

# An access frontier for housing finance in Malawi

## Agenda

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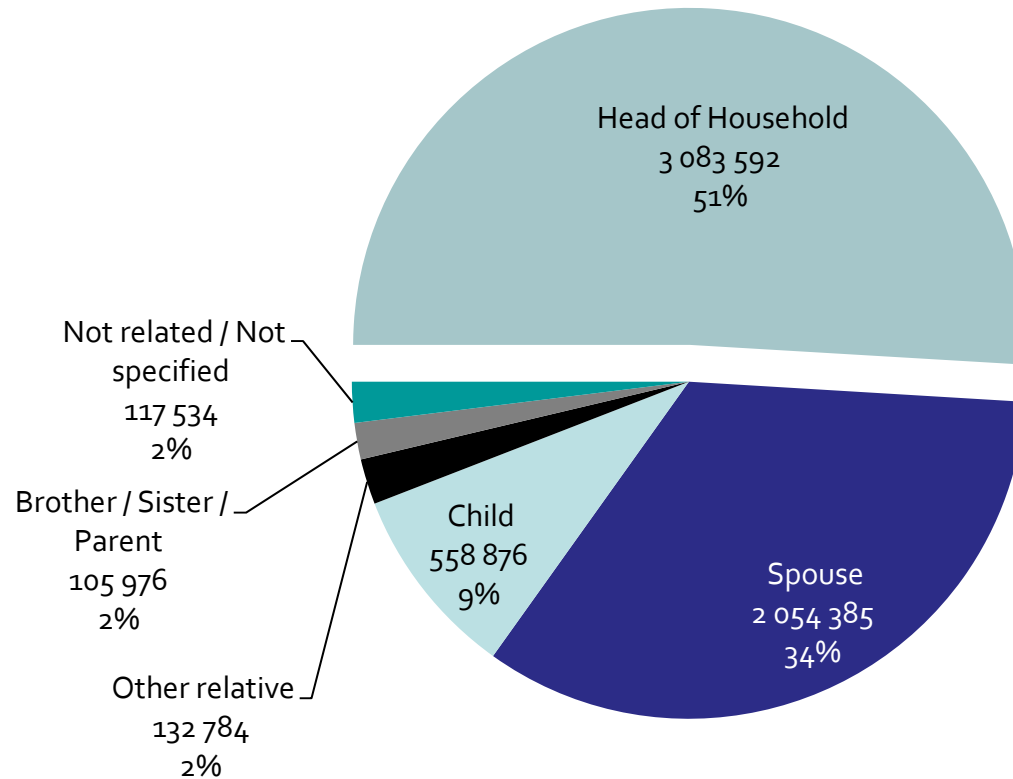
*Housing in Malawi – a FinScope overview*

Access to mortgages in Malawi

Unsecured housing finance

According to FinScope there are 6.1 million adults aged 18+ in the country (Census finds 6.2 million). In order to assess households or dwellings we can restrict the analysis to household heads

Relationship to head of household  
(Adults 18+)

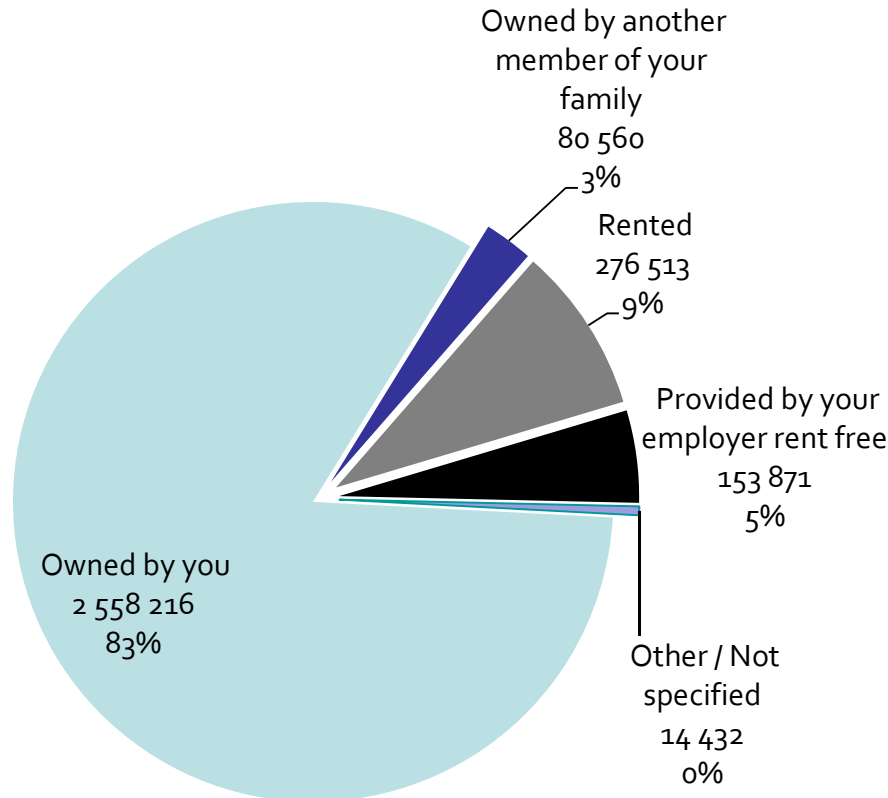


**Census estimate of number of households: 2.96 million\***

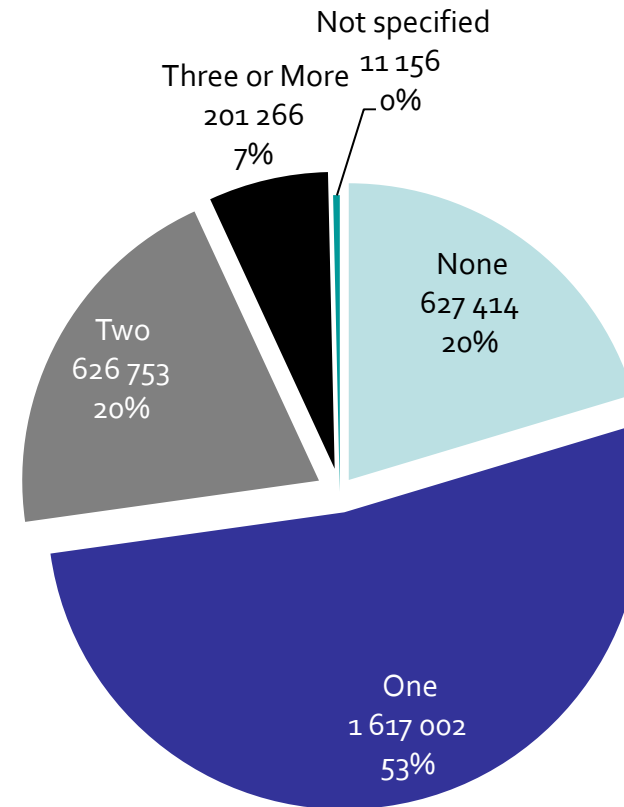
Source: FinScope Malawi 2008  
\* 2,957,693 households

# 83% of household heads say they own their dwellings. 27% say they own more than one dwelling or property

**Dwelling tenure of dwelling currently living in (HoH)**



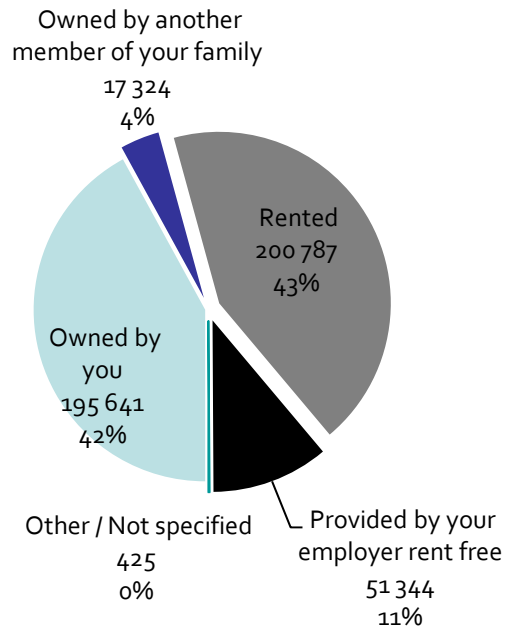
**"In total, how many separate dwellings and pieces of land do you own?" (HoH)**



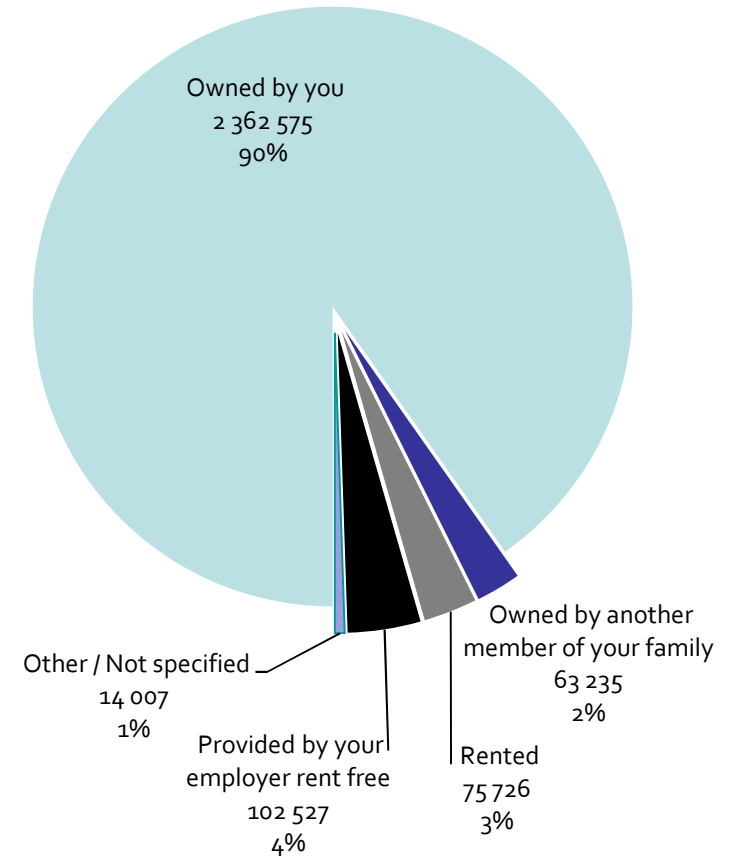
# Tenure profiles differ noticeably between rural and urban areas

## Dwelling tenure of dwelling currently living in (HoH)

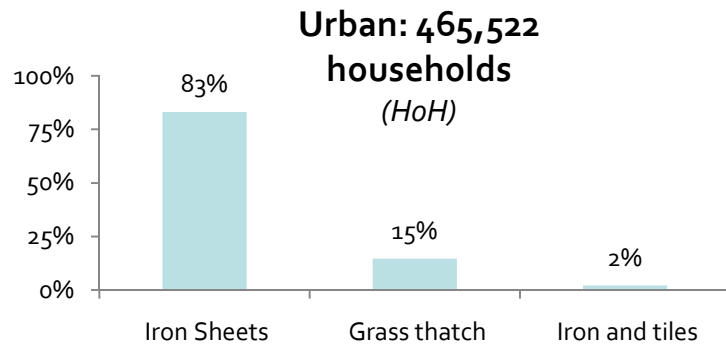
**Urban: 465,522 households**  
(HoH)



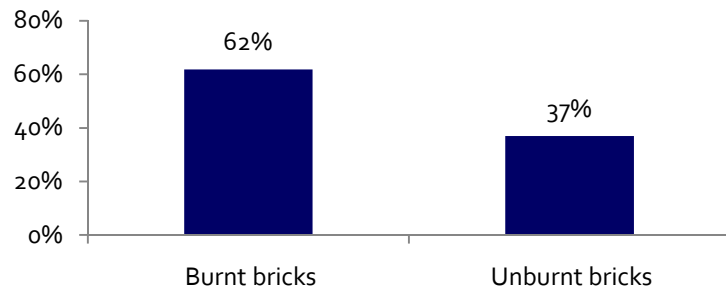
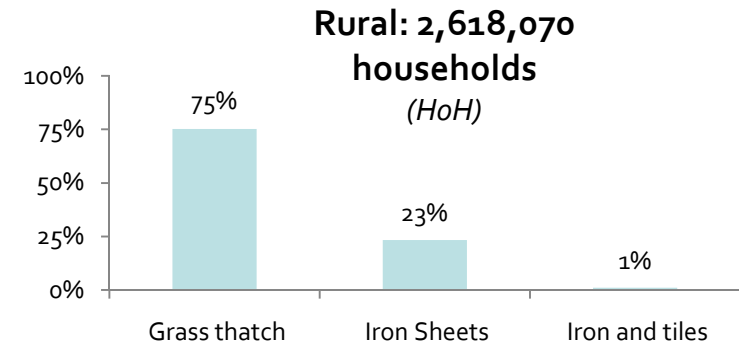
**Rural: 2,618,070 households**  
(HoH)



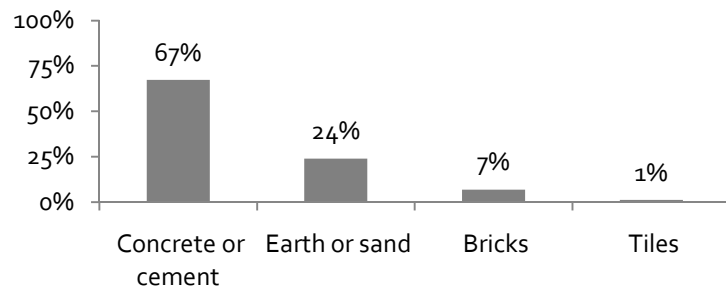
# Building materials differ noticeably for urban and rural dwellings



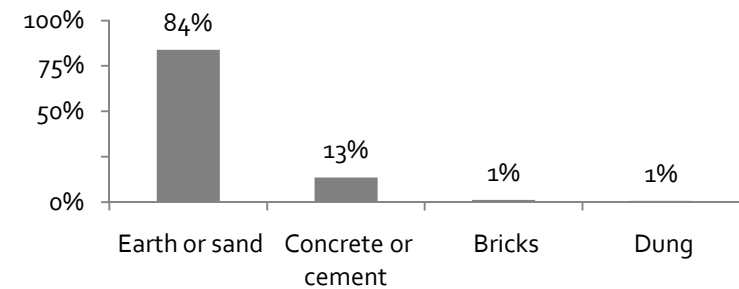
**Main material used for roof\***



**Main material used for walls\***



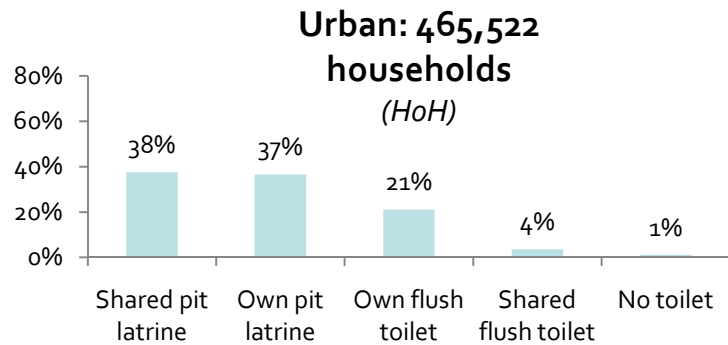
**Main material used for floor\***



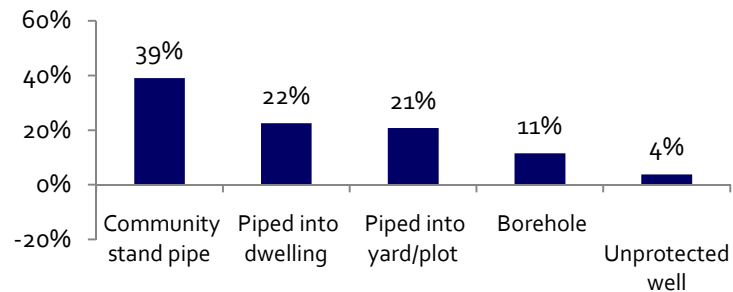
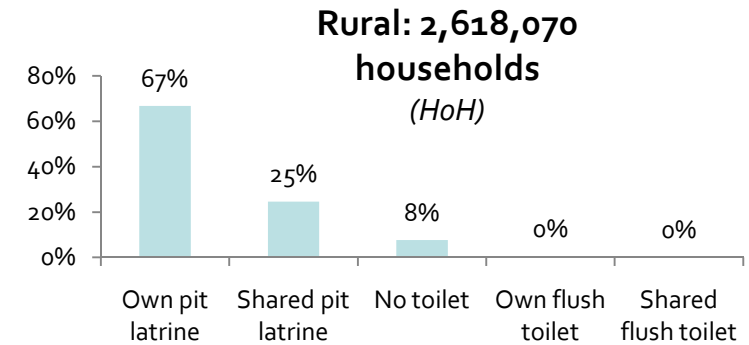
Source: FinScope Malawi 2008

Note: Roof materials exclude asbestos and cement for both urban and rural; Wall materials exclude concrete, wood/planks/timber, reeds/straw for both urban and rural, as well as mud/wattle/dung for urban; Floor materials exclude polished/unpolished wood for both urban and rural, dung for urban and tiles for rural

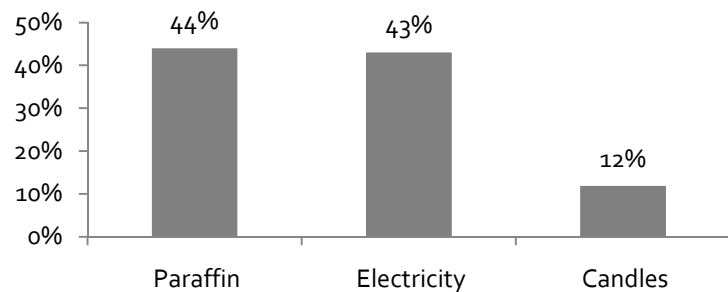
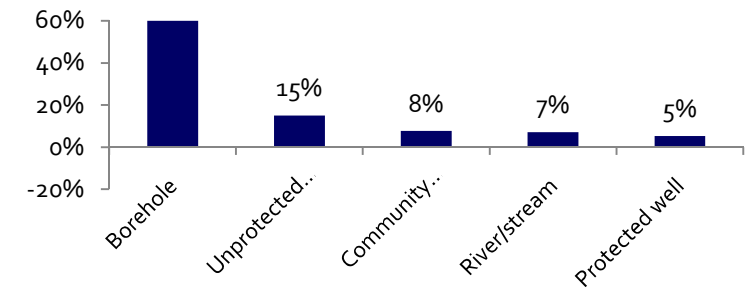
## Access to services also differs



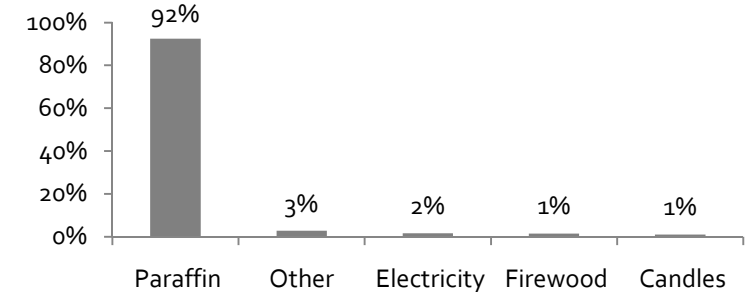
Type of toilet facility



Main source of drinking water



Main energy source for lighting



Source: FinScope Malawi 2008

Note: Lighting excludes torch for both urban and rural, as well as firewood for urban; Water sources exclude protected and unprotected spring, dam, pond/lake, and rain water for both urban and rural, as well as river/stream and protected well for urban, and piped into dwelling/yard/plot for rural

## The survey does not categorise housing although it is possible to do so given the data

### Traditional Housing

Either a thatched roof or mud walls or both



2 043 789  
Households (HoH)  
(66%)

### Permanent Housing

Built using durable modern materials

- Roof: Cement, Iron and Tiles, Iron Sheets or Asbestos AND
- Walls: Burnt Bricks or Asbestos AND
- Floors: Bricks, Concrete or Cement, Tiles, Unpolished/ Polished Wood or planks



568 619  
Households (HoH)  
(18%)

### Semi- Permanent Housing

Built using more durable materials than traditional housing (i.e. not mud or thatched roof) but not permanent

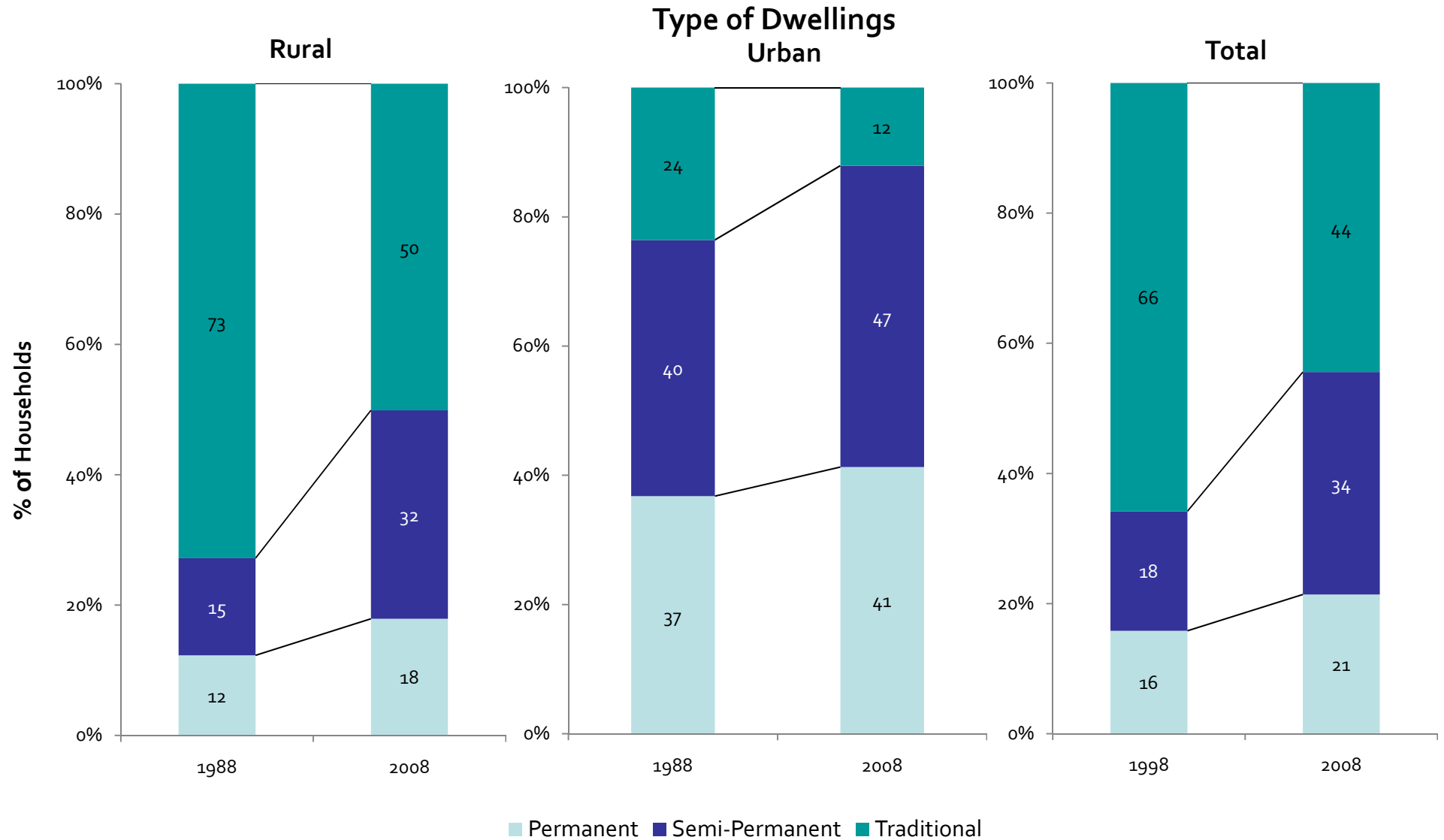


471 184  
Households (HoH)  
(15%)



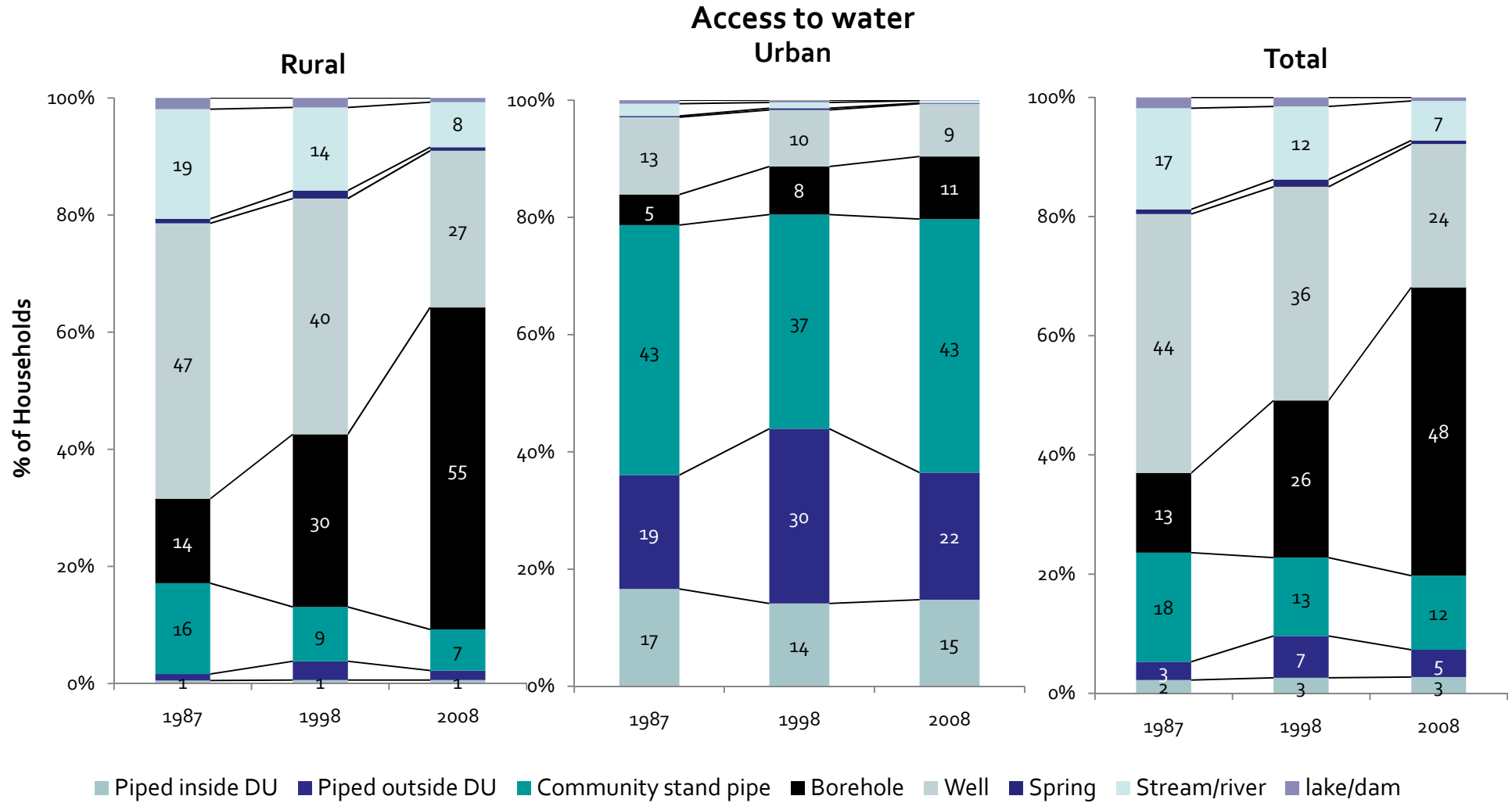


# Other data sources provide useful data on housing conditions in Malawi. The Census highlights a significant shift in the housing profile particularly in rural households



Source: Household and Housing conditions Report 2008

# There has been a large increase in the use of boreholes for water in rural areas

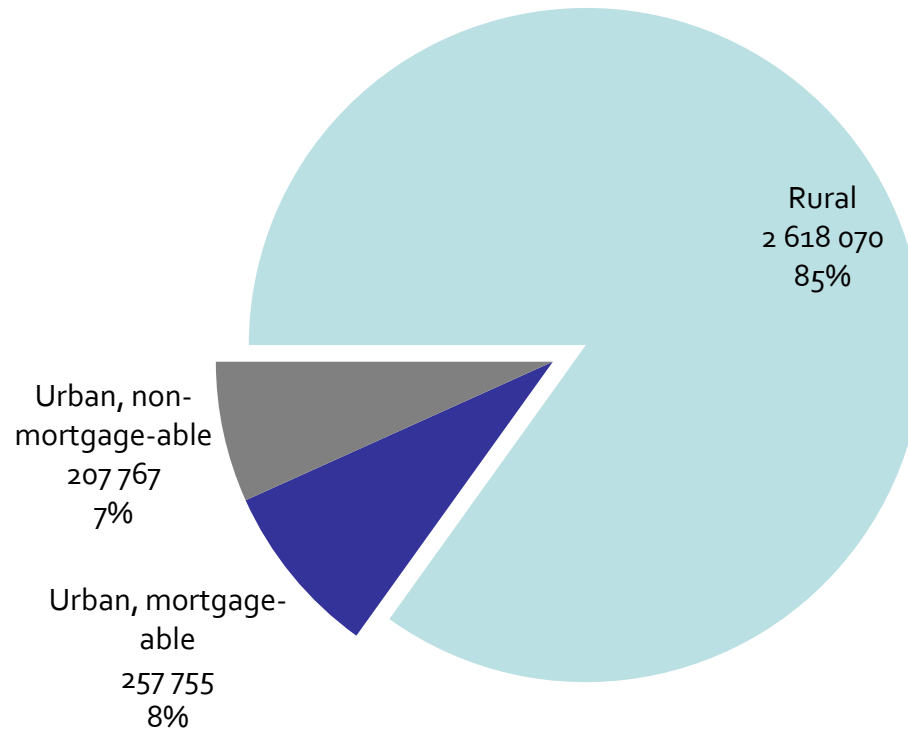


Source: Household and Housing conditions report 2008



# We can use FinScope data to assess how many dwellings might be mortgage-able

What is a mortgage-able dwelling?  
(HoH)

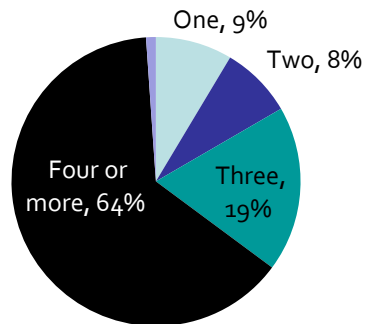


**38% of mortgage-able dwellings (urban by definition) are owned**



# FinScope data can also be used to assess over-crowding within dwellings

**Urban**  
(HoH)

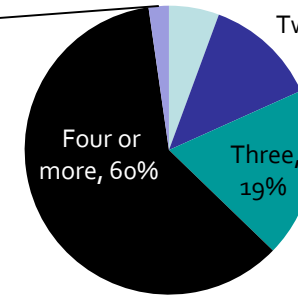


Not specified, 2%

One, 6%

Two, 13%

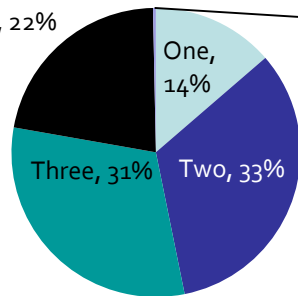
**Rural**  
(HoH)



**“How many people usually sleep in the dwelling unit?”**

Four or more, 22%

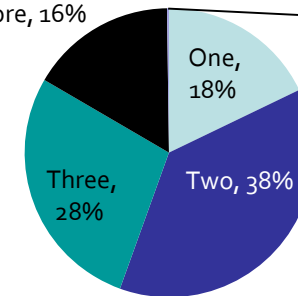
Not specified, 0%



**Number of habitable rooms\***

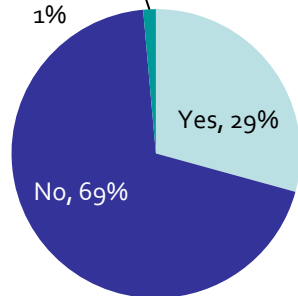
Four or more, 16%

Not specified, 0%

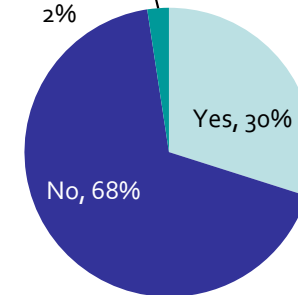


**Over-crowded dwelling\*\***

Not specified, 1%



Not specified, 2%



Source: FinScope Malawi 2008

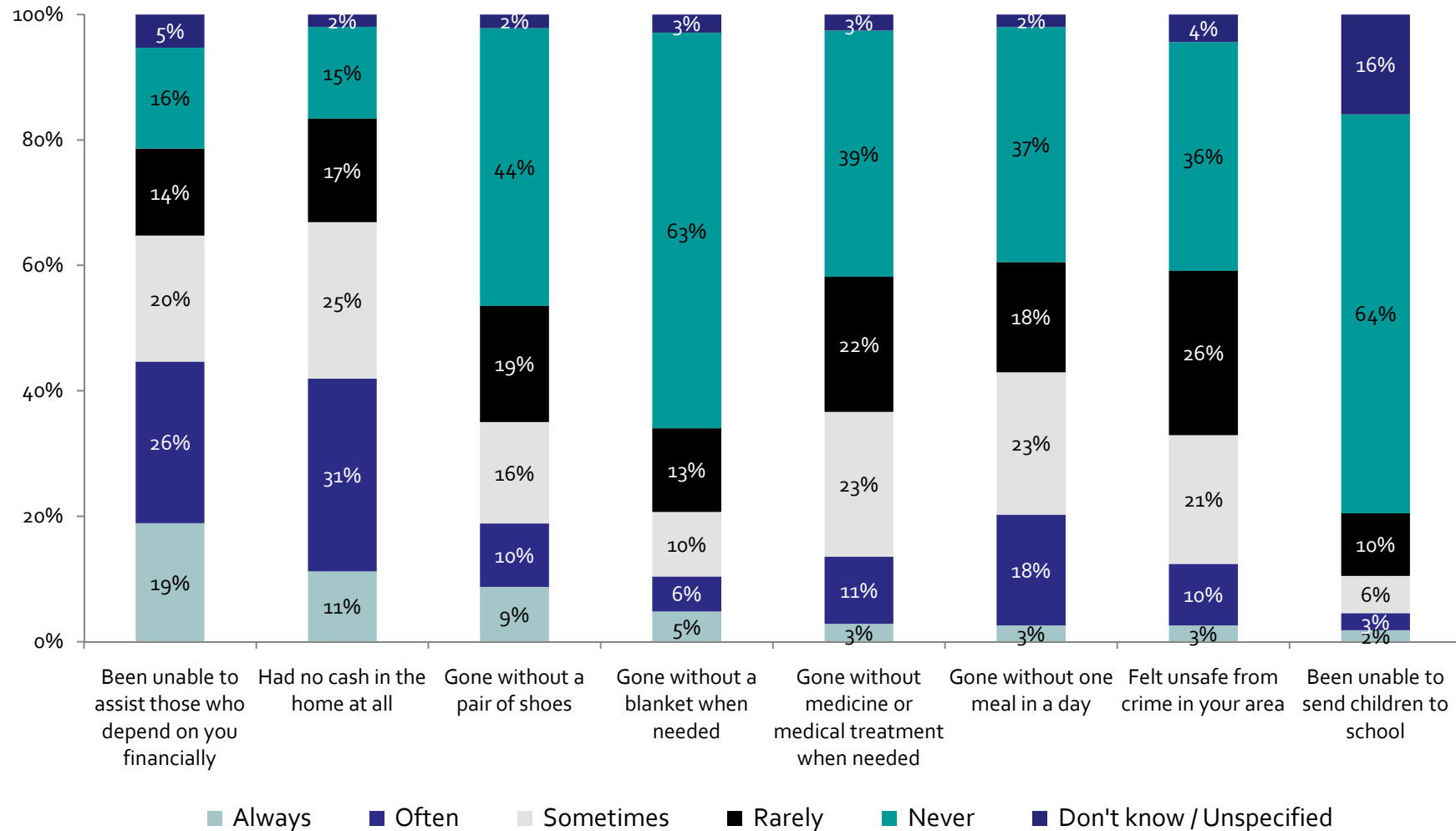
\* Rooms in dwelling unit excluding bathrooms, toilets, storerooms and garages

\*\* Over-crowded is where there are more than two people per habitable room

# With regard to more general living conditions, FinScope has useful data on poverty and deprivation



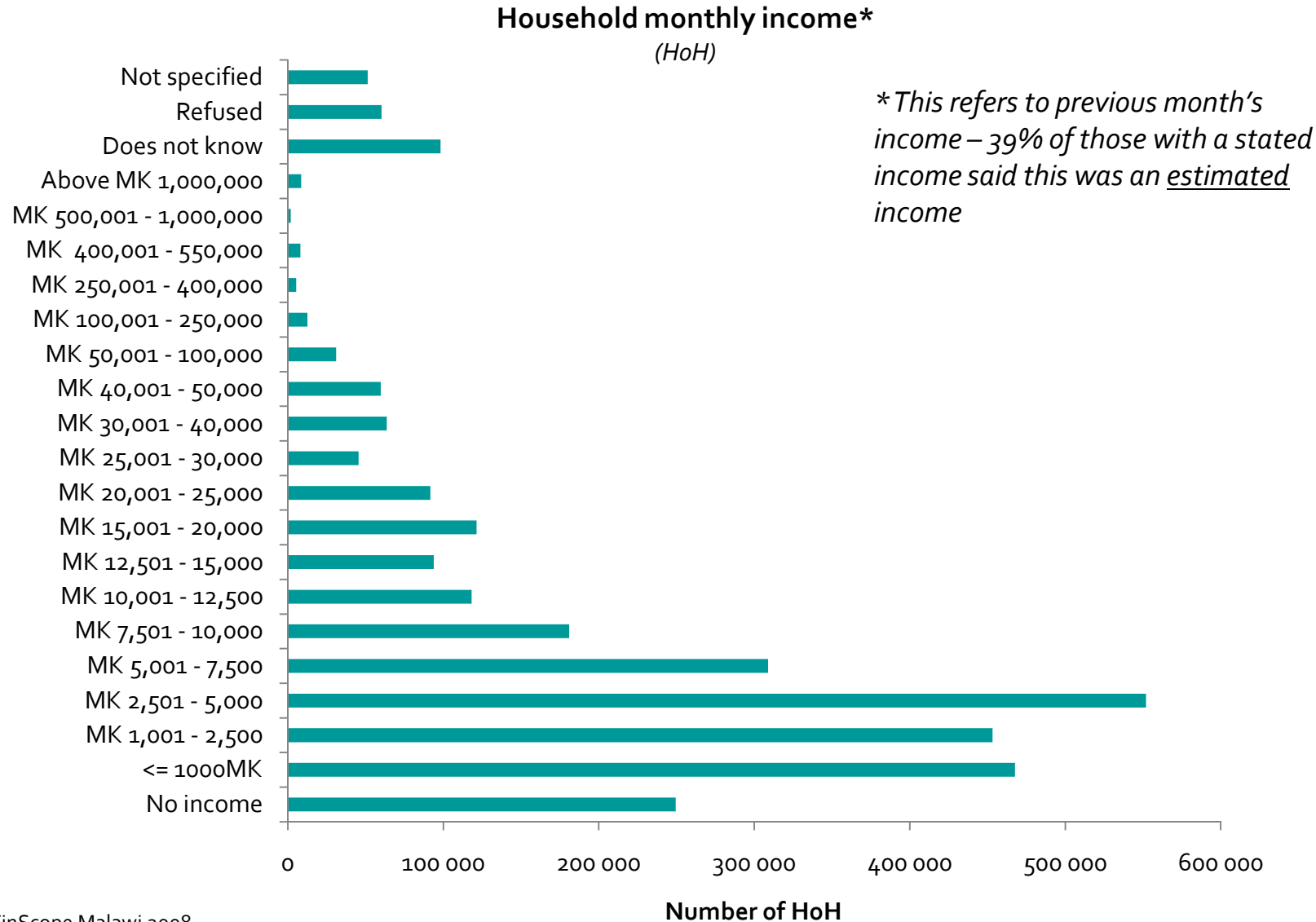
Experience of poverty: "In the last 12 months, how often have you or a member of your household" (HoH)



Source: FinScope Malawi 2008



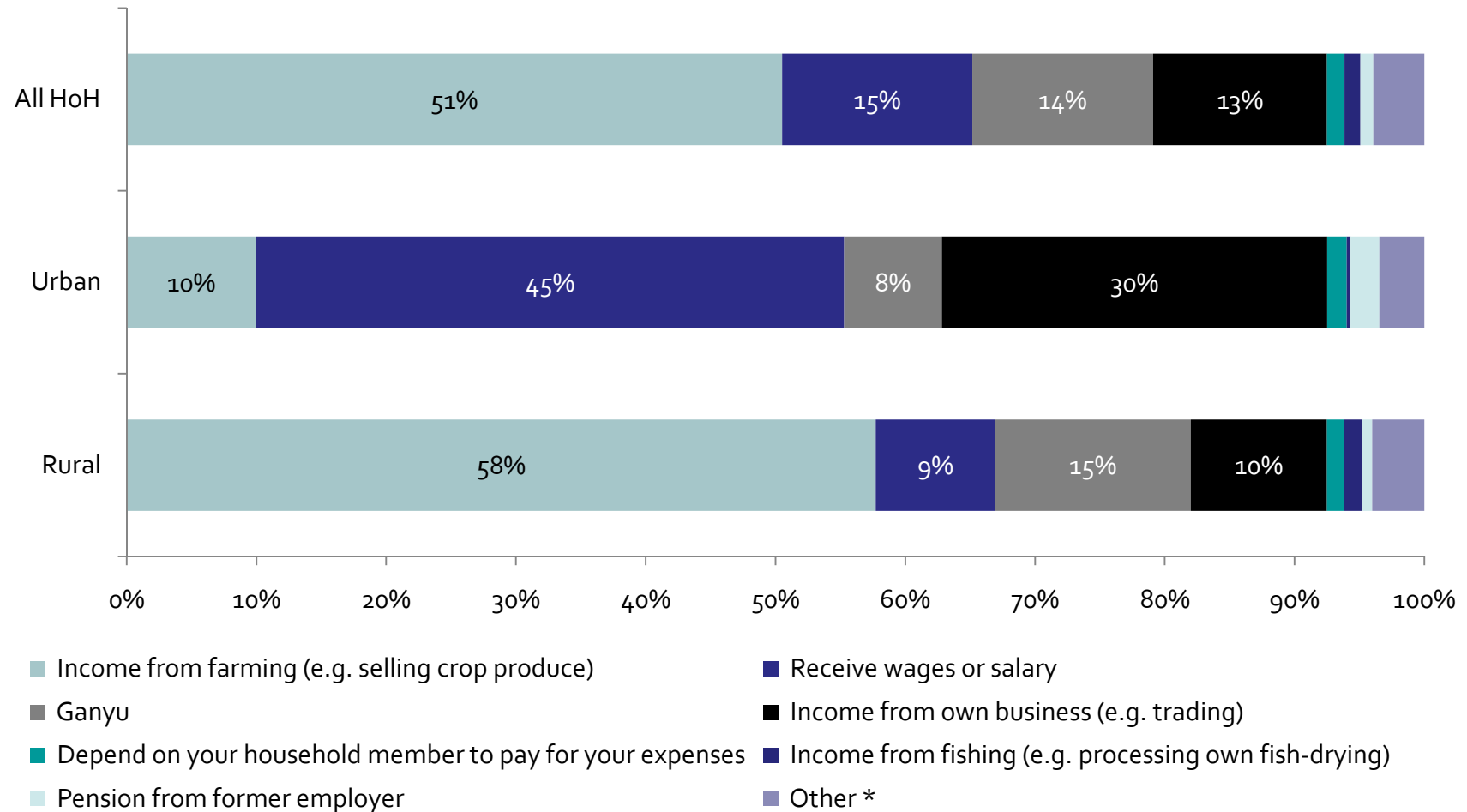
# The survey also contains data on household income although this can be difficult to interpret when so many households do not have wage income





# The survey highlights key differences in income sources between rural and urban areas

### Largest source of income (HoH)



Source: FinScope Malawi 2008

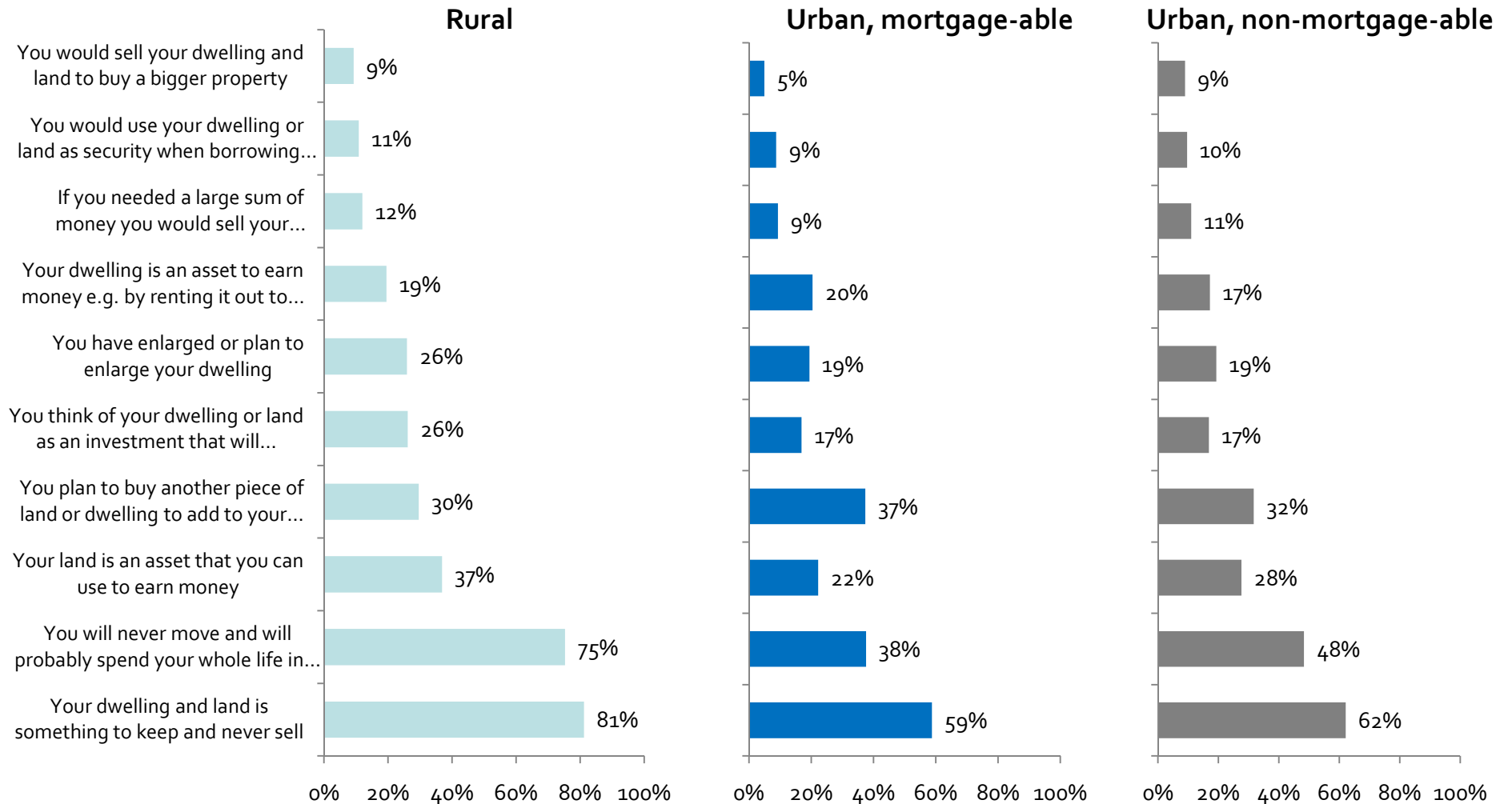
\* Other includes trading products collected from nature, money from friends/family from another area in Malawi and outside Malawi, money from household member, rental income, other and not specified

Note Ganyu is short-term rural labour / piecework on the fields of other smallholders, or on agricultural estates



# FinScope data on attitudes to housing can also be useful

## Attitudes towards land and dwellings (HoH)



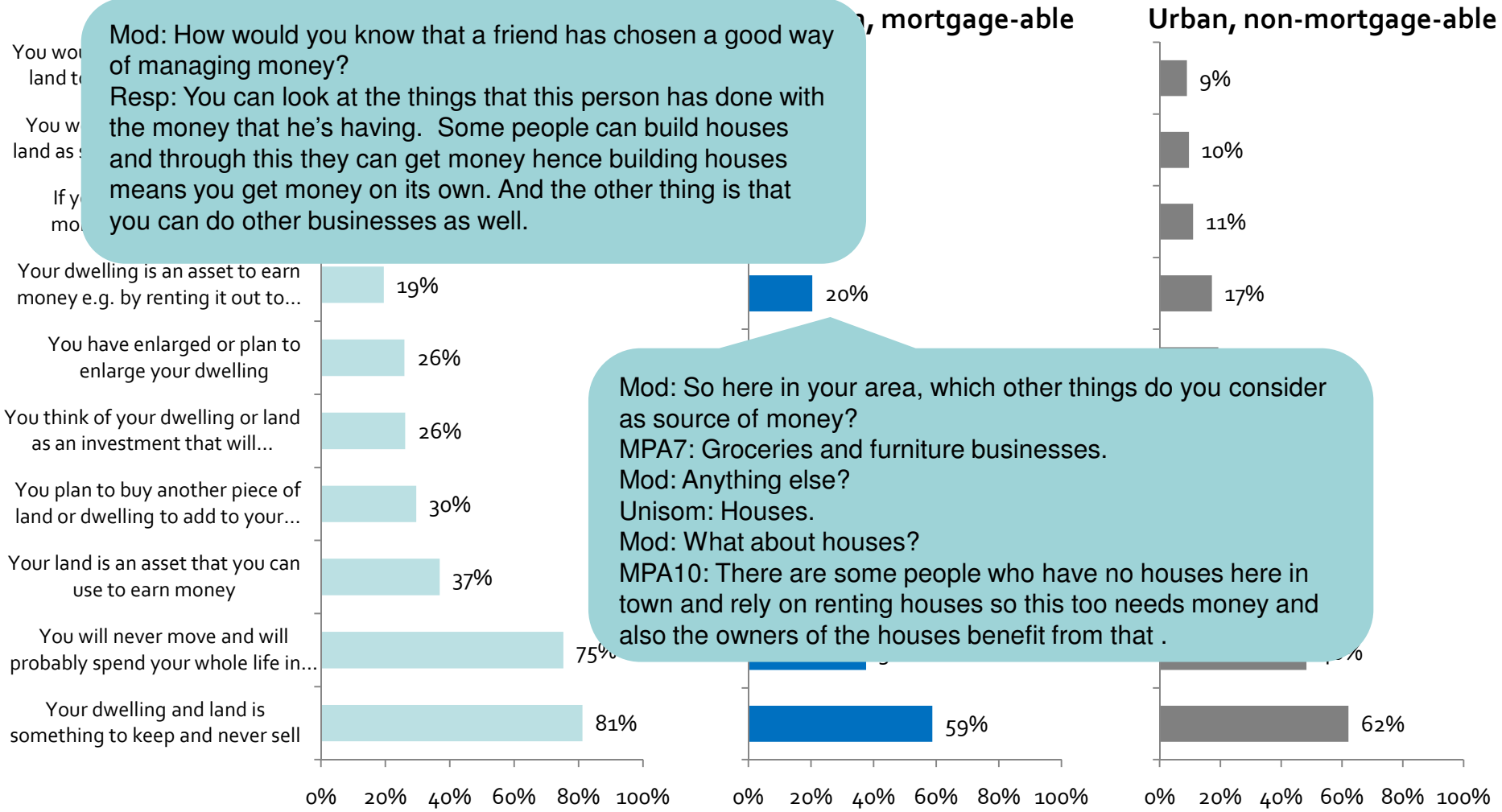
Source: FinScope Malawi 2008





# The focus group research done with the World Bank highlights the importance of housing as an investment

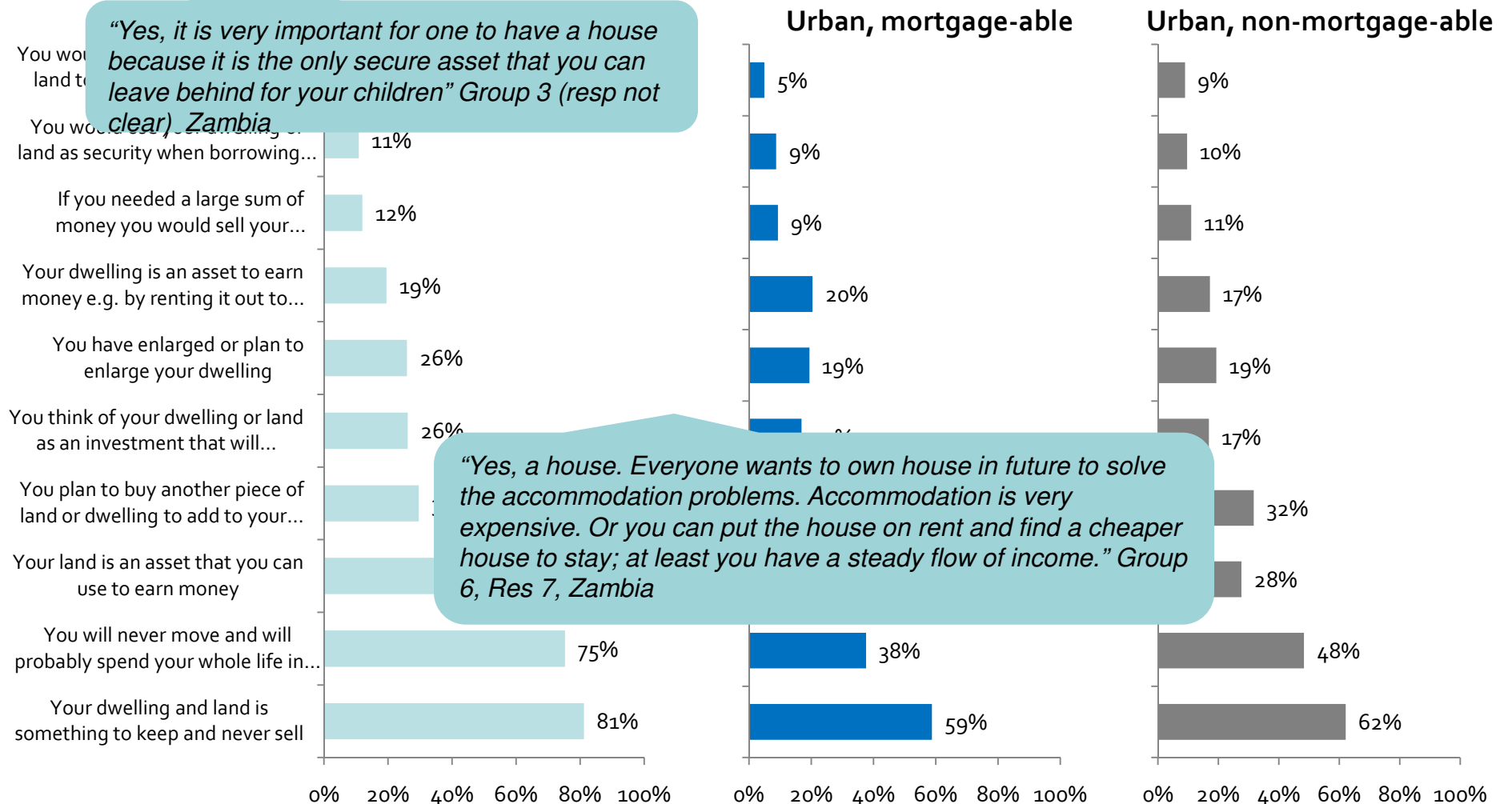
## Attitudes towards land and dwellings (HoH)



Source: FinScope Malawi 2008

# This is true not only in Malawi

## Attitudes towards land and dwellings (HoH)



## Agenda

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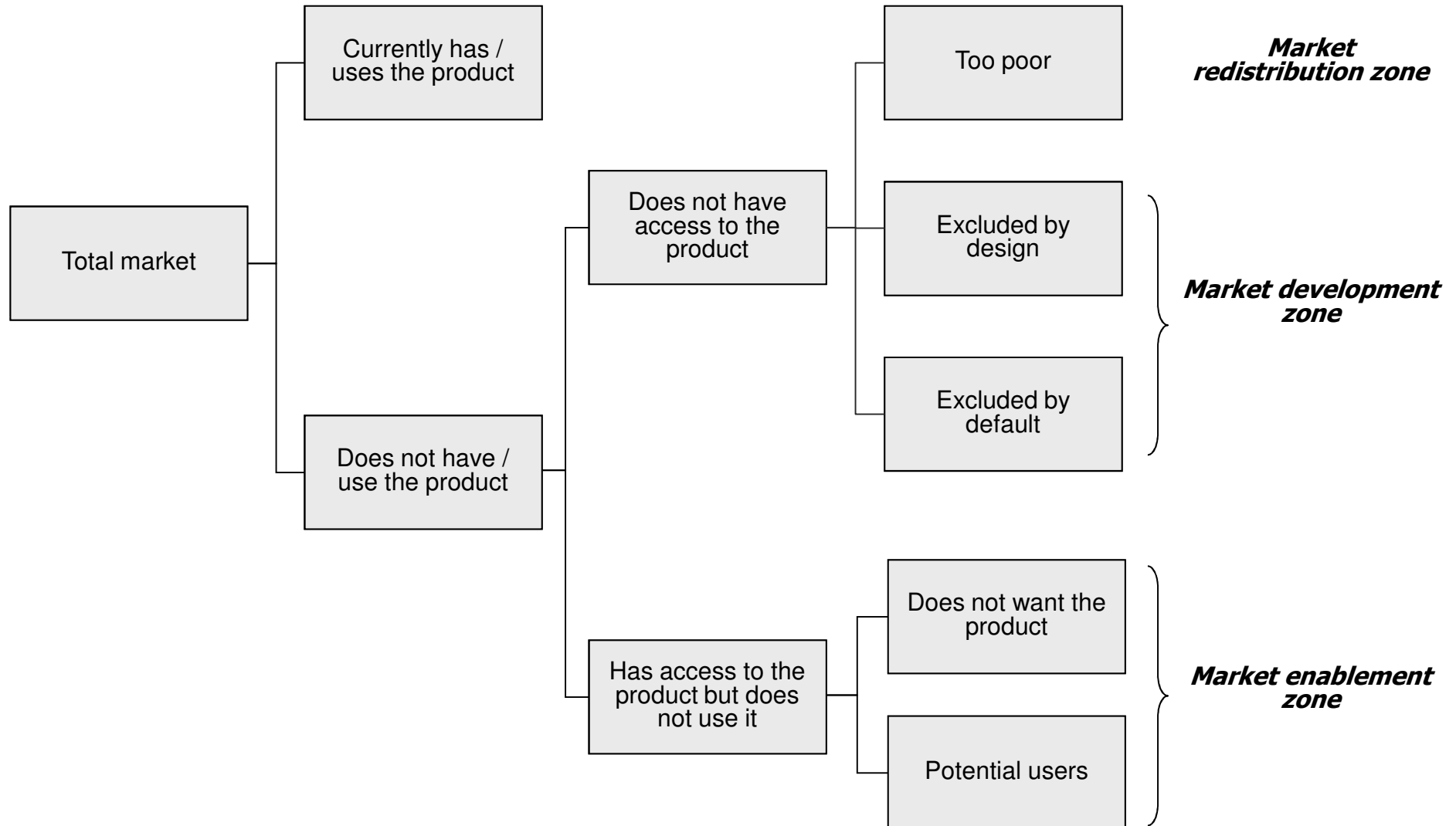
Housing in Malawi – a FinScope overview

*Access to mortgages in Malawi*

Unsecured housing finance



# The Access Frontier Methodology developed by David Porteous enables an identification and quantification of access barriers. It segments those who do not yet use a product into various market zones



## NBS Mortgage Overview

### Product description

- Can repay monthly, quarterly or yearly depending on income frequency
- Normal term is 180 months for an occupational mortgage
- Maximum repayments may not exceed 35% of income
- They will grant 80% of the value of the property if the mortgage is approved

### Documents Needed

- Offer letter/ Sale Agreement
- ID /Permanent residence Permit / Business Residence Permit / Passport
- 3 months most recent pay slips or letter of salary confirmation from employer or income and balance sheets for self employed
- Lease certificate or land certificate
- Bills of quantities and approved plans
- A valuation report from a bank approved valuer/quantity surveyor

### Other Requirements

- Need to have a bank account with NBS for at least 6 months
- Property needs to be in a city
- Normally an income of over 100 000 Kwacha is required for a mortgage to be approved
- Income can be formal or informal, as long as it is certain/consistent
- Comprehensive life insurance and insurance on the property is needed. This is covered in the fees

### Costs

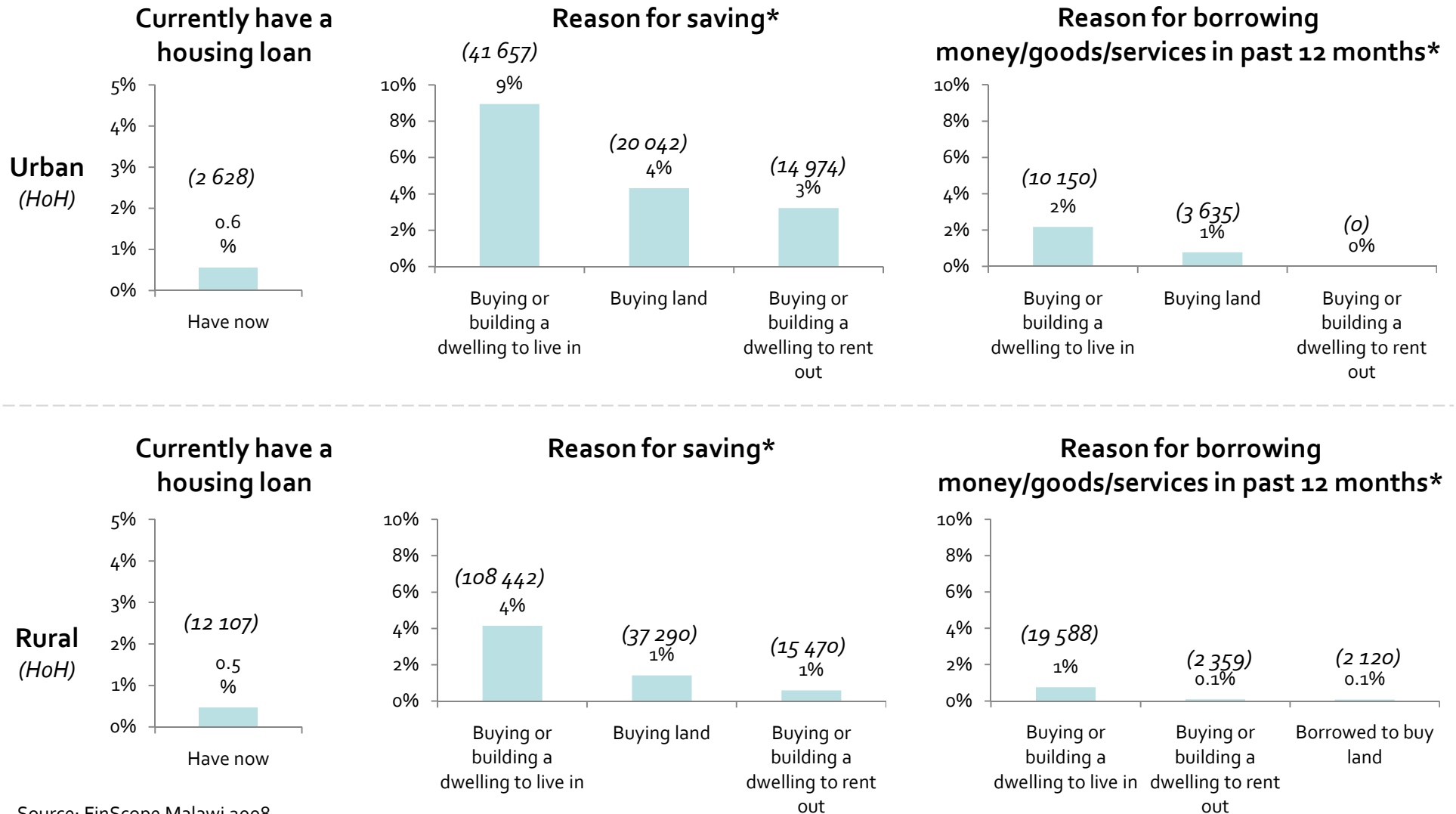
- Interest 17.5% (should be about 2.5% above Prime)
- 1.5% of the loan for processing (at the start)
- 0.5% per month in fees

### Other

- Individuals can apply in any branch
- Forms are only available in English
- The product is advertised on radio and in newspapers in most languages



# Who is in the current market? Just under 15,000 household heads say they currently have a housing loan



Source: FinScope Malawi 2008

\* Not filtered on those currently saving or those that have borrowed, respectively

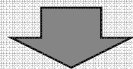
In order to quantify access in a meaningful way the market has been segmented into those that already own mortgage-able properties and those that don't

### *Own mortgage-able properties*



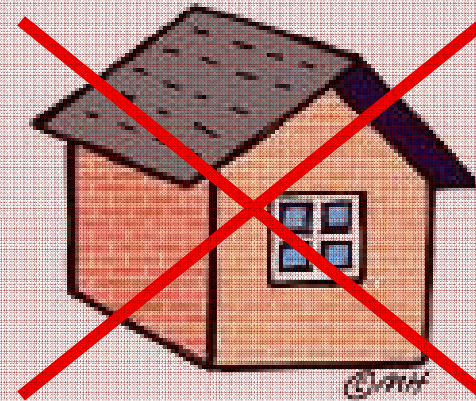
**97,500 household heads** who:

- Say they own their dwellings
  - Live in permanent structures
- AND
- Live in urban areas



*Use the existing asset to trade up or cash out  
The value of the mortgage need not equal the  
value of the house*

### *Do not own mortgage-able properties*



**2.99 million household heads** who:

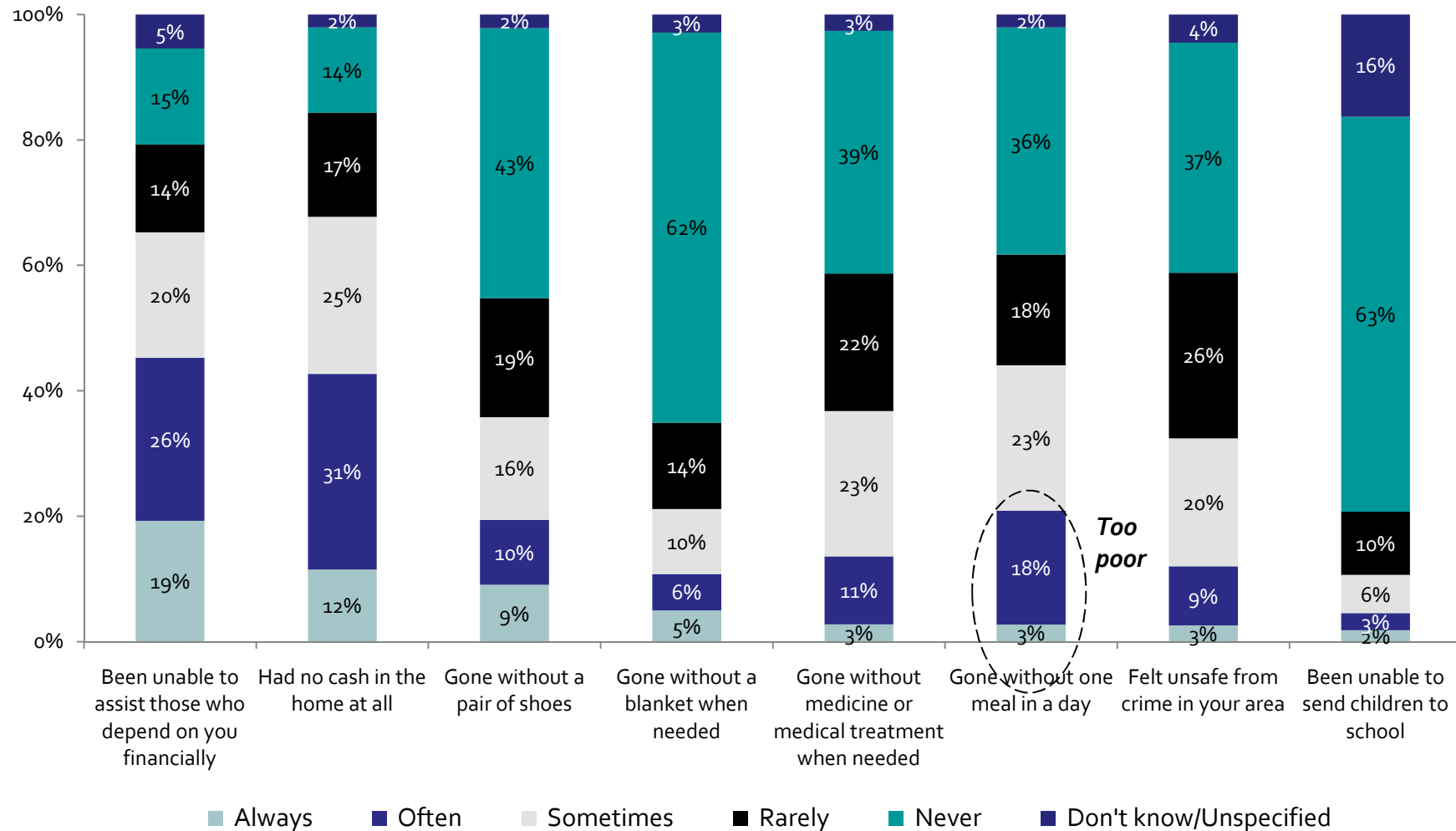
- Do not own their dwellings OR
- Own a non-permanent dwelling OR
- Live in rural areas



*Can only use a mortgage if they find an  
affordable house to buy*

# We can use indicators relating to poverty and deprivation to identify those in the redistribution zone

**Experience of poverty: "In the last 12 months, how often have you or a member of your household"**  
*(HoH, Don't own mortgage-able dwelling, No housing loan)*



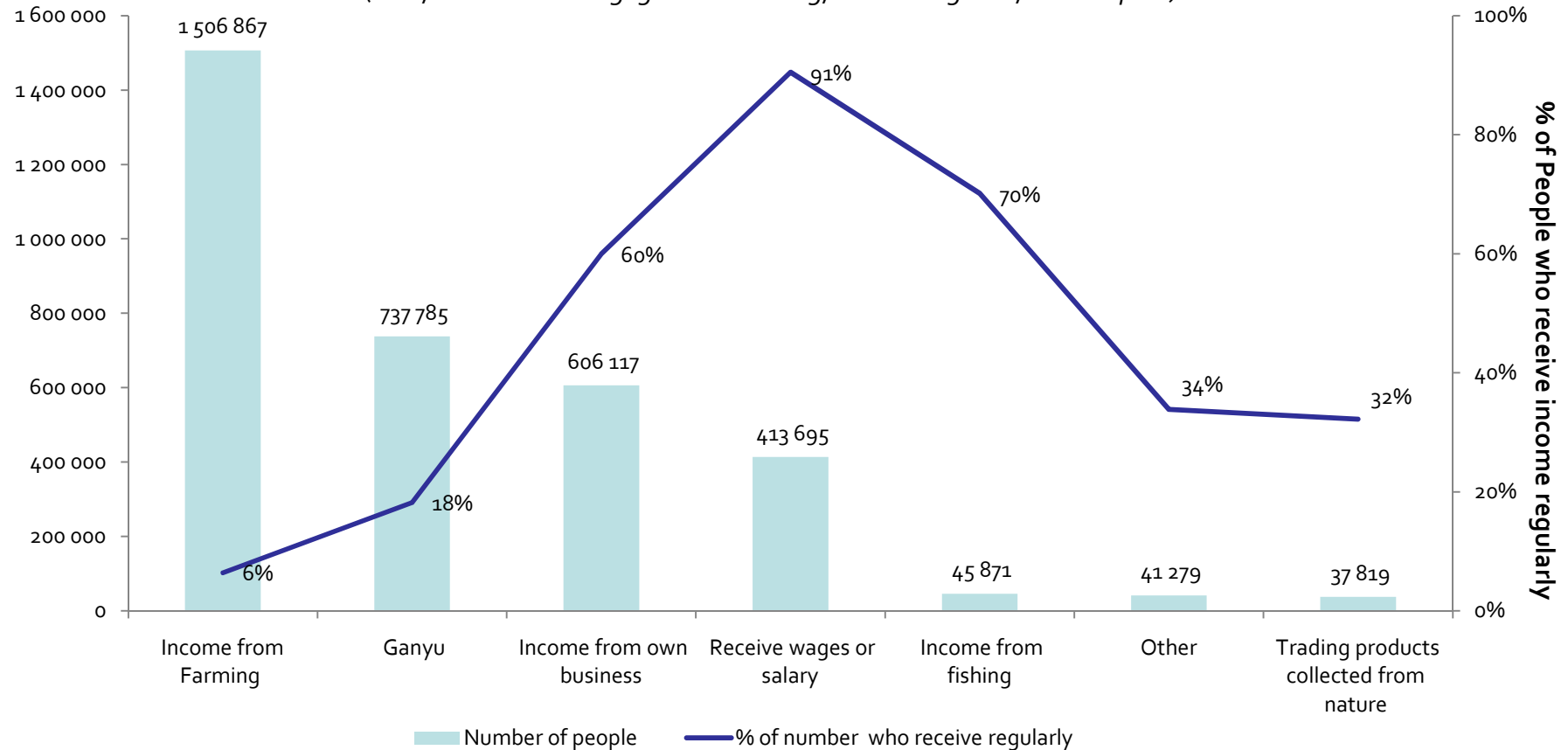
Source: FinScope Malawi 2008





# To be able to access a mortgage, income needs to be fairly regular

**Regularity of Income by Income Source**  
*(HoH, Don't own mortgage-able dwelling, No housing loan, Not too poor)*



Source: FinScope Malawi 2008

Note: Regular Income is defined as income received daily, weekly, fortnightly or monthly (applies only to those actually receiving that type of income)

Note: The following income sources were excluded, because they had less than 30 000 people: Income from household members, Pension from a previous employer, Rental Income, Income from providing financial services to community for profit, Money, food or other from aid agency or NGO, Money from friends or family from other Rural or Urban areas of Malawi, Money sent from outside Malawi

## Affordability is a key constraint. A number of assumptions have been used to determine an affordability constraint based on the cost of a typical mortgageable house

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### Costs

- Minimum house price: MK500,000
- Assume a 20% deposit. Loan amount of 80% \* MK 500,000 = MK 400,000
- Rate of 18% p.a. (including fees)
- Maximum term of 15 years (i.e. 180 monthly repayments)

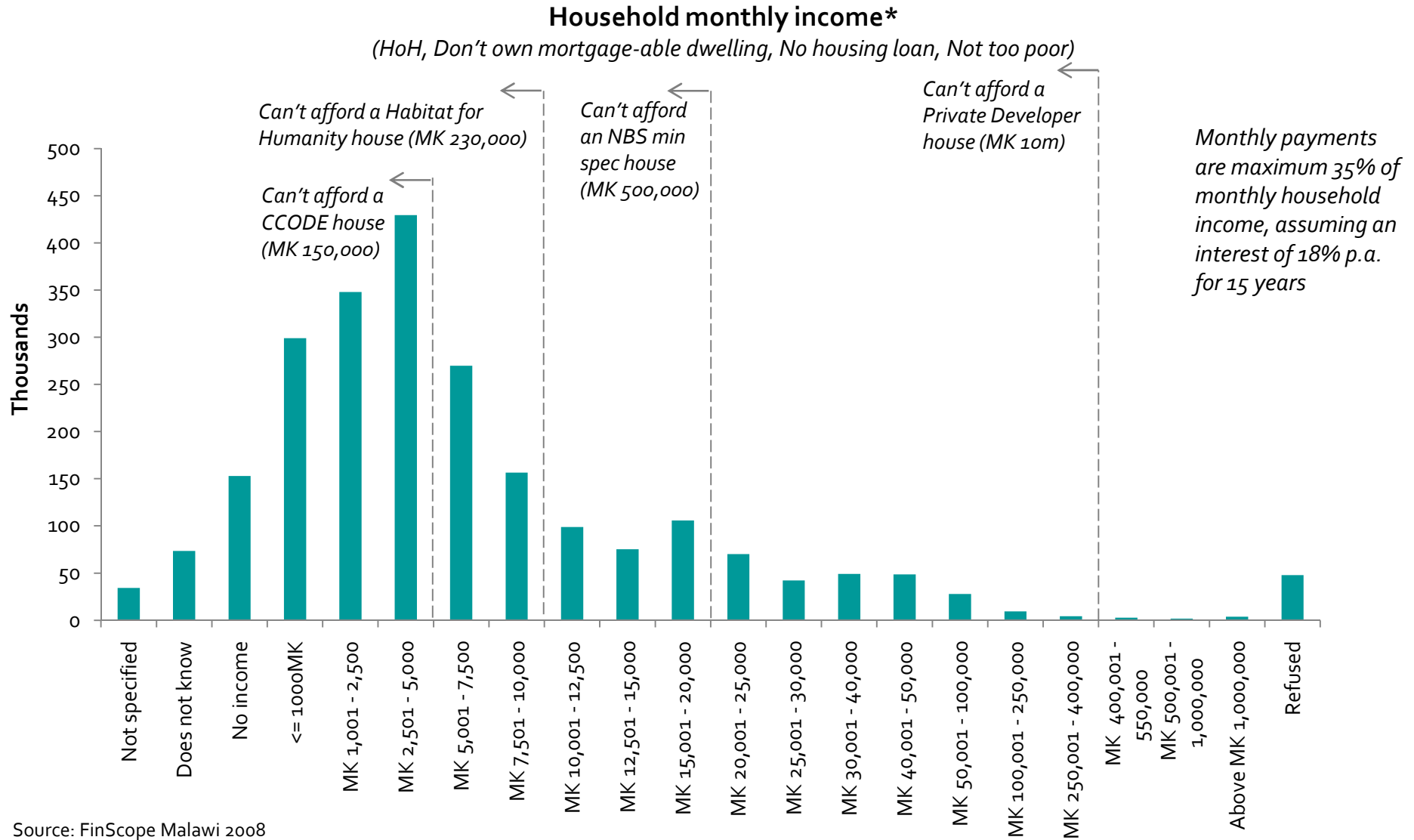
### Affordability

- Monthly payments can be a maximum of 35% of monthly household income



- Monthly payments = MK 6,442
- Minimum monthly household income required  
= MK 6,422 / 35% = MK 18,405

# Of course the house price is a critical assumption



Source: FinScope Malawi 2008

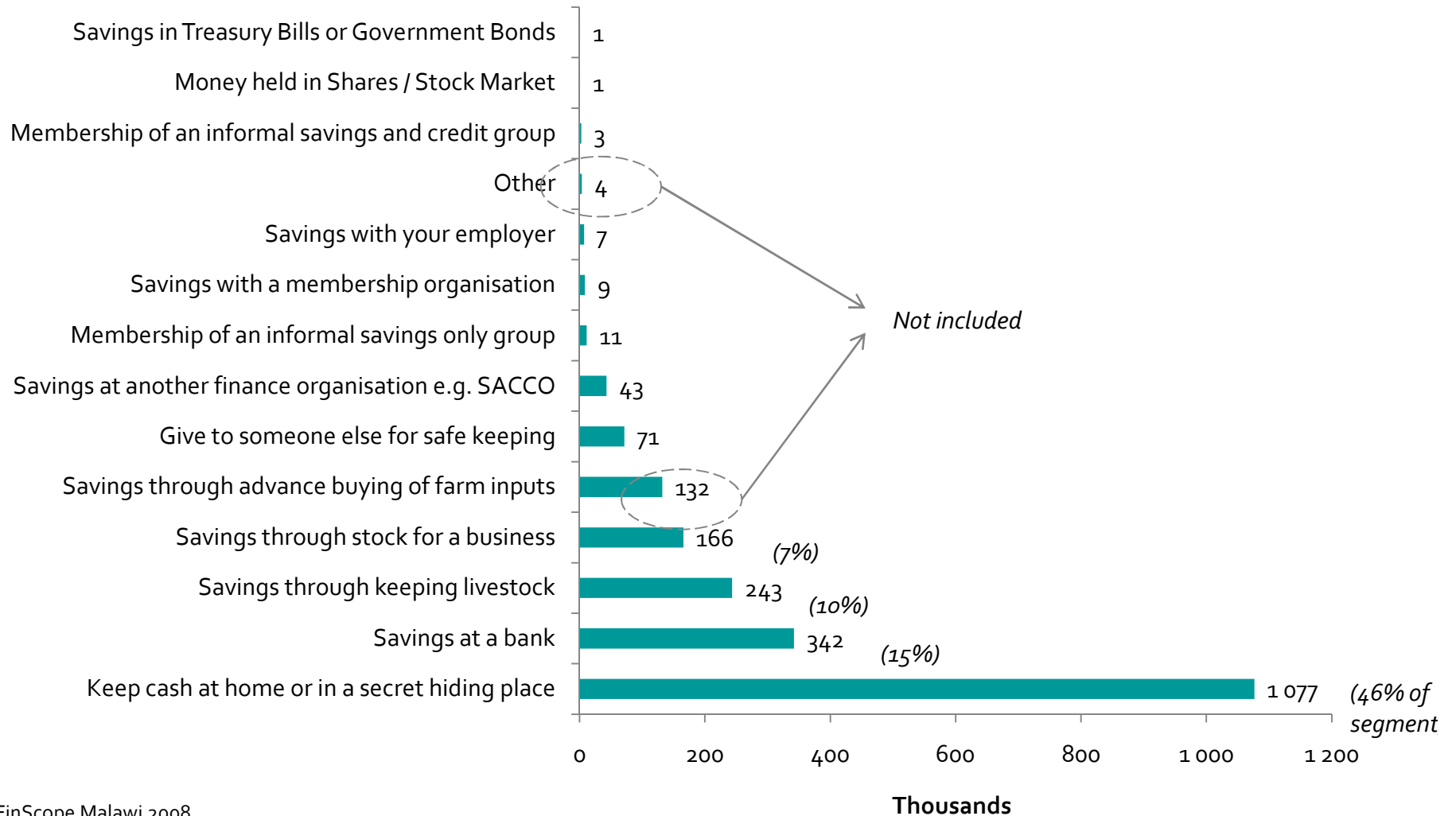
Note: House prices for Private Developers, Habitat for Humanity and CCODE are from "Overview of Housing Finance in Malawi", April 2009



# Given the need for a deposit, to access a mortgage borrowers must have liquid savings. While FinScope provides some indication of who has savings there is no quantum

## “Which types of savings do you have now?”

(HoH, Don't own mortgage-able dwelling, No housing loan, Not too poor)

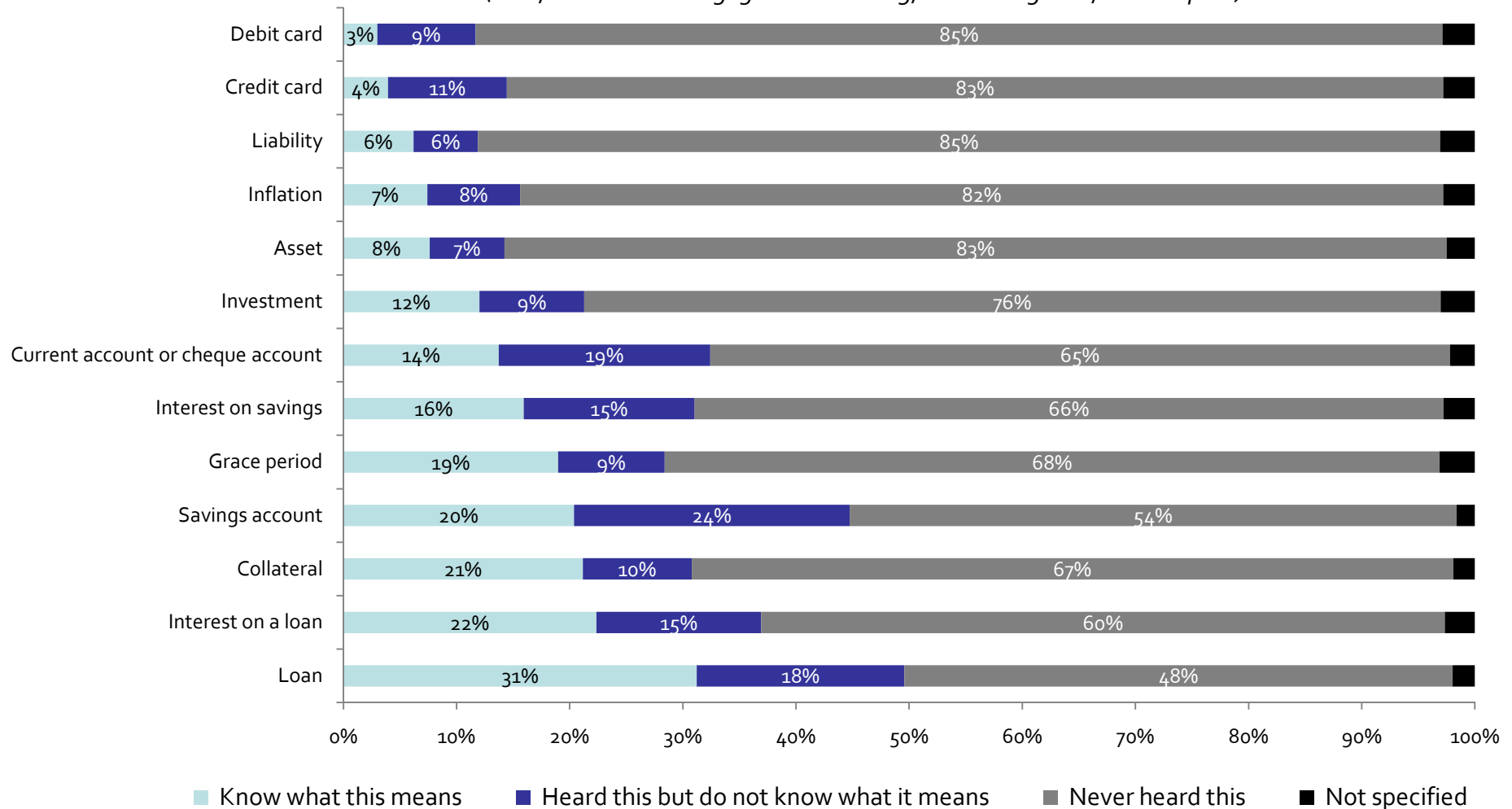




# There are various indicators relating to financial awareness in FinScope

## Awareness of Financial Terms

(HoH, Don't own mortgage-able dwelling, No housing loan, Not too poor)



## Other criteria may also limit access

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### Identification document

- No proxy in the survey data

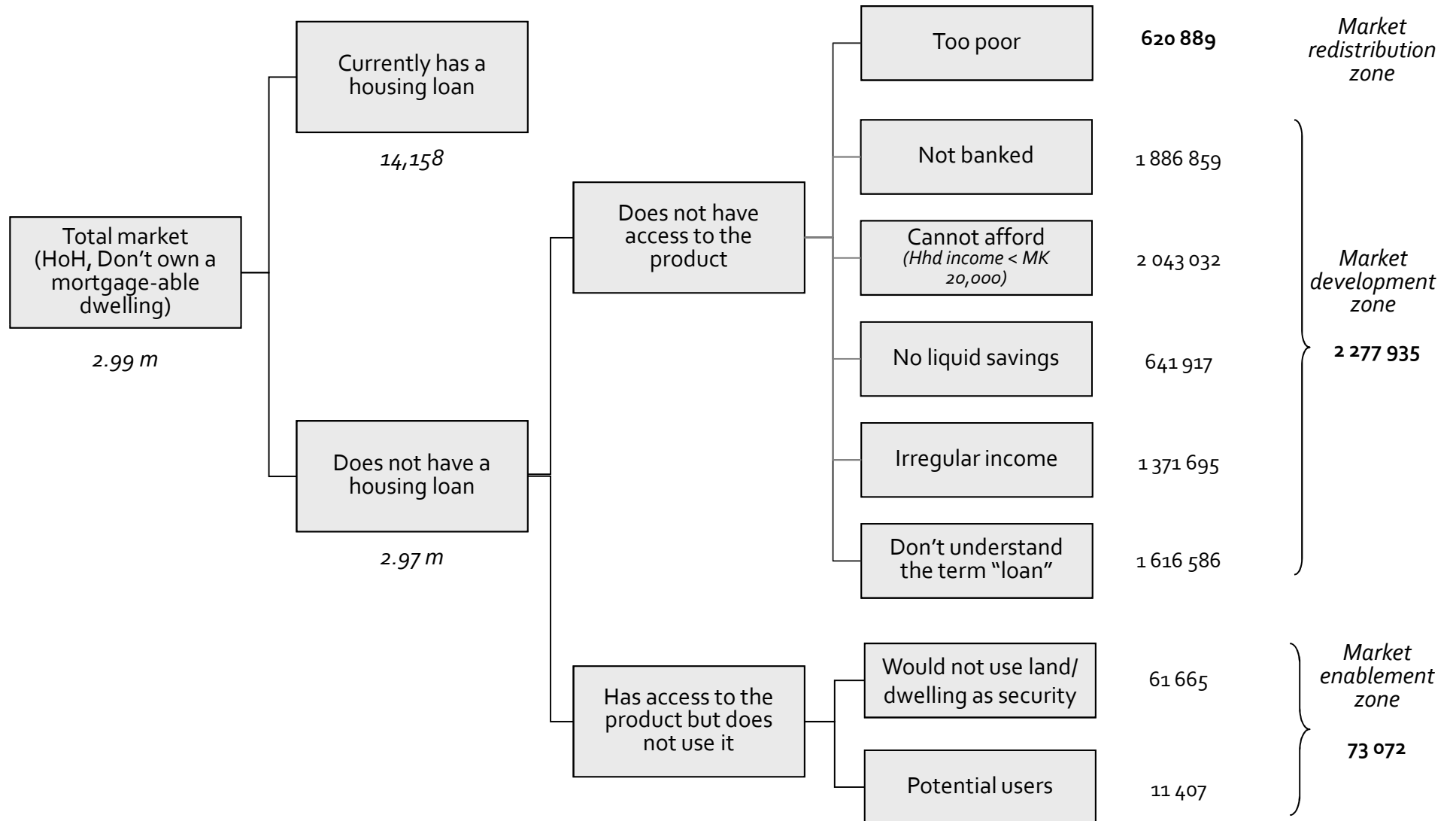
### Credit worthiness and capacity to borrow

- No proxy in the survey data

### Banking history

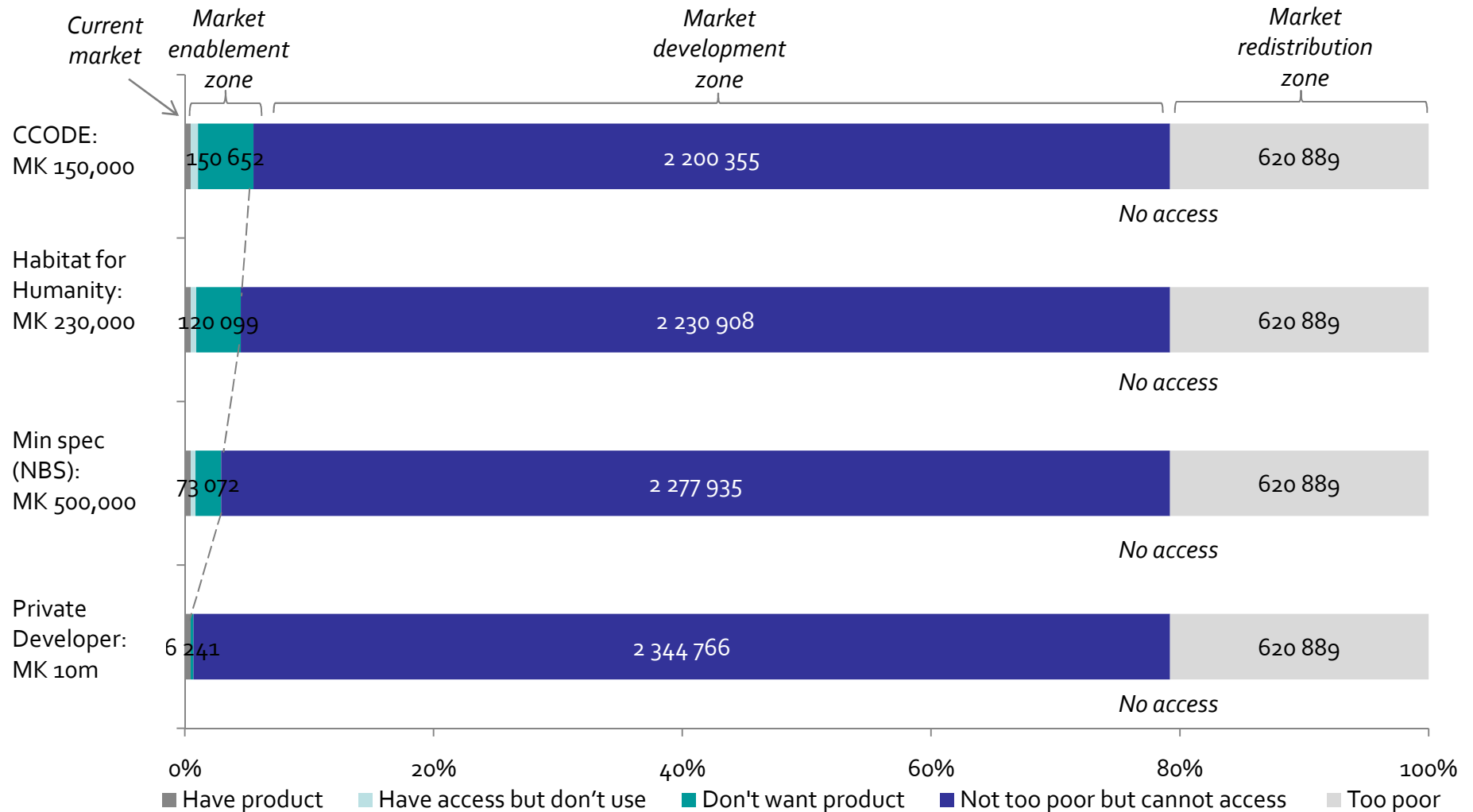
- Require an NBS Bank active account at least 6 months old (no proxy in the survey data)
- Use instead that the applicant must currently be banked (with any institution for any length of time)

# We can use these indicators to populate a frontier



# The analysis can be summarised as a strand. We can change parameters in the frontier (in this case the price of the house) to assess how access might shift if criteria relating to the dwelling change

## Access frontier for a bond: Household heads who don't own a mortgage-able dwelling



Source: FinScope Malawi 2008





## Those who already have a mortgage-able dwelling do not need savings for a deposit. But then they are less likely to need a mortgage

### Total market and current market

- The total market looks at all household heads that own a mortgage-able dwelling
- The current market includes those in the total market who currently have a housing loan

### Identification document / Credit worthiness

- No proxies in the survey

### Affordability / Savings

- No affordability constraint – we do not know the value of the property to be used for equity withdrawal
- No savings constraint – no need for deposit

### Banking history

- Require an NBS Bank active account at least 6 months old (no proxy in the survey data)
- Use instead that the applicant must currently be banked (with any institution for any length of time)

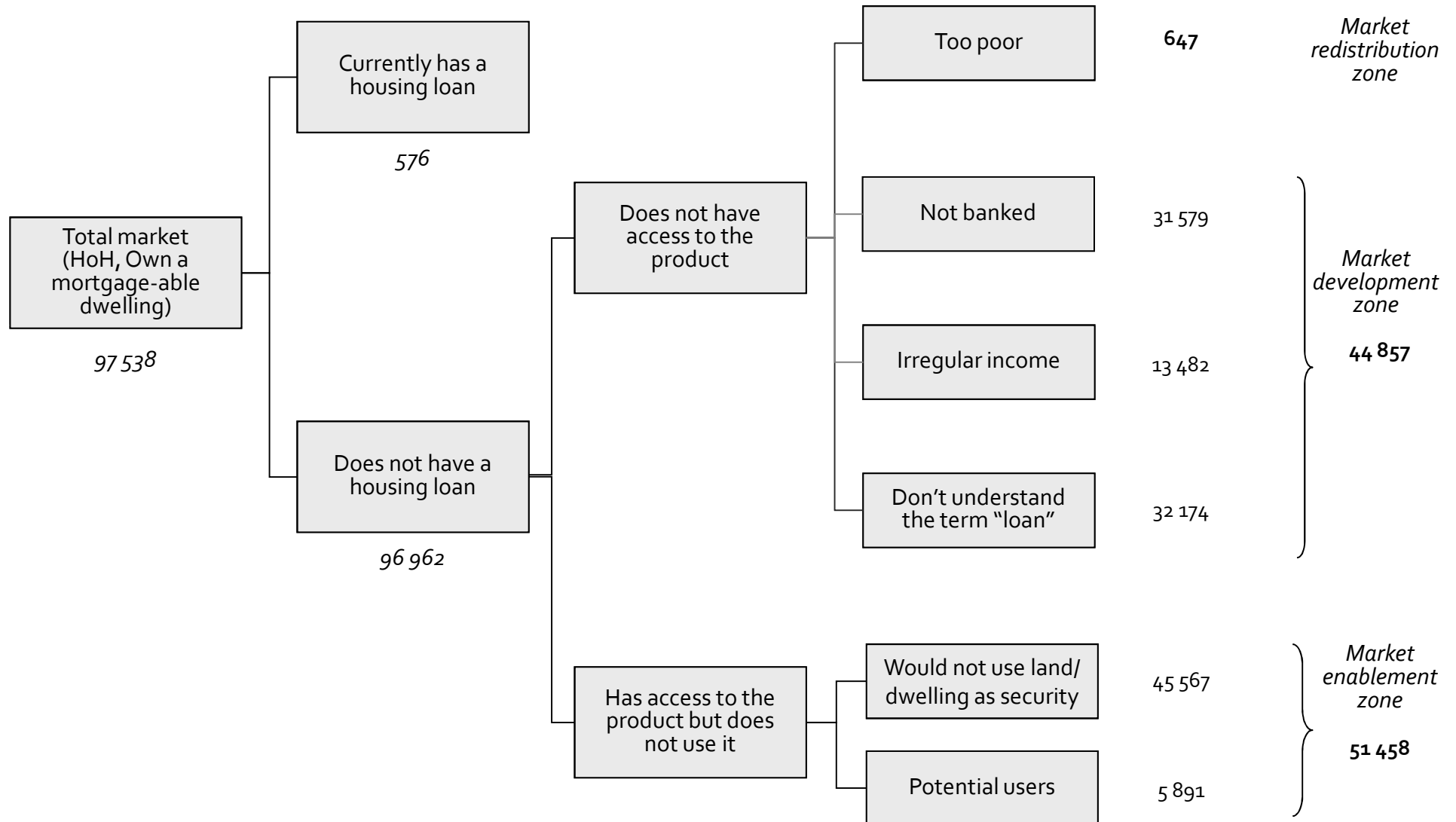
### Don't understand the term "loan"

- An awareness constraint has been incorporated

### Irregular income

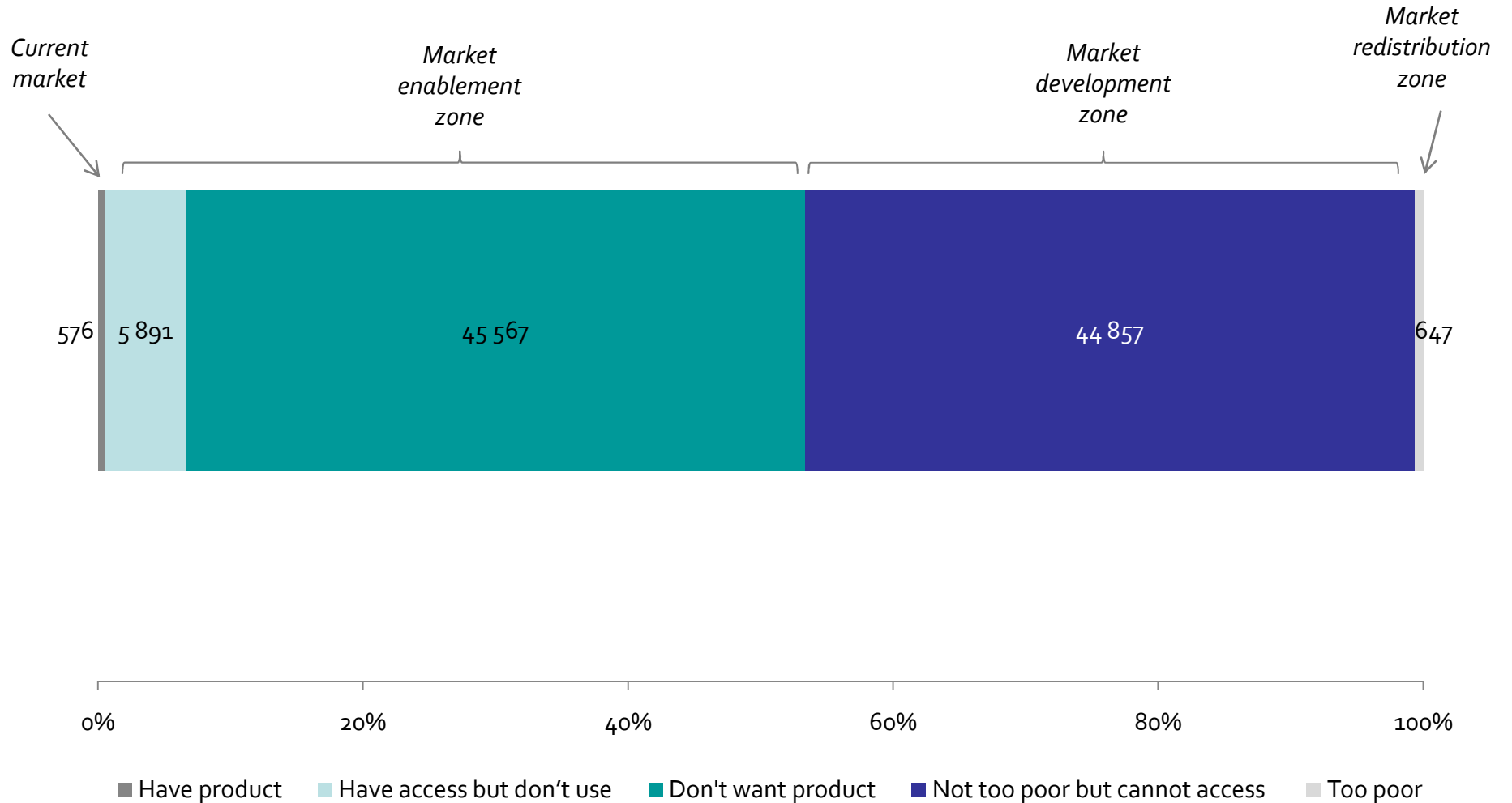
- Do not receive (any) source of income regularly (that is, no income is received daily, weekly, fortnightly, or monthly)

# Do own mortgage-able dwelling: Tree





# Do own mortgage-able dwelling: Strand



Source: FinScope Malawi 2008

## Agenda

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Housing in Malawi – a FinScope overview

Access to mortgages in Malawi

*Unsecured housing finance*

## Standard Bank Unsecured Personal Loan overview

### Product description

- Minimum amount is 35 000 Kwacha; maximum is 7 times your net salary
- Maximum repayment period of 3 years

### Documents Needed

- Pay slip not more than 2 months old
- Letter of employment from employer and employment contract
- ID/Permanent Residence Permit/Business Residence Permit/Passport

### Other Requirements

- Need to have a bank account with Standard Bank for at least 1 month, but then will have to get bank statements from the individuals previous bank for the last 6 months
- Must have a monthly income, otherwise they need to check your bank statements back for the last year
- Income can be formal or informal, as long as it is certain/consistent
- The loan must be insured, this is covered in the fees

### Costs

- Interest 23.75%
- A fee of 1% is charged at the start

### Other

- Applications can be done in any branch
- Forms are only available in English
- The repayments are deducted from your account as soon as the salary is deposited
- Personal loans not advertised widely, most marketing takes place in the form of presentations done by employees of Standard Bank



## Parameters for an access frontier for an unsecured personal loan (that could be used for housing)

### Total market and current market

- The total market looks at household heads that own a dwelling
- The current market includes those in the total market who currently have a housing loan, or who have borrowed money/goods/services in the past 12 months for the purposes of buying land or a dwelling

### Don't understand the term "loan"

- An awareness constraint has been incorporated

### Affordability

- Assume an unsecured personal loan of MK 35,000
- Interest charged at 23.75% p.a.
- Maximum term of 3 years
- Monthly payments can be a maximum of 35% of monthly household income (this is generous)
- Monthly payments of MK 1,369 therefore a minimum income of MK 3,910

### Banking history

- Require an NBS Bank active account at least 6 months old (no proxy in the survey data)
- Use instead that the applicant must currently be banked (with any institution for any length of time)

### No cash income

- No cash income in the home at all always or often

### Irregular income

- Do not receive (any) source of income regularly (that is, no income is received daily, weekly, fortnightly, or monthly)



# The analysis indicates a relatively small market for mortgages.

## How does that look for unsecured personal loans

### Total market and customer

As for me... I would like to build a house. I will start by buying iron sheets which will cost me like Mwk 10, 000. This year I'll make sure that I buy 4 sheets and next year the same thing until I build that dream house .

- The total market looks at household heads that own a dwelling
- The current market includes those in the total market who currently have a housing loan, or who have a housing loan in the last 12 months for the purposes of buying land or a

### Does the term loan

### Affordability

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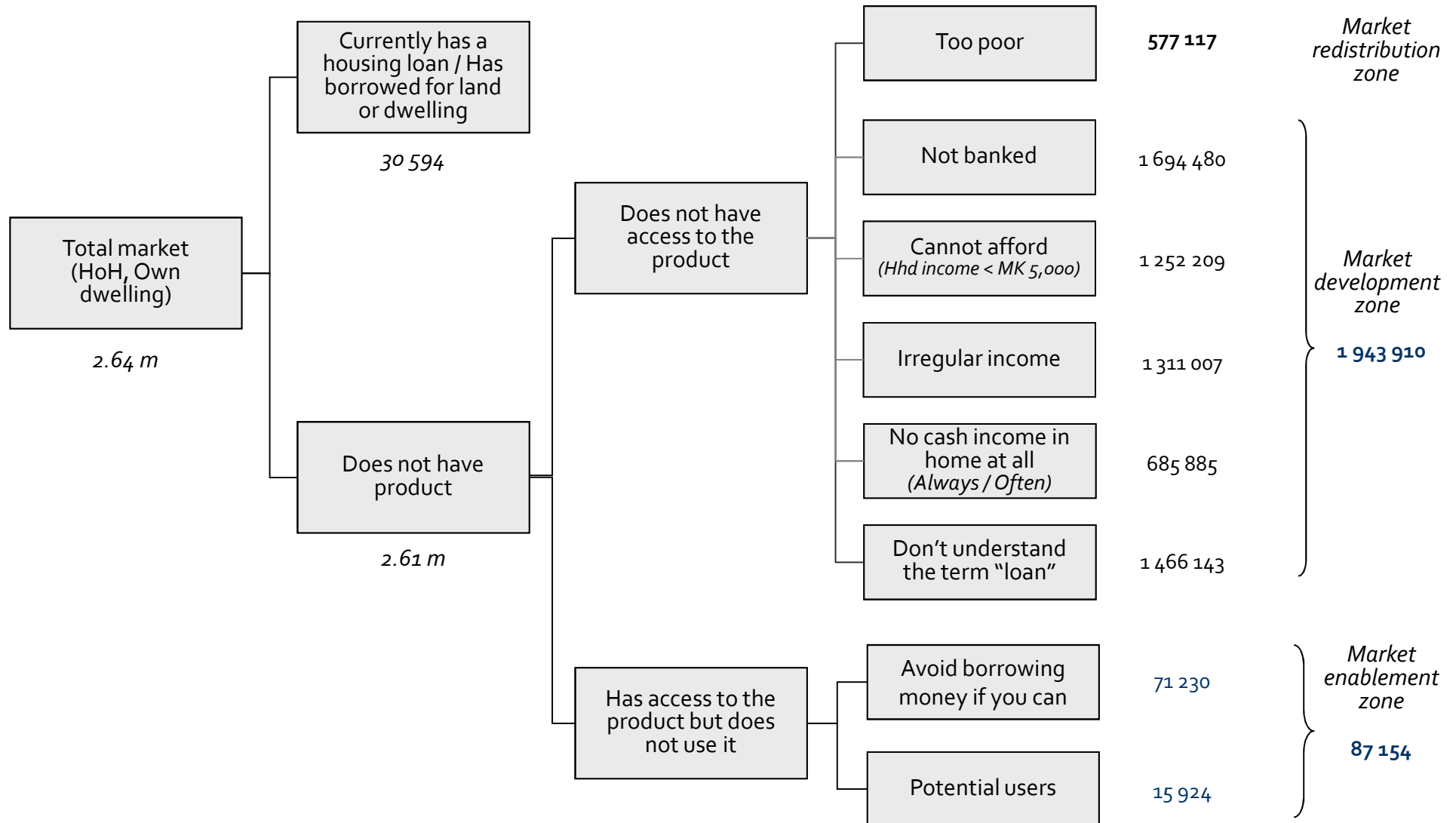
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# Unsecured personal loan - tree

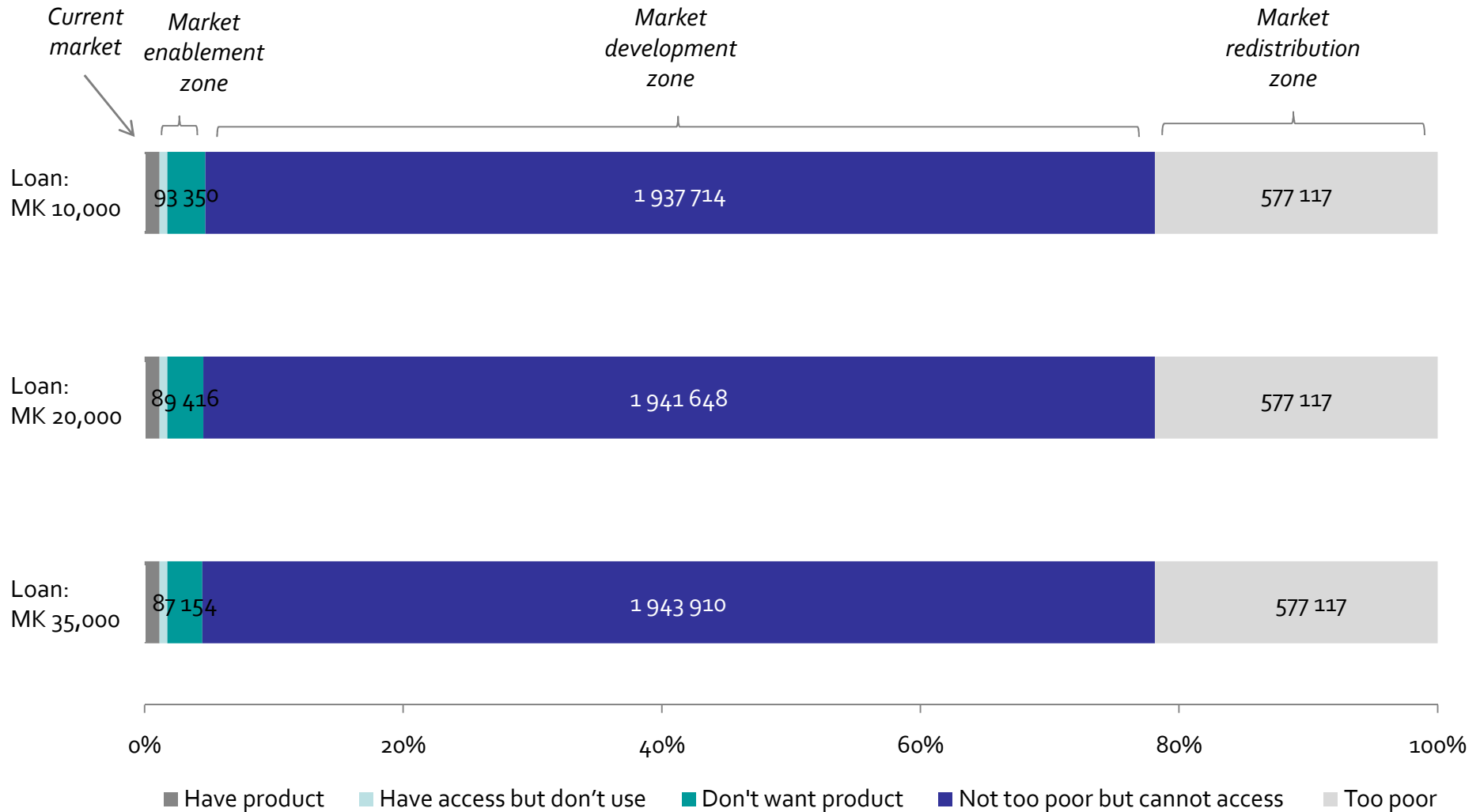






# Unsecured personal loan - strand

## Access frontier for an unsecured personal loan: Household heads who own a dwelling



Source: FinScope Malawi 2008



# Thank you