Q2.14 MORTGAGE REPORT
IN ASSOCIATION WITH

Mortgage market energized by new rates and policies

- Standard Chartered moves to promotional 10.9 per cent mortgage rate, marking a step change in mortgage margins
- 5 of the 15 top mainstream mortgage lenders cut rates in the second quarter, Standard Chartered by 3%, KCB by 1.6%, and I&M, Chase and Consolidated by 1%
- The average mortgage rate falls to 16.3% in second quarter, from 17% three months previous
- The introduction by CBK of the Kenya Bankers Reference Rate at 9.13% is set to pull mortgage rates downwards
- The Kenya Bankers Association introduction of APR (annualized percentage rate) is set to reveal the full costs of borrowing
- Together these moves are set to energize the country's mortgage market
- Next steps should be standardizing mortgage paperwork and building products designed for the self employed

Mortgage Rate League Table

Rank	Change in Rank	Bank	Best Interest Rate as at 29th July 2014	Change in Rate from 15th April 2014	Construction Project	Construction Individual	Home Purchase	Land Purchase	Equity Release
1	◄►	Standard Chartered	10.9%*	▼3%	10.9%	N/A	10.9%	N/A	10.9%
2	◄►	KCB S&L	12.9%*	▼1.6%	12.9%	12.9%	12.9%	12.9%	12.9%
3	◄►	Barclays Bank	14.9%	◄►	14.9%	N/A	14.9%	N/A	14.9%
4	◄►	CBA	15%	◄►	N/A	15%	15%	15%	15%
5	◄►	National Bank	15.45%	◄►	15.45%	15.45%	15.45%	15.45%	15.45%
6	◄►	CFC Stanbic Bank	15.5%	◄►	15.5%	15.5%	15.5%	15.5%	15.5%
7	▲3	I & M Bank	15.5%	▼1	15.5%	15.5%	15.5%	15.5%	15.5%
8	▼1	Co-operative Bank	15.75%	◄►	15.75%	15.75%	15.75%	15.75%	15.75%
9	▼1	Housing Finance	16%	◄►	16%	16%	16%	16%	16%
10	▼1	NIC Bank	16%	◄►	16%	N/A	16%	16%	16%
11	◄►	Bank of Africa	17%	◄►	17%	N/A	17%	17%	17%
12	▲1	Chase Bank	17%	▼1	17%	17%	17%	17%	17%
13	▼1	Equity Bank	18%	◄►	18%	18%	18%	18%	18%
14	▲1	Consolidated Bank	18%	▼1	18%	18%	18%	18%	18%
15	▼1	Diamond Trust Bank	18%	◄►	18%	18%	18%	N/A	18%

*** Promotional Rates**
Standard Chartered Bank has a promotional rate of 10.90% which will run till 31st August 2014. KCB has a promotional rate of 12.9%

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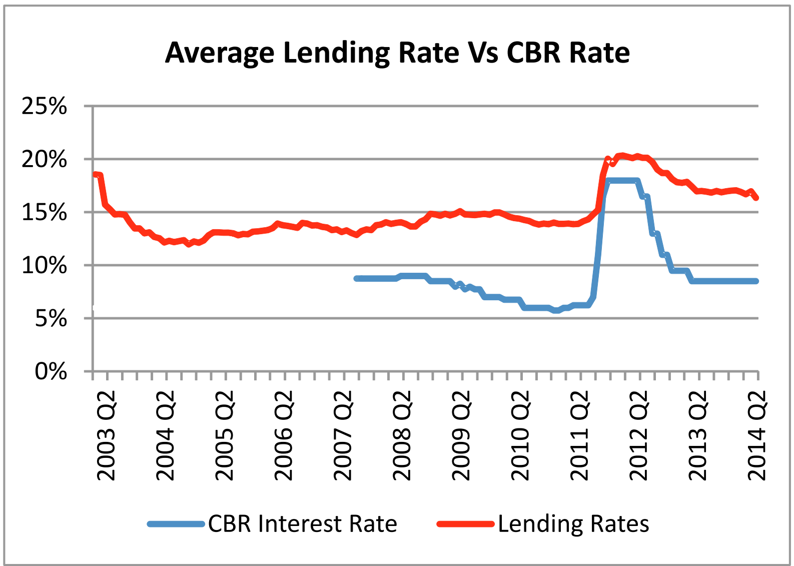
IN ASSOCIATION WITH**

The Mortgage Company
OPENING DOORS

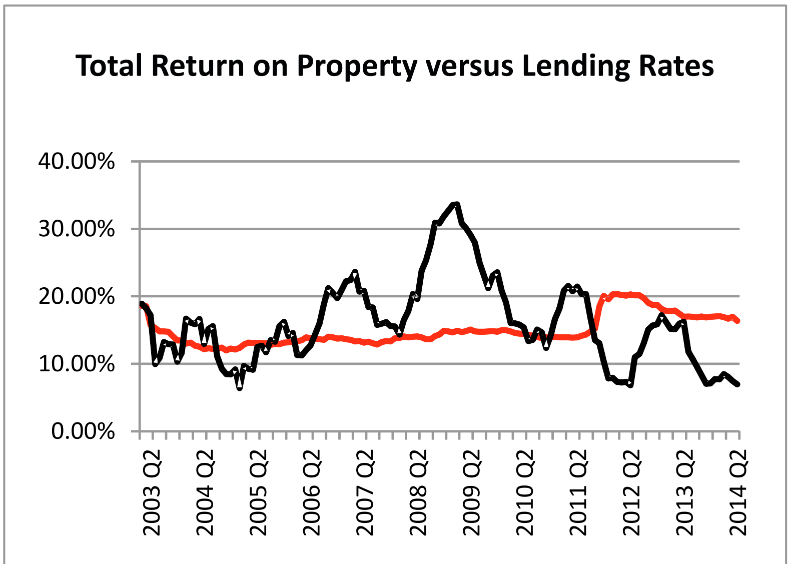
Total returns on mortgaged house purchases

A comparison of the costs of a variable mortgage, versus the gains in house price appreciation and rental income in each year.



SNAP SHOTS

Average lending rates over the last ten years.



SNAP SHOTS

Total returns from a mortgage buy (house price capital appreciation + rental income per year) less the annual cost of a mortgage will illustrate whether or not the mortgage is a profit or loss per year.

When the black line rises above the red line, you are making a profit even with the cost of the mortgage.

Q2.14 MORTGAGE REPORT
IN ASSOCIATION WITH

Moving In The Right Direction For The Mortgage Sector

Caroline Kariuki, Managing Director of The Mortgage Company provides insights into the mortgage market.

The recent introduction of the Kenya Banks' Reference Rate at 9.13% on 8th July is the first step towards developing a more vibrant mortgage market in Kenya. The KBRR would be the equivalent of the LIBOR (London Interbank Offer Rate) against which all international currencies are priced. The standardization of the offer rate means that the Central Bank rate that previously was ignored by banks in setting up their base rate will now be a serious reference rate for all financiers.

Standard Chartered Bank in launching their mortgage offer of 10.9% p.a. was the first bank to conform to the new rate guidelines quoting the rate as KBRR +1.77%. What this means is that the mortgage rate will be fixed for 6 months until the Central Bank of Kenya reviews the KBRR.

The second great step was in the introduction of the APR (Annual Percentage Rate) or total cost of credit for all lenders. The APR that was introduced by The Kenya Bankers Association on 1st July 2014 includes interest rates, bank charges and fees including legal, insurance, valuation and government levies. This will promote more transparency in pricing of all loans and full disclosure of the other costs in availing the loans. This will go a long way in enabling borrowers to have a full view of the commitments they are making in taking the loan without any hidden costs.

Positive reporting on the Credit Reference Bureau has also opened up visibility for lenders of the true position of borrowers in terms of credit. The initial reaction is to see individuals as highly exposed, but with time, this will be viewed positively, as being able to handle debt is critical in the financial discipline of long-term commitments.

The highly publicized reform agenda at the Ministry of Lands, Housing & Urban Development is also another positive step towards creating the framework for an enabling mortgage sector. With the digitization of the land records, the titling process will become much more efficient and reliable, therefore opening up the industry for the secondary mortgage market.

What do we need to do next?

With these three great initiatives in place, we need to do two things: the first is the standardization of documentation and the other is the need to critically analyze the unique composition of the market's dynamics to enable us open up the industry to universal acceptance.

In more developed markets, mortgage documentation is standardized so that mortgages are similar despite the originating bank. This means that the application forms and the security documentation are all standardized, and the legal documentation and valuation parameters make mortgages comparable, despite the different service providers. This will be a pre-requisite to having mortgages sold to the secondary market. Given the youthful nature of our market, this is an opportune time to undertake this process.

Kenya is, however, a unique market with different characteristics from the rest of the developed market. We have attempted below to outline some of the unique features that define our market and that will need to be taken into account to facilitate growth and uptake.

1. Kenya is defined by the predominantly self-employed sector, which, to date, has little or no access to mortgages. The ability to adequately analyze and price risk for this sector will be very important in growing the housing market in future. It is very interesting how the micro finance sector, led by Equity Bank, has found ways in analyzing business related risk and yet these institutions have not been able to finance the home market using a similar model. The unique features of the sector do not lend themselves to the traditional mortgages designed for long term regular income and yet, if Micro lenders can meet business obligations, we surely can overcome the barrier of designing products that will facilitate home ownership in this segment. Perhaps Government intervention through the introduction of a Guarantee scheme will reduce the perceived risk of lenders, or the combination of a savings and loan product, where the borrowers save up for some time to create a buffer for any defaults.

2. Funding the mortgage sector will need to be done differently as bank deposits are neither sufficient nor well matched in risk and tenor. The introduction of the higher premiums for pension funds may be the opening that the market requires to find well-matched liquidity for the mortgage sector. If this is well structured, we need not put our pensions at risk, but facilitate the much needed funding to sustain and grow our home ownership levels.

3. Our economy is agriculture based and while in most rural settings the population owns their homes, the issue here is the quality of housing that is there. Incremental housing models that tie in income from agricultural cycles and home improvement finance would be a definite opening for the sector where a self build model would be better suited. With Kenya being the 2nd most developed financial market after South Africa in terms of financial access, it would be easy to translate the regular inflows from milk, tomatoes, sugarcane, tea and coffee into regular flows for housing finance.

In conclusion, Kenya is moving towards a great space with mortgage lenders having more information to make better credit decisions and buyers having better protection from lenders with a full view of the cost of credit. Exciting times are coming with the banks taking a more competitive stance and the margins beginning to narrow. Once the CBK takes on a more aggressive KBRR, we should see the mortgage sector heading in the right direction of lower cost of debt and the mortgage uptake becoming a norm rather than an exception.