Q4.13 MORTGAGE REPORT
IN ASSOCIATION WITH

THE Mortgage COMPANY
OPENING DOORS

Commercial banks hold on to high mortgage rates, with scant funds to lend

- Mortgage rates were stable in the fourth quarter, with rises only on the expiry of Q3 promotional offers from Barclays and CFC Stanbic
- The average mortgage rate in Q4 was 16.89 per cent
- Standard Chartered Bank continues to offer the most competitive interest rate currently standing at 13.9% and United States Dollar Mortgages at 5.9%
- National Bank of Kenya has revamped their mortgage product however their rate has remained the same at 15.45%.
- With the Central Bank of Kenya base rate stable at 8.5 per cent, five Kenyan commercial banks held on to mortgage rates priced more than 9 percentile points above the base rate
- The banks with a spread of 9.5 to 10.5 percentile points were Equity Bank, Family Bank, Chase Bank, Diamond Trust Bank and Consolidated Bank

Mortgage Rate League Table

					Construction				
Rank	Change in Rank	Bank	Best Interest Rate as at 23rd January 2014	Change in Rate from 28th October 2013	Project	Individual	Home Purchase	Land Purchase	Equity Release
1	▲ 1	Standard Chartered	13.9%	◀▶	13.9%	N/A	13.9%	N/A	13.9%
2	▲ 2	National Bank	15.45%	◀▶	15.45%	N/A	15.45%	15.45%	15.45%
3	▼ 2	CFC Stanbic Bank	15.5%	▲ 2%	15.5%	N/A	15.5%	15.5%	15.5%
4	▼ 1	Barclays Bank	15.5%	▲ 0.6%	15.5%	N/A	15.5%	N/A	15.5%
5	▲ 1	Co-operative Bank	15.75%	◀▶	15.75%	15.75%	15.75%	15.75%	15.75%
6	▲ 1	Housing Finance	15.9%	◀▶	15.9%	15.9%	15.9%	15.9%	15.9%
7	▲ 1	KCB S&L	16%	◀▶	16%	16%	16%	16%	16%
8	▲ 1	NIC Bank	16%	◀▶	16%	N/A	16%	16%	16%
9	▼ 4	I & M Bank	16.5%	◀▶	16.5%	16.5%	16.5%	16.5%	16.5%
10	▲ 1	Bank of Africa	17%	◀▶	N/A	N/A	17%	17%	17%
11	▲ 1	CBA	17%	◀▶	N/A	17%	17%	17%	17%
12	▲ 1	Equity Bank	18%	◀▶	18%	18%	18%	18%	18%
13	▼ 3	Chase Bank	18%	◀▶	18%	18%	18%	18%	18%
14	◀▶	Diamond Trust Bank	18%	◀▶	18%	18%	18%	N/A	18%
15	▲ 1	Consolidated Bank	19%	▲ 1%	19%	19%	19%	19%	19%

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Promises of narrowing spreads from Kenya's mainstream mortgage lenders after the uncertainty of last year's, elections were yet to bear fruit in the fourth quarter of last year, reported Carol Kariuki, Managing Director of The Mortgage Company, as she presented the TMC Mortgage Report for the fourth quarter of 2013.

Overall, mortgage rates remained unchanged in the fourth quarter, at an average 16.89 per cent. But both Standard Chartered and CFC Stanbic ended their third quarter promotional offers. Barclays Bank also increased rate rise from 14.9 per cent to 15.5 per cent, and CFC Stanbic from 13.5 per cent to 15.5 per cent.

Standard Chartered Bank offered the most competitive mortgage rate in the quarter, with their limited Christmas offer at 12.9 per cent.

Front runners in the sector continued to be Standard Chartered, CFC Stanbic, Barclays, and among local lenders National Bank and Housing Finance.

At the back of the pack, Consolidated Bank continued to offer the country's most expensive mortgages at 19 per cent, followed closely by Equity Bank, Family Bank, Diamond Trust Bank and Chase Bank, all at 18 per cent. Many of these banks focused on pricing mortgages based on a case-by-case basis based on the relationship with the customer.

"With the Central Bank of Kenya rate stable at 8.5 per cent, the unusually wide spread on these bottom end rates, at around 10 percentile points, reflects some lack of interest and funds for mortgage lending by these banks," said Ms Kariuki.

"They are being priced to reduce demand," she said.

The high pricing has continued to limit the uptake of mortgages, with now a prolonged impact on house pricing, and on the returns on property as an investment.

"It is vital to understand that if we continue to step up the demand for housing with an underdeveloped mortgage market, the casualty, in the end, will be Kenya's entire property market, possibly with an impact as severe as falling house prices," she said.

''The market needs a radical shift to free up long term funding for mortgages through establishment of a secondary mortgage market. This is the only way that Kenya will see a significant increase in mortgage uptake and home ownership. There has been much talk but very little action, Kenyans need a proactive response towards this end.'' she said.

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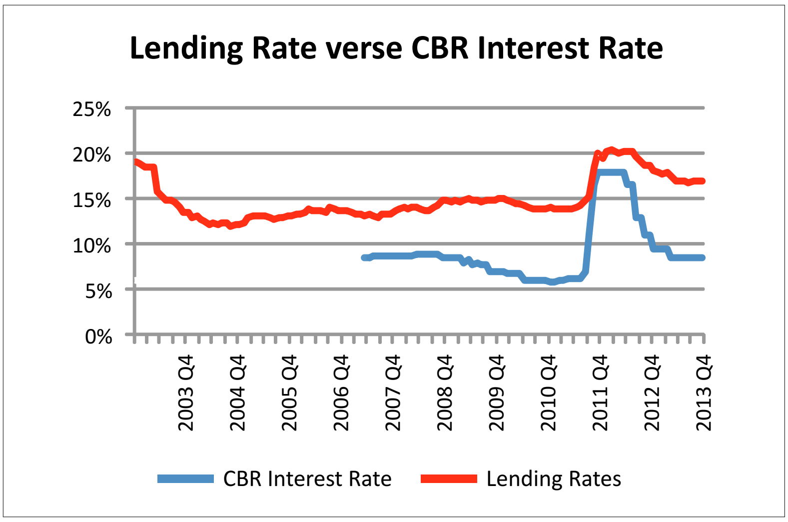
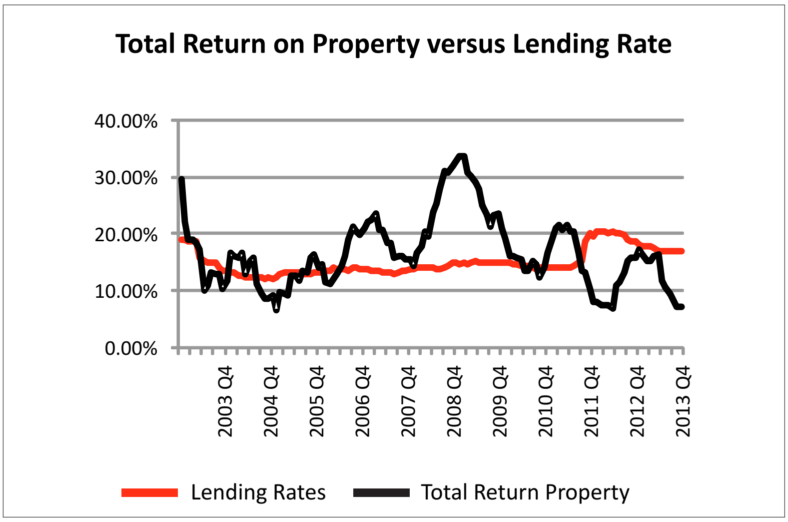
The Mortgage Market over 10 years

Snap shots of the mortgage market over 10 years, including a look at commercial bank lending rates versus CBK rates as well as total returns on mortgaged property.



SNAP SHOTS

Average lending rates (Commercial Banks' Weighted Average Interest Rates) over the last ten years versus the Central Bank Rate



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.

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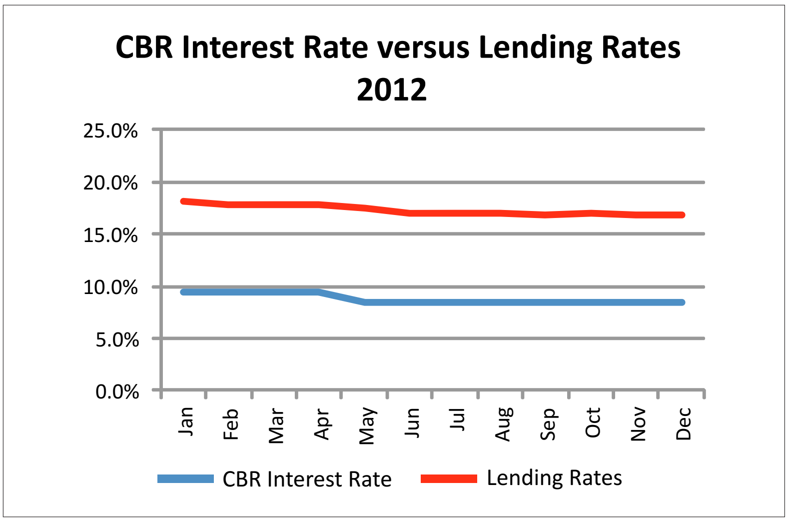
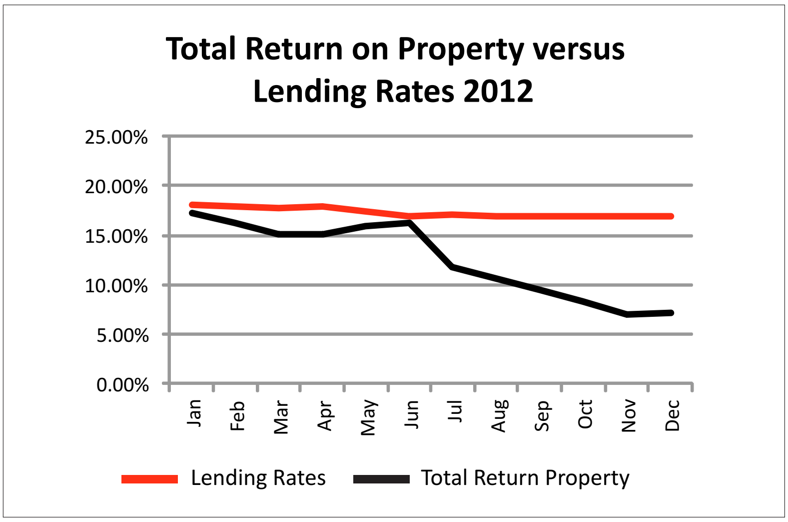
The Mortgage Market: 2013

Snap shots of the mortgage market over 2013, including a look at commercial bank lending rates versus CBK rates as well as total returns on mortgaged property.



SNAP SHOTS

Average lending rates (Commercial Banks' Weighted Average Interest Rates) versus the Central Bank Rate in 2013.



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Beyond Interest Rates – What Will Define The Mortgage Industry 2014

Caroline Kariuki, Managing Director of The Mortgage Company provides insights into the year ahead.

In previous reports we have focused heavily on the importance of brining down interest rates to encourage mortgage affordability and penetration in the country. Competitive advantage for industry players will be defined by the ability of financiers to crack some issues that remain unanswered.

Credit Assessment

While many commercial banks have shown interest in availing mortgages in the market , credit assessment remains poor at best. Mortgage applications take at least 2 to 4 weeks to have the initial indication of financier's interest. Once this is provided, meeting the long list of requirements becomes an onerous task that only those with serious determination to see the process through ever complete the mortgage draw down process. Many financiers hold large portfolios of “approved held pending draw down” meaning that either the completion of the homes remains a challenge or that the customers gave up waiting for approval and found other ways of financing their homes.

For the SMEs, most financiers shy away from even touching an SME request. Even when they do, the criteria is so stringent and the rental income so heavily discounted that many that dare approach a financier give up along the way. Notwithstanding all these people currently live in rental accommodation which they faithfully pay rent each month end. Posing the question, what is more stable an employment income (one could lose their job) or rental income for a house that will be there for the next 20 years?

With increased credit information and the recent enhancements where we have Full File Credit Information sharing (FFCIS), we can begin to have a more robust system of assessing credit scores for individuals and we challenge financiers to use this to ease the process and enable SMEs access credit more easily. Automation of credit assessment as is common in other markets should enhance the current challenges where the subjectivity of credit assessment leads to delays in approval of facilities.

Process of Loan Approval

Many of our financiers are very excited when receiving credit applications but thereafter the customer is taken through a long protracted process to provide documentation which seems as though the financier disproves everything that the customer says. The process is not standard and neither is the documentation requested standard, at this stage it appears to be analysis paralysis. When finally the customer gets the facility, the security perfection process is long and protracted.

The computerisation of the titles at lands office needs to be expedited to facilitate transactions both from a time perspective and to ensure the authenticity of title documentation.

Long Term Funding

The current funding model does not lend itself to enhancing growth of the industry. All financiers use their balance sheets, hold the mortgages in their books and use short term funding to finance mortgages.

The development of the Secondary mortgage market has been spoken about many times but cannot be over-emphasized.

Firstly it will reduce the cost of funding for the industry therefore allowing more people access to mortgage financing.

Secondly the secondary market allows the long term financiers such as pension funds and insurance companies investment opportunities in a safe manner. Currently very little of the funding from these institutions are channelled to real estate save from purchase of large commercial buildings with a rental yield of 4-6% per annum. Imagine if we could get mortgages at this rates and what impact his would have on the industry and the economy.

Thirdly, this would provide the home owners with access to 30-year fixed rate mortgages. Imagine owning your home for 30 years enjoying no rental increases and having capital gains tax at a monthly cost lower than your current rent! This would be a catalyst for the exponential growth of the mortgage sector in this country and beyond.

Finally this will provide the market with liquidity to allow the funding of more mortgages without the restrictions of the financier's core capital and reserves.

Encouraging First Time Home Buyers

The current closing costs in Mortgage transactions can be prohibitive to many where savings are in short supply. In countries where home ownership penetration has grown the Government has either had to chip in to force savings as in the famous Singapore model or create incentives that encourage first time home buyers through very attractive tax incentives. In Kenya, these incentives are not aligned to the market realities – the developers who can access incentives can only do so for homes not exceeding Kes 1.6 million. Given the rise in cost of land, construction and the many taxes introduced to the “booming” sector, Government is not addressing the housing challenge . The interest component that qualifies for tax is quite limiting and does not provide adequate relief for the new home buyers.

World over the affordable housing market cannot purely be the responsibility of the private sector. Subsidies are the only way to support this sector. Institutions such as National Housing Corporation should focus primarily on this sector leaving well served middle income housing to the private sector to service.