



## “My Chat with a Bank CEO”

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*Munir Sheikh Ahmed, CEO National Bank*  
*TOPIC | Real Estate & Construction*  
*WEDNESDAY FEBRUARY 25<sup>TH</sup> 2015*  
*Time: 10:00am-11:00am*

**Winnie Odongo:** What would Mr. Munir say is the greatest risk when it comes to financing a house through bank mortgages?

**Munir Sheikh Ahmed:** Winnie I would say the risk with Mortgages is the change of the interest rate; therefore your ability to repay would depend on your income matching the changes in the rates. The benefit of a mortgage is that it allows you to acquire the home upfront, as opposed to saving over time which could mean that by the time you have enough savings, the price of that home may be out of reach.

**Winnie Odongo:** Is it possible to sell out a mortgage as we do for other unsecured loans?

**Munir Sheikh Ahmed:** Winnie, please clarify your question about selling mortgages as unsecured

**Winnie Odongo:** Normally one can sell their loan from one bank to another. Can this happen for mortgages? I hope it is clear now Mr. Munir.

**Angela Ngethe:** And to add on to Winnie's question if it's possible to sell are there penalties that can be incurred?

**Munir Sheikh Ahmed:** Winnie, you can do the same with a mortgage, and transfer from one bank to another, without any penalty from the bank. However, you might incur new charges -- valuation, legal costs.

**Lee Kitur:** Mr Munir has been a source of great inspiration, what advice does he have to young people who want to invest in real estate

**Alice Mbugua :** What would it take for an individual to invest in the real estate market in terms of capital?

**Munir Sheikh Ahmed:** To Alice and Lee's point about what it takes to invest in real estate, I would say first the question is do you want to be a developer or do you want to partake in the real estate profits. As a developer, it depends on the size of investment you are looking at. And there you would have to come with a portion of the investment. And a business plan to convince the financier that it is a viable project. However, you can participate in Real Estate as a collective investor -- through Real Estate Investment Trust (REIT). Saccos and investment groups are another good option.

**Ernest Langat :** Morning, What are the basics requirements to get a mortgage from the bank?

**Munir Sheikh Ahmed:** Ernest, I would say the basic requirements for a mortgage are the deposit (ranging 10pct to 0pct depending on the bank); ability to repay the loan over the period/tenor; and acceptable collateral. Once you preset those things, you're good to go.

**Winnie Odongo:** To buy or to construct?? If buying is viable for future prospects would you advise on an apartment or a stand-alone house?

**Munir Sheikh Ahmed:** Hello Winnie, thank you for your question on buy or construct. I would say it is determined by the funds available to you. One would construct if you have the funding, mainly. Where as buying there is an element of debt for financing the asset, in most cases. When

you buy a ready unit, you will pay a profit margin to a developer. And with construction you essentially take that profit margin yourself. Again, on apartment or stand alone, it depends on different factors most of which are lifestyle and affordability.

**Mugisha Franck :** Real estate is said to be the best investment that one could do on a longer time basis. I would like to know what is the minimum that one could put aside so as to get a loan from the bank?

**Munir Sheikh Ahmed :** Mugisha, I would say that the minimum one should put aside to get a mortgage for a home ranges from 10pct to nil based on the particular financier that you approach. And the risk profile of where you are investing.

**Yussuf Abdilatif:** Morning Mr. Munir, What are the best alternatives for LaRiba or Shariah compliant (no interest financing methods) of Real Estate investment?

**Munir Sheikh Ahmed :** Good morning Yussuf. Welcome. There are alternative contracts that are Shariah compliant. Musharaka and Murabaha are the two common ones for mortgage. For real estate development, in addition to those, you can have Ijara.

**Kiplagat Kotut:** Good morning Mr. Ahmed. How can one partner with the banks to ensure affordable & decent housing for all especially people in my village?

**Munir Sheikh Ahmed:** Welcome Kiplagat...The main consideration of banks as commercial entities is recovery of the amounts they lend. In rural areas, the land laws make commercial lending riskier than in urban areas. Hence why you see challenges of credit access in rural areas. Please share with us the village you are referring to.

**Kiplagat Kotut:** Thank you sir. I am from an area called Ainabkoi in Uasin Gishu county and the people there make good money but they don't have access to the formal banking institutions. The area has several large scale dairy farmers & cereals.

**Munir Sheikh Ahmed:** Kiplagat, thank you for logging in from Ainabkoi...I would suggest you approach the nearest banks in Uasin Gishu. Also with mobile banking innovations and through the agency banking model, we now have more options to access financing even when there isn't a physical presence in the locality.

**Ezekiel Muinde Mweu :** What is your take on the fixed mortgage periods let's say 10 years.

**Munir Sheikh Ahmed:** Ezekiel, I see your question about fixed mortgages for 10 years....the tenor is up to the customer and depends on the customer's ability to repay within that period. I think you may be talking about a fixed interest rate for 10 years, and for that a financier requires funding with a fixed deposit rate that matches that 10 year tenor of the loan, and that is rare in this market.

**KEVIN KYALO:** What are the key factors to considering when designing the Housing Price Indexes (HPI) ? Why does KBA's HPI differ with that of HASS consult? Is there a way we could have (SI-unit) if I can use this word, for the HPIs, since there is a lot of discrepancies and questions raised on the KBA's . Thank you.

**Munir Sheikh Ahmed:** Kevin thank you for your question about the KBA Housing Price Index. The KBA HPI is based on a framework which has taken one year to develop and was subjected to academic and public input therefore we believe that it is a comprehensive and credible alternative for the market. Our index goes beyond the assumption that houses are homogeneous, to factor in all the characteristics / attributes of a house, and how those attributes influence prices. Basically it is a robust and statistically sound index.

**Simon Lee:** Negative Equity is a big issue in developed markets with the housing market cycles are more frequent. Kenya's real estate market has been consistently on the rise for the past 10 years though it is questionable if the value has also risen. Are the banks concerned that we may be about to burst the bubble resulting in people with mortgages worth more than their homes especially with some banks offering 105% mortgages and what are the banks doing to sensitize people about this situation?

**Munir Sheikh Ahmed:** Simon Lee, welcome, I don't think we are facing a bubble at this stage. Let me give you some reasons: There are very few banks that offer 105pct financing on mortgages; all the mortgages have a haircut; demand outstrips supply of housing to date; there is significant rural-urban migration that is still ongoing; most of the mortgages are for people owner occupied, and not for speculative / commercial rentals; and generally prices continue to rise; and finally the proportion of mortgages to GDP is only 2.5pct.

**Eli Bryan:** What some of the key pointers to look out for before venturing into Real Estates?

**Munir Sheikh Ahmed:** Eli, thank you, like any other business you would do due diligence and ask the questions that will make you arrive at a business plan; is there a market? Who is my target market?; how big is that market?; what would it take to invest/financial resources needed for the project; what are the risks that I face and how will I mitigate these risks? ; and finally how much do I have to invest and how can I raise capital --do I need debt financing?

**Naftali Thaithi:** There was a question on Low Cost Housing. Allow me to add to it, does the mortgage rate change depending on the type of house one is investing in? Or should it? Seeing that someone investing in such a house may not be in a position to afford a high interest rate.

**Munir Sheikh Ahmed :** Naftali, regarding your questions about low cost housing. The interest rate for commercial banks is agnostic to low cost of high cost housing. In other words, the rate typically is not influenced by the house type. However, government-backed development banks would offer concessionary rates targeting low cost housing on the basis of social development. I would also add, that low cost housing allows potential home owners, who could be priced out of the market by virtue of the price of the house, to access credit towards a mortgage because their ability to repay is enhanced by the cheaper house.

**JOHN NAMU:** The cost building has gone high. I understand one of the conditions for a financed mortgage is that the building should be built with permanent material. Are there possibilities of the bank financing let say prefabricated houses which are cheaper and affordable to majority?

**Munir Sheikh Ahmed:** John Namu, your point on materials used for building homes, yes, there are prefabricated houses. If the material is approved by the planning authorities, then the bank would finance.

**Anthony Kiprop:** I am from Baringo County and would like to request if you could open a branch so that we can access your products.

**Munir Sheikh Ahmed:** Kiprop, welcome from Baringo. We are planning to open in Baringo this year. Looking forward to you opening an account with us!

**Anthony Kiprop:** Thank you Munir, National Bank will be warmly welcomed in Baringo County. I will be opening an account soon.

**George Olaka:** Hello Munir, what is your take on the property market (mortgage financing) in the wake of devolution? In your opinion how long do you think it will take to go into remote areas but with huge potential, and what needs to be done to spur growth in such areas? Do you foresee banks financing property development in such areas where the ability to pay does not depend on the use of such property, or rather the repayment comes from somewhere else?

**Munir Sheikh Ahmed:** George Olaka, I would say that banks already finance developments at the county level. The urban areas in the counties do receive bank support towards real estate. Perhaps the credit to more rural and remote areas is influenced by the land use and land laws in force. If not supportive of easy realization of land collateral, banks would be shy of extending credit. In addition, the financial system is broader than banks. Home development in remote areas is financed by other financial services such as Saccos, which have better options of funding home development due to their funding model.

**Patrick Kinyua:** Why can't banks lower interest rates to say 10% for mortgages to attract masses considering tenor is long?

**Munir Sheikh Ahmed:** Patrick, we touched on this point about mortgage rates. It is primarily market driven. The biggest contributor to the interest rate on mortgages is the cost of funds (long term and big ticket deposit rates). Typically, the longer the mortgage tenor, the costlier the funds are because of the risk associated with long term commitments.

**Julius Ngetich:** Can someone who doesn't belong to Muslim faith enjoy mortgage products which are Sharia'h-compliant?

**Munir Sheikh Ahmed:** Julius, Sharia'h-compliant mortgages, and all Islamic finance products, are agnostic to the faith of the borrower...they are available to anyone regardless of faith.

**Yussuf Abdilatif:** Regarding Sharia'h-compliant Mortgages, Is it true that they are more expensive than traditional interest based? And if so, why?

**Munir Sheikh Ahmed:** Yusuf, the Sharia'h mortgages may appear to be more expensive because the fees and charges are incorporated into the rate -- unlike in conventional facilities; however, if you compare the total cost, including all fees, charges, and the interest, they are comparable.

**KEVIN KYALO:** Why Kenya's real estate scene is a bubble waiting to burst. Thank you.

**Munir Sheikh Ahmed:** Kevin we answered the bubble question...In my opinion I don't think we are in a bubble.

**Alice Mbugua:** How can I invest in REITS as I save to become a developer?

**Anthony Ngahu:** Can you briefly advice on the REITS market, how to invest in it, risks, returns among being new to Kenya.

**Munir Sheikh Ahmed:** I see questions about REITs. There is a platform being developed for trading of REITs and the regulations have been approved by the CMA. However, I don't think we have any company that has listed on the NSE / Securities Exchange platform yet. There are indications that a number of REITs will be listing from March this year. Meanwhile, you can explore investing in SACCOs.

**Louiza Wangui:** I read an article advising people against mortgages of over Ksh 3,000,000.00 for housing. A second article mentioned that majority of Kenyans earn less than Ksh 40,000.00 pm despite the talk of a rising middle class. So I went to a commercial bank's website to calculate the cost of a Ksh.3million mortgage (<http://ke.kcbbankgroup.com/tools-and-calculators/loan-calculator/>). At an interest of 8.5%, one would pay nearly Ksh27, 000 pm for 20 years to clear off the mortgage. This implies that the individual should earn upwards of Ksh78, 105 (three times the premiums) for the entire duration. 1. Is this continued rise in demand artificial, encouraged by developers, financial institutions and the true upper class for their own needs? 2. Given that majority of Kenyans earn less than Ksh. 40,000pm, should people opt for other alternative ways of owning property?

**Munir Sheikh Ahmed:** Louiza thank you for your insights. I would say that ones shelter can either be acquired/bought or rented based on income levels. If one can't afford to buy based on his/her income, there are options to consider, such as savings over a period of time and pooling resources with people who share similar aspirations of home ownership.

**Shiku Williams:** Would your bank be willing to send representatives if we sent an invite along with KUSCCO and other financial institutions to give advice to a group of upward of 50 members? If so, would it be possible to get a contact name?

**Munir Sheikh Ahmed:** Thank you Shiku. You may contact the nearest branch or email [corporateaffairs@nationalbank.co.ke](mailto:corporateaffairs@nationalbank.co.ke).

**Victor Mallelah:** We once visited one of the banks with a friend of mine who is a freelancer, the information he got is that he is not eligible for mortgage unless he is employed or owns registered business. Kindly advise if this is the case.

**Munir Sheikh Ahmed:** Victor, your friend needs to demonstrate ability to repay over the tenor of the mortgage, which banks translate to mean demonstrate your source of income (i.e. employment or business cash flows).

## Repeated Questions

**Nderitu Bachia:** What advice would you give to a group of young men who registered an investment group and they want to venture into real estate? Where do we start?

**Jemimah Busiega:** Good morning... I was reading about the low end housing from Karibu Homes, and got interested, So I want to know what does one require (minimum) for them to get a mortgage from a bank? Especially for low end housing like those ones and many more coming up.

**Theodulus Otieno:** My observation is that the construction industry is a domain of the rich. How can we help the low income and middle class to acquire assets?

**Martin Muthomi:** Good morning. I am new to this chat. I would like to know what are the financing options available for homebuyers apart from mortgages?

**Eli Bryan:** Thank you sir for your response. What advice would you give to a risk taker that wants to venture in Real Estate? I'd like to have your own opinion on what you think can be done to bring change in this sect and also benefit the people.

#### **Additional Comments**

**Simon Lee:** Mr. Munir, many thanks for your insights. Essentially real-estate looks to be the investment of choice for a good few years to come.

**Louiza Wangui:** Thank you Munir. I am inclined to think that pooling resources will be a better idea. Perhaps a product to consider for Banks. I like the Amanah Products and I'm happy to learn that I can access this regardless of my religious beliefs. Good day.

**Habil Olaka:** Thank you, Munir. This has been a very informative session on a subject that is of interest to many of us. I have enjoyed and learnt.

**Munir Sheikh Ahmed:** Thanks Habil for organizing this...I am sure given the number of questions we are seeing, we may want to have a repeat one in future CEO Chats.

#### **Munir Sheikh Ahmed**

Thank you all for your contribution to this discussion which is difficult to cover within one hour. I hope we have dealt with the pertinent issues you've raised. My apologies for any questions that I have not answered as robustly as you wish, due to the pressure of time.

**Chat Admin:** For those who would like to contact the bank, you may contact National Bank on [corporateaffairs@nationalbank.co.ke](mailto:corporateaffairs@nationalbank.co.ke)

**Chat Admin:** Ladies and gentlemen, allow me to take this opportunity to thank Mr. Munir Sheikh Ahmed for being with us today and for his insights. We'd also like to appreciate your participation. Your questions and comments have made this session quite interactive and enlightening.

**Chat Admin:** Be sure to check on transcripts and podcasts of previous chat sessions on [chat.kba.co.ke](http://chat.kba.co.ke)