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An Assessment of Mortgage Loan Uptake among Bank Staff: A Survey of Commercial Banks in Nakuru Town

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***Abstract:** Shelter is among the most basic human needs and home ownership is one way of satisfying this need. However, home ownership requires substantial resources in terms of time and financial resources. Commercial bank staff enjoys discounted financial products in relation to mortgage facilities. This study sought to find out the mortgage facility uptake among the bank staff within commercial banks at Nakuru Town. The specific objective of the study was to establish the effect of personal finance commitments on mortgage facility uptake. The study population consisted of bank staff within Nakuru Town and utilized stratified random sampling method. The descriptive research design was employed in the study. Data was analysed using SPSS version 21 and presented in tables. The findings indicated that, while a high percentage of staff were eligible for mortgage (58.7%), there were factors hindering the mortgage uptake; serving probation period (10.7%), contract employees (17.3%), salary over commitments (6.7%) and little time towards retirement (13.3%). Personal financial commitments such as short-term financial commitments, salary over commitments, taking care of siblings, young family commitments, and reservations towards long-term financial commitment influenced the ability to take up mortgage facilities. The study made the following recommendations. The bank staff in entry-level jobs should be encouraged to take the mortgage facilities early on in the career paths, as it is cheaper for them. Bankers earning lower amounts than the bank top and middle management should be encouraged to take up mortgage facility based on their salary levels. There is need to educate bankers more on the financial advantages they enjoy compared to the ordinary bank customers in relation to mortgage to encourage higher uptake of the facilities. The bankers should be educated on prudent financial management to enable them to take up meaningful credit facilities such as mortgage facilities.*

Keywords: Commercial banks, financial commitment, home ownership levels, income levels, mortgage

1. Introduction

Food, shelter and clothing are among the high ranking human needs [1]. Accessibility of quality housing facilities can be done through housing finance schemes such as mortgages. In this context, it is argued [14] that, housing finance plays a major role in the housing system and services of any given country. The importance of properly structured mortgage service provision is also significantly important to the wider economy as well as to the individual home owner. It is further posited [13] that, well-structured mortgage facilities can deliver accessibility to housing facilities to a wider population segment. Home ownership remains the largest single asset that a majority of the individual owners will have in their lifetime. The housing deficit problems is not only limited to the developing countries but also to the developed countries.

Most countries in Africa continue to face housing deficits. It is noted [1] that, without any exception the Sub Saharan Africa face significant housing deficits due to " …poorly developed housing institution and markets, stocks which are in poor condition, a huge backlog of housing need and weak policy responses" . it is further observed [11] that, the housing deficit in Sub Saharan Africa has led to the entry of international housing finance institutions such as Shelter Afrique, East Africa Development Bank (EADB), and Preferential Trade Area (PTA) bank. The extent of housing deficit is huge in Africa, as exemplified [1] that, the housing deficit in Ghana stood at two million housing units with an annual housing demand of 133,000 units. There is limited access to mortgage facilities in Ghana. There is a provision for partial mortgage facilities but it is only about 15% of the Ghanaians who have access to this provision [1].

Uganda mortgage financing industry has grown in three dimensions; the mortgage related products on offer, the banking institutions in the mortgage industry and the value of the mortgage portfolio [5]. A total of nine banking institutions including Housing Finance Bank, Development Finance Company of Uganda Bank Limited (DFCU) Bank, Stanbic Bank, Barclays Bank, Equity Bank, Standard Chartered Bank, Centenary Bank, Kenya Commercial Bank and Bank of Africa are offering mortgage facilities [12]. This compares favourably to only two institutions that were offering the services in 1992. In the context of the mortgage facilities on offer, the same has grown from one product to the current four products; residential, commercial, land purchase and construction finance to property developers. In the context of increase in mortgage value, the same has steadily grown from mortgage portfolio equivalent to 0.3% of GDP in 2002 to 4.8% of GDP by the end of 2010. Despite the relative development in the mortgage industry in Uganda, there is a persistent housing crisis. For example, in the year 2008 there was an estimated housing deficit of 560,000 units of which the annual requirements stood at 233,000 units (Obody, 2013).

The growth and accessibility of mortgage facilities in the country can be traced to the incorporation of the Housing Finance Company of Kenya with joint ownership; Commonwealth Development Corporation (CDC) with 60% equity ownership and Government of Kenya with 40% equity ownership [2]. The company that is now publically quoted owns 29% of the total mortgage industry. However, the financial industry in Kenya has grown to include other mortgage financiers. Kenya has a total of 44 financial institutions of which 10 of them are involved in the mortgage facilities; CFC Stanbic Bank, Kenya Commercial Bank, Cooperative Bank, Barclays Bank, I&M Bank, Family Bank, Krep Bank, Equity Bank, Standard Chartered Bank and Housing Finance (Wahome, 2010). It is asserted [11] that, five banking institutions in the mortgage industry command over 71 percent of the market share; KCB, Housing Finance, East African Building Society, Standard Chartered, Barclays Bank and CFC Stanbic Bank. KCB with a market share of 30% is the market leader in mortgage industry [13]. Kenya's untapped mortgage market is estimated to be Ksh 1.1 billion, and is the third-largest in Sub-Saharan Africa after South Africa and Namibia.

2. Statement of the Problem

The right to affordable housing is enshrined in Kenya's 2010 constitution through section 43 (1) (b) which states "…every person has right to accessible and adequate housing and reasonable standard of sanitation". However, the home penetration rates in Kenya are still low in both rural and urban centers. It is estimated [2] that, home ownership in urban centers stood at 17.7% while in the rural set up at 82.2%. Out of these Kenyans with houses, a third had acquired their houses through inheritance while only 1.5% had taken up mortgage facilities to own up their houses.

Mortgages present an ideal avenue for home ownership in the country. However, it is argued [13] that, obtaining of the mortgage facility is bureaucratic in nature compounded with the need to identify a suitable service provider. In a survey in 2011 and 2012, the Central Bank of Kenya identified high interest rates, variable interest based mortgage facilities and long term access to finances as the major obstacles to mortgage financing [2]. Banking sector staffs by virtue of working for a financial institution don't face the typical challenges faced non-bank staff in the access of financial credit facilities such as mortgages. Financial literacy including the dynamics involved in home ownership through mortgage facilities is expected to be high among banking sector staff. This is informed by the notion that the bank staff need to educate their customers on the same as part of the sales process for the mortgage facilities. Moreover, the bank staffs receive financial discounts on banking products as part of their staff benefits which makes it relatively cheaper for them to acquire the facilities. There is little literature on the uptake of the mortgage facilities among the banking sector. This study wishes to fill this knowledge gap by focusing on the home ownership through mortgage facilities for the bank staff.

3. Objectives

3.1 General Objective

To assess mortgage loans uptake among bank staff in commercial banks in Nakuru town

3.2 Specific Objective

To examine the effect of personal financial commitments on mortgage facilities uptake among commercial banks' staff in Nakuru town

4. Research Question

What is the effect of personal financial commitments on mortgage facilities uptake among banks' staff in Nakuru town?

5. Conceptual Framework

The conceptual framework outline in Figure 1 guided the study by hypothesizing the relationship between personal finance commitment (independent variable) and mortgage facilities uptake (dependent variable).

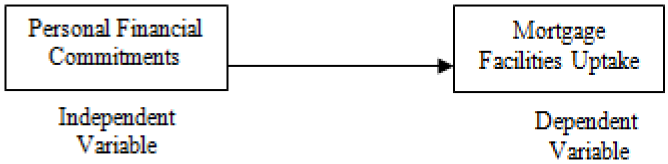

Figure 1: Conceptual Framework

6. Literature Review

This subsection delves into the theories and studies that touch on mortgage concept,

6.1 Theoretical Review

6.1.1 Maslow's Hierarchy of Needs

The Maslow hierarchy of needs was conceptualized by Abraham Maslow and aimed to look at the motivation of human needs [8]. Maslow indicated that people have five types of needs which need to be activated in a hierarchical manner in which the lowest order needs must be fulfilled before the next order need is fulfilled [15]. The five needs are basically divided into two groups that is deficiency and growth needs levels. The five Maslow hierarchy of needs include psychological needs, safety needs, social needs, esteem needs and self-actualization needs. The Maslow Hierarchy of needs theory is based upon three principles; deficit principle, prepotency principle, and progression principle. The deficit principle indicates that unsatisfied need generates a drive to act [8], [15]. A satisfied need stops being a motivator. The prepotency principle indicates that some needs are more vital than others and must be satisfied before other needs become motivators. Closely related to the prepotency principle is the principle of progression which indicates that indicates that physiological needs must met, followed by safety needs, then social needs and so on.

In relation to the mortgage facilities, the commercial banks have offered discounted mortgage facilities to their employees. For example, the Barclays Bank of Kenya offers employees' financial discount in the context of mortgage facility at 7% on reducing balance as compared to 15.9% market rate offered to customers. The bank employees also benefit from a longer payment period of up to the retirement age of 60 years compared to a maximum of 20 years mortgage offered to the customers. Owing a home is a second level of needs among the Maslow hierarchy of needs and the bank offers its employees a chance to fulfill this need at a lower cost and in a far flexible manner.

6.2 Empirical Review

The empirical literature reviewed was in tandem with the study objectives

6.2.1 Influence of Personal Financial Commitments on Mortgage Uptake

The income level affects the ability to take up a mortgage facility [4]. Mortgage facilities are long term investments that consume a substantial amount of one's income for a long time. The income levels also dictate the amount of money that one can qualify for in terms of mortgage facilities. Banks staff who are on contract basis such as the sales team and some operational staff don't qualify for mortgage facilities due to their short engagement period with the bank [4]. Contracts are either one or two year period renewable contracts dependent on the performance of the employee and the needs of the bank within that period. This time is not sufficient for contract based employees to take mortgage facilities [11].

A variety of credit facilities are easily available to staff at relatively cheaper and easy terms and conditions. Among those credit facilities include credit cards and personal unsecured loan of up to a million shillings [11]. However, imprudent uptake and usage of these credit facilities may lead to unnecessary over borrowing/ over commitment leading to inability to take up meaningful long term credit facilities such as mortgage facilities [4]. Over stretching on one's personal credit facilities may lead to situations where bank staff is not able to meet their financial obligations leading to uptake of risky financial credit facilities such as shylock facilities. The high interest rates charged by the shylocks further create financial challenges for the bank staff sometimes leading to disciplinary cases.

There are situations in which the staff wants to meet certain short-term financial commitments take up substantial amount of funds. Such short term financial commitments include education opportunities such as undertaking of post graduate qualifications. These short term financial commitments may impede the ability to take up long term facilities. Most of the staff in the banking industry join the bank while unmarried and thereafter get married while working. This has the effect of increasing the expenses and reducing the disposable income. If such staff had other ongoing short term financial commitment, then they may find their ability to take additional credit facilities especially with the growing young family severely curtailed. Affluent living may also lead into a situation where the staff is not able to take long term mortgage facilities as they finance short term lifestyle related expenses. Such expensive lifestyle expenses include motor vehicles and entertainment spots.

There is an exponential growth in the banking industry with the upgrading of microfinance institutions into Deposit Taking Microfinances (DTM) and the local and regional expansion of the local banks. This growth in the financial industry sector creates opportunities for bank staff to shift employers. However, different employers have different terms for their employees. In this context, bank staff may be reluctant to take long term credit facilities since they may view themselves as highly mobile. In addition, commercial banks are also frequently retrenching relatively aged employees in order to keep their overheads low in terms of salary expenditure. In this context staff who feel at risk of displacement from their current employer either in terms of career progression to different banks or through retrenchments may be reluctant to take up long term credit facilities such as mortgage facilities. This is informed by two aspects. The mortgage facilities similar to other credit facilities for ex bank staff are increased to reflect the commercial rates. This thus represents an increase in the repayment amounts which eats up into whatever salary increase and benefits they may have acquired as result of moving. Due to the variances in benefits to staff in different commercial banks, shifting staff may find themselves in a situation where the new employer is not able to take over their existing mortgage facilities.

7. Research Methodology

Descriptive research design was used. A descriptive research design helps describe the state of affairs as it is at present [9]. The target population of the study included the population that is directly accessible to the researcher. This constituted the bank staff in the banking hall as they are relatively easy to approach and convince to fill in the questionnaires especially when it is off peak. A sample of 89 respondents was arrived at using Yamane's formula and consequently drawn from the target population by use of stratified random sampling method.

A questionnaire with questions on a Likert scale was employed to collect data from the sampled respondents. The questionnaire was pilot tested with the object of assessing its reliability and validity. Reliability is a measure of degree to which research instruments yields consistent results after repeated trials [3]. On the other hand, validity is the degree to which results obtained from analysis of data actually represent the phenomenon under study. The pilot study utilized 8 respondents which constitute 10% of the sample size. The importance of the pretest study is to ensure that the questionnaires are clear with no ambiguous questions and that the questionnaires actually assisted in achieving the objective of the study [6]. The Cronbach's alpha coefficient was used to measure the reliability (internal consistency) of the questionnaire [10]. On the other hand, validity was determined by seeking expert opinion of University supervisors who assessed the content of the questionnaire after determination of reliability and before its administration in the main study.

7.1 Data Processing and Analysis

The data was coded and entered into Statistical Packages for Social Sciences (SPSS) for data analysis. The descriptive statistics were undertaken in order to identify the characteristics of demographic data of respondents. In the context of descriptive statistics, percentages and frequencies were used for the study.

7.2 Research Findings

The questionnaires were distributed to 89 respondents in the banking sector. Eighty questionnaires were returned making a response rate of 89.88%. There were several reasons on why the nine questionnaires were not returned including maternity leaves, decline to fill the questionnaire as well as sick offs. Five questionnaires were not analyzed, as they were not completely filled. Therefore in total 75 questionnaires were analyzed representing 84.26% of the respondents.

7.2.1 Influence of Personal Financial Commitments on Mortgage Uptake

Short-term credit facilities such as the personal loans and credit cards can impair the ability to take long term credit facilities such as mortgage. A total of 60% and 69.3% of the respondents were eligible for the personal loans and credit facilities respectively as shown in Table 1.

Table 1: Eligibility for Credit Facilities

		Frequency	*Percentage*
Eligibility for personal loan	Yes	45	60.0
	No	30	40.0
	Total	75	100.0
Eligibility for credit card	Yes	52	69.3
	No	23	30.7
	Total	75	100.0

Several factors can hinder the uptake of mortgage facilities among the staff including salary over commitments with short term credit facilities, short term financial commitments, taking care of the siblings, young family commitments and reservations towards long term commitment to the financial institution (Bett, 2013). The salary over commitments with short-term credit facilities was the major factor hindering the mortgage uptake as cited by 53.4% of the respondents.

This can be attributed to the high number of staff with credit cards and staff personal loans. The uptake of these credit facilities is mostly fuelled by the fact that they are relatively easy to take among the bank staff due to low interest rates. In the increasing competitive work environment, a majority of the bank staff are going back to class to further their education with MBA degrees (Njiru & Moronge, 2013). These commitments take up a substantial amount of investments in the short term hence reducing the ability to take up a mortgage. This was cited by 33.3% of the respondents. Other factors that had an impact included taking care of the siblings (13.4%) and young family commitments (30.6%) as illustrated in Table 2.

Table 2: Factors hindering Uptake of Mortgage Facilities

		Frequency	*Percentage*
Salary over commitments with short term credit facilities	Very	11	14.7
	High	29	38.7
	Uncertain	4	5.3
	Low	31	41.3
	Total	**75**	**100.0**
Short term financial commitments (e.g. MBA studies)	Very	12	16.0
	High	13	17.3
	Uncertain	11	14.7
	Low	8	10.7
	Very	31	41.3
	Total	**75**	**100.0**
Taking care of siblings	Very	5	6.7
	High	5	6.7
	Uncertain	3	4.0
	Low	31	41.3
	Very	31	41.3
	Total	**75**	**100.0**
Young family commitments	Very	13	17.3
	High	10	13.3
	Low	21	28.0
	Uncertain	31	41.3
	Total	**75**	**100.0**
Reservations towards long term commitment to the bank is hindering mortgage facility application	Uncertain	3	4.0
	Low	41	54.7
	Very	31	41.3
	Total	**75**	**100.0**

8. Summary, Conclusions and Recommendations

This section presents the summary of the study, the conclusions and the recommendations of the study

8.1 Summary

Personal financial commitments that had an influence on the mortgage facilities uptake included short-term financial commitments, salary over commitments, taking care of siblings, young family commitments, and reservations towards long-term financial commitment. Salary over commitments with short term credit facilities was the major reason hindering mortgage uptake as indicated by 53.4% of the respondents.

8.2 Conclusions

Short-term financial engagements among the bankers such as overburdened with personal loans were major constraints towards uptake of mortgage facility.

8.3 Recommendations

According to the study findings, it is suggested that, there is need to educate bankers more on the financial advantages they enjoy compared to the ordinary bank customers in relation to mortgage to encourage higher uptake of the facilities. It is also recommended that, bankers should be educated on prudent financial management to enable them to take up meaningful credit facilities such as mortgage facilities.

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