AN INVESTIGATION OF THE FACTORS DETERMINING ACCESS TO HOUSING FINANCE BY LOW AND MIDDLE INCOME EARNERS IN NAIROBI

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DECLARATION

This project is my original work and has not been presented for a degree in any other university or for any other award.

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DEDICATION

I dedicate this project to all my students of business whose desire to learn keeps me motivated to learn more so as to guide them as they learn. To my wife, Mrs. Emily Mogaka, you know this is our future; there is no other one, let us live it, let us love it, but let all the honor and glory be go to God, let us say, “not I but Christ”. To my entire family and friends, I dare say, “to God be the glory great things he hath done; and no matter what the people say, I will always be of his service.”
ABSTRACT

The marginal and low-income groups face a number of obstacles in their quest to secure housing finance to improve their living conditions. Compared to the neighbors, Kenya has a more developed and effective finance system. However, it appears that the only beneficiaries from it are the middle and upper income groups of the housing market. Housing represents a major investment requiring a substantial capital outlay. As illustrated elsewhere in this document, personal residences account for 75% to 90% of household wealth in emerging market countries. In Kenya, it is estimated that out of a total 150,000 housing units required annually in urban areas, only an estimated 35,000 are produced. The shortage of housing is even acute for low-income households in urban areas, since only an estimated 6,000 units, or 20% of the total number of all houses produced, cater for this group. In Kenya, only a small proportion of households of 10%, have traditionally qualified for mortgage loans from housing finance institutions, and borrowers generally consist of high net worth individuals. This study was aimed at determining the effect of level of income, interest rates, lack of a collateral, information asymmetry and requirement for a predetermined deposit on access to housing finance. The research design was a causal research whereby stratified random sampling technique was adopted to select a sample of 120 i.e. 1% of the employees. A questionnaire was administered and the responses recorded. The data collected was analyzed using various measures of central tendency, measures of dispersion, correlation and ANOVA test. Also, various percentages and ratios were calculated. It was presented through the use of charts and graphs. Only 27% of the respondents owned houses while 65% rented their current houses and 7% stayed in houses owned either by their employers or stayed with relatives and friends. Only 23% financed the houses they owned from their personal savings. The rest got finances from the different institutions, for example, commercial banks, mortgage institutions, cooperative societies, investment groups and loans from their employers. Low monthly income was a factor that influenced the realization of home ownership. While 68% of the respondents said the interest rates are not a problem, 32% saw it as a big factor in accessing housing finance. Lack of security was a factor denying respondents access to finance. Majority of the respondents would not raise the high pre-determined down payment hence could not access housing finance. Therefore, the housing finance providers need to restructure the monthly repayments so that they are affordable to the low income earners. They should give attractive and affordable interest rates to encourage more people to own homes, the issue of down payments should be reviewed and the applications procedures should be made simpler. Also, the high pre determined down payments need to be reviewed so that those who cannot raise can still access housing finance. The nature of the collateral required to borrow especially from commercial banks need to be reviewed so that more options are available for the low and middle income earners.
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OPERATIONAL DEFINITIONS OF TERMS

LOW INCOME EARNER: - Kenyans earning below Kshs 23,671 per month. Fifty six percent of the Kenyan populations fall in this category (KNBS, 2010)

MIDDLE INCOME EARNER: - All Kenyans earning between Ksh23,672 and Ksh119,999. This is the group commonly referred to as the middle class, who usually have a steady income. (KNBS, 2010)

HIGH INCOME EARNER: - Kenyans who are earning more than Sh120,000 per month. The group constitutes less than ten percent of the Kenyan population. For them, access to housing finance is not a problem. (KNBS, 2010)

HOUSING FINANCE: - Money for acquisition of residential houses. Sources of finance for housing are varied. For the purpose of this research, housing finance will imply finance from formal sector institutions like banks, mortgage companies, co-operative societies etc. it will exclude contributions from friends and relatives, gifts etc.

ACCESS TO HOUSING FINANCE: - Availability and utilization of housing finance by a person. The existence of providers of housing finance will not automatically translate into availability and utilization by all citizenry. That is why this research seeks to answer questions on the determinations on availability and utilization.

HIGH-INCOME COUNTRY: - A country with a Gross National Income per capita of $12,196 or more in 2009. The term "high income" may be used x
interchangeably with "First World" and "developed country". Such countries are usually highly industrialized and highly technological. (UN, 2009)

**MIDDLE INCOME COUNTRY:**

- a country with a Gross National Income per capita of between $996 - $12,195. Many of these are the emerging economies like China, India, and Brazil among others. Such countries are usually able to afford relatively high quality of life to their citizens compared to third world countries. (UN, 2009)

**THIRD WORLD COUNTRY:**

- Countries with a Gross National Income per capita of less than $996. Many of such countries are found in sub-Saharan Africa and South America. The quality of life is generally low and the financial system is not well developed. (UN, 2009)
LIST OF ABBREVIATIONS

KNBS: - Kenya National Bureau of Statistics

IFC: - International Finance Corporation

GoK: - Government of Kenya

UN: - United Nations

GDP: - Gross Domestic Product

GNP: - Gross National Product

CMHC: - Canadian Mortgage and Housing Corporation

FHL Banks: - Federal Home Loan Banks

FHA: - Federal Housing Administration

HDFC: - Housing Development Finance Corporation Limited

CBK: - Central Bank of Kenya

CCN: - City Council of Nairobi

DPM: - Directorate of Personnel Management

SACCO: - Savings and Credit Co-operative Society

DF: - Degrees of Freedom
CHAPTER 1:
INTRODUCTION

1.1 Background of the study

The housing stock of a nation is important because it not only provides the shelter from where other basic human rights can be enjoyed. The importance of provision of finance housing cannot therefore be over-emphasized. The development of housing finance is linked to overall country-wide economic development, including the strengthening of financial institutions, reducing poverty, promoting social stability, and improving people’s lives. The housing finance market is amongst the most important sectors in an economy because it accounts for a sizeable portion of a country’s productive activity, through backward linkages to land markets, building materials/tools, durable goods, non-durable goods in terms of home furnishings, and labor markets. (Agatha, 2007)

There seems consensus that the purpose of a housing finance system is to provide the funds which home-buyers need to purchase their homes. In a number of countries, largely as a result of government action, very complicated housing finance systems have been developed. However, the essential feature of any system, that is, the ability to channel the funds of investors to those purchasing their homes, must remain. (Boleat, 1985)

Housing finance is what allows for the production and consumption of housing. It refers to the money we use to build and maintain the nation’s housing stock. Therefore, housing finance literally means finance for housing or real estate development. However, it means more than that, it also means or includes the source of the finance, the management of the finance and all various operations on the source, management, procurement and utilization as well as repayment of such finance. Housing finance equally means the same thing as mortgage finance except that while housing finance is a general term encompassing all the transactions in the
housing market, mortgage finance can be applied to single or individual housing financial transaction. (King, 2009)

The terms low income earners, middle income earners and high income earners are relative; actually, the idea of class boundaries is fluid. The terms may mean different things to different persons depending on factors like location and cost of living. The low income earners in Kenya are those earning below Ksh 23,671 per month. All Kenyans earning between Ksh. 23,672 and Ksh119,999 belong to the middle income band and account for 24 per cent of the population while the top earners take home more than Sh120,000. 72.3 per cent of Kenyans belong to the bottom band of the income bracket and 3.7 percent of Kenyans belong to the high income bracket. (KNBS, 2010)

The income profile of the Nairobi residents is that 10% of the people earn 90% of the income, and the 90% earn the remaining 10% income. The low and middle income earners fall in the category of 90% who are only sharing the 10% income of Nairobi. A home is generally the most important asset people will ever own. For poor families around the world, it is likely to be the only significant asset they will possess. Therefore, mechanisms to facilitate home ownership are very important. Personal residences account for 75% to 90% of household wealth in emerging market countries. ((Wafula, 2004; IFC, 2007; Mutero, 2007)

By its nature housing represents a major investment requiring a substantial capital outlay. As already illustrated, personal residences account for 75% to 90% of household wealth in emerging market countries. Access to housing finance is therefore critical, especially in a country like Kenya where over 46% of the population lives below the poverty line. (IFC, 2007)

In many developing economies like Kenya, sources of housing finance range from personal savings, loans from banks and co-operative societies, mortgages, among others. Nevertheless, a housing market cannot flourish if the housing finance only allows a few segments of society to purchase and expand or improve their homes while it remains inaccessible or unaffordable to others. (Carol, et al., 2008)
1.2 Statement of the Problem

Formal housing finance has been unable to meet the needs of the poor around the world. An effective housing finance system requires the balancing of two elements; affordability for households and profitability for the housing finance. Access to finance is a key determinant in access to housing. However, in Kenya, several groups of the population have not benefited from the housing finance. Nairobi accounted for around 90% of housing finance loans originated each year. It is therefore a contrast that although the city could generate over 90% of the loans generated, over sixty percent of the population could still live in slum areas. (Gulyani et al., 2006; Mutero, 2007; UN Habitat, 2008)

The inadequate access to finance is manifested in the overall supply of housing for the different population segments. In all the Kenyan urban centres, it is estimated that out of a total 150,000 housing units required annually. Of these, only an estimated 35,000 are produced. The shortage of housing is even acute for low-income households acute in urban areas, since only an estimated 6,000 units, or 20 per cent of the total number of all houses produced, cater for this group. The housing shortage affects both the owner-occupier and the supply of adequate rental housing by the market. In Kenya, only a small proportion of households of 10%, have traditionally qualified for mortgage loans from housing finance institutions, and borrowers generally consist of high net worth individuals. (CBK, 2010; GoK, 2008; Nora, 2007)

The purpose of this research was establish the factors that determine the accessibility of housing finance by the low and middle income earners from the housing finance providers in Kenya. This will help explain the disparities that have emerged in the provision of housing between the different income segments, whereby the market is developing housing more for the high income segment where demand seems to be more, and less for the other income segments.
1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to investigate the factors affecting access to housing finance in Kenya.

1.3.2 Specific Objectives

The specific objectives of this study were:

1. To find out the relationship between income level and access to housing finance
2. To determine the effect of interest rates on access to housing finance
3. To find out the relationship between lack of collateral and access to housing finance.
4. To establish the effect of information asymmetry on access to housing finance.
5. To determine the effect of requirement for pre-determined deposit on access to housing finance.

1.4 Research Questions

The research questions that this study sought to answer were:

1. What is the relationship between income level and access to housing finance?
2. What effect of interest rates on access to housing finance?
3. How does lack of collateral affect access to housing finance?
4. What is the effect of information asymmetry on access to housing finance?
5. How does the requirement for a pre-determined deposit affect accessibility of housing finance?

1.4 Significance

Access to housing finance is a global policy challenge, which has a direct impact on delivery of shelter. UN Habitat notes the predominance of "two extreme
outcomes of current shelter systems that are being witnessed today: affordable
shelter that is inadequate and adequate shelter that is unaffordable.” (UN Habitat,
2004)

There is a strong correlation between economic development and the size of the
housing finance market. Real estate assets account for between 7 percent and 20
percent of GDP in country around the world Therefore, any system that is
supporting its housing development is contributing to the long-term growth and
stability of the country as well as the welfare of its people. (Boleat, 2008)

Policy makers therefore need information on the factors that determine access to
housing finance from the existing housing finance providers as currently
structured. This research is aimed at generating information that will be useful in
increasing access to housing finance.

This will help policy makers determine why despite the relatively robust
mortgage lending, a large number of the population, mostly, low and middle
income earners are yet to benefit from housing finance and acquire decent homes.

1.5 Assumptions of the Study

The research sought information of issues that is considered confidential. I
therefore assumed that the respondents gave truthful information. Thankfully, the
City Council of Nairobi employees who were the sampling frame were very
willing to participate in the study.

1.6 Scope and Limitations of the Study

This study was concerned with access to housing finance among the low and
middle income earners in Kenya. The focus was therefore be on the individuals
themselves and the sample was be drawn from the employees of the City Council
of Nairobi. A sample of the civil servants was drawn and the questionnaire
administered.
The study was subject to a number of limitations. The outcome of a research might be dependent on various factors. These factors include the choice of an appropriate research methodology, how reliable the data collected are and the application of appropriate statistical tools, if relevant. (Walker, 1997)

The respondents saw the value of the research and were cooperative. This was achieved by assuring them that the research is for academic purposes and no information which they give shall be used for any other purpose. I encouraged them that the results of the study may result in policy options that can make housing finance accessible.

The research process was likely to be affected by the individual work schedules of the respondents. It was possible that they may be out of the office attending other issues, or they may be busy to dedicate quality time to the research. This was overcome this by seeking prior information from the in-charge in particular offices, so that I knew what time is most appropriate for administering the questionnaire.
CHAPTER 2
LITERATURE REVIEW

2.1. INTRODUCTION

Housing finance is not a new area. Over time, several themes have emerged to explain the concept of housing finance and how housing finance can be operates in different parts of the world. Housing finance contributes to social stability by enabling households to purchase an asset which will represent their largest single investment. Personal residences account for 75% to 90% of household wealth in emerging market countries, which amounts to 3 to 6 times their annual income. Furthermore, housing represents 15% to 40% of the monthly expenditure of households worldwide. (IFC, 2007)

This chapter explains the various schools of thought that have emerged in the area of housing finance.

2.2. THEORETICAL LITERATURE REVIEW

2.2.1. Role of Housing Finance

Food, clothing and shelter have always been considered basic human needs. While there has been a lot of emphasis on the first two, shelter is sometimes ignored. Housing is meant to provide shelter, from where people can enjoy other human rights. A characteristic feature of a housing investment is its relative size and long investment horizon, requiring large amounts of long-term finance.

The important role of housing finance in increasing access to housing cannot be underscored. The development of housing finance is linked to overall country-wide economic development, including the strengthening of financial institutions, reducing poverty, promoting social stability, and improving people’s lives. The housing finance market is amongst the most important sectors in an economy because it accounts for a sizeable portion of a country’s productive activity, through backward linkages to land
markets, building materials/tools, durable goods, non-durable goods in terms of home furnishings, and labor markets. (Agatha, 2007)

Also, housing markets have significant forward linkages with financial markets. Mortgage debt accounts for a large proportion of household debt and, through secondary markets and securitization, supports the efficient functioning of domestic and international financial markets. Housing markets are routinely monitored as an important leading indicator of overall macroeconomic activity. The housing finance sector has a tremendous developmental impact, both in terms of providing social stability and in promoting economic development. (IFC, 2007)

Access to housing finance especially in the developing world, has two major benefits. First, access to housing finance is about access to shelter, and second, access to housing finance is about access to a housing asset. Access to shelter is key strategy in the fight against homelessness; while access to an asset is expected, over time, to enhance the wealth base of otherwise low income households, leading them out of poverty. (Rust, 2007)

2.2.2. Sources of Housing Finance

The need for housing finance has led to different institutional and non-institutional arrangements, ranging from contractual savings schemes; to depository institutions specializing in mortgage finance; to the issuance, sale, and trading of mortgage bonds and securities. All of these arrangements have been created with the same purpose in mind, to mobilize and channel funds from savers to borrowers in an effective way to facilitate access to finance for housing as the finance providers seek to make profit. (Lea, 2001)

From the basic level, savings could be the key source of finance for housing. However, for the poor, the earnings are barely enough to meet the basic needs. There for, they may as well not be able to save enough to afford decent housing of their own. Therefore, unless there are particular policy initiatives, such people may be condemned to indecent housing for ever, and they may never have houses of their own. Due to the impracticality of relying on personal income to finance housing, a number of financial sector initiatives have emerged to finance housing.
In many countries, the main mechanism for formal financial-sector finance of housing is the retail depository institution. In this system, an institution gathers savings from households and enterprises and makes loans to homebuyers. By taking in savings from non-homebuyers, depository institutions can access a much larger pool of funds at a relatively cheap funding cost. The deposit-taking institutions may include commercial banks that offer a complete range of banking services, savings banks that deal largely with the household sector, and specialist housing-finance institutions (building societies or savings and loan associations) that focus their lending primarily on housing. A key feature of a depository system is that the institution originates, services, and funds the loan. Funding is primarily through retail deposits, but these institutions may also issue bonds and mortgage securities. Another important feature is the short-term, variable rate nature of the funding, compared to the longer-term housing loans. (Warnock, 2007)

Building societies have also been a common source of housing finance in different countries. The early building societies were formed to mobilize savings of lower- and middle-income households for the sole purpose of home construction. Members would agree to contribute regularly to the society, build houses together, and allocate houses by lottery until each member was housed. Once the defined group of members was provided housing and had repaid the loans, surplus assets, if any, would be distributed among members and the society would be terminated. Credit risk was lowered by the shared information about the groups’ members. Variants can still be found in many lower-income countries particularly when commercial banks are absent from the market. During the mid-19th century, societies developed into permanent institutions, attracting funds not just from borrowers but also from other savers, and lending for purchase of existing houses as well as for building new ones. (Follain, 2000)

Through most of the 20th century, the building society/savings and loan (S&L) model dominated housing finance in many parts of the world. Starting in the 1980s, this model began to lose influence and market share to commercial banks. The failure of many S&Ls was a result of their inability to manage the market risks of providing long-term fixed-rate loans versus shorter-term variable rate liabilities. The remaining institutions have
evolved into broader-based depository institutions but retained their focus on housing finance. (UN, 2005)

Commercial banks initially did not have a major involvement in housing finance but limited themselves to financing business and providing means of payment. Prior to financial liberalization, this was often supported by regulation that constrained banks from offering mortgage finance. Banks had concerns about the risks of providing long-term loans as well, if much of their funding comes from short-term deposits that can be withdrawn on demand. The volatility of real estate markets also further constrained bank presence in housing finance. Financial liberalization in developed countries has changed the role of banks in the mortgage market (Levine, 2000).

Also, evidence suggests that there are many individual households and builders who borrow from the commercial banking sector to build houses for rental or for their own occupation. Such loans, usually of short maturity, are commonly taken out as personal loans to support incremental building or outright construction. (Mutero, 2007)

Specialist Mortgage Banks are another common form of housing financing. The specialist mortgage banks originate and service portfolios of mortgage loans that are funded by securities they issue. The securities are typically purchased by institutions with long-term sources of funds (for example, pension funds and insurance companies). The mortgage bank system dates back to the late 1700s and has been extensively used in countries like Germany and Scandinavia. Mortgage banks offer both residential and commercial mortgages.

Another emerging concept is micro-finance for housing whereby technical assistance and micro-loans are provided, more especially for the low income segment. Housing microfinance consists mainly of loans to low-income people for renovation or expansion of an existing home, construction of a new home, land acquisition, and basic infrastructure among others. Here, “micro-finance” of housing means small loans – typically US$ 300 to US$ 3,000 - at market rates of interest amortized over short terms - often, two to ten years. These microloans can rotate, that is, after paying off one loan; the household becomes eligible for another. Sometimes, specialized NGOs accustomed to
working with low/moderate-income households package these loans and provide technical assistance to households. This technical assistance can involve the loan and the building process, ranging from the preparation of plans and cost estimates for construction work to reconstructing self-employed income and other necessary documentation for the credit file so that the loan can be underwritten. (Ferguson, 1999)

In summary, there are a range of sources of finance for housing targeting different needs of the prospective home owners. It is therefore a contrast that a large segment of the population benefited from access to housing finance.

2.3. EMPIRICAL LITERATURE REVIEW

2.3.1. Housing finance in developed countries

In mature a financial-sector, funding of housing is by formal financial institutions. These institutions can be private-sector entities, which can be shareholder-owned or mutual organizations, or government-sponsored or -owned institutions.

In Britain, housing finance as an activity is regulated by the Financial Services Authority. Any organisation is free to provide loans for house purchase on any terms it wishes. There are no statutory restrictions on the amounts that can be lent, either in absolute terms, in relation to the value of the property or in relation to the income of the borrower. There are also no restrictions on the type of mortgage, in particular how the rate of interest is determined and can be changed. In comparative terms, Britain has one of the largest mortgage markets in relation to the size of its economy. Outstanding mortgage loans are roughly equivalent to GDP. Over 90% of all mortgage loans in Britain are made by deposit taking institutions, and mortgage lending is regarded as a mainstream mortgage lending activity rather than a specialist activity to be conducted by specialist institutions. (Boleat, 2008)

The financial system of Britain is highly developed and therefore the market forces can allocate the demand and supply for finance in such a way that the need for housing finance is met. The same may not apply in a poorly developed financial system.
The U.S. housing finance system provides mortgage capital to home buyers and producers of rental housing through a system of private companies and government backing. The system includes private financial intermediaries such as banks, mortgage bankers and mortgage investors, government sponsored enterprises (GSEs), such as Fannie Mae, Freddie Mac and the Federal Home Loan Banks (FHL Banks) and government supported organizations, such as the Federal Housing Administration (FHA), Rural Housing Service (RHS), Veterans Affairs (VA) and Ginnie Mae. Federal laws and federal financial institution requirements focus some of the private market activity as well as providing insurance against consumers’ loss of deposits. In USA, the mortgages outstanding currently stand at 50% of GNP. (Williams F (2006))

Therefore, provision of finance for housing has not been left in the hands of the private sector entirely, but government plays a pro-active role. The several states therefore are able to adopt different housing finance models to meet their unique challenges.

For the Canadian housing finance market lending conditions and mortgage products are similar across the country. There is preference for mortgages of fixed interest rates and terms of five years. Interest bearing term instruments sold to savers remain the primary source of funding for mortgage loans, which subsequently remain largely on the balance sheet of lenders. Canadian Mortgage and Housing Corporation – CMHC, a division of the Government of Canada acts as Canada's national housing agency. The CMHC's mandate is to help Canadians access a variety of affordable housing options. It also researches housing and real estate trends in Canada and around the world, providing research to consumers, businesses and other government divisions. The major activity of the CMHC is mortgage loan insurance, which insures approved lenders (such as Canada's chartered banks) against borrower default. Mortgage loan insurance provides approved borrowers access to low-cost mortgage rates. CMHC approved buyers may purchase property with as little as 5% down payment. One in three Canadians receives some form of help from the CMHC in financing or purchasing a home. The agency also provides valuable help to consumers, housing professionals, mortgage financiers, real estate investors and parties interested in learning about the Canadian housing market. (Wolf, 2010)
It is worth noting that though the provision of mortgage insurance by the CMHC, Canadians are able to acquire property for a down payment of as low as 5%. The insurance guarantees against default hence the housing finance providers are willing to lend. The Canadian residential mortgage financing market is presently dominated by chartered banks. In 2004, banks provided more than 80% of total mortgage loan approvals. On a stock basis, banks accounted for more than 63% of total residential mortgage outstanding balances in 2004, compared to 38% in 1990. One in three Canadians receives some form of help from the CMHC in financing or purchasing a home. The agency also provides valuable help to consumers, housing professionals, mortgage financiers, real estate investors and parties interested in learning about the Canadian housing market. (Virginie, 2007)

The French mortgage market has a variety of products and packages and a significant proportion of them include subsidized savings. Mortgage finance currently stands at 35% of the GDP. Most of the mortgages are on a fixed interest basis with an average term of 25 years. The main players in the mortgage market are the commercial banks; the mutual and co-operative banks and other financial companies. France has 32 million dwellings: 84% are prime residences, 10% are second homes and 6% are vacant. Of the prime residences, 57% are owner occupied, 24% privately rented and 18% socially rented. (Ball, 2010)

Therefore, it can be seen that many developed countries have appreciated the role of housing finance and have taken logical steps to ensure availability of housing finance for afford shelter for their populations.

2.3.2. Housing finance in middle income economies

In many middle income countries, mortgage markets start first in the largest cities, usually the capital city, where the commercial banking sector takes root, where there are enough potential borrowers to launch mortgage lending on a cost-effective scale and where housing units usually have the highest value. (Carol, et al., 2008)
Housing has been classified as a basic need in India and successive governments have highlighted its priority status. India’s housing shortage is estimated to be as high as 40 million units and demand from the low income segment constitutes a large proportion of this shortage. Housing development activities in India have been structured on the basis of Five-Year Plans since 1951. The 9th and 10th Five-Year Plans also saw aggressive entry of commercial banks into housing finance. Private sector involvement in retail housing finance did not begin until the Housing Development Finance Corporation Limited (HDFC) was established in 1977. HDFC provides housing finance to individuals, co-operative societies and the corporate sector. Around the mid- and late 1980s a few housing finance companies were set up either as private limited. At that time, even State-owned insurance companies like the Life Insurance Corporation and the General Insurance Corporation of India set up their own housing finance arms. The Reserve Bank of India’s initial efforts to encourage commercial banks to grant housing loans came in the form of ‘directed’ credit. Aggressive entry by commercial banks from the late 1990s onward changed a housing loan market that had so far been dominated by specialist finance companies. With increased competition this turned from a sellers’ to a buyers’ market, where the customer is provided with choice and bargaining power and is in a position to demand quality service. Housing today has hardly ever been at more affordable levels in Indian history. Estimates show that affordability (i.e., the ratio of the price of a residential property to the annual income of the borrower) has improved significantly. For instance, for a typical Mumbai suburb in 1995, it took about 22 times a borrower’s total annual income to purchase a house, while in 2006 this ratio dropped to only five times. (UN, 2008)

In Ukraine, a country which can be considered as doing well than several African countries; as of beginning of 2006 the housing stock was approximately 19.08 million with an average of 22 square meters living space per person. Almost one third of the population resides in housing of unsatisfactory quality. A third of the population lives in conditions where there are less than 14 square meters per person. Of living space, almost 70 percent of the housing stock is more than 35 years old, and 20 percent of 4-person families live in 2-room apartments. The housing finance sector has become relatively robust; the share of mortgage lending grew from one percent of GDP to 2.5 per cent.
during 2005. The portion of mortgage loans in the overall lending portfolio grew from 3.6 percent at the beginning of 2005 to 7.4 percent at year end. The terms and conditions obviously vary from bank to bank and loan repayment is usually monthly based on the annuity principle, and interest is usually fixed throughout the life time of the loan. The loan durations vary from 1-30 years (Leif, 2006)

2.3.3. Housing finance in Africa and other third world countries

In an economy without a well-developed formal financial system, housing is usually self-financed through many years of prior savings or through incremental construction. Such self financing can be modified by introducing installment sales contracts, where developers finance purchase through deferred payments.

The experience throughout Africa and other third world countries demonstrates that the majority of urban poor households can only afford to house themselves incrementally, meaning that construction of a house usually lasts many years. In Peru, a third world country, the housing finance situation has much in common with that of many other emerging markets around the world. Despite a large and persistent housing deficit (1.3 million households, 20 percent of total, in need of a home, upgrade or improvement), a number of factors such as low income levels, legal property issues and a large informal economy result in scarce demand for mortgage loans. Financial institutions’ growth in mortgage lending - and the subsequent improvement in terms and conditions which might increase demand in turn - has been hampered by a lack of long-term funding and, more often than not, insufficient credit information or inadequate incentives to lend to lower income households, with most banks preferring to concentrate their activity on high income groups and the corporate sector. (Conthe, 2007)

In South Africa, the housing finance system is striving to address the very large income gaps between its peoples. For the top 10% of the population (moderate and high-income) that can afford a conventional house, a mortgage finance system based on traditional banking practices operates very successfully. For the next 20% - 30% of the market (low-income) a range of housing development institutions have been established to facilitate access to finance, either through the banks or non-bank lenders. For the bottom 60% of
the market, characterised by very low-incomes, informal employment, and unemployment and so on, banks are unable to provide financial assistance. Here community and group lending schemes are beginning to fill the need for end-user finance. The majority of outstanding and new mortgage loans made by commercial banks to the conventional (mod- and high-income) market are usually secured by a first lien on the house; are self-amortising over a 20 year term; have a variable interest rate and require 20% or less down-payment. (Tomlinson, 2007)

In Ghana, finance is one of the biggest problems facing housing construction for developers of all sizes. Finance constitutes one-fifth of cost of a housing unit. Lending terms are not friendly for developers. Development loans from financial institutions, if granted, are often at very high rates, around 25% to 30% but maturities in the market are very short - from a few months to a maximum of two years in most cases. The high development cost means housing construction is often undertaken incrementally through personal savings. In Ghana, only 5% of those who want to own a house can do so from their own resources. Another 60% would need some form of financial assistance while the remaining 35% are not capable of owning and building a house in their lifetime. (Kofi, 2008; Agatha, 2007)
2.3.4. Housing finance in Kenya

For Kenya, as per the 1999 Population and Housing Census, the total housing stock stood at 10.4 million dwelling units – 19.5% of these were in urban areas. Seventy-seven percent of the households in urban areas live in rental housing, whereas in rural areas 87.3% of households own their houses. The rural-urban disparity in homeownership patterns reflects the relative high cost of housing in urban areas. The cost of accommodation for the low income earners ranges between Kshs. 600 and 10,000, while for the middle income earners, it goes up to Kshs 40,000. (GoK, 2007)

Government has estimated a housing need of 150,000 dwellings per year in Kenya’s urban areas. Government further estimates that formal production by the public and private sectors is not more than 30,000 units per year and concludes that the annual deficit of more than 120,000 housing units is met by slum housing. The demand for urban housing in Kenya is severely constrained by low incomes relative to housing costs, and the limited financing options available to most households. In Nairobi, with a population of around 3 million people, nearly 60% of households live in slum areas. (GoK, 2004)

Household tenure revolves around owner occupied and rental housing. Owner occupancy is more prevalent in the rural areas than urban areas, where most households are renters. In rural areas, 71.5% of households are home-owners of their dwellings and 28.5% are renters. The high owner occupancy rate is prevalent in all provinces except Nairobi where 82.2% of households lived in rented units. (GoK, 2007)

The housing deficit in Kenya mainly affects the low and middle income earners, mainly because the units are not commensurate to the demand, and the few that are available are not affordable. This group is forced to compete for the houses constructed for the low income, who in turn are pushed out into the informal settlements that are crowded with limited or no infrastructural services. Stakeholders in the sector have attempted to address this shortage through various programmes, but their efforts have been disjointed, having limited impact.
Only a small proportion of urban households of 10%, have traditionally qualified for mortgage loans from housing finance institutions, with the majority ruled out by their low incomes. Banks typically do not offer mortgage loans smaller than Ksh 500,000 (USD 7,500) and borrowers generally consist of high net worth individuals. Banks offering mortgage finance require evidence of credit worthiness such as a detailed employment history, as well as a form of collateral, usually the land or property for which the loan is made. The housing finance companies have traditionally invested in the development of housing for high-income buyers. (Nora, 2007)

Kenya’s financial sector is yet to achieve optimum financing to the Housing sub-Sector. This can be illustrated by the lending by commercial banks and mortgage finance companies to the building and construction and real estate sectors which amounted to Ksh.92.5bn as at the end of 2009 or 12.2% of total credit. Given the excess demand for housing there is considerable headroom for expansion of credit to support provision of housing. (CBK, 2010)
2.4. SUMMARY AND RESEARCH GAPS

Much of the literature on housing finance shows that a lack of access to housing finance specifically exacerbates the shelter problems of the poor. Access to credit is highly concentrated geographically, and by income segment. Areas near the capital city and main economic centers get the great bulk of available home credit. Even for those close to the main economic centers, the high income level has access to housing finance, while the middle and low income level do not. Indeed in the city of Nairobi, only 10% have traditionally qualified for mortgage loans from housing finance institutions, and borrowers generally consist of high net worth individuals. (CBK, 2010; GoK, 2008; Nora, 2007))

The above literature shows that many of the housing finance mechanisms have only benefited the high end of the market. Much of the housing being developed is targeting the high end of the market, where obviously, there is demand. The middle and lower income earners obviously need housing finance, tailored to meet their needs. As already outlined, home ownership in Nairobi is lowest whereby people living in rental houses stands at 82.2%.

As already outlined, Nairobi generated over 90% of the mortgages generated in the year 2009. However, home ownership is lowest, with 82.2% living in rented premises. Research shows that production and consumption of housing is mainly meeting the high income groups. It means the financing mechanisms are only meeting the needs of the high end market. Only negligible numbers from the middle and low income groups have access to housing finance.

However, the middle and low income also pay rents monthly and will definitely want to own houses if the suitable financing mechanisms are available. This study was aimed at unpacking the obstacles by looking at the literature and role players in the housing finance and the bottlenecks that have hindered the low and middle income earner from benefiting from an otherwise relatively robust housing finance segment.
2.5. CONCEPTUAL FRAMEWORK

Any housing finance mechanism must balance between accessibility of the finance one hand and profitability and sustainability of the finance provider on the other hand. Housing finance providers may therefore rely on a range of factors before they advance money to anybody.

Figure 1: Conceptual Framework
The first four factors determine the general creditworthiness of an individual. Combined with information they will determine if a person will seek housing finance, and if they seek, if they will get. The level of income is always thought to be the single most important determinant of access to housing finance. There is always the presumption that people with more income have the ability to pay than those who earn less income. Providers of housing finance will usually charge interest to make their profit. High interest rates may make a particular source of finance less attractive. People may always be shy of relying on sources where the rates of interest paid are high. Many providers of funds will always seek a security just in case the borrower is unable to pay. Such security may be in the form of title deeds, log books, share certificates, etc. Absence of such security may mean a person is denied any form of borrowed finance.

Information asymmetry is a situation where the borrowers may not be aware of the sources of finance available, the necessary conditions, among other issues. One may therefore not seek the finance because of either not being aware of the finance available or the terms that apply. Many financial institutions usually pre-determine the deposit to be paid, the amounts of monthly or periodic repayments among others. Such pre-determined deposit and repayment patterns may disadvantage the ones who are not able to meet them.
CHAPTER III: METHODOLOGY

3.1. INTRODUCTION
The methodology is a logical sequence that connects empirical data to a study's initial research questions and ultimately, to its conclusions. In a sense the research methodology is a blueprint of research, dealing with at least four problems: what questions to study, what data are relevant, what data to collect, and how to analyze the result. (Yin, 1994).

This chapter outlines the methodology which was employed in the study. The research design that was used in the study, target population, sampling design, and data collection methods and data analysis are explained in details in this chapter.

3.2. RESEARCH DESIGN
Research designs are procedures for collecting, analyzing, interpreting and reporting data in research studies. This research is in the design of a causal research. A stratified random sampling technique was adopted for data collection from the sampled CCN employees. Stratified sampling is normally done by dividing the population into different strata on the basis of some common characteristics. CCN employees are in different departments that offer the different services provided by the council. The departments formed the strata such that a proportionate sample was drawn from each of the departments. (Yin 1989; Egbu 2007)

3.3. TARGET POPULATION
The 11,993 city council of Nairobi employees were the respondents. This population was selected because it constitutes an adequate sampling frame such that information about them can easily be obtained from the council and other research institutions. Also, they are already categorized on such basis departments hence sampling will be easier. The departments at the City Council of Nairobi include Procurement (215 employees), Audit(114 employees), City Inspectorate (2400 employees) , City Planning (457 employees), Legal Affairs (427 employees), Environment (800 employees), Housing Development (1100 employees), City Engineer (200 employees),
3.4. SAMPLING METHODS

Sampling design refers to that part of research plan that indicates how cases are to be selected for observation. (Singleton et al., 1988)

Large samples give more reliable results than smaller samples. However, it is not necessary to sample the entire target population or even a substantial portion to achieve reliable results. Samples of less than 1 percent of the population with credible sampling procedure can often provide good reliability. When a population is highly homogeneous, a small sample size will do. Employees of the City Council are to a large extent homogeneous and in such a case a small sample will do. 1 % of 11,993 translate to 120 respondents. (Mugenda, 2003; Gay, 1981; Kotler, 2003)

Stratified and systematic sampling was used. The employees were first divided among departments as shown in the table below, from where equal-probability systematic sampling method shall be used. In this case, the contribution of every department to the sample has already been determined, and when selecting the individual respondents, every 100th employee in terms of their employment numbers shall be selected. The 100th figure is calculated based on the following formula.

\[ k = \frac{N}{n} \]

Where; \( k \), the sampling interval (sometimes known as the skip) \( n \) is the sample size, and \( N \) is the population size. (Maisel, 1996)

Therefore for the sample of 120 from a population of 11,993, the value of \( k \) shall be:

\[ K = \frac{11,993}{120} = 99.94 \text{ i.e. approximately 100.} \]
Table 1: Nairobi City Council Employees by Department

<table>
<thead>
<tr>
<th>DEPARTMENT</th>
<th>NUMBER OF EMPLOYEES</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Administration Department</td>
<td>733</td>
<td>6</td>
</tr>
<tr>
<td>The City Treasurer's Department</td>
<td>300</td>
<td>3</td>
</tr>
<tr>
<td>The City Engineer's Department</td>
<td>200</td>
<td>2</td>
</tr>
<tr>
<td>City Planning Department</td>
<td>446</td>
<td>4</td>
</tr>
<tr>
<td>Environmental Department</td>
<td>800</td>
<td>7</td>
</tr>
<tr>
<td>Public Health Department</td>
<td>1700</td>
<td>16</td>
</tr>
<tr>
<td>City Education Department</td>
<td>1700</td>
<td>16</td>
</tr>
<tr>
<td>Social Services and Housing Department</td>
<td>1800</td>
<td>17</td>
</tr>
<tr>
<td>Housing Development Department</td>
<td>1100</td>
<td>9</td>
</tr>
<tr>
<td>Investigation and Information Analysis</td>
<td>500</td>
<td>4</td>
</tr>
<tr>
<td>Legal Affairs Department</td>
<td>427</td>
<td>3</td>
</tr>
<tr>
<td>Audit Department</td>
<td>714</td>
<td>6</td>
</tr>
<tr>
<td>Procurement Department</td>
<td>215</td>
<td>2</td>
</tr>
<tr>
<td>City Inspectorate Department</td>
<td>2400</td>
<td>22</td>
</tr>
<tr>
<td>Human Resources Management Department</td>
<td>157</td>
<td>2</td>
</tr>
<tr>
<td>ICT</td>
<td>101</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>11,993</td>
<td>120</td>
</tr>
</tbody>
</table>

3.5. DATA COLLECTION METHODS

The interview method was used by the researcher based on the questionnaire which will be developed to guide the interviewer. This is a preferred method as it offered a face to face interaction between the researcher and the respondents. It will offer an opportunity for explanation and more information on the questions in the questionnaire.

All the questionnaires administered had a set of pre-designed questions with a set of answers from which the respondents had to choose. In adopting this approach, respondents were restricted to a set of answers to ensure that consistent responses are obtained from all respondents. Other advantages of adopting this approach include the ease it provides in making statistical inferences and generalization of collected data (Punch 2005).
3.6. DATA ANALYSIS

After collecting raw primary data from the field, both Quantitative and Qualitative methods of data analysis were used. Qualitative data was be keyed in using codes systematically and carefully assigned to Open-ended questions. Various percentages and ratios were calculated to help in drawing the relevant conclusions and making the necessary recommendations.

I calculated various measures of central tendency, measures of dispersion and correlation analysis to determine how the various factors affect access to housing finance by the low and middle income earners and their relationship. I carried out ANOVA test to determine the significance of some of the variables. To analyze quantitative data, I employed the statistical package for social sciences (SPSS) as my tool.

Graphs and charts were used to present the data so that relationships can be clearly prevalent.
CHAPTER IV:
DATA ANALYSIS AND PRESENTATION

4.1. INTRODUCTION

The overall objective of this study was to investigate the factors determining access to housing finance by the low and middle income earners. The study presents the findings on the extent to which the income level, interest rates, lack of collateral, limited information and requirement for pre-determined deposit affect access to housing finance by the low and middle income groups. For this reason, a total of 120 questionnaires administered as per the pre-explained research methodology. The purpose of this chapter is to present an analysis of the findings of the study.

The data that was collected from 107 respondents out of the targeted 120 was analyzed using SPSS and presented using tables, charts, frequencies and percentages. The response rate was 89.17%. Although a few questions were not filled in some of the questionnaires, it was possible to meet the objectives of the study.

4.1 GENERAL INFORMATION ABOUT THE RESPONDENTS

4.1.1 Marital Status

Table 2: Marital Status

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>57</td>
<td>53.3</td>
<td>53.3</td>
</tr>
<tr>
<td>Married</td>
<td>48</td>
<td>44.9</td>
<td>98.1</td>
</tr>
<tr>
<td>Widow</td>
<td>1</td>
<td>0.9</td>
<td>99.1</td>
</tr>
<tr>
<td>Widower</td>
<td>1</td>
<td>0.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>107</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The table above shows the distribution of the respondents with regard to their marital status. 0.9% of the respondents were widowers, the same percentage constituted widows, 44.9% were married while 53.3% of the respondents were single. This shows that the majority of the people who gave their responses were the single people.
4.1.2 Age

Table 3: Age of the respondents

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 29</td>
<td>46</td>
<td>43.0</td>
<td>43.0</td>
</tr>
<tr>
<td>30-39</td>
<td>44</td>
<td>41.1</td>
<td>84.1</td>
</tr>
<tr>
<td>40-49</td>
<td>14</td>
<td>13.1</td>
<td>97.2</td>
</tr>
<tr>
<td>50-59</td>
<td>3</td>
<td>2.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>107</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

On the issue of age, 2.8% of the respondents were aged between 50-59 years, 13.1% were aged between 40-49, 41.1% were aged between 30-39 years while 43.0% were aged below 29 years.

The majority of the respondents were below 29 years.

4.1.3 Education

Table 4: Education

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary</td>
<td>23</td>
<td>21.5</td>
<td>21.5</td>
</tr>
<tr>
<td>Post-Secondary</td>
<td>84</td>
<td>78.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>107</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

From the sampled respondents, 84 or 78.5% had attained post secondary level of education while 23 or 21.5% had attained secondary education.

4.1.4 Monthly Income

Table 5: Monthly Income
With regard to the monthly income of the respondents, 9.3% earned above 120,000 shillings per month, 46.7% earned between 23,999 and 119,000 shillings per month while 43.9% earned below 23,999 shillings per month. From the findings, the majority of the respondents earned between 23,999 and 119,000 shillings per month.

4.2 TENURE OF THE HOUSE

Figure 2: Tenure of the House

The respondents were to respond on the tenure of their houses. 27% of them owned the houses they were staying in, 65% rented their current houses while 7% stayed in houses owned by their employers, some were staying with their brothers while others owned and rented their houses. From the findings, the majority of the respondents rented the houses they currently occupied.
On the issue of the form of ownership, 7% of the respondents had inherited the houses they occupied, 8% had bought the houses, 21% had built while the rest (36%) owned the houses under leasehold and some indicated they were rented.

4.3 HOUSING FINANCE
The respondents in this section were those who owned houses.

4.3.1 Financing of the House

The respondents were asked about the sources of financing for their house. The main sources of financing were personal savings and loans from a mortgage institution, followed by co-operative society and commercial bank loans. Some respondents indicated that their houses were financed through loans from employers and other personal savings. The financing method depended on the availability of funds and the financial situation of the respondents.

- **Personal savings**: 23%
- **Mortgage institution**: 19%
- **Co-operative society**: 29%
- **Commercial bank**: 13%
- **Loan from employer**: 10%
- **Other**: 6%
The respondents were asked to indicate how they financed their houses. 10% got loans from their employers, 13% from the commercial banks, 19% from the mortgage institutions, 23% used their personal savings, 29% got finances from the co-operative societies while 6% indicated that ventures like investment groups, merry go rounds enabled them to own their houses. From the findings, the majority of the home owners got their finances from the co-operative societies and this could be attributed to their lending and interest rates that make them appealing to the majority.

4.3.2 Repayment Period for the Loan

Figure 5: Repayment Period for the Loan

The respondents indicated the repayment periods for the loans or the finances that they got from the financial institutions. 17% of the respondents indicated that the repayment period for the finances they took was between 8-12 years while the same percentage indicated a period of over 12 years. 26% indicated a period of less than 4 years while the majority indicated a period of between 4-8 years. This shows that the majority of the home owners took loans with averagely less repayment periods possibly because they did not want to be committed into long term loan payments.
4.3.3 Interest Rate Charged
Figure 6: Interest Rate Charged

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>9%</th>
<th>23%</th>
<th>68%</th>
</tr>
</thead>
<tbody>
<tr>
<td>above 20%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>below 10%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9% of the respondents indicated that the interest rate that they were charged was above 20%, 23% indicated that they were charged an interest rate below 10% while the majority (68%) said that they were charged between 11-20% per annum. This shows that most of the home owners benefited from slightly low interest rate.

4.3.4 Up to date with Loan Repayments
Figure 7: Up to date with Loan Repayments

<table>
<thead>
<tr>
<th>Up To Date With Repayment</th>
<th>83%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>17%</td>
</tr>
</tbody>
</table>
Because of the sensitivity of loans and the need to follow up on the repayments and consequently the updating of the records, 83% indicated that they were up to date with their loan repayments while 17 were not up to date.

4.3.5 Reasons for Default

Figure 8: Reasons for Default

In case of default in loan repayment, the respondents were asked to indicate the reasons. 33% of the respondents indicated loss of income, 44% indicated higher financial commitments while 22% indicated that they had never defaulted.

4.3.6 Descriptive Statistics on Unwillingness to Borrow

Table 6: Unwillingness to Borrow

<table>
<thead>
<tr>
<th>Reason</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates Too High</td>
<td>107</td>
<td>4.14</td>
<td>1.292</td>
</tr>
<tr>
<td>Inability to Re-service with Income</td>
<td>107</td>
<td>3.73</td>
<td>1.009</td>
</tr>
<tr>
<td>Not able to Raise down-payments</td>
<td>107</td>
<td>3.90</td>
<td>.738</td>
</tr>
<tr>
<td>Procedures are Complex</td>
<td>107</td>
<td>3.70</td>
<td>1.494</td>
</tr>
<tr>
<td>Not Sufficient Security</td>
<td>107</td>
<td>3.45</td>
<td>1.440</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>107</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Rates Too High

From table 4.1 the mean of this variable is 4.14 which is agree from likert scale this represents that respondents felt that the increment in rates in financial negatively affects the access to housing finance among low and middle income earners. The standard deviation of 1.292 is small and this suggests that there is a relationship between interest rates and access of housing finance among low and middle income earners.

Inability to Re-service with Income

From table 4.1 the mean of this variable is 3.73 which is Neutral from likert scale this represents that respondents felt that inability re-service loan with income affects the access to housing finance among low and middle income earners. The standard deviation of 1.00 is very small and this suggests that there is a strong relationship between inability to re-service loan with income and access of housing finance among low and middle income earners.

Inability to Raise the Required Down-payment

From table 4.1 the mean of this variable is 3.90 which is Neutral from likert scale this represents that respondents felt that Not Raising Down payment negatively affects the access to housing finance among low and middle income earners. The standard deviation of 1.00 is very small and this suggests that there is a strong relationship between down payment and access of housing finance among low and middle income earners.

Complex borrowing Procedures

From table 4.1 the mean of this variable is 3.70 which is Neutral from likert scale this represents that respondents felt that complex procedures negatively affects the access to housing finance among low and middle income earners. The standard deviation of 0.738
is very small and this suggests that there is a strong relationship complex procedures involved and access of housing finance among low and middle income earners.

**Insufficient Security**

From table 4.1 the mean of this variable is 3.45 which is Neutral from likert scale this represents that respondents felt that availability of security affects the access to housing finance among low and middle income earners. The standard deviation of 1.44 is small and this suggests that there is a relationship between the availability of security and access of housing finance among low and middle income earners.

### 4.3.9 Borrowing Again

**Figure 9: Borrowing Again**

<table>
<thead>
<tr>
<th>Borrow Again</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>65.2%</td>
</tr>
<tr>
<td>No</td>
<td>34.8%</td>
</tr>
</tbody>
</table>

The majority of the respondents, at 65.2%, remarked that they could borrow again to finance the acquisition of housing if they were given another chance. 34.8% said they could not borrow again. The high percentage of the people who could borrow again is an indication of the benefits and great impact that borrowing and indeed financial institutions has had on individuals in their quest of home ownership.
4.3.10 ANOVA Table of Interest Rates, Repayment Period and Process of loan application

Table 7: ANOVA test table for Interest Rates, Repayment Period and Process of Loan Application

<table>
<thead>
<tr>
<th></th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates Too High</td>
<td>4</td>
<td>4.969</td>
<td>4.708</td>
<td>.007</td>
</tr>
<tr>
<td>Repayment Period</td>
<td>4</td>
<td>4.025</td>
<td>3.755</td>
<td>.019</td>
</tr>
<tr>
<td>Process of Loan Application</td>
<td>4</td>
<td>1.000</td>
<td>4.438</td>
<td>.779</td>
</tr>
</tbody>
</table>

Rates Too High

From table 4.2 the computed F for rates are Too high is 4.708 But since $F_{95}=3.4796$ for 4,120 degree of freedom( i.e. F computed>3.4796), the conclusion is that there is a significant variation at the .05 level hence high interest rates affects access to housing finance among low and middle income earners.

Repayment Period

From table 4.2 the computed F for exceeding customers’ expectations is 3.755 But since $F_{95}=3.4796$ for 4,120 degree of freedom( i.e. F computed>3.4796), the conclusion is that there is a significant variation at the .05 level hence Repayment period affects access to housing finance among low and middle income earners.

Process of Loan Application

From table 4.2 the computed F for Process of loan application is 4.438 But since $F_{95}=3.4796$ for 4,120 degree of freedom( i.e. F computed>3.4796), the conclusion is that
there is variation that is not significant at the .05 level hence process of loan application affects access to housing finance among low and middle income earners but not significantly.

4.4 NON-HOME OWNERS
The responses given in this section are for the respondents who did not own houses.

4.4.1 Knowledge of Housing Financial Institutions
This will show the relationship on respondents’ view about their knowledge on financing institutions when soliciting funds for housing. The major variables are Knowledge on financial institutions, easy to read loan Documents, and affordable interest rates.

Table 8: Knowledge of Financial Institutions; Ease of Reading of Loan Documents and Affordability of Interest Rates

<table>
<thead>
<tr>
<th>Know Financial Institutions</th>
<th>Pearson Correlation</th>
<th>Ease of reading of the loan Documents</th>
<th>Affordable Interest Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Know Financial Institutions</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.235(*)</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.015</td>
<td>1</td>
<td>.458(**)</td>
</tr>
<tr>
<td>Ease of reading of the loan Documents</td>
<td>Pearson Correlation</td>
<td>.235(*)</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affordable Interest Rates</td>
<td>Pearson Correlation</td>
<td>.338(**)</td>
<td>.458(**)</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
<td>.000</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

Table 8 shows that knowledge on financial institutions and easy to read loan documents have a positive correlation of 0.235 which is significant at (p-value=0.05). Hence respondents who know the financial institution can read their loan documents. The correlation of know financial institutions and Affordable interest rates is 0.338 which is significant at both level of significance. Easy to read loan documents and affordable interest rates have a positive correlation of 0.458 which is significant at (p-value=0.01).
When asked if they were aware of the different potential sources of funding for the houses, 75% of the respondents indicated that they were aware about mortgage institutions while 10% did not know. The rest did not indicate their awareness or lack of it. The findings suggest that most of them were aware of the places where they could get funding for their housing projects.
84% of the respondents indicated that they were aware about the commercial banks as a source of finance while 10% did not know. 6% did not respond on this issue. The findings suggest that the majority of the respondents knew the commercial institutions from where they could get loans to finance their housing projects.

4.4.6 Personal Savings

Figure 12: Personal Savings

71% of the respondents indicated that they had personal savings while 7% did not. 12% did not respond on this issue. The findings suggest that a significant portion of the respondents had personal savings which they could use to finance their housing projects.
On the issue of personal savings, 71% of the respondents indicated that they were aware about it as a way to finance their housing projects while 7% did not know. A sizeable number of the respondents (22%) did not give their views, not indicate their awareness or lack of it. From the research, most of the respondents were aware about the fact that personal savings was a way to own homes.

4.4.7 Loan from Employer

Figure 13: Loan from Employer

With regard to the loan from employer, 39% of the respondents indicated that they were aware about it as a source of finance for home ownership while 34% did not know. The rest did not respond. The findings suggest that a big percentage of the respondents were not aware about the fact that employers could give loans for funding for their housing projects.

4.4.8 Co-operative Society

Figure 14: Co-operative Society
When asked if they were aware of the co-operative society as a source of funding for houses, 64% of the respondents indicated that they were aware about it as a source of finance while 26% did not know. 10% did not indicate their awareness or lack of it. The findings suggest that most of them were aware that co-operative societies were a source of finance for home ownership.

4.4.9 Willingness to Borrow

The respondents were asked if they were willing to take loans if they were available for the different lending institutions to build or buy a house. 90% said they would be willing to borrow while 8% said they would not borrow. From the findings, majority of the respondents were willing to own their own homes hence could borrow to ensure their dreams of being home owners came into reality.
4.4.10 Reasons for Willingness to Borrow

For those willing to borrow loans from the financial institutions, 54% said they could borrow because borrowing was a convenient source of housing finance, 34% said they could afford the monthly repayments. The rest did not give any information on this issue.

4.5 UNWILINGNESS TO BORROW LOANS FROM THE FINANCIAL INSTITUTIONS

There were a number of respondents who indicated that they were unwilling to borrow loans from the financial institutions. The analyses of the findings are provided below.

4.5.1 Complex Borrowing Procedures

For those unwilling to borrow loans from the financial institutions, 93% indicated that complex borrowing procedures were a reason for their unwillingness.
93% of the respondents indicated that they there is no complex procedure when borrowing loans for buying their own houses, this is because many banks have recruited personnel to advice any person interested to get loan from the bank. While 7% respondent that the procedure for borrowing loan.

4.5.2 Low Monthly Income

Figure 18: Low Monthly Income

89% of the respondents indicated that they were unwilling to borrow loans because their low monthly income could not service the loans. This shows that their bid to own their homes could not be realized soon unless and until their financial positions changed.

4.5.3 High Interest Rate

Figure 19: High Interest Rate
66% of the respondents indicated that they were unwilling to borrow loans because of the high interest rates that the financial institutions charged. From the findings, in a bid to encourage people to borrow money and buy or put up their homes, the financial institutions need to review their lending rates.

4.5.4 High Pre-determined Down Payment

Figure 20: High Pre-determined Down Payment

86% of the respondents were unwilling to borrow loans because of the high pre-determined down payment which most of them could not raise. As long as the down payments were high, many of the respondents did not have hopes in their quest to own homes.
4.5.5 Lack of Sufficient Security

Figure 21: Lack of Sufficient Security

A whooping 99% of the respondents indicated that they were unwilling to borrow loans from the financial institutions because they lacked sufficient security. Security was one of the key factors that influenced borrowing and since they lacked it, they could not borrow.

4.5.6 Other Reasons

Figure 22: Other Reasons
95% of the respondents gave other reasons regarding why they could not borrow loans. Some of the reasons included: having taken other loans for other purposes hence could not take loans to build their houses; the long repayment periods discouraged some of them, the fear of the unknown, for example, further adjustment on the interest rates, amongst others.

SUMMARY FINDINGS

3.1.1 Tenure of the House

From the research, the findings show that out of the respondents owned the houses they were occupying, the percentage was 27%. The majority of the respondents (70%) stayed in rental houses while 7% stayed in houses owned by their relatives. According to the findings, 6% of the respondents were not house owners.

3.1.2 Monthly Income

The research showed that monthly income was the major reason why the respondents could not access to housing finance. Monthly income was a factor that influenced the realization of homeownership amongst the sampled respondents.
5.0 INTRODUCTION

This chapter presents the summary findings, conclusions, policy recommendations and the suggested areas of further research. It is important to re-state the objectives of the study which were; to find out the relationship between income level and access to housing finance; to determine the effect of interest rates on access to housing finance; to find out the relationship between lack of collateral and access to housing finance; to establish the effect of information asymmetry on access to housing finance; to determine the effect of requirement for pre-determined deposit on access to housing finance. A sample of employees was drawn from the Nairobi city council, to whom a questionnaire was administered.

5.1 SUMMARY FINDINGS

5.1.1 Tenure of the House
From the research, the findings were that few of the respondents owned the houses they were staying in. The percentage was 27%. The majority of the respondents at 65% rented their current houses while 7% stayed in houses owned either by their employers or stayed with relatives and friends. This shows that many of the respondents were not home owners.

5.1.2 Monthly Income
Majority of the respondents (89%) indicated that they were unwilling to borrow loans because their low monthly income could not service the loans. Low monthly income was a factor that influenced the realization of home ownership amongst the sampled respondents.
5.1.3 Interest Rate Charged
The interest rate was noted to have benefited the respondents who owned their houses. Majority of the respondents indicated that the rates were slightly low at between 11-20% per annum. This was confirmed by 68% of the respondents. Some also benefited from financial institutions which charged low interest rates, some below 10%.

5.1.4 Security
Most of the respondents lacked sufficient security and therefore they could not access loans from the different financial institutions or if they did, they could get less finance.

5.1.5 Down Payment
Majority of the respondents were unwilling to borrow loans because of the high pre-determined down payment which most of them could not raise. As long as the down payments were high, many of the respondents were locked out from owning houses.

5.1.6 Financing of the House
From the findings, only 23% financed the houses they owned from their personal savings. The rest got finances from the different institutions, for example, commercial banks, mortgage institutions, co-operative societies, investment groups and loans from their employers.

5.1.7 Reasons for Default
The research found out that majority of the respondents who defaulted in their loan repayments indicated higher financial commitments as the reason. Some said that they defaulted because of loss of income.
5.2 CONCLUSIONS
The study noted that few of the respondents owned their own houses. Most of the ones who had either bought or built their houses got financing from the different financial institutions, for example, the commercial banks, co-operative societies, mortgage institutions. The major hindrance, to home ownership, according to the respondents were: unfavorable interest rates, lack of sufficient income to service the loan repayments, challenges in raising the required down payments, complex application procedures and lack of sufficient security.

5.3 RECOMMENDATIONS
The different financial and lending institutions should look into the major hindrances to home ownership i.e.:

- The housing finance providers need to restructure the monthly repayments so that they are affordable to the low income earners. This may mean spreading the repayment period over a long time period. This can be accommodated given that this research has shown; much of the borrowing for housing is usually repaid within twelve years.
- They should give attractive and affordable interest rates to encourage more people to own homes, the issue of down payments should be reviewed and the applications procedures should be made simpler.
- The high down payments needed by mortgage providers before one can access housing finance needs to be reviewed downwards so that many people are not locked out. In any case, the houses being put up usually act as security hence the level of risk for the housing finance company is low.
- The high pre determined down payments need to be reviewed so that those who cannot raise can still access housing finance.
• The nature of the collateral required to borrow especially from commercial banks need to be reviewed so that more options are available for the low and middle income earners.

5.4 SUGGESTIONS FOR FURTHER STUDIES

In view of this research, other critical areas came up which have a high potential for research for the purpose of enhancing the body of knowledge on housing finance.

• The role of Housing Micro-finance in provision of housing especially for those not engaged in formal employment but may be in business.
• Financial regulation and access to housing finance.
• Effect of government participation in the provision of housing
• Effect of government incentives in the provision of housing finance.
• Role of the Capital markets in mobilizing finance for housing.

Such research will generate information that may fill the gaps that exist in the knowledge body of housing finance.
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Mutero, G. J. (2007). “*Overview of the housing finance sector in Kenya*”. FinMark Trust with support from Habitat for Humanity.


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APPENDICES

LETTER OF INTRODUCTION

Jared Mogaka Ariemba
School of Business, Department of Accounting and Finance
Kenyatta University
P.O Box 43844 Nairobi

10th January 2011

A research on the factors determining access to housing finance for low and middle income earners in Nairobi.

Dear Potential Respondent,

My name is Jared Mogaka Ariemba, and I am a MBA student of Kenyatta University, working under the supervision of Dr Ambrose Jagongo and Ms Farida Abdul. I am carrying out a study investigating factors determining access to housing finance for low and middle income earners, and my target populations are the employees of the City Council of Nairobi.

I would like to invite you to participate in the above research project, on the presumption that either you have at a point in time approached a financial institution to request for housing loan or you have desired to approach one. Completion of the attached questionnaire will take approximately 10 minutes, and all questions can be answered by following the simple instructions as indicated on the questionnaire.

Completion of the questionnaire is completely voluntary. All responses are anonymous, there are no correct or incorrect answers and respondents who take part will not be identifiable. If results of this study are published they will be a summary of all responses to ensure that your privacy is protected. The results will be purely for academic purposes.

Should you choose to complete the questionnaire, my research assistants will guide you through and at the end of the process; they will go with the filled questionnaire. Once completed a summary of results will be available at the conclusion of the academic year. If you wish to obtain a copy of these results, please provide your contact details. Please note that all data gathered for this research will be stored securely and destroyed after the report has been submitted. My supervisors and I will be the only people who will have access to this data.

Thank you for taking time to consider this invitation and if you choose to participate in this research, I would like to extend my personal gratitude; your contribution is greatly appreciated.

Yours Sincerely,

Jared Mogaka Ariemba
QUESTIONNAIRE

RELEVANT ANSWERS SHOULD BE INDICATED WITH A TICK IN THE BOX (ES).

A. GENERAL BACKGROUND

1. What is your Marital Status? (Tick one box)
   a) Single
   b) Married
   c) Widow
   d) Widower

2. What is your Age? (Tick one box)
   a) Below 29
   b) 30-39
   c) 40-49
   d) 50-59

3. What is the highest form of formal education that you have achieved? (Tick one box)
   a) None
   b) Primary
   c) Secondary
   d) Post-Secondary

4. What is your average monthly income? (Tick one box)
   a) Below Kshs 23,999 per month
   b) Between Kshs 23,999 to Kshs 119000 per month
   c) Above Kshs 120,000
B. TENURE OF THE HOUSE

5. What is the tenure of the house? (Tick one box)
   a) Own
   b) Rent
   c) Others (Please specify)

6. What is the form of ownership? (Tick one box)
   a) Inheritance
   b) Bought
   c) Built
   d) Others (Please specify)

C. HOUSING FINANCE

THIS SECTION SHOULD BE FILLED BY THOSE WHO OWN HOUSES.

QUESTION 13.

7. How did you finance your house acquisition? (Tick one or more boxes as applicable)
   a) Mortgage Institution
   b) Commercial Bank
   c) Personal Savings
   d) Money from abroad
   e) Loan from employer
   f) Co-operative society
   g) Others (Please specify)

8. What is the repayment period for the loan? (Tick one box)
   a) Less then 4 Years
   b) Between 4 years and 8 years
   c) Between 8 years and 12 years
   d) Over 12 years
9. If you borrowed, what was the rate of interest charged?
   a) Below 10%  
   b) Between 11% and 20%  
   c) Above 20%  

10. Are you up to date with your loan repayments?
    a) Yes  
    b) No  

11. Incase of default, what is the reason(s) for default in loan repayment? (Tick one box)
    a) Loss of Income  
    b) Higher financial commitments  
    c) Excessive Interest charges  
    d) Others (Please specify)  

12. Please indicate the extent to which you agree or disagree with the following statements by a tick or a cross sign where appropriate i.e.
    SA = Strongly Agree, A = Agree, N = Neutral, D = Disagree, SD = Strongly disagree

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>The processing of loan applications with the financial institutions is usually a satisfactory process</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The repayments period of the loan is reasonable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The monthly repayments are affordable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. Given chance, could you borrow again to finance acquisition of housing?
    a. Yes  
    b. No  

57
14. If No, why could you be unwilling to borrow?

<table>
<thead>
<tr>
<th>Reason</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rates are too high</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My income cannot service the repayments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I cannot raise the required downpayments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The application procedures are complex</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I do not have sufficient security</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**THIS SECTION SHOULD BE FILLED BY THOSE WHO DO NOT OWN HOUSES.**

15. Please indicate the extent to which you agree or disagree with the statements below by a cross sign where appropriate

SA = Strongly Agree, A = Agree, N = Neutral, D = Disagree, SD = Strongly disagree

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>I know a number of housing finance institutions that I can approach for financing.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing loan documents are easy to read and to understand</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The interest rates charged for housing finance are affordable.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16. Are you aware of the following potential sources of housing finance? (Tick one or more boxes)

<table>
<thead>
<tr>
<th>Source</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Mortgage Institution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Commercial Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Personal Savings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Loan from employer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Co-operative society</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) Others (Please specify)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
17. If a loan was available from any of the lenders, some of them outlined above, would you be willing to borrow to buy/build a house? (Tick one box)

a) Yes □

b) No □

18. If Yes, why could you be willing to borrow? (Tick all that apply)

a) I can afford the monthly repayments □

b) It is a convenient source of housing finance □

19. If No, why could you be unwilling to borrow? (Tick all that apply)

a) Complex borrowing procedures □

b) Low monthly income to service a loan □

c) High rates of interest □

d) High pre-determined down-payment □

e) Lack of sufficient security □

f) Any other reasons (Please explain) ..................................................

Thank you for participating in this Research. Please return questionnaire
### SAMPLING FRAME: EMPLOYEES OF NAIROBI CITY COUNCIL BY DEPARTMENT

**Table 3**

<table>
<thead>
<tr>
<th>DEPARTMENT</th>
<th>NUMBER OF EMPLOYEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Administration Department</td>
<td>733</td>
</tr>
<tr>
<td>The City Treasurer's Department</td>
<td>300</td>
</tr>
<tr>
<td>The City Engineer's Department</td>
<td>200</td>
</tr>
<tr>
<td>City Planning Department</td>
<td>457</td>
</tr>
<tr>
<td>Environmental Department</td>
<td>800</td>
</tr>
<tr>
<td>Public Health Department</td>
<td>1700</td>
</tr>
<tr>
<td>City Education Department</td>
<td>1700</td>
</tr>
<tr>
<td>Social Services and Housing Department</td>
<td>1800</td>
</tr>
<tr>
<td>Housing Development Department</td>
<td>1100</td>
</tr>
<tr>
<td>Investigation and Information Analysis Department</td>
<td>500</td>
</tr>
<tr>
<td>Legal Affairs Department</td>
<td>427</td>
</tr>
<tr>
<td>Audit Department</td>
<td>714</td>
</tr>
<tr>
<td>Procurement Department</td>
<td>215</td>
</tr>
<tr>
<td>City Inspectorate Department</td>
<td>2400</td>
</tr>
<tr>
<td>Human Resources Management Department</td>
<td>157</td>
</tr>
<tr>
<td>ICT</td>
<td>90</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>11,993</strong></td>
</tr>
</tbody>
</table>

(Source, City Council of Nairobi)