

The Halifax — the world's largest building society

By Jim Birrell

THE Halifax is the world's largest building society, with assets of over £40 billion. It has mortgage assets of over £33 billion and in 1988-89 lent £10.6 billion for the purchase or improvement of homes in the UK. Almost 280,000 people bought their homes with a Halifax mortgage last year, over a third of whom were first-time buyers, and the Halifax made a further 147,000 loans to people who wished to improve their homes in some way. At the end of the year, over 1.6 million people had mortgages with the Halifax.

Most of the remainder of the Halifax's assets are invested in short-term liquid funds, with over £6.5 billion invested in bank deposits, certificates of deposit, Treasury bills and gilt-edged securities. On the other side of the balance sheet, the Halifax is the home for over £33 billion of personal savings with a further £5 billion raised from wholesale markets. The Halifax has almost nine million investing members with over 13.5 million accounts, giving it some kind of relationship with around one out of every three households in the UK.

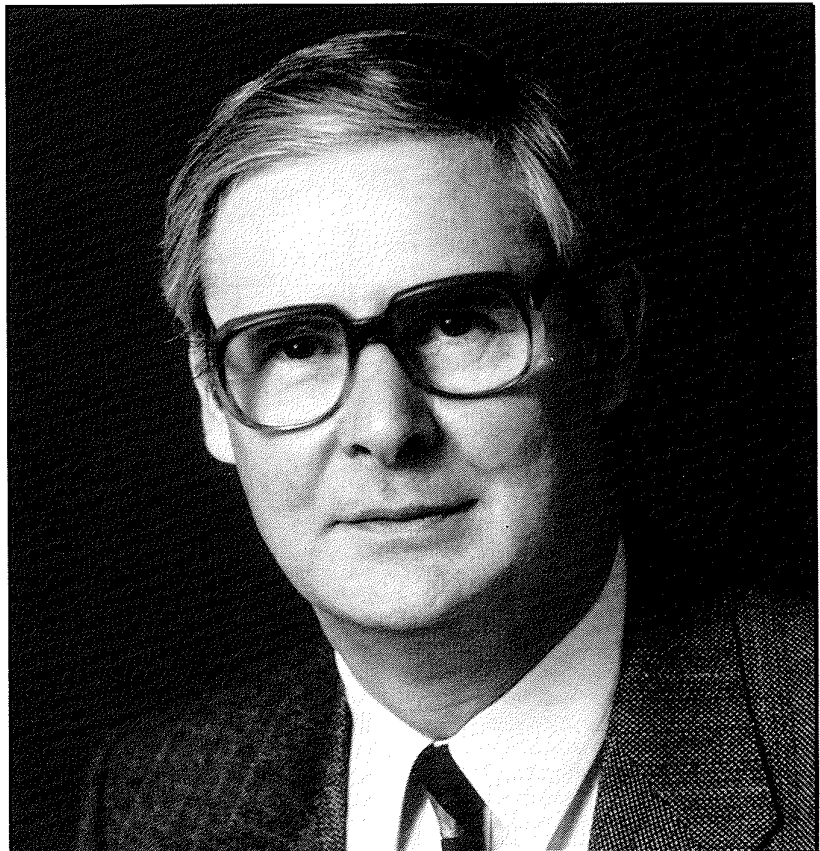
These figures give some indication of the scale of the Halifax's traditional business which, with 745 branches throughout the UK and almost 16,000 employees, continues to be controlled from its home town of Halifax in West Yorkshire where it was founded in 1853.

Over the past year the society has reaffirmed its commitment to keep the head office in Halifax for the foreseeable future and this is reflected in continued significant investments in the Halifax area, including a major

extension of the head office building and new data centre and warehousing facility within two miles of the centre of Halifax costing over £30 million. This latter, together with the existing parallel data centre 20 miles away near Wakefield, will provide for all our business information system needs to beyond the year 2000.

Over the past year the Halifax has

also reaffirmed its commitment to mutual status — it has decided, at least for the foreseeable future, not to convert into a public limited company. Following the passing of the 1986 Building Societies Act, building societies in the UK have been permitted, with the approval of their members, to transform themselves into companies with share capital —



Jim Birrell: Reaffirmed commitment to mutual status.

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in effect, become banks. This option has been chosen by the Abbey National and several other large societies have indicated they are giving the matter careful consideration.

The Halifax carried out an exhaustive study in 1988 into the option of converting into a bank. At the outset, we were concerned about the limits to our powers under the 1986 Act and about our abilities to raise capital and therefore about our longer-term future as a mutual. However, during the course of the study, it became clear that building society powers would be widened and that new forms of capital would become available. Although the twin issues of capital and powers remained dominant, our board was unanimous in its decision that the increased powers given to building societies would allow us to fulfil our plans and meet customer needs as a mutual society.

The availability of subordinated debt (of which £350 million was raised in 1988) and certain other capital raising options would ensure that capital does not constrain our plans as a mutual. By the 1990s we would expect to have to revisit the mutual/plc decision, but there is certainly no evidence of any strong trend pointing in the direction of company status.

Despite our being, and remaining, a mutual society, profitability plays a crucial role in planning. Although alternative sources of capital are now available, retained profits will continue to be our primary source of new capital. Thus, if we are to continue to expand our traditional business, diversify into the new areas permitted to us, and provide the products and services demanded by our customers, there is a constant need for strong profit growth. This we certainly achieved in 1988 with pre-tax profits of £461 million, a rise of 32% on the previous year, giving a gross return on mean assets of 1.26% and on mean reserves of 34.0%. Although market conditions

Halifax Building Society – Five-year Progress

	1988-89	1987-88	1986-87	1985-86	1984-85
<i>Profits</i>					
Pre-tax profit	£461m	£350m	£309m	£251m	£223m
Post-tax profit	£291m	£225m	£205m	£151m	£170m
<i>Assets and capital</i>					
Total assets	£40,400m	£33,035m	£28,690m	£24,365m	£20,490m
General reserves (after goodwill write-off)	£1,470m	£1,245m	£1,120m	£920m	£765m
Gross capital (including subordinated debt)	£1,820m	£1,245m	£1,120m	£920m	£765m
<i>Ratios</i>					
Gross capital ratio (including subordinated debt)	4.79%	3.99%	4.13%	3.95%	3.91%
Return on mean reserves—pre-tax	34.0%	29.6%	30.3%	29.8%	32.8%
post-tax	21.4%	19.0%	20.1%	18.0%	24.9%
Return on mean assets—post-tax	0.79%	0.73%	0.77%	0.67%	0.91%
Increase in total assets	22.3%	15.1%	17.8%	18.9%	22.1%
Liquidity ratio	16.1%	16.2%	15.8%	16.9%	15.9%
<i>Mortgages</i>					
Amount advanced on mortgage (including further advances)	£10,600m	£7,345m	£7,165m	£5,270m	£5,350m
Further advances for home improvements (included above)	£950m	£665m	£580m	£385m	£375m
Number of mortgage advances (excluding further advances)	278,000	224,000	271,000	235,000	255,000
Number of further advances	147,000	150,000	142,000	106,000	108,000
Number of loans to first-time buyers	107,000	88,000	110,000	102,000	115,000
Mortgage balances	£33,355m	£27,405m	£23,975m	£20,080m	£17,065m
Number of borrowers	1,608,000	1,536,000	1,490,000	1,396,000	1,307,000
<i>Investments</i>					
Net new inflow—retail	£3,170m	£1,530m	£1,580m	£1,765m	£1,970m
Net receipts—non-retail	£1,675m	£1,000m	£935m	£575m	£540m
Balances—retail	£33,040m	£27,985m	£24,805m	£21,910m	£18,785m
Balances—non-retail	£5,075m	£3,400m	£2,400m	£1,390m	£815m
Number of investing members	8,790,000	8,280,000	7,980,000	7,722,000	7,301,000
Number of accounts	13,556,000	12,534,000	11,648,000	10,766,000	9,715,000
<i>Customer offices</i>					
Number of branches	745	745	735	725	685
Number of estate agency offices	611	343	—	—	—
Number of agencies	2,072	2,277	2,537	2,604	2,318

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will be less buoyant in 1989 than they were in 1988, we expect to see further, if less strong, growth in our profit performance.

The principal goal of the Halifax is to be a leading retail financial services group, concentrating on housing finance and on the personal sector, and providing a range of financial products and services profitably and well, so as to meet customer needs. The success of the Halifax in achieving this goal in its traditional markets of mortgage loans and personal savings was described above. But our customers are demanding a far wider range of financial services and products which we have met with a number of new products and services introduced in 1988 and will continue to meet in the future.

Even in our traditional markets, competition ensures that we need to have the products available the

customer wants. During 1988 we launched our Apex mortgages offering discounts on larger loans and two tranches of fixed rate mortgages. This year we have on offer a further tranche of fixed rate mortgages and have introduced our "Easy Start" package aimed at first-time buyers who are struggling to enter the housing market.

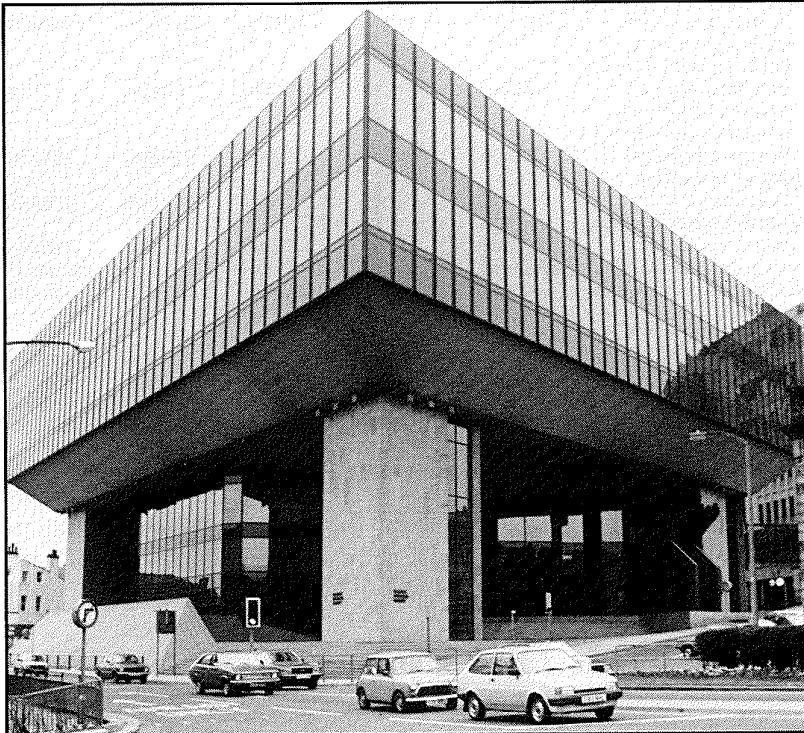
Also, new sources of demand continue to appear in traditional markets. Long-term finance for housing, both for sale and rent, is sought by housing associations and we have provided a range of innovative products, including index-linked finance, to these bodies. Demands for such finance for housing development will continue to increase, particularly if the trend of local authorities selling off their rented stock to both existing and newly

formed housing associations continues. The society has also been actively involved with housebuilders and developers providing innovative funding for major schemes for housing for the elderly, urban renewal, etc.

In the market for personal savings, the Halifax continues to attract large flows of long-term savings from investors, searching for high rates of interest and long-term capital security. This was particularly the case in the UK in 1988 as the collapse of the Stock Market late in 1987 illustrated the risks of equity-based investments. But savers also will increasingly desire more sophisticated investments, whether they be modelled on more "wholesale" type investments or whether they include some form of possible capital appreciation. The Halifax will gradually extend its product range into such areas.

In the area of short-term savings or transaction accounts, the market has recently been dominated by the introduction by each of the major banks of interest-bearing current accounts. The Halifax will be launching its own interest-bearing account with cheque book later in 1989, in addition to our successful Cardcash account which already offers most of the features of a current account through well over 1,000 dedicated ATM's throughout the country. By the end of 1989, our customers will have access to a further 2,500 machines when we become members of the LINK network.

Also in 1988, the Halifax became the first building society to offer its own credit card when the Halifax Visa Card was launched and it has already gained more than 150,000 cardholders. The Halifax — with a major long-term strength in the field of information technology — has been firmly committed to a plastic card-based money transmission strategy and this will continue. We will offer a cheque book because this is clearly desired by our customers, but we will be at the forefront in



The Halifax head office in Yorkshire.

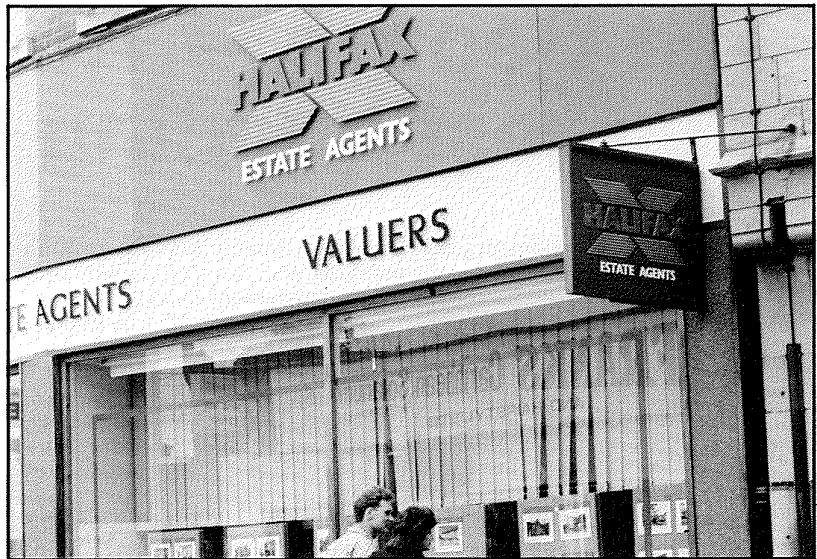
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offering plastic-card-based means of payments, whether these be credit cards or debit cards.

Our credit card, in addition, extends our ability to offer personal loans to our customers. Our personal lending was originally launched to our existing borrowers only from February 1987, but this has gradually been extended to all our members and even, more recently, to non-members. We now offer a range of both secured and unsecured personal loans and our lending has been expanding rapidly over the past year, with minimal bad debts.

The Halifax has for some time been the largest broker of insurance services to the personal sector in the UK, mainly as a result of sales of mortgage-related life policies, mortgage guarantee policies and buildings and contents cover. We have recently announced our decision to become a tied agent of Standard Life, the largest mutual life company in Europe, under the polarisation requirements of the Financial Services Act. This will allow us to offer our customers products from a life company with one of the strongest track records of policy performance, and will enable us to have products tailored to the needs of our customers. We thus see a very exciting future in the sale of insurance products as we offer, through Standard Life, a much wider range of policies, both geared to the mortgage — Personal Equity Plan or unit trust linked mortgages are interesting products for the future — and to the investment needs of our customers.

In 1988, our mortgage business benefited from the Halifax estate agency network. Our investment in the estate agency business has been our most significant diversification, certainly in terms of size of investment, and it is crucial to our longer-term strategy of remaining the leading mortgage lender in the UK. Our chain of over 600 outlets, which has recently been rebranded as Halifax Property Services, now provides a nationwide network providing



"... Our investment in the estate agency business has been our most significant diversification."

uniformly high levels of service and, increasingly, the wide range of financial and house purchase services demanded by their customers, including a one-stop house purchase package. Halifax Property Services is also expected to become profitable during 1989, despite the poorer market conditions forecast, after making a small loss in 1988 due to the high cost of opening new agency outlets.

Other significant features of 1988 included our continuing successful Branch 2000 programme. This major investment programme involves refurbishing our branches to make them less formal and more friendly, backed by a unifying design approach and corporate colour scheme to make them instantaneously recognisable in the high street. The open-plan design makes use of all available space for customer sales and service with administration taken away from the sales area.

We have also appointed a senior manager responsible for European operations which clearly indicates our serious intent to extend many of the services we currently offer in the

UK to markets elsewhere in Europe. We aim to have an operational presence in key member states at the completion of the internal market by the end of 1992.

The Halifax remains committed to offering housing finance in the UK. We fully intend to remain the largest mortgage lender. But we will also be offering to our customers, both in the UK and, eventually, in other European countries, a wider range of financial and house purchase services where we detect a demand which we can profitably meet. Over the past year or so, our efforts have concentrated on adapting to the new powers conferred on us by the Building Societies Act and the Financial Services Act. Although our attitude to change remains evolutionary rather than revolutionary, these powers have given us the opportunity to offer a wider range of services and to target those services more precisely. It is doing just this which offers the exciting opportunities in the future. ■

JIM BIRRELL is a director and the chief executive of the Halifax Building Society.