It has been 50 years of

By Owen Wagabaza

It started its operations in a boutique in 1967 and 50 years later, Housing Finance Bank is the ninth largest bank in the country. It has an asset base of sh732b as of 2017.

Currently, the bank is the leading mortgage lender in the country, with approximately 60% of all Ugandan mortgage accounts.

The Housing Finance Bank head office in Kololo, Kampala. In the beginning, the bank did not have a home

How it all started

In August 2017, the two largest shareholders in the bank, the Government of Uganda and National Social Security Fund, each contributed \$8.2m (to make a total of \$16.4m) in fresh capital, to boost the bank's ability to lend to more mortgage borrowers and improve the lender's liquidity.

Housing Finance Bank's journey started on December 7, 1967 as a building society known as First Company of Building Systems. John Okwir, a former managing director of the bank, says the society comprised civil servants of British origin who were working in the colonies in East Africa.

Their headquarters were in present-day Zimbabwe and they had branches in Uganda, Kenya and Tanzania.

"However, with the attainment of independence, the employees withdrew, as many of them were leaving. There were, however, some Ugandans who had become members and they still needed the Building Society's services. So the British and Ugandan governments decided to form a company to continue with the services that the Building Society had been providing prior to independence,"Okwir says.

On December 7, 1967, the Housing Finance Company of Uganda was formed as a private company. It commenced as a finance company providing only two services — savings bank and provision of loans for mortgages.

The shareholding policy for the institution was that the Commonwealth Development Co-operation (CDC), which represented the British government, takes 50% stake, and then National Housing and Construction Corporation, on behalf of the Ugandan government, takes 50% as well. CDC later sold their shares to Development Finance Company of Uganda.

The company was, however, greatly affected by the Idi Amin regime, especially after the expulsion of the Asians from Uganda.

"Asians were the ones taking majority of the loans from Housing Finance. All the loans that they had acquired prior to the expulsion were moved to the Departed Asians' Property Custodian Board and the interest rates on these loans were suspended. This left the company unable to survive on mortgages," Okwir explains.

For quite a while, it operated as a savings bank and this went on until the Government pledged to continue supporting the bank, and with guaranteed support from the Government, the bank survived closure.

According to Okwir, Housing Finance later took on the sale of pool houses and from these, to collect over sh32b. And this money was later on used to recapitalise Housing Finance Company.

"In 2007, we decided to convert this financial institution into a bank and went ahead and applied for a licence of operation from Bank of Uganda, and we were given the licence on November 9, 2007 to begin operating as a commercial bank. That was the birth of Housing Finance Bank," Okwir, who at the time was serving as the company's managing director, says.

Challenges

For years, the company faced a big challenge of lack of long-term funding.

Okwir says Housing Finance Company was depending on customers' savings to operate, yet it was not sustainable to depend on these for the provision of mortgages.

At the time, the maximum time a client would save was three years, yet many customers wanted loans of 10 to 15 years, and this was

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growth, development

A bank's staff attending to a client at one of its brances in Kampala

difficult to handle because of the mismatch. To be sustainable, the company ended up offering loans of between one to three years.

"Understaffing was another challenge that we faced. We were less than 30 staff members and we could not carry out our activities efficiently as we were not represented regionally. Our loans were limited to 13 districts in the country. But the country was growing and there was need for us to expand as well, something we were unable to do at the time. There was also no confidence that the financial institution could be sustained,"Okwir says.

Okwir adds that there was also lack of operational space as the bank lacked offices.

"It is hard to believe but we started our operations at a boutique at Imperial Hotel. Then the company moved to the EADB building and later Kampala Road and later in Nakasero. However, over the years, with support from the board, the company was able to buy land in Kololo at Wampewo Avenue and built its own home."

Sustainablity, profitability

The bank has since 2002 experienced significant growth in financial position and remained profitable over the last 15 years of this journey.

Total assets have increased from sh43b in 2002 to sh732b in 2017, reflecting an average annual growth rate of 21%.

Judith Owembabazi, the head of marketing and product development at the bank, says this has been enabled by the strong support from customers, shareholders and other stakeholders who have provided the required funding for this growth.

Performance of the bank

- Profit after tax increased by 25% from Shs 18.1 billion in 2016 to Shs 22.6 billion in 2017.
- Total Assets increased by 8% from Shs 680 billion in 2016 to Shs 733 billion in 2017.
- Net loans and advances to customers increased by 13% from Shs 401 billion in 2016 to Shs 455 billion in 2017
- Customer deposits increased by 7% from Shs 353 billion in 2016 to Shs 379 billion in 2017.
- Shareholders' equity increased by 8% from Shs 130 billion in 2016 to Shs 141 billion as at 31 December 2017.

On the lending part, loans and advances to customers increased from sh32b in 2002 to sh455b in 2017, reflecting an average annual growth rate of 19%.

"The key strength of the bank is in long-term lending (mortgages) which accounts for over 60% of the bank's loans and advances. This has been made possible by the increasing customer demand in the housing sector, partnership with various property developers and the relatively stable lending rates that the bank offers to its customers," Owembabazi says.

On the liabilities side, customer deposits increased from sh17b in 2002 to sh379b in 2017, reflecting an annual average growth rate of 23%. This has been enabled by the various bank deposit products aimed at promoting financial inclusion.

Owembabazi adds that total equity increased from sh6b in 2002 to sh141b in 2017, reflecting an annual average of 24%. The growth in equity was partly enabled by capitalisation in 2007 by the shareholders of the bank.

"The bank has also posted profits over the years, and consistently declared dividends to shareholders. Profit after tax increased from sh2b in 2002 to sh20b in 2017, which is an average annual growth rate of 19%," she says.

"The fluctuation in profit after tax (2008-2014) was partly a result of costs of the transition from a credit institution into commercial banking, and the bank is now set to start benefiting from the investments made over that period," Owembabazi says.