

## Rabobank Group: biggest mortgage lender in the Netherlands

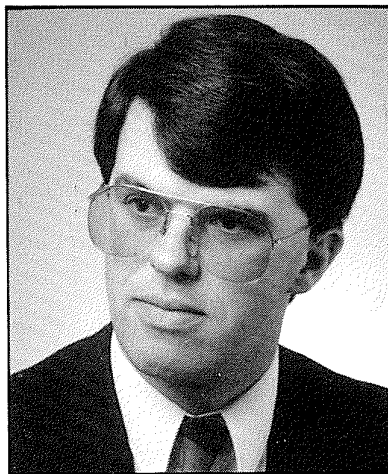
Ad Bakermans profiles a major co-operative bank which has its roots in the rural communities.

**R**ABOBANK is different from other banks: it is not a bank with branches, but a closely-knit co-operative organisation with more than 900 independent, local Rabobanks. Each of these is a separate bank with its own board, its own management, and its own operating area.

The bank's objective, as laid down in its Articles of Association, is to promote the financial interests of its members. Within the framework of this objective the bank offers a wide range of products and services to both businesses and private individuals. At the end of 1986 the Rabobank had some 1,070,000 loans and 500,000 overdrafts in current account outstanding. The number of savings accounts with the bank is well over 9 million and the number of personal cheque accounts is 3.55 million. In the early seventies the bank started to sell insurance, and it has in the meantime become the largest insurance agency in the Netherlands with an annual premium turnover of Dfl1.3 billion (£395 million).

The Rabobank is also the largest agent in the Netherlands for the sale of holiday (package) tours. In 1986 more than 700,000 people booked tours through the Rabobank Group.

The bank has at its disposal a staff of 32,000, divided over 3,400 establishments (offices and special attendance days at auction halls, etc); 19 of these are located outside the Netherlands.



Total assets of the Rabobank Group at 31 December, 1986, amounted to Dfl140 billion (£42 billion), which makes the Rabobank one of the 50 largest banks in the world.

The origin of the Rabobanks lies in the rural communities. In the middle of the nineteenth century the rural population of large parts of North-west Europe lived in abject poverty. One of the major causes was the lack of a financing system geared to the ups and downs of agriculture. Since the existing banks did not offer the farmers suitable credit facilities, the latter were dependent on suppliers and middlemen who were willing to provide credit, albeit at rates and on conditions that were often highly unfavourable.

In order to put up a defence against this situation, the young burgo-master of the German municipality of Weyerbusch, Friedrich Wilhelm Raiffeisen, developed a credit system based on co-operative principles.

Raiffeisen's system implied that persons in possession of an amount of money who did not need that amount during certain periods of the year would lend it to others at a reasonable interest rate through the credit co-operative. This system caught on and was copied everywhere in Europe. In the Netherlands the first local co-operative 'Raiffeisenbanken' and 'Boerenleenbanken' (farmers' credit banks) were established in 1896. In 1898 the need for mutual co-operation between the local banks led to the establishment of two central banks: the 'Centrale Raiffeisen-Bank' at Utrecht, and the 'Centrale Boerenleenbank' at Eindhoven.

For many years the two co-operative banking organisations in the Netherlands were to operate separately, but they decided on a merger in 1972. The name Rabobank was created by putting together the first two letters of the words Raiffeisenbank and Boerenleenbank. Since that time the local Rabobanks have had one central bank: Rabobank Nederland, with head offices in Utrecht and Eindhoven.

Rabobank Nederland is also a co-operative association. Its membership consists of the over 900 local

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Rabobanks. Rabobank Nederland has advisory as well as supervisory tasks, while the member banks have to submit certain decisions to the central bank for approval. This is necessary, for example, for the establishment of new offices or granting loans exceeding a specified amount. Rabobank Nederland also acts as 'keeper of reserve funds' of the Rabobank Group. This means that member banks deposit the funds which they do not need for loans, credits or investments, into an account with Rabobank Nederland. These funds are made available to those Rabobanks which are temporarily short of funds.

Finally, Rabobank Nederland fulfils a number of specialist tasks, such as financing large national and international enterprises and banking in and with foreign countries. Furthermore, there are within the Group a large number of subsidiary companies, of which the 'Rabohypotheekbank' (Rabo Mortgage Bank) is the most important in this context.

The Group's financial basis and the existing close ties between the local Rabobanks, Rabobank Nederland and a number of subsidiaries are strengthened even further by the so-called 'Kruiselingse Garantierogeling' (cross-guarantee system). This system implies that the fulfilment of the obligations of each of the participating institutions is guaranteed by all the other participants in the guarantee scheme.

## Lending

Loans granted by the Rabobank Group to the private sector amounted to Dfl91 billion (£27.5 billion) as at 31 December, 1986. This amount can be subdivided as follows:

	<i>in billions</i>	<i>in percentages</i>
Agricultural sector	Dfl25 (£7.5)	28%
Trade, Industry & Service sectors	Dfl29 (£9.0)	32%
Private individuals	Dfl36 (£11.0)	40%
<b>Total</b>	<b>Dfl91 (£27.5)</b>	<b>100%</b>



*Typical modern houses in the Netherlands.*

As far as the agricultural sector is concerned, the Rabobank has a market share of 90%. A recent survey shows that this market share has even increased somewhat in the past few years. The agricultural sector in the Netherlands has a very sound solvency position, unlike the situation in, for example, the United States.

The Rabobank is now the bank for one out of three businesses in the small and medium-sized range (up to 100 employees) in the non-agricultural sector. This group includes 99% of all businesses in the Netherlands.

In the sector comprising loans to private persons, which in the great majority of cases relate to mortgages on houses, the Rabobank had a market share of 28% during the first seven years of the current decade.

## Housing stock

In the Netherlands there are about 5.5 million houses to 14.6 million inhabitants. The share of owner-occupied houses in the total housing stock — at this moment 43% — is relatively low and has not increased during the past few years.

In the period after the Second World War, the Netherlands was confronted with a substantial quantitative housing shortage. A post war baby boom caused this shortage to increase even further. As a result, the realisation of large-scale, ambitious housing schemes became an important political issue. The question whether governments could continue in office or not might depend on their success or failure in reaching the housing programme target.

This was one of the reasons why governments for many years gave higher priority to the rental sector, which is easier to control — both financially and with regard to policy — than to owner-occupied houses. This situation gradually changed in the course of the seventies.

The percentage of owner-occupied houses differs considerably according to age-group and income. The highest percentage of owner-occupied houses (58%) is found among households where the main breadwinner is between 35 and 44 years old. The older generation had in the past less opportunity to purchase a house.

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The percentage of owner-occupied houses is also strongly dependent on the income of a household. In higher income groups more people own their own homes.

Among households with a minimum income of about Dfl1,400 (£425) net per month, the percentage of owner-occupied houses is only 18%. Among households with a net income of over Dfl3,600 (£1,100) per month, the share of owner-occupied houses is 66%.

The fact that the interest paid on a mortgage is fully tax-deductible in the Netherlands certainly contributes to this great disparity. Because of the progressive taxation system, owning one's house is financially more attractive if one's income is higher.

#### *Developments in the housing and mortgage markets*

The better part of the seventies was characterised by a (by Dutch standards) high nominal income growth, high inflation and the presence of a quantitative housing shortage. The combination of these factors led to a sharp increase in the demand for houses for owner-occupancy. Allotting a larger part of newly built houses to this category was not sufficient to meet this demand right away. Also, the sale of rented houses to the occupants, which increased to about 20,000 per annum, was not enough to solve the problem. The result was an enormous price explosion and a boom in mortgages. The number of mortgages taken out on houses in the Netherlands rose to a peak of 350,000 in the year 1978.

Under the influence of the economic recession the turning point came in 1979. Unemployment increased, the growth in incomes stagnated and the interest on mortgages started to rise sharply. The result was that potential buyers anticipated that in the future they might not be able to afford the high mortgage interest on the more expensive category of houses. Potential buyers continued to live in rented houses, or decided to rent after all, and the demand for

houses for owner-occupancy stagnated.

The result was that prices of houses dropped about 30% in barely two years. The market for mortgages on houses also decreased to some 170,000 mortgages in 1982, less than half the peak level reached in 1978. After 1982 the market gradually recovered and the number of mortgages per annum now stands at 250,000.

As for the coming years, the developments in the housing and mortgage markets can be viewed with some optimism. The prices of houses for owner-occupancy are now at a reasonable level. The average purchase price of a house is Dfl155,000 (£47,000), which is a good 20% below the 1978 level. Furthermore, the interest on mortgages dropped to around 7%, the lowest level in the past 20 years. By way of comparison, the interest on mortgages was as high as 12½% in 1981.

Also, the economic prospects are now more favourable and the government in fact promotes owner-occupancy. The latter is evidenced mainly by the fact that the total amount of mortgage interest is tax-deductible, that subsidies may be granted to buyers of newly built houses, and that in certain cases home mortgages can be provided under local authority guarantee.

Under the local authority guarantee scheme repayment of mortgage loans provided to buyers of newly built or existing houses (meant for owner-occupancy) is guaranteed by the municipality where the house is located. The local authority mortgage guarantee makes it possible to take out the highest percentage mortgage compared with the purchase price of the house; the relevant procedure is simple and there are no surcharges on interest. More than half the houses bought in the Netherlands are now financed with loans carrying a local authority guarantee.

#### *Market relationships*

The total amount of housing mortgages held by the local Rabobanks and the Rabohypotheekbank will be Dfl40 billion (£12 billion) at the end of 1987. This puts the Rabobank in a leading position in the mortgage market. The bank's policy is directed at offering a complete product range carrying favourable rates of interest and conditions, and with expert personal advice for mortgage clients.

The Group's extensive office network plays a central part in the sale of mortgages. In this the Rabobank differs from other mortgage lenders, many of which have to a large extent consigned the sale to brokers and other agents.

In 1986 mortgages on houses in the Netherlands were divided as follows:

Rabobank (incl Rabohypotheekbank)	26%
Commercial banks	28%
Post bank	8%
Savings banks	5%
Building societies	7%
Mortgage banks	2%
Insurance companies	12%
Pension funds	6%
Others	6%
	100%

Next to the Rabobank the combined commercial banks are the most important institutions in the market. The individual commercial banks have market shares which are around or well below 10%. Remarkably, the mortgage banks have all but disappeared from the market for mortgages on houses, owing particularly to the fact that they were not able to hold out against the competitive prices offered by the other lending institutions. Furthermore, a number of mortgage banks suffered the adverse effects of the housing market collapse at the end of the seventies in more ways than one, since they were also active as property developers.

There is one group which gained its market share very quickly: the pension funds. The nature of their business makes it possible for them to grant loans at fixed rates of interest for longer periods (10 and 15 years) under extremely competitive conditions. Furthermore, one of the larger

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*Rabobank's head office in Eindhoven.*

pension funds provides a type of mortgage where the interest rate is linked to the wage index. Bearing in mind the funds entrusted to them, it is difficult for the banks to compete against products such as these.

During the boom in the seventies there was a great demand for types of mortgages which made the starting costs as low as possible and the amount of the available mortgage as high as possible. In the present circumstances, however, consumers have a strong need for security. They want to be certain of the rate of interest and the extent of the monthly mortgage charges. The major mortgage lenders have responded to this need with the introduction of new types of product, characterised by cost stabilisation and avoiding the risks of sudden sharp interest adjustments.

In this respect the Rabobank has been very successful with the so-called Rente Stabiel Hypotheek (stable rate mortgage), which was introduced around the middle of 1983. A characteristic of the Rente Stabiel Hypotheek is that the interest rate at the time of taking out the mortgage will remain unchanged during the total life of the mortgage loan (usually 30 years) unless the

interest rate for mortgages changes by more than 2 percentage points. If the interest rate falls or rises by more than this, the interest rate of the Rente Stabiel Hypotheek is adjusted only for the part exceeding 2 percentage points. In the past few years the Rabobank has provided several tens of thousands of these mortgage loans.

#### *Role of the Rabohypotheekbank*

Rabobank Group mortgages are provided primarily by the local banks out of funds raised by them in their respective operating areas. Rabobanks which are temporarily or structurally not in a position to meet the entire demand for financing of their clients can place mortgage loans at fixed interest rates with the Rabohypotheekbank. The Rabohypotheekbank thus fulfils a supplementary financing task within the Rabobank Group and, to this end, provides mortgages at interest rates fixed for 3, 5, 10 and 15 years. More than one in ten mortgages on houses granted by the Rabobank is placed with the Rabohypotheekbank.

The Rabohypotheekbank is a limited liability company, with 95% of the shares held by the local Rabobanks. The remaining 5% are held by

Rabobank Nederland. The Rabohypotheekbank acquires its funds on the one hand within the Group by offering banks with a structural surplus of liquid assets the opportunity to invest their liquid assets with it, and on the other hand on the public and private capital markets by issuing mortgage bonds and raising private loans.

#### *The future*

The demand for housing in the Netherlands will increase considerably in the years ahead, as a result of the population growth and the increase in the number of households. The demand for owner-occupied houses will probably increase more than proportionally, owing to the fact that the difference between the costs of renting and purchasing will continue to decrease, and to the marked preference on the part of the consumer for purchasing.

Recent market research shows that over 50% of tenants under the age of 35 intend to move to a house of their own in the future. Currently the number of privately owned houses in this category is as high as 35%.

Furthermore, some 700,000 (30%) are interested in purchasing the houses they are now renting. It may therefore be expected that the number of owner-occupied houses will increase further in the years ahead. The rate at which this will come about also depends on economic developments and the extent to which landlords and government respond to consumers' current preference for owning their own homes. ■

*AD BAKERMANS joined Rabobank Nederland as a member of the economic research department in 1976. In 1978 he was appointed product manager personal sector financing. He has been active in his present function since 1984. As head of the commercial development department he is responsible for policy making, product development and market approach in the field of personal sector lending, with the emphasis on housing mortgages.*