LEVERAGING SACCO DATA AND RESEARCH TO STRENGTHEN THE FINANCING OF THE AFFORDABLE HOUSING VALUE CHAIN BY THE SACCO SECTOR

October 2025

About SASRA

The SACCO Societies Regulatory Authority (SASRA) is the government's principal agency established under the SACCO Societies Act, No. 14 of 2008, responsible for the supervision and regulation of SACCO Societies in Kenya. SASRA's mandate is to license SACCO Societies to undertake Deposit-Taking Business in Kenya (FOSA) and Specified Non-Deposit-Taking SACCO Societies by implementing the SACCO Societies Deposit-Taking Business Regulations, 2010 and the Non-Deposit-Taking Business Regulations, 2020, with the aim of providing a safe, sound, and stable financial system that benefits SACCO members and the broader economy.

About KMRC

Kenya Mortgage Refinance Company PLC (KMRC) is a non-deposit taking financial institution established in 2018 under the Companies Act 2015. It is set up under a public private partnership (PPP) model with strong and diverse shareholding that includes the Government of Kenya represented by the National Treasury holding 25% ownership, and a mix of private sector players owning the remaining 75%. KMRC is regulated by the Central Bank of Kenya (CBK), with the Capital Markets Authority (CMA) providing oversight over its bond issuance operations.

KMRC's mandate is to provide long-term funds to primary mortgage lenders (PMLs) i.e., banks and SACCOs, for purposes of increasing availability of affordable home loans to Kenyans. As a wholesale financial institution, KMRC has a developmental role, which includes contributing to the growth of Kenya's capital markets through issuance of corporate bonds as a source of sustainable long-term finance, supporting standardization of mortgage origination practices and generally contributing to the growth of the mortgage market in Kenya.

KMRC is a key driver in increasing homeownership to Kenyans by facilitating long-term, fixed-rate and single-digit home loans through the participating PMLs. KMRC augments the Government's commitment to turning the housing challenge into an economic opportunity.

About FSD Kenya

Financial Sector Deepening Kenya (FSD Kenya) is an independent trust dedicated to the achievement of a financial system that delivers value for a green and inclusive digital economy while improving financial health and capability for women and micro and small enterprises (MSEs). FSD Kenya works closely with the public sector, the financial services industry, and other partners to develop financial solutions that better address the real-world challenges that low-income households, MSEs, and underserved groups such as women and youth face. Current FSD Kenya funders are UK International Development, the Swedish International Development Cooperation Agency (Sida), The International Fund for Agricultural Development (IFAD), and the Bill & Melinda Gates Foundation.

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Table of Contents

1. Executive Summary

1.1 Introduction

SACCOs have been part of Kenya's financial system since the 1940s, evolving into important financial institutions serving 7.4 million members by the end of 2024. Post-independence, SACCOs have been instrumental in supporting financial inclusion for the unbanked within key economic sectors such as agriculture and education, financing various development needs, largely in land and housing. In 2024, about 25% of regulated SACCO loan books financed the land and housing sector. **Recognizing SACCOs' pivotal role in housing finance, the SACCO Societies Regulatory Authority (SASRA), the Kenya Mortgage Refinance Company (KMRC), and FSD Kenya commissioned this market study. The study aims to better understand how SACCOs participate in housing finance and how their impact can be enhanced, using data and research to drive the insights.**

A mixed-method approach was used, combining loan portfolio analysis, management interviews, document reviews, borrower focus groups, and desk research. The assessment covered loan product structures, lending processes, member experiences, and the policy and market environment. Findings were synthesized into recommendations to strengthen SACCO participation in the affordable housing value chain.

For this study, 46 of the regulated SACCOs in Kenya with a strategic focus on land and housing were shortlisted and 33 contacted. Of this selected pool, **24 SACCOs participated in study meetings, 20 shared land and housing loans data required for the study, and 19 datasets were viable for analysis.** The data requested was a list of all outstanding loans classified under land and housing and mortgage finance economic sub-sectors, with 17 data fields per loan covering borrower, loan, and property details. However, most of the participating SACCOs faced challenges in easily extracting all requested data fields from their core banking systems. As a result, data provided had varying levels of completeness i.e., some SACCO datasets did not include all outstanding land and housing loans, while others lacked certain data fields.

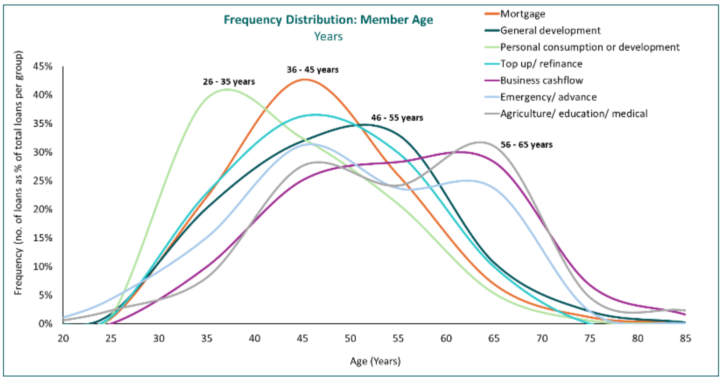
All SACCOs that participated in the study were deposit-taking institutions, with majority classified as 'larger tier' by asset size (84% of participating SACCOs had assets above KES 5 billion in 2023); and government-based by common bond and membership composition (58% were government-based, mainly serving teachers and public sector employees). Collectively, they operated branches in 75% of Kenya's 47 counties based on branch network coverage, with the highest concentration in Nairobi and Kiambu counties.

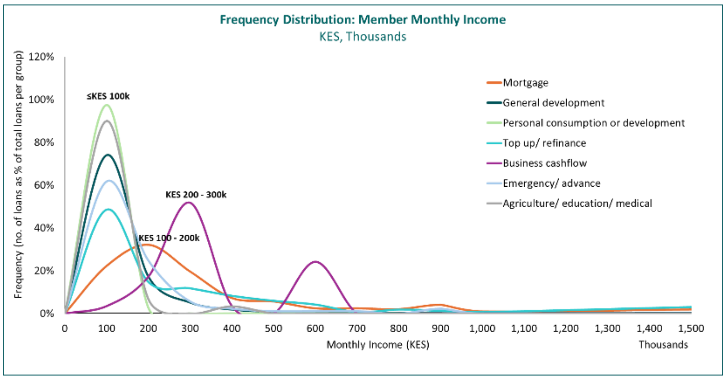
The SACCOs that shared financial statements recorded strong balance sheet and profit growth and maintained generally sound regulatory compliance between 2022 and 2024. **Loans to members, deposits, net interest income, and profits all posted double-digit compounded annual growth on average within this period.** Average statutory ratios remained well above minimum thresholds but asset quality varied i.e., 46% of SACCOs had non-performing loan (NPL) ratios below the 5% recommended threshold in 2024, while 31% had ratios exceeding the threshold by 2–6 percentage points. Between 2022 and 2024, 12 SACCOs reported a marginal rise in dividends and interest on deposits as they sought to attract and retain members. The State Department of Cooperatives recently cautioned against payout policies that are misaligned with financial performance and legislation prohibits payouts that risk compliance with prudential requirements. From the comparison of the core capital-to-total assets ratios of the 12 SACCOs with their declared dividends and interest over the last three years, it cannot be concluded that these payouts are likely to deplete core capital, as the ratios were maintained above statutory limits with an average buffer of over 5% for most.

1.2 Supply-side: Land and Housing Loan Portfolio Analysis and Findings

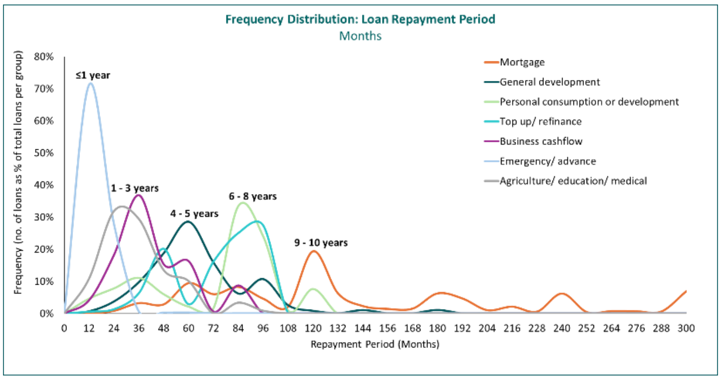
Participating SACCOs land and housing loan portfolios shared were analysed across custom product categories defined for this study based on intended use of funds. Key findings from data analysis include:

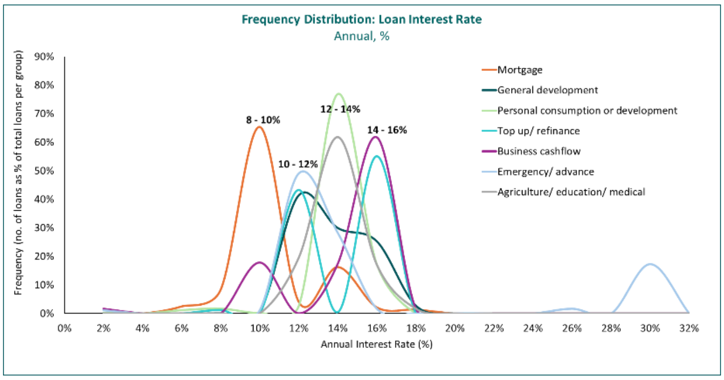
- <u>Borrower profile</u>**: Most land and housing loan borrowers are male, aged 36–55, earning KES 100,000 or less, with different borrowing patterns noted based on borrower age, income, and gender.** Mortgages were more popular among younger members (36–45), while those aged 46–55 mostly had general development loans. Male borrowers received well over 50% of loans in 76.5% of the SACCOs that shared gendered data, likely mirroring higher male membership in SACCOs (58% of overall SACCO membership was male according to a 2019 report by SASRA). With over 70% of borrowers earning below KES 100,000 monthly, there is a clear need for products that match borrowers' repayment capacity while satisfactorily addressing their housing finance needs.





- **<u>Loan products</u>: SACCO members use a wide range of loan products to finance land and housing.** Development loans dominate due to their role as flagship SACCO products, flexibility, and lower incidental costs. Mortgages are a new addition to the SACCOs' product offering and therefore not yet as entrenched; uptake is gradually increasing driven by their longer tenors and lower pricing (for KMRC mortgages).
- **<u>Loan purpose/ sub-sector</u>: Plot purchase is the leading use of funds for SACCO land and housing loans, followed by construction, largely through incremental building.** Most members buy land for future development, and many borrowers with lower incomes may only manage to finance construction through incremental building using a series of multiple small development loans. A structured incremental building product that can be refinanced could improve affordability to better meet member needs.
- **<u>Loan features/ terms</u>: Majority land and housing loans are modest in size ranging from KES 100,000–1.5 million, moderately priced at interest rates of 10–16%, with repayment periods of 2–8 years.** These features varied widely, depending on the product category e.g., mortgages average at longer tenors of 9–10 years, lower interest rates below 10% due to KMRC refinancing (~60% of participating SACCOs could access KMRC financing), and larger principal amounts of KES 7.5–8 million. Other mortgage products not refinanced by KMRC are priced slightly higher, ranging between 12% and 18%. Short-term emergency loans are still being used to finance land and housing needs despite being the least cost-efficient for property investment, with some annualised rates exceeding 30%. SACCOs that have not already can apply to SASRA for longer loan tenors beyond the traditional 84-month average period.





- **<u>Security and regional coverage</u>: Guarantors are still the main type of loan security used for SACCO loans,** with property-based security mostly limited to mortgage products and land purchase loans. Lenders favour urban collateral for its marketability, leaving borrowers seeking to construct in remote areas forced to seek guarantors despite having property that is not considered 'acceptable' as collateral.

- Loan performance/ risk classification: **Majority of SACCO land and housing loans shared are classified as 'performing', with less than 2% in the 'loss' category.** More construction loans (~15% of the loans) were classified under various non-performing categories likely stemming from challenges encountered during construction.

1.3 Supply-side: SACCO Lending Process and Key Operational Factors

To identify key points of optimization for increased lending for land and housing, the study reviewed the SACCOs' lending process, strategic partnerships, risk management, and use of technology. Key findings include:

- **SACCO mortgage lending follows a structured, multi-step process** that includes borrower screening, property valuation, credit appraisal, legal charge registration, repayment monitoring, and, if necessary, recovery. While it helps maintain loan quality by balancing risk management and borrower needs**, timelines are often longer than guarantor-backed lending due to addition of valuation and legal charge registration to the process**. Besides a lengthier, more tedious process, **closing costs of 9-10% of the loan value** (legal and valuation fees, stamp duty etc.) **also deter some borrowers.** Strong monitoring post-disbursement and flexible grace periods help to keep early delinquency low. However, if foreclosure is required, the process can take at least 219 days to initiate sale by auction – a major challenge to loan recovery among lenders.
- **Long-term mortgages help to improve affordability of monthly payments for borrowers, however, SACCO management struggle to commit capital to building the initial mortgage portfolio for refinancing due to the opportunity cost of allocating the capital to higher-margin products.** Other loan products offered by SACCOs for development usually have shorter tenors and higher margins over the cost of funds compared to these affordable mortgages. This opportunity cost is a key point of consideration for some SACCOs originating mortgage portfolios especially for initial refinancing. **A pre-financing or bridge facility could prove useful in catalysing adoption and scale-up**.
- SACCO credit risk management remains largely retrospective – most strategies focus on current risk factors rather than default prediction, presenting an opportunity for SACCOs to adopt use of predictive analytics and stress testing tools more widely to support early warning systems for potential defaults and timely remedies. **Credit Reference Bureau (CRB) reports are used by SACCOs for credit appraisal but reporting to CRBs is inconsistent limiting completeness of data held by credit information systems and strength of credit assessments in Kenya.** SASRA is moving to mandate full-file reporting through regulation to improve this. Interest in alternative-data credit scoring is growing, involving use of alternative data, such as mobile phone messages, to evaluate creditworthiness.
- Core banking platforms enable end-to-end lending, but data integration gaps blunt their impact on data-driven decision-making. **Many SACCOs still mix manual and digital processes or store certain data points e.g., collateral details, only in electronic document format, making it difficult to extract unified loan datasets pulling from multiple data registers and electronic or physical documents.** As such, some SACCOs revert to manually filling in spreadsheets for uses such as KMRC refinancing, which will become impractical for larger portfolios. Some core banking systems are outdated, having been installed in 2016/17 and now require upgrades, which should consider provisions for easy automation of data extraction and strategic analytics for decision-making.
- SACCO strategies emphasize general growth in membership, deposits, and loans over sector-specific targets. **Strategies focused on increasing lending for land and housing purposes largely focus on partnerships, with KMRC as the main target.** Collaboration with housing cooperatives is underused due to regulatory ring-fencing as cooperatives are not regulated by SASRA.
- **SACCOs can increase awareness and utilization of available subsidies such as the mortgage interest tax relief to drive mortgage uptake.**

1.4 Demand-side: Focus Groups Findings

Discussions with members from participating SACCOs — through an in-person focus group and virtual meetings — were used to highlight the demand-side factors influencing uptake and use of land and housing loans. Key observations include:

- **Member satisfaction with SACCO loans hinges on clear communication, flexible terms, and quick processing**. When these fall short through misinformation, rigid lending rules, or slow processing, members hop to new SACCOs or borrow elsewhere.
- Loan term preferences vary by borrower profile. For salaried borrowers, tenor preference is driven by the effect of tenor on monthly loan payments with a desire to lengthen the tenor such that the monthly payments match their rental expense. On the other hand, self-employed members prefer shorter tenors to manage cashflow risk and unlock re-borrowing capacity in a shorter timeframe. Most participants favour property-backed loans over guarantors to maintain privacy in home financing decisions and due to difficulty in securing guarantors, but the view may be biased as most attendees had mortgages.
- **High interest rates, opaque closing costs, and continuous valuation requirements during the life of the mortgage drive costs up, suggesting opportunities for standardization**, optimized buy-and-build product structures, and comprehensive upfront fee disclosure.
- **Understanding of mortgages is fairly high, but knowledge gaps remain on product scope, process, and KMRC's role**. Some members had misconceptions around the scope of mortgages, expecting lenders to finance and help manage pre-construction and construction processes. Awareness of KMRC mortgages was moderate, with some participants being completely unaware of their existence and others being confused about KMRC's ownership and role in affordable housing finance. This underscores the need for stronger borrower education, clearer product messaging, and proactive communication by SACCOs.
- **Increased member mobility across SACCOs is raising competitive pressure** i.e., previously, consumers stuck to one SACCO regardless but more recently with increasing consumer choice and information access, moving from SACCO to SACCO in search of better services and more suitable products is common. This also influences how SACCOs secure younger membership; **the youth respond best to investment-oriented products that can compete with other financial products** available across different types of financial institutions and can guarantee early retirement from salaried jobs.

1.5 Enabling Environment Findings

Enabling environment factors affecting loan uptake were assessed to uncover factors outside of SACCOs control that if addressed could unlock barriers to uptake of financing for land and housing purposes. Key findings include:

- **Rising salary deductions and property transfer charges are eroding SACCO members' mortgage affordability.** Increased payroll deductions such as the Affordable Housing Levy, National Social Security Fund (NSSF), and Social Health Authority (SHA) have reduced net incomes and lowered loan amounts members can qualify for, forcing compromises in home size or delaying home ownership. At the same time, hikes in property transfer costs such as stamp duty and land search fees, often enforced without adequate notice add to home ownership closing costs. These trends not only restrict homeownership but also increase the risk of repayment stress as members' disposable incomes shrinks.
- **Structural housing market constraints limit SACCO mortgage uptake despite demand.** A shortage of ready, affordable housing combined with SACCOs' reluctance to finance off-plan projects due to quality and delay risks keeps many members from using mortgages for outright purchases. Rising construction costs, driven by taxes and supply chain pressures, are outpacing borrower capacity, often leaving projects incomplete. Poor infrastructure in peri-urban areas, limited land registration and titling in rural areas, and restrictions around lending against rural collateral further reduce the viability of collateral-backed lending, especially outside major urban centres.
- SACCOs face competitive and operational barriers that weaken their mortgage market position. Commercial banks' greater lending capacity and aggressive marketing of KMRC-backed loans give them an edge over SACCOs in mortgage lending.

1.6 Closing Summary

SACCO-led housing finance in Kenya faces both structural and operational barriers that, if addressed, could unlock significant gains in access, affordability, and sustainability. The study highlights critical gaps such as opportunity cost considerations in building initial portfolios of long-term affordable mortgages for refinancing; geographic concentration of affordable collateral-backed lending in urban areas for risk management purposes; and inefficiencies in foreclosure processes. These issues limit the sector's ability to meet diverse member needs. Other challenges, including inconsistent knowledge on mortgage products, features and processes especially among client-facing SACCO staff; incomplete disclosure of closing costs; and limited awareness and utilization of tax incentives, further constrain uptake. External factors such as infrastructure gaps, escalating construction costs, and rural land ownership complexities also weaken the marketability of collateral and restrict financing options in underserved rural areas.

Targeted interventions at both policy and institutional levels can improve SACCOs' ability to adequately meet member housing finance needs. Recommendations include establishing a pre-financing facility to enable SACCOs originate initial mortgage portfolios before refinancing; ensuring implementation of existing incentives to offset closing costs; and streamlining the mortgage processes as well as SACCO staff product and process knowledge. Developing structured incremental construction products and launching targeted borrower awareness campaigns could enhance member experience and portfolio quality. Coordinated action among SACCOs, KMRC, government agencies, and development partners is essential to achieving broader and more equitable homeownership outcomes. Recommendations included in this report are summarized in *section 0, Table 8*.

2. Structure of the Report, Study Background, Objectives and Methodology

2.1 Report Structure

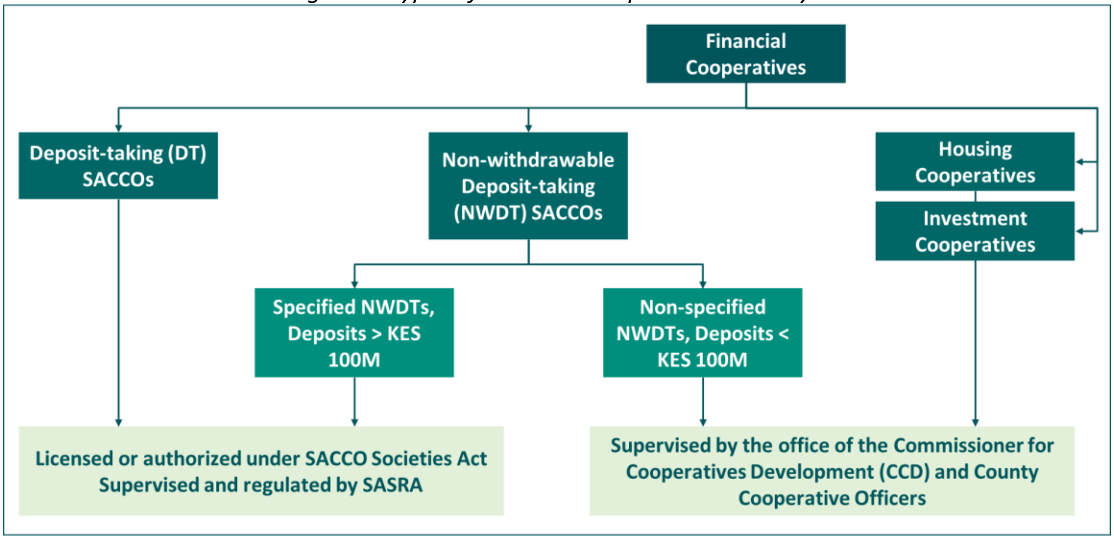
This report is organized to present the analysis and insights generated from the review of land and housing financing practices among a sample of SACCOs in Kenya. The structure begins with contextual and methodological grounding, followed by detailed findings from both institutional and borrower perspectives, and concludes with a summary of recommendations. Each section is designed to build an understanding of the current landscape and identification of potential interventions to strengthen the role of SACCOs within the land and housing value chain. The structure is outlined below:

- The rest of **Section 2** describes the study background, objectives, and methodology.
- **Section 3** presents a descriptive summary of the sampled SACCOs, providing necessary context for the discussion of findings.
- **Section 4** delivers the core findings and insights on SACCO land and housing lending activities, segmented into three main components:
    - **4.1 Supply-side analysis** covering review and assessment of SACCO land and housing loan portfolios, lending process, credit risk management, use of technology, strategic focus, refinancing through KMRC, and the role of housing cooperatives.
    - **4.2 Demand-side analysis** focusing on SACCO members' experiences, preferences, and challenges in accessing housing finance.
    - **4.3 Enabling environment** exploring external factors such as policy, regulatory, and market conditions affecting the delivery of affordable housing finance by SACCOs.
- **Section 5** summarizes key recommendations emerging from the study.
- **Section 6** contains annexes with supplementary outputs from the analysis.

2.2 Background

Savings and Credit Cooperatives (SACCOs) are financial cooperatives that have been integral to Kenya's financial landscape since the 1940's, with significant growth and use of the current SACCO model picking up post-independence from 1964.[1] Initially formed to '*promote thrift*' among members, SACCOs have evolved into important financial institutions providing affordable credit and supporting development in various socio-economic sectors, including agriculture, education, and housing.[2] *Figure 1* below shows the different types of financial cooperatives operating in Kenya, including SACCOs.

Figure 1: Types of Financial Cooperatives in Kenya



Source: SASRA SACCO Annual Supervision Report, 2023

[1] FSD Kenya (2024). For their mutual benefit: Kenya's SACCOs history and prospects

[2] Thrift promotion involves regular mandatory savings contributions; education on financial literacy and budgeting; encouraging planning before borrowing; and emphasizing the value of saving as a path to affordable credit. While "thrift" isn't explicitly defined in the Co-operative Societies Act (Cap 490) or the SACCO Societies Act, 2008, it is central to the purpose of SACCOs.

SACCOs are formed around a common bond, which is a shared characteristic that defines membership to a particular SACCO, often a specific sector, employer, or community. Key aspects of the SACCO model include:

- **Share capital:** Members must hold a defined minimum share capital amount, which is non-refundable but transferable to other SACCO members and earns annual dividends.
- **Non-withdrawable deposits (NWDs):** Members of both deposit-taking (DT) and non-withdrawable deposit-taking (NWDT) SACCOs are also required to consistently save in form of regular non-withdrawable deposits, which can be used as loan security, earn interest annually, and can only be withdrawn upon exit. These deposits fall under Back Office Service Activity (BOSA) whereby savings mobilized by SACCOs are not withdrawable on demand but can only be refunded when a member exits the SACCO. NWDs are in most cases a SACCOs' primary source of funds for lending.
- **Withdrawable deposits:** Members can also save through withdrawable deposits, such as fixed or demand deposits, which can only be accepted by DT SACCOs operating Front Office Service Activity (FOSA) i.e., banking-like services, including withdrawable deposit accounts, allowing members to deposit and withdraw money much like in a commercial bank.
- **Lending:** Loans, largely for development purposes, is one of the main products SACCO's offer members. The maximum loan amount a member can qualify for is usually defined per product by different features such as a set absolute loan amount limit, a multiple of deposits/ savings and the loan-to-value ratio for collateral-backed loans. Some SACCOs also have set exposure limits to a single borrower. The final approved amount also considers borrowing capacity and ability to pay given loan pricing and tenor.
- **Security:** Finally, most SACCO loans leverage the guarantor model for security, whereby members use their non-withdrawable deposits to guarantee each other's loans, enabling access to credit for those without conventional collateral options such as property.

As SACCOs continued to grow their loan books and offer more financial services to the public, the need for regulation became evident. To enhance oversight and ensure financial stability, the Kenyan government established the SACCO Societies Regulatory Authority (SASRA) in 2010 under the SACCO Societies Act No. 14 of 2008. SASRA is mandated to license, regulate, and supervise SACCOs and currently implements The SACCO Societies (Deposit Taking Business) Regulations, 2010 and The SACCO Societies (Non-Deposit Taking Business) Regulations, 2020, for DT and specified NWDT SACCOs, respectively.

As of December 2024, SASRA was regulating 355 SACCOs – about 2.5% of the 14,484 SACCOs registered in Kenya – comprising of 177 DT SACCOs and 178 NWDT SACCOs with deposits exceeding KES 100 million, as shown in *Figure 1*. Jointly, these SACCO's had an asset base of ~KES 1.1 trillion with loans to members as the largest component at KES 845.1 billion gross, highlighting their extensive reach and impact on financial inclusion. SACCOs also held and managed member deposits totalling KES 749.4 billion, serving over 7.4 million members across the country. Compared to commercial banks in Kenya, SACCOs control a small but growing share of financial services, as illustrated in *Table 1* below.

Table 1: Comparison of Regulated SACCOs and Commercial Banks in Kenya by Key Metrics, 2024

2024 Metrics	Regulated SACCOs	Commercial Banks
No. of entities in operation:	355	39
Total assets:	KES 1,076.2 billion	KES 7.6 trillion
Gross loans:	KES 845.1 billion	KES 4.1 trillion
Member/ customer deposits:	KES 749.4 billion	KES 5.5 trillion
No. of members/ account holders:	Over 7.4 million	Over 114.2 million
No. of branches	652	1,573

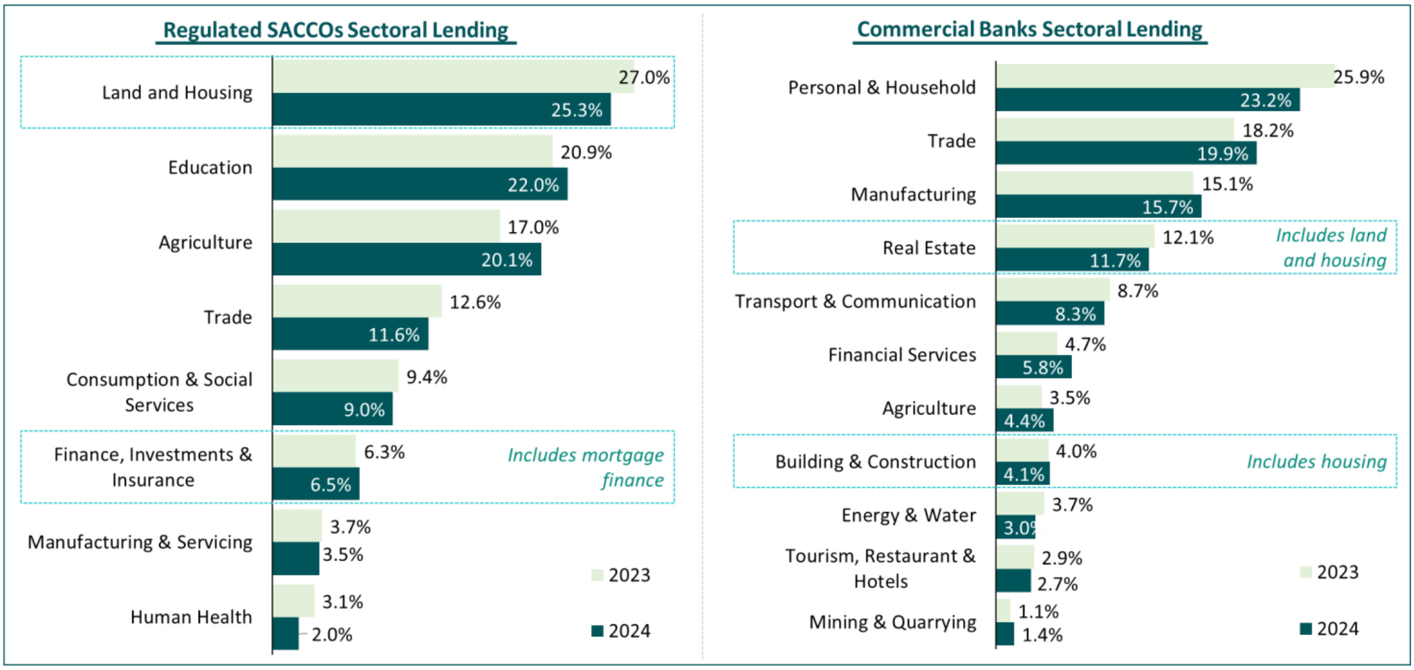
Sources: 2024 SASRA Annual SACCO Supervision Report and 2024 CBK Annual Bank Supervision Report

According to estimates by the World Bank, SACCOs provide about 90% of housing finance in Kenya, through different types of non-mortgage loans.[3] Despite commercial bank gross loans being 4.8x higher than

[3] World Bank (2019), Project Appraisal Document on a Proposed Loan to the Republic of Kenya for a Kenya Affordable Housing Finance Project

regulated SACCOs by December 2024, a significantly larger share of SACCO loans went towards financing land and housing as shown in *Figure 2* below.

Figure 2: Sectoral Lending Comparison of Regulated SACCOs and Commercial Banks in Kenya in 2023 and 2024



Sources: 2024 SASRA Annual SACCO Supervision Report and 2024 CBK Annual Bank Supervision Report

Recognizing the pivotal role of SACCOs in enhancing access to affordable housing finance, particularly among lower-and middle-income households and segments underserved by commercial banks, 11 SACCOs partnered with the Kenya Mortgage Refinance Company (KMRC) as primary mortgage lenders (PMLs) at inception. Effective July 2024 under its 2024-2029 strategic plan, KMRC opened its refinancing to additional PMLs, including those that are not shareholders, thus expanding the pool of lenders eligible to benefit from its product offering and pass along cheaper borrowing costs to consumers.[4]

The KMRC currently enables its PMLs, including SACCOs, to offer single-digit interest mortgages for homeownership. Under this partnership, PMLs design and disburse to members mortgages with features such as interest rates below 10%, tenors of up to 25 years, principal amounts of up to KES 10.5 million, and financing of up to 105%. PMLs also need to ensure that KMRC eligibility criteria are met, such as owner-occupied single residential housing and environmental and social (E&S) compliance among others. Mortgage portfolios are then submitted to and reviewed by KMRC, and eligible performing loans are refinanced through long-term, low-interest facilities, freeing capital for further lending by PMLs. Currently, KMRC is able to refinance at a lower cost than market due to its funding profile, primarily comprised of concessional financing from the World Bank's International Bank for Reconstruction and Development (IBRD) and the African Development Bank (AfDB) channelled through the National Treasury.[5] This is blended with a corporate bond raised as part of a Medium-Term Note (MTN) program.[6]

KMRC offers refinancing for three types of products i.e., outright purchase mortgages for ready homes; construction mortgages; and buy-and-build mortgages financing land purchase and construction. Partnering with SACCOs expands KMRC's reach, increasing affordable mortgage access for Kenyans.

2.3 Objectives

The main objective of this study is to identify opportunities to strengthen SACCOs' role in financing affordable housing in Kenya. Specifically, the study aims to:

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[4] BD Africa (2025), How State decides who gets affordable housing loans
[5] KMRC (2025), KMRC Annual Integrated Report and Financial Statements | 2024
[6] KMRC (2022), KMRC's first bond issue results in 380 percent over-subscription

- Understand the current structure and nature of the SACCO land and housing loan offering.
- Assess institutional capacity, credit risk measures, and strategic focus around housing finance.
- Understand the experience of SACCO members when accessing affordable housing finance.
- Examine the regulatory, policy, and market conditions shaping SACCO involvement in housing.
- Generate insights and recommendations to enhance SACCO participation in financing the affordable housing value chain.

2.4 Methodology and Approach

The study applied a mixed-method approach combining quantitative data analysis with qualitative insights as described below, with the process followed outlined in *Figure 3*.

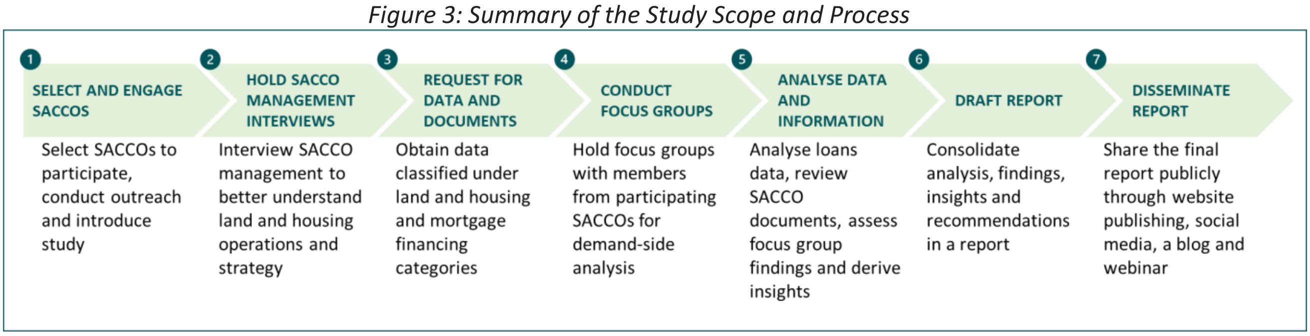
SACCO selection and outreach: Publicly available information on SACCOs regulated by SASRA was used to arrive at a sample of SACCOs with a strategic focus on land and housing finance, prioritizing those keen on offering affordable mortgages to participate in the study. 46 SACCOs were shortlisted, including KMRC PMLs and SACCOs that had expressed an interest in partnering with KMRC. From the shortlist, 33 SACCOs were contacted. Of these, 24 were responsive and participated in various parts of the data collection and information gathering steps of the study. 20 participated more consistently including sharing data on outstanding land and housing loans, but one SACCO’s dataset contained only four loans and could not be used for the analysis. While the initial target was a sample of 30 SACCOs, a total of 19 SACCOs were able to satisfactorily participate in the study within the set timelines.

Data and information collection and analysis: The following approaches were used to obtain useful insights that fed into this report and informed recommendations:

- **Management interviews:** Discussions were held with SACCO management to understand product structures, internal processes and technologies, strategic focus areas, and challenges related to land and housing finance.
- **Loan portfolio data collection and analysis:** SACCOs shared data on outstanding land, housing, and mortgage loans. This data was analysed to better understand products, features, use of funds, and performance, of loans used to finance land and housing, as well as typical borrower characteristics.
- **Document review:** SACCOs provided internal documentation, including product brochures, loan application forms, lending policy documents, and financials. These were reviewed with a focus on product features, lending processes, and financial performance trends.
- **Member focus groups and interviews:** Participating SACCOs suggested members with outstanding land and housing loans to take part in focus groups and interviews. One in-person focus group discussion was conducted with 17 participating SACCO members based in Nairobi and five individual interviews were held with members from SACCOs headquartered outside of Nairobi. These conversations provided valuable demand-side insights into members’ experiences, preferences, and barriers faced when borrowing for land and housing purposes from SACCOs.

Synthesis and Recommendations: Findings from the data analysis, documentation review, interviews, and focus groups were synthesized to extract key insights. These insights informed the development of recommendations aimed at strengthening SACCOs' role in financing the land and housing value chain.

Figure 3: Summary of the Study Scope and Process



3. Descriptive Summary of Sample

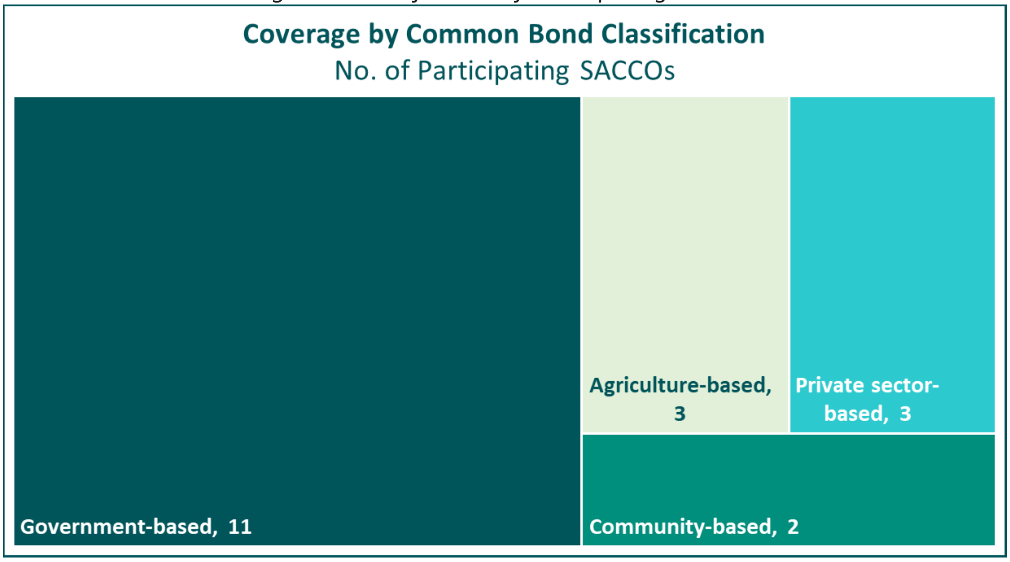
3.1 Representativeness of Sample

SACCO type: All 19 participating SACCOs were DT-SACCOs. Initially, both regulated DT and NWDT SACCOs were targeted provided they were actively involved in land and housing financing. Eventually, study only included DT SACCOs, which are currently eligible for refinancing by KMRC.

Tier classification by total assets: 16 SACCOs were classified as 'Larger' SACCOs based on their total assets in 2023 while three were classified as 'Medium'. According to SASRA's classification, '***Larger***' SACCOs have over KES 5 billion in assets, '***Medium***' range from KES 1–5 billion, and '***Small***' below KES 1 billion.[7] No 'Small' SACCOs participated.

Common bond classification: 11 of the participating SACCOs are classified as government-based, with most members involved in the education sector, primarily teachers; as well as other public sector employees and civil servants. SASRA groups SACCOs into four categories based on their common bonds i.e., agriculture-, government-, community-, and private sector-based SACCOs, as shown in *Figure 4* below.

Figure 4: Classification of Participating SACCOs



Source: AIS Capital analysis

Common bond status: 18 of the SACCOs have opened their common bond to accommodate eligible members from all sectors. This is gradually resulting in sectoral diversification of SACCO membership; however, currently, most of these SACCOs still have majority members as those under their original common bonds. Only one SACCO maintained a closed bond.

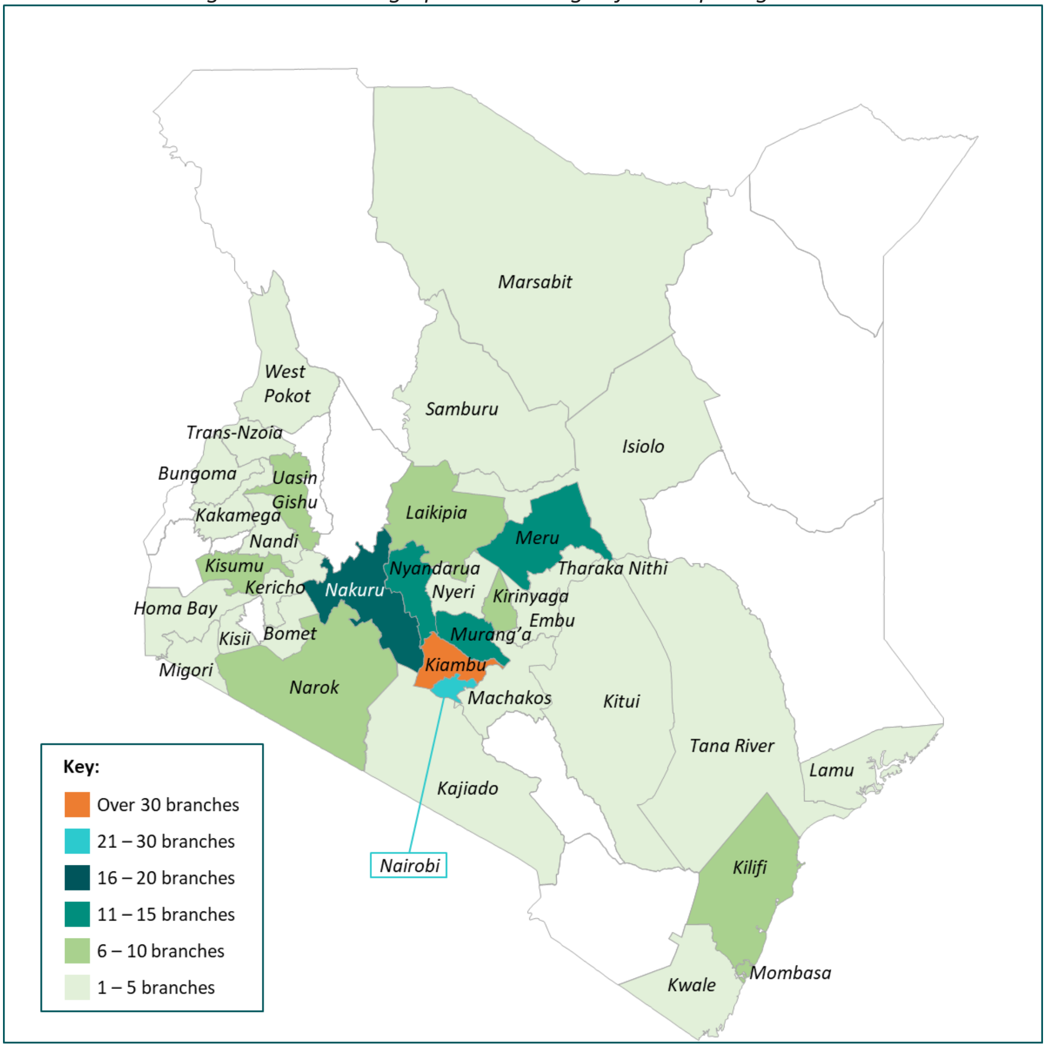
Predominant member income source: 14 out of 19 of the participating SACCOs have pre-dominantly salaried employees as members. Only five had majority of members relying on entrepreneurial income. Targeting entrepreneurs and their employees, especially those involved in the informal sector, may be an advantage that these SACCOs have over commercial banks. According to the 2024 FinAccess Household Survey, while well over 50% of respondents had access to formal financial services in 2024, small business owners and informal sector employees relied more on non-bank financial institutions including SACCOs than on commercial banks for financing.[8] SACCOs can double down on better serving this segment to grow membership and contribute towards improving financial inclusion.

Physical presence and county coverage: While majority SACCOs now offer online services and are accessible from anywhere including the diaspora, having a physical presence remains important for brand visibility, as stated in most strategic plans. The branch network of participating SACCOs was used to assess their physical

[7] SASRA Annual Supervision Report, 2023
[8][FinAccess Kenya (2024), 2024 FinAccess Household Survey

presence and county coverage. Together, the 19 SACCOs have branches in 35 out of 47 counties in Kenya, as shown in *Figure 5* below. Physical presence is however concentrated in Kiambu and Nairobi counties where the participating SACCOs jointly had over 20 branches. Majority of the SACCOs (~37%) have between 11 and 15 branches spread across the country.

Figure 5: Joint Geographical Coverage of Participating SACCOs



Source: AIS Capital analysis and SACCO websites

Association with a housing or investment cooperative: 14 out of 19 participating SACCOs have affiliate housing or investment cooperatives operating as separate entities. 17 are members of the Kenya Union of Savings and Credit Cooperative Organizations (KUSCCO), the national umbrella body for SACCOs in Kenya, acting as a 'SACCO of SACCOs' and offering financial services including affordable credit and housing investments options. In late 2024, financial mismanagement at KUSCCO was uncovered during a forensic audit.[9] This resulted in member SACCOs having to file impairment losses for KUSCCO shares held and make partial or full provisioning for any deposits/ savings at KUSCCO. Of the 19 participating SACCOs that shared their 2024 detailed annual reports, 11 held KUSCCO shares as financial assets valued at ~KES 455.0 million in total and 9 had savings/deposits at KUSCCO valued at ~KES 780.7 million before impairment. Notably, this did not lower the distribution of FY'2024 returns to participating SACCO members as anticipated.

[9] KUSCCO was formed to provide advocacy, training, and financial services to SACCOs. Member SACCOs own shares and contribute via subscriptions and deposits to the Central Finance Fund (CFF), which provides credit and invests in different ventures including housing to generate returns. In 2024, CFF fund mismanagement was uncovered; investigations so far revealed unauthorized resource diversion, unreliable financial records, and significant irregularities in cash withdrawals and loans to senior officials, all exacerbated by inadequate legal frameworks and oversight mechanisms. Many SACCOs were exposed and have had to make provisions for potential losses; some in full while others will be made over up to 4 years.

3.2 Financial Performance

16 of the 19 participating SACCOs shared their financial statements. An analysis of financial growth between 2022 and 2024 reveals steady, double-digit growth on average in loans to members, member deposits, net interest income and net profits, as seen in *Table 2*.

Table 2: Financial Growth of Participating SACCOs from 2022 to 2024[10]

Balance Sheet Growth	Avgerage CAGR: 2022 - 2024
Assets	12.2%
Loans and Advances to members	13.3%
Financial Assets	16.1%
Total Member Deposits	11.6%
Share Capital	12.0%
Total Equity	14.9%
Income Statement Growth	**Avgerage CAGR: 2022 - 2024**
Total Income (Interest and Non-Interest)	15.7%
Interest Income	16.6%
Interest Expense	15.3%
Net Interest Income	19.1%
Operating Expenses	14.1%
Profit After Tax	27.2%

Source: AIS Capital analysis of SACCO financial statements and annual reports

Prudential requirements: 12 SACCOs shared data on statutory ratios between 2022 and 2024, with the average trend displayed in *Table 3* being positive. Average statutory ratios have remained well above regulatory limits in all 3 years, signalling long term institutional stability and sustainability. Only four SACCOs coming close to breaching or breached the institutional capital-to-total assets requirement of at least 8% at different points within the 3-year period.

Table 3: Participating SACCO Average Statutory Ratios, 2022 - 2024

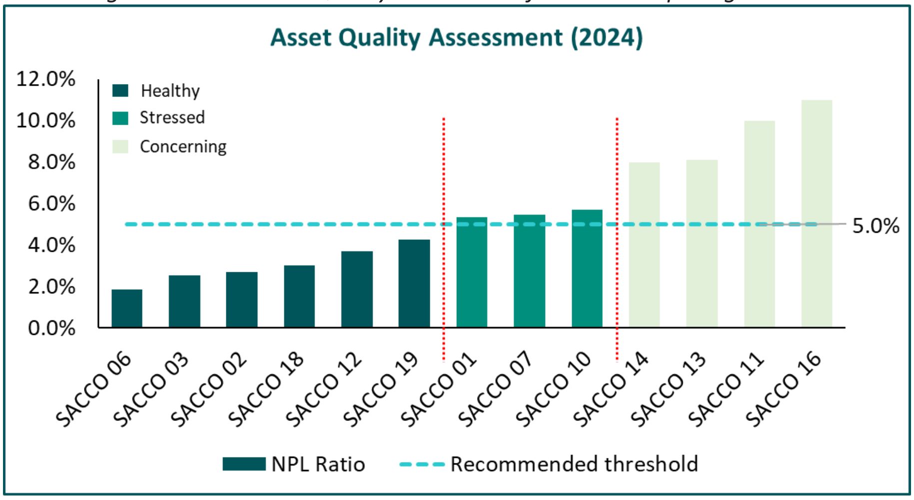
Statutory ratios	SASRA Req.	Average 2022	Average 2023	Average 2024
Core Capital/total assets	≥10%	20.7%	20.7%	21.2%
Core Capital/Member deposits	≥8%	30.5%	30.7%	32.0%
Institutional capital/total assets	≥8%	13.6%	13.8%	14.4%
Liquidity ratio (Liquid assets/Withdrawable Deposits and short term liabilities)	≥15%	39.5%	41.4%	38.0%

Source: AIS Capital analysis of SACCO financial statements and annual reports

Asset quality: 13 SACCOs shared data on the ratio of delinquent loans to gross loans (the non-performing loans (NPL) ratio) over the 3-year period, revealing mixed trends across the SACCOs. While the NPL ratio for 6 SACCOs has declined between 2022 and 2024, indicating improving asset quality, the opposite is true for the rest. No common or uniting characteristics were noted among the two groups. In 2024, 6 SACCOs reported healthy asset quality with the NPL ratio below the 5% recommended threshold, while 4 had ratios exceeding the threshold by 2–6 percentage points (see *Figure 6*).

[10] CAGR - Compounded Annual Growth Rates

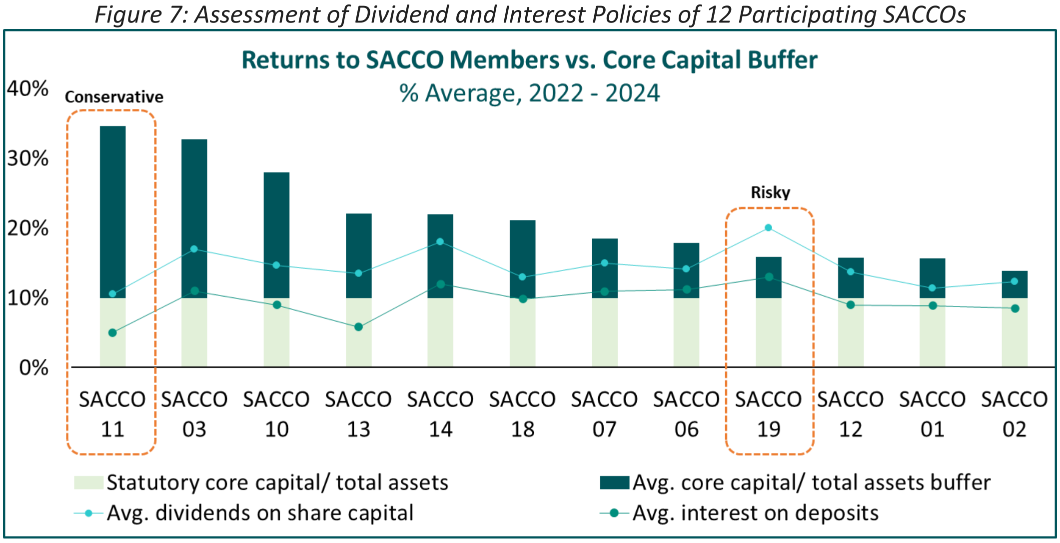
Figure 6: 2024 Asset Quality Assessment for 13 Participating SACCOs



Source: AIS Capital analysis of SACCO financial statements and annual reports

Dividend and interest policies: 12 SACCOs shared data on returns i.e., dividends and interest on non-withdrawable deposits, paid to members annually from 2022 to 2024. On average, dividends and interest have increased marginally in this period as SACCOs look to compete through providing better returns to retain and attract members. Recently, the State Department of Cooperatives raised concerns about SACCOs adopting dividend and interest policies that are misaligned with financial performance, potentially leading to liquidity challenges, depletion of capital reserves, and unethical bookkeeping practices.[11] While SASRA does not dictate how much SACCOs can pay out in dividends and interest, the SACCO Societies Act, 2008 prohibits SACCOs from paying dividends unless compliant with capital adequacy and other prudential requirements. This acts as a guardrail for SACCO policies on return payouts. *Figure 7* compares the core capital-to-total assets ratios of 12 participating SACCO with declared dividends and interest on average over the last three years. From the data, it cannot be concluded that the interest and dividend payments are likely to lead to core capital depletion. All the SACCOs maintained their core capital-to-total assets ratio above the regulatory limits with buffers above 5% on average for most of the SACCOs during the period reviewed. However, there are 'risky' cases where SACCOs with a low core capital buffer offer relatively high dividends and interest returns as seen in *Figure 7* below.

Figure 7: Assessment of Dividend and Interest Policies of 12 Participating SACCOs



Source: AIS Capital analysis of SACCO financial statements and annual reports

[11] SACCO Review (2025), Saccos cautioned against paying unrealistic bonuses and interest

3.3 Completeness of Data Shared

Participating SACCOs were asked to share data on all outstanding loans classified under the land and housing and mortgage finance economic sectors and sub-sectors as follows (no. 1 – 7):

- Land and Housing
  - Land
    1. **Purchase of plot**
    2. **Land purchase services such as surveying and valuation**
  - Housing
    3. **Construction of multiple residential buildings**
    4. **Construction of commercial buildings**
    5. **Construction of single residential dwelling unit**
    6. **Renovation of buildings**
- Finance, Investment and Insurance
  - Mortgage Finance
    7. **Purchase of residential property/payments to mortgage loans in other financial institutions**

This classification was introduced by SASRA in 2019 via circular SASRA/GG/2/2019. Regulated SACCOs are required to collect data from borrowers on intended use of proceeds for loans. SACCOs have incorporated this into loan application forms allowing members to select loan purpose from eight economic sectors, including land and housing.[12] This was a significant step in understanding SACCO loan books by economic sector. A further recommendation is to collect data on the total number of loans in each sector alongside the total principal outstanding to enable analysis on the average loan size per sector.

For each outstanding loan listing, participating SACCOs were also asked to share 17 data fields across three broad categories i.e., borrower characteristics, outstanding loan terms, and property details.[13] Specific details on the 17 data fields and missing fields per SACCO are provided in the Annex (*section 6.1*).

Many of the participating SACCOs experienced challenges in easily extracting all loans classified under the seven sub-sectors and populating all requested data fields from their core banking systems. As such, the data shared by SACCOs had varying levels of completeness, with some missing a number of relevant outstanding loans and others missing some data fields. Given more time and dedicated resources to support with extraction, there is a high likelihood that most SACCOs would have managed to extract a complete data set. *Table 4* provides a summary of the level of completeness based on loans shared across these two sectors, i.e., (i) land and housing and (ii) finance, investment and insurance: mortgage finance.

[12] SASRA (2022), Sectoral loan classification return

[13] Requested data fields: (i) Borrower details: Gender/group, gross monthly income, age/date of birth; (ii) Outstanding loan details: SACCO loan product name, original loan principal, annual loan interest rate, date of issue, original loan tenor, original maturity date, outstanding amount, date of outstanding amount, performance/ risk classification, KMRC refinancing status, purpose/ sub-sector; and (iii) Property details: Property market value, county, housing cooperative origination.

Table 4: Data Completeness by Loans Shared per Sector and Data Fields Shared

SACCO code	Tier	No. of loans analysed	Were all relevant loans analysed?	Was the land and housing loans listing complete?	Was the mortgage loans listing	No. of data fields fully or mostly populated (out of 17
SACCO 01	Larger	8,539	Yes	Yes	Yes	16
SACCO 02	Larger	4,952	Yes	Yes	Yes	8
SACCO 03	Larger	77	No	None analysed	Yes	11
SACCO 04	Larger	468	No	No	Yes	17
SACCO 05	Medium	399	Yes	Yes	Yes	13
SACCO 06	Larger	4,969	Yes	Yes	Yes	9
SACCO 07	Larger	2,595	No	No	Yes	9
SACCO 08	Larger	2,130	Yes	Yes	N/A	10
SACCO 09	Larger	92	No	No	Yes	7
SACCO 10	Larger	5,153	Yes	Yes	Yes	12
SACCO 11	Larger	245	No	None analysed	No	14
SACCO 12	Larger	1,134	No	No	No	10
SACCO 13	Medium	1,564	Yes	Yes	Yes	14
SACCO 14	Larger	50	No	None analysed	Yes	7
SACCO 15	Larger	414	No	No	Unclear	13
SACCO 16	Larger	1,047	Yes	Yes	N/A	13
SACCO 17	Larger	867	No	No	None analysed	8
SACCO 18	Medium	19	No	No	N/A	14
SACCO 19	Larger	1,184	No	No	Yes	8
Count 'Yes' and 'N/A':			**8**	**8**	**16**	

*Note: *A breakdown of data completeness by data fields shared is provided in the Annex. 'N/A' means the SACCO do not have a mortgage product.*

Source: AIS Capital review

4. Findings and Insights

4.1 Land and Housing Loans: Supply-side Analysis

4.1.1 Loan Portfolio Analysis

This section analyses aggregated data on the SACCO loan portfolios under land and housing loans, including mortgages, based on data provided by participating SACCOs.

Table 5 describes the categories of products used by members across participating SACCOs to finance their land and housing needs. These categories, developed specifically for this study, are based mainly on intended use of borrowed funds and to a smaller extent, other relevant loan characteristics.[14]

Table 5: Description of Product Categories

Category	Description/Intended Use
General development	▪ For general socio-economic development of the member ▪ Usually, no specific purpose is indicated but suggestions are often provided; may or may not include land and housing as one of the suggested uses
Mortgage	▪ Specifically designed to finance real estate assets, where only the financed property is accepted as collateral ▪ Can be used to finance purchase or construction of residential or commercial buildings, land purchase or renovation ▪ Mortgages refinanced by KMRC have a specified purpose – to finance purchase or construction of owner-occupied, single-dwelling residential units ▪ Usually large long-term loans; smaller amounts and shorter tenors for land purchase and renovation
Personal consumption or development	▪ No purpose specified ▪ Usually small and short term; based on descriptions provided, can be used for either consumption or development needs
Top up/ refinance	▪ Designed to be additional to general development loans, to refinance existing loans, or to bridge financing gaps for development projects
Emergency/ advance	▪ For emergencies and unforeseen situations requiring financial relief or to solve short term financial challenges ▪ Mostly short-term
Agriculture/ education/ medical	▪ Purpose is specifically stated either for education, agricultural production or healthcare needs ▪ Some SACCOs are not strict on these purposes but instead focus on ability to pay for approval
Business cashflow	▪ Designed either to support short-term business cashflows or based on business cashflows

Source: AIS Capital categorization

A. Borrower Profile

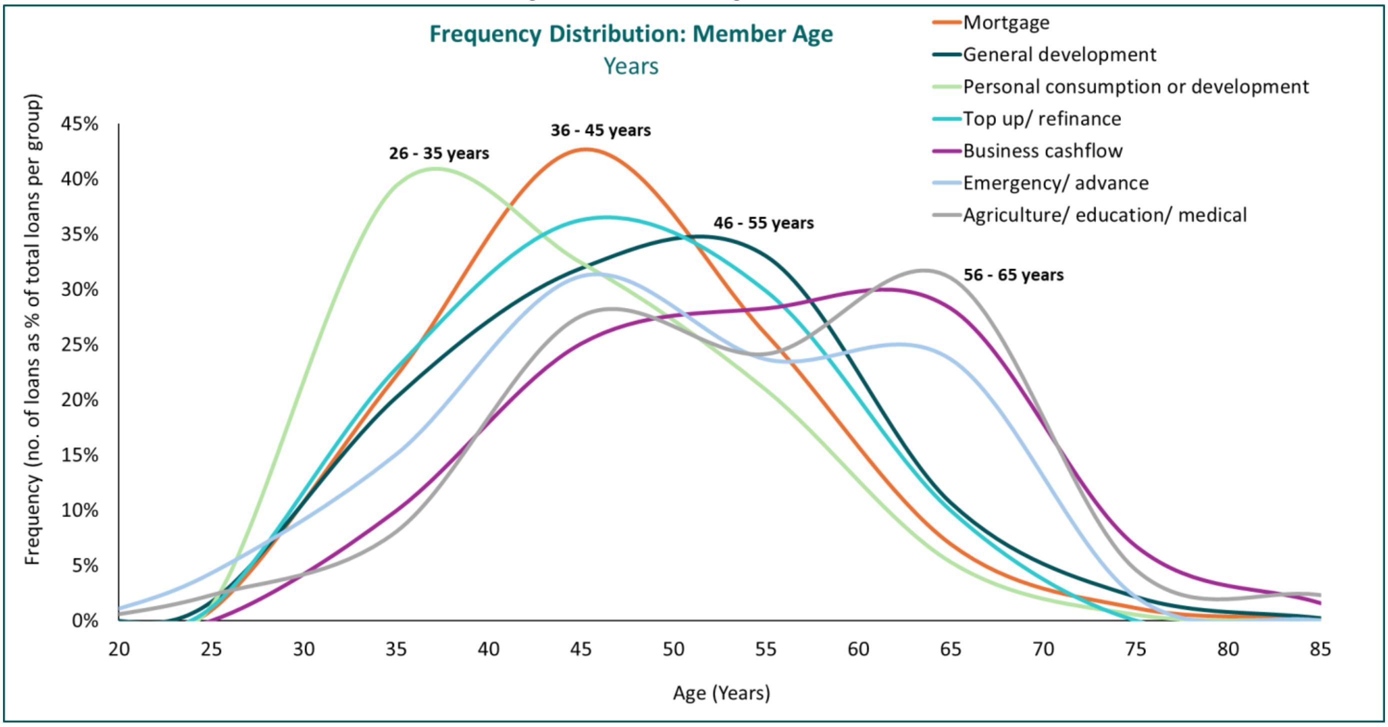
The typical land and housing loan borrower is a 36–55-year-old male earning a gross monthly income of KES 100,000 or less, as illustrated below.

- **Majority borrowers are aged between 36 and 55 years; within this bracket, more younger borrowers had mortgages, while older members had general development loans. Borrowers in the retirement bracket rely more on business and agri-loans, reflecting age-linked differences in affordability, eligibility, and income sources.** As observed in *Figure 8*, members aged 36–45 are more likely to borrow mortgages, benefiting from maximum tenors of 20-25 years in addition to the KMRC-enabled lower interest rates. Longer tenors can reduce monthly instalments and unlock affordability for higher loan amounts. Increased uptake can be expected especially among this age group as SACCOs continue to explore ways to attract younger members who can benefit from longer mortgage tenors. In contrast, those aged 46–55 face shorter repayment periods before retirement and may not qualify for similar

[14] See *Annex 0* for a summary of key features of these product categories. SACCOs design products based on (i) intended use of funds e.g., home construction vs. emergency medical treatment or (ii) member income sources e.g., loans for employed/salaried vs self-employed individuals. SACCOs group loans based on varying factors such as tenor (long, medium and short term), target borrowers (loans for employed vs. SME owners), intended use of funds (e.g., business loans, home loans etc.) or nature of accounts or deposits used as a form of security (BOSA vs. FOSA loans).

terms. This age group may also have already borrowed general development loans before SACCOs introduced mortgages and could potentially seek to refinance their existing loans with cheaper KMRC mortgages. Members aged 55–65, often close to or past retirement, borrowed more business and agri-loans for land and housing, reflecting a shift toward entrepreneurial and agricultural activities after retirement better.

Figure 8: Borrower Age Distribution

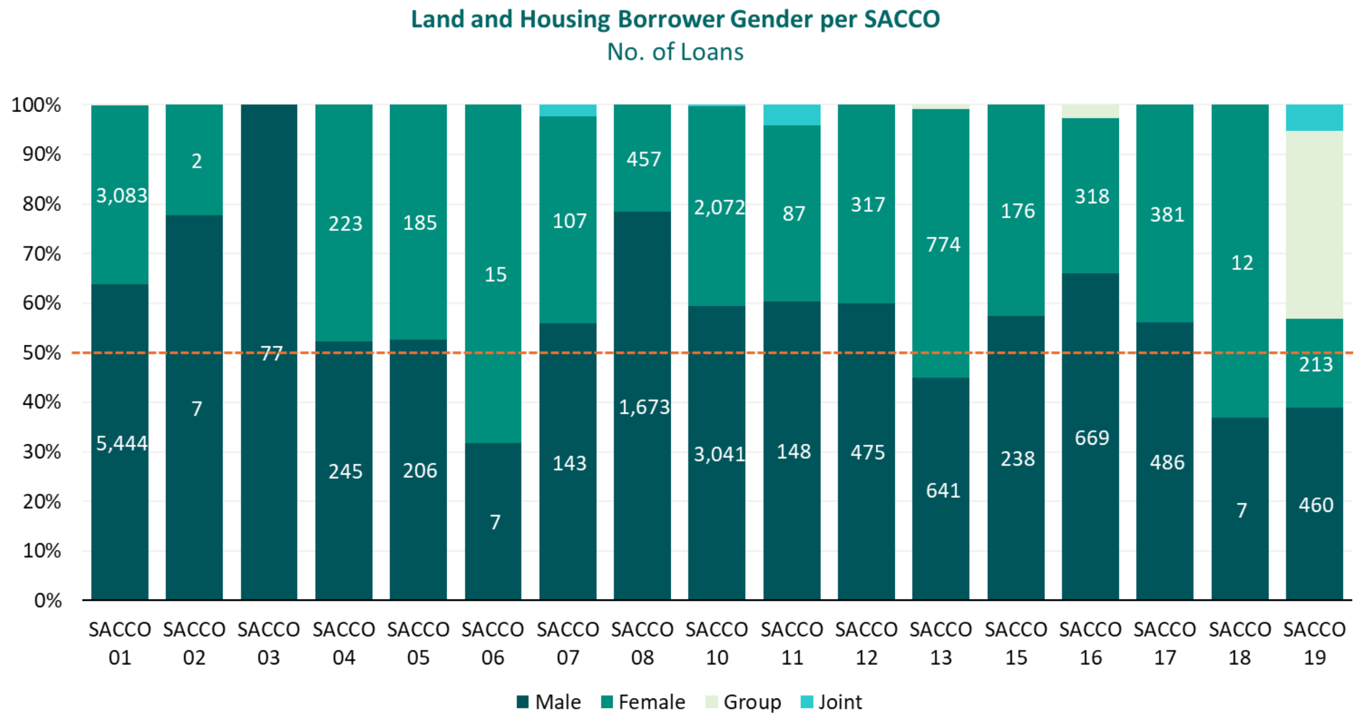


Source: AIS Capital analysis

- **Less than half of total loans disbursed went to female borrowers across most of the participating SACCOs**. 17 SACCOs provided data on borrower gender and 13 of these SACCOs lent mostly to male borrowers (65% of loans on average), as shown in *Figure 9*. Only 38% of loans across all 17 SACCOs were lent to female members with just three SACCOs having majority borrowers as female (average of 62% of loans). This suggests a gender gap in access to land and housing finance or broader SACCO membership. While other factors explain this trend, it also mirrors the higher level of male membership within the overall SACCO sector i.e., in 2019, men made up 58% of SACCO membership. Other factors that could explain this gap include cultural norms and traditional gender roles that may still position men as the primary borrowers for land and housing purposes e.g., men are seen as providers, which includes providing a home for their families.[15] Some SACCOs also attributed this to men having a relatively higher risk appetite compared to women, increasing their likelihood of borrowing larger loans over longer periods to finance construction projects. Group/ joint account loans represent a very negligible share of land and housing loans in most participating SACCOs based on data shared – some SACCOs prefer not to lend to joint account borrowers while others may not have shared joint or group loan data for analysis.

[15] [1] SASRA SACCO Subsector Demographic Study Report 2019; [2] SACCO Review (2021), Most SACCO members are below 50, SASRA survey reveals

Figure 9: Borrower Gender Composition by Number of Loans



Source: AIS Capital analysis

Recommendations:

- With loan performance among female borrowers at par with male borrowers as seen from *Table 6*, intentional efforts to support more women to join SACCOs and incentivize female members to invest in property may help to increase uptake and close the gender gap.
- Launching or enhancing uptake of joint mortgage products may further improve loan affordability and home ownership for households with two incomes. This point is further reinforced considering the largest share of borrowers earn less than KES 100,000 monthly.

Table 6: Loan Performance/ Risk Classification by Gender

Performance by gender - no. of loans		
Classification	Female	Male
Performing	88.7%	87.9%
Watch	7.7%	7.6%
Sub-standard	2.6%	2.9%
Doubtful	0.3%	0.8%
Loss	0.7%	0.8%

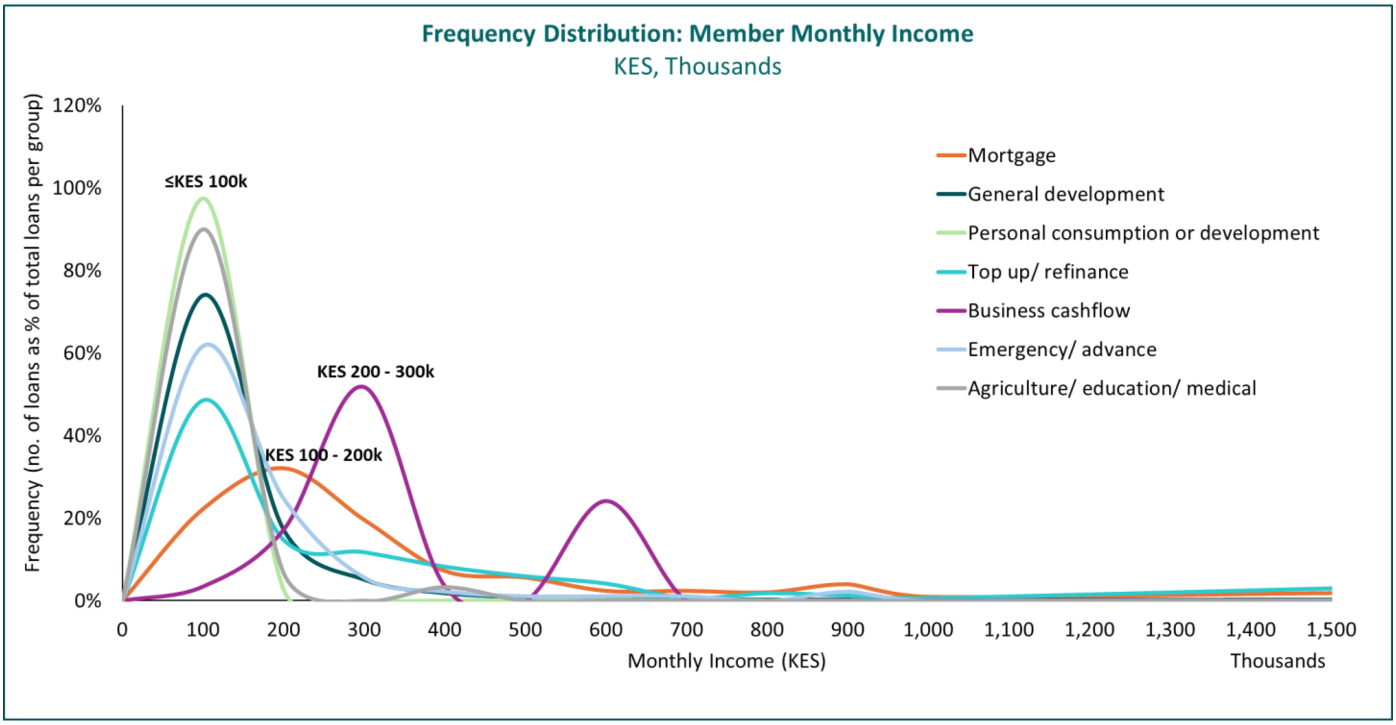
Performance by gender - sum of loan principal		
Classification	Female	Male
Performing	88.0%	88.4%
Watch	8.0%	7.2%
Sub-standard	2.7%	2.8%
Doubtful	0.7%	0.5%
Loss	0.5%	1.1%

Source: AIS Capital analysis

- **The majority of borrowers earn KES 100,000 or below monthly and may not qualify for large loan amounts borrowed at once instead of incrementally, which are often required for outright home purchases.** From the dataset analysed, over 70% of land and housing borrowers fall within this income bracket while only about 5.2% earn above KES 300,000 monthly.[16] Most mortgage borrowers earn between KES 100,001 and KES 200,000 monthly. This highlights the need for housing loan products that accommodate the financial realities of most borrowers, such as loans for incremental building over long periods of time.

[16] 5.2% represents close to 800 borrowers out of the over 15,000 loans shared that included details on borrower monthly income. Frequency distribution data is provided in *Annex 6.4.*

Figure 10: Borrower Monthly Income Distribution



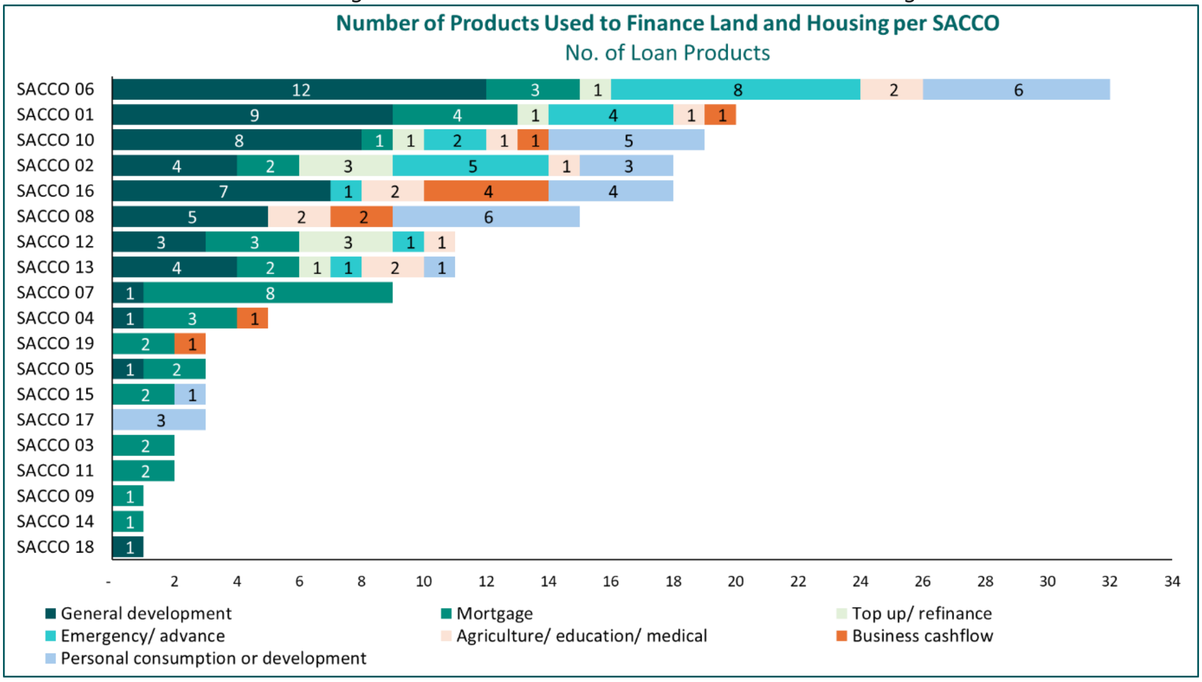
Source: AIS Capital analysis

B. Loan Products

SACCO members use an unexpectedly wide range of loan products to finance land and housing, often beyond those specifically designed for this purpose. In some SACCOs, as many as 32 different products — ranging from short-term emergency loans to facilities intended for agriculture or education — have been used to finance land and housing needs despite their higher costs and smaller sizes (see *Figure 11*). This may be due to: (i) policies that prevent members from holding multiple loans of the same product concurrently; (ii) limited restrictions that ensure loans are used for their intended purposes as envisioned in product design (some SACCOs deprioritize this if repayment capacity and other financial requirements are met by the borrower); or (iii) product design based on the nature of borrower income rather than use of funds. If in practice members are free to repurpose any loan for housing-related uses, this raises questions about the need to maintain such an extensive product range, especially if products are not well defined or clearly distinguished. It also reinforces the need for consistent sector-based loan purpose classification as per the guidelines issued by SASRA via Guidance Note SASRA/GG/2/2019 dated 10th December 2019.

Recommendation: SACCOs can put more effort into better data collection to ensure sectoral data captured on loan application forms is as close to accurate as possible. Improving the level of detail required in application forms is a good place to start as sectoral data relies heavily on what member's fill out as the loan purpose. Only a handful of SACCO loan forms reviewed had provisions for selection of land and housing sub-sectors (e.g., purchase of plots, renovation of buildings etc.) and sections to fill out multiple uses for a single loan. A caveat called out by participating SACCOs is that the SACCO cannot collect data on expenditure of loan financing to the last coin, especially where funds were sent to the borrower's account instead of directly to a vendor e.g., a property developer or land sales company.

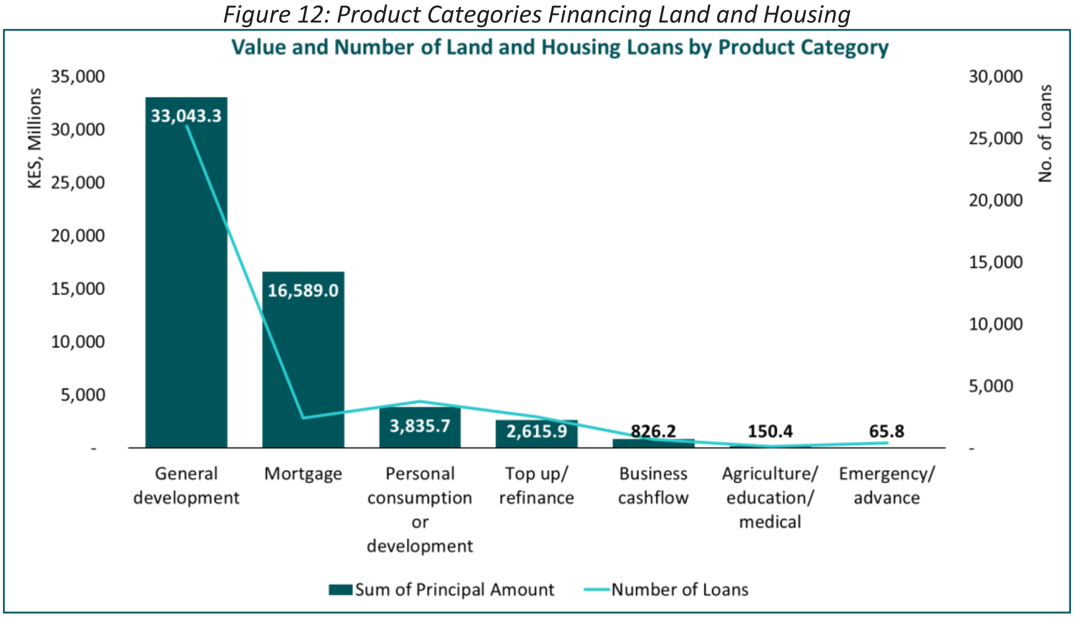
Figure 11: Products Used to Finance Land and Housing



Source: AIS Capital analysis. Note: Besides mortgages, other loan categories can be used to finance other needs/ purposes besides land and housing.

General development loans remain the most popular for SACCO land and housing finance, as shown in *Figure 12,* **driven by deep familiarity among members, lower closing costs if secured by guarantors, and flexibility to consolidate varying financing needs into one loan**. These loans accounted for 72.4% of all loans in the dataset and 57.8% of the total principal value lent for land and housing. Their prevalence reflects a longer history of use compared to mortgages, as well as familiarity with the standard SACCO model of using guarantors as the primary security — making this type of loan easier for members to understand and for staff to promote. Many members also prefer them as they do not have to incur legal and valuation fees or share details on the property (they can maintain privacy). In addition, a single general development loan can be used for multiple purposes, including land and housing, enabling members to consolidate their borrowing into one loan for ease of management; unlike plot purchase loans or mortgages that usually do not provide the same flexibility.

Figure 12: Product Categories Financing Land and Housing



Sources: AIS Capital analysis

KMRC-backed mortgages are boosting affordability but the uptake is slow among SACCOs as some are hesitant to allocate liquidity to the initial portfolio of KMRC mortgages, given the opportunity cost of other higher margin products. Lower interest rates and longer repayment periods make KMRC mortgages highly attractive to members seeking larger loan amounts; these loans are expected to gradually shift demand away from traditional development loans. However, the longer tenors tie up SACCO capital upfront as they build the initial portfolio for refinancing. SACCOs consider that the same capital could have been used for other loan products with (i) shorter tenors freeing up the capital for additional lending in a shorter period; and (ii) higher margins over the cost of funds. This is especially a significant bottleneck for smaller SACCOs with limited capital to lend large amounts over longer tenors. Moreover, this may affect liquidity and profitability if SACCO portfolios are not approved for refinancing due to various reasons, after having already lent to multiple members at the single-digit rates.

Recommendation: A dedicated pre-financing/ bridge facility could catalyse growth of SACCO mortgages portfolios if structured well. By providing short-term capital to bridge the gap between mortgage disbursement and initial refinancing, such a facility would enable SACCOs to issue more mortgages without worrying about the opportunity cost. To offer affordable single-digit rates, the facility would require a substantial concessional capital component from development partners or government sources. A portion of the accumulated housing levy contributions could be utilised for this purpose and would be aligned to the recent decision to utilize the Affordable Housing Fund for lending purposes i.e., the Affordable Housing Regulations 2025 were approved in August 2025 and will see the Affordable Housing Board lend up to KES 4 million to Kenyans looking to construct owner-occupied homes in rural areas.[17] Its success would hinge on strategic structuring — including the choice of host institution, optimal capital blend, tenor and repayment terms, ticket sizes, drawdown and refinancing timelines, and safeguards to prevent fund diversion to non-mortgage uses. Reference on structure and key learnings can be drawn from pre-financing facilities set up in:

- **Nigeria:** The Nigeria Mortgage Refinance Company (NMRC) was set up to either refinance or pre-finance mortgages.[18] Later in 2017, the Mortgage Warehouse Funding Limited (MWFL) was established to provide short term (6 months) pre-financing to lenders for mortgage origination before becoming eligible for NMRC refinancing. The aim was to improve liquidity available for mortgage lending.[19,20]
- **Tanzania:** The Tanzania Mortgage Refinance Company (TMRC) offers pre-finance loans to lenders. These are short-term facilities provided to lenders that have launched mortgage products but lack an adequate volume of eligible loans for refinancing.[21] They give lenders upfront liquidity, allowing them to disburse mortgages without delay and easing liquidity constraints.

Some SACCOs have phased out dedicated land purchase loans due to low demand. These loans are typically structured as asset finance products that use the property as collateral. This results in longer disbursement timelines and higher incidental costs compared to development loans, without offering more favourable terms on interest rates, tenors, or maximum amounts. Consequently, members often opt for development loans instead, resulting in low uptake of land purchase loans. If possible, a re-design of these products to reflect benefits of using property as collateral could help with uptake. Streamlining collateral-related processes and costs could also help revive demand and make such products more competitive (such recommendations are discussed in *section 4.3* of this report).

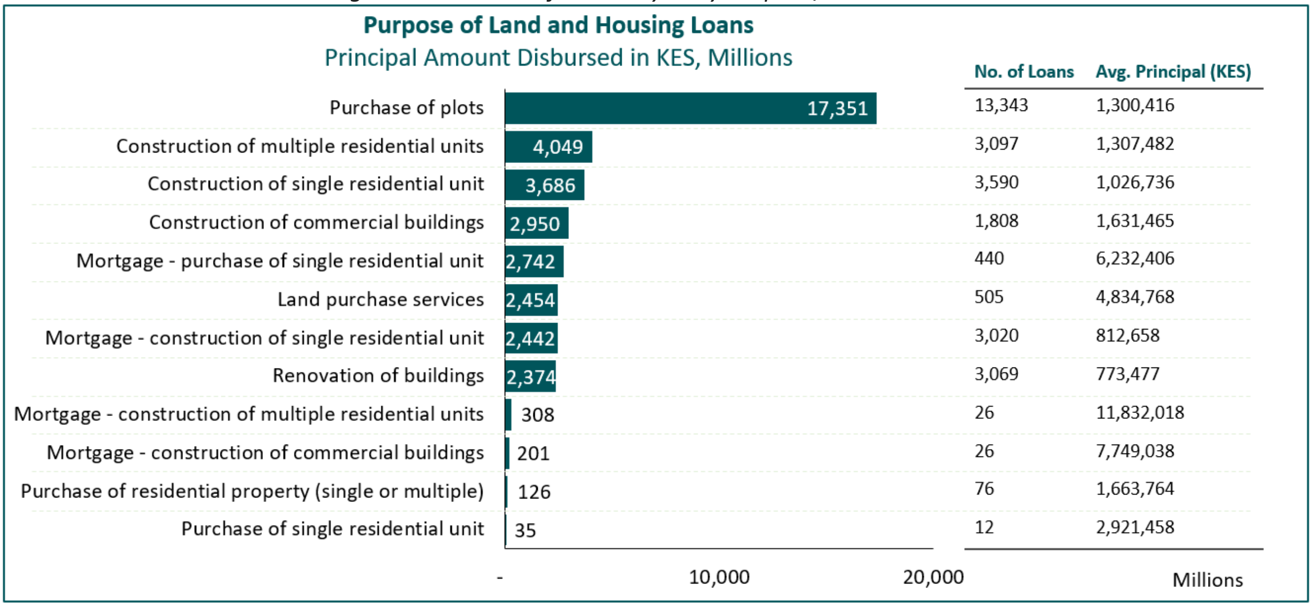
C. Loan Purpose/ Sub-sector

Plot purchase is the dominant purpose for SACCO land and housing loans, presenting a clear opportunity to drive uptake of construction mortgages, enabling members to develop purchased land. As seen in

[17] SACCO Review (2025), Parliament approves regulations for Ksh 4Million rural housing loans under Affordable Housing Fund
[18] World Bank (2013), Financing Agreement (Housing Finance Project) between Federal Republic of Nigeria and International Development Association
[19] Central Bank of Nigeria (2019), Economic and Financial Review | Developing the Housing Sector in Nigeria – A Regulator's Perspective
[20] Global Banking & Finance review (2019), Mortgage Warehouse Funding Limited; a much-needed support to the Nigeria Mortgage Sector
[21] TMRC Product Summary | Pre-finance Loans

Figure 13, construction is the second most popular use of funds, suggesting that most land purchased by members is likely earmarked for future development.[22] Construction loans are in higher demand than outright purchase loans, as they allow members to build customised homes while maximising perceived value for money and affordability compared to ready-built options. Construction loans are also popular for building of income-generating rentals. Non-mortgage loans used for construction also support incremental building i.e., using multiple loans to gradually build over time, as suggested by the lower average principal amounts compared to mortgages. This aligns with the financial realities of most members earning below KES 100,000 monthly.

Figure 13: Loan Portfolio Analysis by Purpose/ Sub-sector



Source: AIS Capital analysis. Note: This does not include loans that were not classified by sub-sector

Recommendations:

- **Incremental building remains a vital homeownership pathway for members unable to qualify for a single large loan to complete construction.** Instead of securing a single loan to cover the entire bill of quantities (BoQ), these members take a series of smaller, shorter-term loans to complete their homes in phases over several years. This approach differs from KMRC's construction or buy-and-build products, which require qualification for full funding upfront for the entire project cost. SACCOs could respond by creating a structured incremental building product that mirrors this phased borrowing pattern while meeting refinancing criteria. In turn, a tailored refinancing option for such loans could be explored to enhance affordability for borrowers who have incremental building as one of their only viable options for homeownership.
- **Practical construction support can help SACCO members complete construction projects on time, within budget, and in line with required quality standards.** Construction loan borrowers often face multiple challenges including cost overruns, delays, and substandard workmanship — issues that can contribute to loan default. A practical solution could be for SACCOs to partner with vetted real estate development professionals, creating a pre-approved panel for borrowers to choose from for construction of their homes. The SACCO's associate housing cooperative could also be leveraged to broker and oversee such partnerships for the benefit of SACCO members. Such partnerships could improve project outcomes supporting completion within budget, enhancing borrower satisfaction, reducing the need for top-up financing to cover unforeseen challenges, and protecting the SACCO's loan portfolio. Only two of the participating SACCOs currently provide such support to members borrowing for construction.

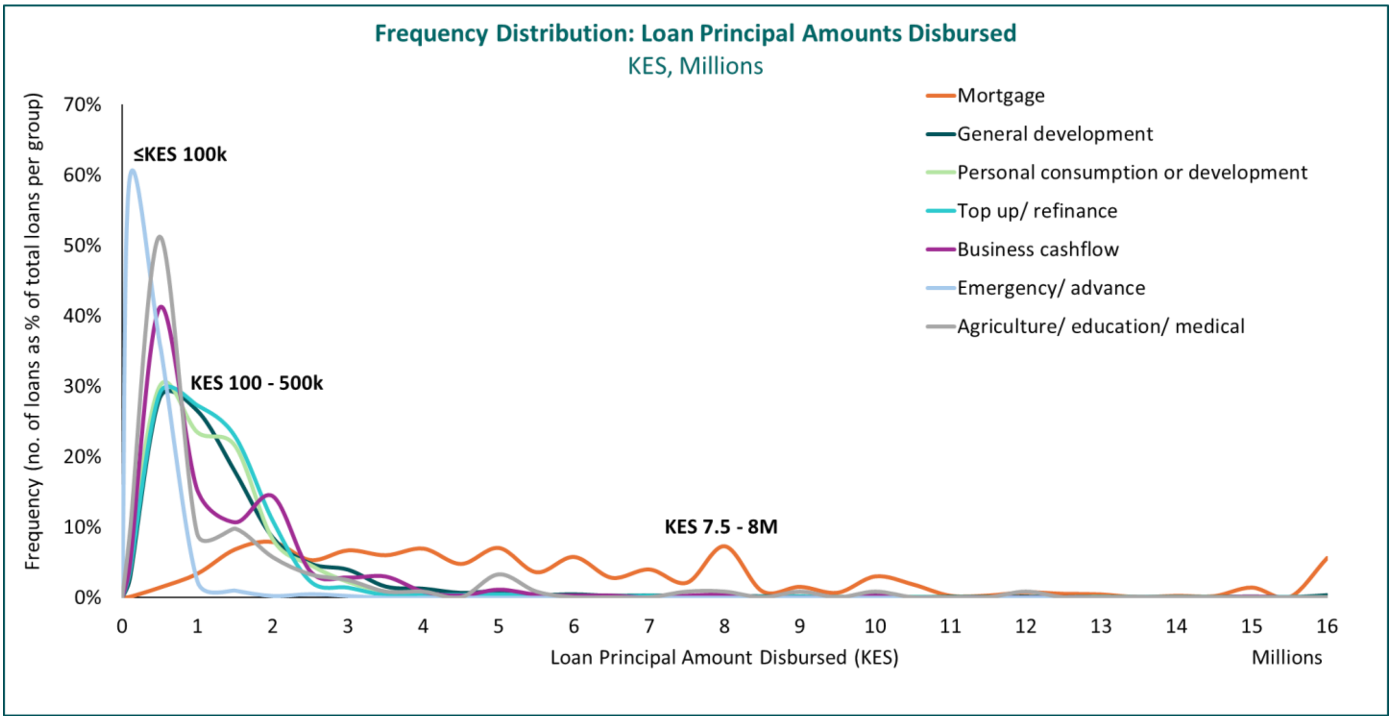
[22] This observation is based solely on the data collected and does not consider other potential reasons for plot purchase e.g., speculation.

D. Key Loan Features

Typical features of loans borrowed for land and housing include principal amounts ranging from KES 100,000 to 1.5 million and annual interest rates of 10-16%; repayment periods vary significantly, roughly placing majority SACCO loans between 2 and 8 years.

- **Most SACCO land and housing loans are modest in size — typically below KES 1.5 million — likely used primarily to purchase land.** General development loans, which dominate this segment, mostly range from KES 100,001–500,000, sufficient to partially or fully fund land acquisitions, the most common loan purpose. Mortgages are notably larger, with principal amounts peaking at KES 7.5–8 million (*Figure* 14), while emergency loans and advances are the smallest, usually under KES 100,000, and are likely used for ancillary costs such as land purchase services, renovations, or topping up funding for larger projects.

Figure 14: Distribution of Loans by Principal Amount

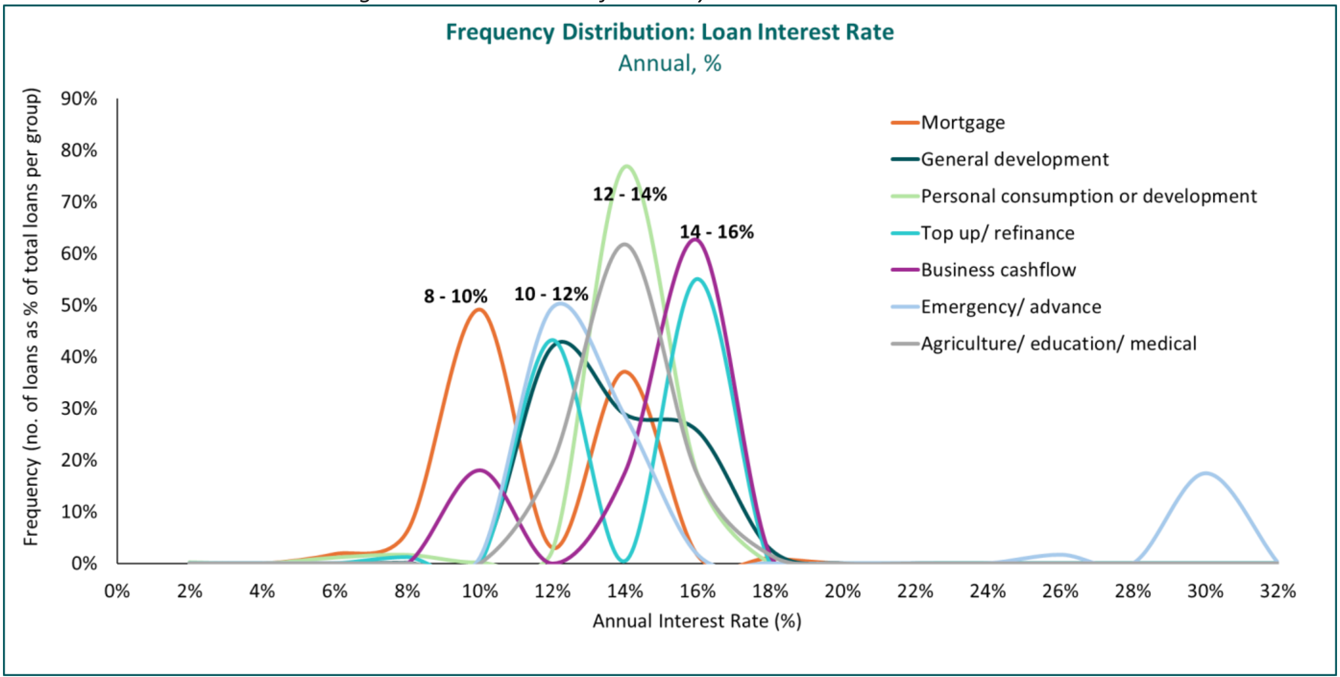


Source: AIS Capital analysis

- **Interest rates on SACCO land and housing loans are generally competitive, though certain products remain costly and less efficient for property investment.** Most loans fall within the 12–14% range, with general development loans averaging 10–12% and KMRC-refinanced mortgages offering the lowest rates at 8–10% (*Figure 15*). KMRC is currently able to offer cheaper rates to participating PMLs due to its blended capital structure where the bulk of its capital base is through World Bank's government-backed concessional financing. Business loans and some top-up or refinancing facilities are higher at 14–16%, now comparable to the July 2025 average commercial bank lending rate of 15.24% — a rate that could decline further in tandem with recent monetary policy actions.[23] Short-term emergency loans and advances, often unsecured, are the least cost-efficient; while many are priced at 10–12%, some carry high flat or monthly interest rates that, when annualised, can exceed 30%, making them comparatively expensive for land and housing investment.

[23] CBK Website | Home Page, Key Rates [Accessed on September 16th, 2025]

Figure 15: Distribution of Loans by Annual Interest Rate

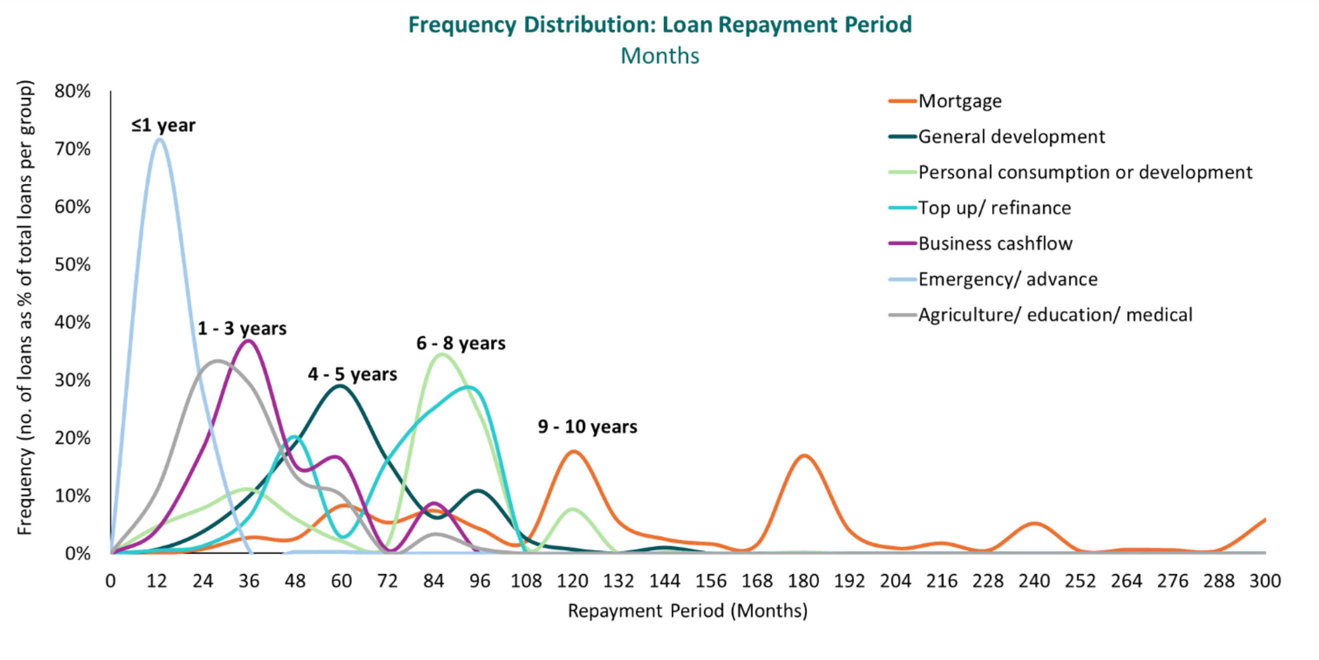


Source: AIS Capital analysis

- **Loan tenors for SACCO land and housing finance vary widely, with most falling in the 3–5-year range, and mortgages offering significantly longer repayment horizons.** As shown in *Figure 16*, mortgages have the longest repayment periods, typically 9–10 years, with notable demand for even longer periods — 42.7% of mortgage borrowers (865 members) opted for 10–25 years (up to 300 months).[24] The median mortgage tenor is close to the commercial bank average of 11.1 years in 2024 (range of 5.3–18 years).[25] Top-up and refinancing loans rank second in tenor length, averaging 7–8 years, and are often used to restructure general development loans — by extending repayment periods, these facilities can reduce monthly obligations, unlock additional borrowing capacity, and improve affordability where interest rates are more favourable. The shorter average tenor for housing loans compared to commercial banks aligns with the fact that SACCOs serve a market segment that relies on such loans for home ownership through incremental building. Shorter term loans also allow for faster capital turnover enabling SACCOs to use the capital for additional lending. If demand for longer tenors increases, SACCOs can place applications with SASRA to extend loan tenors beyond the traditional 84-month period that was previously the longest term on average offered by SACCOs.

[24] Frequency distribution data is provided in *Annex 6.5*.
[25] Central Bank of Kenya (2025), Bank supervision Annual Report 2024

Figure 16: Distribution of Loans by Tenor/Repayment Period



Source: AIS Capital analysis

E. Security and Regional Coverage

Guarantors are still the primary loan security for SACCOs, while property-secured lending is gradually gaining popularity. The guarantor model has historically played a key role in financial inclusion, enabling those without any property for collateral to access loans for development. Most loans continue to rely on guarantors, with property-secured lending largely limited to mortgages and asset finance loans. While some land and housing loans are backed by logbooks or alternative property, the use of title deeds as collateral is yet to gain a preference in some of the larger, government-based SACCOs due to ease in securing guarantors among colleagues and the time and cost implications of charging property. A growing number of smaller private sector and community-based SACCOs are, however, encouraging asset-based security for larger development or asset purchase loans. This is particularly beneficial to new members outside the common bond or those unable to secure sufficient guarantors, especially for larger, longer-term loans. As SACCOs expand membership beyond common bond membership, the guarantor model's practicality may diminish driven by a lack of familiarity among SACCO members and guarantor-fatigue, paving the way for a gradual rise in collateral-backed lending for land and housing if cost and process barriers are addressed (recommendations on this are discussed in *section 4.3* of this report).

Impact on affordable mortgage access is likely to remain concentrated in urban areas due to lender collateral preferences for risk mitigation. Lenders prefer or even limit acceptable collateral to urban and peri-urban properties due to their marketability and ease of offloading in the event of default. Rural land, particularly ancestral land or parcels in areas with poor infrastructure, is often avoided given anticipated difficulties in disposal. These preferences could result in a geographic imbalance in affordable mortgage impact distribution, with rural areas at risk of being underserved. From the limited property details shared by eight participating SACCOs, most collateral-backed loans financed properties in Nairobi City, Kiambu, Kitui, Kajiado and Machakos counties. Additional remedies are being explored to ensure Kenyans seeking to construct homes in rural areas can also benefit from affordable debt. One such intervention is the recent approval received by the Affordable Housing Board (AHB) to lend up to KES 4 million directly to Kenyans building homes in rural areas.[17] This will need to be well managed to avoid challenges experienced in previous attempts at direct consumer lending by government entities, for example, the high default rates reported across five state-managed funds i.e., KES 28.4B in total by the Hustler, Commodities, Women

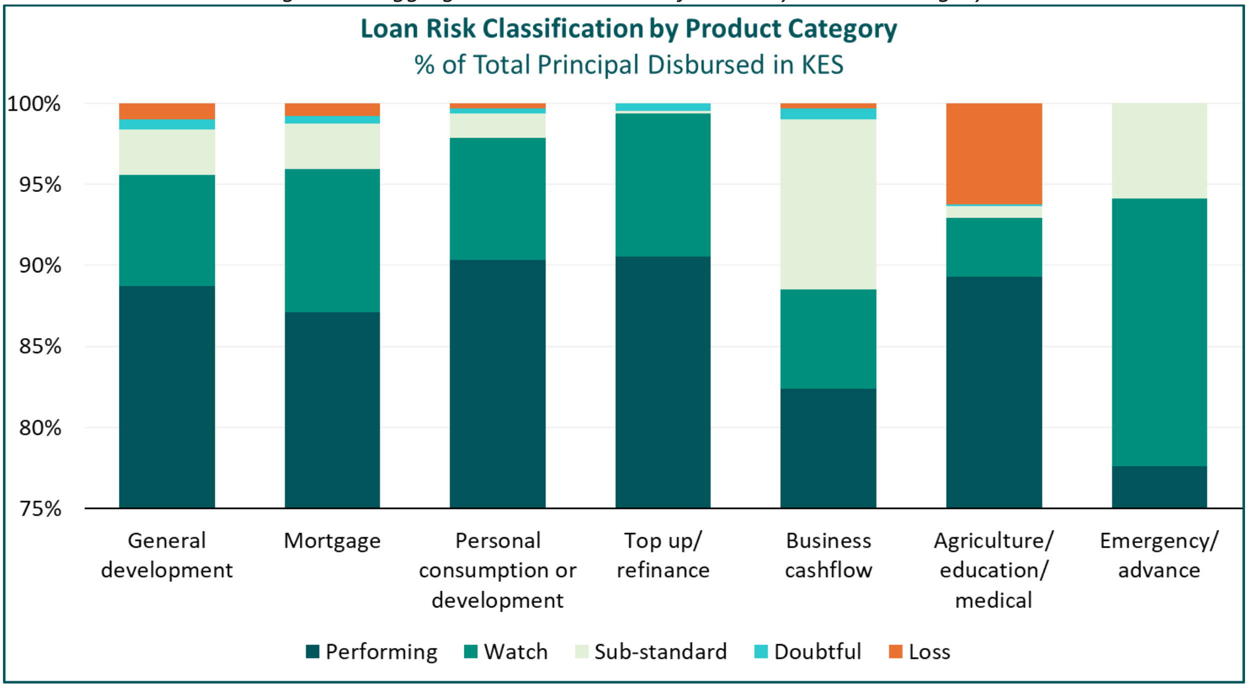
Enterprise and Youth Enterprise Development Funds.[26] While the intervention is necessary to balance geographical impact, it may have been better channelled through the private sector, leveraging decades of expertise and experience in lending, through a structure that incentivizes lending to rural consumers.

Recommendation: Affordable mortgage providers can leverage this insight to introduce measures that encourage mortgage lending in underserved areas. This could be through restructuring the Affordable Housing Fund/ AHB intervention to instead incentivize rural mortgage lending by SACCOs and other private lenders e.g., through a guarantee facility for construction mortgages in rural areas. This could also include prioritization of partnerships with soundly managed SACCOs that operate in underserved areas to broaden impact beyond urban areas. However, rural development efforts by the government would also need to be prioritized to improve marketability of some rural properties, an action that is out of SACCO and lender control.

F. Loan Risk Classification

Overall, most SACCO land and housing loans are performing, with mortgages having the highest share of performing loans, as shown in *Figure 17***.** Portfolio data indicates that over 75% of loans are classified as 'performing,' and only a small proportion, especially for mortgages, fall into the 'loss' category. This strong performance of mortgages is partly attributable to the relative newness of mortgage products in most SACCOs, with the bulk of outstanding mortgages still in the early years of repayment, before most delinquency risks typically rise.

Figure 17: Aggregated Loan Risk Classification by Product Category

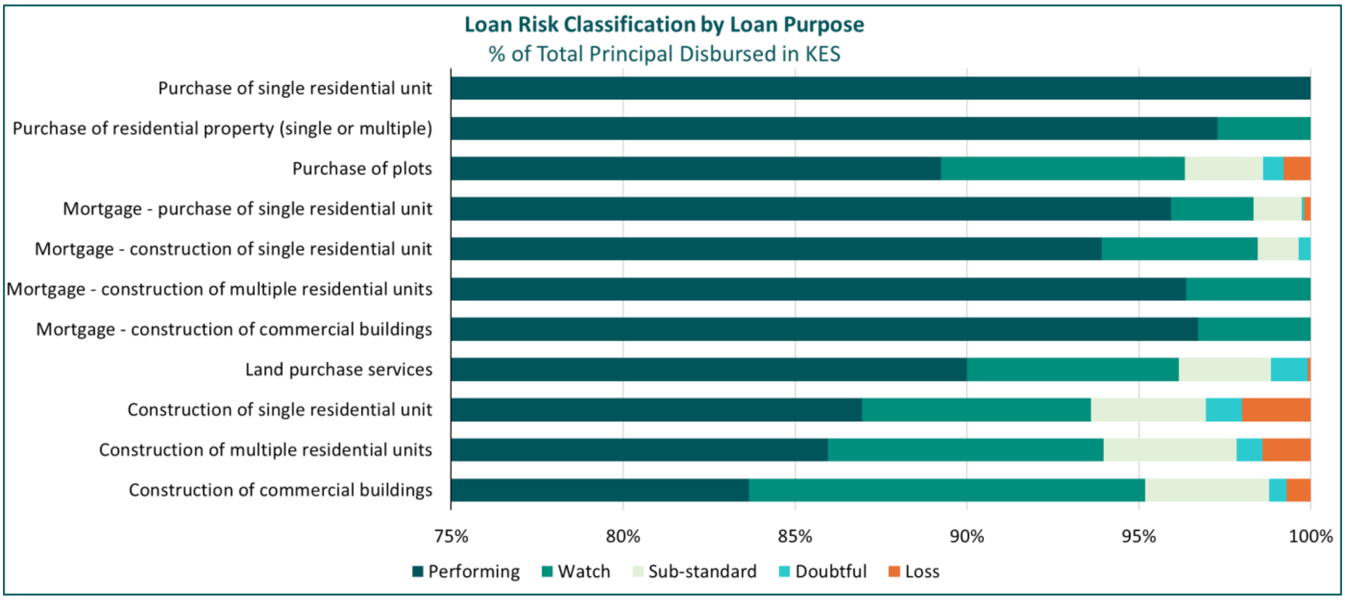


Source: AIS Capital analysis. Note: The y-axis begins at 75%, not 0%. This is not the NPL ratio; it is the total value of loans by principal amount classified under various risk categories.

Non-mortgage construction loans show higher early signs of repayment stress compared to outright property purchase loans (*Figure 18*). Around 15% of these construction loans fall under various non-performing categories, mainly the 'watch' category, compared to less than 5% of outright purchase loans. This elevated risk is often linked to cost overruns during construction, such as significant increases from the submitted BoQs, which strain borrowers' repayment capacity. Despite these challenges, only 1-2% of loans across the land and housing sub-sectors are classified in the 'loss' category, indicating that current SACCO credit risk management measures remain broadly effective.

[26] Nation Africa (2025), Defaults on Hustler, Uwezo, Youth funds hit Sh28.4bn

Figure 18: Aggregated Land and Housing Loan Risk Classification by Purpose/ Sub-sector[27]



Source: AIS Capital analysis. Note: The x-axis begins at 75%, not 0%. This is not the NPL ratio; it is the total value of loans by principal amount classified under various risk categories.

4.1.2 Lending Process

This section summarizes the end-to-end loan process for mortgages and land and housing loans secured by property, noting key nuances among SACCOs and highlighting common challenges as well as potential solutions. *Figure 19* provides a summary of the process, explained further in sections that follow. SACCOs should continue to explore ways to reduce the turnaround time on the appraisal and approval stages of the process that are internal to the SACCO. This will help to reduce the time taken to get a mortgage approved, addressing one of the challenges deterring uptake.

Figure 19: Mortgage Lending Process Summary

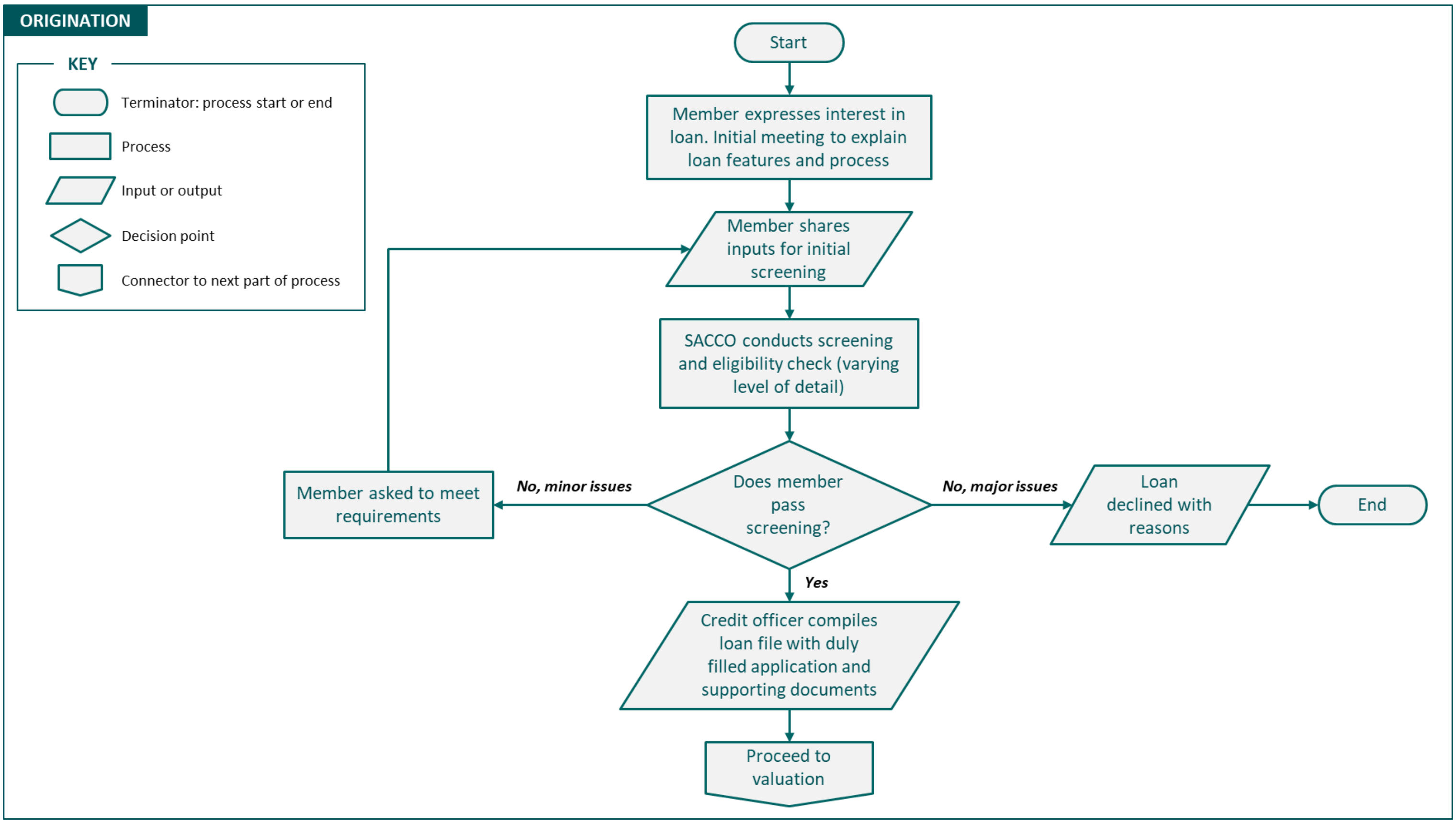
Note: Estimated timelines for each stage with considerations for potential delays. Some stages may take longer or shorter depending on different prevailing circumstances.

A. Origination

This is the first point of contact between the SACCO and potential borrower regarding a land or housing loan, illustrated in *Figure 20*.

[27] Mortgages have been split up based on use of funds to observe nuances in loan performance/ risk classification. The other sub-sectors include loans from all other product categories i.e., general development, personal consumption or development, top-up/ refinance, business cashflow, agriculture/ education/ medical, and emergency/ advance loan categories.

Figure 20: Loan Origination Process



Source: AIS Capital review. Note: This origination process has been adopted by most participating SACCOs for land and housing loans but is not the typical process for all SACCOs.

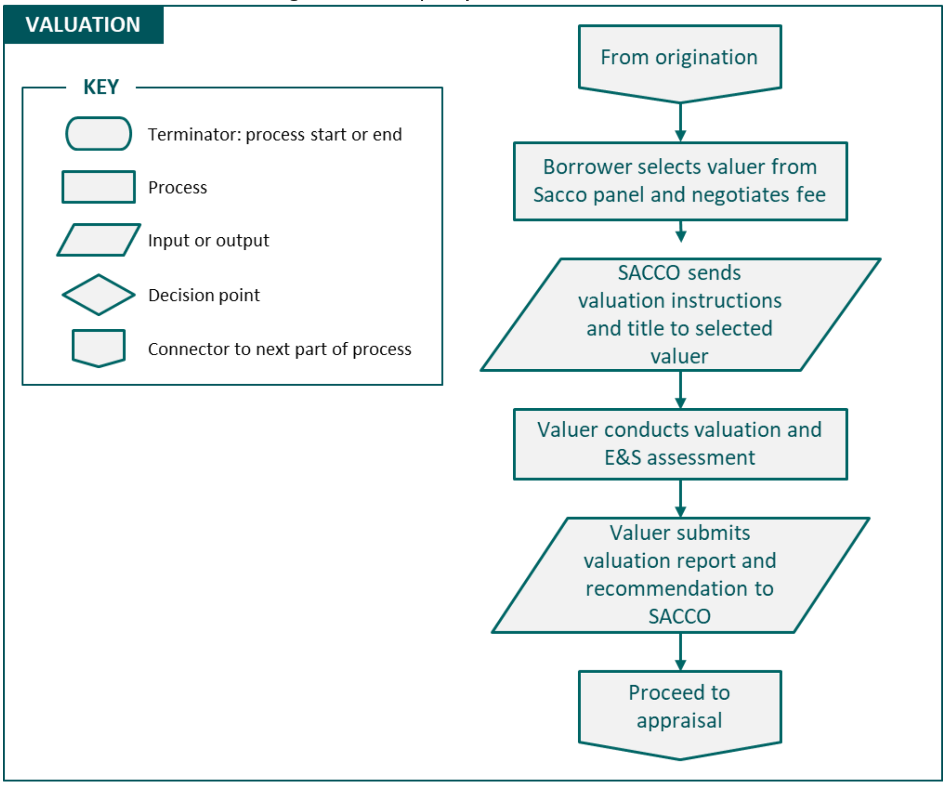
Early screening and pre-qualification can enhance process efficiency and reduce downstream risks. While some SACCOs initiate the process with a formal application, others incorporate a preliminary screening to assess basic eligibility. This screening varies in level of detail and may include a review of documentation, savings and credit history, and financial capability, and in some cases, site visits and some components of legal due diligence (DD), e.g., a land search to verify ownership and identify any encumbrances. In some cases, this process results in pre-qualification for a loan. These early checks can save time and money for both the member and the SACCO.

B. Valuation

Property valuation is one of the factors used to determine loan sizing and may involve an Environmental and Social (E&S) assessment. Valuation is mandatory to establish the market value, forced sale value, and replacement value of the property serving as collateral. While E&S assessments are conducted for all mortgages intended for KMRC refinancing, SACCOs have been applying a form of E&S assessment for risk management purposes, making it fairly easy to formally incorporate into their processes.[28] Following the valuation, if the collateral value falls short, borrowers may be required to provide supplementary collateral or cash cover before an offer is extended. If risks identified are too high e.g., low marketability or high E&S risk, the SACCO might not accept the property as collateral. This process is summarized in *Figure 21*. Results of the valuation and E&S assessment are used in the appraisal process.

[28] SACCOs must have an approved E&S policy in place before becoming a KMRC PML.

Figure 21: Property Valuation Process

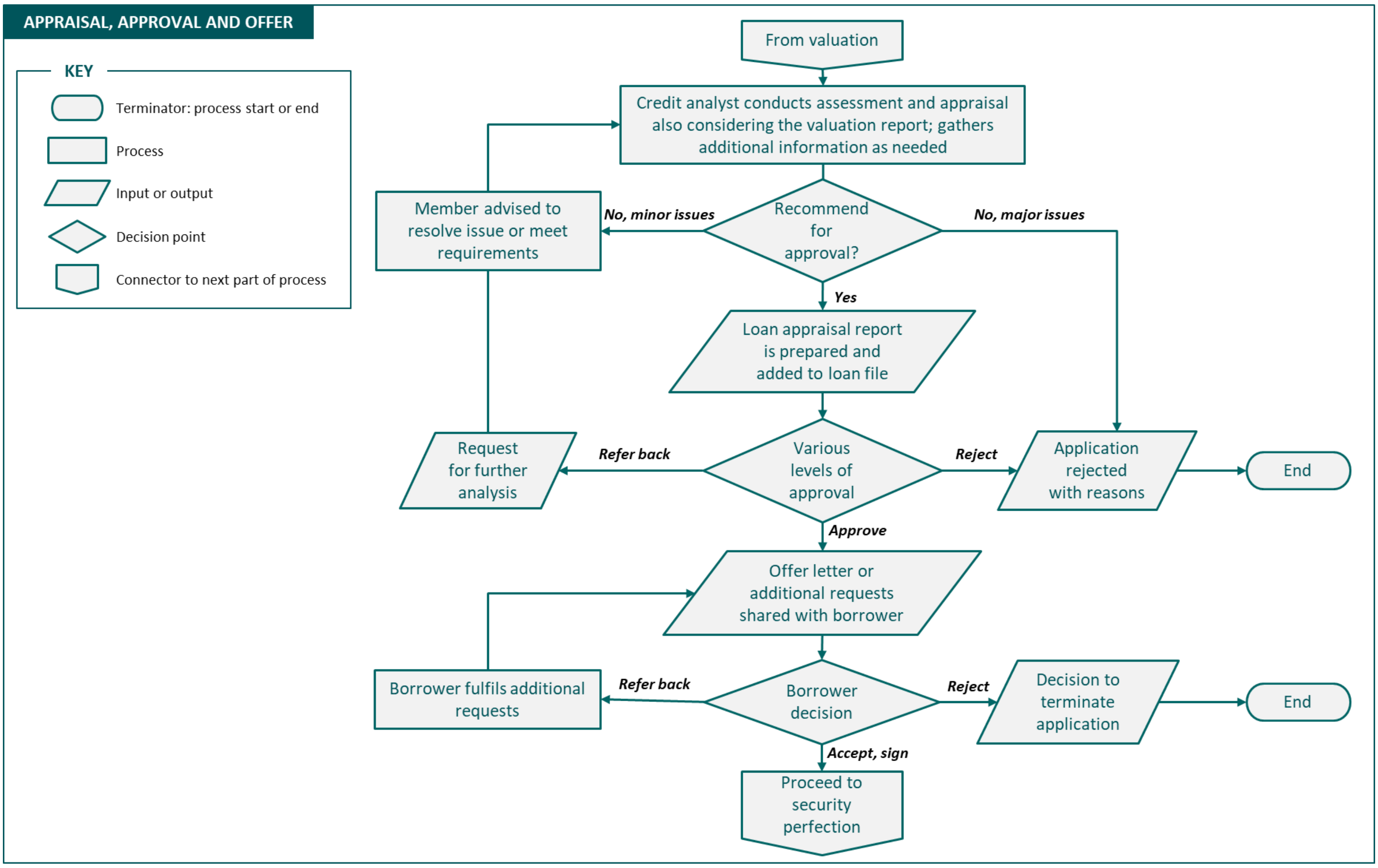


Source: AIS Capital review

C. Appraisal, Approval and Offer

Lending decisions are guided by structured credit assessments and multi-tier approval frameworks. This is a critical part of the process and involves an in-depth analysis using frameworks like the 5Cs of credit (Character, Capacity, Capital, Collateral, Conditions) or CAMPARI (Character, Ability, Margin, Purpose, Amount, Repayment, Insurance & Security) to assess a borrower's creditworthiness and inform lending decision. The process is illustrated in *Figure 22* below.

Figure 22: Loan Appraisal, Approval and Offer Extension Process



Source: AIS Capital review

The approval structure varies by SACCO and is typically dependent on the loan amount and size of the institution (summarized in *Table 7* below). Most SACCOs require two to three levels of approval, ranging from branch and head office to board-level credit committees. The largest loans go through all approval levels in most SACCOs and committee members know to remain flexible for decision-making, to ensure that disbursement timelines are kept as short as possible.

Table 7: Loan Approval Ladder

Level	Approver	Loan Limit Ranges (KES)	Notes[29]
Branch	Branch Manager/ Branch Credit Committee	Up to 500k – 2M	Only a few SACCOs have this level. Limit approved may depend on branch asset quality *Turnaround time is 1-2 days depending on time of day the application package is received.*
Head Office	Credit Manager/ Head of Credit	Up to 200k – 4M	All SACCOs have this level. Limits vary based on SACCO size *Turnaround time can vary between 1-3 days; shorter if approval involves a single person and can take longer if it requires MCC approval.*
	Management Credit Committee (MCC) or CEO	Up to 1M – 25M	
Board	Board Credit Committee (BCC)	Over 1M – 25M	All SACCOs have this level. Required for high value loans or amounts above product limit *Turnaround time varies depending on board availability; 1-5 days for BCC approval and can take longer for full board approval*
	Full board	Over 5M – 30M	

Source: AIS Capital review

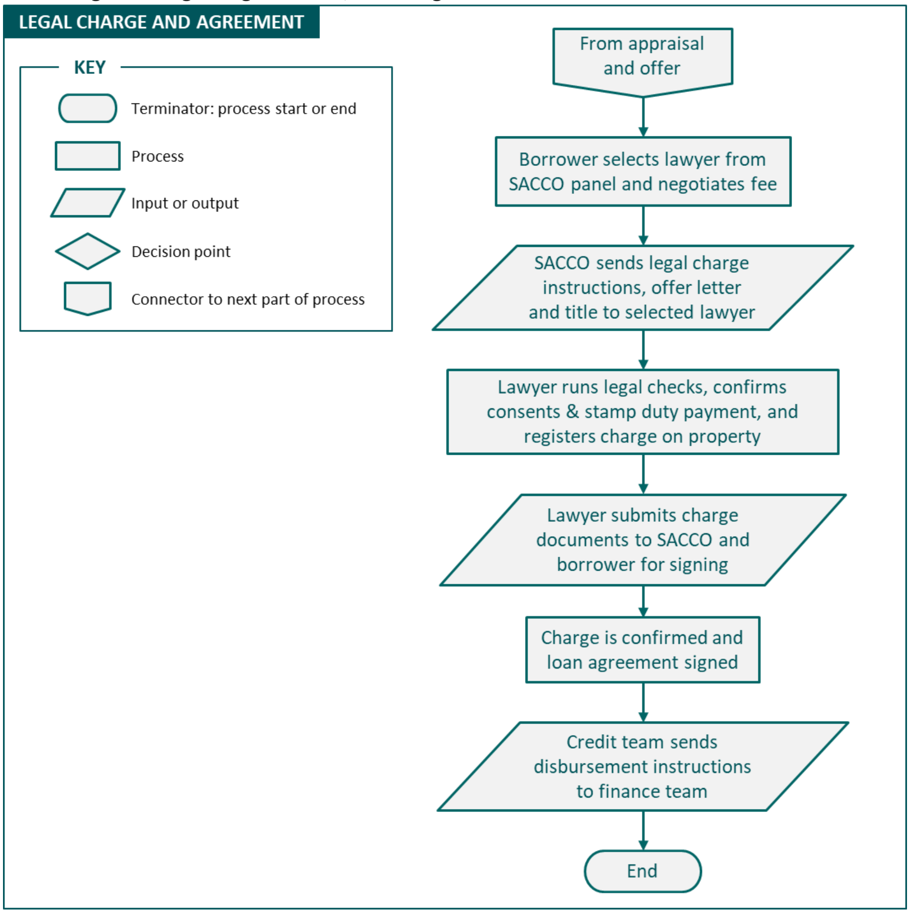
[29] Turnaround time ranges provided are based on working days and vary per SACCO. They assume that application packages/ borrower files received for approval contain complete information required to make a lending decision.

Approval gives the greenlight to share a conditional loan offer with the member. The borrower is engaged in case of any additional requests before an offer can be finalized and signed. The offer letter specifies key loan terms—including amount, interest rate, tenor, collateral details, and conditions for disbursement (e.g., legal charge registration, insurance).

D. Legal Charge Registration, Agreement and Disbursement

The registration of a first legal charge on the property finalizes the security perfection process and grants the SACCO legal recourse in case of default. Certain legal checks are also conducted such as land rent and rates clearance checks. The process is illustrated in *Figure 23*.

Figure 23: Legal Charge Registration, Loan Agreement Finalization and Disbursement Process



Source: AIS Capital review

Registering the legal charge can take weeks or months depending on registry efficiency. This process can span 1–6 weeks or longer if further delayed by challenges at land registries. For instance, upon interviewing SACCOs in January and February 2025, it was established that the Ngong land registry processed charges in 4–7 days, Thika in 2 weeks, while Nairobi — migrating to the Ardhisasa digital platform at the time — took 4–6 months. According to the Commission on Administrative Justice (Office of the Ombudsman) records from March 2025, service delays including functional challenges linked to the Ardhisasa platform (the National Land Information Management System) and unresponsiveness of lands officials were the most reported challenges.[30] These challenges have held up progress in land transactions for key stakeholders, including lenders.[31] Delay periods seemed to have declined, per conversations with SACCOs that took place in May and June 2025. Coastal counties faced longer delays due to titling issues. Once the charge is registered and confirmed, the SACCO issues the loan: a lump-sum disbursement is made directly to the

[30] The Commission on Administrative Justice (Office of the Ombudsman) (2025), Ombudsman Calls for Urgent Reforms in Land Administration
[31] Nation Africa (2022), Banks poke holes in Ardhisasa for delaying land transactions

property vendor for outright purchases, while construction loans are disbursed in tranches following inspection of each phase.

The longer and more complex appraisal process for property-secured loans discourages some members from choosing mortgages over development loans. Compared to guarantor-secured SACCO loans, mortgages involve additional steps such as valuation and legal conveyancing, making the process significantly longer. While development loans backed by guarantors can be disbursed within 1-5 days, mortgage disbursement often takes 1-3 months or more, especially if external delays occur e.g., at the land registry. The mortgage process also requires coordination with multiple external parties, which many members find tedious and time-consuming. Consequently, some members prefer taking guarantor-backed development loans despite their higher interest rates, due to the simplicity and speed of the process.

High closing costs associated with property-backed financing reduces affordability and deters uptake. Expenses incurred upfront to secure these loans, such as legal and valuation fees and costs incurred to facilitate the legal DD and charge are estimated at 9–10% of the loan value, with an illustrative breakdown provided in *Figure 24* below. These in addition to annual property insurance costs (~0.3-0.7% annually) and the cost of periodic valuations as required by the SACCO (usually done every 3 years), incurred throughout the life of the mortgage, raise the cost of financing. While currently KMRC mortgages offer lower annual interest rates (8–9.5%) compared to most development loans (~12-14%), closing costs and ongoing expenses can discourage mortgage uptake, acting as a barrier to entry at the origination stage and increasing the lifetime cost of the loan, respectively. SACCOs already provide up to 105% financing with the extra 5% expected to partially offset closing costs. To further manage some of these costs, some SACCOs pre-negotiate legal and valuation fees on behalf of members to secure discounted rates below industry-prescribed scales. Key to note is that according to the Competition Authority of Kenya (CAK), setting of minimum rates or fees for professionals is viewed as a measure that diminishes industry competition and does not benefit consumers.[32] Lawyers and valuers can be encouraged to shift to a system without set scales to foster competition and price-setting based on level of effort, while maintaining requirements on service quality standards.

[32] Cliffe Dekker Hofmeyr (2021), CAK issues notice on the prescription of minimum fees by professional associations

Figure 24: Estimation of Property-backed Loan Closing Costs[33]

Loan cost comparison (KES) - urban areas		Outright purchase		Construction (no land acquisition)	
		Mortgage	Development loan	Mortgage	Development loan
Loan details					
Security		Property	Guarantors	Property	Guarantors
Annual interest rate		**9.5%**	**12.0%**	**9.5%**	**12.0%**
Tenor (years)		25	6	25	6
Tenor (months)		300	72	300	72
Principal (also assumed market value of property)	2,000,000				
Monthly loan payment		17,474	39,100	17,474	39,100
Additional costs incurred annually					
Credit life insurance	% of property value	0.5 - 1%	0.5 - 1%	0.5 - 1%	0.5 - 1%
Property insurance	% of property value	0.3 - 0.7%		0.3 - 0.7%	
Total annual insurance cost		**0.8 - 1.7%**	**0.5 - 1%**	**0.8 - 1.7%**	**0.5 - 1%**
Additional one-off costs					
Loan processing fee	1%	20,000	20,000	20,000	20,000
Stamp duty	4%	80,000	80,000	80,000	
Valuation fees (required for stamp duty assessment)	25,000	25,000	25,000	25,000	
Land map	300	300	300	300	
Legal fees	2%	40,000	40,000	40,000	
VAT on legal fees	16%	6,400	6,400	6,400	
Land search	1,000	1,000	1,000	1,000	
Land rates clearance certificate	10,000	10,000	10,000	10,000	
Land control board consent	3,000	3,000	3,000	3,000	
Registration/ transfer	1,000	1,000	1,000	1,000	
Total		**186,700**	**186,700**	**186,700**	**20,000**
Upfront costs as % of market value		**9.3%**	**9.3%**	**9.3%**	**1.0%**

Source: AIS Capital research and analysis. Note: The development loan in both scenarios is secured by guarantors. The construction scenario assumes that the borrower already owns the land and does not incur certain closing costs.

E. Repayment and Monitoring

Effective monitoring begins immediately after disbursement. Automated reminders and regular portfolio reviews and loan aging assessments help identify delinquency early. Loans are classified in line with regulatory requirements, and portfolio-at-risk (PAR) reports are prepared as frequently as weekly for internal credit department use and monthly or quarterly for board-facing reports, to guide timely intervention.

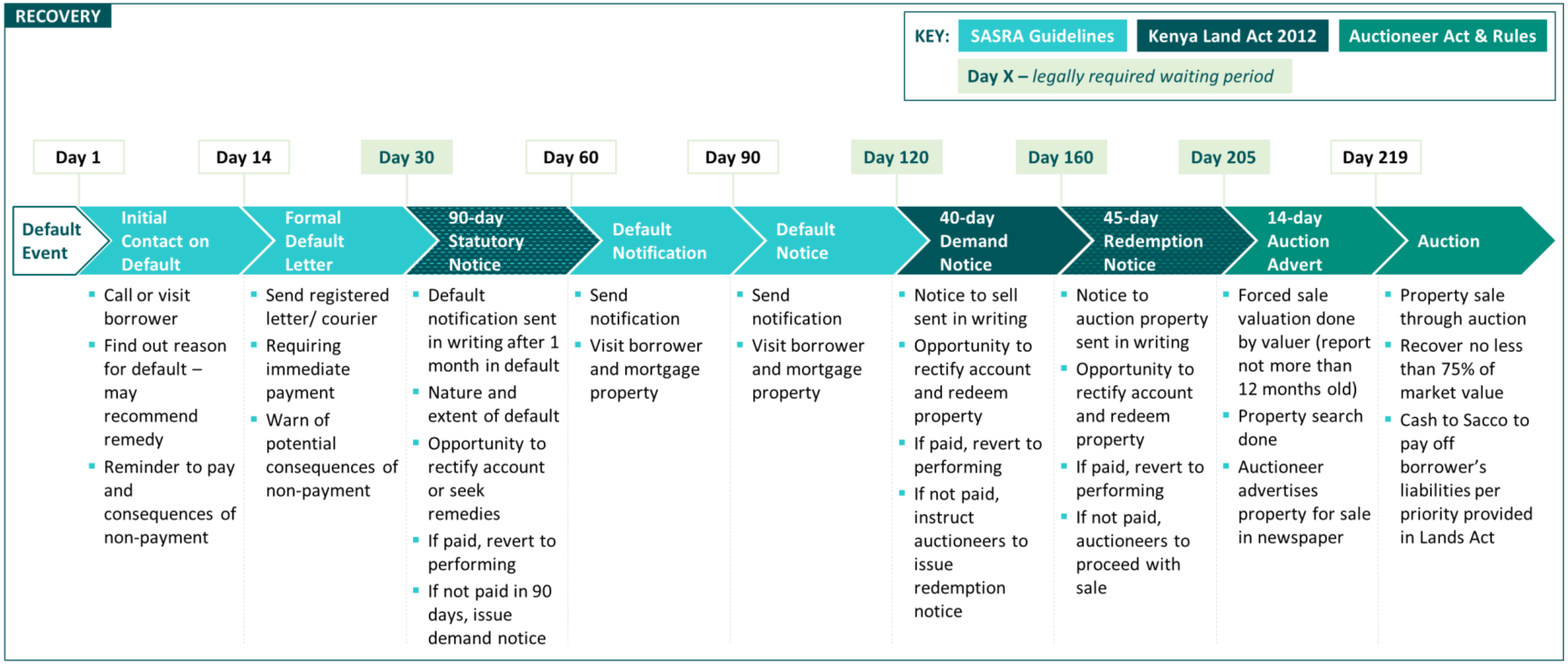
Flexible repayment structures such as grace periods help align cash flow with project timelines and reduce early delinquency risk, particularly for construction loans. Many SACCOs offer a 3–6-month grace period before principal repayments begin for construction loans, during which members make interest payments. This approach eases initial cash flow pressure, supports completion of critical construction milestones, and improves the sustainability of homeownership by matching repayment schedules to project lifecycles.

[33] Some costs may vary based on mortgage or property value and others may not have been featured individually in the table. [1] Cambria Valuers, Valuers Scale of Fees; [2] Ministry of Lands (2021), Service Charter; [3] Kenya Law (2022), The Advocates (Remuneration) Order; [4] MMTK Law, Additional costs when buying or selling property in Kenya; [5] AOwanga Advocates, Land registry fees and charges Kenya; [6] Ministry of Lands (2023), Land Amendments Regulations, 2023

F. Recovery in the Event of Default

When default occurs, SACCOs first attempt to align on a suitable resolution plan with the borrower e.g., restructuring. If this fails, a comprehensive recovery process is initiated as summarized in *Figure 25* below. Legal requirements such as issuing notices as stipulated in the Land Act, 2012 must be strictly followed.

Figure 25: Recovery Process in the Event of Loan Default



Source: AIS Capital review and analysis, Land Act 2012 and Auctioneer Act and Rules[34,35]

Various actions can prolong the already lengthy recovery process, including the following:

- Failure to adhere to legally required steps can result in litigation
- Legal action by the borrower seeking alternative remedies as outlined in the Lands Act can also stop the process, causing major delays in recovery
- If the borrower resumes payments, the loan may be reclassified as 'performing'. If another default occurs, the process may need to be restarted

[34] Muri Mwaniki Thige & Kageni LLP Advocates (2023), Land As Security For Loan: The Debt Recovery Options

[35] Wamae & Allen LLP (2023), The Dos and Don'ts of an auctioneer while conducting public auctions

The inefficient and prolonged foreclosure process represents a systemic constraint on housing finance, significantly affecting both SACCOs and banks. The process undermines lenders' ability to recover funds in the event of default, weakening financial positions and discouraging broader market participation. According to the KNBS 2023/24 Kenya Housing Survey, a lengthy legal recovery process was cited as the main challenge in loan recovery by most surveyed financial institutions including 36% of SACCOs. While the Land Act (2012) seeks to protect borrowers from exploitation, it provides limited recourse for lenders when defaults stem from deliberate delinquency rather than genuine financial hardship. Recognizing these challenges, the government proposed a reform under the Business Laws (Amendment) Bill No. 51 of 2024, to reduce the statutory notice period from 90 days before exercising the power of sale, but only for properties under the Affordable Housing Programme (AHP).[36] Although AHP-specific, this proposal highlights the urgent need for broader legislative and institutional reforms to streamline foreclosure, balance consumer protection with lender rights, and create a more efficient, predictable framework that supports sustainable housing finance growth.

Recommendations:

- **If reforms proposed for the AHP are passed, they should be extended to all developments accepting mortgage financing.** Since it only proposes changes to the 90-day statutory notice period, it will shorten the recovery process for lenders while retaining essential borrower protections.
- **Explore ways to institutionalize other recovery avenues that are legal but fragmented in application.** For example, private treaty agreements are used by lenders to dispose of collateral through a private buyer upon agreement with the defaulting borrower. SACCOs relatively underutilize this recovery option i.e., only 18.5% of SACCOs utilize this recovery option compared to 82.9% of commercial banks and 69.2% of microfinance banks.[37] However, it is usually done on a loan-by-loan basis, which can still be time consuming for lenders. Institutionalizing bulk purchase of property-backed NPLs across multiple lenders can provide a faster, efficient and long-term solution for lenders.

4.1.3 Credit Risk Management Measures

Risk management practices among most SACCOs primarily focus on understanding and addressing present or existing risks at the time of loan appraisal. Most processes focus on gathering information such as borrower income, employment status, security availability, loan repayment history, and loan purpose to identify and understand key risks and make decisions on lending and risk mitigation. This approach is summarized in *Figure 26* below. However, while helpful for filtering out high-risk borrowers, this approach is inherently retrospective and does not predict the likelihood of future default, especially in dynamic economic environments or for borrowers with no prior borrowing history.

[36] Kenyans.co.ke (2025), Govt Moves to Fast-Track Repossession of Affordable Houses from Defaulters
[37] KNBS 2023/24 Kenya Housing Survey Basic Report

Figure 26: Summary of Common Credit Risk Management Measures

Identify	Understand	Mitigate	Monitor
▪ Document reviews ▪ Member interviews ▪ Property site visits	▪ Credit appraisal & scoring ▪ Security valuation ▪ Legal due diligence ▪ E&S assessment ▪ Market screening & sector research	▪ Security/ collateral ▪ Deposit multipliers ▪ Insurance covers ▪ Phased loan disbursement for construction ▪ Collateral-specific LTVs ▪ Provisioning per regulations ▪ Specifying discouraged credit facilities ▪ Exposure limits ▪ Risk-based lending affecting pricing and amount ▪ Group lending structures	▪ Loan aging & risk classification ▪ Regular risk reporting ▪ Routine site inspections ▪ Regular update of security valuation

Source: AIS Capital review and assessment

Techniques used to anticipate future credit risk remain limited in sophistication. Only a few SACCOs indicated use of scenario analysis, stress testing, or predictive modelling, with one SACCO referencing use of a predictive default approach developed internally to detect early warning signs of potential loan default post-disbursement. Such predictive models, if more widely adopted, could be transformational for SACCOs. By identifying signs of financial stress early — such as irregular repayments, income shocks, or decreased member engagement — SACCOs could implement timely interventions such as loan restructuring. These approaches could help to reduce loan non-performance and improve portfolio resilience, especially in SACCOs serving SMEs or informal sector members.

CRB Regulations, 2020 require SACCOs to share borrower credit information with CRBs, but this requirement is not stated in any SACCO regulations or legislation, meaning reporting remains largely 'voluntary' and inconsistent. While many DT SACCOs are already submitting data, the completeness and frequency of reporting vary i.e., some provide full-file information (both positive and negative performance), while others submit only negative data. Reporting schedules also differ, ranging from monthly reports to daily or real-time updates, particularly for SACCOs with CRB-integrated systems. Management interviews revealed that DT SACCOs have been informally guided to share data and are already doing so, but in the absence of a formal regulatory mandate, they cannot be compelled to report in a specific format or frequency. SASRA has recognized this gap and is working to formalize full-file reporting requirements in regulations. This should standardize the type of data shared, and specify reporting frequency across all regulated SACCOs. Mandating full-file reporting, similar to banks, would enhance the effectiveness of Kenya's credit information system and strengthen credit risk assessment.

Despite the use of CRB reports in loan appraisal, some SACCOs are using or planning to procure credit scoring technologies to address gaps in CRB scoring. Some third-party digital credit scoring tools use alternative data — such as mobile money transactions, financial management behaviour including expenditure patterns and mapping, payment patterns for regular bills such as utilities and rent, savings and investment profiles etc. — to evaluate creditworthiness particularly for members with thin or no CRB files. These tools usually analyse data from account statements including mobile money accounts or alternatively pull data from mobile phone messages that contain alerts on cash inflows and outflows from all the borrower's accounts using Application Programming Interfaces (APIs).[38] From analysing this data, these tools can generate real-time, automated, and customizable risk scores, helping lenders make faster and more informed decisions, especially on digital loans. The data can also be used to locate defaulting borrowers through expenditure mapping. Importantly, both internally developed and externally procured credit scoring tools can allow integration of SACCO-specific variables that CRBs may not capture, such as a member's historical savings patterns, performance and loyalty as a SACCO member. Additionally, credit scoring tools can be integrated into digital lending platforms to support continuous monitoring and early risk flagging, enhancing the SACCO's overall credit risk management framework. These credit scoring tools can improve the risk management process by filling existing gaps. Incorporating such tools also aligns with strategic objectives of most SACCOs to leverage technology to improve the loan appraisal process.

Recommendation: Most SACCOs interviewed would find a similar but shared/central credit scoring tool helpful if it has certain attributes e.g., a tool that includes strong data protection and anti-tampering safeguards and enhances digital loan disbursement efficiency. A comprehensive gap analysis and demonstration of how such tools would practically fill identified gaps is recommended before launching such an intervention. This would also help to determine where such a tool would best be hosted e.g., strengthen existing entities such as CRBs or introduce a new entity. Education on how the selected tool (s) functions would also need to be conducted to address certain local context aspects e.g., borrowers may be reluctant to have APIs pull data directly from their mobile phones due to concerns around trust, data protection and privacy.

4.1.4 The Role of Core Banking Systems

Core banking systems are critical enablers of efficiency, transparency, and scalability in SACCO lending operations. These systems support end-to-end loan processing — from application, appraisal, approval, disbursement, to repayment monitoring — enabling faster turnaround times and reducing manual errors. They allow real-time member account updates, automated interest calculations, and integration with mobile and digital platforms for improved access and convenience. Additionally, core banking platforms provide valuable data analytics and reporting tools that enhance credit risk assessment, portfolio monitoring, and regulatory compliance. However, some SACCOs still run manual and tech-enabled processes concurrently and are yet to fully automate all functions. Given external systems are often generic, customisation is required to tailor functions to unique SACCO processes. Even with these customisations, most systems were installed in 2016/17 and are now due for upgrades to cater for new functionalities required for new products or new reporting requirements.

Despite capabilities of core banking systems, there are certain limitations that continue to hinder seamless data integration. Participating SACCO core banking systems assign unique sector/ loan purpose codes (as listed by SASRA), product IDs, and loan account numbers. However, some data on certain loans issued multiple years ago only exits in physical files and data is at times stored in different formats e.g., collateral details are often scanned and stored as electronic documents as opposed to data keyed into distinct data fields in the core banking system. Therefore, extracting and consolidating data stored in different formats and registers — such as the loans register and collateral register — into a single spreadsheet proved challenging for some SACCOs. This may also explain why some SACCOs manually input some of the data fields required for KMRC refinancing into a spreadsheet for an entire portfolio of mortgages. However, as refinanced portfolios grow, manual inputs will become impractical. These challenges along with limited ability to dedicate resources towards data extraction for the study led to missing loans and data fields.

Recommendation:

- During scheduled system upgrades, SACCOs facing these challenges should ensure that systems are enabled to conduct automated extraction and consolidation of data fields required for different purposes e.g., reporting to SASRA, KMRC refinancing, internal data analytics, or market studies by development organizations.

[38] Examples of such third-party credit scoring tools include Pngme risk assessment tools, Spin Crunch and Finicity by Mastercard among others.

- SASRA provides Management Information System (MIS) guidelines that set minimum standards for SACCOs on ICT areas such as data security, business continuity, and operational efficiency. However, these guidelines are from 2013 and may need to be updated to sufficiently reflect current digital needs, ensure consistency and improve transparency. Updated guidelines should provide a clear regulatory benchmark to guide SACCO investment in core banking system upgrades. SASRA has noted the lack of uniformity in functionalities given that regulated SACCOs are currently using over 30 different systems. Plans are underway to set up a central system that SACCOs can plug into to share uniform data for industry-wide analysis and decision-making.

4.1.5 Strategic Focus

SACCO strategic plans focus on growing membership, deposits, and loans; technology is often mentioned as a lever support achievement of multiple objectives. Most SACCOs target membership expansion through generational outreach, diaspora engagement, and diversified membership outside of the common bond. Loan book growth is a core goal, largely funded by an expanding deposit base that is supported by growing the SACCO's active membership. Technology, automation, artificial intelligence (AI), and data analytics are key enablers for improving efficiency, member experience, and service delivery.

While most SACCOs lack explicit sector-focused strategic objectives, they often reference external opportunities that can shape internal goals for land and housing growth. Strategic plans tend to focus on overall loan book expansion without explicitly targeting specific sectors. Internally, credit teams often prepare growth projections by loan product, drawing primarily from historical performance and the anticipated impact of new products, with some input from member surveys and evolving market trends. For land and housing, some SACCOs recognize the potential of national initiatives such as the government's AHP to stimulate demand for housing-related loans.

Most SACCOs plan to leverage strategic partnerships to expand access to housing finance; however, collaboration with housing cooperatives remains an underutilized opportunity. The majority of participating SACCOs have established or are seeking partnerships with external institutions such as the KMRC to support provision of long-term, affordable mortgages to members. However, only a few SACCOs are exploring strategic collaboration with their affiliate housing or investment cooperatives despite the significant potential these entities have to support mortgage origination through delivery of well-targeted, affordable land and housing projects. Some entities have attempted to collaborate but faced various institutional and operational challenges that have hindered wider adoption of this approach, discussed in *Section 4.1.7*. If done right, collaboration can be achieved while maintaining regulatory compliance.

Many participating SACCOs aim to grow mortgage lending but are yet to fully leverage the mortgage interest tax relief as an incentive to support uptake. Several SACCOs have recently launched or are developing mortgage products for KMRC refinancing. Those with existing but underperforming products are making strides to improve their product features, processes, and staff competency for increased uptake. However, awareness of tax incentives to mortgage holders remains low among both members and SACCO staff. From the KNBS 2023/24 Kenya Housing Survey, only 4.5% of respondents were aware of this benefit. According to the Tax Laws (Amendment) Act, 2024, mortgage holders in Kenya can benefit from a tax relief on mortgage interest payments of up to KES 360,000 per year (KES 30,000 monthly); increased from KES 300,000 (Income Tax Act) in December 2024. All participating SACCOs were aware of the existence of this tax relief, but some were unaware that the relief applies to SACCO mortgage products. Only a few supported their mortgage holding members to benefit from the relief but majority did so only upon request by the member instead of proactively.[39] This relief, applicable to mortgages from co-operative societies used to finance owner-occupied residences, is applied when calculating P.A.Y.E, and can result in monthly tax

[39] For employees with PAYE, this relief is applied monthly by the employer upon submission of the loan agreement and a letter or schedule from the lender showing the expected interest to be paid for the year. It reduces the amount of PAYE deducted and increases net salary. A mortgage interest certificate from the lender or an up-to-date loan repayment schedule is attached while filing taxes at the end of a tax year to confirm the actual interest paid. Self-employed individuals use this certificate to claim the relief when filing their annual tax return; the relief is applied as an allowable expense, lowering their overall tax liability for the year (Kenya Revenue Authority | Blog | Tax Refunds: Are Employees Claiming Their Dues?).

savings of up to KES 9,000 during months when mortgage interest is at least KES 30,000 (illustrated in *Figure 27* below).

Figure 27: Illustration of Monthly Tax Savings from Application of Mortgage Tax Relief

Scenarios			**Basic Pay: KES 200,000**	
Monthly payslip			**Without mortgage interest tax relief**	**With mortgage interest tax relief**
Basic pay			200,000	200,000
Benefits			-	-
Gross pay			**200,000**	**200,000**
NSSF Tier I & II (applicable from end of Feb 2025)	*4,320*		*4,320*	*4,320*
Voluntary pension			-	-
Max. mortgage interest tax relief	*30,000*		-	*30,000*
SHIF	*2.75%*		*5,500*	*5,500*
Housing levy	*1.5%*		*3,000*	*3,000*
Taxable income	**Tax rate per pay band**		**187,180**	**157,180**
Income tax	*10.0%*	*first 24,000*	*2,400*	*2,400*
	25.0%	*next 8,333*	*2,083*	*2,083*
	30.0%	*next 467,667*	*46,454*	*37,454*
	32.5%	*next 300,000*	-	-
	35.0%	*all above 800,000*	-	-
Personal tax relief	*2,400*		*2,400*	*2,400*
P.A.Y.E			**48,537**	**39,537**
Net pay			**138,643**	**147,643**
Max. monthly savings with mortgage tax relief				*9,000*

Source: AIS Capital analysis. Note: Monthly tax savings will be lower if monthly mortgage interest is below KES 30,000

Assuming a household in Kenya spends about 60% of their net incomes on living expenses, a borrower earning a monthly gross pay of KES 200,000 can save an estimated 34.7% of the loan principal amount over the full tenor of the mortgage, by applying this tax relief (sample calculations in *Figure 28*).[40]

Recommendation: Actively raising awareness of this incentive through staff training, member education and marketing and proactively advising members to take advantage of the relief presents an opportunity for SACCOs to boost demand for mortgage products and better compete with existing land and housing loan offerings.

[40] Old Mutual (2024), Financial Services Monitor

Figure 28: Estimation of Mortgage Tax Relief Savings[41]

Mortgage scenarios (Basic pay of KES 200,000)	With mortgage interest tax relief
Mortgage details	
Annual interest rate	9.5%
Principal	**6,760,000**
Tenor (years)	25
Tenor (months)	300
Monthly mortgage payment	59,062
Net pay (from KES 200k gross)	147,643
Take home pay after mortgage payment	**88,581**
% of gross income of KES 200k)	*60%*
Estimated mortgage tax relief savings	
Avg. monthly tax savings with mortgage	7,824
Max	*9,000*
Min	*139*
Total mortgage relief lifetime savings*	**2,347,234**
Savings as % of mortgage principal	*34.7%*

*Source: AIS Capital analysis. Note: * Lifetime savings do not consider time value of money*

The mortgage interest tax relief is already available and should be leveraged to improve affordability; however, it is important to note that its intended impact may not benefit targeted excluded groups as much as it will benefit higher-income households as it is a regressive tax incentive.[42] While the relief allows individuals to deduct interest paid on mortgages, its reach may remain largely confined to formally employed or higher-income earners who already have access to mortgage financing. In its design, the subsidy does not tackle critical supply-side constraints, such as stringent lending practices that exclude certain groups like informal sector entrepreneurs from accessing mortgages. Furthermore, individuals with larger mortgages and therefore higher monthly interest (largely the higher-income population) will end up claiming a larger absolute amount as compared to the lower income population paying comparatively less in absolute interest monthly. As a result, the subsidy may not meaningfully expand mortgage affordability for the intended population, reflecting similar challenges observed in other countries e.g., Mexico, where interest tax deductions disproportionately benefited wealthier households.[43]

Recommendation: It is noted that placing a monthly limit of KES 30,000 to the interest relief makes it less regressive as it caps absolute benefits to higher income households. Another way to improve this further is to restructure the tax relief, making it a percentage of the total mortgage amount or price/cost of the house. Additionally, introducing bands based on the mortgage amount/house cost such that lower amounts get a higher percentage relief will ensure that lower income households benefit more from the relief.

4.1.6 KMRC Refinancing

KMRC refinancing is a sought-after strategic partnership for SACCOs. KMRC member SACCOs have found KMRC support instrumental in meeting SACCO member housing needs, while many non-member SACCOs are actively exploring strategic partnerships to offer similar long-term, affordable mortgage products.

[41] The size of loan that a household earning KES 200k gross monthly can afford will vary, depending on their particular situation, family status, and monthly essential expenditure e.g., a single-person household with no children living modestly will likely afford a higher loan amount than a household with school-going children earning the same salary.

[42] A regressive tax incentive is a tax benefit or reduction that disproportionately favours higher-income individuals or entities because the relative tax burden decreases as income or the taxable amount increases, meaning lower-income earners pay a higher percentage of their income compared to wealthier taxpayers. This type of incentive can lead to unequal economic effects across different income groups.

[43] OECD (2024), Improving housing and urban development policies in Mexico

KMRC refinancing offers a targeted supply-side subsidy to ease lender liquidity constraints and lower mortgage costs, but lasting impact hinges on ability to sustainably influence lender behaviour — something the newly launched Kenya Mortgage Guarantee Company (KMGC) seeks to address through risk-sharing. By providing long-term, low-cost funds to banks and SACCOs, KMRC enables lending at more affordable rates, primarily benefiting middle-income borrowers. However, because lenders still bear all default risk, their appetite for serving higher-risk or excluded demographic segments remains limited. The KMGC's guarantees are designed to encourage lending to such groups, fostering inclusion if paired with strong incentives, sound risk management, and regulatory oversight. Lessons from international models, such as Brazil's Housing Guarantor Fund (FGHab), show that refinancing and guarantee schemes achieve their full potential only when subsidies are designed to influence lender behaviour and benefits are passed on to target borrower groups.[44]

4.1.7 The Role of Housing or Investment Cooperatives

SACCOs are increasingly separating their operations from affiliated housing cooperatives in response to regulatory requirements and strategic risk considerations. In line with the SACCO Societies Act, 2008 and corresponding regulations, SACCOs are prohibited from acquiring land beyond what is necessary for operations, limiting investment in non-earning assets or property to 10% of total assets, of which land and buildings are capped at 5%, unless a waiver is granted. In compliance with these regulations, 14 out of 19 participating SACCOs formed affiliate housing cooperatives to help members acquire land or housing at discounted rates. As housing cooperatives are not regulated by SASRA, SACCOs have pursued a full operational separation with the housing investment cooperatives. In practice, this means distinct governance structures, strategies, and operations between the SACCO and its housing arm for majority participating SACCOs. Further, some SACCOs have done this for strategic reasons e.g., protection from reputational and financial risks that may arise should the housing cooperative get entangled in fraud cases or disputes from land dealings.

The complete separation however limits the role of housing cooperatives as strategic partners to SACCOs, contributing to a missed opportunity to support land and home ownership for members. While the directive to maintain operational separation between SACCOs and their housing or investment cooperatives is critical for protecting member funds and mitigating risk, it has unintentionally stifled potential collaboration benefits. Housing cooperatives, in theory, are well positioned to complement SACCOs by helping members access land and housing solutions, yet in practice, they are often underutilized. Leveraging housing cooperatives as aligned, independent partners rather than conflicted affiliates could unlock new pathways for expanding homeownership and delivering broader member value while maintaining regulatory compliance.

Recommendations:

- **Regulatory oversight over housing and investment cooperatives can be further strengthened.** Housing or investment cooperatives in Kenya are primarily supervised by the office of the Commissioner for Cooperatives Development (CCD) and County Cooperative Officers operating under the Ministry of Industry, Trade and Cooperatives, as guided by the Co-operative Societies Act (Cap. 490). Technical and capacity building support can be provided to address any capacity challenges and enable full implementation of the anticipated reforms in the Cooperatives Bill, 2024 and strengthen regulatory oversight and enhance supervision of these housing cooperatives.[45] Cooperatives can also continue to strengthen internal controls, improve governance, ensure transparency in transactions, introduce strong risk assessments in real estate investments, and tighten due diligence on land transactions.

[44] UN Habitat (2013), Scaling-up Affordable Housing Supply in Brazil

[45] The Cooperatives Bill, 2024, was passed by the National Assembly and has been under consideration in the Senate. The bill proposes reforms including enhanced supervision; annual audits; inter-governmental coordination between county and national governments; transparency and accountability through strict record-keeping, regular inspections and IFRS compliance; and a tiered structure for role clarity and improved governance (SACCO Review (2025), Unpacking the Cooperative Bill 2024: A new era for Kenya's Cooperative sector)

4.2 Land and Housing Loans: Demand-side Analysis

This section presents insights from SACCO members on their experiences, preferences, and challenges in accessing land and housing loans. It highlights demand-side factors shaping product uptake, affordability, and use of SACCO loans for land and housing purposes, and offers high-level recommendations for better alignment of loan products and services with members' needs and aspirations.

To gather this information, discussions were held with members from the participating SACCOs. 22 members from 11 of the participating SACCOs supported this process, with 17 taking part in an in-person focus group discussion and 5 contributing through virtual meetings.

- **Profile:** The discussions attracted a good gender and age group mix, with 55% of attendees being female and majority (50%) falling under the 36 – 45 age bracket. Half of the participants were salaried while 9 (41%) were primarily business owners.
- **Loan product and purpose:** Most participants (73%) had taken out mortgages for either construction or outright purchase of their homes. Other attendees had taken out general development loans and property-specific loans such as land/ plot purchase loans either for land purchase or for construction of multi-unit residential buildings for commercial purposes.

A. Experience

Members value SACCOs that offer clear product information, flexible and empathetic terms, income-aligned products with advisory support, tangible loyalty rewards, and consistently fast turnaround times. When these needs are met, members consolidate most of their financial lives — savings, loans and even income flows — within the same SACCO; when they are not met, members either leave for better-serving SACCOs or maintain multiple memberships. In our sample, four respondents reported moving to different SACCOs because of poor loan access or inflexibility during default, and two reported holding two or more SACCO memberships to meet diverse needs. This behaviour shows that service quality and relevance, not pricing and returns alone, determine retention and product uptake.

Borrowers perceive SACCOs as offering better value and a more supportive lending experience than banks. Members defined a "better deal" not only as lower interest rates but also as access to higher financing proportions and longer repayment terms, resulting in qualification for larger loan amounts. Many linked this to the fact that, unlike banks where borrowers are simply customers, SACCO borrowers are also shareholders. This dual role means that when SACCOs seek to maximize shareholder value, they are in effect seeking to maximize value for their own borrowers, creating a natural alignment of interests that banks lack. This gives SACCOs a structural advantage they can leverage as they expand into products such as mortgages that have traditionally been dominated by banks.

- **SACCOs often provide more competitive mortgage terms than banks, even for similarly priced KMRC loans.** Borrowers cited qualifying for higher LTVs, larger loan amounts, and longer tenors from their SACCOs, which created more compelling offers that banks could not match. This advantage was particularly valued by members seeking to maximize financing while maintaining affordability.
- **SACCOs adopt a more flexible and human-centred approach to loan restructuring during temporary defaults.** Borrowers reported that SACCOs were more willing than banks to explore restructuring options and accommodate short-term repayment challenges.[46] This responsiveness fostered greater trust and strengthened long-term borrower relationships, reinforcing member loyalty.

Accurate, complete, and accessible mortgage information is critical to avoiding delays, unexpected costs, and poor borrower planning, yet many SACCO members have faced significant gaps in this area. Members frequently encountered misinformation on mortgage products, especially KMRC offerings, and lack of information on tax benefits, often being referred multiple times while receiving contradictory information

[46] SACCO members were quoted saying "*You can't lack sleep for defaulting on a SACCO loan… but for bank loans, it is tough*", explaining that SACCOs invest time in restructuring to ensure the member can continue to service the loan instead of moving directly to foreclosure.

on product details and eligibility at each point. In some cases, branch staff were unaware of the existence of KMRC mortgage products and provided incorrect qualification estimates, such as promising 105% financing only for members to be approved for far less. Critical information on closing costs was frequently omitted at the outset, leaving borrowers to cover unforeseen expenses mid-process, often at points where backing out was impractical. Miscommunication on process duration, sometimes underestimating timelines by as many as five months, and undisclosed fees further compounded borrower frustration. This lack of staff capacity and consistent messaging not only created inefficiencies but also eroded trust, highlighting the need for stronger internal capacity and streamlined processes to ensure consistent, accurate, and transparent communication from first contact to loan disbursement.

Recommendations:

- **SACCOs should enhance staff capacity through continuous, structured, role-specific training on mortgage products and processes.** All client-facing staff, not just specialist credit teams, should be equipped to provide accurate, consistent information from the outset. SACCOs should ensure KMRC training knowledge cascades beyond trained SACCO staff, with tailored content curated for customer care, sales teams, relationship managers, and mortgage specialists to address their respective touchpoints with a borrower in the loan journey. Clear, step-by-step product and process guides should be readily available to all staff.
- **Streamlining internal lending processes can improve pre-qualification accuracy and borrower guidance offered by SACCOs.** SACCOs should standardize referral protocols so that customer care and sales staff can provide key information before passing clients to relationship managers, who in turn coordinate with mortgage specialists. Introducing dedicated KMRC product champions can help maintain clarity, while close collaboration between branches, relationship managers, and credit teams will ensure borrowers receive correct, complete, and consistent details on eligibility, costs, and timelines throughout the process.

Self-employed members face structural disadvantages in accessing mortgages within some SACCOs, particularly due to rigid income requirements. Focus group participants from the business community reported that SACCO lending criteria often favour salaried borrowers with predictable monthly incomes, leaving entrepreneurs at a disadvantage despite strong cash flows. For those without substantial collateral, the barriers are even higher, as standard products rarely accommodate variable income patterns or alternative credit assessments. This highlights the need for more flexible underwriting approaches and mortgage solutions tailored to the realities of self-employed borrowers.

Flexible repayment structures and borrower-led planning are critical for serving self-employed members with fluctuating incomes; certain SACCOs showed more flexibility in serving the business community. Business community participants favoured shorter-term loans with adaptable repayment options, such as making lump-sum payments during peak earning periods to offset slower months, without penalties. SACCOs with a high share of business-owner members were consistently better at meeting these needs because they adapt their underwriting, repayment terms, and risk measures to reflect irregular cash flows. Smaller SACCOs were also frequently cited for their responsiveness, as closer member–credit manager relationships allow for personalized assessments and tailored solutions. In contrast, larger SACCOs often rely on more rigid processes that limit flexibility. This underscores the need for SACCOs to scale their credit decision-making capacity in line with membership growth while maintaining operational efficiency, or to design differentiated products aligned to diverse business cash flow patterns.

Members value SACCOs that recognise and reward loyalty with preferential loan terms. Participants noted that consistent saving and channelling income — whether from business or salary — through the SACCO should lower perceived risk. They expected such loyalty to translate into access to non-KMRC loans at more competitive interest rates, reinforcing the sense that long-term commitment to the SACCO ought to yield tangible financial benefits.

Mortgage processing timelines varied widely, often stretching several months due to factors both external and internal to the SACCO. While some members received approvals in as little as two weeks, most reported waiting four to seven months from application to disbursement. Common delays stemmed from land registry processes, internal SACCO procedures, and limited borrower knowledge of mortgage requirements.

- **Land registry delays in registering a legal charge were the most frequently cited cause of extended timelines.** Although SACCOs typically estimate disbursement within 2 months on average, registry delays often prolonged the process, sometimes by multiple months. Some participants noted that selecting an advocate that is very familiar with the process and has close contacts at the relevant land registry office can help to fast-track the process. SACCOs should therefore ensure that their panels include such advocates.
- **Internal SACCO processes also contributed to delays, often linked to risk management requirements.** Some members reported lengthy approval cycles or staged disbursements designed to prevent fund diversion delaying the process. In one case, a six-month delay resulted from the SACCO only approving fund disbursement for a partial mortgage after confirming that the borrower had begun construction with their personal funds, even though the land charge registration took just two days.
- **Limited process awareness among new mortgage borrowers coupled with unsatisfactory guidance from SACCO staff also contributed to a slower process.** Members unfamiliar with mortgage procedures, and not informed of all requirements and costs at inception, often faced extended timelines. Inadequate guidance often resulted in the need to raise unplanned funds for unforeseen expenses, adding to delays and borrower frustration.

Some SACCOs waived the minimum deposit multiplier requirement for mortgages if ability to pay was strong, allowing newer members to qualify for larger amounts than they would otherwise get. This benefits new members who may not have accumulated enough in deposits at the time of borrowing. However, many SACCOs still maintain strict deposit multipliers, membership period rules, and in some cases, additional guarantor requirements alongside property security, underscoring the need for more inclusive product designs to boost uptake.

B. Borrower Preferences

Loan tenor preferences differ by income source, with salaried members favouring longer terms and business members opting for shorter ones, aligning with SACCO risk management measures. Salaried members, especially those under 30, were comfortable taking on loans lasting until retirement, while self-employed members preferred the shortest affordable repayment periods. This mirrors SACCO lending practices, which typically allow salaried borrowers tenors of up to 25 years but limit non-salaried borrowers to shorter terms due to higher perceived risk.

- **For salaried borrowers, tenor preference is driven by the effect of tenor on monthly loan payments with a desire to push the tenor out such that the monthly payment matches their rental expense.** This comparison reinforces affordability and strengthens the perceived value of taking a mortgage over renting, as members view it as a pathway to eventual homeownership rather than indefinite rent payments.
- **Business members prefer shorter tenors to manage cashflow risk and unlock re-borrowing capacity in a shorter timeframe.** Uncertain long-term business income makes shorter repayment periods more appealing, reducing exposure to potential defaults and the risk of losing property. Many also aim to clear debts quickly to free up cashflows for reinvestment in business growth or new ventures.

Property-based collateral is preferred over guarantors mainly driven by privacy concerns, with the exception of a few who were able to easily obtain guarantors. Most members favoured using property as security rather than relying on guarantors, citing the difficulty of obtaining guarantors for high loan amounts and the desire to keep their borrowing activities private.[47] While the guarantor model remains important for borrowers without sufficient collateral, it is seen as burdensome, particularly for those lacking strong social networks within their SACCO. Those who did prefer guarantor-backed products were typically long-standing members within the original common bond, able to secure guarantees quickly, sometimes within 24 hours for loans amounts as high as KES 6 million or more.

- **Privacy and personal responsibility strongly influence collateral preferences.** Many members expressed discomfort with others knowing about their borrowing activities and preferred to bear the responsibility themselves. This sentiment was reflected in comments such as "*I prefer to carry the burden on my own*," highlighting the value placed on independence in financial matters.
- **Some members strategically acquire property to avoid reliance on guarantors in the future.** Members who had previously experienced defaults where guarantors' deposits were called upon often sought to use SACCO loans to buy property that could serve as collateral for subsequent borrowing. They also noted the impracticality of expecting friends or relatives to hold substantial deposits simply to act as guarantors.
- **Guarantor fatigue was also called out as a factor that undermines the sustainability of the guarantor model.** Frequent guarantors whose deposits were negatively affected by default expressed a reluctance to participate in the system. This fatigue erodes willingness to guarantee even among close networks, further reinforcing the need for property-backed lending alongside the guarantor model.

Besides home ownership, participants demonstrated a preference to use SACCO loans to finance construction of rental residential units as a strategy for long-term wealth creation. Most participants shared this future goal targeting development in cities and Nairobi's satellite towns. This aspiration cut across age groups and occupations, reflecting a shared view of property as a source of income, retirement security, and family legacy. This resonates with the findings in *section 4.1.1* indicating that loans for construction of multi-unit residential buildings is a popular use of land and housing loans. Participants also proposed that KMRC consider refinancing loans for the construction of commercial residential property, enabling SACCO members to access cheaper financing as developers—ultimately making more affordable rental units available while advancing members' broader development goals.

Young women show a stronger preference for outright purchase of ready-to-occupy homes over construction. Among the 7 participants who borrowed for outright home purchase, 6 were women, and 4 of these were young, aged 25–35. In contrast, home construction loans were taken up by twice as many men as women. Younger female borrowers cited the convenience of moving directly into a completed home and paying down a mortgage rather than paying rent indefinitely as a key motivator. The preference may also reflect the greater complexity and risk involved in home construction, including managing contractors and site workers, a process that men are generally more inclined to undertake. By comparison, older women, possibly drawing from prior experience, appeared more open to managing construction projects than their younger counterparts.

C. Understanding of Products and Awareness of Benefits

Members generally understand mortgages as property-backed loans; few and minimal gaps remain in knowledge of product scope and distinctions in product naming. Most participants recognized a mortgage once it was described as a loan secured by the financed property itself, with minimal confusion caused by the different naming conventions used by SACCOs. "Mortgage loan" was the most familiar term. Some members viewed mortgages narrowly i.e., as loans meant only for home purchase, while others assumed that for mortgages, the financier would support with and finance the full construction process, including architectural design, approvals, purchase of materials, and project management. These misconceptions point to a need for stronger borrower education and more consistent product messaging to improve understanding of structured housing finance options among members.

[47] It is important to note that this view may not be representative of broader SACCO membership as majority of the focus group participants had accessed mortgages rather than guarantor-backed development loans.

Awareness of KMRC mortgages is moderate, although some members were completely unaware of their existence. While most focus group participants were servicing mortgages, five (~23%) had never heard of KMRC and had mortgages and development loans at significantly higher rates of 14–16% (four of the five members were from SACCOs that were not yet KMRC PMLs). This gap suggests that existing awareness efforts, largely channelled through partner financial institutions, may not be reaching all potential beneficiaries of KMRC products. An important caveat is that due to the nature of the study, most focus group respondents suggested by participating SACCOs had refinanced mortgages and therefore knew of KMRC.

> **Recommendation: KMRC could consider complementing institutional training with targeted public awareness initiatives.** Directly engaging borrowers would help ensure they are informed about affordable mortgage options and empowered to request KMRC products from their SACCOs, rather than relying solely on what lenders present.

Awareness of mortgage interest tax relief is low, limiting access to affordability benefits for borrowers. Only three of the sixteen participants with a mortgage (19%) knew about the relief available to owner-occupied home mortgage holders, and of the three, only one learned about it through their SACCO relationship manager. Most of those unaware were frustrated to learn they could not back-claim missed relief, expressing a desire for proactive communication from SACCOs. This lack of awareness represents a missed opportunity to enhance affordability and borrower satisfaction, and highlights the need for continuous training of relationship managers on all borrower benefits.

> **Recommendation:** SACCOs should integrate tax relief education and filing support into the mortgage process, making it a mandatory disclosure for all approved owner-occupied mortgages.

D. Affordability

SACCO members assess loan affordability primarily through monthly repayments, interest rates, and closing costs. Many benchmark affordability against their current rent, aiming for mortgage instalments that are equal to or lower than what they already pay. This is influenced by the loan amount, interest rate, and tenor. Members without KMRC mortgages viewed annual interest rates of 14–16% as high, although still preferable to the fluctuating rates offered by banks. High closing costs, particularly for loans secured by property, were a common concern especially for construction mortgages, where repeated valuations required to release milestone tranches significantly increased expenses.

High and opaque closing costs remain a major barrier to mortgage affordability and uptake. Members cited multiple, and sometimes duplicative, expenses in mortgage processing, such as paying separate lawyers for the SACCO, the developer, and themselves, or covering repeated valuation and legal charge fees when financing purchase of land and construction. While some cases were outliers, others reflected systemic inefficiencies, with some costs only revealed late in the process, leaving borrowers feeling misled. These expenses, often viewed as unnecessary, strain affordability particularly when borrowers believe both lenders and developers are shifting an unfair share of costs onto them.

Recommendations:

- **Standardize allowable closing costs through legislation, specifying costs that can be passed on to borrowers directly** and requiring certain costs — such as those incurred in processing sectional titles — to remain with developers. SACCOs could also share legal and valuation costs with borrowers given their vested interest in the property as collateral during the multi-year duration of the mortgage.
- **Introduce buy-and-build mortgage products** to combine land purchase and construction under a single legal charge, reducing duplication in legal and valuation fees incurred. Such a loan could also be structured to finance pre-construction work including architectural designs, obtaining approvals, and preparation of Bills of Quantities (BoQs) etc.
- **Consider reducing valuation costs for construction loans** by charging the property once at the outset, using a post-construction estimation from the valuation for an assumption of property value and assuming increase in value thereafter, with revaluations only triggered by default or exceptional circumstances affecting the property.

- **Mandate full cost disclosure at loan application** so borrowers can budget for all charges including valuation, legal, and insurance fees before committing.

Well-structured SACCO–housing cooperative partnerships can significantly lower borrower costs and speed up loan processing. Where a SACCO's affiliate housing cooperative selling land to members has conducted thorough title checks and legal due diligence and completed valuation of plots the SACCO may not require members to incur costs for individual valuation and legal charge to obtain SACCO financing. Such an arrangement removes duplicate fees for members, lowers closing costs, and shortens the time to disbursement. It is effective only where clear ownership, rigorous cooperative-led due diligence, and documented protocols exist within the cooperative, for SACCOs to accept cooperative records; otherwise, the benefit cannot be realised.

The housing levy deduction is reducing mortgage affordability for salaried borrowers. Participants noted that the mandatory 1.5% housing levy, deducted monthly from gross pay, reduces their net income and, consequently, the mortgage amount they can qualify for. This has made it harder for some to secure sufficient financing for their desired homes (discussed further in *section 4.3*). Members suggested exemptions for existing homeowners and those already servicing home loans, arguing that the levy adds an unnecessary burden. Others proposed that KMRC tap into the housing fund to enable access to cheaper financing for home ownership.

E. Other Observations

Greater member mobility and choice are intensifying competition among SACCOs, challenging them to deliver better products and service quality. With more SACCOs opening their common bonds and members free to join multiple institutions, participants described holding dual memberships to access products unavailable in their original SACCOs or to separate personal and business borrowing. Others reported switching SACCOs entirely due to difficulty accessing desired loans, better terms elsewhere, poor customer treatment, or inflexibility during loan approval or default. These patterns suggest that SACCOs can no longer rely on automatic membership from the common bond; without consistent, transparent, and responsive service, they risk member attrition, declining activity levels, and a downward spiral in returns to active members.

Housing construction loans need stronger cost and timeline planning to ensure projects reach completion without funding gaps. BoQs often underestimate actual costs — especially if there is a delay between BoQ preparation and building commencement — due to inflation and unforeseen logistical challenges during construction. As a result, members frequently end up borrowing less than needed, stalling or compromising projects. This underscores the importance of contingency planning in mortgage design, particularly for SACCOs committed to supporting members through to completion. Practical measures include adjusting BoQs for inflation over the projected construction period for incremental building and revising older BoQs before loan approval to reflect current market conditions.

Attracting younger members requires SACCOs to offer products that make their money work for them while leveraging trusted family influence. Youth are drawn to financial solutions that actively grow their savings and investments, helping them achieve ambitions such as wealth creation and early retirement. Many also trust financial and investment advice from parents with proven financial track records, making this an influential channel for recruitment. SACCOs can combine well-designed, growth-oriented financial products tailored for the youth with targeted referral incentives — such as bonuses or loyalty rewards for parents who successfully refer their children as SACCO members — to leverage these trusting relationships for sustained growth in youth membership.

4.3 Land and Housing Loans: Enabling Environment

This section discusses insights on the broader regulatory and policy context that influences the ability of SACCOs to provide land and housing loans to their members. It discusses challenges — both systemic and policy-based — that limit the accessibility and affordability of homeownership for SACCO members and provides recommendations for government and industry stakeholders to support a more enabling environment for SACCO-led mortgage growth.

Rising statutory deductions and stagnant incomes are reducing borrower capacity, thereby limiting the loan amounts that SACCO members can qualify for. Increases in statutory deductions, including the Affordable Housing Levy (AHL), NSSF contributions, and deductions under the Social Health Insurance Fund (SHIF), have significantly eroded net incomes for salaried workers. While the December 2024 changes allowing pre-tax deductions for AHL and SHIF provided some relief, the overall effect has been a reduced loan qualification capacity. For instance, a SACCO member earning a gross monthly salary of KES 200,000 now qualifies for a mortgage of KES 6.35 million — close to KES 340,000 lower than the KES 6.69 million they could access in April 2022 — assuming a 60% gross income retention for living expenses (illustrated in *Figure 29* below).[48] This trend forces members to compromise on home size, quality, or delay homeownership entirely as households will most likely forgo lower-priority needs such as buying land or building a home in favour of higher priority needs such as food and education when disposable income declines.[49] Additionally, the unpredictability of changes in deductions may lead to increased NPLs as fully committed payslips breach the one-third rule amidst a high cost of living.[50]

Figure 29: Changes in Mortgage Amount with Changing Tax Regime

Mortgage size in different statutory deduction scenarios		Scenarios		
		Apr 2022	Nov 2024	Apr 2025
Salary details				
Gross pay		200,000	200,000	200,000
Pre-tax deductions		200	2,160	12,820
Taxable income		**199,800**	**197,840**	**187,180**
Income tax		54,723	54,135	50,937
Tax reliefs		2,655	2,850	2,400
P.A.Y.E		**52,068**	**51,285**	**48,537**
Pay after tax		**147,732**	**146,555**	**138,643**
Post-tax deductions		1,700	8,500	-
Net pay		**146,032**	**138,055**	**138,643**
Mortgage details				
Annual interest rate	9.5%			
Tenor (years)	25			
Tenor (months)	300			
Monthly mortgage payment		58,413	55,222	55,457
Principal		**6,685,691**	**6,320,484**	**6,347,404**
Take home pay				
Take home pay after mortgage payment		87,619	82,833	83,186
Desired % of net pay		*60%*	*60%*	*60%*

Source: AIS Capital analysis; Note: Mortgage interest tax relief is not considered in calculations.

Unpredictable increases in government fees and charges are significantly undermining mortgage affordability. Public sector charges related to property ownership — such as land registration, consent fees, valuation fees, and stamp duty — have seen multiple increments over recent years. These fragmented but cumulative increases directly impact the cost of property acquisition, making mortgages less affordable. For

[48] While SACCOs apply the 1/3 rule, we assume 60% in this illustration as a conservative figure to take into consideration other salary commitments that a typical consumer would practically have. Old Mutual research estimates that 62% of Kenyan household income is used for consumption or living expenses [Old Mutual (2024), Financial Services Monitor].

[49] According to the 2024 FinAccess Household Survey, education, food, business, jobs, and health were selected as the top 5 life priorities by most respondents. Buying land/ building a house and buying assets such as TVs ranked 6th and 7th.

[50] In May 2025, the World Bank suggested revisions to Kenya's PAYE structure, including a reduction in the tax rate from 25% to 15% for monthly incomes between KES 24,000 and KES 32,333 to ease the burden on lower-income earners. The proposal also introduced new middle-income bands at 25%, 32.5%, and 35% for incomes up to KES 500,000 per month and added a sixth band with a top marginal rate of 38% for monthly incomes above KES 800,000. For the example in *Figure 29*, the KES 200,000 earner would take home a higher net pay of KES 147,218, a 6.2% increase due to lower P.A.Y.E. This has not been implemented (Business Daily (2025), World Bank seeks 38pc tax rate for top earners).

example, in April 2024, stamp duty increased to 4% from 2% in select counties upgraded to municipalities e.g., Kiambu, Kajiado, Machakos, Kilifi, Narok, Ngong, Naivasha, Malindi and others, and in May 2024, the official land search fee doubled to KES 1,000 and the Land Control Board's consent cost tripled to KES 3,000.[51,52]

Recommendations:

- **Support widespread implementation and extension of the stamp duty waiver:** Although the Tax Laws Amendment Act of 2018 provided for stamp duty exemptions for first-time homebuyers under the Affordable Housing Scheme (AHS), this provision is not being fully implemented and it does not include housing developed outside of the AHS. The Kenya Revenue Authority (KRA) should be empowered to operationalize the waiver, which should also be extended to:
  - First-time homebuyers purchasing from private developers (non-AHS properties)
  - Individuals purchasing land to construct their first home, conditional on commencing construction within a set timeframe
- **Control public sector land transfer fee increases:** Public agencies involved in land and housing transactions should ensure any fee adjustments consider prevailing economic conditions and provide at least 12 months' notice to allow adequate preparation by prospecting homeowners.

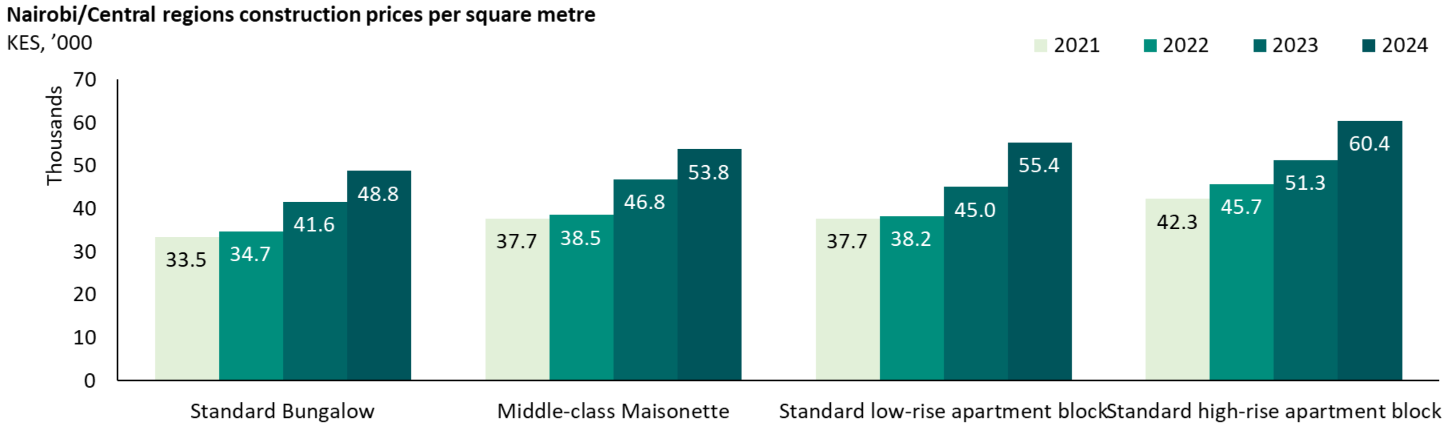
Limited supply of affordable, quality, ready housing restricts the outright purchase mortgages by SACCO members. Most affordable homes in cities and municipalities are offered off-plan. However, SACCOs remain hesitant to finance off-plan purchases due to challenges, including multi-year construction delays and difficulty verifying build quality prior to financing. Even government-led affordable housing programs have faced slow uptake due to concerns around:

- **Land ownership and titling:** AHP projects are often built by the national government on county land, raising future title security concerns. Moreover, the lack of sectional titles inhibits SACCOs from charging apartments as collateral.
- **Perceived around value for money:** Some units are considered 'too small for the price' and quality varies per development, discouraging buyers and lenders alike, as they pose long-term risks related to durability and borrower satisfaction.
- **Buyer preferences:** Many members prefer purchasing land for incremental construction rather than buying housing units in high-density apartments under AHP.

Rapidly rising construction costs, driven by tax policy and supply chain issues, are increasing the cost of home ownership and delaying home completion. Between 2022 and 2024, residential construction costs in Kenya have risen by an average of 18% annually, accelerating sharply compared to earlier years (see *Figure 30* below). This trend, driven by local tax changes and import cost fluctuations, is affecting affordability. Many borrowers now exhaust mortgage funds before completing construction, requiring them to seek costly top-up loans or abandon projects mid-way.

[51] CMS Law (2024), The Ministry of Lands Raises Stamp Duty on Land Transfers
[52] Business Daily (2024), Proposed land law changes raising fees one too many for MPs, public

Figure 30: Construction Prices in Nairobi and Central Regions, 2021 – 2024



Reasons for rising construction prices

Local

- Introduction of an export and investment promotion levy of 10% and 17.5% on some imports in 2023, including construction material
- 17.5% levy introduced on imported clinker in 2023, increasing the cost of cement to KES 800 per 50kg bag in 2024 from KES 650 in 2023
- Hiked interest rates in 2024 increasing financing costs for construction projects
- Currency depreciation affecting imported construction material – USD/KES at ~108 in Jan 2021 to over 160 in Jan 2024; currently fairly stable at ~130
- Increase in turnover tax to 3% from 1% and halving of the upper threshold to KES 25M, affecting mid-sized construction companies
- Introduction of excise tax and levies on some raw materials and 16% VAT on petroleum-based inputs in 2022
- High energy costs - Kenya was at KES 19/kWh in 2022 compared to KES 14 globally
- Repeal of 30% electricity rebates for companies in 2020 tax laws amendments

Global

- The Red Sea crisis requiring rerouting of shipped imports and increasing freight charges by 70-100% as well as shipping insurance
- Higher steel prices - 66% higher in 2022 at USD 750 per tonne than USD 450 in 2020
- Post-COVID lock-down rise in demand for raw materials, including for construction materials

Source: Integrum Construction Annual Construction Costs Reviews, 2021 - 2024[53]

Recommendation: Government should reassess policy decisions that impact the cost of construction inputs to strike a balance between tax generation and the affordability of housing for low- to middle-income Kenyans. This will also serve to align tax policy with government objectives to increase access to affordable housing and grow home ownership, as currently, contradictory policies are key contributors to hindering achievement of these objectives. Delivery of housing should also result in higher tax generation in the medium term arising from higher volumes, therefore, it would be a win-win situation for housing delivery and government revenue generation.

Commercial banks pose strong competition to SACCOs in the mortgage market due to their greater flexibility and larger lending capacity. Although SACCOs and banks offer similar interest rates on KMRC-backed mortgages, banks have fewer borrower eligibility restrictions e.g., no membership, deposit multiplier or savings history requirements. Banks balance sheets are also much larger, particularly for the largest mortgage lenders, and can offer higher loan amounts. Additionally, banks have a much longer history of offering mortgage products compared to SACCOs, and have been heavily advertising their KMRC mortgage products, all these factors making them a significant competitor in mortgage financing.

Nature of property ownership and land registration challenges in rural and community land areas limit the use of land as collateral for SACCO mortgage financing. Many SACCO members in rural areas have access to ancestral or communal land for construction but cannot use it as collateral for construction mortgages. This is often because the land is often not registered in their name, or in some cases, not

[53] [1] Integrum Construction (2024), Construction Costs in Kenya 2024 – Building Rates Per Square Metre/Ft; [2] Integrum Construction (2023), Construction Costs in Kenya 2023 – Building Rates Per Square Metre/Ft; [3] Integrum Construction (2022), Construction Costs in Kenya 2022 Index – Building Rates Per Square Metre; [4] Integrum Construction (2021), Construction Costs in Kenya 2021 – Regional Building Rates Per Square Metre

registered at all. It is an issue because the land cannot be charged, unless in cases of community land, the borrower obtains consent from all community members, which would be a tedious process. Even if this is done, a lender would face other challenges i.e., community land is governed by customary laws and typically cannot be sold, which makes it unacceptable as mortgage collateral due to legal and recovery risks in the event of default. The situation is particularly challenging in regions where there are large parcels of community land and untitled land, such as parts of the Coastal region. As a result, SACCO members in such regions resort to using general development SACCO loans that do not require collateral to fund construction, missing affordable mortgage benefits of KMRC products.

> **Recommendation:** A suggested remedy by SACCOs is to allow for alternative forms of collateral for members residing on ancestral or community land. However, this would mean that the loan would not be categorised as a mortgage, limiting KMRC's ability to refinance.

Poor infrastructure in some peri-urban and rural areas makes developed plots undesirable for immediate home construction and financing. In many areas where SACCO members have acquired land more affordably, inadequate infrastructure — including roads, water and electricity — makes it impractical to begin construction. To SACCOs, this translates to unmarketability of the property in the event of default, resulting in declining of construction mortgage applications in such areas.

> **Recommendation:** Remedying this would require the government to prioritize provision of basic services and infrastructure in emerging residential areas to open up opportunities for housing development and financing.

Delays in land registration and title transfers weaken borrower confidence and deter SACCO mortgage uptake. Prolonged timelines at county land registries negatively impact loan disbursements and discourage members from pursuing mortgage financing. Delays are most acute in counties that were transitioning to the Ardhisasa digital land system, where manual and digital processes coexisted, causing processing backlogs. Nairobi, for instance, has faced significant delays with unregistered 'Nairobi block' titles that must be digitized before they can be charged. From recent conversations with SACCOs, this challenge seems to have been resolved. It would be useful to draw learnings from pilot counties going through the digital registry automation process to address gaps and challenges with the process as more counties are onboarded.

5. Summary of Recommendations

This section synthesizes key challenges identified in the study alongside targeted recommendations for relevant stakeholders. The aim is to provide high-level suggestions for addressing systemic, operational, and policy-level constraints to SACCO-led land and housing finance, with a focus on improving access, affordability, and portfolio sustainability.

Table 8: Summary of Challenges, Opportunities and Recommendations

Challenge or Opportunity	Recommendation
Constraints faced by SACCOs allocating capital towards building the initial mortgage portfolio before refinancing	▪ Consider establishing a blended pre-financing/bridge facility to cover disbursement–refinancing gaps, potentially leveraging housing levy funds for concessional funding
Leveraging knowledge of SACCO member preferences for home construction and incremental building	▪ SACCOs can develop a structured incremental building mortgage product that can be re- to better serve such members
Collateral preferences that may result in geographic concentration of access to and impact of affordable mortgages in urban areas	▪ Restructure the AHB intervention to lend directly to people constructing homes in rural areas into an intervention that instead incentivizes private lenders like SACCOs to accept rural collateral. Consider ways to incentivize mortgage lending in rural areas e.g., a guarantee for risk sharing ▪ Partner with strong rural SACCOs to expand access to affordable mortgages to these underserved regions
Inefficient foreclosure process	▪ Lobby for extension of the proposed AHP foreclosure reforms to all mortgages ▪ Institutionalize private treaty recovery by enabling bulk purchase of property-backed NPLs from SACCOs and banks
Demand for a shared/ central credit scoring tool	▪ Conduct a thorough gap and use-case analysis before implementation of a shared tool
Core banking system data integration challenges	▪ Update and upgrade systems to enable automated data extraction/ consolidation for internal analysis and other uses by external stakeholders
Low utilization of mortgage interest tax relief	▪ Proactively educate and assist members to claim relief; integrate into the mortgage onboarding process
Regressive nature of the mortgage interest tax relief	▪ Restructure the relief to a percentage of loan value/house cost, with lower loan amounts/ house costs benefiting from a higher percentage relief than mid and upper income houses
Underutilized housing cooperatives	▪ Reposition cooperatives as aligned SACCO partners, working together to help SACCO members meet their housing needs ▪ Strengthen governance, transparency, and risk management in existing housing or investment cooperatives ▪ Enhance regulatory oversight and capacity
Inconsistent and inaccurate mortgage information to borrowers	▪ Provide structured, role-specific staff training on mortgage product features and process ▪ Standardize internal mortgage processes and build a referral system for members to receive different levels of support
Limited member awareness of KMRC mortgages	▪ Launch direct and targeted borrower awareness campaigns through different communication mediums alongside institutional training of primary mortgage lenders ▪ Consider assigning KMRC mortgage product champions

Challenge or Opportunity	Recommendation
High and opaque closing costs for mortgages	▪ Legislate standard allowable costs and parties responsible for payment ▪ Consider sharing certain fees between SACCOs and borrowers e.g., valuation and legal charge as this also benefits the SACCO by supporting the appraisal process and securing a legal right over the property during the loan term ▪ Combine certain activities to avoid duplication of costs e.g., charging the property once for buy and build borrowers during land purchase ▪ Mandate early and full disclosure of all closing costs to borrowers before they begin the application process
Rising government property transaction fees	▪ Implement stamp duty waivers for first-time home buyers and extend beyond government AHP developments ▪ Control and pre-notify the public of fee increases well in advance
Escalating construction costs	▪ Reassess tax policies on construction inputs and align them with affordable housing objectives
Land ownership and registration barriers in rural and coastal areas	▪ Allow alternative collateral for non-mortgage loans
Poor infrastructure limiting plot development and collateralization	▪ Prioritize supply of basic infrastructure services in emerging residential areas

6. Annex

6.1 Data Completeness

Requested Data Fields: A detailed summary of data completeness by data field is provided in *Table 9*.

Table 9: Data Completeness based on Requested Data Fields

		BORROWER DETAILS			OUTSTANDING LOAN DETAILS											PROPERTY DETAILS		
SACCO code	No. of loans analysed	Gender/ group	Gross monthly income	Age	SACCO loan product name	Original loan principal	Annual loan interest rate	Date of issue	Original loan tenor	Original maturity date	Outstanding Amount	Date of Outstanding Amount	Performance / Risk Classification	KMRC refinancing status	Purpose/ Sub-sector	Property market value	County	Housing cooperative origination
SACCO 01	8,539	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	○
SACCO 02	4,952	◔	○	◔	●	●	◕	●	●	◔	●	●	◔	○	●	○	○	○
SACCO 03	77	●	○	●	●	●	○	●	●	●	●	●	●	●	○	○	○	○
SACCO 04	468	●	●	●	●	●	●	●	●	●	●	●	●	◕	●	●	●	◕
SACCO 05	399	●	○	●	●	●	○	●	●	●	●	●	●	○	●	●	●	○
SACCO 06	4,969	◔	○	◔	●	●	●	●	●	●	◕	●	◔	◔	●	◔	◔	◔
SACCO 07	2,595	◔	◔	◔	●	●	●	●	◕	●	○	○	◕	◕	●	◔	◔	◔
SACCO 08	2,130	●	○	●	●	●	●	●	●	●	○	○	●	○	○	○	●	○
SACCO 09	92	○	○	○	●	●	●	●	●	●	●	○	○	○	○	○	○	○
SACCO 10	5,153	●	●	●	●	◔	●	●	●	●	●	●	●	○	●	○	○	○
SACCO 11	245	●	○	●	●	●	●	●	●	●	○	○	●	●	●	●	●	●
SACCO 12	1,134	◕	◕	◕	●	●	●	◕	◕	◕	○	○	◕	○	○	○	○	○
SACCO 13	1,564	◕	◕	◕	●	●	●	●	●	●	●	○	●	●	○	●	●	○
SACCO 14	50	○	○	○	●	●	●	●	●	●	●	○	○	○	○	○	○	○
SACCO 15	414	●	○	●	●	●	●	●	●	●	●	●	●	●	○	●	○	○
SACCO 16	1,047	◕	○	◕	●	●	●	●	●	●	●	●	●	●	●	○	○	○
SACCO 17	867	●	○	●	●	●	●	○	●	○	●	○	●	○	○	○	○	○
SACCO 18	19	●	○	○	●	●	●	●	●	●	●	●	●	●	●	◕	●	○
SACCO 19	1,184	●	○	○	●	●	○	●	●	○	●	○	○	●	◕	○	○	○
Count of data that can be analysed:		14	5	12	19	18	16	18	19	16	15	10	14	10	11	7	7	2

KEY:

- ● Complete;shared for all loans shared
- ◕ Incomplete - populated for more than half of the loans
- ◔ Incomplete - only provided for a few loans
- ○ Blank; no data shared for any loans

Decline in level of data

Table 10: No. of Loans Shared for Each Data Field per SACCO

	Total loan listing vs data provided	No. loans with all data fields shared	Gender/ group	Gross monthly income	Age	Sacco loan product name	Original loan principal	Annual interest rate	Original loan tenor	Performance / risk classification	Purpose/ sub-sector	County	Property value (KES)
SACCO 01	Total		8,539	8,539	8,539	8,539	8,539	8,539	8,539	8,539	8,539	8,539	8,539
	Provided	8,082	8,535	8,082	8,539	8,539	8,539	8,535	8,539	8,539	8,539	8,525	8,539
SACCO 02	Total		4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952
	Provided	-	9	-	9	4,952	4,952	3,840	4,952	9	4,952	125	-
SACCO 03	Total		77	77	77	77	77	77	77	77	77	77	77
	Provided	-	77	-	77	77	77	-	77	77	-	-	-
SACCO 04	Total		468	468	468	468	468	468	468	468	468	468	468
	Provided	-	468	461	337	468	468	468	468	468	468	468	468
SACCO 05	Total		399	399	399	399	399	399	399	399	399	399	399
	Provided	-	391	-	399	399	399	-	399	399	398	398	347
SACCO 06	Total		4,969	4,969	4,969	4,969	4,969	4,969	4,969	4,969	4,969	4,969	4,969
	Provided	-	22	-	4,969	4,969	4,969	4,969	4,969	22	4,967	24	4,969
SACCO 07	Total		2,595	2,595	2,595	2,595	2,595	2,595	2,595	2,595	2,595	2,595	2,595
	Provided	137	256	2,595	246	2,595	2,595	2,595	2,595	256	2,594	137	246
SACCO 08	Total		2,130	2,130	2,130	2,130	2,130	2,130	2,130	2,130	2,130	2,130	2,130
	Provided	-	2,130	-	2,125	2,130	2,130	2,125	2,130	2,130	2,130	2,130	-
SACCO 09	Total		92	92	92	92	92	92	92	92	92	92	92
	Provided	-	-	-	-	92	92	92	92	-	92	-	-
SACCO 10	Total		5,153	5,153	5,153	5,153	5,153	5,153	5,153	5,153	5,153	5,153	5,153
	Provided	-	5,124	5,153	5,152	5,153	5,153	5,153	5,153	5,153	5,153	-	-
SACCO 11	Total		245	245	245	245	245	245	245	245	245	245	245
	Provided	-	245	-	245	245	245	244	245	245	245	245	245
SACCO 12	Total		1,134	1,134	1,134	1,134	1,134	1,134	1,134	1,134	1,134	1,134	1,134
	Provided	-	792	792	783	1,134	1,134	1,134	792	792	1,134	-	-
SACCO 13	Total		1,564	1,564	1,564	1,564	1,564	1,564	1,564	1,564	1,564	1,564	1,564
	Provided	-	1,427	828	1,519	1,564	1,564	1,564	1,564	1,564	-	1,564	1,564
SACCO 14	Total		50	50	50	50	50	50	50	50	50	50	50
	Provided	-	-	-	-	50	50	50	50	-	-	-	-
SACCO 15	Total		414	414	414	414	414	414	414	414	414	414	414
	Provided	-	414	-	414	414	414	414	414	414	-	-	414
SACCO 16	Total		1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047
	Provided	-	1,014	-	1,046	1,047	1,047	1,047	1,047	1,047	1,047	255	255
SACCO 17	Total		867	867	867	867	867	867	867	867	867	867	867
	Provided	-	867	-	867	867	867	867	867	867	867	-	-
SACCO 18	Total		19	19	19	19	19	19	19	19	19	19	19
	Provided	-	19	-	-	19	19	19	19	19	19	19	7
SACCO 19	Total		1,184	1,184	1,184	1,184	1,184	1,184	1,184	1,184	1,184	1,184	1,184
	Provided	-	1,184	-	-	1,184	1,184	-	1,184	-	502	-	1,184

6.2 Loan Product Categories

Table 11: Key Features of Loan Product Categories

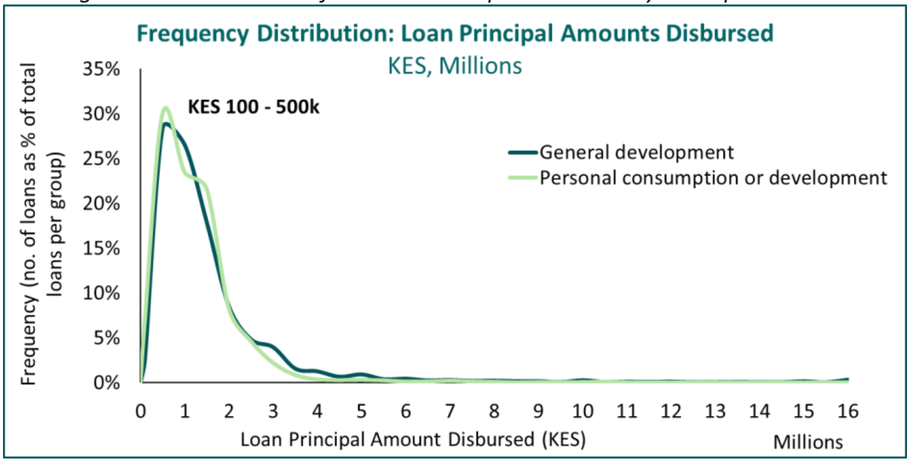
Category	Key Features				
	Max Amount	**Max Tenor**	**Interest**	**Security**	**Others**
General development	KES 70k – 15M or 2 – 10x deposit/savings multiplier	24 – 144 months	10 – 18% p.a., reducing balance	Mainly guarantors and own deposits; collateral accepted for some products i.e., title deed, logbook, fixed deposits or stocks	
Mortgage – Residential Homes	KES 6 – 20M or 10x deposit/savings multiplier; up to KES 10.5M for KMRC mortgages	120 – 300 months	8 – 14% p.a., reducing balance; 8 – 9.95% for KMRC mortgages	The financed property	**Max financing:** 90 - 105% of cost or mortgage value; higher for homes **Min. deposit:** 0 – 20%; rarely 0%, mostly 10% **Insurance:** mortgage protection, fire & other perils, home cover, credit life and others **Closing costs:** estimated at 9 – 10% of cost (by 2 SACCOs)
Mortgage – Commercial Property/ Rental Flats	KES 2 – 200M or 5 – 10x deposits multiplier	36 – 120 months	13.5 – 16% p.a., reducing balance		
Mortgage – Land Purchase	KES 10 – 15M or ~7x deposits multiplier	84 – 96 months	11.9 – 12.95% p.a., reducing balance		
Mortgage - Renovation	~KES 500k	~24 months	~14% p.a., reducing balance		
Mortgage – Multi-purpose	KES 15 – 25M or 7 – 10x deposit/savings multiplier	120 – 200 months	12 – 13.8% p.a.		
Personal consumption or development	KES 20k – 500k or 2 – 10x deposit/savings multiplier	1 – 120 months	14% p.a. – 14% flat rate	Payslips or guarantors; non required in some cases	
Top up/ refinance	KES 1 – 20M or 3 – 5x deposit/savings multiplier	12 – 72 months	8 – 15% p.a., reducing balance	Savings/deposits, guarantors, title deed, logbook or salary	
Emergency/ advance	KES 100k – 1M or 3 – 6x deposit/savings multiplier	1 – 24 months	Annual: 12% p.a. reducing balance or Monthly: 5% p.m. or A flat rate of 10 – 14% deducted upfront or recovered at maturity	Guarantors, salary, or deposits	
Agriculture/ education/ medical	KES 500k – 50M or 3 – 4x deposit/savings multiplier	12 – 84 months	12% p.a. reducing balance – 12% flat rate	Mainly guarantors; collateral (Title or logbook) for larger amounts	
Business cashflow	KES 500k – 30M or 1/3 of deposits	24 – 60 months	10 – 18% p.a., reducing balance	Guarantors or collateral	

6.3 Development Loans

Development loans (also referred to as normal loans in some SACCOs) are the flagship product for most SACCOs, designed to finance socio-economic development projects for SACCO members. For decades now, SACCO members have used such loans mostly for purchase of land and construction of homes – it has been the most popular use of development loan funds. Development loans were designed around the original SACCO model, therefore features often include guarantors as the primary form of security and a deposit/ savings multiplier defining the maximum amount one can borrow. Majority of loans issued by SACCOs to date are therefore development loans. Over the years, different types of loan products have stemmed from development loans, all with the intended purpose being social and economic development of the borrower but differentiated by changes to certain features to either tailor the product for a specific purpose or occupation/ income type. Alternative forms of loan security, largely title deeds and vehicle logbooks are also now accepted for general development, to accommodate the changing landscape around SACCO common bonds, membership and guarantor fatigue. Below are key aspect of general development loans used to finance land and housing derived from analysis of data received from participating SACCOs:

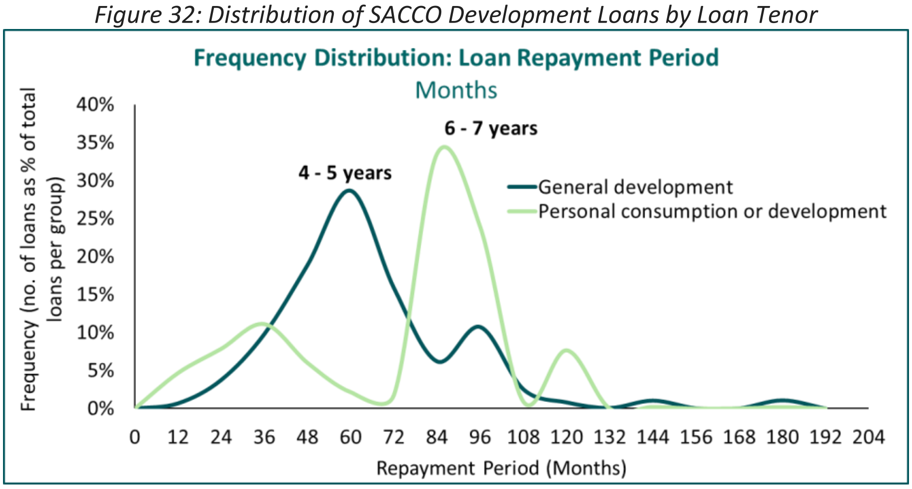
Most loans range between KES 100,000 and KES 500,000. The average principal amount is ~KES 1.4M and loans as large as KES 75M.

Figure 31: Distribution of SACCO Development Loans by Principal Amount



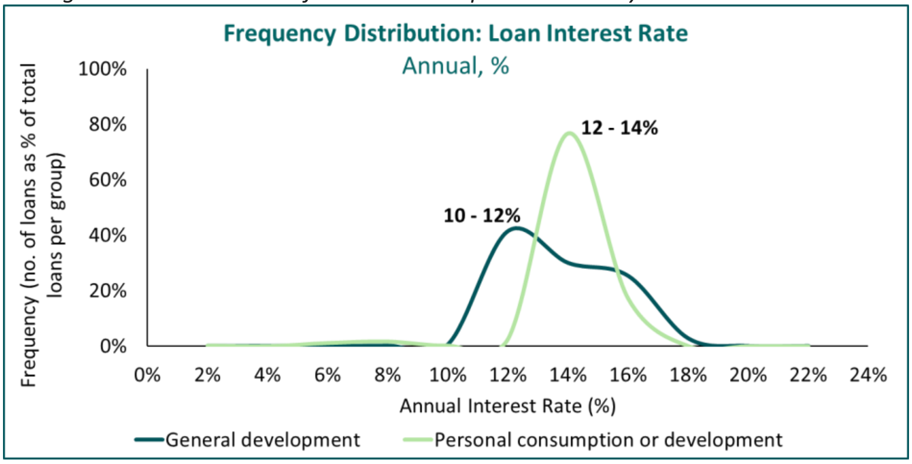
Loans mostly have tenors of 48-84 months, with 84 months being the maximum tenors most SACCOs offered in the past. Now, regulated SACCOs can apply to SASRA to introduce longer-tenor loans, a step that has been taken by all 19 participating SACCOs that improved affordability of monthly payments and unlocking larger amounts for some.

Figure 32: Distribution of SACCO Development Loans by Loan Tenor

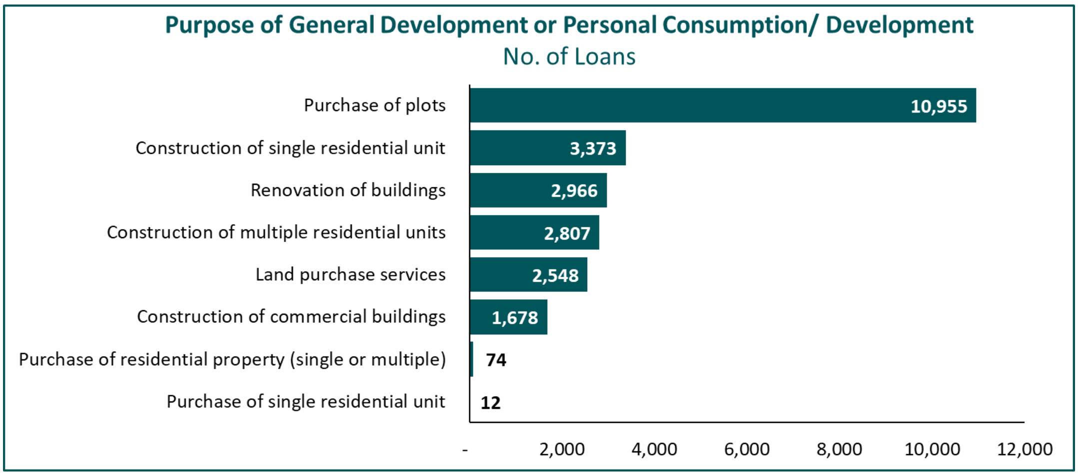


Interest largely ranges from 10-14%, with the sweet spot for most SACCOs being 12%. As such, they remain quite competitive to affordable mortgages if one considers closing/incidental costs and longer disbursement timelines associated with mortgages.

Figure 33: Distribution of SACCO Development Loans by Annual Interest Rate



Purchase of land followed by home construction and renovation are the top use of funds for development loans.



6.4 Frequency Distribution Data: Borrower Profile

Table 12: Member Age

Frequency of Land and Housing Loans: Member Age (Years)								
Bins (Years)	General development	Personal consumption or development	Top up/ refinance	Mortgage	Business cashflow	Emergency/ advance	Agriculture/ education/ medical	TOTAL
18	5	0	0	0	0	0	0	**5**
25	327	27	2	10	0	4	2	**372**
35	3719	708	39	267	27	14	8	**4,782**
45	5675	576	62	605	62	30	23	**7,033**
55	5929	375	52	368	70	21	21	**6,836**
65	1891	91	16	79	71	22	27	**2,197**
75	391	10	0	11	17	2	5	**436**
85	43	1	0	2	4	0	1	**51**
90	1	0	0	0	0	0	0	**1**
TOTAL	**17,981**	**1,788**	**171**	**1,342**	**251**	**93**	**87**	**21,713**

Table 13: Member Monthly Income

Frequency of Land and Housing Loans: Member Monthly Gross Income (KES)								
Bins (KES)	General development	Personal consumption or development	Top up/ refinance	Mortgage	Business cashflow	Emergency/ advance	Agriculture/ education/ medical	TOTAL
-	-	0	0	0	0	0	0	**-**
100,000	10572	232	83	124	1	55	27	**11,094**
200,000	2439	6	25	179	5	22	2	**2,678**
300,000	721	0	20	109	15	5	0	**870**
400,000	254	0	14	40	1	2	1	**312**
500,000	113	0	10	31	0	1	0	**155**
600,000	68	0	7	13	7	1	0	**96**
700,000	33	0	1	13	0	1	0	**48**
800,000	28	0	3	11	0	0	0	**42**
900,000	24	0	2	22	0	2	0	**50**
1,000,000	15	0	1	5	0	0	0	**21**
1,500,000	26	0	5	10	0	0	0	**41**
2,000,000	26	0	0	6	0	1	0	**33**
TOTAL	**14,293**	**238**	**171**	**557**	**29**	**89**	**30**	**15,440**

6.5 Frequency Distribution Data: Loan Features

Table 14: Loan Principal

Frequency of Land and Housing Loans: Principal Disbursed (KES)								
Bins (KES)	General development	Personal consumption or development	Top up/ refinance	Mortgage	Business cashflow	Emergency/ advance	Agriculture/ education/ medical	TOTAL
-	-	-	-	-	-	-	-	-
100,000	686	261	89	2	31	234	11	**1,314**
500,000	7,486	1,124	735	31	289	142	63	**9,870**
1,000,000	6,983	877	690	77	107	9	11	**8,754**
1,500,000	4,693	805	578	150	75	4	12	**6,317**
2,000,000	2,224	308	275	175	101	1	7	**3,091**
2,500,000	1,244	172	57	131	26	2	4	**1,636**
3,000,000	1,021	82	35	152	20	1	3	**1,314**
3,500,000	390	31	8	137	21	-	1	**588**
4,000,000	315	13	8	151	6	-	1	**494**
4,500,000	157	10	9	107	2	-	-	**285**
5,000,000	222	11	11	157	8	-	4	**413**
5,500,000	78	9	7	90	3	-	1	**188**
6,000,000	97	4	4	131	2	-	-	**238**
6,500,000	40	5	3	78	2	-	-	**128**
7,000,000	53	8	6	102	-	-	-	**169**
7,500,000	34	5	2	58	2	-	1	**102**
8,000,000	34	3	5	163	3	-	1	**209**
8,500,000	25	1	1	30	-	-	-	**57**
9,000,000	24	2	3	46	-	-	1	**76**
9,500,000	5	1	-	19	-	-	-	**25**
10,000,000	54	2	-	73	2	-	1	**132**
10,500,000	6	3	1	44	0	0	0	**54**
11,000,000	11	1	-	17	-	-	-	**29**
11,500,000	3	1	0	18	0	0	0	**22**
12,000,000	18	0	0	19	0	0	1	**38**
12,500,000	0	0	0	17	0	0	0	**17**
13,000,000	9	2	1	17	0	0	0	**29**
13,500,000	3	0	0	10	0	0	0	**13**
14,000,000	8	0	1	7	0	0	0	**16**
14,500,000	1	1	0	12	0	0	0	**14**
15,000,000	26	0	0	35	1	0	0	**62**
15,500,000	2	0	1	3	0	0	0	**6**
16,000,000	46	1	0	151	0	0	0	**198**
TOTAL	**25,998**	**3,743**	**2,530**	**2,410**	**701**	**393**	**123**	**35,898**

Table 15: Loan Repayment Period

Frequency of Land and Housing Loans: Repayment Period (Months)								
Bins (Months)	General development	Personal consumption or development	Top up/ refinance	Mortgage	Business cashflow	Emergency/ advance	Agriculture/ education/ medical	TOTAL
-	-	0	0	0	0	0	0	-
12	178	175	13	0	29	270	13	**678**
24	980	294	32	19	128	105	38	**1,596**
36	2559	416	155	67	258	2	35	**3,492**
48	4925	225	492	62	107	1	16	**5,828**
60	7475	81	70	200	114	1	12	**7,953**
72	4138	66	396	129	4	0	0	**4,733**
84	1609	1254	613	179	61	0	4	**3,720**
96	2792	894	668	102	0	0	1	**4,457**
108	653	34	0	52	0	0	0	**739**
120	180	287	0	426	0	0	0	**893**
132	15	0	0	132	0	0	0	**147**
144	261	8	0	60	0	0	0	**329**
156	0	0	0	40	0	0	0	**40**
168	0	1	0	39	0	0	0	**40**
180	0	7	0	409	0	0	0	**416**
192	0	0	0	95	0	0	0	**95**
204	0	0	0	22	0	0	0	**22**
216	0	0	0	43	0	0	0	**43**
228	0	0	0	13	0	0	0	**13**
240	0	1	0	126	0	0	0	**127**
252	0	0	0	10	0	0	0	**10**
264	0	0	0	16	0	0	0	**16**
276	0	0	0	14	0	0	0	**14**
288	0	0	0	14	0	0	0	**14**
300	0	0	0	141	0	0	0	**141**
312	0	0	0	0	0	0	0	-
TOTAL	**25,765**	**3,743**	**2,439**	**2,410**	**701**	**379**	**119**	**35,556**

Table 16: Loan Interest Rates

Frequency of Land and Housing Loans: Annual Interest Rate (% p.a.)								
Bins (%)	General development	Personal consumption or development	Top up/ refinance	Mortgage	Business cashflow	Emergency/ advance	Agriculture/ education/ medical	TOTAL
2.0%	-	9	0	0	0	0	0	**9**
4.0%	0	0	0	0	0	0	0	-
6.0%	0	42	0	29	0	0	0	**71**
8.0%	29	61	20	98	0	0	0	**208**
10.0%	151	8	0	771	45	4	0	**979**
12.0%	10729	94	714	48	0	179	24	**11,788**
14.0%	7370	2777	7	582	44	103	76	**10,959**
16.0%	6548	622	909	25	156	6	21	**8,287**
18.0%	708	2	0	16	4	0	2	**732**
20.0%	0	0	0	0	0	0	0	-
22.0%	0	0	0	0	0	0	0	-
24.0%	0	0	0	0	0	0	0	-
26.0%	0	0	0	0	0	6	0	**6**
28.0%	0	0	0	0	0	0	0	-
30.0%	0	0	0	0	0	63	0	**63**
32.0%	0	0	0	0	0	0	0	-
34.0%	0	0	0	0	0	14	0	**14**
TOTAL	**25,535**	**3,615**	**1,650**	**1,569**	**249**	**361**	**123**	**33,116**