

Technological approach to housing finance in France

Pierre Removille explains the work of the Union de Crédit pour le Bâtiment

EACH country has its own environment and institutions. It is helpful, therefore, to summarise briefly the major characteristics of the French housing market. At the end of 1984 there were 24.2 million houses in France, and 51% of households were owner-occupiers, of which half were in the course of buying. During 1985, 296,000 new homes were started of which 192,000 were individual homes. For each transaction in the new house market there is a little more than one in the existing market.

New housing loans totalled FF227 billion in 1985. The loans were divided as follows:

(a) 36% were loans aided directly by the state through an exclusive and special mechanism.

(b) 18% were housing savings loans, that is, loans following a premium period of saving. The savings benefit from government bonuses and tax concessions. Housing savings schemes are largely controlled by the banks and the savings banks.

(c) Conventional loans accounted for 24% of the total. These loans are subject to a maximum interest rate, are confined to new housing, are subject to less restrictive credit framework than ordinary loans, and allow borrowers with modest incomes to benefit from personal housing aid paid by the state.

(d) The remaining 22% of loans were ordinary loans.

With the exception of the state institutions, which are involved in the

loans that are directly aided by the state, specialist institutions deal in ordinary, or free market, loans and conventional loans. They account for 25% of the market for these two categories of loans. The largest specialised institution is the Union de Crédit pour le Bâtiment (UCB), which accounts for 10% of these two types of loan amounting to FF8.5 billion in 1985.

'There has been a decline in housing starts'

The main trends in the housing market have been as follows:

(a) A strong expansion until 1974 (the period of post war reconstruction) followed by continued decline (starts fell from 549,000 in 1974 to 296,000 in 1985).

(b) Strong growth in the individual house sector. Its share of starts increased from 45% in 1974 to 67% in 1980 and it has been maintained at that level subsequently.

(c) An important and growing proportion of second homes; they accounted for 10% of the total stock of houses at the end of 1984 as against 6% at the end of 1982.

(d) A growth in sales of second homes and, more particularly, in renovation and improvement.

(e) A stability in real terms over the past seven years in new loans. The

proportion of loans directly aided by the state has fluctuated around 40%. Over the past seven years the share of free market loans has halved while housing saving loans and conventional loans have each doubled their share.

UCB's place in the housing finance market

Housing finance is a complex financial product. This complexity derives from the very nature of housing finance which necessitates, for example, constant adaptation to the ability of borrowers to repay their loans. Also, housing finance institutions, in a period of particularly high interest rates, have to offer loan terms with rising repayments (something which is not without danger in a period of disinflation) and generally have to be able to offer a variety of terms.

This complexity is also the result of the numerous regulations to which housing finance is subject: regulations to protect borrowers (guarantees that work has been carried out where the borrower has bought a property in the course of construction, information to be provided to the borrower, the borrower's right to a period of reflection, rules for making payments, the activities of lawyers), rules related to direct or indirect state support such as housing aid, construction grants, grants for the installation of energy saving devices, and terms and conditions relating to previous savings under the housing saving scheme.

To these regulations are added constraints which often vary, in particular those imposed by the monetary authority, quantitative controls of credit, reserve requirements, regulations on the dispersion of risks, regulations relating to refinancing, particularly in the mortgage market, fluctuations in money market rates, etc. The effect of these on the rate charged on loans can be direct and serious.

The specialist institutions master these complexities. Their techniques and their organisation are geared to allow them to work with the various professionals in the housing field. Although they have only a limited number of points of sale, their strategy enables them to deal with a large number of customers with low operating costs.

UCB's commercial approach effectively illustrates these points. Its sales force comprises over 400 people in 70 offices throughout the whole of France (a very small number of branches compared to the thousands of branches at the disposal of the banks). Each office has on average fewer than six people and the staff have to be able to act quickly in response to market demands. This sales force raises about 150,000 cases each year, cases which need to be studied and, if acceptable, implemented through decentralised systems.

Such commercial productivity would be impossible if each potential client was approached individually bearing in mind how infrequently people buy houses. That is why UCB's commercial approach is primarily geared towards professionals in the housing market. UCB works with over 4,000 builders of individual houses, 7,000 estate agents, 20,000 construction companies, 1,000 developers and 3,000 lawyers. The expert knowledge of these professionals enables UCB to obtain its business.

UCB's progress is not exclusively as a result of effective management of its portfolio of clients which it can attract by offering a wide range of

services, not necessarily linked to housing finance, but also results from direct marketing techniques based on excellent computer records. UCB has about 700,000 potential customers who are interested in new loans.

Currently it has about 200,000 borrowers and the response rate (the number of loans made at the end of six months in relation to the number of customers contacted) is in the order of 6%. For 1986 the direct introduction of clients will have contributed 10% of UCB's activity.

UCB operates in a unique way, at least in France, by having two commercial forces: on the one hand there are the 400 salaried agents, and on the other is a network of agents who

'Considerable reduction in response time'

have been mandated by UCB. These agents, most of whom are insurance agents, are very strong in the regions and this permits UCB to have a commercial presence even in isolated areas.

These agents use the same methods as UCB, and as they are involved in other areas of finance they can play an important role even if they do not lend large amounts themselves. Currently these agents account for about one third of loans made by UCB.

The need to use modern technology

The commercial approach of working with professionals in the housing field assumes that the specialised establishments are able to offer their partners a service which cannot be provided by the general banks, in organisational, human and technological terms. For UCB, the need to be able to react quickly to a variety of particular and complex demands has led it to choose an organisational structure which is both decentralised

and specialised.

The proportion of employees without qualifications has been reduced markedly over a seven year period from 35% to 14%, and over the same period the proportion of management staff increased from 23% to 31%. UCB devotes considerable efforts to training and this accounts for a little more than 5% of salaries paid each year.

For an establishment the size of UCB, with a little over 2,000 employees, it is necessary to have an efficient internal communications system. This is organised around an information system. A central computer operating on real time, together with 800 terminals, allows each employee to know from day to day the operation of the company as well as the situation in respect to particular operations.

The system can be used to provide statistics and any relevant information. Recently, it has been enlarged and UCB now provides direct access to its computer system for those who introduce business to it. Over the past year 20,000 credit requests have been directly transmitted to UCB through the Minitel System. As a result, the response time has been considerably reduced.

The technology used by UCB allows those who introduce business to it to profit from the various services which can be offered. For example, UCB offers estate agents a service of matching houses and potential purchasers. 5,000 agents out of a total of 30,000 are now equipped with the necessary technology. Future opportunities are numerous.

Supplementary services geared specifically to the professions concerned help them in their development and contribute to the maintenance of good relations between themselves and UCB. For UCB this is a necessity because its development as a specialised institution must depend on the quality of the service which it provides. ■

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