FACTORS AFFECTING THE GROWTH OF THE MORTGAGE MARKET IN KENYA

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A RESEARCH PROPOSAL SUBMITTED TO THE SCHOOL OF MANAGEMENT AND LEADERSHIP IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE IN MANAGEMENT AND LEADERSHIP OF MANAGEMENT UNIVERSITY OF AFRICA

OCTOBER, 2017
DECLARATION

This proposal is my original work and has not been presented for a degree in any other University.

Signature:…………………………… Date…………………………

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ODL-BML/5/00213/1/2015

This research proposal has been submitted for examination with my approval as a university supervisor.

Signature: ................................. Date: ..................................

Ms. Isabella Sile

University Supervisor
DEDICATION

I specifically commit this research project to the everlasting God for helping me accomplish the entire task. To my father Peter Kinuthia and my family at large and friends. Their support both morally and spiritually is invaluable and I shall remain indebted always.
ACKNOWLEDGEMENT

I am thankful to God Almighty for in Him I found courage to endure and in Him I found favor and provision. More so, for the gift of life he has bestowed upon me and good health throughout the period that I spent writing this proposal. His Grace has been and continues to be sufficient. I am thankful and Appreciating of my supervisor and advisor, Madam Isabella Sile for grounding my research knowledge, improving research work, giving relevant and timely feedback and for persevering with me throughout the time. I am grateful to my dear parents, sisters, brothers, friends and the entire Management University of Africa (MUA) fraternity for both their material and moral support without which I could not have successfully completed this proposal.
The growth of the mortgage finance industry is a critical development issue facing most emerging economies around the globe up to date especially in Kenya where the Housing industry has a important part to play in attainment of vision 2030. The major aim of the study was to explore factors influencing the mortgage market Growth in Kenya. Guiding particular objective was to examine the effect of competition among the mortgage institutions on the Growth of the Mortgage market in Kenya, also to examine whether regulatory environment has an impact on the growth of the mortgage Market in Kenya and to assess the impact of housing demand on the growth of the mortgage market in Kenya. This study used case study as the research design. The study targeted 35 respondents of mortgage firms. The study will use a stratified random sampling where 20 respondents was chosen as the sample of population. The data was collected using questionnaires that were either structured and others partially structured, which involved some questions that were open ended and others closed ended. Analysis of data involved the use of descriptive statistics. Tables or graphs adopted summarized the responses in order to be used in further analysis or facilitate comparison. According to the study, there is evidence of formidable growth of the mortgage market in the recent past (5 years). The research was conducted on a premise that there were no mortgage facilities for low income earners as costs had proved to be too high for them to access such facilities. The study recommended on carrying out research further on factors influencing mortgage pricing by mortgage institutions in Kenya and the effects of macro-economic variables on the growth of the mortgage market in Kenya.
TABLE OF CONTENTS

DECLARATION .................................................................................................................. i

DEDICATION .................................................................................................................... ii

ACKNOWLEDGEMENT ..................................................................................................... iii

ABSTRACT.......................................................................................................................... iv

LIST OF ABBREVIATIONS ............................................................................................... viii

LIST OF TABLES .............................................................................................................. ix

LIST OF FIGURES ........................................................................................................... x

CHAPTER ONE .................................................................................................................. 1

INTRODUCTION .............................................................................................................. 1

1.1 Background of the study .............................................................................................. 1
1.2 Statement of the problem ............................................................................................. 2
1.3 Objectives .................................................................................................................... 3
1.4 Research questions ..................................................................................................... 3
1.5 Justification of the Study ......................................................................................... 4
1.6 Significance of the study............................................................................................. 4
1.7 Scope .......................................................................................................................... 5
1.8 Summary .................................................................................................................... 5

CHAPTER TWO ................................................................................................................. 6

LITERATURE REVIEW ................................................................................................... 6

2.0 Introduction ............................................................................................................... 6
2.1.1 Classical Theory of demand .................................................................................. 6
2.1.2 Lien Theory of mortgages ................................................................................... 6
2.3 Effect of competition among the mortgage institutions ............................................ 8
2.3.1 Innovative mortgage products .............................................................................. 8
2.3.2 Lowering costs to improve accessibility of mortgage loans to low income earners ...... 10
2.3.3 Service quality (strengthening bank-customer relationship) .................................. 11
2.4 Impact of the Industry regulatory environment ....................................................... 13
2.4.1 Collateral (property legislation) .......................................................................... 14
2.5 Impact of Housing demand ...................................................................................... 15
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5.1 Affordability of housing</td>
<td>16</td>
</tr>
<tr>
<td>2.5.2 Supply of housing</td>
<td>17</td>
</tr>
<tr>
<td>2.6 Summary</td>
<td>18</td>
</tr>
<tr>
<td>2.7 Conceptual framework</td>
<td>18</td>
</tr>
<tr>
<td>CHAPTER THREE</td>
<td>19</td>
</tr>
<tr>
<td>RESEARCH METHODOLOGY</td>
<td>19</td>
</tr>
<tr>
<td>3.0 Introduction</td>
<td>19</td>
</tr>
<tr>
<td>3.1 Research Design</td>
<td>19</td>
</tr>
<tr>
<td>3.2 Target Population</td>
<td>19</td>
</tr>
<tr>
<td>3.3 Samples and Sampling Technique</td>
<td>20</td>
</tr>
<tr>
<td>3.4 Instruments</td>
<td>21</td>
</tr>
<tr>
<td>3.5 Pilot study</td>
<td>21</td>
</tr>
<tr>
<td>3.5.1 Validity</td>
<td>22</td>
</tr>
<tr>
<td>3.5.2 Reliability</td>
<td>22</td>
</tr>
<tr>
<td>3.6 Data Collection procedure</td>
<td>22</td>
</tr>
<tr>
<td>3.7 Data Analysis and Presentation</td>
<td>23</td>
</tr>
<tr>
<td>3.8 Ethical Consideration</td>
<td>23</td>
</tr>
<tr>
<td>3.8.1 Informed Consent</td>
<td>23</td>
</tr>
<tr>
<td>3.8.2 Voluntary Participation</td>
<td>23</td>
</tr>
<tr>
<td>3.8.3 Confidentiality</td>
<td>23</td>
</tr>
<tr>
<td>3.8.4 Privacy</td>
<td>24</td>
</tr>
<tr>
<td>3.8.5 Anonymity</td>
<td>24</td>
</tr>
<tr>
<td>3.9 chapter summary</td>
<td>24</td>
</tr>
<tr>
<td>CHAPTER FOUR</td>
<td>25</td>
</tr>
<tr>
<td>DATA ANALYSIS AND INTERPRETATION</td>
<td>25</td>
</tr>
<tr>
<td>4.1 Introduction</td>
<td>25</td>
</tr>
<tr>
<td>4.2 General information</td>
<td>25</td>
</tr>
<tr>
<td>4.2.1 Rate of response</td>
<td>25</td>
</tr>
<tr>
<td>4.2.2: Distribution by gender</td>
<td>26</td>
</tr>
<tr>
<td>4.2.3: Distribution by level of education</td>
<td>27</td>
</tr>
<tr>
<td>4.2.4: Duration in the Banking Industry</td>
<td>28</td>
</tr>
<tr>
<td>4.2.5: Rate of growth of mortgage market in Kenya</td>
<td>29</td>
</tr>
<tr>
<td>4.3: Effect of competition among mortgage institutions on the growth of mortgage market in Kenya</td>
<td>30</td>
</tr>
<tr>
<td>4.3.1: Extent of competition among the financial institutions</td>
<td>31</td>
</tr>
<tr>
<td>4.3.2: Influence of increased competition on the growth of mortgage market</td>
<td>33</td>
</tr>
<tr>
<td>4.3.3: Ranking of the competitive strategies in order of superiority</td>
<td>33</td>
</tr>
</tbody>
</table>
4.3.4: Frequency of coming up with new mortgage products ........................................ 34
4.4: Effect of the regulatory environment on the growth of mortgage market in Kenya .... 36
4.4.1: Rating the impact of government participation in the growth of the mortgage market .. 36
4.4.2: Type of property mainly accepted as collateral for a mortgage loan .................. 37
4.5: Impact of housing demand on the growth of mortgage market ............................. 38
4.5.1: Effect of housing demand on the growth of mortgage market in Kenya ............... 39
4.5.2: Limited housing Affordability as a hindrance to the growth of mortgage market .... 40
4.5.3: Relationship between housing demand and housing supply ............................ 41

CHAPTER FIVE .................................................................................................................... 42

SUMMARY, CONCLUSION AND RECOMMENDATIONS .................................................. 42

5.0 Introduction ................................................................................................................. 42
5.1 Summary of findings .................................................................................................. 43
5.1.1 Competition among mortgage institutions .......................................................... 43
5.1.2 Regulatory environment ...................................................................................... 44
5.1.3 Housing demand .................................................................................................. 46
5.2. Conclusion ............................................................................................................... 47
5.3 Recommendations .................................................................................................... 48
5.4 Areas for further studies .......................................................................................... 50

REFERENCES .................................................................................................................... 51

APPENDIX ONE: LETTER OF INTRODUCTION ................................................................. 53

APPENDIX TWO: QUESTIONAIRRE .............................................................................. 54

APPENDIX THREE: MORTGAGE FINANCE IN KENYA ................................................... 59
LIST OF ABBREVIATIONS

CBK          Central Bank of Kenya
MFI          Micro Finance Institutions
SSA          Sub-Saharan Africa
HFCK         Housing Finance Corporation of Kenya
GOK          Government of Kenya
<table>
<thead>
<tr>
<th>Table</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Target Population</td>
<td>19</td>
</tr>
<tr>
<td>3.2</td>
<td>Sample selection</td>
<td>21</td>
</tr>
<tr>
<td>4.3</td>
<td>Questionnaire Response</td>
<td>25</td>
</tr>
<tr>
<td>4.4</td>
<td>Distribution of Respondents According to Education Level</td>
<td>27</td>
</tr>
<tr>
<td>4.5</td>
<td>Working experience</td>
<td>28</td>
</tr>
<tr>
<td>4.6</td>
<td>Rate of growth</td>
<td>29</td>
</tr>
<tr>
<td>4.7</td>
<td>Extent of competition</td>
<td>31</td>
</tr>
<tr>
<td>4.8</td>
<td>Whether increased competition has influenced the growth of mortgage market</td>
<td>33</td>
</tr>
<tr>
<td>4.9</td>
<td>Distribution by order of superiority</td>
<td>34</td>
</tr>
<tr>
<td>4.10</td>
<td>Frequency of mortgage products innovation</td>
<td>35</td>
</tr>
<tr>
<td>4.11</td>
<td>Distribution by rate of impact</td>
<td>36</td>
</tr>
<tr>
<td>4.12</td>
<td>Property accepted as collateral</td>
<td>37</td>
</tr>
<tr>
<td>4.13</td>
<td>Impact of housing demand</td>
<td>39</td>
</tr>
<tr>
<td>4.14</td>
<td>Impact of housing demand</td>
<td>39</td>
</tr>
<tr>
<td>4.15</td>
<td>Whether limited housing affordability is a hindrance to mortgage market growth</td>
<td>40</td>
</tr>
</tbody>
</table>
LIST OF FIGURES

Figure 2.1: Conceptual framework .................................................................................. 18
Figure 4.2: Questionnaire Response .................................................................................. 26
Figure 4.3: Gender respondent .......................................................................................... 27
Figure 4.4: Working experience ......................................................................................... 29
Figure 4.5: Rate of growth ................................................................................................. 30
Figure 4.6: Extent of competition ....................................................................................... 31
Figure 4.7: Classification of organization ........................................................................... 32
Figure 4.8: Frequency of mortgage products innovation .................................................... 35
Figure 4.9: Distribution by rate of impact ........................................................................... 37
Figure 4.10: Property accepted as collateral ..................................................................... 38
Figure 4.11: Whether limited housing affordability is a hindrance to mortgage market growth .......................................................................................................................... 41
Figure 4.12: Nature of relationship ..................................................................................... 42
CHAPTER ONE

INTRODUCTION

1.0 Introduction

Chapter one will focus on the background of the study, the statement of problems, the objectives of the study, the research questions, significance of study, scope and chapter summary.

1.1 Background of the study

Over the last few years, considerable effort from all over the world has been made in the mortgage market in order to facilitate ordinary people access affordable housing in their countries. Housing market picked up in the mid 90’s from the Housing Boom of the mid 80s which consequences was collapsing of prices of house (Kanyanja, 2010). According to a published UN-HABITAT feature, Home Ownership Through Mortgage Finance (2005), this has been brought about by competition in the finance market related Factors: on one side ,the Housing Finance Market has become a New mortgage finance providers and entered the market as a way of responding commercially to these market conditions by seeking out for new clients to extend their services. They are being faced with considerable housing problems coupled with a desire to minimise public expenditure, governments have come up with plans improve the Mortgage Market to address Housing needs of its citizens where necessary. This feature further reveals that mortgage lending very high in the developed world with countries like Australia and the United States recording 45% and 63% of owner-occupiers with mortgage respectively.

According to the publication, Housing Finance in Africa Year book (2010), Africa’s middle class has been growing and thus a subsequent increase in their housing needs as urbanization puts significant pressure on the housing markets. Furthermore, Africa’s economies have been cited to
have been growing with positive macroeconomic reforms being implemented with some still ongoing. Despite being faced with various challenges such as constrained affordability due to prohibitive costs of borrowing, lack of long-term finance, rising costs of building materials among others, mortgage finance providers are becoming more pro-active by introducing new products such as microfinance in housing which compliments in financing methods (Kihato, 2010).

According statistics at Central Bank of Kenya, mortgage market has gone up in the past five years with the number of new loans also increasing rapidly (CBK, 2010). A set of several indicators put up to measure the level of growth rate the mortgage industry, has revealed details as per a CBK Survey Analysis (2010).

1.2 Statement of the problem

Lack of inadequate housing in Kenya made investors seize the opportunity in the market and bring about development in the housing sector. The rate of Mortgage Market has recorded an increase in the last decade but size of loans remains low because of poor information that is at disposal to potential buyers, (Kinyanjui, 2011). According to Carole .K (2011), bigger part of housing stock which penetrated to market in 2011 was accessible by mortgaged buyers more than in previous year, at a rate of 38% of new-builds in comparison to 34% in the year 2010.

The mortgage industry has grown and become competitive increasingly grown and become competitive. As at December 2016,a total number of mortgages were 24,458,with average cost of 81717 USD and 2.63% of the GDP(Housing Finance in Africa 2016)

According to the CBK (2010) the Kenyan mortgage market remains small as per the international standards as the loan portfolio remains small. A survey conducted by the CBK in
2010 shows Kenya mortgage debt to GDP ratios is far below the international standards as it has not yet been in the same standard to the developing peer countries and therefore there is room for improvement. Previous research studies done have investigated and analysed the factors inhibiting the growth of mortgage finance in Kenya and the challenges thereof. According to Kanyanja (2010), the mortgage industry in Kenya is wanting as a result of the numerous challenges it has faced such as increasing risk of loan default, fluctuating and unsteady interest rates among other stumbling blocks it has experienced hence slowing its growth since the mid 1990s. The research therefore, sought to examine various Factors that influence mortgage market’s growth in Kenya

1.3 Objectives

The general objective will be factors affecting the growth of the mortgage market in Kenya.

1.3.1 Specific Objectives

i. To examine the influence of competition among mortgage institutions on the rate of growth in Kenya

ii. To determine whether the regulatory environment have an impact on the Growth of the Mortgage market in Kenya

iii. To assess the impact of housing demand on the growth of the mortgage market in Kenya

1.4 Research questions

i. What effect has competition among the mortgage institutions had on growth of Mortgage Market in Kenya?
ii. Does the regulatory environment have an impact on the growth of Mortgage market in Kenya?

iii. What has been the impact of housing demand on growth of Mortgage Market in Kenya?

1.5 Justification of the Study

The growth of the mortgage finance industry is a critical development issue facing most emerging economies around the globe up to date especially in Kenya where the Housing industry has a important part to play in attainment of vision 2030. Thus, this study seeks to explore whether the mortgage institutions, mortgage industry regulators and the housing demand have been key to the growth of this market so as to be able to find out what more can be done on these areas so as to sustain and enhance its growth.

1.6 Significance of the study

This research will be of great significance to:

1.6.1 Mortgage institutions

The study’s report enables upcoming mortgage institutions to understand the dynamics of the mortgage trading environment better and also the mortgage finance managers who are open to new ideas as they can use its findings to identify opportunities in the industry to boost its growth thus improving their efficiency.

1.6.2 Academicians.

1.6.3 This study will be of great importance to the students, scholars and other academicians who wish to do a further research on the mortgage in Kenya as it will act as a source of
information about the factors influencing its growth and expansion. It will also enrich knowledge under this field of interest since anybody who want to research on any related field of study He/ She will make use of this study as a point of reference and further knowledge.

1.6.4 Government and policy makers

This study will help the government to formulate stringent but favorable policies to regulate the market appropriately in order to aid in the further expansion of the industry. Therefore, the recommendations from this study will be of great importance in formulation and implementations of policies and rules related or governing this industry.

1.7 Scope.

The study will focus on performance of the various mortgage finance providers (firms) in the Kenyan market in the years 2006-2010 with an emphasis on those based in the Nairobi region as the banks there will easily accessible by the researcher.

1.8 Summary

This chapter summarized on the background of mortgage financing industry including among others how the industry is governed and regulated and how it is performing. The chapter also presented a brief overview of the real problem the study is aiming to research on and the coverage of the research among others the geographical coverage, the targeted population.
CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Chapter two portrays a summary of the theories that are significant to the study. The concept of the study will be represented in the conceptual framework section and reviews of empirical research done previously been conducted on the area of growth of the mortgage market in Kenya.

2.1 Theoretical Literature Review

2.1.1 Classical Theory of demand

This theory is derived from the roles that are played by money. The important role of money is that it acts as a mean of exchange and most importantly as a store of value. The above argument gives a clear picture as to why most business men an individual tend to have part of money in cash and others converted to asset. The are two approaches of this concept. There is the scale approach that is associated to the contact of the earning or influence level upon the demand for money. There is direct relationship between the demand of money and earning level. The higher the earning the higher the demand for money. The other approach is the substitution for money outlook which is associated to relative attractiveness of assets that can be substituted for money. This research is line with this theory in that the demand for housing depends on earnings.

2.1.2 Lien Theory of mortgages

According to this theory before a borrower is extended any loan by the lender he/she must produce a security in case of failure to the obligations the security to be used to rein buss the
lender. That security or collateral the borrower produces is known as Mortgage. If the borrower fails to owner the monthly installments the lender can withdraw the possession and resell to another person so this means that legal ownership of the house remains with home owner until the last installment is settled. This theory is relevant to the study since it is basing its discussion on mortgages.

2.2 Empirical Literature Review

2.2.1 Types of mortgage markets

There exist two main types of mortgage market namely primary and secondary mortgage market.

2.2.1.1 Primary mortgage markets

This type of mortgage market involves both the lender and the borrower. It involves both the two parties initiating a mortgage contract so that an individual can be in a position to acquire a home, (Aldridge, 2012). This involves the institution (lender) issues out loans to the individual (borrower) intending to acquire a property. The lending institution prepares he contract and lay down the necessary terms and conditions and once the borrower is in agreement with the laid down terms, He/she makes payment or does more window shopping. The involved lenders in this type of mortgage include but not limited to Banks and other financial institutions. Mostly when borrower receives a mortgage from this market they further trade in secondary market.

2.2.1.2 Secondary mortgage markets

Amadeo (2012) defined this type of market as a place that involves buying mortgage loan and the servicing rights and then selling it between the originators, aggregators and then the investors. It is extremely large and liquid. Trading secondary mortgage in the past was quite hard
since it could only be afforded by well-established and big banks, therefore it was not just a walk over by majority homebuyers to participate but currently the market is well established and can now attract potential homebuyers to participate. The returns derived from these transaction by banks create a pool of more mortgages at disposal.

2.3 Effect of competition among the mortgage institutions

Claessens (2009) observed this market follows the principle of demand and supply forces and therefore it leads to relatively lower cost in the sector accompanied by better quality, creativity and innovation.

Citing its benefits, economists have long favoured competitive environment. Similar benefits of competition would therefore be expected in the mortgage market. The economics literature states that competition ensures well functioning markets, protects consumers, promotes allocative and productive efficiency and provides incentives for the development of new products, (Assefa, Hermes and Meesters, 2010).

Therefore, it would be reasonable to assume competition can be beneficial in the context of mortgage market as it may result to improved and new mortgage financial product designs, better customer services, lower costs and lower interest rates.

2.3.1 Innovative mortgage products

High degree of innovation is exhibited in the mortgage industry with majority of landlords coming up with efficient strategies of helping investors manage their property (Doms & Krainer, 2007).
Analysts in housing industry have an assumption that requirement of mortgage qualification have hindrance home ownership, (Nduko, 2010). However, not all customers are able to fulfill all of the usual mortgage lenders criteria thus leaving room for options on how to take care of such a category. It is therefore important that mortgage lenders adopt to accommodate new types of customers in the market by considering what types of products they can offer to such customers. According to Shove (2007), for mortgage lenders keen to understand and take advantage of the new opportunities in niche markets, it is vital that they understand market needs, map-out the key drivers for growth and ensure that they remain sufficiently flexible in their approach in order to avoid locking themselves into one specific model. Down payment is an example of the requirements for a mortgage in most cases. Many penetrations and creative marketing has led to new and better product where some banks have recently introduced 100% financing (no down payment required) for the full value of a house, (Walley, 2011). Therefore, understanding customers’ specific needs and ensuring that they are being offered compelling and timely propositions is fundamental to the growth of the mortgage market.

Financial engineering and in particular the growth and securitization of the sub-prime market (Adair et al., 2010), spawned through liberalization is not only responsible for the creation of new financial products but also responsible for key changes in the finance sector. Within the residential property market the availability and cost of finance was a key factor in determining the performance of property markets (Green and Wachter, 2007). A number of empirical studies have identified strong linkages between mortgage availability and housing market growth in developed countries across the world (Scanlon et al., 2008).
2.3.2 Lowering costs to improve accessibility of mortgage loans to low income earners

There is general assumption that low income earners spend large portion of their income in expenditure of food but research shows that low income earners spend much in housing expenditure and this show how low income earners value house since it is the most expensive asset owned and possessed by them (Makel 2014). Most low income earners spend a good portion of their incomes on housing. It is assumed that to solve the problem of poor housing to the poor is having an increment to their incomes in order for them to build more and good housing, (Jones, 2002). It is obvious that mortgage firms extend housing loans to the able middle and high income portion individuals, although they also provide long-term loans to low class earners but only with securities such as land title deeds. (Nduko, 2010). In his earlier study, Erhard (1999) singled out three major reasons why majority of people in the growing countries are unable acquire housing loans. Majority do not possess enough securities and their incomes are fluctuating and most low income individuals do not possess the adequate knowledge and information.

According to Vusumuzi (2009), major problem of acquiring housing finances is that most lenders are not ready to bear the underlying risks. According to Kanyanja (2010), there exist mortgage facilities specifically designed to benefit the low income earners only that the beneficiaries were not aware of their existence as the financial institutions didn’t conduct enough awareness campaigns to inform and educate the entire public about them. The study found out these special facilities to include among others: mortgage with subsidized interest rates, loans with no collateral, loans with longer grace periods and loans with long maturity periods.
Fatimilehin (2009) notes that low and middle income earners form a very vast potion of the population yet they cannot afford decent housing; this presents an untapped demand for housing and if such demand is adequately catered for, then this can be a large boost to the housing market. In support of this Fatimilehin further suggests that this untapped demand can be satisfied through adequate financing terms which will include enough grace periods, long term finances and low interest rates. McCann (2009), suggests that young and poor individuals be given special treatment when it comes to accessing real property as this will motivate them and they won’t feel sidelined when it comes to decent housing. They must be helped in matters of choosing the right mortgage by giving them all the various types available (including their terms) so that they can be in a position to evaluate their earning capacity compared to the terms of payment; this would also help them to ascertain the credit facility from which to borrow from.

There are various cost implication that is connected to mortgage and these include facilitations fees, transfers fees brokerage fees among others.

2.3.3 Service quality (strengthening bank-customer relationship)

Customer relationship is very key in the success of service industries and this has been now realized as essential, (Bejou et al., 1998). Success or failure of service provider solely depend on the quality relationship with customers (Panda, 2003). Financial industry is increasingly enlarging hence attracting high competition, therefore for the organization to counter the high competition they have adopted high customer relationship quality, (Avkiran, 1999), a relatively mature market for retail banking, little growth in primary demand (Murphy, 1996), narrow lending spreads and focused niche players (Hislop et al., 2002).
Marlow & Lee (2003) identified how customers make a choice on which lender to seek. The outcome indicates that consumers consider convenience to be very key. Convenience do vary depending on the consumer such as where the offices are located and the proximity, fees, balance limit among others which depend on the social economic circumstances. Modernity in which customer make choice in the home finances market, Ford and Jones (2001 – cited in Devlin, 2002a) reviewed the mortgage decision process and provide a summary of previous research findings, according to which consumers opt mortgage provider considering their past experience with the provider, the suggestion of mediators. Devlin (2002a) tried to analyze the manner in which consumers select bank for mortgage loans in UK and how these criteria may differ in their importance with respect to several criteria among them; social difference, income differentials etc. He found that the obvious choice criteria is professional advice. Quality of service is insignificance criteria considered by customers in making their choice.

Devlin and Ennew (2005) tried to investigate the relative importance of mode in which several financial services such as current account, savings account, personal loan, home finances. In case of mortgages, particularly, technical advice is very significant aspect close to every customers, but is more important for young financial services consumers. Based on their study outcome on service quality in reference to customer’s judgment on firm's superiority prove to be a big competitive advantage in bank market (Soureli et al., 2006). Their study provided convincing prove of ensuring that customer service offered of high quality is important for building a viable customer relationship. Their study also found out that professionals are supposed to strive in improving service quality programme implementation and come up with strategy of customer satisfaction. Bank stewards are supposed to develop a system of collecting information on their customer expectations.
2.4 Impact of the Industry regulatory environment

The Banking Act (cap 488) and the central Bank that was formulated in 1965, it summarizes the legal and regulatory framework of all financial institutions. Kenya financial market is fairly developed and is the leading in terms of banking infrastructure and regulations, (Mutero, 2007).

According to Boamah (2011), Availability of well elaborate rules and regulations that are in place for both lenders and borrowers is critical in the enhancing and promoting the housing finance industry. Legal framework constitute all legality put in place to enforce in case of failure from any side or unfolding event, (Gutierrez and Ospina, 2009).

Financial industry to be strengthened there need to have in place very strong legislative and regulatory framework (Gevorgyan et al., 2006). Livingstone (2008), Mortgage sector in British is the most impacted part of industry because of the effect of 2007/2008 global financial crisis. Uk government implemented two major things; improved communication channels among the mortgage industry players and emphasized on assisting the sector with regulations based on principles. Certainly, that therefore implies that the putting in place strong legal framework enhances favorable environment for lenders and borrowers.

In the case for mortgage intermediaries, (Thorbecke, 1999), the government of South Africa had lots of problems from the mortgage intermediaries mainly due to the advice that is of poor quality, unprofessional customer treatment and misleading systems and control. Intermediaries who provided such services were normally unregistered and more often illegal in existence. The government stepped forward to catch up with such players and the actions taken were mainly good for the sector.
The legal framework guiding housing loans markets is unfavorable and this affects their operational environment. Were there poor developed regulatory the credit risk is very high (Tesfaye, 2007). A good legal framework will promote mortgage lending processes in a given country. This will enhance access to housing funds within the middle and lower income individuals. This will also grant benefits to the mortgagors due to low monthly installments hence leading to high quality housing to the low earners. On the other hand poor regulatory framework compromises the adequacy of mortgage securities. Enough collateral must be a requirement if lenders are to issue property finances to borrowers.

2.4.1. Collateral (property legislation)
The set down regulations is that one condition set out before a lender issue out a loan to the borrower is that the borrower must have in place adequate collateral to complement the loan in case of default. The lenders are also empowered to seize the securities in case the borrower fails to owner the agreement. (Warnock and Warnock, 2008). To promote effecient operational of mortgages there should be a sound legal framework that allows collaterals to be accesses by the lenders. Countries with well-established property rights have a well-developed housing finance structures, (Chiqueier et al., 2004).

reforms were required in land administration systems of Kenya in target of laws dealing with securities that made mortgage lending unattractive to mortgage lenders. The system was considered as poor and likely to lead to delays and corruption. Quality and security is the key interest of lenders. If there is collataral it means that lenders can enforce incase of default. Failure of collateral leads to constrains in the part of mortgage markets.

If the collateral is uncertain therefore the rate of interest is high and the customer is likely going to be advanced lower credit because of high risk from the side of the lender. Lenders can extent a
higher and long term loan if the collateral are enough to cover the loan and there exist a law that can enable them to enforce in case of default, (Boamah, 2011). According to Mint (2004) legal framework should a collateral must be registered with the lending bank. The law of the land grants the lender the power to confiscate any collateral put in place for any given out as a loan in case of default (Mathew 2011).

2.5 Impact of Housing demand

It is also known as effective demand and therefore measures the ability and willpower of household to pay their housing, (Tomlinson, 2007). It is a coefficient just like the other functions like household incomes, interest rate, rent, preferences etc. The assumption that the household have the will power to spend on housing if they acquire their own houses than renting out. The demand of housing in Kenya is tremendously increasing due to population increase in the urban, (Gabriel et al., 2006). Walley (2011) noted that increased prosperity has increased the demand for large and good quality housing, the short in supply and the new construction creates the demand pull. In the UK, the confluence of rising housing demand (owner occupier and investor driven), historically low interest rates as well as greater competition between lenders, innovations in mortgage products but most pertinently the widespread availability of comparatively low cost of capital from banks and securitized lenders drove the housing boom (Immergluck, 2009).

According to Tesfaye (2007), there is the high demand pull in Kenya is brought by urban population expansion and the shortage of housing stock.
2.5.1 Affordability of housing

Affordability is the aspect of borrowers being able to afford to acquire something; in particular concerning this study is the fact that borrowers are able to afford to acquire a house, (Tomlinson, 2007). Despite the contested nature of the concept of housing affordability, definitions have been employed throughout various policy settings (Gabriel et al., 2006). At its most fundamental, Stone (2006a, b) observes the ability to afford a house to be a subjective phenomenon based on social diversity of people, constituted as individuals in relation to their situation, a perspective upheld in earlier writings by Field (1997) who elucidates affordability to involve normative judgements about the proportion of income a family should pay for rent or monthly ownership costs. Moreover, Paris (2007) suggests that affordability may be best understood as a microcosm relating to the circumstances of individuals of households, and should not be benchmarked to particular dwellings at a particular price or rent level, or at the national or regional housing market level as a whole.

Burke (2001) suggests that to get a handle on the issue of measuring affordability, questions pertaining to what the measures are used for need addressing to provide an absolute measurement of affordability. Different approaches of affordability measure has been formulated and used in different context throughout international arena. Most quantitative measures of housing affordability are regarded as a relationship between house prices and household incomes, (McCord et al., 2011).

The process of deregulation is considered to have reduced the numbers of credit constrained households (Stephens and Quilgars, 2008) with the rises in house prices perceived to enhance the borrowing capacity of existing households. In their research, Campbell and Coco (2003) found a
positive relationship between house price increases and relaxed borrowing constraints showing that that the easing of credit restrictions raised the demand for housing. According to Scanlon et al. (2008), deregulation within mortgage markets improved led to competition which in turn enhanced efficiency of the mortgage process and this in turn led to lower costs to consumers. Moreover, fall down of mortgage market in the USA and the subsequent contraction in global mortgage liquidity has illustrated that the supply of mortgage finance heightens affordability concerns, albeit in a different manner. Previous boom-bust cycles within the UK housing market have been shown to be asymmetric across income groups, with lower income groups more adversely affected by economic circumstances which result in repayment difficulties and the reduced ability to enter the market at an affordable point (Pryce and Sprigings, 2009).

Scanlon, Lunde & Whitehead (2008) concluded that mortgage providers have responded to the affordability problems by coming up with new products of lower monthly payments. Two approaches have been employed; restructuring repayment structure and making mortgage terms longer.

2.5.2 Supply of housing

There is no output without input and housing is output of the result of the following input; labour, land and other resources. Supply of houses will greatly depend on the cost inputs and the existing technology. In most countries housing finance supply process is considered efficient by their intermediation, (Cho, 2007). Varies and Boelhouwer (2005) when prices of inputs increases they increase the price of houses and when there are many house the supply is in excess of demand pulling down the price of house due to competition.
2.6 Summary

Shelter is very important basic requirement for everybody in the society. According to Dickerson (2009), a well-functioning mortgage market is considered to have large external benefits to bear huge external benefits to the national economy. Well-functioning mortgage market is considered to have large external benefits to the domiciled national economy like economic growth and improved standards of living.

2.7 Conceptual framework

The above literature review led to the following conceptual model showing how independent variables of Competition, Regulatory environment, and Housing demand relate with the dependent variable is financial performance. The constructs and how variables relate are illustrated in the following figure 2.1.

![Figure 2.1: Conceptual framework](image-url)
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The methodology of a research describes how the research was conducted and how best to evaluate the results. This chapter was mainly consist of the research design, target population and sample frame, sampling procedure, research instruments and methods of data collection, measurement, analysis and presentation thereof.

3.1 Research Design

The research adopted a case study method. It is a comprehensive analysis of research gap and it is an exploratory research process that investigates one or a few situations similar to the researchers’ problem situation. This design is commonly employed to summarize a wide field of research into a more simplified examples that can be researchable. This design is also important in determining as to whether a specific theory and model actually applies to phenomena in the actual situation.

3.2 Target Population

The population targeted consisted of 35 firms that provided mortgage finance in the years 2006-2010 as per the CBK statistics (2010), which have been categorized into large, medium and small banks (see appendix 1).

Table 3.1: Target Population
3.3 Samples and Sampling Technique.

Sample is a collection of all the items or people forming the population of concern together with their characteristics, (Meagher, 2002). Customer relations officers (marketers), credit/loan officers and mortgage finance managers are the group from which the sample was drawn since they are the employees in-charge of customer service, maintaining the customer files and have access to mortgage turnover data (respectively); hence they are the ones who were most likely to have information about the growth experienced in the mortgage market.

This study adopted purposive sampling procedure to get a good sample as out of 35 banks, only 20 offered mortgage loans for the 5-years period (2006-2010). In this geographical region of study, most banks have more than one branch; this implies that the researcher in addition will employ convenience sampling technique to select only those branches (which in his judgement) was convenient to him in terms of accessibility, proximity and relevance to the study.

<table>
<thead>
<tr>
<th>Bank segment</th>
<th>Number of banks</th>
<th>Frequency (respondents)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>17</td>
<td>51</td>
</tr>
<tr>
<td>Medium</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Small</td>
<td>8</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>105</td>
</tr>
</tbody>
</table>

Source: Researcher 2017
Table 3.2: Sample selection

<table>
<thead>
<tr>
<th>Bank segment</th>
<th>Number of banks</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>11</td>
<td>33</td>
</tr>
<tr>
<td>Medium</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>Small</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Researcher 2017

3.4 Instruments

The researcher used questionnaires with both closed and open ended questions to collect information and surveying opinion on this subject matter (mortgage market). They were administered to the mortgage finance managers, credit/loan officers and customer relations officers of various mortgage finance firms (3 respondents per bank) as the researcher believed that they were the best respondents for this study as they have the relevant practical experience on the mortgage sector which would help in crystallizing their opinion.

3.5 Pilot study

A pilot study was undertaken. A pilot test or study is undertaken in order to detect any weaknesses in the structure and system in order to enhance proxy data for selection of a probability sample. This was conducted to assist to identify problems that the researcher may encounter in the process and also ensure the questions put across was clear to respondents and ensure validity and reliability of the instrument.
3.5.1 Validity
Kasomo, (2006) defines validity as accuracy of research tool. It is quality that a procedure adopted in research is very accurate, true, correct, meaningful and right. According to Kothari, (1990) a test is valid only when it measures what is indented to measure. It is the degree to which a research study measures what was initially made to be measured. It how correct a test measures what it is purported to measure. Questionnaires are going to be tested for validity using content validity. Content validity is a process of logical analysis that involves careful and critical examination of items in the research questionnaire.

3.5.2 Reliability
The term reliability is termed as the extent to which a tool of assessment produces stable and consistent results. For this research to be reliable the researcher tested the questionnaires by the use cronbach’s alpha correlation coefficient using SPSS. Whenever cronbach’s alpha value is greater than 0.7 then the questionnaires are going to be reliable.

3.6 Data Collection procedure
To attain the objective and for getting firsthand information knowledge of representative of Mortgage Market, preliminary discussion was held with the finance managers, credit/loan officers and customer relations officers. The study used only primary data. The primary data was collected in the questionnaire form. It was collected from face to face interview with lending bank’s officials and others experts in the field. The researcher visited the lending banks to familiarize himself with the management and make arrangement for the administration of questionnaire.
3.7 Data Analysis and Presentation

The data was analysed by use of descriptive statistics technique like percentages and frequencies. Analysis of data was presented in a way of tables, frequency distribution tables and figures. Microsoft Excel tools was used to perform the analysis as they aided in organizing and summarizing the data by the use of descriptive statistics such as tables.

3.8 Ethical Consideration

3.8.1 Informed Consent

The researcher used free prior and informed consent (FPIC) in order to guarantee full disclosure of the research objective. Respondents were educated adequately as to the nature and aim of the study. Further, the researcher explained the procedures involved and the benefits to the organizations, any potential risks, and alternatives to participating in this research.

3.8.2 Voluntary Participation

Getting access to information that is considered important for this study may be to some extent difficult. This may hence force me to come up with the solution to these problems. The solution that the research will take will be mainly by adhering to the rules that have been put in place.

3.8.3 Confidentiality

Information collected from research participants was made available to anyone outside the research. And more so remove face sheets containing identifiers from the instruments containing data after receiving from participants. I guaranteed to properly dispose, destroy or delete study data and document provided. Limiting access to indefinable information.
3.8.4 Privacy.

I have to determine what information to collect, how to use the information collected and what information to be shared out.

3.8.5 Anonymity.

Throughout the research, information that can be identified to a particular participant or bank was not be collected.

3.9 chapter summary

The above chapter is a summarization of the research designed that was adopted in the research, the target population and the sampling design, the instrumentations, the pilot study, the presentations and the data analysis.
CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis and interpretations of the data from the field. In this chapter data pertaining to the effect of the mortgage market as viewed by Commercial Banks and other mortgage-lending financial institutions in Kenya is analyzed and interpreted. The analysis revolves around the research objectives and literature review on mortgage finance and the findings are presented using tables and trend analysis graphs.

4.2 General information

4.2.1 Rate of response.

The researcher issued out 60 questionnaires to the target respondents which comprised of 20 top level manager, 20 middle level managers and 20 operational level managers. Out of 60 questionnaires only 50 questionnaires were returned fully filled and the shows that 16.67% of respondents never presented their response with 83.33% responding accordingly. This response rate excellent since it is in line with Mugenda and Mugenda (199) argument who said that 50% of response rate is acceptable and adequate enough for analysis, response rate of 60% is good while 70% and over is excellent.

Table 4.3: Rate of response.

<table>
<thead>
<tr>
<th>Category</th>
<th>Sample Size</th>
<th>Responses</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top level Managers</td>
<td>20</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Middle level Managers</td>
<td>20</td>
<td>19</td>
<td>38</td>
</tr>
</tbody>
</table>
Operational level Managers 20 17 34

Total 60 50 100

Source: Survey data, 2017.

<table>
<thead>
<tr>
<th>Percentage, Top level Managers, 28</th>
<th>Percentage, Middle level Managers, 38</th>
<th>Percentage, Operational level Managers, 34</th>
</tr>
</thead>
</table>

Figure 4.2: Questionnaire Response  
Source, Author (2017)

4.2.2: Distribution by gender

The researcher wanted to establish the gender composition of the respondents. The data in the figure shows the study's findings on the type of gender who respondent. The results portray that the dominating respondents were men representing 70% and 30% were ladies. This depicts that the banking industry is not gender sensitive when it comes to employment and it is more biased towards males.
4.2.3: Distribution by level of education

In the demographic factors, the researcher intended to enquire on the level of education of respondents. The results were summarized in the table 4.4.

**Table 4.4: Distribution of Respondents According to Education Level**

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Diploma</th>
<th>Degree</th>
<th>Masters</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top level Managers</td>
<td>-</td>
<td>5</td>
<td>9</td>
<td>14</td>
</tr>
<tr>
<td>Middle level Managers</td>
<td>3</td>
<td>14</td>
<td>2</td>
<td>19</td>
</tr>
<tr>
<td>Operational level Managers</td>
<td>8</td>
<td>8</td>
<td>1</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>27</td>
<td>12</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Data (2017)

The results show that most of the respondents are 1st degree holders which constitutes about 54% of the total respondents. This is followed by Masters Holders which constitute 24% and
Diploma holders which translate to 22%. Other higher or lower qualifications were not captured by the survey. Overall, this indicates that financial institutions employees have adequate education to help formulate good mortgage policies that will stimulate growth of the mortgage market.

4.2.4: Duration in the Banking Industry.

The researcher wanted to establish for how long the respondents had worked within banking industry especially in mortgage finance. The outcomes are presented in table 4.5.

<table>
<thead>
<tr>
<th>Working experience (years)</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>6-10</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>11-15</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Over 15</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data (2012)
The study shows that majority of the people who respondent had an experience ranging from 6-10 years marking 40% while 28% of the people who respondent had an experience ranging from 11-15 years, people with few years in experience ranging between 0-5 years represented 18% and 14% represented people with experience of more than 15 years and above. In summary majority of response indicated to have adequate experience in the industry.

4.2.5: Rate of growth of mortgage market in Kenya.

The researcher sought the opinion of the respondents as to whether the mortgage market in Kenya had experienced any growth in the recent past.

Table 4.6: Rate of growth

<table>
<thead>
<tr>
<th>Rate of growth</th>
<th>frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>High</td>
<td>27</td>
<td>54</td>
</tr>
</tbody>
</table>
From the table 4.4, the study found out that majority of the respondents (84%) rated the growth of the mortgage market on the higher side with a few (12%) rating it as moderate while the least (4%) indicated it as being low. This is against the backdrop that 100% of the respondents agreed that the mortgage industry has grown in the recent past.

### 4.3: Effect of competition among mortgage institutions on the growth of mortgage market in Kenya

In this section, the study sought to examine the effects of competition on the mortgage market.
4.3.1: Extent of competition among the financial institutions
The respondents were asked to indicate whether they face any significant competition from other mortgage providers, the extent of such competition and which category of institutions was their most potential competitor. The results are as shown in table 4.7

Table 4.7: Extent of competition

<table>
<thead>
<tr>
<th>Extent of competition</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very large</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td>Large</td>
<td>26</td>
<td>52</td>
</tr>
<tr>
<td>Moderate</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Little</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data (2017)

Figure 4.5: Extent of competition in the mortgage market

Source, Author (2017)
The results show that 52% of the respondents indicated the extent of competition to be large while 36% viewed it to be very large. Only 12% of the respondents regarded competition as moderate. However, 100% of the respondents agreed that they face significant competition from other mortgage providers. This therefore concludes that competition contributes to the growth of the mortgage market at least to a large extent.

The respondents were also asked to indicate which institutions, from a classification given, was their most potential competitor. The study established that 78% of the respondents indicated local banks as being their strongest competitors with only 22% viewing foreign banks to be so. None of the respondents indicated micro-finance institutions. This depicts that MFIs are yet to venture into the mortgage market as a way of increasing competition of mortgage products in the market. This is shown in figure 4.6

![Figure 4.6: classification of organizations](image)

Figure 4.7: Classification of organization
Source, Author (2017)
4.3.2: Influence of increased competition on the growth of mortgage market.

Here, the respondents were requested to indicate their degree of acceptance as to whether increased competition among the mortgage institutions has influenced the growth of the mortgage market in Kenya.

Table 4.8: Whether increased competition has influenced the growth of mortgage market

<table>
<thead>
<tr>
<th>Degree of acceptance</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td>Agree</td>
<td>29</td>
<td>58</td>
</tr>
<tr>
<td>Neutral</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data (2017).

From the findings in the table above, the majority of the respondents as indicated by 94% agreed that competition is a key influencer on the growth of the mortgage market.

However, 100% of the respondents reported that their firms had in the last 5 years adopted various competitive strategies in a bid to remain relevant in the market e.g. achieving increased customer satisfaction by offering quality mortgage products. This is in line with Assefa et al. (2010) who alluded that competition ensures well-functioning markets, protects consumers and provides incentives for the development of new products.

4.3.3: Ranking of the competitive strategies in order of superiority.

In this part, the respondents were asked to give their opinion as to which competitive strategy was the most superior from a list of 3 options. This was to be done by ticking against a key as
provided by the researcher where: numbers 1, 2 & 3 represented most superior, superior and less superior respectively. The results are shown in table 4.9

Table 4.9: Distribution by order of superiority

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Level of superiority</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Innovative mortgage products</td>
<td>10</td>
<td>35</td>
</tr>
<tr>
<td>Lowering costs to increase accessibility of loans to low income earners</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Service quality- strengthening bank-customer relationship</td>
<td>34</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Field Data (2017)

From the findings, 68% of the respondents viewed service quality-strengthening bank-customer relationship as the most superior strategy of all the three as most banking customers prefer quality to quantity. 70% of the respondents were of the opinion that innovative mortgage products was superior with 64% indicating that lowering of costs to increase accessibility of loans to low income earners as being less superior. Overall, the study found out that if customers are not satisfied with the quality of services offered by individual financial institutions, it will lead to a poor/weak bank-customer relationship and thus they won’t also be interested with their products either. This was also pointed out by Panda (2003) who observed that in most cases, the success of a service provider is dependent on the high quality relationships with customers.

4.3.4: Frequency of coming up with new mortgage products

The researcher wanted to find out the frequency (in terms of duration in years) with which the several mortgage financiers interviewed came up with new mortgage products for their customers. The results are as shown in table 4.10
Table 4.10: Frequency of mortgage products innovation

<table>
<thead>
<tr>
<th>Duration (years)</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yearly</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>After 2 years</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Others</td>
<td>36</td>
<td>72</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data (2012)

Figure 4.8: Frequency of mortgage products innovation
Source, Author (2017)

Of the total respondents, 72% indicated that they didn’t strictly observe any time limits as to when to come up with new products. However, these respondents were quick to add that their frequency of introducing new mortgage products in the market was determined by the market demands with some specifying that some products were shaped to suit some specific customers’ needs. Moreover, it is in line with Walley (2011) who cited that understanding customers’ specific needs and ensuring that they are being offered compelling and timely propositions is fundamental to the growth of the mortgage market. A smaller portion of the respondents (28%)
indicated that they had timelines of when they introduced new mortgage products with 24% & 4% for yearly & bi-yearly respectively.

4.4: Effect of the regulatory environment on the growth of mortgage market in Kenya.

The responses from this section were meant to help the researcher determine whether the regulatory environment had had an impact on the growth of the mortgage market in Kenya.

4.4.1: Rating the impact of government participation in the growth of the mortgage market.

The questionnaire required the respondents to express their views in regard to whether the government/industry regulator had a significant influence on the trend of the mortgage market with regards to its growth and give a rating to that effect. 100% of the respondents agreed that the industry regulatory environment had an impact on the growth of the mortgage market but gave different ratings as shown in table 4.11

**Table 4.11: Distribution by rate of impact**

<table>
<thead>
<tr>
<th>Rate of impact</th>
<th>frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td>High</td>
<td>25</td>
<td>50</td>
</tr>
<tr>
<td>Average</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Low</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Very low</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Field Data (2017)
Based on the findings 50% of respondents expressed their opinion in that government participation affected the growth of the mortgage industry with 36% rating it as very high. 14% rated it as average with only 4% of the respondents terming it as low. Overall, this concludes that any decision and action taken by the industry regulator/government with regards to the banking sector has a direct implication on the development of the mortgage market.

4.4.2: Type of property mainly accepted as collateral for a mortgage loan

The researcher wanted to enquire on the acceptable securities used as a collateral for mortgage loan. The study’s findings were as follows:

Table 4.12: Property accepted as collateral

<table>
<thead>
<tr>
<th>Type of property</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The house itself</td>
<td>22</td>
<td>44</td>
</tr>
<tr>
<td>Land</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>Commercial buildings</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Others</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data (2017)
The results in table 1.12, most respondents as indicated by 44% accepted the house with which the customer sought to buy as the main collateral. Some of the respondents added that they were in liaison with various real estate firms in a bid to expand their clientele. 32% of the respondents reported that the main type of property accepted as collateral by their firms was land; however they indicated that this had to go through a thorough authentication process before accepting the title deed. Few respondents comprising of 8% did accept commercial buildings with 16% indicating that they accepted any property with which the proceeds of the mortgage loan were meant for e.g. rental houses.

4.5: Impact of housing demand on the growth of mortgage market

The responses from this section were to help the researcher in establishing the influence of housing demand on the development of the mortgage market in Kenya.
4.5.1: Effect of housing demand on the growth of mortgage market in Kenya

All the questionnaires issued required the respondent to express their opinion on the extent to which housing demand affected the growth of the mortgage market. 100% of the respondents agreed that housing demand had an impact on the growth of the mortgage market but they differed on the extent of impact as shown in the table 4.13

Table 4.13: Impact of housing demand

<table>
<thead>
<tr>
<th>Extent of impact</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very large</td>
<td>23</td>
<td>46</td>
</tr>
<tr>
<td>Large</td>
<td>19</td>
<td>38</td>
</tr>
<tr>
<td>Moderate</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Little</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data (2017)

Table 4.14: Impact of housing demand

Source, Author (2017)
Of the total respondents, 46% indicated that the extent of the impact of housing demand was very large. 38% were in favour of large with smaller proportions of 14% and 2% settling for moderate and little respectively. In perspective, this means that housing demand is a great stimulator of the growth of mortgage market in Kenya.

4.5.2: Limited housing Affordability as a hindrance to the growth of mortgage market.

The researcher wanted to enquire on the extent of acceptance as to whether limited housing affordability is a hindrance to the growth of the mortgage market in Kenya.

<table>
<thead>
<tr>
<th>Degree of acceptance</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>24</td>
<td>48</td>
</tr>
<tr>
<td>Agree</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Neutral</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data (2017)
The results in table 4.11 indicate that most respondents represented by 76% agreed that limited housing affordability is a hindrance to the growth of the mortgage market and few respondents representing 20% and 4% were neutral and in disagreement respectively. This shows that the slow rate of economic growth experienced in the recent past has left a large portion of the population with a low per capita income which has acted as a huge constraint in terms of accessing financial resources (in this case mortgage loans) which in turn limits their ability to afford decent housing.

4.5.3: Relationship between housing demand and housing supply.

The study sought to establish how housing demand related to housing supply. The results indicate that most of respondents indicated there is a direct relationship between the two. These constituted 44% of the total respondents. A sizeable proportion of 36% opined in favour of an indirect relationship with a small number comprising of 20% remaining none committal at to
what type actually exists between the two. They termed the relationship as indefinite which keeps on varying from time to time as demand and supply are the 2 forces that do dictate the trend, current state and direction of any market. However, this is against the backdrop that 100% of the respondents did agree that there is a relationship between housing demand and supply. The results were analysed and can be presented as follows:

![Figure 4.12: Nature of relationship](image)

Source, Author (2017)

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses the research findings, conclusion and recommendations of the study. It also provides suggestions for the further research. The study had sought to explore the factors affecting growth of mortgage market in Kenya. The strategic objectives were to examine influence of competition among the mortgage institutions to determine whether regulatory
environment have an impact of housing demand on the growth of the mortgage market in Kenya.
The results of the study are presented and discussed in the proceeding sections.

5.1 Summary of findings

5.1.1 Competition among mortgage institutions
The study sought to examine the effects of competition among the institutions on Kenya. According to the findings, competition is a significant factoring the growth of the mortgage market as alluded to by most respondents (see tables 4.5 and 4.6). Competition is often assessed by the extent of market power that firms exercise (Assefa et al., 2010) and as established by the study, the strongest competition is yielded by the locally owned banks (see figure 4.6) who seemed to have already gained public confidence going by the large number of mortgage loans already issued by them in the last 5 years as per the CBK statistics (2010). The study additionally established that commercial banks and other mortgage institutions had already adopted various competitive strategies as a way of retaining the existing customers and attracting new ones (see table 4.7). Three competitive strategies were put forth by the study and among them service quality emerged the most effective strategy to ensure a firm attracts and retains a large pool of clientele.

More specific, the measurement items of service quality were identified as personnel efficiency and conduct, speed and quality at service, consistency in keeping promises, understanding, patience and help among others. Generally, it is clear that most customers opt to get mortgage from banks that have friendly images and shows that it cares about customers’ needs and wants (Soureli et al., 2006). All institutions reported that from time to time they usually came up with new innovative mortgage products as a way of wading off the staff competition in the market.
(see table 4.8 and figure 4.7) with some banks lowering mortgage associated costs in order to increase accessibility of loans to low income earners.

5.1.2 Regulatory environment

The study sought to determine whether the regulatory environment have an impact in the growth of the markets in Kenya. From the findings a higher rating was given by the respondents with regard to the influence of the industry regulator on the growth of the mortgage market (see table 4.9). This establishes that the government plays a significant role of regulating, licensing and supervising lenders though the CBK. For instance in 2010 the CBK made a clear proposal of empowering all commercial banks to extend more credit to the real estate sector. The Government was in agreement with this proposal which led to the enactment of the Banking Act that came to the effect on January 2011. This Act had two proposition namely the part that allowed finance companies to operate on current account which enhanced more deposits by customers and the other part allowed banks to advance to customers up to 40% of their aggregated deposit liability p from 25% for purchase.

These strategies were meant to avail the industry's availing funding required to finance the development of real estate. With these amendments in place the study found out that HFCK launched its current account 20th March 2012, an initiative meant to facilitate attraction at large amounts of low cost customer deposits that would in turn allow the institution to increase its lending capacity and expand operations to meet the growing demand for housing.

On the question of how regulatory policy affects mortgage growth in Kenya, the study found out that to some extent it affects demand for credit owing to caps on say interest rates whereby high interest rates makes the mortgages expensive hence unattractive to the customers; others include
taxation relief on borrowers among others. More so, the regulators in ability to influence long term policy framework outlook have made mortgage liabilities to be short term forcing lenders to rely on expensive short term funds thus making mortgage loans expensive as high fluctuation on cost /interest rates makes it difficult for customers.

As a way of mitigating this, the Government of Kenya tried to regulate the trade carried out in this industry through regulating of the interest rates despite the fact that there existed interest rates variations. This was achieved by putting boundaries where the interest rates oscillated below or above which the interest rates were not allowed to move to. In particular the interest rates associated around 13%-17% (Kanyanja, 2010). According to the CBK statistics (2010), the weighted average mortgage interest rate reported by the institutions was 14.07% in 2010 which compared favorably to the average lending rate of 14.64%. Variations in interest rates come about as a result of factors such as level of economic performance, level of inflation, bargaining power of the mortgagee and also the level of default risk as assessed by the mortgagee to the mortgagor. Additionally, the study found out the banks and other mortgage institutions accepted various types of property as collateral such as the home itself, land, commercial buildings among others (see table 4.10 & associated pie chart). Some banks however specified that they required both personal guarantees and mortgage lien with others noting that the first legal charge and personal guarantees were sufficient for collateral purposes. On the purpose of mortgage loans, a majority of banks indicated that they offer mortgage financing for house purchase, construction and refinancing purposes in addition to a wider range at financing possibilities.

Strong property rights, the ability to use land and property as collateral is the basis for a strong collateral lending system. However, title registration in Kenya was found to be slow, expensive, unreliable and prone to fraud with many fake documents circulating, (Walley, 2011). This is an
area that the G.O.K. needs to implement reforms especially now that the country is in a new constitutional dispensation.

5.1.3 Housing demand
The study sought to assess the effect of housing demand on the growth of the mortgage market in Kenya. As indicated by the findings (see table 4.11 and associated bar chart), housing demand does affect the growth of the mortgage market to a very large extent. According to the KNBS (2010) the estimated population of Kenya in 2010 was 40.9 million inhabitants having grown rapidly from just 6 million in 1950 and is forecasted to reach 85 million by 2050. This represents a compound annual growth rate of 2.7% which means that demand/need for housing is likely to increase to new heights as time goes by. As a result of this rapid population growth in Kenya, there is a high rate of rural-urban migration which means that extra urban housing is required to accommodate the internal immigrants. The GOK, through the Ministry of Housing, has estimated a housing need of is 150,000 dwellings per year in Kenya’s urban areas but it is not clear what assumptions underlie these estimates.

The study also found out that limited housing affordability is a hindrance to the growth of the mortgage market in Kenya as indicated by the respondents (see table 4.12).

The study was able to establish that indeed there is a relationship between demand and supply. Although there was a sharp contrast in opinion as to what type of relationship exists, the findings show that a direct relationship is the current state in the mortgage market (see figure 4.12). This means that the increasing demand for housing has stimulated a resultant increase in housing supply e.g. from the resurgence of real estate firms, although both increases are not at the same rate with that of housing supply being termed as lower than that of housing demand.
5.2. Conclusion

According to the study, there is evidence of formidable growth of the mortgage market in the recent past (5 years). This has stemmed out from the fact that there have new entrants in the market who have found a window of opportunity to invest in this sector, thus providing significant competition to the already existing industry players. The presence of new entrants and other potential ones signify growth in the industry. Three competitive practices were identified by the study namely innovative mortgage products, lowering costs to improve accessibility of mortgage loans to low income earners and service quality (strengthening bank-customer relationship).

The research was conducted on a premise that there were no mortgage facilities for low income earners as costs had proved to be too high for them to access such facilities. However, on the contrary, the study revealed that such facilities did indeed exist only that the beneficiaries were not aware of such incentives. The respondent s ranked this competitive practice as being less superior to the other two (see table 4.7) as this category of the Kenyan population was termed as ignorant of the existence of such facilities; majority of the customers shy away from taking mortgages as they lack the right information while others don’t even bother to make enquires on the same. However, on their part, the same financial institutions intimated that they hadn’t set aside adequate time for promotion plans to increase awareness on the availability of such products to the would-be beneficiaries. Similarly, banks should try to design the right mortgage loans which best suit customer needs with respect to repayment terms, interest and service charges. Results based on past study indicate that service quality continues to be a key customers’ choice criterion in determining a relationship in long term relationship with banks with the loan. In fact,
service quality remains key to gaining competitive advantage (as shown in table 4.7) where it was ranked as the most superior of the three competitive practices. Bank need to have customer relationship the central focus in all their undertakings since it is of most importance to customers who search for mortgage loan providers, therefore banks need to have strategy for themselves in order to direct their resources at offering lower cost and less risk while promoting the market share and increasing profitability. A bank should ensure high service quality in order to confront high competition in order to keep and maintain customers and enhancing long term relationship. Both lender and borrower are contented that the legal framework in place is adequate. But there is complexity in that there is challenge when a lender tries to enforce collateral in case of default from the customer the customers rushes to the court to challenge the matter, this cause the whole processes long and expensive and this burs the legality and the effectiveness of the legal framework in place.

In summary, the following factors were found to affect the overall growth of the mortgage market: high costs of construction and land (property/collateral), justice administration (very slow and expensive), stringent and rigid land laws, low per capita income of a larger portion of the citizens, fluctuating interest rates (high cost of borrowing), rising cost of living and inflation, insecurity concerns, etc.

5.3 Recommendations

This study aimed at identifying the factors that do affect the growth of the mortgage market in Kenya. However, despite the fact that there has been growth in the mortgage industry in the last five years, the Kenyan mortgage industry is still insignificant by international standards as the loans portfolio remains small, (CBK, 2010). Therefore, Government need to device strategies for
ensuring continued growth in the industry of mortgage and as such, this study gives the following recommendations (among many others) to that effect:

Since service quality has proved to be the most important choice criterion for bank selection, The management need to come up with better and appropriate remedies by specializing on a specific service that is characterized by quality by choosing a target market segment. During recruitment emphasis should be placed on competency and customer service quality of the target individuals and the management should ensure staff development though training of employees in order to enhance their capacities and capabilities and enhancing interpersonal communication skills.

Kenya Government is working on how to reduce the cost of financing services in the country through CBK. Creativity and innovation is key in modifying the products as an effort of reducing the cost in financial services. All mortgage lending institutions are therefore encouraged to roll out agent banking services with a countrywide outreach/network.

Researchers need to come up with innovative techniques of securing finances to exploit opportunities. For example pension funds is important for serving as a security. Currently Kenya as a country has made some miles a head but it is still lagging behind.

Finance through public mortgage institutions provide loans at an interest rate relatively lower than the market rate by use of funds from budget allocation and captive savings in the public sector. Examples are among others reserves of insurance institutions and pension funds. This will act as a guarantee scheme and has increased the capacity of the mortgage institutions to provide enough loans to individual who rely on their own savings and informal loans from friends and relatives.
There are so many issues in Kenya that ought to be addresses. Among the issues are the review of the legal framework in connection to the property registration and titles. Asset/liability mismatch is another concern and this will affect the lenders ability to meet their obligation.

5.4 Areas for further studies

The study concentrated its research on the factors influencing the growth of the mortgage market in Kenya as specified by the objectives. However, during the carrying out of the research, the researcher found other researable areas in the same field to include:

Factors influencing mortgage pricing by mortgage institutions in Kenya and the effects of macro-economic variables on the growth of the mortgage market in Kenya.
REFERENCES


APPENDIX ONE: LETTER OF INTRODUCTION

Pauline Wairimu Kinuthia
P O Box 29937 00100
Nairobi

19/10/2017

The Senate Committee
Management University of Africa

Dear Sir

RE: INTRODUCTION
I hereby write to you to introduce myself. My name is Pauline Wairimu Kinuthia, I am ODEL student registration no ODL-BML/1/00213/5/2015. I am studying for a Degree course in Business Management and Leadership.
I hereby send my research proposal for your perusal and guidance.

Yours Faithfully

Pauline W Kinuthia.
APPENDIX TWO: QUESTIONAIRE

The information you give will be used strictly for academic purposes only and it will be treated with absolute confidentiality.

Instructions

Tick where appropriate

SECTION A: GENERAL INFORMATION

Please indicate your gender

Male (   )    Female (   )

a) Level of management

Top level management (   )

Middle level management (   )

Operational level management (   )

b) What is your designation……………………………………………………………………………………………………

1. What is your highest qualification achieved

   Diploma (   )    Degree (   )

   Masters (   )

   Others (please specify)……………………

2. What is your working experience in the banking industry (years served)

   0-5 (   )    6-10 (   )    11-15 (   )    over 15 (   )

3. a) Has the mortgage industry in Kenya had any formidable growth in the recent past?

   Yes (   )    No (   )

54
b) If yes, how do you rate such growth?

Very high ( )  high ( )  moderate ( )  low ( )  very low ( )

SECTION B:

Effect of competition among mortgage institutions on the growth of mortgage market in Kenya

a) Do you face significant competition from other mortgage providers in the country?

Yes ( )  No ( )

b) If yes, to what extent

Very large ( )  large ( )  moderate ( )  little ( )

c) Who is your institution's most potential competitor?

Local banks ( )  foreign banks ( )  micro-finance institutions ( )

4. Increased competition among the mortgage institutions has influenced the growth of the mortgage market.

Strongly agree ( )  agree ( )  neutral ( )  disagree ( )  strongly disagree ( )

5. Has your institution adopted any competitive strategy in the last 5 years?

Yes ( )  No ( )

6. With regards to your institution, how would you rate/rank the following competitive strategies in order of superiority? (use the key shown below the table)
<table>
<thead>
<tr>
<th>Strategy</th>
<th>Level of superiority</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Innovative mortgage products</td>
<td></td>
</tr>
<tr>
<td>Lowering costs to increase accessibility of loans to low income earners</td>
<td></td>
</tr>
<tr>
<td>Service quality- strengthening bank-customer relationship</td>
<td></td>
</tr>
</tbody>
</table>

1. Most superior  2. Superior  3. Least superior

7. How often does your institution come up with new mortgage products?

Yearly (  )  after 2 years (  )

SECTION C: Impact of regulatory environment on the growth of mortgage market in Kenya

a) Does the industry regulatory environment have an impact on mortgage growth in Kenya?
Yes (  )  No (  )

b) How could you rate the impact of government participation in the growth of the mortgage market in Kenya?
Very high (  )  high (  )  average (  )  low (  )  Very low (  )

c) To what extent does a regulatory policy affect mortgage growth in Kenya? (Explain)

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

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

8. What type of property does your institution MAINLY accept as collateral?
The house itself ( ), land ( ), commercial buildings ( )

Others (please specify) ………………………………………………….

SECTION D: Impact of housing demand on the growth of mortgage market

a) In your opinion, does housing demand affect the growth of mortgage market in Kenya?

Yes ( )  No ( )

b) If yes, to what extent

Very large ( ), large ( ), moderate ( ), little ( )

9. Limited housing affordability is a hindrance to the growth of the mortgage market in Kenya.

Strongly agree ( ), agree ( ), neutral ( ), disagree ( ), strongly disagree ( )

10. a) Do you think there is a relationship between housing demand and housing supply?

Yes ( )  No ( )

b) If yes, what is the nature of the relationship?

Direct ( ), indirect ( ), it’s not definite (keeps on varying) ( )

11. What other factors (if any) do you think affect the overall growth of the mortgage market in Kenya?

i) ……………………………………………………………………………………………………………………

ii) …………………………………………………………………………………………………………………
iii) ………………………………………………………………………………………………………..

Thank you for your co-operation
### APPENDIX THREE: MORTGAGE FINANCE IN KENYA

<table>
<thead>
<tr>
<th>Name of the Bank</th>
<th>Bank Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 KCB</td>
<td>Large</td>
</tr>
<tr>
<td>2 HFCK</td>
<td>Large</td>
</tr>
<tr>
<td>3 CFC Stanbic</td>
<td>Large</td>
</tr>
<tr>
<td>4 Standard Chartered</td>
<td>Large</td>
</tr>
<tr>
<td>5 Barclays Bank</td>
<td>Large</td>
</tr>
<tr>
<td>6 Commercial Bank of Africa</td>
<td>Large</td>
</tr>
<tr>
<td>7 I &amp; M Bank</td>
<td>Large</td>
</tr>
<tr>
<td>8 Equity Bank</td>
<td>Large</td>
</tr>
<tr>
<td>9 National Bank of Kenya</td>
<td>Large</td>
</tr>
<tr>
<td>10 Diamond Trust Bank</td>
<td>Large</td>
</tr>
<tr>
<td>11 NIC Bank</td>
<td>Large</td>
</tr>
<tr>
<td>12 Bank of India</td>
<td>Large</td>
</tr>
<tr>
<td>13 Co-operative Bank of Kenya</td>
<td>Large</td>
</tr>
<tr>
<td>14 Prime Bank</td>
<td>Large</td>
</tr>
<tr>
<td>15 Imperial Bank</td>
<td>Large</td>
</tr>
<tr>
<td>16 Bank of Africa</td>
<td>Large</td>
</tr>
<tr>
<td>17 Bank of Baroda</td>
<td>Large</td>
</tr>
<tr>
<td>18 Development Bank</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>Bank Name</td>
</tr>
<tr>
<td>---</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>19</td>
<td>Consolidated Bank of Kenya</td>
</tr>
<tr>
<td>20</td>
<td>Family Bank</td>
</tr>
<tr>
<td>21</td>
<td>Victoria Commercial Bank</td>
</tr>
<tr>
<td>22</td>
<td>Chase Bank</td>
</tr>
<tr>
<td>23</td>
<td>Fidelity Commercial Bank</td>
</tr>
<tr>
<td>24</td>
<td>African Banking Corp</td>
</tr>
<tr>
<td>25</td>
<td>Giro Bank</td>
</tr>
<tr>
<td>26</td>
<td>Eco Bank</td>
</tr>
<tr>
<td>27</td>
<td>Guardian Bank</td>
</tr>
<tr>
<td>28</td>
<td>First Community Bank</td>
</tr>
</tbody>
</table>