Retirement Benefits Authority

Safeguarding your retirement benefits

FACTORS AFFECTING THE UPTAKE OF PENSION SECURED MORTGAGES IN KENYA

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1 INTRODUCTION

1.1 Background

According to the World Bank report on developing Kenya's Mortgage market, the demand for housing in Kenya has grown rapidly in recent years, in both value of loans and number of loans (World Bank, 2011). Most countries pursue policies that favor owner-occupied housing . The Government of Kenya has in the past come up with projects to build modern affordable housing for its citizens. Notably is the slum upgrading project which was launched in 2004 with the aim of alleviating poverty. The mortgage finance sector has in the recent years become more competitive and innovative. But this sector serves only those households at the top of the income pyramid. Qualification requirements for mortgages cut off a large number of low income earners. As it stands, only 2.4% of the total Kenyan population can afford a mortgage. Furthermore, only 11% of the urban population can afford to take up a mortgage. This inadvertently locks out a large number of potential home owners.

A nationwide survey conducted by Financial Sector Deepening and Central Bank of Kenya on financial access,(2009) showed that 68.5% of people sampled owned the houses they lived in . However, when this is segregated further, only 17.7% own housing in the urban area while 82.2% own housing in the rural area. The survey also established that 1/3 of the house owners acquired their houses through inheritance; only 1.5% of the respondents acquired their houses through formal process or other credit facilities available. Further, it was established that only 23.7% of the respondents were willing to use their house as a security to borrow money (Finanacial Sector Deepening, Central Bank of Kenya, 2009).

To expound on ownership of houses in Kenya, a survey on mortgage fiancing showed that Kenya's mortgage had tripled from Ksh. 19 Billion in 2006 to 61 Billion in May, 2010 (Central Bank and World Bank, 2010). The study also showed that the number of new loans over the period was increasing, although the mortgage market remained relatively small with only 13,803 outstanding loans in 2010 amounting to Ksh. 61 Billion, compared to 7,834 loans amounting to 19.4 Billion in 2006 (Central Bank and World Bank, 2010). Kenya's mortgage debt compared to its GDP is at 2.48 per cent, better than that of its East African neighbours Tanzania and Uganda which are 0.2 and one per cent respectively. When you compare the ratio to other developing countries like India, Colombia and South Africa, Kenya is still lagging behind.

Figure 1:Peer group- Mortgage Debt to GDP- source World Bank

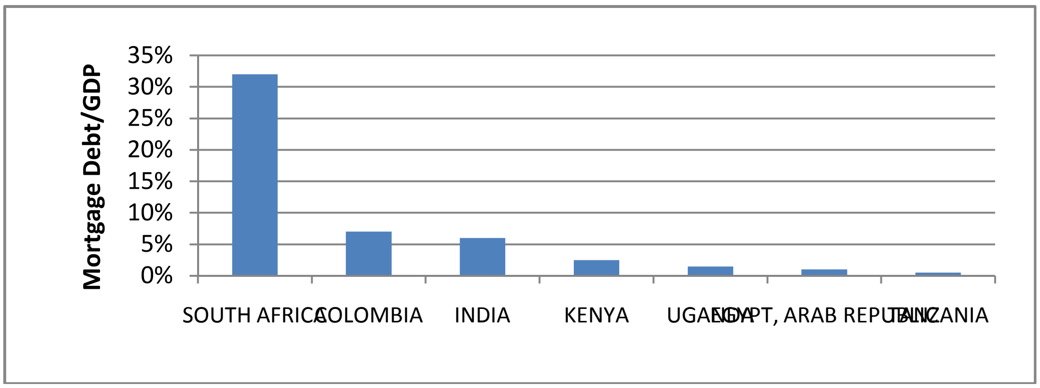
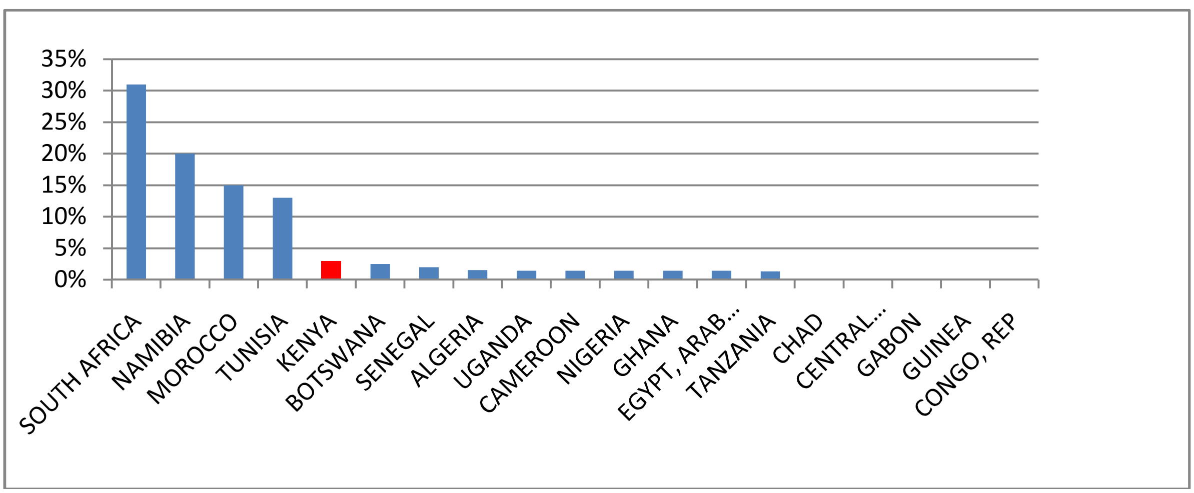


Figure 2: Africa Mortgage debt to GDP- source World Bank



In kenya, mortgage lending is predominantly done by commercial banks.There are 43 banks and one Mortgage Finance Company in the Kenyan banking system, 25 of them have mortgage portfolios of differing sizes. While some of the banks offer mortgage facilities to their members of staff. Central Bank of Kenya authorises two types of lenders, the ordinary banks and the mortgage companies. Similar regulations with regards to mortgage financing applies to the two types of lenders. According to the Central bank Survey, the largest lender as at 2010 was Kenya Commercial Bank (KCB) following its acquisition of Savings & Loans, followed by HFCK.

Table 1: Commercial Banks and Mortgage Finance Company in Kenya

	Commercial banks offering mortgage facilities		
1	African Banking Corporation Ltd	16	First Community Bank Limited
2	Bank of Africa Kenya Ltd	17	Guardian Bank Ltd
3	Bank of Baroda (K) Ltd	18	Gulf African Bank Limited
4	Bank of India	19	Imperial Bank Ltd
5	Barclays Bank of Kenya Ltd	20	I & M Bank Ltd
6	CFC Stanbic Bank Ltd	21	Kenya Commercial Bank Ltd
7	Commercial Bank of Africa Ltd	22	National Bank of Kenya Ltd
8	Consolidated Bank of Kenya Ltd	23	NIC Bank Ltd
9	Co-operative Bank of Kenya Ltd	24	Paramount Universal Bank Ltd
10	Development Bank of Kenya Ltd	25	Standard Chartered Bank Kenya Ltd
11	Diamond Trust Bank Kenya Ltd		**Mortgage Finance Company**
12	Ecobank Kenya Ltd	26	Housing Finance
13	Equity Bank Ltd		
14	Family Bank Limited		
15	Fidelity Commercial Bank Ltd		

Various economies across the globe have provided the required long-term funding for housing through the capital markets, pension and insurance. The pension and insurance industry have long-term liabilities which form an important source for funding housing because of their ability to manage liquidity risk in comparison to short-term liabilities from depository institutions. According to the World Bank report, Kenya is in a position to support the future growth of its mortgage market through the capital market (The World Bank, 2009). The report ranks Kenya’s market infrastructure as one of the best in Sub-Saharan Africa.

1.2 Problem Statement

One of the key recommendations by Chirchir on promoting home ownership was to allow members of retirement benefit schemes to use their accumulated benefits as securities for financing their mortgages (Chirchir, 2006). The loans were to be offered by a secured housing finance institution at favorable interest rates. In 2009, Section 38 of the Retirement Benefit Authority Act was amended to allow members of pension schemes to attach up to 60 percent of their accumulated benefits to secure a mortgage.

The Retirement Benefits (Mortgage Loans) Regulations, 2009, enables members to acquire immovable property on which a house has been erected; erect a house on immovable property; carry out repairs to a house of which ownership was obtained through acquisition; secure financing or waiver for the deposits, stamp duty, valuation fees and legal fees and any other transaction costs required. Despite having the Act amended to allow members to assign their accumulated benefits as a security, members have been reluctant to take up the facility. The World Bank report on Developing Kenya's Mortgage Market (World Bank, 2011), recommends that further review of the products and the regulatory framework for them should be done to avoid a future crisis should lenders start losing their retirement income.

Pension Backed Loans allow members to use part of their accumulated benefits as a security for purchase of a house or for home improvement. These loans are common in South Africa, Namibia and Mauritius. In Mauritius, members of schemes are allowed to use the scheme funds to give members housing loans. Schemes can allocate up to 26% of their assets for housing loans. In Botswana, the law permits pension funds to provide guarantees to a third party, but the wording of the act is reportedly confusing as it implies that the loan money still has to come from the pension fund (it would seem that this would mean that pension-backed loans can only be issued by the fund itself – that is, the fund would have to operate also as a lender).

The case of Zambia is slightly different, their law neither permits nor prohibits pension-backed lending, but banks are reportedly offering loans to individuals on condition that they are pension fund members. In Tanzania, the Public Service Pension Fund, members can take guaranteed loans from Azania Bank, in which the Fund owns shares. Beyond these countries, however, the pension-backed model appears rare.

1.3 Objectives

This research will investigate the reasons for the low uptake of the facility. In specific, we shall assess the level of understanding of the mortgage regulations by members, sponsors and service providers. The paper will also establish the number of trust deeds that have been amended to allow for assignment. The objective of the paper is as follows:

1. To review the merits and demerits of pension backed housing loans.
2. To examine the socio-economic factors affecting mortgage uptake in Kenya.
3. To establish the uptake level of mortgage loans that has been secured by pension assets.
4. To identify hindrances in the Retirement Benefits Mortgage Regulations (2009) that have resulted to low uptake of pension-secured mortgage loans and give recommendations for improvement of the regulations.

2 PENSION BACKED HOUSING LOANS

2.1 SELECTED COUNTRIES WITH PENSION BACKED HOUSING LOANS

2.1.1 Case of United Kingdom

In the United Kingdom (UK) pension mortgage is an interest only mortgage with an additional investment plan in the form of a personal pension. This implies that members of schemes utilizing this facility pay off the interest component every month, and rely on a portion of the remaining accumulated benefits at the point of retirement to pay off the capital debt of the mortgage. The personal pension is a stock market based investment that has taxation benefits. However, despite the pros, the mortgage debt remains constant throughout the mortgage period. There is no guarantee that one will have sufficient funds to pay off the mortgage at the end of the repayment period, as the pension fund could perform below expectations. This implies that the lump sum benefit at retirement cannot be used for other purposes.

2.1.2 Case of South Africa

According to Ling (2009) , pension secured loans in South Africa have predominantly been applied to home improvement projects as opposed to acquisition of new homes (Ling, 2009). The Pension Fund Act in South Africa allows a retirement fund to grant a direct loan to members or furnish a guarantee from a member's loan (Pension Fund Act No 24 of 1956). The loan, which should not exceed 90% of the value of the property or the accumulated benefits of the member, can be used to purchase land and erect a building on it, purchase a house, home improvement and to repay a third party loan secured by a mortgage bond. In addition, the loan can be increased to 100% only if the employer offers an additional guarantee for the difference (Pension Fund Act No 24 of 1956).

2.1.3 Case of Singapore

In 1955, The Singaporean Government instituted a fully funded defined contribution fund to take care of employees in retirement. Every employer and employee was required to contribute a certain proportion[1] to the Central Provident Fund (CPF). In 1968, the fund was enhanced to allow members to withdraw their savings to finance the purchase public houses. The funds can also be used for down payments, mortgage payments, interest on loans and stamp duty. The Government of Singapore played a major role by offering incentives to make the product attractive its citizens and also offering a strong institutional support (Chia & Tsui, 2005). In comparison to Japan, UK, France, Singapore has the highest ratio of household residential property. The recent statistics from the department of statistics of Singapore indicates that the house ownership stood at 88.6% (Government of Singapore, 2011).

2.1.4 Case of Kenya

Under the Retirement Benefits Mortgage regulations (2009), a member may, if the rules of the scheme permit and subject to the Act, assign a proportion of his benefits to a scheme for consideration for the purposes of furnishing a guarantee, by a scheme, in favour of an institution, in respect of a loan granted or to be granted by the institution to a member, to enable the member to: acquire immovable property on which a house has been erected; erect a house on immovable property in respect of which, the member has, or the member and his spouse have obtained ownership or have the right to ownership through a right of occupation; add, alter or carry out repairs to a house of which ownership or the right to ownership was obtained through acquisition or a right of occupation by either the member or the member and his spouse; secure financing or waiver, as the case may be, for deposits, stamp duty, valuation fees and legal fees, (but excluding arrangement and commitment fees), and any other transaction costs required in the course of acquisition of the immovable on which a house has been erected.

[1] In 1955 the rate of contribution was 10%, This has since increased over the years. The rate has also been graduated according to the age.

2.2 MERITS AND DEMERITS OF PENSION BACKED HOUSING LOANS IN KENYA

2.2.1 Merits of pension backed housing loans.

- Members can use up their accumulated benefits as a guarantee for the purposes of purchasing or constructing a house, both in the rural and urban areas.
- In the case of rural house, where a first mortgage may not be secured, the guarantee is considered as the primary security.
- In case of default as a result of job loss, the outstanding loan is redeemable.
- Guarantee can be used to cover the initial transaction fees including purchase deposits, applicable duties & taxes, valuation and legal fees.

2.2.2 Demerits of pension backed housing loans

- There is no guarantee that one will have sufficient funds to pay off the mortgage at the end of the repayment period, as the pension fund could perform below expectations.
- The lump sum benefit at retirement cannot be used for other purposes.
- The member is still required to also meet interest rate payments throughout this period which is normally very high.

2.3 ALTERNATIVE MODEL

2.3.1 Reverse mortgages

A reverse mortgage is a loan that is availed to individuals who have attained their retirement age to enable them own a home during their retirement life, however, upon death of the individual, the house is reverted back to the reverse mortgage supplier. In conventional mortgage, the home owner makes a monthly payment to the financing institution and when the property has been fully paid, it is released from the mortgage. However, for reverse mortgages, the home owner is under obligation to make payments, but is free to do so with no pre-payments penalties. In reverse mortgage, the loan quantum depends on projected rate of house appreciated, the value of the property, age and sex of the home owners. These loans differ depending on the terms, time frame and loan advance.

Just like annuities, the reverse mortgages also have various options and guarantees. Reverse mortgages allow mortgagors to remain in the house until death, regardless of the loan amount. In a case where the income has been guaranteed, the monthly annuity payment continues as long as the home owner is alive. Under the repayment guarantee, repayment only occurs after the death of the last couple, after which the property is sold. Reverse mortgages have grown in popularity in the United States of America, (Kang, 2010). Many citizens are converting their homes into a lump sum cash or periodic income

Advantages of reverse mortgages

- The quality of life is improved at retirement
- It ensures that the retirees are independent, they can modify the house to suit their own preference
- No monthly mortgage repayments, one does not need to pay a reverse mortgage loan unless when one decides to sell off their home.
- It is easier to qualify for a reverse mortgage because the credit score of the individual is not required.

Disadvantages of reverse mortgages

- It is still a loan, therefore subject to interest like any other loans.
- Decreases home equity, when one dies, the house reverts to the reverse mortgage supplier.
- Reverse mortgage becomes due, when one's house ceases to be the primary property.
- The upfront closing fees are typically higher than other loans.

3 THE UPTAKE OF PENSON SECURED MORTGAGES IN KENYA

3.1 UPTAKE LEVEL OF PENSION SECURED MORTGAGES

According to Retirement Benefits Authority 2010 Statistical Digest, the total number of members of registered retirement schemes was 406,623 and the number of registered schemes was 1200.

Table 2: Data Received from Administrators

Member	Amount attached	Loan size	Typical Interest Rate
1	1,800,000	3,200,000	
2	1,206,160	3,000,000	
3	1,560,288	8,970,000	16.75
4	599,288	2,605,000	24.75
5	502,204	5,252,204	14.00
6	643,867	7,973,731	14.00
7	2,643,843	10,000,000	19.00
Total	**8,955,650**	**Average = 5,857,276**	

Uptake level can be calculated as the number of members who have taken up the mortgage over the [2]total number of members, this comes to [3]**0.006%**

Table 3: Data received from Housing Finance

Total amount of mortgage secured with pension benefits	**140,726,087**
Number of Mortgage Loans Secured with pension benefits	24
Average loan size	**5,000,000**
Interest rate	18%
Other costs that the borrower is expected to meet independently	Commitment fee, account opening balances
Number of borrowers who have used their retirement savings as collateral	**24**

[2] Total Number of members 406,623 as at December 2010.

[3] The uptake rate does not take into consideration new members or members with little accumulated benefits.

3.2 FACTORS AFFECTING THE UPTAKE LEVEL

1. **Socio-economic factors affecting mortgage uptake in Kenya.**

- Property prices have been on the rise over the last few years making it difficult for most members to use their accumulated benefits to secure a mortgage facility.
- High Interest rates by the mortgage financiers.
- The concept is suited for people who have been employed for a long period and have accumulated substantial benefits.
- There is a risk of members potentially loosing their pensions when they are unable to pay up their mortgage.
- Access to the fifty percent employer contribution when members move from one empolyer to another has made potential borrowers shy away from tying their pension benefit

3.3 FINANCING AND UPTAKE OF MORTGAGES

According to the survey results of mortgage finance in Kenya, conducted by Central Bank of Kenya Long term access to funds was listed as the most important constraint to the mortgage market in Kenya. Based on a ranking of mortgage market constraints, banks identified access to long-term funds as the most important impediment to the growth of their mortgage portfolio. Overlapping constraints of low level of incomes/informality and credit risk were listed as second and third respectively with high interest rates also being regarded as a major constraint. It is worth noting that similar constraints were listed by members of pension schemes with regards to the uptake of pension secured mortgages.

1. **Average Loan Size**

According to the survey analysis on mortgage finance in Kenya, the average mortgage loan is approximately Kshs. 4 million (Central Bank and World Bank, 2010). Data from one of the mortgage financing institutions showed that the average loan size was Ksh. 5

million, an increase from the average reflected in 2010. This reflects on the expensive housing market in the Kenya. This will in turn affect the uptake of pension secured mortgages since the security is highly dependent on the amount of accumulated benefits. Most low income members are unable to attach 60% of their accumulated benefits.

2. **Interest Rates**

The survey analysis also showed that the weighted average mortgage interest rate reported by the institutions was 14.07% in 2010. Results obtained from one of the mortgage financing companies showed that the interest rate was 18% as shown in fig 5.

3. **Understanding level of the Retirement Benefits Mortgage Regulations**

- Lack of practice notes to explain how the mortgage regulations work.
- There is a misconception that 60% of the accumulated benefits can actually be accessed for the purposes of purchasing a home/land or for home improvement.
- The process of assigning benefits may not be as straight forward as it seems, there are a number of legal documentations that have to be signed to ensure that the guarantee is in place.
- The Act requires that the property should be transferred before the funds accessed under the guarantee can be utilized. This makes the transaction to be very challenging as the property market is controlled by the seller which means that the seller insists on deposit being paid upfrint before the primary security is perfected.

4 RETIREMENT BENEFITS MORTGAGE REGULATIONS (2009)

4.1 Structure of the mortgage regulations

Retirement benefits schemes are required to amend their trust deed and rules to allow members to assign up to a maximum of 60% of their accumulated benefits as a guarantee for purposes of acquiring a mortgage loan. Out of 1,300 regulated retirement benefits schemes, only 126 of schemes had amended their trust deed to allow for the assignment. This reflects less than 10% of the total regulated retirement benefits schemes. Under the regulations, the institution offering the loan is required to ensure that:

- Relevant proof of registration and licensing
- Adequate operational and internal control system are in place as provided for in the regulations

4.1.1 Redemption of guarantee

Under the regulations, the allowable limit is 60% of accumulated benefits or the market value of the property whichever is less (The Retirement Benefits Mortgage Regulations, 2009). The guarantee remains valid until the member authorized its redemption or return. Upon presentation of evidence of default and liability arising to trustees, the guarantee becomes redeemable.

The current provision of the regulations section 11(2) and 11(3) envision where default has occurred, trustees to give concerned member an opportunity to prove that default has not arisen and further the regulations provides that upon receipt of notification form a member authorizing redemption of a guarantee. The above regulations make it mandatory for the trustees to seek consensus of the member on default and obtain authorization from a member. The proposal by mortgage financing institution is that upon confirmation of default by the financier, trustees should be at liberty to redeem the guarantee.

4.1.2 Securing the facility

Under mortgages regulations, section 7 (1), the scheme is not required to furnish a guarantee unless when the loan granted is secured by-

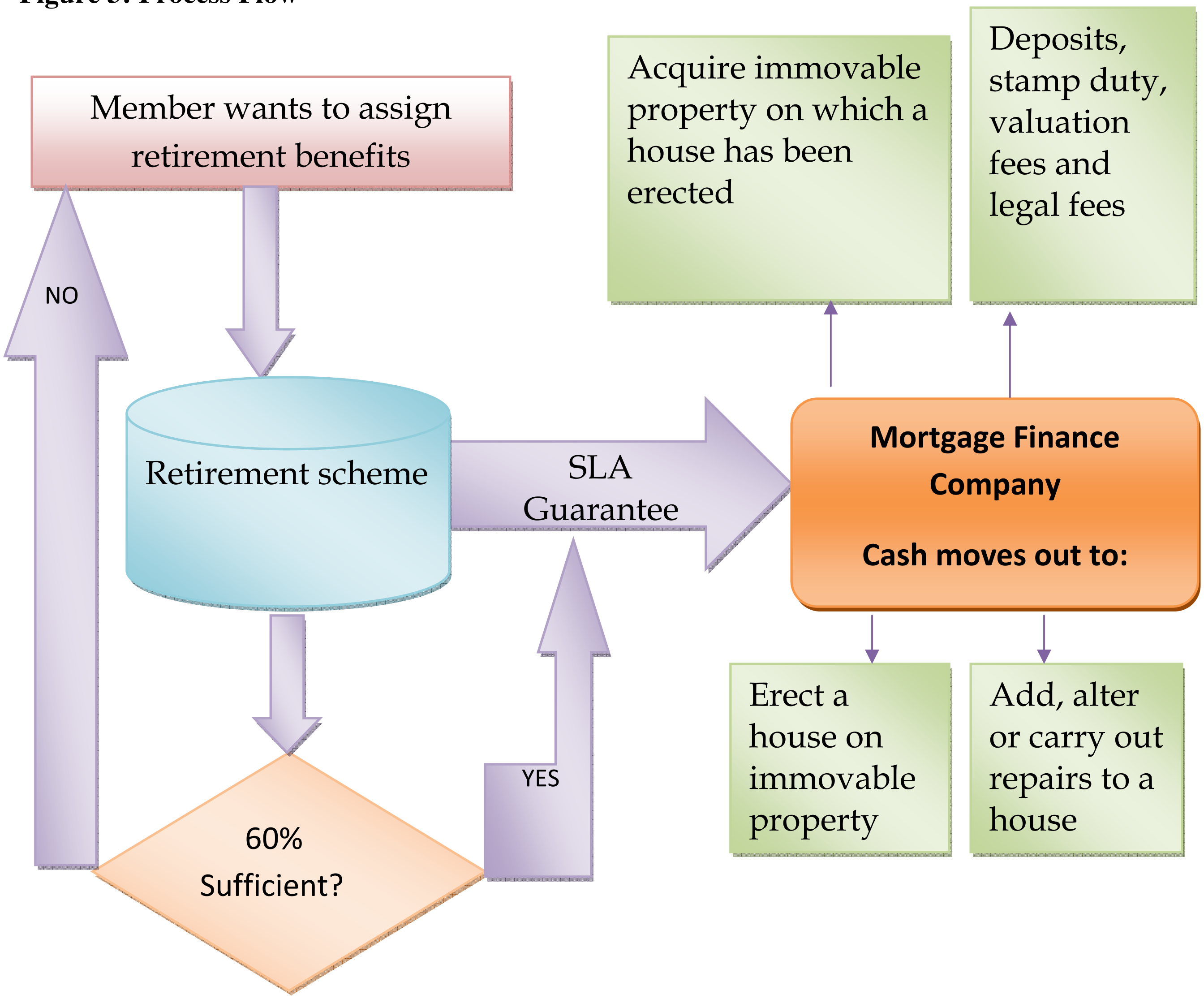
(a) a first mortgage on the immovable property in respect of which the loan is granted, or in the case of rural housing, where a first mortgage may not be easily obtained, suitable security acceptable to the lender; and

(b) an assignment to the scheme, by the member concerned, of a proportion of benefits to which the member is entitled to under the rules of the scheme.

The regulations contemplate that before a guarantees is issued by the Trustees the first mortgage has been registered as the primary security under section 7 (1) a . This does not take into account that the financier will have to pay the upfront fees on execution of sale agreement, legal fee, and valuation and stamp duty to facilitate registration as envisaged by section 4d. It may be imperative to change the legislator to allow the scheme to issue guarantee to the extent of the upfront fee since at the end of the process the property will remain the primary security. A defined process flow would also in streamlining the process across all pension schemes.

4.1.3 Process Flow of assigning benefits

Figure 3: Process Flow



5 RESEARCH METHODOLOGY

5.1 Population and Sampling

The sample was drawn from members of retirement benefits schemes, trustees of schemes, administrators of retirement benefits schemes and mortgage financing institutions. The data base of fund values of schemes as at 31st December, 2010 was used. There were 1008 schemes which were further categorized as follows:

- Schemes with fund values of over 1 Billion (**58 schemes**)
- Schemes with fund values between 100 million and I Billion (**248 schemes)**
- Schemes with fund values between 10 million and 100 million(**525 schemes**)
- Schemes with fund values less than 10 million.(**177 schemes**)

A representative sample was drawn from the above cluster and was inclusive of 126 schemes which had amended their trust deed and rules. Systematic sampling was further used afterwards to identify the schemes to be sampled.

Table 4: Sample Size

Ksh	Cluster (x)	nth	T D A (t)	n
1 Billion >	58	2nd	9	33
>100 million ≤ I Billion	248	4th	32	86
10 million ≤ 100 million	525	17th	47	75
<10 million	177	6th	12	39
F.V not disclosed		-	26	26
TOTAL	**1008(N)**		**126**	**259**

Total sample size was **259 schemes**. Three members were sampled from each scheme; the members sampled included a trustee, a member in senior management and a junior officer. A few trustees and service providers to attend focus group discussion on mortgage regulations.

5.2 Data Collection

Data was collected through focus group discussion meetings held in Mombasa and Nairobi. In Nairobi, two meetings were held focusing on trustees and service providers. There seemed to have been a mixed level of understanding on pension backed mortgages among the service provders and trustees. Most of them sighted that the structure ws not very cleary and fraught with numerous ambiguities.

Data was also collected through questionnaires administered to members of 259 schemes. In total, 362 questionnaires were filled and returned to the organization. The organization trained a few research assistants to administer questionnaires to members of schemes. Administrator, mortgage finance institutions and commercial banks were also requested to submit data on members who had used their accumulated benefits to secure mortgage.

5.3 Data Analysis

Table 5 Age, Gender, Length of employment

Age Bracket	Frequency	Valid Percent
<25	10	2.7
26-35	156	42.7
36-45	133	36.4
46-55	57	15.6
56-65	9	2.5
Total	365	100.0
Gender	**Frequency**	**Valid Percent**
female	154	42.7
male	207	57.3
Total	361	100.0
Length of employment	**Frequency**	**Valid Percent**
<3	13	5.7
3-5	27	11.8
5.1-10	64	28.1
10.1-15	50	21.9
15.1-20	39	17.1
20>	35	15.4
Total	228	100.0
No. of yrs worked in Current organization	**Frequency**	**Valid Percent**
<3	59	16.1
3-5	78	21.3
5.1-10	103	28.1
10.1-15	59	16.1
15.1-20	36	9.8
20>	31	8.5
Total	366	100.0

- From the analysis, a major majority of **79.1%** of the respondents are in the age bracket 26 to 45 years.
- There is an almost equal representation in terms of gender.
- **50%** of the respondents had worked an average of 10 years while only **5.7%** of the respondents had worked for less than 3 years.
- A majority, **62.5%** have worked in their current organization for more than 5 years, **34.4%** of whom have worked for more than 10 years.
- Given these statistics, we can conclude that a majority of the respondents have accumulated sufficient amount in the retirement funds based on the number of years worked.

Basic Salary	Frequency	Valid Percent

- A majority, 66.8% of the respondents have basic salary below Ksh. 100,000

Table 6 salary, contributions

<50000	112	30.9
50000-100000	130	35.9
100001-150000	62	17.1
150001-200000	36	9.9
250001-300000	10	2.8
300001>	12	3.3
Total	362	100.0
Employee Contribution	**Frequency**	**Valid Percent**
0	3	.9
1-2.5	11	3.3
2.6-5	135	40.1
5.1-7.5	120	35.6
7.6-10	49	14.5
10.1-12.5	13	3.9
12.6-15	4	1.2
15.1-20	2	.6
Total	337	100.0
Employer Contribution	**Frequency**	**Valid Percent**
0	2	.6
1-2.5	8	2.4
2.6-5	80	24.1
5.1-7.5	78	23.5
7.6-10	74	22.3
10.1-12.5	31	9.3
12.6-15	29	8.7
15.1-20	29	8.7
20.1>	1	.3
Total	332	100.0
Additional Voluntary contributions	**Frequency**	**Valid Percent**
0	1	2.3
0	7	16.3
1-2.5	8	18.6
2.6-5	22	51.2
5.1-7.5	4	9.3
7.6-10	1	2.3
Total	43	100.0

Table 7: Mortgage history

Staying in own house	Frequency	Valid Percent
no	241	65.8
yes	125	34.2
Total	366	100.0
Monthly rent	**Frequency**	**Valid Percent**
0	1	.4
<10000	79	32.2
10000-20000	109	44.5
20001-30000	34	13.9
30001-40000	14	5.7
40001-60000	6	2.4
60001>	2	.8
Total	245	100.0
Mortgage facility by employer	**Frequency**	**Valid Percent**
no	284	80.5
yes	69	19.5
Total	353	100.0
Interest rate	**Frequency**	**Valid Percent**
0	1	1.5
<5	3	4.4
5-10	46	67.6
10.1-15	14	20.6
15.1-20	3	4.4
20.1>	1	1.5
Total	68	100.0
Value of loan taken	**Frequency**	**Valid Percent**
<1000000	9	15.3
1000000-2500000	17	28.8
2500001-5000000	24	40.7
5000001-7500000	6	10.2
7500001-10000000	1	1.7
10000000>	2	3.4
Total	59	100.0

- A majority, 65.8% of the respondents were not staying in their own houses. Most of them were paying monthly rent ranging from Ksh. 10,000 to 20,000. In addition, 32.2 % of those respondents had monthly rental expenditure of less than Ksh. 10,000.
- 80.5% of the respondents did not have existing mortgage facilities with their employers.
- A majority of 19.5% of those who had, mentioned that the interest rates were ranging between 5 to 10%.
- 40.7% of the respondents had taken loan valued between Ksh. 2.5 Million and 5 Million.

Table 8 Completion of mortgage

Completion of mortgage	Frequency	Valid Percent
no	20	76.9
yes	6	23.1
Total	26	100.0
System	340	
How long it took to complete the mortgage	**Frequency**	**Valid Percent**
0	1	14.3
3-5	2	28.6
5.1-10	1	14.3
10.1-15	2	28.6
15.1-20	1	14.3
Total	7	100.0
Joint mortgage	**Frequency**	**Valid Percent**
no	45	78.9
yes	11	19.3
2	1	1.8
Total	57	100.0

- Only six respondents out of the 26 respondents had completed their mortgage repayments.
- 19.3% of the respondents who had taken joint mortgages

Awareness	Frequency	Valid Percent
no	75	24.0
yes	238	76.0
Total	313	100.0
Amended	**Frequency**	**Valid Percent**
no	89	29.7
yes	83	27.7
I don't know	128	42.7
Total	300	100.0
Mortgage	**Frequency**	**Valid Percent**
no	110	35.5
yes	200	64.5
Total	310	100.0
Assign	**Frequency**	**Valid Percent**

- The awareness level was very high at 76%
- A majority, 42.7% of the respondents were not aware whether their scheme trust deed had been amended to allow for assignment
- 64.5 of the respondents were intending to get a mortgage loan in the future.
- When asked whether they would consider assigning their benefits, 61.1% said they would.
- However, a majority felt that 60% of their accumulated benefits was

Suggestions on the improvement of mortgage regulations:

- Introduce more options as a security
- Make the process easier

no	121	38.9
yes	190	61.1
Total	311	100.0
Is 60% sufficient?	**Frequency**	**Valid Percent**
no	149	49.2
yes	85	28.1
i do not know	68	22.4
Total	303	100.0

5.3.1 Cross tabulations and chi-square

Cross tabulation and chi-square were used in order to display the relationship between various variables.

1. **Income level and Mortgage ownership.**

The cells of the table show the count or number of cases for each joint combination of values. For example, 13 people in the income range Ksh 100,000– Ksh 150,000 owned a Mortgage Loan. It is often difficult to analyze a cross tabulation simply by looking at the simple counts in each cell.

Table 9: Cross Tab salary/Previously taken mortgage %

Basic salary * Had you previously taken mortgage loan?					
			Had you previously taken mortgage loan?		Total
			no	yes	
Basic salary	<50000	Count	78	8	86
		% within Basic salary	90.7%	9.3%	100.0 %
	50000-100000	Count	105	9	114
		% within Basic salary	92.1%	7.9%	100.0 %
	100001-150000	Count	41	13	54
		% within Basic salary	75.9%	24.1%	100.0 %
	150001-	Count	21	11	32

Basic salary * Had you previously taken mortgage loan?					
			Had you previously taken mortgage loan?		Total
			no	yes	
	200000	% within Basic salary	65.6%	34.4%	100.0 %
	250001-300000	Count	8	2	10
		% within Basic salary	80.0%	20.0%	100.0 %
	300001>	Count	4	6	10
		% within Basic salary	40.0%	60.0%	100.0 %
Total		Count	257	49	306
		% within Basic salary	84.0%	16.0%	100.0 %

The purpose of a cross tabulation is to show the relationship (or lack thereof) between two variables.

<u>Significance testing</u>

Although there appears to be some relationship between the two variables we further test this relationship using chi-square test

One of the advantages of chi-square is that it is appropriate for almost any kind of data.

Table 10: Chi-Square Test Salary/Mortgage

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	33.603[a]	5	.000
Likelihood Ratio	28.749	5	.000
Linear-by-Linear Association	25.324	1	.000
N of Valid Cases	306		

a. 2 cells (16.7%) have expected count less than 5. The minimum expected count is 1.60.

Pearson chi-square tests the hypothesis that the row and column variables are independent. The actual value of the statistic isn't very informative.

The significance value (Asymp. Sig.) Has the information we're looking for. The lower the significance value, the less likely it is that the two variables are independent (unrelated).In this case, the significance value is so low that it is displayed as .000, which means that it would appear that the two variables are, indeed, related.

Adding a layer

We can add a layer variable to create a three-way table in which categories of the row and column variables are further subdivided by categories of the layer variable. This variable is sometimes referred to as the control variable because it may reveal how the relationship between the row and column variables changes when you "control" for the effects of the third variable. Here we'll use "Does your employer have a mortgage facility for its employees?" as our control variable (Layer variable).

Table 11: Chi-Square : Employer having mortgage facility

Chi-Square Tests				
Does your employer have a mortgage facility for its employees?		Value	df	Asymp. Sig. (2-sided)
no	Pearson Chi-Square	11.730[b]	5	.039
	Likelihood Ratio	11.089	5	.050
	Linear-by-Linear Association	5.771	1	.016
	N of Valid Cases	239		
yes	Pearson Chi-Square	12.363[c]	5	.030
	Likelihood Ratio	13.153	5	.022
	Linear-by-Linear Association	8.803	1	.003
	N of Valid Cases	57		
Total	Pearson Chi-Square	33.725[a]	5	.000
	Likelihood Ratio	29.135	5	.000
	Linear-by-Linear Association	25.993	1	.000
	N of Valid Cases	296		

a. 2 cells (16.7%) have expected count less than 5. The minimum expected count is 1.62.

b. 5 cells (41.7%) have expected count less than 5. The minimum expected count is .42.
c. 6 cells (50.0%) have expected count less than 5. The minimum expected count is 1.61.

If you look at the table of chi-square statistics, you can easily see that in all of the "Does your employer offer mortgage facility" categories (i.e. yes and No), the apparent relationship between income and mortgage ownership still exists (typically, a significance value less than 0.05 is considered "significant").

Conclusion

This suggests that the apparent relationship between income and Mortgage ownership is not merely an artifact of the underlying relationship between Employers who offer mortgage facility and Mortgage ownership.

2. **Length of employment and level of uptake of mortgage**

Here we'll examine the relationship between Length of employment and level and uptake of mortgage. The percentage of people who own mortgage rises as the length of employment category also rises.

Table 12: No. of years in employment / mortgage

For how long have you been employed? * Had you previously taken a mortgage loan? Cross tabulation					
			Had you previously taken a mortgage loan?		Total
			no	yes	
For how long have you been employed?	<3	Count	12	1	13
		% within For how long have you been employed?	92.3%	7.7%	100.0%
	3-5	Count	21	2	23
		% within For how long have you been employed?	91.3%	8.7%	100.0%
	5.1-10	Count	46	4	50
		% within For how long	92.0%	8.0%	100.0%

For how long have you been employed? * Had you previously taken a mortgage loan? Cross tabulation					
			Had you previously taken a mortgage loan?		Total
			no	yes	
		have you been employed?			
	10.1-15	Count	34	4	38
		% within For how long have you been employed?	89.5%	10.5%	100.0%
	15.1-20	Count	28	4	32
		% within For how long have you been employed?	87.5%	12.5%	100.0%
	20>	Count	18	10	28
		% within For how long have you been employed?	64.3%	35.7%	100.0%
Total		Count	159	25	184
		% within For how long have you been employed?	86.4%	13.6%	100.0%

<u>**Significant testing**</u>

Table 13: Chi-Square No. of years/Mortgage

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14.195[a]	5	.014
Likelihood Ratio	11.538	5	.042
Linear-by-Linear Association	8.142	1	.004
N of Valid Cases	184		

a. 4 cells (33.3%) have expected count less than 5. The minimum expected count is 1.77.

Our significance value is displayed as 0.014 which is less than 0.05.This means that it would appear that the two variables are related i.e. length of employment and the mortgage uptake.

3. **Mortgage uptake and employers who offer mortgage facilities to its employees**

From the analysis, we noted that Mortgage uptake is fairly low, and from the chart below the percentage of those whose employers offer mortgage is slightly higher than the percentage of those who have taken up mortgage. Could there be some correlation between the two. i.e. (Employers providing a mortgage facility and those who had previously taken a mortgage loan)We shall use chi-square analysis to try and validate this. The table below gives the Cross tabulation between the two variables.

Table 14: Mortgage facility/Previously taking a mortgage

Does your employer have a mortgage facility for its employees? * Had you previously taken a mortgage loan? Cross tabulation					
			Had you previously taken a mortgage loan?		Total
			no	yes	
Does your employer have a mortgage facility for its employees?	no	Count	214	27	241
		% within Does your employer have a mortgage facility for its employees?	88.8%	11.2%	100.0%
	yes	Count	35	24	59
		% within Does your employer have a mortgage facility for its employees?	59.3%	40.7%	100.0%
Total		Count	249	51	300
		% within Does your employer have a mortgage facility for its employees?	83.0%	17.0%	100.0%

Significant Testing

From our chi-square analysis below, we can deduce that the two variables are related since the significant value is as low as it is displayed (i.e. .000).Thus we can deduce that most people who take up mortgage have an employer who provides a mortgage facility.

6 SUMMARY OF FINDINGS

1. **Merits and demerits of pension backed housing loans.**

Merits

- Members can use up their accumulated benefits as a guarantee for the purposes of purchasing or constructing a house, both in the rural and urban areas.
- In the case of rural house, where a first mortgage may not be secured, the guarantee is considered as the primary security.
- In case of default as a result of job loss, the outstanding loan is redeemable.
- Guarantee can be used to cover the initial transaction fees including purchase deposits, applicable duties & taxes, valuation and legal fees.

Demerits

- There is no guarantee that one will have sufficient funds to pay off the mortgage at the end of the repayment period, as the pension fund could perform below expectations.
- The lump sum benefit at retirement cannot be used for other purposes.
- The member is required to meet the high interest rate payments throughout the mortgage period.

2. **Socio-economic factors affecting mortgage uptake in Kenya.**
    - Property prices have been on the rise over the last few years making it difficult for most members to use their accumulated benefits to secure a mortgage facility.
    - High Interest rates by the mortgage financiers.
    - The concept is suited for people who have been employed for a long period and have accumulated substantial benefits.
        - There is a risk of members potentially loosing their pensions when they are unable to pay up their mortgage.

- Access to the fifty percent employer contribution when members move from one empolyer to another has made potential borrowers shy away from tying their pension benefit

3. The level of Uptake of mortgage loans that has been secured by pension assets.

- Only 24 members have assigned their as guarantee for mortgage loans

4. Hindrances in the Retirement Benefits Mortgage Regulations (2009) that have resulted to low uptake of pension-secured mortgage loans.

- Lack of practice notes to explain how the regulations can work.
- Lack of understanding by trustees and members on how the funds are utilized.
- The respondents mentioned that the concept was not clearly described and had too many ambiguities to make it viable as is currently structured.
- Different pension schemes insist of having individual guarantees formats instead of utilizing the standard guarantee forms provided by the financier which have taken into consideration the changes in the Retirement Benefits Act.
- Lack of transparency in charging models.
- Limited mortgage fiancing providers

7 CONCLUSION AND RECOMMENDATIONS

The Retirement Benefits Mortgage regulation was introduced to allow members of schemes to use part of their accumulated benefits as a security when applying for mortgage loan. The intent was very good, and it came at a time when members of scheme could not be allowed to access the employer's accumulated benefits when leaving service. However, this has since changed, given the recent amendments in the Retirement Benefits Act, allowing for members to access upto 50% of the employer's locked in benefits.

The uptake of pension backed mortgages is very low, though it is envisioned that the uptake is likely to increase with the recent changes allowing for members with existing mortgages to use 60% of their accumulated benefits as a security, and rural houses being considered as primary security, a lot needs to be done in terms of education to members, trustees and service providers on how the product works.

Recommendations

- There is need to issue practice notes on the mortgage regulations by Retirement Benefits Authority. The practice notes will outline the regulatory expectation and will demystify the retirement benefits mortgage regulations.
- Training of trustees, members and service providers on pension secured mortgages. It will be helpful to include the mortgage financing companies as co-trainers in the education campaigns.
- The regulations need to be amended to allow members to assign up to 60% as a security for the purposes of purchasing land in either rural or urban areas. This has not been explicitly catered for in the current regulations.

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9 APPENDIX

Retirement Benefits Authority

QUESTIONNAIRE ON THE FACTORS AFFECTING THE UPTAKE OF PENSION SECURED MORTGAGES IN KENYA

SECTION ONE: PERSONAL INFORMATION

Name (optional): ……………………………………………………………….

Organization ………………………………………………………………….

Designation…………………………………………………………………..

1. **Gender: Male [ ] Female [ ]**
2. **Age bracket:**

Age Bracket	Below 25 yrs	26 – 35 yrs	36 – 45 yrs	46 – 55 yrs	56 – 65 yrs
Response					

3. **Marital status:**

Status	Single	Married	Divorced	Separated	Widowed	Other
Response						

4. **For how long have you been employed?**

Experience(Yrs)	< 3	3 – 5	5.1 – 10	10.1 - 15	15.1-20	20 >
Response						

5. **For how long have you worked for your current organization?**

Experience(Yrs)	< 3	3 – 5	5.1 – 10	10.1 - 15	15.1-20	20 >
Response						

6. **What is your monthly basic salary at the moment:**

Salary scale (Kshs)	**Response**
Less than 50,000	
50,000 – 100,000	
150,001 – 200,000	
250,001 – 300,000	
Above 300,001	

7. **What is the percentage of contribution into the scheme?**

% Contribution	**0**	**1 - 2.5**	**2.6. - 5**	**5.1 - 7.5**	**7.6 - 10**	**10.1- 12.5**	**12.6- 15**	**15.1- 20**	**20.1>**
Employee									
Employer									
***AVC**									

***Additional Voluntary Contribution**

8. **Are you a trustee of your scheme?**

YES [ ] NO [ ]

9. **Credit experience**

	YES	**NO**
Credit card		
Car loan		
Other loan		

SECTION TWO: AWARENESS OF MORTGAGE

10. Are you currently staying in your own house?

YES [ ] NO [ ]

11. If No above, how much is your monthly expenditure on rent?

Monthly Rent	< 10,000	10,000 to 20,000	20,001 to 30,000	30,001 to 40,000	40,001 to 60,000	60,001 >
Response						

12. Does your employer have a mortgage facility for its employees?

YES [ ] NO [ ]

13. If yes, how much is the interest rate?

Interest Rate%	<5	5 to 10	10.1 to 15	15.1 to 20	20.1 >
Response					

14. Had you previously taken a mortgage loan? If No, Go to question 20

YES [ ] NO [ ]

15. If yes, what was the value of the mortgage taken?

Mortgage Ksh.	< 1000,000	1,000,000 - 2,500,000	2,500,001-5000,000	5,000,001-7,500,000	7,500,001-10,000,000	10,000,000>
Response						

16. Please tick the monthly repayment amount

Monthly Repayment	< 20,000	20,000 - 40,000	40,001-60,000	60,001-80,000	80,001-100,000	100,000>
Response						

17. Have you completed the mortgage?

YES [ ] NO [ ] N/A [ ]

18. If yes, how long did it take you to complete the mortgage? If No, go to question 19

Repayment period (Years)	**< 3**	**3 – 5**	**5.1 – 10**	**10.1 - 15**	**15.1-20**	**20 >**
Response						

19. Was the mortgage taken jointly with your spouse?

YES [ ] NO [ ] N/A [ ]

20. Are you aware that the Retirement Benefits Act can now allow members to assign up to 60% of their accumulated benefits as a security for acquiring mortgage or for purchase of land?

YES [ ] NO [ ]

21. If yes, how did you learn about it?

Medium	**Trustees**	**TV**	**Radio**	**Newspaper/ Newsletters**	**Internet**	**Other**
Response						

22. Does your scheme trust deed and rules allow members to assign accumulated benefits for purposes of securing a mortgage/purchase of land?

YES [ ] NO [ ] I DON'T KNOW [ ]

23. If No, Kindly give reasons. (To be answered by trustees)

……………………………………………………………………………………………

……………………………………………………………………………………………

24. Are you planning to get a mortgage loan or a loan to purchase land in the near future?

YES [ ] NO [ ]

25. Would you consider assigning up to 60% of your accumulated benefits as a security?

YES [ ] NO [ ]

26. Kindly give reasons for the above answer.

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

27. Do you think 60% of your accumulated benefits will be sufficient as security for mortgage?

YES [ ] NO [ ] I DON'T KNOW [ ]

28. Kindly give reasons for the above answer.

………………………………………………………………………………………………

………………………………………………………………………………………………

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………………………………………………………………………………………………

29. How can we improve on the mortgage regulations? Kindly give us your recommendations.

………………………………………………………………………………………………

………………………………………………………………………………………………

……………………………………………………………………………………………….

Thank you for taking your time to fill in this questionnaire.

TO BE SENT OUT TO MORTGAGE FINANCE COMPANIES

Details	
Total amount of mortgage (KSH)	
Number of Mortgage Loans	
Average loan size(KSH)	
Interest Rate	
Default rate	
Deposit required	
Other costs that the borrower is expected to meet independently	
Number of borrowers who have used their retirement savings as collateral	

TO BE SENT OUT TO ADMINISTRATORS

Details	
Amount of retirement assets that have been assigned as a security for mortgage (KSH)	
Number of Mortgage Loans	
List of schemes	
Average loan size(KSH)	
Typical Interest Rate	
Data on the total benefits paid out to members at the point of retiring in 2010 (This will be used for simulation purposes)	