

**THE EFFECT OF MORTGAGE INTEREST RATE ON THE GROWTH OF  
MORTGAGE FINANCING IN KENYA**

BY

JOSPHAT NJIHIA NJONGORO

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

NOVEMBER 2013

## ABSTRACT

The objective of this research project was to study the effect of mortgage interest rates on the growth of mortgage financing in Kenya. The mortgage market in Kenya is still in its early stages compared to far much developed markets in Europe where it forms a big part of the gross domestic product of specific countries. The Kenyan market is undeveloped and their fore has great potential of growth. In these early stages challenges are numerous; Interest rates have been identified as a major factor of influence and as a major challenge. Normal loans historically have been expensive and prohibitive to potential borrowers because of high interest rates hence it follows that mortgages will be affected similarly.

The study used a descriptive research design, their fore it sought to find out and collect facts in the market and describe the causal linkage between mortgage interest rates and growth of mortgage financing in Kenya. The study used a population of 44 licensed commercial banks and housing finance company for a period between 2009 and 2012. Data was collected from secondary sources. Non-performing loans were identified as a control variable and was introduced in the analysis equation. The equation was analyzed using MS-excel to give the statistical results.

The research findings shows that total mortgage outstanding have been increasing while average interest rate generally increased in the period of study. A strong negative relationship was realized between mortgage interest rate and growth of mortgage financing. In overall the results indicate that mortgage interest rate and non-performing loans are not adequate predictors of growth of mortgage market as indicated by the coefficients.

Further studies in the mortgage market need to identify the relevant and significant factors such as income levels and accessibility of loans and means to appropriately measure them so as to expand this analysis of the mortgage market. The regulatory body CBK needs to develop policies to curb the great variation of the lowest and highest interest rates in the market while the central bank rate remains low. The free market policy seems to be working against consumers in this case.