FACTORS INFLUENCING OF BANK POLICY ON PURCHASE RATE OF HOME MORTGAGE PRODUCT: A CASE OF BARCLAYS BANK OF KENYA

BY

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DECLARATION

This project report is my original work and has not been presented for any award in any other university.

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This research project report has been submitted for examination with my approval as the candidate's supervisor.

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DEDICATION

This project report is dedicated to my entire family who have provided me with support throughout this programme. Specifically I would like to thank my parents Mr. and Mrs. Peter Mutuku for having taken me to school at a tender age, may God bless you all.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBD	Central Business District
CBK	Central Bank of Kenya
CBR	Credit Bank Rate
CEE	Central East Europe
ECB	European Central Bank
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HFCK	House Financing Corporation of Kenya
KCB	Kenya Commercial Bank
OECD	Organisation for Economic Co-operation and Development
RoK	Republic of Kenya
SSA	Sub-Saharan Africa
THB	Tanzania Housing Bank
U.S.A	United State of America
UK	United Kingdom
UN-HABITAT	United Nations Human Settlements Programme
WB	World Bank

ABSTRACT

All over the world, how mortgages are financed in a cost efficient way has increasingly concerned banking regulators and policymakers as mortgage costs have played a very important role in improving a national economy, quality of living and in particular housing affordability. Home mortgage product purchasing is closely related to the banking system and its main activity, lending. In addition, the housing market has specific institutional features whereas state intervention is crucial, interrelated with social and economic policy, which radically affects people's decision. In Kenya, the demand for housing is immense and driven by a growing population and urbanization. However, statistics from WB, indicates that there is low purchasing rate of mortgage products despite Kenyan mortgage market has the potential to grow to Sh800 billion, which is about nine times the current size. The objective of this study was to investigate influence of bank policy on purchase rate of home mortgage product in banking industry where the variables are interest rate, lending criteria, price of mortgage product and central bank policy. According to BBK, there are 7 branches in CBD. This study employed stratified sampling technique in coming up with a sample size of 86 from a total population of 104. The study relied mostly on primary data sources where self-administered questionnaire was utilized as source of data. Data was collected purely quantitative. Quantitative data was coded and entered into Statistical Packages for Social Scientists (SPSS Version 17.0) and analyzed using descriptive statistics. The finding was presented inform of frequency tables, pie charts and bar charts and explanation will be presented in prose. The study found that there has a gradual increase in interest rate on home mortgage product as shown by 64% of the respondents. Variable interest rate contributes to slow growth in residential mortgage market as shown by mean score of 4.01. Banks have a set lending procedure followed when issues mortgage loan to a client as depicted by 69% of interviewed respondents. Banks finance selective mortgage products as shown by 96% of the respondents. central bank advice financial institution on mortgage loan application as indicated by 84% of the respondents. CBK provide some guideline on mortgage products as illustrated by 94% of the respondents. Price of mortgage influence purchase rate of home mortgage as revealed by 96% of the respondents. The study concludes that there is positive relation between interest rate and purchase rate of home mortgage product. It was clear from the study that banks impose interest rate on mortgage product and there is gradual increase in interest rate. Banks lend mortgage loan for the purchase of land for development and existing buildings; they finance construction projects. Looking forward toward the realization of the economic pillar of Kenya's Vision 2030 demands that the financial institution should focus on making high profits in order to eliminate social problems facing Kenyan citizens today, through control emerging and endemic financial problems. The study recommended that banks should consider their lending criteria. The lending institution need to consider the personal circumstances and earning capacity of the prospective borrowers in order to calculate the maximum amount to be lent over an agreed period. The lending institution need to consider the personal circumstances and earning capacity of the prospective borrowers in order to calculate the maximum amount to be lent over an agreed period.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Home mortgage product purchasing is one of the most complex decisions people have to make because it associates with the need to have a good standard of living, the desire to consume and furthermore, it is seen as an investment in a durable product that would provide profits in the future (OECD 2011). Meanwhile, this market is closely related to the banking system and its main activity, lending. In addition, the housing market has specific institutional features whereas state intervention is crucial, interrelated with social and economic policy, which radically affects people's decision. With an ever increasing urban population, the demand for houses is insatiable. There is a long tradition that minimum standards of housing should be available to all regardless of income, especially where there are children in the household. A distinctive feature of the houses is that their cost is high; it's rare that one can afford to buy one out of personal savings. The increase in housing demand thereafter translates into demand of mortgages (Lipsey, 1993). Mbote (2006) stated that it is thus a debt instrument used to finance the purchase of a home or other form of real estate when the underlying real estate serves as collateral for the loan.

How mortgages are financed in a cost efficient way has increasingly concerned banking regulators and policymakers as mortgage costs have played a very important role in improving a national economy, quality of living and in particular housing affordability. During the Global Financial Crisis of 2007-2008 prompted massive changes in international mortgage markets. Several countries experienced sharp increases in house prices. These episodes are usually mentioned among the causes of the world's recent economic and financial turmoil. The dramatic growth in bank lending during this period has been held broadly responsible for these market dynamics.

In Europe, the growth in house prices has been particularly noticeable in some countries such as Spain, the UK and Ireland where house prices have increased by more than 180% only between 1997 and 2007 the largest growth among major industrialized countries. House price modeling has received increasing attention in the economic literature in the last thirty years. With regard to the role of lending in this context, it should be pointed out that explicit consideration of mortgage credit as a central variable in house-price models is not, in most cases, endowed within theoretical grounds. Mortgage financing has also been the focus of the debate in Europe although the actual dynamics of the relationship between mortgage credit and house prices are not, so far, well-known. Europeans have progressively turned to this form of borrowing: while in 2003 the nominal average mortgage loan per euro area inhabitant was just over 8 thousand euro, in the past two years, said figure has surpassed 14 thousand euro, marking an increase of around 75%1. Between December 2002 and September 2009, the average compound annual growth rate of nominal mortgage outstanding in the euro area countries has generally been higher than 10%; only Portugal (8%), the Netherlands (4%), Belgium (3%), and Germany (0.6%) have registered lower growth rates.

In Australia, restricted institutional access to international credit translated into a contraction in the Australian housing finance supply while increased uncertainty about future growth and employment led to a contraction in housing debt (Gorton & Metrick, 2012). During the GFC, the number of short-term fixed-rate mortgages (SFRMs) in the market fell dramatically following a drastic increase in their cost relative to other mortgage products. This was partly offset by an increase in the number of `honeymoon' mortgages (HMs) offering a relatively higher discount over the standard variable-rate mortgage (VRM) than prior to the GFC. According to the statistics of Reserve Bank of Australia (2008), mortgage outstanding by December 2007 reached $916 billion (2008). That means that a 20-basis point reduction (0.20%) should lead to nearly $2 billion mortgage cost savings for the borrower per year. In addition, mortgage is the single largest asset of Australian major banks. By distinguishing two periods a credit expansion' period prior to September 2008 and the period where the GFC impacted in Australia from September 2008 to May 2009 this show that lenders reacted by tightening credit for housing, and borrowers reacted to the increased uncertainty in economic conditions.

In the U.S.A, the dramatic rise in subprime lending has been broadly blamed for these market dynamics. However, recent evidence has shown that subprime credit activity does not seem to have had much impact on subsequent house price returns, although there is strong evidence of a price-boosting effect as the Government Sponsored Enterprises such as Fannie Mae and Freddie Mac were displaced in the market by private issuers of new mortgage products (Coleman, 2009). Home mortgage products have continually loomed large in the financial situation of American households. In 1949, mortgage debt was equal to 20 per-cent of total household income; by 1979, it had risen to 46% of income; by 2001, 73% of income (Bernstein, Boushey & Mishel, 2003). Similarly, mortgage debt was 15% of household assets in 1949, but rose to 28% of household assets by 1979 and 41% of household assets by 2001. This enormous growth of American home mortgages, as a percentage of GDP, has been accompanied by a transformation in their form such that American mortgages are now distinctively different from mortgages in the rest of the world. In addition, the growth in mortgage debt outstanding in the United States has closely tracked the mortgage markets increased reliance on securitization (Cho, 2004).

Sub-Saharan Africa (SSA) has not been spared by the challenges facing mortgage industry, formidable housing problems. Almost without exception they have poorly developed housing institutions and markets, stocks which are in poor condition, a huge backlog of housing need and weak policy responses. In fact the housing boom of the mid-eighties eventually led to a collapse in house prices and misery for thousands of house owners (Greenlaw, Hatzius, Kashyap & Shin, 2008). This is even believed to be the inception of global economic crises which arose in the United States of America (Morgan, 2009).

The World Bank estimates that the Kenyan mortgage market has the potential to grow to Sh800 billion, which is about nine times the current size. The 16,000 mortgages valued at Sh91.2 billion in 2011 account for 2.5 per cent of the GDP, which pales in comparison with other countries such as South Africa which has a 26.4 per cent ratio. Kenya’s ratio also lags behind Namibia 19.6 per cent, Morocco 16.9 per cent, Mauritius 12.2 per cent, Tunisia 12 per cent (2010), and Seychelles 3.94 per cent (Gachiri, 2012).

Access to institutional housing finance has largely failed to improve habitat for low-income groups since neo-liberalism has spread around the globe. Low penetration of mortgage finance in most developing countries stands out. Traditional mortgage finance is virtually irrelevant to the majority of households in developing countries for many reasons (Smets, 1997). Even in developed countries, institutional housing finance is in crisis. Housing plays a huge role in revitalizing economic growth in any country, with shelter being among key indicators of development (Ireri, 2010). For most people, the money needed to buy a house is not something they get from their savings. The large sums involved mean that a loan has to be taken out to buy the property a loan for the purchase of a property is called a mortgage (Crowley, 2000).

The demand for housing in Kenya is immense and driven by a growing population and urbanization. Growing prosperity has also increased the demand for larger and better quality housing. The shortage of supply and of new construction exacerbates the unmet demand. Kenya has recognized the right to housing in her constitution which is the supreme law of the land (Section 43(1) (b)) (RoK, 2010). Every person has the right to accessible and adequate housing and reasonable standard of sanitation. Yet, housing remains a major problem especially in urban areas. Millions of the citizenry are living in the sprawling slums and also in other informal settlements around Nairobi (UN-HABITAT, 2008). World Bank report, Kenya is in a position to support the future growth of its mortgage market through the capital market (World Bank, 2009). The report ranks Kenya market infrastructure as one of the best in Sub-Saharan Africa.

To expound on ownership of houses in Kenya, a survey on mortgage financing showed that Kenya’s mortgage had tripled from Ksh. 19 Billion in 2006 to 61 Billion in May, 2010 (Central Bank and World Bank, 2010). The study also showed that the number of new loans over the period was increasing, although the mortgage market remained relatively small with only 13,803 outstanding loans in 2010 amounting to Ksh. 61 Billion, compared to 7,834 loans amounting to 19.4 Billion in 2006 (Central Bank and World Bank, 2010). Kenya's mortgage debt compared to its GDP is at 2.48 per cent, better than that of its East African neighbours Tanzania and Uganda which are 0.2 and one per cent respectively. When you compare the ratio to other developing countries like India, Colombia and South Africa, Kenya is still lagging behind.

As per the Central Bank, a primary mortgage is a bank loan made to an individual for the purpose of purchasing, renovating or constructing a residential dwelling. The loan is secured by a mortgage lien over the property. The lending institution will need to consider the age, personal circumstances and earning capacity of the prospective borrowers in order to calculate the maximum amount to be lent over an agreed period. The type of mortgages issued by various mortgage companies may differ depending on how mortgage interest is determined and serviced or by source of capital/interest payments (Mbote, 2006).

Commercial banks are custodians of depositor's funds and operate by receiving cash deposits from the general public and loaning them out to the needy at statutorily allowed interest rates. Loans are based on the credit policy of the bank that is tightly coupled with the central bank interest rate policy. These in effect determine the level of financial risk in a particular bank (CBK, 2010). Mortgage loans in Kenya comprises of 90% of the outstanding loan assets portfolio. An average mortgage loan in Kenya is Sh6.6 million, and demands a monthly repayment of about Sh90, 000 for a period of 20 years (CBK, 2011). More so, there is a continuing upward surge in the prices of construction materials hence the selling prices of houses move up too (Bonyo 2010). The prices in Nairobi for instance up surged by 7.4% between April and September 2010 (Business Post Statistics, 2010). The largest lender in Kenya is now Kenya Commercial Bank (KCB) following its acquisition of Savings & Loans, which remains as a mortgage subsidiary of KCB. Overall the two largest lenders control over half the market and only 9 banks (6 large, 2 medium and 1 small bank) have a mortgage portfolio exceeding Ksh 1 billion (World Bank, 2011).

1.2 Statement of the Problem

Banks represent a significant and influential sector of business worldwide that plays a crucial role in the global economy. A well-developed efficient banking sector is an important prerequisite for saving and investment decisions needed for rapid economic growth. A well-functioning banking sector provides a system by which a country's most profitable and efficient projects are systematically and continuously funded. The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade (GoK, 2009).

Pittman (2008) indicated that obtaining a mortgage in today's mortgage market is a complicated process as it involves unfriendly procedures set by banks and mortgage financing institutions where they access ability of the borrowers to repay the loan which attracts huge interest rate. This in turn hinders accessibility to mortgage funding. This supported by statistics that show; in May 2011 the mortgage holders stood at 15,049, in December 2011 they were 16,135 mortgage holders (CBK, 2011), while by end of 2012 there were 17,000 holders (Hass Consult, 2013). This shows low uptake of mortgage in the country. World Bank (2010), attributes this to fact that mortgage is accessible to only a small majority of the Kenyan population. WB found that only 11 per cent of Kenyans can afford an average mortgage loan. The World Bank report on Developing Kenya's Mortgage Market recommends that further review of the products and the regulatory framework for them should be done to avoid a future crisis should lenders start losing their retirement income (World Bank, 2011). According to the Central bank Survey, the largest lender as at 2010 was Kenya Commercial Bank (KCB) following its acquisition of Savings & Loans, followed by HFCK.

Despite significant role played by the mortgage financing in developing real estate in Kenya, there is very little that has been done to address factors affecting mortgage finance. Local studies done includes, Kanyori and Ngugi (2013) did a study on factors affecting access to mortgage finance in Nairobi, Kenya. They found that tax incentives, cost of capital, land registration systems and loan maturation period as very crucial in enhancing the access to mortgage finance. Mambo (2012) investigated effects of Monetary Policy on private sector investment in Kenya and recommended studies on mortgage industry that could assist policy makers in understanding the mortgage market. This is as a result of the ballooning of this particular sector but driven by scanty information and increased funding and whose decisions are primarily guided by the financial sector policy that encourages investment. Ndungu (2010) conducted a survey on mortgage financing strategies adopted by in residential property investments in Kenya. He found that while Kenya's mortgage market is growing, the industry is dominated by the bigger commercial banks indicating barriers to entry or high risks for medium and smaller banks. However the growth rates indicates that the small sized banks have the fastest growth rates of 38% on average, followed by medium banks which are growing at

25% on average with large banks closely following at 24% on average. Mutero (2007) did a study on access to housing finance in Africa, exploring the issues, he found that Kenya has a well-developed and regulated financial system and mortgage finance sector has become competitive and innovative, this sector serves only those households at the top of the income pyramid. Mutero (2007) recommends that there is need to assess the effects of mortgage financing policies on mortgage product uptake in commercial banks in Kenya. It is against this realization that the current study sought to investigate influence of bank policy on purchase rate of home mortgage product within commercial banks in Nairobi CBD, Kenya.

1.3 Purpose of the Study

The purpose of the study was to assess the factors influencing bank policy on purchase rate of home mortgage product with special focus to BBK branches within Nairobi CBD, Kenya.

1.4 Objectives of the Study

This study was guided by the following objectives;

1. To establish how interest rate charged by the banks influence purchase of home mortgage product.
2. To examine how lending criteria adopted by banks influence purchase of home mortgage product.
3. To assess how central bank policies influence purchase of home mortgage product.
4. To establish how price of a mortgage product influence purchase of home mortgage product.

1.5 Research Questions

The research questions for the study are:

1. To what extent does interest rate charged influence purchase of home mortgage product?

2. How does lending criteria adopted influence purchase of home mortgage product?
3. To what extent do central bank policies influence purchase of home mortgage product?
4. How does price of a product influence purchase of home mortgage product?

1.6 Research Hypothesis

The following hypothesis was used to test the regression model that was adopted for data analysis.

H_{01} Interest rate charged has no significant effect purchase of home mortgage product in the banking industry in Kenya.

H_{A1} There is significant relationship between interest rate charged and purchase rate of home mortgage product in the banking industry in Kenya

H_{02} Lending criteria adopted have no significant effect on purchase rate of home mortgage product in the banking industry in Kenya.

H_{A2} There is statistical significant relationship between Lending criteria on purchase rate of home mortgage product in the banking industry in Kenya.

H_{03} Central bank policies have no significant effect on purchase rate of home mortgage product in the banking industry in Kenya.

H_{A3} There is positive relationship between central bank policies and purchase rate of home mortgage product in the banking industry in Kenya.

H_{04} Price of a mortgage product has no significant purchase rate of home mortgage product in the banking industry in Kenya.

H_{A4} There is statistical significant relationship between price of a mortgage product and purchase rate of home mortgage product in the banking industry in Kenya.

1.7 Significance of the Study

To commercial banks, the findings of the study may enable them and mortgage companies to understand the reduction in demand for mortgage products by customers. With this understanding the banks are able to price their mortgage products appropriately. Normally the commercial banks may charge a higher interest rate on more risky loans. To potential home owners, it would also be of importance to would be home owners willing to take a loan with the mortgage institutions. They would be more aware on the implications of their loan on their income and would be able to choose the type of mortgage that would work for them. Industry regulators may benefit from this study in highlighting the problem areas in mortgage industry. The report may assist the industry regulators to identify mortgage categories that require close monitoring. In addition, this research may stimulate academics and encourage further studies in the area of mortgage financing and mortgage investment

1.8 Assumption of the Study

The researcher assumes that the respondents will be honest, cooperative, factual (objectivity) and trustworthy in their response to the research instruments and will be available to respond to the research instruments in time. It is also the assumption of the researcher that the authorities in the banking would grant the required permission to collect data from employees. The study further made the assumptions that there will be no serious changes in the composition of the target population that would affect the effectiveness of the study sample.

1.9 Limitation of the Study

The study is confined only to Barclay’s banks branches in Nairobi CBD and therefore its finding may not be applied to all the commercial banks in Kenya. The finding may only be generalized to commercial banks within similar regions in terms of client base and socio-economic factors. There may also be some element of dishonesty from some respondents by providing unreliable information resulting into distortion of the outcomes. This may restrict generalization of the finding. Cost implication for the requirements, resources and travelling expenses would also be a challenge to the researcher undertaking the study.

The respondents targeted may be likely to be reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or the bank. The researcher will handle the problem by carrying an introduction letter from the University and assure them that the information they will give will be treated confidentially and it will be used purely for academic purposes.

1.10 Delimitation of the Study

The survey concentrated on the influence of bank policy on purchase rate of home mortgage products with special focus to Barclays Bank of Kenya. The study interviewed management staff in credit and loan department in all seven (7) Barclays bank branches within Nairobi CBD. Questionnaires were used as the main data instrument source where it was distributed to the sampled respondents. The data for analysis was collected to the population of 72 management staff in selected banks.

1.11 Definition of Significant Terms as Used in the Study

Bank policy is the macroeconomic terms and conditions laid down by any bank.

Interest rate the proportion of a loan that is charged as interest to the borrower, typically expressed as an annual percentage of the loan outstanding.

Lending criteria policies that are set in place to create universal guidelines within a financial institution for all potential borrowers.

Mortgage a legal agreement in which a person borrows money to buy property (such as a house) and pays back the money over a period of years.

Policy a course or principle of action adopted or proposed by a government, party, business, or individual.

Price the amount of money expected, required, or given in payment for something

Purchase rate is the interest rate charged on regular purchases put on a credit.

1.12 Organization of the Study

The research is organized in three chapters. Chapter one introduces the research and presents the statement of problem, objectives, and research questions. The chapter also shows the significance, limitations and delimitations of the study. Chapter two encompasses the literature review on the various aspects concerning influences of bank policy on purchase rate of home mortgage product. Chapter three discusses the methodology that was be used to collect and analyze data while showing the target population, the sample population and the data collection instrument. Chapter four discusses the data analysis techniques, the findings of the study and presentation of the same findings. Chapter five introduces the conclusion, discussions of the study, recommendations of the study and finally suggestions for further reading.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter covers contributions from other scholars on influence of bank policy on purchase rate of home mortgage product. The chapter is structured into concept of bank policies on purchase rate of home mortgage, interest rate, lending criteria, and central bank policies, price of mortgage product, theoretical review, conceptual framework and summary gap of the literature review.

2.2 Concept of Bank Policy on Purchase Rate of Home Mortgage

The development of the real estate market has been one of the few factors in the past decade that has sustained economic growth in both developing and developed countries. In developed countries mortgage financing companies have gained recognition as opposed to those in developing countries (Hahm, 2010). For example, Europeans countries have progressively turned to this form of borrowing: while in 2003 the nominal average mortgage loan per euro area inhabitant was just over 8 thousand euro, in the past two years, said figure has surpassed 14 thousand euro, marking an increase of around 75%1. Between December 2002 and September 2009, the average compound annual growth rate of nominal mortgage outstanding in the euro area countries has generally been higher than 10%; only Portugal (8%), the Netherlands (4%), Belgium (3%), and Germany (0.6%) have registered lower growth rates.

The U.S.A mortgage financing institutions provides many more options to borrowers than are commonly provided elsewhere: American homebuyers can choose whether to pay a fixed or floating rate of interest; they can lock in their interest rate in between the time they apply for the mortgage and the time they purchase their house; they can choose the time at which the mortgage rate resets; they can choose the term and the amortization period; they can prepay freely; and they can generally borrow against home equity freely. They can also obtain home mortgages at attractive terms with very low down payments. The U.S. government has intervened in home mortgage markets that have led to the specific choices available to American homebuyers. The unique characteristics of the U.S. mortgage provide substantial benefits for American homeowners and the overall stability of the economy (Richard & Susan, 2009).

Majority of Commercial Banks have turned into mortgage financing. An efficient housing finance system has significant importance both in meeting the housing needs of individuals and in reinforcing the development of the construction, finance and other related sectors of an economy. International experience suggests that, the widespread availability of residential mortgages has favorable impact on poverty alleviation, quality of housing, infrastructure, and urbanization (Erbas & Walley, 2008). 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 would be slowly paid down through amortization (Tse, 2007). Changes in mortgage design do not always lead to fundamentally different mortgage instruments. The emergence of a fixed rather than a variable rate mortgage would be an example of a new mortgage instrument (Dolde, 2008).

Fang (2008) conducted a study on the relationship between home mortgage loan and real estate market in China and their effect on banks financial performance, the study sought to analyze the correlation between the development of real-estate market and home finance and their effect on banks financial performance. The study revealed that although residents' sustainable income, macroeconomic factors are all the reasons for the development of the China's real estate market, but the mortgage cannot be ignored which is also an important factor for rising home prices, and at different times, different regions show different characteristics (Fang, 2008). In the short term, the function of mortgage is more apparent in promoting house prices. While the real estate market in a region or city getting gradually mature, the effect of mortgage on the house prices tends to be less evident, but it remains an important factor that cannot be ignored. The study further revealed that both real estate financing and mortgage had positive effects on the banks profitability. Gerlach and Peng (2008) found a long-run relationship linking house prices, bank credit and GDP in Hong Kong. For house prices and credit in the short run, they conclude that the relationship is one-way; a change in house prices causes changes in bank credit. Collyns and Senhadji (2008) find that credit growth has a significant contemporaneous effect on residential property prices in a number of Asian economies.

Fang (2008) conducted a study on the relationship between home mortgage loan and real estate market in China and their effect on banks financial performance, the study sought to analyze the correlation between the development of real-estate market and home finance and their effect on banks financial performance. The study revealed that although residents' sustainable income, macroeconomic factors are all the reasons for the development of the China's real estate market, but the mortgage cannot be ignored which is also an important factor for rising home prices, and at different times, different regions show different characteristics, (Fang, 2004). In the short term, the function of mortgage is more apparent in promoting house prices. While the real estate market in a region or city getting gradually mature, the effect of mortgage on the house prices tends to be less evident, but it remains an important factor that cannot be ignored. The study further revealed that both real estate financing and mortgage had positive effects on the banks profitability, (Fang, 2004).

Vuyisani (2008) pointed that there is inadequacy in the shelter delivery system in Tanzania to cater for the urban population. This has led to an extensive development of squatter or unplanned settlements. Studies conducted in 1995 under the Urban and Housing Indicators Programme indicated that about 70% of urban population lived in unplanned settlements and that about 60% of the urban housing stock is to be found in these settlements. The gap between the supply and demand for housing has been widening with time. It is now estimated that the deficit in Tanzanian urban centers is about 1.2 million housing units. Lack of appropriate policies on housing development have contributed to overcrowding in housing and poor housing conditions. Among them are those, which concern the acquisition of building plots, land title, building permit, housing credit facilities and the operation of the main stakeholders in housing development. Housing shortage in Tanzania is further fuelled by the lack of formal housing credit facilities.

Under the shelter policy, financial institutions lending for housing were to be responsive to the needs of low-income groups in both rural and urban areas. It was envisaged that new financial institutions be created to increase lending opportunities. The Tanzania Housing Bank (THB) was created in 1973 and became the sole source of formal housing finance. It was only marginally able to lend to low-income groups and over the years, lending declined in real terms as both building costs and interest rates increased. There is currently no formal source of financing for shelter development in Tanzania. The main problems associated with housing finance in Tanzania are, there is a near complete lack of formal mortgage housing finance facilities in the country and this has made house construction a difficult process for many households especially those in the low income categories. Government allocation of the national budget to housing has been generally low and is declining and there is lack of capacity for housing development both at national and local levels.

In Kenya, mortgage lending is predominantly done by commercial banks. Mortgage loans have become an important aspect of loan portfolio among commercial banks in Kenya, earning commercial banks profits like other type of loans. There are 43 banks and one Mortgage Finance Company in the Kenyan banking system, 25 of them have mortgage portfolios of differing sizes. While some of the banks offer mortgage facilities to their members of staff. Central Bank of Kenya authorizes two types of lenders, the ordinary banks and the mortgage companies. Similar regulations with regards to mortgage financing apply to the two types of lenders.

According to the World Bank report on developing Kenya’s Mortgage market, the demand for housing in Kenya has grown rapidly in recent years, in both value of loans and number of loans (World Bank, 2011). Kenya’s mortgage market has grown from kshs.19 billion in 2006 to just over kshs.61 billion by may 2010 (nominal growth).This translates to an annual average growth of 34% indicating an exponential increase in mortgage loans. The number of new loans has also been rapidly increasing. Since 2006 there has been a steady growth in new loans further validating the growing mortgage market. In 2006 new loans were approximately 1278 whereas by 2009 new loans portfolio has grown to over 6,000. By May 2010 the number of new loans was 2,966 which is in line with the steady growth seen in the previous years. But the mortgage market is still relatively small now standing at 15,049 loans, even though it has more than doubled since 2006. While the growth rate in mortgage loans has been rapid at just under 50% since 2006 and has been growing steadily at 14% annually ,the loan portfolio remains small (CBK,2010).

The increase of mortgage financing in Kenya may have been influenced by factors changing mortgage climate, sustained economic growth, cross-selling potential, profitability and market penetration and liberalizations of market. Kenya's mortgage market has more than tripled in the past five years. The mortgage market has grown from Kshs.19 billion in 2006 to just over Kshs.61 billion by May-2010 year. This translates to an annual average growth of 34%, indicating an exponential increase in mortgage loans (Government of Kenya, 2007). The mortgage market is the third most developed in Sub-Saharan Africa with mortgage assets equivalent to 2.5 per cent of Kenya's GDP.

2.3 Interest Rate on Purchase Rate of Home Mortgage

Interest rates are the single critical factor that drives the mortgage market and access to more middle income housing. With the call for the enlargement of the Mortgage Market so as to help more people qualify for mortgage loans in Kenya, many Commercial banks have always based their Mortgage rates on the volatility of the CBR just as their lending rates. An increase (decrease) of interest policy rate determines an increase (decrease) in the banks' cost of borrowing, which generally produces an adjustment in all their interest rates, including mortgage rates, to pass this higher (lower) cost onto their customers. This mechanism consists in the so-called credit channel in the transmission of monetary policy (Bernanke & Gertler, 2010).

The mortgage market in Kenya is not growing significantly and this provokes analysis to come up with ways to improve its growth and in a report central bank state, the high interest rates in the first half of 2012 impacted negatively on the mortgage market with NPLs increasing from Ksh. 3.6 billion in December 2011 to Ksh. 6.9 billion in December 2012, it also states that the tendency for financial institutions to grant mortgage loans on variable interest rate basis may be contributing to slow growth in residential mortgage market in Kenya (C.B.K, 2012). The above statements show that interest rates have considerable effect on growth of mortgage market in Kenya.

The expected impact on interest rates can work both ways: on the one hand, higher house prices reduce the risk premium through an increase in the value of the guarantees given; on the other hand, higher house prices could increase the demand for lending. Depending on the prevalence of one over the other, interest rates may rise or fall. Avery (2006) indicated that low interest rate schemes in commercial banks made between 2001 to 2004 made a positive impact on the credit growth of mortgage finance loans from loan takeovers from existing lenders. Affinito and Farabullini (2008) studied at a broad spectrum of interest rates applied to various bank products in the different markets of the euro area; find that differences among European countries can be explained by the domestic characteristics of each market, as well as by the specific features of different products. Sorensen and Lichtenberger (2007) analyzing the process of convergence of mortgage interest rates for the house purchase in the euro area, find that supply and demand factors only partially explain interest rates, while a fundamental role is played by institutional factors specific to each country.

Standard economic theory suggests that the interest rate setting behavior of banks can be influenced by a large number of other factors, such as the degree of competition between banks, market contestability, competition from market-based financing and investment possibilities, perceived credit and interest rate risk, the cost of refinancing, the cost of switching banks, the existence of information asymmetries between MFIs and their customers and the strength of the bank customer relationship. Significant differences across countries in these factors may give rise to differences in national MFI interest rates, just as they may also explain differences within countries. Finally, some influence may also be expected from differences in the economic cycle (ECB, 2009). According to Merriam (2008) interest-rate movements are based on the simple concept of supply and demand. A major factor driving interest rates is inflation (Dennis & Pennington, 2008). Higher inflation is associated with a growing economy. When the economy grows too strongly, increases interest rates to slow the economy down and reduce inflation. A strong economy therefore results in higher real-estate prices, higher rents on apartments and higher mortgage rates.

The increased demand for housing in both the rural and urban areas has created a hyper competition amongst the financial and banking institutions. The problem has been created in that there has been confusion among the customers on choosing the best mortgage institution to deal with and also the mortgage institutions have had to lower their lending rates to be able to cope with the competition. Commercial banks have continued financing mortgages with a potential size of the mortgage market which is currently around Ksh.800 billion (CBK, 2011). This is far below expectation of bridging the housing gap of 156,000 units per annum (UNHSP, 2000) bearing in mind the large unexploited urban and rural market due to low income level earnings by individuals in the country.

Central Bank and World Bank (2010) survey showed that the weighted average mortgage interest rate reported by the institutions was 14.07% in 2010. Results obtained from one of the mortgage financing companies showed that the interest rate was 18%. According to Crowley (2008), prior to the 1980s, mortgages were supplied primarily by building societies. By the fact that the interest rates oscillate between certain ranges (14%-17% in Kenya) these firms can give varying rates for similar levels of loans depending on the market forces of demand and supply and also depending on the level of market risk at that particular time. Crowley (2004) argued that it is not by surprise that one can negotiate for a two million loan at a subsidized rate, and another person gets the same amount of loan from the same firm at a higher rate but at different times. This makes planning for mortgages hard due to various uncertainties.

2.4 Lending Criteria on Purchase Rate of Home Mortgage

Banks play a crucial role in the financing of real estate through mortgage financing. They lend for the purchase of land for development and existing buildings; they finance construction projects; they lend to non-bank and they finance companies that may finance real estate; and they lend to non-financial firms based on real estate collateral (David & Zhu, 2004). Lender credit criteria are traditionally regarded as the most important factor in assessing the loan application. A large number of studies address the importance of the design of lending contract due to information asymmetry between the lender and the borrower. Literature that examines the relation between loan spreads and risk characteristics of loans and borrowers generally follows two paradigms with different assumptions about a lender's ability to access the information of borrower's individual risk. The first paradigm assumes that borrower's risk can be observed, referred to as the "sorting-by-observed risk paradigm.

According to Berger and Udell (2010) when they test the relation between collateral and credit risk in commercial and industry loans, risky borrowers are required to pledge collateral while observably safe borrowers are not. In contrast, if borrowers' risk is not observable a contract has to be designed in a way by which credit sorting with interest rate and/or non interest rate would be effective, referred to as "the sorting-by-private information paradigm. Bester (2005) find that collateral can play a sorting role across borrower types when collateralization is expensive. Ben-Shahar (2006) predict that both the loan spread and other non-rate terms could be important screening devices for both credit sorting and credit rationing. Besanko and Thakor (2007) note that loan size, collateral and interest rates would be used in combination if the wealth constraints of debtors become binding.

According to Central Bank and World Bank (2010) overlapping constraints of low level of incomes/informality and credit risk were listed as a major constraint on uptake of mortgage. There is a risk of members potentially losing their pensions when they are unable to pay up their mortgage. Various economies across the globe have provided the required long-term funding for housing through the capital markets, pension and insurance. The pension and insurance industry have long-term liabilities which form an important source for funding housing because of their ability to manage liquidity risk in comparison to short-term liabilities from depository institutions. The mortgage uptake is a stock market based investment that has taxation benefits. However, despite the pros, the mortgage debt remains constant throughout the mortgage period. There is no guarantee that one will have sufficient funds to pay off the mortgage at the end of the repayment period, as the pension fund could perform below expectations. This implies that the lump sum benefit at retirement cannot be used for other purposes.

2.5 Central Bank Policies on Purchase Rate of Home Mortgage

In the framework the Central Bank rate affects the mortgage uptake since mortgage rates are pegged towards the Central Bank rate. Increase in the Central Bank rate leads to a consistent increase in the mortgage rate which tends to slow down mortgage uptake since the Central bank rate act as a signal for commercial banks to tighten their lending. This subsequently leads to an increase in the Commercial bank lending rates which is consistent with the mortgage rates (Central Bank Survey report, 2010). A higher mortgage rate leads to an increased cost of borrowing from both surplus income side of the demand of housing which further leads to defaults and foreclosures to the extreme cases. However, higher mortgage rates may also be seen as an opportunity for investment by mortgage investors and therefore could assess the risk return tradeoff and evaluate other competing investment in order for them to make a business out of it (William, 2008).

According to Livingstone (2008) the government of the UK was more concerned with the effects of the financial crisis of 2007/2008. One of the most affected parts of the economy was the mortgage industry. In order to support the Industry, the government implemented the following: more technical specialists, so the players will more often be able to have their queries and questions resolved on first call. This involved improving communication channels between the two and the government put more emphasis on helping the Industry with principles-based regulation questions. In line with this it piloted this approach with questions about the new high-level ICOBS rules for general insurance intermediaries and they have done well.

According to development analyst Simons (2006) government owned or sponsored mutual fund driven housing schemes and the pseudo-mortgage arrangements that allow public sector employees to own their own property have proven to be relevant. Housing schemes and mortgages tend to be inseparable in Africa, particularly as the secondary market is effectively vacant. Central banks manage monetary policy may target the rate of inflation. They have some authority over commercial banks and other financial institutions. They are less concerned with avoiding asset price bubbles, such as the housing bubble and dot-com bubble. Central banks have generally chosen to react after such bubbles burst so as to minimize collateral damage to the economy, rather than trying to prevent or stop the bubble itself. This is because identifying an asset bubble and determining the proper monetary policy to deflate it are matters of debate among economists (Fisher, 2006).

All Kenyans earning a verifiable income are qualified to acquire property through a mortgage loan. However, just how eligible a person is to acquire one depends on their repayment ability. Different financiers will require that a person is left with a certain percentage of their income. Central Bank rules require that a borrower be left with at least 33% of their net income, which some financiers will abide by. However, most financiers will only allow borrowers to spend up to 50% of their net income on mortgage loans, thus drastically reducing the repayment ability of most borrowers.

2.6 Price of Mortgage Product on Purchase Rate of Home Mortgage

Given the fact that most bank loans are collateralized with houses or real estate, the price of housing essentially influences the decision making for lending and the overall banking activity (Mayer, 2011). Mortgage loan affects housing prices through the so-called “financial accelerator” mechanism. According to Bernanke and Gertler (2009) loans given by banks stimulate the demand for housing purchase. In response to increased demand the housing prices will rise and meanwhile the pledged collateral for obtaining credit will be higher, allowing an additional mortgage loan and thus stimulating further demand for loans and speed up the whole process. However, the boom periods in lending and house prices would end up. A lower value of collateral and increased uncertainty would reduce banks’ initiative to lend. Furthermore, higher costs of mortgage credit service will bring some households to potential bankruptcy, especially in the case of the ‘not that good quality’ borrowers. Experiences from the past have shown that, in periods of boom, banks have a tendency to be more competitive and they incline to address more those segments of the households which take high risks.

Egert and Mihaljek (2007) make a comparative analysis between countries of Central East Europe (CEE) and OECD countries. They note that the price dynamics in the CEE countries, aside from disposable income and credit, is strongly influenced by specific factors, such as the lack of institutionalization of the housing market; the limited supply of new homes on the market immediately after the market liberalization; improvement in the quality of housing; and, increased demand from non-residents. In these countries, a factor of particular importance is the underestimated initial level of house prices in the transition period. Egert and Mihaljek have estimated that this factor has influenced the dynamics of housing prices during the economic convergence of these countries.

Cycles of boom and busts of the housing prices are an inherent feature of the housing market. This is because housing prices reflect the supply delay in responding to demand shocks and in turn, reflect the slow pace of defining the price, due to the lack of transparency and relatively rare trading of houses. At the same time, the price of housing reflects the high cost and illiquid nature of transactions and the impossibility of selling the house in a short period of time. In other words, real estate prices and economic activity in the construction sector are expected to show large fluctuations over long time periods. This is due to the institutional characteristics of real estate financing and the effects of regulatory measures taken by the authority of a country (Igan and Loungani, 2011). Many observers and scholars of the recent financial crisis have suggested that easy access to credit and low lending interest rates have been the main factors that have supported both the accelerated increase of the housing prices and the immediate change of the housing prices when credit dried up (Favilukis, 2010).

2.7 Theoretical Framework

This study is grounded on the title theory and lien theory of mortgage. In the title theory, the property-law doctrine states that a mortgage transfers title to a property to the mortgagee, who holds it until the mortgage has been paid off, at which time title passes to the mortgagor. In title theory, the banks retain the title since the mortgage is said to hold a title interest, she has the right to possession under this theory. In a title theory, the mortgage is treated as having transferred title to the mortgagee, subject to the mortgagee’s duty to recovery if payment is made.

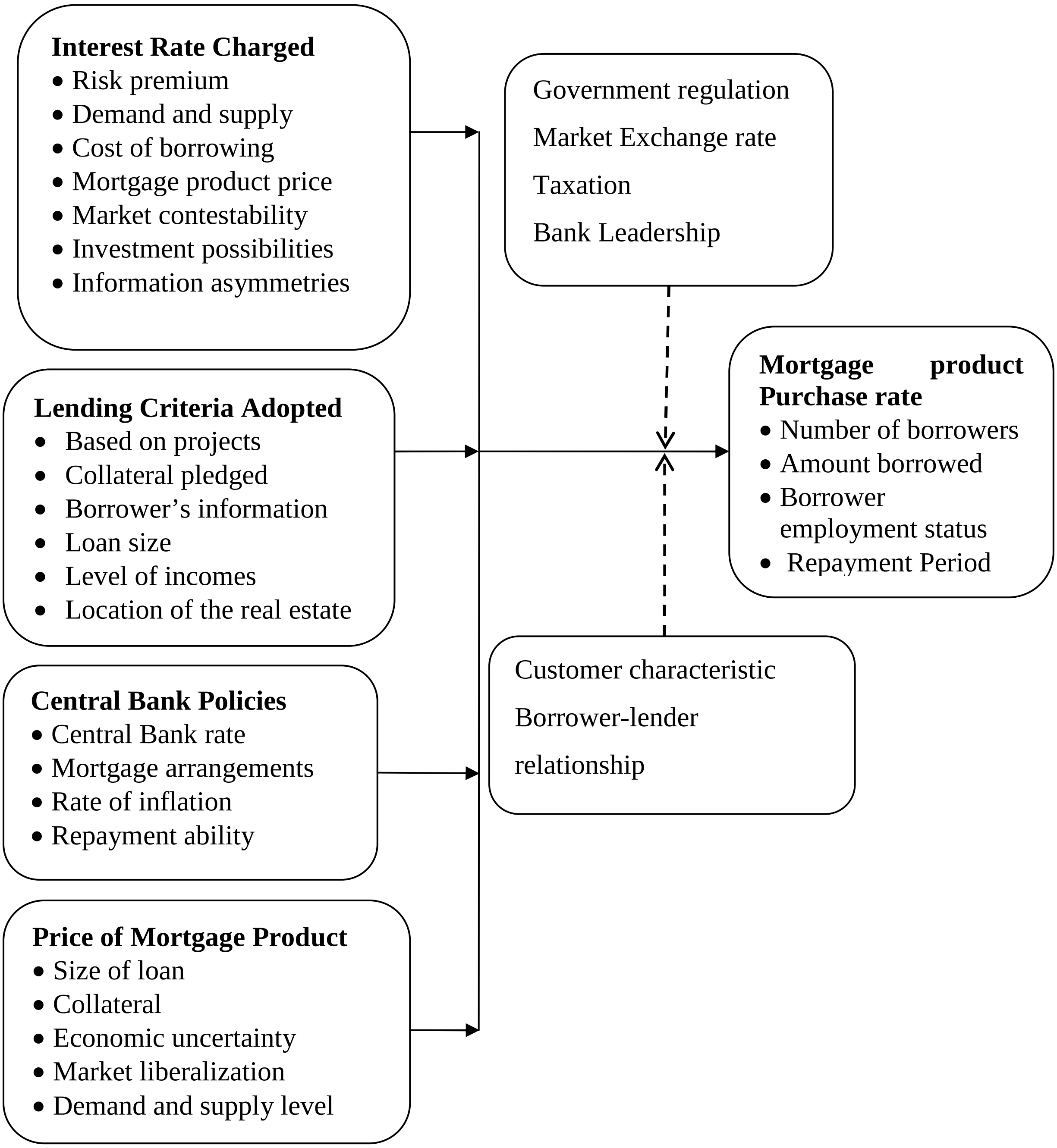
The title is said to remain in the mortgagee until the mortgage has been satisfied and foreclosed. Although the mortgagee has the right of possession to the property, there is generally an express agreement giving the right of possession to the mortgagor. The mortgagee is said to hold the title for security purposes only. The mortgagor is given the right of possession (Buckley & Kalarickal, 2004).

Some banks apply a lien theory. This theory only gives the mortgagee a lien interest in the property. Lien theory provides that a mortgagee of property holds only a lien, not title, to the property until such time as the mortgage is fully paid, at which time the lien is removed. 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 & Kalarickal, 2005). 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.

2.8 Conceptual Framework

Framework refers to the main structure or skeleton that not only gives form and shape to the whole system, but also supports and holds together all the other elements in a logical configuration. In this research, the conceptual framework is the concise description of the phenomenon under study accompanied by visual depiction of the variables under study (Mugenda, 2008). The independent variables include interest rate, lending criteria, central bank policies and mortgage product price while the dependent variable is Mortgage product Purchase rate.



Independent Variables **Moderating Variables** **Dependent Variable**

Figure 1 Conceptual Framework

2.9 Research Gap

Banks have seized the opportunity to bridge the gap between the financially surplus and the financially deficit through loans and overdrafts (bank credits). Since banks are actually businesses with a profit motive, they charge interest on the credit, calculated on a compound interest basis. By its nature housing represents a major investment requiring a substantial capital outlay. The financial set up in the housing market in Kenya as indeed elsewhere is such that those offering funding seek to make a profit and declare dividends for the shareholders because that is what they are in business for. The money market is expensive due to relatively higher risks that raise interest rates.

Some factors that exclude the lower and middle income earners from accessing credit and mortgage include the high eligibility criteria, proof of adequate and dependable income, provision of marketable satisfactory collateral with proof of ownership, general level of apparent creditworthiness making them unattractive prospective tenants when pitted against more credible seekers of the same finances, predetermined payment periods and amounts whereas some of these people do not have a constant or regular income, inability to raise the down payment. Where the general orientation is to extend loans for complete units, the ratio of down payment is usually disproportionately higher for the low-income groups. Existing housing finance institutions require lengthy and complicated loan procedures, which impose demands on the poor who can neither spare the time nor comprehend some of the issues. Literacy levels of the majority, means that they are unable to comprehend and go through these procedures.

When purchasing for mortgage product the client is required to show proof of ability to service the mortgage and the simple “rule of thumb” requires that the loan amount should not exceed three times the annual income of the borrower. Borrowers are expected to meet stamp duty, legal fees and other consolidated fees bringing the costs in the order of 5% of the sum borrowed. The applicant is required to produce documentary evidence of age, which may not be on record, a customer/ client is required to make a deposit or equity contribution of 10-30% of the purchase or sale price on the value of the property (whichever is less), there must be a valid sale or purchase agreement between the seller and the buyer in the case of existing properties.

A nationwide survey conducted by Financial Sector Deepening and Central Bank of Kenya on financial access, (2009) showed that 68.5% of people sampled owned the houses they lived in. However, when this is segregated further, only 17.7% own housing in the urban area while 82.2% own housing in the rural area. The survey also established that 1/3 of the house owners acquired their houses through inheritance; only 1.5% of the respondents acquired their houses through formal process or other credit facilities available. Further, it was established that only 23.7% of the respondents were willing to use their house as a security to borrow money but policies set by the banks and financing institution hinder them (Financial Sector Deepening, Central Bank of Kenya, 2009). Even if the correlation between house prices and mortgage credit can be observed in most countries experiencing sharp increases in house prices, the direction of causality is not that clear. However, the empirical relationship between mortgage credit and house prices remains largely unexplained. It is against this realization that the current study aims to bridge the knowledge gap by investigating the influence of bank policy on purchase of rate of mortgage product with focus to Barclay Bank of Kenya.

2.10 Summary of Literature Review

This chapter looked at in the literature review which included the discussion of previous studies done by other scholars in relation to influence of bank policy on purchase rate of home mortgage product. Policies set by the banks and mortgage financing institutions normally centers around two specific goals (Dolde, 2008). First, the extension of mortgages allows qualified individuals and business entities to secure properties that can be repaid in terms that are within the ability of the recipient of the loan to pay off in a timely manner (Okwir, 2009). Secondly, the financing seeks to create revenue for the lender and borrowers. Mortgage loans are secured by the real property, and provide a schedule of payments of interest and repayment of the principal to a bank. Most mortgage contracts arrange for loans to be fully amortized with adjustable mortgage interest rates and either payment or maturity is fixed for the term of the loan (Mehdian, 2010).

From the available literature, today developed countries have advanced housing finance systems in which funds flow from people with fund surpluses to the ones that are in need of them through purchasing mortgage product. On the other hand, despite its recognized economic and social importance, housing finance often remains underdeveloped in developing countries mainly due to policies set by banks and mortgage financing institutions, lack of stable inflation and employment (Ho Hahm, 2004). The role of bank loans for house purchase has played a key function in the expansion of the real estate sector, and the supply of such kind of funds has become increasingly abundant. Most banks pursue policies that favor owner-occupied housing.

The chapter also presented theoretical review; the study is grounded on title theory and lien theory of mortgage. These theories convincingly explains the property-law doctrine that states that a mortgage transfers title to a property to the mortgagee, who holds it until the mortgage has been paid off, at which time title passes to the mortgagor. The banks retain the title since the mortgage is said to hold a title interest, she has the right to possession under this theory. Further the lien theory provides that a mortgagee of property holds only a lien, not title, to the property until such time as the mortgage is fully paid, at which time the lien is removed. The study also represents the conceptual framework by explain relationship between independent variables and dependent variable. Finally, the study shows gap that the study intends to bridge, most of these studies conclude that mortgage financing institutions normally seeks to create revenue for the lender and borrowers and that the extension of mortgages allows qualified individuals and business entities to secure properties that can be repaid in terms that are within the ability of the recipient of the loan to pay off in a timely manner. However, the relations between bank’s policies and the terms of mortgage purchasing and financing are not constant across countries or different periods within the same country. Therefore, further research is required to investigate influence of bank policy on purchase of rate of mortgage product.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides an overview of the research methodology. It includes research design, research location, the population to be studied, details of the sample size and sampling procedure, instruments to be used, issues of validity and reliability, data collection and data analysis procedures.

3.2 Research Design

Research design is the scheme, outline or plan that is used to generate answers to research problems. This research problem will be studied through the use of descriptive research design. According to Kothari (2007) descriptive survey research design is a type of research used to obtain data that can help determine specific characteristics of a group. The main advantage of descriptive survey research is that it has the potential to provide us with a lot of information obtained from quite a large sample of individuals. By employing this study design, this study focused on obtaining quantitative data from respondents targeted.

3.3 Target Population

Target population as described by Borg and Grall (2009) is a universal set of study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. Table 3.1 shows Barclay Bank branches that the study targeted and the total population from the specific department that the study targets. The target population of this study was Barclay Bank of Kenya branches within Nairobi CBD while the study populations were staff working in the bank's branches in the following specific departments, that is, Mortgage department, finance department and Credit department and the customers who have taken mortgage loan/products. According to the BBK (2014) there were 104 staff working in mortgage, finance and credit department in the seven (7) Barclays bank within Nairobi CBD.

The bank was chosen due its strategies adopted in increasing purchase rate of the mortgage product. Mugenda and Mugenda (2003) explained that the target population should have observable characteristics to which the study intents to generalize the result of the study. This definition assumes that the population is not homogeneous.

Table 3.1 Target Population

Branches	**Departments**				**Total**
	Mortgage	**Finance**	**Credit**	**Customers**	
Barclays Bank Market Branch	3	6	6	58	73
Barclays Bank Queensway	3	5	7	53	68
Development House Branch	5	6	7	61	79
Haile Selassie Branch	2	4	5	59	70
Harambee Premier Life Branch	5	5	6	51	67
Moi Avenue Branch	4	5	7	57	73
Nairobi University Branch	3	4	6	48	61
Total	**25**	**35**	**44**	**387**	**491**

From the 7 Barclays bank branches, the possible number of banks staff is 104 from the mortgage department, finance department and credit department. Based on Krejcie and Morgan's (1970) table for determining sample size, for a given population of 104, a sample size of 86 respondents was appropriate to adequately represent a cross-section of the population at 95% confidence level.

3.4 Sample Size and Sampling Procedures

This section presented the methods and techniques used for sampling, the procedure of sampling and eventually how the final study sample is reached from the target population. The details of how data is obtained processed and analysed.

3.4.1 Sample Size

Sample size is finite part of a statistical population whose properties are studied to gain information about the whole. Sampling is selecting a given number of subjects from a defined population as representative of that population. Any statements made about the sample should also be true of the population. It is however agreed that the larger the sample the smaller the sampling error. Where external validity is important, one need to carry out purposive sampling from properly defined population. From the target population of 104 respondnets, the researcher purposively interviewed 86 respondnets from the banks staff and sampled 116 customers from the 7 branches as shown in table 3.2. These respondents having in bank industries and directly working in departments perceived to be oriented to mortgage products which are align to the study research objectives.

3.4.2 Sampling Procedure

The sampling procedure describes the list of all population units from which the sample will be selected (Cooper & Schindler, 2003). The technique is applied so as to obtain a representative sample when the population does not constitute a homogeneous group. The population is made up of strata of different departments in bank. Sample of responding staff will be drawn from all the sevens (7) banks in Nairobi where purposive sampling technique was used. Stratified sampling technique was used to sample a sample size of 116 customers from a total of 387 respondents. The study employed 30% in sampling customers, according to Mugenda and Mugenda (2003) a sample of 10 - 30% is representative. Purposive sampling technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratified random sampling is unbiased sampling method of grouping heterogeneous population into homogenous subsets then making a selection within the individual subset to ensure representativeness. The goal of stratified random sampling is to achieve the desired representation from various sub-groups in the population.

Table 3.2 Sample Size and Sampling Procedures

Branches	Departments				Total
	Mortgage	Finance	Credit	Customer	
Barclays Bank Market Branch	2	5	5	17	29
Barclays Bank Queensway	2	4	6	16	28
Development House Branch	4	5	6	18	33
Haile Selassie Branch	2	3	4	18	27
Harambee Premier Life Branch	4	4	5	15	28
Moi Avenue Branch	3	4	6	17	39
Nairobi University Branch	2	3	5	14	24
Total	**21**	**29**	**36**	**116**	**202**

3.5 Research Instruments

The study employed a questionnaire to collect primary data. The questionnaire was used to collect data from the selected staffs within the banks selected. Questionnaires are appropriate for studies since they collect information that is not directly observable as they inquire about feelings, motivations, attitudes, accomplishments as well as experiences of individuals (Mellenbergh, 2008). The questionnaire comprised of both open and close-ended questions. Saunders (2003) stated that a questionnaire is useful in obtaining objective data because participants are not manipulated in any way by the study. According to Saunders (2003) questionnaires have the added advantage of being less costly and using less time as instruments of data collection. The data instrument addressed the four research objectives while it was sub-divided into two sections. The first section of the questionnaire enquired general information about the respondents, while the second section answers the four objectives. The questionnaires were administered through drop and pick later method. The quantitative section of the instrument to be employed will use both a nominal and a Likert type scale format to determine each of the variables. A 5 point Likert scale ranging from 1 to 5 was used as answers to statement like questions. The Likert - type format is selected as the format yields equal-interval data, a fact that allows for the use of more powerful statistical to be used to test hypotheses.

3.5.1 Piloting of the Instruments

The questionnaires was reviewed by the researcher's professional peers and the research supervisor and then tested on a small pilot sample of respondents with similar characteristics as the study respondents. The pilot sample consisted of 8 management staff from the same selected banks. The pilot group was done through random sampling. Mugenda and Mugenda (2003) suggest that the piloting sample should be 1 to 10% of study sample depending on the study sample size. Piloting helped in revealing questions that could be vague which allows for their review until they convey the same meaning to all the subjects (Mugenda & Mugenda, 2003).

3.5.2 Validity of the Research Instrument

Validity is the quality of a data gathering instrument that enables it to measure what it is supposed to measure. Creswell (2008) notes that validity is about whether one can draw meaningful and useful inferences from scores on the instrument. To ensure content validity, the instruments will be reviewed by the research supervisors and other research experts. Content validity yields a logical judgment as to whether the instrument covers what it is supposed to cover. Content validity ensures that all respondents understand the items on the questionnaire similarly to avoid misunderstanding. Response options will be provided for most of the questions to ensure that the answers given are in line with the research questions they are meant to measure.

3.5.3 Reliability of Research Instrument

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trial. Reliability answers the question "are scores stable over time when the instrument is administered a second time" (Creswell, 2003). To ensure reliability, the researcher will use split-half technique to calculate reliability coefficient (Spearman-Brown coefficient formulae below) which should be within the recommended reliability coefficient of 0.7-1 (Nachmias & Nachmias 1996). This involved scoring two-halves of the tests separately for each person and then calculating a correlation coefficient for the two sets of scores. The responses were split into the odd numbers for one set and the even numbers for the other set of items.

3.6 Data Collection Procedure

After consent is given by the University of Nairobi to collect data, the researcher coordinated data collection process after seeking permission from local authorities. The researcher employed drop and pick method. The researcher administered the questionnaire personally to the respondents and collected later once the respondents filled the questionnaire.

3.7 Data Analysis Techniques

Data was cleaned, coded, entered and analyzed using Statistical Package for Social Science (SPSS, Version 21.0). SPSS was used because it is fast and flexible and provides more accurate analysis resulting in dependable conclusions. Technically speaking, data processing implies editing, classification, coding, and tabulation of collected data so that they are amenable to analysis (Kothari, 2007). Data analysis involves computation of certain measures along with searching for patterns of relationships that exist between the dependent variable and independent variables. The data was analyzed according to variables and objectives of the study. Descriptive statistics was used to analyze, present and interpret data. Descriptive analysis involved use of frequency distribution tables and cross tabulation which was used to generate values between dependent and independent variables used in the study. Content analysis was used for the qualitative data from the interview guide and the open ended questions in the questionnaire. In addition, the researcher used multiple regression analysis to establish the strength of the relationship between the dependent and independent variables.

The regression equation is:

$$\mathbf{Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \alpha}$$

Where: **Y** is the dependent variable (home mortgage product purchase rate),

$\beta 0$ is the regression coefficient/constant/**Y**-intercept,

β_1, β_2, β_3 and β_4 are the slopes of the regression equation,

X_1 is the interest rate

$\mathbf{X_2}$ is the lending criteria,

$\mathbf{X_3}$ is the state of central bank policies,

$\mathbf{X_4}$ is the mortgage product price,

$\boldsymbol{\alpha}$ is an error term normally distributed about a mean of 0 and for purpose of computation, the $\boldsymbol{\alpha}$ is assumed to be 0.

3.8 Ethical Considerations

While conducting the study, the researcher ensured that research ethics are observed. Participation in the study was voluntary. Privacy and confidentiality will be observed. The objectives of the study will be explained to the respondents with an assurance that the data provided will be used for academic purpose only.

3.9 Operational Definition of Variables

The operationalization of variables is as shown in table 3 below;

Table 3. 3 Operationalization of Variables

Objectives	Independent Variables	Indicators	Measure	Measurement Scale	Type of analysis	Tools of analysis
To establish how interest rate charged by the banks influence purchase of home mortgage product in the banking industry in Kenya	Interest Rate	Risk premium	% Composition	Nominal	Descriptive Regression	Frequency distribution tables, Tabulation & percentages
		Demand and supply	% ownership	Nominal		
		Cost of borrowing	Number	Nominal		
		Mortgage product price	Buy or Lease	Ordinal		
		Market contestability	Kshs	Nominal		
		Investment possibilities	Number	Nominal		
		Information asymmetries	% Control	Nominal		
Objectives	**Independent Variables**	**Indicators**	**Measure**	**Measurement Scale**	**Type of analysis**	**Tools of analysis**
To examine how lending criteria adopted by banks influence purchase of home mortgage product in the banking industry in Kenya	Lending Criteria	Based on projects	Number	Nominal	Regression	Frequency distribution tables, Tabulation & percentages
		Collateral pledged	Kshs	Nominal		
		Borrower's information	Hours	Nominal		
		Loan size	% Share	Nominal		
		Level of incomes	Kshs	Nominal		
		Location of the real estate	% Growth	Nominal		

Objectives	Independent Variables	Indicators	Measure	Measurement Scale	Type of analysis	Tools of analysis
To assess how government policies influence purchase of home mortgage product in the banking industry in Kenya	Central Bank Policies	Central Bank rate Mortgage arrangements Rate of inflation Repayment ability	Quality Time Complexity Quality	Ordinal Nominal Ordinal Ordinal	Regression	Frequency distribution tables & percentages
Objectives	**Independent Variables**	**Indicators**	**Measure**	**Measurement Scale**	**Type of analysis**	**Tools of analysis**
To establish how price of a product influence purchase of home mortgage product in the banking industry in Kenya	Price of Mortgage Product	Collateral Economic uncertainty Market liberalization Demand and supply level	 Days Number Quality	 Nominal Nominal Ordinal	Regression	Frequency distribution tables, Tabulation & percentages
Objectives	**dependent Variable**	**Indicators**	**Measure**	**Measurement Scale**	**Type of analysis**	**Tools of analysis**
	Mortgage product Purchase rate	Number of borrowers Amount borrowed Repayment period	Kshs Kshs Kshs	Nominal Nominal Nominal	Regression	Frequency distribution tables, Tabulation & percentages

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter focused on the data analysis, interpretation and presentation of the findings. The main purpose of this research was to examine influence of bank policy on purchase rate of home mortgage product with focus to Barclays Bank of Kenya. The study also sought to establish whether interest rate, lending criteria, central bank policies and price of a mortgage product influence purchase of home mortgage product in the banking industry in Kenya. The researcher made use of frequency tables, percentages, mean and standard deviation to present data.

4.2 Questionnaire Return Rate

The study targeted a sample of 202 respondents on collecting data on influence of influence of bank policy on purchase rate of home mortgage product in BBK. The questionnaire return rate results are shown in Table 4.1. From the study, out of 202 questionnaires distributed 143 respondents completely filled in and returned the questionnaires, this represented a 71% response rate. This is a reliable response rate for data analysis. Mugenda and Mugenda (2003) pointed that for generalization a response rate of 50% is adequate for analysis and reporting, 60% is good and a response rate of 70% and over is excellent. . However, 29% of the respondent were reluctant to responded to fill the questionnaire this was due to reasons like, the respondent were not available to fill them in at the required time and even after persistence follow-ups there were no positive responses from them.

Table 4.1 Response Rate

	Frequency	**Percentage**
Responded	143	71
Non response	59	29
Total	**202**	**100**

4.3 Demographic Characterization of the Respondents

As part of the general information, the research requested the respondents to indicate the department of working, position held, duration of working in the organization, highest level of education qualification, existence of risk management strategies within the organization, duration that the organizations has practiced risk management strategy and expectations of risk management strategies adopted by organization. The study found it crucial to ascertain the said information since it configured the charitable trust under which the study can fairly entrance the applicable information. The analysis relied on this information of the respondents so as to categorize the different results according to their acquaintance and responses.

4.3.1 Category of the Respondents

Table 4.2 indicates the category of the interviewed respondents. From the findings most (57%) of the respondents were customers who had bought mortgage products, 17% were staff were working in the credit department, 15% were serving at mortgage department while 12% of the respondents were serving at finance department. This implies that all departments that were targeted by the study were involved and that the findings are not biased.

Table 4.2 Category of the Respondents

	Frequency	**Percentage**
Mortgage	21	15
Finance	17	12
Credit	24	17
Customer	81	57
Total	**143**	**100**

4.3.2 Position Held by the respondents

The study aimed to investigate position held by the respondents within their department. From the findings (24%) of the respondents were supervisors, 23% were departmental heads, 21% were unit heads officers, 18% were technical personnel while 15% were Manager. This depicts that all participant of the study were under the level at which the study targeted as stipulated in previous chapter.

Table 4.3 Position Held by the respondents

	Frequency	Percentage
Manager	9	15
Departmental Head	14	23
Technical personnel	11	18
Unit Head officer	13	21
Supervisor	15	24
Total	**62**	**100**

4.3.3 Respondents working Duration in Years

Table 4.4 illustrates working period in years of the respondents in their respective organization. From the findings majority (53%) of the respondents had worked in the organization for a period of 6-10 years, 36% had worked for a period of 1-5 years, 7% had worked for a more than 16 years while the rest (5%) had served in the organization for a period of 10-15 years. This implies that most of the respondents of this study had worked for a longer period within the organization thus conversant enough of the information that the study sought pertaining to the bank policies on home mortgage products.

Table 4.4 Respondents working Duration in Years

Period of Service	Frequency	Percentage
1- 5 Years	22	35.5
6 – 10 Years	33	53.2
10 – 15 Years	3	4.8
Above 16 Years	4	6.5
Total	**62**	**100.0**

4.3.4 Education Level of the Respondents

The study was also inquisitive to determine the highest level of the academic qualification that the respondent held. Table 4.5 shows the findings of the result, most (47%) of the respondents were graduate, 30% were post graduate (masters holder) while the rest (23%) had diploma as their highest level of education. This depicted that most of the respondents interviewed were well knowledgeable to understand and able to respond to the questionnaire in the manner intended.

Table 4.5 Education Level of the Respondents

Level	Frequency	Percentage
Diploma	33	23
Graduate	67	47
Post graduate	43	30
Total	**143**	**100**

4.3.5 Mortgage Loan Servicing

Table 4.6 illustrates the summary of the findings on whether there are loan they are servicing. Majority (72%) of the respondent indicated that they have a mortgage loan they are servicing while the rest (28%) of the respondent indicated that they have already finished servicing the loan.

Table 4.6 Mortgage Loan Servicing

	Frequency	Percentage
Yes	58	72
No	23	28
Total	**81**	**100**

4.4 Interest Rate

4.4.1 Interest on Mortgage Loans

Further the study requested the respondents to indicate whether there is interest rate charged in mortgage products. From the findings, majority (79%) of the respondents were of the opinion that banks impose interest rate on mortgage product while the rest (21%) of the respondents opined that no interest rate imposed in mortgage.

Table 4.7 Interest on Mortgage Loans

	Frequency	Percent
Yes	113	79
No	30	21
Total	**143**	**100**

4.4.2 Charges on Interest Rate

Table 4.8 summarizes the study finding on changes of the interest rate as compared to the initial interest rate charged during the engage on home mortgage product by the bank. Majority (64%) of the respondent indicated that there has a gradual increase in interest rate on home mortgage product while the rest (36%) of the respondents indicated that the interest rate is decreasing.

Table 4.8 Charges on Interest Rate

	Frequency	Percentage
Increased	91	64
decreased	52	36
Total	**143**	**100**

4.4.3 Influence of Interest Rate on Purchase Rate of Home Mortgage

Table 4.9 illustrates the finding of the study on the respondent level of agreement on aspects related to interest rate on purchase rate of home mortgage. From the findings, most of the respondents agreed that mortgage loans on variable interest rate contributes to slow growth in residential mortgage market as shown by mean score of 4.01. Respondents also agreed that they base mortgage rates on the volatility of the CBR just as their lending rates and that an increase of interest policy rate determines an increase in the banks' cost of borrowing, which generally produces an adjustment in mortgage rates as depicted by mean score of 3.77 and 3.71 respectively. Mortgage interest rates influence supply and demand for the for the house purchase and low interest rate offered by commercial bank on mortgage rate contributes positive impact on the credit growth of mortgage finance loans from loan takeovers from existing lenders affect purchase rate of home mortgage as depicted by mean score of 3.67 and 3.64 respectively. Further, respondents agreed that when the economy grows too strongly, increases interest rates to slow the economy down and reduce inflation hence increasing demand for the home mortgage purchase and that percentage of interest rates imposed on mortgage loan determine purchase of home mortgage products as illustrated by mean score of 3.56 and 3.52 respectively. Finally, respondent were neutral that increased demand for housing in both the rural and urban areas has created a hyper competition amongst the financial and banking institutions hence decreasing interest rate imposed on mortgage products as shown by mean score of 3.18.

Table 4.9 Influence of Interest Rate on Purchase Rate of Home Mortgage

	Mean	**STDev**
The percentage of interest rates imposed on mortgage loan determine purchase of home mortgage products	3.52	1.168
Banks base mortgage rates on the volatility of the CBR	3.77	1.297
An increase of interest policy rate determines an increase in the banks' cost of borrowing, which generally produces an adjustment in mortgage rates	3.71	1.198
Mortgage loans on variable interest rate contributes to slow growth in residential mortgage market in Kenya	4.01	1.196
Low interest rate offered by commercial bank on mortgage rate contributes positive impact on the credit growth of mortgage finance loans from loan takeovers from existing lenders.	3.64	1.284
Mortgage interest rate influence supply and demand of home purchase	3.67	1.131
When the economy grows too strongly, increases interest rates to slow the economy down and reduce inflation hence increasing demand for the home mortgage purchase	3.56	0.913
Increased demand for housing in both the rural and urban areas has created a hyper competition amongst the financial and banking institutions hence decreasing interest rate imposed on mortgage products	3.18	0.948

4.4.4 Extent that Interest Rates Influence Purchase Rate of Home Mortgage

Table 4.10 illustrates the findings of the study on the extent that interest rates influence purchase rate of home mortgage. Majority (50%) of the respondents' purported that interest rates influence purchase rate of home mortgage to a great extent, 24% were of the opinion that interest rates influence purchase rate of home mortgage to a very large extent, 14% opined that interest rates influence purchase rate of home mortgage to a moderate extent, 7% were of the opinion that ba interest rates influence purchase rate of home mortgage to a low extent while 5% argued that interest rates influence purchase rate of home mortgage to a very low extent.

Table 4.10 Extent that Bank Ownership Influences Bank Profitability

	Frequency	Percentage
To a very low extent	7	4.8
To a low extent	9	6.5
To a moderate extent	21	14.5
To a great extent	72	50
To a very great extent	35	24.2
Total	**143**	**100**

4.5 Lending Criteria

4.5.1 Set Lending Procedure

Table 4.11 summarizes the study findings, on whether there is set lending procedure followed when issues mortgage loan to a client. From the findings, 69% of the respondents indicated that there is set lending procedure followed when issues mortgage loan to a client while the rest (31%) opined that is no set lending procedure followed.

Table 4.11 Set Lending Procedure

	Frequency	Percent
Yes	99	69.4
No	44	30.6
Total	**143**	**100**

4.5.2 Selective Mortgage Products Financed by the Bank

Table 4.12 present the result of the finding on whether there is selective mortgage products that the bank finance. Majority (96%) of the respondents indicated that the banks finance selective mortgage products while 4% of the respondents diverged with the majority opinions.

Table 4.12 Selective Mortgage Products Financed by the Bank

	Frequency	Percent
Yes	137	96
No	6	4
Total	**143**	**100**

4.5.3 Influence of Lending Procedures on Purchase rate of Home Mortgage product

The researcher requested the respondents to indicate their level of agreement on the statements relating to influence of lending procedures on purchase rate of home mortgage product. Most of the respondents agreed that bank lend mortgage loan for the purchase of land for development and existing buildings; they finance construction projects and that they ensure that the mortgage product purchased by the borrower is genuine by cutinize the ownership of the seller and its authentic as depicted by mean score of 3.84 and 3.83 respectively. Respondent also agreed that they scrutinize the borrowers information to minimize the risk that may occur due to the borrower inability to pay the loan, they have designed a lending contract that helps to get information about the borrower and the plan he/she have on purchasing the mortgage and that they conduct evaluation for the customers and mortgage borrowers at an extra cost which most of the client feel is high as shown by mean score of 3.67, 3.63 and 3.61 respectively. Further respondents agreed that borrowers are required to pledge mortgage product as the security to the bank and that they consider borrower level of income to determine whether to give loan or no as illustrated by mean score of 3.56 and 3.51 respectively.

Table 4.13 Lending Procedures on Purchase rate of Home Mortgage product

	Mean	**STDev**
The bank lend mortgage loan for the purchase of land for development and existing buildings; they finance construction projects	3.84	0.746
We have designed a lending contract that helps to information about the borrower and the plan he/she have on purchasing the mortgage product	3.63	0.808
We scrutinize the borrowers information to minimize the risk that may occur due to the borrower inability to pay the loan	3.67	1.131
Borrowers are required to pledge mortgage product as the security to the bank	3.56	0.913
We consider borrower level of income to determine whether to give loan or not.	3.51	0.948
We ensure that the mortgage product purchased by the borrower is genuine by cutinize the ownership of the seller and its authentic	3.83	0.746
We conduct evaluation for the customers and mortgage borrowers at an extra cost which most of the client feel is high	3.61	0.808

4.5.3 Extent of Lending Procedures on Purchase of Home Mortgage Product

Further the study requested the respondents to indicate the extent to which lending procedures influence purchase rate of home mortgage product. From the findings, 42% of the respondents opined that lending procedures determine purchase of home mortgage product to very great extent, 31% were of the opinion that bank size influence bank profitability to a moderate extent, 15% to a great extent, 7% to a low extent while a similar numbers purported that bank size influence bank profitability to a very low extent as indicated by the table 4.13.

Table 4.14 Extent of Lending Procedures on Purchase of Home Mortgage Product

	Frequency	Percentage
To a very low extent	9	7
To a low extent	9	7
To a moderate extent	44	31
To a great extent	21	15
To a very great extent	60	42
Total	**143**	**100**

4.6 Bank Policies

4.6.1 Control of Mortgage Loan by Central Bank of Kenya

Table 4.15 summarizes result of the findings on whether CBK controls and advice financial institution on purchase of mortgage product. Majority (84%) of the respondent indicated that central bank advice financial institution on mortgage loan application while 16% felt otherwise.

Table 4.15 Control of Mortgage Loan by Central Bank of Kenya

	Frequency	Percent
Yes	120	84
No	23	16
Total	**143**	**100**

4.6.2 Specific Guideline Policies

Table 4.16 illustrates the study findings on whether the CBK provides of specific guideline on mortgage products. Majority (94%) of the respondents were of the opinion that CBK provide some guideline on mortgage products while the rest (6%) indicated that there are nos guidelines provided by the CBK.

Table 4.16 Provision of Specific Guideline from CBK

	Frequency	Percentage
Yes	134	94
No	9	6
Total	**143**	**100**

4.6.3 Influence of Central Bank Policies on Mortgage Product

The study requested the respondents to indicate their level of agreement on the statement relating to influence of central bank policies on mortgage product. From the findings most of the respondents strongly agreed that the government helps financial institutions offering mortgage products as services with principles-based regulation questions, Central bank rate act as a signal for commercial banks to tighten their lending which leads to an increase in the Commercial bank lending rates and, Central bank has set a rule that guide the bank on borrower ability to repay the mortgage loan 4.66, 4.63 and 4.61. Further respondent agreed that Central bank have some authority over commercial banks and other financial institutions which are less concerned with avoiding asset price bubbles, such as the housing bubble and dot-com bubble, if cbk, advice on higher mortgage rate leads to an increased cost of borrowing from both surplus income side of the demand of housing which further leads to defaults and foreclosures to the extreme cases and increase in the Central Bank rate leads to a consistent increase in the mortgage rate which tends to slow down mortgage uptake and in order to support the mortgage industry, the government has implemented effective policies that enable the borrower to access the services and product of mortgage 4.47, 4.37, 4.24 and 4.15 respectively.

Table 4.17 Influence of Central Bank Policies on Mortgage Product

	Mean	STDev
Increase in the Central Bank rate leads to a consistent increase in the mortgage rate which tends to slow down mortgage uptake	4.24	1.066
Central bank rate act as a signal for commercial banks to tighten their lending which leads to an increase in the Commercial bank lending rates	4.63	0.633
If CBK, advice on higher mortgage rate leads to an increased cost of borrowing from both surplus income side of the demand of housing which further leads to defaults and foreclosures to the extreme cases	4.37	0.583
In order to support the mortgage industry, the government has implemented effective policies that enable the borrower to access the services and product of mortgage	4.15	0.786
The government helps financial institutions offering mortgage products as services with principles-based regulation questions	4.66	0.477
Central bank have some authority over commercial banks and other financial institutions which are less concerned with avoiding asset price bubbles, such as the housing bubble and dot-com bubble	4.47	0.593
Central bank has set a rule that guide the bank on borrower ability to repay the mortgage loan.	4.61	0.557

4.6.4 Extent that CBK Policies influence Purchase Rate of Home Mortgage Products

Table 4.18 illustrates the findings of the study on the extent to which CBK policies influence purchase rate of home mortgage products. Majority (74%) of the respondents' purported that CBK policies influence purchase rate of home mortgage products to a very great extent while the rest 26% were of the opinion that CBK policies influence purchase rate of home mortgage products to a great extent.

Table 4.18 Extent that state of Bank IT Determines its Profitability

	Frequency	Percentage
To a great extent	37	26
To a very great extent	106	74
Total	**143**	**100**

4.7 Price of Mortgage Product

4.7.1 Influence of Price of Mortgage Product on Mortgage Product

Table 4.19present the result of the finding on whether price of mortgage influence purchase rate of home mortgage. Majority (96%) of the respondents indicated that price of mortgage product on purchase rate of home mortgage while 4% diverged with the majority opinions.

Table 4.19 Price of Mortgage Product on Purchase Rate of Home Mortgage

	Frequency	Percent
Yes	137	96
No	6	4
Total	**143**	**100**

4.7.2 Influence of Price of Mortgage Product on Purchase Rate of Home Mortgage

The researchers requested the respondent to indicate their level of agreement on the statement relating to influence of price of mortgage product on purchase rate of home mortgage. From the findings most of the respondents agreed that price of mortgage product stimulate the demand for housing purchase and price of housing reflects the high cost and illiquid nature of transactions and the impossibility of selling the house as indicated by mean score of 4.77 and 4.15 respectively. Further respondents pointed that lower value of mortgage product and increased uncertainty reduce banks' initiative to lend and real estate prices and economic activity in the construction sector have shown large fluctuations over long time periods as depicted by mean score of 3.74 and 3.73

respectively. Higher costs of mortgage credit service bring some households to potential bankruptcy and Easy access to credit and low lending interest rates have been the main factors that have accelerated increase of the housing prices as indicated by mean score of 3.66 and 3.54 respectively. Respondent were neutral that price dynamics such as lack of institutionalization of the housing market; the limited supply of new homes on the market immediately after the market liberalization; improvement in the quality of housing; and, increased demand from non-residents as illustrated by mean score of 3.47.

Table 4.20 Price of Mortgage Product on Purchase Rate of Home Mortgage

	Mean	STDev
The price of mortgage product stimulate the demand for housing purchase	4.77	0.422
A lower value of mortgage product and increased uncertainty reduce banks' initiative to lend.	3.74	1.041
Higher costs of mortgage credit service bring some households to potential bankruptcy	3.66	1.133
Price dynamics such as lack of institutionalization of the housing market; the limited supply of new homes on the market immediately after the market liberalization; improvement in the quality of housing; and, increased demand from non-residents	3.47	0.899
The price of housing reflects the high cost and illiquid nature of transactions and the impossibility of selling the house	4.15	1.009
Real estate prices and economic activity in the construction sector have shown large fluctuations over long time periods	3.73	0.87
Easy access to credit and low lending interest rates have been the main factors that have accelerated increase of the housing prices	3.54	0.943

4.7.3 Extent that Price of Mortgage Product influence Purchase Rate of Mortgage

Table 4.21 shows results of the findings on the extent to which price of mortgage product influence purchase rate of home mortgage. From the findings, majority (58%) of the respondents were of the opinion that price of mortgage product influence purchase rate of mortgage to a great extent, 23% purported that price of mortgage product influence purchase rate of mortgage to a very great extent while 19% alleged that price of mortgage product influence purchase rate of mortgage to a moderate extent.

Table 4.21 Price of Mortgage Product influence Purchase Rate of Mortgage

	Frequency	**Percent**
Great extent	83	58
Very great extent	33	23
Moderate extent	27	19
Total	**143**	**100**

4.8 Inferential Statistic

To establish the relationship between the independent variables and the dependent variable the study conducted inferential analysis which involved coefficient of correlation, coefficient of determination and multiple regression analysis.

4.8.1 Coefficient of Correlation

In trying to show the relationship between the study variables and their findings the study used the Karl Pearson's coefficient of correlation (r). According to the findings as indicated in table 4.22, it was clear that there was a positive correlation between bank mortgage product purchase rate and interest rate as shown by a correlation value of 0.521, it was also clear that there was a positive correlation between mortgage product purchase rate and lending criteria with a correlation value of 0.618, there was also a positive correlation between mortgage product purchase rate and banks policies with a correlation value of 0.587 and a positive correlation between mortgage product purchase rate and price of mortgage product with a correlation value of 0.553. This shows that there was a positive correlation between purchase rate of home mortgage product and interest rate, lending criteria, banks policies and price of mortgage product.

Table 4.22 Coefficient of Correlation

Variables		Mortgage product Purchase rate	Interest rate	Lending Criteria	Banks policies	Price of mortgage product
Mortgage product Purchase rate	Pearson Correlation	**1**				
	Sig. (2-tailed)					
Interest rate	Pearson Correlation	.5210	1			
	Sig. (2-tailed)	.0032				
Lending Criteria	Pearson Correlation	.6180	.3421	1		
	Sig. (2-tailed)	.0021	.0014			
Banks policies	Pearson Correlation	.5870	.1240	.0621	1	
	Sig. (2-tailed)	.0043	.0120	.0043		
Price of mortgage product	Pearson Correlation	.5530	.3420	.0000	.1660	1
	Sig. (2-tailed)	.0172	.0031	1.000	.0031	

4.8.2 Coefficient of Determination

The coefficient of determination was carried out to measure how well the statistical model was likely to predict future outcomes. The coefficient of determination, **(r^2)** is the square of the sample correlation coefficient between outcomes and predicted values. As such it explains the contribution of the four independent variables (interest rate, lending criteria, banks policies and price of mortgage product) to the dependent variable. Of the four independent variables that were studied, they contribute 55.1% of purchase rate of home mortgage product as represented by the adjusted **(r^2)** as shown on table 4.23. This therefore means that other factors not studied in this research contribute 44.9% of bank profitability in Kenya. Therefore, further research should be conducted to investigate the other factors not under the study but also determines purchase rate of home mortgage product.

Table 4.23 Model Summary

Model	r	r^2	Adjusted r^2	Std. Error of the Estimate
1	0.742	0.551	0.641	0.0438

4.8.3 Multiple Regression

The researcher further conducted a multiple regression analysis so as to identify the determinant of profitability within banking industry Kenya. The main purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study. As per the SPSS generated table 4.25, the equation

($\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$) becomes:

$$Y = 1.279 + 0.510 X_1 + 0.613 X_2 + 0.525 X_3 + 0.531 X_4$$

The regression equation above has established that taking all factors into account (interest rate, lending criteria, banks policies and price of mortgage product) constant at zero, purchase rate of home mortgage product will be 1.279. The findings presented also shows that taking all other independent variables at zero, a unit increase in interest rate will lead to a 0.510 increase in purchase rate of home mortgage product; a unit increase in lending criteria will lead to a 0.613 increase in purchase rate of home mortgage product; a unit increase in banks policies will lead to a 0.525 increase in purchase rate of home mortgage product and a unit increase in price of mortgage product will lead to a 0.531 increase in purchase rate of home mortgage product as shown in table 4.24. This infers that lending criteria determine purchase rate of home mortgage product to a great extent followed by price of mortgage product then banks policies while firm interest rate the little to purchase rate of home mortgage product.

Table 4.24 Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	β	Std. Error	Beta	t	Sig.
Constant/Y Intercept	1.279	1.316		1.451	0.357
Interest rate	0.510	0.310	0.172	4.242	0.0276
Lending Criteria	0.613	0.322	0.067	3. 452	0.0202
Banks policies	0.525	0.156	0.210	3. 382	0.0285
Price of mortgage product	0.531	0.245	0.148	3.358	0.0249

CHAPTER FIVE
SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings, the conclusions and recommendations of the study based on the objectives of the study. The chapter also presents the suggestions for further studies.

5.2 Discussion of the findings

The study sought to establish how interest rate charged by the banks influence purchase of home mortgage product in the banking industry in Kenya, to examine how lending criteria adopted by banks influence purchase of home mortgage product in the banking industry in Kenya, to assess how central bank policies influence purchase of home mortgage product in the banking industry in Kenya and to establish how price of a mortgage product influence purchase of home mortgage product in the banking industry in Kenya.

5.2.1 Interest Rate Charged on Purchase rate of Home Mortgage Product

On interest rate charged, the study established that banks impose interest rate on mortgage product as indicated by 79% of the respondents. Interest rates are the single critical factor that drives the mortgage market and access to more middle income housing (Bernanke & Gertler, 2010). The study established that there has a gradual increase in interest rate on home mortgage product as shown by 64% of the respondents. This finding conform to expect impact on interest rates can work both ways: on the one hand, higher house prices reduce the risk premium through an increase in the value of the guarantees given; on the other hand, higher house prices could increase the demand for lending (Avery, 2006). Variable interest rate contributes to slow growth in residential mortgage market as shown by mean score of 4.01. According to Merriam (2008) interest-rate movements are based on the simple concept of supply and demand Banks base mortgage rates on the volatility of the CBR just as their lending rates where an increase of interest policy rate determines an increase in the banks' cost of borrowing, which generally produces an adjustment in mortgage rates as depicted by mean score of 3.77

and 3.71 respectively. This influences purchase rate of home mortgage to a great extent as indicated by 50% of the respondents. Sorensen and Lichtenberger (2007) analyzing the process of convergence of mortgage interest rates for the house purchase in the euro area, find that supply and demand factors only partially explain interest rates, while a fundamental role is played by institutional factors specific to each country.

5.2.2 Lending Criteria Adopted on Purchase rate of Home Mortgage Product

On lending criteria, the study established that banks have a set lending procedure followed when issues mortgage loan to a client as depicted by 69% of interviewed respondents. Banks play a crucial role in the financing of real estate through mortgage financing. They lend for the purchase of land for development and existing buildings; they finance construction projects; they lend to non-bank and they finance companies that may finance real estate; and they lend to non-financial firms based on real estate collateral (David & Zhu, 2004). Banks finance selective mortgage products as shown by 96% of the respondents. Banks lend mortgage loan for the purchase of land for development and existing buildings; they finance construction projects and that they ensure that the mortgage product purchased by the borrower is genuine by cutinize the ownership of the seller and it's authentic as depicted by mean score of 3.84 and 3.83 respectively. According to Berger and Udell (2010) when they test the relation between collateral and credit risk in commercial and industry loans, risky borrowers are required to pledge collateral while observably safe borrowers are not. Lending procedures determine purchase of home mortgage product to a great as shown by 42% of the respondents. Besanko and Thakor (2007) note that loan size, collateral and interest rates would be used in combination if the wealth constraints of debtors become binding.

5.2.3 Central Bank Policies on Purchase rate of Home Mortgage Product

On bank policies, the study revealed that central bank advice financial institution on mortgage loan application as indicated by 84% of the respondents. CBK provide some guideline on mortgage products as illustrated by 94% of the respondents. This subsequently leads to an increase in the Commercial bank lending rates which is consistent with the mortgage rates (Central Bank Survey report, 2010). The government helps financial institutions offering mortgage products with principles-based regulation questions where central bank rate act as a signal for commercial banks to tighten their lending which leads to an increase in the Commercial bank lending rates and as central bank has set a rule that guide the bank on borrower ability to repay the mortgage loan as indicated by mean score of 4.66, 4.63 and 4.61. According to development analyst Simons (2006) government owned or sponsored mutual fund driven housing schemes and the pseudo-mortgage arrangements that allow public sector employees to own their own property have proven to be relevant. Banks policies influence purchase rate of home mortgage products to a very great extent as illustrated by 74% of the respondents. higher mortgage rates may also be seen as an opportunity for investment by mortgage investors and therefore could assess the risk return tradeoff and evaluate other competing investment in order for them to make a business out of it (William, 2008).

5.2.4 Price of Mortgage Product on Purchase rate of Home Mortgage Product

The study noted that price of mortgage influence purchase rate of home mortgage as revealed by 96% of the respondents. Majority of respondents revealed that price of mortgage product stimulate the demand for housing purchase and price of housing reflects the high cost and illiquid nature of transactions and the impossibility of selling the house as indicated by mean score of 4.77 and 4.15 respectively. According to Bernanke and Gertler (2009) loans given by banks stimulate the demand for housing purchase. Lower value of mortgage product and increased uncertainty reduce banks' initiative to lend and real estate prices and economic activity in the construction sector have shown large fluctuations over long time periods as depicted by mean score of 3.74 and 3.73 respectively. Egert and Mihaljek (2007) make a comparative analysis between countries of Central East Europe (CEE) and OECD countries. They note that the price dynamics in the CEE countries, aside from disposable income and credit, is strongly influenced by specific factors, such as the lack of institutionalization of the housing market; the limited supply of new homes on the market immediately after the market liberalization; improvement in the quality of housing; and, increased demand from non-residents. In these countries, a factor of particular importance is the underestimated initial level of house prices in the transition period. Further, the study revealed that price of mortgage product influence purchase rate of mortgage to a great extent as opined by 58% of the respondents. Real estate prices and economic activity in the construction sector are expected to show large fluctuations over long time periods. This is due to the institutional characteristics of real estate financing and the effects of regulatory measures taken by the authority of a country (Igan and Loungani, 2011).

5.3 Summary of the Findings

5.3.1 Interest rate charged on Purchase rate of Home Mortgage Product

On is interest rate charged, the study established that banks impose interest rate on mortgage product as indicated by 79% of the respondents. The study established that there has a gradual increase in interest rate on home mortgage product as shown by 64% of the respondents. Variable interest rate contributes to slow growth in residential mortgage market as shown by mean score of 4.01. Banks base mortgage rates on the volatility of the CBR just as their lending rates where an increase of interest policy rate determines an increase in the banks' cost of borrowing, which generally produces an adjustment in mortgage rates as depicted by mean score of 3.77 and 3.71 respectively. This influences purchase rate of home mortgage to a great extent as indicated by 50% of the respondents.

5.3.2 Lending Criteria Adopted on Purchase rate of Home Mortgage Product

On lending criteria, the study established that banks have a set lending procedure followed when issues mortgage loan to a client as depicted by 69% of interviewed respondents. Banks finance selective mortgage products as shown by 96% of the respondents. Banks lend mortgage loan for the purchase of land for development and existing buildings; they finance construction projects and that they ensure that the mortgage product purchased by the borrower is genuine by cutinize the ownership of the seller and it's authentic as depicted by mean score of 3.84 and 3.83 respectively. Lending procedures determine purchase of home mortgage product to a great as shown by 42% of the respondents.

5.3.3 Central Bank Policies Adopted on Purchase rate of Home Mortgage Product

On bank policies, the study revealed that central bank advice financial institution on mortgage loan application as indicated by 84% of the respondents. CBK provide some guideline on mortgage products as illustrated by 94% of the respondents. The government helps financial institutions offering mortgage products with principles-based regulation questions where central bank rate act as a signal for commercial banks to tighten their lending which leads to an increase in the Commercial bank lending rates and as central bank has set a rule that guide the bank on borrower ability to repay the mortgage loan as indicated by mean score of 4.66, 4.63 and 4.61. Banks policies influence purchase rate of home mortgage products to a very great extent as illustrated by 74% of the respondents.

5.2.4 Price of Mortgage Product on Purchase rate of Home Mortgage Product

The study noted that price of mortgage influence purchase rate of home mortgage as revealed by 96% of the respondents. Majority of respondents revealed that price of mortgage product stimulate the demand for housing purchase and price of housing reflects the high cost and illiquid nature of transactions and the impossibility of selling the house as indicated by mean score of 4.77 and 4.15 respectively. Lower value of mortgage product and increased uncertainty reduce banks' initiative to lend and real estate prices and economic activity in the construction sector have shown large fluctuations over long time periods as depicted by mean score of 3.74 and 3.73 respectively. Further, the study revealed that price of mortgage product influence purchase rate of mortgage to a great extent as opined by 58% of the respondents.

5.4 Conclusions

5.4.1 Interest Rate Charged on Purchase rate of Home Mortgage Product

The study set out to establish the influence of bank policy on purchase rate of home mortgage product. From the study findings, the study concludes that there is positive relation between interest rate and purchase rate of home mortgage product. It was clear from the study that banks impose interest rate on mortgage product and there is gradual increase in interest rate. Additionally, the study concluded that variable interest rate contributes to slow growth in residential mortgage market where banks base mortgage rates on the volatility of the CBR just as their lending rates where an increase of interest policy rate determines an increase in the banks' cost of borrowing, which generally produces an adjustment in mortgage rates.

5.4.2 Lending Criteria Adopted on Purchase rate of Home Mortgage Product

The study also sought to assess whether lending criteria adopted by the banks influence purchase rate of home mortgage product and it deduced from the findings that that banks have a set lending procedure followed when issues mortgage loan to a client. The study also concluded that banks finance selective mortgage products as shown by 96% of the respondents. Banks lend mortgage loan for the purchase of land for development and existing buildings; they finance construction projects. Further, the study concluded that banks ensure the mortgage product purchased by the borrower is genuine by cutinize the ownership of the seller and it's authentic.

5.4.3 Central Bank Policies on Purchase rate of Home Mortgage Product

The study examined how bank policies determines purchase rate of home mortgage product. From the findings the study concluded that central bank advice financial institution on mortgage loan application where it provides some guideline on mortgage products. Government helps financial institutions offering mortgage products with principles-based regulation questions where central bank rate act as a signal for commercial banks to tighten their lending which leads to an increase in the Commercial bank lending rates and as central bank has set a rule that guide the bank on borrower ability to repay the mortgage loan.

5.4.4 Price of Mortgage Product on Purchase rate of Home Mortgage Product

To determine the extent to which price of mortgage influence purchase rate of home mortgage, the study concluded that price of mortgage product stimulate the demand for housing purchase and price of housing reflects the high cost and illiquid nature of transactions and the impossibility of selling the house. Further, the study concluded that lower value of mortgage product and increased uncertainty reduce banks' initiative to lend and real estate prices and economic activity in the construction sector have shown large fluctuations over long time periods.

5.5 Recommendations

Looking forward toward the realization of the economic pillar of Kenya's Vision 2030 demands that the financial institution focus on making high profits in order to eliminate social problems facing Kenyan citizens today, through control emerging and endemic financial problems. Having investigated iinfluence of bank policy on purchase rate of home mortgage product, the following recommendations are made.

On interest rate, the study recommends that by the fact that the interest rates oscillate between certain ranges (14%-17% in Kenya) these firms can give varying rates for similar levels of loans depending on the market forces of demand and supply and also depending on the level of market risk at that particular time. Pre-payment penalties can be an efficient mechanism to lower mortgage rates and facilitate interest rate risk management for lenders and investors. Lower start rates due to discounts, interest-only periods or graduated payments can reduce affordability constraints for borrowers. Features attractive to borrowers may be costly or impossible for lenders to provide. Features attractive to lenders may not be acceptable to borrowers. A borrower is interested in the affordability of the loan, both at inception and over its life. The lender is interested in getting an acceptable risk-adjusted rate of return over the life of the loan. This presents a conundrum often an attempt to improve the attractiveness of the loan for one party creates a problem for the other.

The study recommended that banks should consider their lending criteria. The lending institution need to consider the personal circumstances and earning capacity of the prospective borrowers in order to calculate the maximum amount to be lent over an agreed period. The type of mortgages issued by various mortgage companies may differ depending on how mortgage interest is determined and serviced or by source of capital/interest payments. A well-developed efficient banking sector is an important prerequisite for saving and investment decisions needed for rapid economic growth. A well-functioning banking sector provides a system by which a country’s most profitable and efficient projects are systematically and continuously funded. The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade.

A higher mortgage rate leads to an increased cost of borrowing from both surplus income side of the demand of housing which further leads to defaults and foreclosures to the extreme cases. However, higher mortgage rates may also be seen as an opportunity for investment by mortgage investors and therefore could assess the risk return tradeoff and evaluate other competing investment in order for them to make a business out of it., When purchasing for mortgage product the client is required to show proof of ability to service the mortgage and the simple “rule of thumb” requires that the loan amount should not exceed three times the annual income of the borrower..

5.6 Suggestions for Further Studies

The study has explored influence of bank policy on purchase rate of home mortgage product with focus to Barclays Bank of Kenya. The banking sector in Kenya however is comprised of various other financial institutions which differ in their way of management and have different settings all together. This warrants the need for other studies which would ensure generalization of the study findings for all the banks institutions in Kenya and hence pave way for new policies. The study therefore recommends other studies be done with an aim to investigate influence of bank policy on purchase rate of home mortgage product in other banking institution other than BBK in order to give a general result that depict real situation in the banking sector.

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APPENDICES

Appendix I: Letter of Transmittal

Irene Mutuku

P O Box …………….

Nairobi.

Date

Dear Sir/Madam

<u>RE: FACTOR INFLUENCING BANK POLICY ON PURCHASE RATE OF HOME MORTGAGE PRODUCT</u>

I am a Master of Arts student at the University of Nairobi and in my final year of study. As part of the requirement for the award of the degree of Master of Arts in Project Planning and Management, I'm undertaking a research project on **"Factor influencing bank policy on purchase rate of home mortgage product"**. In this regard, I'm kindly requesting for your support in terms of time, and by responding to the attached questionnaire. Your accuracy and candid response will be critical in ensuring objective research.

It will not be necessary to write your name on this questionnaire and for your comfort, all information received will be treated in strict confidence. In addition, the findings of the study will surely be used for academic research purposes and to enhance knowledge in the field of Banking.

Thank you for your valuable time on this.

Yours Faithfully

Irene Mutuku.
University of Nairobi

Appendix II: Questionnaire for Bank Staff

Influence of bank policy on purchase rate of home mortgage product: a case of Barclays Bank of Kenya

Am studying Master of Project Planning and Management program at University of Nairobi and I have designed the following questionnaire about the above topic. Kindly and humbly answer all the questions to the best of your knowledge. Indicate with a tick or filling in the space(s) provided.

SECTION A: GENERAL INFORMATION

1. Indicate the Branch you are working at?

   ………………………………………………………………………..

2. Kindly indicate your department

   Mortgage [ ] Finance [ ]

   Credit ` [ ]

   Others Please specify ………………………………………………………………

3. Indicate the position that you hold in the organization.

   Manager [ ] Unit Head officer [ ]

   Departmental Head [ ] Supervisor [ ]

   Technical personnel [ ]

   Any other (specify)…………………………………………………………………

4. How long have you worked in this bank?

   1- 5 years [ ] 6 – 10Years [ ]

   10 – 15Years [ ] Above 16Years [ ]

5. What is your highest level of education?

   Post Graduate [ ] Graduate [ ]

   Diploma [ ] Certificate [ ]

Any other (specify)…………………………………………………………………

SECTION B: INFLUENCE OF BANK POLICY ON PURCHASE RATE OF HOME MORTGAGE PRODUCT

PART I: Interest Rate

1. Does your bank impose any interest on mortgage loans?

   Yes [ ] No [ ]

2. What is the current interest rate charged on home mortgage product?

   ....

3. Has the interest rate increased or decreased compared to the initial rate charged when the bank started to offer mortgage loans?

   Increased [ ] decreased [ ]

4. Indicate your level of agreement to the statement below relating to interest rate and its influence to the purchase rate of home mortgage in Kenya. Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

	1	**2**	**3**	**4**	**5**
The percentage of interest rates imposed on mortgage loan determine purchase of home mortgage products					
We base mortgage rates on the volatility of the CBR just as their lending rates					
An increase of interest policy rate determines an increase in the banks’ cost of borrowing, which generally produces an adjustment in mortgage rates					
Mortgage loans on variable interest rate contributes to slow growth in residential mortgage market in Kenya					
Low interest rate offered by commercial bank on mortgage rate contributes positive impact on the credit growth of mortgage finance loans from loan takeovers from existing lenders.					
Mortgage interest rates influence supply and demand for the for the house purchase					

When the economy grows too strongly, increases interest rates to slow the economy down and reduce inflation hence increasing demand for the home mortgage purchase					
Increased demand for housing in both the rural and urban areas has created a hyper competition amongst the financial and banking institutions hence decreasing interest rate imposed on mortgage products					

5. In your own opinion, indicate the extent to which interest rates influence purchase rate of home mortgage in Kenya?

   To a very low extent [ ] To a low extent [ ]
   To a moderate extent [ ] To a great extent [ ]
   To a very great extent [ ]

PART II: Lending Criteria

6. Is there set lending procedure followed when issues mortgage loan to a client?
   Yes [ ] No [ ]

7. If yes, explain the key areas that are observed?

   ....
   ....
   ....
   ....

8. Are there selective mortgage products that you bank finance?

   Yes [ ] No [ ]

   If yes, name them.

   ....
   ....

   ....

9. Indicate your level of agreement to the statement below relating to bank size and its influence to the bank profitability. Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

Statement	**1**	**2**	**3**	**4**	**5**
The bank lend mortgage loan for the purchase of land for development and existing buildings; they finance construction projects					
We have designed a lending contract that helps to information about the borrower and the plan he/she have on purchasing the mortgage product					
We scrutinize the borrowers information to minimize the risk that may occur due to the borrower inability to pay the loan					
Borrowers are required to pledge mortgage product as the security to the bank					
We consider borrower level of income to determine whether to give loan or not.					
We ensure that the mortgage product purchased by the borrower is genuine by cutinize the ownership of the seller and its authentic					
We conduct evaluation for the customers and mortgage borrowers at an extra cost which most of the client feel is high					

10. Indicate the extent to which lending criteria influence purchase rate of home mortgage in Kenya?

    To a very low extent [ ] To a low extent [ ]

    To a moderate extent [ ] To a great extent [ ]

    To a very great extent [ ]

PART III: Central Bank Policies

11. Does the Central Bank of Kenya control or advice on mortgage loan in the financial institutions?

    Yes [ ] No [ ]

12. Is there specific policies guideline issued by the central bank on mortgage loan?

Yes [ ] No [ ]

13. If yes, explain them.

....

....

....

14. Kindly indicate your level of agreement to the aspect of central bank policies and its influence on purchase rate of home mortgage product in Kenya. Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

	1	**2**	**3**	**4**	**5**
Increase in the Central Bank rate leads to a consistent increase in the mortgage rate which tends to slow down mortgage uptake					
Central bank rate act as a signal for commercial banks to tighten their lending which leads to an increase in the Commercial bank lending rates					
If CBK, advice on higher mortgage rate leads to an increased cost of borrowing from both surplus income side of the demand of housing which further leads to defaults and foreclosures to the extreme cases					
In order to support the mortgage industry, the government has implemented effective policies that enable the borrower to access the services and product of mortgage					
The government helps financial institutions offering mortgage products as services with principles-based regulation questions					
Central bank have some authority over commercial banks and other financial institutions which are less concerned with avoiding asset price bubbles, such as the housing bubble and dot-com bubble					
Central bank has set a rule that guide the bank on borrower ability to repay the mortgage loan.					

15. Kindly indicate the extent to which central bank policies influence purchase rate of home mortgage product in Kenya?

To a very low extent [ ] To a low extent [ ]

To a moderate extent [ ] To a great extent [ ]

To a very great extent [ ]

PART IV: Price of Mortgage Product

16. Do you think the price of mortgage product influence purchase rate of home mortgage product in Kenya?

Yes [ ] No [ ]

Explain your answer above.

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

………………………………………………………………………………………..

17. To what extent does the following indicator of price of mortgage product influence purchase rate of home mortgage in Kenya? Use a scale of 1-5, Where 1- Very little extent, 2- Little extent, 3- Moderate extent, 4- Great extent, 5- Very great extent.

Statement	**1**	**2**	**3**	**4**	**5**
The price of mortgage product stimulate the demand for housing purchase					
A lower value of mortgage product and increased uncertainty reduce banks' initiative to lend.					
Higher costs of mortgage credit service bring some households to potential bankruptcy					
Price dynamics such as lack of institutionalization of the housing market; the limited supply of new homes on the market immediately after the market liberalization; improvement in the quality of housing; and, increased demand from non-residents					

The price of housing reflects the high cost and illiquid nature of transactions and the impossibility of selling the house					
Real estate prices and economic activity in the construction sector have shown large fluctuations over long time periods					
Easy access to credit and low lending interest rates have been the main factors that have accelerated increase of the housing prices					

18. In general indicate the extent to which price of mortgage product influence purchase rate of home mortgage in Kenya?

To a very low extent [ ] To a low extent [ ]
To a moderate extent [ ] To a great extent [ ]
To a very great extent [ ]

PART V: Bank Policy

19. kindly answer the following aspects

Approximately how many numbers of borrowers do you get in a period of 6 years?

…………………………………………………………………………………………

20. What is the maximum amount a borrower can get?
…………………………………………………………………………………………

21. Do you consider borrower employment status when issuing loan?

Yes [ ] No [ ]

22. What is the minimum and maximum repayment period for a mortgage loan?

…………………………………………………………………………………………

THANK YOU FOR YOUR PARTICIPATION

Appendix III: Questionnaire for the Banks Customer

Am studying Master of Project Planning and Management program at University of Nairobi and I have designed the following questionnaire on Influence of bank policy on purchase rate of home mortgage product: a case of Barclays Bank of Kenya. Kindly answer all the questions to the best of your knowledge. Indicate with a tick or filling in the space(s) provided.

SECTION A: GENERAL INFORMATION

1. Which branch of Barclay bank within Nairobi CBD do you bank with?

   ……………………………………………………………………..

2. How long have been banking with this bank?

   1- 5 years [ ] 6 – 10Years [ ]

   10 – 15Years [ ] Above 16Years [ ]

3. What is your highest level of education?

   Post Graduate [ ] Graduate [ ]

   Diploma [ ] Certificate [ ]

Any other (specify)………………………………………………………………

4. Is there mortgage loan/product that you are servicing?

   Yes [ ] No [ ]

SECTION B: Influence of bank policy on purchase rate of home mortgage product

PART I: Interest Rate

5. Is there interest rate charged on mortgage loan that you took?

   Yes [ ] No [ ]

6. If yes, are you aware of the percentage charge on the interest rate? Indicate the percentage charged.

   ....

7. Kindly indicate what you perceive interest rate as compared to the amount of mortgage you took?

   Fair [ ] unfair [ ]

8. Did you consider the interest rate charged by the bank before you take the morgage loan from the bank?

   Yes [ ] No [ ]

9. To what extent does interest rate influence you to purchase home mortgage in the banks?

   Very Low extent [ ] Low extent [ ]

   Moderate extent [ ] great extent [ ]

   Very great extent [ ]

PART II: Lending Criteria

10. Is there criteria used by the bank to determine the amount of mortgage loan to be given?

    Yes [ ] No [ ]

11. How would you rate the criteria used in determining the mortgage loan?

    Unfair [ ] fair [ ] excellent [ ]

12. Would you seek for another mortgage loan in the bank based on the criteria used to seek for another mortgage loan?

    Yes [ ] No [ ]

13. Was the procedure adopted to guarantee you the loan within the timeframe you expected?

    Yes [ ] No [ ]

14. Did the bank consider the mortgage product you were seeking finance for to guarantee you the amount you wanted?

    Yes [ ] No [ ]

If yes, name them.

15. Indicate the extent to which lending criteria influence purchase rate of home mortgage in Kenya?

    To a very low extent [ ]   To a low extent [ ]
    To a moderate extent [ ]   To a great extent [ ]
    To a very great extent [ ]

PART III: Central Bank Policies

16. Is there policies observed when you were seeking for the mortgage loan?

    Yes [ ]   No [ ]

17. If yes, explain them.

....
....
....

18. Kindly indicate the extent to which central bank policies influence purchase rate of home mortgage product in Kenya?

    To a very low extent [ ]   To a low extent [ ]
    To a moderate extent [ ]   To a great extent [ ]
    To a very great extent [ ]

PART IV: Price of Mortgage Product

19. What was the amount of the initial amount you wanted from the bank for the mortgage product?

    ....

20. Did the bank gave you the amount as you expected?

    Yes [ ]   No [ ]

21. Do you think the price of mortgage product that seeks the loan for influenced the home mortgage product?

    Yes [ ]   No [ ]

Explain your answer above.

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

………………………………………………………………………………………..

22. In general indicate the extent to which price of mortgage product influence purchase rate of home mortgage in Kenya?

To a very low extent	[ ]	To a low extent	[ ]
To a moderate extent	[ ]	To a great extent	[ ]
To a very great extent	[ ]		

23. Did the bank consider your employment status when issuing loan?

Yes [ ] No [ ]

24. What is the minimum and maximum repayment period for a mortgage loan you took?

…………………………………………………………………………………………

THANK YOU FOR YOUR PARTICIPATION