

## Role of housing finance in global retail banking

By Robert D. Horner

**I**n looking at the housing finance industry and, more specifically, Citicorp's role as a global retail banker, one can make two general observations: there is plenty of opportunity ahead for all institutions, and making the most of the opportunity is going to become an increasingly difficult proposition.

### *Citicorp's approach to housing finance*

Citicorp is the United States' largest financial institution, with more than \$210 billion in assets, and operations in 36 American states and 92 countries around the world.

A growing part of that worldwide operation is Citicorp Mortgage Inc, which is responsible for driving the mortgage banking business throughout the US. We have been in the mortgage business for more than 20 years, although our real focus began only as recently as 1981. Today, Citicorp is the largest mortgage lender in the US. We originated more than \$13 billion in housing loans in 1987, and expect to achieve similar numbers in 1988.

We are also the largest servicer of mortgages, by a wide margin. We currently service nearly 600,000 loan customers with an estimated servicing portfolio of \$46 billion. Our goal is to grow that part of the business to more than one million accounts in the next five years.

Clearly, housing finance plays a strong role in our consumer banking business in the US. Outside the US, Citicorp has consumer operations in 40 countries across the globe. In 26 of these countries we are involved in housing finance to some degree.

We have thousands of mortgage customers outside the United States,

from Asia to Europe to Latin America. We operate as full service banks in some countries, as consumer finance operations in others, and as savings banks in still others.

We are extremely pleased with our progress in this business, especially as we only began actively pursuing our international consumer business in 1975. In many countries, we made acquisitions and began sourcing home loans less than five years ago.

Our growth to date and in the future will result from two factors. First, we recognise that the housing finance business requires local presence and management. We can't expect to do business the same way in France as we do in Chile. Nor do we do business exactly the same way in New York as we do in California. We set up our mortgage operations to be locally managed and stay flexible to the needs of the market place. The second factor is that we also realise that there are many aspects of housing finance that are very similar, where processes and systems can be duplicated and savings and improvements achieved.

So we are moving slowly but surely towards a more standardised approach wherever possible. One thing that is already standardised around the world is Citicorp's commitment to the housing finance business.

We see this commitment to housing finance becoming even larger over the next decade. The mortgage business is a key part of Citicorp's consumer strategy both today and as we approach the year 2000.

In the United States, we have set our sights on continuing to grow our portfolio at the annual rate of \$12-\$20

billion in new loans. We have mortgage operations in two-thirds of the States and a growing consumer awareness brought on by the use of national advertising, strategic acquisitions and erosion of many of the legal and regulatory barriers which have constrained us for many years.

Outside the US, the picture is just as bright. Our mortgage portfolios are growing significantly in a number of countries. We expect this trend to continue as we expand our markets and refine our operations. As a result, we are confident that the mortgage business will continue to be a major contributor to Citicorp's half billion dollars in consumer earnings each year.

### *Housing finance and global strategy*

In looking at these optimistic projections, three questions come to mind. First, why is housing finance such an important part of Citicorp's global consumer strategy? Second, what advantages do we have, as a global retail bank, in the competitive market place? And finally, what issues and obstacles must we overcome if we are to succeed?

The answer to the first question is easy. Housing finance is important to our global strategy because housing is important to the consumers we are trying to serve around the world.

Citicorp's chairman, John Reed, laid out our basic consumer business strategy back in 1975. "A well-served consumer," he said very simply, "is a good business proposition." That concept is still viable today in 1988 and it will be just as viable in 1998. We believe that success in the consumer

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financial services business is a matter of finding out what the customer wants and then finding ways to give it to him efficiently and profitably.

Our research has shown that owning a home is still at the top of the consumer's list of wants. Thus, we feel that by meeting this basic consumer need, we will form the basis for a long-term relationship with that consumer. This strategy is as true and relevant in Spain as it is in Japan or Great Britain or the US.

The second reason housing is so important to us is that the size of the opportunity is so huge. The mortgage market in the United States alone is in the order of \$250-\$350 billion each year. As the largest lender in the country, Citicorp still has less than a 4% share of that market. Thus, a 1% increase in our share points would result in \$3-\$4 billion per year in new business. Worldwide, the numbers are just as inviting.

Our market share, even in our most established international markets, is still small by any measurement, so there is tremendous opportunity for us to grow the business in many countries by leveraging our strengths and focusing resources in this area.

What are the strengths of a global retail bank in this business? Ironically, the answer most of us would immediately jump at is not the correct one. Global size and scope — the ability to do business across national borders and achieve economies that the smaller players cannot — is not necessarily true in this business.

The reality of the market place is that the housing finance business is very different from one country to another. So, while we would like to think that we can standardise our product offerings, our delivery mechanisms and even our treasury and servicing support functions to achieve these economies, the truth is that we are not there yet. Local laws and customs continue to slow our efforts, and everyone else's, to make the most of the opportunities that are waiting for us.

In Germany, for example, there is

no secondary market to speak of today, so our ability to grow in large part is based on our ability to attract new deposits in our German bank. In Taiwan, we have had to put into place special credit controls to protect ourselves in a market where 50% of the workforce is self-employed and credit checking is difficult at best. In Hong Kong, our business is impacted by the uncertainty of the 1997 lease issue and the effect of that impending change on home ownership on the island.

There are, however, a number of areas where our size and global reach can pay dividends.

#### *Lessons for international operations*

We have attained the position as the largest mortgage lender in the United States. Along the way we have learned a number of valuable lessons about this business which we feel can be exported to our operations in other countries.

Perhaps the most important of these lessons is that we look at the mortgage business in a fundamentally different way than most other lenders. We look at the mortgage business as a service business rather than as a financial commodity. We have made service our key point of differentiation with consumers across the globe.

We have learned with all our products that price and terms are not as important to the consumer as service, information and dependability. Customers value service above everything else. It is the basis upon which they will build a long-term relationship with an institution.

We see this information as an advantage for Citicorp because we have been working for many years to make selling service the primary focus of our consumer strategy. We have also learned that selling a service is not something that one masters overnight. In a complex business such as housing finance there

are hundreds, even thousands, of opportunities to deliver on our service promise to the customer . . . or to drop the ball.

For example, if we make a loan to a customer in New York and deliver the best service in the business, we have set up that customer's expectations. If our national servicing centre in St Louis then loses that customer's payment, or fails to meet that customer's expectations in any way, then we have failed.

Customers tend to judge a service provider very harshly, and rightly so. They also tend to reward a good provider of service with their loyalty and their willingness to come back to that provider again and again.

Becoming the largest housing lender is an easy task compared to achieving the position of "best provider of service". We think we have learned the formula and are already seeing it work in other countries.

Being a global bank also means that you don't always have to recreate the wheel every time you need to respond to a customer's needs. For instance, our primary distribution of mortgages in the US is through a programme we call MortgagePower. MortgagePower offers a package of products and services to consumers that is accessed through real estate agents and brokers. In the US we rely heavily on those agents to refer their home buyers to us. MortgagePower is our promise to them that we will treat their customers the way they would treat them themselves. It is our guarantee of quality service and value.

When we began to export the service concept to our housing finance businesses in other countries, we found that the MortgagePower concept has application in many lands. Of course, each time we have had to modify it to meet local customs and practices. But the basic, underlying philosophy of MortgagePower is just as applicable in all of our banks.

That is why, in Australia or some of the other Pacific Rim countries, our consumer loan business advertises a

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MortgagePower revolving credit first mortgage product. In England, in a Citibank Savings branch, MortgagePower loans are all the talk because we've capped the rate until March 1989 to help consumers get past recent increases in interest rates.

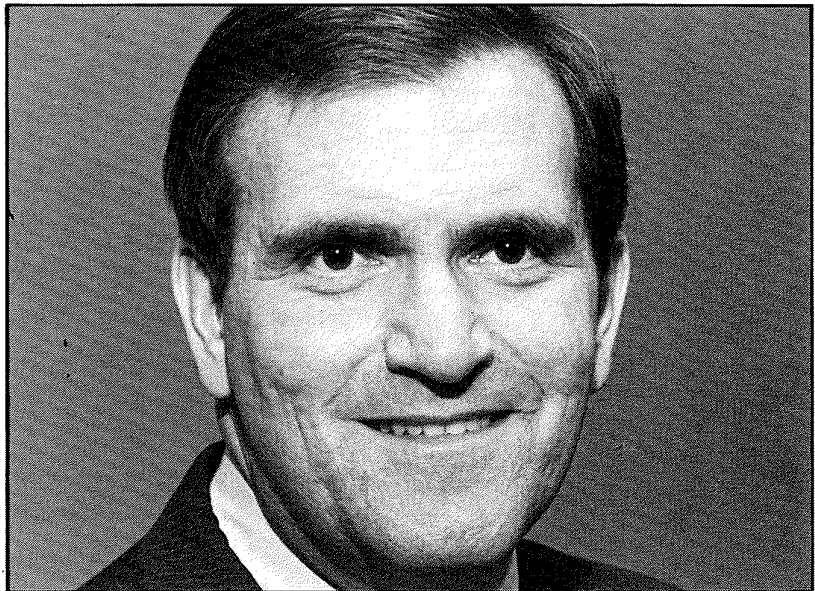
The point is that, regardless of what the local product parameters are, we have managed to develop and export on a wide scale a philosophy that makes sense in any language service. And that has put us ahead of our competition and well on the road to achieving those opportunities that are waiting.

We also have the advantage, as a global bank, of our experience and our presence as a commercial bank in many different countries. That presence has given us insight and access to markets, investors and strategies. In the past year, for example, we have worked closely with our Citicorp colleagues to make presentations on our US private label mortgage-backed securities to potential Japanese and Arab investors.

We see other opportunities to share our experiences and our successes across the globe. We are currently working in the US to consolidate all of our processing and servicing of loans into a single one or two locations. We have avoided many of the pitfalls in this process thanks to lessons we learned from our Citicorp Bank Cards division when they underwent similar restructuring a few years ago.

We have taken their experience and have added our own to it. And there will come a time, just as there was when Citicorp rolled out ATMs, when that experience, not to mention the technology and the process management, will be used by our European counterparts or our South American friends to streamline their own operations.

Productivity is another area where our international experiences give us an advantage. Despite all of the differences in our business across the world, one thing is the same: you make money in this business by keeping your costs as low as possible and



*Robert D. Horner: seeking better productivity.*

by giving your customers value for their money.

One of our main focuses over the past few years and into the 1990s is to seek better productivity in all aspects of our operation. What we are trying in the US and what we have learned has ready application to our mortgage operations everywhere.

#### *International issues*

You might say that our mortgage business in the US is, in many ways, a test market for the rest of the world. It is. But those of us in the US also look to our overseas colleagues for their lessons and their advice. Because, when you break the mortgage business down to its most basic premise — meeting the consumer's needs — we have learned that there are more similarities than differences.

There are, of course, a number of issues which face all of us as we approach the end of the century — or perhaps challenges would be a better word. I believe there are three primary ones.

First, we need to recognise that our world is shrinking all the time. We no longer operate in isolation, because what we do in the mortgage business

in the US today has implications for the rest of the world and vice versa.

Nowhere is this more apparent than in the capital markets. I have mentioned some of our efforts to seek international markets for our US mortgage-backed securities. That is but one small step in what is going to become an international financial market place.

We must seek out ways to internationalise the secondary markets which exist today. And we must pursue the expansion of those markets into new countries and new sources of capital. We must work toward the point where that loan that we make in Texas is originally funded with Eurodollars and eventually sold to investors in a Japanese secondary market.

Our second challenge is how we will respond, as an industry, to the changes and the opportunities which will open up as regulatory and national borders come down. The most obvious example of this is the European Common Market in 1992.

I believe that those who want to profit from this opportunity would do well to study the US mortgage busi-

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ness. In the US, the mortgage business is a national one. Unlike many other aspects of the financial industry which are restricted by state and national legislation, the mortgage business is unfettered by artificial borders.

As a result, our national approach to the mortgage business in the US has given us a huge business opportunity, and I sense a similar situation being created in Europe. The ability to do business without many of the differences and constraints which we have had is a tremendous opportunity. It gives us a chance to evolve to a common product set, resulting in productivity gains in product development, operations, marketing and more.

Around the world, we are seeing more and more opportunities opening up for those who are prepared to compete on a level playing field. We must continue to seek out any opportunity that will allow us to create efficiencies and economies of scale which allow us to provide affordable housing finance products in all markets.

Our final challenge is one for which neither I nor Citicorp has a definitive

answer. It is the question of housing affordability and availability. In the United States, we are faced with two growing problems. Our young people are beginning to find that they can no longer afford to buy and, in many cases, rent the home they desire. And we seem unable to find a way to house all of our people.

Affordability of housing is a critical

## 'Barriers to trade will come down'

issue in all countries. In many cases, especially in some of the smaller countries, there is simply no more room to build. We have a special role to play in this issue because experience has taught us that the mortgage industry plays a key role in facilitating home ownership. This is true in the US and I daresay it is true in other countries as well.

The US mortgage market is the most developed, most sophisticated, in the world. The rate of home owner-

ship in the US is a result of our conscientious past efforts to keep funds available and to encourage young people to buy homes. As a result, we have in the US a level of economic stability that, over the long run, is among the best anywhere. Housing stability breeds economic stability, and economic stability makes any market a better place to do business.

The basis of our consumer banking strategy is that a home is a fundamental need and want of every consumer. If we cannot find a way to insure that consumers have the opportunity to achieve this dream, then we will not succeed in our plans.

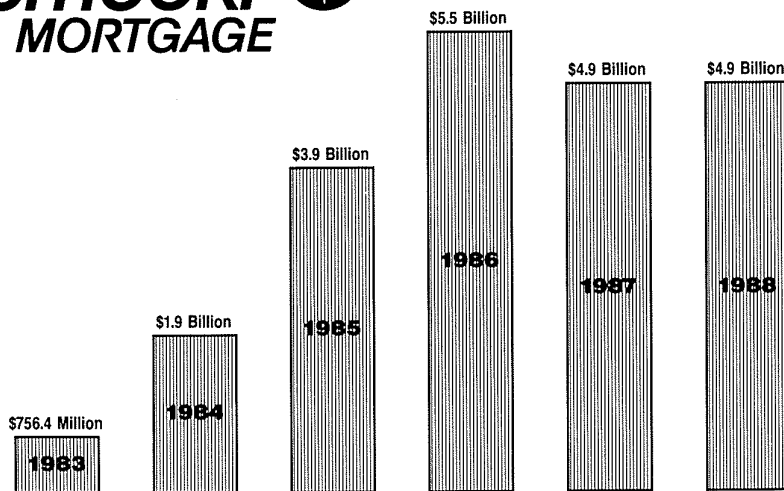
In summary, we at Citicorp are excited about the challenges and the opportunities which face us as we head towards the 21st century. We see the barriers to fair trade and competition coming down in many areas and we are encouraged by that. We know that success is possible in the housing finance business, as long as you are cost-conscious, creative and willing to take the right risks. We welcome the creation of world markets which will provide new sources of funds to make our businesses grow. We look forward to dealing with the issues that face us as we seek to keep the consumer's dream of home ownership alive.

Above all, we welcome the opportunity to grow our business in new markets and new countries, to find ways to translate lessons learned from one country to another, to take advantage of the opportunities which we have.

The role of housing finance in our global retail bank has never been stronger. And I believe that the best is yet to come. ■

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## CITICORP MORTGAGE



**MORTGAGE ORIGINATIONS**