

**FACTORS LEADING TO ADOPTION OF MORTGAGE FINANCING BY  
COMMERCIAL BANKS IN KENYA: A CASE STUDY OF KENYA COMMERCIAL  
BANK IN NAIROBI**

**BY**

**MWANGI GLADYS NYAMBURA**

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## DECLARATION

This management research project is my original work and has not been presented for examination in any university

Signed -----

Date-----

**MWANGI GLADYS NYAMBURA**

**D61/P/9003/2006**

This management research project has been submitted for examination with my approval as the university supervisor

Signed -----

Date-----

**DR. JOHN YABS**

Lecturer

School of Business

University of Nairobi

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## **DEDICATION**

I dedicate this work to my family members and friends for the sacrifice they made for me to complete this project. Their love, care, concern, support, encouragement and enthusiasm inspired me to achieve this goal. Dad, Mum, Wamae, Nyawira, Freddie, Bernard, Mary, Terry and Agnes; I'm truly honored by the love and support. To Erastus, Jedida, Joseph you were not only encouragers and supporters in this academic walk but you inspired me to reach greater heights in academic pursuits.

## ABSTRACT

This study sought to investigate the factors leading to adoption of mortgage financing by commercial banks in Kenya. The objectives of the study included to investigate into factors that led to mortgage adoption in Kenya Commercial Bank, find out the financial factors that led to mortgage adoption in Kenya Commercial Bank, and ascertain the benefits of mortgage financing to Kenya Commercial Bank's development.

The study used a descriptive research design to achieve the set objectives. The population of this study comprised of managers, credit officers, clerks and mortgage advisors from Commercial Banks headquarters based in Nairobi. Purposive sampling was used in this study to select managers, credit managers, clerks and mortgage advisors from each of the selected commercial banks. Data was collected through self-administered semi-structured questionnaires. Descriptive statistics such as means, standard deviation and frequency distribution were used to analyze the data. Content analysis was done for qualitative data. Statistical Package for Social Sciences (SPSS) was used to aid in analysis. Results were presented using pie charts, bar charts and graphs, percentages and frequency tables. Qualitative data was presented in prose.

This study found that market factors that influence commercial banks to adopting mortgage financing include; Market penetration, Cross selling potential, Competition from other banks, Relative political stability, and Economic reforms in Kenya. Adoption of mortgage financing is greatly influenced by high interest from mortgages. The research found that high interest from mortgages influenced mortgage financing to a great extent with a mean of 3.85 and a standard deviation of 0.872. The other factors that influenced commercial banks to adopt mortgage financing include; Kenya's financial laws requiring banks to have less cash in reserve and Kenya's financial laws requiring banks to lower interest rates on treasury bonds. Mortgage financing was found to be beneficial to commercial banks. Based on this study findings mortgage financing contributed to the development of the commercial banks. Other benefits of mortgage financing to commercial banks included; interest income, cross selling opportunities, market penetration and development, product development, customer loyalty to the bank due to the long term nature of mortgage finance, Higher customer satisfaction by offering several financial solutions alongside mortgage financing and the general growth of the bank.

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## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the study

A mortgage loan is a loan secured by real property through the use of a mortgage note which evidences the existence of the loan and the encumbrance of that realty through the granting of a mortgage which secures the loan. However, the word mortgage alone, in everyday usage, is most often used to mean mortgage loan. A home buyer or builder can obtain financing a loan either to purchase or secure against the property from a financial institution, such as a bank, either directly or indirectly through intermediaries. Features of mortgage loans such as the size of the loan, maturity of the loan, interest rate, method of paying off the loan, and other characteristics can vary considerably. In many countries, though not all Iran and Bali, Indonesia are two exceptions (Sonia, 2009). It is normal for home purchases to be funded by a mortgage loan. Few individuals have enough savings or liquid funds to enable them to purchase property outright. In countries where the demand for home ownership is highest, strong domestic markets have developed (Median, 2001).

According to Anglo-American property law, a mortgage occurs when an owner usually of a fee simple interest in realty pledges his interest right to the property as security or collateral for a loan. Therefore, a mortgage is an encumbrance limitation on the right to the property just as an easement would be, but because most mortgages occur as a condition for new loan money, the word mortgage has become the generic term for a loan secured by such property. As with other types of loans, mortgages have an interest rate and are scheduled to amortize over a set period of time, typically thirty years. All types of real property can be, and usually are, secured with a mortgage and bear an interest rate that is supposed to reflect the lender's risk. Mortgage lending is the primary mechanism used in many countries to finance private ownership of residential and commercial property. Although the terminology and precise forms will differ from country to country, the basic components tend to be similar (Asabere, 2001)

Many other specific characteristics are common to many markets, but the above are the essential features. Governments usually regulate many aspects of mortgage lending, either directly through legal requirements or indirectly through regulation of the participants or the financial markets, such as the banking industry, and often through state intervention; direct lending by the government, by state-owned banks, or sponsorship of various entities. Other aspects that define a specific mortgage market may be regional, historical, or driven by specific characteristics of the legal or financial system. Mortgage loans are generally structured as long-term loans, the periodic payments for which are similar to an annuity and calculated according to the time value of money formulae. The most basic arrangement would require a fixed monthly payment over a period of ten to thirty years, depending on local conditions. Over this period the principal component of the loan the original loan would be slowly paid down through amortization. In practice, many variants are possible and common worldwide and within each country.

Lenders provide funds against property to earn interest income, and generally borrow these funds themselves for example, by taking deposits or issuing bonds. The price at which the lenders borrow money therefore affects the cost of borrowing. Lenders may also, in many countries, sell the mortgage loan to other parties who are interested in receiving the stream of cash payments from the borrower, often in the form of a security by means of a securitization. In the United States, the largest firms securitizing loans are Fannie Mae and Freddie Mac, which are government sponsored enterprises.

Mortgage lending will also take into account the perceived riskiness of the mortgage loan, that is, the likelihood that the funds will be repaid usually considered a function of the creditworthiness of the borrower; that if they are not repaid, the lender will be able to foreclose and recoup some or all of its original capital; and the financial, interest rate risk and time delays that may be involved in certain circumstances (Dolde, 2006). The argument for such an observation is that banks tend to use non-price rationing, using for example the basis of borrower's income proof and credit history to allocate their loans consistent with loan underwriting practice. In general, credit rationing refers to loans made based on the creditworthiness of a prospective borrower rather than the rate of interest. In other words,

allocation of credit is not solely price-determined. As such, the practice of mortgage rationing takes two forms. The first type occurs when a bank refuses to make any loan to a borrower if some or all of the lending criteria are not satisfied. The second occurs when a bank is willing to grant a loan to a borrower as much as the sum requested, even though the borrower is willing to pay prevailing market interest rates or even higher rates (Jaffee and Russell, 2004). Virtually all mortgage financing arrangements will require an institution to put in some equity. Kenya Commercial Bank Long term loans are given to individuals or companies for purchase or construction of residential homes. Companies may also undertake estate development by making use of our short-term bridging finance and also to obtain end finance commitment for would be end buyers.

### **1.1.1 The role of mortgage industry in financial markets**

The Historical role of mortgages was always a predominant form of borrowing in rural economies because land was the most important asset. Landowners borrowed against future rents to finance current consumption or the development of their estates. The traditional form of mortgage lending was a direct loan from one individual to another, both of them usually wealthy (Miller, 2000).

### **1.2.2 Mortgage financing in Kenya**

Up to the late 1990s, the Mortgage Finance Sector had been the preserve of a few players i.e. East African Building Society (EABS), Housing Finance Corporation of Kenya (HFCK) now HF and the Savings & Loans, a subsidiary of Kenya Commercial Bank (KCB). East African Building Society has been a major player in the Mortgage Finance with development of several estates in Nairobi through its former subsidiary Akiba Finance (Okwir, 2002).

Housing Finance Company of Kenya (HFCK), through its subsidiary, Kenya Building Society, was involved in development of a number of estates most notably the Buru Buru estate, Komarock estate etc. Some insurance companies also provided mortgage finance but in a small way. The three key players of mortgage financing played a major role in provision of Mortgages until the late nineties that saw the entry into the market by Commercial banks

(Daphnis and Ferguson, 2004). Currently, the following are providing mortgage finance:- Barclays Bank of Kenya, Savings and Loans Kenya Commercial Bank subsidiary, Standard Chartered Bank, CFC/Stanbic Bank, Housing Finance (HF) formerly HFCK, ECObank – formerly EABS, Commercial Bank of Africa (CBA), I& M Bank Ltd, Equity Bank Ltd, National Housing Corporation and Britak.

### **1.1.3 Commercial Banks in Kenya**

The banking sector comprises of 45 institutions, 41 of which are commercial banks, 3 mortgage finance companies, one non-bank financial institutions and one building society (CBK, 2006). However, Gulf African Bank Ltd commenced banking business in November 2007 thereby increasing commercial banks to 46 institutions by December 2007. Out of the 45 institutions, 34 were locally owned. The foreign Banks comprised of 6 locally incorporated and 5 branches of foreign incorporate institutions.

As depicted from the CBK reports, local banks dominates the Kenyan banking sector in terms of numbers, but only account for 48.2% of the sector's total assets, closely followed by the foreign owned banks with 43% of the sectors assets. The Kenyan banking sector has continued to record impressive growth in the last few years. For example is the period ending December 2007, the overall profitability rose by 30 percent while the asset portfolio expanded by 26.1 percent over the previous year. The banking sector performance indicators improved with a decline in the stock of non-performing loans and enhancement of capital adequacy ratios attributed mainly to fresh capital.

### **1.2 Statement of the problem**

The concept of innovation often appears in the context of technology adoption and has also been used in context of e-commerce adoption research Birch (1989). Conversely, skill shortages and lack of knowledge are found to be inhibiting adoption factors along with other less obvious barriers, advantages and opportunities.

Commercial banks have made strides due to improved use of mortgage financing related systems in the past. The issue now is to whether the heavy investment in new technologies

will lead to improved efficiency leading to customer satisfaction and consequently higher profits and improved self sufficiency. The other issue arising is whether all technologies are viable or are certain technologies not necessary in consideration of the clients. What is the order of implementation of various technologies as in which is required and will increase efficiency faster than the others?

Commercial banks in Kenya, Kenya commercial bank being one of them have been in the first line to finance mortgages. There is an extensive literature on mortgages in commercial banks in Kenya. Murugu (2003) did a study on the perceived quality of service in the mortgage sector. Ndirangu (2004) did a study on effect of types of mortgages on financial performance of mortgage institutions in Kenya. Omondi (2003) did a study on responses of mortgage companies in Kenya to threats of new entrants. There is no known study that has been done on factors leading to adoption of mortgage financing in Commercial banks of Kenya, a knowledge gap. This study is motivated to bridge the gap by investigating on the factors leading to mortgage financing adoption in Kenya Commercial Bank.

### **1.3 Objectives of the study**

#### **1.3.1 General objectives of the study**

The general objective of this study was to determine the factors leading to adoption of mortgage financing in Kenya Commercial Bank

#### **1.3.2 Specific objectives of the study**

The specific objectives of this study were;

- i. To investigate into factors that led to mortgage adoption in Kenya Commercial Bank
- ii. To find out the financial factors that led to mortgage adoption in Kenya Commercial Bank
- iii. To ascertain the benefits of mortgage financing to Kenya Commercial Bank's development

#### **1.4 Research Questions**

This study was to answer the following research questions;

- i. Which were the market factors that led to mortgage financing adoption by Kenya Commercial Bank?
- ii. Which were the financial factors that led to mortgage financing adoption by Kenya Commercial Bank?
- iii. How did mortgage financing benefit the development of Kenya Commercial bank?

#### **1.5 Importance of the study**

The study was of great benefit to Kenya Commercial Bank since it would outline risk factors involved in financing mortgages. The development of the banks depends on several factors of which a mortgage financing plays a major role in the current banking. This study was to ascertain the benefits of mortgage financing to Kenya Commercial Bank.

To the government the study was to reveal market and financial factors that led to mortgage financing in commercial banks in Kenya. This would help the government in policy making pertaining to asset financing.

Academicians would benefit from the study since it was to provide the basis upon which further studies on factors that led to mortgage financing could be done.



## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

During recent years, all over the world, considerable effort has been made to extend opportunities to mortgages so that ordinary people can own their own homes. This is the product of two related factors:

On the one hand, the housing finance market has become more competitive as new providers have been encouraged to enter the market. Such providers have been seeking new customers to extend their activities. Thus, the extension of mortgage services is a commercial response to market conditions. On the other hand, the state has been looking to the market to address housing need. Faced with considerable housing problems and seeking to reduce public expenditure, governments have sought to encourage the market to address needs where possible (The World Bank, 2006).

In developed countries, the cost of a dwelling can often be 2.5 to 6 times the average annual salary. However, the average cost of a decent low-income family house in Ghana is more than 10 times the average annual salary of most key workers in Ghana. In Algeria the cost can be as high as 12 times the annual salary. This has had considerable implications for the success of mortgage mechanisms and the desire for homeownership.

In the developed world, mortgage lending is at an all time high. The aim has been to encourage increased homeownership. This has meant that in countries like Australia and the United States, the percentage of owner-occupiers with mortgages is 45 per cent and 63 per cent respectively. In the US, homeownership has become a significant measurement of economic health. Moreover, in 2002, despite the worrying increase in property values, 52 percent of the mortgages given out by an institution like Fannie Mae went to low and moderate income families (The World Bank, 2004).

In many African and Asian countries, despite its recognized economic and social importance, housing finance often remains underdeveloped. The low levels of lending reflect the small numbers who can afford mortgages because of the high cost of houses in relation to incomes.

It also includes the perceptions of risk that are based on, amongst other things, the informal nature of most title deeds and property.

The World Bank estimates that about 40 percent of newly formed households (300,000 units) in Mexico earn less than 3 minimum wages, US\$ 327, and therefore cannot afford a completed house in a serviced neighborhood. The result is that only 12.6 per cent of housing stock in Mexico is currently mortgaged and self-built housing accounts for roughly half of all building in Mexico (The World Bank, 2002).

In Thailand on the other hand, mortgage finance, supported by the Government Housing Bank, has picked up considerably, with an annual increase of about 33 per cent in the decade from 1985 to 1995. In China, the system of housing finance has been significantly developed. Shifting from a system of housing based on work units, Housing Provident Funds have been established in all of the 203 large and medium sized cities and most of the 465 small sized cities, with 69 million participants. With over 149 billion yuan raised, only 10 per cent has been released in mortgages loans partly because of a problem of affordability.

Affordability is one of the problems faced by housing finance institution in Africa. In Kenya, it is estimated that during 2004 the banks and mortgage institutions only offered 9000 loans. The Tanzanian Housing Bank, established in 1973 and which collapsed in 1995, only issued 36,000 loans over a 22 year period. Even in South Africa, 75% of households earn too little to be considered for mortgage loans (The World Bank, 2005). The reality of the housing situation in many developing countries means that new ways of micro financing and community funds have to be encouraged if the poor are to be provided with adequate shelter and basic services.

## **2.2 The role of mortgage industry in financial markets**

The Historical role of mortgages was always a predominant form of borrowing in rural economies because land was the most important asset. Landowners borrowed against future rents to finance current consumption or the development of their estates. The traditional form of mortgage lending was a direct loan from one individual to another, both of them usually wealthy (Asare and Whitehead, 2006).

### **2.2.1 The major role is provision of housing to the Kenyan public**

A home is an investment and one derives a lot pride by owning one rather than renting. This can be done through the various Mortgage products offered by Mortgage companies and some banks. These products include: Built unit, off plan, construction, plot loan, equity release, project finance, commercial properties (Basu *et al.*, 2004).

### **2.2.2 Provide a mechanism of aggregating funds through financial intermediation**

Here the intermediary obtains funds from savers in exchange for securities for example certificate of deposits. They then use this money in lending in form of mortgage loan. Savings and loans associations (S & L'S) take the funds of many small savers and then lend this money to home buyers and other types of loans. Savers obtain a degree of liquidity that would be absent if they made mortgage loans directly (Asare and Whitehead, 2006).

### **2.2.3 Provides a means of managing risk**

Mortgage companies and banks that offer mortgage loans, hold diversified portfolios of mortgage loans and therefore spreading risks in a manner that would be impossible if individuals were making mortgage loans directly.

### **2.2.4 Economic execution of transactions like processing and collections**

Since mortgage companies are large in size and number they gain in economies of scale. They also have more expertise in analyzing credit, setting up loans, and making collections than individuals; thus reducing costs of processing loans and subsequently increasing the availability of real estate loans.

### **2.2.5 Encourage savings**

Mortgage financing requires borrowers to put in some savings to finance part of the cost of property by making a down payment.

## **2.3 Theoretical Framework**

### **2.3.1 Title theory and lien theory of mortgages**

Some banks retain and treat the mortgage as a title theory. Since the mortgage is said to hold a title interest, she has the right to possession under this theory. Some banks apply a lien theory. This theory only gives the mortgagee a lien interest in the property. In a title theory bank, the mortgage is treated as having transferred title to the mortgagee, subject to the mortgagee's duty to reconvey if payment is made. The title is said to remain in the mortgagee until the mortgage has been satisfied and foreclosed. Although the mortgagee has the right of possession to the property, there is generally an express agreement giving the right of possession to the mortgagor. The mortgagee is said to hold the title for security purposes only. The mortgagor is given the right of possession (Buckley and Kalarickal, 2004).

In a lien theory bank, the mortgagor retains legal and equitable title to the property, but conveys an interest that the mortgagee can only foreclose upon to satisfy the obligation of the mortgagor. This is equivalent to a future interest in the property which allows the mortgagee to use the process of foreclosure. The interest is a security interest or mortgage, which forms a lien on the property. In this theory the right to possession arises upon a default. The mortgagor has a right to sue the mortgagee for any interference with his right of possession (Buckley and Kalarickal, 2004).

For practical applications there is usually very little difference between a lien theory and a title theory. The principle difference arising in the title theory bank is that the mortgagee is given the right to possession before the foreclosure is complete. The language of the mortgage provides for possession rights being in the mortgagor up to the time of the foreclosure.

### **2.3.2 Adoption in organizations**

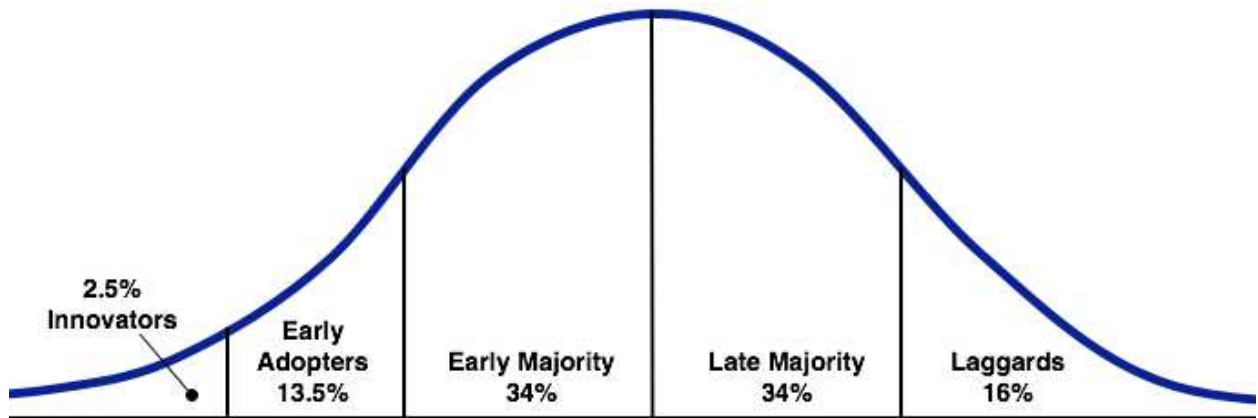
Innovations are often adopted by organizations through two types of innovation-decisions: collective innovation decisions and authority innovation decisions. The collection-innovation decision occurs when the adoption of an innovation has been made by a consensus among the

members of an organization. The authority-innovation decision occurs when the adoption of an innovation has been made by very few individuals with high positions of power within an organization (Rogers, 2005). Unlike the optional innovation decision process, these innovation-decision processes only occur within an organization or hierarchical group. Within the innovation decision process in an organization there are certain individuals termed "champions" who stand behind an innovation and break through any opposition that the innovation may have caused. The champion within the diffusion of innovation theory plays a very similar role as to the champion used within the efficiency business model Six Sigma. The innovation process within an organization contains five stages that are slightly similar to the innovation-decision process that individuals undertake. These stages are: agenda-setting, matching, redefining/restructuring, clarifying, routinizing. There are both positive and negative outcomes when an individual or organization chooses to adopt a particular innovation. Rogers states that this is an area that needs further research because of the biased positive attitude that is associated with the adoption of a new innovation (Rogers, 2005). In the Diffusion of Innovation, Rogers lists three categories for consequences: desirable vs. undesirable, direct vs. indirect, and anticipated vs. unanticipated.

### **2.3.3 Adoption model**

The innovation adoption curve of Rogers is a model that classifies adopters of innovations into various categories, based on the idea that certain individuals are inevitably more open to adaptation than others.

The concept of adopter categories is important because it shows that all innovations go through a natural, predictable, and sometimes lengthy process before becoming widely adopted within a population (Rogers, 2000)



**Figure2. 1: Rogers's innovation adoption curve**

Roger's categories include; innovators (2.5 %), early Adopters (13.5 %), early Majority (34 %), late Majority (34 %) and laggards (16 %). Rogers's adopter's characteristics are important because a person's innovation adoption characteristic affects the rate of uptake of an innovation over time. Different adopter groups buy into innovation for different reasons and have different expectations. People who are innovators and early adopters are easier to convince to innovate. Mainstream adopters (early and late majority) who make up 64 % of any population and these adopters determine whether an innovative practice is embedded. Mainstream adopters need different support structure from early adopters in terms of support, different emphasis on technology and teaching practice. Innovators may require looser and less tightly controlled conditions, while mainstream adopters may require more stability and support (Repp, 2004).

Innovators and early adopters make up only a small proportion of any population (2.5% are innovators and early adopters about 13%) and there are not enough of them to have an impact on embedding innovation in an organization.

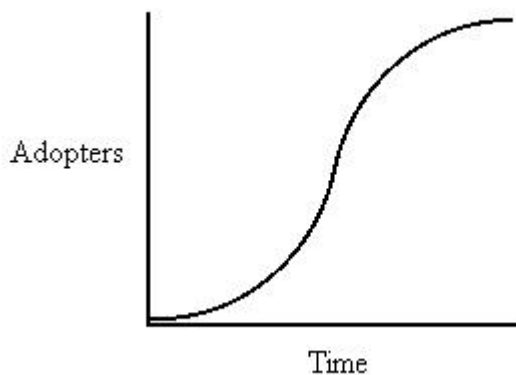
The early and late majority (called the mainstream adopters) makes up 64 % of any population and these are the ones who can make the difference to whether an innovative practice is embedded in an organization. The early majority are more practical: they do think through the pros and cons of a new idea before they adopt, so they help to make it more

tangible and acceptable. But if the support systems and infrastructure aren't there, they'll hold back on a commitment.

The late majority, on the other hand, are creatures of habit and predictability. They want to know the rules, they love systems. The beautiful thing about the late majority is that when they don't find rules or systems, they'll start figuring them out. Laggards are very set in their way, and will only adopt innovation when it has become mainstream i.e. standard practice in an organization (Repp, 2004).

### S-shaped Adoption Curve

Another important concept described by Rogers (2000) is the S-shaped adoption curve i.e. successful innovation goes through a period of slow adoption before experiencing a sudden period of rapid adoption and then a gradual leveling off (forms an S-shaped curve).



**Figure 2. 2: S-shaped adoption curve**

Rapid expansion of most successful innovations will occur when social and technical factors combine to permit the innovation to experience dramatic growth.

## 2.4 Empirical Review

### 2.4.1 Types of Mortgages

Mortgage programs may be classified into two different groups, as fixed rate loans and adjustable rate loans.

#### **2.4.1.1 Fixed-Rate Mortgages**

According to Chijoriga (2000), Fixed-rate mortgages are the most common mortgage for first-time homebuyers because they're stable. Typically the monthly mortgage payment remains the same for the entire term of the loan allowing for predictability in your monthly housing costs.

The benefits of a fixed-rate mortgage include: inflation protection, long term planning and low risk. If interest rates increase, the mortgage and mortgage payment will not be affected. The customer will know what his/her monthly mortgage expense will be for the entire term of your mortgage. This can help you plan for other expenses and long-term goals. The customer will always know what your mortgage payment will be, regardless of the current interest rate. This is why fixed-rate mortgages are so popular with first-time buyers (Basu *et al.*, 2004).

#### **2.4.1.2 Interest-only, fixed-rate mortgages**

A five- or ten-year interest-only period is typical. After this time, the principal balance is amortized for the remaining term. In other words, if a borrower had a thirty-year mortgage loan and the first ten years were interest only, at the end of the first ten years, the principal balance would be amortized for the remaining period of twenty years. The practical result is that the early payments (in the interest-only period) are substantially lower than the later payments. This gives the borrower more flexibility because he is not forced to make payments towards principal. Indeed, it also enables a borrower who expects to increase his salary substantially over the course of the loan to borrow more than he would have otherwise been able to afford, or investors to generate cash flow when they might not otherwise be able to. During the interest-only years of the mortgage, the loan balance will not decrease unless the borrower makes additional payments towards principal (Daphnis and Ferguson, 2004). Under a conventional amortizing mortgage, the portion of a payment that represents principal is very small in the early years (the same period of time that would be interest-only).



### **2.4.1.3 Graduated payment mortgage loan**

Graduated mortgage loan is often referred to as GPM. It is a mortgage with low initial monthly payments which gradually increase over a specified time frame. These plans are mostly geared towards young men and women who cannot afford large payments now, but can realistically expect to do better financially in the future (Wood, 2004)

GPMs are available in 30 year and 15 year amortization, and for both conforming and jumbo mortgage. Over a period of time, typically 5 to 15 years, the monthly payments increase every year according to a predetermined percentage (Murugu, 2003). For instance, a borrower may have a 30-year graduated payment mortgage with monthly payments that increase by 7 % every year for five years. At the end of five years, the increases stop. The borrower would then pay this new increased amount monthly for the rest of the 25-year loan term (UN-Habitat, 2006).

### **2.4.1.4 Adjustable rate mortgage loans**

An adjustable rate mortgage (ARM) is a mortgage loan where the interest rate on the note is periodically adjusted based on a variety of indices. Among the most common indices are the rates on 1-year constant-maturity Treasury (CMT) securities, the Cost of Funds Index (COFI), and the London Interbank Offered Rate (LIBOR). A few lenders use their own cost of funds as an index, rather than using other indices (Wijkander, 2000). This is done to ensure a steady margin for the lender, whose own cost of funding will usually be related to the index. Consequently, payments made by the borrower may change over time with the changing interest rate (alternatively, the term of the loan may change).

ARMs generally permit borrowers to lower their initial payments if they are willing to assume the risk of interest rate changes. In many countries, banks or similar financial institutions are the primary originators of mortgages. For banks that are funded from customer deposits, the customer deposits will typically have much shorter terms than residential mortgages. If a bank were to offer large volumes of mortgages at fixed rates but to derive most of its funding from deposits (or other short-term sources of funds), the bank would have an asset-liability mismatch: in this case, it would be running the risk that the

interest income from its mortgage portfolio would be less than it needed to pay its depositors. Banking regulators pay close attention to asset-liability mismatches to avoid such problems, and place tight restrictions on the amount of long-term fixed-rate mortgages that banks may hold (in relation to their other assets). To reduce this risk, many mortgage originators will sell many of their mortgages, particularly the mortgages with fixed rates (Kluger and Miller, 2000).

For the borrower, adjustable rate mortgages may be less expensive, but at the price of bearing higher risk. Many ARMs have "teaser periods," which are relatively short initial fixed-rate periods (typically one month to one year) when the ARM bears an interest rate that is substantially below the "fully indexed" rate. The teaser period may induce some borrowers to view an ARM as more of a bargain than it really represents. A low teaser rate predisposes an ARM to sustain above-average payment increases.

#### **2.4.1.5 Negative Amortization Mortgage**

Amortization refers to the process of paying off a debt (often from a loan or mortgage) over time through regular payments. A portion of each payment is for interest while the remaining amount is applied towards the principal balance. The percentage of interest versus principal in each payment is determined in an amortization schedule. Negative amortization only occurs in loans in which the periodic payment does not cover the amount of interest due for that loan period. The unpaid accrued interest is then capitalized monthly into the outstanding principal balance. The result of this is that the loan balance (or principal) increases by the amount of the unpaid interest on a monthly basis (Dolde, 2006). The purpose of such a feature is most often for advanced cash management and/or more simply payment flexibility, but not to increase overall affordability. A newer loan option has been introduced which allows for a 40-year loan term. This makes the minimum payment even lower than a comparable 30-year term.

#### **2.4.2 Key features of mortgage business**

Mortgage loan is characterized by the following features:

### **Repayment period**

Mortgage repayment periods vary from company to company. It currently ranges between 1-20 years. The choice of term depends on one's ability to meet the loan repayments and their retirement age. The maximum age limit is currently 65 years (Stiglitz and Weiss, 2005).

### **Minimum/Maximum loan limits**

There are currently no loan limits as loan amounts are mostly determined by ability to pay and the property values- as per financing percentages described above.

### **Interest rates and what determines these rates**

The interest rates depend on the term of borrowing, and currently range between 15% (shortest term 1-5 years) and 15.75% (longest term 12-20 years). A rate of 15.5% is applicable for over 5- 12 years. Diaspora market enjoys the relatively the same rates (Yang and Maris, 2004).

### **Mortgage Finance Assessment**

Employed persons: latest pay stubs/slips say 3 months and bank statements say latest 3-months and latest income tax returns (Arimah, 2000). Self employed persons: We require: a business/company profile, registration certificate, 6 months bank statements and latest 2 years tax returns.

### **Credit rating**

There are credit department that assesses all applications. However, in the future firms may rely on credit ratings/ reference reports sent to them from foreign rating agencies.

## **Pre-qualification and Approval**

Pre-qualification of all applications received is normally done. This would usually involve checking all requisite documents have been received/ testing ability to pay/ seeking clarification if need be. Then a request for a valuation of the property will be required. Loan approval process will usually be after receipt of valuation report. Pre-approval: will usually be in specific cases- e.g. in project financing (Chijoriga, 2000).

## **2.5 Factors leading to mortgage financing adoption**

### **2.5.1 Changing mortgage climate**

Kenya's changing mortgage climate, which according to an article in the Washington post began when Kenya's financial laws changed, requiring banks to have less cash in reserve, Lower interest rates on treasury bonds, encouraged banks to find other ways to invest money. These days, Barclays offers interest rates around 13 percent (from a previous high of 30 %). This has made banks to venture into mortgage business in order to supplement their business income. Premier mortgage financier, Housing Finance and UN Habitat have signed a framework agreement establishing the terms for future cooperation in provision of affordable housing (UN-Habitat, 2005).

### **2.5.2 Sustained economic growth**

Kenya's nascent personal finance markets are being fuelled by the sustained economic growth that underpins the development of the rest of the banking sector. High commodity prices, relative political stability and economic reform in the Kenya have seen average annual growth rates in excess of 6 percent, and the International Monetary Fund expects Kenya to grow at an average rate of 6.4 percent in 2008 (McLeod, 2002). Economic success has manifested itself in the emergence of a middle class and increasing numbers of educated professionals from the diaspora returning to the continent. As more people enter the formal economy, the market for personal finance is seeing ever greater demand.

Incomes are growing and people feel a lot more confident to take on loans to buy their homes. Changing peoples' perception of debt and consumer borrowing in Kenya is an important step in home ownership. Some Kenyans perceive debt as a negative thing because they don't understand the product. Once they become comfortable that debt is not something to be ashamed of, debt does not mean you're going to be jailed, that you lose your livelihood, and that these institutions are there to help you overcome these concerns, they are happy to borrow (Hancock and Wilcox, 2006).

Personal finance has the potential to transform Kenyan society. It is still in its infancy but there is no doubt about it.

### **2.5.3 Cross-selling potential**

When a bank has a borrower, he stays with the bank for a couple of years. That allows the bank to not just give a housing loan but to sell life insurance, a current account and other savings products.

According to Roy (2003), mortgage lending in Ghana increased from \$2.4m in 2002 to \$44.1m in June 2008, and there are signs that the customer base is widening. Since its inception in 2006, Ghana Home Loan's average loan cost has dropped from \$150,000 to \$35,000. Yet even at these prices, mortgages remain out of reach for much of the country's population. A \$35,000 home loan is still around 35 times Ghana's average household income.

### **2.5.4 Profitability**

One East African bank has managed to buck the trend of lending exclusively to high income customers. With mortgages starting from as little as \$6, Kenya's Equity Bank has experienced considerable commercial success by targeting precisely those segments of the market shunned by other banks. Equity's pre-tax profits increased from KSh 74m in 2002 (then \$0.9m) to KSh2.4bn in 2007 (then \$41m). For the first nine months of 2008 alone it posted a 177 percent pre-tax profit increase to KSh4.24b (\$53.66 million) (NHAZ, 2002).

### **2.5.5 Market penetration**

Today, with 2.8m account holders, Equity claims to be home to almost half of all the bank accounts in Kenya.

This success is due to what is described as a unique business model that is suitable for low income, or “bottom of the pyramid” consumers. “It is readily accessible; it is conveniently located and generally affordable for that segment. This is in the sense that the transactions have been reduced to small units that are suitable for that segment.”

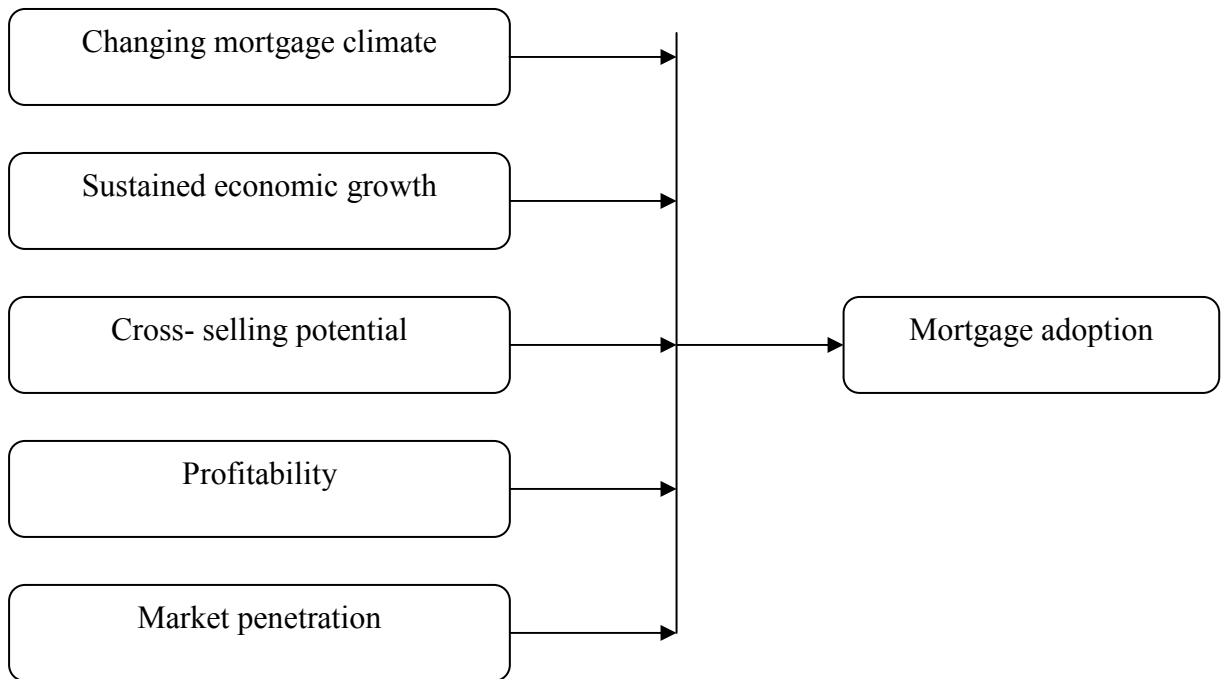
On the back of its success, Equity has recently started operations in Uganda and South Sudan. In 2007, the bank acquired a 25 percent stake in the Kenyan mortgage company Housing Finance, where it hopes to apply its model to affordable housing for low income consumers (Dolde, 2006).

For the time being, Africa’s housing markets’ contribution to GDP remains limited, but there is little disagreement about their potential. The experience of Equity Bank demonstrates that the obstacles to providing formal financial services to the informal sector are not insurmountable, so long as the right local sensitivity and innovation are applied.

### **2.6 Conceptual Framework**

A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. A conceptual framework is a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate this. The adoption of mortgages by commercial banks in Kenya depends on the following factors: changing mortgage climate, sustained economic growth, cross- selling potential, profitability and market penetration.

**Figure 1: Conceptual framework**



**Independent variables**

**Dependent variables**

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter describes the methods that were used in the collection of data pertinent in answering the research question. It was divided into research design, study population, sample size sampling design, data collection, and data analysis methods.

### **3.2 Research Design**

This research study was a descriptive research design. This research problem could best be studied through the use of a descriptive research design. In descriptive Research is the investigation in which quantity data is collected and analysed in order to describe the specific phenomenon in its current trends, current events and linkages between different factors at the current time. Descriptive research design was chosen since it would enable the researcher to generalise the findings to a larger population

### **3.3 Target Population**

Target population is the specific population about which information is desired. According to Ngechu (2004), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. The population of this study comprised of managers, credit officers, clerks and mortgage advisors from Commercial Banks headquarters based in Nairobi. There are 44 commercial bank headquarters in Nairobi region, therefore the target population of this study was 44.

### **3.4 Sampling design and sample size**

Purposive sampling method is a deliberate non-random method of sampling which aims at selecting a sample of people, settings or events with predetermined characteristics. Purposive sampling was used in this study to select managers, credit managers, clerks and mortgage advisors from each of the selected commercial banks. The researcher believed that bank



managers, credit managers, clerks and mortgage advisors had all the necessary information on mortgages which was needed for this research study. The sample size of this research study was 44 respondents. This would comprise of all the 44 respondents from all the Commercial Banks headquarters.

### **3.5 Data Collection**

The researcher used primary data. Primary data was too obtained through self-administered questionnaires with closed and open-ended questions. The researcher selected the questionnaire since it was the most appropriate toll to gather information that could determine market factors that led to mortgage adoption, financial factors that led to mortgage adoption and to ascertain the benefits of mortgage financing to Commercial banks in Kenya. The questionnaires included structured and unstructured questions and were administered to all the respondents. The closed ended questions would enable the researcher to collect quantitative data while open-ended questions would enable the researcher to collect qualitative data.

### **3.6 Data Analysis**

The collected data was thoroughly examined and checked for completeness and comprehensibility. The data was then summarized, coded and tabulated. Descriptive statistics such as means, standard deviation and frequency distribution was used to analyze the data. Data was coded and entered into the Statistical Package for Social Sciences (SPSS) for analysis. SPSS was used to perform the analysis as it aids in organizing and summarizing the data by the use of descriptive statistics such as tables. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency table.

## **CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF FINDINGS**

### **4.1 Introduction**

This chapter discusses the interpretation and presentation of the findings. The general objective of the study was to determine the factors leading to adoption of mortgage financing in Commercial Banks. The specific objectives of the study were; to investigate into market factors leading to mortgage adoption in Commercial banks, to find out the financial factors leading to mortgage adoption in Commercial banks, and to ascertain the benefits of mortgage financing to Commercial banks development. This chapter focused on data analysis, interpretation and presentation. The researcher made use of frequency tables and percentages to present data.

#### **The Response Rate**

The researcher targeted a sample of 44 respondents from banks out of which 35 responses were obtained. This represented a 79.5% response rate. According to Babbie (2002) any response of 50% and above is adequate for analysis thus 79.5% is even better.

### **4.2 General Information**

The banks from which the study was conducted were: Kenya Commercial Bank, National Bank of Kenya, and CFC Stanbic bank.

The researcher sought to know the designations held by the respondents. The respondents' designations included managers, clerks, credit officers and mortgage advisors. The number of each of the respondents is as represented in Figure 4.1

**Figure 4. 1: Designations held by the respondents**

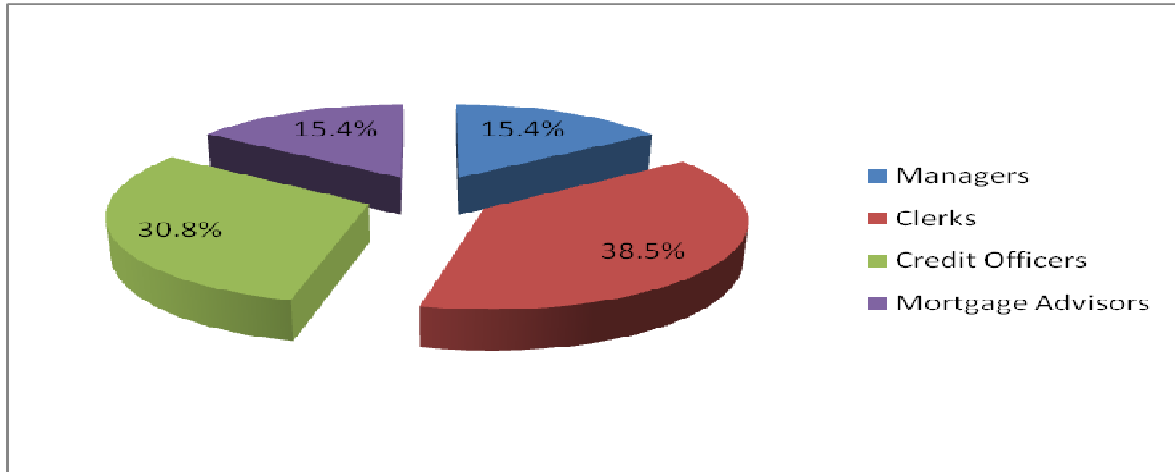


Figure 4.1 shows the designations held by the various respondents that were interviewed. From the findings, 38.5% of the respondents were clerks. 15.4 % of the respondents were managers, 15.4% were credit officers and 30.8% of the respondents were Mortgage advisors. From the research the researcher deduced that most of the respondents were bank clerks.

### **Respondents experience in banking**

The researcher also sought to establish how long the respondents had been working in the bank. The findings are presented in Fig. 4.2

**Figure 4. 2: The period the respondent had worked in the bank**

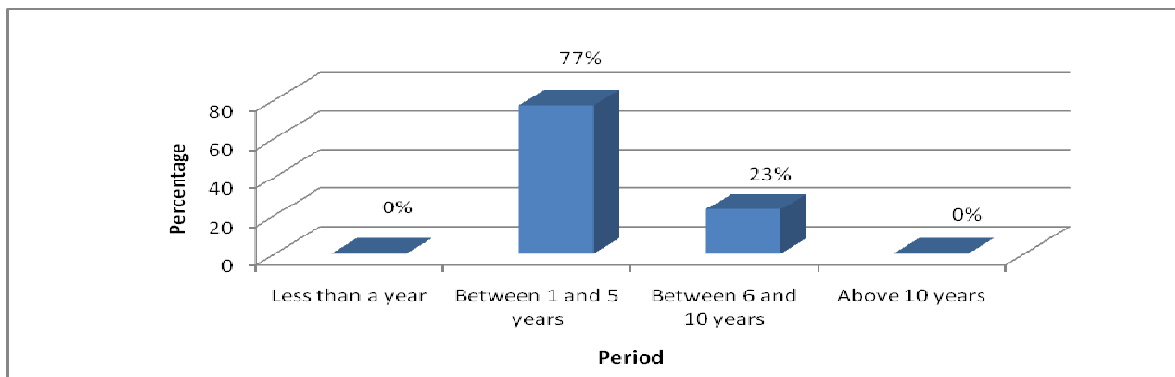


Figure 4.2 shows the duration the respondents had worked in the bank. 77% of the respondents had worked in the bank between 1 and 5 years. 23% of the respondents had

worked in the bank for a period of between 6 and 10 years. None of the respondents had been in the bank for either less than a year or for more than 10 years. From the study the researcher found that majority of the respondents had worked in the bank for a period of between 1 and 5 years.

### Respondents' level of education

The level of education of the respondents was also of importance to the researcher. Therefore the researcher also sought to establish the level of education of the respondents. The researcher classified them depending on their achievement, which is; those with a diploma, graduates and masters. The findings are as represented in fig. 4.3

**Figure 4. 3: Level of education of the respondents**

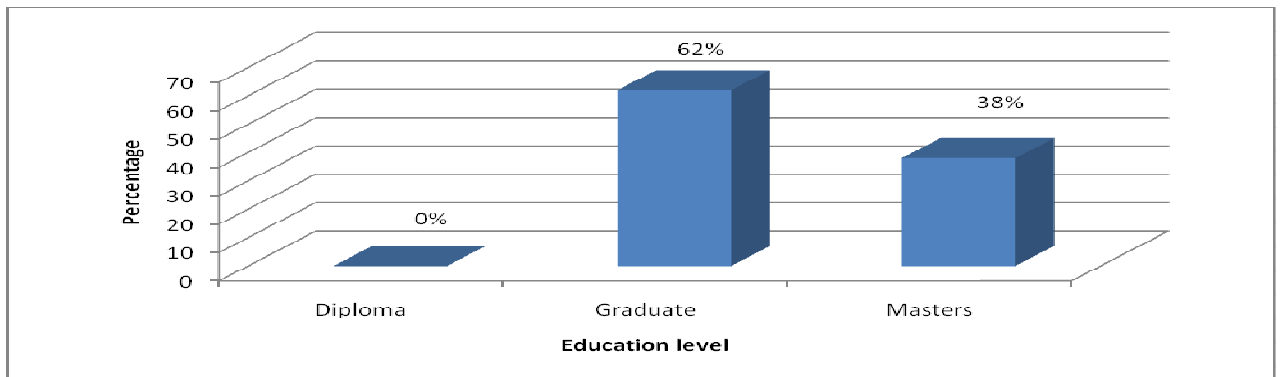


Figure 4.3 shows the education level of the respondents the researcher came across. There was no respondent with a diploma. 62% of the respondents were graduates while 38% of the respondents had a master's degree. From the research the researcher found that most of the respondents were graduates.

### 4.3 Market factors leading to mortgage adoption

#### Types of mortgages offered by banks

The researcher wanted to know the types of mortgages offered by the banks and which types of mortgages a particular bank offered. The findings from the research are tabulated in table 4.1

**Table 4. 1:** Types of mortgages offered by various banks

Responses on the type of mortgage offered.	Interest-only fixed rate mortgages	Graduated payment mortgage loan	Adjustable rate mortgage loan	Negative amortization mortgage
Yes (%)	39	15	54	0
No (%)	61	85	46	100

Table 4.1 shows the different types of mortgages offered by different banks. 39% of the banks offer interest-only fixed mortgages while 61% of the banks do not offer the interest-only fixed mortgages. 15% of the banks offer graduated payment mortgage loans while 85% don't offer this mortgage. 54% of the banks offer adjustable rate mortgage loan while 46% doesn't offer this loan. 100% of the banks don't offer the negative amortization mortgage. From the research the researcher deduced that most banks offered the adjustable rate mortgage loan and that none of the banks offered the negative amortization mortgage.

#### Emphasis on mortgage financing

The researcher sought to know the extent the respondents emphasised on mortgage financing. The finding from the research is as presented in figure 4.4

**Figure 4. 4: Extent of emphasis on mortgage financing**

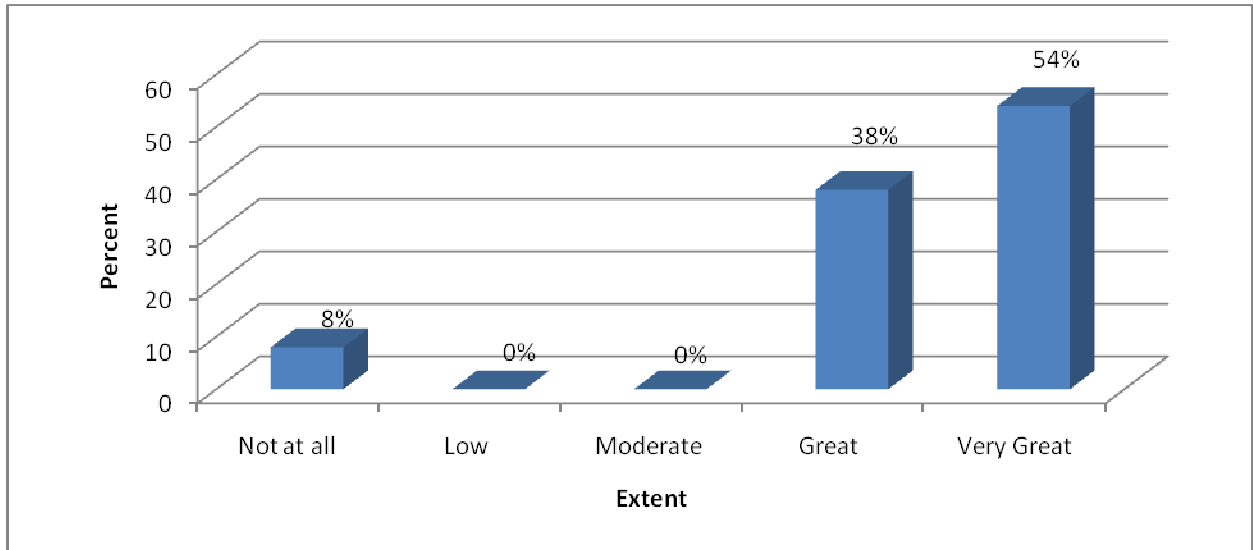


Figure 4.4: The extent to which banks emphasis on Mortgage financing. 8% of the banks do not emphasis on the mortgage financing at all. No banks emphasis on the mortgage financing either to a low extent or to a moderate extent 38% of the banks emphasis on mortgage financing to a great extent and 54% of the banks emphasis on mortgage financing to a very great extent. From the study the researcher found that most of banks emphasised on mortgage financing to a very great extent.

#### **Market Factors influencing adoption of mortgage financing**

The researcher was also interested in finding out the extent to which various market factors influenced banks to adopting mortgage financing. The findings from the research are presented in table 4.2

**Table 4. 2:** Market factors influencing adoption of mortgage financing by banks

	Very great extent	Great extent	Moderate extent	Low extent	Not at all	Mean	Standard deviation
Market penetration	53.8	30.8	15.4	0	0	4.38	0.745
Cross selling potential	53.8	30.8	15.4	0	0	4.38	0.745
Competition from other banks	30.8	30.8	30.8	0	7.7	3.77	1.131
Relative political stability	15.4	30.8	30.8	15.4	7.7	3.31	1.147
Economic reform in Kenya	38.5	15.4	38.5	0	7.7	3.77	1.198

The table 4.2 shows the findings on the extent to which market factors influence the banks to adopt Mortgage financing. A five point Likert scale was used to interpret the respondent's responses. According to the scale, those factors which were not considered at all were awarded 1 while those which were considered to a very great extent were awarded 5. Within the continuum are 2 for low extent, 3 for moderate extent and 4 for great extent. Mean (weighted average) and standard deviation were used to analyze the data.

According to the researcher those factors with a mean close to 4.5 were rated as to a very great extent while those with a mean close to 3.0 were rated to a low extent or even not considered at all. On the same note the higher the standard deviation the higher the level of dispersion among the respondents. The factors that market penetration and cross selling potential influenced banks in adopting mortgage financing were considered to a very great extent with mean of 4.38 and standard deviations of 0.745 the competition from other banks and economic reform in Kenya were considered to a great extent with mean 3.77 and a standard deviation of 1.131 and 1.198 respectively while the relative political stability with a mean of 3.31 and standard deviation of 1.147 was considered to a low extent. The researcher

thus deduced that market penetration and cross selling potential were the major factors that influenced banks to adopting mortgage financing.

The researcher also wanted to know the extent to which mortgage financing does the following; provide housing to Kenyans, provide mechanism of aggregating funds through financial intermediation, and encourage bank customers to save. The findings from the research are presented in table 4.3

**Table 4. 3:** Statements on Mortgage financing and extent of agreement by respondents:

	Very great	Great	Moderate	Low	Not at all	Mean	Standard deviation
Mortgage financing reliably provide housing to Kenyans	31	23	31	15	0	3.69	1.076
Mortgage financing provide mechanism of aggregating funds through financial intermediation	15	69	15	0	0	4.00	0.560
Mortgage financing encourage bank customers to save	31	15	31	23	0	3.54	1.163

Table 4.3 shows the extent to which respondents agreed with the statements. A five point Likert scale was used to interpret the respondent’s responses. According to the scale, those factors which were not considered at all were awarded 1 while those which were considered to a very great extent were awarded 5. Within the continuum are 2 for low extent, 3 for moderate extent and 4 for great extent. Mean (weighted average) and standard deviation were



used to analyze the data. The statement that mortgage financing reliably provide housing to Kenyans was agreed to a great extent with a mean of 3.69 and a standard deviation of 1.076, mortgage financing provide mechanism of aggregating funds through financial intermediation was agreed to a great extent with a mean of 4.00 and a standard deviation of 0.560 and mortgage financing encourage bank customers to save was also agreed to a great extent with a mean of 3.54 and a standard deviation of 1.163.

### 4.3 Financial factors leading to mortgage financing

The researcher was interested in finding out the extent to which financial factors influenced the banks to adopt mortgage financing. The findings are presented in table 4.4

**Table 4. 4:** Extent to which financial factors lead banks to adopt mortgage financing

	Very great Extent	Great Extent	Moderate Extent	Low extent	Not at all	Mean	Standard deviation
High interest from mortgages	23.1	46.2	23.1	7.7	0	3.85	0.872
Kenya's financial laws requiring banks to have less cash in reserve	7.7	30.8	23.1	15.4	23.1	2.85	1.304
Kenya's financial laws requiring banks to lower interest rates on treasury bonds	7.7	30.8	23.1	23.1	15.4	2.92	1.218

Table 4.4 shows the financial factors influencing banks to adopt mortgage financing. A five point Likert scale was used to interpret the respondent's responses. According to the scale, those factors which were not considered at all were awarded 1 while those which were

considered to a very great extent were awarded 5. Within the continuum are 2 for low extent, 3 for moderate extent and 4 for great extent. Mean (weighted average) and standard deviation were used to analyze the data. The factor high interest from mortgages was agreed to a great extent by the respondents with a mean of 3.85 and a standard deviation of 0.872, the financial factor that Kenya’s financial laws requiring banks to have less cash in reserve was agreed to great extent with a mean of 2.85 and a standard deviation of 1.304 and the factor that Kenya’s financial laws requiring banks to lower interest rates on treasury bonds was agreed to a great extent with a mean of 2.92 and a standard deviation of 1.218.

#### 4.4 Benefits of mortgage financing to the bank

##### Contribution of mortgage financing to development of banks

The researcher wanted to determine the extent to which mortgage financing contribute to the development of the bank. The findings from the respondents are presented in figure 4.5

**Figure 4. 5: Extent to which mortgage financing contributes to the development of banks**

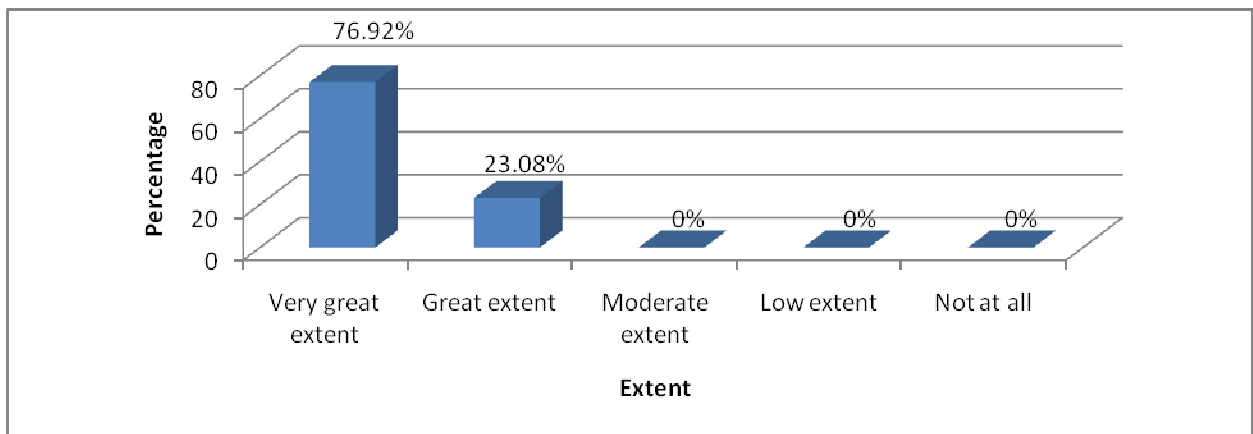


Figure 4.5 shows the extent to which mortgage financing contribute to the development of banks. 76.92% of the respondents agreed that mortgage financing contributed to the development of the bank to a very great extent. 23.08% of the respondents agreed that mortgage financing contributed to the development of the bank to a great extent. None of the respondents disagreed that mortgage financing contributed to the development of the bank.

From the research the researcher deduced that mortgage financing contributed to the development of the bank to a very great extent.

## **CHAPTER FIVE: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the purpose of this study which was to investigate the factors leading to adoption of mortgage financing by commercial banks in Kenya. The objectives of the study were; to investigate into market factors leading to mortgage adoption in Commercial banks, to find out the financial factors leading to mortgage adoption in Commercial banks, and to ascertain the benefits of mortgage financing to Commercial banks development.

### **5.2 Discussions of Key Findings**

#### **5.2.1 Market factors leading to mortgage adoption**

The study revealed that the types of mortgages offered by commercial banks include; interest-only fixed rate mortgages, graduated payment mortgage loan, adjustable rate mortgage loan, and negative amortization mortgage. 54% of the respondents indicated that they offered the adjustable rate mortgage loan. Having sought the types of mortgages offered by commercial banks and investigated the type adopted by most commercial banks the extent to which commercial banks emphasised on mortgage financing was worth investigating as well. 54% of the respondents indicated that commercial banks emphasised on mortgage financing to a very great extent. The market factors that influence commercial banks to adopting mortgage financing include; Market penetration, Cross selling potential, Competition from other banks, Relative political stability, and Economic reform in Kenya. Of all these market factors, market penetration and cross selling potential influence commercial banks to adopt mortgage financing to a very great extent with a mean of 4.38 and a standard deviation of 0.745 as indicated by the respondents. In addition, the respondents indicated that mortgage financing; reliably provide housing to Kenyans, provide mechanism of aggregating funds through financial intermediation, and encourage bank customers to save. The respondents indicated that they agreed with these statements to a great extent.

### **5.2.2 Financial factors leading to mortgage financing**

Adoption of mortgage financing is greatly influenced by high interest from mortgages. The research found that high interest from mortgages influenced mortgage financing to a great extent with a mean of 3.85 and a standard deviation of 0.872. The other factors that influenced commercial banks to adopt mortgage financing include; Kenya's financial laws requiring banks to have less cash in reserve and Kenya's financial laws requiring banks to lower interest rates on treasury bonds. In addition the factor like; increased of Kenyans to own their own homes, easy access to funds, knowledge on what mortgage is by most people has also led to mortgage financing.

### **5.2.3 Benefits of mortgage financing to commercial banks**

Mortgage financing has a great number of benefits to commercial banks. Findings from the study confirmed that all the respondents agreed that mortgage financing contributed to the development of the commercial banks. From the research findings, the major benefits of mortgage financing to commercial banks included; interest income, cross selling opportunities, market penetration and development, product development, customer loyalty to the bank due to the long term nature of mortgage finance, Higher customer satisfaction by offering several financial solutions alongside mortgage financing and the general growth of the bank.

### **5.3 Conclusions**

The study revealed market penetration and cross selling were the major market factors that lead to mortgage financing by the commercial banks. In addition the financial factor that there are High interests from mortgages has also contributed to mortgage financing by commercial banks. Lastly the research revealed that mortgage financing has greatly contributed to the development of the bank.

### **5.4 Recommendations from the Study**

From the research findings, the recommendations on the factors leading to adoption of mortgage financing by commercial banks in Kenya are:

1. To fully take advantage of mortgage loans the commercial banks should adopt the adjustable rate mortgage loans. This is because the research revealed that this type of mortgage loan was offered by most commercial banks.
2. Market penetration and cross selling potential are the major factors that influence commercial banks to adopt mortgage financing. Thus commercial banks that adopt mortgage financing can easily penetrate into the market thus advantageous to the growth of the bank and also enjoy the cross selling opportunities.
3. Through mortgage financing there is a lot of interest income, customer loyalty to the bank and product development that is enjoyed by the commercial banks.

### **5.5 Recommendations for further research**

From the study and related conclusions, the researcher recommends further research on the factors leading to adoption of mortgage financing by commercial banks of Kenya from the Kenyan banking sector.

### **5.6 Limitations of the study**

The data was not easy to access given its strategic importance to the banks that were involved in the study. To overcome this limitation, a large sample of banks was studied.

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## Appendix I: Questionnaire

### Section A: General Information

1. Name of the Branch .....

2. What is your designation? .....

3. For how long have you been working in the bank?

Less than a year [ ]

Between 1 and 5 years [ ]

Between 6 and 10 years [ ]

Above 10 years [ ]

4. What is the level of your education?

Diploma level [ ]

Undergraduate level [ ]

Graduate level [ ]

Masters level [ ]

### Section B: Market factors leading to mortgage adoption

5. Which of the following types of mortgages does your bank offer ?

Interest – only fixed rate mortgages [ ]

Graduated payment mortgage loan [ ]

Adjustable rate mortgage loan [ ]

Negative amortization mortgage [ ]

6. Please indicate the extent to which your branch emphasises on mortgage financing.

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Low extent [ ]

Not at all [ ]

7. To what extent do the following market factors influence your bank to adopting mortgage financing.

	Very great extent	Great extent	Moderate extent	Low extent	Not at all
Market penetration					
Cross selling potential					
Competition from other banks					
relative political stability					
economic reform in the Kenya					

8. Please indicate any other market factor influencing your bank to adopt mortgage financing

i. ....

ii. ....

iii. ....

9. To what extent do you agree with the following statements on mortgage financing

	Very great extent	Great extent	Moderate extent	Low extent	Not at all
Mortgage financing reliably provide housing to kenyans					
Mortgage financing provide mechanism of aggregating funds through financial intermediation					
Mortgage financing encourage bank customers to save					

### Section C: Financial factors leading to Mortgage financing

10. To what extent do the following financial factors influence your bank to adopt mortgage financing.

	Very great extent	Great extent	Moderate extent	Low extent	Not at all
High interest from mortgages					
Kenya's financial laws requiring banks to have less cash in reserve					
Kenya's financial laws requiring banks to Lower interest rates on treasury bonds,					

11. Please indicate any other market factor influencing your bank to adopt mortgage financing

i. ....

ii. ....

iii. ....

**Section D: Benefits of mortgage financing to the bank**

12. To what extent does mortgage financing contribute to the development of the bank

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Low extent [ ]

Not at all [ ]

13. Which are the major benefits of mortgage financing to Kenya Commercial Bank ?

i. ....

ii. ....

## **Appendix II: Existing Commercial Banks**

- 1) African Banking Corporation Ltd.**  
**Address:** P.O Box 46452-00100, Nairobi  
**Telephone:** +254-20- 4263000
  
- 2) Bank of Africa Kenya Ltd.**  
**Address:** P. O. Box 69562 Nairobi  
**Telephone:** +254-20- 3275000
  
- 3) Bank of Baroda (K) Ltd.**  
**Address:** P. O Box 30033 – 00100 Nairobi  
**Telephone:** +254-20-2248402
  
- 4) Bank of India**  
**Address:** P. O. Box 30246 - 00100 Nairobi  
**Telephone:** +254-20-2221414
  
- 5) Barclays Bank of Kenya Ltd.**  
**Address:** P. O. Box 30120 – 00100, Nairobi  
**Telephone:** +254-20- 3267000
  
- 6) Stanbic Bank Ltd.**  
**Address:** P. O. Box 72833 - 00200 Nairobi  
**Telephone:** +254-20-36380000.,
  
- 7) Charterhouse Bank Ltd**  
**Address:** P. O. Box 43252 Nairobi  
**Telephone:** +254-20-2242246
  
- 8) Chase Bank (K) Ltd.**  
**Address:** P. O. Box 28987 - 00200 Nairobi  
**Telephone:** +254-20- 2774000

**9) Citibank N.A Kenya**

**Address:** P. O. Box 30711 - 00100 Nairobi

**Telephone:** +254-20- 2754000.

**10) Commercial Bank of Africa Ltd.**

**Address:** P. O. Box 30437 – 00100, Nairobi

**Telephone:** +254-20-2884000

**11) Consolidated Bank of Kenya Ltd.**

**Address:** P. O. Box 51133 - 00200, Nairobi

**Telephone:** +254-20-340208/340836,

**12) Co-operative Bank of Kenya Ltd.**

**Address:** P. O. Box 48231 - 00100 Nairobi

**Telephone:** +254-20-3276000

**13) Credit Bank Ltd.**

**Address:** P. O. Box 61064 Nairobi

**Telephone:** +254-20-2222300

**14) Development Bank of Kenya Ltd.**

**Address:** P. O. Box 30483 - 00100, Nairobi

**Telephone:** +254-20-340401

**15) Diamond Trust Bank (K) Ltd.**

**Address:** P. O. Box 61711 – 00200, Nairobi

**Telephone:** +254-20-2849000

**16) Dubai Bank Kenya Ltd.**

**Address:** P. O. Box 11129 – 00400, Nairobi

**Telephone:** +254-20-311109

**17) Ecobank Kenya Ltd**

**Address:** P. O Box 47499, Nairobi

**Telephone:** +254-20-2883000

**18) Equatorial Commercial Bank Ltd.**

**Address:** P. O. Box 52467, Nairobi

**Telephone:** +254-20-2710455

**19) Equity Bank Ltd.**

**Address:** P. O Box 75104-00200, Nairobi

**Telephone:** +254-20-2736617

**20) Family Bank Ltd**

**Address:** P. O Box 74145, Nairobi

**Telephone:** +254-20- 318173, 318940

**21) Fidelity Commercial Bank Ltd**

**Address:** P. O. Box 34886, Nairobi

**Telephone:** +254-20-2242348, 2244187

**22) Fina Bank Ltd**

**Address:** P. O. Box 20613 – 00200, Nairobi

**Telephone:** +254-20-3284000

**23) First community Bank Limited**

**Address:** P. O. Box 26219-00100., Nairobi

**Telephone:** +254-20-2843000 -3

**24) Giro Commercial Bank Ltd.**

**Address:** P. O. Box 46739 – 00200, Nairobi

**Telephone:** +254-20-340537

**25) Guardian Bank Ltd**

**Address:** P. O. Box 67681 – 00200, Nairobi

**Telephone:** +254-20-8560548



**26) Gulf African Bank Limited**

**Address:** P. O. Box 43683 – 00100, Nairobi

**Telephone:** +254-20-2740000

**27) Habib Bank A.G Zurich**

**Address:** P. O. Box 30584 - 00100 Nairobi

**Telephone:** +254-20-341172:

**28) Habib Bank Ltd.**

**Address:** P. O. Box 43157 – 00100, Nairobi

**Telephone:** +254-20-2226433

**29) Imperial Bank Ltd**

**Address:** P. O. Box 44905 – 00100, Nairobi

**Telephone:** +254-20-2874000

**30) I & M Bank Ltd**

**Address:** P.O. Box 30238 – 00100, Nairobi

**Telephone:** +254-20-310105-8

**31) Jamii Bora Bank Ltd.**

**Address:** P. O. Box 22741 – 00400, Nairobi

**Telephone:** +254-20- 2224238.

**32) Kenya Commercial Bank Ltd**

**Address:** P. O. Box 48400 – 00100, Nairobi

**Telephone:** +254-20-3270000

**33) K-Rep Bank Ltd**

**Address:** P. O. Box 25363 – 00603, Nairobi

**Telephone:** +254-20- 3906000

**34) Middle East Bank (K) Ltd**

**Address:** P. O. Box 47387 - 0100 Nairobi

**Telephone:** +254-20-2723120

- 35) National Bank of Kenya Ltd**  
**Address:** P. O. Box 72866 - 00200 Nairobi  
**Telephone:** +254-20-2828000
- 36) NIC Bank Ltd**  
**Address:** P. O. Box 44599 - 00100 Nairobi  
**Telephone:** +254-20-2888000, 2888600
- 37) Oriental Commercial Bank Ltd**  
**Address:** P.O BOX 44080 – 00100, Nairobi  
**Telephone:** +254-20-2228461
- 38) Paramount Universal Bank Ltd**  
**Address:** P. O. Box 14001 -00800 Nairobi  
**Telephone:** +254-20-4449266
- 39) Prime Bank Ltd**  
**Address:** P. O. Box 43825 – 00100, Nairobi  
**Telephone:** +254-20-4203000
- 40) Standard Chartered Bank (K) Ltd**  
**Address:** P. O. Box 30003 - 00100 Nairobi  
**Telephone:** +254-20-3293000
- 41) Trans-National Bank Ltd**  
**Address:** P. O. Box 34353 - 00100 Nairobi  
**Telephone:** +254-20-2224234-6, 2210335
- 42) Victoria Commercial Bank Ltd**  
**Address:** P. O. Box 41114 - 00100 Nairobi  
**Telephone:** +254-20-2719499,
- 43) UBA Kenya Bank Ltd.**  
**Address:** P. O. Box 34154– 00100, Nairobi  
**Telephone:** +254-20-3740814

#### **44) MORTGAGE FINANCE INSTITUTIONS**

##### **Housing Finance Ltd**

**Address:** P. O. Box 30088 Nairobi

**Telephone:** +254-20- 3262000