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inclusive finance

Final report

Developing a Tenant Purchase Scheme Credit Policy

December 2024

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Abbreviations:

AHP: Affordable Housing Program

CIS: Credit Information Sharing

CRBs: Credit Reference Bureaus

CPF: County Pension Fund

KMRC: Kenya Mortgage Refinance Company

KES: Kenya Shillings

NHC: National Housing Corporation

NPLs: Non-performing Loans

NSSF: National Social Security Fund

PMLs: Primary Mortgage Lenders

SACCOs: Savings and Credit Cooperative Organizations

TPS: Tenant Purchase Schemes

ToRs: Terms of Reference

1. Introduction

Tenant Purchase Schemes ("TPS") are gaining traction as a way to drive home ownership and sale of residential units in Kenya. TPS are a means of home ownership where a buyer typically occupies a housing unit and pays for it through periodic instalments (mostly monthly) and ownership is fully transferred after the payment of the last instalment. TPS in Kenya have previously been offered by a mix of public and private developers such as the National Housing Corporation (NHC), the National Social Security Scheme (NSSF), HFDI (investment and development subsidiary of the HF Group) and the County Pension Fund among others. One of the major challenges that developers have experienced over time in the TPS programs is managing payment defaults from TPS buyers. These defaults consequently affect the credit profiles of the developers, in turn affecting their ability to raise appropriate capital financing for projects and hence further slowing down the development of this key sector. It is with this background that Financial Sector Deepening Trust Kenya (FSD Kenya) engaged AIS Capital Advisors to support Mi Vida Homes in developing a comprehensive Tenant Purchase Scheme Credit Policy. The assignment sought to:

a) Assess risks that come with the TPS process;
b) Develop tools for risk profiling of TPS buyers, and
c) Develop policies and documentation of procedures for the TPS process.

The main objective of the assignment was to develop and test a transparent and fair Credit Policy along with a credit assessment tool to guide and facilitate the process of offering credit to eligible buyers in both the formal and informal sectors under a TPS framework. The activities of the assignment are outlined below per the ToRs.

Table 1: Assignment objectives

Activity	Key objectives
Research, analysis, and risk assessment	▪ Identify and analyse the key risks involved in the Tenant Purchase Scheme structure ▪ Create a risk profile framework that will help assess the operational capacity and credibility of potential TPS servicer ▪ Recommend risk rating criteria and methodology to categorize TPS tenant applicants based on their credit risk level.
Policies and Procedures Development for TPS Processes	▪ Develop a comprehensive TPS Credit Policy Document including: – Risk framework – Risk rating criteria – Risk profiling tool – Policies and procedures for TPS
Support in profiling	▪ Support Mi Vida in profiling 50 TPS buyers with at least 10 expected to come from the informal sector.

The engagement was initially meant to support the development of a credit policy for Mi Vida's TPS-backed housing development financing structure. Under the framework to finance housing projects using securitization of receivables from the TPS, Mi Vida planned to offer returns of 18% per year to investors compared to prevailing government bond interest rates in the region of 14.5%, offering investors an attractive risk premium. However, before the financing framework was implemented, government bond rates went up to 16.9-18%[1] effectively making the pricing of the TPS backed financing scheme unsustainable. If the developer was to increase the investor returns to make the financing structure more attractive, this would in turn increase the required monthly TPS payments, limiting uptake and making the TPS backed financial structure unsustainable, illustrating how

[1] Central Bank of Kenya Weekly Bulletin October 31, 2024

vulnerable developers are to changing macroeconomic conditions. Further, for the TPS-backed financing to work, buyers were required to make a substantial downpayment (34%) of the housing unit price to offset some of the developer's financing costs during the construction period, before TPS cashflows were received. While instalment payments during construction can reduce the overall outstanding principal, they also mean that borrowers start repaying the TPS before occupation of the units, which impacts the affordability of the units. Mi Vida therefore decided not to pursue the TPS option due to a combination of the above factors.

1.1 Structure of the Report

Chapter 1 introduces the report, providing the key objectives and the structure of the report. **Chapter 2** provides an overview of the affordable housing segment and TPS in Kenya from reports previously commissioned by Mi Vida and partners as well as supplementary research. **Chapter 3** provides Mi Vida's TPS structure, an analysis of affordability, a TPS Servicer Risk Framework and Selection Criteria, and TPS Tenant Risk Profiling. **Appendix 1** provides the TPS Credit Policy while **Appendix 2** provides comments on the Credit Information Sharing Mechanism. The TPS Credit Rating Tool and Manual are provided as separate attachments to the report (please note that this is a draft tool that was designed based on a proposed methodology drawing on the authors' experience and incorporating various factors that are typically considered in housing credit assessments, such as income, repayment capacity, and market conditions, to provide a best-effort approach to estimate TPS creditworthiness. Therefore, the tool is subject to future testing and validation given the lack of historical data that would be necessary for conducting thorough analysis and refining of the tool's accuracy. The tool was initially developed with the intention of testing with 50 applicants from Mi Vida's TPS, however, since the property developer decided not to move forward with the TPS, a replacement TPS will be sought for the testing).

2. Affordable Housing and TPS Market Landscape in Kenya

Kenya is experiencing an increase in unmet demand for housing in major cities like Nairobi, Mombasa, and Kisumu driven by factors including population growth, economic expansion, and rural-to-urban migration.[2] According to the State Department of Housing and Urban Development, 22% of Kenyans reside in cities, and the urban population is expanding at a rate of 4.2% annually.[3] Demand for housing is estimated at 200,000 new units each year while approximately 50,000 homes are being constructed annually, resulting in a growing housing deficit of 150,000 units per year. This imbalance between supply and demand has led to a rapid increase in housing prices since 2004.[4]

According to the Centre for Affordable Housing Finance in Africa, in Kenya, the traditional mortgage market has experienced restricted growth since the country's independence, primarily due to the scarcity of long-term capital, high interest rates, and modest income levels.[5] Commercial banks may also perceive housing finance as less attractive when compared to commercial lending and investments in government securities. Additionally, mortgage lending heavily depends on short-term retail and institutional deposits, and only a restricted number of financial institutions have access to longer-term finance and capital markets.[6]

As an alternative to mortgage lending, Savings and Credit Cooperative Societies (SACCOs) and housing cooperative networks in Kenya have become sources of housing finance offering loan rates of around 1% per month and average terms of 7 years. SACCOs are estimated to have provided over 100,000 personal loans for housing, but only 10% are registered mortgages.[7] Despite their efforts, SACCOs face limitations in expanding their loan portfolios further without access to longer-term funding sources, underscoring the need for alternative avenues to promote increased home ownership.

In an attempt to address the affordable housing deficit in Kenya, the government launched the Affordable Housing Program (AHP) to create an enabling environment for interventions that enhance supply and facilitate demand in the housing sector to make housing affordable. To support the development and uptake of affordable housing, the Kenyan government offered various subsidies under the AHP, such as exemption from the payment of stamp duty for first-time homeowners under the affordable housing segment, tax relief of 15.0% of gross earnings up to KES 108,000 per year or KES 9,000 per month for Kenyans purchasing homes under the Affordable Housing Scheme, and developers' exemption from VAT on import and local purchase of goods for the construction of affordable homes. Though intended to bridge the demand and supply of low-cost housing, incentives have not yet been fully realised, and accessibility continues to be a challenge.[8] The government also introduced the Housing Levy in the Finance Act 2023 which obliges employers and employees to make equal contributions of 1.5% each of employees' gross salaries to a fund to be deployed in support of affordable housing development and social and physical infrastructure to support affordable housing. The levy was declared unconstitutional in November 2023; however, government amended the legislative framework to allow for deductions to continue. The legal uncertainty presented a risk to ongoing projects and contractual obligations entered into with property developers given uncertainty over funding availability.

[2] https://www.trade.gov/market-intelligence/kenya-affordable-housing
[3] https://www.bomayangu.go.ke/about
[4] https://www.bomayangu.go.ke/about
[5] A. M. Gitonga (2023) Overview of Tenant Purchase Schemes in Kenya https://housingfinanceafrica.org/documents/overview-of-tenant-purchase-schemes-in-kenya/
[6] Ibid
[7] Ibid
[8] https://housingfinanceafrica.org/countries/kenya/

The current government has made affordable housing a key focus of its economic development plan with some initiatives including[9]:

- Target delivery of 250,000 units annually and enabling affordable mortgages, creating jobs for more than 100,000 Kenyans.
- Establishment of the housing fund where there is a mandatory contribution of 1.5% of gross salary by employees matched by an employer's contribution.
- Allocation of KES 35.2 billion for the affordable housing scheme in the financial year 2023/24 budget to be allocated as summarized in Table 1.[10] (The allocation also includes a budget of KES 5.1bn for the construction of markets for fresh produce and other household goods that are not housing).

Table 1: Breakdown of budget allocation to housing program

Allocation	Category
Ksh 5.0 billion	Kenya Affordable Housing Project (Kenya Mortgage Refinance Company)
Ksh 3.2 billion	Construction of Affordable Housing Units
Ksh 5.6 billion	Kenya Informal Settlement Improvement Project – Phase II
Ksh 1.0 billion	Construction of Housing Units for National Police and Kenya Prisons
Ksh 7.2 billion	Kenyan Urban Programme (KenUP)
Ksh 3.3 billion	Construction of Social Housing Units

Source: The National Treasury & Economic Planning: FY 2023/24 Budget[11]

Despite being a key economic pillar, the affordable housing sector is faced with challenges including high construction costs, lack of development land in suitable locations, poor supporting infrastructure, lack of appropriate financing (financing with a cost and duration that supports construction financing) and frustration or lack of interest from developers among others. The Kenyan government has developed various policies and initiatives aimed at increasing home ownership. The Affordable Housing initiative was introduced in Kenya by the previous regime and was among the "Big 4 Agenda" under the country's Vision 2030. At the time the government envisioned delivering 500,000 units of affordable housing by the end of 2022. However, less than 10% of the targeted units had been supplied by the government between 2017 and 2021. [12] Some of the supportive policy initiatives included:

i. Utilization of suitable public land for housing developments.
ii. Providing suitable services to the land.
iii. Proposer zoning of land to encourage the private sector to participate.
iv. VAT, stamp duty, and import levies waivers; reductions on construction materials and reduction of the corporate tax rate for developers delivering over 100 units per year.

Table 2 summarizes selected affordable housing projects in Kenya as of December 2023[13].

[9] https://www.president.go.ke/president-ruto-affordable-housing-programme-on-course/
[10] https://www.treasury.go.ke/wp-content/uploads/2023/06/Budget-Highlights-The-Mwananchi-Guide-for-the-FY-2023-24-Budget.pdf
[11] https://www.treasury.go.ke/wp-content/uploads/2023/06/Budget-Highlights-The-Mwananchi-Guide-for-the-FY-2023-24-Budget.pdf
[12] https://kippra.or.ke/delivering-affordable-housing-in-kenya/
[13] Updated in October 2024

Table 2: Selected Affordable Housing Projects in Kenya

Project	Developer	Location	Units	Comments	Size and pricing
Pangani	Tecnofin & Nairobi County Government	Pangani (Nairobi)	1,562	Phase 1 (962 units) is complete and sold out. Phase 2 is (610 units) ongoing. The developer struggling to sell the units	Phase 1: ▪ 1 bedroom (25sqm): KES 1m ▪ 2 bedrooms (50sqm): KES 2.5m ▪ 3 bedrooms (60sqm): KES 3m Phase 2: ▪ Affordable premium units - 3 bedrooms (90sqm): KES 9m
River Estate Affordable Housing Program	National Government and Edderman Property Limited	Ngara (Nairobi)	2,720	In progress. Initially scheduled for completion in December 2021, however, completion was delayed. According to media reports, the project stalled due to slow uptake and several off-plan buyers were demanding refunds[14].	▪ Studio apartments (cash price special offer KES 1.9m) ▪ 2 bedrooms (cash price special offer KES 2.9m)
Mukuru Affordable Housing Program	National Housing Corporation (NHC)	Mukuru (Nairobi)	13,248	Construction is in progress; Phase 1 (5,616 studio apartments) is at advanced stages and includes some social units. Other phases will include 3,024 one bedrooms and 4,608 2-bedroom units.	▪ Studio apartments (20sqm): KES 840,000 ▪ Pricing of other units not disclosed/difficult to determine.
Mavoko Housing	NHC	Machakos	5,300	The project is still in the initial phases.	▪ Not disclosed/difficult to determine
Buxton	GulfCap Real Estate and County Government of Mombasa	Mombasa	2,000	Phase 1 (584 units) was completed in September 2023.	▪ 1 bedroom (38sqm) KES 2.9m-3.1m ▪ 2 bedrooms (56sqm): KES 4.4m – 4.6 m ▪ 3 bedrooms (74sqm): KES 5.9m-KES 6.9m)
Moke Gardens Athi River	Moke Gardens LTD	Machakos	4,000	Construction ongoing.	▪ Studio (24sqm): KES 1.5m ▪ 1 bedroom (44 sqm): KES 2.75m ▪ 2 bedroom (70 sqm): KES 4.4m ▪ 3 bedrooms (102sqm): 5.7m

[14] https://nation.africa/kenya/business/erdemann-s-sh7bn-2-720-house-plan-stalls-4172858

Project	Developer	Location	Units	Comments	Size and pricing
Park Road	Erdermann Properties	Nairobi	1,370	Sold Out	▪ TBD 1 bedroom (30sqm): KES 1m ▪ 2 bedrooms (40sqm) KES 2m ▪ 3 bedrooms (60sqm) KES 3m
Anderson	Laptrust	Kisumu	1,200	Construction was launched in May 2024.	Not disclosed/difficult to determine
Makasembo	Lapfund	Kisumu	1,870	Construction ongoing.	▪ 1 bedroom (30sqm) KES 1.8m ▪ 2 bedrooms (45sqm): KES 2.7m ▪ 3 bedrooms (60sqm): KES 3.85m

Source: State Department of Housing and Urban Development, Boma Yangu Portal, Cytonn Research, Edermann Properties, AIS Capital Analysis

On the demand side, prospective homebuyers often face challenges in qualifying for mortgages due to irregular cash flows. Even when accessible, affordability remains a hurdle, with the uptake further inhibited by high-interest rates. As of December 2021, Mortgage Accounts in Kenya stood at 26,723 with an average loan size of KES 9.2 million.[15] To increase mortgage affordability and home ownership, the Kenya Mortgage Refinance Company (KMRC) was established in 2018 to provide long-term funds to Primary Mortgage Lenders (PMLs) including banks and SACCOs to increase the availability of affordable home loans. KMRC does this by refinancing PML mortgage portfolios to provide concessional, fixed, long-term finance to the PMLs so that they can lend at affordable rates, making home loans more accessible. Per the KMRC 2023 annual report, since KMRC ‘s commencement of the lending business in 2020, the Company has disbursed KES 9.6 billion to the participating banks and SACCOs and the number of mortgages refinanced as of year-end 2022 was 3,128, implying an average loan size of KES 3.06m over the period. Net loans disbursed to PMLs as of the end of 2023 were KES 8.4bn. KMRC noted that the average interest rate on commercial mortgages was 14.3% compared to an average mortgage interest rate of 9.5% for KMRC-funded mortgages advanced by participating banks and SACCOs with an average maturity tenor of 9.9 years.[16,17]

A synthesis of market studies provided by Mi Vida, examining proposed housing developments in several areas of Nairobi, revealed that these areas were mainly renters' markets. This characteristic can likely be extrapolated to encompass the broader housing landscape in Nairobi where owner-occupiers constitute less than 10% of the city's households. Hence, the development of affordable housing units coupled with alternative financing solutions for both the supply and demand side would help increase the rate of home ownership in the country. As such, interventions to boost affordable housing should not ignore the rental characteristics hence the suitability of TPS schemes.

2.1 TPS in Kenya

TPS is a means of home ownership whereby the buyer will occupy the house and pay for it through periodic instalments (mostly monthly) with the ownership being transferred after the payment of the last instalment. The monthly payments are akin to mortgage payments. The key financial features of a TPS are:

a) **Deposit**: This is an upfront payment that is typically equivalent to 1 to 3 TPS instalments, however, the deposit may extend to 10-30% of the housing unit price depending on the developer, level of commerciality and risk appetite. The deposit is typically utilised in the event of default to repair the vacated premises and to cover administrative costs. Where no default occurs, the deposit is credited towards the final instalment payments.
b) **Monthly Payment**: These are instalments distributed over the TPS period. These payments are sized to approximate rental payments and will be determined by the cost of the project and the return expectations of the developer. Monthly payments will also include a service charge and a coupon, usually a fixed interest rate determined by the developer to cover financing costs and return expectations. The coupon typically ranges from 10% to 15% depending on the developer (though these rates are likely to increase particularly for private sector TPS offerors in line with the increase in base lending rates at the end of 2023 from 10.5% to 12.5%).
c) **Tenor**: This is the repayment period of the TPS and is mostly long-term typically up to 20 years.

[15] Center for Affordable Housing: Africa Housing Finance Yearbook 2022
[16] KMRC Annual Report 2023
[17] KMRC State of Banking Sector Mortgage Market in Kenya 2024

The above features vary from provider to provider. There are other salient features of TPS schemes which tend to be standard across the board and are defined in the TPS agreements. These features include:

- *Possession and ownership:* The buyer will take possession of a TPS unit immediately after the non-refundable deposit is paid and the TPS agreement executed. However, the seller retains ownership until the final TPS payment. All risks related to the property remain with the seller until the title is transferred.
- *Taxes*: Key taxes are Stamp Duty that is charged at completion of TPS payments and at the point of transfer. In most cases, TPS are first-time registration properties with a fixed price that will not attract capital gains tax. If there is a valuation occasioned for example a repossessed property, then capital gains taxes will be assessed on the property if the seller resells the unit at a higher price than the previous valuation.
- *Structural defects:* The cost of repairing the defects is borne by the seller as the title does not pass to the buyer until all instalments are paid. An insurance cover is appropriate for such costs. However, minor defects are borne by the buyer since most minor defects arise from the use of the units.
- *Pre-payments*: Buyers are at liberty to accelerate their payments without being charged pre-payment penalties. Buyers pre-pay to reduce their outstanding principal and thus reduce their subsequent monthly payments.

TPS can be differentiated from rent-to-own models by the fact that TPS typically involve paying a down payment and making scheduled payments to buy the property over time, the title of the property remains with the seller until the sale price is paid in full, while rent-to-own allows a tenant to rent a property for a set period e.g. 3-5 years, typically paying a higher rent with a portion going towards the eventual purchase with the option to buy it at the end. If the tenant decides not to buy the property at the end of the rental term, they may lose the extra rent they paid.

TPS have been a longstanding feature of Kenya's housing market, with public entities like the National Housing Corporation (NHC) and the National Social Security Fund (NSSF) playing a pioneering role in their introduction. NHC, with its roots dating back to 1953, has a particularly rich history of TPS implementation, having successfully delivered 9,074 units through 73 projects across Kenya between 1965 and 2012.[18] (NHC has a housing portfolio that does not include TPS, offering several projects on outright sale terms i.e. downpayment of 20% of the purchase price and balance within 90 days from the date of the offer letter).[19] NSSF also maintains a robust TPS offering, with TPS offered in projects including Nairobi's Nyayo Estate, Embakasi, Kitisuru, Mountain View and Hazina Estate South B.[20]

The main TPS offerings in the Kenyan market typically have down payments of 10-15% of the unit price with repayment periods of between 10 to 15 years at fixed interest rates of between 13-15% on reducing balance. Interest rates may be adjusted upwards in line with the rising interest rates e.g. in December 2023, the Central Bank raised the policy rate from 10.5% to 12.5%.[21] Examples of tenant purchase schemes are described below.

NSSF TPS

The NSSF, a pioneer and enabler of home ownership under the TPS, has provided an easier path to home ownership and has over the years accommodated more than 6,000 families under the scheme.[22]

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[18] Gitonga M. A (2023) Center for Affordable Housing: Overview of Tenant Purchase Schemes in Kenya https://housingfinanceafrica.org/documents/overview-of-tenant-purchase-schemes-in-kenya/#:~:text=The%20main%20difference%20between%20TPS,time%20period%20and%20interest%20rate.

[19] National Housing Corporation: https://www.nhckenya.go.ke/index.html

[20] https://www.nssf.or.ke/nssf-partners-with-safaricom-on-tenant-purchase-scheme-t-p-s-payments

[21] Central Bank of Kenya Interest Rates: https://www.centralbank.go.ke/statistics/interest-rates/

[22] https://nation.africa/kenya/brand-book/what-the-nssf-tenant-purchase-scheme-offers-3272040

The Nyayo Embakasi Estate, currently sold out, is one of the largest and most well-known estates developed by the NSSF under the TPS scheme. Other TPS schemes by NSSF include Mountain View, Hazina, Kibera Highrise and Kitisuru estates.[23] Table 3 summarizes the features of the NSSF TPS scheme.

Table 3: NSSF TPS Summary

Feature	Description
Minimum Sales Deposit	10% of the purchase price. 90% balance payable through the TPS scheme
Interest Rate	15% per annum. The rate is variable at the discretion of the fund.
Tenure	Maximum of 15 years (180 months)
Additional Payments	Service charge and insurance
Early Repayment	No penalty upon early payment
Default	A surcharge of 10% on any unpaid amounts.

Source: NSSF

National Housing Corporation (NHC) TPS

The NHC is a statutory body in Kenya whose primary mandate is to play a principal role in the implementation of the Government's housing policies and programs. NHC enables access to affordable housing through TPS and various other modes including outright sales, housing loans, and rental housing. Some of the TPS developed by NHC include but are not limited to Nyayo Highrise Estate, NHC Nairobi West Flats, NHC Madaraka Flats, NHC Flats on Amalemba Kakamega, Stoni Athi View Estate, NHC Stoni Athi Economy Flats and NHC Olympia View-Kibera. Table 4 summarizes the terms of the NHC TPS.

Table 4: NHC TPS Summary

Feature	Description
Minimum Sales Deposit	20% of the purchase price. 80% balance payable through the TPS scheme
Interest Rate	13% per annum. The rate is variable at the discretion of the fund
Tenure	Maximum of 18 years (216 months)
Additional Payments	Service Charge and Insurance
Early Payments	No penalty upon early repayment
Default	A surcharge of 10% on any unpaid amounts and repossession of the unit. Refunds are only made on the deposit.

Source: NHC

County Pension Fund TPS

The County Pension Fund (formerly known as Laptrust) was established as a pension scheme for employees for local government authorities and has over 26,000 members, 250 sponsor organizations, and over 4,100 pensioners. In one of its housing projects, Freedom Heights, the fund adopted a TPS sales model on 72 out of 252 units. Table 5 summarizes the features of the TPS.

Table 5: Laptrust TPS Summary

Feature	Description
Minimum Sales Deposit	10% of the purchase price. 90% balance payable through the TPS scheme
Interest Rate	12% per annum.[24] The rate is variable at the discretion of the fund.
Tenure	Maximum of 15 years (180 months)
Additional Payments	Service Charge (Free for 10 years) and insurance

[23] https://nation.africa/kenya/brand-book/what-the-nssf-tenant-purchase-scheme-offers-3272040

[24] NHC's strategic plan 2019-2023 envisioned an interest rate of 3-7% for a 25-year TPS for low-income buyers, however, project details on the NHC website put the TPS interest at 13% for projects that offer TPS. Source: National Housing Corporation Strategic Plan 2019-2023 https://www.nhckenya.go.ke/down/NHC%20FINAL%20STRATEGIC%20PLAN.pdf

Early repayment	No penalty upon early repayment
Default	A surcharge of 10% on any unpaid amounts and repossession of the unit. Refunds are only made on the deposit.

Source: CPF

2.2 Mi Vida's TPS Structure

Mi Vida is a residential developer in Kenya, established through a joint venture between Actis and Shapoorji Pallonji Real Estate (SPRE). To achieve the ambitious goal of providing 3,000 quality homes over the next 5 years catering to the underserved market, Mi Vida is looking to expand its sales reach through the introduction of a TPS in upcoming projects. Mi Vida's current and planned project portfolio includes:

1. Mi Vida at Garden City: 1, 2 and 3-bedroom units starting at KES 8.8m
2. KEZA Riruta: Studio, 1 and 2-bedroom apartments priced at KES 2.3m to KES 6m
3. Amaiya at Garden City: 1 and 2-bedroom duplexes and 3-bedroom apartments ranging from KES 9.7m to KES 17m
4. 237 Garden City: 1, 2 and 3-bedroom apartments priced at KES 2.1m to KES 6.2m

Mi Vida offers a range of payment plans including off-plan sales structured as a 2-year construction-linked payment plan; a 5-year payment plan and a 22-year payment plan structured as a TPS summarized below.

The 22-year Tenant Purchase Scheme features

Mi Vida's TPS is a 22-year scheme with the first two years allocated to the construction of the housing units and 20 years of occupancy and redemption of the purchase price through monthly payments. Key features are:

Payment structure:

- Phase 1 will involve booking by paying a booking fee of 10% of the purchase price.
- Phase 2 is the construction phase where the buyer is required to pay 24% of the purchase price monthly over 24 months.
- Phase 3 is the period after construction and the buyer is expected to make monthly payments totalling 66% of the purchase price over 20 years.
- Interest is charged at a fixed annual rate of 18% (the rate may change in line with market conditions).
- Monthly TPS payments do not include the service charge estimated to range from KES 2,000 - 5,000 per month depending on the unit size.

Event of customer default:

- In the case of default, the buyer will be refunded the principal portion of payments made less any administrative and interest costs.
- The refund will be made on condition that Mi Vida gets another buyer to take up the housing unit.

Early repayments:

- The buyer is allowed to make early payments without being penalized subject to the agreed terms and conditions.

Subleasing the housing units:

- The buyer has an option to either occupy the housing unit or rent it out as an investment.

Incidental costs:

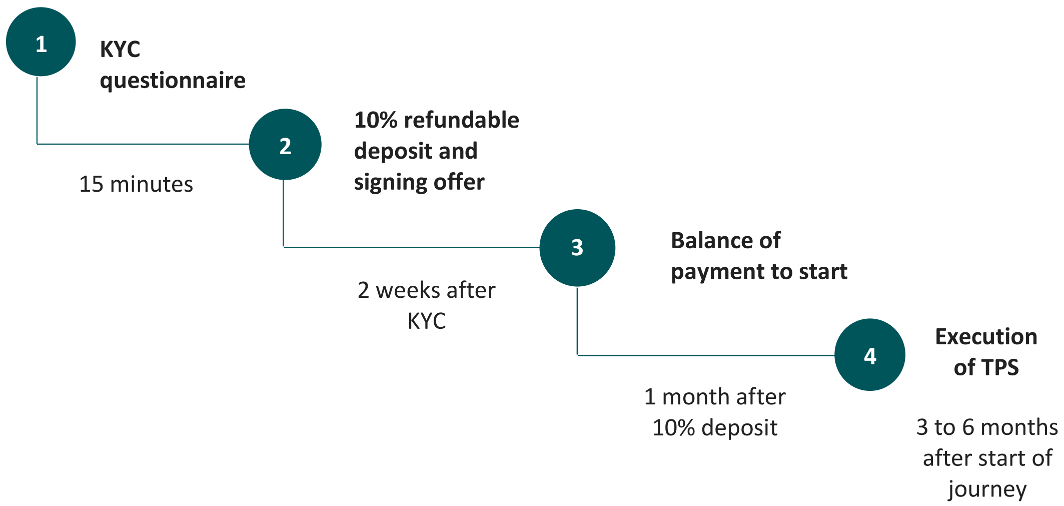
- Various closing costs are incurred by the buyer at the point of transfer of property including stamp duty, valuation costs and part of legal costs. Transfer of the unit can only be done once all payments are made.

Selling the purchased property:

- Once ownership changes to the buyer, the buyer is at liberty to dispose of the property.

The acquisition process for the TPS is summarized in Figure 1.

Figure 1: Mi Vida TPS acquisition process Summary



Source: Mi Vida Homes

The process starts with interested customers filling in a Know Your Customer (KYC) questionnaire that collects information including biodata, income, budget, employment status, current rent, and type of unit they are interested in. A screenshot of the questionnaire is shown in Figure 2.

Figure 2: Mi Vida TPS questionnaire

Questions	Options					
Personal details: Name, Telephone, Email, National ID						
What is the gender of the primary applicant	Male	Female				
Are you filing as a single application of jointly?	Single	Jointly				
Will the unit be owner occupied or for investment?	Owner occupied	Investment				
How old are you?	18 – 25	26 – 35	36 – 45	46 – 55	> 55	
What typology of unit are you interested in?	Std studio	Dlx studio	1 bedroom	2 bedroom	3 bedroom	Other………..
What is your budget?	…………………..					
What location are you interested in?	Keza – Riruta	Other………..				
What is your employment status?	Employed	Self Employed				
What industry do you work in?	…………………..					
If self employed, what is the form of income verification?	P-9	Bank Statements	M-Pesa Statements	Audited Financials		
What is your gross household income (single/jointly)?	100,000 or less	100,001 – 150,000	150,001 – 250,000	> 250,000		
What is your current rent?	20,000 or less	20,001 – 30,000	30,001 – 50,000	50,001 – 75,000	75,001 – 100,000	> 100,000

Source: Mi Vida Homes

After assessment, eligible customers make a refundable booking deposit (10%) and execute a letter of offer. Monthly payments then start with 24% of total payments made over a 2-year construction period and 66% of total payments made over 20 years after construction is completed. Mi Vida's pricing model for the TPS is summarized in Table 6 and Table 7.

Table 6: Mi Vida's TPS pricing plan

	Average unit prices	SQM	Price per SQM	Upfront Deposit (10%)	Amount spread through construction (24%)	Principal to be financed over 20 years at 18% p.a
Keza						
Studio standard	2,100,000	20	105,000	210,000	504,000	1,386,000
Studio premium	2,700,000	24	112,500	270,000	648,000	1,782,000
1-bed unit	4,700,000	40	117,500	470,000	1,128,000	3,102,000
2-bed unit	6,200,000	60	103,333	620,000	1,488,000	4,092,000

Source: Mi Vida Homes TPS pricing calculator

Monthly payments are summarised in Table 7.

Table 7: Monthly Payments and Rent Comparison

	Monthly payments during construction	Monthly payments for 20 years (excluding service charge)	Monthly payments including service charge	Projected Rental income if the unit is rented (excluding service charge)
Keza				
Studio standard	21,000	21,000	23,000	15,000
Studio premium	27,000	28,000	30,000	20,000
1-bed unit	47,000	48,000	51,200	35,000
2-bed unit	62,000	63,000	67,000	45,000

Source: Mi Vida Homes TPS pricing calculator. Estimated service charges range from KES 2,000-5,000 per month depending on unit sizes

Monthly TPS Payments vs Rental Payments

Monthly TPS payments at KEZA would have been at a 30-40% premium above market rental prices even though the TPS pricing only covers 66% of the housing unit (the TPS includes a 34% downpayment during the construction period). Over the course of the payment plan, assuming a 5% increase in rental rates annually. TPS payments would eventually become about 20% cheaper than the equivalent rental payments. The actual rent escalation is difficult to project. The higher TPS payments in the initial years are primarily due to financing costs and the higher quality of MiVida development compared to surrounding housing stock. In the affordable housing sector, rental yields typically range from 7-9% reflecting the annual returns landlords receive from rental income. In contrast, TPS pricing is based on an 18% financing rate on a reducing balance, averaging about 9% of the unit's value each year. While this is similar to rental costs, it primarily includes interest-only payments initially. Additionally, TPS requires principal payments to cover the full value of the unit, meaning that over the 20-year TPS period, buyers end up paying an amount that combines both the equivalent of rental payments and the principal amount, resulting in total payments that can exceed traditional rental costs.

To lower TPS payments, either the interest rate or principal amount must be reduced. This could be done by increasing the interest-free instalments during the construction phase. Developers also need to collect instalments during construction to manage financing costs, which would allow them to pass some savings on to buyers. However, it would then limit the income group that such a payment plan would be affordable to. Reducing the cost of the unit across the market can also be achieved by greater efficiencies in the construction process (from faster and coordinated approvals), to implementation of the VAT and corporate tax incentives which are in the Affordable Housing Program but have had challenges in implementation.

Affordability Analysis

A key variable determining the affordability of the TPS payments compared to rent is the interest rate applied in computing the monthly payments. TPS payments are higher than the expected rent payments, with the difference growing with the size of the units, given the interest costs loaded as part of monthly payments. Two ways to estimate affordability for the TPS are i). considering the income proportion spent on housing and ii). comparing the TPS payments to gross income assuming a ceiling of two-thirds of gross income is deducted and spent on housing (in line with the guideline that employee deductions should not exceed two-thirds of gross income or 50% of net income). Neither approach is exhaustive or empirical; however, they are employed to depict an extreme scenario.

1. Income proportion spent on housing: Using this method, affordability is assessed by examining the percentage of an individual's or household's income dedicated to housing expenses, in this case, the TPS payment and service charge. Industry standards often suggest that housing expenses should not exceed a certain percentage of gross income, with common recommendations at around 30%. This figure is used for illustrative purposes in the analysis Table 8; however, there is a significant lack of supporting data regarding the actual proportion of household income spent on housing. Various small sample studies suggest that this proportion could be either higher or lower than the figure presented. As a result, the affordability of housing could be influenced by the actual percentages, meaning the conclusions drawn from this figure may not fully reflect the true affordability for different households.

This method, however, does not account for other debts or financial obligations beyond housing. Assuming a 30% spend on housing, Table 8 summarizes the estimated required income for Mi Vida's TPS units.

Table 8: Affordability analysis based on 30% of gross income spent on housing

Unit type (KEZA)	Monthly payments including service charge	Estimated Required Gross Income
Studio standard	23,000	76,667
Studio premium	30,000	100,000
1-bed unit	51,200	170,667
2-bed unit	67,000	223,333

Source: AIS Capital Analysis. Estimated service charges range from KES 2,000-5,000 per month depending on unit sizes.

2. Maximum allowable indebtedness allocated to housing: Kenyan lenders typically use the level of indebtedness metric to evaluate a borrower's capacity to take on additional debt responsibly. The guideline is that the monthly payments should not exceed 50% of net income to help prevent excessive debt accumulation, thus promoting financial stability. Applying this guideline to the monthly TPS payments, the required monthly incomes are summarized in Table 9.

Table 9: Affordability analysis based on 50% of net income spent on housing

Unit type (KEZA)	Monthly Payments Including Service Charge	Estimated Required Net Income	Estimated Required Gross Income
Studio standard	23,000	46,000	58,700
Studio premium	30,000	60,000	79,000
1-bed unit	51,200	102,400	141,500
2-bed unit	67,000	134,000	188,000

Source: AIS Capital Analysis. The estimated service charge ranges from KES 2,000-5,000 per month depending on unit sizes. Gross income estimates are derived from net income assuming graduated tax bands and statutory deductions.

The main implication of the affordability analysis is that, given the current financing costs and interest rates, the TPS with a 20-year payment plan is likely to be unattainable for many individuals as it would be expected that not many households can allocate 30% of gross income or 50% of net income to housing. There is a lack of adequate data on income to conclusively address the income and affordability question, however, the lowest minimum wage gazetted in 2022 in Nairobi, Mombasa and Kisumu was KES 15,202 and the highest minimum wage is KES 34,303.[25] According to the Kenya National Bureau of Statics 2023 Statistical Abstract, in the formal sector comprising 3.05 million workers, 371,894 earned more than KES 100,000 per month, 1,363,466 earned between KES 50,000 and KES 99,999 while 1,280,121 earned a monthly income between 0 and KES 49,999.[26]

Even after making a substantial 34% payment of the housing unit price as a deposit and during the construction phase (10% booking deposit and 24% during the 2-year construction period), the monthly instalments during the TPS payment period are considerably higher, (46.3% to 53.3%) than the

[25] https://www.ulandssekretariatet.dk/wp-content/uploads/2022/12/Kenya-LMP-2022-final.pdf
[26] Kenya National Bureau of Statistics 2023 Statistical Abstract

corresponding monthly rental payments. This highlights the challenges in promoting affordable homeownership in Kenya.

For TPS buyers, the option might still be appealing as, after 22 years, they would own the units and no longer need to make monthly rental payments. Additionally, there is the potential for benefiting from the appreciation in the housing unit value. Nevertheless, it is emphasized that reducing the delivery cost of housing units is crucial for enhancing affordability. This can be achieved through various measures such as creating an enabling environment including simpler and more streamlined building approval processes, providing essential infrastructure like electricity, water, and sewerage connections, offering VAT and other tax exemptions for housing projects, addressing high land costs for housing, and improving access to suitable financing by addressing factors such as cost, tenor, and accessibility of financing to developers. Economies of scale may also contribute to affordability as the delivery of housing units increases.

3. Risk Assessment of TPS

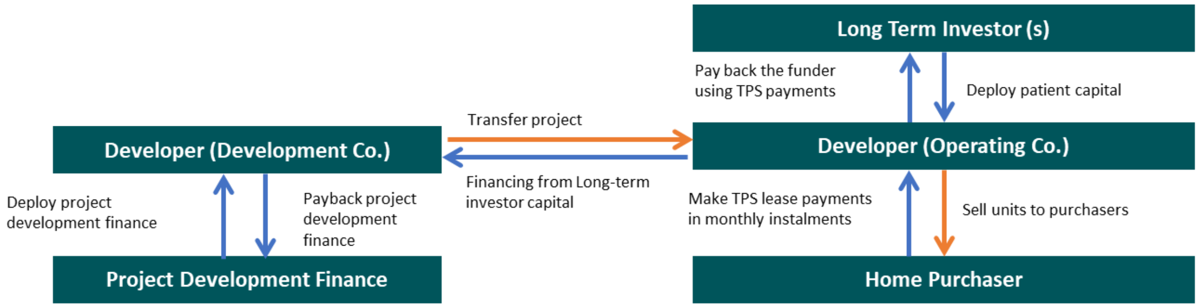
Public developers have led the structuring of Tenant Purchase Schemes (TPS) in Kenya's housing market given their access to financing and land for housing projects, and policy directives to increasing housing access. These developers have taken on the role of home financing within the wider housing finance system. Private sector developers were initially hesitant to adopt TPS due to cash flow constraints, but with increasing competition in the Nairobi housing market and the need to boost sales, more private developers, are now offering longer payment periods e.g. 5-year payment plans and TPS products with flexible payment plans to increase sales.

The TPS risk assessment focuses on the TPS Servicer and TPS Buyer.

3.1 TPS Financing Structure

The structure assumes a scenario where Mi Vida as the property developer constructs a housing project and offers a TPS product for offtake of the housing units. Mi Vida as the developer secures project financing (in a Development Co.) and once the units are constructed the developer seeks long-term capital investors (through the Operating Co.) either through a bond offering, bank debt, an equity injection etc. to repay project development financiers and provide an exit for the long-term investors by using cashflows from the TPS. The financing structure is summarized in Figure 3.

Figure 3: Financing Structure Summary



Source: Centre for Affordable Housing

Based on the above structure, it is assumed that the Developer engages a TPS Servicer to manage tenants and collect payment. The TPS Servicer Risk assessment in subsequent sections will be from the Development Company perspective to ensure the TPS Administrator or Servicer has adequate capacity to undertake this role i.e., collecting and remitting payments and managing tenants.

3.2 Selection Criteria for TPS Servicer

A TPS Servicer is the entity charged with managing the TPS including onboarding tenants, monthly payment collection, dealing with tenant complaints and remitting payments to the Developer. Mi Vida may choose to act as the TPS Servicer or to outsource this function to an external provider. Key requirements for a TPS Servicer include a robust information management system with the capability to track monthly payments and produce reports on each tenant, flag delayed payments and send reminder notices for late payments. The TPS Servicer also needs to have the capability to manage the legal process of recovering possession of units in default. Selection criteria for the Servicer include:

1. **Reputation and track record:** This involves proving experience in managing properties or housing projects similar to the one in question, including property type, size and scale. Management of a TPS is an advantage. The potential servicer needs to be a company with a

positive reputation in the real estate industry verified through referrals, reviews, and standing in the industry.

2. **Duly licensed and registered:** The company should be licensed and compliant with Kenyan regulations i.e., duly registered and tax compliant.
3. **Legal compliance:** The company should be well-versed in Kenyan landlord-tenant laws and have mechanisms to stay updated on any changes. This can be assessed by evaluating their strategies for mitigating legal risks, such as compliance with fair housing laws and eviction procedures.
4. **Service capability:** The potential Servicer should have the ability to provide a full spectrum of property management services, including tenant onboarding, rent collection, property maintenance, financial reporting, and legal compliance. Verifying this ability includes assessing the flexibility of the company's services to the specific needs of Mi Vida's TPS.
5. **Robust technology platforms for financial management:** the potential TPS Servicer should demonstrate the capacity to provide regular and on-demand updates, transparent reporting, and responsiveness by producing the required quality and frequency of financial reporting. This includes demonstrated capacity to provide easy access to detailed financial statements on amounts collected and amounts outstanding through a secure online portal or backend system. This also involves evaluating the TPS Servicer's ability to create and adhere to budgets for property maintenance, repairs, and improvements.
6. **Tenant management capacity:** The potential TPS Servicer should demonstrate staff capacity and systems to manage tenants including the ability to enforce lease agreements address tenant issues promptly, and handle evictions humanely and within legal provisions.
7. **Maintenance and property care capacity:** The potential TPS Servicer should demonstrate the capability to provide efficient property maintenance including established maintenance protocols, reliable contractors, and a proactive strategy to address issues promptly. This also involves assessing the company's ability to handle emergencies and provide timely responses to urgent maintenance requests.

3.3 TPS Servicer Risk Framework

The TPS Servicer Risk Framework provides a guide for the selection of a Servicer and the management of the relationship between the Servicer and the Developer. This service risk management framework is developed for Mi Vida but could be adopted by other developers in Kenya. Key components of the TPS Servicer Risk Management Framework are:

1. Identification
2. Measuring and assessment
3. Mitigation
4. Reporting and monitoring

3.3.1 Risk Identification

Key risks are identified in relation to the role that the TPS Servicer will play. In this risk assessment, the TPS Servicer's roles are assumed to range from managing the TPS, managing TPS tenants, managing collections and remitting the payments to Mi Vida. Key TPS Servicer risks include the following:

1. **Financial Risk:** Risks related to cash flow management i.e., the TPS Servicer's capacity to manage cash flow efficiently, remit payments to Mi Vida promptly to ensure coupon and principal obligations are met and ensure that there are sufficient funds for property upkeep and addressing unforeseen issues.

2. **Operational Risk:** Loss-related risks arising from inadequate or failed internal processes, systems, people, or external events. Risks include errors in accounting, late payments, or mishandling of funds. Operational risks also involve managing tenants - tenant communications and; the ability to effectively communicate to tenants to identify and address issues promptly, such as maintenance requests or complaints. This also involves managing tenant turnover as this can impact cash flow and increase the workload for the TPS Servicer.
3. **Technology and Data Security Risk:** These are risks related to payment systems security i.e., the security measures in place for handling tenant payments and sensitive financial data to prevent unauthorized access or breaches and the quality of data backup systems i.e., TPS Servicer's data backup systems to ensure the protection of critical information in case of system failures or data loss. A further aspect to be considered is cybersecurity risks and data breaches, potentially impacting financial operations as well as reputation.
4. **Capacity and Staffing Risk:** Risks related to workload management i.e., the capacity to effectively manage all responsibilities, considering the size and complexity of the property portfolio.
5. **Market and Economic Risks:** Risks related to macroeconomic factors that may result in TPS defaults and managing evictions and recoveries/seeking buyers and managing refunds for buyers who are unable to complete their payments.
6. **Compliance and Legal Risk:** Risks related to compliance with relevant laws and regulations including adherence to lease agreements and relevant tenant rights, laws, and eviction procedures ensuring legal processes are followed.
7. **Insurance and Liability Risks:** Risks arising from legal claims related to property management activities.

3.3.2 Measurement and Assessment

For each risk identified quantitative measures to assess the level of risk are assigned based on probabilities or impact. The values are based on a scale for each quantitative metric:

1. Likelihood: Highly unlikely (1), unlikely (2), possible (3), likely (4), highly likely (5)

- 5: Highly Likely. Risks in the highly likely category are almost certain to occur (above 90% chance of occurrence).
- 4: Likely. These risks need regular attention, as they are bound to reoccur and therefore require a consistent mitigation strategy (61-90% chance of occurrence).
- 3: Possible. Possible risks may happen about half the time (41-60% chance of occurring and needing attention).
- 2: Unlikely. Risks in the unlikely category have a relatively low chance of occurring (11 to 40% chance of occurrence). The risks may still affect the business and so need to be monitored
- 1: Highly Unlikely. Highly unlikely risks have a low probability of occurring (less than 10% chance of occurrence).

2. **Impact: Negligible impact (1), low impact (2), moderate impact (3), high impact (4), catastrophic impact (5). The impact is assessed across financial, legal/compliance, strategic, reputational, and operational metrics.**
    - Financial (threshold to be set by Mi Vida's Board).
        - Negligible impact (1): <10% of the project value the Servicer is handling
        - Low impact (2): 10%-20% of project value the Servicer is handling
        - Moderate impact (3): 21%-35% of project value the Servicer is handling
        - High impact (4): 36%-60% of project value the Servicer is handling
        - Catastrophic impact (5): >60% of the project value the Servicer is handling

- Legal/Compliance
  - Negligible impact (1): Minor penalties
  - Low impact (2): Low legal penalties
  - Moderate impact (3): Significant legal penalties; operations under surveillance internally
  - High impact (4): Operations under surveillance by an external regulatory body
  - Catastrophic impact (5): Cessation operations by regulatory body/government
- Strategic
  - Negligible impact (1): Slows progress on one Mi Vida strategic goals
  - Low impact (2): Slows progress on more than one Mi Vida strategic goal
  - Moderate impact (3): Stops progress on one Mi Vida strategic goal
  - High impact (4): Stop progress on more than one Mi Vida strategic goal
  - Catastrophic impact (5): Reverses progress on one or more Mi Vida strategic goals or threatens strategic plan failure
- Reputational
  - Negligible impact (1):
    - Event has limited local damage with no wider impact
    - Likely to be no impact on a financial plan
    - No material impact on market share, brand value and/or public confidence
    - Limited-to-no attrition in the staff of Mi Vida or clients
  - Low impact (2):
    - Event has a minor impact on strategic objectives and/or financial plan
    - Potential impact on market share, brand value and/or public confidence
    - Consequences can be absorbed under normal operating conditions
    - Potential attrition of clients and staff of Mi Vida
  - Moderate impact (3):
    - Event has a moderate impact on strategic objectives and/or financial plan
    - Market share, brand value and/or public confidence will be affected in the short term
    - Some attrition in clients and staff of Mi Vida
  - High impact (4):
    - Event has a major impact on strategic objectives and/or financial plan
    - Serious decline in market share, brand value, and/or public confidence
    - Noticeable attrition in clients and staff of Mi Vida
  - Catastrophic impact (5):
    - Event prevents the achievement of specific objectives and financial plan
    - Sustained, serious loss in market share, brand value and/or public confidence
    - Significant attrition in clients and staff of Mi Vida
- Operational
  - Negligible impact (1):
    - Modest resources need to be committed to an internal operational issue
    - Insignificant operational inefficiency
  - Low impact (2):
    - Escalation of resources that need to be committed to address operational issue
    - Minor operational inefficiency
  - Moderate impact (3):
    - Escalating internal and/or external resources need to be committed to addressing operational challenges
    - Larger, or multiple operational inefficiencies

- High impact (4):
  - Significant internal and/or external resources need to be committed to address operational issues
  - Deep and/or sustained operational interruptions
- Catastrophic impact (5):
  - Widespread or long-term shutdown of operations
  - Inability to properly market all the company's offerings
  - Threat of severe market share loss

The resulting risk assessment matrix i.e. a tool graphically representing potential risks is illustrated in Figure 4. Risk can be summarized as the likelihood score multiplied by the impact score. The risk matrix helps Mi Vida's management to assess and prioritize risks and develop an appropriate mitigation strategy at the company level. The risk landscape is constantly evolving, and the risk matrix will need to be updated periodically e.g. quarterly.

Figure 4: Risk assessment matrix with likelihood of occurrence and impact

Likelihood

Highly likely (5)					Major risk (25)
Likely (4)				High risk (16)	
Possible (3)			Moderate risk (9)		
Unlikely (2)		Low risk (4)			
Highly unlikely (1)	Negligible risk (1)				
Likelihood/ Impact	**Negligible Impact (1)**	**Low Impact (2)**	**Moderate Impact (3)**	**High Impact (4)**	**Catastrophic Impact (5)**

Impact

Source: AIS Capital Analysis

Risk scores between 12 and 25 should be elevated to the Board for review, re-evaluation of the risk, confirmation of the risk score and determination of the appropriate response depending on the company's risk appetite. Typical risk responses are[27]:

1. Avoid: Eliminate the conditions that allow the risks to exist
2. Reduce/Mitigate: attempt to minimize the probability or the risk occurring or the probability or likelihood of occurrence
3. Share: transfer the risk e.g. through acquiring appropriate insurance
4. Accept: Acknowledge the existence of the risk but take no action.

[27] https://ocro.stanford.edu/enterprise-risk-management-erm/key-definitions/definition-risk-response

3.3.3 Risk Mitigation

Effective risk mitigation involves ongoing monitoring, adaptability, and a proactive approach to address potential issues before they escalate. Mitigants for the identified risks are included in Table 10.

Table 10: Risk Treatment and Mitigations

Risk	Controls/Mitigation
Financial Risk	▪ Implementation of financial control systems to monitor and control the allocation and usage of finances ▪ Early Warning Systems: Implement early warning systems to identify borrowers at risk of default. ▪ Collections Strategy: Develop a collections strategy that includes communication, negotiation, and legal action if necessary.
Operational Risk	▪ Implement robust internal controls to safeguard against errors, fraud, and other operational risks. Controls may include segregation of duties, dual authorization, and regular reconciliations.
Technology and Data Security Risk	▪ Implement robust cybersecurity measures, including firewalls, encryption, and regular security audits, to safeguard financial and operational data.
Capacity and Staffing Risk	▪ Continuously monitor staff capacity and roles to ensure staffing gaps are proactively identified and filled.
Market and Economic Risk	▪ Continuously monitor economic indicators and trends to anticipate potential economic downturns and adjust strategies accordingly. ▪ Scenario analysis to assess the potential impact of different economic or financial scenarios ▪ Perform stress tests on financial models to evaluate the resilience of the organization to extreme scenarios ▪ Provide for adequate cash buffers to bridge market and economic downturns.
Compliance and Legal Risk	▪ Legal Review: Regularly review and update loan agreements and documents to ensure compliance with regulations. ▪ Regulatory and Legal Risks: Early Engagement with Authorities: Initiate discussions with local authorities early in the project to identify potential zoning or permitting challenges. This proactive approach can help address issues before they become major obstacles. ▪ Regulatory Reporting: Establish procedures for reporting to regulatory authorities as required by law. ▪ Employee Training: Provide ongoing training to staff to ensure they understand and adhere to relevant regulations
Insurance and Liability Risk	▪ Ensure comprehensive insurance coverage for various risks, including natural disasters and environmental issues. Regularly review and update insurance policies to address emerging risks. Consider engaging insurance experts to tailor policies to specific project needs, particularly for the TPS scheme to cover tenant damage etc.

3.3.4 Risk Action Plan and Reporting Guidelines

The Risk Action Plan and Reporting Guidelines for the TPS Servicer outline the strategies and procedures for identifying, mitigating, and reporting risks associated with the TPS Scheme. This plan is essential for maintaining the safety, security, and operational efficiency of managed properties. The plan identifies responsibilities, owners, reporting cycles, timelines, and the required reports. The process involves:

1. Monitoring and Control: Define key performance indicators for risk monitoring including identifying trigger points that signal the need for immediate action and defining thresholds for risk tolerance.
2. Establish a reporting structure for communicating risk status.

3.3.4.1 Monitoring and Control

Responsibility for monitoring and control falls to the Risk Manager. Mi Vida currently does not have a risk manager; however, management may designate one of the staff members to be the risk manager responsible for risk management and assessment and reporting to the Board. A full-time risk manager may subsequently be hired.

Key performance indicators for TPS Servicer performance are:

1. Collections: Ensuring deposits, and TPS monthly payments are received from tenants by the stipulated timeline and receipts issued to tenants.
2. Reporting: Up-to-date information availability on collections, amounts outstanding, late payments and arrears.
3. Remittances on time- remittance of collected funds to the requisite Mi Vida accounts.

The process of Monitoring and Control involves the following steps:

1. Gather data on identified KPIs related to identified risks and key risk indications.
2. Ensure data accuracy, completeness, and timeliness.
3. Analyse trends in risk data to identify patterns or deviations.
4. Conduct scenario analysis to understand potential future risks.
5. Evaluate the impact of different scenarios on organizational objectives.

3.3.4.2 Reporting to the Board

The final part of the Risk Action Plan involves reporting to the Board to keep them informed about the organization's risk landscape, mitigation efforts, and overall risk management strategy. These reports are crucial for facilitating informed decision-making and ensuring that the Board has a comprehensive understanding of the risks that may impact Mi Vida's TPS.

1. Monthly Risk Reports: The objective is to update the Board on changes in the risk landscape monthly. The report includes highlights of key risk events, incidents, and emerging risks as well as the status of ongoing risk mitigation initiatives.
2. Quarterly Risk Reviews: The objective is to conduct a more comprehensive review of the organization's risk exposure. The report includes a detailed analysis of risk trends and patterns as well as an assessment of risk mitigation effectiveness.
3. Annual Risk Assessments: The objective is to provide a comprehensive overview of the organization's risk profile annually. The report includes a thorough analysis of risk appetite and tolerance as well as an evaluation of the overall risk management program.

Contents of the Risk reports:

1. Incident Reports: communicate details of significant incidents and their impact on the organization. Components are incident descriptions, root cause analysis, and impact assessments as well as recommendations for preventing similar incidents in the future.

2. Compliance Status Reports: update the Board on Mi Vida’s adherence to regulatory requirements. This includes a summary of compliance audits and assessments as well as any identified areas of non-compliance and corrective actions taken.
3. Strategic Risk Reports: highlight risks that may impact the achievement of strategic objectives. Components are an assessment of risks related to major strategic initiatives as well as recommendations for mitigating strategic risks.
4. Scenario Analysis Reports: assess potential future risks and their impact on the organization. This includes the exploration of various scenarios and their likelihood as well as the implications of each scenario on organizational objectives.
5. Cybersecurity Risk Reports: update the Board on the organization's cybersecurity risk position. This includes a summary of cybersecurity incidents and effectiveness of cybersecurity measures and recommendations for improvement.
6. Insurance Coverage and Claims Reports: provides an overview of Mi Vida’s insurance coverage and claims history. Components are a summary of current insurance policies and details on any claims filed and their resolution status.

4. Appendix 1: TPS Credit Policy

4.1 Introduction

This Policy serves as a guide for consistent and fair decision-making, ensuring that lending practices align with Mi Vida's risk tolerance and regulatory requirements. It serves to operationalize commitment to responsible lending, customer satisfaction, and compliance with applicable laws and regulations.

4.1.1 Purpose and Scope

The purpose of this Policy is to provide guidelines for Mi Vida's risk management, regulatory compliance, provide a consistent and fair approach to credit decisions, protect TPS buyers, and provide guidance on appropriate credit management.

1. Risk Management: To establish guidelines and criteria for assessing credit risk associated with the TPS with the objective of minimising the risk of TPS default by setting clear parameters for borrower eligibility, and underwriting standards.
2. Portfolio Management: To optimise the composition and performance of the TPS portfolio with the objective of diversifying the TPS portfolio to spread risk, monitor portfolio performance, and make informed adjustments based on market conditions.
3. Regulatory Compliance: To ensure adherence to applicable Kenyan regulations governing TPS with the objective of mitigate legal and regulatory risks by incorporating compliance measures into lending practices.
4. Customer Protection: To protect the interests of TPS buyers and ensure fair treatment with the objective of establishing practices that prioritise TPS buyer education, transparency, and ethical conduct throughout the lending process.
5. Operational Efficiency, consistency and fairness: To streamline lending operations for efficiency and effectiveness with the objective of defining clear and standardised processes and criteria, roles, and responsibilities to enhance the efficiency of loan origination, underwriting, and servicing.

Scope of the Policy:

The Policy will cover the eligibility criteria, products under the TPS, underwriting standards, documentation requirements, pricing of the TPS process, TPS buyer approval and denial process, TPS servicing, monitoring, and reporting, TPS servicing and collections, performance metrics, early warning indicators, and reporting requirements to senior management and regulatory bodies, Quality Control and Audits, Technology and Automation in the lending process covering tools such as loan origination systems and credit scoring models, along with data security and privacy measures, complaint resolution outlining steps for timely resolution and adherence to consumer protection regulations, review and revision of the Policy establishing a schedule for Policy review and updates involving key stakeholders and decision-makers.

4.1.2 Policy Violation

Violations of this Policy may include but are not limited to wilful failure to implement guidelines as outlined by this Policy. Any proposed disciplinary actions resulting from violations of this Policy by staff members will be governed by applicable Mi Vida staffing codes of conduct, rules, and policies. Any violation of this Policy shall be subject to disciplinary action as prescribed by the Board of Directors.

4.1.3 Policy approval and review

This Policy takes effect from the date of signing and will be subject to review annually or as may be necessary by the Board of Directors of Mi Vida and may be updated from time to time in line with business needs.

4.2 General Policy

4.2.1 Authority

This Policy shall be approved by the Board of Directors of Mi Vida to provide direction and guidelines to the Credit Committee and management.

4.2.2 Eligibility Criteria for TPS

A tenant shall be considered for a loan only when he or she fulfils the following Conditions:

I. Must be eligible to own property in Kenya.
II. Must be able to raise the prescribed deposit.
III. Must have adequate income to make required TPS payments for the unit in question
IV. Must pass credit scoring threshold via credit scoring tool

4.2.3 Origination and Application Process

TPS origination shall be carried out by Mi Vida through applicable marketing channels. TPS applicants shall fill in the customer questionnaire and pay the applicable application fee specified by the Board of Directors and subject to change from time to time. The TPS application form shall specify the unit the customer is interested in and provide the required customer information to support the credit screening process.

Requirements

The TPS application form must be fully completed and supported by Relevant supporting documents (such as 6 month's most recent payslip, business records and current trade license) confirming the applicant's ability to repay the TPS.

Process

I. TPS applications shall be directed by the applicant to the Mi Vida offices, or via appropriate channels e.g., email or online portal.
II. The company's date stamp will be put on the application the same day when it is received for physical applications, and processing done in chronological order.
III. Credit Officers will review physical and digital customer applications/ questionnaires. The Credit office shall find out if the prospective applicant meets the requirements, verify the correctness of the information provided by the borrower in the application form and attachments thereof, and number the application form serially and enter the application in the TPS Application register.
IV. If requirements are not met in full, the Credit Officer handling the application will advise the customer on missing documents/ information or reject the application.
V. The credit officer will enter customer information into the credit scoring tool and generate a credit score and credit decision which shall be communicated to the customer.
VI. If the applicant does not agree with the Credit Officer, the TPS applicant has the right to contact the designated Mi Vida Complaints Resolution Officer who, together with the Credit Committee will enter the final verdict on whether or not the application should be reviewed further.

4.2.4 Functions of Credit Committee

The Credit Committee sets the decision-making process for Mi Vida's TPS for assessing and approving TPS applications. Key functions of the committee include:

- Risk Assessment: approve the credit risk assessment process associated with each TPS application.
- Policy Review and Development: Periodically review and update Mi Vida's credit policies. The credit committee contributes to the development of new policies or modifications to existing ones to adapt to changing market conditions and regulatory requirements.
- Credit Policy Adherence: Ensure that TPS applications align with Mi Vida's credit policies and guidelines.
- Monitoring and Reporting: Monitor the performance of the TPS portfolio over time. The credit committee receives regular reports on the status of approved TPS applications, delinquencies, and any emerging trends that may impact the portfolio.
- Approval or Rejection of TPS Applications: Review and make decisions on TPS applications. The credit committee has the authority to approve, reject, or recommend modifications to TPS applications based on risk assessments and Policy adherence.
- Risk Mitigation Strategies: Develop and implement risk mitigation strategies for approved TPS applications. This may involve specifying conditions for approval and setting interest rates in line with market conditions.
- TPS terms review: Determine the appropriate terms and conditions for the overall TPS. This includes setting the TPS amounts derived from housing unit prices of units offered under the TPS, interest rate, repayment period, and any special conditions that may apply.
- Compliance Oversight: Ensure that all TPS lending activities comply with relevant laws, regulations, and industry standards. The credit committee plays a role in overseeing compliance to mitigate legal and regulatory risks.
- Exception Handling: Address exceptions or deviations from standard credit policies. In cases where a TPS application deviates from established guidelines, the credit committee reviews and approves exceptions based on a thorough analysis.
- Quality Control: Implement quality control measures to ensure accurate and consistent credit decision-making. This may involve regular audits or reviews of credit decisions to maintain high-quality standards.
- Customer Complaints and Disputes: Address customer complaints or disputes related to credit decisions. The credit committee may review and respond to appeals or grievances from applicants who are dissatisfied with the initial decision.

4.2.5 Assessment/analysis/ appraisal

The Credit Officers will input customer information into the credit tool and accept or reject applicants based on the risk scores provided by the tool. Scores for each applicant along with the Credit Officer's notes will be recorded.

4.2.6 TPS approval

I. The Credit Committee or designated Management Committee as determined by Mi Vida shall meet to review TPS approved by the credit staff.
II. The Credit Committee or designated Management Committee shall approve TPS applications based on the applicant's capacity, ability to pay and credit history as expressed in the credit score from Mi Vida's credit scoring tool.

III. TPS applications shall be considered in the order in which they are received, provided when all conditions for approval have been satisfied, a TPS application will be approved by a majority decision of the Credit Committee.
IV. TPS applicants will be informed immediately and not later than 7 days of the decision that has been passed on the fate of their applications and reasons.
V. The rejected TPS applications are filed and reasons for rejection are indicated in the application forms which are therefore communicated to applicants.
VI. The Board of Directors shall approve TPS applications for staff and Directors.
VII. The Management / Credit Committee may at any time request more information or an interview with the applicant to satisfy their need to be assured that the application is fully compliant with this Policy.
VIII. Only once the TPS has been approved and all Policy requirements have been fully complied with, then the TPS agreement will be sent to the applicant.
IX. All TPS agreements must be registered in the TPS register by Mi Vida staff.

4.2.7 Interest Rates

The Board of Directors is empowered to set interest rates applicable to the TPS program. All applicable laws on required disclosures will be followed including informing the customers on the interest rate to be applied and the annual payment rate (APR) that includes the interest rate plus applicable fees.

Mi Vida will adopt a TPS pricing strategy, which will be based on full sustainability, considering the sustainability of the TPS program, growth, safety soundness and quality of services to tenants. Factors to be considered when determining interest rates include the full cost of funds, TPS risk, inflation, and market trends.

4.2.8 Payment and Recovery

The TPS is structured over a 22-year repayment period as follows:

- 10% Deposit upfront
- 24% of applicable payment during a 2-year construction period
- 66% of applicable payment during a 20-year payment period

I. The upfront deposit and TPS repayment period will be updated by the Board of Mi Vida based on an analysis of market needs from time to time. Such updates will apply to new TPS agreements and existing TPS agreements will not be affected.
II. TPS customers will be issued with payment schedules indicating deposit contributions and monthly payments.
III. Customers will be issued with monthly statements indicating payments made and outstanding amounts.
IV. Monthly payments shall be remitted by the customer to the TPS Servicer by the 5th of each month. Any request for an extension of time in which to pay shall be agreed to by the designated officer only in exceptional circumstances. Any extension so granted must be consented to by the TPS customer and shall be treated as though it was a new TPS and an extension agreement shall be executed and signed.
V. Mi Vida shall appoint a Credit committee to monitor the performance of all TPS and TPS Servicer performance. The Credit Committee shall receive monthly reports on the payment performance of all TPS and the performance of the Servicer.
VI. TPS customers may make early payments without penalties.

4.2.9 Insurance

Mi Vida may require payment protection insurance with Mi Vida as the beneficiary that receives an insurance payout if the TPS tenant is deceased before completing payments. Mi Vida's Board will determine the need for insurance based on the performance of the TPS and premiums will be bundled with monthly payments.

4.2.10 Delinquency

Mi Vida's credit officer shall at the end of each month prepare a TPS aging report listing all TPS whose repayment date has been exceeded in the following order:

- 1-30 days
- 31-180 days
- 181-360days
- 360 days and above

The Credit Committee shall recommend remedial actions to be taken on outstanding TPS accounts including sending reminders and legal notices. In the case where tenants are unable to meet their TPS payment obligations within 2 months of receiving notice, or another period as may be prescribed, Mi Vida shall initiate legal processes for eviction of the tenant and arrange for resale of the TPS housing unit to recover outstanding amounts. The notice period shall be reviewed by Mi Vida's Board periodically based on market conditions. The management will arrange for a refund of principal amounts paid by the tenant less resale transaction costs and repair costs.

4.2.11 Documentation Requirements

Mi Vida's credit department or designated equivalent shall maintain TPS customer documentation including up-to-date documentation of TPS files and ensure that the TPS loan file has in place the following information:

- TPS application,
- Appraisal and analysis report,
- TPS Contract

All application forms for TPS and all reports and minutes of the Credit Committee for every sitting shall be filed and retained in the MI Vida's files as permanent records.

4.2.12 Reporting

The following reports shall be provided to the Credit Committee:

Portfolio performance:

- Monthly, quarterly, half-yearly and annual delinquency reports shall be prepared by Mi Vida's credit officers, discussed by the Board of Directors, and compared with targets to keep track of the TPS program's overall rate of delinquency.
- TPS ageing report listing all TPS whose repayment date has been exceeded shall also be tabled 0-3 months, 3-6 months, 6-12 months, and over 12 months.
- Report on evictions and recoveries.

Risk Reports:

These reports are crucial for facilitating informed decision-making and ensuring that the Board has a comprehensive understanding of the risks that may impact Mi Vida's TPS.

1. Monthly Risk Reports: The objective is to update the Board on changes in the risk landscape every month. The report includes highlights of key risk events, incidents, and emerging risks as well as the status of ongoing risk mitigation initiatives.
2. Quarterly Risk Reviews: The objective is to conduct a more comprehensive review of the organization's risk exposure. The report includes a detailed analysis of risk trends and patterns as well as an assessment of risk mitigation effectiveness.
3. Annual Risk Assessments: The objective is to provide a comprehensive overview of the organization's risk profile annually. The report includes a thorough analysis of risk appetite and tolerance as well as an evaluation of the overall risk management program.

Contents of the Risk reports:

1. Incident Reports: communicate details of significant incidents and their impact on the organization. Components are incident descriptions, root cause analysis, and impact assessments as well as recommendations for preventing similar incidents in the future.
2. Compliance Status Reports: update the Board on Mi Vida's adherence to regulatory requirements. This includes a summary of compliance audits and assessments as well as any identified areas of non-compliance and corrective actions taken.
3. Strategic Risk Reports: highlight risks that may impact the achievement of strategic objectives. Components are assessments of risks related to major strategic initiatives as well as recommendations for mitigating strategic risks.
4. Scenario Analysis Reports: assess potential future risks and their impact on the organization. This includes the exploration of various scenarios and their likelihood as well as the implications of each scenario on organizational objectives.
5. Cybersecurity Risk Reports: update the Board on the organization's cybersecurity risk position. This includes a summary of cybersecurity incidents and effectiveness of cybersecurity measures and recommendations for improvement.
6. Insurance Coverage and Claims Reports: provides an overview of Mi Vida's insurance coverage and claims history. Components are a summary of current insurance policies and details on any claims filed and their resolution status.

5. Appendix 2: Comments on the Credit Information Sharing Mechanism

At the time of writing this report (February 2024), the 3 licensed Credit Reference Bureaus (CRBs) in Kenya i.e. Metropol CRB, CreditInfo CRB and Transunion Kenya CRB receive data either daily or monthly from mobile operators and Central Bank of Kenya regulated institutions including banks, deposit-taking Micro Finance Institutions, mortgage finance companies and regulated digital lenders. Information sharing is under the Credit Information Sharing (CIS) framework in Kenya and is governed by provisions of the Banking Act and the Banking (Credit Reference Bureau) Regulations, providing for the mandatory sharing of information on non-performing loans (NPLs) and voluntary sharing of information on performing loans.

For other financial service providers not covered by regulations, the CRBs need to create contracts on a one-on-one basis to receive data with the thousands of credit-only MFIs, hire purchase lenders and SACCOs serving millions of Kenyans. The CRBs have to seek CBK approval for each financial service provider onboarded and the scale of relationships created becomes a competitive advantage. Furthermore, there is no centralized system for the data, each CRB receives data and processes it based on internal models. As such, there is an information gap in the overall information available to CRBs collectively and individually since not all lenders provide borrower data to the CRBs.

Key challenges with the Credit Information Sharing mechanism include:

1. **Low Level of Coverage of Mandated Credit Data Sharing:** The insufficient extent of mandated data sharing by financial institutions poses a significant challenge in establishing comprehensive credit profiles. This results in incomplete information being available to Credit Reference Bureaus (CRBs), limiting their ability to provide accurate credit assessments. Additionally, enforcement of data-sharing mandates for non-regulated entities is often lacking, further exacerbating the issue. Recommendations:
   - Encourage further collaboration between regulatory bodies, such as the Central Bank of Kenya (CBK), and financial institutions to establish standardized guidelines for mandatory reporting of borrower data across all lenders.
   - Provide incentives or regulatory measures to encourage non-regulated entities to comply with data-sharing mandates.
   - Explore cost-sharing mechanisms or subsidies to alleviate the financial burden on CRBs associated with increasing CRB data coverage and creation of a centralized data repository.
2. **Understanding of the Role of CRBs and Transparent Credit Scores:** There is a need for greater clarity among borrowers regarding the role of CRBs and how credit scores are determined. Additionally, transparent approaches to improving credit scores for individuals previously listed negatively are essential to facilitate their financial inclusion and rehabilitation. Recommendations:
   - Conduct public awareness campaigns to educate individuals on the role and function of CRBs, as well as the factors influencing credit scores.
   - Provide accessible resources and support for individuals seeking to improve their creditworthiness, including guidance on addressing negative listings and managing debt responsibly, as well as an indication of timelines within which an improved score is possible.
   - Advocate for the adoption of transparent and standardized methodologies for calculating credit scores, ensuring consistency and fairness across CRBs.
3. **Integration of Risk-Based Pricing and Models by Lenders:** While CRB reports are commonly used by lenders for credit assessment, a more holistic approach involves integrating risk-based pricing and developing risk-based models. This allows lenders to assess borrower risk more accurately and tailor loan terms accordingly, rather than solely relying on CRB reports which may not capture all relevant risk factors. Recommendations:

- Continue to encourage lenders to adopt risk-based pricing strategies and develop sophisticated risk models that consider a broader range of factors beyond CRB data.
- Provide training and resources to lenders on implementing risk-based approaches to lending, including data analytics and risk management techniques for the development of predictive modelling capabilities for more accurate risk assessment.