Njuguna Ndung'u: Strengthening the mortgage market in Kenya

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the official launch of the Housing Finance Current Account, Nairobi, 20 March 2012.

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Mr. Steve Mainda, HFCK Chairman;

Mr. Frank Ireri, Managing Director, HFCK;

Board Management of Housing Finance here present;

Distinguished Guests;

Ladies and Gentlemen

I am very delighted to join you this evening for the official launch of the Housing Finance Current Account. The provision of current account is one of the institution's key planks towards its long term vision of offering a broad range of services to its customers.

Ladies and Gentlemen, allow me first to commend the Board, Management and Staff of Housing Finance for the introduction of this new product that will go a long way in enabling the institution access affordable funds. It is noteworthy that since its incorporation in 1965, the institution has progressively grown in this very specialized market to 11 branches. I also note that as at January 2012, the institution had an impressive mortgage portfolio of Ksh.26 billion and customer deposits of Ksh.19 billion, supported by a strong capital base of Ksh.3.7 billion. In addition, the number of mortgage accounts stood at 5,143, accounting for about 31% of the total banking sector mortgage accounts. This indeed shows great effort put in by the Board and staff of Housing Finance. This is the direction we need to strengthen our mortgage market.

Ladies and Gentlemen, the product being launched today is as a result of the policy proposals made by the Central Bank in Year 2010 that resulted in the Banking Act being amended to allow mortgage finance companies to operate current accounts. This initiative was meant to facilitate attraction of large amounts of low cost customer deposits that would in turn allow such institutions to increase their lending capacity and expand operations to meet the growing demand for housing.

The Central Bank, jointly with the World Bank in June 2010, conducted a baseline survey on mortgage finance in Kenya with the aim of assessing the size and obstacles to the development of the mortgage finance market. The results of the survey showed that the country's mortgage finance market has more than tripled over the last five years, from Ksh.19 billion in 2006 to Ksh.61 billion in 2010, while the number mortgages in the banking sector grew from 7,580 to 13,803 over the same period, demonstrating great potential in this sector. However, Kenya's mortgage debt to GDP ratio at about 2.5% is still low compared to the international standards such as US Market where the ratio is over 70%.

The survey also identified key constraints to the mortgage market in Kenya such as low levels of income, access to long term funds, credit risk due to absence of historical information, relatively high interest rates, difficulties with property registration and high incidental costs of borrowing. However, various initiatives are under way to tackle these obstacles. These initiatives include issuance of corporate/housing bonds by institutions with the aim of mobilizing long term resources to match the long-term nature of mortgages and the roll-out of the credit information sharing mechanism to enable financial institutions enhance their credit risk management processes.

Ladies and Gentlemen, Kenya has seen rapid urbanization over the last decade with the proportion of the Kenyan population living in urban areas forecast to reach 60% by the year 2030 from about 20% in 2005. Expanding cities are good for productivity and growth.

However, the Kenyan housing sector is currently characterized by inadequacy of affordable and decent housing and low-level of urban home ownership.

Despite the challenges, the Housing Sector plays a critical role in the achievement of key goals envisaged by Vision 2030. Housing construction, being labour intensive and having strong linkages with other sectors of the economy remains one of the principal levers for creating jobs and driving economic activity. Mortgage market development will be required to support the expanding cities with the accompanying productivity gains; but also has to be accompanied by infrastructure to decongest the cities and create more space for housing.

Ladies and Gentlemen, the Central Bank of Kenya in partnership with the banking sector is currently focusing on initiatives aimed at reducing costs of doing business for financial institutions with the main aim of bringing down costs of financial services. In addition to developing innovative products, the other major initiative towards cost reduction and financial inclusion has been the introduction of Agent Banking. The CBK has so far licensed eleven banks to carry out agent banking business and approved 10,335 specific agents since the roll out in May 2010. The rollout of the agent banking model is mainly aimed at addressing the challenges of high transaction costs arising from the lack of proximity to financial services and putting up brick and mortar branches where they may not be economical in all the corners where customers are to be found. I am delighted to note that Housing Finance has also obtained approval for agent network from CBK and will in due course be rolling out the model.

Finally, let me reiterate that the Central Bank will continue to facilitate an environment that allows for a diverse range of financial service providers to thrive and compete in the Kenyan market. Specifically, the Central Bank remains committed to working with the relevant stakeholders to create an enabling environment for the mortgage sector to play its rightful role in achieving the aspirations of the country's blueprint, the Vision 2030, which includes providing the country's population with adequate and decent housing in a sustainable environment. Further, it will pursue better regulation as opposed to more regulation so as to create room for more innovations by financial institutions and also be ready with effective tools to deal with any system vulnerabilities and emerging risks. We are happy and proud to be associated closely with the developments Housing Finance has introduced and the growth success they have achieved so far.

With these few remarks ladies and gentlemen, it is now my honour and privilege to declare the Housing Finance Current Account officially launched and we look forward to seeing better results and innovations from them in the market place with increased capacity and financial strength due to this launch.

Thank You