

**AN EVALUATION OF THE FACTORS OF
INTEREST RATE AFFECTING MORTGAGE
PERFORMANCE.**

(A Case of Housing Finance Company of Kenya)

DIANA GAKII

BCOM/112/03151

**A Research Project Submitted to the Department of Accounting and
Finance in the School of Business and Economics in Partial Fulfillment of
the Requirement for the Award of the Bachelor of Commerce Degree of
Mount Kenya University**

OCTOBER, 2015

ABSTRACT

The purpose of this study was to investigate the Factors of Interest Rate affecting Mortgage Performance. This study was geographically based at Housing Finance Company of Kenya, Rehani Branch. The mortgage market in Kenya is still in its early stages compared to far much developed markets in Europe where it forms a big part of the gross domestic product of specific countries. The Kenyan market is undeveloped and therefore has great potential of growth. In these early stages challenges are numerous; Interest rates have been identified as a major factor of influence and as a major challenge. The literature review consists of the theoretical review from theories and articles written by different researchers who discuss Interest Rate and Mortgage Performance issues across the world and the empirical review which are evidenced by different organizations. The literature review shows that while interest rates increase mortgage performance decreases. A strong relationship was realized between mortgage interest rate and growth of mortgage financing. In overall the results indicate that inflation, mortgage interest rate, mortgage security and house prices are adequate predictors of mortgage performance.

The research design which was adopted for this study was a descriptive survey design. The study therefore sought to find out and collect facts in the market and describe the causal linkage between mortgage interest rates and growth of mortgage financing in Kenya. The target population was 220 employees from Housing Finance Company of Kenya. Simple random and Stratified Sampling design were used with a 30% sample size of $n=66$. Questionnaires were used to collect data and a budget was drafted for the study. Quantitative Data was analyzed in tables and graphs applying the Multiple Regression Analysis Equation.