 of the 18 million persons on wage employment. The data also shows that more than 88 percent of the about three million formally employed people earn less than Sh100,000. What that means is that majority of people are considered highly risky or potentially incapable of repaying a loan of a certain amount, and, therefore, affordability issues come in. We thought through how to get financial institutions to go far down the market to ensure that those people with irregular income also get funding for home ownership. That is why we have come up with an arrangement where Kenya Mortgage Guarantee Trust, a third party, guarantees a portion of the loan. It is a separate entity from KMRC because it has whole lot of different risks.

How will KMGT work?
The arrangement we have is on a first loss basis. We are providing a protection of 40 percent which is high enough because in other countries like Malaysia the ratio is 25 percent. That means if you have a loan of Sh1 million, KMGT covers Sh400,000. To ensure that it goes way down, and, therefore, we don't cover people with high income, we have put a loan limit of Sh6 million. The idea here is that you don't want to cover people who already can afford a mortgage.

How did you arrive at 40 percent cover?
They settled on 40 percent after engaging financial institutions having started at 25 percent, while banks were pushing for 50 percent. We have done stakeholder engagement two times to bring every primary mortgage lender on board. The kind of interest it generated was overwhelming to us.

How will you determine who is eligible?
We hired a consultant to develop an implementation arrangement which includes rules, eligibility, guarantee agreements.

What safeguards have you put in place to keep the default ratio as low as possible?
There is a cost where we have settled on a one percent guarantee fee. For someone to pay a fee, it means they have a stake or interest in it. We have also been told by lenders that people with lower income are honest, and those who own and occupy a home will not want to default on those loans especially when they have families living in it. So the expectation is that they may potentially don't want to default unless some circumstances affect them, and in that situation we have a cover. In fact, the greatest default in home ownership schemes comes from people who do it on investment basis but not occupying or living in them.

How will you determine the income levels of the persons you are targeting?
We have an arrangement where we want to support development of a digital credit assessment tool. The tool will consider mobile wallet transactions and footprints in bank statements. More than 80 percent of Kenyans have a mobile money account. Then we will also look at people's personalities by checking on social accounts. That will inform the possibilities of some people paying loans on quarterly basis by bringing in a lump sum which could cover a few months or on monthly basis. There could be a situation where people could pay loans on weekly or even daily basis.

When do you plan to roll out the guarantee scheme for home loans?
We anticipate that we will start by end of quarter two [April-June] where we will be asking financial institutions to request for guarantees from KMGT. We believe, based on benchmarking we have done, that it will drive uptake of mortgages. We also think the low interest rates that we are providing, together with the risk sharing facility will support a lot more people down the market who will otherwise never have gotten an opportunity to access loans to own a home.

→cmunda@ke.nationmedia.com