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ABSTRACT

The mortgage market in Kenya has been rising over time which has seen growth in profitability of the commercial banks that have been offering mortgage lending to Kenyans. Advancing mortgage credit implies that the commercial bank money is tied up somewhere whose payment is in the future. This study sought to determine the factors influencing performance of mortgage lending by commercial banks in Mombasa County. The study sought the following specific objectives: How mortgage costs influence mortgage lending by commercial banks in Mombasa County and how loan structure influence mortgage lending by commercial banks in Mombasa County. A descriptive research design was used. The population of this study included all the 43 Commercial Banks in Mombasa County. The target population consisted of mainly branch managers, relationship managers, Credit managers and operations managers. The sample size of this study involved all commercial banks that offer mortgage financing between years 2010 to 2015. The secondary data was sourced from the annual reports available from the Central bank of Kenya. Data analysis was done using a regression model to test the influence of various variables on the performance of mortgage lending by commercial banks in Mombasa County. Primary data was obtained from self-administered questionnaires that were administered to all commercial banks within Mombasa County. Data analysis was done using SPSS (Version 22) and summarized using descriptive statistics. The study revealed that majority of the respondents strongly agreed that mortgage lending has improved profitability margins of most commercial banks in Mombasa County. 90% of the respondents strongly agreed that lack of credit history influences the capability to get mortgage loans. Finally, the results revealed that mortgage costs and loan structure had a significant correlation on the performance of mortgage lending by commercial banks in Mombasa County. The study recommends that the management of commercial banks should take into consideration on mortgage costs and particularly on how to lower the interest rates.

Key Terms: *Mortgage, Mortgage Uptake, Interest Rate, Monetary Policy, Inflation, Securitization*

INTRODUCTION

A mortgage is a loan made for the purpose of purchasing, renovating or constructing a residential dwelling. The loan is secured by a mortgage lien over the property. Mortgage lending is the primary mechanism used in many countries to finance private ownership of residential and commercial property. Lenders provide funds and the property functions as collateral. The bank or mortgage firm loans a large amount of money (typically 80%) of the price of the property which is paid back with interest over a set period of time. In developed countries mortgage financing companies have gained recognition as opposed to those in developing countries (Hahm, 2004). International experience suggests that the widespread availability of residential mortgages has favorable impact on poverty alleviation, quality of housing, infrastructure, and urbanization (Erbas & Walley, 2005). Today, developed countries have advanced mortgage finance systems in which funds flow from people with fund surpluses to the ones that are in need of them by the aid of mortgage markets. On the other hand, despite its recognized economic and social importance, mortgage finance often remains under-developed in developing countries mainly due to lack of stable inflation and employment (Hahm, 2004).

Globally, the problem of mortgage financing resonates across many countries, both in the developed and developing countries. For example, in the United States of America, the nation's housing market was said to have gone from boom to bubble and to bust over the past decade, with a devastating impact on the global economy and financial system. Millions of bad mortgage loans were made, homeowners would have had difficulty repaying under the best of circumstances and as a consequence, millions were losing their homes (Zandi & Deritis, 2011). Investing in real estate requires large amount of capital to be mobilized which the investors may not raise on their own (Central Bank of Kenya, 2012). This would result to investors borrowing funds from lenders secured in real estate with a mortgage. Wider access to housing finance has a significant impact on construction, economic growth, and urban development (Reynaud, 2009). Improved macroeconomic circumstances have played a big role in the emergence of housing finance including liberalization of financial markets and of housing finance. Instead of Specialized, frequently publicly owned lenders providing limited amounts of often subsidized credit to a similarly limited number of borrowers, new lenders using new kinds of instruments coupled with new ways of accessing finance and managing risks have emerged in both developed and emerging markets. This has enabled commercial banks engage in mortgage financing (Chiquer & Lea, 2009).

There are different types of mortgages, but the most common are the fixed rate mortgages and the adjustable rate mortgages. Fixed rate mortgages are those where the creditor/investor assumes the interest risk while there is typically no prepayment penalty for the borrower (Yuying An, 2004); adjustable rate mortgages, hybrid mortgages or interest only mortgages. Fixed rate mortgages are advantageous because the monthly repayment is constant for the term of the mortgage and regardless of the behavior of the market, the interest rate paid by the borrower is the same for the life of the loan (MC Donald & Thornton, 2008). However, with adjustable rate mortgages, the interest rates are lower than or otherwise equivalent to fixed rate mortgages.

Mortgage Financing by Commercial Banks in Kenya

All over the world, the mortgage industry has faced numerous challenges. This has not spared countries in Sub-Saharan Africa (SSA) since they face formidable housing problems. Almost without exception they have poorly developed housing institutions and markets, stocks which are in poor condition, a huge backlog of housing need and weak policy responses. In fact the housing boom of the mid-eighties eventually led to a collapse in house prices and misery for thousands of house owners (Greenlaw, etal 2008). This is even believed to be the inception of global economic crisis which arose in the USA (Acharya, etal 2009). Commercial banks have recently started engaging in mortgage financing an area which was previously a niche for mortgage financing companies. An efficient housing finance system has significant importance both in meeting the housing needs of individuals and in reinforcing the development of the construction, finance and other related sectors of an economy. International experience suggests that, the widespread availability of residential mortgages has a favorable impact on poverty alleviation, quality of housing, infrastructure, and urbanization (Erbas & Walley, 2005). Developed countries have advanced housing finance systems in which there is order where surplus funds are channeled to areas that are in need of them especially in mortgage markets. On the other hand, despite its recognized economic and social importance, mortgage finance often remains under-developed in developing countries mainly due to lack of stable inflation and employment (Hahm, 2004). Mortgage loans are generally structured as long-term loans, the periodic payments for which are similar to an annuity and calculated according to the time value of money formulae. The most basic arrangement would require a fixed monthly payment over a period of ten to thirty years, depending on local conditions. Over this period the principal component of the loan would be slowly paid down through amortization (Tse, 2002). Changes in mortgage design do not always lead to fundamentally different mortgage instruments. The emergence of a fixed rather than a variable rate mortgage would be an example of a new mortgage instrument (Dolde, 2006).

The overall demand for housing in Kenya according to a UN Habitat survey is 150,000 housing units compared to 35,000 housing units being delivered in the market per year. These include those by the mortgage industry. The survey argued that housing problem can’t be solved starting at the bottom because the poor will still be overshadowed. Houses meant for the lower end could still be snapped up by individuals in the higher income class thereby distorting prices and displacing the target market. Mortgage industry in Kenya is still underdeveloped despite the high demand for houses. Mortgage financing is an important line of business for the banking industry which contributes significantly to the Kenyan economy. Most of the commercial banks rely on revenue from this line of business to grow and prosper (Bienert, 2006). Kenya’s mortgage market is more evolved than most countries in Sub-Saharan Africa but equally there is much room for improvement. The supply of land for housing and having a functioning secondary market for housing sales are essential elements of an efficient mortgage system (World Bank, 2011).

RELATED LITERATURE

Theoretical Framework

Title Theory and Lien Theory of Mortgages

In the title theory, the property law doctrine states that a mortgage transfers title to a property to the mortgagee, who holds it until the mortgage has been paid off, at which time title passes to the mortgagor. Some banks retain and treat the mortgage as a title theory. Since the mortgage is said to hold a title interest, she has the right to possession under this theory. Some banks apply a lien theory. This theory only gives the mortgagee a lien interest in the property. In a title theory bank, the mortgage is treated as having transferred title to the mortgage, subject to the mortgagee's duty to recovery if payment is made. The title is said to remain in the mortgagee until the mortgage has been satisfied and foreclosed. Although the mortgagee has the right of possession to the property, there is generally an express agreement giving the right of possession to the mortgagor. The mortgagee is said to hold the title for security purposes only. The mortgagor is given the right of possession (Buckley & Kalarickal, 2004).

In a lien theory bank, the mortgagor retains legal and equitable title to the property, but conveys an interest that the mortgagee can only foreclose upon to satisfy the obligation of the mortgagor. This is equivalent to a future interest in the property which allows the mortgagee to use the process of foreclosure. The interest is a security interest or mortgage, which forms a lien on the property. In this theory the right to possession arises upon a default. The mortgagor has a right to sue the mortgagee for any interference with his right of possession (Buckley & Kalarickal, 2004). For practical applications there is usually very little difference between a lien theory and a title theory. The principle difference arising in the title theory bank is that the mortgagee is given the right to possession before the foreclosure is complete. The language of the mortgage provides for possession rights being in the mortgagor up to the time of the foreclosure.

Loanable Funds Theory

According to the loanable funds theory of interest, the rate of interest is calculated on the basis of demand and supply of loanable funds present in the capital market. The concept was formulated by Knut Wicksell the well-known Swedish economist. In economics, the loanable funds market is a hypothetical market that brings savers and borrowers together, also bringing together the money available in commercial banks and lending institutions available for firms and households to finance expenditures, either investments or consumption. Savers supply the loanable funds; for instance, buying bonds will transfer their money to the institution issuing the bond, which can be a firm or government. In return, borrowers demand loanable funds; when an institution sells a bond, it is demanding loanable funds. Another term for financial assets is "loanable funds", funds that are available for borrowing, which consist of household savings and sometimes bank loans. Loanable funds are often used to invest in new capital goods, therefore, the demand and supply of capital is usually discussed in terms of the demand and supply of loanable funds (McConnell & Blue, 2005). The interest rate is the cost of borrowing or demanding loanable funds and is the amount of money paid for the use of a dollar for a year. The interest rate can also describe the rate of return from supplying or lending loanable funds. The loanable funds form part of the bank deposits, the main source of banks funding and are lowest cost of funds. The more deposits are transformed into loans, the higher the interest margin and profits and the increase in asset size.

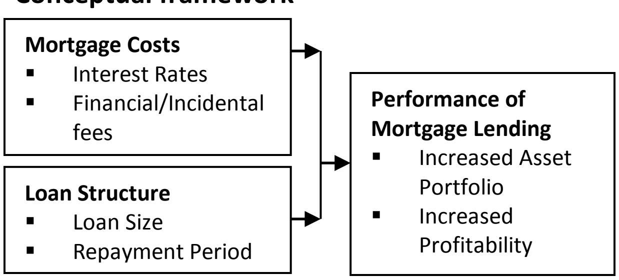
Innovation Theory of Mortgage Financing

The theory was developed by Everett Mitchell Rodgers in 1962. Innovations are often adopted by organizations through two types of innovation decisions: collective innovation decisions and authority innovation decisions. The collection-innovation decision occurs when the adoption of an innovation has been made by a consensus among the members of an organization. The authority-innovation decision occurs when the adoption of an innovation has been made by very few individuals with high positions of power within an organization (Rogers, 2005). Unlike the optional innovation decision process, these innovation-decision processes only occur within an organization or hierarchical group. Within the innovation decision process in an organization there are certain individuals termed "champions" who stand behind an innovation and break through any opposition that the innovation may have caused. The champion within the diffusion of innovation theory plays a very similar role as to the champion used within the efficiency business model Six Sigma.

The innovation process within an organization contains five stages that are slightly similar to the innovation decision process that individuals undertake. These stages are: agenda-setting, matching, redefining/restructuring, clarifying and routinizing. There are both positive and negative outcomes when an individual or organization chooses to adopt a particular innovation. Rogers states that this is an area that needs further research because of the biased positive attitude that is associated with the adoption of a new innovation (Rogers, 2005). In the Diffusion of Innovation, Rogers lists three categories for consequences: desirable vs. undesirable, direct vs. indirect and anticipated vs. unanticipated. The innovation adoption curve of Rogers is a model that classifies adopters of innovations into various categories, based on the idea that certain individuals are inevitably more open to adaptation than others. The concept of adopter categories is important because it shows that all innovations go through a natural, predictable, and sometimes lengthy process before becoming widely adopted within a population (Rogers, 2000). Roger's categories include; innovators (2.5 %), early Adopters (13.5 %), early Majority (34 %), late Majority (34 %) and laggards (16 %). Rogers's adopter's characteristics are important because a person's innovation adoption characteristic affects the rate of uptake of an innovation over time. Different adopter groups buy into innovation for different reasons and have different expectations. People who are innovators and early adopters are easier to convince to innovate. Mainstream adopters (early and late majority) who make up 64 % of any population and these adopters determine whether an innovative practice is embedded. Mainstream adopters need different support structure from early adopters in terms of support, different emphasis on technology and teaching practice. Innovators may require looser and less tightly controlled conditions, while mainstream adopters may require more stability and support (Repp, 2004).

Innovators and early adopters make up only a small proportion of any population (2.5% are innovators and early adopters about 13%) and there are not enough of them to have an impact on embedding innovation in an organization. The early and late majority (called the mainstream adopters) makes up 64 % of any population and these are the ones who can make the difference to whether an innovative practice is embedded in an organization. The early majorities are more practical: they do think through the pros and cons of a new idea before they adopt, so they help to make it more tangible and acceptable. But if the support systems and infrastructure are lacking**,** they will hold back on a commitment**.** The late majority, on the other hand, are creatures of habit and predictability. They want to know the rules, they love systems. The beautiful thing about the late majority is that when they don't find rules or systems, they'll start figuring them out. Laggards are very set in their way, and will only adopt innovation when it has become mainstream i.e. standard practice in an organization (Repp, 2004).Another important concept described by (Rogers, 2005) is the S-shaped adoption curve i.e. successful innovation goes through a period of slow adoption before experiencing a sudden period of rapid adoption and then a gradual leveling off (forms an S-shaped curve).Rapid expansion of most successful innovations will occur when social and technical factors combine to permit the innovation to experience dramatic growth.

Conceptual framework



Independent variables **Dependent variable**

Figure 2.1 conceptual framework

Mortgage Costs

Mortgage contracts attract fees and costs that are levied on the mortgage that increase the cost of procurement. Such costs include: legal fees, stamp duty, arrangement fees, valuation fees, mortgage protection policy all of which add to increase the cost of mortgage and this pushes the costs of mortgages out of reach from most individuals as one not only has to bear in mind the cost of the property but also consider the additional costs which on average amount to 10% of the property value (Central Bank of Kenya -Mortgage Finance in Kenya –a Baseline survey 2011).

The Central Bank of Kenya uses its power to change certain key interest rates as a way of controlling economic growth. When the CBK raises the prime rate, often to curb inflation and slow the growth of the economy, mortgage rates rise as a result. On the other hand, when the CBK slashes interest rates to stimulate growth, mortgage rates have a tendency to drop, making them more affordable to investors, thus increasing Investment. Interest rates are the single most critical factor in driving the mortgage market and access to more middle income housing, (Doms etal, 2007) "The high rates have had a major impact in the short term on both supply of new-build and uptake of mortgages," By influencing the interest rate structure that prevails in Kenya's financial system, changes in monetary policy therefore affect the interest rates that prevail in the mortgage market. Lenders are able to blend funds and partly use their deposit bases, Capital and other funding sources to achieve a lower cost of funds, but over the long term the net interest margin will have to reduce if financial access is to improve (Levy etal, 2005).

If the cost of borrowing to fund the purchase of property rises, then this deters potential buyers from the market, and vice versa. Housing is very sensitive to interest rates indeed residential building is arguably the most interest rate sensitive sector of the Kenyan economy (Allen etal, 2006). Interest rates are the most critical factor in driving the mortgage market and access to more middle income housing (Ngugi, 2001). Developers and buyers are struggling to meet financing costs occasioned by the high interest rates triggered by aggressive tightening of monetary policy to counter the weakening of the shilling and high inflation. The biggest impact of the high interest rates is in the middle income market where developers rely largely on mortgage financing from commercial banks. The impact (high interest rates) on real estate has fallen entirely on the supply side.

Government-issued bonds affect mortgage rates on another level. Investment firms use mortgages as an investment product, selling a stake in home mortgages (known as securities) to investors who will profit from homeowners paying interest each month. However, government bonds offer a similar long-term investment opportunity. Because bonds and mortgage securities compete for the same investors, the performance of the bond market can drive investors away from, or toward, the mortgage security market, changing how much money is available for mortgage lending and, indirectly, the rates that mortgage lenders charge. Positive Interest rates (lending in excess of inflation rates) are viewed as prerequisite for successful and sustainable finance (Buckley, 2009). Long term loans, such as mortgage financing loans have higher interest rates as a result of expectation of, among other factors higher inflation, (Gitman, 2007). The market rate of interest on mortgage loans is established by what borrowers are willing to pay for the use of funds over a specified period of time and what lenders are willing to accept in the way of compensation for the use of such funds. Real estate tends to be highly levered and thus the rate of return earned by equity investors tends to be affected by changes in interest rate. Even where the investor has a fixed rate of mortgage, an increase in interest rate may lower the price a subsequent buyer is willing to pay. Furthermore the yield rate (required rate of return) that an investor requires for real estate tends to increase with the overall levels of interest rates in the economy (Fisher, 2010).

Excessive high interest rates in the Kenyan finance sector have strongly discouraged long-term investment and constrained Kenyan investors' ability to take up mortgage finance. With nominal interest rates ranging from 20-30% the private sector is unable to borrow to finance long term investments in the mortgage sector. In addition, the 11-18% point spread between lending and deposit rate is much higher than the 5 point spread common in other developing countries (Economic Report on Africa, 2002). Interest rates chargeable on mortgages influence the mortgage quality in that the higher the interest the more expensive the mortgage product becomes and the low the mortgage finance uptake. Low interest rates on the other hand encourage mortgage uptake and prompt repayment thus guaranteeing quality products.

Loan Structure

According to Me Donald & Thornton, (2008) Mortgage repayment is the same as amortization which derives from the Middle English for "Kill". It refers not to the borrower's murder, but to "killing off' the mortgage by paying it down over time. Repayment schedule is simply how the loan is to be repaid over a given period of time. The loan is repaid in fixed periodic payments usually monthly. The repayment period usually varies from country to country. For example in the USA, it could be between 15-30 years, (Scanlon & Whitehead, 2004) UK can be between 15-20 years. The mode of paying back the mortgage can be scheduled mortgage payment, prepaying through refinancing or resale, delinquency, and foreclosure (Liu et al, 2006). In Kenya one of the most important factors considered in appraising viability of a mortgage application is the capability of the borrower to repay their mortgage. In general, the longer your loan term, the more interest you will pay. Loans with shorter terms usually have lower interest costs but higher monthly payments than loans with longer terms. But a lot depends on the specifics – exactly how much lower the interest costs and how much higher the monthly payments could be depends on which loan terms you're looking at as well as the interest rate.

Performance of Mortgage Lending

According to Lea and Chiquier (2007) mortgage lending improves the operation of the property market by increasing the number of housing and commercial units. It also affects the economy directly by facilitating transactions and by improving the environment in which transactions take place. Kibirige (2006) asserts that the mortgage finance sector creates employment directly to the construction industry and indirectly to other sectors. In industrialized countries, mortgage financing is a major driver for deepening of capital markets which then serve as sources for long term financing. As the mortgage markets deepen, the supply of housing and urban infrastructure also increases. According to Erbas (2005) availability of residential mortgages has favorable impact on poverty alleviation, quality of housing, infrastructure, and urbanization. Kibirige (2006) noted a more formalized housing market that is subject to real estate taxes and utility charges, can serve as an important source of revenue for financially strapped local governments.

The mortgage market is the third most developed in Sub-Saharan Africa with mortgage assets equivalent to 2.5 per cent of Kenya's GDP. This has seen growth in profitability of the commercial banks that have been offering mortgage credit to Kenyans. Advancing mortgage credit to applicants implies that the bank money is tied up somewhere whose payment is in the future. Prior studies have shown that mortgage financing is positively related to the performance of banks. Mortgage credit is positively related profitability because it creates a long term source of revenue for the bank offering mortgage credit (Sharpele, 2000). Mortgage financing also brings other revenue such as facility/negotiation fees and penalties for defaulting or paying before the life of facility comes to end. Commercial banks adopt mortgage financing for various reasons such as high interest rates, market penetration and cross selling which are strategies to increase profit. The relationship between mortgage financing and profitability is therefore expected to be positive.

METHODOLOGY

This research problem was studied through the use of a descriptive research design. The nature of this study was such that the findings were generalized to all the commercial banks. This method was concerned with the intense investigation of problem solving situations in which problems were relevant to the research problem. It was appropriate to use descriptive survey as it allowed ascertaining the factors influencing mortgage lending by commercial banks. The study focused on all banks in Mombasa County.

The population of this study comprised of all the 43 licensed commercial banks in Kenya. These commercial banks in Kenya were licensed and regulated pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines issued there under. The target population for this study consisted of mainly the branch managers, relationship managers and credit managers. These categories of the population made part of the bank management and are constantly involved in the day to day running of the bank.

The study used both qualitative and quantitative data. Qualitative data was analyzed using interpretive approach which includes sorting and coding raw data and use of Statistical Package for Social Sciences (SPSS version 22.0). Analysis of variance (ANOVA) was used to test significance of the model. This was because in the above model, multiple sample cases were involved. Using this technique one can draw inferences about whether the samples have been drawn from population having the same mean (Kothari 2003).

Mortgage Costs

The study sought to determine influence of mortgage costs on performance of mortgage lending by commercial banks in Mombasa County. Table 1 summarizes respondents' level of agreement on how mortgage costs influence performance of mortgage lending. Most of the respondents strongly agreed that high interest rates on mortgages influences the performance of mortgage lending within any commercial bank in Mombasa County with a mean of 4.96 and standard deviation of 70.2% indicating that interest rates has an influence on mortgage lending. Most of the respondents agreed with the opinion that valuation fees influences mortgage lending with a mean of 4.25 and standard deviation of 52% .The implication results of standard deviation of 52% signify that most banks have to monitor the valuation fees in order to ensure affordable rates for mortgage lending. Most of the respondents agreed to the opinion that when commercial banks in Mombasa county are lending out mortgages, they have to consider the aspect of insurance fees which might either jeopardize banks positively or negatively with a mean of 4.44 and a standard deviation of 61.6%. This is shown in the Table 1 below.

RESEARCH FINDINGS

Table 1: Mortgage Costs

Descriptive Statistics

	Mean	Standard Deviation
High interests rates from mortgage lending results to higher bank performance.	4.96	.702
Interest rates on lending determine the size of mortgage lending.	4.75	.538

Mortgage interest rates are lowest compared to any other type of bank loans.	4.35	.665
Valuation fees increases costs for the customers.	4.25	.526
Insurance fees increase the value of the mortgage.	4.44	.616
Appraisal fees discourage borrowers from taking mortgages from the bank.	4.21	.824
Valid N (listwise)		

Loan Structure

The study sought to determine the influence of Loan Structure on performance of mortgage lending in Mombasa County. Majority of the respondents strongly agreed that Mortgage loan size influences performance of the banks. This helps banks in making good and sound financial lending loan decisions with a mean of 4.92 and standard deviation of 77.9% signifying higher response rate. Most of the respondents strongly agreed that the bigger the loan size the longer the repayment period with a mean of 4.62 and standard deviation of 68.9%. This clearly shows that there was a higher response rate on the issue.

Table 2: Loan Structure

Descriptive Statistics

	N	**Mean**	**Standard Deviation**
Mortgage loan size influences performance of the bank	48	4.92	.779
The bigger the loan size the longer the repayment period of mortgage loan	48	4.62	.689
Banks are averse to large mortgages for shorter repayment periods	48	4.13	.672
Mortgage repayment period is flexible to bank customers	48	4.02	.601
Flexible repayment period makes mortgages attractive to customers	48	3.90	.928
Repayment period is usually preset by the banks	48	1.85	.414
Valid N (listwise)	48		

Performance of Mortgage Lending

The study sought to determine performance of Mortgage Lending by commercial banks in Mombasa County. Majority of the respondents strongly agreed that mortgage lending leads to increased asset portfolio for the bank with mean of 4.90 and standard deviation of 67.1%. This clearly shows that most of the banks were encouraging their clients to borrow mortgage loans so as to reap more asset portfolio from the business. Most of the respondents strongly agreed that mortgage financing has led to increased profitability of the bank with mean of 4.75 and standard deviation of 78.4%. This clearly shows that when banks prioritizes on mortgage lending, it will increase profitability margins in the long run as shown in table 3 below.

Table 3: Performance of Mortgage Lending

Descriptive Statistics

	N	Mean	Standard Deviation
Mortgage lending leads to increased asset portfolio for the bank	48	4.90	.671
Mortgage financing has led to increased profitability of the bank	48	4.75	.784
Mortgage lending has a higher ratio of asset portfolio than other lending products	48	4.42	.577
Banks main profitability is realized from mortgage lending	48	3.94	.598
Mortgage lending provides good profits to the bank in the long run	48	4.31	.657
Insufficient mortgage lending may lead to reduced profitability	48	4.06	.909
Valid N (listwise)	48		

CONCLUSIONS

Based on the findings of this study the following conclusions were drawn:

Most of the respondents strongly agreed that high interest rate on mortgages influences the performance of mortgage lending within any commercial bank in Mombasa County. Most of the respondents agreed that valuation fees influences mortgage. This signifies that most banks have to monitor the valuation fees in order to ensure affordable rates for mortgage lending. Most of the respondents also agreed to the opinion that when commercial banks in Mombasa county are lending out mortgages, they have to consider the aspect of insurance fees which might either jeopardize banks positively or negatively.

Majority of the respondents strongly agreed that Mortgage loan size influences performance of the banks. This helps commercial banks in making good and sound financial lending loan. Most of the respondents strongly agreed that the bigger the loan size the longer the repayment period. This clearly shows that there was a higher response rate on the issue.

RECOMMENDATIONS

Based on the following findings of this study the following recommendations were made:

The study recommends that the management of commercial banks should take into consideration on mortgage costs and particularly on how to lower the interest rates. This will enable the management to create a comprehensive understanding that can be leveraged to influence more customers to take up mortgages and thereby increase banks profitability.

Banks should come up with flexible loan structures that can be able to accommodate their clients so that they can service their loans with ease to avoid cases of loan defaults. Commercial banks for example should diversify their product range. One way of tackling affordability is by designing products where cost of the loan is spread out more evenly over the lifetime of the loan. This in turn will capture the low income earners.

AREAS FOR FURTHER RESEARCH

The general objective of this study was to determine factors influencing performance of mortgage lending by commercial banks in Mombasa County. Specifically, this study investigated the influence of mortgage costs and loan structure on performance of mortgage lending by commercial banks in Mombasa County. These factors were not exhaustive hence further research can be carried out to unearth other areas like securitization, interest rates and on how they affect performance of mortgage lending by commercial banks.

The study limited itself to commercial banks only whereas the banking sector is very wide and constitutes microfinance institutions and Sacco's that also issue loans to finance mortgages. It would be an interesting idea for future researchers to do a comparative study on the same variables with either microfinance institutions or Sacco's to find out whether the findings and conclusion drawn from this study will hold then compare the findings to make reliable conclusions.

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