FACTORS AFFECTING DEMAND FOR MORTGAGE LOANS IN KENYA: A
CASE OF I&M BANK LIMITED, KENYA

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REQUIREMENT FOR THE AWARD OF THE DEGREE OF EXECUTIVE
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UNIVERSITY OF AFRICA

OCTOBER, 2017
DECLARATION
This research is my original work and has not been presented for a degree in any other University

Signature: ………………………….. Date: ………………………
Mitei Lorna Chepkemoi
EMBA/00013/1/2013

This research paper has been submitted for examination with my approval as University Supervisor

Signature: ………………………………… Date: ………………………
Leonard Wambua, PhD
The Management University of Africa
DEDICATION

First, I'm thankful to God Almighty in heaven for granting me the potency to pursue this instructional adventure. It is through His everlasting mercies and style that I’ve managed to pursue this course. I am equally grateful to my family for their patience, sacrifice and their support accorded to me during this time. I express gratitude to my classmates and friends for their unwavering support, advice, and positive criticisms. I will be forever indebted to my lecturers for unending support and assistance during coursework which was the foundation for this task. Finally, I am deeply impressed by the support, assistance and cooperation from the Management University of Africa fraternity. God bless you all.
ABSTRACT

Kenya’s mortgage market has undergone through a remarkable development in the preceding ten years. However, the quantity of mortgage in the banking industry is still very low. While there is considerably good number of lenders in the market, the demand for mortgage loans is still relatively low. This research study is aimed at assessing the factors affecting demand for mortgage loans in Kenya with a focus on I&M Bank (K) Limited. The intentions of the research were to evaluate the effect of interest rates on demand for mortgage loans in Kenya; to determine the effect of income level on eligibility for a mortgage loan in Kenya; to find out effects of land constraints in Kenya on demand for mortgage loans; to investigate the effects of Kenyan regulatory framework on demand for mortgage loans. To realize its objectives, a descriptive approach was espoused. Core populace included 300 respondents drawn from corporate customers, SME customers and retail customers of I&M Bank in Nairobi. Probability technique of selecting a sample was employed where a sample of one hundred was regarded appropriate which included 20 corporate customers, 30 Small Medium Enterprises (SME), and 50 Retail customers. Data collection utilized structured questions (for retail customers) and interviews with the corporate customers as well as Small Medium Enterprises as they are few in number. Pilot study was performed as a trial for soundness and dependability of the questionnaire. Data analysis involved descriptive statistical approach where descriptive arithmetical aspects assisted in illustrating the statistics obtained. The results were submitted in form of frequency tabular and pie charts. This study is deemed vital to I&M Bank, other financial institutions, industry regulators, Government of Kenya and the general public. The study found that income level affects one’s ability to access a mortgage facility; interest rates affect demand for mortgage loans. Land constraint was not a major factor on demand for mortgage loans. However, the challenges in land ownership as well as irregularities in allocation of land have had an impact in home ownership. Regulatory frameworks have negatively impacted demand for mortgage loans and therefore home ownership. The study recommends that mortgage firms should also increase more products with long term financing incorporated. Land registration system should be streamlined to enable the potential home ownership decision to acquire a mortgage from the mortgage institutions. The financial institutions should consider designing loan products to tap to middle income developments which are a huge potential since they are highly untapped.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>DECLARATION</td>
<td>ii</td>
</tr>
<tr>
<td>DEDICATION</td>
<td>iii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>iv</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>viii</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>ix</td>
</tr>
<tr>
<td>ACRONYMS AND ABBREVIATIONS</td>
<td>x</td>
</tr>
<tr>
<td>OPERATIONAL DEFINITION OF TERMS</td>
<td>xi</td>
</tr>
<tr>
<td>CHAPTER ONE</td>
<td>1</td>
</tr>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>1.0 Introduction</td>
<td>1</td>
</tr>
<tr>
<td>1.1 Background</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Statement of the Problem</td>
<td>6</td>
</tr>
<tr>
<td>1.3 Objectives</td>
<td>7</td>
</tr>
<tr>
<td>1.4 Research Questions</td>
<td>8</td>
</tr>
<tr>
<td>1.5 Significance of the Study</td>
<td>8</td>
</tr>
<tr>
<td>1.6 Scope</td>
<td>9</td>
</tr>
<tr>
<td>1.7 Chapter Summary</td>
<td>9</td>
</tr>
<tr>
<td>CHAPTER TWO</td>
<td>10</td>
</tr>
<tr>
<td>LITERATURE REVIEW</td>
<td>10</td>
</tr>
<tr>
<td>2.0 Introduction</td>
<td>10</td>
</tr>
<tr>
<td>2.1 Theoretical Literature Review</td>
<td>10</td>
</tr>
<tr>
<td>2.2 Empirical Literature Review</td>
<td>14</td>
</tr>
<tr>
<td>2.3 Summary and Research Gaps</td>
<td>24</td>
</tr>
<tr>
<td>2.4 Conceptual Framework</td>
<td>25</td>
</tr>
<tr>
<td>2.5 Operationalization of Variables</td>
<td>26</td>
</tr>
</tbody>
</table>
CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

3.1 Research Design

3.2 Target Population

3.3 Sample and Sampling Technique

3.4 Instruments

3.5 Pilot Study

3.6 Data Collection Procedure

3.7 Data Analysis and Presentation

3.8 Ethical Considerations

3.9 Chapter Summary

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.0 Introduction

4.1 Presentation of the Research Findings

4.2 Limitations of the Study

4.3 Chapter Summary

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

5.1 Summary of the Findings

5.2 Recommendations

5.3 Conclusions
REFERENCES..............................................................................................................................50

APPENDICES................................................................................................................................. Error! Bookmark not defined.

Appendix I: Research Supervision Allocation Form ... Error! Bookmark not defined.
Appendix II: Marking Scheme for Complete Research Project Error! Bookmark not defined.
Appendix III: Research Supervision Progress Form ... Error! Bookmark not defined.
Appendix IV: Questionnaire .................................................................................................................. 57
LIST OF TABLES

Table 3.1: Target Population ........................................................................................................... 29
Table 3.2: Sample Size .................................................................................................................... 29
Table 4.1: Response Rate ............................................................................................................... 33
Table 4.2: Customer Category ...................................................................................................... 34
Table 4.3: Gender Composition ..................................................................................................... 35
Table 4.4: Respondents Age .......................................................................................................... 35
Table 4.5: Extent of Impact of Interest rates on Demand for Mortgage Loans ....................... 38
Table 4.6: Extent of Impact of Income Level on Accessibility to Mortgage Loan ............... 40
Table 4.7: Extent of land constraints on accessibility to a mortgage loan ......................... 42
Table 4.8: Extent of Regulatory Framework on Accessibility to Mortgage Loans .......... 45
LIST OF FIGURES

Figure 2.1: Conceptual Framework ................................................................. 25
Figure 4.1: Banking Experience ................................................................. 36
Figure 4.2: Education Level ........................................................................ 37
Figure 4.3: Effects of Interest Rates on Demand for Mortgage Loans ............ 38
Figure 4.4: Effects of one’s Income on Accessibility to Mortgage Loans ........... 40
Figure 4.5: Effects of Land Constraints on Demand for Mortgage Loans ........... 41
Figure 4.6: Effects of Kenya’s Regulatory Framework on Demand of Mortgage ..... 44
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCR</td>
<td>Banque Commerciale du Rwanda</td>
</tr>
<tr>
<td>BHF</td>
<td>Barliner Handels-und Frankfurter Bank</td>
</tr>
<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
</tr>
<tr>
<td>DEG</td>
<td>German Investment and Development Corporation</td>
</tr>
<tr>
<td>EMBA</td>
<td>Executive Masters in Business Administration</td>
</tr>
<tr>
<td>FMO</td>
<td>Netherlands Development Finance Company</td>
</tr>
<tr>
<td>HSBC</td>
<td>Hong Kong and Shanghai Banking Corporation</td>
</tr>
<tr>
<td>I&amp;M Bank Ltd</td>
<td>Formerly Investment &amp; Mortgages Bank</td>
</tr>
<tr>
<td>MFIs</td>
<td>Micro Financial Institutions</td>
</tr>
<tr>
<td>MUA</td>
<td>Management University of Africa</td>
</tr>
<tr>
<td>NSE</td>
<td>Nairobi Stock Exchange</td>
</tr>
<tr>
<td>PROPARCO</td>
<td>Promotion and Participation for Economic Cooperation</td>
</tr>
<tr>
<td>SACCOs</td>
<td>Savings and Credit Cooperative Societies</td>
</tr>
<tr>
<td>SME</td>
<td>Small Medium Enterprises</td>
</tr>
<tr>
<td>UBS</td>
<td>Union Bank of Switzerland</td>
</tr>
<tr>
<td>GOK</td>
<td>Government of Kenya</td>
</tr>
</tbody>
</table>
OPERATIONAL DEFINITION OF TERMS

**Income Level:** It is the persons or family’s status of surviving in an efficient financial situation in relation to a given reference category of persons or families.

**Interest Rate:** The amount that is charged over and above the borrowed funds.

**Liquidity:** It comprises of the actual or available financial resources that an Organization has and which can be used to fund various investments options and opportunities.

**Mortgage:** A mortgage is a loan or credit facility usually secured by property offered by financial institutions to its customers to buy the property for purpose.

**Real Estate Property:** Any property that is attached directly to land, as well as the land itself.
CHAPTER ONE

INTRODUCTION

1.0 Introduction

Here, the introductory chapter to this study on the factors affecting demand for mortgage loans in Kenya is provided. Accordingly, the chapter provides the background information regarding demand for mortgage, the research problem, the research objectives, research questions and limitations faced in carrying out the research as well as the research coverage.

1.1 Background

A mortgage defined as a debt instrument, secured by the collateral that the borrower is obliged to pay back with a predetermined set of payments. According to Loic and Lea (2007), the benefits associated with mortgage financing include improving the operation of the housing market and the economy in a number of ways, both directly by facilitating transactions and indirectly by improving the environment in which transactions take place. Mortgages can provide good collateral. Mortgages are usually the lowest-cost way for households to finance general borrowing for consumption, non-housing investment, or business formation. Mortgages are used by individuals and businesses to make large real estate purchases without paying the entire value of the purchase up front.

As mortgage markets deepen, there are greater opportunities for households to access this wealth. In particular, the ability to refinance allows families to spend the capital gains realized on rapid house-price increases. Furthermore, Mortgage finance makes it possible for people to acquire affordable housing as they have the option to own their homes and pay for them in affordable installments over time (Kibirige, 2006). The
mortgage finance sector creates employment directly and indirectly particularly to the construction industry and indirectly to other sectors (Kibirige, 2006).

Financial institutions play a crucial role in the financing of real estate through mortgage financing. They lend for the purchase of land for development and existing buildings; they finance construction projects; they lend to non-bank and they finance companies that they may finance real estate; and they lend to non-financial firms based on real estate collateral (David & Zhu, 2004; Fang & Jie, 2008). A critical factor in the housing policy framework is the provision of low cost housing. However, as concerns are raised regarding the availability of low cost housing by local developers, investors as well as households concerns themselves with availability of finance to purchase these homes.

The background of the study focuses on the housing sector in Kenya, the profile of I and M bank and brief discussions of the variables of study. The background gives a brief status of the housing sector in the country, problems affecting the industry, efforts made by various stakeholders to boost the real estate market and possible solutions to increase home ownership.

1.1.1 Housing Sector in Kenya

The housing sector is so important in economy that its demand for credit is secondary only to Government. All over the world, housing constitutes the most important investment of individual households. This is followed by investment in motor vehicles, cookers, refrigerators, and washing machines. It is these activities in these areas which tend to fuel the economy of every nation. Reasonably priced accommodation is still one of the most significant basic need for advancing economic augmentation and progress in any nation. Accordingly, the housing sector is the bedrock of the economy of industrialized economies.
Home ownership is often seen as a gauge of family affluence and overall national output. This represents the conventional nature for household in a country catalogues its successful fiscal progress. The problem of housing arises from the growing urbanization. The rural-urban migration has greatly exacerbated the problem of housing in major cities. The urbanization that is taking place in Sub-Saharan Africa of which Kenya is part of provides a context for the provision of housing. An overview of housing challenges in Sub-Saharan Africa reveals that all countries, similar to many developing countries, face backlogs. African cities are experiencing some of the fastest rates of urbanization in the world. The most striking aspect of these urbanizing cities is the extent of informal development, which is occurring.

A research by Merrill and Tomlinson (2006) in Tanzania, indicated that when the public sector ceased housing construction, household were left with little choice but to move into unplanned settlements and undertake their own house construction. Nearly 98% of houses countrywide and 90% of houses in the urban areas are constructed incrementally. This situation remains today and is exacerbated by a 6% annual growth in urban population. UN-HABITAT (2009), asserted that the predicament facing housing development in most emerging economies in Africa was a consequence of the inability to adequately finance urban shelter, amidst a dire need and ever-increasing demand for housing.

According to the UN-HABITAT (2009) report, the average cost of a decent low-income family house in Ghana for instance is more than 10 times the average annual salary of most key workers: a situation that has had considerable implications for the desire of home ownership, and has consequently undermined growth of the housing sector. Following the same trend of urbanization, Nairobi records a yearly growth ranging between 8% and 10% percent, yet the housing stock is not increasing
significantly. Traditionally, housing finance used to come from specialized institutions such as building societies, and savings and loans associations. It is not just the urban poor that live in informal settlement, but also modest and middle-income households that are unable to access affordable housing.

Macharia (2013) used a descriptive research design in her study on the effects of global financial crisis on the financial performance of commercial banks offering mortgage finance in Kenya. In Kenya there are very few financial institutions lending money for housing. This has led to unavailability of sufficiently cheap funds to finance housing purchase and development. The shortage of loanable funds for the housing industry has led to unusually high interest rates on housing mortgages ranging from 17% to 24% per annum. Mortgage repayments tend to take 40-50 percent of one’s income. It is therefore not possible for many people to afford to own homes let alone service mortgages, (CBK, 2013).

World Bank, in its 2011 survey, approximated that about 11% of Kenyans populace get sufficient income to maintain a loan. This means that majority of moderately paid cannot meet the expense of a median loan essential to shop for an average house. The Government plays an effective role as an enabler, partner and catalyst in the house delivery process. Special efforts should be expended towards the facilitation of the private sector in their housing finance, production and construction roles. Low and middle income households should be assisted to access housing.

1.1.2 Profile of I&M Bank Limited

I&M Bank is a privately owned financial institution that enjoys a rich history in financial services. Commenced in 1974, it advanced from a network economic institution to a publicly listed key Kenyan regional financial institution providing a most of corporate and retail banking services. From June 2013, I&M shares became
publicly traded in the Nairobi bourse thru the acquisition of its whole shareholding by I&M Holdings Ltd, a publicly indexed organization. I&M is a dominant player inside the Kenyan market that has constantly shown development, and is revolutionary in sort and forms of products and services it provides to its customers.

Two of the main European development financial institutions Company of Promotion & Participation for Economic Cooperation (Proparco) and German Investment and Development Corporation (DEG) claim slightly more than ten percent of I&M Holdings. Similarly, I&M have a technical assist settlement with International Finance Corporation (IFC) for workforce education, product improvement and risk management. I&M further enjoy medium term foreign forex credit facilities from Proparco, DEG and Netherlands Development Finance Company (FMO) (Hass Consult Report, 2014).

The Bank’s global correspondent financial institutions include principal multinational banks along with Citibank, Hong Kong and Shanghai Banking Company (HSBC), Standard Chartered (StanChart Bank), Industrial Credit and Investment Corporation of India (ICICI), Standard Bank of South Africa, ABSA Bank, Barclays Bank, Commerz Bank, Union Bank of Switzerland (UBS) and Barliner Handels-und Frankfurter financial institution (BHF). I&M (Kenya) boasts of 33 branches countrywide and a workforce of a thousand personnel. I&M Bank’s global network includes Bank One Limited (Mauritius), I&M Bank Tanzania and Banque Commerciale du Rwanda (BCR).
1.2 Statement of the Problem

According to UN Report (2011), housing is among the key basic needs for human continued existence and advancement. The supply of sufficient shelter that is secure, protected, reachable, reasonably priced and hygienic is a basic human right, as preserved in the United Nations Habitat Agenda on the global call on human settlements. Chapter four of Kenya’s constitution identifies housing as a mandatory required for its citizens. It further points that each of the Kenyan citizens should have access to financial manageable and sufficient house. The growth in the real estate sector in Kenya is impressive with mega projects all around, but mortgage market has a long way to go. Amidst all the positive growth, the mortgage market has about 20,000 mortgage accounts shared amongst all the banks in the industry. There is a need for a stable interest rate regime which financial analysts point out can only be when lenders stop relying on short term deposits (CBK, 2013).

Owing to the high cost of credit in local banks, majority of Kenyans have sought alternative financing options, including procuring loans from SACCOs and MFIs that offer lower interest rates and more flexible repayment plans. Availability of accessible houses for the population at the center and bottom of the pyramid (who account for 83%) is further impeded by the fact that 80 per cent of new house constructions are targeted at upper-middle and high-income groups. But even this income band is struggling with the high cost of mortgages. Kenya’s housing sector is so starved of credit that it features nowhere as a significant user of funds (Hass Consult Report, 2014).

In Kenya, some of the studies that have been carried out in relation to the interest rates and property prices include: Kolia (2013) investigated on the effects of interest rates on the property prices in Kenyan real estate. Muguchia (2012) on the other hand
tried to evaluate the effects of bank rate flexibility on development of Kenyan mortgage financing. Another study carried out by Murage (2013), tried to find out the effects of their fluctuations on performance of Kenya’s property industry. It can therefore be seen from the studies reviewed in the preceding discussions that the researchers failed to articulate how the constraints on the growth of real estate can be minimized or eradicated in order to provide Kenyans with affordable housing. Therefore, the focus of the inquiry was to investigate factors influencing the uptake of mortgages and offer possible solutions that can be employed to ease the current crisis. The organization of choice, I&M Bank Limited is significant in this study being a mid-tier Kenyan lender that has seen its mortgage lending book stagnate over the last few years.

1.3 Objectives

1.3.1 General Objective
The study sought to find out the factors affecting demand for mortgage loans in Kenya with reference to I&M Bank Limited, Nairobi, (Kenya)

1.3.2 Specific Objectives
This study tried:

(i) To evaluate the effect of interest rates on demand for mortgage loans in Kenya

(ii) To determine the effect of income level on eligibility for a mortgage loan in Kenya

(iii) To find out the effects of land constraints in Kenya on demand for mortgage loans

(iv) To investigate the effects of Kenyan regulatory framework on demand for mortgage loans
1.4 Research Questions

To achieve its objectives, the research questions were:

(i) What are the effects of interest rates on demand for mortgage loans in Kenya?
(ii) To investigate the impacts of income levels in Kenya on the demand for mortgage loans?
(iii) What are the outcomes of land constraints on stipulation of mortgage loans in Kenya?
(iv) To examine the effect of Kenyan regulatory framework on demand for mortgage loans?

1.5 Significance of the Study

1.5.1 I&M Bank Limited

The executives working with the Bank would benefit from this study by identifying suggested solutions that the respondents provide regarding access to mortgage loans in order to improve the Bank’s loan book and increase financial inclusion.

1.5.2 Other Financial Institutions

Other financial institutions would benefit from this study in matters relating to mortgage loans. Since it is a matter affecting the entire banking industry, some of the suggested techniques would greatly improve the performance of these institutions, increase customer satisfaction and loyalty.

1.5.3 Other Researchers

Scholars and researchers would benefit by finding ready information on mortgage loans and growth of the housing sector. This study would also help them to undertake further research to provide more information in the field.

1.5.4 Investors

The study would be important to the investors in the real estate sector and the policy makers involved therein for they would have deeper understanding on the policy areas
that require improvement or even come up with new strategies geared towards growth in real estate sector

### 1.5.5 Government of Kenya
GoK in its quest to provide affordable housing to her people would have ready information on areas of concern in order to fulfill its mandate.

### 1.5.6 General Public
The general public would greatly benefit from the information provided and would guide their decision in areas of investment in real estate sector.

### 1.6 Scope
The investigation was interested in establishing factors affecting demand for mortgage loans in Kenya. The researcher reckons that there are many other factors affecting the demand for mortgage loans in Kenya. For this study specific reference is to I&M Bank Limited, Nairobi.

### 1.7 Chapter Summary
The chapter discussed the setting, the research problem, the study questions, research objectives, importance of the findings, coverage as well as finally the anticipated restrictions.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

Literature review concentrates on evaluating relevant literature with an aim of acquainting the researcher with the study findings, problems and conclusions. The main purpose of the literature review is to set a fundamental conceptual framework that guides the discussion in this chapter. This part of the study draws from the work of other researchers who have also explored in this subject.

2.1 Theoretical Literature Review

A theoretical assessment refers to a group of interconnected principles and rules finely formulated in relation to a given concept. A theoretical evaluation directs studies, shaping what matters will be evaluated and what arithmetical associations one may focus on. Theoretical critiques are glaringly essential in deductive, theory-testing forms of research (Mbeke, 2008). In such forms of research, theoretical overview ought to be exceptionally particular and nicely spelt in overall. Particularly, theoretical opinions also are critical in investigative research, in which one genuinely does not discern a great deal of what’s happening, and are trying to discover further.

There are motives why theoretical review is crucial. First, regardless of how little one may think they already know regarding a subject, and the way independent one observed, its miles not possible for a person not to have predetermined accepted wisdom, though they may be of a totally preferred nature (Kaldor, 2006). As an illustration, a few human beings essentially agree with that humans are mainly indolent and deceitful, and one saves their understanding about safeguarding it from frauds.
2.1.1 The Supply and Demand Theory of Interest

There is a really robust inverse relationship between assets investment and interest rates in every financial system. A rise within the rate is probably going to dampen the demand and investment in the real estate asset sector. To know the link, it's helpful to evaluate the theories behind it. Rate of interest is set by interface of provider of and consumption of capital. This rate is set within a manner as cost for tangible products because the worth of trade goods is set by the forces of demand and provide. The equilibrium between demand for and provide of capital goes to work out rate of interest. Capital is demanded by the investors as a result of its productivity.

A firm or a producer demands capital as he desires to grow with production. One is ready to pay interest on the borrowed quantity as a result of he ultimately invests it on a number of the productive comes. One also pays interest in line with the trivial output of the principal investment (CBK, 2013). Marginal productivity is the addition to total production employing one more unit of the capital. If marginal productivity of a capital unit is more, demand for capital will also be greater and vice versa.

But marginal productivity of capital goes on diminishing with the increasing use of capital units. If there is a minimal rate of interest compared to the subsidiary commodity the borrower will demand more capital. He will continue to demand more and more capital so long as marginal productivity equal to rate of interest. If, on the other hand the interest exceeds margin of capital product then borrowers can reduce borrowing. This implies that there exist opposite correlations among demand for capital with rate of interest (Fisher, 2011).
2.1.2 Loanable Funds Theory of Interest Rates

The provision of capital depends on one’s volume of savings and bank loans. The total saving of an economy constitutes supply of capital level of savings depends mainly on two things willingness and ability to save. Saving involves sacrifice. The saving amount constitutes capital. Thus lending of capital involves sacrifice. Thus the capitalist must be paid sufficient reward to overcome his deprivation, given the level of income, the higher the interest rates the greater the provision of capital. The supply of capital will be less at lower rate of interest. Thus behaviour is experienced through the supply curve of capital, (Gary 2009).

The Loanable funds Model is grounded on the assertion that rates of interest are based on supply factors as well as the demand factors of resources available for credit in a given market. This theory states that the provision of loan funds is absolutely interrelated with interest charged while consumption demand for such funds is contrastingly correlated with the interests charged. This is a suggestion that the aspects of savings and investments resolve the extended tenure of rates of interest whereas short phase interest rates are determined by financial monetary conditions in the economy. Interest rate refers to the charges imposed on the credit given as a representation of the sum that debtors compensate for credit facilities and the amount that lending institutions gain on their reserves. These rates are determined by the stipulated need and the available sources of funds available for credit assurance (Gary 2009).

2.1.3 Anticipated Income Theory

The term anticipated income theory by Keynes’s means that the credit is repayable over the life of the credit out of the future earnings. The credit is granted against the security of salaries, stock etc it is always supported by an agreement between the loan issuer and the applicant that empowers the loan issuer to supervise the financial
transactions and activities of the borrower. Though there is no hypothecation, the real security lies in the loan agreement, which provides for financial and other conditions to be followed by the borrower. In fact the primary consideration in lending is the possibility of the future income of the borrower. Research evidence has shown that the ability to repay loans is greatly affected by personal characteristics of the borrowers as well as their willingness to repay (Scherer, 2000).

With regard to social status, a study carried by (Musinga, 1995) observed that women may be preferred to men as participants in micro credit programmes. This is because they are more reliable and easy to access by field works unlike men who may be involved in wage labour during the day. Also, women have been found to be more available than men for day time group meetings and visits to monitor loan use and repayments. On education and loan repayment, have demonstrated that education is linked to high levels of default. This is because literate persons are capable of evading repayment by taking advantage of loopholes in loan administration programs.

Research carried out in some developed and developing countries has also shown that the level of education may determine the extent of business growth and performance. This is because educated entrepreneurs are able to adjust to changing market conditions and enhance their ability to complete relevant loan forms. Also better education leads to better decision making and good business management which enhances business growth leading to better loan repayment. About income and wealth, available studies have pointed to the fact that repayment decreases with greater land ownership, (Wealth Scherer, 2000).

The available data on poor life quality indicate that there is a large metropolitan populace relying on a maximum Kshs.2 913 (US$34) for a month as compared to another population surviving on a maximum of Kshs. 1 562 (US$18.41) per month in
the rural areas. Indeed, 22.0% of the Capital City (Nairobians) survives on Kshs.2 913 (US$34) for a month, while 54.5% of the people in Kisii Town also survive on less than Kshs.2 913 (US$34) for a month. According to World Bank approximations, barely 11% of Kenyans receive sufficient income to maintain a mortgage.

This implies that majority of the middle income earners cannot manage to pay for a normal mortgage essential to procure a common home. Middle pay earners comprise of people with monthly pay ranging from Kshs.23,671.00 (US$ 264.00) to Kshs.112,717.00 (US$ 1,259.00). Accordingly, CBK (2013) argues that these monthly incomes are quite minimal to guarantee a standard mortgage of Kshs.6.9 million (US$ 77 100) since a 16.37% interest on loan spread for a period of two decades would need approximately US$1,094.00 per month whose corresponding monthly salary is US$3,282.00 (CBK, 2013).

2.2 Empirical Literature Review

According to Nabutola (2004), by its nature, housing in Kenya represents major investment requiring substantial capital outlay. In the majority of housing projects, the developer whether as a corporate or an individual has to borrow. The main constraints to affordable housing in the urban areas are: Land, finance, building materials and regulatory framework. For someone to qualify for a mortgage finance the criteria considered involves high eligibility criteria, proof of adequate and dependable income, requirement for provision of marketable satisfactory collateral with proof of ownership, predetermined payment periods and amounts. Moreover, existing mortgage finance institutions require lengthy and complicated loan procedures, which impose demands on the poor who can neither spare the time nor comprehend some of the issues.
Despite Kenya having a vibrant mortgage business that records rapid growth and progressively more aggressive, high rates of interest charged on this credit facility challenge the manageability even for reasonably valued havens. For example, a house mortgage worth $13,000 (Sh1.13 million), would further demand a monthly earning of $677 (KShs.57,830.00), with a 10% first installment spread over 20 years at an interest rate of 19.0% (Hass Consult, 2013). Numerous procedural attempts were previously drawn to satisfy the deficiency of residential homes through preparation of countrywide housing frameworks; increase the current establishments and launching new housing establishments to balance housing delivery, credit centers, manufacturing of constructing substances and educating personnel for running residential establishments; and the appraisal of available policies and governance equipments to reinforce provision of land.

Finance is an essential contributor in housing production and that the main issues are sustainable availability, affordability and accessibility. With increase in urbanization, there is a greater need to increase housing to accommodate the rising population. Mortgage finance facilitates a faster growth in housing which caters for the need of the increasing population. The access to and tapping suitable sources of funding, by individuals and institutions is central to realizing their home ownership and investment decisions. Nevertheless, the amortization of mortgage loan makes it affordable to many borrowers who buy or construct their homes and repay the loan over a longer period of time without having to repay in lump sum.

According to Kolbe, Greer and Rudner (2003), an approximated one third of all mortgage loans are made to fund new housing construction. They further state that housing is a sector in the industry in which value is created. Its role in the overall economic development cannot be over emphasized. Lorimer (2008) stated that
financial institutions invested profoundly in urban improvement in Canada. This was marked by an increase in the number of mortgage loans over the years on real estate with most of it being urban real estate.

There has also been a rise in competition by banks and other mortgage lending institutions in advancing mortgage loans. This has improved accessibility of mortgage and lead to development in housing as stated by Clauretie and Sirmans (2010). Private investors are short of adequate equity funds to finance their development and especially real estate which require a large capital outlay. They thus turn to mortgage financing for faster development as an investment that would bring them returns after a certain period of time. David and Zhu (2004) emphasized the role of mortgage financing to real estate development by funding construction projects, purchase of land and existing buildings, financing companies they may fund real estate and lending to non-financial firms based on real estate collateral.

Herzog and Early (2000) further states that mortgage financing has been behind the remarkable growth in the real estate sector in the USA. According to UN-Habitat (2009) acquisition of homes in USA is a momentous measure of economic health. Majority of the homes are acquired through mortgage finance which is the most common source of financing real estate development. This is further supported by Kings (2006) who emphasized housing as a store of wealth which can allow owners to develop housing and non-housing activities. The housing stock which is a valuable asset can thus be used as security for more loans hence promoting development. An increasing trend in mortgage loans over the years especially results to a positive development change not only in the housing sector, but also in the State economy.

Individuals and developers obtained mortgage loans for construction of new houses or
purchase of already built houses. Kings (2006) stated the role of government in the regulation of the mortgage finance industry. He further explained that the need for government to regulate housing finance is due to the expensive and valuable nature of housing, not forgetting the limited supply and high demand. Thus, the government regulates the market through interest rates, rent controls and regulating standards which impose costs on property-owners. Despite government regulation, Kings (2006) concludes by stating that, housing finance accomplish an extra specified purpose which is to guarantee a housing scheme that offers quality and access to households. Financing of housing credit helps advances the function of the real estate industry and the financial system in differing methods: straightforwardly via making it feasible for business and in some way by using enhancing the environment wherein transactions occur.

The common housing loans in Kenya are variable rate constant mellow amortizing in nature. That is the same old product utilized in the UK and has been replicated in most of the countries prejudiced by the Great Britain governance. Nevertheless, the credit facility is not always ideal particularly within the inflationary environments. In Kenya the mortgage debt to GDP ratio is 2.48% which is low by international standards. This is characterized by low level of incomes on the majority population thus they are unable to meet the threshold to access mortgages, which means that only a small portion of the population has mortgages. Due to the low levels of income, the mortgages in the market tend to be mainly of high value to tend to the small high income bracket (CBK, 2010).

Currently to access a mortgage facility one requires to have attained a certain level of salary threshold. With the average loan size at 4.4.milion this would indicate that one would require a net salary of KSH 100,000 net to service the mortgage for 15 years at
20% interest (CBK, 2010). Mokua (2004) asserts that mortgage finance remains unaffordable to potential home owners and that all the mortgage products target high and middle-income earners who constitute a partly percentage of the salaried people within the private sector. The results of their exploration were that it is just below 5% of Kenyans who can access conventional housing finance.

2.2.1 Budget Deficits and Demand for Mortgage Loans
The importance of budgets in helping to fulfil the organization’s goals has been indicated by Dugdale and Lyne (2010) as being the ability to measure and report financial information that is mission critical for the organization. To enable effective decision making, budgeting and financial management systems in an organisation should be evolved and integrated to provide timely, accurate and comprehensive information for all tiers of management. Government acquisition of credits to fund its budget arrears condenses the provision of loanable funds accessible to economic investment.

A hefty national financial plan deficit funded via sale of government bonds and treasury bills is seen as a basis for high borrowing rates. The increments in the rates hence direct to a decrease in personal investment, which negatively affects economic development. High budget deficit decreases the loanable funds supply and shifts the supply curve to the left. As a result the symmetric charges swell whereas equilibrium magnitude of credit facility reduces, (CBK, 2013). Budget limits guarantees a level of assurance to budget holder that the main needs of an organization are prioritized and less important activities are postponed pending generating funds to finance.
2.2.2 Open Market Operations and Demand for Mortgage Loans

Tight monetary policy may lead to the crowding out of private credit by increasing interest rates and reducing money supply. This could in turn lead to a fall in demand and supply of credit as well as private investment (CBK, 2013). Though the loanable fund theory has until recently remained the foundation for most theoretical analysis and empirical inference on the relationship between interest rates and credit. Ikhide (2003) points out that there are some considerations that make this simplistic approach to the credit, investment and interest rates rather inadequate especially for the developing countries. Interest rates rank among the most crucial variables with macroeconomic word in the world of finance.

Financial institutions can however still remain profitable in the midst of interest rate capping by the government by venturing into other sources of income such as non-funded income as well as cutting their costs. Ingram (2011) states that interest rates are important because they control the flow of money in the economy. High interest rates curb inflation but also slow down the economy. Low interest rates stimulate the economy, but could lead to inflation. When interest rates are high, people do not want to take loans out from the bank because it is more difficult to pay the loans back, and the number of purchase of real assets goes down. The effects of a lower interest rate on the economy are very beneficial for the consumer. When interest rates are low, people are more likely to take loans out of the bank in order to pay for things like houses and cars.

Policies to promote competition among mortgage and credit providers, combined with relevant consumer protection measures like truth-in-lending laws, can go a long way toward expanding the reach of sustainable microcredit while safeguarding consumer interests (Maimbo & Gallegos, 2014). Matthieu, Augustin, and Thesmar (2016) in a
study of Banks’ Exposure to Interest Rate Risk and the Transmission of Monetary Policy showed that the cash-flow exposure of banks to interest rate risk, or income gap, affects the transmission of monetary policy shocks to bank lending and real activity. One is the assumption that a decline in interest rates will lead to a rise in the demand for loans by investors or a rise in interest rates will lead to more lending by banks.

Given the low levels of financial development in most developing countries bank credit does not always form the basis of investment decisions. Similarly the interest rate may not equilibrate the supply and demand for bank loans as commercial banks may ration the available credit. Governments have used mandatory interest rate ceilings to reduce the advantage that commercial banks might have in increasing interest rates perfunctorily to make huge profit margins. According to Chiquier and Lea (2009), this discrimination leads to a situation where those in dire need of financial assistance being locked out of the available finances because they are considered high risk.

2.2.3 Land Constraints and Demand for Mortgage Loans

Territorial ground is a crucial feature of the lifestyles of a given humanity. It's miles critical for cultivation as well as food safety, helps significant organic sources and approaches, upholds the well-being of many of the Kenyan communities and represents an essential civil background for lots groups. According to Kamau (2011), land ought to consequently be controlled in acknowledgement of its numerous characteristics. From a legal point of view, it becomes extremely critical to identify several phrases usually disregarded including land. In Kenya land is regarded as the earth ground as well as constructions completely fixed on it. In line with this description, a stable construction is considered component of the same land.
The foremost arrangement of Kenyan land rights is created at the Australian Torren version. This version became adopted in 1963 with a view to at ease the ownership process of Kenya’s farming white highlands. According to Babalakin & Co. (2013) land interrelates with financial system symbiotically. Whilst reorganizations are occurring for laws and regulations to guide the course, the law structures for this structures have been the same and lots wanted actions in the land segment has been unyielding.

In most countries, and increasingly so in emerging economies, housing represents a large proportion of a household’s expenditure and takes up a substantial part of lifetime income. Usually, it is the largest asset owned by households. The backward and forward linkages to land markets, durable goods manufacturing and development of labor markets with depth and mobility further underscore the significance of this sector, particularly in the process of economic transition (Bardhan & Edelstein, 2007). Land Constraints is particularly true of the urban areas because the land is highly valued and is mostly in the hands of the central government and the local authorities. The only other landowners are speculators seeking to make a quick buck. This makes land inaccessible to the majority who need it most but cannot afford its premium price.

The supply of land for housing and having a functioning secondary market for housing sales are essential elements of an efficient mortgage system. This requires: a more streamlined and cost efficient property registry system and a unified and simplified mortgage law, limiting frivolous appeals. Bank loans are the main source of real estate developers. In the whole capital chain, bank loan account for at least 55%, some even more than 90% (Han, 2008). Bank loans including mortgages almost go through every part of the housing development process, including land acquisition, land developing, selling and buying. Research by Freire, Ferguson, Lima, Cira and
Kessides (2007) highlighted that legal land development for low-income households has dried up or is in the process of drying up in many developing country cities.

Housing finance plays a crucial part in the development process (Miles et al, 2000). Therefore, mortgage lending firms play a crucial role in the financing of real estate through mortgage financing. They lend for the purchase of land for development of existing buildings; they finance construction projects; they lend to non-bank and they finance companies that they may finance real estate; and they lend to non-financial firms based on real estate collateral (David & Zhu, 2004). According to David and Zhu, (2004) in America, residential construction is peculiarly dependent on mortgage loans for example almost all one to four-family housing are being bought with the aid of mortgage loans, and this has led to a tremendous growth in the real estate sector in this USA.

David and Zhu, (2004) emphasized the role of mortgage financing to real estate development through financing construction projects, lending for purchase of land for development and existing buildings, financing companies that they may finance real estate and lending to non-financial firms based on real estate collateral. This is supported by Herzog and Earley, (2000) who argue that the tremendous growth in the real estate sector in the USA has been dependent on Mortgage Financing. Mortgage lending firms play a crucial role in the financing of real estate through mortgage financing. They lend for the purchase of land for development and existing buildings; they finance construction projects; they lend to non-bank and finance companies that they may finance real estate; and they lend to nonfinancial firms based on real estate collateral.
2.2.4 Regulatory Framework and Demand for Mortgage Loans

The government policy framework envisages that a country will have a stable society, ensuring a quality living to its people through having access to a decent living, electricity, water, schooling, and health facilities. It also ensures development goals are to be realized through a rapid economic growth and by transforming the structure of the economy to be a modern, environmentally-friendly, and well-connected rural-urban economy that can create employment opportunities with better remuneration.

The guidelines governing real estate and assets rights form a basis for shelter and residential properties. The Kenyan, rules and policies surrounding the same are hereditary of British colonizers and entail much multifaceted possession systems founded in several distinct legal guidelines.

Land rights are usually control via structures of normal legal guidelines which differ based on ethnic corporations, main land use or civil activities of the inhabitants (World Bank, 2011). The 2010 Kenyan Constitution concerning identical get permit land endeavors to get precision to this property issue. The strength as well as transparency of policy provisions prove to be essential asset industry improvement. As a matter of fact, in an effort to attract the non-public area in home ownership, and principally in the center to people living on less incomes, cozy and easy land laws are necessary (Hoek-Smit, 2011). One suggestion of the complication and diversity of guideline is shown in a wide variety of amount of time invested in the listing process.

In comparison to its pears in the East and Southern African regions, the registration process is burdensome, prolonged and costly. In addition to asset rights and possession, among the fundamental features for possession growth is availability of stem infrastructural network. The expansion of such network is particularly associated with charges since as planners procure real estate property and provider it with
development features, land charges increase enormously and the rise is forwarded directly to the consumers. Hoek-Smit (2011) further stresses concerned authorities’ facilitation of off-site network and asset financing. Certainly, it is normal land investors find it necessary to bear the development expenses.

2.3 Summary and Research Gaps

Mortgage financing is of the vital aspects which have drawn a considerable attention among organizations and governments as a mean of enhancing economic enlargement across world economies countries including Kenya. The limited accessibility of the mortgage market is apparent and despite its foreseeable deterioration in the near future, there still exist a lot of focus and research required to examine ways of improving accessibility to this form of housing facility especially by the population at the bottom of the economic pyramid. The role of interest rates, inflation, risk management, budgeting, market operations, land constraints and regulatory environment need to be investigated and solutions provided to eliminate their hindrance.

The CBK (2012) indicated that the prevalence of inconsistent bank fees crediting is hindering development of the housing credit financing. Kenya's loan market is subjugated through 5 creditors which command 71.0% of the local housing funds. They include KCB's mortgage Division S&L, Housing Finance, StanChart, CFC Stanbic and Co-Operative Bank Limited. Owing to the extreme price of loans in Kenyan financial institutions, most of the Kenyans seek funding choices, which include SACCOs and MFIs whose interest prices are relatively affordable and easily negotiable reimbursement arrangements. Most of the Kenyan households are left out of housing possession owing to the exorbitant land and general asset prices.
According to baseline survey done by CBK and World Bank (2010) Kenya’s mortgage industry has realized a threefold growth within 5 years, where year 2006 recorded Ksh.19 billion and in 2010, the value was Ksh.61 billion. Accordingly, the borrowers in the financial sector were 7,580 in 2006 and increased to just below 14,000 in 2010. Inspite of this development, the ration mortgage loans against the gross domestic product in Kenya of 2.5 percent is relatively little in comparison to the global values where major economies like United States shows ratios exceeding 70 percent. This calls for more evaluations with an aim to point out the vital aspects in housing financing through financial institutions’ credits.

2.4 Conceptual Framework

The concrete outline applied here presents the connection among the variables that have an effect on the demand for mortgage loans in Kenya. The researcher argues that there exist a correlation among demand for housing (mortgage) loans and interest rates, land constraints, profits level and regulatory framework. This study sought to very those arguments.

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rates</td>
<td>Demand for Mortgage Loans</td>
</tr>
<tr>
<td>Land Constraint</td>
<td></td>
</tr>
<tr>
<td>Income Level</td>
<td></td>
</tr>
<tr>
<td>Regulatory Framework</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2.1: Conceptual Framework
2.5 Operationalization of Variables

The conceptual framework identified four independent variables that affect demand for mortgage loans in I&M Bank Kenya Limited. They include interest rates, land constraints, profits level and regulatory framework. The dependent variable is demand for mortgage loans in I&M Bank Kenya Limited. The dependent variable is measured in terms of uptake levels of mortgage, convenience of the credit and accessibility of services.

Interest rates refer to the amount charged over and above the mortgage facility/borrowed funds. They represent the cost of borrowing capital for a given period of time, given that borrowing is a significant source of finance for the firms, interest rates are of great importance to them since it greatly affects their income and by extension their operations. In this study, interest rates is measured in terms of loan terms, credit risks and the total amount paid as an interest on the amount borrowed for mortgage purposes.

Land Constraints is common in the urban areas because the land is highly valued and is mostly in the hands of the central government and the local authorities. This aspect is investigated by considering the availability of land, cost/value of land, legality of land acquired, growth of land acquired, scale of investment, the building code and building materials and technologies.

Income level refers to the range of resources and amount of income generated by an individual or a household within a given period of time. To measure the effect of level of income the researcher focused on amount savings, household expenses, stability of incomes and terms of payment.
Regulatory Framework refers to the government policies, positions and guidelines, schemes and incentives and support systems for the financial institutions and the housing sectors. Some of the aspects of regulatory framework that affect demand of mortgage loans include taxation, licensing, registration requirements, government support programs, compliance costs and operating laws and regulations.

2.6 Chapter Summary

The Kenyan housing sector has shown a huge potential for growth over the years attributed to increased urbanization and growth in the middle class. Government’s initiatives to provide affordable housing to the citizens are yet to be significantly felt. The cost of borrowing to facilitate home ownership is out of reach to majority of Kenyans, Issues surrounding land and its acquisition has been an impediment due to lack of implementation of enacted land policies. This chapter discussed the effects of interest rates, borrower’s income, land constraints and regulatory framework on demand for mortgage loans.
CHAPTER THREE  
RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

This section gives a blueprint which gives the direction to follow to get answers to issues that are of concern. The section illustrates the approaches which were used in collecting information required for the study as outlined below.

3.1 Research Design

This is a methodological plan utilized in carrying out a technical setback (Mugenda & Mugenda, 2003). This research employed a descriptive research design cautiously premeditated to guarantee absolute narrative of the issues at hand, ensuring that there is least preconception in the compilation of information and to trim down faults in deduce the facts amassed. This design was constructive since it facilitated account of findings devoid of intrusion with the authentic facts obtained.

3.2 Target Population

Target population refers to all the subject elements which the study would involve to gather a comprehensive finish. This normally has shifting characteristics and it is also referred to as the hypothetical population. In this research, the intended populace was customers of I&M Bank Limited. The target population studied comprised of 300 respondents, 70 corporate clients, 100 SME clients, and 130 Retail customers.
Table 3.1: Target Population

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Population</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Customers</td>
<td>70</td>
<td>24</td>
</tr>
<tr>
<td>SME Customers</td>
<td>100</td>
<td>33</td>
</tr>
<tr>
<td>Retail Customers</td>
<td>130</td>
<td>43</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>300</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

3.3 Sample and Sampling Technique

A sample is a representative group that takes into account all the qualities or characteristics found in the population. The objective of sampling is to get accurate empirical data at a fraction of the cost that it would take to examine all possible cases. A large sample size reduces sampling variability and also reduces the probability of biases sampling. A section comprising 100 of the target population was sampled through probabilistic random stratification. Stratification, which aims at reducing average inaccuracy by inducing direction above discrepancy, divided population into different categories of customers.

Table 3.2: Sample Size

<table>
<thead>
<tr>
<th>Customers</th>
<th>Frequency</th>
<th>Number Sampled</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Customers</td>
<td>70</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>SME Customers</td>
<td>100</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Retail Customers</td>
<td>130</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>300</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
3.4 Instruments
This sets out how data for the study is collected and analyzed. The study engaged both primary sources and secondary types of data. Questionnaires were used to collect data from retail customers. On the other hand, corporate clients and SME customers were interviewed. The questionnaires will be answered by each of the individual respondents independently. Questionnaires are appropriate for a large population as they involve the respondents responding to the questions themselves while interview schedules are appropriate for smaller population where the researcher interviews the respondents him/herself.

3.5 Pilot Study
A pilot study was conducted prior to the main collection of data. The piloting was carried out at I&M Bank Limited, Panari Branch where questionnaires will be administered to 10 customers who will be randomly picked. The data obtain will be analyzed using Cronbach’s alpha. This assisted in establishing the dependability of the materials employed in gathering data. The pretesting will be done using 10 customers and a credit analyst in order to ascertain the instrument’s validity (Mugenda & Mugenda, 2012).

3.6 Data Collection Procedure
The scholar contacted the pertinent authorities in I&M Bank Ltd in order to be able to carry out data collection from its customers. The researcher also sorted appointments with the selected Corporate & Small Medium Enterprises (SME) in order to book appointments on the day to perform interviews. The semi structured questionnaire targeted Corporates, SME and small retail customers. The questionnaires were left and collected afterwards after they were completed by the participants. For the
secondary data, use of previous documentations such as journals, articles, magazines, e-resources and information from books and magazines available in the libraries as well as information from the websites will be used to support the data that were collected from questionnaires.

3.7 Data Analysis and Presentation

Quantitative data collected through questionnaires was analyzed and presented in tables and percentages with the help of SPSS program. Content analysis is an appropriate procedure for gathering and categorizing data in a systematic manner to facilitate making of suppositions regarding the distinctiveness and implication of identified information. The results were scrutinized using descriptive approaches. They assist the investigation to illustrate the results and elaborate the degree or level of their relationship. The results obtained were shown in tabular form as well as in diagrams.

3.8 Ethical Considerations

Prior to commencing the field data collection exercise, the researcher sought approval through a letter of recognition from Management University of Africa and subsequently obtained a research permit from the relevant authorities in Nairobi Kenya. The data collection process commenced after receiving a letter of authority from the relevant authorities accompanied by an introduction letter to I&M Bank Limited. These letters to undertake the study were written seeking authority to access the study participants. They also detailed the time it would take to collect the data and the objectives of the study.

Due to sensitivity of some information sought, the researcher held a moral obligation to treat the information with utmost propriety. The researcher developed an
introductory form for the study participants explaining the purpose of the study before they could divulge any information for this research. Since the respondents approached were likely to be reluctant to disclose some information, the researcher reassured them of confidentiality of the information they gave. The research assistants explained to the respondents the scope and purpose of the study and further reassured them of their confidentiality.

3.9 Chapter Summary

This chapter outlines the research design used and the method used to pick the respondents that would give information that best captured the research interest. The chapter showed different methods of gathering information, processing of the facts as well as the reliability of the data collected from the intended population. The next chapter shows the categorization extraction and explanation of the results.
CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.0 Introduction

This section contains details of presentation of examination, results as well as findings. The chapter presents research results and discussion of the factors affecting demand for mortgage loans in Kenya with reference to the case of I&M Bank Limited, Nairobi. The elaboration of the results is guided by research intentions. Primary data was gathered from the questionnaire.

4.1 Presentation of the Research Findings

4.1.1 Response Rate

Three hundred questionnaires were distributed to corporate, Small Medium Enterprises (SME), and retail customers of I&M Bank Ltd, Nairobi. According to Table 4.1, out of the 300 questionnaires sent, 200 were completely filled contributing to a response rate of 66%. A response rate of above 60% is acceptable, (Kothari 2004).

Table 4.3: Response Rate

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>200</td>
<td>66</td>
</tr>
<tr>
<td>Not responded</td>
<td>100</td>
<td>34</td>
</tr>
<tr>
<td>Total</td>
<td>300</td>
<td>100</td>
</tr>
</tbody>
</table>

4.1.2 General Information

The general information breaks down the features of the study population. Several aspects to describe the respondents and the selected organizations were used. As part
of the general information, the research requested the respondents to indicate their customer type, gender, age, level of education and duration of banking. The analysis relied on this demographic data to classify the various characteristics according to their acquaintance and responses.

The study was also interested in establishing the distribution of the respondents into various customer categories. From the results depicted in Table 4.2, 10% of the respondents were corporate customers, 25% of the respondents were Small Medium Enterprise (SME), whereas the majority (65%) of the respondents being retail customers. This response indicates the largest composition of bank customers are retail.

Table 4.4: Customer Category

<table>
<thead>
<tr>
<th>Customer type</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>SME</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>Retail</td>
<td>130</td>
<td>65</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The sexuality could help the researcher get a balanced view from both males and females. According to the values shown in Table 4.3, 60% of the population that responded was of masculine gender while only 40% of the respondents were feminine. This response indicates that the two genders are almost in equal distribution.
Table 4.5: Gender Composition

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>120</td>
<td>60</td>
</tr>
<tr>
<td>Female</td>
<td>80</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>100</td>
</tr>
</tbody>
</table>

Further the ages of the respondents were probed. According to Table 4.4, 17% of the respondents were 25 – 30 years old, 23% of the respondents were between 31 – 35 years old, 24% of them were aged between 36 and 40 years, and 19% of the respondents were between 41-50 years of age, while 17% of the respondents were above 50 years. This means that a large number of those interviewed were old enough to give accurate information.

Table 4.6: Respondents Age

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 – 30Years</td>
<td>35</td>
<td>17</td>
</tr>
<tr>
<td>31 - 35 Years</td>
<td>45</td>
<td>23</td>
</tr>
<tr>
<td>36 - 40 years</td>
<td>48</td>
<td>24</td>
</tr>
<tr>
<td>41 – 50 years</td>
<td>38</td>
<td>19</td>
</tr>
<tr>
<td>above 50 years</td>
<td>34</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>100</td>
</tr>
</tbody>
</table>

As shown below, 30.0% of the respondent had banked in I&M Bank Ltd for a period of 8 – 10 years, 25.0% had banking experience of between 5 – 7 years, 24.0% had banked with I&M Bank Ltd for a period between 1-4 years, whereas 13.0% had banking experience of above 10 years and finally, 8.0% of the respondents had banked for below 12 months. This shows that majority of the customers sampled in this study had banking experience for a considerable amount of time thus they were
conversant with the information that the study sought pertaining to the mortgage loans.

**Figure 4.2: Banking Experience**

![Bar chart showing banking experience](chart.png)

Figure 4.2 shows the study results regarding academic qualification. Majority 49% of them were Bachelor’s Degree holders, 38% had attained Master’s Degree, 6% had technical certificate, while 4% had diploma certificate as their level of education and only 2% had Higher National diploma and just 1% of the respondents had attained PhD as their highest level of education. This implied that most of the bank customers had attained higher level (Bachelor’s degree and masters’ degree) of academic qualification and therefore had full understanding of their financial requirements.
These findings correlate with Lipunga (2014) who established that people with tertiary education record flourishing performance in investments owing to their vast understanding of various issues surrounding credit acquisition and have relevant management know-how making them extra cognizant of the industry. When customers are well experienced on the banking services they are likely to be much conversant with the issues sought by the study hence provide credible information for generalization and for policy recommendations.

Figure 4.3: Education Level

4.1.3 Effects of Interest Rates on Demand for Mortgage Loans

Further the study requested the respondents to indicate whether interest rates affected their ability to take a mortgage from the Bank. Accordingly, most of the respondents (80%) said yes, and 20% of the respondents said no. The results are in agreement with the findings by Freddie (2013) who established that Bank’s interest rates have a
directly impact on demand for mortgage loans. Rapid rise in interest rates could affect house affordability through higher monthly mortgage payments. When lending rates rise, the housing market in any economy is evidently suppressed. Accordingly, interest rates charged against provision of mortgage services by financial has a significant effect on the quality of houses in Kenya.

**Figure 4.4: Effects of Interest Rates on Demand for Mortgage Loans**

4.1.4 Extent of Impact of Interest rates on Demand for Mortgage Loans

The study sought to establish the extent to which interest rates impact demand for mortgage loans.

**Table 4.7: Extent of Impact of Interest rates on Demand for Mortgage Loans**

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high extent</td>
<td>100</td>
<td>50</td>
</tr>
<tr>
<td>High extent</td>
<td>70</td>
<td>35</td>
</tr>
<tr>
<td>Low extent</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------</td>
<td>--------</td>
<td>------</td>
</tr>
<tr>
<td>Very low extent</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>100</td>
</tr>
</tbody>
</table>

These results are in line with the available researches which show there is a very strong inverse relationship between real estate investment and interest rates in any economy. A rise in bank lending charges is expected to dampened demand and investment in real estate sector.

4.1.5 Effects of One’s Income on Accessibility to Mortgage Loans

The research was intuitive of effects of income level on accessibility to mortgage loans from a financial institution. From the findings 70% indicated that income level was an important factor when applying for a mortgage facility, whereas 30% indicated that income does not affect access to a mortgage loan. This is in line to the fact that income to debt ratio is an important parameter considered by lenders while assessing an applicant for a mortgage facility. As a rule of thumb, repayments towards a mortgage facility must not exceed 50% of the applicant’s disposable income (CBK, 2013). It is also evident that the level of income resonated with the adequacy of residential and commercial houses, affordability of houses, residential and commercial infrastructural development and architectural planning of the housing development.
4.1.6 Extent of Impact of Income Level on Accessibility to a Mortgage Loan

The respondents were asked to show the extent to which the income level affects accessibility to mortgage loans.

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high extent</td>
<td>80</td>
<td>40</td>
</tr>
<tr>
<td>High extent</td>
<td>100</td>
<td>50</td>
</tr>
<tr>
<td>Low extent</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>Very low extent</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

These findings are concurrent with the available studies which show presence of an contrary relationship between real estate investment and interest rates in any economy. A growth in the interest rate is apt to dampened demand and investment in real estate sector. High interest rates have remained a macroeconomic problem that
has been difficult to eliminate. Accordingly, fluctuations of interest rates exert significant influence on the performance of financial institutions.

4.1.7 Effects of Land Constraints on Demand for Mortgage Loans
The study sought to find out whether land constraints affect demand for mortgage loans. From the findings below, 41% indicated that land constraints affect demand for mortgage loans while 59% indicated that land constraints does not affect demand for mortgage loans. According to Business Daily (2014), high pricing of land has also played a part in pushing the cost of homes beyond the reach of the majority of Kenyans. Rapid appreciation of land prices in Kenya has been linked to infrastructure development and security. A sharp increase in land values in Nairobi and other towns in Kenya has discouraged most of the potential land customers, nullifying their visions of ever possessing a standard house as a basic need.

Figure 4.6: Effects of Land Constraints on Demand for Mortgage Loans
4.1.8 Extent of Land Constraints on Accessibility to a Mortgage Loan

The research further required to establish the extent to which does land constraints affect accessibility to mortgage loans.

Table 4.9: Extent of land constraints on accessibility to a mortgage loan

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high extent</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>High extent</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>Low extent</td>
<td>80</td>
<td>40</td>
</tr>
<tr>
<td>Very low extent</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The results tabulated above are in support of Lipunga, (2014) that planners are constantly being encountered with several hindrances relating to land use management. These challenges are having a direct impact on property developers and if not well mitigated can impact on development when it is least expected with possible major effects on the feasibility of the project. While mortgage financing solve the various factors relating to land acquisition among house investors, availability of land, cost/value of land, legality of land acquired, growth of land acquired, scale of investment, the building code, building materials and technologies and regulatory compliance are some of the land constraints that are faced when investors seek mortgage facilities from financial institutions.

There is a general notion that mortgage finance assists in acquisition of land for house construction, mortgage finances ensure that customers acquire genuine land, mortgage finances assist in redevelopment of degraded existing structures, new infrastructure and housing units are built on empty land and improvements involving different types of infrastructure according to predefined area plan. Others include comprehensive
upgrading of existing settlements and site of project and targeted households are located in peripheral land.

4.1.9 Effects of Kenya’s Regulatory Framework on Demand for Mortgage

The study sought to find out whether land constraints affect demand for mortgage loans. From the findings below, 41% indicated that land constraints affect demand for mortgage loans while 59% indicated that land constraints does not affect demand for mortgage loans. According to Doing Business Report 2013, Land is the most common form of security in the home loans market and the lenders say manual processes at the registry have only made processing of loans tedious, risky and ultimately costly.
4.1.10 Extent of Regulatory Framework on Accessibility to a Mortgage Loan
The extent to which land constraints affect accessibility to mortgage loans was also an interesting area of this investigation.
Table 4.10: Extent of Regulatory Framework on Accessibility to Mortgage Loans

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high extent</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>High extent</td>
<td>60</td>
<td>30</td>
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<tr>
<td>Low extent</td>
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<td>40</td>
</tr>
<tr>
<td>Very low extent</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

According to Wahome (2010), Kenya’s real estate market in both rural and urban areas is characterized by a divergence among need and provision of resources. The real estate market has a number of weaknesses including low supply, and financial and regulatory constraints. The capital markets in developing countries such as Kenya are encumbered by a number of policy and institutional challenges— including inappropriate regulatory frameworks that have constrained the development of the sector. The existing regulatory aspects that affect mortgage acquisition among Kenyans include taxation (VAT among others), licensing, registration requirements, compliance costs and the general operating laws and regulations as applicable in the national and county government settings in Kenya.

4.2 Limitations of the Study

4.2.1 Inaccessibility

Some departments of the bank like Information Technology department (ICT) and loans departments are too sensitive for unauthorized persons. The researcher was hindered from accessing such section despite the immense and valuable information that may be used in this study. To counter this challenge, the researcher provided necessary introduction letter and documents regarding the validity of this research study in order to gain entry to specific areas of interest for the research.
4.2.2 Uncooperative Respondents

Some respondents indicated their unavailability to answer the questionnaires, mostly the corporate clients who have very busy schedules. This was solved through scheduling appointments at convenient time and location with them for face to face interviews.

4.2.3 Attitude

Attitude of some of the respondents towards the questionnaires such as unwillingness to give accurate answers was another challenge faced. The researcher resolved the issue by explaining to them the purpose of the research and assuring the respondents whose insights would be processed purely for the study reasons.

4.3 Chapter Summary

This Chapter has presented the data that was obtained from the field study. It looked at the data analysis, presentation and interpretation of the results in relation to factors affecting demand for mortgage loans in Kenya with reference to I&M Bank Limited. This study was conducted in line with the research objectives. The results presentation is organized based on the specific objectives of the study. Descriptive analysis was employed which includes; frequencies, percentages and mean scores. and consequently, graphs and charts as well as frequency tables have been used to present the data. The next chapter presents the conclusion, discussions of findings and recommendations.
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The following sections present the review, winding up and suggestions in line with the purpose of this research. The objectives were to find out determinants of demand for mortgage loans in Kenya: A case of I&M Bank Limited, Nairobi.

5.1 Summary of the Findings

From the results, interest rates affect demand for mortgage loans. Upward adjustment in interest rates leads to suppressed performance in the house market. Majority of the respondents indicated that interest rate on mortgages offered by commercial banks is a deterrent to owning a house in Kenya. The research established that income level affects one’s ability to access a mortgage facility. Majority of the respondents further stated that, the high threshold amounts used in assessment for a mortgage facility lock most of them out.

Majority of the respondents interviewed did not find land constraints as a major factor on demand for mortgage loans. However, the respondents indicated that challenges in land ownership as well as irregularities in allocation of land have had an impact in home ownership. The study also found regulatory framework to have negatively impacted demand for mortgage loans and therefore home ownership.

5.2 Recommendations

The study advocates for an increase use of equity and venture capital as a source of financing requires businesses to sell their ideas to people who have money to invest. In addition, careful planning can help convince potential investors that the company is competent and that there is a high potential in growth in future. In the same view,
mortgage firms should endeavor to increase credit products with long term financing incorporated.

The study recommends that land registration system should be streamlined to enable the potential home ownership decision to acquire a mortgage from the mortgage institutions. In addition, mortgage finance institutions should make loan repayment period a little longer to spread the burden of the potential customers to repay the loans.

In addition, financial institutions should consider designing loan products to tap to middle income developments which are a huge potential since they are highly untapped. This will enhance affordability of houses, adequacy of residential and commercial houses as well as infrastructural development and architectural planning.

This was a research focusing only on customers of I&M Bank Ltd thus the same exploration ought to be repeated in the similar Kenyan banks to find out if the same results will be obtained. Equally there is room for further research on the factors affecting demand for mortgage loans.

5.3 Conclusions

This, study concludes that the local mortgage industry recorded swift resilience lately in terms of amount of credit and borrowers of this housing credit. Some of the mortgage lenders have designed mortgage products that would encourage Kenyans to save from the early years of employment with a view of accumulating enough savings that would enable them mobilize the mortgage finance. The main aspects playing a major role in affordable housing include interest rates, land, profits level and regulatory framework. The continuing high cost of mortgages is putting a profound
brake on home ownership in Kenya, and even affecting the uptake of properties for rental.

The existing high interest rates as a result of a stringent monetary policy being pursued by the Central Bank of Kenya in an effort to fight high inflation have dampened the market. The availability of resources to invest in areas such as mortgage finance, therefore, does not appear to be a major constraint to increased housing production, particularly among the large regional merchant banks. Despite the fact that there is huge need for housing in the Country, the mortgage uptake in Kenya is very low.
REFERENCES


price level: Evidence from America.


Han, J.(2008). Study on comparison of the financing channels of real estate


Report on Housing Sector


Lipunga, A.M (2014). Determinants of Profitability of Listed Commercial Banks in Developing Countries: Evidence from Malawi, Malawi Polytechnic.


Appendix I: Questionnaire

This questionnaire consists of two major sections (Sections A and B). Kindly respond to all questions by putting a tick (✓) in the box matching your answer or write your answer in the space provided if it is not included in the choices. The information given here will only be used for purposes of academic study and will be treated with utmost confidentiality. Your cooperation will be highly appreciated. All information will be treated with strict confidence.

SECTION I: BACKGROUND INFORMATION

1. Customer Type
   a) Corporate [ ]
   b) SME [ ]
   c) Retail [ ]

2. Gender
   a) Male [ ]
   b) Female [ ]

3. Age Distribution
   a) 20-30 [ ]
   b) 31-40 [ ]
   c) 41-50 [ ]
   d) Above 50 years [ ]

4. How long have you banked with I&M Bank Limited?
   a) Less than I year [ ]
   b) 1-4 years [ ]
   c) 5-7 years [ ]
5. Highest Education Level

a) PHD
b) Masters
c) Bachelors
d) Higher National Diploma
e) Diploma
f) Certificate

SECTION II: INTEREST (LENDING) RATES

6. Do Bank’s interest rates affect your ability to take a mortgage loan?

a) Yes
b) No

Please explain

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

7. To what extent does interest rate affect your attitude to take a mortgage from your bank?

a) Very high extent
b) High extent
c) Low extent
d) Very low extent
8. How would you like your bank to enable you access a mortgage loan? Please explain your answers indicating your expectations.

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

SECTION III: LAND CONSTRAINT

9. Are there any land constraints affecting demand for mortgage loans?
   a) Yes [ ]
   b) No [ ]

If Yes, Explain briefly

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

10. To what extent do above land constraints influence your ability to own a home?
    a) Very high extent [ ]
    b) High extent [ ]
    c) Low extent [ ]
    d) Very low extent [ ]

11. Please state some of the possible solutions to the issues faced

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………
SECTION IV: INCOME LEVEL

12. Does income level affect accessibility to mortgage loans?
   a) Yes [ ]
   b) No [ ]

13. To what extent does income level influence accessibility to mortgage loans in your bank?
   a. Very high level [ ]
   b. High level [ ]
   c. Low level [ ]
   d. Very low-level [ ]

14. Briefly state how you would like your bank to assist you access mortgage loans where income level is a major factor?

   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................
SECTION II: REGULATORY FRAMEWORK

10. Do you know of any laws or regulations affecting access to mortgage loans?
   a) Yes [ ]
   b) No

   If Yes, Please state
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

11. To what extent do the above laws/regulations affect your ability to take a mortgage from your bank?
   e) Very high extent [ ]
   f) High extent [ ]
   g) Low extent [ ]
   h) Very low extent [ ]

12. Do you think the Government has a role to play to influence access to mortgage loans?
   a) Yes [ ]
   b) No [ ]

   If Yes, Please state briefly
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

Thank you for your cooperation
CONSENT LETTER

FACTORS AFFECTING DEMAND FOR MORTGAGE LOANS IN KENYA: A CASE STUDY OF I&M BANK LIMITED, KENYA

Dear Participant,

I wish to invite you to participate in a research study entitled: Factors affecting demand for Mortgage loans in Kenya. I am currently enrolled in Executive Masters in Business Administration at the Management University of Africa and I am in the process of writing my research paper. This research study is aimed at assessing the factors affecting demand for mortgage loans in Kenya with a focus on I&M Bank (K) Limited.

The enclosed questionnaire has been designed to collect information on: The effect of interest rates on demand for mortgage loans in Kenya; Effect of income level on eligibility for a mortgage loan in Kenya; Effects of land constraints in Kenya on demand for mortgage loans and lastly the effects of Kenyan regulatory framework on demand for mortgage loans. Your participation in this research project is completely voluntary. Your responses will remain confidential and anonymous. Data from this research shall be kept safely and reported only as a collective combined total.

If you agree to participate in this project, Please answer the questions on the questionnaire as best as you can. It should take Approximately 15 minutes to complete. Please return the questionnaire as soon as possible in the enclosed envelope.

Thank you for your assistance in this important exercise

Yours Faithfully

Lorna Mitei
## BUDGET-RESEARCH PAPER

### FACTORS AFFECTING DEMAND FOR MORTGAGE LOANS IN KENYA:

**A CASE STUDY OF I&M BANK LIMITED, KENYA**

Amounts in Kes

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<th>COST</th>
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<td>10,000</td>
</tr>
<tr>
<td>PRINTING &amp; BINDING</td>
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<td>5,000</td>
</tr>
<tr>
<td>TRAVEL</td>
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<td>2,300</td>
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<tr>
<td>TELEPHONE</td>
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<td>1,000</td>
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<td><strong>TOTAL DIRECT EXPENSES</strong></td>
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<td><strong>18,300</strong></td>
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<td><strong>INDIRECT EXPENSES</strong></td>
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<td><strong>1,000</strong></td>
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<td><strong>GRAND TOTAL</strong></td>
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