

**CHALLENGES FACING ACQUISITION OF MORTGAGE  
FINANCE IN TANZANIA:  
A CASE STUDY OF NATIONAL HOUSING CORPORATION  
(HEADQUARTERS)**

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FINANCE IN TANZANIA:  
A CASE STUDY OF NATIONAL HOUSING CORPORATION  
(HEADQUARTERS)**

**By  
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**A Dissertation Submitted in Fulfillment of the Requirements for Award of the  
Degree of Master of Science in Accounting and Finance (Msc.A&F) of Mzumbe  
University**

**2013**

**CERTIFICATION**

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **Challenges Facing Acquisition of Mortgage Finance in Tanzania: A Case Study of National Housing Corporation (Headquarters)** , in partial/fulfillment of the requirements for award of the degree of Master of Science In Accounting and Finance (Msc.A&F) of Mzumbe University.

.....

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I, **Faida Samuel**, declare that this thesis is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

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## **DEDICATION**

To my precious Husband Paul Joseph Manyama who gave me moral support and financial support to fulfill my degree.

## **ABBREVIATIONS/ACRONMYS**

BOA	-	Bank of Africa
BOQ	-	Priced Bill of Quantities
BOT	-	Bank of Tanzania
CBA	-	Commercial Bank of Africa
CRDB	-	Cooperative Rural Development Bank
DSM	-	Dar-es-salaam
GDP	-	Gross domestic Product
LDC's	-	Less Developed countries
NBC	-	National Bank of Commerce
NHC	-	National Housing Corporation
P.	-	Per Annum
PAYE	-	Pay as you earn
SPSS	-	Statistical Package for Social Science
SSA	-	Sub-Saharan Africa
THB	-	Tanzania Housing bank
TMRC	-	Tanzania Mortgage Refinance Company
Tshs	-	Tanzania Shillings
VAT	-	Value Added Tax

## **ABSTRACT**

Tanzania have housing deficit both in rural and urban areas. In order to improve this gap, Mortgage loan is the key elements which can enable the increase of construction of houses for all classes of income earners such as high class, low income earners and middle class. National housing as a corporation and Individual clients faces different challenges in acquisition of Mortgage loans.

The major objective of the study is to identify those challenges which affect acquisition of mortgage loans from different financial institution. A detailed literature review was done in order to set the study within its wide context and to show the reader how the study supplements' the work has already done. A case study was adopted where National Housing Corporation was chosen as a case.

The findings of the study shows major factors which hindering the acquisition of mortgage loans in different financial institutions which includes High interest rates charged by financial institutions, lack of long term funds, weak collateral securities of the applicants, low income to Tanzanians where by most of them have no enough ability to pay back the mortgage loans, strictly and too long applications procedures from financial institutions, High taxes on building materials and tax charged on houses for sale which increase the Mortgage product cost, Lack of enough capital to the bank to provide mortgage loans, Lack of enough Affordable houses and lack of enough skills or knowledge for Mortgage management.

The findings reveals that there is the relationship between dependent variable and independent variables where by Mortgage accessibility have direct relationship between bank capital, ability to repay the mortgage loan, strong collateral securities, credit policies and procedures and loan repayment period

The researcher recommended that the government should minimize tax liability on building materials and sale of houses so that it can reduce the cost of houses for sale Government charges VAT of 18% on Building material and houses sold which increases the cost of houses. The interest rate charged on Mortgage loans should be minimized so that the total cost cost of purchasing the house will be low and all income earners can manage to purchase and acquire the mortgage loan from financial institution.



## TABLE OF CONTENTS

<b>CERTIFICATION .....</b>	<b>i</b>
<b>DECLARATION AND COPYRIGHT .....</b>	<b>ii</b>
<b>ACKNOWLEDGEMENT .....</b>	<b>iii</b>
<b>DEDICATION.....</b>	<b>iv</b>
<b>ABBREVIATIONS/ACRONMYS.....</b>	<b>v</b>
<b>ABSTRACT .....</b>	<b>vi</b>
<b>LIST OF TABLES .....</b>	<b>ix</b>
<b>LIST OF FIGURES .....</b>	<b>x</b>
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>PROBLEM SETTING .....</b>	<b>1</b>
1.1 Introduction.....	1
1.2 Background of the Study .....	2
1.3 Statement of the Problem.....	4
1.4 Research Objectives.....	5
1.4.1 General Objective of the Study.....	5
1.4.5 Specific Objectives of the Study Will be the Following .....	5
1.5 Research Questions.....	6
1.5.1 Main Question.....	6
1.5.2 Specific Questions .....	6
1.6 Scope and Delimitation of The Study.....	6
1.7 Limitations of the Study .....	7
<b>CHAPTER TWO .....</b>	<b>8</b>
<b>LITERATURE REVIEW.....</b>	<b>8</b>
2.1 Introduction.....	8
2.2 Theoretical review .....	9
2.2.1 Valuation of a Property.....	9
2.2.2 Commercial Banks.....	10
2.2.3 Brief History of Mortgage lending in Sub-Saharan Africa.....	10
2.2.4 History of Mortgage Finance in Tanzania .....	12
2.2.5 Mortgage finance Situation in Tanzania.....	12
2.2.6 Mortgage Finance Experience in Azania Bank .....	13
2.2.7 Tanzania Government initiation on Mortgage.....	14
2.2.8 Relationship between NHC, Financial Institution and NHC Client .....	15
2.2.9 Mortgage Types .....	16
2.2.10 Mortgage Payback Option Mortgage Buyback Option .....	17
2.2.11 Who qualify for Mortgage Buy Back .....	17
2.2.12 How to Qualify For Mortgage Buy Back .....	18
2.2.13 The Mortgage Buy Back Disbursement.....	18
2.2.14 Resale / lease of the Buyback Option Properties .....	19
2.2.15 Why Should One Apply.....	19
2.2.16 Challenges in provision of Housing.....	19
2.2.17 Access to housing finance down the market and demand .....	20
2.3 Empirical Literature Review.....	20
2.4 Conceptual Framework.....	22

2.4.1	Research Gap .....	23
<b>CHAPTER THREE .....</b>		<b>24</b>
<b>RESEARCH METHODOLOGY .....</b>		<b>24</b>
3.1	Introduction.....	24
3.2	Study Area .....	24
3.3	Research Strategy .....	25
3.4	Research Design .....	25
3.5	Types and Sources of Data .....	26
3.5.1	Primary Data .....	26
3.5.2	Secondary Data .....	26
3.6	Population and Sample, Sample Size and Sampling Design/Procedures	26
3.6.1	Sample and Target Population.....	26
3.6.2	Sample Size.....	27
3.6.3	Sampling Procedures .....	27
3.7	Data collection methods and tools/instruments .....	27
3.7.1	Interviews.....	28
3.7.2	Questionnaires .....	28
3.7.3	Observation.....	28
3.7.4	Review of documents.....	29
3.7.5	Focus Group.....	29
3.8	Data Management and Analysis .....	29
3.9	Expected Results.....	30
<b>CHAPTER FOUR.....</b>		<b>31</b>
<b>PRESENTATION AND DISCUSSION OF FINDINGS .....</b>		<b>31</b>
4.1	Introduction.....	31
4.2	Data Findings and Analysis .....	31
4.2.1	Main reason for Failure for the Loan to Disbursement .....	51
4.2.3	Individuals in formal Employment .....	52
4.2.4	Self-Employed Individual.....	52
4.2.5	House Construction Loans.....	52
4.2.6	Loan Security .....	53
4.2.7	Findings from NHC Interview .....	53
4.3	Challenges Observed Through Observations .....	56
4.4	Findings from Azania Bank Interview.....	56
4.5	Discussion on the Study.....	58
4.5.1	Collateral Securities .....	60
4.5.2	The Government Role.....	60
4.5.3	Loan charges .....	61
4.5.4	VAT on Building Materials and Houses for Sale .....	61
<b>CHAPTER FIVE.....</b>		<b>62</b>
<b>SUMMARY, CONCLUSION AND RECOMMENDATIONS.....</b>		<b>62</b>
5.1	Introduction.....	62
5.2	Summary .....	62
5.3	Recommendations.....	63
<b>REFERENCES.....</b>		<b>65</b>
<b>APPENDICES .....</b>		<b>67</b>

## LIST OF TABLES

		<b>Pages</b>
Table 3.1 :	Structure and Composition of Sample Size.....	27
Table 4.1:	Gender of Respondents.....	31
Table 4.2:	Age of Respondent .....	32
Table 4.3:	Age of Respondents.....	33
Table 4.4:	Number of Respondents Purchased at NHC .....	34
Table 4.5:	Source of Finance .....	35
Table 4.6:	Source of Fund for Purchasing Houses .....	36
Table 4.7:	Number of Clients Faced Challenges on Mortgage Loan Application .....	37
Table 4.8:	Total Loan Amount Disbursed by the Bank.....	39
Table 4.9:	Interest rate Charged By The Bank for Your Mortgage Product .....	41
Table 4.10:	Mortgage Repayment Period Set By The Bank .....	41
Table 4.11:	Mortgage Repayment Period Set by the Bank .....	42
Table 4.12:	The Interest Rate Charged by the Bank for Your Mortgage Product. 43	
Table 4.13:	Number of applicants applied the Mortgage loan for Purchase of their Houses at NHC .....	44
Table 4.14:	Applicants Have Succeed To Acquire the Mortgage loan .....	45
Table 4.15:	Total Loan Amount Disbursed .....	46
Table 4.16:	Mortgage Repayment Period Set By The Bank .....	47
Table 4.17:	Interest rate Charged By Bank On The Mortgage Products.....	48
Table 4.18:	Characteristics of NHC Respondents .....	49
Table 4.19:	Collateral Security for Mortgage Loan Security .....	54
Table 4.20:	Client's Loan repayment schedule .....	57

## LIST OF FIGURES

	<b>Pages</b>
Figure 2.1: Interest Rate Charged By the Bank for Your Mortgage Product .....	15
Figure 2.2: Challenges to Provision Of Housing (Demand and supply) .....	19
Figure 2.3: Expanding Access to Housing Finance Down-Market .....	20
Figure 2.4: Conceptual Framework .....	22
Figure 4.1: Gender of Respondents.....	32
Figure 4.2: Age of Respondents.....	33
Figure 4.3: Marital status of Respondents .....	34
Figure 4.4: Number of Respondents Purchased Houses at NHC.....	35
Figure 4.5: Source of Financing.....	36
Figure 4.6: If source of Finance Was Through Mortgage from NHC Mortgage Financial Partners.....	37
Figure 4.7: Responding if the Clients Faced Problems in Acquiring The Mortgage Loans .....	38
Figure 4.8: The Total Loan Amount Disbursed by the Bank.....	40
Figure 4.9: Mortgage Repayment Period Set by the Bank .....	42
Figure 4.10 Interest rate Charged By Bank on the Disbursed Mortgage Product.	43
Figure 4.11: Number of Applicants Applied for Mortgage Products .....	44
Figure 4.12: Successful Applicants for Mortgage Loan Application .....	45
Figure 4.13: Total loan Disbursed to NHC Clients.....	46
Figure 4.14: Mortgage Repayment Period Set by the Bank .....	47
Figure 4.15: Interest Rate Charged by My Bank on the Mortgage Products.....	48
Figure 4.16: Analysis of NHC Respondents.....	50
Figure 4.17: Client’s Loan Repayment Schedule .....	58
Figure 4.18: This can be Presented As Follows in Graphical Presentation: .....	59

## **CHAPTER ONE**

### **PROBLEM SETTING**

#### **1.1 Introduction**

Mortgage is a loan secured by collateral of some specified real estate property which obligates the borrower to make a pre determined series of payments. Simply we can say that this is a loan used to finance the purchase of real estate (Mortgage Encyclopedia 2012).

Mortgage can be defined as a debt that is secured by collateral of specified real estate property and the borrower is obligated to pay back with a predetermined set of payments. Mortgage can be used by businesses and individual to make purchase of real estate without paying the entire value of the purchase up front (Lautensack , 2007).

The key drivers of demand: Urban housing backlog, new urban household formation, household income and hold preferences. Backlog estimated at 1.4 million housing units (to replace poor quality dwellings and reduce overcrowding).Majority of holds are not able to afford pre-units, income from subletting, where strong rental markets exists, would substantially improve affordability (Solution for growing economies,2012).

Households are by far the main suppliers through incremental construction, typically self-managed over many years in step with availability of finance. Formal channels for example National Housing Corporation and private developers account for only tinny proportion major gap in pre-built complete units for sale/re-sale. The bulk of housing finance is supplied informally-only a small proportion of adult population (12.4) is served by the formal financial sector. Housing Micro finance and Mortgage finance account for a tiny portfolio but substantial potential for growth (Finscope, 2009).

There are different challenges faced by different level of income earners to afford Mortgage loans for purchasing NHC houses, weak rental markets in outlying city areas, thus reducing subletting income and availability of income households to borrow Mortgage loans and service these loans. Access to finance is severely limited for majority because of low incomes, fear not being able to repay and poor financial literacy.

Financial institutions have limited market intelligence on housing micro-Finance (tiny portfolio and asymmetric information between lender and borrower market risk assessment difficult), undermining market growth and scaling-up. In developer market, Limited access to construction finance and term finance especially for rental housing. This narrows access to housing especially for household at the bottom of income pyramid and reduces household Mobility. To accelerate housing buildings/ Improvements. Data shows majority (62%) would use mortgage loans to build new houses instead of buying pre-built units (18%)(Finscope ,2009).

## **1.2 Background of the Study**

National Housing corporation was reconstituted through the act of Parliament no 2 of 1990 in order to carry out the functions of providing and Facilitating the provision of housing and other buildings in Tanzania for the members of the public.

Most of African countries including Tanzania suffer from severe shortage of housing which grows year after year. The current housing deficit in Tanzania is estimated three (3) million units and is growing at the rate of 200,000 units per annum. The problem is more pronounced in urban areas where according to statistics the urban population has grown from 14.8% in 1980 to 37.5% in 2005 and is expected to reach 46.8% in 2015 (Chrojiga ,2000).

The housing supply has been hampered by long standing problem of near absence of formal mortgage finance .This problem has led to around 99% of the houses to be built out of pockets.Such houses are built on incremental basing taking 5 to 10 years to complete instead of 9 to 12 months.Consequently, colossal amount of capital is

immobilised for a long time. This tied up capital is likely to be the greater than total bank deposit in a country (NHC Strategic plan, 2010/2011-2014/2015).

The government have different expectations on NHC in regard to housing needs. Following increasing demand and need to promote home ownership, the government has redirected NHC to broaden its operations. The government expects NHC among other things to focus on the different issues which includes to balance the real estate portfolios so as to move from predominant real estate management business and put more efforts on real estate development.

Also, the government expect NHC to promote home ownership by taking advantage of “Mortgage financing Act” (Special provisions) and the “Unit Titles Act of 2008” which have been recently enacted.

NHC is supposed to construct mass houses that are affordable to low and medium income group countrywide and take advantage of its properties that are strategically located so as to operate commercially and alleviate housing problems.

In order to tackle this problem, NHC has introduced and implemented its five years strategic plan 201/11 – 2014/15. In this Strategic Plan, the Corporation is looking forward to construct 15,000 housing units, out of which 10,000 for middle and upper income segment and 5000 for affordable housing. The Corporation is looking forward to sell 70% of Units to be developed and only 30% will be retained for rental.

Most of NHC Houses are sold at pre sell system. The client applies for the house at NHC and deposit 10% of the total price. Then after application is approved by NHC Housing selection team they offer the offer letter to the bank so that the bank can process the mortgage loan to the client. If the client will meet required conditions/criteria then the offer of undertaking will be signed by bank and NHC's Sales officer, and the housing loan will be disbursed to finance the house purchased by the client

Mortgage lending is the primary mechanism used in many countries to finance private ownership of residential and commercial property. Development of real estate sector has now become evident in many towns and cities in Tanzania. However, the use of mortgage loans for developing private homes or commercial property is not popular to many banks and their customers and comprised of challenges.(Lautensack, 2007).

### **1.3 Statement of the Problem**

National Housing Corporation has got the great task of making sure that all Tanzanians live in good, quality and affordable houses.

However National Housing Corporation cannot meet this requirement due to finance problem, the current housing deficit of 3,000,000 units with annual growth in demand of 200,000 units, the current deficit coupled with the annual growth and offer a big hyper growth opportunity for the national economy (NHC Strategic plan, 2010/2011-2014/2015).

Moreover NHC intends to increase the housing sector contribution to GDP to 4% in five (5) years time; this cannot be possible without Mortgage finance. This study is very important because the accessibility of mortgage finance could trigger growth of the economy in different areas such as creation of employment; increase PAYE, VAT, Property Tax Land rent corporate Tax

In developed economies the Mortgage Finance debts are equivalent to 50% -70% of their GDP. In Tanzania the contribution of Mortgage sector is less than 1%. NHC Strategic plan intends to increase contribution of housing sector on GDP and also raise the share of lending into housing sector in our financial systems from the current less than 1% to 11% of total lending.

In order to archive its goals, construction of mass housing that are affordable to low and medium income earners countrywide, NHC needs to mobilize Tsh 1.5 Trillion. This fund cannot be mobilized without acquisition of mortgage loans both from internal and external sources. Apart from that, NHC houses the price ranges from



Tshs 50 million to Tshs 300 Million, only few Tanzanians can afford to pay such amount of money to finance purchase of their houses from NHC. Therefore they need mortgage loans.

However there are some challenges observed on acquisitions of Mortgage finance from different financial institutions in Tanzania. This has been influenced by the criteria and policies that were introduced by the banks in order to safe guard their interests rather than citizens who are in demand of the mortgages. On the other hand, the governments is recognizing the integral role of housing in overall economic growth, and is addressing the regulatory and policy constraints to housing investment, opening up further opportunities for growth.

The study concentrated on those challenges and gave the solution on what can be done and therefore increased the acquisition rate of Mortgage loans in Tanzania, however, it is not known with certainty whether or not there are challenges that face NHC customers in acquisition of mortgage among financial institution in Tanzania.

#### **1.4 Research Objectives**

##### **1.4.1 General Objective of the Study**

The general objective of the study is to explore challenges facing Mortgage finance in Tanzania.

##### **1.4.5 Specific Objectives of the Study Will be the Following**

- (i.) To identify challenges facing acquisition of mortgage finance (As a corporation).
- (ii.) Challenges facing mortgage finance to NHC Clients searching mortgage finance to banks.
- (iii.) To identify ways/Solutions of overcoming mortgage financing challenges to NHC customers.

## **1.5 Research Questions**

In order to address the pointed out problem, this study will answer the following questions:

### **1.5.1 Main Question**

What are the challenges facing acquisition of Mortgage loans in Tanzania?

### **1.5.2 Specific Questions**

- (i.) What are the challenges faced by NHC as a corporation during acquisition and application of mortgage finance?
- (ii.) What are the challenges faced by NHC individual clients purchased NHC housed on acquisition of mortgage finance?
- (iii.) What should be done to overcome these challenges for mortgage financing to NHC and NHC customers?

## **1.6 Scope and Delimitation of The Study**

This study investigated different challenges faced by customers who applied mortgage loan from different financial institutions to finance purchase of house at NHC and challenges faced by National Housing Corporation as a corporation in accessing loans to finance their projects. The study was conducted at National Housing corporation Head office located at Dar-Es-Salaam region(DSM). The National Housing Corporation Finance, marketing, treasury and sales departments were studied and four banks with mortgage agreement with National Housing Corporation and few clients who have taken mortgage finance to finance their housing purchased at National Housing Corporation were also included in the study. The reasons for choosing NHC Dar-es-Salaam is because it is the head office of NHC and there are many projects and customers compared to other regions in Tanzania. The researcher also decided to choose the area because she works and reside in DSM therefore the area was convenient for her.

## 1.7 Limitations of the Study

The following are the limitations/constraints of the Research

- (i.) **Financial constraints-**The researcher has no sponsorship hence financial position is a constraints to the study.
- (ii.) **Time constraints-** Time is another constraint to the researcher because the researcher is an employee of the NHC hence time for doing research was limited because of other responsibilities to fulfill.
- (iii.) **Confidentiality of information-** In any organization most of the information is confidential;therefore the researcher faced a limitation in obtaining required information that will lead to a proper or expected findings.
- (iv.) **Unwillingness/uncooperative attitude of respondents-** In most cases respondents were not willing to give proper answers to the questions for the fear of exposing organization's information. Others did not understand the exact purpose of the study hence became uncooperative to the researcher.

To overcome the above mentioned problems the researcher did the following:

The researcher conducted the study at one region and only one organization NHC only and NHC headquarters this helped to save cost for example travelling cost and time.

Moreover , researcher utilized scarce fund and time available in order meet the target. Also the researcher searched for short term soft Loans to finance the research. Preparation of a timetable for writing proposal, data collection and writing the report so as to utilize the scarce time available very economical.

The researcher worked friendly with respondents and gave them the required questionnaires on time in order to give them enough time to digest and answer the questions correctly. Furthermore, the use of more than method of data collection was very useful for the information which researcher did not get from one method of data collection researcher instead use second or third option.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Africa's rapidly developing economies and cities offer tremendous opportunities and challenges for housing development and investment. Urbanization rates in Africa are the highest in the world, and positive growth over the last decade has placed many countries in a position to assertively address the housing situations of their populations. While the mortgage sector remains small, development in many countries suggest that this is changing. Housing practitioners across the continent are beginning to grapple with and understand the opportunities available and are developing precisely targeted products and projects. Their work begins to chart pathways for new entrants into the sector, and this will contribute towards the growth of the housing sector across the continent. Governments too are recognizing the integral role of housing in overall economic growth and are addressing the regulatory and policy constraints to housing investment, opening up further opportunities for growth (TMRC Presentation annual conference, 2012).

All African cities are experiencing high rates of urbanization which has resulted to informal or unplanned settlements in urban areas. These unplanned settlements provide a home for both the poor and the middle-class as affordable housing is severely limited. In most cities especially LDC's low-income earners cannot afford legal housing or good quality housing. In Tanzania there are few houses which have enough ventilation and good condition. Most of Tanzanian either rent (usually in poor quality and overcrowded dwellings) or build in illegal settlement.

This is because of different challenges faced in accessing mortgage finance (Long-term finance) in order to build those houses. They lack income and formal documentation that housing finance agencies require. The experience in Tanzania demonstrates that the majority of urban poor household can only afford to house

themselves incrementally, meaning that construction of house usually lasts many years.

## **2.2 Theoretical review**

A Mortgage is a debt instrument that is secured by the collateral of specified real estate property and that the borrower is obliged to pay back with a predetermined set of payments. Mortgages are used by individuals and businesses to make large purchases of real estate without paying the entire values of the purchase up front. Mortgages are also known as "liens against property" or "claims on property" (Chrojiga,2000).

It is a loan used to buy real estate. Mortgage is secured by the property it is used to purchase. One must make monthly payment on Mortgage and there is a set term before full payment is due, often 15, 20 or 30 years. Some mortgages have fixed interest rates, while others have variable interest rates. If one defaults on Mortgage, the bank making it may take possession of real estate and sell it to recover its investment. Some banks specialize in making Mortgage Loans (Mortgage Encyclopedia, 2012).

Mortgage loan can also be defined as a debt instruments that are collateralized by real estate property. The borrower (Mortgage owner) is obligated to pay back both the principle and the interest with periodic payment over the course of the loan .Mortgage are usually used by individuals and businesses to make large purchases of real estate without paying the entire value of the purchase up front. Mortgage is also known as liens against property and claims on property (Gutentag, 2004).

### **2.2.1 Valuation of a Property**

Valuation is a simple check of the property in order to find out how much it is worth and whether it is suitable to lend a mortgage on.A market valuation depends on how much the prospecting house owner want a property and how eager the developer is for a sale. The correct definition of a property's value would be the price at which a willing, informed seller would freely dispose of the property and the price at which a

willing, informed buyer would freely pay for the property. If those two parties were to agree then that would be a genuine measure of a property's worth (Sanga, 2004).

A mortgage valuation is the market valuation of the property plus the price of the mortgage, including the interest rate, insurance, commissions, and any other expenses associated with the negotiations and provisions of the mortgage.

### **2.2.2 Commercial Banks**

Commercial Bank can be defined as institution that both accepts deposit and make loans. There are also financial institutions that provide selected banking services without meeting the legal definition of a bank. A commercial bank accepts deposits from customers and in turn makes loans based on those deposits. Some banks (Called bank of issue) issue bank notes as legal tender. Many banks offer ancillary financial services to make additional profit, for example selling insurance products, Investment products or stock broking (Edward , 1989).

Economic functions of commercial banks includes issuing mortgage loan to the public, maturity transformation, issue of money, credit intermediation, netting and settlement of payment and credit quality improvement. In Tanzania there are few banks that offer Mortgage Loans (Edward , 1989).

### **2.2.3 Brief History of Mortgage lending in Sub-Saharan Africa**

In Un-Habitat's report, financing urban shelter global report on Human settlements 2005, it states that within the next 20 years there is little like hood that in many developing countries conventional sources will be available for investment on the scale needed to meet projected demand for infrastructure and housing. Many countries continue to face deficit in public budgets and weak financial sectors.

The report states that in this in the case in Su-Sahara Africa, with the best uneven growth in few countries. In the countries that are seeing improvements in their macroeconomic situation, these SSA Governments are concerned that their banking systems are not providing enough support to the private sector, which in turn affects

whether or not formal housing Finance is available. For example in Ghana and Tanzania only 5-6% has access banking sector.

Ferguson states (in Porteous, 2006) only a quarter to a third of households in most emerging markets can afford a mortgage to purchase the least expensive developer build unit". However, in low-Income countries, where most SSA countries are located, the maximum percentage with access based on having formal tenure alone is around 8 % (Porteous, 2006).

The review of post-1999 Housing Finance literature found that UN-Habitat(2005)World bank and IMF, as well as other researchers and consultants (Asnah,2002:Shelter Afrique,2002) Have documented the development of mortgage finance in SSA countries over the past 20 years. This work is fairly similar in the constraints it has revealed, namely:

- (i.) A limited availability of long funding sources to carry out intermediation that would spread the cost of a house over a relatively long period of time.
- (ii.) A poor record of building societies and other specialist housing lenders in that were destroyed due to poor management and lack of funds.
- (iii.) An adverse Institutional, legal and regulatory environment, which resulted in efficient collateralization of housing assets
- (iv.) Effectiveness by the state when it came to running state owned housing construction companies, state-owned housing and state owned housing banks in that most failed over time due to poor management and lack of funds.
- (v.) A record of macro-Economic Instability across the countries.

There is a move in some SSA Countries to establish mortgage lending. In particular consultants are documenting the ways in which Local banks are lending to their high net worth/upper-income clients. Assessments are also being carried out on what potential for them start engaging in mortgage lending.

Measures are therefore being considered to extend mortgage markets down the income scale such as middle class, as homeownership is viewed by governments as

being beneficial to the country, economically, politically and socially. The development of mortgage markets is therefore viewed as stimulant to economic growth. (Mary R.Tomlinson,May 2007)

#### **2.2.4 History of Mortgage Finance in Tanzania**

Post-independence mortgages existed in Tanzania as a national Agenda in providing housing to its citizens, in 1982-Housing Finance Scheme was launched and operated by the former Tanzania Housing Bank (THB) until 1995 when the bank collapsed due to Insolvency forcing households to fend for themselves. At that time THB Had provided around 14,000 mortgages.

At present few banks provides mortgage products to a limited number of clients. These banks have limited to engage in Mortgages due to funding constraints. The main constraints are a mainly due to lack of long term funding as banks deposit are shorter while mortgage products are long term. This apparent funding mismatch limits the availability of banks actively engage in mortgage finance (Urassa, 2011).

Currently there are nine banks which offer mortgage Loans as follows:

- (i.) Azania Bank
- (ii.) Bank ABC
- (iii.) Bank of Africa (BOA)
- (iv.) Commercial bank of Africa(CBA)
- (v.) Exim Bank
- (vi.) Kenya Commercial Bank
- (vii.) National Bank of commerce
- (viii.) National Microfinance Bank(NMB)
- (ix.) Stanbic Bank

All these banks has mortgage agreement with NHC

#### **2.2.5 Mortgage finance Situation in Tanzania**

In Tanzania, when the public sector ceased housing construction, Household were left with little choice but to move into unplanned settlement and undertake their own



house construction, Nearly 98% of houses countrywide and 90% of houses in the urban are constructed incrementally. This situation remains today and is exacerbated by a 6% annual growth in the urban Population (Thomlison, 2007).

Tanzania's banking sector has been undergoing restructuring and deregulation which has resulted in increased privatization of its financial services. The government has also focused on improving regulation the sector. At present housing finance is extremely limited in Tanzania. Most Housing construction is financed mainly by cash or incrementally. Recently very few banks have begun mortgage lending and others are beginning to consider it.

Due to difficulties faced on acquisition of Mortgage finance in Tanzania, the housing constructed is without reference to housing codes, but can range from quite a high standard to a very poor standard. Most important is the fact that the residents of informal areas and hence lacking legal title are unable to access formal housing Loans (Tomlison, 2007).

In attempt to curb informal housing land development and boost the supply of planned and surveyed plots, a programme for planning and surveying 20,000 residents plots in unplanned areas of Dar-Es-Salaam has been initiated. It is a project taken by Ministry of landing and human settlement Development, which was started in the 2002/2003. This programme provides a less secure form of title, 'junior' (Initially for 2 Years but not to be extended to 5 years) For owner of land in certain areas of the city .

Tanzania's inadequate legal and administrative frameworks primarily around the legal treatment of land values, foreclosure and land registration problems has also means that most banks are extremely recent about entering into housing finance

#### **2.2.6 Mortgage Finance Experience in Azania Bank**

Azania Bank started offering Mortgage loans to qualifying applicants for the purpose of building, renovation and buying residential houses in year 2002. The interest rates

in the year 2002 for Mortgage loans were 15% p.a (Fixed) and maximum repayment period was 10years.

The Bank's Mortgage Loan Portfolio as at August 2012 was Tshs.29.42bn (usd equiv\$18.5mil) given to 640 customers. The total bank's loan portfolio was Tshs.137.4bn(usd equiv\$86.4m) The total exposure to mortgage loans as a percentage of total loans was 21.4% as at 31st August 2012.

The bank's mortgage loan financing is for both residential and commercial properties. 60% of the total mortgage loan outstanding is for residential properties and the rest is for commercial properties. The current maximum tenor is 15 years and the current interest rate is 18% p.a (fixed)( Presentation on growing Housing opportunities in Africa,2012).

### **2.2.7 Tanzania Government initiation on Mortgage**

The government of Tanzania has undertaken various initiatives to respond to the concerns of the stakeholders so as to enable mortgage financing players to offer mortgage at favorable and conducive terms to the buyers. However, the response has been very slow with the following reasons:

- (i.) The law has never been tested.
- (ii.) The long-term funds are expensive, therefore the price also reflect the same.
- (iii.) There are no stronger developers to produce house of different category.
- (iv.) The current houses are sold at very high price and hence call risks at the time of bubble bust.
- (v.) The current industrial default rate is approximately 10%.
- (vi.) Based on the above reasons the government of Tanzania took initiative to address the aforementioned concerns. There have been number of initiatives that include:
  - (vii.) Formation of **Tanzania Mortgage Refinancing Company** to facilitate availability of long term funds and liquidity mismatch.
  - (viii.) Enactment of **Mortgage Finance (Special Provision Act) 2008** in order to ensure the legal framework is sound to protect interest of both parties fairly.

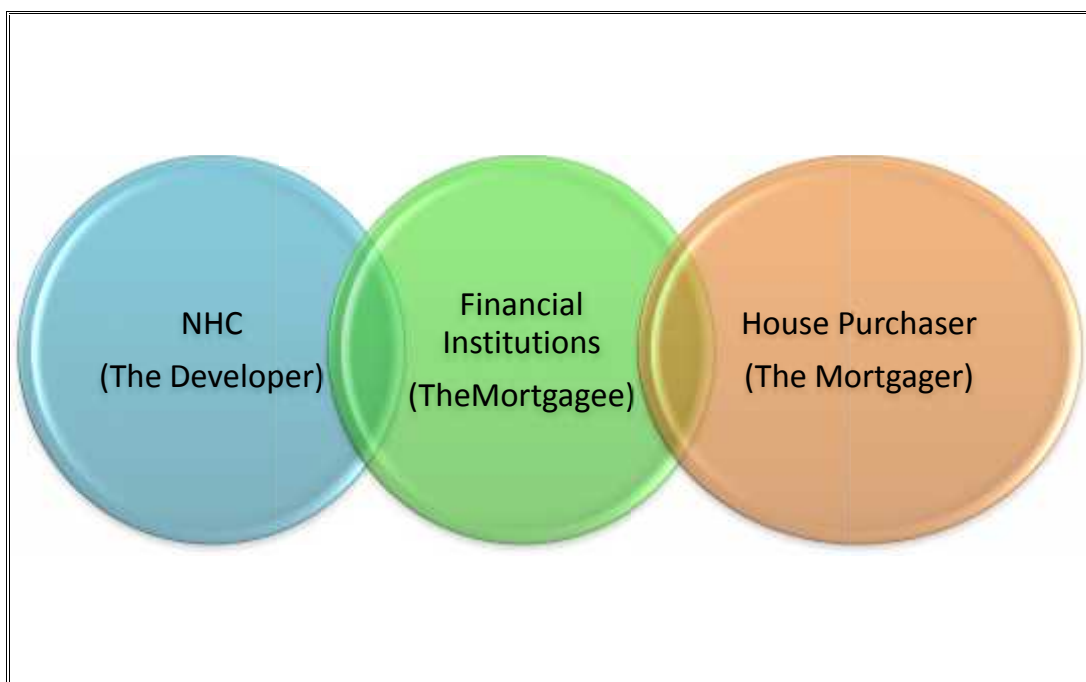
- (ix.) Formulation of **Unit Title** to enable Tanzania to own portion of a given area either vertical or horizontal.
- (x.) Restructuring of NHC to operate in **commercially sound** ground that includes recruitment of **competent management team** so that to increase ability to produce houses of various categories based on “**Timely delivery at affordable cost and in a quality manner**”.

The proposed **buyback product** is looking forward to overcome part of the aforementioned concerns and also, the stress of financial institution that may be caused by any default by NHC properties mortgage buyers. This will be operational within the first five years.

### 2.2.8 Relationship between NHC, Financial Institution and NHC Client

NHC mostly uses Mortgage in selling most of the property through three ways. The relationship between NHC and the house purchaser is illustrated in the following diagram.

**Figure 2.1: I Interest Rate Charged By the Bank for Your Mortgage Product**



Source: National Housing Journal, 2011

## **2.2.9 Mortgage Types**

### **Low interest rate mortgage**

This is a mortgage which offers the lowest possible and most competitive interest rate.

### **Adjustable Rate Mortgage**

This is a mortgage with adjustable monthly payments over the life of the mortgage. The mortgage payment will be 'adjusted' when the interest rate is adjusted. The interest rate is expected to be adjusted at regular intervals. Usually, the initial rate at the beginning is at a fixed rate. This rate is often quite low, as an incentive to get an adjustable rate mortgage. Then, after the initial fixed period the interest rate is usually adjusted yearly to reflect the current rates. If the rates go down so do the mortgage payments. But if the rates go up, the payments will go up as well.

### **Fixed Rate Mortgage**

This is a mortgage with fixed monthly payments over the life of the mortgage. It guarantees a certain interest rate over the whole period of the mortgage. It is the most popular mortgage type. Its advantage is that the mortgager will always know what he will have to pay. This strategy works best when interest rates are staying fairly stable or are falling.

### **Interest Only Mortgage**

An "interest-only" mortgage is like a line of credit, whereby only the interest on the mortgage is paid. This can greatly reduce the mortgage payments in time of financial stress. However, it also means that the debt will never be paid off. The reasons for the use of an interest-only mortgage are;

- (i.) To relieve short-term financial stress.
- (ii.) When an investment property is building equity because the market price is going up.
- (iii.) If the mortgage interest can be completely written off as part of a business venture.
- (iv.) If it can be used for taxes reduction.

### **Assumable Mortgage**

Assumable mortgages are mortgages that can be passed from one owner to another. It can be an advantage to assume a mortgage if the interest rate is very good compared to negotiating a brand new mortgage.

### **Reverse Mortgage**

This is a mortgage that allows the mortgager to access some of the value of the property without selling it. He remains the owner with all the current obligations such as property taxes, insurance and repairs. When the reverse mortgage agreement is over he repays all of the cash advances plus interest. This mortgage is used mostly because lenders don't want the house but repayment. (Tomlison, 2007).

#### **2.2.10 Mortgage Payback Option Mortgage Buyback Option**

Mortgage buyback option is an agreement between NHC (as the developer of the houses) and the financial institutions (as the mortgagees of the houses) to repossess the houses in the event that the mortgagers (as the borrowers from the banks to purchase the houses from NHC) defaults on the payments of their mortgages. This option usually takes place of the foreclosure option which is cumbersome and is the legal process by which a mortgagee, or other lien holder, usually a lender, obtains a termination of a mortgagor's equitable right of redemption, either by court order or by operation of law (after following a specific statutory procedure).

#### **2.2.11 Who qualify for Mortgage Buy Back**

The financial institutions that qualify for buy back option should have gone through the following qualifications:

- (i.) Must have entered into agreement with NHC to offer mortgage at favorable terms to the would-be NHC properties buyers.
- (ii.) The terms and condition / product profiles are clearly understood by both parties.
- (iii.) The buyer must be the first client of a given unit/ properties.
- (iv.) The buyer must have purchased property at the price agreeable by NHC.

### **2.2.12 How to Qualify For Mortgage Buy Back**

After qualifying for Mortgage buy back option, the following are the criteria that the financial institutions should ensure that are confirmed:

- (i.) The institution / bank should have financed the buyers of NHC properties through mortgages.
- (ii.) The property buyer must have serviced the mortgage for at least six month from the date the loan is granted.
- (iii.) The property should have been registered under interest of the bank.
- (iv.) The report that proves effort and initiatives which have already been taken by the bank to facilitate compliance from the mortgagors.
- (v.) Provide proof that the transaction was compliant to regulatory bodies and law of Tanzania.
- (vi.) The property to be bought back must have been covered by fire and general insurance policy.
- (vii.) The property should be of a good condition as per the valuation report.
- (viii.) The property should have been maintained in good conditions and be able to fetch the true value of the market (NHC Strategic plan, 2010/2011-2014/2015).

### **2.2.13 The Mortgage Buy Back Disbursement**

The disburdenment to the qualified institution will be effected once the above conditions are fulfilled. In disbursement of the mortgage buy back option the following conditions must be met:

- (i.) NHC will buy the property at less10% of the residual amount (interest + principal).
- (ii.) The rights on the property should have been transferred into NHC.
- (iii.) Insurance covers (fire and general insurance) benefits should have been assigned to NHC.
- (iv.) The loan should have not been restructured or changed hands from the original buyers.

### 2.2.14 Resale / lease of the Buyback Option Properties

The property that has been purchased back as a mortgage buyback option can either be sold to another person or retained as rental stock of NHC. In the event the original owner wants to stay in the same property, the client will have to apply as a tenant and NHC has the right to accept or reject.

### 2.2.15 Why Should One Apply

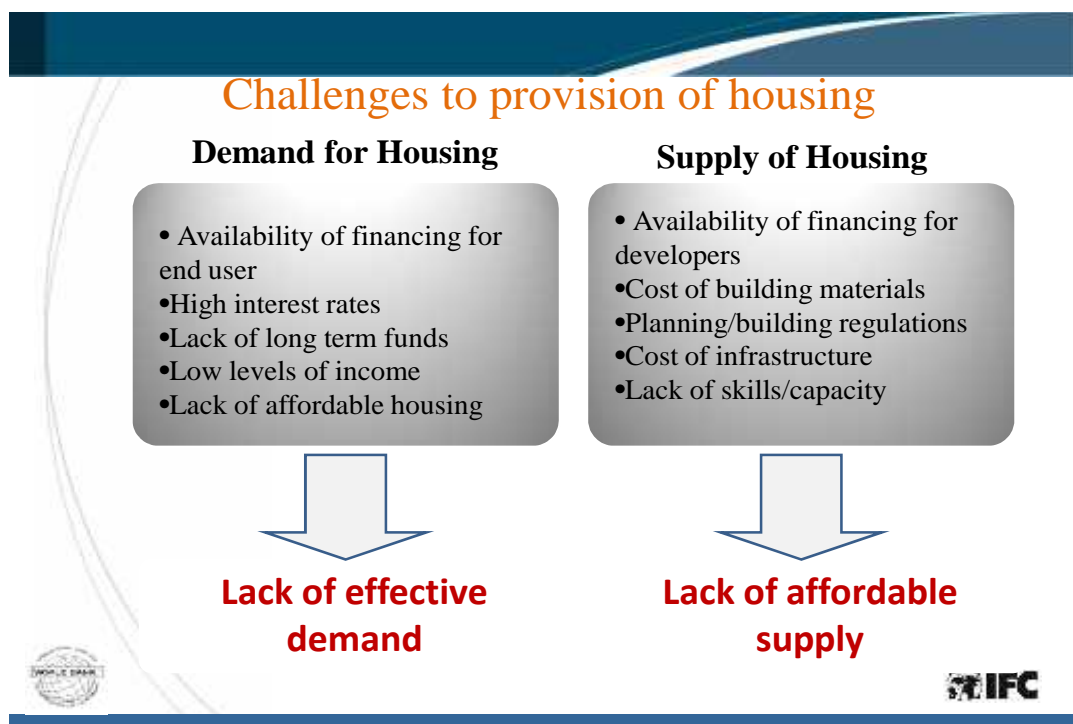
The mortgage buyback is meant to help the followings:

- (i.) The buyback option gives the opportunities to the bank or financial institution to get the funds quicker and at low cost.
- (ii.) It helps price stability of properties due to the fact that, banks recover the funds through directly source instead of auctioneer route.

### 2.2.16 Challenges in provision of Housing

According to Simon Walley, Housing Finance Specialist (Word bank) he presented challenges to provision of housing as follows:

**Figure 2.2: Challenges to Provision Of Housing (Demand and supply)**

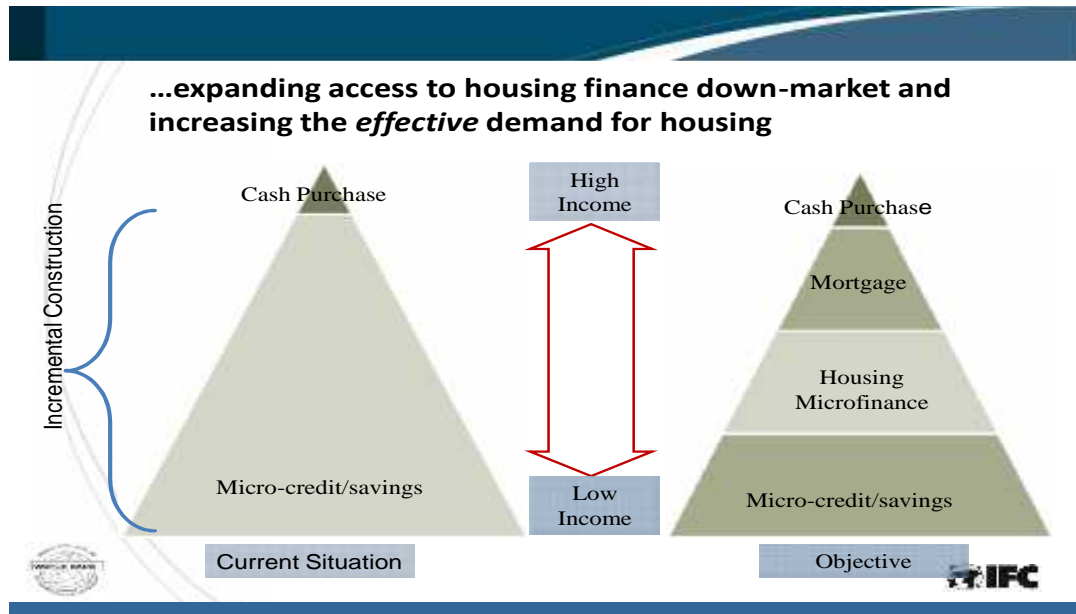


Source: international Finance Corporation, 2011

### 2.2.17 Access to housing finance down the market and demand

(Walley,2011 also expressed Expanding access to housing finance down –market and increasing the effective demand for housing as follows:

**Figure 2.3: Expanding Access to Housing Finance Down-Market**



**Source:** international Finance Corporation, 2011

### 2.3 Empirical Literature Review

Mortgage financing is the new concept in Tanzania, However there are few researchers conducted the research related to the topic (Sanga, 2004) Concluded the following concerning the Topic. Despite of financial Institutions cash reserves (Loan able funds), relatively individual and borrow very little, this is because of banking policies and regulations is unfavorable therefore inhibitive to financial institutions wishing to lend money. The research also explored that other likely factors that could be responsible for low level of lending of mortgage loans could be the state of economic growth (Stated GDP), the growth of finance and insurance sector as compared to other sectors of the economy and pattern of the interest rates.

The findings of the research show that the level of interest (on lending) bears a noticeable relationship to the lending pattern. The level of interest rates was



compared and contrasted to the number of registered mortgages for the period of 1990-2002. There is a negative correlation between interest rates and number of registered mortgages. He learnt that only 30% of urban population who live in planned (formal) areas and titled piece of land are eligible to borrow from lending institutions. The rest 70% cannot borrow from banks because they lack qualified collaterals stipulated by bank.

(TCMRC, 2011) Concluded that, Tanzania is one of the countries with the lowest Mortgage GDP ratio, this is because of absence of Mortgage products after THB Collapse, unfriendly land laws, absence of real estate developers and absence of long term funding banks to facilitate the provision of mortgage products.

Research from Azania bank, (October, 2012) concluded that different reasons which faced by clients in acquiring mortgage loan from financial institutions, the reasons include: The mortgage interest rates are excessively high for most applicants to secure loans. Also the mortgage products offered by banks are still not widely known by even some of the member of staff of the same banks which offer them. Most banks are worried to offer mortgage for pre purchased houses. Apart from these reason is that Mortgage processing is long and complex.

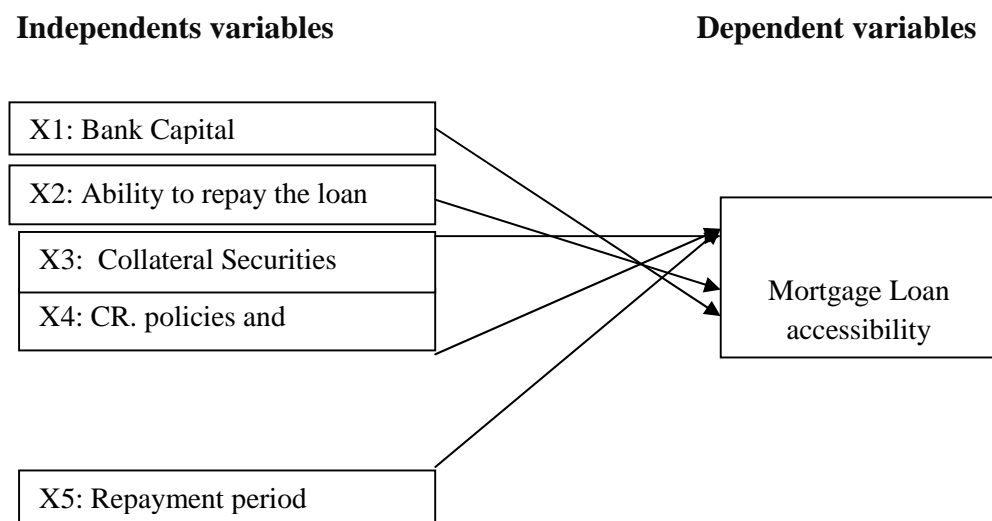
These challenges can be addressed through changing policy. Efforts should be made deliberately lower mortgage interest rates to single digit figures. Otherwise mortgage will continue to be pipe dream to most of the house buyers. The government should find ways to guarantee civil servants so that they can access mortgage due to the fact that their cash flows are excessively low to qualify mortgages. Another strong challenge to address is VAT as a big challenge toward price and housing penetration.

The study recommended that institution should give mortgage delivery priority that includes having special dedicated staff to handle customers in relation to Mortgage. Provision of mortgage clinic/Educations to groups, company and majority of Tanzanian so that they can understand the importance of using mortgage facilities to access their dream homes. Operate competitively through provision through

provision of competitive interest rates. Also micro and Macro- economic financial institution should do internal education to all their staff in all branches about mortgage products they offer.

## 2.4 Conceptual Framework

**Figure 2.4: Conceptual Framework**



**Source: Developed by researcher,2013**

### **Description of the Framework**

The study will use the model where Mortgage loan accessibility is the dependent variable and is achieved through combination of other variables that are independent.

The five independent variables are listed below:

- X1: Bank capital:** The amount of Mortgage loan to be disbursed depends on the bank capital that is available. The higher the capital the higher the mortgage loan to be issued
- X2: Ability to repay the Loan:** Individual's ability/Firms ability to repay the loan is very important criteria to be observed before disbursing the loan. This will assure the bank that the client will not default during repayment period.
- X3: Qualateral Securities:** These are form of Secondary protection sometimes required by a bank intended to guarantee borrower's performance on debt obligation. For example legal house, Plot or Factory
- X4: Credit policies and procedures:** These are guidelines offered by BOT which must be fulfilled by the client or commercial bank before the loan is disbursed.
- X5: Repayment period:** This is the period where by all repayment principals and interest will be covered. In Tanzania mortgage loans take 10-20 years.

#### **2.4.1 Research Gap**

There appears to be a continuing gap between what has been written by other researchers and theoretical literature review concerning the challenges of accessing Mortgage Loans in Tanzania. The gap between demand of Mortgage loans and challenges of its accessibility is increasing. Housing sector contributes country's GDP but there are different challenges faced to access those loans to build Quality and affordable housing to Tanzanian's. The main continuing gap is the demand for mortgage loan and challenges facing its accessibility.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the research process and nature of Research design to be used. Research procedures involved decision on what information to be generated, the data collection Methods, the measurement approach, objects measured and the way in which data are to be analyzed. This section therefore discuss the research design; research Strategy, area of study, study population, sampling design, sample selection Methods, data collection methods and data analysis methods.

#### **3.2 Study Area**

The area of Study is National Housing Corporation (NHC) -Head office Dar-es-salaam. Data was collected at NHC Head office different departments such as Finance, sales, treasury and Marketing. Apart from that Data was also collected from NHC Clients who acquired Mortgage loans through Banks which have Mortgage agreement with NHC and Few loan officers from those banks.

National Housing Corporation was reconstituted through the act of parliament No.2 of 1990 in order to carry out functions of providing and facilitating the provision of housing and other buildings in Tanzania for the members of the public. Since this amendment NHC has not fully unfold its business opportunities due to financial, politically and Social-economically reasons.

The reason for choosing the area was because NHC is the corporation in Tanzania which has mortgage agreement contract to facilitate Mortgage loans to Tanzanians. The area was also convenient for researcher as she works with NHC and resides in Dar-es-salaam.

### **3.3 Research Strategy**

Research strategy is a general plan on how the researcher will go about answering the research questions that has been set by the researcher. It consists of a number of components. The approach researcher adopts should reflect each of these components. These components of research strategy include the research paradigm and research design that guide ones dissertation, the research methodology, research methods, and sampling strategy adopted, and the data analysis techniques that are used.

The researcher used both qualitative and quantitative methods to present and analyze the data. The researcher used tables, pie charts, graphs where necessary to present the data.

### **3.4 Research Design**

This study used case study design. Robson (2002) defines case study as a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. More recently, Malhotra& Birks (2007) define case study research method as a detailed study based upon the observation of the intrinsic details of individuals, groups of individuals and organizations.

The primary advantage of the case study is that an entire organization or entity can be investigated in depth and with meticulous attention to detail (Zikmund, 2000). In brief, Burns (2000) comments that case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Furthermore, in a case study the focus of attention is on the case in its idiosyncratic complexity, not on the whole population of cases (Burns, 2000).

Moreover, case study research was used by the researcher to bring out the details from the viewpoint of the participants by using multiple sources of data which includes observation ( both participants and non- participants interview (structured and unstructured) and documentary sources. However, case study research tends to

be selective in the sense that it focuses on one or two issues that are fundamental to understand the system being examined. The case study strategy also has considerable ability to organize a wide range of information about a case and then analyze the contents by seeking patterns and themes in the data. Hence, case study strategy was used in this study to generate answers to three central questions which are mentioned earlier in chapter 1.

### **3.5 Types and Sources of Data**

#### **3.5.1 Primary Data**

Kothari (2004) defines primary data simply as first hand information collected from the field. This was conducted through participatory observation, Questionnaire and interview. The researcher was working with finance and sales department in order to make sure that all necessary queries, comments and recommendations were well understood and clear.

#### **3.5.2 Secondary Data**

These are second hand information's collected from some other purpose. Secondary data allows comparison of information with primary data enabling a more generalized triangulation of findings. The researcher grasped more about the challenges facing accessibility of Mortgage finance in Tanzania from Different articles, journals, manuals, BOT reports, government publications of economic indicators, the Media annual reports and NHC five year's strategic plan was used.

### **3.6 Population and Sample, Sample Size and Sampling Design/Procedures**

#### **3.6.1 Sample and Target Population**

Sample refers to the number of items that were selected from the universe. A population is a group of individuals, object, or items from which sample are taken for measure. It refers to the entire group of persons or elements that have at least one thing in common. Population also refers to a large group from which the sample is taken (Kombo& Tromp 2006). Population is all members or individuals or other elements that a researcher hopes to be represented in the study. In this case the

targeted population was the population drawn from NHC head office, NHC Clients and Banks with Mortgage agreement NHC.

### 3.6.2 Sample Size

Sample size is defined as a finite part of statistical population whose properties are studied to gain information about the whole (Webster, 1985). The total sample was 80 respondents from NHC staff different department from Finance, sales department, NHC Clients and Loan officers.

**Table 3.1: Structure and Composition of Sample Size**

DEPARTMENT/SECTIONS/INSTITUTION	SAMPLE
Finance department	30
Sales Department	4
Marketing Department	3
Treasury department	3
NHC Client/Customers(Different projects)	30
Loan officers	10
<b>TOTAL</b>	<b>80</b>

**Source: Research data, 2013**

### 3.6.3 Sampling Procedures

In this study both probability and non probability sampling was used to determine the sampling methods and sample size. Where there is a sampling frame, probability sampling methods and the sample was adopted where's in the absence of sampling Frame, on-probability was used.

Under probability sampling, questionnaires were administered randomly but in systematic manner. On the other hand, purposive sampling used for non probability sampling. The researcher used both probability and non-probability method to select sample.

### 3.7 Data collection methods and tools/instruments

The researcher study used Interviews, Questionnaires, Participatory observation, Documentary review and focus group method to collect data.

### **3.7.1 Interviews**

Kothari (1990) argues that an interview is a scheduled set of questions administered through oral- verbal communication in a face to face relationship between a Researcher and Respondents. Interview is one among the most important source of information of descriptive survey design as it allows the interviewer to explore a lot of information regarding an individual's experiences and knowledge; his or her opinions, beliefs and feelings and demographic data (Best & Khan, 2004: 202). The interview can be prepared in different forms including; open- ended, focused or structured.

Interview was conducted to NHC Director of Finance and Director of treasury, few customers and NHC Sales manager. And interview will be conducted at Azania bank to get more details about the mortgage.

### **3.7.2 Questionnaires**

In questionnaires the respondents will be supposed to feel in the answers in written form and the researcher will collect the forms with the completed information (Kombo& Tromp, 2006). In this study questionnaires were given to different people who were provided with a time limit so as not to run out of time.

The researcher used simple questions logically arranged straight forward to the point regarding the challenges faced in acquisition of Mortgage finance in Tanzania. In this case both open and closed ended questions were used in order to explore enough information for the study.

There were two types of questionnaires, open and closed questionnaires. The questionnaires were filled by few NHC Staff from different department, bank loan officers and NHC clients who applied Mortgage finance to Houses at NHC houses.

### **3.7.3 Observation**

Since the researcher is an employee at the NHC Finance department unit, it was easier for the researcher to observe Mortgage financing for NHC clients and for the



corporation in general. Also through observation the researcher will be in a position to give recommendations that are useful for the organization and public at large.

#### **3.7.4 Review of documents**

The researcher used various documents available at NHC Concerning subject matter to extract required information required concerning Mortgage finance. These documents includes Strategic plan for NHC for 2010/11-2014/15, NHC Journal and different papers available at NHC. These reports provided a clear insight of what are the shortfalls Lead to difficulties on acquisition of Mortgage Finance in Tanzania.

#### **3.7.5 Focus Group**

Another tool of collecting information is the focus group. Focus groups are useful in obtaining a particular kind of information that would be difficult to obtain using other methodologies. A focus group typically can be defined as a group of people who possess certain characteristics and provide information of a qualitative nature in a focused discussion. In this research the focus group was conducted in sales Department, this department and Treasury department of NHC. These department records Mortgage acquisition trend for NHC Individual client and NHC Corporation in general. Both quantitative and qualitative techniques were used to analyze data.

### **3.8 Data Management and Analysis**

Data analysis refers to examining what has been collected in a survey or experiment and making deductions and inferences (Kombo& Tromp, 2006). It involves scrutinizing the acquired information and making inferences. The methods used in data analysis are influenced by whether the research is qualitative or quantitative. In this case the data for this study was analyzed both quantitatively and qualitatively.

Data processing is any process that a chosen program does to enter data and summarize, analyze or otherwise convert data into usable information. The process may be automated and run on a computer. It involves recording, analyzing, sorting, summarizing, calculating, disseminating and storing data. Because data are most useful when well-presented and actually informative, data-processing systems are often referred to as information systems; data-processing systems typically

manipulate raw data into information, and likewise information systems typically take raw data as input to produce information as output. The researcher in this case used statistical package for social science (SPSS) software to analyze data, graphs, tables, pie charts, tables, frequencies and percentage where necessary.

### **3.9 Expected Results**

The researcher gave recommendations to the management for improvement of areas that research findings pointed out and if the recommendations were implemented it will also be beneficial to other organizations other than NHC and the government at large.

## CHAPTER FOUR

### PRESENTATION AND DISCUSSION OF FINDINGS

#### 4.1 Introduction

This chapter presents the research results in the lights of predetermined research questions and objectives. The chapter analyses the challenges faced by clients and NHC as a corporation when accessing Mortgage loans in Tanzania. Primary data observed in this chapter was collected through depth interview, questionnaires, focus group and observations. Data analyzed and presented by using Excel, SPSS-programme, histogram, bar char and pie chart.

#### 4.2 Data Findings and Analysis

The following is data analysis and discussion for the questionnaire from selected banks

Characteristics of respondents:

**Table 4.1: Gender of Respondents**

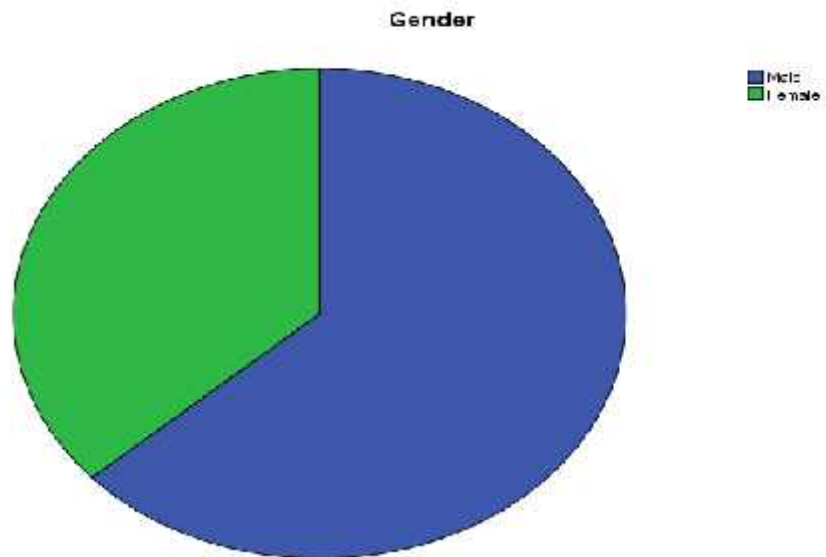
	Frequency	Percent	Valid Percent	Cumulative Percent
Male	19	63.3	63.3	63.3
Female	11	36.7	36.7	100.0
Total	30	100.0	100.0	

**Source:** Research field data, 2013

Sixty three point three percent 63.3% of the respondents who answered this questionnaire were male while 36.3% were female.

**Figure 4.1: Gender of Respondents**

:



**Source:** Research field data, 2013

**Table 4.2 : Age of Respondent**

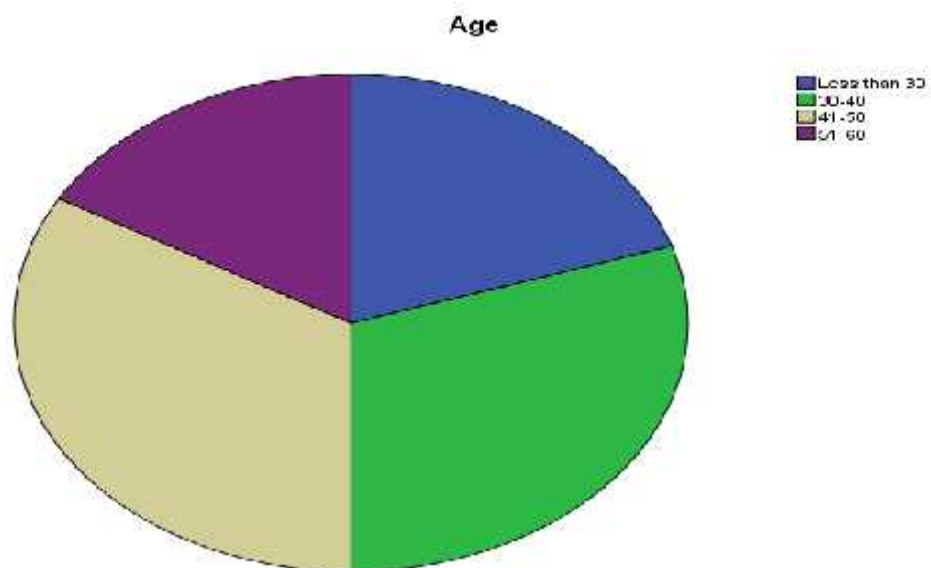
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 30	6	20.0	20.0	20.0
	30-40	9	30.0	30.0	50.0
	41-50	10	33.3	33.3	83.3
	51-60	5	16.7	16.7	100.0
	Total	30	100.0	100.0	

**Source:**research field data,2013

Age of respondents varies where by Majority of respondents' ranges from 41 to 50 years, while the least respondents are aged 51-60 years. This is because most of Mortgage loans repayment period ranges from 10-15 years and the category of 51-60 years is about approaching the retirement age therefore it is not easy for the bank to disburse the loan to such person. Below 20 this is the class of young respondents,

most of parents purchase houses for their children therefore the title deed reads the name of the kid.

**Figure 4.2: Age of Respondents**



**Source:**Research field data,2013

**Table 2.3: Age of Respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Single	10	33.3	33.3	33.3
Married	16	53.3	53.3	86.7
Widow	4	13.3	13.3	100.0
<b>Total</b>	<b>30</b>	<b>100.0</b>	<b>100.0</b>	

**Source:**research field data,2013

As per this findings 33.3% of the respondents were single, while 53.3% were married and widow were just 13.3% of respondents were widow. This shows that, most of respondents were married couples.

**Figure 4.3: : Marital status of Respondents**



Source:Research field data,2013

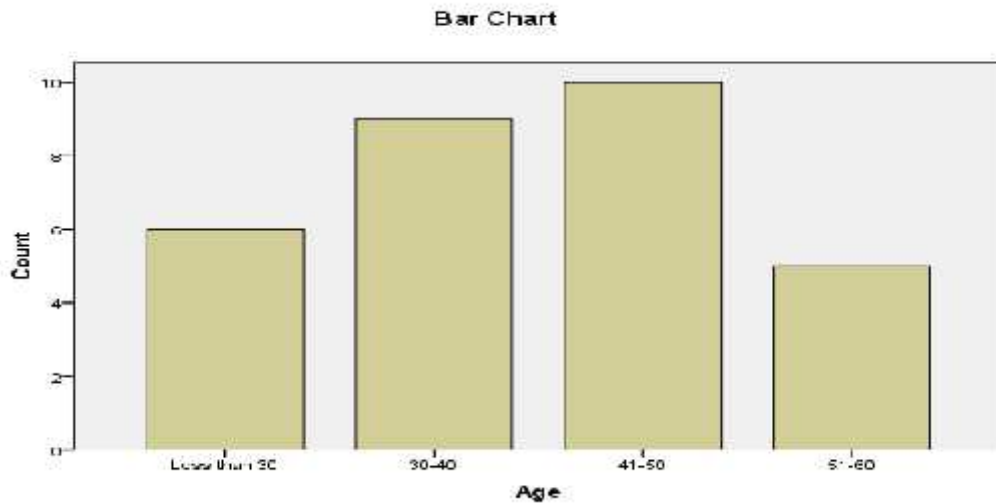
**Table 4.4: Number of Respondents Purchased at NHC**

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	30	100.0	100.0	100.0

Source:Research field data,2013

This shows that 100% of clients who responded these questionnaires are clients who purchased NHC houses from NHC ongoing projects.

**Figure 4.4: Number of Respondents Purchased Houses at NHC**



**Source:**Research field data,2013

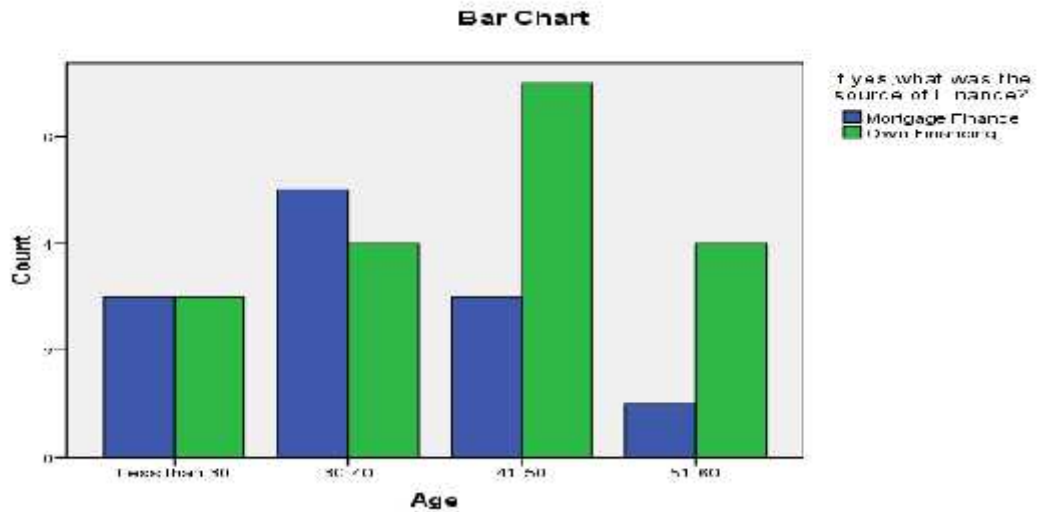
**Table 4.5: Source of Finance**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Mortgage Finance	12	40.0	40.0	40.0
Own Financing	18	60.0	60.0	100.0
Total	30	100.0	100.0	

**Source:**Research field data,2013

Findings show that just 40% of respondents financed purchase of their houses through mortgage financed and 60% finance from other source. This implies that there are many challenges which face acquisitions of these mortgage loans from financial institutions.

**Figure 4.5: Source of Financing**



**Source:**Research field data,2013

Findings show that just 40% of respondents financed purchase of their houses through mortgage finance and 60% financed from other source. This implies that there are many challenges which face acquisitions of these mortgage loans from financial institutions.

**Table 4.6: Source of Fund for Purchasing Houses**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	14	46.7	46.7	46.7
No	4	13.3	13.3	60.0
N/A	12	40.0	40.0	100.0
Total	30	100.0	100.0	

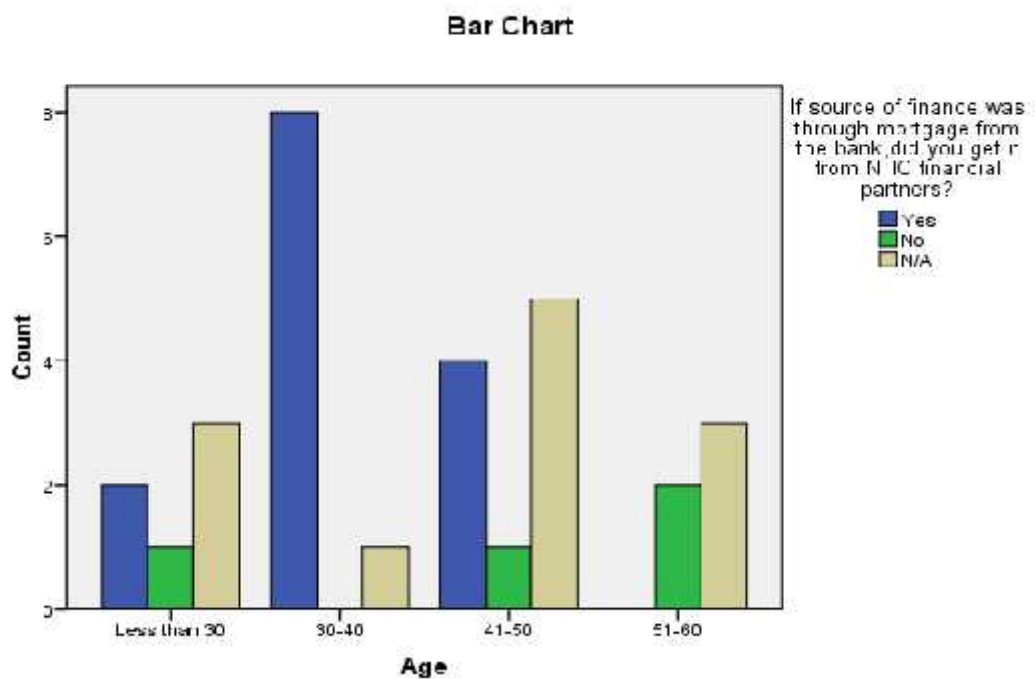
**Source:**Research field data,2013

Forty six point seven percent (46.7%) of respondents acquired the mortgage loan from NHC partners and 13.3% acquired the mortgage from other banks. This shows that it is advantageous for NHC to sign mortgage agreement with other banks to simplify the application procedure from banks to clients. The bank is safe and



confident that the loan will be paid back because house from NHC is the collateral security for that house.

**Figure 4.6: If source of Finance Was Through Mortgage from NHC Mortgage Financial Partners**



Source: Research field data, 2013

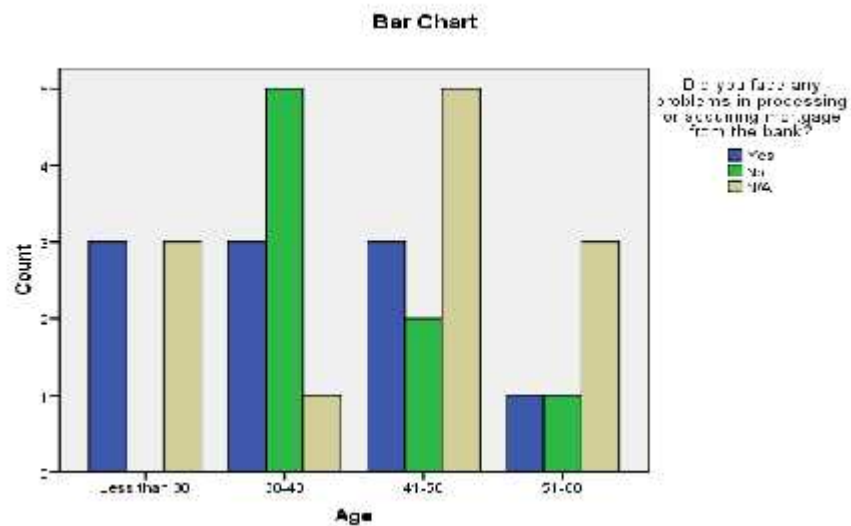
**Table 4.7: Number of Clients Faced Challenges on Mortgage Loan Application**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	10	33.3	33.3	33.3
No	8	26.7	26.7	60.0
N/A	12	40.0	40.0	100.0
Total	30	100.0	100.0	

Source: Research field data, 2013

33.3% of respondents faced difficulties/problems in acquiring the Mortgage loan, while 26.7% of the client did not face any problems during acquisition of the loan. This shows that it is not an easy task to acquire mortgage loan from the bank. Applicants face different challenges in application of loan before disbursement.

**Figure 4.7: Responding if the Clients Faced Problems in Acquiring The Mortgage Loans**



**Source:**Research field data,2013

The following are reasons listed by respondents/NHC clients as the problems they faced during processing of their Mortgage Loans.

- (i.) They have to disclose the income such as bank statement, salary slips and business license documents. These documents are confidential but the customer must disclose this information to the bank so that the bank can be comfortable and be sure that the client will be able to pay loan installment without defaulting.
- (ii.) The permanent employees have been given priority to acquire the mortgage loan compared to business man. It is hard for business man to get the mortgage loan.

- (iii.) The loan repayment period set to businessman man is 5 years loan repayment period compared to government employee where loan repayment period is 15 years.
- (iv.) Small business man cannot get loan because they need the business man who transact large transactions who is liquid
- (v.) Clients fill a lot of forms, too much paper work
- (vi.) Interest charge by bank is too high compared to the total cost of the house hence discourage the mortgage applicant.
- (vii.) Beuracracy:It take too much time for the loan to be disbursed to the customer

**Table 4.8: Total Loan Amount Disbursed by the Bank**

Amount in Tshs		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 50,000,000	3	10.0	10.0	10.0
	50,000,001-100,000,000	11	36.7	36.7	46.7
	100,000,001-150,000,000	7	23.3	23.3	70.0
	150,000,001-200,000,000	5	16.7	16.7	86.7
	200,000,001-300,000,001	3	10.0	10.0	96.7
	N/A	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

**Source:**Research field data,2013

36.7% of the applicant of the loan disbursed from different financial institutions ranges from Tzs 50,000,000.00 to Tzs 100,000,000 this shows that most of Tanzanian can afford affordable projects.NHC has different categories of houses in order to make sure that they satisfy low income earners, middle class and High class earners. Affordable housing projects is all over the country .Affordable projects in Dar-Es-Salaam Located at Kigamboni where by around 200 units have already sold to the clients. In other regions NHC have Mvomero project located in Morogoro region. Mtanda projects- located in lindi region, Kongwa project in Dodoma, Bombambili project at Mwanza-Geita region, Unyakumi project located at Singida,

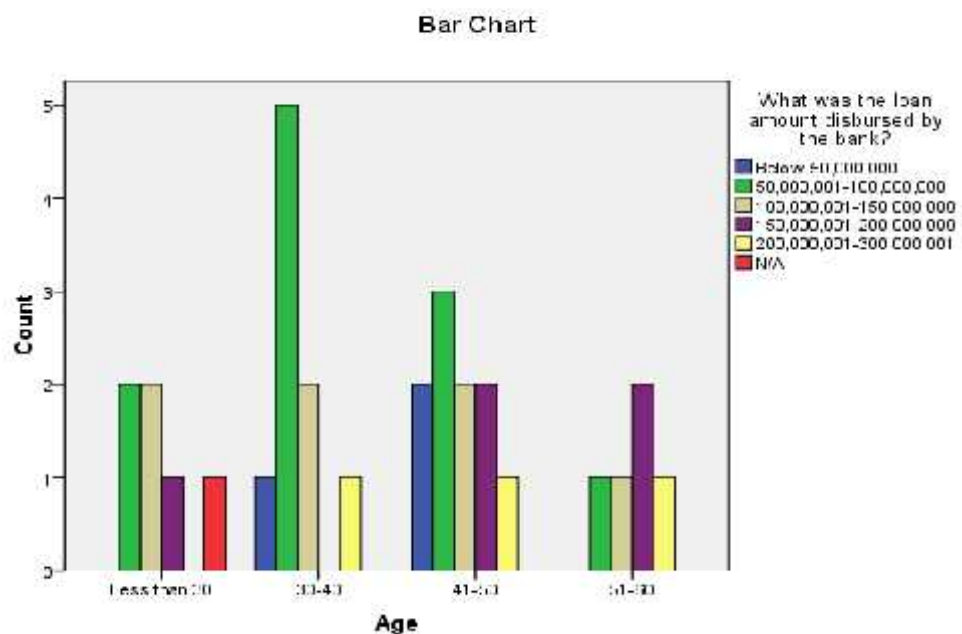
Mkinga project located in Tanga region, Mkuzo project in Songea, Ilembo Katavi, and Mrara project in Arusha region. Each project is around 40 houses units will be ready to sell after the end of the project.

Middle class level is at Ubungu in Dar-Es salaam region, Levolosi project in Arusha and Mchikichi project in Dar-es-Salaam. The price of these projects ranges from 80,000,000 To 120,000,000.00 whereby as per findings only 23.3% can afford to pay the cost of these houses.

Another project for High class earners includes Mindu Project where by the price of these houses are around Tsh 300,000,000. Only 10% of the respondents can afford to pay these houses.

All prices are VAT inclusive.

**Figure 4.8: The Total Loan Amount Disbursed by the Bank**



Source: Research field data, 2013

**Table 4.9: Interest rate Charged By The Bank for Your Mortgage Product**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	10%-15%	11	36.7	36.7	36.7
	16%-20%	17	56.7	56.7	93.3
	N/A	2	6.7	6.7	100.0
	Total	30	100.0	100.0	

**Source:**Research field data,2013

As per findings, interest rate charges by most of financial institution ranges from 16% to 20% interest rate on Mortgage loan. The lenders disburse the mortgage loan at this interest. Where by 36.75% can acquire the loan at the rate of 10% to 15%.

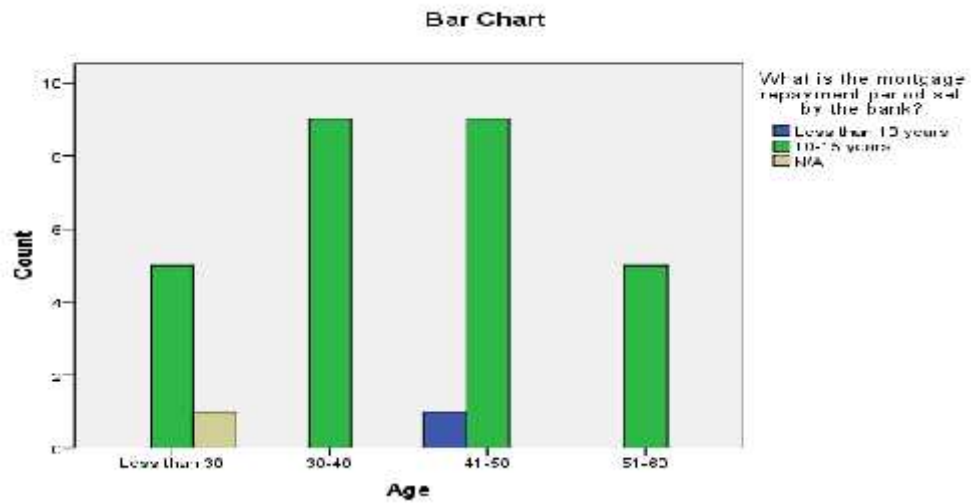
**Table 4.10: Mortgage Repayment Period Set By The Bank**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 10 years	1	3.3	3.3	3.3
	10-15 years	28	93.3	93.3	96.7
	N/A	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

**Source:**Research field data,2013

The interest loan repayment for payment of all installments ranges from 10 to 15 years. This implies that most of Tanzanians are able to pay small installment at the bank that is why the loan period is too long. The higher the loan repayment period the higher the interest. This is because the bank considers that the risk for loan repayment will be very high therefore the interest rate is supposed to be high to bear the risk.

**Figure 4.9: Mortgage Repayment Period Set by the Bank**



Source: Research field data, 2013

**Table 4.11: Mortgage Repayment Period Set by the Bank**

		What is the mortgage repayment period set by the bank? 10-15 years	Total
Gender	Male	3	3
	Female	7	7
Total		10	10

Source: Research field data, 2013

All loan officers from banks enerviewed offered Mortgage loan at 10 to 15 years.

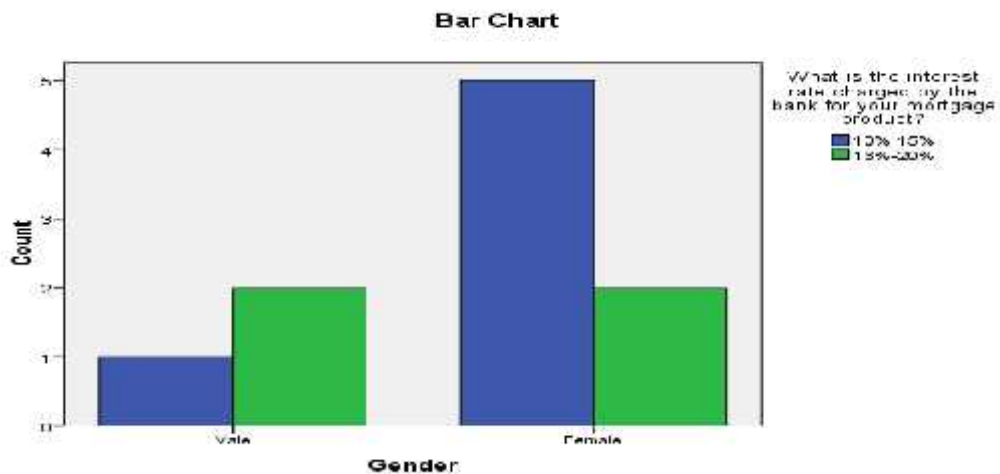
**Table 4.12: The Interest Rate Charged by the Bank for Your Mortgage Product**

		What is the interest rate charged by the bank for your mortgage product?		Total
		10%-15%	16%-20%	
Gender	Male	1	2	3
	Female	5	2	7
Total		6	4	10

Source:Research field data,2013

60% of observations shows that the loan interest charged for Mortgage is 10% to 15% while 40% responded that the loan interest ranges from 16% to 20%

**Figure 4.10 Interest rate Charged By Bank on the Disbursed Mortgage Product.**



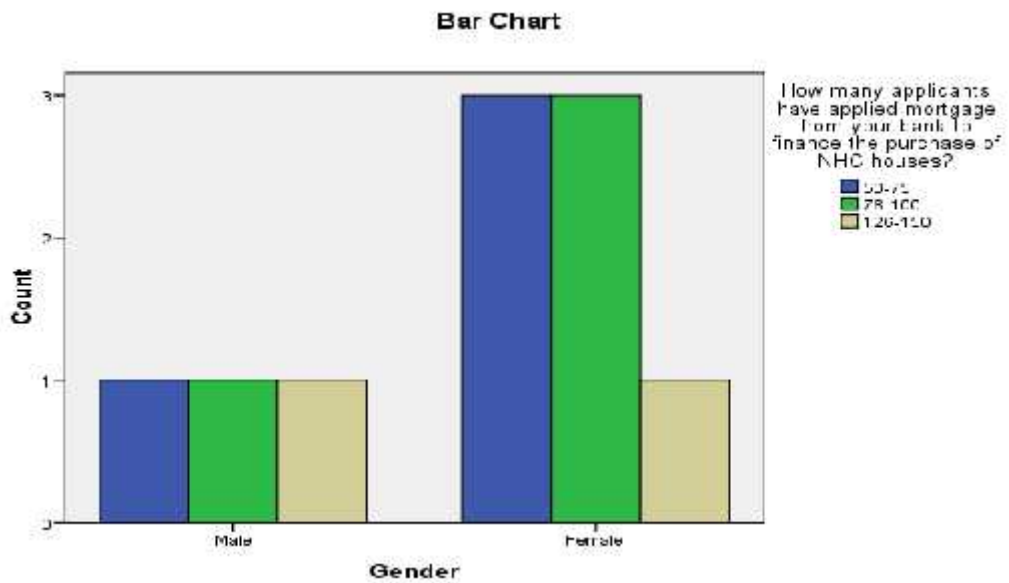
Source:Research field data,2013

**Table 4.13: Number of applicants applied the Mortgage loan for Purchase of their Houses at NHC**

	How many applicants have applied mortgage from your bank to finance the purchase of NHC houses?			Total
	50-75	76-100	126-150	
Gender Male	1	1	1	3
Female	3	3	1	7
Total	4	4	2	10

Source: Research field data, 2013

**Figure 4.11: Number of Applicants Applied for Mortgage Products**



Source: Research field data, 2013



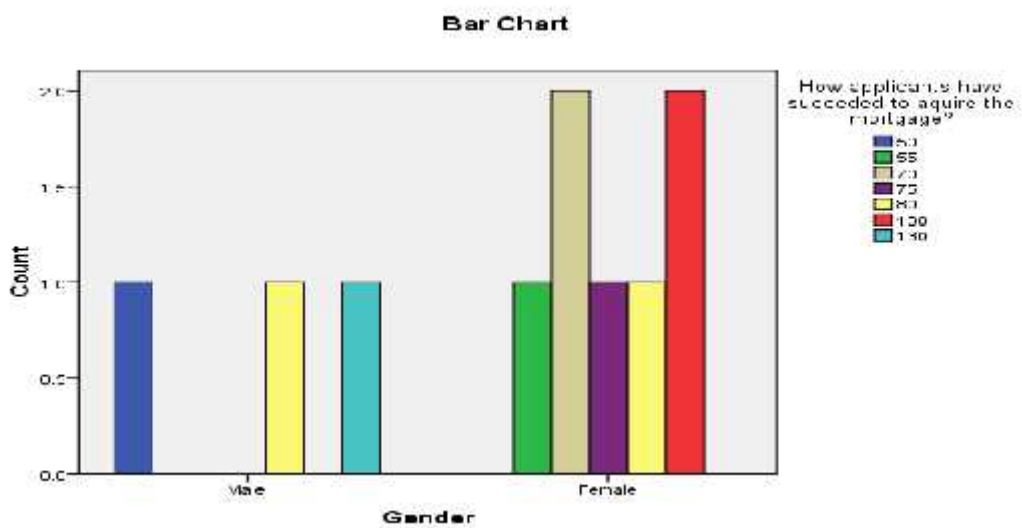
**Table 4.14: Applicants Have Succeed To Acquire the Mortgage loan**

		How applicants have succeeded to acquire the mortgage?							Total
		50	55	70	75	80	100	130	
Gender	Male	1	0	0	0	1	0	1	3
	Female	0	1	2	1	1	2	0	7
Total		1	1	2	1	2	2	1	10

Source:Research field data,2013

Findings shows that the maximum number of mortgage issued by one bank to NHC clients is 130 the minimum number is 50.

**Figure 4.12: Successful Applicants for Mortgage Loan Application**



Source:Research field data,2013

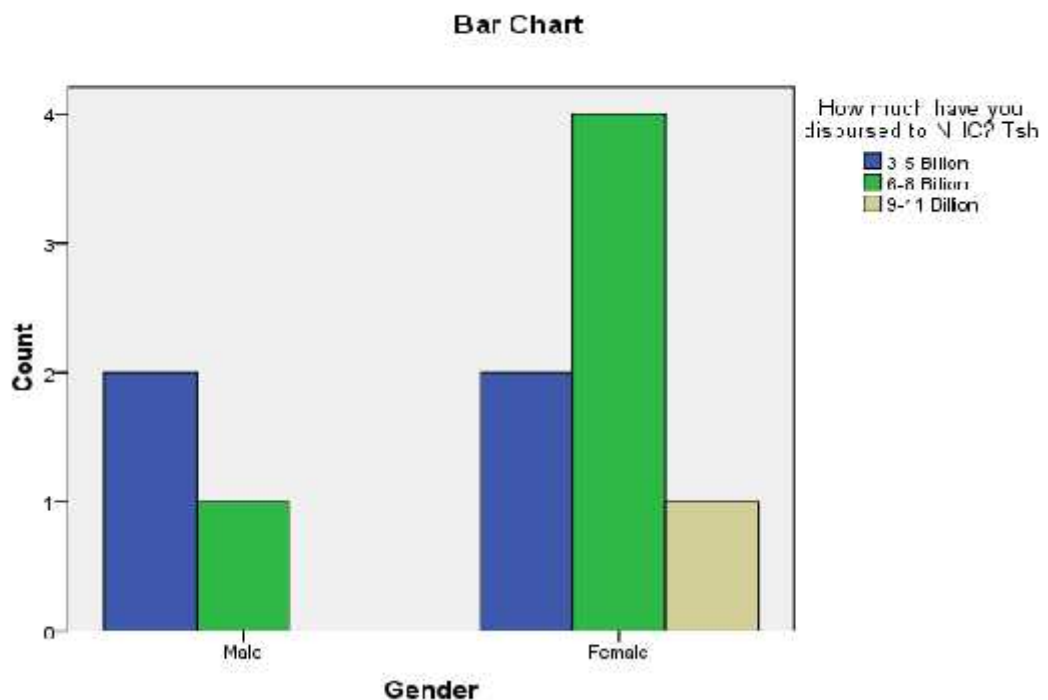
**Table 4.15: Total Loan Amount Disbursed**

		How much have you disbursed to NHC? Tsh			Total
		3-5 Billion	6-8 Billion	9-11 Billion	
Gender	Male	2	1	0	3
	Female	2	4	1	7
Total		4	5	1	10

Source: Research field data, 2013

Most of banks that have mortgage agreement with NHC disburse the loan to both NHC as a corporation and NHC as clients. The question was not specific if the amount disbursed was for NHC or for specific client. Therefore the figure disbursed includes client's individual and NHC as a corporation.

**Figure 4.13: Total loan Disbursed to NHC Clients**



Source: Research field data, 2013

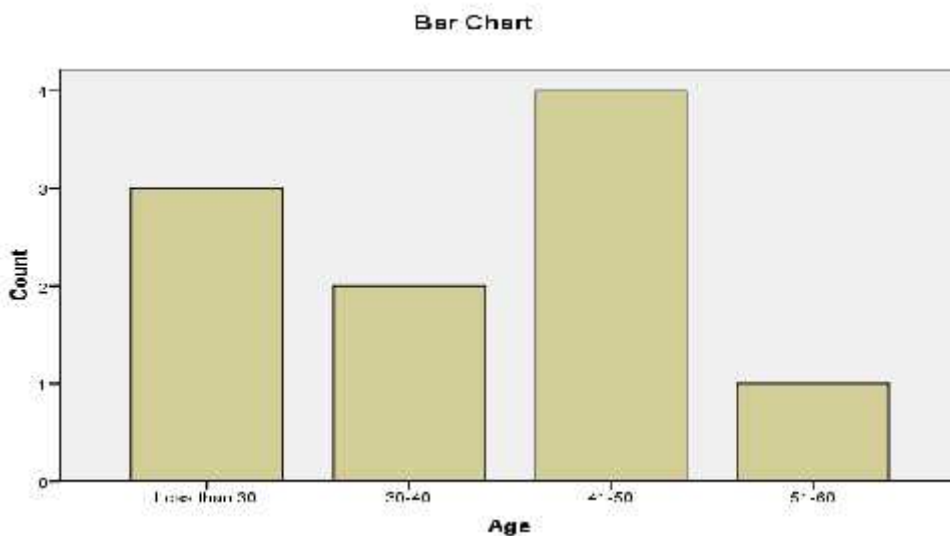
**Table 4.16: Mortgage Repayment Period Set By The Bank**

		What is the mortgage repayment period set by the bank?	
		10-15 years	Total
Age	Less than 30	3	3
	30-40	2	2
	41-50	4	4
	51-60	1	1
	Total	10	10

**Source:**Research field data,2013

Findings shows that for banks that data has been collected the loan repayment for Mortgage ranges from 10 to 15 years. The loan repayment period for mortgage loans can not be less than 5 years. Most of Tanzanians are poor, they can not afford to pay loan the large amount for a period less than 5 years. The loan repayment period can not be more than 15 years,this is because of time value of money,defaulting risks and Inflation rate.

**Figure 4.14: Mortgage Repayment Period Set by the Bank**



**Source:**Research field data,2013

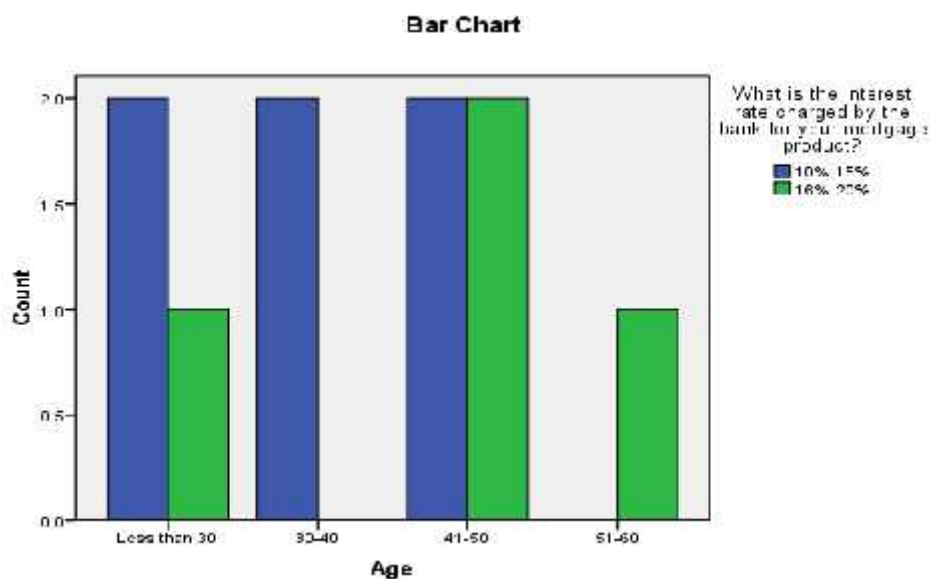
**Table 4.17: Interest rate Charged By Bank On The Mortgage Products**

		What is the interest rate charged by the bank for your mortgage product?		Total
		10%-15%	16%-20%	
Age	Less than 30	2	1	3
	30-40	2	0	2
	41-50	2	2	4
	51-60	0	1	1
Total		6	4	10

**Source:**Research field data,2013

The Mortgage Loan from findings ranges from 10 %to 21% .There is a special case where by the bank can offer the Mortgage loan less than agreed rate set by bank .For example there are for banks where by bank disburse the loan at the interest rate less than the interest set by bank.

**Figure 4.15: Interest Rate Charged by My Bank on the Mortgage Products**



**Source:**Research field data,2013

The researcher also Collected data to 30 NHC permanent employed staff from different departments which is sales department, treasury department, Marketing and finance department. Total number number of 30 respondents responded to these questionnaires.

The researcher succeeded to collect data from distributed to NHC staff in different departments who are aware of Mortgage loans iformations.

**Table 4.18: Characteristics of NHC Respondents**

Variable	Category	Number of respondents	% in total sample
Gender	Male	12	40%
	Female	18	60%
	<b>Total</b>	<b>30</b>	<b>100%</b>
Department	Sales	4	13.33%
	Marketing	3	10%
	Treasury	4	13.33%
	Finance	19	63.34%
	<b>Total</b>	<b>30</b>	<b>100%</b>
Age in Years			
	25-35 Years	<b>5</b>	<b>16%</b>
	35-60 Years	25	84%
	<b>Total</b>	<b>30</b>	<b>100%</b>

**Source:**Research Data ,2013

40% of respondents were male and 60% was female. Percentage of female exceed the percentage of male by 20%

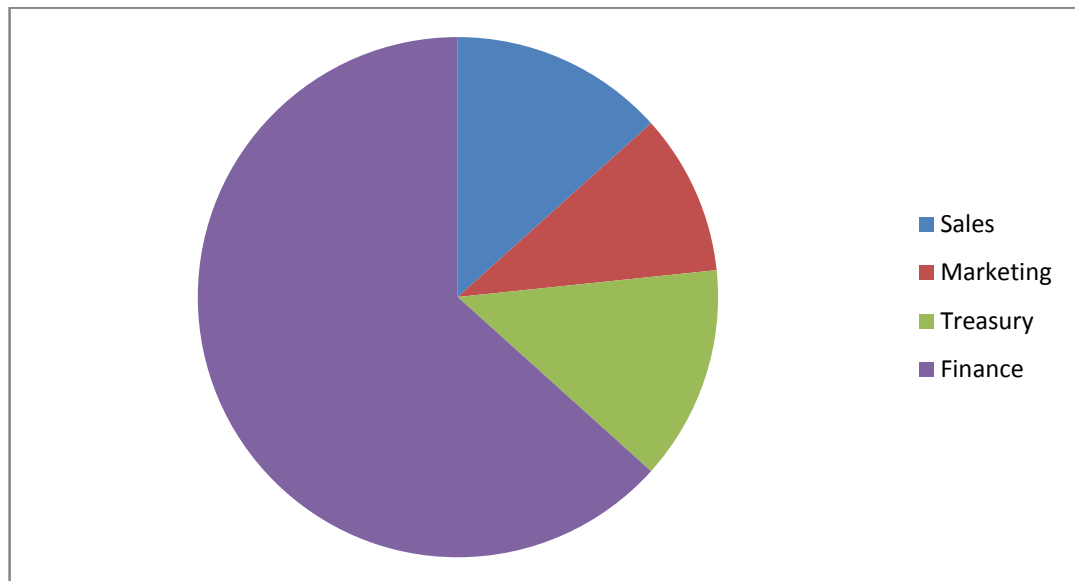
Four depatments from sales, marketing, treasury and Finance responded these questionnaires. Where by sales 4 staffs responded which is equivalent to 13.33% ,marketing 3 staffs equivalent to 10% ,treasury 4 respondents equivalent to 13.33% in terms of percentage and 63.34 % responded to questionnaire. Finance staffs responded many questionnaires compared to other departments, however at national

housing finance/Accounts has many staffs compared to sales,trasury and marketing department.

16% of respondents aged between 25-35 years old while 84% of respondents ranged from 35-60 years old,which implies that most of respondents were youth.At NHC,Marketing,sales and treasury are new departments in the corporation,these departmed started early 2011 after current management observed the importance of these department as NHC Started to operate its operations in business. So most of these employees are youth.

The above table can be presented by the following pie chart.

**Figure 4.16: Analysis of NHC Respondents**



**Source:**Research data 2013

For question number 3 to question number 5 the respondents responded depending on the project he/he is aware of. The fact is that,the demand for NHC Houses is too high,ythe policy for application is t close the application after 120% of appliions.Where by 100% will aquire the loan and 20% will be on the waiting list

incase the applicats default to pay the mortgage loan repayment promptly to the bank then the house will be sold to another member among the waiting list members.

For example for kibada project which has 205 houses the application will be open up to 246 where 205 will be the first category successful house application and remaining 41 applications will be on the waiting list .

For Mindu residential apartment located in Upanga which have got 64 units,the application will be open up to 77 application then the application will be closed. Where by 64 will be the first to be awarded the house available and the remaining 20% which is 13 applicants will remain on the waiting list.

The following are main conditions required by the bank for the loan to be disbursed to the client:

#### **4.2.1 Main reason for Failure for the Loan to Disbursement**

client is supposed to fulfill different condition before loan has been disbursed from the bank to the client.

- (i.) To submit the strong collateral security as requested. Collateral security includes House title deed, Plot, Fixed deposit and bond. For NHC Clients the house from NHC will be the collateral security for the loan. But for clients outside NHC they have to bring the collateral security to secure the loan.
- (ii.) Submission of offer letter from NHC, the client is supposed to submit the offer letter from NHC. The offer letter is the letter which insures the bank that the applicant has acquired the house. The house will be as the collateral security in case the client defaults to pay the loan to the bank. Failure to submit offer letter will deny the bank to disburse the loan to the customer.
- (iii.) Failure to submit the required documents to the bank. The applicants eligible for mortgage loans are all natural persons and legal entities with capacity to enter into a binding contract i.e. individuals, sole proprietorship, partnerships and companies. The terms and conditions shall apply under each category as indicated herein below under each mortgage financing category and for respective customers:

#### **4.2.3 Individuals in formal Employment**

- (i.) Slips for latest 3 months.
- (ii.) Letter from employer confirming employment status/Terms and retirement age
- (iii.) Bank statements for latest 6 months
- (iv.) Copy of Identification card or passport(Including signature and validity pages
- (v.) Three passport colored passport size photographs
- (vi.) Copy of title deed to the property being purchased/charged (Minimum lease term should be at least four years above the loan tenure).This condition is not applicable for NHC Clients.
- (vii.) Valuation report plus photographs of property being financed or charged together with certificate of official search from land registry

#### **4.2.4 Self-Employed Individual**

- (i.) Complete application proof of source of repayments supported by bank statement for the latest 6 months.
- (ii.) Copy of identification documents –Identification document, passport.
- (iii.) Sale agreement dully signed by both parties and witnessed by lawyer.
- (iv.) Valuation report plus photographs of property being financed and/charged, together with certificate of official search from Land registry.

#### **4.2.5 House Construction Loans**

General requirements are as follows but are not limited to:

- (i.) Submission of approved building loans plans.
- (ii.) Submission of approved building permits.
- (iii.) Submission of approved structural and architectural drawings
- (iv.) Submission of priced bill of quantities(BOQ) Dully signed
- (v.) Proof of debt/Interest servicing ability



#### **4.2.6 Loan Security**

The security must be fully perfected before any draw-down is permitted, however in exceptional cases approval for drawdown may be sought from Managing Director when the borrower has executed all security documentation and acknowledgement of the receipt of the documents from registering authority in place.

In case of purchase loans, drawn downs may be permitted in exchange for the title deed any payment made directly to the vendor under a special approval by appropriate approval upon bank's comfort approval authority upon bank's comfort on the sales agreements. Transfer documents and the title deed and other loan forms. Certificates of security compliance signed by the custodians must be filled with the securities and photo copy kept in the customer's file.

#### **4.2.7 Findings from NHC Interview**

NHC as a corporation have five years strategic plan to build 15,000 house units. These units cannot be financed by equity only, it needs external funds to finance its projects. Currently NHC have the following projects in progress: Mindu residential apartments, Ubungo residential apartments, Kibada affordable housing scheme, Ufukoni Complex house project, Chang'ombe project, Kurasini project, Mchikichi project, Mtanda (Lindi) project, Kongwa (Dodoma) project, Medeli (Dodoma) project, Unyankumi (Singida project), Mkinga (Tanga) project, bombambili (Geita) project and Mvomero project at Morogoro. NHC Has acquired loans from different financial institutions to finance these projects, these banks includes Azania, Ecobank, Commercial bank of Africa, CRDB Bank, Bank ABC, NMB bank and LAPF.

The loan requirement required by respective bank to disburse these loans to the respective finance projects includes:

**Proposal for a loan:** NHC is required by bank to prepare proposal/Business plan for the project so that the bank can be convinced to disburse the loan applied. The project plan shows the purpose of the loan, costs must be shown in the loan proposal, where the project will be located, structural building from registered architectural must be presented.

**Supporting documents:** Audited Financial statement of NHC for three years which shows cash flow and corporation must be submitted to the respective as an evidence for the loan to be disbursed. Other banks needs bank statement of the corporation in order to observe know cash inflow and outflow of the corporation and if the corporation will be capable to pay the loan.

**Collateral securities:** The bank needs collateral securities from the corporation before loan disbursement; the security will be used to cover the loan in case the corporation fails to pay the loan. The collateral securities includes: Bond, Fixed deposits and NHC tittle deed.

Submission of collateral security must be original tittles deed and must include the location of the house, physical address of the property, and market value of the property as at the date of last valuation taken place and plot number. For example

**Table 4.19: Collateral Security for Mortgage Loan Security**

<b>LOCATION</b>	<b>ADRESS OF THE PROPERTY</b>	<b>MARKET VALUE OF THE PROPERTY as at 30TH June 2012</b>	<b>TITTLE DEED NO</b>
Zone V	Plot NO.783 Sea view		
Upanga	Dar-Es-Salaam	67,501,000,000.00	18764/85

**Source:**Research field data,2013

NHC Company profile: NHC Company's profile must be attached as the supporting documents to apply the loan. The following functions of the corporation must be shown in the company's profile and must be explained thoroughly in the profile.

- (i.) Construction of houses for sale.
- (ii.) Construction of buildings as part of approved scheme.
- (iii.) Provision of facilitating the provision of building materials, components, concrete article and other related articles.
- (iv.) Business of building contractors, planners or consultants.

- (v.) Renting out and managing houses or properties built by the corporation and those acquired by the government.
- (vi.) Carrying out other activities related to construction of houses or other building built or acquired by the corporation.

**Loan covenant:** The loan covenant is the offer letter which shows the interest rate, tenure of the loan and appraisal fee. Simply this is the paper which shows all conditions of the loan agreed between NHC/client and the respective bank. In the loan covenant there are following contents:

**Interest rate:** The loan tenor shows the interest rate which will be charged by bank to the corporation. As per findings and observation interest rate charges by different banks to NHC ranges from 15 to 21%

**Tenor of the loan:** Tenor of the loan is loan repayment period, loan repayment period offered to NHC to repay the loan ranges from 5-10 years for all banks which has disbursed the loan to NHC to date. This is fewer periods compared to other mortgages.

**Other charges:** Other charges will be deducted soon after the loan has been disbursed. Other charges includes valuation fees, Insurance cost greater than life and general ,arrangement fees which ranges from 0.5% to 1% of the loan that will be disbursed, stamp duty, property valuation fees, legal fees arising from preparation, review, execution and registration of legal charge. All these charges will be deducted immediately after disbursement of loan.

**Other Conditions:** There are other conditions which have been set by bank for NHC projects financed by banks. The corporation must deposit to the bank all proceeds from sale of the financed apartments. All default conditions must be explained in the covenant agreement before signing.

**Loan repayment period:** The repayment loan shows the grace period of the loan. Most of loans from banks to NHC are offered at lower interest rate compared to currently base interest rate offered by that bank. For example Bank ABC Charge 15% interest rate per annum compared to currently base rate of 18% charged by bank per annum.

**Loan Covenant:** The loan covenant will be signed by director General of NHC or other Directors on behalf of Director General. Most of the time it is the Director of finance or Director of treasury who show the acceptance of the loan agreement and all conditions set in the Covenant.

### **4.3 Challenges Observed Through Observations**

Directorate of Strategy is the directorate that deals with all loan applications and make follow up to the bank to make sure that all loans have been disbursed on time to finance ongoing NHC Projects accordingly.

However observation shows that there are different challenges faced by this directorate on application of the loan: The main challenge is that, loan application process applied while the project implementation has already started , this is the challenge because the project cannot be viable and finished on the specific time period. The application will be under pressure and the project cannot be finished on time because the funds may probably not be disbursed on time by respective bank.

Another challenge is that Loan disbursement takes too long. This is because of different reasons such as valuation and sometimes the collateral securities that have been chosen lack the original documents such as offer letter.

The researcher succeeded to conduct the enter view from other banks and the following are findings from those banks as per discussion:

### **4.4 Findings from Azania Bank Interview**

The bank has total liquidity of total assets equivalent of Tshs 214 billion (equivalent to USD 134.7 Billion). The interest rate charged by the bank for the loan is 15% per annum. The total bank's Mortgage loan portfolio as at august 2012 was Tshs 29.42

Billion equivalent to USD 18.5 Million. Given to 640 customers. The total bank portfolio was 137.4 Billion equivalents to USD 86.4 Million. The total exposure to Mortgage loans as at percentage of mortgage loan was 21.4% as at 31<sup>st</sup> august 2012. As per observations, NHC has different numbers of loans with the purpose of Financing Different NHC projects Observation of loan repayment schedule changed to NHC At 15%.

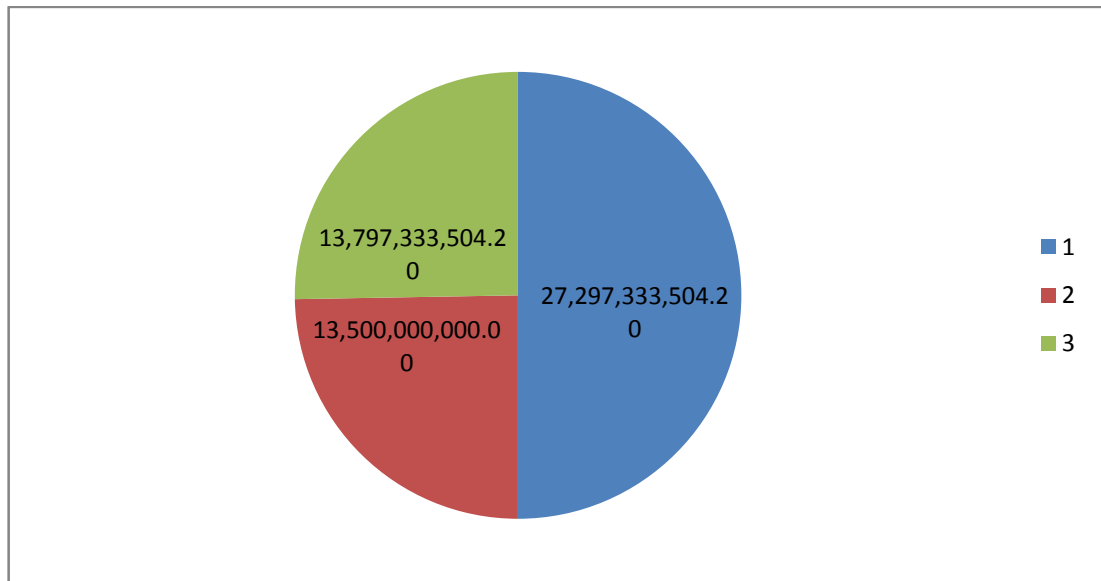
**Table 4.20: Client's Loan repayment schedule**

REPAYMENT SCHEDULE					
	DATES	PAYMENT	CAPITAL	INTEREST	O/S BALANCE
1	11/16/2012	611,917,808.22	0.00	611,917,808.22	13,500,000,000.00
2	5/16/2013	1,004,178,082.19	0.00	1,004,178,082.19	13,500,000,000.00
3	11/16/2013	1,020,821,917.81	0.00	1,020,821,917.81	13,500,000,000.00
4	5/16/2014	1,004,178,082.19	0.00	1,004,178,082.19	13,500,000,000.00
5	11/16/2014	1,476,780,621.02	455,958,703.21	1,020,821,917.81	13,044,041,296.79
6	5/16/2015	1,476,780,621.02	506,518,371.14	970,262,249.88	12,537,522,925.65
7	11/16/2015	1,476,780,621.02	528,737,791.57	948,042,829.45	12,008,785,134.08
8	5/16/2016	1,476,780,621.02	578,589,294.55	898,191,326.47	11,430,195,839.53
9	11/16/2016	1,476,780,621.02	612,469,921.92	864,310,699.10	10,817,725,917.61
10	5/16/2017	1,476,780,621.02	672,119,638.38	804,660,982.64	10,145,606,279.23
11	11/16/2017	1,476,780,621.02	709,606,009.22	767,174,611.80	9,436,000,270.01
12	5/16/2018	1,476,780,621.02	774,897,313.26	701,883,307.76	8,661,102,956.75
13	11/16/2018	1,476,780,621.02	821,858,863.19	654,921,757.83	7,839,244,093.56
14	5/16/2019	1,476,780,621.02	893,669,724.75	583,110,896.27	6,945,574,368.81
15	11/16/2019	1,476,780,621.02	951,581,024.91	525,199,596.11	5,993,993,343.90
16	5/16/2020	1,476,780,621.02	1,028,462,762.70	448,317,858.32	4,965,530,581.20
17	11/16/2020	1,476,780,621.02	1,101,304,883.92	375,475,737.10	3,864,225,697.28
18	5/16/2021	1,476,780,621.02	1,189,345,750.66	287,434,870.36	2,674,879,946.62
19	11/16/2021	1,476,780,621.02	1,274,515,726.43	202,264,894.59	1,400,364,220.19
20	5/16/2022	1,504,528,298.49	1,400,364,220.19	104,164,078.30	0.00
Total		27,297,333,504.20	13,500,000,000.00	13,797,333,504.20	

**Source:** Azania bank, 2013

As per this amortization schedule the bank charges the interest of 15% after 10 years. The interest to be paid is equivalent to Tsh 13,797,333,504.20 the total loan disbursed is Tshs 13,500,000,000.00 which .The repayment is 102.2%

**Figure 5 Client's Loan Repayment Schedule**



**Source:**Research field data,2013

Where by: No 1 colored with blue colored is the loan repayment principle and interest to be paid at the end of the loan period, the total loan principle and interest amounting to Tshs 27,297,333.504.20 for the loan principle amounting to 102% above the loan principle. No 2 Colored with red color is the loan principle. This is the total amount disbursed by bank to NHC no 3 which colored with blue green colour shows the total interest to be paid back to the bank at the end of loan repayment period. The period ranges from 10-15 Years.

#### **4.5 Discussion on the Study**

##### **Loan Interest Charged by the Bank**

The loan interest charged by the bank is too high. This demoralizes borrowers to borrow money from the bank. From researcher observation schedule explain how the bank charges high interest rate to the client. (As per attached appendix)

The Amortization schedule is an example of bank that offers the interest rate of 18%.The number of repayments is 180 months, the loan amount disbursed from the lender to the borrower is Tsh 150,000,000.00, and number of months per year for loan to be repaid is 12 months per year. Loan repayment installment is Tsh

2,415,631.56 at the end of repayment period the total principle to be repaid is analyzed below:

Calculated from the following formula:

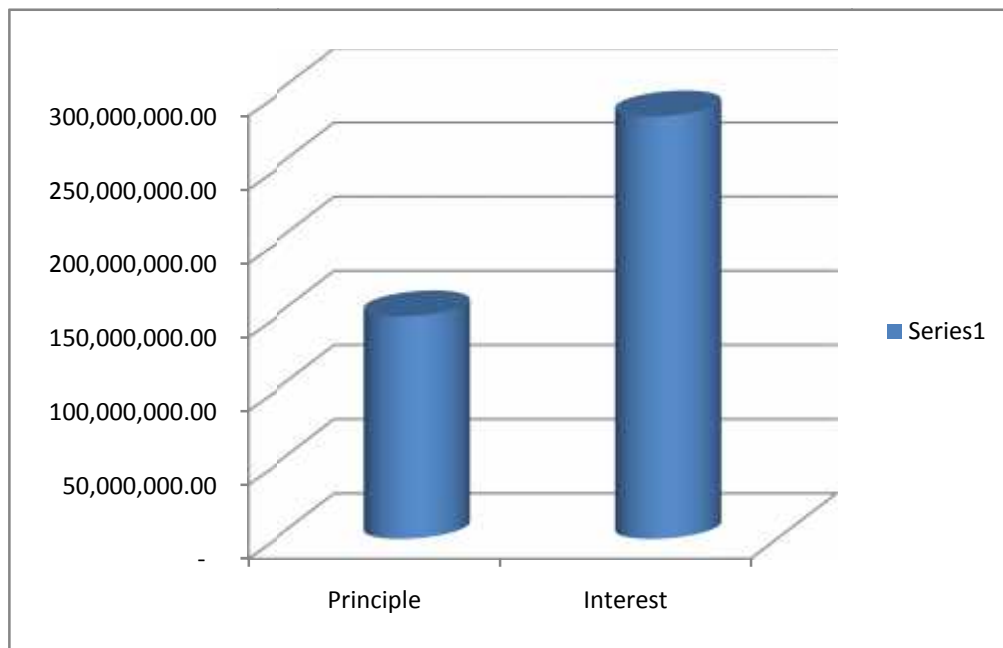
Deduction per month Formula	$P [ i(1 + i)^n ] / [ (1 + i)^n - 1 ]$
Deduction per Month	<b>2,415,631.56</b>

Where by:

P=Loan Amount, i=Interest and n is Tenor/Loan repayment period.

Loan principle	Interest	Principle and interest
150,000,000.00	284,813,680.64	434,813,680.64

**Figure 4.18: This can be Presented As Follows in Graphical Presentation:**



**Source:**Research field data,2013

Total principle to be repaid is paid at the end of the day 89% more that principle which have been paid before.

Although economist and accountants argues that this is because of the **time value of money** is the value of money with a given amount of interest earned or inflation accrued over a given amount of time. The ultimate principle suggests that a certain amount of money today has different buying power than the same amount of money in the future. This notion exists both because there is an opportunity to earn interest on the money and because inflation will drive prices up, thus changing the "value" of the money. The time value of money is the central concept in finance theory. However the interest charged is too high as per above example.

#### **4.5.1 Collateral Securities**

In finance, **securities lending** or **stock lending** refers to the lending of securities by one party to another. The terms of the loan will be governed by a "Securities Lending Agreement", which requires that the borrower provides the lender with collateral, in the form of cash, government securities, or a Letter of Credit of value equal to or greater than the loaned securities. The agreement is a contract enforceable under relevant law, which is often specified in the agreement.

Most of the reason as per observation that the bank does disburse the Mortgage applicant's loan is weak collateral securities. Most of Tanzanians do not own strong collateral securities to convince the bank to disburse the applied loan as per borrower's needs. Most of financial institutions accept fixed assets as collateral securities for the loan such as Bank Fixed AND title deed.

In NHC projects the house purchased by customer/client will be used as a collateral security for loan application.

#### **4.5.2 The Government Role**

The government regulates lending policies regulations and regulations through Bank of Tanzania and Ministry of Finance; therefore it is supposed to play part in order to make sure that interest in order to support Tanzanian to afford to borrow from financial institutions. In 1991 Government initiated financial sector reforms in order to create and effective and efficient financial institution. The aim of the policy was to allow banking institutions to operate on commercial basis, making business and



management decision free from outside intervention. Most of Tanzanians are poor they cannot afford to pay these interest rates. Therefore the government is supposed to intervene to reduce the interest rate.

Most of financial institutions claim that interest rate set by bank of Tanzania in Mortgage loans is too low so that at the end of the day they cannot afford to meet operational costs. Majority of Tanzanians have low income to afford Mortgage loans

#### **4.5.3 Loan charges**

Loan charges charged by the bank is too high, this amount is charges immediately after loan disbursement. Example of these charges includes Loan insurance, valuation fees, loan processing fees and other charges. In most of the banks it ranges from 0.1 to 1% this amount is very high. The amount charges are not included in loan repayment. Therefore this discourages borrowers to borrow Mortgage from financial institutions in order to minimize costs.

#### **4.5.4 VAT on Building Materials and Houses for Sale**

VAT rate is 18% in Tanzania, This rate is the highest rate compared to other rates charged by other countries within East Africa. NHC is charged tax on building materials they purchase to implement different projects whether those projects are built for sale, built as investment or building as contractors. Therefore all building materials are tax inclusive.

However NHC is supposed to build houses to all class levels includes low income earners and High middle, class levels. NHC builds commercial, residential, flats, apartment and affordable houses in order to satisfy needs of different clients. Apart from VAT charged on building materials NHC charges VAT after the end of the project before selling the project. For example if the Selling price is Tsh 50,000,000 the price must be VAT inclusive.

Due to this most Tanzanians argues that NHC is building in order to serve High class income earners, however the fact is the price is increased by the High VAT rate charged on building materials and selling price.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents summary, discussion and conclusion on the findings in the last chapter based on the research problem, questions and research objectives, policy, implication and recommendations on future studies.

#### 5.2 Summary

Housing sector contribute to GDP of the country in national economy, in order to increase the contribution of housing facility to the required GDP mortgage loans is required. However we have observed different challenges facing acquisition of mortgage finance in Tanzania. High interest rate charged by banks has been observed as a critical challenge. At the end of borrowing period the borrower is supposed to pay more than what has been borrowed. A strong collateral security that is needed by bank from low income earners is another challenge.

Strong collateral securities are needed by the bank to secure loans, these collateral securities will compensate the loan in case of any default. Collateral securities are very expensive and most low income earners cannot afford. Most of financial institutions accept fixed assets as a collateral security to secure Mortgage Loans such as fixed deposit and title deed for immovable assets such as plots and House.

Observations shows that NHC as a corporation is easier to access loans from the bank and almost 100% of the loans applied by NHC to various banks has been disbursed. This is because the corporation has got enough collateral securities to secure the Mortgage loans that they have applied from different financial institutions compared to individual who have weak securities to submit to the bank for loan application.

Bureaucracy, this is when the loan to be disbursed takes too long period. The deadline which has been set by the NHC is 90 Days but most of the time this time expires before the loan has been disbursed to the client. There is too much paper work which is boring and discourages the borrowers

The loaning bank is confident to disburse the loan Mortgage to the client who is a permanent employee rather than a business person or small entrepreneurs.

### **5.3 Recommendations**

In most banks mortgage lending is in conformity with the mission of providing banking services to micro, small and medium enterprises. Mortgage financing is a result of agreement with Tanzania Refining Company Limited to form their mortgage policy in line with TMRC terms and conditions.

The Government should regulate the interest rate charged by banks so that at the end of the day most of Tanzanian can afford to acquire mortgage loans from different financial institutions. The interest rate charged by banks is too high. Interest rate should accommodate factors such as time value of money in favor of customer and reasonable gain in terms of bank.

The government should exempt VAT on sales of house since the land and building materials are VAT inclusive. The exemption will reduce the house selling price as result majority will afford to purchase.

Government support: The government should provide infrastructure that supports NHC towards construction of affordable housing. This should be in terms of low land survey fee, road infrastructure and provision of water and electricity services in respect to all projects carried on by national housing. If these costs are incurred by NHC contribute to cost of the project as a result increase house selling price.

Conditions attached to loan application should be reviewed in order to enhance loan applicants on access Mortgage loan easily.

Banks bureaucracy should be minimized; the loan procedure is too long for mortgage to be disbursed. The procedures for loan applications are too long where it discourages Mortgage applicants

The period set by NHC for loan to be disbursed to NHC is too short, the customer is given 90 days only to pay the whole amount to NHC. This period is too short. Most of NHC Houses are pre sale, the corporation is supposed to set the period at least six month to give the room to low income earners to pay their repayment smoothly without forgetting time value of money and inflation rate.

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## APPENDICES

### Appendix 1: NHC Clients questionnaires

Dear Respondent

This Research study is being carried out to find difficulties experienced NHC Clients in accessing Mortgage loans from different financial institutions to finance Purchase of Housing. The researcher is the student of Mzumbe University Dar-Es-Salaam Business School, who is doing a research as partial fulfillment of the requirement for award of Master of Science in Finance and accounting. You are requested to use your time effectively to answer this questionnaire. It is important to note that all information you provide will be strictly confidential and will be used for the purpose of this study only.

**Tick the correct answer and fill the blanks in the space provided:**

1. Gender:  
(i) Male   
(ii) Female
  
2. Age: Age <30  30 – 40  41 – 50  51 – 60  >60
  
3. Marital Status: Single  Married  Divorced  Widowed
  
4. Have you purchased the House at NHC projects?  
(i) Yes   
(ii) No
  
5. If the answer is yes, what was the source of Finance?  
(i) Mortgage Finance   
(ii) Own financing

6. If source of finance was through mortgage from the bank, did you get it from NHC financial partners?

(i) Yes

(ii) No

7. Did you face any problems in processing or acquiring mortgage from the bank?

(i) Yes

(ii) No

8. If the answer is yes, what was the problem faced when processing or acquiring mortgage?

(i) .....

(ii) .....

(iii) .....

.....

9. What was the loan amount disbursed by the bank?

(i) Bellow 50,000,000

(ii) 50,000,001-100,000,000

(iii) 100,000,001-150,000,000

(iv) 150,000,001-200,000,000

(v) 200,000,001- 300,000,000

(vi) Above 300,000,001

10. What was the interest rate charged by bank on mortgage product?

(i) Less than 10%

(ii) 10% - 15%

(iii) 16% - 20%

(iv) 21% - 25%

(v) Above 26%



10 What is the mortgage repayment period set by the bank?

(i) Less than 10 years

(ii) 10 - 15 Years

(iii) 16 - 20 Years

(iv) 21 - 25 Years

(v) Above 26

**Thank you for your time**

## Appendix 2: Loan officers from Financial Institution Questionnaires

Dear respondent

This Research study is being carried out to find difficulties experienced NHC Clients in Accessing Mortgage loans from different financial institutions to finance Purchase of Housing. The researcher is the student of Mzumbe University Dar-Es-Salaam Business School, who is doing a research as partial fulfillment of the requirement for award of Master of Science in Finance and accounting. You are requested to use your time effectively to answer this questionnaire. It is important to note that all information you provide will be strictly confidential and will be used for the purpose of this study only.

**Tick the correct answer and fill the blanks in the space provided below:**

1. Gender: Male  Female
2. Age: Age <30  30 – 40  41 – 50  51 – 60  >60
3. Marital Status: Single  Married  Divorced  Widowed
4. How many applicants have applied mortgage from your bank to finance the purchase of NHC houses?  
.....
5. How many applicants have succeeded to acquire the mortgage?  
.....
6. How much have you disbursed to NHC? Tshs  
.....
7. How many applicants did not succeed to get mortgage?  
.....
8. What the main reasons are for not succeed in mortgage finance?
  - (i) .....
  - (ii) .....

(iii) .....

9. What are the main conditions required by applicants to get mortgage finance from your Bank?

(i) .....

(ii) .....

(iii) .....

10. What is the interest rate charged by the bank for your Mortgage product?

(i) Less than 10%

(ii) 10% - 15%

(iii) 16% - 20%

(iv) 21% - 25%

(v) Above 26%

11. What is the mortgage repayment period set by the bank?

(i) Less than 10 years

(ii) 10 - 15 Years

(iii) 16 - 20 Years

(iv) 21 - 25 Years

(v) Above 26

11. What should be done to improve mortgage facility for NHC

(i) .....

(ii) .....

(iii) .....

**Thank you for your time.**