

Even if you own the fanciest buildings in the city centre, but have no record of cash flows in banks, they will not find you eligible for a loan

# PROPERTY RICH IS NOT ENOUGH

BY JOAN MUGENZI

I recently encountered a property-wealthy man I will call Moses for purposes of this write-up.

I chanced on him in a lawyer's chambers, all shaken.

Moses had just been denied sh1b at a commercial bank, despite having property worth sh6b. For about 20 years, Moses consistently invested in land and forests and a residential property estimated at sh700m.

He had an investment idea that required sh1.3b and, therefore, Moses went to the bank to secure a sh1b loan, given that he had sh300m.

Everything seemed okay as the bank manager ticked off item by item that Moses had meticulously put together.

"May I look at the cash flow statement?" the bank manager is quoted to have asked. Moses had not included a cash flow statement. He had to process one and bring it to the manager, who then announced that the bank could not give Moses the loan because he had no money.

There was nothing wrong with the property and the bank manager said it would work as perfect collateral, but banks do not rely on collateral alone to give loans. Generally, lenders have what they consider the five C's of credit and cash flows are crucial. The other Cs, as listed by Investopedia, are: character, capacity, cash flows and prevailing conditions.

Cash flows show how money moves in and out of a business or how a borrower behaves with money. The cash flows demonstrate a customer's capability to pay back a loan.

"Banks cannot give you money, even if your property is at Constitutional Square, as long as you do not have cash flows. That is why one's banking history is important. There are people who have money, but because they do not bank, you cannot assess their character with money," explains a banking officer with Housing Finance.

As you plan for a secure future, therefore, sometimes you may need credit services. It is crucial as you think about this and apportion your investment portfolio accordingly. As you invest money in properties, ensure you invest in ventures that can also give you money and ensure cash flows.

Given the banking officer's explanation, it is also important that you transact through banks as only your bank statement will speak for you. No amount of explanation of how much you earn will work if there is no evidence of money coming in and going out. You will not need to defend records.

Many people tend to forget about cash flow when thinking about investment options, but remember, it can be frustrating to need quick money to sort out a problem and all you have is income tagged to your name, but you cannot touch it.

Moses' billions worth of property are now meaningless. In the eyes of his friends, he is a wealthy man, but in the eyes of bankers, he is a poor man! Well, poor is my interpretation.

It should also be clear that when you need money immediately, it will not be easy to convert that property into cash because selling property involves many bureaucratic processes.

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