A presentation by the
CENTRAL BANK OF KENYA
On Mortgage Finance in Kenya - A Baseline Survey
At a workshop
On Developing Kenya’s Mortgage Market
At Crowne Plaza Hotel, Nairobi
Thursday 17th February 2011
Presentation Outline

- Introduction
- Size of Mortgage Portfolio
- Mortgage Loan Characteristics
- Fees charged on Mortgages
- Mortgage Market Constraints
- Ongoing initiatives
Introduction

- The survey was conducted by the Central Bank in June 2010.
- The survey focus was on primary residential mortgage market.
- The analysis presents the findings on the overall mortgage finance market, mortgage loan characteristics, and the main constraints to the primary mortgage market in Kenya.
Size of Mortgage Portfolio

Outstanding Mortgages

<table>
<thead>
<tr>
<th>Year</th>
<th>Ksh Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>19.5</td>
</tr>
<tr>
<td>2007</td>
<td>26.6</td>
</tr>
<tr>
<td>2008</td>
<td>39</td>
</tr>
<tr>
<td>2009</td>
<td>53.8</td>
</tr>
<tr>
<td>2010-May</td>
<td>61.4</td>
</tr>
</tbody>
</table>

No. of mortgage loan accounts

<table>
<thead>
<tr>
<th>Year</th>
<th>Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>7,275</td>
</tr>
<tr>
<td>2007</td>
<td>8,724</td>
</tr>
<tr>
<td>2008</td>
<td>11,223</td>
</tr>
<tr>
<td>2009</td>
<td>13,224</td>
</tr>
<tr>
<td>2010-May</td>
<td>15,049</td>
</tr>
</tbody>
</table>
Size of Mortgage Portfolio

• The average mortgage loan size increased from Ksh 2.5 million in 2006 to Ksh. 4.0 million in May 2010 partly attributed to increase in property prices.

• But the number of mortgage loan accounts is so small now standing at 15,049, even though it has more than doubled since 2006.

• The market is dominated by top five lenders and represented over 80% of the total mortgage portfolio.

• While the top two banks held over 50% of the mortgage market share.
Mortgage loan characteristics

- **Average Loan Size**
  - The average mortgage loan for new loans stood at Ksh. 6.6 million in 2010 up from Ksh 4.9 million in 2007.
  - Increased mortgage size may be attributed to:
    - the expensive housing market;
    - a predominance of high-income mortgage borrowers in Kenya;
    - housing finance market is yet to move downstream.

- **Interest Rates**
  - The weighted average mortgage interest rate charged ranged between 12.2% and 14.1%. These ratios are high and also variable.
  - Most of the mortgage loans are on variable interest rate (over 70%). This has a risk component – how can this be resolved?
Fees charged on mortgages

- The following are the fees charged on mortgages (Payable fees are estimated at approximately 10% of the mortgage cost):
  - Legal Fees.
  - Valuation.
  - Arrangement fees (1%).
  - Stamp Duty.
  - Mortgage protection policy premium.
  - If we want to expand this market – we have to minimize these fees and costs.
Mortgage Market Constraints

Constraints ranked by respondents

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost and time of foreclosing on a property</td>
<td>6</td>
</tr>
<tr>
<td>Difficulties with property registration</td>
<td>7</td>
</tr>
<tr>
<td>High interest rates</td>
<td>10</td>
</tr>
<tr>
<td>Credit risk (lack of credit histories)</td>
<td>11</td>
</tr>
<tr>
<td>Low level of incomes/formality</td>
<td>15</td>
</tr>
<tr>
<td>Access to long term funds</td>
<td>21</td>
</tr>
</tbody>
</table>
Ongoing Initiatives

Some of the obstacles to mortgage market Development are being addressed in the following strategies:

 Access to long-term funds: a number of financial institutions offering mortgages are considering issuing mortgage bonds as a way of raising long-term funds.

 High credit risk due to absence of credit history; the introduction of credit reference bureaus will enable banks to access their borrower’s information which is crucial at the mortgage appraisal stage.
Ongoing Initiatives

- Financial Education; to enhance consumer awareness.

- Enhanced disclosures;
  - Interest rates and other “hidden” charges, Total Cost of Credit/Repayment Schedule and subsequently Annual Percentage Rate (APR).
  - Plain language.

- Key Challenge-How do we solve the variable component of interest rate?
Thank You