Q3.13 MORTGAGE REPORT
IN ASSOCIATION WITH

THE Mortgage COMPANY
OPENING DOORS

Expensive mortgages act as clamp on home ownership growth

- Mortgage rates remained largely static in the third quarter, at an average 16.96 per cent. The best rate on offer from the mainstream mortgage market was 13.5 per cent from CFC Stanbic, unchanged from the previous quarter
- Seven of the mainstream banks cut rates by between 0.5 and 1.5 percentile points however it was noted that some of the banks like NIC, Chase Bank and Equity Bank are using relationship pricing based on overall business from a customer rather than using a fixed mortgage rate
- The maintenance of such high rates saw a slow rate of new mortgage uptake
- Some moves, such as the Ezesha loans from HF offering 105 per cent finance, increased access by removing the need for a deposit, but the cost of home loans remained prohibitive for most, seeing less than 1 per cent of the middle class market mortgaged
- In urban areas still only a fifth of households live in their own homes, while four-fifths rent. This compares with rural home ownership of some 70 per cent

Mortgage Rate League Table

					Construction				
Rank	Change in Rank	Bank	Best Interest Rate as at 28th October 2013	Change in Rate from 17th July 2013	Project	Individual	Home Purchase	Land Purchase	Equity Release
1	▲ 1	CFC Stanbic Bank	13.5%	◀▶	13.5%	N/A	13.5%	13.5%	13.5%
2	▼ 1	Standard Chartered	13.9%	▼ 1.1%	13.9%	N/A	13.9%	N/A	13.9%
3	▲ 2	Barclays Bank	14.9%	▲ 2%	14.9%	N/A	14.9%	N/A	14.9%
4	◀▶	National Bank	15.45%	▲ 0.45%	15.45%	N/A	15.45%	15.45%	15.45%
5	▲ 4	I & M Bank	15.5%	▼ 1%	18%	15.5%	15.5%	N/A	15.5%
6	◀▶	Co-operative Bank	15.75%	◀▶	21%	15.75%	15.75%	15.75%	15.75%
7	▲ 1	Housing Finance	15.9%	▼ 0.1%	15.9%	15.9%	15.9%	15.9%	15.9%
8	▼ 1	KCB S&L	16%	◀▶	16%	16%	16%	16%	16%
9	▲ 4	NIC Bank	16%	▼ 2%	16%	N/A	16%	16%	16%
10	▲ 4	Chase Bank	16.5%	▼ 1.5%	16.5%	16.5%	16.5%	22%	16.5%
11	▼ 1	Bank of Africa	17%	◀▶	17%	N/A	17%	17%	17%
12	▼ 9	CBA	17%	▲ 2%	N/A	17%	17%	17%	17%
13	▼ 1	Equity Bank	18%	◀▶	18%	18%	18%	18%	18%
14	▲ 2	Diamond Trust Bank	18%	▼ 1%	18%	18%	18%	N/A	18%
15	▼ 4	Family Bank	18%	◀▶	19.5%	18%	18%	18%	18%
16	▼ 1	Consolidated Bank	18%	▼ 1%	18%	18%	18%	18%	18%

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The Mortgage Company today unveiled The Mortgage Report for the third quarter of 2013 with a call for urgent action to increase the accessibility and eligibility for home loans - in a market that remains far behind other global and regional property markets in financing.

The surge in mortgage interest rates that followed on the CBK rate rises of 2011 has led to a widening in interest rate spreads by the commercial banks, which has yet to be corrected.

The best rate on offer in the third quarter remained 13.5 per cent from CFC Stanbic Bank, underpinned by the Central Bank of Kenya rate of 9 per cent.

But many banks continued to demand a 9 point spread for mortgage rates - a margin that is almost unheard of in any other mortgage market. Notably, the most expensive mortgages continued to be offered by Equity Bank, Diamond Trust Bank, Consolidated Bank, and Family Bank, all at 18 per cent.

Taken as an average, interest rate spreads in the mainstream mortgage market are now running at 8 points, where they were running at 6 points prior to the rate hikes of 2011.

At the same time slowing house price rises and rent rises brought down rental yields – which combine the returns from rent with the gains in property values –to an annualised 11 per cent in the third quarter, from 12 per cent in the second quarter: seeing further losses for landlords relying on housing finance.

“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,” said Carol Kariuki, Managing Director of The Mortgage Company.

“Urgent attention needs to be given to increasing the accessibility and eligibility for mortgages if we are to make any headway in increasing home ownership to a wider band of Kenyans.”

Currently, there are only about 20,000 mortgages in a market of more than 40 million people. “Even if you look at just the approximately 3.9m who are deemed to be in the middle income bracket that represents just 0.5 per cent of the potential market,” she said.

Mortgagers needed to consider full financing, to take the pressure of buyers to raise large deposits, and build housing finance products for the self-employed. “Over the last 10 years the number of employed increased from 1.6m to 2.2m people. During the same period, the number of SME /self employed people increased from 800,000 to 12 million.”

But “when a 'self employed customer' walks to a financier they are sure of one thing – that getting a mortgage is going to prove very difficult,” she said.

For more information, please contact:

Carol Kariuki

Managing Director

The Mortgage Company

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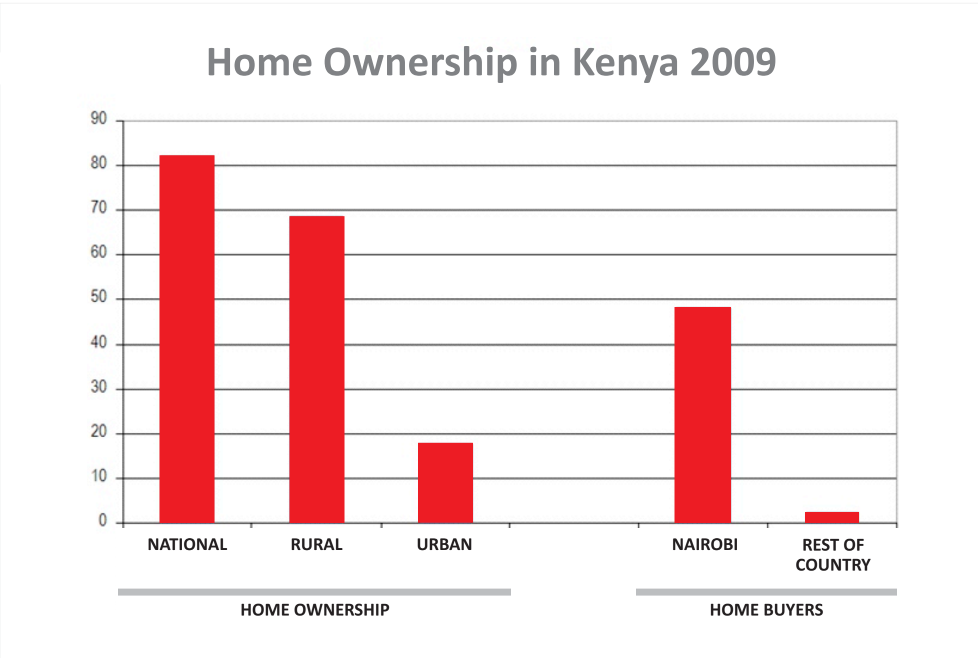
The Affordability and Eligibility Question

In Kenya there are estimated to be about 20,000 mortgages currently in the market in a population of over 40 million people. Even if you look at just the approximately 3.9m who are deemed to be in the middle income bracket that represents just 0.5 per cent of the potential market.

This is very low compared with other nations. The UK for example has 9.2 million mortgages representing 37.3 per cent of households and the US has 44.5 million mortgages representing 59.3 per cent of households. Closer to home, residential mortgages represent 56 per cent of all leading South African households.

The problem is all the more acute in Kenya's urban areas where less than 20 per cent of the population are living in their own homes, compared with almost 70 per cent in rural areas.



Source: Africa Economics

The high cost of property in metropolitan areas like Nairobi combined with the high interest rates mean that most can only afford to rent rather than take a mortgage to buy.

	Lending Rate	Total Monthly Payment
Mortgage	13.5%	Kshs. 95,590
Rent	N/A	Kshs. 45,000

Example based on New Build Development, Mombasa Road – Property offered for sale or rent at the same time.

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Today's mortgage market in Kenya faces two major issues which must be addressed in order to allow the growth of lending, **Affordability & Eligibility**

Affordability is something we have spoke about many times before. A market best lending rate of 13.5 per cent is still too high for most Kenyans and we need to see this rate come down to single digits to really push the market forward.

How Lending Rates Affect Monthly Repayments

Lending Rate	Total Monthly Payment Kshs. 10,000,000 Property	Total Monthly Payment Kshs. 3,900,000 Property
15.5% (Kenya Mainstream)	Kshs 108, 608	Kshs. 42,357
8.5% (South Africa)	Kshs 69,426	Kshs. 27,076
5.5 % (UK)	Kshs 55,031	Kshs. 21,462
3.5% (US)	Kshs 46,397	Kshs. 18,095

*deposit of 20%, mortgage of 80% over a 20 year period

Salary Required For Different Property Types

Property type	Average Price	Deposit	Deposit Saved Over	Saving Rate	Deposit Value in KSHs	Total Savings Per Year	Required Salary in KSHs a month
Stand Alone House	34,900,000	20%	5 years	20%	6,980,000	1,395,960	**581,650**
Townhouse	19,000,000	20%	5 years	20%	3,800,000	759,960	**316,650**
Apartment	12,300,000	20%	5 years	20%	2,460,000	492,000	**205,000**
First Home	6,000,000	20%	5 years	20%	1,200,000	240,000	**100,000**
Plot Loan	1,000,000	20%	5 years	20%	200,000	40,000	**16,667**

One way to help with affordability is for the lenders to remove the need for a deposit and to help finance the cost of the fees. This is exactly what Housing Finance have done with the recently introduced "Ezesha" loans, which allow customers to borrow 105 per cent of the value of mortgage property, which includes 100 per cent of the value of the property. This includes four per cent to cover stamp duty fees and one per cent to cover legal and valuation fees, which a customer is eligible to pay. With closing costs amounting to approximately 18 per cent of the property value, the company will cover 15 per cent of the value of the closing costs, meaning the customer will still have to come up with three per cent of the value of these costs.

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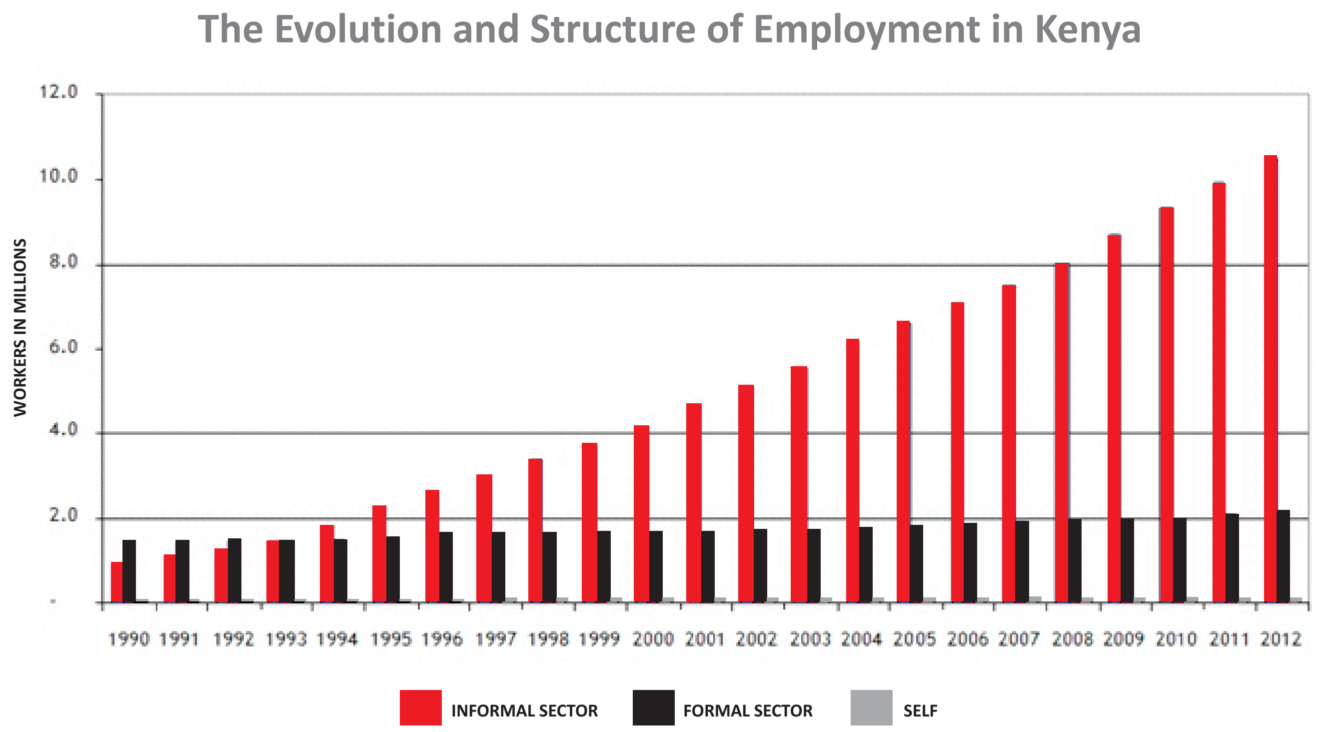
Eligibility is the second major issue. Over the last 10 years the number of employed increased from 1.6 million to 2.2 million people. During the same period, the number of SME /self employed people increased from 800,000 to 12 million.



Source: Africa Economics

When a 'self employed customer' walks to a financier they are sure of one thing – that getting a mortgage is going to prove very difficult as "proof of regular income" is totally lacking for SME customers. The problem being that the banks with require 3 years audited accounts and will normally take an average over the period rather than the current income in year 3.

The irony is that the very same SME employees can easily get loans from the same financier because they have a pay slip. It suffices to say that although the financiers are relying on income from the SME to pay the employee to enable them give the loan, they often consider the SME itself not credit worthy.

This is not an issue that is singular to Kenya and one possible method that could be adopted is similar to what has been introduced in the UK and US and that is for banks to accept a self employed person or the SME's electronic tax return as proof of income. This has a couple of major benefits as it allows the self employed/SME to easily prove their current income and it encourages full declaration for tax, as the more you declare the more you can borrow, which of course leads to higher tax collection.

Whether or not this can be adopted the question remains what more can be done to make more Kenyans eligible for mortgages and to then make those mortgages more affordable to ensure that home ownership in Kenya's urban areas becomes the norm and not the exception.

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