

**RESPONSE STRATEGIES TO THE CHANGES IN INTEREST RATES BY
INSTITUTIONS IN THE MORTGAGE INDUSTRY IN KENYA**

BY

SAMUEL OMONDI OKELO

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLEMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

NOVEMBER, 2013

DECLARATION

This research paper is my original work and has not been presented for the award of any degree whatsoever in any university.

Signature: _____ Date: _____

Name: **Samuel Omondi Okelo**

Registration No: **D61/7120/2006**

This research project report has been submitted with my approval as the university supervisor.

Signature: _____ Date: _____

Name: **Mr. Jeremiah Kagwe**

Lecturer, Department Of Business Administration

School Of Business, University Of Nairobi

ACKNOWLEDGEMENTS

I wish to acknowledge the invaluable guidance and mentorship of my supervisor, Mr. Jeremiah Kagwe throughout the entire project process. It is with his persistent and tireless efforts that this research has been completed as scheduled.

I would also like to thank my moderator, Dr. Awino whose contributions ensured that the project proposal was completed in accordance with the university requirements and that the same formed a sound academic platform to pave way for the actual research.

Special thanks go to my family and especially my mother Rachel, who persistently encouraged me through the entire coursework and research process and always remembered to say a prayer for me.

The invaluable response from all respondents within the surveyed institutions has greatly contributed to the success of this project.

Finally, glory and honour to the Lord God Almighty for giving me the strength and will to go through the entire project process

DEDICATION

I dedicate this research project to my late father Prof. Romanus Omolo Okelo, my mother Rachel, my brothers Steve and Job, and my sisters Winnie and Becky.

TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGEMENTS.....	iii
DEDICATION.....	iv
LIST OF FIGURES.....	vii
LIST OF TABLES.....	viii
LIST OF ABBREVIATIONS AND ACRONYMS.....	ix
ABSTRACT.....	x
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1 Organisations and their External Environments.....	2
1.1.2 Response Strategies.....	2
1.1.3 The Mortgage Industry in Kenya.....	3
1.2 Research Problem.....	4
1.3 Research Objectives.....	6
1.4 Value of the Study.....	7
CHAPTER TWO: LITERATURE REVIEW.....	8
2.1 Introduction.....	8
2.2 Theoretical Foundation of the Study.....	8
2.3 Organisations and their External Environments.....	11
2.4 Response Strategies to Environmental Changes	13
2.5 Interest Rates.....	16
2.6 Response Strategies to Interest Rate Changes.....	17
CHAPTER THREE: RESEARCH METHODOLOGY.....	19
3.1 Introduction	19

3.2 Research Design.....	19
3.3 Population of the Study.....	19
3.4 Data Collection.....	20
3.5 Data Analysis.....	20
CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND DISCUSSION	
4.1 Introduction.....	21
4.2 Respondents' Demographics.....	21
4.3 Organisational Demographics.....	23
4.4 Interest Rate Trends.....	27
4.5 Impact of Interest Rate Changes.....	29
4.6 Response Strategies to Interest Rate Changes.....	31
4.7 Discussion.....	32
CHAPTER FIVE: SUMMARY CONCLUSIONS AND RECOMMENDATIONS	
5.1 Introduction.....	34
5.2 Summary	34
5.3 Conclusions.....	36
5.4 Limitations of the study.....	38
5.5 Suggestions for Further Research.....	39
5.6 Recommendations for Policy and Practice.....	39
REFERENCES.....	41
APPENDIX I: Questionnaire	45
APPENDIX II: List of Financial Institutions.....	48

LIST OF FIGURES

Figure 2.1 Components of a Company's Macroenvironment	10
Figure 2.2 Strategic Management Model	12
Figure 4.1 Mortgage Interest Rate Trends.....	28

LIST OF TABLES

Table 4.1 Respondents' Work Experience in the Mortgage Industry.....	22
Table 4.2 Respondents' Level in Management	22
Table 4.3 Response Rate.....	23
Table 4.4 Large Peer Group Institutions.....	24
Table 4.5 Medium Peer Group Institutions	25
Table 4.6 Small Peer Group Institutions	26
Table 4.7 Interest rate changes over the study period.....	27
Table 4.8 Effect of Interest Rates Reduction.....	29
Table 4.9 Effect of Increased Mortgage Interest Rates.....	30
Table 4.1.1 Response Strategies Employed by Institutions.....	31

LIST OF ABBREVIATIONS AND ACRONYMS

CBK	: Central Bank of Kenya
NACHU	: National Housing Co-operative Union
BPR	: Business Process Reengineering
RBA	: Retirement Benefits Authority
IT	: Information Technology
SD	: Standard Deviation
CBA	: Commercial Bank of Africa
DTB	: Diamond Trust Bank
NBK	: National Bank of Kenya
BBK	: Barclays Bank of Kenya

ABSTRACT

Organisations do not exist in a vacuum. They are surrounded by various factors within the external environment that affect their strategic direction. Managers must, therefore, scan the macroenvironment with a view to developing appropriate response strategies to these challenges thus ensuring that the organisation remains focused on achieving its strategic goals and objectives. In Kenya, interest rate is one key challenge apparent in the mortgage industry's remote environment.

The study sought out to document the extent of interest rate changes within the mortgage industry in Kenya as well as to identify the response strategies adopted by institutions operating within the industry to these interest changes. The researcher conducted the study using available information over an eight-year period from 2005 to 2012 which was considered relevant as far as the topic under study is concerned.

The researcher employed the use of a structured questionnaire to collect data from a total of 20 respondents comprising of various managers within mortgage institutions as listed at the end of this report. Secondary data was obtained mainly from existing publications by such institutions as well as the Central Bank of Kenya (CBK). The data collected was then analysed and appropriate inferences and conclusions derived from the findings thereof.

The study found out that interest rate is a key concern for most institutions within the mortgage industry and actually has a direct impact on the firm's strategies. Interest rates on mortgages were found to be generally increasing over the study period. Increased interest rates had the greatest impact on default rate and attrition rates than on profitability, market share and

reputation. Reduced interest rates, on the other hand, had considerable impact on the loan book and profitability as per the findings of the study.

Institutions surveyed revealed that restructuring and marketing were the most employed strategies especially among the institutions that have been in the mortgage business longer. The relatively newer entrants employed more of off-shore borrowing, strategic partnerships, mergers and acquisitions.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Pearce & Robinson (1997) define strategic responses as a set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Assessing its competitive position improves a firm's chances of designing strategies that optimize its environmental opportunities. For lending and other financial intermediaries interest rates represent both a compensation for the loss in the value of loaned capital arising chiefly from the inflation as well as profit margin to compensate the lender for the default risk he exposes himself to during the loan period (Cargill, 1991).

This study focused to a great extent on the interaction between companies and the remote environment, specifically the economic factors. Companies need to be able to scan the external environment and analyse the developments so as to develop appropriate strategies that shall be aligned to the company's strategic direction. One of the most inherent market risks within the mortgage industry is the interest rate risk, and fluctuations in the same greatly determine firms' resultant strategic responses.

In Kenya, mortgage lending is still accessible to only a minority mainly due to high interest rates experienced in the industry. It is against these parameters that innovation in the financial sector and aggressive marketing has resulted in some newer products (Kenya Market update, 2012).

1.1.1 Organisations and their External Environments

The environment is what gives organisations their means of survival. However, the environment is also a source of threats and a change in the environment can be fatal for an organisation. It is vital that managers analyse their environments carefully in order to anticipate and, if possible, influence environmental change (Pearce & Robinson, 1997).

Organisations must, therefore, develop appropriate means of survival in the face of the changes in the external environment if it is to keep real its wish to meet the various goals and objectives (Kiptugen, 2003). In the Kenyan context, and specifically in the banking and by extension mortgage industry, changes in interest rates has presented firms with challenges as they strive to meet various goals such as profitability, growth and cost management.

1.1.2 Response Strategies

Strategic response refers to a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. It is thus a reaction to what is happening in the environment of organizations (Pearce & Robinson, 1997). Porter (1980) points out that the knowledge of the underlying sources of competitive pressure provides the groundwork for strategic agenda in action.

When firms are faced by unfamiliar changes they should revise their strategies to match the turbulence level (Ansoff & McDonnell, 1990). Failure to adapt the organization to its environment leads to a strategic problem thus failure of the firm in

meeting its objectives. The organization's external environment consists of all the conditions and forces that affect its strategic options and define its competitive situation (Pearce and Robinson, 1997).

Smart and Vertsiky (1984) conclude that well-developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge. These strategic responses include restructuring, marketing, information technology and culture change.

1.1.3 The Mortgage Industry in Kenya

The main players in the mortgages market in Kenya include Housing finance, Kenya Commercial Bank's mortgage arm Savings & Loan, Co-operative Bank, National Bank, Standard Chartered Bank, Barclays Bank and CFC Stanbic Bank. The mortgage industry, however, grew 48.5 per cent to Kshs. 91.2 billion in 2011, but mortgage lending as a percentage of the gross domestic product stood at 2.6 per cent in 2012.

There have been some efforts to expand this reach by the industry. New entrants and aggressive marketing has resulted in some newer products. New institutions such as Jamii Bora Bank and The National Housing Co-operative Union (NACHU) have come in on the platform of cheaper housing targeting the low-income earners. The number of institutions offering mortgages to customers was 20 as at end of 2012. Some of the efforts taken to revamp the mortgage business include introduction of fixed rate mortgages for between 10 and 20-year terms, and 100% financing. One lender has also introduced mortgage insurance against the risk of loss of income while the Retirement Benefits Authority (RBA) in 2009 allowed pension contributions of up

to 60 per cent to be used to secure a mortgage. This has the potential to leverage assets worth Kshs. 290 billion and increase access for lower-earning people who have accumulated substantial pensions.

The potential size of the mortgage market in the country is currently Kshs. 800 billion, which is 13 times the current level. Mortgage accounts in the country stand at 20,000. High interest rates and inaccessibility to long term funds have slowed the uptake of mortgage loans even as the country grapples with huge housing deficits in urban and rural areas, currently estimated at 200,000 and 350,000 units, respectively. However reduction in interest rates, peaceful general elections and implementation of the devolved system of Government are expected to boost mortgages uptake in 2013.

1.2 Research Problem

According to Ansoff and McDonnell (1990) business organizations are environment dependent and they do not operate in a vacuum. This means that business operations are affected by external environment changes in one way or another in either the short term or in the long term. As a business is faced with unfamiliar changes in the external environment, it should turn to strategic management and change its strategies in order to respond to the changes in the external environment. In Kenya there have been a lot of changes in the external environment in the last ten years, that is, from 2003 to 2012, forcing businesses to adopt different responses to these changes.

Banking, and specifically mortgage in Kenya has been one of the mainly affected sectors by the changes in the external environment and every participating institution has adopted some strategies to respond to these changes. A strategic response can,

therefore, be defined as a well formulated and organized action plan by a firm's management with the aim of countering threat or seizing an opportunity presented by a certain change in the external environment and the same time ensuring it outsmarts competitors.

The Kenyan mortgage industry has witnessed recent influx of banks offering mortgages, probably being attracted by the potential the industry presents to such institutions. With such influx comes intense competition for the potential market that is up for grabs. Financial institutions, therefore, devise various strategies that seek to take advantage of interest rate reductions and cushion the bank from the effects of a rise in the interest rates. Banks seek to gain competitive advantage over competition with a view to establishing market leadership and thus enjoying all the benefits attributed to such status.

Various studies have been carried out in Kenya in an attempt to explain the strategies adopted by firms to changes in the external environment. Chepkwony (2001) studied the strategic responses of petroleum firms in Kenya to challenges in increased competition in the same industry. Kilonzo (2003) went further as to assess the effect of changes in interest rates on credit granted by commercial banks. Chege (2008) argues that in determining competitive advantage and creating coping strategies a firm needs to understand the changing environment it is operating in because the strategies created will help in responding to the changing environment

More recently, Njeri (2010) conducted a survey on strategic risk management practices by large commercial banks in Kenya. Thanyaku (2010) attempted to establish the relationship between interest rate risk management and profitability of

commercial banks in Kenya. King'ara (2012) conducted a descriptive study on the strategic responses of licensed microfinance institution in Kenya to environmental changes. Thuranira (2012) on the other hand studied the response strategies adopted by commercial banks in Kenya to changes in the economic environment. All these scholars found out that organisations are obliged to develop and adopt appropriate response strategies if they are to survive in the dynamic business environments under which they operate.

Interest rate change is clearly a key change in the external environment for most financial institutions within the mortgage industry owing to its unique characteristics. Available literature, however, indicate that no study has been conducted to identify and assess the strategic responses of banks to changes in interest rates within the Kenyan mortgage industry. It's for this reason that the researcher sought to determine the strategies that institutions have adopted in response to interest rate changes in the Kenyan mortgage industry, and in so doing, attempt to answer the following research question; what response strategies have institutions within the mortgage industry in Kenya adopted to respond to interest rate changes?

1.3 Research Objectives

The objectives of this study were;

- a) To document the extent of interest rate changes in Kenya for the period between 2005 to 2012
- b) To identify the response strategies adopted by institutions within the mortgage industry in Kenya to changes in the interest rates.

1.4 Value of the Study

To the management of institutions in the mortgage industry, the results of the study will provide them with clearer insight regarding its strategic position as far as the response to changes in interest rates is concerned. It will also improve managerial performance by identifying “best” and “worst” practices associated with strategic positioning. The industry Regulator, Central Bank of Kenya (CBK), will view the study as contributing indirectly to policy makers, researchers and managers on issues regarding licensing and overall regulations, CBK could apply the findings in providing regulation on mortgage financing to other financial institutions in Kenya.

The results of the study will provide a basis for further research to academicians in the broad area of strategic responses and further help shed more light on some of the contradictions that the theory faces in the real life business world. When providing advisory services on mortgage business and related models, results of this study would provide a basis for consultants regarding any solutions they provide to their clients.

Finally, the study shall greatly contribute to the understanding of the interaction between firms and their external environments and how such firms develop and implement strategies that ensure they remain focused in their desired strategic direction. It shall unearth the importance of the remote environmental factors especially in the mortgage industry where such long-term conditions are critical for the success of any organization operating within the industry.

CHAPTER TWO: LITERATURE VIEW

2.1 Introduction

This chapter presents the literature review on strategic response. The facets of this chapter include organisations and their environments, response strategies to environmental changes, interest rates and response strategies to interest rate changes.

2.2 Theoretical Foundation of the Study

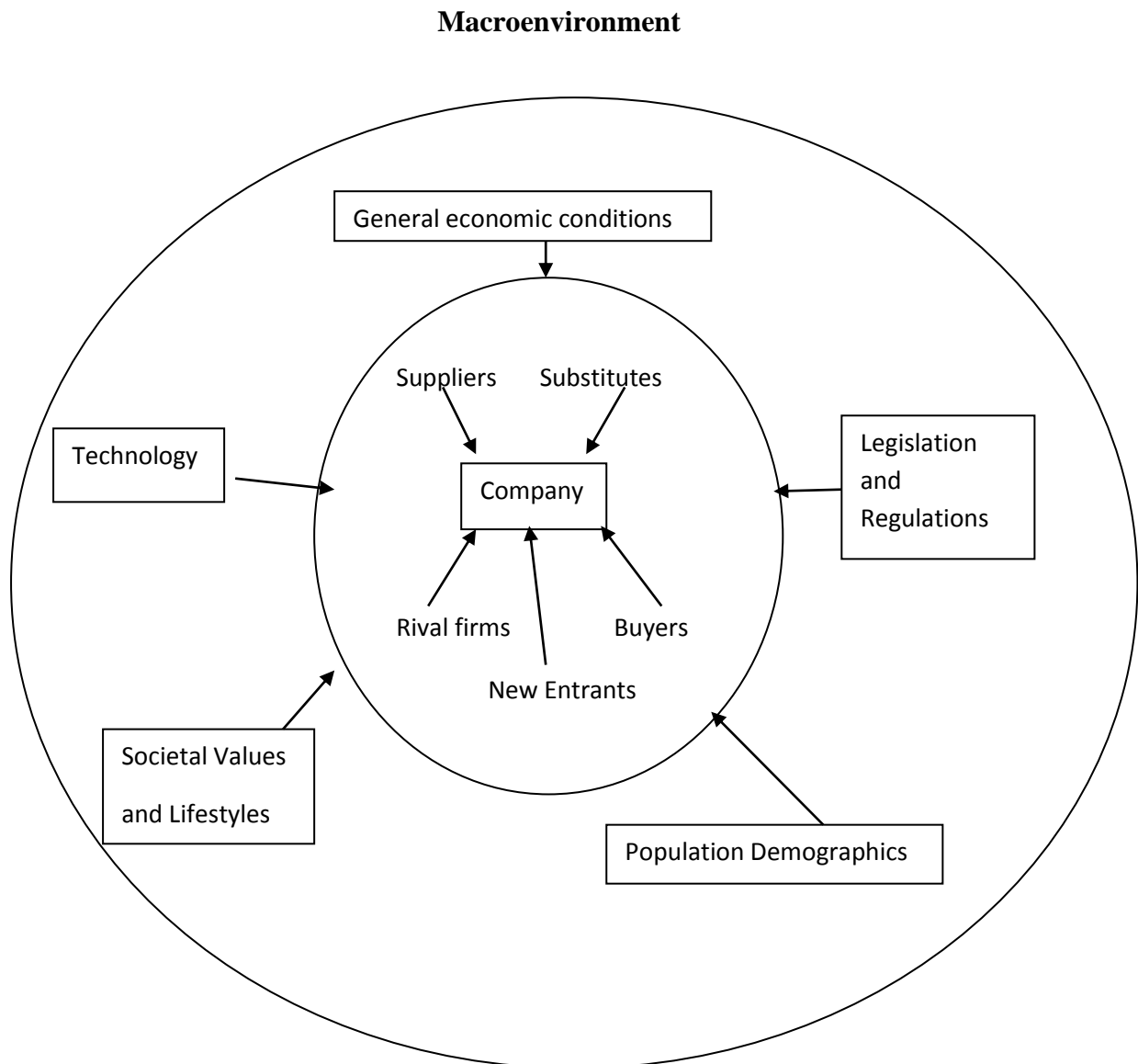
A host of external factors influence a firm's choice of direction and action and, ultimately its organisational structure and internal processes. These factors, which constitute the external environment can be divided into three interrelated subcategories; factors in the remote environment, factors in the industry environment and factors in the operating environment (Pearce, Robinson, 2011).

The remote environment comprises factors that originate beyond and usually irrespective of any single firm's operating situation; economic, social, political, technological and ecological factors. That environment presents firms with opportunities, threats and constraints. Prime interest rates, inflation rates and trends in the growth of the gross national product are some of the economic factors managers should consider (Pearce and Robinson, 2011).

According to Figure 2.1 happenings in the outer ring of the macro environment may occur rapidly or slowly, with or without advance warning. The impact of the outer-ring factors on a company's choice of strategy can range from big to small. But even if the factors in the outer ring of the macro environment change slowly or have such a

comparatively low impact on a company's situation that only the edges of a company's direction and strategy are affected, there are enough strategically relevant outer-ring trends and events to justify a watchful eye. As company managers scan the external environment, they must be alert for potentially important outer-ring developments, assess their impact and influence, and adapt the company's direction and strategy as needed (Thompson, Strickland and Gamble, 2007).

Figure 2.1: The Components of a Company's Macroenvironment



Source: Thompson A., Strickland A.J., and Gamble J. (2007). *Crafting and Executing Strategy; The Quest for Competitive Advantage, Concepts and Cases*, 15th Edition. Boston: McGraw-Hill

2.3 Organisations and their External Environments

The origin of competitive advantage lies in the ability to identify and respond to environmental changes well in advance of competition. No firm can successfully monitor all external factors. Choices must be made regarding which factors are important and which ones are not. Personal values and functional experiences of a corporation's managers as well as the success of current strategies are likely to bias both their perception of what is important to monitor in the external environment (Johnson, Scholes & Whittington, 2008).

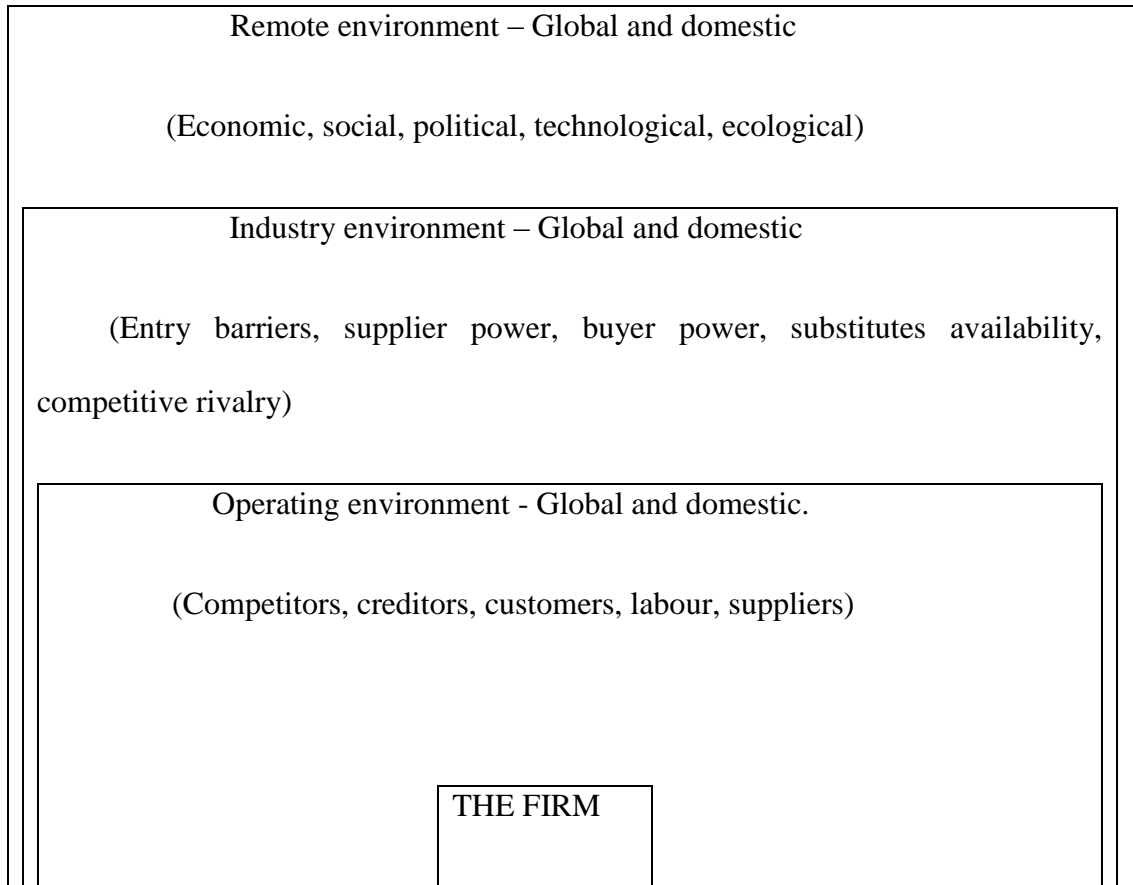
Before organisations can begin strategy formulation, they must scan the environment to identify possible opportunities and threats and its internal environment for strengths and weaknesses. The societal environment includes general forces that do not directly touch on the short-run activities of the organisation but that can, and often does, influence the long-run decisions (Johnson, Scholes & Whittington, 2008).

Economic forces regulate the exchange of material, money, energy and information. Technological forces, on the other hand, generate problem solving inventions. Political-legal factors allocate power and provide constraining and protecting laws and regulations. Finally, sociocultural forces regulate the values, morals and customs of the society.

A firm's external environment consists of all the conditions and forces that affect its strategic options and define its competitive situation. The strategic management model shows the external environment as three interactive segments; the operating,

industry and remote environments (Pearce and Robinson, 1997). A pictorial illustration of this is as per Figure 2.2

Figure 2.2: Strategic Management Model



Source: Pearce J., Robinson R.A. (1997). Strategic Management; Formulation, Implementation and Control, 6th Edition. New York: McGraw- Hill

2.4 Response Strategies to Environmental Changes

According to Pearce and Robinson (1997), strategic responses are a set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. It is, therefore, a reaction to what is happening in the economic environment of organisations. Strategic responses involve changes in the firm's strategic behaviours to assure success in transforming future environments (Ansoff and McDonnell, 1990).

The management system adapted by an organization is a determining component of its responsiveness to environmental changes. Such system determines the way an organization perceives the environment, diagnoses its impact on the firm and consequently implements the decisions. The strength of the firm's strategic response capabilities is determined by flexibility in the market, production and competition (Ansoff and McDonnell, 1990).

Smart and Vertsiky (1984) conclude that well-developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge. These strategic responses include restructuring, marketing, information technology and culture change. An organisational structure is defined as an established pattern of relationships between component parts of an the organisation outlining communication, control and authority pattern; this structure distinguishes the parts of the organisation and delineates the relationship between them (Wilson and Rosenfeld, 1990).

Thompson and Strickland (1999) contend that enlightened managers engage in business process reengineering (BPR) and design new approaches through which they can inject efficiency and effectiveness in performance. Companies can dramatically improve their efficiency and quality by focussing on customers and processes that create value for them (Hammer, 1993). In conclusion, there are various catalysts for organisational changes such as restructuring (Senior, 1997). These triggers may include purchase of new IT equipment or system, BPR through process intensification extension, the redesign of group jobs, staff rightsizing and subsequent staff cutbacks.

Marketing is a social and managerial function that delivers value to end users of a final product. It is through marketing that an organisation is able to realise its objectives. The factors in the remote environment enable organisations to manipulate the market in terms of product, price, promotion, people and problems to ensure relevance to the firms (Kotler, 2001). Environmental scanning enables managers to identify potential developments that could have an important impact on industry conditions, leading to the emergence of opportunities and threats. This helps managers to develop appropriate strategies given the industry's competitive situation (Thompson and Strickland, 1999).

Johnson and Scholes (1999) emphasize the need to engage in divergent strategies to enhance competitive position. A number of strategic marketing variables may be manipulated in response to changing competitive situation. These include adjusting target markets, diversification, new product development, distribution channels and pricing strategies (Business Trend review, 1992).

Information technology has radically changed the way organisations communicate both internally and externally. Technological change, especially in IT, is one of the most important factors that can alter the rules of a competitive environment (Rayport and Slovakia, 1995). This is due the fact that most of an organisation's activities generate and utilise information. Luftman (1996) states that the way a firm views its business, customers and completion is critical to successfully aligning its IT strategy. Information technologies have changed the consumers, producers and civic environments in such profound and irrevocable ways that those who cannot create a presence in this area will find it difficult to survive intense competition (Sanchez, 1995).

Organisational culture is a collection of traditional values, policies, beliefs and attitudes that constitute a pervasive context for everything we do and think in an organisation. It reflects the underlying assumptions about the way work is performed, what is acceptable or not, what behaviour and actions are encourage or discouraged within an organisation (Mullins, 2005).

Gichumbi (2008) argues that a positive organisational culture will yield proper communication both internally and externally. The culture of an organisation would need to be changed when it does not fit well with the environmental requirements or organisational resources, the company is not performing well and needs major strategic changes, or the company is growing rapidly in a changing environment and needs to adapt (Angara, 2010).

2.5 Interest Rates

An interest rate is a price that relates to present claims on resources relative to future claims on resources. It is the price that a borrower pays in order to be able to consume resources now rather than at a point in the future (Kwack, 2000). Correspondingly, it is therefore the price that a lender receives to forgo current consumption in order to take advantage of consumption of resources at some point in future. In the real world, price changes are anticipated and this anticipation is part of the process that determines the interest rate (Gardener, Mills and Cooperman, 1999).

Keynes (1936) contends that interest rates represent the cost of borrowing capital for a given period of time. Due to the fact that borrowing is a significant source of finance for many firms, prevailing interest rates are of much concern to many firms because of indexing of interest rates in some borrowing arrangements. For lending and other financial intermediaries interest rates represent both a compensation for the loss in the value of loaned capital arising chiefly from the inflation as well as profit margin to compensate the lender for the default risk he exposes himself to during the loan period (Cargill, 1991).

It has been observed that interest rates, including bank lending rates are determined by three factors. First, is the expected rate of inflation that sets the floor for interest rates? Nobody will lend at a rate of interest lower than the expected inflation rate over the same period. Secondly, is the government borrowing from the republic? Commercial banks use interest rates on government securities to form their base rate. Finally, the last factor is the efficiency of the banking sector (Reilly, 1979).

In recent years, many developing countries and transition countries have liberalized interest rates by allowing the market forces to determine interest rates. Uncompetitive banking systems, inadequate regulatory framework, and borrowers that are insensitive to interest rates undermine the efficiency of the market-based credit allocation and disrupt the transmission of monetary policy signals, with adverse consequences for macroeconomic policy (Bernstein, 1996).

2.6 Response Strategies to interest rate changes

Ongweso (2006) contends that interest rate changes pose a great threat to a firm's push to achieve its profitability goals. Organisations, therefore, tend to manipulate the internal environment to neutralize the effect of such changes that occur in the external economic environment.

Strategies that organisations use to respond to interest rate changes include restructuring of credit facilities, Marketing, Stress Testing, Off-shore borrowing, strategic partnerships, and mergers and acquisitions. A number of strategic marketing variables may be manipulated in response to changing interest rates. These include aggressive advertising campaigns, product differentiation, value addition and strategic marketing (Business Trend review, 1992).

Stress testing is a risk management technique used to evaluate the potential effect on an institution's financial condition of a specific event and/or movement in a set of financial variables. The traditional focus of stress testing relates to exceptional but plausible events. In the case of mortgages, institutions often test the effect of change in a borrower's financial position on their ability to repay a mortgage facility.

Strategic partnerships, mergers and acquisitions are strategies that institutions pursue so as to enjoy the benefits of a stronger financial base, market share and network as well as the reduction and/or elimination of inherent adverse effect emanating from intense competition. Examples of such cases include the merger between CFC bank and Stanbic bank to form CFC Stanbic bank, acquisition of Savings and Loan (S&L) by Kenya Commercial Bank (KCB) among others.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the strategy that was used in gathering data and information for addressing the research problem and objectives. It discusses the research design identifying the population of study, sample and data collection methods as well as data analysis and data presentation methods actually employed in the study.

3.2 Research Design

The design most appropriate for this study was a census survey. This is because the population of the study is small and accessible and highly variable in terms of geographical coverage (Francis, 2001)

A survey is preferable for this study since it cuts across the entire mortgage industry therefore allowing the researcher to get data from the entire population of the study. The researcher can, therefore, make statistical inferences to larger populations and allow them to generalize findings to other situations hence increased external validity of the study.

3.3 Population of the Study

The population of the study included all the 20 licensed commercial banks in Kenya that provide mortgage services and have been in operation over the last 8 years from 2005 to 2012.

3.4 Data Collection

The study employed the use of both primary and secondary data. The primary data was collected by use of questionnaires and interviews whereas secondary data was mainly be found in the bank's reports and previous financial statements.

Primary data, which is quantitative, was collected from all the 20 financial institutions using structured questionnaires that were designed by the researcher (see appendices). The structured questionnaire is an efficient data collection instrument particularly in the quantitative analysis where each respondent is asked to respond to the same set of questions. The questionnaires were delivered and returned electronically using email to respondents who equally returned using the same medium.

The respondents were Heads of Mortgage departments and credit managers who are key decision makers and are involved in strategy formulation and implementation.

3.5 Data Analysis

The returned questionnaires were initially edited for completeness and the data subsequently coded in a spreadsheet program. The data was then analysed using descriptive statistics, for example, use of mean, graphs, tables, percentages, frequencies, charts and standard deviation to show the trends in interest rates over the study period and well as illustrate the extent of use of the identified strategies by institutions in response to the changes in interest rates within the Kenyan mortgage industry.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION.

4.1 Introduction

This chapter presents data analysis, results, interpretation and presentation of the research. From the study population target of 20 respondents, all of them filled and returned the questionnaires, constituting a response rate of 100%. Data analysis was done using descriptive statistics such as frequencies, percentages, mean and standard deviation which were presented in tables, charts and graphs.

4.2 Respondents' Demographics

The researcher sought to ascertain certain key demographics of the respondents. This was classified in terms of their experience within the mortgage industry and their respective levels within the management hierarchy.

4.2.1 Work Experience in the Mortgage Industry

The researcher sought to know from the respondents the period they had worked in the mortgage industry. Respondents were required to choose among three categories namely; 0 to 5 years, 6 to 10 years and over 10 years. The responses were as summarized in Table 4.1.

Table 4.1 Respondents' Work Experience in the Mortgage Industry

Duration	Frequency	Percentage
0 – 5 years	7	35
6 – 10 years	4	20
Over 10 years	9	45
Total	20	100

Source: Author (2013)

From Table 4.1 it is clear that majority of the respondents have over 10 years experience in the mortgage industry. This greatly enhanced the reliability of the response received on the various variables under study and to some extent the external validity of the research findings.

4.2.2 Management Level

The respondents were asked to indicate the level of management under which they were, that is, whether low level, middle level or top level management. Their responses were as summarised in Table 4.2.

Table 4.2 Respondents' level in management

Level	Frequency	Percentage
Low	4	20
Middle	13	65
Top	3	15
Total	20	100

Source: Author (2013)

Results from Table 4.2 indicate that 65 percent of the respondents, being the majority, were drawn from the middle level management within the financial institutions surveyed. This was critical to the study since the middle level managers are often greatly involved in the strategy formulation and implementation process. Their responses, therefore, represent those given from a relatively high level of knowhow and experience.

4.3 Organisational Demographics

The researcher sought to establish certain key demographics of the institutions surveyed in terms of the number of employees who responded, size of the organisation as measured by the asset base, market share and number of mortgage accounts.

4.3.1 Number of Respondents

There were a total of 20 respondents interviewed for this study, that is, one from each organisation. All the respondents targeted returned their questionnaires as shown in Table 4.3.

Table 4.3: Response Rate

Number of Respondents surveyed	Number of responses received	Response rate (percentage)
20	20	100

Source: Author (2013)

Table 4.3 indicates that all the respondents targeted for this study were able to give their responses on the variables under study. This has greatly enhanced the external validity of the research findings as well as the accuracy of the conclusions made.

The success of the data collection process was enhanced by use of electronic mail whereby respondents received and returned the questionnaires via email. This is a much easier and reliable means of data collection than the traditional pick-and-drop technique whose response rate is often much lower.

4.3.2 Size of the Organisations

The researcher sought to identify the size of the institutions surveyed. This information was obtained from the CBK as well as the individual bank financial statements for the year ended 2012. The data gathered from these sources was then summarized as shown in Tables 4.4, 4.5 and 4.6

Table 4.4: Large Peer Group Institutions

Bank	Assets	Deposits	Market Size Index	Number of Mortgages
KCB	304,112	223,493	13.54	5,091
Equity Bank	215,829	140,286	10.06	702
Cooperative Bank	199,663	162,267	8.74	398
Standard Chartered Bank	195,493	140,525	8.29	1,480
BBK	185,102	137,915	8.08	1,021
CFC Stanbic Bank	133,378	75,633	5.01	1,340

Source: Central Bank of Kenya. (2012)

Table 4.4 details the six largest financial institutions within the mortgage industry on the basis of assets, deposit levels, market share and number of mortgages. The ranking was, however, populated on the basis of the institutions' asset bases. This information was vital to relating the findings of this study to the response strategies adopted by the institutions as evident in the concluding remarks.

Table 4.5: Medium Peer Group Institutions

Bank	Assets (Kshs. M)	Deposits	Market Size Index (%)	Number of Mortgages (Kshs. M)
NIC Bank	101,772	77,466	4.32	133
DTB	94,512	72,505	4.10	50
CBA	100,456	79,996	4.08	516
I&M Bank	91,520	65,640	4.08	293
NBK	67,155	55,191	3.00	221
Chase Bank	49,105	36,506	1.87	163
Bank of Africa	48,958	35,100	1.83	143
Housing Finance	40,686	22,968	1.49	5,235
Family Bank	30,985	24,630	1.42	214
Ecobank Kenya Ltd	31,771	21,475	1.06	302

Source: Central Bank of Kenya. (2012)

Table 4.5 categorises 10 institutions as medium in terms of assets, deposits, market share and the number of mortgages. These institutions have lower levels of the aforementioned parameters as compared to the large institutions but higher than those classified as small institutions by the CBK.

Table 4.6: Small Peer Group Institutions

Bank	Assets Ksh. M	Deposits Ksh. M	Market Size Index (%)	Number of Mortgages (Kshs. M)
Consolidated Bank	18,001	13,325	0.66	566
Gulf African Bank	13,562	11,684	0.56	145
Development Bank of Kenya	13,417	6,953	0.47	579
Jamii Bora Bank	3,480	1,213	0.27	184

Source: Central Bank of Kenya. (2012)

The institutions classified as small in Table 4.6 have asset bases of less than 20 million Kenya shillings and a market share of below 1 percent. They are in essence the underdogs as far as the financial presence in the Kenyan mortgage industry is concerned. These four institutions are, however, relatively newer entrants in the mortgage industry thus explaining the low levels of asset base, deposit levels, market share and number of mortgages.

4.4 Interest Rate Trends

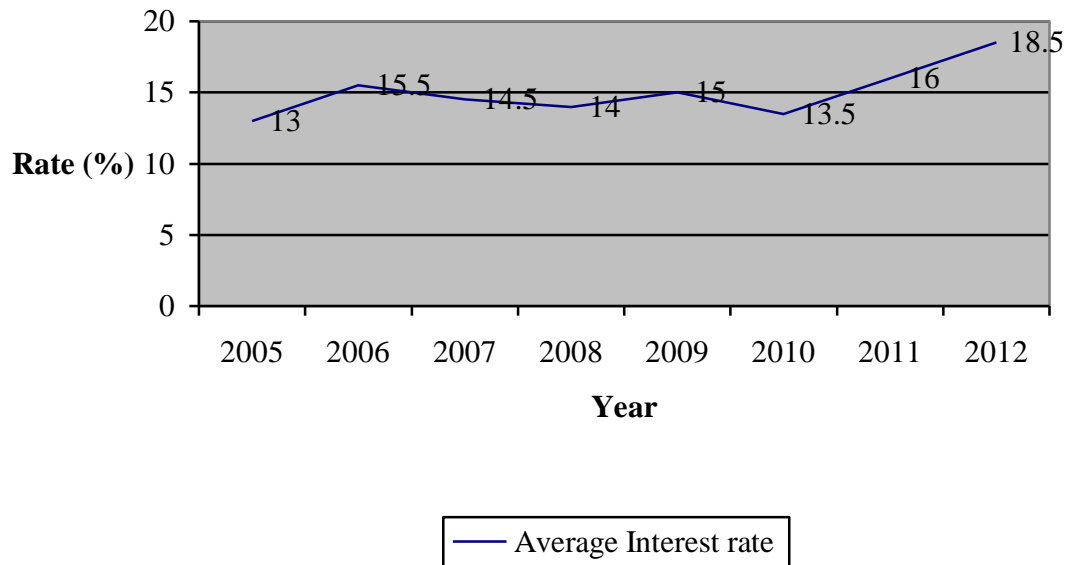
The respondents were asked to provide a schedule showing interest rate changes over the study period, that is, from 2005 to 2012. The result indicated a generally increasing trend with the lowest rates witnessed in 2005 and 2010 at mean rates of 13 and 13.5 percent per annum (p.a.) respectively. The period between 2006 to 2009 witness more stable rates of between 14 to 15 percent p.a. From 2011 to 2012, the mortgage and banking industries witness an influx in lending rates as a result of the increase in the CBK base lending rate from 8 percent p.a. to a record 16 percent p.a. The average mortgage lending rate stood at an average of 18.5 percent p.a. as at the year 2012. Table 4.7 and Figure 4.1 show the trends in interest rates over the study period as per the study carried out by the researcher.

Table 4.7: Interest Rate Changes over the study period

From (Year)	Average Interest Rate On Mortgages (%)
2005	13
2006	15.5
2007	14.5
2008	14
2009	15
2010	13.5
2011	16
2012	18.5

Source: Author (2013)

Figure 4.1. Mortgage Interest Rate Trends



Source: Author (2013)

Table 4.7 and Figure 4.1 are a summary of the interest rate trend over the study period and reflect an overall increase in the mortgage interest rates from an average of 13 percent in 2005 to 18.5 percent at the end of 2012. This scenario contributes immensely to the achievement of one of the research object which was to document the extent of mortgage interest rates changes over the study period.

4.5 Impact of Interest Rate Changes

The researcher further set out to ascertain the effect of reduced interest rates have on relevant parameters. For the purposes of this study, the researcher identified two main parameters that the respondents were required to give their opinion on how much impact interest rate decreases exerts on the same. The resultant responses were summarized in Table 4.8.

Table 4.8 Effect of Interest Rate Reduction

	No. of responses as per Likert scale weighting							
Parameter	1	2	3	4	5	Total Responses	Mean	Standard Deviation
Growth of loan Book	0	0	0	6	14	20	4.7	0.47
Enhanced Profitability	3	6	4	7	0	20	2.75	1.12

Source: Author (2013)

From Table 4.8 it is clearly evident that mortgage interest rates reduction has a great impact on the growth of loan book. The said parameter scored a mean of 4.7 and a standard deviation of 0.47. Profitability was, however, considered not to be directly affected by interest rate reductions with scores of 2.75 and 1.12 for the mean and standard deviation respectively. It is important to note that for the purposes of this study a mean score greater than 4 and a standard deviation of less than 1 represent fairly relevant parameters.

The researcher also set out to ascertain the effect of rise in interest rates on relevant parameters. In this regard, the researcher identified five main parameters that the respondents were required to give their opinion on how much impact interest rate increases exerts on the same. The resultant responses were summarized in Table 4.9.

Table 4.9 Effects of increased mortgage interest rates

	No. of responses as per Likert scale weighting							
Parameter	1	2	3	4	5	Total Responses	Mean	Standard Deviation
Increased Default Rate	0	0	0	7	13	20	4.65	0.49
Reduced Market Share	0	4	3	7	6	20	3.75	1.12
Increased Attrition	0	0	0	9	11	20	4.55	0.51
Reduced Profitability	4	6	4	4	2	20	2.70	1.30
Reputation Risk	0	3	5	7	5	20	3.70	1.03

Source: Author (2013)

Table 4.9 indicates that increased mortgage interest rates have the greatest impact on the default and attrition rates with mean scores of 4.65 and 4.55 respectively and corresponding standard deviation of 0.49 and 0.51. The other parameters were considered to be less affected since they had mean scores below 4 and standard deviations above 1.

4.6 Response Strategies to Interest Rate Changes

The respondents were asked to indicate the extent to which their respective organisations have employed the use of various suggested strategies in response to the changing interest rates. The responses received were summarized as per Table 4.1.1.

Table 4.1.1 Response Strategies Employed by Institutions

	No. of responses as per Likert scale weighting							
Strategy	1	2	3	4	5	Total Responses	Mean	Standard Deviation
Restructuring	0	0	0	4	16	20	4.80	0.41
Stress Testing	4	5	2	5	4	20	3.0	1.49
Off-Shore Borrowing	5	6	3	2	4	20	2.70	1.49
Marketing	0	0	2	7	11	20	4.45	0.69
Strategic Partnerships	0	0	5	8	7	20	4.10	0.79
Mergers and Acquisitions	3	4	4	5	4	20	3.15	1.39

Source: Author (2013)

Table 4.1.1 indicates that restructuring, marketing and strategic partnerships were adopted to a great extent the financial institutions surveyed with mean scores of 4.80, 4.45 and 4.10 and corresponding standard deviations of 0.41, 0.69 and 0.79. Stress testing, off-shore borrowing and mergers and acquisitions were employed to a lesser extent with mean scores less than 4 and standard deviations greater than 1. This is mainly due to the fact that they are new strategies in the Kenyan mortgage industry.

4.7 Discussion

The findings of this study have greatly shed light on the interest rate trends within the mortgage industry for the period 2005 to 2012 and how institutions within this industry are responding to the fluctuations so as to ensure they remain competitive and most importantly, achieve their desired strategic direction in terms of goals and objectives. The institutions surveyed were unanimously agreeable to the assertion that interest rate is one of the most important considerations that institutions operation within the mortgage industry have to make in their strategic management process. Previous studies such as the residential mortgage market survey conducted by CBK (2012) similarly identified high interest rates as a key obstacle to the growth of mortgages in Kenya.

Interest rate fluctuations were found to have the greatest impact on default rate and attrition of mortgage loan book amongst the surveyed institutions. Parameters such as market share, reputation and profitability were found to be affected to a lesser extent and as such were considered rather inconsequential for the purposes of this study. The variability of the responses for the aforementioned parameters resulted in fairly high levels of standard deviation as witnessed by the descriptive tables shown above.

The study went further to attempt an identification of the response strategies adopted by institutions within the mortgage industry. Respondents indicated that the most institutions were practicing restructuring and marketing as the main tools of countering the adverse effects inherent of interest rate fluctuations. In general, the responses received were greatly dispersed thus reducing the external validity of the data collected and conclusions arrived at.

Finally, the respondents provided schedules of the interest changes over time and also indicated whether the rates were fixed or variable. The general trend witnessed was an incremental one over the eight years under study. The use of descriptive statistics such as mean and standard deviation enabled the researcher to make incisive and scientific inferences on the variables under study.

The study was able to conclusively address its two research objectives as set out at the beginning of the research. The interest rate trend has generally been an incremental one over the study period while the institutions surveyed have overly employed marketing, restructuring and strategic partnerships in response to the dynamic and ever-changing mortgage interest rates.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter sets to draw conclusions that will seek to address the research objectives as outlined in chapter one. From the analysis and data collected, the following discussions, conclusions and recommendations were made. The responses were based on the objectives of the study had intended to document the extent of interest rate changes in Kenya for the period between 2005 and 2012 as well as to identify the response strategies by institutions operating within the mortgage industry in Kenya.

5.2 Summary

The study set out to document the extent of interest changes within the mortgage industry in Kenya over the study period of study, that is, between 2005 and 2012, as well as identify the strategies adopted by such institutions in response the changes in interest rates. Respondents were drawn from all the 20 institutions operating within the mortgage industry and were subject to the same set of structured and close-ended questions so as to enhance both internal and external validity of the data.

The results obtained from the study indicated that interest rates have actually been on a generally incremental trend over the study period. This was arrived at by calculation the average of the respondent institutions' interest rates at various levels of the study period. The rates reached an all-time high of 18.5 percent p.a. during the year 2012

which presented the institutions with a myriad of challenges as they strived to remain focused on their strategic goals and objectives. Some of these challenges include the default risk, attrition, and potential loss of market share, profitability issues and reputation risk. The study pinpointed default risk and attrition as the main challenges emanating from the interest rate fluctuations within the industry. The other challenges were noted to have little dependence on the interest rate fluctuations and probably depend more on factors other than the aforementioned.

The researcher further sought to know from the respondents the actual strategies that their respective organisations were employing in response to the said fluctuations in interest rates. Restructuring and marketing stood out as the most common practice among the surveyed institutions, especially being adopted by the earlier market entrants. Newer industry players, on the other hand, adopted more of stress testing, off-shore borrowing and strategic partnerships mainly owing to the large amount of capital outlay needed to be able to offer mortgages to potential borrowers.

In general, the study was able to achieve its set objectives and present the same in tabular and figurative formats. Relevant conclusions and recommendations can, therefore, be drawn from the findings of this study to act as a guideline to further studies on the subject and/or related areas of study.

5.3 Conclusions

From the study carried out, the researcher has identified the nature of institutions' interaction with macro environmental factors within the mortgage industry in Kenya. This knowledge shall go a long way to enrich the existing theory and knowledge in the area of organisation interaction with its macro environment. The study concludes that each aspect of the remote environment is important in its own respect and that the level of importance and to a larger extent the external validity varies from industry to industry depending on the dynamics inherent within it.

5.3.1 Interest Rate Decreases

From the response received from those surveyed, the researcher reckons that institutions within the mortgage industry have responded to the interest rate reductions by maximising the potential growth of their loan book. This has been achieved through intense marketing and product differentiation such as introducing variable interest rates, 100 percent financing and one-stop shop mortgage centres.

5.3.2 Interest Rate Increases

When interest rates increase, firms are faced with a more challenging and potentially detrimental scenario. They have to be smart and devise strategies that shall ensure that they are well cushioned from the likely effects such as high attrition, increased portfolio at risk, reputation risk and reduced market share. Institutions, therefore, resort to measures such as restructuring of existing mortgages, stress testing, strategic partnerships and, mergers and acquisitions.

5.3.3 Interest Rate Trends

The study noted that during the study period, that is, from 2005 to 2012, the researcher observed that the interest rates were initially stable with average rates of between 13 to 15 percent. The major shift was witnessed in 2011 when the CBK increased its base lending rate to counter the inflation that was facing the entire economy at that particular time. Mortgage rates rose from 15 percent in 2009 to a record 24 percent as at end of 2011. The rates finally stabilised at an average of 18 percent at the beginning of 2012.

In 2012, the CBK began reducing the base lending rate owing to the stabilising of the economy and most institutions within the mortgage and banking industries followed suit and reduced their rates by an average of 3 percentage points.

5.3.4 Response Strategies by Institutions

Institutions operating within the mortgage and banking industries at large are faced with unique set of challenges that they have to adapt themselves to in order to remain relevant in the industry. The strategies that such institutions adopt largely depend on their size and experience within the industry.

From this study, it was evident that organisations that are bigger in size and have longer experience in the industry are less receptive to new strategies since they are keen to protect the market share and competitive advantage that they already enjoy. Newer entrants, on the other hand, are more adventurous and employ strategies such as off shore borrowing, stress testing and strategic partnerships to enter the mortgage market.

Finally, owing to the competitive nature of the mortgage market, firms have resorted to product differentiation as a key strategy aimed at making their respective products unique from competition. The introduction of fixed mortgage rates as well as offering lower rates for residential mortgages has particularly become popular in the industry.

5.4 Limitations of the Study

During the research process, the researcher encountered various challenges that had to be overcome in order to make the research a success. The slow response rate from respondents meant that the researcher had to delay the data analysis phase as the questionnaires were awaited from all the respondents interviewed under this study. It was vital to receive the duly filled questionnaires since this was a census survey in which all members of the population were under study

Financial constraints also hampered the researcher's ability to study all the branches of the institutions that were surveyed. Owing to this factor, the researcher shall generalise the findings of this study to other branches of the institutions in various parts of the country. This might prove uncertain as external validity is not always guaranteed in any set of results. Financial resources would be required for transport, data collection and analysis.

The competitive nature of the banking industry in general forced the researcher to overly employ the use of closed ended structure questionnaires which in essence limit the ability to get more information from the respondents.

5.5 Suggestions for Further Research

This study focused mainly on organisation interaction with the remote environment within the mortgage industry by curving out interest rate as an economic factor in the macro environment.

Scholars and academicians should probably consider carrying out the study over a much longer period so as to compare the interest rate changes before and after the major economic legislative changes in 2003. A study on the effect of other factors such as inflation, technology and legislation on organisational behaviour and strategies could also go a long way in bridging the inherent knowledge gap.

5.6 Recommendations for Policy and Practice

The findings of the study indicate a significant influence by interest rates on institutions operation within the mortgage industry in Kenya. It has also shed more light on the type and level of strategies adopted by these institutions I response to the challenges posed by interest rate fluctuations. These findings can and should be put into consideration by various stakeholders when making certain strategic decisions that are bound to affect their strategic direction.

Institutions within the mortgage industry should develop and maintain research and development units that work in liaison with strategy departments so as to continuously scan the environment for opportunities as well as develop strategies to counter the effects of fluctuating interest rates. Firms should also strive to adopt proactive measures such as stress testing and off-shore borrowing which mitigate against the probability of default and attrition.

The CBK on the other hand, can borrow a leaf for this study and so as to develop regulations that are specific to the mortgage industry and delineate it from the larger banking sector which is essentially different in terms of trends and specific industry traits. Such guidelines should be aimed at ensuring that institutions within the mortgage industry envisage the probable effects of fluctuating interest rates before they actually occur.

REFERENCES

Angara E. (2010). *Strategic Responses Adopted By KCB to Changes in the Environment*.

(Unpublished MBA Research project) University of Nairobi

Ansoff I. and McDonnell E. (1990). *Implanting Strategic Management, Second Edition*.

London: McGraw-Hill

Bernstein A. (1996). *The Making of Strategy; Rulers States and War*. New York:

Macgregor Knox

Cargill H. (1991). *The Term Structure of Interest Rates*, Journal of Finance: June 1991, 30:

pp 761-771

Chepkwony J. (2001). *Strategic Responses of Petroleum Firms in Kenya to Challenges of*

Increased Competition. (Unpublished MBA Research project) University of Nairobi

Francis A. (2001). *Business Mathematics and Statistics. Fifth edition*. London: Continuum

Gardener M, Mills D, and Cooperman E. (1999). *Managing Financial Institutions, 4th*

Edition. Dryden: McGraw-Hill

Gichumbi S. (2008). *Strategic Responses by NSSF to Changing Environmental Conditions*

in Kenya. (Unpublished MBA Research project) University of Nairobi

Hammer M. and Champy J. (1993). *Reengineering the Corporation; A Manifesto for*

Business Revolution, 1st edition. New York. Harper

Harvard Business Trend Review (1992). *The Strategy that will fix Health Care* by Michael

Porter and Thomas Lee

Johnson G, Scholes K, and Whittington (2008). *Exploring Corporate Strategy*, 8th Edition.

London: Prentice-Hall

Kenya Market Update (2012) Second Quarter: Knight Frank

Keynes J. (1936). *General Theory of employment, Interest and Money*. New Delhi: Atlantic

Kilonzo B. (2003). *The effect of changes in interest rates on Credit Granted by Commercial*

Banks in Kenya. (Unpublished MBA Research project) University of Nairobi

Kotler P. (1991). *Marketing Management; Analysis, Planning, Implementation and*

Control. 7th Edition. New Delhi: Prentice Hall

Kotler P. (2001). *Marketing Management. Millennium Edition*. New Delhi. Prentice Hall

Kiptugen E.J. (2003). *Strategic Responses to a changing Competitive Environment; A case*

study of KCB. (Unpublished MBA Research project) University of Nairobi.

Kwack S. (2000). *An Emperical Analysis of the factors determining the financial crisis*

in Asia. *Journal of Asian Economies*, volume 11(2), pp 195-206

Luftman (1996). *Strategic Management; a performance tool*. Hampshire: Cengage Learning

Mullins L. (2005). *Management and Organisational Behaviour*, 7th edition. London:

Prentice Hall.

- Njeri V. (2010). *A survey of Strategic risk management practices by large commercial Banks in Kenya*. (Unpublished MBA Research project) University of Nairobi
- Ongweso B. (2006). *The relationship between interest rates and NPLs in commercial Banks in Kenya*. (Unpublished MBA Research project) University of Nairobi
- Porter M. (1980). *Competing Strategy*. New York: Free Press
- Pearce J, and Robinson R. (1997), *Strategic management, 6th Edition*, Boston: McGraw-Hill
- Pearce J, Robinson R, and Mital A. (2011). *Strategic management; Formulation, Implementation and Control, 10th Edition*. New Delhi: Tata McGraw-Hill
- Rayport J and Sviokla J. (1995). *Explaining the virtue value chain. Harvard Business Review on strategies for growth, November - December*
- Reilly P. (1979). *The Strategic Dimension of Destination Image*. London: Sage
- Sanchez R. (1995). *Strategic Management Journal; Strategic Flexibility in Product Competition, volume 16, pp. 135-159*
- Senior B. (1997), *Organisational Change, Financial Times*. Harlow: Prentice Hall
- Smart and Vertinsky. (1984). *Toward a systemic crisis management strategy*. New York: Prentice Hall
- Thanyaku E.G. (2010). *The Relationship Between interest rate risk management and*

profitability of Commercial Banks in Kenya. (Unpublished MBA Research project).

University of Nairobi

Thompson A, Strickland A, and Gamble J. (2007). *Crafting and Executing Strategy; the*

Quest for Competitive Advantage, 16th Edition. Boston: McGraw-Hill Irwin

Thuranira C. (2012). *Response Strategies adopted by commercial banks in Kenya to*

changes in economic environment. (Unpublished MBA Research project).

University of Nairobi

Wilson D, and Rosenfeld R. (1990). *Managing Organisations; Texts, Readings and Cases.*

London: McGraw-Hill

APPENDIX I: QUESTIONNAIRE

Dear Sir/Madam,

I am a student at University of Nairobi currently undertaking a research project entitled '*Response strategies to the changes in interest rates by institutions in the mortgage industry in Kenya*'. Kindly, therefore, take time to fill in the following brief questionnaire which shall form part of the data for the research. The collected information shall be used strictly for academic purposes.

Thank you.

Samuel Omondi Okelo

QUESTIONS

What is your management level within the organisation's hierarchy?

(Please tick as appropriate)	Low level	Middle level	Top level
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

How many years have you worked in the mortgage industry?

(Please tick as appropriate)	0-5years	6-10 years	over 10 years
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

How long have you worked in this organization?

(Please tick as appropriate)	0-5years	6-10 years	over 10 years
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Over the last eight (8) years, how would you describe the pattern of mortgage interest rate changes?
(Please tick appropriately)

Greatly Decreasing	Slightly Decreasing	Neutral	Slightly Increasing	Greatly Increasing
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Do you agree with the following statement: Interest rate changes have an impact on the company's strategies? (Please tick appropriately)

Strongly				Strongly
Disagree	Disagree	Neutral	Agree	Agree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

To what extent do you agree with the assertion that increased interest rates impact on the undernoted parameters? (Please tick appropriately)

	Strongly				Strongly
	Disagree	Disagree	Neutral	Agree	Agree
Increased Default Rate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Loss of market share	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
High attrition rate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reduced Profitability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reputation risk	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

To what extent do you agree with the assertion that reducing interest rates impact on the undernoted parameters? (Please tick appropriately)

	Strongly				Strongly
	Disagree	Disagree	Neutral	Agree	Agree
Growth of loan book	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Enhanced Profitability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

To what extent do you agree with the statement that your organization has employed the following strategies in leveraging the impact of mortgage interest rate changes? (Please tick appropriately)

	Strongly				Strongly
	Disagree	Disagree	Neutral	Agree	Agree
Restructuring of facilities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stress Testing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Off-shore Borrowing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Marketing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Strategic Partnerships	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Mergers and Acquisitions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please provide a schedule showing the interest rates on mortgages for your organization from 2005 to 2012 in the following format.

From (month/year)	To (month/year)	Interest rate on residential mortgages	Interest rate on commercial mortgages	Variable/fixed?	Remarks (if any)

APPENDIX II: LIST OF FINANCIAL INSTITUTIONS

1. Kenya commercial Bank
2. Standard Chartered Bank
3. Co-operative Bank of Kenya
4. Barclays Bank of Kenya
5. Housing Finance
6. Equity Bank
7. Jamii Bora Bank
8. CFC Stanbic Bank
9. Family Bank
10. Gulf African Bank
11. National Bank of Kenya
12. NIC Bank
13. I & M Bank
14. Commercial Bank of Africa
15. Chase Bank Kenya
16. Ecobank Kenya Limited
17. Consolidated Bank of Kenya
18. Diamond Trust Bank
19. Development Bank of Kenya
20. Bank of Africa

Source: Central Bank of Kenya. (2012). *Bank Supervision Annual Report 2012*.

Retrieved from www.centralbank.go.ke