



HOUSING FINANCE SUMMER ACADEMY 2008

Summary of Introduction and Module 1

Frankfurt School of Finance & Management

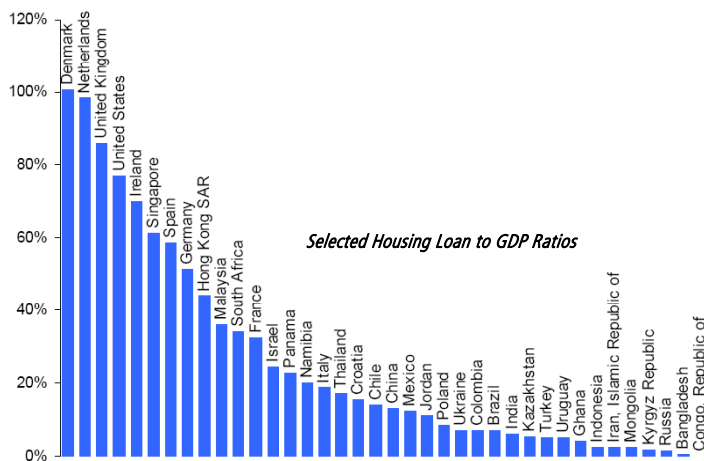
July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



Evolution of Housing Finance Systems



Source for slide 2-15: *Housing Finance in Emerging Markets*, The World Bank

July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



The Importance of Housing Finance ^{1/2}

- Housing represents a large proportion of most households' consumption.
- In the United States, for example, housing rent and utility expenses account for 25–30 percent of personal expenditures.
- Residential investment is a major component of GDP, typically amounting to 4–8 percent of GDP and 20–30 percent of total investment.

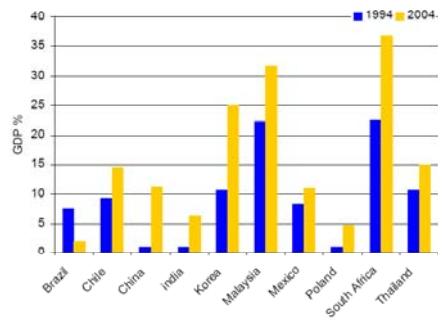
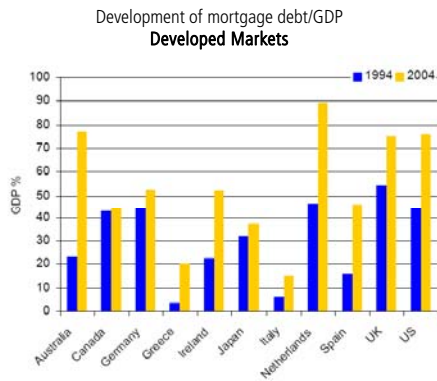


The Importance of Housing Finance ^{2/2}

- Urban population growth between 2000 and 2030 will exceed 2 billion people.
- That is more than eight times the total urban population at the beginning of the 20th century.
- In 1950, there was one city, New York, with a population in excess of 10 million.
- By 2015, there will be 21 of these cities, 17 of which will be in developing countries. By 2030, Asia alone will have to house 2.7 billion people in cities.



In the last decade, outstanding mortgage debt has increased by more than \$7 trillion.



In contrast to the situation in developed countries, the size of the mortgage market in most **emerging markets** is still small, often accounting for less than 10 percent of GDP.

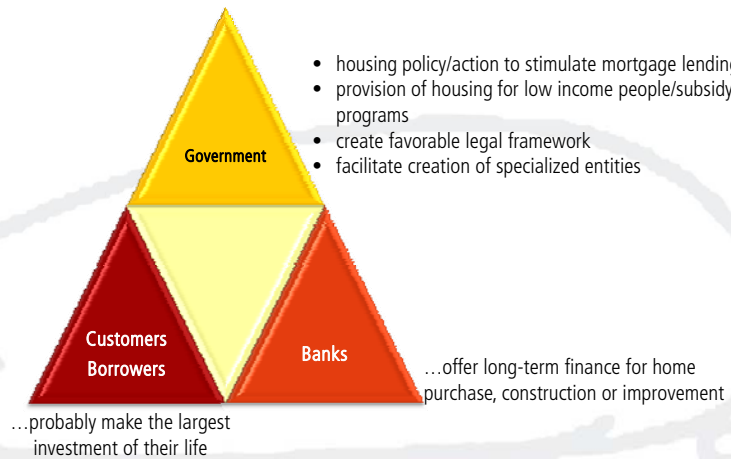


Significant drivers for the expansion of housing finance in emerging economies

- Many emerging economies have experienced GDP growth, which is partly converted into rising incomes of households. These conditions have favored the expansion of mortgage markets.
- A total of 91 percent of the net increase of the world population between 2000 and 2030 will be located in cities of emerging economies.
- The housing sector is too large for any government to finance it alone.



Main actors involved in mortgage lending



Structure and Evolution of Housing Finance Systems

A characteristic feature of a housing investment is its relative size and long investment horizon, requiring large amounts of long-term finance.

The aim of a housing finance system is to provide these funds to the producers and purchasers of housing, both rental and owner-occupied.

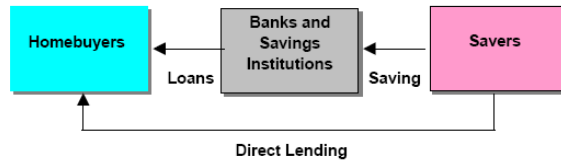
Mortgage lending models are

- Building Societies/Savings & Loans
- Commercial Banks
- Contract Saving Schemes
- Specialist Mortgage Banks
- Combined Different Systems
- Secondary Mortgage Markets



Mortgage Lending Models *Building Societies/Savings & Loans*

Depository and Direct Lending



- Predominant in Anglo-Saxon countries in 19th and 20th century
- Specialized deposit-funded
- Mutual institutions owned by their investors and borrowers
- Marginal role in mortgage lending today



Mortgage Lending Models *Commercial Banks*

- Financial institutions capable to offer a plethora of financial services to customers including mortgage loans
- Increasing importance through financial liberalization
- Strong retail network thus cross-selling potential

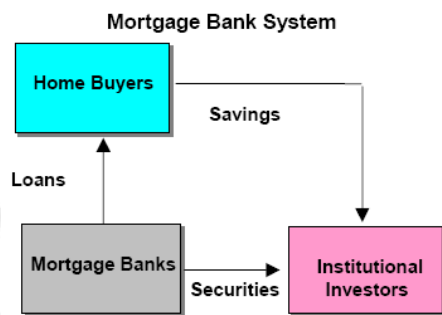


Mortgage Lending Models *Contract Saving Schemes*

- Predominant in continental Europe (Austria, Germany and France) and existent in Central and Eastern Europe (Czech Republic, Slovakia, Hungary)
- Specialized depository institutions that generate fund through loan-linked savings contracts
- Generally supported with government subsidies, tendency declining



Mortgage Lending Models *Specialist Mortgage Banks*

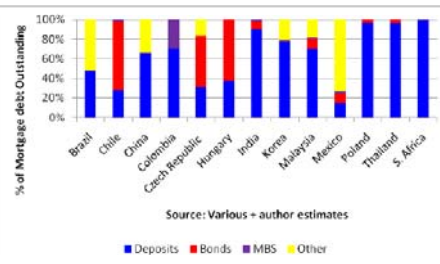
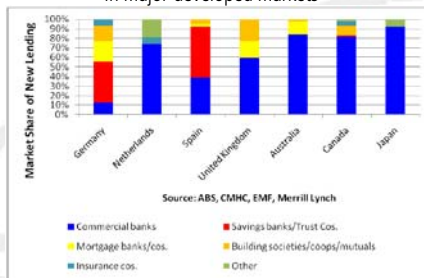


- Alternative to depository institutions
- Banks originate and service mortgage loans from the securities they issue (covered bonds, Pfandbrief)
- Transparent and efficient institutions, however with declining market share due to regulatory changes (commercial banks can issue Pfandbrief as well)



Mortgage Lending Models *Combining Different Systems*

Market shares of different lenders
in major developed markets

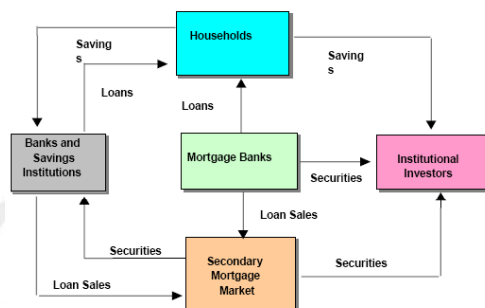


Market shares of different lenders
in major emerging markets



Mortgage Lending Models *Secondary Mortgage Markets*

Housing Finance with a Secondary Mortgage Market

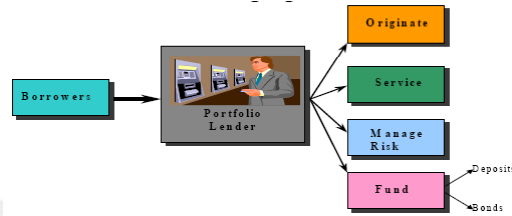


- A secondary market involves the sale of mortgage loans or mortgage securities backed by specific pools of mortgages.
- The majority of residential mortgage loans in the United States are funded through the secondary market.
- Specialized mortgage companies were an important component of the recent subprime lending boom in the United States, but a number failed in the collapse of the market in late 2006 and 2007.

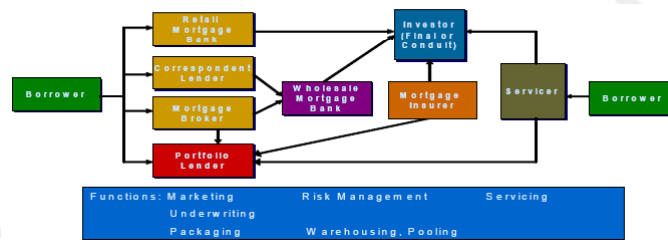


Unbundling of Mortgage Value Chain

1. Bundled Mortgage Finance:



2. Mortgage Lending is becoming unbundled:



Some years ago...

...the airline industry suffered tremendous losses, some carriers like the well-known Swissair also went bankrupt.

Exactly during this time a new carrier appeared on the market. It changed the logic in "bringing people from A to B", defined new products and processes and targeted a new customer segment: travelers with low budget and sense for costs like city tourists, owners of small enterprises, freelancers etc. Today easyJet is one of the most successful carriers in the airline industry with a GBP 200 million profit in 2007.

In comparison to that, most of the commercial banks that are offering mortgage loans are suffering from low margins and high default rates. Why? Because in most of the cases they compete just with the price...



STRATEGY

Customer Value



Customer Value: What are the operational goals when selling Housing Loans?

1. Create Customer Value

- ❖ Because this creates profit potential

2. Differentiate

- ❖ Because it protects the profit potential from other companies or competitors

3. Extract Value

- ❖ In order to realize the profit potential



...and how is Customer Value generated?



STRATEGY
Positioning



12 effective strategies Apple uses to create loyal customers ^{1/2}

A store just for Apple



Varied products



Complete solutions



Proprietary formats



Are you a Mac?



Media folder



Source: Apple, InsideCRM
July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



12 effective strategies Apple uses to create loyal customers ^{2/2}

Education sales



Consistency



Products that deliver



New innovations



Outsourcing unpleasantness



Attractiveness



Source: Apple, InsideCRM
July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



STRATEGY

Product and price



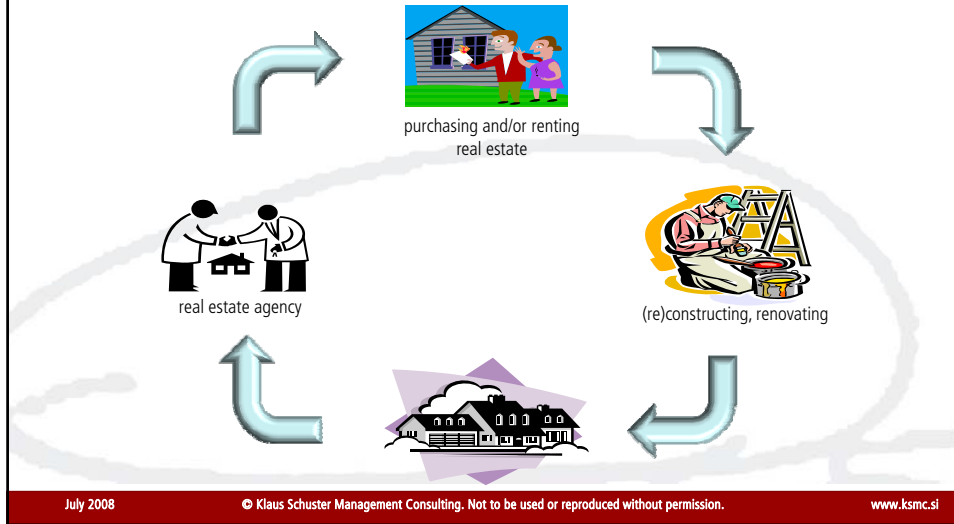
5 steps to create the proper products for your bank

- Step # 1: Create a product catalogue with all products that are connected to housing finance
- Step # 2: Analyze your competitors' products
- Step # 3: Define your core products
- Step # 4: Create specifications of your products
- Step # 5: Consider your price strategy





From the single product to the whole lifecycle...



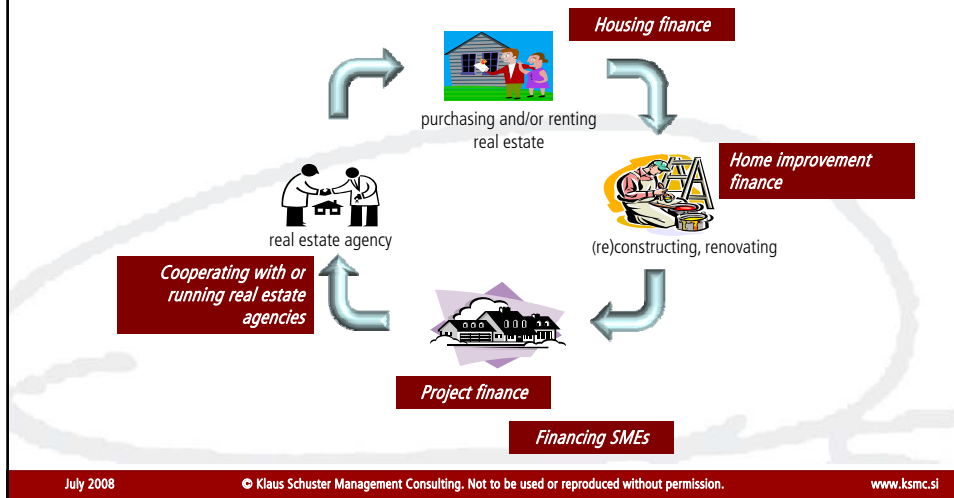
July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



...and your bank's role and contribution



July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



Best practises



Our Fast & Easy Loan can be one of the quickest ways into a new home, second home or investment property. With a streamlined application process, the Fast & Easy Loan eliminates¹ most of the typical paperwork, and features:

- No traditional application required
- Fixed rate, interest only, and fixed-period ARMs available
- As little as 5% down payment for a primary residence

All these great loan features and more are available to qualified borrowers with excellent credit. So reward yourself and take some of the headache out of the loan process. If you're ready for a Fast & Easy loan, then we're ready for you.

what's next

For fast answers to your home financing questions:

SCHEDULE A FREE
LOAN CONSULTATION

CALL US TODAY
1-800-763-1254

APPLY NOW

Compare Accounts

- [Fixed Rate Pick-a-Payment Mortgage](#)
Get flexible payment options combined with the stability of a fixed rate with this truly unique loan. ¹
- [Pick-a-Payment Adjustable Rate Mortgage](#)
Take control of your finances with this adjustable rate mortgage. It gives you the flexibility of several monthly payment options. ¹
- [Flex-Fit Mortgage](#)
If you'd prefer not to disclose your income or you have a challenging income or credit situation, this may be the right loan for you.
- [Fixed Rate Mortgages](#) [\(Apply Now\)](#)
The most popular mortgage program for homebuyers, a fixed rate offers a stable monthly principal and interest payment.
- [Adjustable Rate Mortgages](#) [\(Apply Now\)](#)
An increasingly popular alternative to the fixed rate mortgage, this program may give you a lower, initial monthly payment.
- [Jump Loans](#) [\(Apply Now\)](#)
Check here for various options for mortgages over \$417,000 and up to \$2 million.
- [100% Financing Mortgage](#) [\(Apply Now\)](#)
Need to keep your out-of-pocket costs low? It may be possible to finance 100% of your home's purchase price or appraised value, whichever is less.
- [Community Solutions Programs](#) [\(Apply Now\)](#)
Some professions, like teachers and law enforcement officers, do so much for the greater good. We'd like to give a little back with mortgages designed to assist professionals who serve the public. ²
- [Government Loans](#)
The lower down payments and lower interest rates of FHA and VA loans have helped many afford a home.
- [Community Lending Programs](#)
If you have a modest income or limited savings, these programs can help. ²
- [Construction Mortgages](#)
Special financing can make the building of your own home easier to achieve.
- [Lot Loans](#)
Look here if you're seeking land-only financing.

Compare Accounts

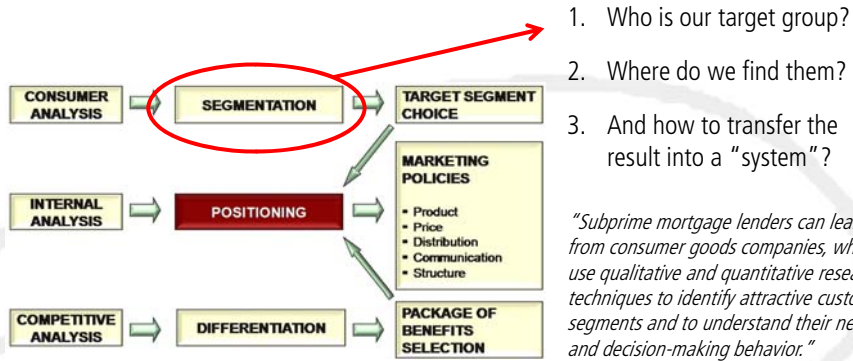


STRATEGY

Target groups



3 questions: let's work them out!



"Subprime mortgage lenders can learn from consumer goods companies, which use qualitative and quantitative research techniques to identify attractive customer segments and to understand their needs and decision-making behavior."

McKinsey Quarterly June 2006



STRATEGY

Distribution channels



Distribution channels in Housing Finance business

Frequently there may be a chain of intermediaries, each passing the housing finance product down the chain to the next organization, before it finally reaches the bank's customer.

This process is known as the 'distribution chain' or the 'channel.'

Each of the elements in these chains will have their own specific needs, which your bank must take into account, along with those of the all-important customer.

"Standard" distribution channels

- Account Managers
- Employees
- Branches
- Competence Centers
- ...

"Alternative" distribution channels

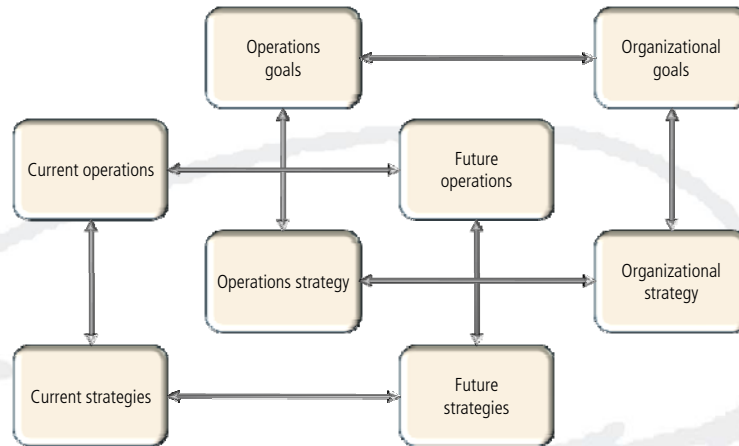
- Internet
- Call Center
- Teleshopping
- Real Estate Agencies
- Retailers
- Franchise
- Mobile Sales Forces
- Independent Financial Consultants
- ...



ORGANIZATION Operations strategy



Is your operations strategy consistent with your business strategy?



Source: Prof. Fraser Johnson, IEDC School of Management/Bled

July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



Customer satisfaction as a competitive advantage



Source: Prof. Fraser Johnson, IEDC School of Management/Bled

July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



ORGANIZATION

Organization structure



How to lead your sales force?

The question at the beginning of setting up or changing a bank's retail network structure is: "How do you want your network deliver its result?"

- 1. Contribution of each branch/profit center to the overall bank's result according to a profit center calculation or**
- 2. Results of production through sales of products and services**

In case you manage your retail network by production targets rather than by branch results, all P&L-related activities like

- conditions (interest rates, fees, etc.)
- different kinds of expenses
- risk provisions (through the bank's risk management approval schemes)

except sales production should be unified, standardized and predefined by the management and retail staff should concentrate mainly on their sales activities.



ORGANIZATION

Processes

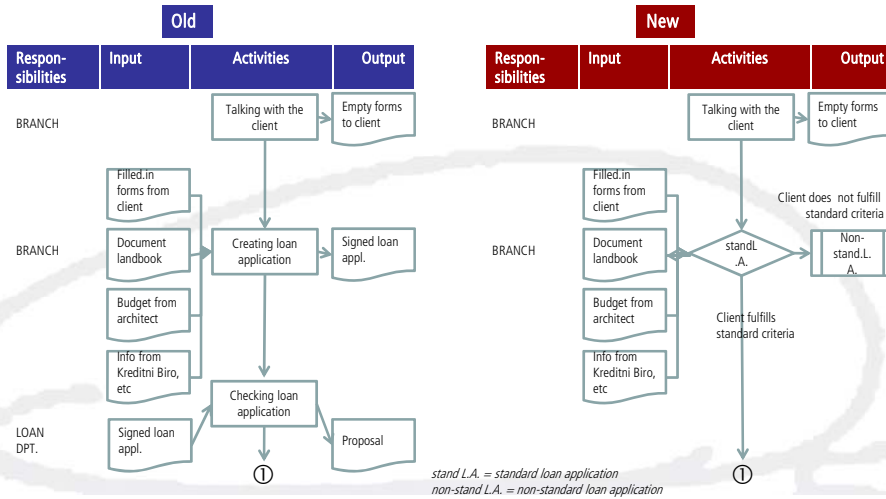


Do you remember the easyJet example?
Let's compare it with your bank...

- ❖ How is housing finance in your environment usually organized?
- ❖ Do we know our competitors' processes and operations models?
- ❖ What's the difference in the way that we manage our housing loan processes compared to our competition?
- ❖ Where are we world class?
- ❖ What do our customers want: a loan or a flat?
- ❖ Why don't we change the process?
- ❖ What can be outsourced?
- ❖ ...



The credit decision at the beginning of the process – possible?



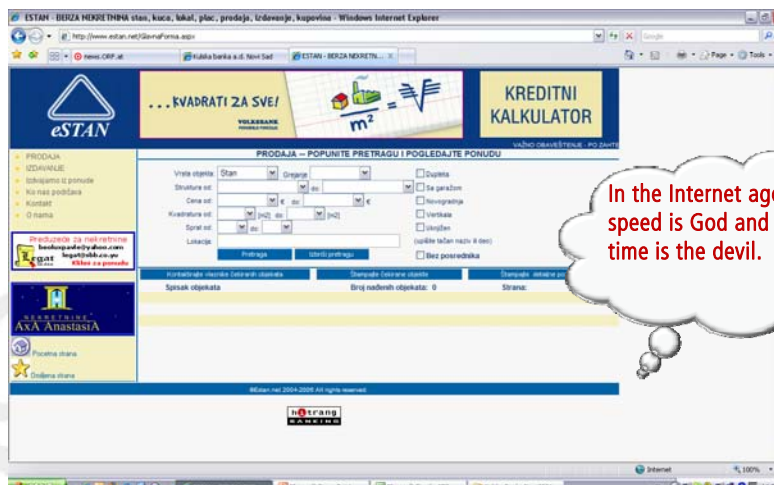
July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



...or to include the Internet in the whole process!



In the Internet age,
speed is God and
time is the devil.

Anonymous

July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



ORGANIZATION

People management



Are our Housing Loan Pillars solid or crumbling?

	INFERIOR RETAIL BANKS...	SUPERIOR RETAIL BANKS...
Solutions	gather products (e.g. different kinds of loans), stack them into promo material (e.g. leaflets), put "price tags" on them and wonder, where their customers are.	consider what people really need and how they can meet that particular need better than competitors can.
Respect	are staffed by people who don't know what customers want and aren't about to interrupt their conversations (e.g. during the meeting with the client) to find out.	actually train and manage their salespeople they hire, so that they are courteous, energetic, and helpful to customers.
Emotions	act as if their customers are Spock-like Vulcans, who make purchases solely according to cold logic.	recognize that everything about a retail banking experience sends a message to customers that goes to the heart , not just the brain.
Pricing	focus exclusively on their supposed prices (or interest rates), often because they have nothing else of value to offer customers.	focus on having fair prices (or interest rates) instead of playing mind games with "special offers", fine print and bogus sales.
Convenience	are open for business when it's convenient for them , close checkout lanes when it's convenient for them, deliver products and services when it's convenient for them, and so on.	understand that people's most precious commodity in the modern world is time and do everything they can to save as much of it as possible for their customers.



What motivates talent?

Great company

Values and culture	58
Well managed	50
Company has exciting challenges	38
Strong performance	29
Industry leader	21
Many talented people	20
Good at development	17
Inspiring mission	16
Fun with colleagues	11
Job security	8



Great jobs

Freedom and autonomy	56
Job has exciting challenges	51
Career advancement and growth	38
Fit with boss I admire	29

Compensation and lifestyle

Differentiated compensation	29
High total compensation	23
Geographical location	19
Respect for lifestyle	14
Acceptable pace/stress	1

Source: Chambers, Foulon, Handfield-Jones, Hankin & Michaels . The war for talent. McKinsey Quarterly 3/2000

July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



Strategic importance of recruitment

- ❖ Effective recruitment is consistent with the mission, vision and values of your bank.
- ❖ Technical and interpersonal competencies needed by your organization are achieved through effective recruiting.
- ❖ From a diversity perspective, the workforce must reflect the customers and communities that your bank serves.
- ❖ Effective recruiting meets your organizations' legal and social obligations.

**We are not in the product business,
we are in the knowledge business.**

Johnson & Johnson CEO, Forbes 1996

Source: Prof. Philip Stiles, IEDC School of Management/Bled

July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



Mortgage business training: a concrete example

	Retail Management Training	Retail Sales Support Training	Retail Sales Staff Workshop	Follow-up and Coaching in the branches	Train the trainer
Participants:	Retail management	Sales support team	Branch and account managers	Branch and account managers, sales assistants	Future trainers
Content:	Strategy, organization, sales	Daily routines, roles, responsibilities and competences of the sales support team as well as expectations to the sales support team	7 elements in selling banking products & services: time management, targets, customer relationship management, preparation & efficient selling, information & communication	Review of the Retail Sales Staff Workshop's content plus individual on-site coaching	How to train and coach retail sales staff?
Location:	Outside the bank	Office	Outside the bank	In branches	Outside the bank
Others:			Sales manual for every participant		

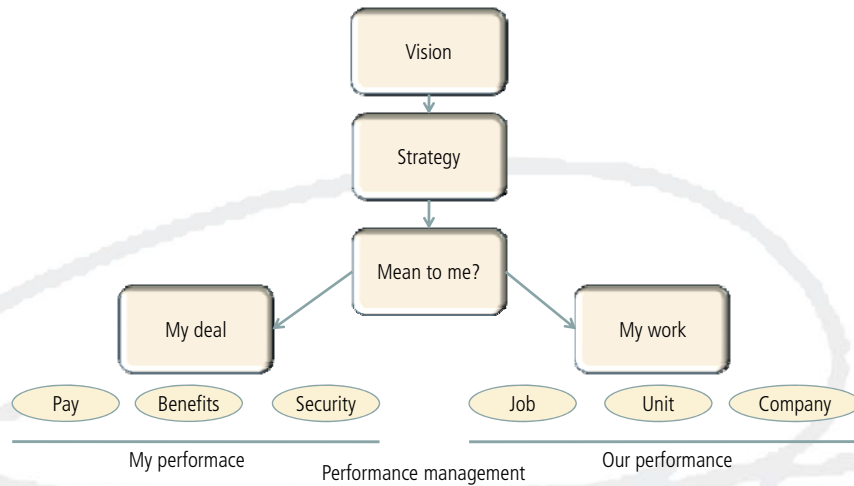


SALES

Budget and sales targets



The employee: "What's in it for me?"



Source: Prof. Philip Stiles, IEDC School of Management/Bled

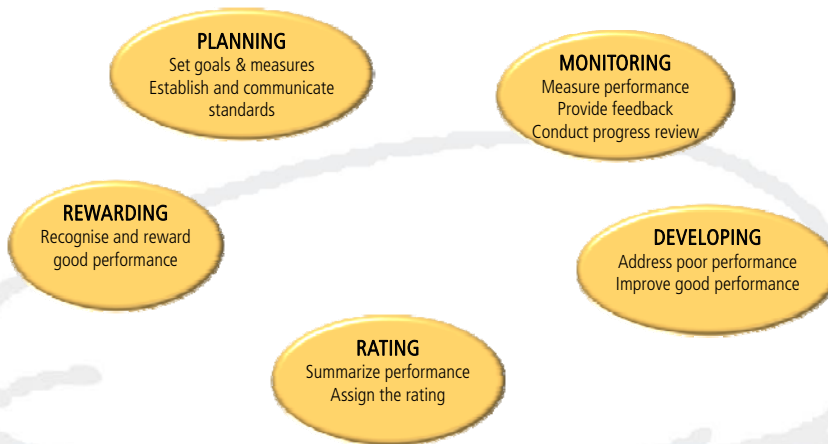
July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



The 5 key components of performance management



Source: Prof. Philip Stiles, IEDC School of Management/Bled

July 2008

© Klaus Schuster Management Consulting. Not to be used or reproduced without permission.

www.ksmc.si



SALES

Sales approach and sales push



The "customer fact sheet" as a preparation for every meeting with a customer...

Type of business	Account nr.	Account balance as of ... (DD/MM/YY)	Limit	Interest rate (debit)	Interest rate (credit)	Maturity (DD/MM/YY)	Turnover on account (2006/07/08)	Special remarks
Current accounts								
Loans								
Leasing								
Deposits								
Guarantees								
Debit cards								
Credit cards								
TOTAL EXPOSURE	ON-BALANCE							
	OFF-BALANCE							
Insurances								
E-Banking	Y/N							
Customer safe	Y/N							



...and the "Financial Check" for private individuals

1. OVERVIEW ABOUT YOUR CURRENT ACCOUNT ACTIVITIES

Incomings (monthly): Salary Pension Other
Employer: _____

Outgoings (monthly): Rent _____ Loan annuities/leasing _____
 Utilities _____ Insurances _____
 Telefon _____ Education _____
 Others _____ Hobbies _____

2. EXISTING PRODUCTS

Products	in your bank	in which other bank?
current account		
loan		
leasing		
deposit		
guarantee		
debit card		
credit card		
insurance		
e-banking		
customer safe		

3. PERSONAL INFORMATION

Name: _____
Address: _____
domiciled there since: _____ as owner of the apartment/house
 in rent
 at the parents
 others

4. OUR PROPOSAL TO YOU

5. HOW DO YOU WANT TO RECEIVE FUTURE INFORMATION?

via mail
 via e-mail
 via SMS (if possible)
other channels: _____

6. OUR NEXT APPOINTMENT

Date and time: _____
Location: _____



SALES

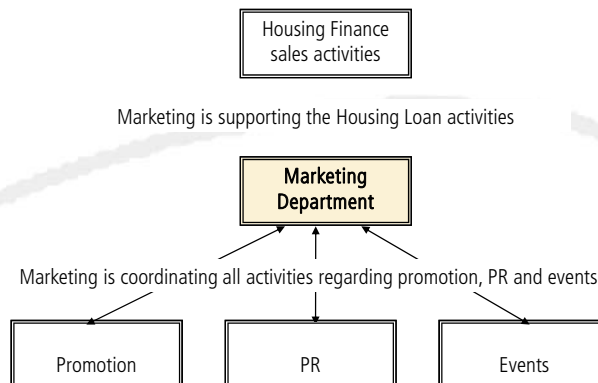
Marketing tools and campaigns



What do we understand as "selling Housing Loans"?

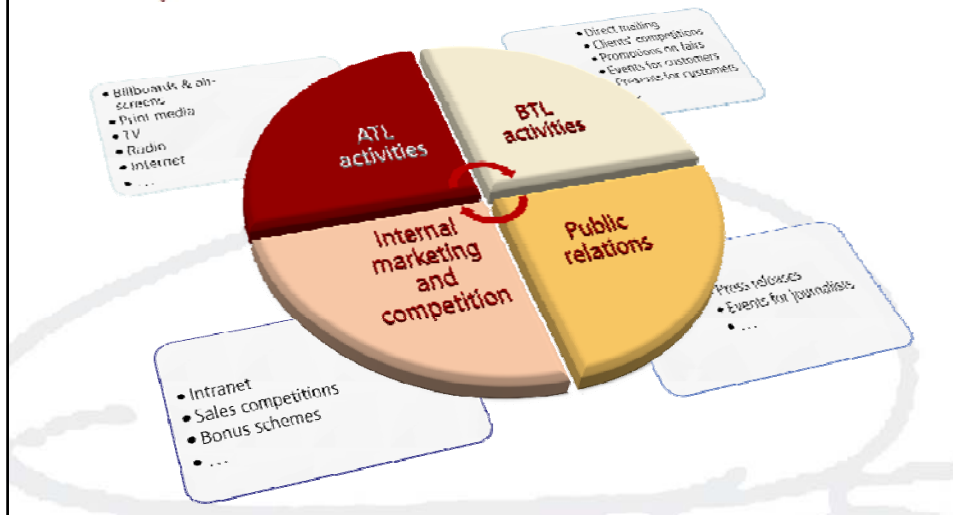


The Marketing Department in the middle of a bank's sales activities





Marketing support through promotion activities



SALES Sales controlling

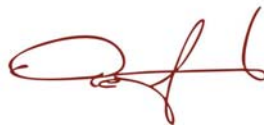


Sales controlling to follow account manager's
business performance from the 1st contact
until deal realization...



...because you can't manage, what you can't measure!

KLAUS SCHUSTER
MANAGEMENT CONSULTING



Klaus Schuster

Klaus Schuster Management Consulting

www.schuster.si or www.ksmc.si

SLO – 1000 Ljubljana, Jamnikarjeva ul. 43

SRB – 11000 Beograd, Bulevar Kralja Aleksandra 86/IV/409

Tel. +386 1 4234263

Mobile +386 40 255555

E-Mail klaus@schuster.si