

Housing Credit in France: Main Aspects and Recent Changes

by Claude Taffin

The situation of French real estate and mortgage markets has not been for a long time as favorable to homeownership as it is now. Prices and mortgage rates have sharply declined and the creation of the 0% loan has given a new impulse to social ownership.

However, households are reluctant to make long-term investments because of the economic environment: low growth, high unemployment and general fear of the future, which appears to be more uncertain than ever. The percentage of homeownership, which had been steadily increasing for years is now almost stable at 54%, which is below the 60% average in the European community.

MAJOR TRENDS Volume

The mortgage market improved between 1995 and 1996. The new housing credit to households increased 35% at 310 billion Fr. but 30 billion Fr. are attributed to renegotiations (prepayments followed by a new credit in the same bank or another one) of previous fixed-rate mortgages. Another part of the activity in 1996 was due to the termination, at

the end of the year of three measures intended to boost the housing market:

1. Lowering local taxes from approximately 7% to 5% on second-hand purchases.
2. Extension of the use of loans on savings plans (PEL) to secondary homes and consumer goods, an increase of the maximum amount (+20%) and the possibility of splitting the right to loan between different operations.
3. Easing of conditions of eligibility for 0% loans on second-hand buying. (See below.)

An increase is expected again in 1997. According to first estimates, new credit (excluding renegotiations) rose from 280 to

290 billion Fr (see Table 1). As interest rates for borrowers continued to go down during the first half of the year and stabilized in the second half, the volume of renegotiations also was more important than in 1996 and may have reached 40 billion Fr.

STRUCTURE OF THE MARKET Fixed Versus Variable Rates

Until recently, fixed rates have always been favored by lenders and by borrowers. Things began to change in 1986 with disinflation; but, a few years later, the rates went up. The difficulties of British borrowers added to the bad image of variable rates. As the Scrivener law (1979) put a double ceiling to the prepayment penalty (the greater of two amounts: 6 months' interest on the repaid part of the principal or 3% of the outstanding), one may

Table 1. Housing Credit to Households; Production 1995–1997 (renegotiations excluded)

	1995	1996	1997
PAP	19.0	5.4	0.0
0% Loan	0.7	13.2	11.8
Other Social Loans	9.4	10.3	10.7
PC-PAS	22.4	30.3	32.0
Épargne Logement	3.6	70.0	55.7
Free Sector	115.2	149.1	179.6
Total	230.3	278.3	289.8

(in billion francs)

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PREPAYMENT CAUSES AND CONSEQUENCES

Events that disrupt the normal repayment of loans can be classified in three categories:

- A. "Non market" prepayments justified by various reasons external to credit itself (moving, divorce, heritage, etc.)
- B. "Market" prepayments, which we call "renegotiations," when the prepayment is followed by the subscription of a new loan contract with the same lender (B2) or another one (B1) in the same proportion.
- C. Simple rearrangement of the loan, through an additional clause to the same contract. This avoids penalty and origination cost, as it does not imply or get recorded as a prepayment of the initial loan.

"A" is permanent; "B" and "C" only occur when rates go down. In 1996, A and B (measured prepayments) were approximately the same amount of outstanding: 30 billion Fr. Although not well measured, case C may also be 30 billion Fr.

In cases A and B1, the maximum penalty applies most often (3% of the outstanding). Cases B2 and C are the result of a global negotiation with the lender, including the rate of the new credit, its origination cost (1%) and the penalty, which is often waived.

Lenders consider that the real cost of a prepayment is 6% instead of the 3% they receive. They have tried to obtain a revision of the law (Scrivener, 1979) that would increase the ceiling of 3% in the case of market prepayments and offer, as a compensation, to waive it in cases of unwanted prepayment (mobility linked to job or divorce).

consider that fixed-rate mortgages in France are fixed when rates increase and variable when rates decline.

It is only in 1996 that variable rate mortgages have taken a significant part of the market. Their proportion rose in one year from 15% to 25% among loans recorded by the FGAS (Guarantee Fund for Social Ownership.) For market rate production, the current proportion of variable rates approaches 50% in banks and is much higher (80%) in specialized credit institutions.

Two phenomena explain that increase:

1. The return to a normal hierarchy between short-term and long-term rates, which results in a difference between variable and fixed rates that can reach 200 bp.
2. The vigor of the competition between banks and specialized institutions which forces the latter to concentrate their production on variable rates. Indeed, they have to borrow on the market all the

sums they lend, while the banks have below-market resources (deposits, EL).

On the other hand, the specialized lenders have know-how and an organization that enables them to propose a variety of sophisticated and flexible loan profiles.

In fact, most variable-rate mortgages include a protection against the risk of an unlimited increase. Lenders who buy such caps price them both through the rate and the introduction of a prepayment penalty (between 1% and 3% of the outstanding), which does not exist when the rate is a pure variable one. This limitation of the risk assumes two different shapes, the former favored by banks, the latter by specialized institutions:

- Putting a ceiling on the variations of the rate (e.g., initial rate plus or minus 2 or 3 points); the initial rate may be attractive and the ceiling high, or the contrary.
- Indexing both the term and the annuity in a combination which may be complex.

Most lenders offer a free option for passing to fixed rates using either internal or, more often, external references such as government bonds of the same maturity plus margin. The variation of the rate is always linked to an external rate, which is most often the 12-month Paris Interbank Offer Rate (PIBOR—sometimes the 3-month). It is usually averaged on a period of one month, at least, but some lenders only refer to the daily rate on the anniversary day of the contract. As an example, the 12-month PIBOR (monthly average) decreased from 4.7% in January 1996 to 3.3% in January 1997.

Banks versus specialized lenders. Financial deregulation in Europe opened to large companies a direct access to the markets and prompted banks to turn the focus of

their business towards households, at the expense of specialized institutions. This move was accelerated in France by the first wave of renegotiations (1986–1988) made possible by the limitation of prepayment penalty. The change is attractive as soon as the difference between rates reaches 2 points, at least when the term is not too close.

In theory, low interest rates are favorable to specialized lenders, because they have low operating costs and get all their funds on the markets, whereas the banks are in the opposite situation.

However, a second wave of renegotiations started in 1994 and again in 1996–1997 (after a pause in 1995). Banks are able to price fixed-rate credit as low as 6% when 10-year government bonds are at 5.5% and are accused of dumping, even by the Governor of Banque de France, M. Trichet. The fact is that:

- Banks have an abundant EL treasury (see box below) which, by law, may only fund housing credit.
- They do not pay great attention to the cost of credit. They use housing credit to bind customers, expecting to make money from other products (deposits, credit cards, savings). To summarize their attitude, one could say that they have a customer and not a product approach.

As a consequence, the market share of specialized institutions declined from 18% to 13% between 1995 and 1996.

Of course, the competition between banks and specialized institutions mainly concerns the most promising segment of the borrowers, who in fact benefited from renegotiations. But the market shares of social ownership were also redistributed in October 1995. The PAP, monopoly of Crédit Foncier (75%) and Crédit Immobilier (25%), disappeared and the 0% loan, which has a standardized distribution, like PC and PAS,

was introduced. (See Table 1.) Banks first took over 65% of the market but lost some ground in 1997 to the benefit of Crédit Immobilier (12%) and Crédit Foncier (14%), which is now the second lender behind Crédit Agricole (29%). Crédit Mutuel (13%), and Banques Populaires (4%) combine for more volume than major commercial banks, which together hardly reach 15%. The market share of Caisses d'épargne is 12%.

All lenders are not interested in social ownership, and the market shares in housing credit to households are different. It is obvious that Crédit Agricole is the first lender to housing. It is more difficult to say who are the followers, as available statistics only concern a part of the market (see Table 2).

The way the main loan is priced shows no discrimination towards low-income bor-

rowers, which was one argument used by the opponents to standardization. In fact, the hope of increasing the market rests on this part of the population and, as the general level of credit demand remains low, the competition among lenders includes all types of borrowers. More than the level of income, the lenders tend to favor "virtuous" borrowers, i.e., those with significant savings, including, in the first rank, EL. EL proves the capability of a continuous effort to save and permits lenders to anticipate the same attitude with the loan.

REGULATED PRODUCTS Épargne-logement

The basic features of épargne-logement have remained unchanged since it was introduced in French accounts in 1965 and plans in 1970 (see box). It is a loan-linked

Table 2. Housing Credit to Households; Market Shares in 1996

	0% Loan	All Loans
Établissements Spécialisés	27.0%	12.8%
Crédit Foncier	13.7	4.5
Crédit Immobilier de France	11.8	4.0
UCB	1.5	3.7
BHE	0.0	0.6
Banques Généralistes	14.4	19.7
Société Générale		8.7
La Hénin		1.6
BNP		3.7
Crédit Lyonnais		5.7
Banques Étrangères	0.1	1.2
Banque Woolwich		0.9
Caixabank		0.3
Sociétés Coopératives et Mutualistes	49.8	53.9
Crédit Mutuel de France	15.0	13.0
Crédit Agricole	30.2	29.1
Banques Populaires	4.6	11.8
Caisses d'Épargne	12.8	12.4
Total	100.0	100.0

Source: FGAS for 0% loans and survey by Courrier du Logement.

CONTRACTUAL SAVINGS FOR HOUSING IN FRANCE

Contractual savings for housing, or "épargne-logement," was introduced in France in 1965 in order to make up for the lack of long-term credit and previous savings. The system has two branches: accounts (CEL), created in 1965, and plans (PEL), launched in 1969.

Only a natural person is entitled to open a CEL or a PEL, and only one of each per person is permitted. They both consist of a contract between the bank and the person by which the person is committed to making deposits and the bank to providing a loan at a given interest rate and of a given amount at the end of the saving period.

The minimum saving period is 18 months for CEL (with no maximum) and four years for PEL (with a maximum of 10 years). The deposits on PEL may not be withdrawn before the end of this period, or the amount of the state premium will be reduced, while the CEL deposits can be withdrawn. There is a maximum amount of deposits, not including interest, and a minimum amount for the initial and the following deposits.

At the end of the saving phase, a loan must be immediately available to the saver who asks for it. This loan must be used to finance:

- The construction or purchase of a new housing unit, either principal or second home, for personal use or for renting.

The purchase of a second-hand housing unit; in this case, second homes are excluded.

- Repair, improvement or energy saving works in any kind of housing unit.
- The purchase of SCPI (French version of real estate investment trust).
- EL loans may not finance the purchase of land if the purchase is not tied to a building operation.

The basic principle of the system is the link between the amount of interest earned on the savings and interest to be paid on the loan. The amount of interest on the loan is equal to the amount of interest earned multiplied by 1.5 in the case of CEL and 2.5 in the case of PEL. That multiplier has a leverage effect on the amount of credit available. It implies that only some of the savers become borrowers; otherwise, the system would not be balanced.

The savers who do not borrow are called the "good brothers." Savers who do not need a loan for themselves may pass their

"loan right" to a member of their family, provided that the person concerned has his own PEL or CEL.

In order to have a sufficient proportion of good brothers, it is necessary to keep the interest rate paid to the savers attractive. In order to reach this goal, the state intervenes in two ways:

1. A state interest subsidy, "interest premium," is added to the interest paid by the bank upon fulfillment of the contract.
2. Full interest—that paid by the bank plus the state premium—is tax free, except that it was recently made subject to social taxes of 10%.

There is a second link between the savings and the loan: the interest rate of the loan is equal to the interest rate of the savings paid by the bank plus a spread designed to cover the loan servicing fee of the bank. The spread is 1.5% (CEL) or 1.7% (PEL).

Épargne-logement has become one of the most important financial savings products in France. By the end of 1996 there were 14.5 million PEL and 7.7 million CEL. On average, two households of three had a PEL and one of three a CEL. The number of PEL increased by 15% in 1996; 3.5 million new PEL were opened that year.

savings plan in which the lender provides a loan conditional on a household's fulfilling a savings contract. In 1996 the loans were opened to the only field they did not cover, the purchase of a second-hand secondary home. In spring 1997, the previous govern-

ment planned to perpetuate this opening but had no time to do so. On the contrary, the financial parameters changed in order to take in consideration the decrease of market rates. The rates were lowered in February 1994, from 6% to 5.25% for savings and

from 6.32% to 5.54% for future loans, and again, in February 1997, to 4.25% (savings) and 4.80% (loans).

Deposits on plans increased very rapidly between 1993 and 1996 as the interest rate

remained attractive (relative to market rates). On the other hand, the volume of new credit declined. Indeed, plans that are presently reaching their term have a borrowing rate of 6.32%, which is higher than any capped variable rate and even than the best fixed rates. So, the cash ratio (outstanding loans/savings) plunged from 41% in 1992 to 27% at the end of 1996; and the outstanding savings reached 1087 billion Fr. This availability of funds for other loans explains the attitude of commercial banks towards loan pricing and also the temporary measures taken in 1996.

0% Loan

The 0% loan succeeded the PAP in October 1995. In both cases, the lender receives a subsidy from the state to lower the interest rate. In the case of the PAP, it was designed to offer a below-market rate. With the 0% loan, the rate never moves but the conditions of repayment vary (duration of the loan and of the period during which the repayment is deferred).

Like the PAP, the 0% loan can be used for construction or purchase of a new housing unit, of a second-hand housing unit requiring renovation, or the transformation of a non-residential building into housing. In the case of second-hand housing, the building must be at least 20 years old and the cost of work done must reach a minimum of 35% of the total cost (work plus purchase). This proportion was reduced to 20% in 1996 in order to boost purchases and activity.

The amount of the 0% loan is limited in two different ways:

1. There is a maximum amount, depending on the size of the family and locality. For a family of four people, it is 160,000 Fr. in the Paris area and 100,000 Fr. elsewhere.

2. The amount of the 0% loan is limited to one-third of the total amount borrowed and one-fifth of the total cost (purchase or purchase plus work).

There is a level of income above which one loses the benefit of the loan. This level is much higher than with PAP. It is around 27,500 Fr. per month for a family of four in the Paris area. Another difference from the PAP is that, for those who are eligible, the subsidy becomes larger as the income is lower.

More precisely, there are seven categories from 1 (lower income) to 7 (higher):

1. There is no repayment during the first 15 1/2 years (or the duration of the main loan, if it is less) and the loan is reimbursed during the next four years.
2. Twenty-five percent of the loan is reimbursed during the first 15 1/2 years and 75% during the next three years.
3. Fifty percent of the loan is reimbursed during the first 15 1/2 years and 50% during the next two years.
4. One-hundred percent is reimbursed in 15 1/2 years.
5. One-hundred percent is reimbursed in 13 1/2 years.
6. One-hundred percent is reimbursed in 10 years.
7. One-hundred percent is reimbursed in 7 years.

There are three other major differences with the PAP:

- Crédit Foncier and Crédit Immobilier have lost their monopoly. The 0% loan is distributed by any lender who signed an agreement—there are about 30—with

the state and the FGAS (Guarantee Fund for Social Ownership) which is in charge of control and registration of the loans. This decision, in autumn 1995, was the starting point of the difficulties for Crédit Foncier (see Appendix).

- The number of loans distributed each year is not limited. There is a budget envelope, but it is an estimate, not an allocation.

The estimate for the first year was 120,000 loans, for a cost of 7.8 billion Fr. (i.e., an average subsidy is 65,000 Fr., average loan is 100,000 Fr.). Realization reached 145,000 loans because the lowering of the minimum amount of work added 30,000 sales. The estimated 1997 production is 125,000 loans, among which 100,000 (80%) financed new construction (i.e., more than one-third of new units, which total 272,000).

- All tax advantages that went with the PAP are cancelled: VAT low rate for building land, exemption from property tax during 10 years instead of two, and deductibility of interest from income tax.

OTHER PENDING ISSUES Facing Growing Default Risks

As the number of "life accidents" such as loss of job or divorce dramatically increased during the 1980s, lenders became more demanding in terms of guarantees. Credit scoring remains based upon the payment-to-income ratio. The maximum admitted has declined since the end of the 1980s; it is now at 30%, or a little less, after discounting housing allowance.

In fact, there is no standard. More attention is paid to other heavy charges, such as consumer credit or living allowance. On the qualitative side, it is difficult to get a mortgage when the activity is not stable

(fixed-term contracts, individual workers). and lenders dislike marks of past instability (frequent changes of employer or partner in private life).

In order to encourage lenders to provide loans for moderate-income borrowers at a reasonable fare, the state created PAS (loan to social ownership) in 1993. The PAS is not a subsidized loan, such as PAP or the 0% loan, but the lenders agree to offer a below-market rate because, in case of default, their loss (if any) is covered by a dedicated fund: the FGAS.

Presently, the debate is focused on the issue of "securisation" (a barbarism, although the word is understandable). More and more, lenders ask borrowers to take out insurance to cover, shortly and partly, the risk of unemployment; but, as long as such insurances are only subscribed by those who are facing the greatest risks, they will remain expensive and dissuade others from subscribing. Among 0% loan customers in 1997, about 20% subscribed to this insurance. Some people consider making it compulsory, which would improve their efficiency and lower their cost.

When the previous government launched the 0% loan in October 1995, it also announced that "securisation" would soon follow. Projected "securisation" was a free insurance against unemployment for social borrowers (i.e., those with a PAS). The principle was that a proportion of the annuity (30%) would be paid by an ad hoc fund during 18 months in case of unemployment and paid back after all other loans if the purchase could go on. This project has not been finalized and the debate is more open than ever.

Mortgage Registration and "Caution Mutuelle"

Mortgage registration is usually required for any housing loan whenever the amount or

the duration is significant. But it is expensive: for a loan of 400,000 Fr., it costs 9,900 Fr. in the free sector, 6,600 Fr. for a PC or a EL loan, and 5,350 Fr. for a PAS. Moreover, there is an additional cost of 4,200 Fr. for lifting it, if necessary (otherwise, it falls automatically two years after the initial term of the loan). Most lenders now accept another form of guarantee, called "caution mutuelle," in order to distinguish it from "caution personnelle," a guarantee brought by a natural person which continues to exist.

"Caution mutuelle" is provided by companies such as "Crédit logement" which guaranteed an amount of 35 billion Fr. of new credit in 1996.¹ In this system the mortgage is not registered and the caution mutuelle provider guarantees that in the event of a default there is no priority claim on the property. In such a system, the risks are mutualized: the price to pay is higher than a mortgage registration, but a large part of it (more than 80% until now) is returned in the end. Of course, participants are strictly scored.

Statistics on market shares of "caution mutuelle" and mortgage registration only concern 0% loan borrowers. When the main loan is a PC, there are 75% mortgage registrations and 15% cautions (10% other guarantees) and, when it is a EL loan, the proportions are 50% and 25%. Obviously, caution is more often proposed to borrowers with higher income.

Foreclosure Situation

The Neiertz law has reduced the number of foreclosures by permitting the setting up of global plans. Its Article 12 gives the judge the possibility of canceling or reducing the amount of the debt when the voluntary sale of the property does not cover this amount—which is quite frequent because real estate prices have declined. This process can be compared to the preforeclosure or short sale. Although it is at his own risk, the cred-

itor must consider the alternate risk, which is to become legal owner after foreclosure but not easily obtain the eviction of the occupants.

The efficiency of global plans is often criticized and some would prefer to extend the notion of bankruptcy to natural persons. It already exists in the eastern part of France, where it was introduced by the Germans before 1918.

Securitization

French banks are using securitization to diversify their funding sources, increase the return on investment for shareholders and, in some cases, reduce the need for equity funds. Several recent reports emphasize the gap between French and English or American banks in terms of performance.

Securitization has been introduced in France by a December 1988 law. Since then a number of legislative easings have opened more widely the spectrum of eligible credit. Recently (July 1996), funds were authorized to issue new shares after their creation.

In fact, there has been an increase in volume of securitization due to a strong activity since winter 1996–1997, but it mainly concerns corporate credit (see Table 3). The latest operation involving housing mortgages was announced in June: Crédit Lyonnais issued the largest European fund, Titilog 06-97. It is composed of housing credits to households and its amount is 9.5 billion Fr.

However, this issue does not prove that securitization of mortgage credit is really taking off in France. Indeed, the characteristics of housing loans vary greatly from one lender to another. Lack of standardization is clearly an obstacle to the use of securitization as an ordinary way to raise funds. This situation should change

Table 3. Securitization in France: Situation of the Market, Oct. 31, 1997

Type of Loans	1989-93	1994	1995	1996	1997
Consumer Goods	15.7	3.2	4.0	7.4	2.2
Mortgage (housing)	1.0	8.5	5.0	0.0	11.8
Corporate	1.1	0.0	0.0	45.0	40.0
Interbank	28.5	6.0	4.0	6.5	3.5
Other	1.0	2.1	3.6	0.0	0.0
Total	47.3	19.8	16.6	58.9	57.5

progressively as French banks get closer to international standards.

APPENDIX

Crédit Foncier: The Fall of an Institution

France's real estate crisis started in 1990 when interest rates went up and sales slowed significantly. From 1992, "defeasance" structures were created in order to shift losses away from the balance sheets of investors and lenders and to delay the final evaluation, which would expose the downturn. The general perception was that the crisis would be short and that real estate values would resume their progression. Only in 1997 were real estate loss estimates of up to 50 billion francs for Crédit Lyonnais and 30 billion francs for GAN, both state-controlled companies, made public.

The case of Crédit Foncier is different for several reasons: its status and its activities, involving public and private sectors, are unique and require individual treatment. An historical overview will explain the nature of the links between the state and Crédit Foncier.

140 Years at the State's Service

Crédit Foncier de France (CFF) was created in 1852 and modeled after land banks that already existed in Germany and Poland. It

was privately owned until 1996; the state had never directly owned a single share, and the stock had been popular and widely spread among private individual shareholders for whom it was a symbol of secure investment.

Nevertheless, the state had always appointed Crédit Foncier's top management, one Governor and two Assistant Governors, traditionally selected from the elite corps of civil servants in the Ministry of Finance. This team had to work in conjunction with a Board of Directors; the arrangement was not problematic as long as CFF was healthy. The fact that a number of these directors had the same background as the governors could do nothing but help.

The historical mission of CFF was to provide mortgage credit to private investors and guaranteed loans to local authorities, all financed by the issuance of mortgage bonds. CFF's activity boomed after 1950, when it obtained a monopoly of subsidized loans for private housing, which were provided in the public sector by Caisse des Dépôts, a state agency. From 1953 to 1973, CFF financed between 150,000 and 220,000 housing units each year, about 50% of the total construction during that period. Public support to housing investment subsequently declined, and, in the mid-1980s, the socialist government, which was trying to modernize housing finance mechanisms,

warned CFF that its monopoly would be terminated and that it would have to diversify.

The Turning Point

CFF did diversify, in a period of euphoria when real estate investment seemed to be safe and highly profitable. It financed developers and created its own subsidiaries, which invested heavily, and without proper judgment, in expansive renovation projects in the "golden triangle," the heart of Paris' business district. When the economic situation began to deteriorate, CFF continued to invest and finance imprudently without heeding the warnings of its own experts. It tried to hide the gravity of the situation and continued to supply its shareholders with dividends, as it always had done. In autumn 1995, however, Prime Minister Alain Juppé's administration gave the final stroke when it announced that subsidized loans for housing (the "PAP") would be replaced by a new standardized product, the "0% loan," which would be available from any lender. This announcement subjected CFF to the scrutiny of analysts and rating agencies, who began to discover the state of its affairs.

Within a few weeks, Crédit Foncier shares plunged and, compared to their highest level, lost nearly 90% of their value; so did its rating, and CFF was no longer able to raise funds on the market, as its refinancing spread dramatically increased. The government which, surprisingly, was not aware of the gravity of the situation, first reacted by trying to reassure investors and shareholders; it reaffirmed its backing of the institution. The Governor, Jean-Claude Colli, was fired in January 1996, and Jérôme Meyssonier, a professional banker, not a civil servant, was appointed.

Three months later the accounts for 1995 were made public, and abysmal losses of

10.7 billion Fr., due to massive provisioning of 13.6 billion Fr., were revealed. The consolidated own funds consequently fell to -2.4 billion Fr. and those of the head office to a level so low that the European ratio of solvency reached 0.5%. The minimum value that permits the issuance of new credits is 8%. The government then announced that it would back CFF for three months during a search for a credible major financial backer and would guarantee all the obligations of the institution. The government's pledges prevented chaos on the financial markets, as the issued bond debt of CFF approached 300 billion Fr.

Death or Rebirth?

When the deadline arrived in July 1996, no suitable backer had been found, and the government announced the terms of the dissolution of Crédit Foncier.

First, Caisse des dépôts would launch a takeover bid on the state's behalf, which would nationalize CFF.

Second, Caisse des dépôts would transfer its shares to a new state agency, Caisse nationale du CFF, which would have to honor the bonds of the former CFF with the guarantee of the state. All non-housing finance activities would stop, and a part of the housing finance activity would be transferred, with 1,500 employees (less than half the staff), going to Crédit Immobilier, CFF's main challenger in the field of social ownership.

The plan, particularly the second part, which seemed to be a humiliation, caused an intense shock and incited a staff revolt; Governor Meyssonnier was sequestered in his offices for several days until the government appointed a mediator in January 1997. The mediator's report concluded that CFF

was viable under three conditions: recapitalization, downsizing and concentration of its activities.

Jérôme Meyssonnier undertook to restructure CFF, abandoning such peripheral activities as real estate development and lending to local authorities. He reduced the number of employees from 3,300 to 2,400 by implementing a successful early retirement plan. Meanwhile, the 1996 accounts showed a profit of about 800 million Fr. Figures for 1997 also should indicate a profit, though probably smaller. Several groups have applied for permission to acquire CFF, and their identities should be revealed as soon as data rooms are opened to them.

NOTES

¹ Crédit logement is owned by several lenders; the largest shareholder is Crédit Foncier.