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**FANNIE MAE COURSE
MATERIAL FOR HUNGARY
HOUSING FINANCE
SEMINAR SERIES**

Prepared for



East European Regional Housing Sector Assistance Project
Project 180-0034
U.S. Agency for International Development, ENI/DG/LGUD
Contract No. EPE-C-00-95-001100-00, RFS No. 555



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Prepared by

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and
Fannie Mae

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Mitchell Fink
3. Basics of Sound Underwriting Part A: Underwriting the Borrower
Joan Wilson

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Continued**

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**FANNIE MAE
EXECUTIVE SURVEY**



Executive Survey

Executive Seminar: Strategic Issues in Hungarian Housing Finance

This seminar, designed for senior-level management, will draw on lessons from US housing finance industry to address important strategic issues in Hungarian housing finance. The seminar will be led by a Fannie Mae Senior Vice-President who has vast expertise in many aspects of the US housing finance business. The purpose of the course is to provoke thought as to the strategic direction of this industry in Hungary, and to highlight 'lessons learned' from the US housing finance market and to discuss their applicability in Hungary.

Below is a list of strategic issues that have been tackled in the US market and may be pertinent to the current situation in Hungarian housing finance. By placing a number before each issue, please rank the importance of these issues to you and your institution, and indicate your interest level in the topics. Also, on the blanks provided, we encourage you to add any issues that you think should be addressed in the seminar, and include these in your ranking of the importance of the issues. Your feedback will help us to design a course that is truly valuable and pertinent to the problems faced by Hungarian banks that will enter the housing finance market.

Please rank from 1 (Most Important) through 8+ (Least Important), and indicate your level of interest below each topic by circling the appropriate option.

_____ **The Market Need for Homebuyer Customer Service**
Very Interested Somewhat Interested Not at all Interested

_____ **New Mortgage Product Development/ US Mortgage Product Survey**
Very Interested Somewhat Interested Not at all Interested

_____ **Institutional Marketing Strategies, Product Marketing Plans & Market Research**
Very Interested Somewhat Interested Not at all Interested

_____ **Servicing: The US Phenomenon of 'Economies of Scale' in Servicing, & Additional Functions of the Servicer in the US Mortgage Industry**
Very Interested Somewhat Interested Not at all Interested

_____ **Risk Management: Underwriting Challenges & Delinquency and Foreclosure Prevention**

Very Interested Somewhat Interested Not at all Interested

_____ **Asset and Liability Management**

Very Interested Somewhat Interested Not at all Interested

_____ **Mortgage Asset Securitization by Banks**

Very Interested Somewhat Interested Not at all Interested

_____ **Secondary Marketing**

Very Interested Somewhat Interested Not at all Interested

_____ **(Additional Topic)** _____

_____ **(Additional Topic)** _____

_____ **(Additional Topic)** _____

_____ **(Additional Topic)** _____

Please indicate, by circling, whether a one-day executive course or a one-half day executive course is favorable to you. A shorter course means that less topics can be covered.

One Full Day

One Half Day

**FANNIE MAE
HOUSING FINANCE SEMINAR COURSE SURVEY**



Housing Finance Seminar Course Survey

Seminar Title: The Basics of Sound Underwriting *One-Day, Two-Part Course*

Sound underwriting techniques are the key to risk management and profitability in the housing finance market. This course is targeted to aid managers in making decisions regarding institutional underwriting standards and documentation requirements for risk management, and also to loan officers and customer service employees who process housing loan applications and work directly with prospective borrowers.

The course is offered in two complementary segments, **Part A: Underwriting the Borrower** and **Part B: Underwriting Property**.

Part A: Underwriting the Borrower will cover issues such as:

- a) Methods for Documenting Income, Assets, Liabilities and Net Worth of Borrowers
- b) Credit Scoring in The US and Hungary
- c) Analyzing Debt-to-Income Ratios
- d) Analyzing Borrower's Willingness to Pay
- e) Participant Group Exercises in Making Borrower Underwriting Decisions

Part B: Underwriting Property will cover issues such as:

- a) The Importance of Appraisals in Property Underwriting
- b) Differences between US and Hungarian Appraisal Industry
- c) Property Titles: Importance of Clear Title in US and the Title Insurance Industry, the Hungarian Title tracking Systems, and Differences in the Legal Framework for Land Title Between the US and Hungary
- d) Mitigating Property Underwriting Risk through Foreclosure Provisions
- e) Group Discussion of Underwriting Challenges with the Current Foreclosure Environment in Hungary
- f) Participant Group Exercises in Property Underwriting

Please reply to the following survey questions by marking your opinion on a scale of (5) Strongly Agree to (1) Strongly Disagree.

Very Interested in this Seminar 5 4 3 2 1 Not at all Interested in this Seminar

I am interested more in: Part A Part B Both Parts of the Course

I am very knowledgeable on this topic 5 4 3 2 1 I know very little about this topic

My company is concerned with this topic 5 4 3 2 1 I have never heard mention of this topic at my company

I think many at my bank would want to attend this seminar 5 4 3 2 1 I know of few employees at my bank who would want to attend this seminar

I think I can benefit from this course 5 4 3 2 1 I will not benefit from this course

If you marked 2 or lower for the last question, please explain why?

This topic interests me because. . .

Seminar Title: The Fundamentals of Servicing *Half-day Course,*
Recommended in Combination with "Delinquency and Foreclosure Prevention"

Efficiency and cost-effectiveness makes loan servicing operations the most profitable area of the housing finance industry in the United States. This course will discuss various ways to increase efficiency in the collection process of servicing (for example, through technology or economies of scale), and will introduce the enhanced industry role of the US servicer. This course will encourage discussion of ways to improve efficiency and profitability of loan servicing operations in Hungary.

This course is recommended for managers with decision-making responsibility for the design of servicing operations, and for employees who perform the daily function of loan servicing in the bank.

Very Interested in this Seminar 5 4 3 2 1 Not at all Interested in this Seminar

I am very knowledgeable on this topic 5 4 3 2 1 I know very little about this topic

My company is concerned with this topic 5 4 3 2 1 I have never heard mention of this topic at my company

I think many at my bank would want to attend this seminar 5 4 3 2 1 I know of few employees at my bank who would want to attend this seminar

I think I can benefit from this course 5 4 3 2 1 I will not benefit from this course

If you marked 2 or lower for the last question, please explain why?

This topic interests me because. . .

Seminar Title: Delinquency and Foreclosure Prevention and Management *Half-day Course, Recommended in combination with "The Fundamentals of Servicing"*

Delinquency and foreclosure prevention are the most easily managed tools for maintaining asset quality and smooth operations in any servicing department. These prevention elements are particularly important in Hungary, where foreclosure is legally and culturally difficult for a bank to pursue and manage. This course will introduce a variety of easily implemented business activities that reduce the chance of an account becoming delinquent or of a delinquent account going into foreclosure. The topics will cover: delinquency prevention tools, US collection practices, performing loan workouts, handling special circumstances, and various class discussion and exercises.

This course is recommended for managers with decision-making responsibility for the design of servicing operations, and for employees who perform the daily function of loan servicing in the bank.

Very Interested in this Seminar 5 4 3 2 1 Not at all Interested in this Seminar

I am very knowledgeable on this topic 5 4 3 2 1 I know very little about this topic

My company is concerned with this topic 5 4 3 2 1 I have never heard mention of this topic at my company

I think many at my bank would want to attend this seminar 5 4 3 2 1 I know of few employees at my bank who would want to attend this seminar

I think I can benefit from this course 5 4 3 2 1 I will not benefit from this course

If you marked 2 or lower for the last question, please explain why?

This topic interests me because. . .

**Seminar Title: New Product Development *Half-day Course,*
*Recommended in combination with "Marketing and Market Research from an
Institutional Perspective"***

New product development is the key driver of housing finance industry expansion, new revenue production for lenders, lender competitive edge, and customer interest and satisfaction. The company that can successfully implement new product development plans will lead the housing finance market in growth and profits.

This course will draw on the experiences of US housing finance players in the development of new mortgage products and will foster discussion of the possibilities for this area in Hungarian housing finance. The course will introduce the motivations for pursuing new product development and the methodology for designing, creating and implementing new products. It will describe a wide variety of mortgage products available today in the US, and offer a case study of a successful US mortgage product rollout. This course is designed to encourage discussion of the current product offerings in Hungary, the market need for new products, and mortgage product concepts for meeting those needs.

This course is recommended for managers with responsibility for implementing strategic business direction and for directing the implementation of new product programs and marketing efforts. It is also recommended for employees involved in new product development and for those involved in marketing and market research activities.

Very Interested in this Seminar 5 4 3 2 1 Not at all Interested in this Seminar

I am very knowledgeable on this topic 5 4 3 2 1 I know very little about this topic

My company is concerned with this topic 5 4 3 2 1 I have never heard mention of this topic at my company

I think many at my bank would want to attend this seminar 5 4 3 2 1 I know of few employees at my bank who would want to attend this seminar

I think I can benefit from this course 5 4 3 2 1 I will not benefit from this course

If you marked 2 or lower for the last question, please explain why?

This topic interests me because. . .

**Seminar Title: Marketing and Market Research from an Institutional Perspective
*Half-day Course, recommended in combination with "New Product Development"***

A strategic marketing plan and market research are integral factors in the overall success of a housing finance market player. Marketing plans and market research go hand in hand with new product development and customer service and satisfaction. With a carefully planned and successful marketing strategy, new market entrants can quickly become market leaders by understanding the market needs and filling those gaps, satisfying countless customers in the process.

This course will discuss two important aspects of marketing – market research and marketing to consumers. It will present a variety of methods for gathering market research, and ways to use the information strategically for institutional and customer benefit. It will also discuss the development of new product marketing plans, and the importance of marketing a product within your own institution as well as to consumers. Finally, the course will discuss the various mediums for marketing to target consumer markets, and how to measure the success of a marketing campaign.

This course is recommended for managers with responsibility for implementing strategic business direction and for directing marketing efforts and new product development. It is also recommended for employees involved with marketing and market research activities and for those involved in new product development.

Very Interested in this Seminar 5 4 3 2 1 Not at all Interested in this Seminar

I am very knowledgeable on this topic 5 4 3 2 1 I know very little about this topic

My company is concerned with this topic 5 4 3 2 1 I have never heard mention of this topic at my company

I think many at my bank would want to attend this seminar 5 4 3 2 1 I know of few employees at my bank who would want to attend this seminar

I think I can benefit from this course 5 4 3 2 1 I will not benefit from this course

If you marked 2 or lower for the last question, please explain why?

This topic interests me because. . .

Seminar Title: The Bank-Customer Relationship in the 21st Century *Half-day Course, Recommended in Combination with all other Seminars.*

The ability and willingness to understand and meet customer needs is the overarching key to success for all market-driven businesses. Banks and housing finance lenders are no exception. Customer service is unquestionably the most important competitive tool for US housing finance players. This course will discuss the changing environment for the Hungarian housing finance customer, and will identify unmet customer needs in the housing finance market. It will highlight the growing importance of the long-term bank-customer relationship for sustained profitability and growth, and introduce the importance of housing finance in this relationship.

The course will introduce the many aspects of quality customer service, and introduce effective customer service techniques. Through role-play exercises, participants will explore effective communication styles, practice listening and questioning skills and will generate solutions to homebuyer/homeowner problems. This course is highly interactive and active participation will ensure a very positive learning experience for participants.

This course is recommended for managers and employees in all departments who interact with customers on a regular basis.

Very Interested in this Seminar 5 4 3 2 1 Not at all Interested in this Seminar

I am very knowledgeable on this topic 5 4 3 2 1 I know very little about this topic

My company is concerned with this topic 5 4 3 2 1 I have never heard mention of this topic at my company

I think many at my bank would want to attend this seminar 5 4 3 2 1 I know of few employees at my bank who would want to attend this seminar

I think I can benefit from this course 5 4 3 2 1 I will not benefit from this course

If you marked 2 or lower for the last question, please explain why?

This topic interests me because...

Seminar Title: Technology in Housing Finance

Full-Day Course,

Technology has reshaped the U.S. housing finance industry. Computer hardware and software paired with advanced telecommunications, decision models and rich databases have changed the way businesses and individuals conduct the mortgage loan transaction within the U.S. market. The technological changes are affecting nearly every part of the housing finance industry – providing value and benefits to businesses as well as consumers.

This course will draw on the experiences of US housing finance players that have developed technological innovations to streamline and enhance the mortgage lending process. The course will provide an overview of a variety of technologies that have been implemented across the major business processes and have had a significant impact on the U.S. mortgage market. The course will include demonstrations of some technologies as they are implemented within the U.S. market. It will also include a discussion on the opportunities for leveraging technology to enhance the mortgage lending process in Hungary.

This course is recommended for business and information systems managers with responsibility for mortgage lending operations.

Very Interested in this Seminar 5 4 3 2 1 Not at all Interested in this Seminar

I am very knowledgeable on this topic 5 4 3 2 1 I know very little about this topic

My company is concerned with this topic 5 4 3 2 1 I have never heard mention of this topic at my company

I think many at my bank would want to attend this seminar 5 4 3 2 1 I know of few employees at my bank who would want to attend this seminar

I think I can benefit from this course 5 4 3 2 1 I will not benefit from this course

If you marked 2 or lower for the last question, please explain why?

This topic interests me because. . .

Seminar Title: Managing Interest Rate Risk/Asset Liability Management Half-Day Course

As the financial system becomes increasingly sophisticated, interest rate risk management will become crucial to profitability and even survival of financial institutions. This course will discuss the importance of proper interest rate risk management with a brief discussion of the thrift crisis in the United States and forces that can cause interest rate volatility. Then it will describe basic interest rate sensitivity analysis techniques including repricing gap, duration gap and their effect on net interest income. A brief discussion of the more sophisticated interest rate risk analysis techniques such as option adjusted duration and their application will follow.

This course is recommended for all bank managers, especially those dealing with portfolio management and liquidity issues.

Very Interested in this Seminar 5 4 3 2 1 Not at all Interested in this Seminar

I am very knowledgeable on this topic 5 4 3 2 1 I know very little about this topic

My company is concerned with this topic 5 4 3 2 1 I have never heard mention of this topic at my company

**COURSE SCHEDULE FOR HUNGARY
HOUSING FINANCE SEMINAR SERIES**

Course Schedule for Hungary Housing Finance Seminar Series

MONDAY NOV. 9, 1998

TUESDAY NOV. 10, 1998

A.M. Courses

Managing Interest Rate Risk and Asset
and Liability Management

Julie Lazar

Marketing and Market Research from an
Institutional Perspective

Mitchell Fink

Basics of Sound Underwriting Part A:
Underwriting the Borrower

Joan Wilson

P.M. Courses

Basics of Sound Underwriting Part B:
Underwriting Property

Joan Wilson

New Product Development

Debbie Twadell

A.M. Courses

Executive Course: Strategic Issues for
Hungarian Housing Finance Part I

SVP with Julie Lazar

The Fundamentals of Servicing

Joan Wilson

The Bank-Customer Relationship in the
21st Century

Deborah Twadell

P.M. Courses

Executive Course: Strategic Issues for
Hungarian Housing Finance Part II

SVP with Julie Lazar

Delinquency and Foreclosure Prevention
and Management

Joan Wilson

**MANAGING INTEREST RATE RISK AND ASSET AND
LIABILITY MANAGEMENT**

JULIE LAZAR

Gap Analysis

Maturity or Time to Repricing Buckets

	1-7 Days	8-30 Days	1-2 Months	2-3 Months	3-4 Months	4-5 Months	5-6 Months	6-9 Months	10-12 Months	1-2 Years	2-3 Years	Long Term	Total
Assets													
Housing Loan 28% - HUF 2,000,000, 10 year maturity, can reprice anytime	2,000,000												2,000,000
Housing Loan 28% - HUF 1,800,000, 8 year maturity, due to reprice in 3 months		4,888	5,006	1,790,105									1,800,000
Bridge Loan 25% - HUF 1,000,000, 9 months maturity, fixed rate		102,170	104,298	106,471	108,689	110,954	113,285	354,152					1,000,000
Energy Loan 20.5% - HUF 750,000 2 year maturity, fixed rate		25,543	25,979	26,423	28,674	27,333	27,900	86,283	90,781	412,982			750,000
Total Rate Sensitive Assets - RSAs	2,000,000	132,601	135,284	1,922,999	135,564	138,287	141,068	440,435	90,781	412,982	-	-	5,550,000
Liabilities													
Savings Deposits 5% - HUF 1,500,000, can be withdrawn anytime, rate can change anytime	1,500,000												1,500,000
Demand Deposit 3% - HUF 1,500,000, can be withdrawn anytime, rate can change anytime	1,500,000												1,500,000
Deposit for 3 months 14.25% - HUF 1,000,000				1,050,000									1,050,000
Deposit for 1 year, 14.75% - HUF 1,500,000									1,500,000				1,500,000
Total Rate Sensitive Liabilities - RSLs	3,000,000	-	-	1,050,000	-	-	-	-	1,500,000	-	-	-	5,550,000
Gap = RSA - RSL	(1,000,000)	132,601	135,284	872,999	135,564	138,287	141,068	440,435	(1,409,219)	412,982	-	-	0
Percentage to Total Assets	-18.0%	2.4%	2.4%	15.7%	2.4%	2.5%	2.5%	7.9%	-25.4%	7.4%	0.0%	0.0%	
Cumulative Gap	(1,000,000)	(867,399)	(732,115)	140,884	276,448	414,736	555,801	996,237	(412,982)	0	0	0	0
Percentage to Total Assets	-18.0%	-15.6%	-13.2%	2.5%	5.0%	7.5%	10.0%	18.0%	-7.4%	0.0%	0.0%	0.0%	

Gap and NII Table

Summary of Effects of Gap on Net Interest Income

Gap	Change in Interest Rates	Change in Interest Income		Change in Interest Expense	Change in Net Interest Income
Positive	Increase	Increase	>	Increase	Increase
Positive	Decrease	Decrease	>	Decrease	Decrease
Negative	Increase	Increase	<	Increase	Decrease
Negative	Decrease	Decrease	<	Decrease	Increase
Zero	Increase	Increase	=	Increase	None
Zero	Decrease	Decrease	=	Decrease	None

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Maturity or Time to repricing buckets

	1-7 Days	8-30 Days	1-2 Months	2-3 Months	3-4 Months	4-5 Months	5-6 Months	6-9 Months	10-12 Months	1-2 Years	2-3 Years	Long Term	Total
Total Rate Sensitive Assets	2,000,000	132,601	135,264	1,922,999	135,564	138,287	141,068	440,435	90,781	412,982	-	-	5,550,000
Total Rate Sensitive Liabilities	3,000,000	-	-	1,050,000	-	-	-	-	1,500,000	-	-	-	5,550,000
Gap = RSA - RSL	(1,000,000)	132,601	135,264	872,999	135,564	138,287	141,068	440,435	(1,409,219)	412,982	-	-	0
Cumulative Gap	(1,000,000)	(667,399)	(732,115)	140,864	276,448	414,736	555,801	996,237	(412,982)	0	0	0	0

Example 1	Example 3
If interest rates increase by 200 basis points in one month what happens to net interest income?	If interest rates increase by 200 basis points in three months what happens to net interest income?
Cumulative Gap X Change in Rates = Change in Net Interest Income $(867,399) \times .02 = (17,348)$	Cumulative Gap X Change in Rates = Change in Net Interest Income $140,864 \times .02 = 2,818$
OR	OR
Assets X Change in Rates = Income Change $2,132,601 \times .02 = 42,652$	Assets X Change in Rates = Income Change $4,190,864 \times .02 = 83,818$
Liabilities X Change in Rates = Expense Change $3,000,000 \times .02 = 60,000$	Liabilities X Change in Rates = Expense Change $4,050,000 \times .02 = 81,000$
Change in Net Interest Income $42,652 - 60,000 = (17,348)$	Change in Net Interest Income $83,818 - 81,000 = 2,818$
Example 2	Example 4
If interest rates decrease by 150 basis points in two months what happens to net interest income?	If interest rates decrease by 150 basis points in four months what happens to net interest income?
Cumulative Gap X Change in Rates = Change in Net Interest Income $(732,115) \times (.015) = 10,980$	Cumulative Gap X Change in Rates = Change in Net Interest Income $276,488 \times (.015) = (4,147)$
OR	OR
Assets X Change in Rates = Income Change $2,267,885 \times (.015) = (34,018)$	Assets X Change in Rates = Income Change $4,326,448 \times (.015) = (64,897)$
Liabilities X Change in Rates = Expense Change $3,000,000 \times (.015) = (45,000)$	Liabilities X Change in Rates = Expense Change $4,050,000 \times (.015) = (60,750)$
Change in Net Interest Income $(34,018) - (45,000) = 10,982$	Change in Net Interest Income $(64,897) - (60,750) = (4,147)$

Tolerance Levels

Tolerance Levels

Management decides that in four months time the acceptable limit to decreases in net interest income is HUF 3,500, if rates decrease 150 basis points.

What should gap be?

Currently, this is the situation.

Cumulative Gap X Change in Rates = Change in Net Interest Income 276,488 X (.015) = (4,147)

OR

Assets X Change in Rates = Income Change 4,326,448 X (.015) = (64,897)

Liabilities X Change in Rates = Expense Change 4,050,000 X (.015) = (60,750)

Change in Net Interest Income (64,897) - (60,750) = (4,147)

In order to calculate what the cumulative gap should be.....

Cumulative Gap X (.015) = Acceptable Change in Net Interest Income Cumulative Gap X (.015) = (3,500)

Cumulative Gap = 233,333

Now, gap is HUF 276,488 and it must be 233,333 to stay within acceptable limits.

What can be done?

The gap must be reduced by 43,155 so in one of the maturity buckets up to four months either assets must be reduced by that amount or liabilities increased by that amount.

Duration Calculation

Duration Calculation

This is a 6 year HUF 100 par value bond paying a 12% annual coupon rate priced to yield 10%.

Column 1 Cash Flow Period (years)	Column 2 Cash Flow	Column 3 * Present Value of Cash Flow (discounted at 10%)	Column 4 Weights (column 3 divided by the total)	Column 5 Weighted Cash Flow Period (column 4 times column 1)
1	12	10.91	0.1003	0.1003
2	12	9.92	0.0912	0.1825
3	12	9.02	0.0829	0.2488
4	12	8.20	0.0754	0.3016
5	12	7.45	0.0685	0.3427
6	112	63.22	0.5816	3.4893
Totals		108.71	1.0000	4.6652

Thus, the duration of this instrument is 4.67 years.

Since duration is a measure of the average life of a stream of payments, it is less than the time to maturity.

* The formula for discounting $Cashflow / ((1 + interest\ rate)^{Time})$

$$= 12 / ((1 + 0.1)^1)$$

$$= 12 / ((1 + 0.1)^2)$$

etc

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Duration Analysis Assets

Months	Housing Loan 28% - HUF 2,000,000, 10 year maturity, can reprice anytime				Housing Loan 29% - HUF 1,800,000, 8 year maturity maturity, due to reprice in 3 months				Bridge Loan 25% - HUF 1,000,000, 9 months maturity, fixed rate				Energy Loan 20.5% - HUF 750,000 2 year maturity, fixed rate							
	Cash Flow	Discounted Cash Flow	Weights	Weighted Cash Flow Period	Cash Flow	Discounted Cash Flow	Weights	Weighted Cash Flow Period	Cash Flow	Discounted Cash Flow	Weights	Weighted Cash Flow Period	Cash Flow	Discounted Cash Flow	Weights	Weighted Cash Flow Period				
1	2,000,000	1,954,397	1	1	4,888	4,773	0.003	0.003	123,003	120,493	0.120	0.120	38,355	37,711	0.050	0.050				
2					5,006	4,773	0.003	0.006	123,003	118,034	0.118	0.236	38,355	37,078	0.049	0.099				
3					1,790,105	1,688,352	0.994	2.983	123,003	115,825	0.118	0.347	38,355	36,455	0.049	0.148				
4									123,003	113,285	0.113	0.453	38,355	35,843	0.048	0.181				
5									123,003	110,954	0.111	0.555	38,355	35,241	0.047	0.235				
6									123,003	108,669	0.109	0.652	38,355	34,649	0.046	0.277				
7									123,003	106,471	0.108	0.745	38,355	34,067	0.045	0.318				
8									123,003	104,298	0.104	0.834	38,355	33,494	0.045	0.357				
9									123,003	102,170	0.102	0.920	38,355	32,932	0.044	0.395				
10													38,355	32,379	0.043	0.432				
11													38,355	31,835	0.042	0.467				
12													38,355	31,300	0.042	0.501				
13													38,355	30,774	0.041	0.533				
14													38,355	30,258	0.040	0.565				
15													38,355	29,749	0.040	0.595				
16													38,355	29,250	0.039	0.624				
17													38,355	28,758	0.038	0.652				
18													38,355	28,275	0.038	0.679				
19													38,355	27,800	0.037	0.704				
20													38,355	27,333	0.036	0.729				
21													38,355	26,874	0.036	0.752				
22													38,355	26,423	0.035	0.775				
23													38,355	25,979	0.035	0.797				
24													38,355	25,543	0.034	0.817				
Duration in Months				1.00					2.99					4.86					11.89	
Weighted Average Duration of Assets =				3.79																
Principal		Duration																		
2,000,000		1.00																		
1,800,000		2.99																		
1,000,000		4.86																		
750,000		11.89																		

925

Duration Analysis Liabilities

Months	Savings Deposits 5% - HUF 1,222,500, can be withdrawn anytime, rate can change anytime				Demand Deposit 3% - HUF 1,500,000, can be withdrawn anytime, rate can change anytime				Deposit for 3 months 14.25% - HUF 1,050,000				Deposit for 1 year, 14.75% - HUF 1,500,000						
	Cash Flow	Discounted Cash Flow	Weights	Weighted Cash Flow Period	Cash Flow	Discounted Cash Flow	Weights	Weighted Cash Flow Period	Cash Flow	Discounted Cash Flow	Weights	Weighted Cash Flow Period	Cash Flow	Discounted Cash Flow	Weights	Weighted Cash Flow Period			
1	1,222,500	1,217,427	1	1	1,500,000	1,496,259	1	1.000	12,469	12,322	0.012	0.012	18,438	18,214	0.012	0.012			
2									12,469	12,176	0.012	0.023	18,438	17,992	0.012	0.024			
3									1,062,469	1,025,500	0.977	2.930	18,438	17,774	0.012	0.036			
4													18,438	17,558	0.012	0.047			
5													18,438	17,345	0.012	0.058			
6													18,438	17,134	0.011	0.069			
7													18,438	16,926	0.011	0.079			
8													18,438	16,721	0.011	0.089			
9													18,438	16,518	0.011	0.099			
10													18,438	16,317	0.011	0.109			
11													18,438	16,119	0.011	0.118			
12													1,518,438	1,311,381	0.874	10.491			
Duration in Months				1.00					1.00					2.96					11.23

Weighted Average Duration of Liabilities = 4.30

Principal	Duration
1,222,500	1.00
1,500,000	1.00
1,050,000	2.96
1,500,000	11.23

In this example, it is assumed that there is HUF 277,500 Equity This was not assumed in the gap example

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To look at the mismatch between the duration of assets and liabilities:

Duration of Assets	3.79
Duration of Liabilities	4.30
Duration Gap	-0.51

To look at the market value of portfolio equity as an indication of net worth:

Duration of Assets	3.79
Duration of Liabilities	4.30
Total Liabilities to Total Assets	0.95
Duration Gap	-0.295

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Summary of Effects of Duration Gap on Market Value of Equity

Duration Gap	Change in Interest Rates	Change in Market Value of Assets		Change in Market Value of Liabilities	Change in Market Value of Equity
Positive	Increase	Decrease	>	Decrease	Decrease
Positive	Decrease	Increase	>	Increase	Increase
Negative	Increase	Decrease	<	Decrease	Increase
Negative	Decrease	Increase	<	Increase	Decrease
Zero	Increase	Decrease	=	Decrease	None
Zero	Decrease	Increase	=	Increase	None

Calculate the Change in the Market Value of Equity by Calculating the Change in Market Value of Assets and Liabilities for a 100 Basis Point Increase in Rates

Change in Market Value of Assets = Change in Rates/1+Rate X -D X Asset

(1) $((.01/(1+.28)) \times -1 \times 2,000,000 =$	(15,625)
(2) $((.01/(1+.29)) \times -2.99 \times 1,800,000 =$	(41,720)
(3) $((.01/(1+.25)) \times -4.86 \times 1,000,000 =$	(38,880)
(4) $((.01/(1+.205)) \times -11.69 \times 750,000 =$	(72,759)
Change in Market Value of Assets	(168,984)

Change in Market Value of Liabilities = Change in Rates/1+Rate X -D X Liability

(1) $((.01/(1+.05)) \times -1 \times 1,222,500 =$	(11,643)
(2) $((.01/(1+.03)) \times -1 \times 1,500,000 =$	(14,563)
(3) $((.01/(1+.1425)) \times -2.96 \times 1,050,000 =$	(27,204)
(4) $((.01/(1+.1475)) \times -11.23 \times 1,500,000 =$	(146,797)
Change in Market Value of Liabilities	(200,207)

Change in Market Value of Equity = Change in Market Value of Assets - Change in Market Value of Liabilities

$$31,223 = (168,984) - (200,207)$$

For a decrease of 100 basis points, the change would be the opposite, -31,223.

In our example,

If interest rates decrease by 100 basis points:

Change in Market Value of Equity = -31,223

If management decides that the acceptable decline in Market Value of Equity is HUF 25,000 for a 100 basis point decrease in rates, what should be done?

The change in market value of assets and liabilities would have to be changed so that the difference was less by 6,223.

This can be done by lengthening asset durations so that by the previous calculation the change in market value of assets would be 175,207. Or durations of liabilities can be shortened so that by the previous calculation the change in market value would be 193,984. Or, of course, some combination of the two.

Since durations of assets and liabilities are summary statistics that are calculated by weighted averages, it is possible to arrive at this target in many ways, including changes the weights (the amount) of an asset or liability or changing the duration of the category by changing the product that is offered.

Asset Liability Management

Managing Interest Rate Risk

Urban Institute Presentation

Given by Julie Lazar from Fannie Mae

What Can Happen When Interest Rate Risk is Not Managed

The Thrift Crisis in the United States
in 1980 - 1982

Thriffs' Asset/Liability Structure in the Early 1980s

- Long-term assets in the form of 30-year fixed rate housing loans.
- Short-term liabilities in the form of savings deposits.

Interest Rates Increased in the Early 1980s

- Rates that Thrifts had to pay on deposits increased dramatically to around 9 percent from around 5.
- Rates on the housing loans on the books were also around 9 percent. Remember, these were old, long-term loans.
- The spread and therefore profits disappeared.

The Number of Unprofitable Thrifts

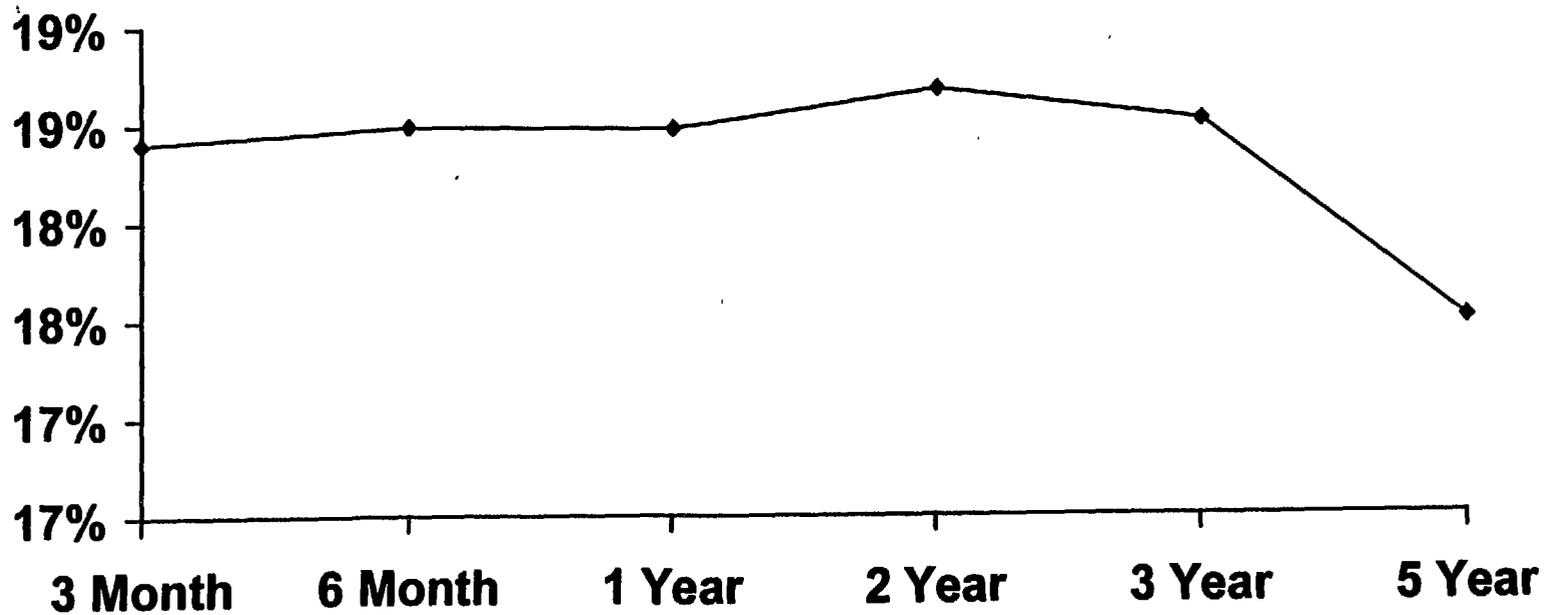
- 7 percent in 1979
- 36 percent in 1980
- 85 percent in 1981

Causes of Interest Rate Volatility

- Changes in relative supply and demand of loanable funds.
- Inflation.
- Inflation expectations.
- Period of the business cycle.
- Foreign financial markets.

Term Structure of Interest Rates

Benchmark Yields of Government Securities



What did we learn from the Thrift Crisis?

We learned that it is very dangerous
to an institution's profitability and
survival not to manage assets and
liabilities to reduce interest rate
risk.

To Manage Interest Rate Risk

- Monitor the maturities of assets and liabilities with Gap Analysis and Duration Analysis.
- Establish acceptable levels of risk and match the maturities of assets and liabilities to stay within established limits.

Objectives of Interest Rate Risk Management

- Maintain an institution's earnings and net worth within parameters that management finds acceptable over a range of possible interest rate environments.
- Must be considered within the larger context of overall business strategy.

Gap Analysis

- Conventional accounting practices are used to measure the effect of changes in interest rates on net interest income

Gap Analysis

- Determine the maturity buckets and the time frame to use.
- Establish what constitutes rate sensitive assets and liabilities.
- The gap is the difference between the amount of assets and liabilities in each maturity bucket.

Effect of Gap on Net Interest Income

Change in Net Interest Income =

Cumulative Gap at the End of a Period of Time

X Change in Rates

Effect of Gap on Net Interest Income

Gap	Change in Interest Rates	Change in Interest Income		Change in Interest Expense	Change in Net Interest Income
Positive	Increase	Increase	>	Increase	Increase
Positive	Decrease	Decrease	>	Decrease	Decrease
Negative	Increase	Increase	<	Increase	Decrease
Negative	Decrease	Decrease	<	Decrease	Increase
Zero	Increase	Increase	=	Increase	None
Zero	Decrease	Decrease	=	Decrease	None

To Minimize Interest Rate Risk

Keep Gap Close to Zero

To Manage Gap

- Calculate periodic gaps over short time intervals.
- Match fund repriceable assets with similar repriceable liabilities so that periodic gaps approach zero.
- Match fund long-term assets with non-interest bearing liabilities.
- For maturity buckets with gaps that are still too large, use off-balance sheet transactions to hedge.

Better to Manage Gap by
Establishing Tolerance Levels in
Changes in Net Interest Income than
Trying to Keep Gap at Zero



Tolerance Level Formula

- To calculate the proper cumulative gap for the acceptable level of change in net interest income for a given change rates
- $\text{Change in Net Interest Income} / \text{Change in Rates} = \text{Cumulative Gap}$

Duration Analysis

- Originates from bond portfolio management and it measures the average life of a stream of payments.
- Measures relative interest elasticity for determining changes in the market value of securities.
- Measures the stream of net interest incomes of an institution thereby calculating its net worth.



Duration Analysis
shows that:

Interest rate risk arises when
the timing of cash inflows
differs from the timing of
cash outflows.

Duration equals

$$\sum_{t=1}^n \frac{P_t}{(1+r)^t} \times X(t)$$

$$\sum_{t=1}^n \frac{P_t}{(1+r)^t}$$

P_t = payment of principal or interest at time t

t = the amount of time before the cash flow is received

n = the final maturity of the financial contract

r = current market interest rates for the security being analyzed

Duration Analysis

- Duration of Assets
- Duration of Liabilities
- Duration Gap

Duration is additive - durations of all assets and liabilities can be combined by using weighted average calculations.

Duration and Change in Market Value

- Change in Price = -Duration X Change in Rate for that Instrument
- If rates increase by 10 basis points and the duration of a bond is 3 years, the percentage change in price will be 0.3 percent
- $-3 \times 0.001 = -0.003$ or -0.3%

Duration and Market Value of Portfolio Equity

- This measures the value of the institution.
- Duration Gap = $DA - uDL$
- DA = Weighted Average Duration of Assets
- u = Ratio of Total Liabilities to Total Assets
- DL = Weighted Average Duration of Liabilities

Duration of Market Value of Portfolio Equity allows a bank to specify a target of Market Value of Equity and manage the difference between the durations of assets and liabilities to achieve the target



Using Duration Gap to Approximate the Change in Market Value of Equity for a Given Change in Interest Rates

$$\frac{\Delta \text{Market Value of Equity}}{\text{Total Assets}} = -\text{DGAP} \times [\Delta i / (1 + i)]$$

Where $(1+i)$ = 1 plus the weighted average rate on assets

Duration Gap Summary

Duration Gap	Change in Interest Rates	Change in Market Value of Assets	Change in Market Value of Liabilities	Change in Market Value of Equity
Positive	Increase	Decrease	> Decrease	Decrease
Positive	Decrease	Increase	> Increase	Increase
Negative	Increase	Decrease	< Decrease	Increase
Negative	Decrease	Increase	< Increase	Decrease
Zero	Increase	Decrease	= Decrease	None
Zero	Decrease	Increase	= Increase	None

Gap vs. Duration

- Snapshot of risk exposure at a point in time
- Magnitude indicates how much risk the institution assumes
- Indicates steps to take to reduce risk in specific time frames
- Provides summary statistics
- Considers entire portfolio at once
- Provides elasticity measures showing effect of changes in interest rates on market value
- Provides general attainable goal toward reducing risk

Best to use Gap and Duration in Combination

To Reduce Interest Rate Risk

- Reduce periodic gaps by increasing or decreasing the amount of assets or liabilities maturing or repricing in that bucket.
- Adjust duration of assets or liabilities by changing funding mixes or loan terms that are offered. Remember, because duration is an aggregate measure, it allows more flexibility in averaging maturities.
- Use interest rate swaps or futures contracts to hedge and reduce remaining risk.

How Much Risk is Acceptable?

- Not zero.
- Find a healthy balance between risk and return.
- Management decision.

Factors to Determine the Correct Amount of Risk

- Overall Financial Strength
- Management's Attitude toward Risk
- Economic Environment

A Useful Policy on Interest Rate Risk

- Establish specific limits on the sensitivity of the institution's net interest income and market value of equity to changes in interest rates.
- State limits in percentage changes from these measures in the current environment.
- Choose a reasonable time period, for example, a year.



Factors to Consider

- What is the typical magnitude of interest rate changes? 10 basis points? 50? 100?
- How do rate changes affect income generated by some large balance sheet components?
- What is the magnitude of losses that the institution can withstand?

Example of Sensitivity Limits

Change in Interest Rates (bps)	Maximum Permissible Net Interest Income	Change in Market value of Equity
+400	-125%	-90%
+300	-75%	-50%
+200	-50%	-25%
+100	-20%	-10%
0	0	0
-100	-20%	-10%
-200	-50%	-25%
-300	-75%	-50%
-400	-125%	-90%

Establish Monitoring Procedures

- In the U.S., institutions have ALCOs - Asset Liability Committees - composed of managers involved in portfolio management who meet anywhere from once a week to once a quarter to review the analyses we learned how to do. They make recommendations on what steps to take to reduce risk or whether or not to take on more.

Option Adjusted Duration

- Takes into consideration the value of the imbedded option. This would be the prepayment risk in housing loans and the put or call option in a bond.
- Requires complex computer models to simulate interest rate paths and to come up with a prepayment model.

**MARKETING AND MARKET RESEARCH FROM AN
INSTITUTIONAL PERSPECTIVE**

MITCHELL FINK

Market Research Course Outline

Customer Communication

- Strategy is key
- Based upon research
- Focus on what is most important to customers
- Messages need to be clear and focused
- From customers' perspective in their language (non-technical)
- Translate product/service attributes into customers' perspective

Internal Communication

- Employee education
- Employees need to be comfortable explaining products
- Questions and answers

Communication from Customers

- Structured
 - Consumer help hot-line
 - Follow-up surveys
- Informal information sources
 - Letters and comments
 - System to collect and review

Marketing Plan

- Overview
 - Research serves as the basis for strategies
 - Translate conclusions into specific goals
 - Identify necessary activities
 - Project costs and revenues
 - Determine how to measure success
- Structure
 - No one right format or length
 - Some things are to all plan

Marketing Plan Outline

Executive Summary

- Short summary of conclusions
- Contains critical information
- Written last

Environmental Analysis

- Key external factors

- Legal and political
- Economic
- Cultural and social
- Technological

Market Description

- Target market
 - Who are the potential customers
 - Age/income
 - Other characteristics
 - Marital status
 - Education
 - First time buyer
- Market size
 - Total potential customers
 - Expected potential customers

Market Requirements

- What is known about these potential customers
- Including
 - Opinions
 - Beliefs
 - Preferences
 - Priorities

Market Trends

- Future needs
- Including changing
 - Lifestyles
 - Attitudes
 - Population shifts
 - Social trends

Product Description

- Strategic fit
 - Role product will play in overall business
 - Reasons behind product creation

Market Reaction

- Product vs. customers' needs
- Actual or expected

Possible Enhancements

- Changes/enhancements/improvements

- Internal or external requirements

Competitive Analysis

- Overview
 - Summary of other banks
 - Individual or groups
- Analysis
 - Bank and competitors
 - Including
 - Strategies/approaches
 - Priorities
 - Strengths/weaknesses

External Issues

- Summary
- Key issues from above sections

Internal issues

- Issues/concerns
- Including
 - Priorities
 - Resources
 - Training

Objectives

- Long term
 - 3 to 5 year
 - Financial targets
 - Marketing targets
- Short term
 - One year goals
 - Including
 - Sales volume
 - Market share
 - Contribution

Strategy

- Long term
 - Approach to reach objectives
 - Including
 - Message
 - Vehicles
 - Positioning
- Short term

- Year one
- How strategy is focused to reach short term objectives

Rationale

- Why this strategy
- Explanation of reasons for pursuing

Action Plans

- Year one
- Activities
- Costs
- Timetable

Financial Statement

- 3 to 5 year projections
- Expenses and revenues

Controls

- Success measurements
- Contingency plans

Options

- Alternatives approaches
- Reasons/analysis

The cornerstones of all marketing are understanding your customers, producing or delivering what your customers want, and communicating with your customers about the products. If we can do these activities well, we will have greatly increased our chances for success in the marketplace. As we all know, there are many more elements to a company that affect success like production, accounting, and financial activities. Marketing, by interpreting customers needs helps provide direction for these activities and tries to coordinate them. For example, Marketing provides needed direction for production and helps make sure that the right products are produced and finds their way to customers.

Understanding Customers

There are many ways to understand customer needs ranging from the simple to the very complex. In choosing the appropriate method, the following factors should be considered: amount of time to make the decision, resources (people, money, existing information) available, and risk or cost of being wrong. There is no one right answer.

Exercise One

Post on flip chart ways or methods to understand customers needs.

Possible Responses:

- Secondary or already-available data collected for purposes other the specific research need at hand. Data may be available internal to the company or external to the company.

- An important way of learning about your customers is through developing an understanding of marketplace trends or changing environmental factors that are likely to influence your customers. Changing lifestyles, attitudes, population shifts, and social trends all influence the needs and wants of your customers. Also, the political and legal environment as well as the cultural, social, and economic environments have a significant impact on customers' priorities. Sometimes it is critical to just map out existing data on some of these factors over time to detect trends or shifts. This can be used as an early warning system that past assumptions about customers or the marketplace need to be reconsidered. Often the best insights can come from looking at changes in related products or industries.

Exercise Two

Post on flip chart sources of secondary information.

Remember you will need to consider the applicability of the data and the accuracy.

- Informal Information. I bet that you know a lot about your customers already by talking to them when they come into your bank/institution or by meeting them at parties or social functions. Or does your bank/institution ever receive a letter from a customer expressing dissatisfaction with a product or service? Do customers ever say something to your employees that they like or dislike about products?
- Qualitative Interviewing Methods. There are two types of qualitative research:

- Customer or one-on-one interviews. These are individual interviews with customers frequently used to uncover motivations, prejudices, and attitudes toward sensitive issues. They are used when subject matter is so sensitive that few respondents would speak openly in a group setting or when customers are geographically dispersed and travel cost are prohibitive. Interviews are usually administered by a highly skilled interviewer.
- Focus Groups. These are group interviews conducted among a small number of customers (6 to 10) simultaneously. The purpose is to listen to the group discuss an important issue and it allows us to experience the market first hand as the participants react and respond to each other's comments. Focus Groups are usually administered by a highly skilled moderator.
- Note to all qualitative research: while qualitative research is fast, inexpensive, and insightful, these methods are not intended to provide hard and fast conclusions and should not be used to answer questions that begin with, "How many...?" The results from qualitative research cannot be projected to the wider population at large.
- Quantitative Research. This allows you to make general statements regarding customers' opinions, attitudes, beliefs, and preferences projectable to the wider population at large.
- Surveys are the most common type of quantitative research. Surveys may be administered by phone, in

Other can construct quantitative based on qualitative

Use Debbie's fax example to illustrate the importance of asking the right questions!

person, or through the mail. The choice of method depends upon costs and timing. The key to effective survey research is developing a good questionnaire that asks clear and simple questions.

There are two basic forms of questions – open ended and closed ended. Open ended or free-response questions requires the respondents to provide their own answer to the questions. For example, “What is your opinion of this new mortgage?” While open-ended questions allow for the respondent to answer in their own words, they require the person analyzing the survey to edit, summarize, and interpret the results in their own way. Closed ended questions provide fixed responses to the questions which make it faster for the respondents to reply. Also they can be summarized in numbers like percentages, averages, and other statistics. The questions can be factual (such as demographics, length of residence, and interest rate on your mortgage) or attitudinal (such as preferences, inclinations, or feelings toward something). Here are some examples of each.

- Open ended

What do you like best about your automobile?

Why did you purchase a Grundig brand television set?

When you think of American companies, which brands come to mind?

- Closed ended

How much are you willing to spend on automobile?
etc

Communication

Now that we know our customers needs, we are ready to translate those learnings/conclusions into a plan to coordinate the various activities that need to take place. A written marketing plan, that contains all of the activities with a timeline, can serve as an important communication vehicle for both internal audiences and for any outside firms that will be assisting in this effort (such as an advertising agency or public relations firm). But before we discuss marketing plans, we are going to spend some time looking at other aspects of communication.

- **Customer Communication**

A critical aspect of any successful marketing program is the strategy for communicating to customers. Our research should provide us insight as to the content of our messages contained in any advertising or promotional materials. Once we know what is most important to our customers, we can then focus our messages on those key elements. If, for example, we should learn that in addition to the specific terms and conditions of a mortgage, customers also care about certain characteristics of the people that handle the loans (such as promptness of responses or friendliness or professionalism) that can help to determine the tone of our messages and key words to use.

Our messages need to be clear and focused.

Sometimes there is the temptation to make certain

that we say everything we can think to say but if we do that, the key elements can get lost within the copy. It is also important that we avoid as much as possible using words that are technical or confusing to our customers. Our messages should come from the customers' perspective using their language. The more we can translate product/service attributes to how or why that helps or is better for our customers, the more effective our communication will be. Okay, so we've got our messages how do we get it to customers? What are some of the tools/ways/mediums that you currently use to communicate with customers?

Exercise

List with the input from participants the communication vehicles that they currently use. list should include:

Brochures in the bank

Direct Mail

Newspaper Ads

Magazine Ads

Bill Boards

TV

Radio

But also word of mouth/employees

- Internal Communication

It is critical that the employees that deal directly with customers not only understand your mortgage products but that they are comfortable explaining the

products to customers. Employee education can play a critical role in the success or failure of any product. One of the things that can be very helpful in that regard is a Q&A (Questions/ Answers) hand out for employees. What you do is list the questions that you anticipate a customer may ask and then provide the answers that you would like your employees to give. This makes it easier for your employees, especially with new products, and it ensures that no matter who your customer asks, they'll get the same answer. This document can be updated if other or additional questions are posed to your employees but you should be able to identify most questions in your first draft.

- **Communication From Customers**

In addition to advertising and brochures (which is your communication to customers) it is important that you facilitate your customers' communication to you. One of the things that we have found very helpful is the creation of a consumer help hotline for mortgages where consumers can call and receive information and ask questions. Additionally, follow up surveys sent to customers can provide ongoing input and feedback as to how well you are meeting your customers' needs.

Earlier we talked about Informal Information sources such as letters from customers and customer comments made to employees about that they like or dislike about your products. As we said earlier, this is a good source of information...but do you

have a way to collect this information on an ongoing basis so that those customer communications are shared beyond the employee that answered the phone or spoke to the customer in person? These communications can be an early warning of a problem/issue or may provide an idea for a possible new product or product enhancement. And best of all, it doesn't cost you anything. Given that you might obtain some good information, it probably would be worth the time investment to develop a system for collecting this information. The goal would be that all this information flow into a centralized location and be reviewed on a regular basis.

Since our research serves as a basis for the strategies outlined in the plan, a summary of the conclusions reached from those research efforts should be included as an appendix to the plan. We then take those conclusions and translate them into specific goals (such as increase consumer awareness regarding a product), identify the activities necessary to achieve those goals, project the costs and revenues associated with this plan, and determine how we will measure whether we are achieving the goals as we go forward implementing this plan. This last element of measurement is critical so that we can make any necessary changes or adjustments to our plan (for example if our direct mail pieces are driving more business than expected, we might want to expand that and

decrease our investments in other communication vehicles).

Conceptually that's the crux of a Marketing Plan. Now let's now discuss in more concrete terms the contents and structure of a Marketing Plan.

- **Marketing Plan**
There is no one right format or length. But some things are common to all marketing plans. Let's take a look at an outline for a typical marketing plan.
- **Marketing Plan Outline**
 - **Executive Summary**
This is generally a short (one page) summary of the key conclusions reached within the plan. This is the section that a busy executive can read and get the most critical information without having to read the entire plan. Although it is the first section of the plan, it is written last. The rest of the plan is written and then you pull out the critical information and summarize it in this section.
 - **Environmental Analysis**
In this section we identify and discuss key external factors that might directly or indirectly have an impact on the success of this product. So let's look at what some of these factors might be.

Changes in the legal or political environments could impact this product (such as a possible change in the banking laws or a possible in political officials that might mean a shifting of governmental priorities).

Changes in the cultural and social environments such as **(NEED AN EXAMPLE)**

The economic environment changes such as — unemployment rates or interest rates are also likely to have a significant impact on the success or failure of the product.

Additionally, technological changes (such as computer or telephony) may impact the bank's abilities to provide certain services.

After having identified an external factor ,we would then include a brief discussion on how that might impact the product.

- **Market Description**

- **Target Market**

- This is where potential customers are described. Who are the potential customers? Generally these potential customers are described in terms of such things as age and income levels. Depending upon the product, there may be other characteristics that would cause someone to be especially interested in

the product (such as marital status, educational background, whether they are a first time home buyer, if they have an existing relationship with the bank, or whether they live in an urban or rural area).

- **Market Size**

After dealing with who are the potential customers, the next step is to determine how many there are of them. This is generally done by taking the characteristics identified above and finding secondary (already existing) information sources that will contain this statistical information. Now, we know that not everyone who may be interested will actually be in the market for the product immediately. So to determine how many may actually purchase, historical information regarding mortgages given to our target customers provides a base trend line. This base trend line can then be adjusted based upon environmental factors and information obtained through the research.

- **Market Requirements**

This is a more in-depth discussion of what is known about these potential customers. Included are such things as their current opinions, beliefs, preferences, and priorities. These can provide insights into how to position the product and what the bank's priorities should be to make this product successful.

- **Market Trends**

The last step in this section is an attempt to look a bit into the future. This is done by identifying and discussing market trends. By analyzing such things as changing lifestyles, attitudes, population shifts, and social trends, some insight into the future needs of the market may be ascertained.

- **Product Description**

- **Strategic Fit**

- This contains a brief discussion of the product and how it fits into the overall business. Basically it is a summary of why the bank decided to create this product (such as a replacement for another product or to go after another customer group).

- **Market Reaction**

- This is a summary of how well the product appears to be meeting customers' needs. For a new product, this would be based upon your research and would address expected reactions.

- **Possible Enhancements**

- Contained here would be any recommendations for changes, enhancements, or improvements. These may be a result of the above discussion (how to have the product better meet customers' needs) and/or changes that make it easier for the bank to administer the product.

- **Competitive Analysis**

- Overview

A brief summary of the other banks from which the target market may get a mortgage. If there are a lot of banks, they may be grouped into similar types.

- Analysis

This is where the bank and its competitors are discussed in terms of their strategies/approaches, priorities, strengths, and their weaknesses in relation to the target market. The summary may be a visual representation of the bank and its competitors in relation to the market (such as how successful they have been in attracting the potential customers).

- External Issues

In this section, the key issues identified in the above sections are pulled together in summary form.

- Internal Issues

So far, the primary focus had been external. In this section the focus is internal. This is where any issues or concerns regarding the bank's ability to do what needs to be done to be successful (such as priorities, resources, ^{systems} personnel, or training) are identified and discussed.

- Objectives

- Long term

This section contains the financial and marketing targets for the next 3 to 5 years. These could

include such things as marketshare, revenues, and whatever financial measurements your bank generally uses (ROI, IIR, etc.)

- Short term

The short term objectives contained in this section may include such things as sales volume, market share, and contribution goals for the year.

- Strategy

- Long term

This section contains a summary of the long-term strategy, that is the approach that will lead to reaching the long term objectives. The strategy would include such things as the message (what to tell potential customers about this product) and the vehicles (how the message gets to the customers such as mailings or advertisements).

- Short term

Having identified the long term strategy above, this section contains a statement of how the strategy is focused to reach the short term objectives. *how many mailings*

- Rationale

This is where there is an explanation of the reasons for pursuing the recommended objectives and strategies.

- **Action Plans**

This is a detailed implementation plan along within the context of a timetable for the next financial year along with the costs. The plan would contain all the activities that need to take place.

- **Financial Statement**

This is where the plan is translated into expected financial performance with expenses and revenues.

- **Controls**

In this section the mechanisms for monitoring performance are described. Included are the specific measurements that should be taken and monitored to determine whether the plan is being successful. Some examples of measurements would include responses from a mailing, number of current customer inquiries, and conversion rates (inquiries vs qualified applications for a mortgage).

Additionally, contained in this section would be any contingency plans, fall back plans should things change or if the plan fails to produce expected results.

- **Options**

This is where alternative approaches that were considered are described in sufficient detail to produce financials. Included should be the reasons for why each option might, or might not, be worth pursuing.

Let's look at an example of the contents of the various sections of the marketing plan. Let's assume that the product is especially designed as a first home buyer mortgage with a lower down payment and a 35 year mortgage repayment period.

- Environmental Analysis

- Political: Issues that impact demand, supply, or positioning of the product, for example

- Market Description

- Target Market

This product is directed toward first time homeowners who are generally a married couple with the following characteristics:

- Age: 25 to 35
- Geographic:
 - 60% Major Metropolitan Area
 - 25% Smaller Town
 - 15% Rural
- Income Level: \$30,000 to \$60,000
- Children: 1.5
- Highest Educational Level:
 - 10% Graduate Degree
 - 50% College Degree
 - 38% High School Degree
 - 2% Less

- Market Size

This target currently constitutes 20% of the adult population (.2 x pop) and is the fastest growing segment in the population. It is currently projected to grow at a rate of 7% for the next five years. It is estimated that of the total market, 30% will seek a first mortgage annually.

- **Market Requirements**

These individuals are starting to lay a foundation for their adult lifestyle. They seek home ownership to create stability and continuity for their families. This is their biggest decision and generally have contemplated, planned, and saved for an average of 3.5 years. They prefer to have information delivered in writing that is clear concise but also want the personnel they deal with in relation to the mortgage to be friendly and knowledgeable. They describe the mortgage process as confusing and tedious.

- **Market Trends**

Financial considerations are driving this segment to delay starting their families (having the first child later in life) and a growing number are two income households.

- **Product Description**

- **Strategic Fit**

This first mortgage product is critical to the success of other mortgage products. Our best prospect for larger mortgage products are customers that already have a prior mortgage with the bank. Additionally, this market presents opportunities for other financial products.

- **Market Reaction**

The lower down payment requirement for this product is highly valued and appears to be the most attractive feature. The longer repayment period does not seem to influence the decision directly. Consumers focus primarily on the interest rate and if this could be lowered it would drive more purchases. Cash flow issues arise especially in the early stage of the mortgage.

- **Possible Enhancements**

A possible enhancement would be to provide a longer initial grace period (make first payment due 60 as opposed to 30 days after mortgage begins). Additionally, since the repayment period does not seem to be as directly critical to the purchase decision, this could be lengthened or shortened depending upon impact on interest rate.

- **Competitive Analysis**

- **Overview**

Competition for this product comes primarily from the banks of similar size.

- **Analysis**

- **Bank 1**

Has been following a similar strategy of attempting to capture the younger market. They appear to be less successful due to their unwillingness to experiment

with product features/options. They have engaged in an aggressive marketing communications program and have the highest name recognition among the target market. They have strong financial resources and appear willing to spend on marketing but their conservative approach to product development presents a window of opportunity for us.

- Bank 2

Has not focused on the younger market. It is their strength in traditional mortgage products that attracts the younger market that purchases their mortgage products. It appears that if the parents have a mortgage with this bank, the next generation often begins the mortgage investigation with this bank. This is a very conservative organization that spends little on marketing and does not readily develop new products.

- Bank 3

Has focused on the younger market for other financial products. It is their strength in these other products that attracts the younger market that purchases their mortgage products. It appears that if they have an existing relationship with this bank, the younger market often begins their mortgage investigation with this bank.

- Our Bank

We appear to have successfully developed a first mortgage product that meets the needs of the younger market. We do not, however, have the market

positioning. The younger market that purchases our product are either existing customers for other financial products or spend more time researching mortgages and “finds us.”

- Chart

- External Issues
 - Strengths:
Current product best meets younger market needs

 - Weaknesses:
Poor positioning

 - Opportunities:
Improve product quality
 - written materials (clear & concise)
 - personnel (friendly & knowledgeable)
 - initial grace period (1st payment due in 60 days)

 - Improve market communication
 - reach out more aggressively for the younger market
 - targeted messages that will drive inquiries

 - Threats
Competitor's Actions
 - Bank 1 may develop similar product
 - Bank 3 may develop similar product

- Internal Issues
Employee Training
Employee Incentive Programs

- Objectives

As we discussed early, this section would contain specific measureable targets but for our purposes today we are not going to get that specific.

- Long term

Let's say that our long term objective is to be giving more mortgages to this target group than any other bank. That we want the highest name recognition among the target group. Also that this product meet or exceed whatever your bank normally uses as a financial standard for successful products.

- Short term

In the short run our objectives are focused on obtaining customers. In the first year we want to double the number of mortgages given to this target group than we did the previous year. Our financial target will include greater marketing costs than will be occurred later in the product's life with a focus on obtaining a large number of inquiries from the target market.

Exercise

Divide participants into groups of 6 to 7. Have them define the long term strategy and explain what

should be done in the first year. Then have each group report back to the entire participants.

Introduction

Instructor

**Mitchell Fink
Director, Corporate Development
Fannie Mae
Washington, D.C. USA**

Background

**Procter & Gamble (P&G – Consumer Products Company)
McKinsey & Company (International Management Consulting Firm)
American Express (Charge Cards & Travelers Cheques)**

Personal Note

**This is my first visit to your country and I look forward to spending this time with you
and exchanging information.**

#1

Understanding Customers

- **Many options**
 - **Simple to complex**
 - **Factors include**
 - **Amount of time**
 - **Resources**
 - **Risk**

- **Secondary Research**
 - **Already existing data**
 - **Internal or external**

- **Market Place Trends**
 - **Changes likely to influence customers**
 - **Including**
 - **Lifestyles**
 - **Attitudes**
 - **Population shifts**
 - **Social trends**
 - **Political/Legal**
 - **Cultural/Social**

Group Introductions

Name

Financial Institution and Location

Position

One way you currently find out what your customers need

#2

Marketing Research

Purpose

- **Support Decision-Making**
- **Identify Opportunities & Problems**
- **Allocate Resources**
- **Focus Communication**

Types

- **Primary versus Secondary**
- **Qualitative versus Quantitative**

Developing a Questionnaire

- **Define Information**
- **Limit Questions**
- **Question Content**
- **Structure of Responses**
- **Construct Questions**
- **Sequence**
- **Debug & Distribute**

#3

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Marketing Plan Outline

Executive Summary

- **Short summary of conclusions**

Environmental Analysis

- **Key external factors**

Market Description

- **Target Market**
- **Market Size**
- **Market Requirements**
- **Market Trends**

Product Description

- **Strategic Fit**

Competitive Analysis

- **Overview**
- **Analysis**

#4

Marketing Plan Outline

Internal Issues

Objectives

- **Long term**
- **Short term**

Action Plans

Financial Statement

Controls

Options

- **#5**

Marketing és piackutatás intézményi szempotból

USAID
The Urban Institute
Fannie Mae

Bemutakozás

Oktató

Mitchell Fink
vállalatfejlesztési igazgató,
Fannie Mea
Washington D.C.USA

Szakmai múlt

Procter & Gamble (P&G - Fogyasztási cikketek forgalmazó cég)
McKinsey & Company (nemzetközi menedzsment tanácsadó cég)
American Express (hitelkártyák és utazási csekkek)

Személyes megjegyzés

Először vagyok az Önök országában, és nagyon várom, hogy az együtt töltött időt és információcserét Önökkel.

Csoport bemutatkozások

Név

Pénzintézet és hely

Beosztás

Egy módszer, amit jelenleg használ arra, hogy megtudhassa az ügyfél igényeit

Piackutatás

Cél

- A döntéshozatal támogatása
- A lehetőségek és problémák meghatározása
- Erőforrások hozzárendelése
- Fókuszban a kommunikáció

Típusok

- Elsődleges kontra másodlagos
- Kvalitatív kontra kvantitatív

Kérdőív kidolgozása

- Információ definiálása
- Kérdések korlátozása
- A tartalom megkérdőjelezése
- Válaszok felépítése
- Kérdések megszerkesztése
- Sorrend
- Hibák kijavítása és terjesztés

Marketing terv vázlat

Vezetői összefoglalás

- A konklúziók tömör összefoglalása

Környezeti elemzés

- A legfontosabb külső tényezők

Piac leírása

- A célpiac
- Piac mérete
- Piaci követelmények
- Piaci trendek

Termékleírás

- Beleillik-e a stratégiába

Versenyhelyzet elemzése

- Áttekintés
- Elemzés

Marketing terv vázlat

Belső kérdések

Célkitűzések

- Hosszú távú
- Rövid távú

Cselekvési tervek

Pénzügyi kimutatás

Ellenőrzések

Vélemények

**BASICS OF SOUND UNDERWRITING PART A:
UNDERWRITING THE BORROWER**

JOAN WILSON

FUNDATMENTALS OF UNDERWRITING

➔URBAN INSTITUTE PRESENTATION

➔GIVEN BY JOAN WILSON

➔FANNIE MAE HOUSING IMPACT
DIRECTOR

➔NOVEMBER 9 & 10, 1998

➔BUDAPEST

FANNIE MAE

- ➔ **LARGEST INVESTOR IN REAL ESTATE LOANS IN THE U.S.**
- ➔ **PROVIDES LIQUIDITY TO THE LENDERS IN ALL PARTS OF THE COUNTRY**
- ➔ **INNOVATOR IN CREATING NEW LOAN PRODUCTS TO MEET SPECIAL NEEDS OF LOW INCOME AND OTHER TARGETED POPULATIONS**
- ➔ **SUCCESSFUL IN ALL INTEREST RATE ENVIRONMENTS**

UNDERWRITING IN THE U.S.

- ➔ ABILITY TO REPAY (INCOME)
- ➔ WILLINGNESS TO REPAY (PAYMENT HISTORY)
- ➔ COLLATERAL VALUE IF NOT REPAID

ABILITY TO REPAY

➔ INCOME

➔ SOURCE

➔ NUMBER OF CONTRIBUTORS

➔ STABILITY

➔ EMPLOYMENT

➔ LENGTH OF TIME CONTINUOUSLY
EMPLOYED

➔ DEMAND FOR EXPERTISE

➔ TIME AT SAME POSITION

➔ STABILITY OF EMPLOYER

ABILITY TO REPAY CONTINUED

➔ PROPOSED HOUSING EXPENSE TO
INCOME

➔ PAST HOUSING EXPENSE TO INCOME

➔ CHANGES IN EXPENSES OR INCOME

➔ RESERVES

➔ VERIFICATIONS -

➔ EMPLOYERS

➔ TAX RETURNS

➔ ENTITLEMENT LETTERS

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WILLINGNESS TO REPAY

➔ PAYMENT HISTORY

➔ CREDIT REPORTS

➔ CREDIT SCORES

➔ NON-TRADITIONAL

➔ CREDIT REPORTS

➔ HISTORICAL DATA ON PAYMENT HABITS

➔ PUBLIC RECORDS, JUDGMENTS

➔ BANKRUPTCIES - INDICATOR OF
FUTURE BANRUPTCIES

WILLINGNESS TO REPAY CONTINUED

➔ CREDIT SCORES

➔ CONSOLIDATION OF CREDIT REPORTS

➔ PREDICTABILITY-VALUE

➔ OBJECTIVITY

➔ COMPONENTS

➔ AVAILABLE CREDIT & LEVEL OF USAGE

➔ REPAYMENT HABITS

➔ TYPES OF CREDIT

➔ INQUIRIES

CREDIT SCORE PREDICATIVE VALUE

Default Performance by FICO Credit Score

						<620 vs. 660-699
➔	➔ 620	620-659	660-699	700-739	740+	
➔	2.7	1.6	1.0	0.6	0.4	

- ➔ 📖 2.4 million loan sample from 1988-1995 origination years
- ➔ 📖 Default performance through 4Q97
- ➔ 📖 Default rates are relative to base of 1.0 (660-699 FICO score)
- ➔ 📖 Default is defined as REO

WILLINGNESS TO REPAY CONTINUED

➔ EXTENUATING CIRCUMSTANCES

➔ ILLNESS, DEATH, DIVORCE, EMPLOYMENT
LOSS

➔ REESTABLISHMENT OF GOOD CREDIT
HISTORY

➔ PRESENT SITUATION

➔ PAST HOUSING PAYMENT HISTORY

COLLATERAL VALUE

- ➔ MARKET VERSUS SALES PRICE OR COST TO CONSTRUCT
- ➔ WILLING, ABLE AND KNOWLEDGEABLE BUYER AND SELLER
- ➔ LOCATION, LOCATION, LOCATION
- ➔ SIMILARITY TO OTHER HOUSING IN THE AREA (HIGHER, LOWER, CONFORMING)

COLLATERAL VALUE CONTINUED

- ➔ FUTURE MARKETABILITY
- ➔ OBSOLESCENCE
- ➔ UNIQUENESS
- ➔ OVERBUILT
- ➔ NEIGHBORHOOD TRENDS
- ➔ TIME TO MARKET HOMES

AUTOMATED UNDERWRITING

- ➔CONSISTENT AND OBJECTIVE
- ➔HOLISTIC VIEW
- ➔FOCUSES ON WEAK AREAS
- ➔USES CREDIT SCORES
- ➔REDUCES PAPERWORK, TIME, COST

ADAPTATIONS FOR HUNGARY

- ➔ **CREDIT REPORT AVAILABILITY**
- ➔ **USING CREDIT SCORE COMPONENTS**
- ➔ **IMPACT OF LACK OF FORECLOSURE ON
WILLINGNESS TO REPAY AND CREDIT
DECISION**

ITEMS NEEDED

➤ CREDIT SCORING BOOKLET

➤ CASES

➤ CREDIT SCORE DATA ON DEFAULTS
AND LOAN-TO-VALUES

FUNDATMENTALS OF UNDERWRITING

➤URBAN INSTITUTE PRESENTATION

➤GIVEN BY JOAN WILSON

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- ➔ **SUCCESSFUL IN ALL INTEREST RATE ENVIRONMENTS**

WHY IS UNDERWRITING IMPORTANT?

- Assures investors of uniformity of loan quality**
- Provides liquidity to the housing lending industry**
- Means standardization of rates across the U.S.**
- Prevents failure of home ownership for people not prepared to buy a home yet**

STANDARDIZATION THROUGH --

- Standard underwriting procedures and guidelines**
- Standard eligibility requirements**
- Standard forms and documentation**
- Automated Underwriting**

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WHO SHOULD BE UNDERWRITTEN?

- ➔ **The primary borrower**
- ➔ **Any co-borrowers**
- ➔ **Any spouse that will occupy the house**
- ➔ **Anyone else whose income will be used to meet monthly housing expenses**

UNDERWRITING IN THE U.S.

- ABILITY TO REPAY (INCOME)**
- WILLINGNESS TO REPAY (PAYMENT OR CREDIT HISTORY)**
- COLLATERAL VALUE TO RECOVER LOANED FUNDS IF NOT REPAYED**

ABILITY TO REPAY

➤ INCOME

➤ SOURCE

➤ NUMBER OF CONTRIBUTORS

➤ STABILITY

➤ EMPLOYMENT

➤ LENGTH OF TIME CONTINUOUSLY
EMPLOYED

➤ DEMAND FOR EXPERTISE

➤ STABILITY OF EMPLOYER

VERIFICATIONS

➤ VERIFICATIONS -

➤ EMPLOYERS- VOE FORMS & CALLS

➤ TAX RETURNS

➤ ENTITLEMENT LETTERS

➤ INDUSTRY RESEARCH

ABILITY TO REPAY CONTINUED

- PROPOSED HOUSING EXPENSE TO INCOME**
- PAST HOUSING EXPENSE TO INCOME**
- CHANGES IN EXPENSES OR INCOME**
- RESERVES**

DIFFERENT RATIOS FOR DIFFERENT LOANS

- **If the rate and payment on the loan is likely to increase in the future;**
 - **the ratios should be adjusted to ensure that the borrower can meet the higher payment when it occurs, or;**
 - **there should be a strong compensating factor such as a sizeable subsidy to be paid before the payment increase or a future salary increase has been documented.**

WILLINGNESS TO REPAY

➤ PAYMENT HISTORY

➤ CREDIT REPORTS

➤ HISTORICAL DATA ON PAYMENT HABITS

➤ PUBLIC RECORDS, JUDGMENTS

➤ BANKRUPTCIES - INDICATOR OF
FUTURE BANRUPTCIES

➤ CREDIT SCORES

➤ NON-TRANDITIONAL

WILLINGNESS TO REPAY CONTINUED

➤ CREDIT SCORES

➤ CONSOLIDATION OF CREDIT REPORTS

➤ PREDICTABILITY-VALUE

➤ OBJECTIVITY

➤ COMPONENTS

➤ AVAILABLE CREDIT & LEVEL OF USAGE

➤ REPAYMENT HABITS

➤ TYPES OF CREDIT

➤ INQUIRIES

CREDIT SCORE PREDICATIVE VALUE

Default Performance by FICO Credit Score

➤						<620 vs..
➤	<620	620-659	660-699	700-739	740+	660-699
➤	2.7	1.6	1.0	0.6	0.4	2.7x

- 2.4 million loan sample from 1988-1995 origination years
- Default performance through 4Q97
- Default rates are relative to base of 1.0 (660-699 FICO score)
- Default is defined as REO

CREDIT SCORE COMPONENTS

➔ PAYMENT HISTORY

➔ AVAILABLE CRDIT

➔ TYPE OF CREDIT

➔ LENGTH OF CREDIT HISTORY

➔ NUMBER OF ACCOUNTS

NON-TRADITIONAL CREDIT REPORT

➤ Build a history of the applicant's willingness to pay debts:

➤ car payments

➤ utility payments

➤ rent payments

➤ cell phones - other monthly obligations

➤ Document

➤ receipts

➤ landlord, phone company, creditor written verifications

WILLINGNESS TO REPAY CONTINUED

➤➤EXTENUATING CIRCUMSTANCES

➤➤ILLNESS, DEATH, EMPLOYMENT LOSS

**➤➤REESTABLISHMENT OF GOOD CREDIT
HISTORY**

➤➤PRESENT SITUATION

➤➤PAST HOUSING PAYMENT HISTORY

AUTOMATED UNDERWRITING

- ➔CONSISTENT AND OBJECTIVE**
- ➔HOLISTIC VIEW**
- ➔FOCUSES ON WEAK AREAS**
- ➔USES CREDIT SCORES**
- ➔REDUCES PAPERWORK, TIME, COST**

ADAPTATIONS FOR HUNGARY

- ➔ CREDIT REPORT AVAILABILITY**
- ➔ USING CREDIT SCORE COMPONENTS**
- ➔ IMPACT OF LACK OF FORECLOSURE ON
WILLINGNESS TO REPAY AND CREDIT
DECISION**

WHAT TO DO IF THE LOAN IS NOT APPROVED

- Determine the reason**
- Advise the borrower of ways to prepare**

COLLATERAL VALUE

- **MARKET VERSUS SALES PRICE OR COST TO CONSTRUCT**
- **WILLING, ABLE AND KNOWLEDGEABLE BUYER AND SELLER**
- **LOCATION, LOCATION, LOCATION**
- **SIMILARITY TO OTHER HOUSING IN THE AREA (HIGHER, LOWER, CONFORMING)**

UNDERWRITING CASES

➤ **Credit analysis of individual cases**

COLLATERAL VALUE CONTINUED

- FUTURE MARKETABILITY**
- OBSOLESCENCE**
- UNIQUENESS**
- OVERBUILT**
- NEIGHBORHOOD TRENDS**
- TIME TO MARKET HOMES**

**BASICS OF SOUND UNDERWRITING PART B:
UNDERWRITING PROPERTY**

JOAN WILSON

PROPERTY UNDERWRITING

**PRESENTED BY JOAN WILSON
THROUGH THE URBAN INSTITUTE
NOVEMBER 9, 1998**

ITEMS NEEDED

✓ FORMS PACKAGE

✓ COMPLETED CASE FILES

PROPERTY UNDERWRITING

✓ WHY IS A GOOD EVALUATION IMPORTANT?

✓ BORROWER BENEFITS WITH VALID EVALUATION ABOVE THE LOAN AMOUNT:

✓ CAN LATER MOVE TO A NEW HOME OR

✓ RELOCATE TO ANOTHER AREA FOR JOB, FAMILY OR OTHER REASONS

✓ BECAUSE:

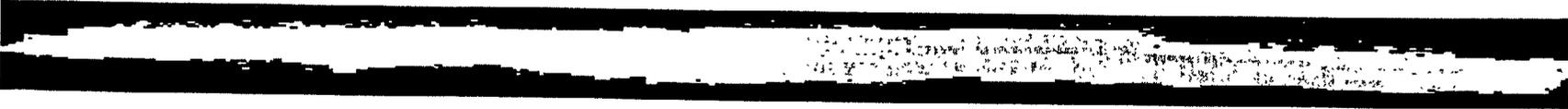
✓ WILL BE ABLE TO SELL FOR ENOUGH TO PAY OFF EXISTING MORTGAGE AND MOVE TO NEW HOME

WHY APPRAISALS CONTINEUED

✓ BORROWER AND LENDER BENEFITS:

- ✓ IF BORROWER INCURS FINANCIAL DIFFICULTY IN MEETING PAYMENTS CAN SELL THE PROPERTY AND PAY OFF THE LOAN KEEPING CREDIT IN TACT (FORECLOSURE PREVENTION TOOL)
- ✓ IF BORROWER DEFAULTS, LENDER CAN RECOUP LOAN PROCEEDS THROUGH SELL OF THE PROPERTY

MARKET VALUE



- ✓ "The most probable price as of a specified date, that a property will bring in a competitive and open market in a fair sale with a knowledgeable buyer and seller."

REPUTABLE, DISINTERESTED PARTY

- ✓ **THE APPRAISER SHOULD BE TRAINED AND CERTIFIED, IF POSSIBLE**
- ✓ **THERE SHOULD BE NO CONNECTION BETWEEN THE APPRAISER AND THE BUYER OR SELLER**
- ✓ **THE APPRAISER SHOULD NOT BE ABLE TO GAIN FINANCIALLY FOR A HIGHER OR LOWER VALUE**

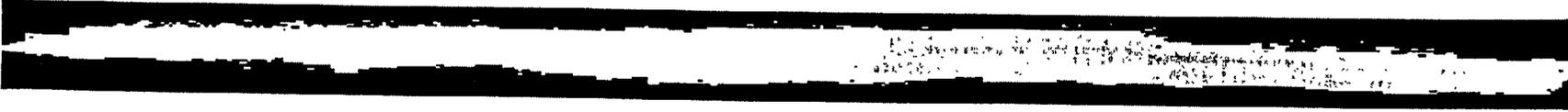
APPRAISER QUALIFICATIONS

- ✓ **ACTIVELY APPRAISING THE SAME TYPE PROPERTY IN THE SAME AREA**
- ✓ **BELONGS TO APPRAISAL ORGANIZATIONS THAT EXCHANGE INFORMATION AND METHODOLOGIES**
- ✓ **KNOWS YOUR GUIDELINES AND HAS ACCESS TO DATA SOURCES**

ACCEPTABLE PRACTICES

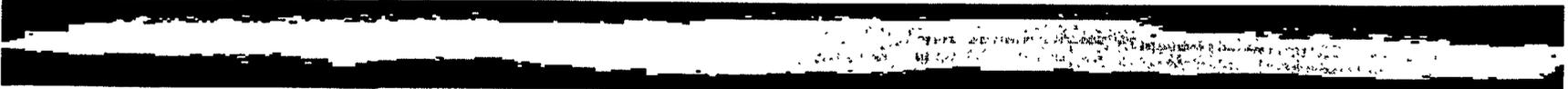
- ✓ ACTUAL FACTUAL DATA
- ✓ DESCRIPTION OF NEGATIVE FACTORS
- ✓ INSPECT EXTERIORS OF COMPARABLES
- ✓ APPROPRIATE AND SIMILAR COMPARABLE SALES

ACCEPTABLE PRACTICES CONTINUED



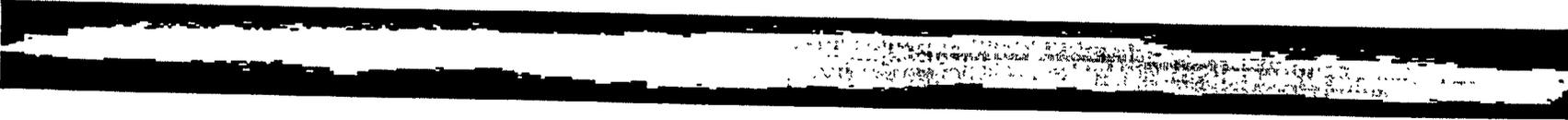
- ✓ **DATA SHOULD COME FROM DISINTERESTED PARTIES**
- ✓ **ADJUSTMENTS REFLECT MARKET VALUATIONS**
- ✓ **NON-DISCRIMINATORY**
- ✓ **CONCLUSIONS SUPPORTED BY AVAILABLE MARKET DATA**

MARKET VALUE



- ✓ **RELIES HEAVILY ON COMPARABLE SALES IN THE SAME AREA**
- ✓ **SIMILAR STRUCTURE, SIZE, AGE, AMENITIES**
- ✓ **ADJUSTMENTS FOR ANY DIFFERENCES BASED ON MARKET PRICE OF ADJUSTMENTS (SWIMMING POOL, EXTRA FAMILY ROOM, ETC.)**

STANDARD FORM 1004



- ✓ **ENSURES THAT THE SAME ISSUES ARE ADDRESSED ON EACH APPRAISAL**

- ✓ **ADDITIONAL INFORMATION SHOULD BE ADDED AS ADDENDA IF WARRANTED IN ORDER TO GIVE A FULL DESCRIPTION OF THE PROPERTY AND NEIGHBORHOOD AND INFLUENCING FACTORS**

- ✓ **SPECIAL FORM 1073 FOR CONDOMINIUMS AND PLANNED UNIT DEVELOPMENTS TO ADDRESS COMMON AREAS, HOME OWNERS ASSOCIATIONS AND OTHER UNIQUE ISSUES.**

APPRAISER NEEDS

- ✓ LEGAL DESCRIPTION OR OTHER LOCATOR
- ✓ ANY UNUSUAL FINANCING ARRANGEMENTS
- ✓ SALES CONTRACT
- ✓ OTHER KNOWN FACTS THAT COULD IMPACT VALUE

NEW CONSTRUCTION

- ✓ **VALUE CAN BE BASED ON PLANS AND SPECIFICATIONS**
- ✓ **MUST BE COMPLETED IN ACCORDANCE WITH THOSE PLANS AND SPECIFICATIONS**
- ✓ **APPRAISER MUST CERTIFY THE PROPERTY IS COMPLETE AND HABITABLE**
- ✓ **SMALL INCOMPETE ITEMS CAN BE DONE LATER IF MONEY IS DESPOSITED TO COVER THE COST**
- ✓ **HEALTH DEPARTMENT CERTIFICATIONS OF OCCUPANCY MAY BE REQUIRED FOR WELL, SEPTIC TANKS AND STRUCTURE APPROVAL.**

REVIEW OF THE APPRAISAL REPORT

- ✓ **IS THE PROPERTY IN A RESIDENTIAL AREA**
- ✓ **DOES IT CONFORM TO OTHER PROPERTIES IN THE AREA**
- ✓ **WHAT IS THE MARKETING TIME AND THE TREND FOR MARKETING TIME?**
- ✓ **IS THE PROPERTY READILY ACCESSIBLE BY ROADS THAT MEET LOCAL STANDARDS AND DOES IT HAVE ACCESS TO UTILITIES**

MAXIMUM FINANCING

- ✓ **THE HIGHEST LOAN TO VALUE LENDING (LOWEST DOWN PAYMENT FROM THE BORROWER) SHOULD BE LIMITED TO PROPERTIES LOCATED IN AREAS WHERE VALUES ARE EITHER STABLE OR INCREASING.**
- ✓ **IN DECLINING VALUE MARKETS A LARGER DOWN PAYMENT SHOULD BE REQUIRED SO THAT IF THE PROPERTY MUST BE SOLD THERE WILL STILL BE ENOUGH FUNDS TO PAY OFF THE HOUSING LOAN.**

OTHER FACTORS

- ✓ **OFF-SITE IMPROVEMENTS**
 - ✓ **STREETS, GUTTERS, CURBS, STREET LIGHTS, SIDEWALKS**
 - ✓ **WHO MAINTAINS THEM**

- ✓ **LOT**
 - ✓ **TOPOGRAPHY (STEEP LIKELY TO ERODE?)**
 - ✓ **DRAINAGE**
 - ✓ **AMENITIES**
 - ✓ **ENCROACHMENTS (PUBLIC ROADS)**
 - ✓ **EASEMENTS (UTILITIES)**

- ✓ **FLOOD HAZARDS (FLOOD PLAINS)**

DESCRIPTION OF PROPERTY



- ✓ UNUSUAL STRUCTURE? EARTH HOUSE, LOG CABIN, ETC

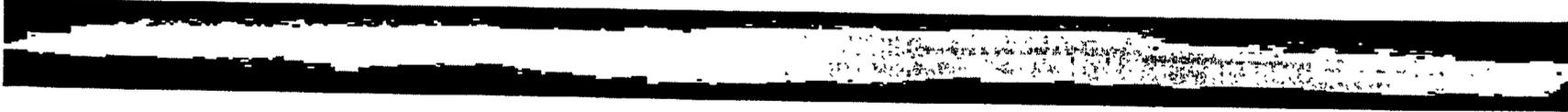
- ✓ CONDITION OF IMPROVEMENTS (REPAIR WORK OR REPLACEMENT OF APPLIANCES NEEDED)

- ✓ HAZARDOUS CONDITIONS

APPROACHES TO MARKET (INDICATED) VALUE

- ✓ **SALES COMPARISON (MOST OFTEN USED)**
- ✓ **COST APPROACH**
- ✓ **INCOME APPROACH**

SALES COMPARISON APPROACH

- 
- ✓ **ASSUMPTION THAT HOMEBUYER WILL NOT PAY MORE FOR A PROPERTY THAN IT WOULD COST TO BUY A COMPARABLE PROPERTY IN THE SAME OR A SIMILAR NEIGHBORHOOD**

COST APPROACH

- ✓ **LAND VALUE PLUS**
- ✓ **ESTIMATE OF COST WITH SIMILAR MATERIALS USUALLY BY SQUARE METERS**
- ✓ **NOT OFTEN USED**

INCOME APPROACH

- ✓ **INFREQUENTLY USED IN THE CASE OF RENTAL PROPERTIES AND IS BASED ON THE NET PRESENT VALUE OF ANTICIPATED FUTURE RENTAL INCOME FROM THE PROPERTY.**
- ✓ **EVEN IN THIS CASE COMPARABLE SALES OF SIMILAR PROPERTIES SHOULD BE USED IF POSSIBLE**

FINAL CONSIDERATIONS

- ✓ **SPECIAL MODIFICATIONS TO ACCOMMODATE BUSINESSES OR OTHER USES MAY JEOPARDIZE THE FUTURE MARKETABILITY OF THE PROPERTY**
- ✓ **OVER IMPROVEMENTS MAY HAVE A LIMITED APPEAL**
- ✓ **VERY UNUSUAL HOMES WILL ALSO HAVE A LIMITED MARKET**
- ✓ **THE VALUE OF THE HOME MUST BE ABOVE THE INITIAL LOAN AMOUNT AND ANTICIPATED TO REMAIN ABOVE THE LOAN AMOUNT IN THE FUTURE.**

CLEAR TITLE

- ✓ **NECESSARY TO ASSURE THE BORROWER (OR THE LENDER) HAS A RIGHT TO SELL THE PROPERTY**
- ✓ **ALL ENCUMBRANCES MUST BE CLEARED UP OR REMOVED PRIOR TO LOAN CLOSING**
- ✓ **TITLE SEARCHES DONE BY TITLE COMPANIES AND ATTORNEYS THROUGH PUBLIC RECORDS IN THE US.**
- ✓ **MARGIN NOTES IN HUNGARY?**

Ingatlan hitelbírálati minősítése

U.S. AID
The Urban Institute
Fannie Mae

Ingatlan hitelbírálati minősítése

- Miért fontos a jó értékelés?
 - Az adósnak hasznos, hogy a hitelösszeg mellett még érvényes értékelést is kap:
 - Később új lakásba költözhet, vagy
 - Más helyre költözhet a munka, a család miatt, vagy más okokból
 - Mert:
 - Képes lesz annyi pénzért eladni, amiből kifizetheti a meglévő lakáshitelt és új lakásba költözhet.

Miért végezzünk értékbecslést - folytatás

- Haszna az adós és a hitelező számára:
 - Ha az adós pénzügyi nehézségek miatt nem tudja a törlesztéseket teljesíteni, akkor eladhatja az ingatlant és kifizetheti a kölcsönt úgy, hogy a hitel érintetlen marad (végrehajtást megelőző eszköz)
 - Ha az adós nem teljesít, akkor a hitelező az ingatlan eladása útján gondoskodhat a hitel megtérüléséről.

Piaci érték

- “A legvalószínűbb ár egy meghatározott napon, ami mellett az ingatlanra versenyt is magába foglaló, nyílt piac alakul ki tisztességes eladás során, amiben információval rendelkező vevő és eladó szerepel.”

Megbecsült, az ügyben nem érdekelt fél

- Az értékbecslő képzett, okleveles kell legyen, és ha lehetséges
- Nem lehet semmi kapcsolat az értékbecslő és a vevő vagy eladó között.
- Az értékbecslő számára nem lehet pénzügyileg előnyös se a magasabb, se az alacsonyabb érték.

A értékbecslő alkalmassága

- Aktív értékbecslési tevékenységet végez ugyanazon terület ugyanolyan típusú ingatlanaival kapcsolatban.
- Olyan értékbecslő szervezetekhez tartozik, amelyek között módszertani és információcsere zajlik.
- Ismeri a mi irányelveinket és hozzáférése van adatforrásokhoz.

Elfogadható módszerek

- Tényleges, tényszerű adatok
- A negatív tényezők leírása
- A hasonló ingatlanok megtekintése kívülről
- Megfelelő és hasonló, összehasonlítható eladások

Elfogadható módszerek folytatás

- Az adatok olyan felektől jönnek, akik nem érdekeltek az ügyben
- A módosítások a piaci értékelést tükrözik
- Nem diszkriminatív
- A következtetéseket alá lehet támasztani a rendelkezésre álló piaci adatokkal

Piaci érték

- Nagy mértékben támaszkodik az adott területen megvalósított hasonló eladásokra
- Hasonló szerkezet, méret, kor, felszereltség
- Módosítások bármely különbség miatt a különbségek piaci ára alapján (úszómedence, további szoba a családnak, stb.)

1004-es szabványos nyomtatvány

- Biztosítja, hogy minden értébecsléskor ugyanazokat a kérdéseket járják körül.
- Bármely további információt függelék formájában kell hozzátenni, ha indokolt annak érdekében, hogy az ingatlanról, a környékről és a befolyásoló tényezőkről teljes leírást lehessen adni.
- A társasházak és tervezett ingatlanfejlesztések számára a speciális 1073-as nyomtatvány létezik, amely a közös tulajdonrészekkel, a lakástulajdonosok szövetségével és más egyedi kérdésekkel foglalkozik.

Értékbecslők számára szükséges

- Jogi leírás vagy más helyzet-meghatározó dokumentum
- Bármilyen, nem szokványos pénzügyi megállapodás
- Az adásvételi szerződés
- Egyéb ismert tények, amelyek hatással lehetnek az értékre.

Új építkezés

- Az értéket meg lehet állapítani a tervek és specifikációk alapján.
- Ezen terveknek és specifikációknak megfelelően kell végrehajtani.
- Az értékbecslőnek igazolnia kell, hogy az ingatlan üres és beköltözhető.
- A kisebb, befejezetlen tételeket később ki lehet dolgozni, ha a költségeket fedező pénzt már letétbe helyezték.
- A beköltözhetőséghez szükséges lehet a kúttal és az emésztőgödörrel kapcsolatos egészségügyi igazolás, valamint a szerkezeti jóváhagyás.

Az értékbecslői jelentés áttekintése

- Az ingatlan belterületi ingatlan-e?
- A környéken levő egyéb ingatlanhoz hasonló-e?
- Milyen hosszú a marketing idő, és mi a trend a marketing időre nézve?
- Az ingatlan közvetlenül megközelíthető-e olyan utakról, amelyek a helyi normáknak megfelelnek, és közművesített-e az ingatlan?

Maximális finanszírozás

- A legmagasabb kölcsön-érték aránynak megfelelő hitelezést (legalacsonyabb önrész az adóstól) korlátozni kell azokra az ingatlanokra, amelyek olyan területen vannak, ahol az érték stabil vagy növekszik.
- A csökkenő értéket mutató piacokon nagyobb önrészt kell megkövetelni azért, hogy ha az ingatlan eladására kerül sor, akkor még mindig elegendő összeg maradjon a lakáshitel visszafizetésére.

Egyéb tényezők

- A telken kívüli fejlesztések
 - Utcák, csatornák, járdaszélek, közvilágítás, járdák
 - Ki gondoskodik a karbantartásukról?
- A telek
 - Topográfia (meredek, valószínű az erózió)
 - Csatornázás
 - Felszereltség
 - Közterületek elfoglalása (közutak)
 - Szolgálatom (közművek)

- Árvízveszély (árterületek)

Az ingatlan leírása

- Szokatlan szerkezet?
- A javítások állapota (karbantartási munka vagy szükséges felszerelések kicserélése)
- Veszélyes feltételek

Módszerek a piaci (jelzett) értékhez

- Eladások összehasonlítása (leggyakrabban alkalmazott)
- Költségmódszer
- Bevétel módszer

Eladások összehasonlítása módszer

- Feltételezzük, hogy a lakásvásárló nem fizet többet az ingatlanért, mint amennyibe egy hasonló ingatlan felépítése hasonló környéken kerülne.

Költség módszer

- A telek plusz értéke
- Költségbecslés hasonló anyagokkal általában négyzetméterenként.
- Nem gyakran alkalmazzák.

Bevétel módszer

- Ritkán alkalmazzák olyan esetben, amikor bérletbe adott ingatlanról van szó - az ingatlanból származó jövőbeli bérleti díjbevétel nettó jelenértékén alapszik.
- Még ebben az esetben is fel kell használni - ha lehetséges - hasonló ingatlanok eladását az összehasonlítás kedvéért.

Végső szempontok

- Az üzleti vagy egyéb felhasználás érdekében tett speciális módosítások veszélyeztethetik az ingatlan későbbi eladhatóságát.
- Az ingatlan túlzott felfejlesztése korlátozhatja a kelendőségét.
- A nagyon szokatlan lakásoknak is korlátozott piaca van csak.

- A lakás értékének az eredeti kölcsönösszegnél nagyobbak kell lennie, és várható, hogy az érték a jövőben is a kölcsönösszeg fölött marad.

Tiszta tulajdonjog

- Biztosítani kell az adóst (vagy a hitelezőt) afelől, hogy joga van az ingatlant eladni.
- Minden terhet tisztázni kell vagy meg kell semmisíteni a hitel odaítélése előtt.
- Az USA-ban a tulajdonjogot erre specializálódott cégek és ügyvédek ellenőrzik a nyilvános adatok alapján.
- Széljegyzetek Magyarországon?

NEW PRODUCT DEVELOPMENT

DEBBIE TWADDELL

TITLE: New Product Development

ACTIVITY: Introduction

TIME: 30 minutes

MATERIALS: Overhead Projector, overheads, flip chart paper, markers, package of 3-M post-it notes

OVERVIEW: Participants will introduce themselves and begin to feel comfortable with each other and their instructor. They will see beyond the "square" and begin to realize that they are innovative.

LEARNING OBJECTIVES:

As a result of this training, participants will be able to:

- Know the names and backgrounds of the other participants and the instructor
- Realize that creativity can be learned

ACTIVITY: Introduction

INSTRUCTIONS:

1. Welcome to the New Product Development Seminar. My name is _____ and I will be your facilitator today.

How many of you are creative? Innovative?

Well, I'm glad to see that we have a few innovative people in our seminar. By the end of the seminar I hope when I ask that same question again that all of you will raise your hands.

2. We will show you today that innovation is a discipline that can be practiced and managed by everyone in your financial institution. Innovation can be a major breakthrough - that "lightbulb going on," like these 3 M Post-it Notes, but it certainly doesn't have to be.

As you can see, I have posted flip chart paper on the walls around the room. I'd like for you to count off by 6's. (Adjust this figure by the number of participants in the group. You want to end up with 4 or 5 to each group).

Good. In a few minutes I'll have you move to your groups and begin the activity.

First, I'd like for each person to introduce him/herself to the group. Give your name, the name of your financial institution, and your position, and write this information on the first page of your flip chart. Next, I'll be

giving each group one of these (I'll purchase this later - will probably be a kitchen scrubber or a ball of some sort.)

What would you say are some words which would describe this object?

Possible Answers:

Compressible

Won't scratch pans

Doesn't with much

Easy to hold

Has pretty colors

INSTRUCTOR NOTE:

Try to get descriptions only. If participants start naming a use of the object, move onto the next question.

Good. You've described this really well. Now I'm going to put you into your groups and I'd like for you to begin your introductions. When you've finished, I'd like for the group to brainstorm new things which this object might be used for. Use your imagination and be as wild as possible.

Now will the 1's go to the flip chart paper numbered 1, 2's to 2, etc.

INSTRUCTOR NOTE:

Rotate among the groups to be certain they are off to a good start. Volunteer some uses if they need help. Allow 5 to 10 minutes for this activity and give them a two minute warning.

3. Okay. Let's start with group 5. Will each person give their name, institution, and

position. Good. Welcome to the seminar. Will one of you lead us through your new uses for this object?

Excellent! Some very innovative ideas. Now Group 4, please introduce yourselves and then one of you give us any uses you may have that are different from Group 5. (Continue through all groups).

4. You are very creative! Think of all the new products you have created today and these new products might have created new customers from different market segments. They may have also led to modifications in the product itself.

What were the conditions in your group (the environment) which led to this creativity? Or what were the behaviors in the group which made this possible.

Possible Answers:

(Write on flip chart.)

We said no idea was a bad idea.

We had fun.

We listened.

We threw caution to the wind.

Without realizing it you created a structure that encouraged creativity. We'll explore a method for doing this a little later in the course. But the important thing is that anyone can be creative. We just have to create the environment to encourage innovation.

Unfortunately, sometimes it's the changing environment that controls us and makes us

create products/services to survive. History shows us many examples of situations where difficult economic conditions create the incentive for innovation in the development of new products/services. For example, in the United States prior to the Depression, all mortgage lending was done via one year notes which might or might not be renewed.

A borrower paid interest only as they were non-amortizing loans.

As a result hundreds of thousands of borrowers lost their homes because they either couldn't afford to pay the interest or because the bank would not renew the loan.

As a result, following the Depression, the Federal Housing Administration (FHA) introduced a new product, the first amortizing loan where you repaid principal as well as interest. They were also innovative in allowing much less than one third of the value of a house as a down payment.

As a result of the oil crisis in the 70's, another innovative product, the variable rate mortgage was introduced. With rapidly rising inflation, lenders were unable to give borrowers fixed interest rates and maintain them in their portfolios. The new product allowed lenders to remain competitive and solvent.

Both of these new products allowed home ownership to become a reality for Americans. Our financial institutions substantially increased their volume of conventional mortgage lending.

TRANSITION:

**You're experiencing similar changes today
and you all have the potential to be
innovative in new product development.
Let's talk a little now about why new
products are important to your financial
institution.**

TITLE: New Product Development

ACTIVITY: Why are New Products Important?

TIME: 30 minutes

MATERIALS: Overhead projector, overheads, flip chart

OVERVIEW: This activity will help participants self-discover the importance of product development in a market-driven economy. They will see why many new products fail in the marketplace and understand the importance of customer feedback.

LEARNING OBJECTIVES:

As a result of this training, participants will be able to:

- Recognize the importance of new product development
- Identify the reasons why many products fail
- Understand the importance of customer knowledge

ACTIVITY: Why Are New Products Important?

INSTRUCTIONS:

1. The need for new products varies in intensity from one organization to another; from one industry to another. All aspects of the financial institution industry are undergoing change, whether the institution is in the U.S. or in Hungary. The rapid changes which are occurring today on a global basis are phenomenal.

What are some recent changes in Hungary which have affected your industry?

Possible Answers:

(Write them on the flip chart.)

Privatization of Industry

Subsidy reductions

Competition

Technology

Lack of affordable housing

Inflation vs. Interest rates

Import quotas on EU goods will be lifted

Cell phones

Faxes

So, all these changes means that Hungary is making the transition to a market-driven economy. This means changes in the approach many businesses will have to the introduction of new products. And, the first company which introduces a product is at a great advantage because the product becomes associated with them even though their competition may also copy the product.

Julie - can you get me an Hungarian product to illustrate this? Like our Kleenex or Xerox?

2. As you know, in a "planned economic system," government planners decide what and how much is to be produced and distributed by whom, when, and to whom. Producers meet their assigned production quotas and prices are set by government planners and tend to be very rigid - not changing according to supply and demand. Consumers usually have some freedom of choice, but the assortment of goods and services may be quite limited.

In a "market-directed economic system," customers make society's production decisions when they make their choice in the marketplace. They decide what is to be produced and by whom - through their forint "votes." Prices in the marketplace are a rough measure of how society values particular goods and services. If consumers are willing to pay the market price, then apparently they feel they are getting at least their money's worth and businesses thrive. This results in a balance of supply and demand.

The ending of communism in Hungary offers an unprecedented opportunity to establish new financial products/services and systems. People in this industry today have an opportunity to really leave a mark on the Hungarian financial infrastructure. You can help create it. It's an exciting opportunity.

3. So, your financial institutions will need to take a proactive approach to the development

of new products. They will be needed to ensure sales growth projections. New products in the housing finance area can not only benefit you but will also give impetus to the construction industry, the furniture industry, the kitchen and bathroom manufacturers. You can facilitate growth in the economy.

New products/services will help you maintain fiscal responsibilities, and to keep your organization competitive. If you don't create them, someone else will. Maybe that lady sitting next to you. And again remember if you're the first to market your institution will become associated with that product. The development of new products/services will help your institution to spread the marketing risk ("not put all your eggs in one basket." By appealing to different markets with diverse products you can minimize losses should one industry experience difficulties.

New products can help you keep up with societal changes like you're experiencing today. We've talked earlier about some of those changes and the impact they have on your customers' needs.

And, finally new products/services can help you capitalize on technical advances. For example some financial institutions in the states have automated mortgage applications machines located in shopping malls. Borrowers can apply for a mortgage loan and receive an instantaneous approval.

But, even more important, new products and

services create excitement, build commitment among employees, and make your financial institution a more exciting place to work. Yours will be on the cutting edge. You'll be able to create momentum among your employees and they will rise to the challenge. There's nothing like success to build confidence.

New products enable us to strengthen our relationships with present customers and to build relationships with new customers. The image of you and your institution will be enhanced. They also build more profits on existing products and services by the cross-selling effect. New products and services also provide us with an opportunity which allows our institution to restate our message to our customers, and finally in a competitive market driven economy, they are essential to avoid decline and to foster continued growth.

In a rapidly developing economy, especially in finance because finance is changing so much globally, banks must grow and keep up with market developments. We can't afford to be stagnant and complacent.

4. But, what is a new product or service?
We talked briefly in the introductions about a "Breakthrough" product - that very first Polaroid camera, the very first personal computer, the very first fax machine or videocassette recorder.

But not all new products or services are "breakthroughs." Here are four others:

1. New for Us - You may decide to design,

make, and market for the first time a product which is already on the market. Maybe one that is already on the market in England, Switzerland or the U.S. You've recently seen the introduction of the Deferred Payment Mortgage and the Adjustable Rate Mortgages, can you think of other examples?

2. New- Improved, Next-Generation Product This may be a product which you currently have, but to which you have added a new value, a new feature or an improvement. For example, it might be a passbook savings account which can now be accessed by a Cash Machine. Can you think of other examples?

3. Extending a present product - This might involve upgrading or downgrading a present product or service. (Need an example) Can you think of other examples?

4. The fourth option is to repackage, reposition or recycle your product or service. Have marketing redesign your brochure, or think about the "object" we developed new markets for in the introductions, or reconsider a product you used to sell and see if it has usefulness today. You might repackage an ARM and market it to Women. Can you think of other examples?

But, we know from past experiences in the U.S. that many new products and service introductions fail in the marketplace. There can be many reasons for these failures: perhaps there are organizational constraints, inadequate financial resources, management modifications to the product. But most experts in the field will tell you the most common reason is the marketing executive's acceptance of research findings which don't

identify the real wants, desires, or needs of your targeted customers.

While technology has provided new marketing opportunities, we still have not developed an adequate process for identifying customer's true needs. And we offer them products promising benefits to solve needs they don't have!

5. Your success rate can be improved by using appropriate qualitative research, by developing products whose features and benefits meet customer needs, by identifying emerging trends and needs, and by using a proven development process.

Let's look first at understanding your customer needs

6. The fax machine was invented and developed in the United States. Yet today, none of the fax machines marketed in the U.S. are American made. Why?

Because the U.S. companies that developed the fax machine convinced themselves that there was no market for their new product. Their research failed to correctly measure potential customer interest.

They asked people if they would be interested in buying a device that would cost over \$1500 and would send a letter at a cost of over \$1.00 a page (compared to the 25 cents that the post office was charging at the time).

What would you have answered?

You are absolutely right. "NO!" is the answer they got. What should they have asked? Right, if they had asked if their customers had a need for immediate delivery of their letters, they would have gotten a different answer.

The Japanese were concerned with the needs of the marketplace. When they asked if people had a need for the instant delivery of some of their letters, the answer was "Yes." And, of course, the results speak for themselves.

6. You must learn as much as possible about your customers and your market if you are going to be successful in developing new products. The benefit of staying one step ahead of your customer in anticipating needs is that you will be the first to market with your new product or service.

In order to do that you need to know:

- Market trends
- Your customers' needs for new products or services
- Attitudes toward your products and your company
- Traits of your customers
- Problems or concerns of your customers
- Competitive information

Marketplace Trends: You need to develop an understanding of those changing environmental factors that are likely to influence your customers and your products.

Changing life-styles, attitudes, population shifts, and social trends all influence the needs and wants of your customers. And, as

we discussed earlier, marketplace trends in Hungary are changing rapidly.

The next four items all concern your customers, their needs, attitudes, traits, problems or concerns. How do we find these things out?

Possible Answers:

Surveys

Questionnaires

Interviews

Focus Groups

Key Customer Meetings

These are excellent answers. If you haven't taken the Marketing Research Seminar yet, I would suggest that you attend.

The final item concerns your competition. Why is it important to have competitive information?

Possible Answers:

They may know even more about the marketplace than you do.

You can learn from them.

TRANSITION:

Do you have your creative "hats" on? Remember, you can be creative if you believe you are creative. We're going to give you a chance to try using creativity with some of the products you are presently marketing.

TITLE: New Product Development

ACTIVITY: Modifying Current Products

TIME: 60 minutes

MATERIALS: Overhead Projector, Overheads, Flipcharts, Flipchart paper for each group, Magic Markers

OVERVIEW: Participants will use a system for generating ideas for new product development by modifying present products.

LEARNING OBJECTIVES:

As a result of this training, participants will be able to:

- Brainstorm a list of present products in the financial services industry
- Utilize a nine step process for generating new products by modifying present products

ACTIVITY: Modifying Present Products

INSTRUCTIONS:

1. What are some of your current products which your institutions are marketing?

Julie - I may have already asked you for this list. It would be worthwhile for me to find out ahead of time.

2. If you had a bag filled with thousands of yellow wooden toothpicks and just one red toothpick in the bag, the odds of anyone picking out that red toothpick would be very low. If you kept adding red toothpicks, the chances of picking out a red toothpick would keep increasing.

Generating alternative ideas is as solid and positive a procedure as putting more red toothpicks into the bag. You still may not get a red toothpick, but it never hurts to increase your odds. There is nothing to lose when you generate alternatives, and everything to gain.

3. Several things happen when you search out alternative ways:
 1. One of the alternative ideas may be a great idea for a new product.
 2. An alternative idea may help you redesign your product.
 3. The alternative might prove to be a better starting point for a new product.
 4. One alternative might be a breakthrough idea that has nothing to do with the product at hand. When that

happens, when you get this kind of breakthrough, you want to stand up and cheer! Alexander Graham Bell found his breakthrough while he was trying to invent a hearing aid; he invented the telephone instead. Ray Kroc, the founder of McDonald's, was trying to develop a market for his Multimixers when he discovered "fast food."

Note to Julie:

Do you think we could come up with some Hungarian breakthroughs?

5. You may generate a number of alternatives and then return to your original product. Compiling numerous alternative ideas in no way prevents you from using the most obvious approach, but it makes the decision to use it much more meaningful. Instead of being chosen because it seems the only option, it is chosen after it becomes apparent that it is the *best* one.
4. How many different answers can you think of to the question:

What is half of thirteen?"

The obvious answer is six and a half. However, see how many other possible answers you can come up with.

Answers:

1. Halving the *numeral* 13 gives you 1 and $3 \frac{1}{3}$
2. Halving the *word* "thirteen" gives you 4 letters on each side.
3. Converting 13 into Roman numerals and

- halving it one way gives you 11 and 2
(XI/II)
4. Halving it a different way gives you 8
(XIII)
 5. Halving the *numeral* 13 gives you six and
a half.

Alternatives force you to overcome your old patterns of thinking. They give us new paradigms.

5. Here is a ten step checklist of idea generating questions.
 1. Substitute?
 2. Combine?
 3. Adapt?
 4. Modify?
 5. Magnify?
 6. Put to other uses?
 7. Eliminate
 8. Minimize?
 9. Reverse?
 10. Rearrange?

I'd like to divide you into four groups and I like for each group to select one of the products which your institutions are currently selling. The instructions for using this checklist are simple. First you isolate the product you want to think about. And, second, you ask each of these questions about each of the features of your product. You will have 30 minutes to complete this exercise.

Which group would like this product?
(Assign products)

6. Group 1, will you share your ideas?
(Debrief all groups)

What did you think of the process?
Did you enjoy the process?
Would you use it again?

TRANSITION:

In new product development the most important task is to turn our product's features into benefits which will answer the needs of our customers. However, most good ideas never turn into new products/services for our customers. Why? Because developing the idea into a product/service is a difficult task. Finding the management support and resources, both people and financial, can be a challenge.

TITLE: New Product Development

ACTIVITY: How to Develop New Products

TIME: 60 minutes

MATERIALS: Overhead Projector, Overheads, Flip charts

OVERVIEW: Participants will learn a process for new product development, beginning with idea generation and moving through the rollout of the product. They will then discuss the benefits of measuring the success of a new product/service.

LEARNING OBJECTIVES:

As a result of this training, participants will be able to:

- Write a brief project proposal
- Assess the opportunity of a new product/service
- Develop a business plan
- Create a detailed design document
- Build the product/service and launch it
- Measure the success of a new product/service
- Utilize an innovation process for the generation of ideas

**ACTIVITY: How to Develop New
Products/Services**

INSTRUCTIONS:

1. Ideas are a “dime a dozen.” unless they can be implemented. And implementation takes commitment. . . commitment from top management, commitment from the New Product Development team, commitment from the Leader of the team. It takes knowing that you have the resources - both people and forints -to get the job done and allocating those resources in a way that get you the best possible result for your investment. So, let’s look at some steps which are necessary for implementing an idea into a new product or service.
2. We’d like to propose a process which will increase your effectiveness and efficiency in launching new products/services. Without a process, ideas are just concepts with no substance and frequently never materialize.

Let’s look at a six step process for developing new products/services:

1. Project Proposal
 2. Opportunity Assessment
 3. Business Plan
 4. Design Document
 5. Build and Launch
 6. Measure Success
3. At the conclusion of each of these steps, a team should review the report and quickly provide a decision as to whether or not the

proposed idea should proceed to the next step in the process. This team should be composed of the appropriate senior managers, the financial officer and the marketing officer. They should have the power to decide if the project has merit and to allocate resources - both people and forints - to proceed to the next phase.

4. Let's look at each of these steps in more detail.

Step 1 - Project Proposal

The project proposal should be very brief and describe the goal and the intent of the product/service. A description of the potential product/service should be included and the implications for the customer should be emphasized. At this stage no effort should be made to give further information such as risk issues or systems requirements. The purpose of the proposal is to obtain the resources required to study the opportunity further.

Step 2 - Opportunity Assessment

Is there a customer need for the product/service? How would it fit into the banking industry, and the marketplace? What will the product/service look like? What are the financial opportunities and does this product/service fit into the overall corporate strategy? What are the key issues and what would be the next steps in the development of this product? What are the estimated resources needed for the development? The purpose of the opportunity assessment is for the senior team to determine if a budget and the appropriate

people should be provided for the creation of a business plan.

Step 3 - Business Plan

The business plan would explore all aspects of developing the product/service. This plan would include:

- Market assessment
- Product description
- Financial opportunities
- Customer impact
- Corporate strategy
- Legal impact
- Technology impact
- Operational impact
- Risk management assessment
- Marketing strategy
- Team members
- Development and implementation impact
- Project resource requirements

The senior management team would then have the necessary information to determine if a team and a budget should be allocated to develop the product/service.

Step 4 - Design Document

This document would build and expand upon the information contained in the business plan. In addition to the topics covered in the business plan, it would expand on the product description, including final pricing and the mechanics of the product/service. The financial opportunities would include profitability projections and updated financial analysis. Under operational impact, product/service management and quality control issues should be considered. A detailed product roll-out plan should be included and if additional resources are

required they should be spelled out. Guidelines should be developed so that the product team will know when and if they have exceeded their boundaries.

What are some boundaries which might be included for the project launch team?

Possible answers:

Plus/Minus 10% of budget

Plus/Minus 2 additional team members

A delay in launching schedule of more than two or three months.

The senior management team when reviewing this design document should decide whether the new product/service is a "Go" or "No Go" and provide all necessary resources for proceeding.

Step 5 - Build and Launch

This step is the implementation of the design document. The product/service team will complete all components to bring the product/service to market. If they exceed their boundaries, the senior management team will then review the progress and determine if the team should proceed.

It might be worthwhile to then test the product/service in a pilot program with a representative customer base prior to launching it throughout the market. This allows an opportunity to modify, add to, or even to eliminate.

6. The final step is the measurement of the success of the product/service.

What are some ways we measure a product's success?

Possible answers:

Sales

Complaints/Satisfaction of customers

5. How do you feel about this process?

Research has shown that the process will ensure that product/service development teams won't waste time or effort by doing too much analysis in the beginning of the process and that it helps teams conduct quality analysis at the proper time. In addition, the senior management team allows the product development team to receive timely decisions and to get senior management feedback.

This process will allow you to quickly dispense with ideas that don't have merit and to promote innovative ideas for new products/services.

6. How many of you are creative/innovative people?

I'm delighted that so many more of you now feel you have creative abilities. I'd like to have you demonstrate your creativity.

In a few minutes I'd like for you to return to your original groups and to brainstorm ideas for new product/services for your customers. Be as wild as you want to be and remember no idea is bad. You should not try to evaluate the usefulness of an idea - just let your imaginations run wild. I will give you

additional flip chart paper if you need it.
You will have ten minutes for this activity.
Please begin.

INSTRUCTOR NOTE:

Go around the room and observe the groups.
If someone tries to evaluate an idea, remind them that there are no "bad" ideas and we don't want to decide whether or not to begin product development. We're just trying to generate the most ideas we can.

7. Okay, time's up. Let's hear from Group 1.
What creative ideas did you have for new products/services for your customers?
Group 2, do you have any additional products/services? Group 3? Group 4?

You have certainly been creative and have many great ideas for the development of new products/services.

Having an abundance of ideas for new products/services may seem like a great resource, but few of us have the resources needed to pursue them. That's why this innovation process is so helpful. It can help us sort through all these creative ideas and pursue those which will best address the needs of our customers and help us continue to be successful in our industry.

8. I'd like for each of you to tell me one thing you will take back with you and use in the development of new products for your institution.

Good. I'm glad you found today's session useful. I would appreciate your open and

honest feedback in completing this seminar evaluation. Please keep in mind that I cannot improve or change my seminar without feedback. I would appreciate your written comments and any specific examples you might have.

Üdvözöljük az
Új Termék Fejlesztése
tanfolyamon

Oktató:

Debbie Twadell

Az innováció tudományág

Nagy áttörést jelenthet,
de nem feltétlenül kell annak lennie!

Csoport foglalkozás

- Bemutatkozások: név, pénzintézet, beosztás - helyezzük a táblára
- Ötletbörze a lábos súroló új felhasználási módjairól
- Legyünk kreatívak!
- Ne kérdőjelezzük meg az ötletek értékét!
- Valaki jegyezze fel mindegyik ötletet a táblára.
- Jó szórakozást!

Kreativitás

Milyen feltételek voltak jelen a csoportjokban, ami kreativitáshoz vezetett?

Új termékek

Miért fontosak?

Szituációk, amelyekben a nehéz gazdasági feltételek innovációra ösztönöznek

- Recesszió az USA-ban - létrejött az első törlesztéses kölcsön
- Olajválság - létrejött az első változó kamatozású kölcsön

Magyarország

Milyen változások történtek a közelmúltban, amelyek a lakásfinanszírozást érintették?

Átállás piaci alapú gazdaságra

- Tervutasításos rendszer - a kormány tervező szakemberei eldöntik, hogy mit és mennyit kell termelni és elosztani, ki állítsa elő, mikor és kinek.
- Piaci alapú gazdaság - a vásárlók hozzák meg a társadalom termeléssel kapcsolatos döntéseit akkor, amikor kiválasztják, hogy mit vesznek meg a piaci árukínálatból.

Új termék fejlesztése

Legyünk kezdeményezők

Új termékek

- Biztosítsuk az eladások növekedését
- Biztosítsuk az eladások növekedését a kapcsolódó gazdasági ágakban - ezzel elősegítjük a gazdasági növekedést
- Tartsuk fenn a bank versenyképességét
- Osszuk el a marketingkockázatot
- Tartsunk lépést a változásokkal
- Segítsük kihasználni a technikai előrehaladást

Új termékek

- Hozzunk létre érdeklődést
- Építsünk ki elkötelezettséget a dolgozóinkban
- Tegyük a bankot érdekes munkahellyé
- Hozzunk létre lendületet
- Erősítsük a dolgozók önbizalmát

Új termékek

- Erősítsük az ügyfélkapcsolatokat - a meglévő és új ügyfeleknél egyaránt
- Jobb képet alkotunk önmagunkról és bankunkról
- A meglévő termékek/szolgáltatások nyereségét is növeljük
- Ismételjük meg másképpen mondanivalónkat az ügyfeleknek

- Alapvető, hogy a pályázat elnyerése elősegítsük a folyamatos növekedést

Mi képez új terméket?

- Számunkra új - olyan terméket a tervezünk meg, készítünk el és értékesítünk, amely a piacon már megtalálható
- Új-javított, újabb generációs termék - lehet egy olyan meglévő termék, amelyet valami új jellegzetességgel egészítettünk ki

Mi képez új terméket?

- Meglévő termék szélesebb alkalmazása - magában foglalhatja egy meglévő termék új jellegzetességgel való kiegészítését, vagy meglévő termék egy-egy jellegzetességének megszüntetését
- Meglévő termék átalakítása - a termék vagy szolgáltatás áthelyezése vagy újrafelhasználása
- Áttörés - olyan termék létrehozása, amelyik nem kapható még a piacon

Sok új termék sikertelen

- Szervezeti korlátok
- Nem megfelelő pénzügyi források vagy emberi erőforrások
- A vezetőség módosítja a terméket
- A megcélzott ügyfélkör igényeinek, kívánságainak vagy szükségleteinek nem kielégítő meghatározása

A sikeresen bevezetett új termékek arányának javítása

- Végezzünk megfelelő minőségi kutatásokat
- Dolgozzunk ki olyan termékeket, amelyek az ügyféligényeket kielégítő jellemzőkkel és hatással rendelkeznek
- Határozzuk meg a kialakulóban levő trendeket és szükségleteket
- Már bevált fejlesztési folyamatot kövessünk

A fax berendezés feltalálása

- Az USA-ban találták fel és fejlesztették ki
- Ma egyáltalán nem gyártanak fax berendezést az USA-ban
- A fax berendezésnek nincsen piaca - mi értelme lenne kifizetni 1500 dollárt és egy levelet elküldeni 1 dollár költség mellett?
- Japán - felmérést végzett a piacon, hogy van-e szükség levelek azonnali továbbítására

Ügyféligenyvek

- Piaci trendek
- Ügyféligenyvek új termékek, szolgáltatások iránt
- Az ügyfelek hozzáállása a cégük és annak termékei iránt
- Ügyfeleik sajátosságai
- Ügyfelek problémái, aggályai
- Versenyképes információ

Hogyan határozhatjuk meg az
ügyféligenyeket?

Miért fontos versenyképes
információval rendelkezni?

Milyen termékeket, szolgáltatásokat értékesítenek jelenleg?

Alternatív módszerek

- Egyik alternatíva lehet egy ragyogó új termék ötlete
- Egy alternatív ötlet segíthet a termékük áttervezésében
- Egy alternatíva jó kiinduló pontként szolgálhat egy másik termékhez
- Az egyik alternatíva áttörő ötletnek bizonyulhat

Áttörő ötletek

- Alexander Graham Bell - a telefon
- Ray Kroc - gyorsétkeztetési iparág

Mi tizenháromnak a fele?

24%

Tizenhárom fele

- A 13-as *számjegy* fele 1-et és 3-at eredményez
- A “tizenhárom”, mint *szó* öt betűt eredményez mindkét oldalon
- A *római szám* 11-et és 2-t eredményez
- A *római szám* 8-at eredményez
- A 13-as *szám* hat és felet eredményez

Tíz lépésből álló módszer új termék-alternatívák kidolgozására

1. Helyettesítés?
2. Kombinálás?
3. Adaptálás?
4. Módosítás?
5. Nagyítás?

Tíz lépésből álló módszer új termék alternatívák kidolgozására

6. Más alkalmazás?

7. Megszüntetés?

8. Minimalizálás?

9. Megfordítás?

10. Átrendezés?

Csoport foglalkozás

- Válasszák ki az egyik terméket, amelyet jelenleg értékesítenek?
- Határozzák meg, hogy a terméknek önmagában nézve milyen jellegzetességei vannak?
- Tegyék fel mind a tíz kérdést mindegyik termékjellemezővel kapcsolatban

Új termék fejlesztése

- A felső vezetés elkötelezettségének megszerzése
- A fejlesztési csoport elkötelezettségének megszerzése
- A csoportvezető elkötelezettségének megszerzése
- Az erőforrások - emberek és pénz - rendelkezésre bocsátása

Hat lépésből álló módszer új termék fejlesztésére

1. Projekt javaslat
2. Lehetőségek felmérése
3. Üzleti terv
4. Tervdokumentáció
5. Felépítés és elindítás
6. Siker mérése

Áttekintés a fejlesztési csoport részéről minden egyes lépés után

Projekt javaslat

- Tömör
- Cél vagy szándék leírása
- A termék, szolgáltatás leírása
- Ügyfélre vonatkozó kihatások
- Ne tartalmazza a kockázati tényezőket vagy a rendszerkövetelményeket

Lehetőségek felmérése

- Van-e ügyféligeny?
- Hogyan illeszkedik bele az üzletágba és a piaci körülményekbe?
- Hogyan néz ki?
- Mik a pénzügyi lehetőségek? Illeszkedik-e az átfogó vállalati stratégiához?
- Melyek a kulcsfontosságú kérdések?

Lehetőségek felmérése

- Becslés szerint mekkora erőforrásra lesz szükség?
- A vezetőknek kell eldöntenie, hogy rendelkezésre bocsát-e költségvetést és embereket?

Üzleti terv

- Piac felmérése
- Termék leírása
- Pénzügyi lehetőségek
- Kihatás ügyfélkörre
- Vállalati stratégia
- Jogi következmények
- Technológiai következmények

Üzleti terv

- Üzemviteli hatások
- Kockázatkezelési becslések
- Marketing stratégia
- A team tagjai
- A fejlesztés és alkalmazás hatásai
- A projekt erőforrás-követelményei

Tervdokumentáció

- Az üzleti tervre építsünk, és azt fejlesszük tovább
- A termékleírást fejlesszük tovább
- Végső árazás
- A termék, szolgáltatás mechanikája
- Nyereségességi előrejelzések
- Aktualizált pénzügyi elemzés
- Termék, szolgáltatás kezelése

Tervdokumentáció

- Minőségellenőrzési kérdések
- Részletes termékterítési terv
- További erőforrások
- Korlátokra kidolgozott irányelvek

Mik azok a korlátok, amelyeket ki lehet dolgozni a projekt indítási csoport számára?

Kiépítés és elindítás

- A tervdokumentáció végrehajtása
- A projekt team minden elemet végrehajt ahhoz, hogy a termék, szolgáltatás a piacra vihető legyen
- Piac tesztelése

Milyen módon mérhetjük egy
termék sikerességét?

Ötletbörze keretében vessünk fel ötleteket új termékekre vagy szolgáltatásokra

- A lehető legvadabb ötletekkel álljunk elő
- Nem létezik rossz ötlet - ezt ne felejtsük el
- Ne értékeljük az ötleteket hasznosság szempontjából
- Engedjük el a fantáziánkat!

Van-e olyan dolog, amit ma tanult,
és hasznos lesz majd a munkájában?

Köszönöm! Jó szórakozást a
kreativitáshoz!



List of Banks Invited:

ABN AMRO
AEB Bank
Bank Austria – Creditanstalt
BNP – Dresdner Bank
Budapest Bank
CIB Bank
Citibank
Commerzbank
Corvinbank
Daewoo Bank
Deutsche Bank
Europe Commercial Bank
Land and Mortgage Bank
Hanwa Bank Hungary
Hypo Bank
IC Bank
ING Bank
Inter Europa Bank
K & H Bank
Konzum Bank
Hungarian National Bank
Hungarian Volksbank
Merkantil Bank
MezoBank
MK Bank
OTP
Penzintezeti Kozpont Bank (can't translate this one)
Polgari Bank
Posta Bank
Raiffeisen Unic Bank
Real Bank
Takarek Bank
Several Savings Coops
WestLB
AB Aegon
Hungarian Bankers Association

There also are a bunch of government agencies (including some American banks) and all sorts of other housing related organizations

**EXECUTIVE COURSE: STRATEGIC ISSUES FOR HUNGARIAN HOUSING
FINANCE PART I**

JULIE LAZAR

Strategic Issues in Hungarian Housing Finance: Executive Course
One-Day Course

Course Topics: (Elements of this course are drawn from the other course offerings, and are used to highlight underlying industry and strategic direction decisions made at the senior management level.)

- A. The Market Need for Hungarian Homebuyer Customer Service**
- B. New Product Development/ US Mortgage Product Survey**
- C. Institutional Marketing Strategies, Product Marketing Plans & Market Research**

(Break for Lunch)

- D. Servicing/ Economies of Scale: The US Servicing Phenomenon, Additional Functions of the US Servicer**
- E. Risk Management: Underwriting Challenges: Borrower Credit Information and Property Appraisals/Titles**
Delinquency and Foreclosure Prevention: Collection Practices and Loan Workouts
- F. Securitization of Mortgage Assets by Banks**
- G. A Hungarian Secondary Market?**

THE FUNDAMENTALS OF SERVICING

JOAN WILSON

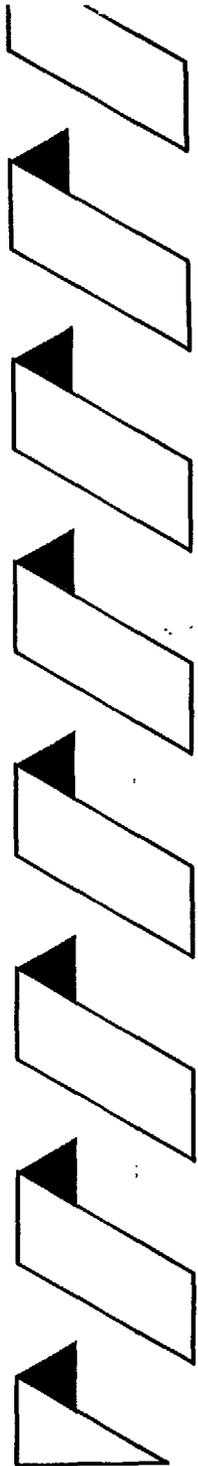
THE FUNDAMENTALS OF SERVICING

✿ URBAN INSTITUTE PRESENTATION

✿ By: B. Joan Wilson

✿ November 10, 1998

✿ Budapest



Servicing Advantages

- ❁ Stabilizes income flows
- ❁ Provides cross selling opportunities
- ❁ Captures additional fee income
 - ❁ late fees
 - ❁ amortization schedules, modification fees,
 - ❁ escrow funds interest
 - ❁ principal and interest & prepayment “float”
- ❁ Facilitates enhanced customer service

Servicing Trends in the U.S.

- ❁ Large servicer consolidators
- ❁ Servicing value - multiples of the annual servicing fee
- ❁ Automated Servicing Bureaus
- ❁ Sophisticated telecommunications systems
- ❁ Risk Profiler to focus collection efforts

SERVICING TRENDS CONTINUED

- ❁ **Consolidations in the servicing industry**
 - ❁ **Very large servicers**
 - ❁ **Small (Niche Product) servicers**
 - ❁ **Few medium size servicers**

SERVICING VALUE

- ❁ Price is a multiple of the annual fee:
 - ❁ annual fee .25% multiple = 5 times
 - ❁ servicing value = 1.25% of the loan amount
 - ❁ billion dollars of servicing = \$12.5 million
- ❁ Value fluctuates with perception of prepayments

Servicing Value Continued

- ❁ **Losses on origination of loans (due to competitive factors) can be offset by selling servicing**
- ❁ **Lenders compete for market share by offering housing loans below market interest rates knowing they can sell the servicing to offset the loss.**

ORIGINATION EXAMPLE

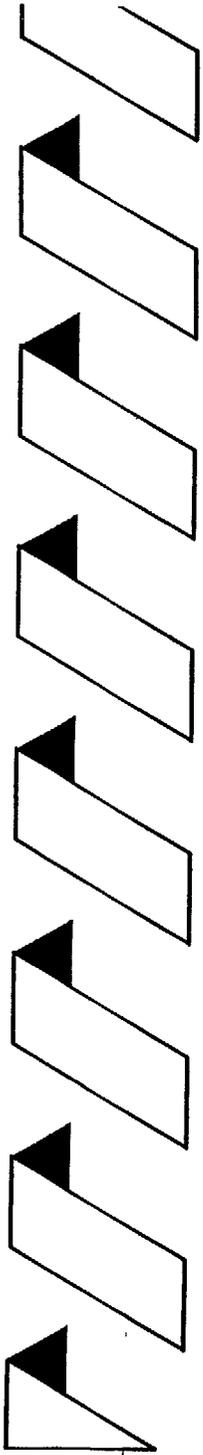
- ❖ Secondary market rate for 30 year fixed rate loan = 7.0%
- ❖ "Street" (competition's) rate = 6.875%
- ❖ Secondary market price at 6.875% = 99.25% of loan amount
- ❖ Servicing value = 1.25%
- ❖ On a \$200,000 loan the purchase price is: \$198,500 or \$1,500 loss
- ❖ By selling the servicing at 1.25% \$200,000 = \$2,500, a net gain of \$1,000 is realized
- ❖ Other costs of origination (appraisal, closing attorney, taxes) are paid by the borrower or seller of the property.
- ❖ The lender collects origination fees of approximately 1% to offset processing and administrative fees incurred.

SERVICING BUREAUS

- ❁ **Expensive hardware**
- ❁ **Software upgrades**
 - ❁ **new products**
 - ❁ **new requirement**
 - ❁ **year 2000 issues**
- ❁ **Process payments**
- ❁ **Makes escrow disbursements**
- ❁ **Refers special cases**

RISK PROFILER

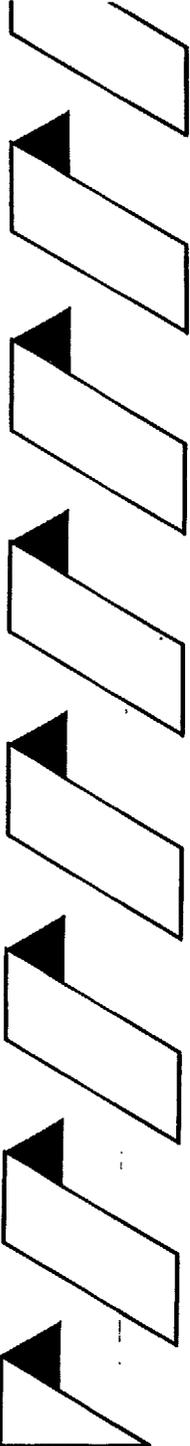
- ❁ Risk Profiler helps companies focus collections activities on borrowers deemed “high risk”



What is Risk Profiler?

- ❁ **A model that predicts the likelihood of an existing loan entering foreclosure or REO within two years**
- ❁ **In combination with Fannie Mae's revised work rules, it saves servicer time and money in collections and loss mitigation and reduces Fannie Mae's credit losses.**
- ❁ **Targets loans for loss mitigation, enabling borrowers to keep their homes, thereby reducing credit losses.**

How Risk Profiler Works



- ✿ **Credit Elements from the Repositories include:**

- ✿ **Payment History**

- ✿ **Credit Utilization**

- ✿ **Estimated Current Market Equity**

- ✿ **Loan Characteristics**

Risk Profiler - Sample Performance

% of Bads

100

80

60

40

20

0

High Risk

Low Risk

**Risk Profiler allows a servicer
to look at a subset of its loans
to identify most of the potential REO**

25

50

75

100

% of Total Volume

Risk Profiler: Pilot Goals

- ✿ **Test model's ability to target high risk loans**
 - ✿ **7 Servicers**
 - ✿ **300,000 Loans**

- ✿ **Test revised work rules**
 - ✿ **Control and Treatment Groups**
 - ✿ **High Risks: Call Earlier, 3rd Day**
 - ✿ **Low Risks: Call Later, 50th Day**

Risk Profiler Results

Status of Payments

		<u>15th of Month</u>	<u>End of Month</u>	<u>End of 2nd Month</u>
High Risk:				
Loans Outstanding	12,574			
Loans Delinquent	4,946	292	38	
Percent Delinquent	39.34%	2.32%	0.30%	
Low Risk:				
Loans Outstanding	54,430			
Loans Delinquent	11,222	246	18	
Percent Delinquent	20.62%	0.45%	0.03%	

Risk Profiler Results

**Treatment
Group**

**Control
Group**

High Risk:

Loans Outstanding

12,489

12,548

Loans Delinquent

292

426

Percent Delinquent

2.34%

3.39%

Low Risk:

Loans Outstanding

43,583

43,823

Loans Delinquent

161

162

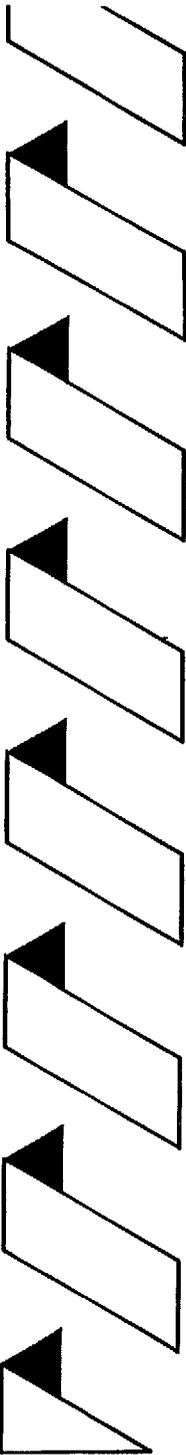
Percent Delinquent

0.37%

0.37%

Risk Profiler: Business Forum

August 12, 1997



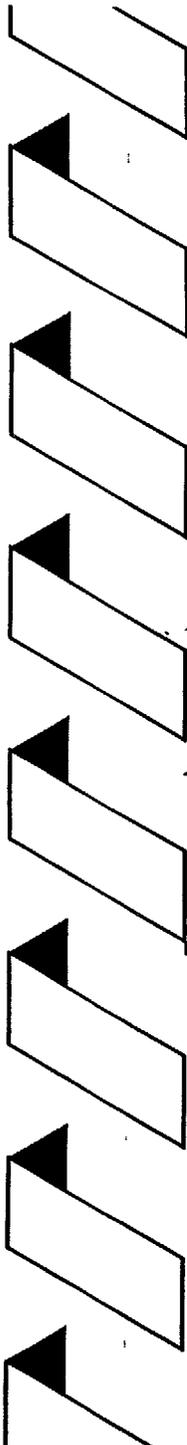
* Purpose: Develop Industry-Based Work Rules

* 15 Servicers

* 2 Service Bureaus

* Trans Union

New Work Rules



	1997 Work Rules	High Risk Loan	Low Risk Loan
Initial Call	17th-20th Day,	17th-20th Day	40th Day
Acceleration Letter	62nd Day	35th Day	62nd Day
Solicitation Letter	Not required	By the 50th Day of delinquency	
Property Inspection	60th Day	By the 75th Day if borrower contact not good (every 30 days thereafter)	

Risk Profiler Results

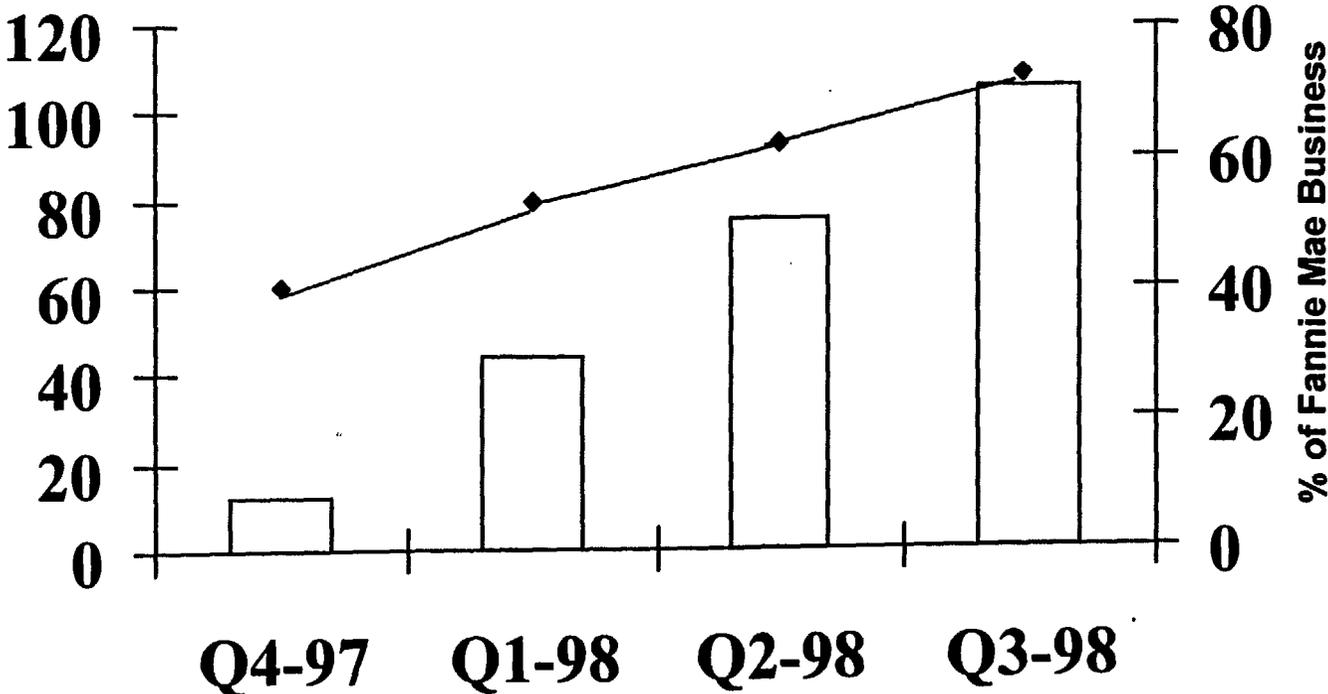
Scored at 9/97, Status at 8/98

Total Loans Scored = 3 Million

	<u>% of Loans</u>	<u>90+*</u>	<u>FcI/REO</u>
High Risk	13%	2.31%	2.98%
Low Risk	87%	0.22%	0.22%
		10.5X	13.5X

* Includes Relief and Bankruptcy

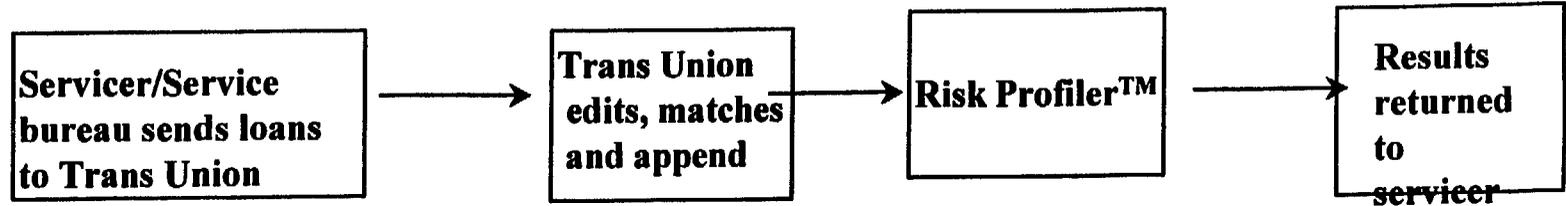
Risk Profiler Usage



of Servicers
 ◆ % Fannie Mae Loans

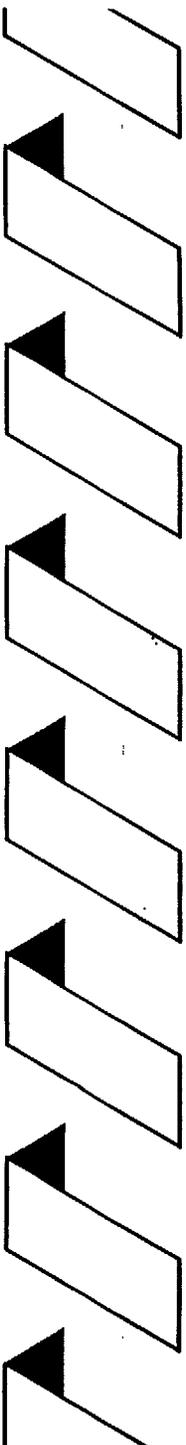
APP

Risk Profiler Processing Overview

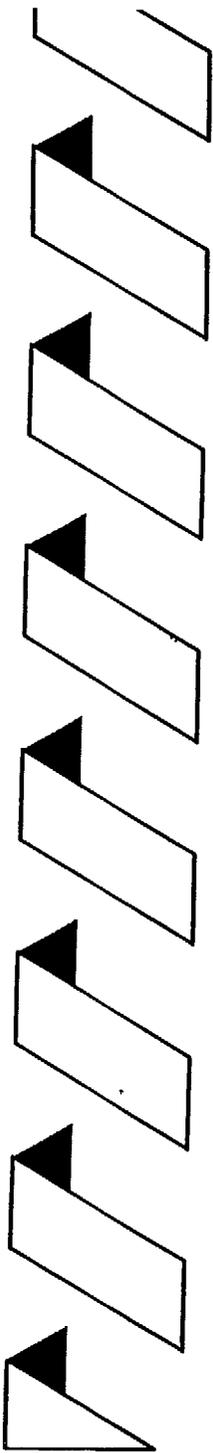


- * **Fannie Mae will absorb the cost for Fannie Mae loans**
- * **Nominal charge for non-Fannie Mae loans**

Benefits

- 
- ❁ **Servicers will target higher risk loans for concentrated workout efforts.**
 - ❁ **Servicers can help more borrowers facing economic difficulties restructure their mortgage debt and stay in their homes.**
 - ❁ **Servicers will be able to reduce time and staff spent on servicing low risk loans. Servicers are reporting a 25-50% reduction in outbound calls and a 30% reduction in inbound calls.**
 - ❁ **Servicers will keep more loans on the books yielding higher retained servicing fees.**
 - ❁ **Credit losses are reduced**

Delinquency Pattern



❁ 100 Borrowers Miss First Payment

❁ 11 Miss Second

❁ 4 Miss Third

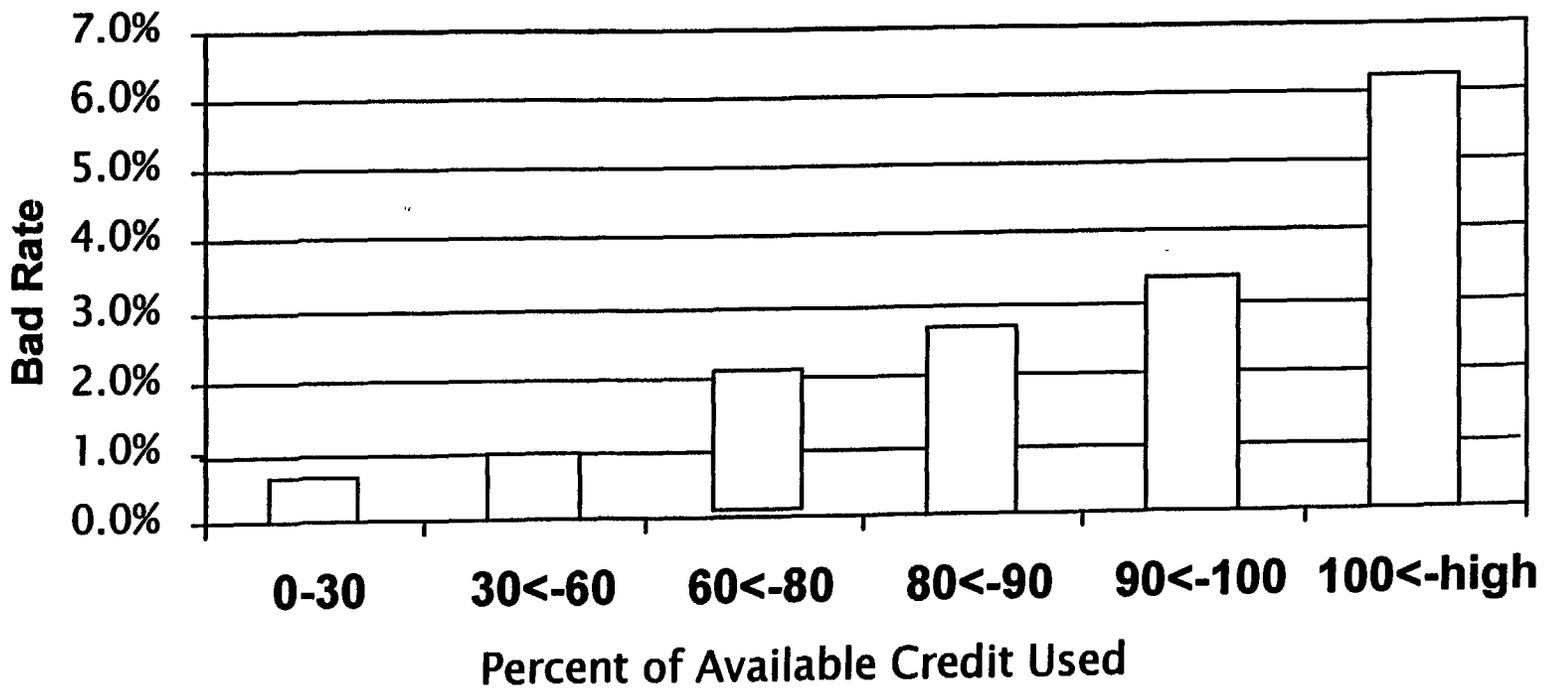
❁ Less than 2 Result in a Foreclosure

The 1997 Process

The process in 1997 for servicing delinquent loans required all loans to be treated the same:

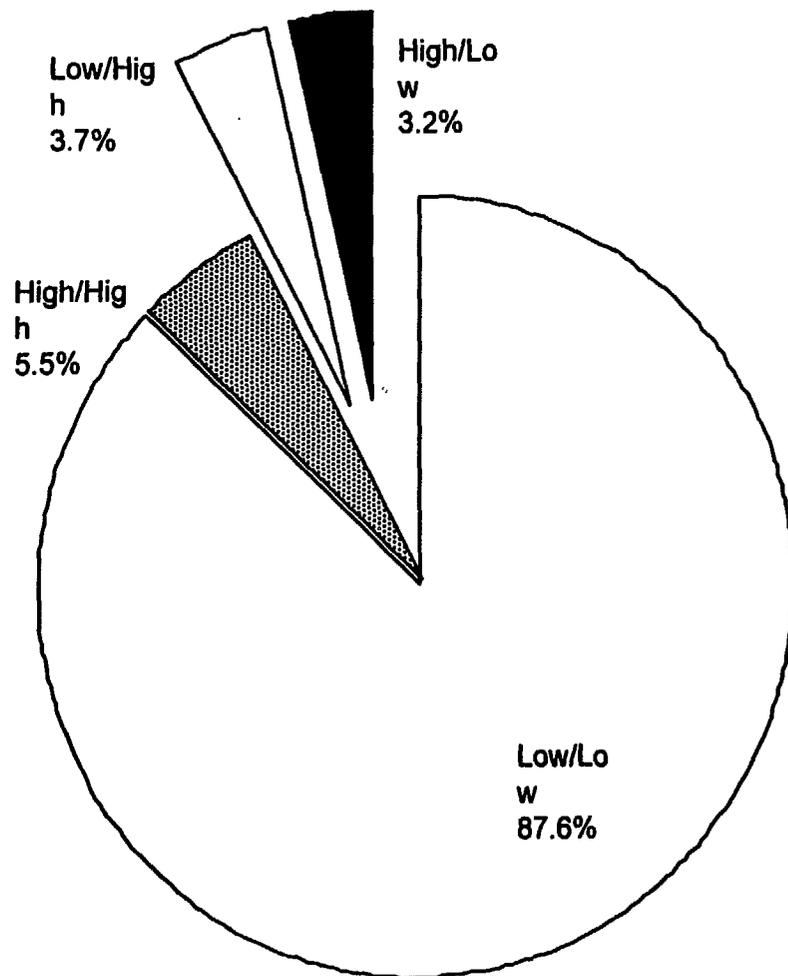
- **Phone call between day 17 and 20**
- **Acceleration letter by day 62**
- **Loss Mitigation typically begins during second or third month of delinquency**
- **Solicitation letter not required**
- **Property inspection by day 60**

Bad Rate by Total Non-Mortgage Trade Utilization
Never delinquent or 36+ months since mortgage delinquency



Score Migration

Sept 1997-June 1998

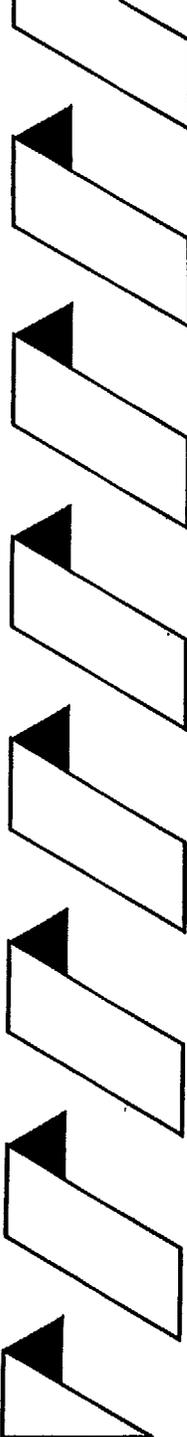


Movement between risk buckets for loans scored in June 1998 and September 1997.

- 93.1% of the loans remained in the same risk bucket

Servicing Functions

- ❁ **Record Keeping**
- ❁ **Payment Collections - short payments**
- ❁ **Tax and Insurance management**
- ❁ **Rate and payment adjustments**
- ❁ **Customer requests**
- ❁ **Foreclosure Prevention**
- ❁ **Property inspections, management and disposition**

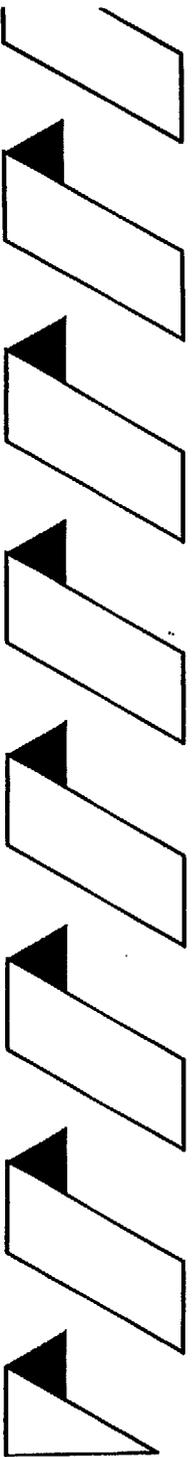


PAYMENT COLLECTIONS

- ❁ **Increased payment amounts or reduced payments may be agreed to as part of a workout situation to help a borrower overcome a temporary financial hardship. These payments must be handled separately from the service bureau and be fully documented and recorded to keep track of compliance with any agreement made between the borrower and lender.**
- ❁ **Unauthorized payments may be returned or held as unapplied funds at the lender's option.**
- ❁ **When a borrower sends a large prepayment, a modification agreement may be requested to reduce future payments. A modification agreement may be charged.**

RECORDKEEPING

- ❁ Payments--
 - ❁ Taxes and Insurance
 - ❁ Interest
 - ❁ Principal
 - ❁ Late fees

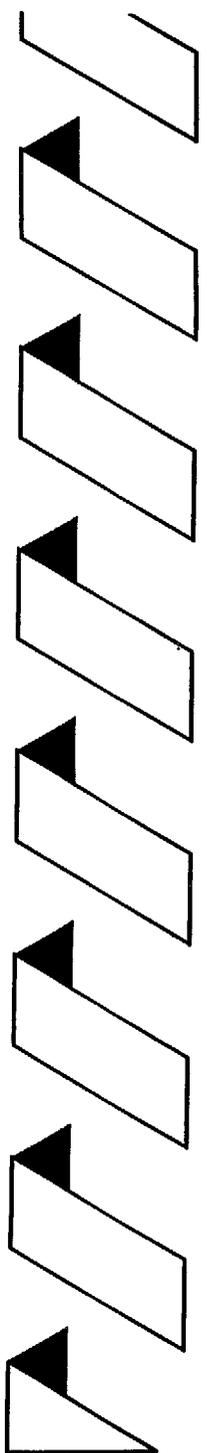


RECORDKEEPING -- Taxes and Insurance

- ❁ **Verification of payment of taxes and insurance to protect first lien position and collateral value**
- ❁ **Usually handled by the lending company**
- ❁ **Added advantage is deposit of the funds for lender's use until disbursements required--some limitations**

RATE AND PAYMENT ADJUSTMENTS

- ❁ **Closing documents should clearly state when and how the interest rate and payment will be adjusted**
- ❁ **Advance notice of new rate and payment should be sent to the borrower at least 30 days prior to the adjustment**
- ❁ **Rounding of interest rates**
- ❁ **Rate and Payment cap considerations**



A hitelkezelés alapjai

USAID
The Urban Institute
Fannie Mae

Fannie Mae

- Az USA-ban a legnagyobb lakáshitel befektető
- Megvásárolja a hiteleket az ország hitelezőitől, és így minden településnek likviditást biztosít a megtakarítások mértékétől függetlenül
- Stabilizálja a lakáshitel kamatokat
- Hitelkezelési díjat fizet a hitelezőknek a törlesztések beszedéséért, az adók és biztosítás fizetéséért, az ingatlanok karbantartásáért és a végrehajtás-megelőzési és végrehajtási feladatok ellátásáért
- További eszközöket hoz létre a hitelezők mérlegében a kezelés értékén keresztül

A hitelkezelés előnyei

- Stabilizálja a bevételek beáramlását
- Lehetőséget nyit más termékek eladására is
- Újabb díjbevételt tesz lehetővé
 - késedelmi díjak
 - törlesztési ütemtervek, módosítási díjak
 - a letétben tartott pénzeszközök kamata
 - a tőkán és kamaton és előtörlesztésen kialakuló kamatbevételi (“float”) lehetőség
- Kibővített ügyfélszolgálatot tesz lehetővé

Kamatbevétel (“float”) példa

- Az éves adók és biztosítások összege a kölcsönösszeg 1%-a
 - 1% letétek átlag hat hónapos egyenleggel = 500\$
x 100 kölcsön = 50.000\$ “ingyen” pénz
- Késedelmi díjak, egyéb jutalékok 50\$-t tesznek ki a hitelek 10%-n
 - 10 hitel x 50\$ = 500\$
- A kezelési költség bevétel 0,50% kölcsönönként.
100 kölcsön x 100.000\$ = 10millió\$ x 0,50% =
50.000\$ kezelési költség bevétel évente

- Az egyéb termékek eladásának lehetősége és az így létrehozott további bevétel=??
- Tehát, Bevétel = 500\$ plusz 50.000\$ kamat, amit az “ingyenes” letéti összegek hoztak 100 kölcsön esetében ÉVENTE plusz az egyéb termékek eladásának lehetőségéből származó bevétel
- Megsokszorozódik minden évben, mivel a kezelt hitelek száma minden évben nő!

Hitelkezelési trendek az USA-ban

- Nagy hitelkezelők
- Kezelés értéke - az éves kezelési díj sokszorososa
- Automatizált Hitelkezelő Irodák
- Fejlett telekommunikációs módszerek
- Risk Profiler (kockázatbecslő) alkalmazása a beszedési erőfeszítések összpontosítására

Hitelkezelési trendek - folytatás

- Konszolidációk a hitelkezelési iparágban
 - Nagyon nagy hitelkezelők
 - Kis hitelkezelők (nagyon speciális termékek)
 - Kevés közepes nagyságú hitelkezelő

A hitelkezelés értéke

- Az ár az éves díj többszöröse
 - éves díj 0,25%, szorzó =5-szörös
 - kezelés értéke = a kölcsönösszeg 1,25%-a
 - 1 milliárd dollárnyi hitel kezelése = 12,5 millió\$
- Az érték ingadozik az előre jelzett előtörlesztéseknek megfelelően

A hitelkezelés értéke - folytatás

- A hitelindításon (verseny tényezők miatt) keletkezett veszteségek ellensúlyozhatók a hitelkezelési díjjal
- A hitelezők versenyeznek a piaci részesedésért úgy, hogy a hiteleik kamatlábát a piaci kamatlábak alatt tartják, tudván, hogy eladhatják a hitelkezelést, és így kiegyenlíthetik a veszteséget.

Hitelindítás - Példa

- A 30 éves, fix kamatozású kölcsön kamatlába a másodlagos piacon = 7,0%
- Az “utcai” kamat (versenytársé) = 6,875%
- Ha a másodlagos piaci kamat 6,875%, akkor az = a kölcsönösszeg 99.25%-val
- Hitelkezelés értéke = 1,25%
- Egy 200.000\$-os hitelen a vételi ár: 198,500\$, vagy 1.500\$ veszteség

- Ha a hitelkezelést eladják $1,25\% \times 200.000 \text{ \$} = 2.500\text{\$}$ -ért, akkor $1.000\text{\$}$ nettó nyereség realizálható
- A hitelbírálat egyéb költségeit (értékbecslés, a hitelszerződéshez igénybevett ügyvéd, adók) az adós, vagy az ingatlan eladója fizeti.
- A hitelező megközelítőleg 1% hitelindítási díjat szed be a felmerült feldolgozási és adminisztratív költségek ellensúlyozására.

Hitelkezelési irodák

- Drága hardware
- Software kiegészítések
 - új termékek
 - új követelmények
 - a 2000-es év problémái
- Feldolgozza a törlesztéseket
- A letétek folyósítását végzi
- Speciális eseteket a megfelelő helyre irányítja

Telekommunikációs rendszerek

- Ügyfél-információs központok
 - az adós információit tartalmazó számítógépes képernyők
 - minden termék szakértője jelen van, hogy a kérdésekre válaszoljon és eladjon
- A beszédési hívások automatikus tárcsázása
 - a dolgozókat csak emberi hangra kapcsolják

Egyéb trendek

- Lakáshitel Elektronikus Regisztrációs Rendszer (MERS) - az iparág által szponzorált modell
 - Nyilvántartja a változásokat a (tulajdonos) adós személyében
 - Nyilvántartja a kezelési jog tulajdonosainak változásait
- Lakáshitelek elektronikus átutalása egyik hitelezőtől a másikhoz, és okmányok kiadása a teljes kölcsönösszeg kifizetése után okmányok scan-nelése és azok helyi bíróságokhoz való elektronikus eljuttatása segítségével
- Egyéb termékek eladása (“cross selling”) az élet-, baleset- és egyéb biztosítások eladóival, nyugdíjalapokkal vagy más pénzügyi szolgáltatókkal kötött szövetség útján.
- Minden “egyéb termékkeladási” (“cross selling”) erőfeszítés alvállalkozásba adása.

Mi a Risk Profiler (kockázat becselő) rendszer ?

- Olyan modell, ami előrejelzi egy meglévő hitel esetében annak valószínűségét, hogy a hitel két éven belül végrehajtási szakaszba vagy a hozzá tartozó ingatlan banki tulajdonba kerül.
- A Fannie Mae módosított ügyrendjeivel együtt azt eredményezi, hogy a hitelkezelőknek kevesebb időt és pénzt kell beszédésre és veszteség-csökkentésre fordítani, és csökkenti a Fannie Mae hitelveszteségeit.
- Kijelöli, hogy mely hitelek esetében kell veszteségcsökkentést indítani, így lehetővé válik, hogy az adósok megtartsák lakásukat, s ezáltal csökkennek a hitelveszteségek.

Risk Profiler

- A Risk Profiler segíti a vállalatokat abban, hogy a beszédési tevékenységeiket a “nagyon kockázatos” ügyfelekre összpontosítsák.
- A hátralékos időtartam első 45 napjára koncentrálnak, és elválasztja a nagy kockázatot képviselő hiteleket az alacsony kockázatot képviselő hitelektől.
- Már előre alkalmazható mind olyan hitelekre, ahol a törlesztések rendben vannak, mind hátralékos hitelekre, hogy a beszédési tevékenységet elő lehessen készíteni azon hitelek esetében, amelyeket nagy kockázatúként definiál a rendszer.
- Tényezők, amelyek nagy kockázatra utalnak:
 - Az ügyfél számos kölcsönt vett fel
 - Nem lakáshitel jellegű kölcsönökön késedelmesek a törlesztések
 - Alacsony a saját vagyon aránya

Hogyan működik a Risk Profiler

- Az adattárakból kivehető hitelinformációk a következők:
 - Múltbeli törlesztési adatok
 - Hitelfelhasználás
- Saját vagyon becsült aktuális piaci értéke
- Hiteljellemzők

Hátralékossági sémák

- 100 adós hagyja ki az első törlesztést
 - 11 hagyja ki a másodikat
 - 4 a harmadikat
 - kevesebb, mint 2 végződik végrehajtással.

Risk Profiler -Teljesítményi minta

Rossz hitelek %-a

Nagy kockázat

Alacsony kockázat

A Risk Profiler segítségével a hitelkezelő megvizsgálhatja összes kölcsöne egy részhalmozát, és behatárolhatja a legtöbb olyan kölcsönt, amely potenciálisan az ingatlan banki tulajdonba kerülésével végződik.

A teljes volumen %-a

Risk Profiler: Kísérleti célok

- A modell tesztelése arra nézve, hogy mennyire képes a nagy kockázatot képviselő kölcsönöket kiszűrni
 - 7 hitelkezelő
 - 300.000 kölcsön
- A módosított ügyrendek tesztelése
 - Ellenőrzési és Javítási csoportok
 - Nagy kockázat: telefonhívás korábban - 3-ik napon
 - Alacsony kockázat: telefonhívás később - 50-ik napon

A Risk Profiler által nyújtott eredmények

A törlesztések státusza

	<u>Hónap</u> <u>15-e</u>	<u>Hónap</u> <u>vége</u>	<u>2.hónap vége</u>
Nagy kockázat:			
Kinnlevő kölcsönök	12.574		
Hátralékos kölcsönök	4.946	292	38
Hátralékos százalékban	39,34%	2,32%	0,30%
Alacsony kockázat:			
Kinnlevő kölcsönök	54.430		
Hátralékos kölcsönök	11.222	246	18
Hátralékos százalékban	20,62%	0,45%	0,03%

A Risk Profiler által nyújtott eredmények

	<u>Javítási csoport</u>	<u>Ellenőrzési csoport</u>
Nagy kockázat:		
Kinnlevő kölcsönök	12.489	12.548
Hátralékos kölcsönök	292	426
Hátralékos százalékban	2,34%	3,39%
Alacsony kockázat:		
Kinnlevő kölcsönök	43.583	43.823
Hátralékos kölcsönök	161	162
Hátralékos százalékban	0,37%	0,37%

Risk Profiler: Üzleti fórum 1997.augusztus 12.

- Cél: Iparág-alapú ügyrendek kidolgozása
- 12 hitelkezelő
- 2 hitelkezelői iroda
- Trans Union

Új ügyrendek

	<u>1997-es ügyrend</u>	<u>Nagy kockázatú kölcsön</u>	<u>Alacsony kockázatú kölcsön</u>
Első hívás	17-20.nap	17-20.nap	40.nap
Teljes kölcsönösszeg esedékessé válásáról szóló értesítés	62.nap	35.nap	62.nap
Felszólító levél	Nem szükséges	a késedelmesség 50.napjára	
Ingatlan szemléje	60.nap	75.napra, ha az adóssal való kapcsolat nem jó (minden 30.napon azután)	

A Risk Profiler által nyújtott eredmények

Minősítés: 97.9.hó, állapot: 98.8.hó

Az összes minősített hitel száma = 3 millió

	Hitelek %-a	90+*	Végrehajtás, ingatlan átvétele
Nagy kockázat	13%	2,31%	2,98%
Alacsony kockázat	87%	0,22%	0,22%
		10,5x	13,5x

* A csődöket és más megoldásokat jelzi

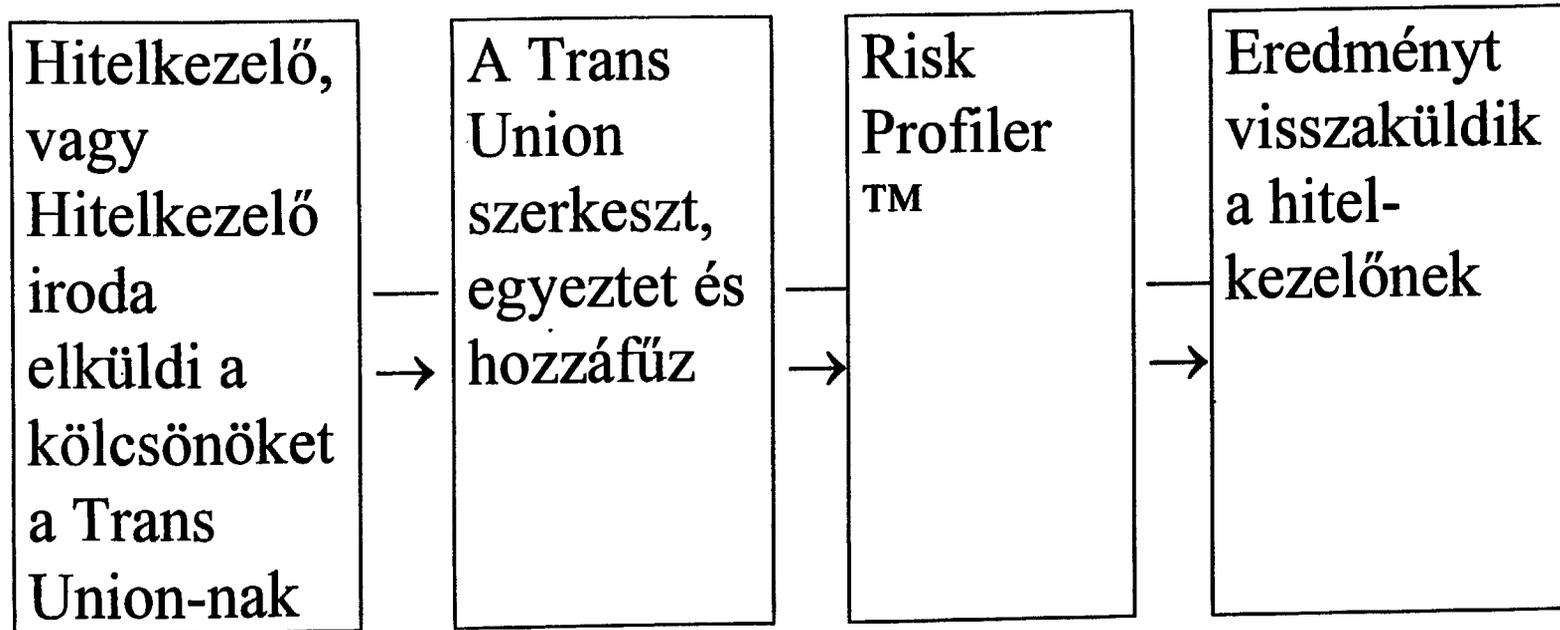
A Risk Profiler használata

Hitelkezelők - A Fannie Mae üzleti tevékenységének %-a

97.IV.n.é. 98.I.n.é. 98.II.n.é. 98.III.n.é.
 Hitelkezelők száma —●— % Fannie Mae hitel

325

Risk Profiler feldolgozás - áttekintés



- A Fannie Mae lenyeli a Fannie Mae kölcsönei utáni költségeket
- Névleges a költség a nem Fannie Mae-áhez tartozó kölcsönök után

Hasznok

- A hitelkezelők a nagyobb kockázatot képviselő hiteleket kiszűrik, hogy azon megkezdjék a koncentrált hátralékrendezési tevékenységeket.
- A hitelkezelők több gazdasági nehézségekkel küzdő adósnak segíthetnek a lakáshitel átstrukturálásában és abban, hogy lakásukban maradhassanak.
- A hitelkezelők csökkenthetik az alacsony kockázatú hitelek kezelésére szánt időt és munkaerőt. A hitelkezelők jelentései szerint 25-50%-kal csökkent a kimenő hívások, míg 30%-kal a bejövő hívások száma.
- A hitelkezelők több hitelt tarthatnak a könyveikben, ami nagyobb hitelkezelési bevételt eredményez számukra.
- A hitelbiztosítók és a Fannie Mae hitelveszteségei csökkennek.

Az 1997-es folyamat

Az 1997-ben a hátralékos hitelek kezelésével kapcsolatban lejátszódó folyamat megkövetelte, hogy minden hitelt ugyanolyan módon kezeljenek:

- Telefonhívás a 17.és 20.nap között
- Teljes hiteltartozást esedékesnek nyilvánító levél a 62.napra
- A veszteségcsökkentés tipikusan a hátralékosság második vagy harmadik hónapjában kezdődik meg.
- Felszólító levélre nincsen szükség.
- Ingatlan szemléje a 60.napra

XXX érthetetlen cím XXX

Rossz hitelek aránya

A rendelkezésre álló hitel százalékos felhasználása

Minősítések alakulása 1997.szeptember - 1998.június

Alacsony / magas
3,7%

Magas / Alacsony
3,2%

Magas / Magas
5,2%

Alacsony / Alacsony
87,6%

Mozgás a kockázati kosarak között az 1998.júniusában és
1997.szeptemberében minősített hitelek körében

- A hitelek 93,1%-a maradt ugyanabban a kockázati kosárban

Hitelkezelési funkciók

- Nyilvántartás vezetése
- Törlesztések beszedése
- Adók és biztosítások intézése
- Kamatláb és törlesztések módosítása
- Ügyfelek kérései
- Végrehajtás megelőzése
- Ingatlanok szemléje, kezelése és elidegenítése

Törlesztések beszédése

- Az adós átmeneti pénzügyi nehézségei esetén hátralékrendezés keretében megállapodást lehet kötni növelt vagy csökkentett törlesztésekre. Ezeket a törlesztéseket nem a hitelkezelő iroda kezelni, teljesen dokumentálni kell és nyilvántartásban rögzíteni kell, hogy figyelni lehessen, hogy az adós és hitelező közötti minden megállapodás betartása megtörténik-e.
- A nem engedélyezett törlesztéseket vissza lehet küldeni, vagy fel nem használt pénzként megtartani a hitelező választása szerint.
- Amikor az adós nagy összegű előtörlesztést küld, akkor módosítási megállapodást lehet kérni a jövőbeli törlesztések csökkentése érdekében. Ezért módosítási megállapodási díjat lehet felszámolni.

Nyilvántartás vezetése

- Törlesztések
 - Adók és biztosítások
 - Kamat
 - Tőke
 - Késedelmi díjak

Nyilvántartás vezetése - Adók és biztosítások

- Az adók és biztosítási díjak fizetésének ellenőrzése az elsődleges zálogjogi pozíció és a biztosíték értékének védelmében.
- Általában a hitelező vállalat kezeli
- További előny az, a letétbe helyezett pénzüsszegeket a hitelező a folyósítás igényléséig felhasználhatja - némi korlátozással

Kamatláb és törlesztési összeg módosítása

- A szerződéses okmányoknak világosan rögzíteniük kell, hogy a kamatlábat és törlesztőrészletet mikor és hogyan módosítják.
- A módosítás előtt legalább 30 nappal előzetes értesítést kell küldeni az adósnak az új kamatláb és törlesztőrészlet összegéről.
- Kamatlábak kerekítése
- Kamatláb és törlesztőrészlet felső határok megfontolása

A hagyományos változó kamatozású hitelek jellemzői

- Törlesztő összeg
- Kamatláb
- Kamatrés index felett
- Felső határ (választható)
- Plafon (választható)
- Átválthatóság (választható)

Módosítások

- A hitelkezelőnek minden egyes változó kamatozású hitel esetében a hitelfeltételeknek megfelelően kell eljárnia
 - Rendszeres kamatláb és törlesztőrészlet módosítás a megengedett legteljesebb mértékig.
 - Tőkésítés figyelése a megengedett maximummal szemben
 - A megfelelő kamatrés fenntartása az indexen felül

Kamatláb változások

- Index
- “Visszatekintési” időszak
- Kamatláb-változási korlátok
- Kamatrés
- Kerekítés

Törlesztőrészlet változások

- Általában a kamatláb változás idejének és mértékének megfelelő módon történik
- A törlesztőrészletre megállapított felső határ miatt különbözhet
- Lehet, hogy korlátozott a változásonkénti felső határok miatt, hogy megelőzhető legyen, hogy az adós “sokkot kap” a törlesztőrészlettől.
- A törlesztőrészlet felső határa miatt tőkésítés következik be, ami növeli azt a kölcsönösszeget, amit később vissza kell fizetni.
- A maximális kölcsönösszegek átmeneti törlesztőrészlet változásokat jelenthetnek.
- A felső határoktól függően úgy számítják ki, hogy egyenlő törlesztőrészletek mellett lehessen teljesen visszafizetni a kölcsönt.

Értesítések

- A kamatláb- és törlesztőrészlet változásokról szóló értesítéseket a hatálybalépés napját megelőzőleg, általában 25-30 nappal előre kell megküldeni.
- Ha a törlesztőrészlet változásának dátuma különbözik a kamatlábváltozás dátumától, akkor mindkettőre külön-külön kell értesítést küldeni.
- Ha a törlesztőrészlet növelését lehet korlátozni, vagy át lehet térni fix kamatozásra, akkor erről az adóst a hatálybalépés napját megelőzőleg jó előre értesíteni kell, hogy az adós válaszolhasson.

Javítások

- Módszerek a kamatláb- és törlesztőrészlet változásokból eredő hibák elkerülésére:
 - olyan hitelindítási ügyrendek, amelyek világosan ismertetik az adóssal a változó kamatozású hitel jellemzőit
 - jó hitelkezelés beindítási ügyrendek annak biztosítására, hogy a hitelkezelő rendszer egyezik a szerződéses okmányokkal
 - jól képzett dolgozók
 - auditálási ügyrendek
- Ha hiba történik:
 - hamar ki kell javítani
 - azonnal közölni kell az adóssal
- Általános hibák:
 - rossz index, kamatrés, felső határ vagy a jellemzők rossz alkalmazása

Ingatlankezelés

- A hátralékos hitelekhez tartozó ingatlanok szemléje
- Szemle kár vagy gondatlanság felmerülése esetén
- A tulajdonba került ingatlan javítási munkáinak elvégzése, bérbe adása vagy eladása

Végrehajtás-megelőzési eszközök

- Hátralékrendezés felülvizsgált átmeneti törlesztési ütemterv formájában
- Hitelkondíciók módosítása (kamatláb és lejárat)
- végrehajtást megelőző eladás
- Tulajdonjog végrehajtás helyett

A végrehajtás haszna

- Kibővíti a piacot, mert több ember számára teszi lehetővé, hogy lakástulajdonhoz jusson.
- Magasabb kölcsön-érték arány lehetséges
- A hitelek felelős kezelésére ösztönöz
- Segíti, hogy az emberek vagyont gyűjtsenek, és drágább lakásba költözhessenek
- Elijesztő eszköz, amelyet ritkán alkalmaznak

Kérdések

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products and services which you must offer in order to meet your customer's needs. As you can see, I have posted flip chart paper on the walls around the room. I'd like for you to count off by 5's. Good. Now I'd like for each group to brainstorm the answer to this question.

"What are the housing finance needs of your customers and of your prospective customers in this changing environment?"

Do you all do brainstorming in your jobs? Remember to keep an open mind. Don't question any idea - we're just putting ideas down, not evaluating them. The person holding the pen needs to write down all ideas given. He/she cannot decide not to write one down because he/she doesn't see it's a good idea. That's called the power of the pen.

Any questions? Will the 1's please go to the Flip chart paper labeled 1? The 2's to 2 and so on?

2. How did you do? What are the needs of your customers in the housing finance market?

Group #5 could you share your ideas?
#4, any additions to their list? #3? #2? #1?

Are you currently offering products/services which address these needs?

Why aren't you?
What will happen to your customers if you don't offer products or services which address these needs?

discussions today will be beneficial and that your expertise will contribute to the learning which occurs here today.

We all agreed that customer service has become increasingly important in our industry, both in our face-to-face dealings with our customers and in our ability to satisfy our customer needs by offering products/services which address these needs.

2. I was astonished as I did my research for this class to discover the incredible and rapid changes which have occurred in Hungary. What are some of the changes you have observed in your society which could have an impact on your industry?

Possible answers:

Privatization of industry

Reduction of subsidies

Less availability of housing

Technology

Competition - both domestic and foreign

How have these changes affected your customers and how have their needs changed?

What effect will competition have on your customer service?

Possible answers:

Give us a competitive advantage

Retention of customers

Loose customers

The answer to this question is an important one for each of you, as it will determine the

ACTIVITY: Introduction

INSTRUCTIONS:

1. Welcome to the *Bank-Customer Relationship in the 21st Century* seminar. My name is Debbie Twadell and I will be your facilitator this morning.

I have been in training and development for over twenty years and during this time I served as training manager for Miller Brewing Company - have any of you heard of Miller High Life or Lite beer? Following that experience I was the Vice President of Training and Development for Mortgage Guaranty Insurance Company - a private mortgage insurer in the U.S. For the last two years I have operated my own training company and served as a consultant to a company in Chicago called Financial Training Services. Their primary customers are financial institutions. I am presently serving as a consultant to Fannie Mae - a private secondary marketing firm which serves financial institutions throughout the United States.

I would like to know more about all of you also - where you work, what your position is, and how many years you have been in the financial services industry, and why you think customer service is important. Could we start with _____.

Thank you all for your introductions. Together we have over _____ years of experience in the financial services industry. So, I'm confident that our

TITLE: The Bank-Customer Relationship in the 21st Century

ACTIVITY: Introduction

TIME: 30 minutes

MATERIALS: Overheads, Overhead projector, Flip chart, Markers

OVERVIEW: Participants will introduce themselves and begin to feel comfortable with each other and the instructor. They will brainstorm a list of customer needs in the Hungarian changing environment.

LEARNING OBJECTIVES:

As a result of this training, participants will be able to:

- Know the names and backgrounds of the other participants and the instructor
- Analyze the changing needs of their customers

THE BANK-CUSTOMER RELATIONSHIP IN THE 21ST CENTURY

DEBORAH TWADELL

What will happen when your competitor offers them before you do?

So, the importance of retaining current customers and attracting new customers is important to your institution?

What are you doing to retain customer loyalty?

TRANSITION:

Most customer relationships do not end in a customer being angry and storming off in the night to the competition. Most customer relationships simply "fade" away. Both parties take the other for granted and then the customer is surprised by the competition and lured away by the new attention or the new and exciting products. Customer service requires earnest commitment, almost an investment in the customer.

TITLE: The Bank-Customer Relationship in the 21st Century

ACTIVITY: Customer Practice

TIME: 30 minutes

MATERIALS: Planning form, audio recorders (one for every two participants), an audio tape for each player, Feedback form, Overhead projector and overheads

OVERVIEW: Participants will plan for a practice session with the customer they profiled earlier. In pairs, participants will practice the sessions and receive feedback on their performance.

LEARNING OBJECTIVES:

As a result of this training, participants will be able to:

- Plan for a conversation with a difficult customer
- Rehearse the conversation
- Receive feedback on their conversation

ACTIVITY: Customer Rehearsal

INSTRUCTIONS:

1. Please review your materials on your customer profile and refer to your notes on dealing with that style of behavior. This planning sheet will help you prepare for a conversation with your customer. You will then be paired with another participant and have an opportunity to rehearse your conversation. Your conversation with the customer will not be any longer than five minutes. Any questions regarding your planning sheet? You will have 10 minutes to complete this form.
2. You each will have the opportunity to rehearse your situation, and to serve as the customer with your partner. As the person with the difficult customer, please try to adjust your behavior for the appropriate style. Feel free to use any notes you may have. As the partner playing the role of the customer, please try to portray the customer as accurately as possible from the description you receive. Feel free to ad lib.

Each rehearsal will take approximately 5 minutes. Please record the conversation on your audio recorder. Following the conversation, please rewind the tape and listen to the conversation. Both partners should listen carefully to the conversation and take notes following these feedback forms.

Following the review of the tape, please share your feedback comments. Any

questions?

Again, the process will be as follows:

1. Fill your partner in on your difficult customer's behavior (2 or three minutes).
2. Rehearse your conversation (4 or 5 minutes).
3. Listen to your recording (4 or 5 minutes).
4. Receive feedback on your conversation (4 or 5 minutes).

INSTRUCTOR NOTE:

Divide the class into pairs and make certain they can operate the audio equipment.

3. How did your rehearsals go?
What worked well for you?
What was difficult for you?

We've had an opportunity today to look at how behavior can impact effective communication and you've had an opportunity to rehearse a conversation with a customer with whom you may not have been effective in communicating with in the past.

Can you give me an example of a skill you have learned today that will be helpful for you back on your job?

Excellent. Thank you for your participation and could you please provide me some feedback on this morning's session? I would appreciate your candid and honest feedback in order to help me improve.

TITLE: The Bank-Customer Relationship in the 21st Century

ACTIVITY: Behavior Breeds Behavior

TIME: 60 minutes

MATERIALS: Overhead projector, overheads, flip charts

OVERVIEW: Participants will discover that their behavior will impact the behavior of their customers. They will explore why some customers are more difficult to deal with than others.

LEARNING OBJECTIVES:

As a result of this training, participants will be able to:

- Analyze their communication skills
- Realize the importance of listening
- Recognize the impact of their behavior upon others
- Identify the importance of choosing a behavior style to complement the style of the customer

ACTIVITY: Behavior Breeds Behavior

INSTRUCTIONS:

1. Why is customer service important in your relationships with customers?

Possible answers:

One won't have a good relationship with a customer if one doesn't provide good customer service.

Of competition has better customer service, then we may lose our customer.

2. Karl Albrecht, a devotee of Scandinavian Airlines standard of excellence for service, defines service excellence as:

“A level of service quality, compared to your competitors, that is high enough in the eyes of your customers that it enables you to charge a higher price for your service product, gain an unnaturally large market share, and/or enjoy a higher profit margin than your competitors.”

He further identifies seven categories of customer complaints and calls them “The Seven Sins of Service:

1. Apathy: Do I look like I really care? You might be bored with your job and convey this to your customers.
2. Brush-off: You try to get rid of the customer by saying “This really isn't my department.”
3. Coldness: You display a kind of chilly hostility, curtness, unfriendliness, inconsiderateness, or impatience. You seem to be saying, “Go away. You're a nuisance.

4. **Condescension:** You treat the customer with a patronizing attitude. . . like a child.
5. **Robotism:** You maintain a mechanized attitude which expresses a standard message. You display no trace of warmth or individuality.
6. **Rule Book:** You put the organizational rules above the needs of the customer, with no exceptions or use of common sense.
7. **Roundaround:** Our government offices are famous for this. You go from department to department with no one claiming they can help you with your problem.

Have you experienced similar kinds of service?

How does it make you feel?

Are you forced to accept this treatment?

Answer:

Only if it's the only source for the product/service.

So, if you're the sole supplier for your products/services and will continue to be, then you probably don't have to be concerned with changing your behavior.

3. 2. But, most of us don't have that luxury. You expressed your feelings when confronted with the behavior of the "Seven Sins of Service." How does that behavior affect your behavior?

It's true. Behavior breeds behavior. And we're all subject to reacting to other people and having other people react to us. What

we say or do, verbally or nonverbally, can determine the response that our customers display to us.

Conversely, the way we react to our customer's behavior may modify their behavior. So, the more skillful we can become at observing our own behavior and the behavior of others, the easier it can become to react in a positive manner to others and maximize the chances of successful communication. The easiest way to begin to understand the impact of our behavior upon others is to look more closely at our own behavior. It is easier to understand the behavior of others if we first understand our own behavior.

4. The DISC system was designed to assess human behavior and to determine the impact of our style of communication upon others. It was developed by Dr. William Marsten, a psychologist who found that human behavior is dependent upon the environment of communication and people's reaction to the environment. Dr. Marsten in his studies further went on to develop the lie detector.

The instrument you complete is an adaptation of Dr. Marsten's research. The purpose of this survey is to analyze your behavior upon your customers and to determine if this behavior is effective for building good customer relations.

INSTRUCTOR'S NOTE:

Directions for completing this instrument will be based upon the Hungarian translation of the instrument.

4. Dr. Marsten theorized that we respond either in an Antagonistic or a Supportive environment. And our response is either an Active or a Passive response. He called his graph DISC:

“D” stands for Dominant. This style would occur in an Antagonistic environment with a person who reacts actively.

“I” stands for Influence. This style also reacts actively, but in a supportive environment.

“S” stands for Steadiness. In a supportive environment this style reacts in a passive manner.

“C” stands for Compliant. This style reacts in a passive manner in an antagonistic environment.

To determine your style, you need to plot a graph, based on your scores.

INSTRUCTOR'S NOTE:

Graphing styles will depend on the content of the Hungarian translation. English versions vary on the complexity of the instrument.

Does everyone feel his/her style is accurate?
Is anyone surprised?

5. I'd like to divide you into groups with similar styles for an exercise. How many “D's” do we have? I's? S's? C's? Okay, you'll find flip chart paper at various locations throughout the room. I'd like for each group to brainstorm “Do"s and “Don"ts” for dealing with your type of behavior. How do you prefer to be treated, and what should people avoid doing to

increase their chances of effective communication.

For example, if you have a dominant style, or "D," then if I were communicating with you I would want to pretty much stick to business with you, state facts. That would be something I'd want to "Do" with you. An example of a "Don't" or something to avoid with you would be for me not to provide too many details for you.

You'll have 20 minutes to complete this activity.

INSTRUCTOR NOTE:

Float among groups helping as needed. When half of the time has expired, tell the groups to move onto their list of "Don'ts"

Would the "D" group report out? Excellent.
Now the "I's? S's? "C's?

65. Now that we've identified your style, let's look at one of your customers, and determine his/her style. Please think of a customer who has been a challenge to you. A person that you may have had some difficulty with communication in the past.

Here's a list of words that may or may not describe your customer. Please go down the list of words under the letter "D" and circle those which describe your customer. When you completed that column, then do the letter "I", then "S" and finally "C." Then total the number of words you have circled for each column. The letter with the highest count will describe the behavior of your customer.

Is the behavior of your customer the same quadrant as your own behavior?

What are some things you could do to have a more productive relationship with this person?

Generally the people we feel most comfortable with have the same behavioral style as ourselves. And conversely the behavior of those with whom we may experience difficulties is usually different from ours.

But, we've learned that our way of communicating may not be the "right" way and someone else's may not be the "wrong" way. They are simply different ways of communicating.

TRANSITION:

You've now had the opportunity to identify your own behavior and the behavior of a customer with whom you may have had difficulties in the past. You will now have the opportunity to practice adapting to the behavior of your "difficult" customer.

TITLE: The Bank-Customer Relationship in the 21st Century

ACTIVITY: Listening

TIME: 30 Minutes

MATERIALS: Listening Questionnaire, Flipchart, Overheads

OVERVIEW: Participants will analyze their listening style and determine ways in which they can improve.

LEARNING OBJECTIVES:

As a result of this training, participants will be able to:

- Identify their listening style
- Determine steps they can take to improve their listening style

ACTIVITY: Listening

INSTRUCTIONS:

1. What must we do to listen carefully?

Possible answers:

Must hear the message

Must understand the message

Must be capable of evaluating the message

Must react in some way

80% of our waking hours are spent communicating and of that 80%, 55% of this time is spent listening. So, listening is the communication activity we engage in most. Therefore, it plays a critical role in our relationships with customers.

(Using 6 AM to 10:00 PM, one would have 12.8 hours of communications and 7 hours of listening.)

So, it might be helpful to realize that we all listen with our individual styles. People develop their listening habits from infancy. As a result, most people find it easier to listen to certain speakers and certain kinds of information than to others. For example, some people are more willing to listen to factual information or statistics, and others prefer to listen to personal examples and illustrations.

Unknowingly, people make judgments, assumptions and decisions, either consciously or unconsciously, based on what they choose to focus on when listening and that may affect their communication

effectiveness.

Because listening preferences are habitual behavioral responses that have been practiced and reinforced over time, these behaviors have become highly automatic and unconscious.

How can automatic and unconscious responses affect your communication with customers?

Answer:

You might focus on certain parts of the message and miss the customer's needs. You might seem curt and impatient.

2. Let's take a few minutes to review our listening styles. I'd like to have you answer these questions.

How many of you are people oriented?

Content oriented?

Action oriented?

Time oriented?

What happens when two people communicate, and one person is action oriented and the other is people oriented?

Answer:

Miscommunication

How would knowing your customer's listening preference benefit you?

Answer:

Help you modify your message to meet customer needs.

Help you modify your listening style to meet your customer needs.

3. Let's spend a few moments then determining how each of these listening styles would prefer to be treated. I'd like for you to form a group with the others in the class who have the same listening style as yours. Then in your groups, please develop a list of how you prefer others to act with you. When you've completed that list, then develop a list of things or ways that would irritate you, or make your communication with others ineffective.

You'll have 15 minutes for this activity.

4. Could someone report back to the class for the people oriented group?

Do you have customers in that group?

Action Oriented?

Content Oriented?

Time oriented?

How can you modify your style to be more effective with your customers?

TRANSITION:

Listening to your customer is important, but effective communication requires more than listening. Think of a time when you were a customer and you received less than excellent service. How did you feel? Let's talk more about service excellence.

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FROM DEBORAH J TWADDELL 414 771 8587

P. 2

Bank-Customer Relationship

In the 21st Century



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Deborah Twadell

Facilitator



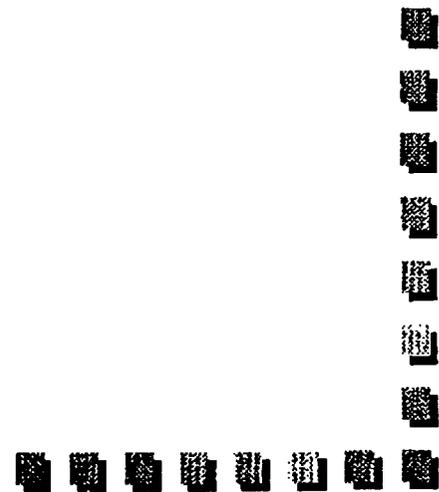
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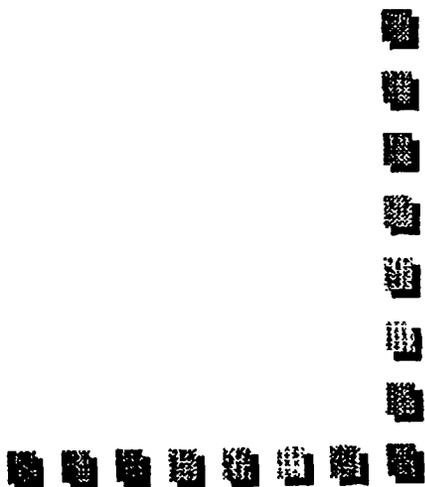
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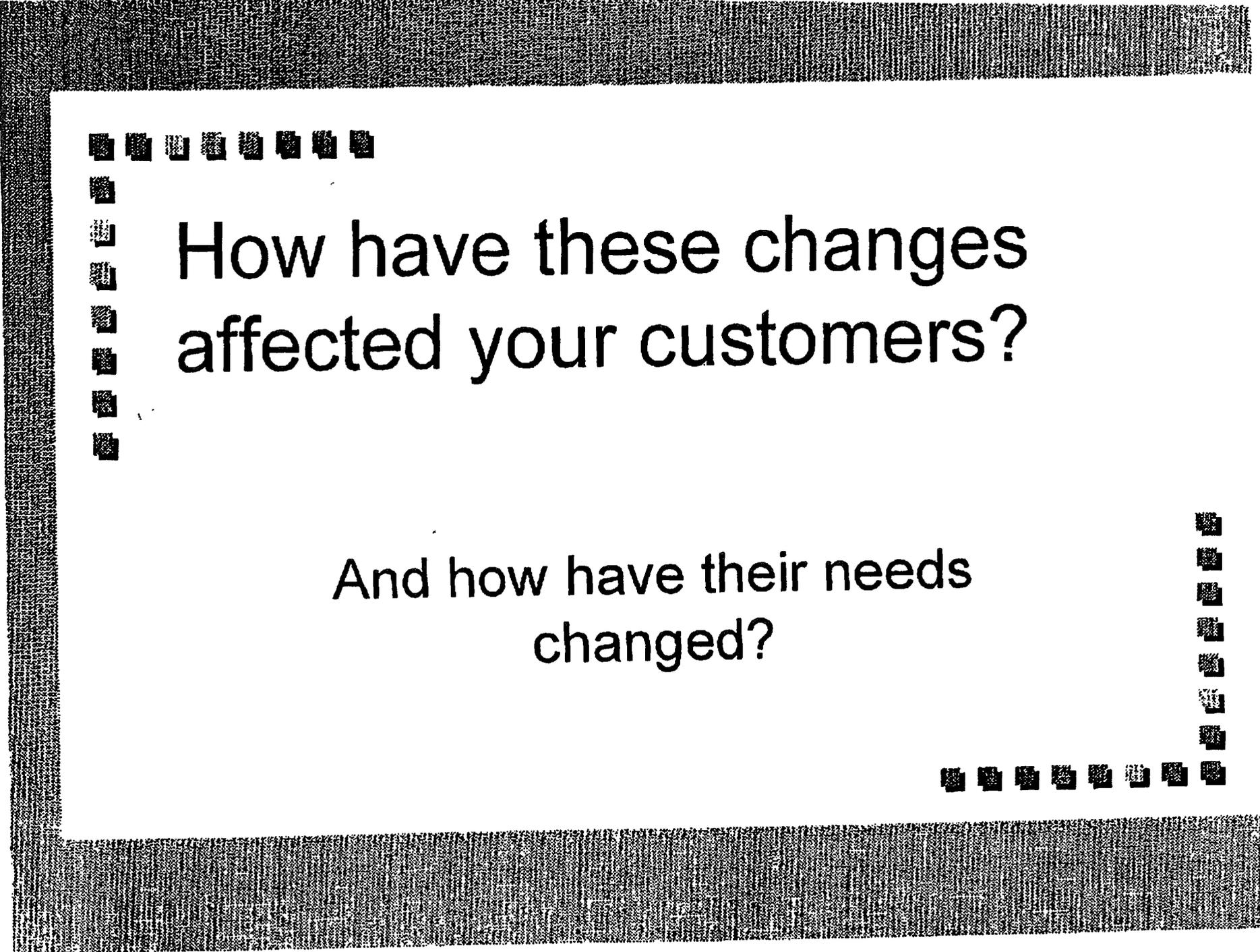
Introductions

- Name
- Years in financial services' industry
- Position
- Location



Recent changes in Hungary





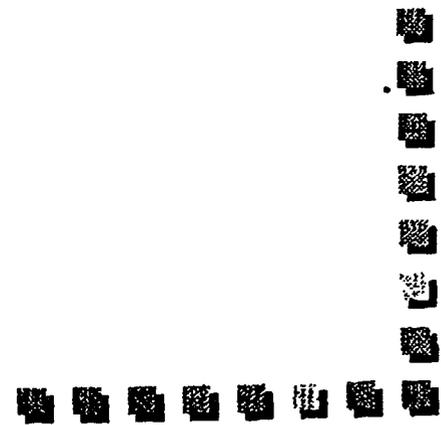
How have these changes
affected your customers?

And how have their needs
changed?

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Are you currently offering products/services which address these needs?



What are you doing to retain customer loyalty?

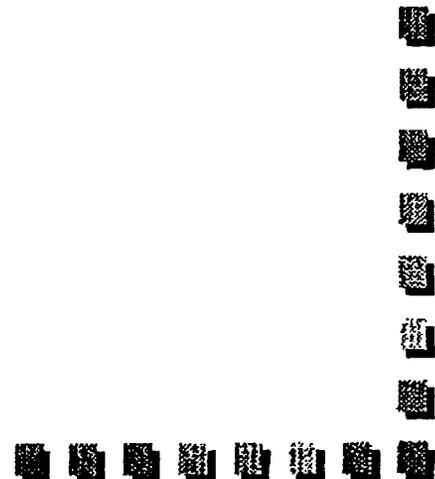
Behavior breeds Behavior

- We all react to other people and other people react to us!
- What we say or do - verbally or nonverbally, can determine the response that our customers display to us.
- The way we react to our customer's behavior may modify their behavior.



DISC System

- Designed to assess human behavior
- To determine the impact of our style of communication upon others
- Developed by Dr. William Marsten, a psychologist



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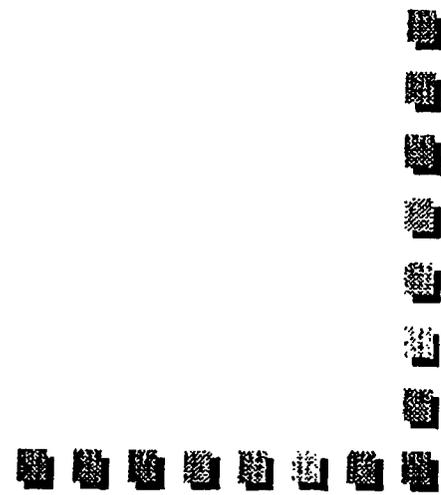
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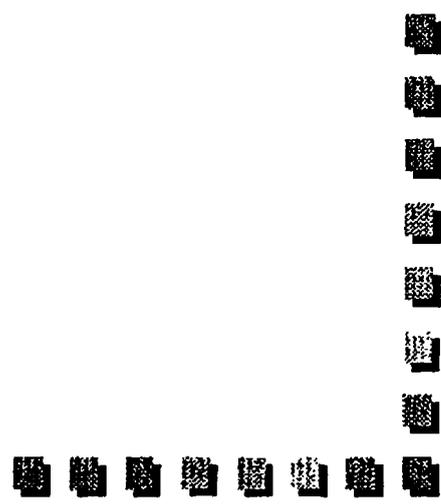
Do's and Don'ts for dealing with your type of behavior

- How do you prefer to be treated?
- What should people avoid doing or saying to increase their chances of effective communication with you?



Think of a customer who has been a challenge to you

- Circle all the words in each column which best describes this customer
- Total the number of words circled in each column



Customer conversation rehearsal

- Review notes for dealing with the listening behavior of customer and notes for dealing with the appropriate quadrant of customer
- Complete planning sheet for conversation with customer
- Ten minutes

Customer Conversation Rehearsal

- You each will rehearse a conversation with a difficult customer.
- You each will serve as a difficult customer for your partner.
- Each rehearsal will take approximately 5 minutes.
- Record the conversation on your audio recorder.
- Share your feedback with your partner.

Customer Conversations

- Tell your partner about your customer's behavior and the difficult situation. (two or three minutes)
- Rehearse your conversation. (Four or five minutes)
- Listen to the tape recording and both of you should fill out a feedback sheet. (Four or five minutes)
- Receive feedback on your conversation (Four or five minutes)

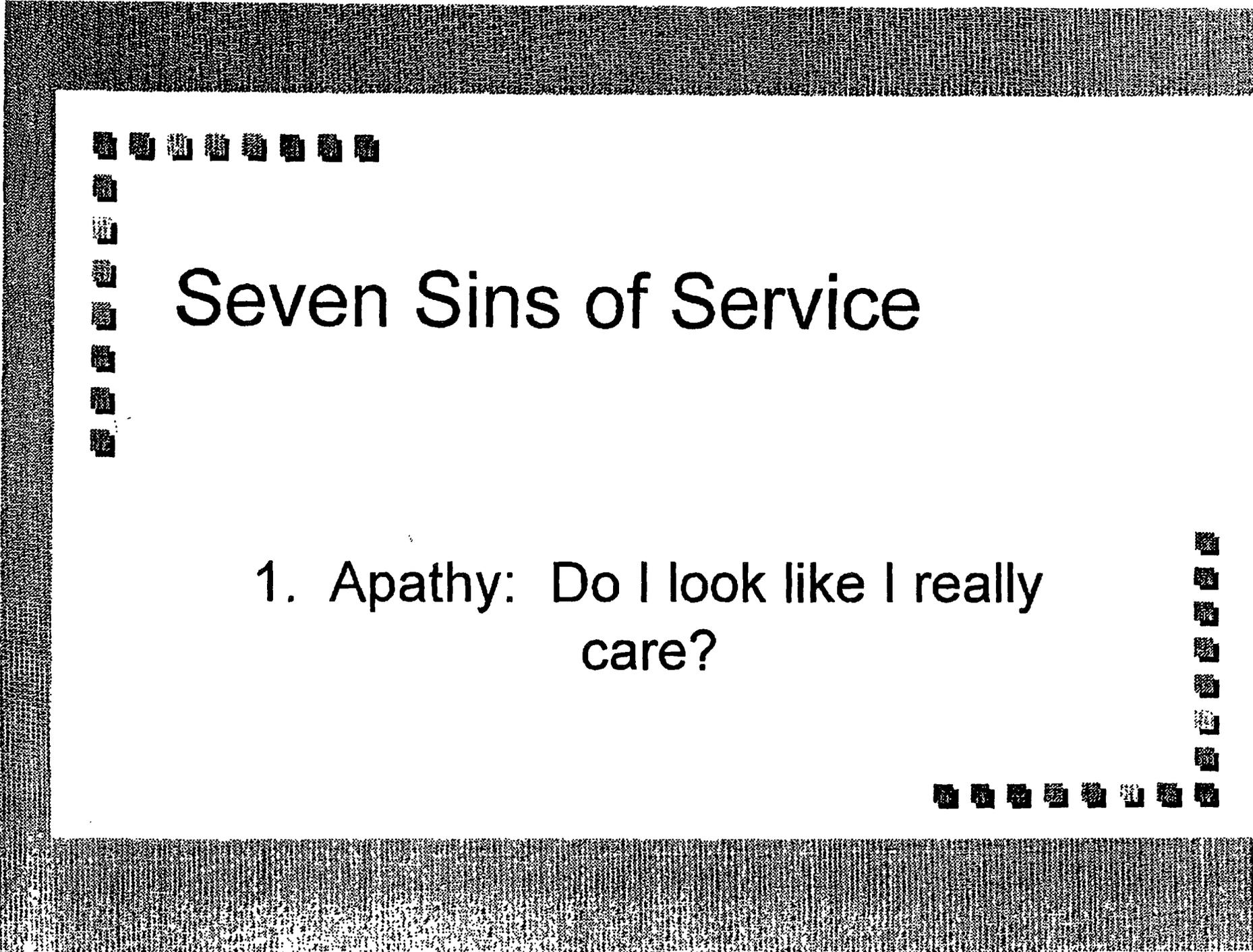
Customer Rehearsals

- How did your rehearsals go?
- What worked well for you?
- What was difficult for you?

Can you give me an example of a skill you learned today that will be helpful for you back on they job?

Karl Albrecht, a devotee of Scandinavian Airlines, defines service excellence as:

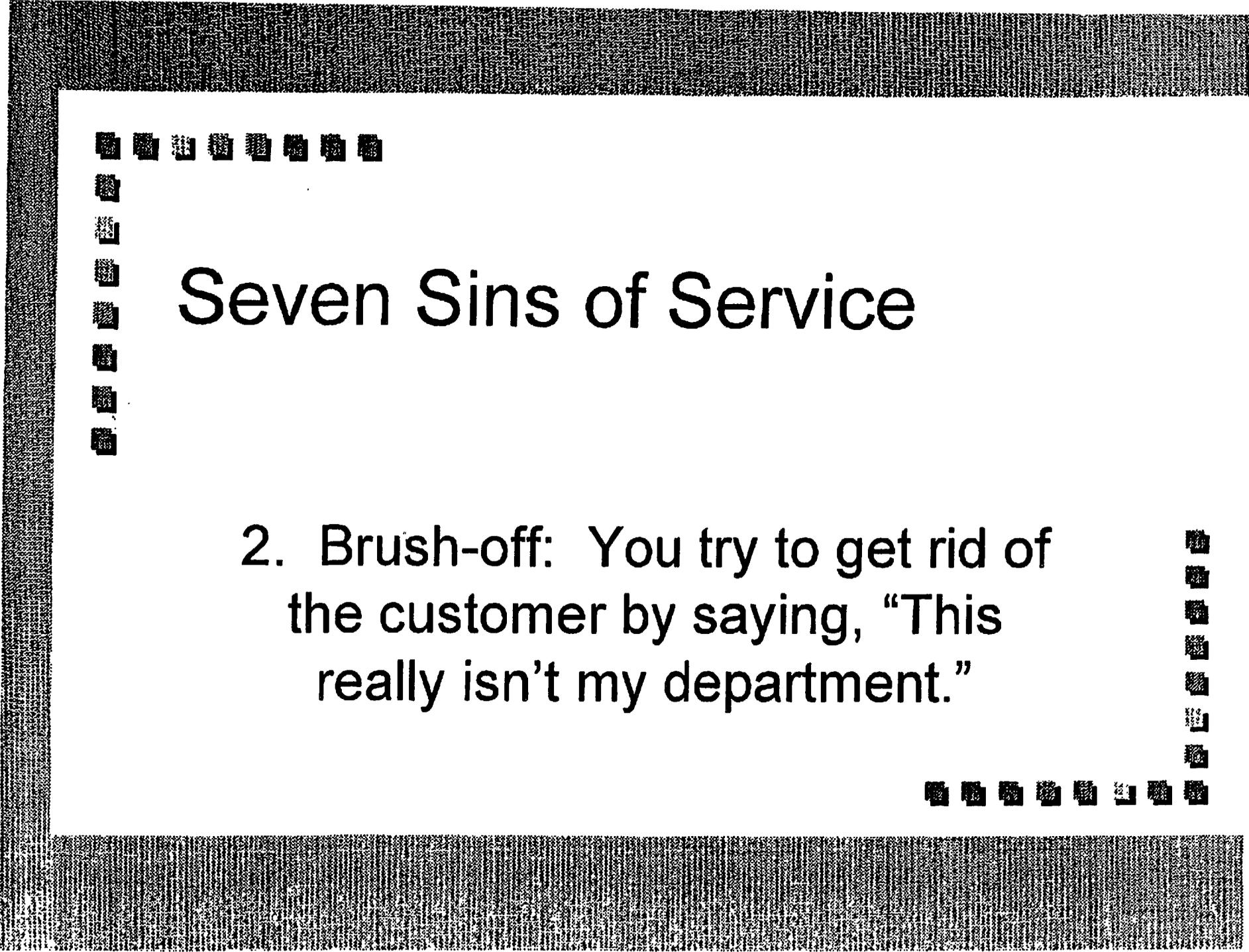
- “A level of service quality, compared to your competitors, that is high enough in the eyes of your customers that it enables you to charge a higher price for your service, gain an unnaturally large market share, and/or enjoy a higher profit margin than your competitors.”



Seven Sins of Service

1. Apathy: Do I look like I really care?

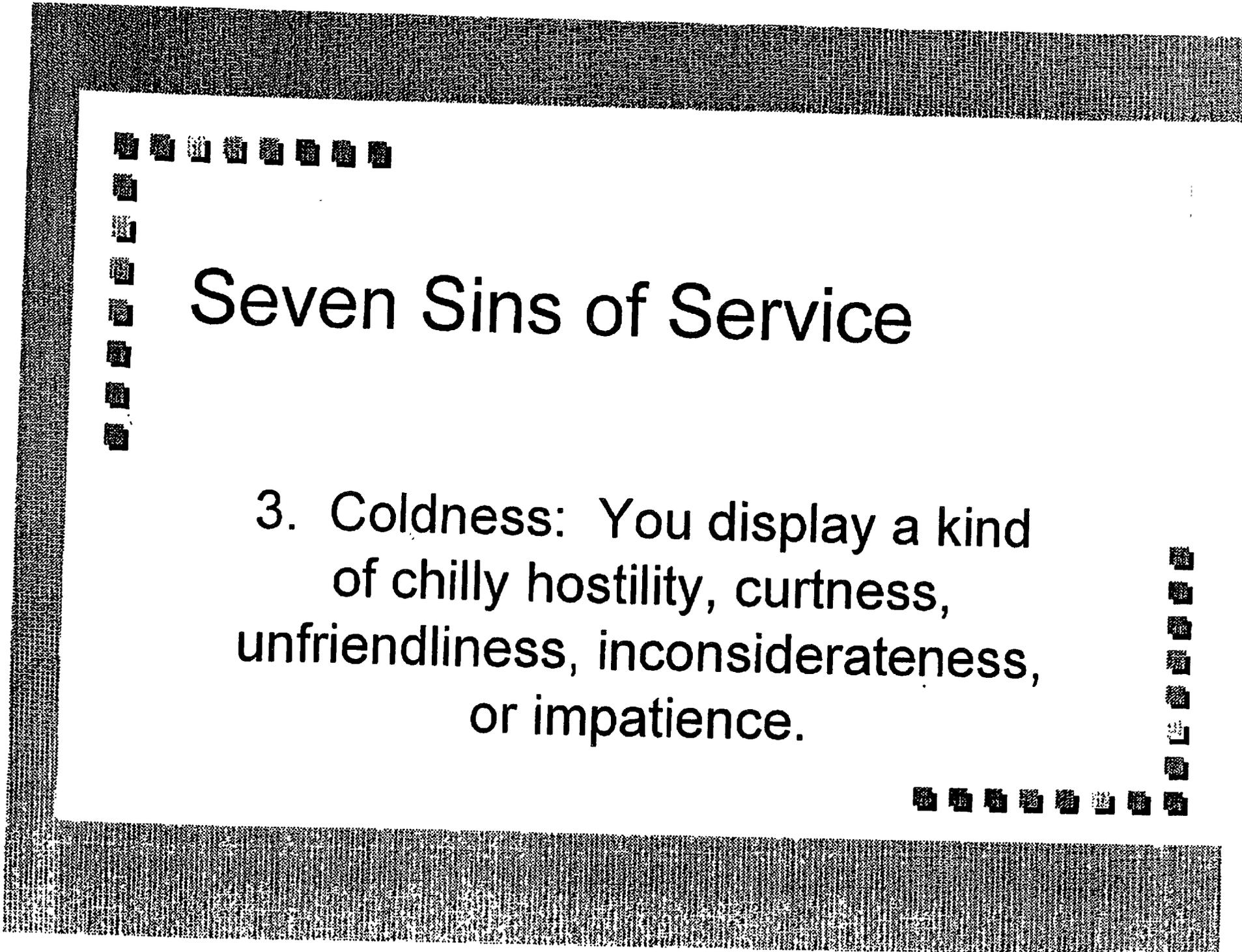
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Seven Sins of Service

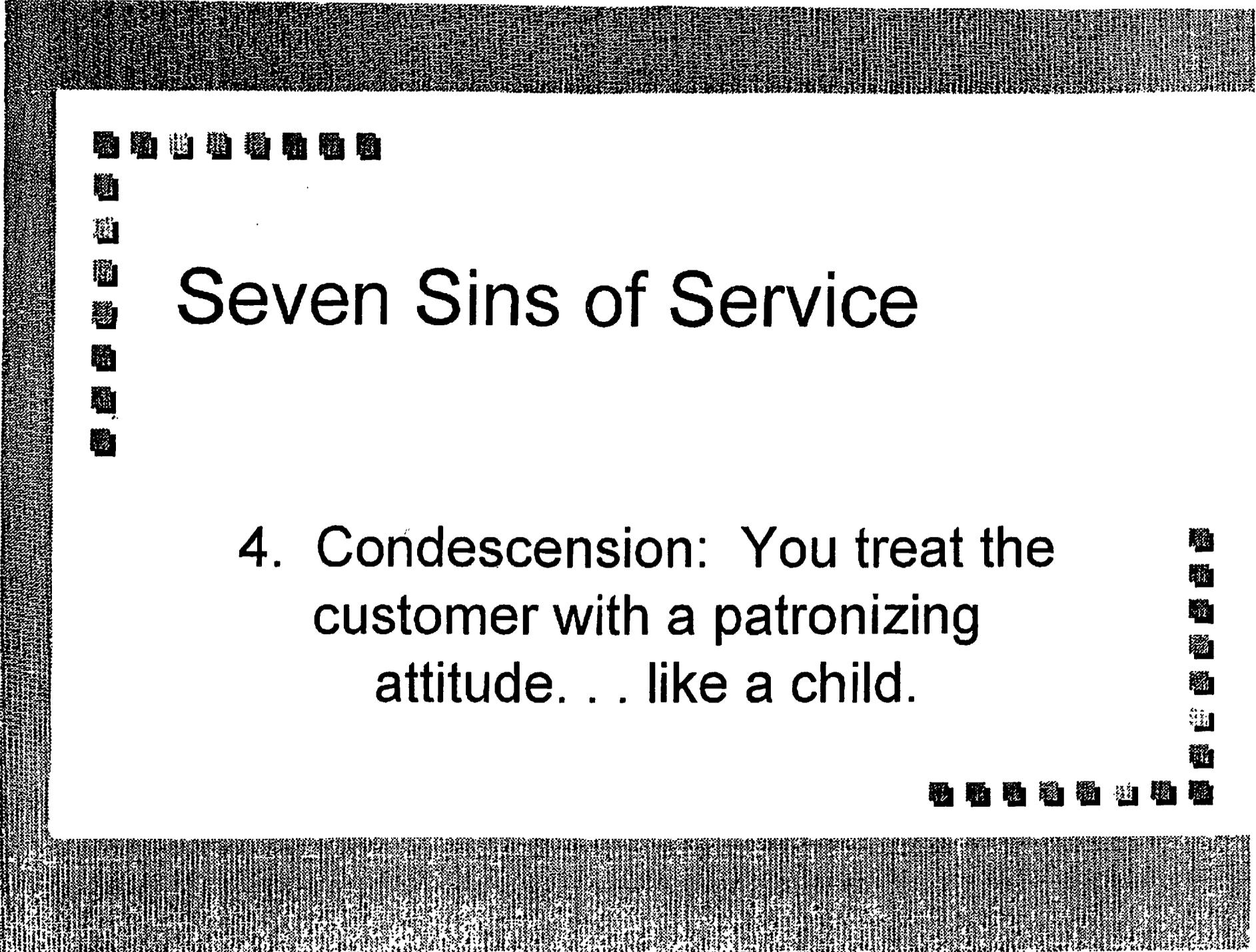
2. Brush-off: You try to get rid of the customer by saying, "This really isn't my department."

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Seven Sins of Service

3. Coldness: You display a kind of chilly hostility, curtness, unfriendliness, inconsiderateness, or impatience.



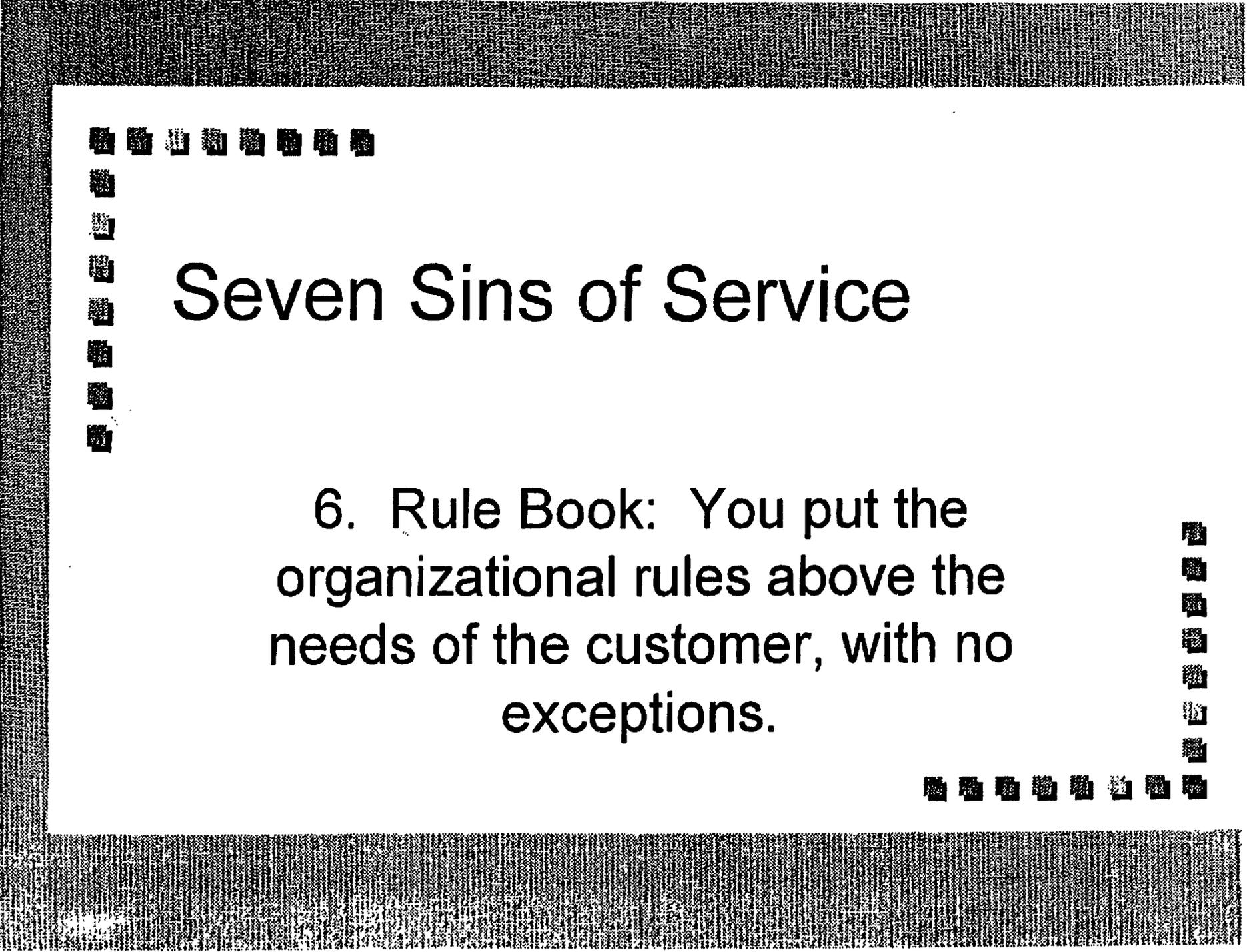
Seven Sins of Service

4. **Condescension:** You treat the customer with a patronizing attitude. . . like a child.

Seven Sins of Service

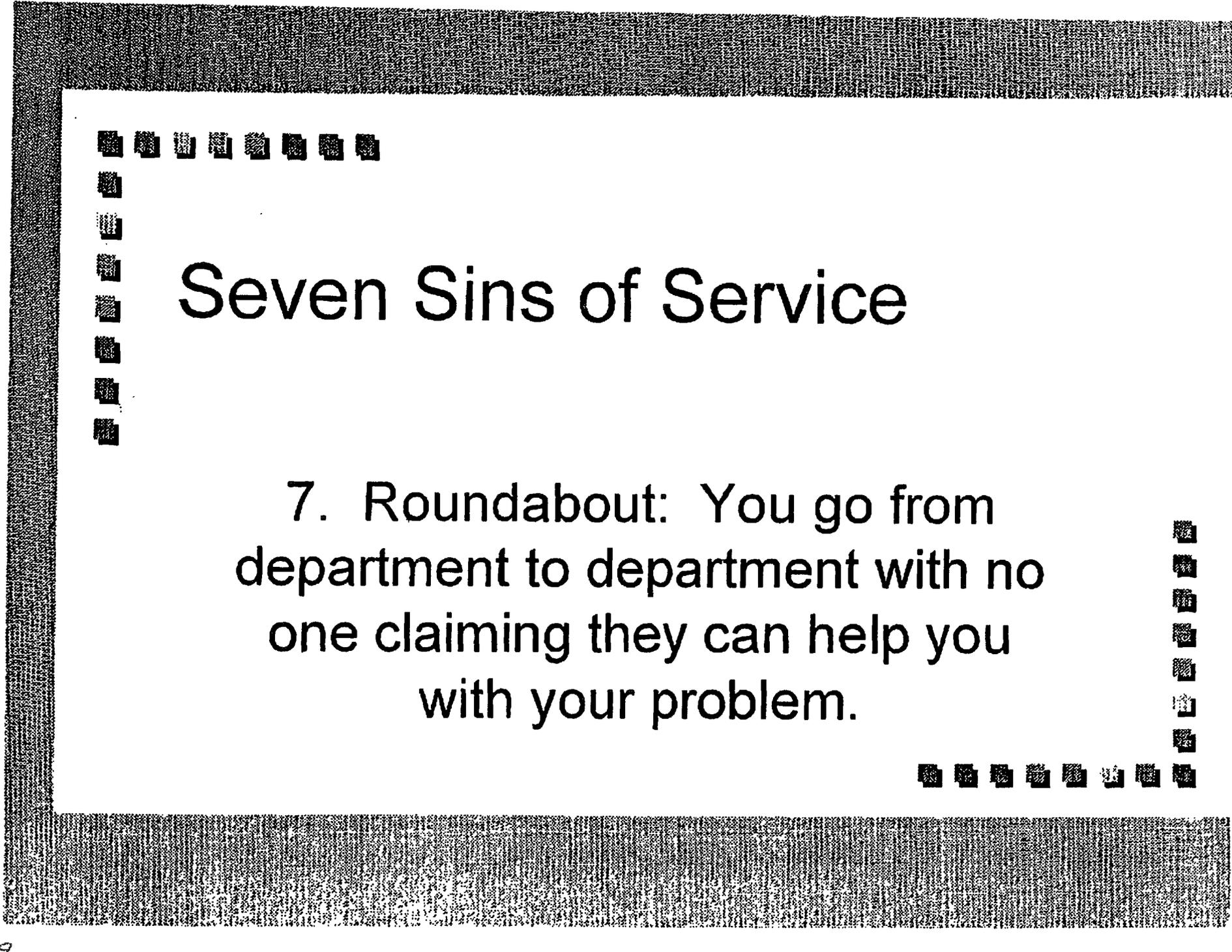
5. Robotism: You maintain a mechanized attitude which expresses a standard message.

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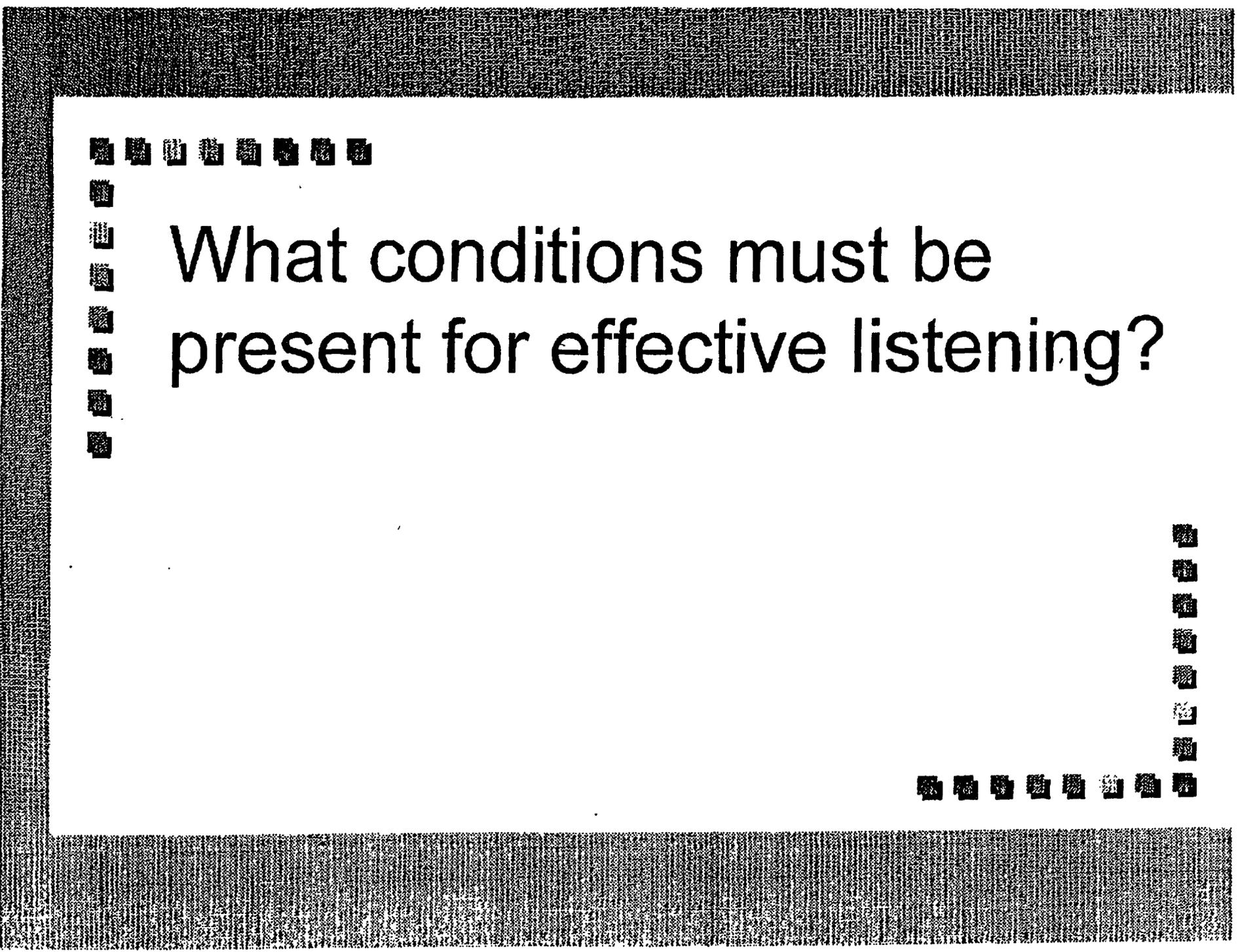
Seven Sins of Service

6. Rule Book: You put the organizational rules above the needs of the customer, with no exceptions.



Seven Sins of Service

7. Roundabout: You go from department to department with no one claiming they can help you with your problem.

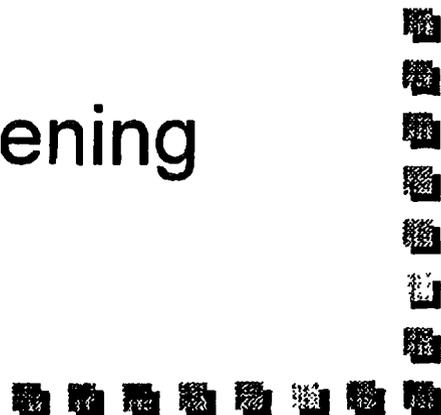


What conditions must be present for effective listening?



80% of our waking hours are spent communicating . . .

55% of this time is spent listening

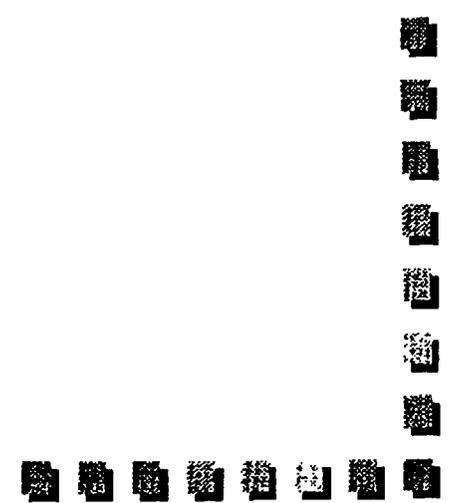


Listening Preferences

- Habitual behavioral responses which have been practiced and reinforced over time
- Behaviors are highly automatic and unconscious

Listening Styles

- People Oriented
- Content Oriented
- Action Oriented
- Time Oriented



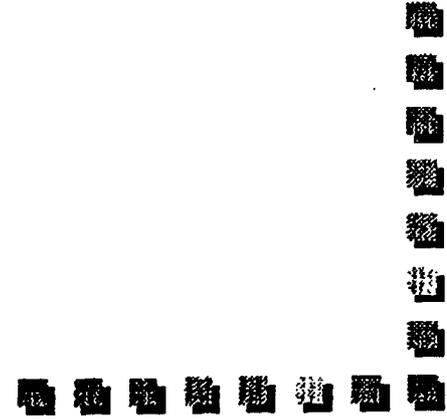
394

What happens when two people communicate, and . . .

One is action oriented and the other is people oriented?



How would knowing your customer's listening preference benefit you?



How would each listening style like to be treated?

- How would you prefer for others to act with you?
- What would you find that would irritate you or make your communication ineffective?

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**EXECUTIVE COURSE: STRATEGIC ISSUES FOR HUNGARIAN HOUSING
FINANCE PART II**

JULIE LAZAR

Seminar Format:

There are currently nine topics on the agenda for the Executive course, and these were selected by prospective Hungarian attendees from among a variety of topics offered. We recommend that four topics be covered in the morning session (approximately 9am-12noon) and five topics in the afternoon session (approximately 2-5pm). This will allow approximately 35-40 minutes per topic (assuming short coffee breaks). The recommended format for the discussion is as follows.

1. **First 10-12 minutes:** We ask that Bill start by teeing up each topic (see the attached pages for topic list) by giving some background and context for how this issue/aspect of the mortgage business is handled in the US, how it has evolved over time, and where it might be going. For example, if the topic is servicing, it might be worthwhile to talk about the phenomenon of servicing becoming a profitable business venture in the US – why and how and maybe who, how it has changed or grown over time (with large specialized companies taking advantage of economies of scale to do nothing but operate in this segment of the business), where it might be going (with regard to technology, new entrants, etc.), and - if appropriate - what Fannie Mae's strategic perspective is on this issue. Stephanie could also contribute to this description as appropriate. Questions can be taken freely, or held until the description is complete – this is up to you. In the following pages, each topic is presented in what we thought is a reasonable order, and each is underlined with some highlighted themes. There are many angles to each of these topics, so please feel free to rearrange, reprioritize, and represent any and all of them as you feel necessary. We have provided for you in a separate booklet the course materials for the other, more narrowly focused seminars. Please also feel free to contact the authors of these courses if this is helpful.
2. **Next 10-12 minutes:** The next phase will be an introduction of how the topic at hand is managed/experienced in Hungary currently. Julie can provide some background here, and Bill should encourage the seminar participants to characterize their understanding/experience of this topic in their market. We have considered the possibility of formally asking some of the participants to prepare remarks on some of the topics, but this may not be practical.
3. **Last 10-12 minutes.** Bill should then bring the discussion around full circle by asking some provocative questions about the pertinence of the US system for Hungary's experience of the topic at hand. Some suggested questions are:
 - What reactions come to mind after hearing the similarities/differences in the two systems?
 - Which of the US features/processes would benefit the Hungarian system if adopted? In what ways?
 - Which features/processes would not be "transferable"? Why not?
 - If you decided to adopt certain features, how would you "sell" them to others on your management team, employees, and ultimately to customers in the market?
 - What do you imagine to be the short term and long term effects of such changes on competition and future direction of the housing finance industry in Hungary?
4. Repeat above format with next topics.

Part 1 - Overview of U.S. Housing Finance System and Fannie Mae

- The US system effectively links capital markets to homebuyers through the secondary mortgage market
- Fannie Mae plays an important role in this system as the largest supplier of housing funds in the US
- There are thousands of different types of lenders which supply loans to individual homebuyers
- Competition in the US primary housing finance market is very high – this has benefited homebuyers
- Over time, standardization in mortgage products and underwriting guidelines has allowed for a very liquid mortgage-backed securities market to emerge, providing an interest rate risk management option and another source of liquidity to housing lenders
- There are a wide variety of mortgage products available to homebuyers in the US, although the 30-year fixed rate product is predominant. A variety of ARMs are also available for homebuyers who choose them
- Homeownership rates in the US have steadily risen over the decades since Fannie Mae's creation in 1938
- Homeownership offers stability in a population - people who own their own homes tend to be more financially secure and more active members of their communities.
- Housing finance has a ripple effect in the economy - approximately 20 percent of the US GDP is housing-related.

Part 2 - Opportunities in Housing Finance in Hungary

- Transition to a market economy offers a lot of new opportunities.
- Hungary's outstanding housing loans are only 2 percent of GDP which is very low, even developing countries have 15 - 20 percent. This means there is enormous potential in the market.
- The government is trying to reduce its role by decreasing subsidies. This creates a lot of opportunities for banks to step in to pick up the slack by offering housing loans.
- Increased competition presents new challenges to banks in all areas of the business process, from marketing and customer service to underwriting and delinquency management.
- Since many banks are foreign owned there is access through them to knowledge about foreign housing finance products and innovations, for example the contract savings programs.
- Retail banking is the area for the greatest potential for growth right now. Housing finance is an integral part of this and a bank that is active in housing finance also has access to a stable customer base for cross-selling other products.
- All of this translates into an unprecedented opportunity to help design the housing finance infrastructure for the future.
- Are there any other developments or situations that present opportunities in housing finance?

Part 3 - How the Housing Finance Business is Managed in the U.S.

Underwriting

- These are the considerations to keep in mind when designing the proper methods for underwriting both the borrower and the property.
- Expertise in risk management means higher profitability because banks have higher quality loans on their books.
- Standardization means more efficiency in the loan application process.
- How can the process be improved and standardized in Hungary?

Asset Liability Management

- The thrift crisis in the U.S. underscores the need for expertise in interest rate risk management. Fannie Mae was also losing \$1 million a day in the early 80's due to negative convexity in our portfolio.
- There are good techniques for monitoring interest rate risk including gap analysis and duration analysis.
- It is very important to come up with acceptable levels of risk for each institution and then have good monitoring processes in place i.e. ALCOs.
- How is this issue viewed in Hungary? Is it not given enough importance because everything is variable rate and short term? Do you believe that this will be important in the future? What is current regulation like and if there is not much, will you do more to monitor your own institutions?

Servicing

- In the U.S. servicing is much more than payment collection, it is also a business in and of itself. Banks buy and sell servicing rights and by entering into these deals are able to take advantage of economies of scale. This is a very profitable business. Servicing income tends to stabilize revenue fluctuations in cyclical times and fees for late payment etc. can also boost income.
- As the housing finance system in Hungary becomes more standardized, there will be opportunities to establish such a system.
- What do you think are important issues to consider in moving in this direction? Is customer service important? What processes are in place to ensure payments? How would you handle working with customers who are having trouble making payments? Are prepayments an issue in Hungary? If so you have to be aware of the risk to your servicing portfolio as a large volume of loans payoff.

Delinquency and Foreclosure

- In the U.S. foreclosures are very rare but the option is a very important aspect of housing finance, both as an incentive to make payments for borrowers and as a reliable means of limiting losses for lenders.
- In the U.S. workouts have become much more widespread since the early 1980s as a means to prevent default. Because of the reluctance to do foreclosures in Hungary, it would be helpful for banks to become expert in this process.
- Why is there a reluctance to do foreclosures in Hungary? Is it cultural or a feature of the current system that can be redesigned? What would make it easier to do them? Do you see the benefits?

Part 4 - How to Establish and Grow this Business

New Product Marketing

- In the U.S. we have a wide range of housing loan products that meet all the various needs of homebuyers.
- With such a low level of housing debt, there is a lot of room for introducing new products which in turn creates opportunities to lure homebuyers into the market. This is critical to housing finance and retail banking.
- Fannie Mae has developed a process to better evaluate new products which we will briefly go over.
- Do you see needs for new products? What issues would you consider when evaluating a new product? Do you think establishing a process like Fannie Mae's would be beneficial?

Market Research

- In an increasingly competitive market it becomes more and more important for banks to understand their customers. Also, because of all the changes in the economic, political and social aspects of life, customer needs have changed and it is important to keep up with the changes.
- In order to properly and efficiently market new and existing products, banks must know how to do useful market research to help them target their marketing campaigns to the right potential customers.
- It is also helpful to make use of the knowledge gained by employees who work with customers face to face by involving them in the marketing process.
- It is critical that marketing plans and an institution's overall strategy be considered together. How can you ensure that there is a sufficient link between the two?

Customer Relations

- In the U.S. lenders are very customer focused in terms of products offered, long term customer relationships and face to face dealing with customers. It is common knowledge that if two institutions offer the exact same products and services, the one with better customer service will be more successful.
- How are these concepts applied here in the transition from a planned economy - where the state was often the only provider of goods and services and customers had no choice but to put up with the treatment they received - to a market economy where the customer is king?

DELINQUENCY AND FORECLOSURE PREVENTION AND MANAGEMENT

JOAN WILSON

Welcome to the Urban
Institute
Foreclosure Prevention
Seminar

By: B. Joan Wilson
November 10, 1998

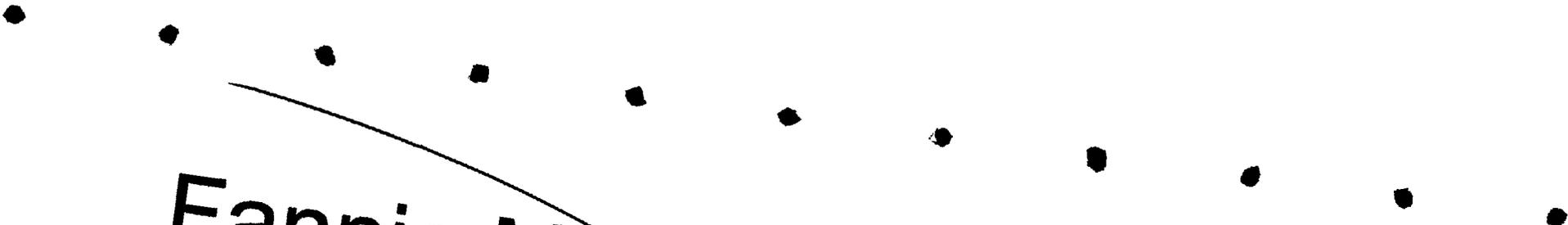
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DELINQUENCY PREVENTION TOOLS

- Sound Underwriting Practices
- Frequent contact with the borrower
- Pre closing home buyer education and counseling
- Post closing counseling
- Relationship of trust

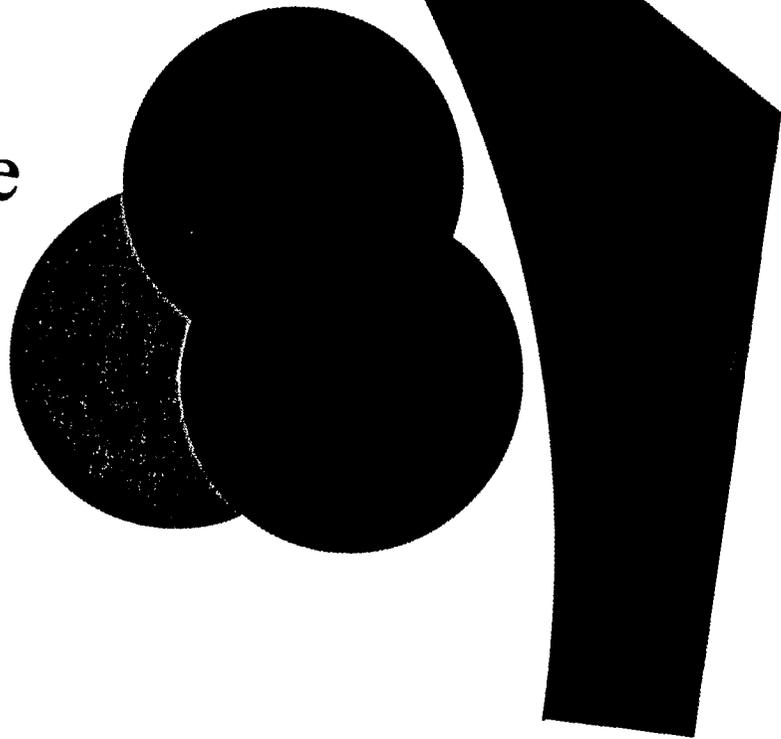
This seminar is designed to give you . . .

- an overview of the basics of loss mitigation
- a better understanding of your role in foreclosure prevention
- how to target and solicit workout candidates
- the ability to select the appropriate workout to fit the borrower's circumstances
- confidence to manage the workout process successfully



Fannie Mae's alternatives to foreclosure

- Repayment plan
- Modification
- Assumption
- Preforeclosure sale
- Deed-in-lieu of foreclosure



Fannie Mae's workout goals

- To spare deserving borrowers the ordeal of foreclosure
- To help servicers reduce expense and spent foreclosing loans
- To work with MIs to mitigate losses
- To evaluate *all* loans for a workout
- To prevent REOs

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Servicer's role in loss mitigation

- Monitor at-risk loans
- Intervene when loans show signs of becoming seriously delinquent
- Identify candidates for loss mitigation
- Work with delinquent borrowers in a timely manner
- Forward the appropriate information to Fannie Mae on MORNET's Loss Mitigation System
- Comply with MI and investor guidelines in mitigating losses

Loan Referral to Loss Mitigation

- From Collections
- From Customer Service
- From Foreclosure
- From Bankruptcy
- From Lender's Own Targeting

When to offer a workout plan

- Borrower faces severe, permanent, or temporary hardship
- Collection efforts have failed
- Temporary relief has not been successful or workable
- Mortgage cannot be brought current under its existing terms

Steps to a successful workout

- Contact borrower and secure cooperation
- Solicit current financial information
- Request opinion of value of the property
- Check co-borrowers, pledged assets, other credit enhancements for resources
- Recommend workout, if appropriate
- Implement workout

Contact borrower

- Gain borrower's confidence
- Answer questions
- Determine reason for default
- Define the hardship
- Assess whether hardship is short- or long-term
- Determine feasibility of workout
- Evaluate which workout is appropriate

Possible Hardships

- Unemployment - temporary or long term
- Decrease in regular hours
- Elimination of overtime or second job
- Mandatory pay reduction
- Decline in earnings of self-employed borrower
- Business failure of self-employed borrower

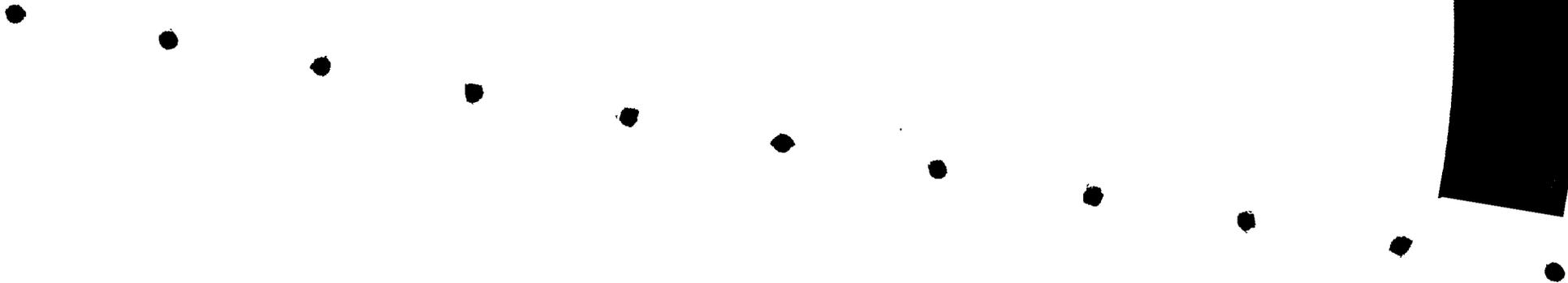
More Hardships...

- Involuntary job relocation
- Excessive credit obligations
- Death of borrower or family member
- Permanent/short-term disability
- Chronic or serious illness of borrower or family member

Still More Hardships

- Marital difficulties
- Incarceration
- Catastrophe or natural disaster
- Property problem
- Abandonment of property

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Targeting Delinquent Loans

- Target loans with high interest rates
- Target loans based on specific reasons for delinquency--such as death of borrower, unemployment, etc.
- Target loans with no borrower contact.
- Analyze through data bases (Risk Profiler) which loans are likely to miss additional payments

RISK PROFILER

- A model that predicts the likelihood of an existing loan entering foreclosure within two years
- Saves time and money in collections
- Targets loans for loss mitigation, enabling borrowers to keep their homes, thereby reducing credit losses and expanding the market

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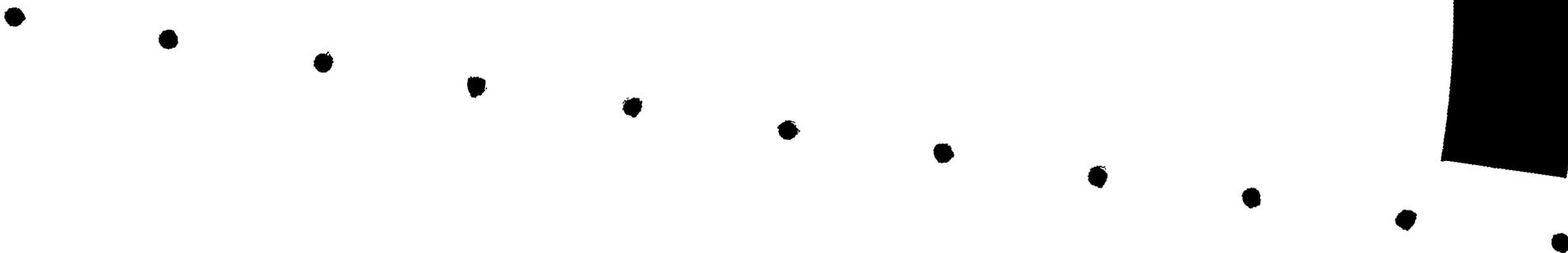
US DELINQUENCY PATTERN

- Of 100 borrowers who miss a payment:
 - 11 Miss a second payment
 - 4 Miss a third payment
 - **Less than 2 result in foreclosure**

DATA ANALYZED

- CREDIT
 - Payment History
 - Credit Utilization (like credit score criteria)
- ESTIMATED CURRENT MARKET EQUITY
- LOAN CHARACTERISTICS

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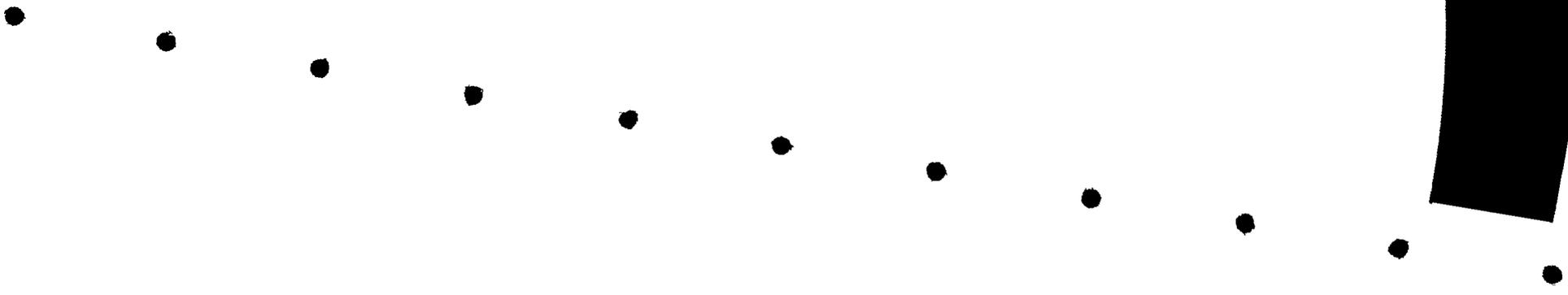
RISK PROFILER CONTINUED

- Risk profiler type analysis permits a lender to focus on the 25% of late loans that are likely to continue to miss payments.
- Results have been dramatic, reducing delinquencies by more than 33%

RISK PROFILER, CONTINUED

- By freeing collections staff and resources to focus on the loans more likely to default, more time can be spent on loss mitigation plans.

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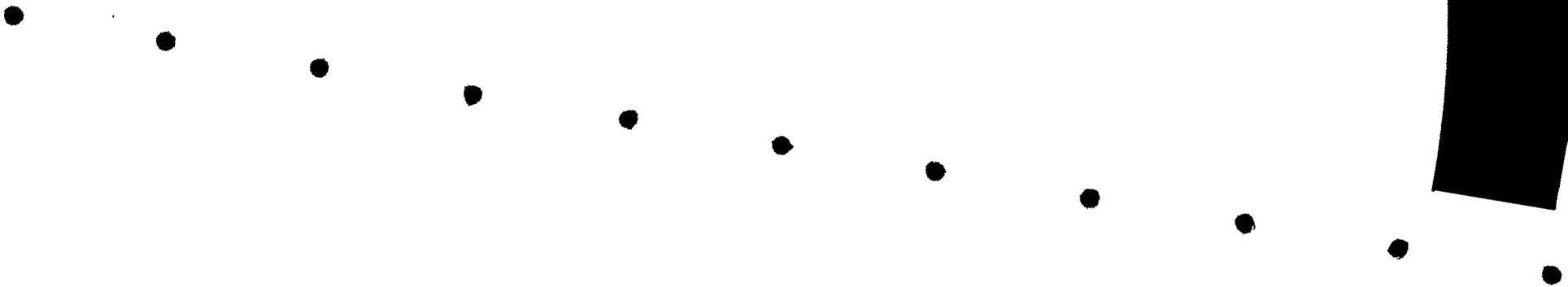
CONTACT SCHEDULE

- Initial contact should be made between the 17th and 20th day of delinquency (unless the borrower is determined to be "low risk")
- Acceleration letter (demanding full payment of loan outstanding) is sent as early as the 35th day for high risk borrowers or as late as the 62nd day for low-risk borrowers
- Solicitation letter follows outlining loss mitigation opportunities by the 50th day

Solicitation Letters

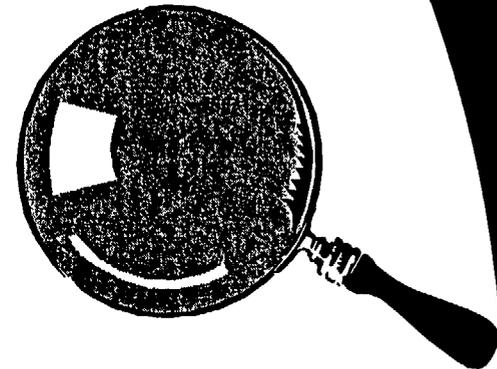
- Should be mailed between the 45th and 60th day of delinquency
- Advises borrower of the workout options available to him/her
- Requires borrower to contact you
- Promises borrower his workout request will be reviewed when financial info has been received.

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Review borrower's financial condition

- Hardship letter
- Financial disclosure statement
- Last two pay stubs
- Last two bank statements
- Last two years' federal income tax returns
W-2s + schedules
- Credit report



Establish value of the property

- BPO and/or appraisal

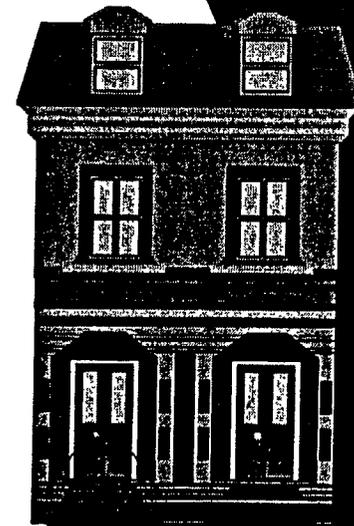
Prequalification: appraisal

Assumption or Preforeclosure sale:

appraisal and interior BPO to confirm the value

Modification: interior/exterior BPO

Deed-in-lieu: appraisal



Y25

Workout types: repayment plan/special forbearance

Borrower can cure delinquency through scheduled repayments and may be allowed a period of reduced or suspended payments.

- **Formal written agreement, specifying .**

- schedule for making up missed payments along with resumption of regular monthly payments
- number of reduced or suspended payments
- date on which forbearance will end

Workout types: modification

Allows borrower to retain his home

- Change one or more terms of the existing mortgage by:
 - extending term (up to 360 months)
 - reducing interest rate to current market rate
 - considering step rate for 2 or 3 years

Workout types: modification

Allows borrower to retain home

- Recover arrearages by:

- requesting cash from borrower
- requesting contribution from co-borrowers, other interested parties
- capitalizing delinquent interest and other costs when borrower cannot pay

Workout types: assumption

Transfers property by allowing new buyer to take over existing mortgage

- Obtain title update
- Purchaser must credit qualify
- Execute assumption agreement
- Record agreement

Workout types: preforeclosure sale

Allows sale of property in satisfaction of the debt

- List property for sale at as-is value
- Can pre-qualify borrower's hardship
- Review/negotiate offers and costs to minimize losses



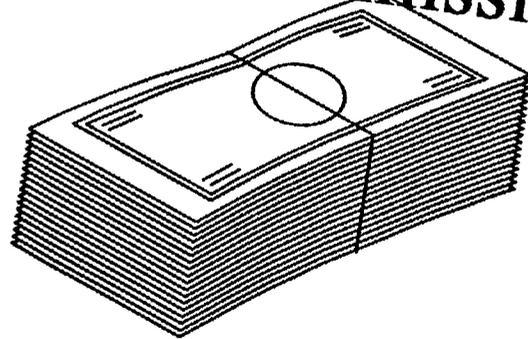
Workout types: deed-in-lieu

Allows acceptance of property in satisfaction of the debt

- Must be only alternative to foreclosure
- Title must be marketable and free of judgments and liens
- Attempt to collect portion of arrearages to offset loss
- Property must have been on the market as a presale for 90 days + with no reasonable offer

Fees

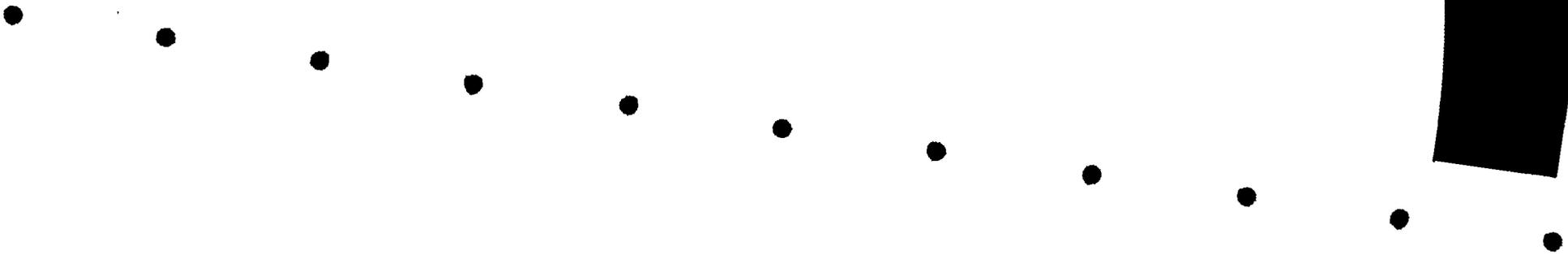
Fannie Mae actually pays lenders fees to work out loss mitigation programs for the borrowers as it is less costly than maintaining, preserving, renting, selling foreclosed real estate property and paying closing costs and realtor sales commission.



Fees

- The borrower is also charged fees for modifications, assumptions, deeds in lieu and other loss mitigation paper work which may be added to the loan amount in some circumstances.

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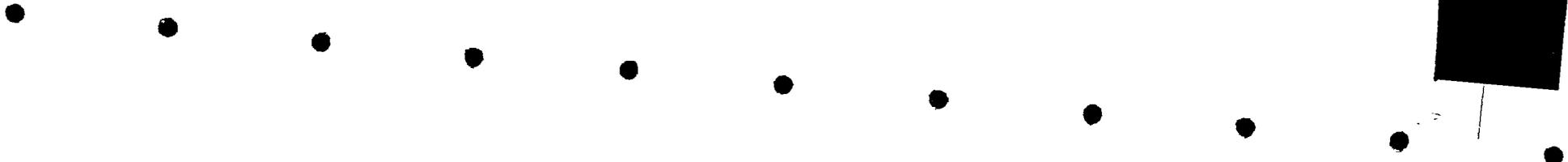


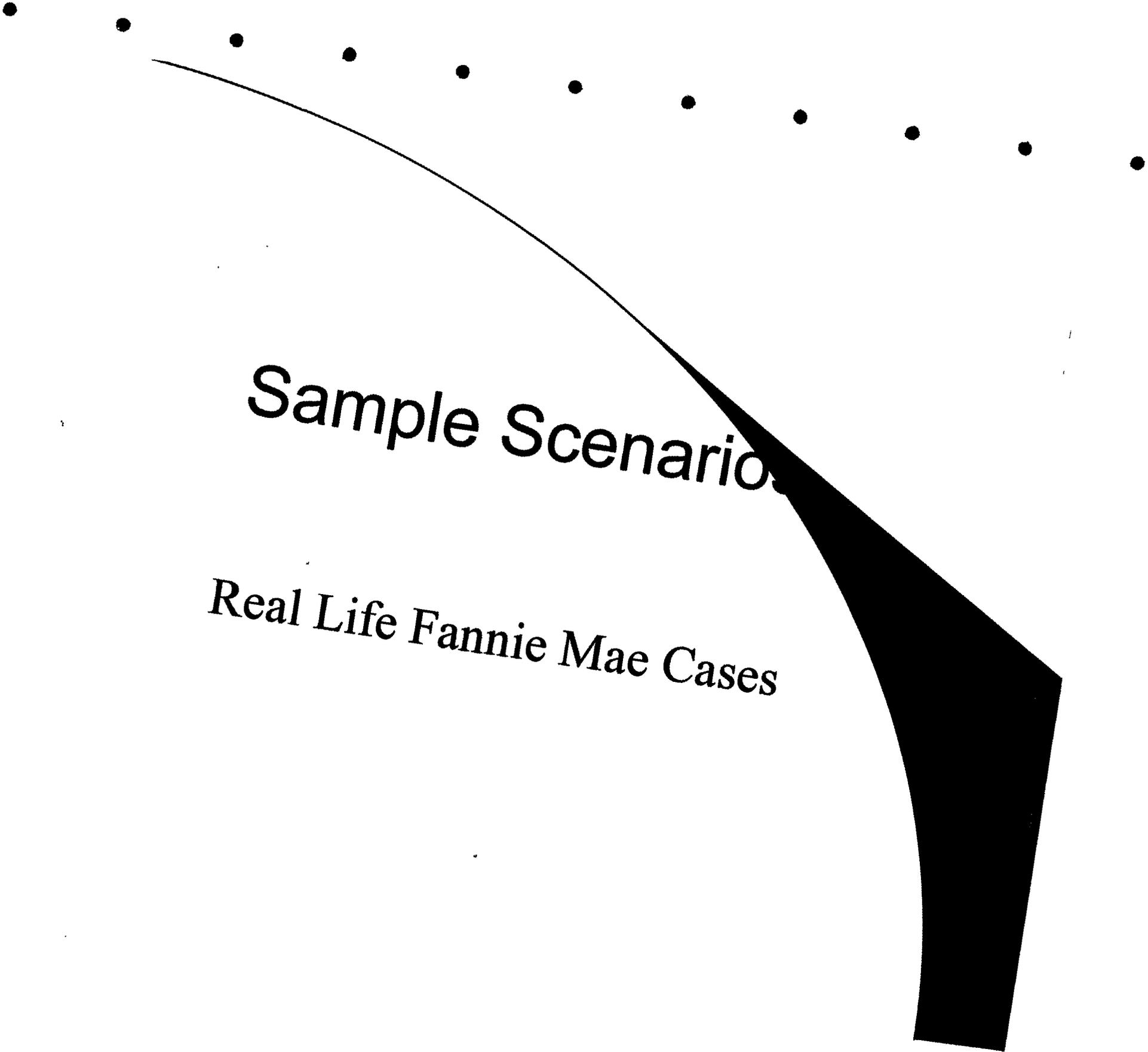
FORECLOSED PROPERTIES

- A Specialist in the area in managing and selling foreclosed properties can speed up the property disposition process and improve economic performance.
- Fannie Mae provides this service for lenders through its REO, Inc. service.

BREAK

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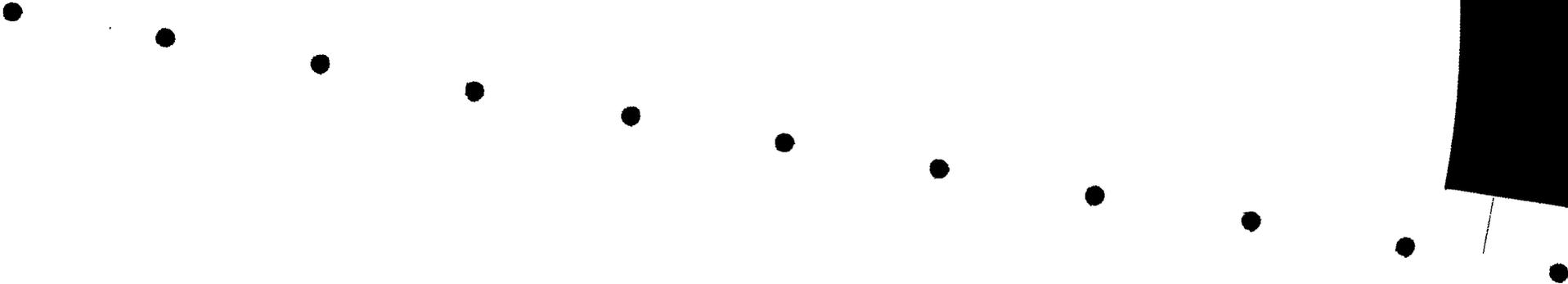


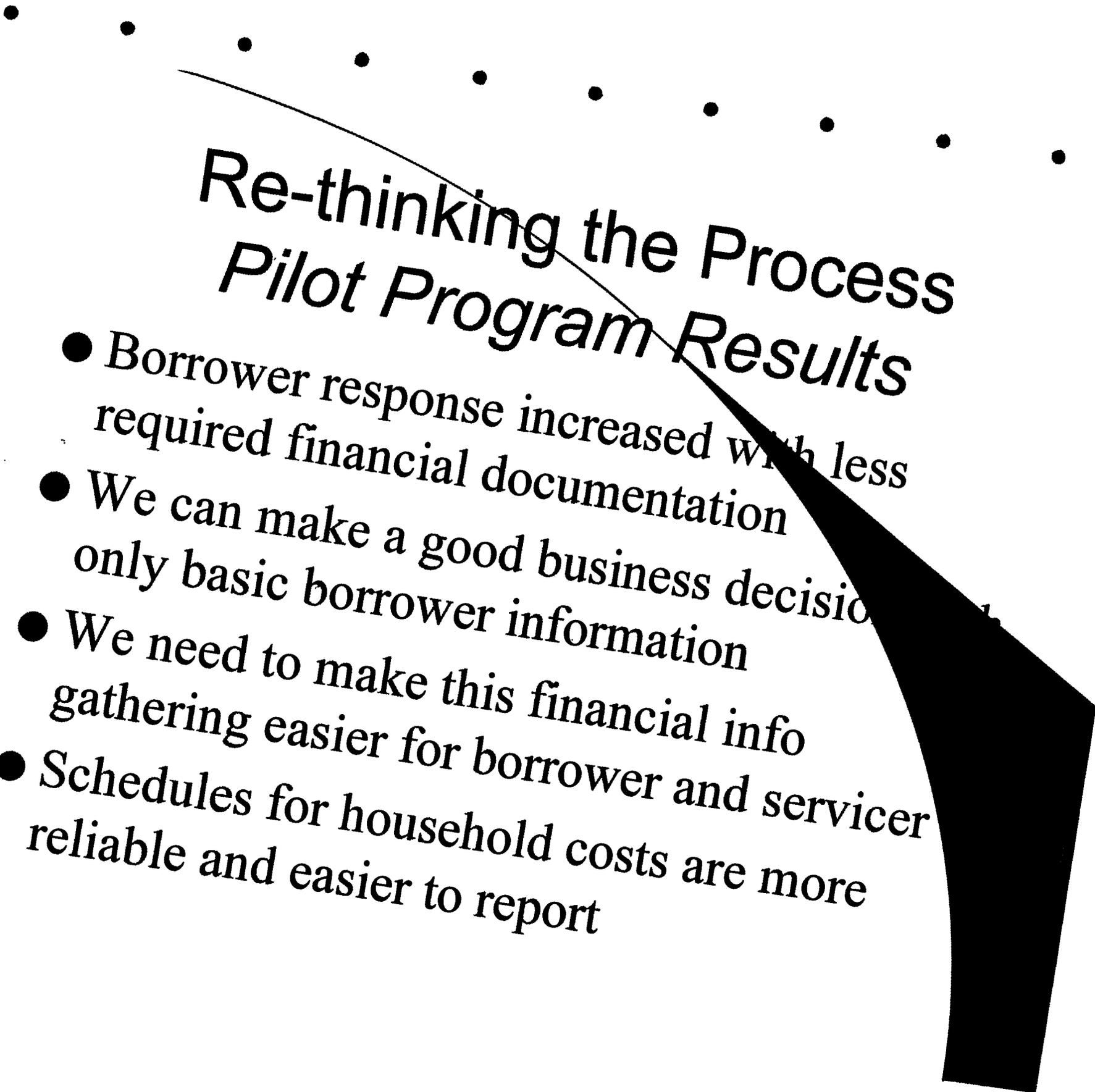
Sample Scenarios

Real Life Fannie Mae Cases

Low Doc Program for
Uninsured Loans

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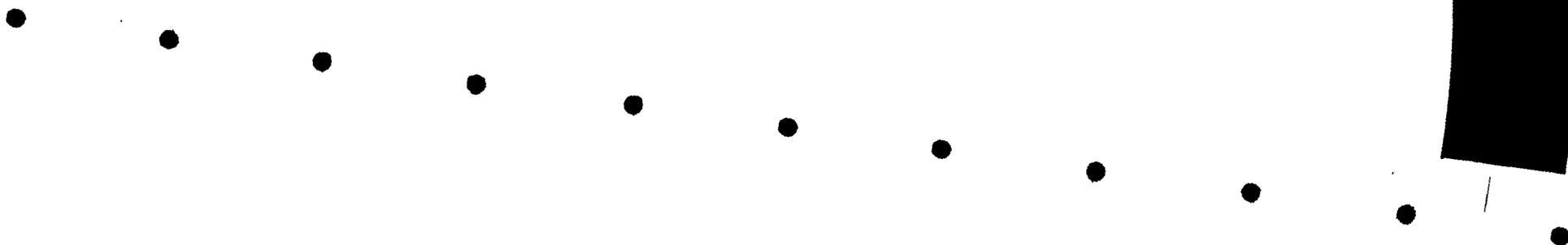
Re-thinking the Process *Pilot Program Results*

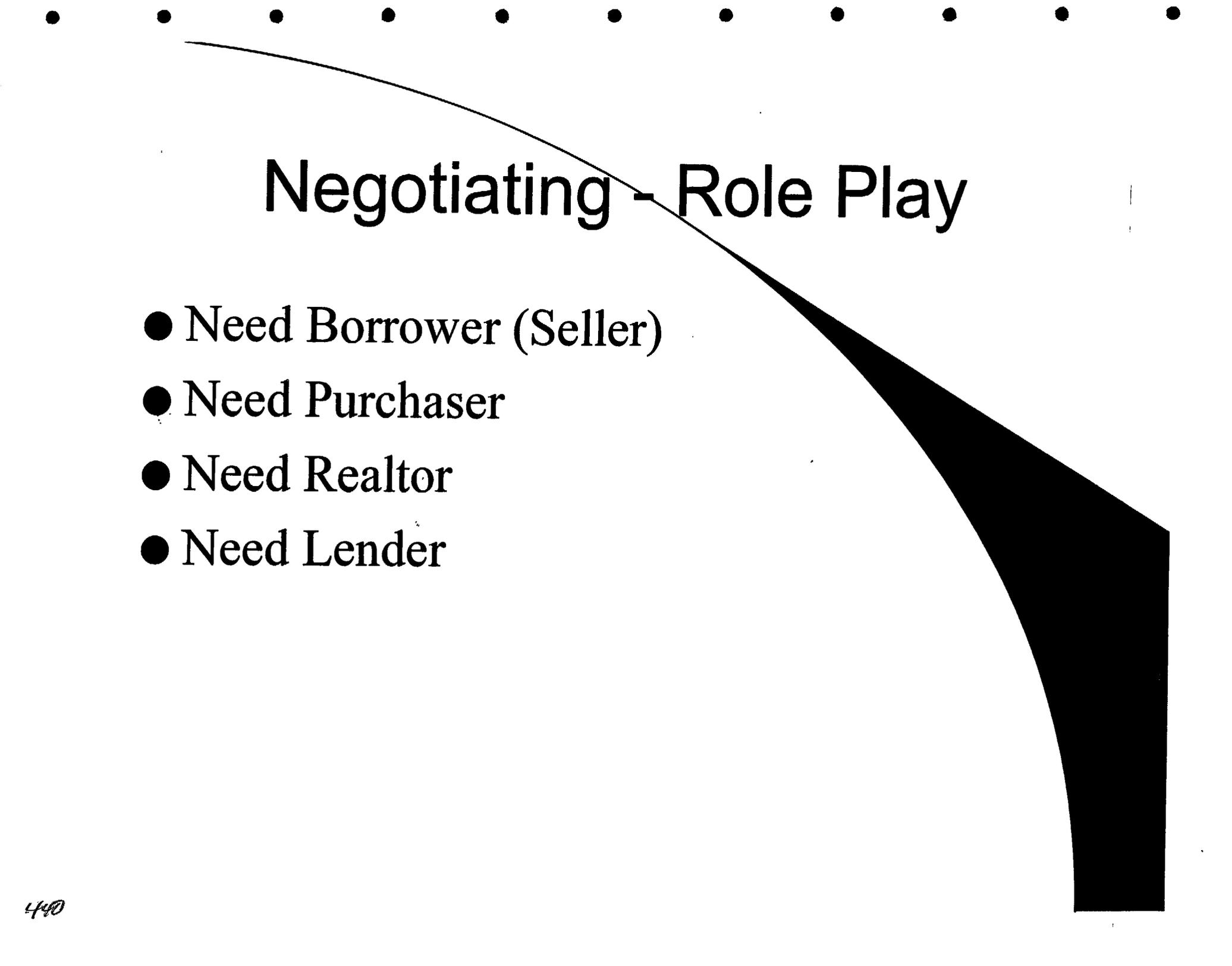
- Borrower response increased with less required financial documentation
- We can make a good business decision with only basic borrower information
- We need to make this financial info gathering easier for borrower and servicer
- Schedules for household costs are more reliable and easier to report

Less Borrower Info

- One-page financial statement
- One pay stub from each borrower of note
- One bank statement for each savings and checking account
- No tax returns

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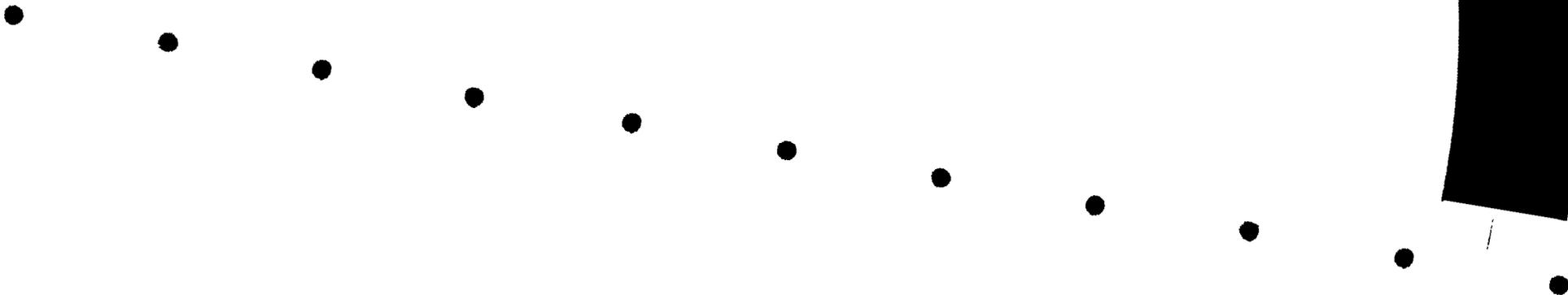
Negotiating - Role Play

- Need Borrower (Seller)
- Need Purchaser
- Need Realtor
- Need Lender

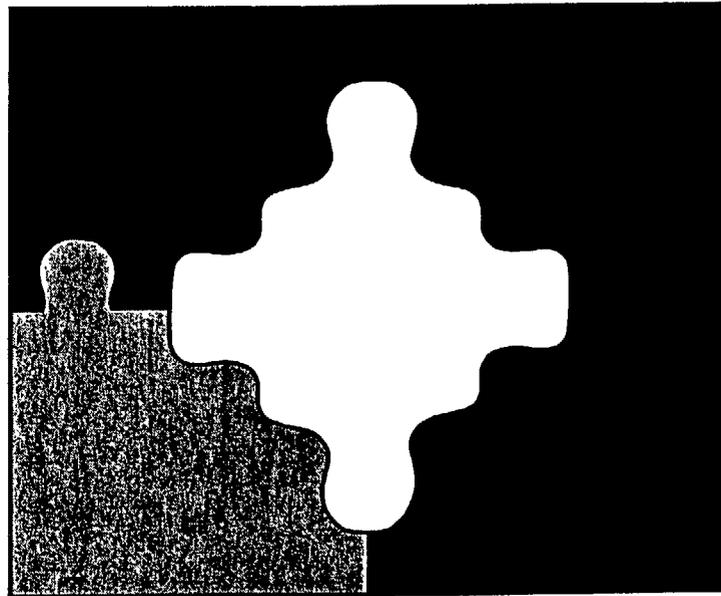
Questions?



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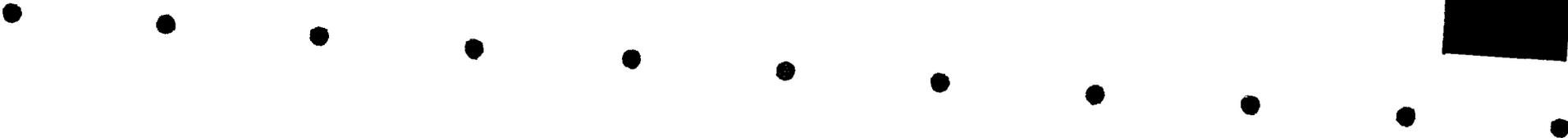
Seminar evaluation



Thank you!



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**EXECUTIVE COURSER: STRATEGIC ISSUES IN HUNGARIAN HOUSING FINANCE
SUMMARY EVALUATION**

Executive Course: Strategic Issues in Hungarian Housing Finance Summary Evaluation

On November 9, 1998 Fannie Mae Senior Vice President for Operations, William Ehrhorn and Vice President for Operations Stephanie Garrison, conducted a seminar discussion for executives in the Hungarian banking sector on the strategic issues in managing a housing finance lending operation. The purpose of this course was threefold. The first objective was to illustrate the attractive business opportunity that a housing loan business presents for new entrants in the Hungarian retail banking market. The second objective was to describe business management techniques employed by US housing lenders and to illustrate business trends experienced over time in the US market. Finally, the course was designed to draw out relevant inferences from the US system for Hungary's current housing lending situation and prospects for future development and refinement of this market.

The outline for the course was as follows:

Part 1 - Overview of U.S. Housing Finance System and Fannie Mae

Part 2 - Opportunities in Housing Finance in Hungary

Part 3 - How the Housing Finance Business is Managed in the U.S.

Underwriting

Asset Liability Management

Servicing

Delinquency and Foreclosure

Part 4 - How to Establish and Grow this Business

New Product Marketing

Market Research

Customer Relations

The seminar audience was hoped to include a large contingency of commercial bank executives whose institutions were considering entering the housing finance business going forward. Unfortunately, there were not as many who fit this profile as we might have hoped. There was heavy representation of housing-related government officials, and several representatives from the current housing loan market participants, OTP and Takarekbank. Due to this make-up of attending participants, the questions focused the presentation and discussion much more heavily on the public/private relationship in housing in the US system, government subsidies, and the role of Fannie Mae than the course outline had intended. What was meant to be a 10 minute introductory overview of

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the primary/secondary market system in the US turned into a several hour question and answer session on the US government's role in housing finance and the difficulty of the Hungarian situation with regard to affordability of homes without a subsidy. The seminar attendees presented to Bill Ehrhorn and Stephanie Garrison what they saw as the most insurmountable obstacles to the private market supply of housing finance in the Hungarian system, seeking suggestions and solutions from the presenters. This type of conversation dominated the morning session of this course.

In the afternoon session, the discussion was redirected to the specific aspects of managing a housing loan business, and the pace discussion picked up dramatically. All of the topics listed in the outline were covered during the course of the afternoon, with many questions and lively discussion about the takeaway lessons of the US model for Hungarian banks. The feedback in the executive course surveys was very positive.

The banks and institutions in attendance included:

OTP
FHB Land and Mortgage Bank
Hungarian Banking and Capital Market Supervision
Penzugyminiszterium
Postabank
Ministry of Industry, Trade and Tourism
Takarekbank

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**RFS 555
STATEMENT OF WORK**

Contract No. EYE-0034-C-00-5110-00

Statement of Work

RFS No. 555: Housing Finance Conference

Page 1



**HOUSING AND URBAN DEVELOPMENT ASSISTANCE
IN CENTRAL AND EASTERN EUROPE
CONTRACT No. EPE-0034-C-00-5110-00
RFS No. 555**

**STATEMENT OF WORK
HOUSING FINANCE CONFERENCE: PROGRESS AND PROSPECTS
Under Activity Three:
HOUSING FINANCE SYSTEM REFORM IN HUNGARY**

Objective

This RFS covers the preparation of a national housing finance conference to be held in Hungary in late 1998, under the life-of-project work plan for bringing about housing finance system reform. The work plan contributes to USAID/Hungary's Strategic Objective 2: *a more competitive and market-responsive financial sector.*

Tasks

Life-of-Project Aim: Housing finance conference will take place in Hungary late in 1998.

Quarters II and III, 1998:

The contractor will plan housing finance conference to take place in late 1998. The two-day conference will be addressed to the major players in the housing finance sector, including banks, investors, developers, and policy-makers. The conference will be preceded by one day of hands-on workshops for lenders, and followed by a special day on housing finance throughout the region, attended by policy makers from other Central European countries.

Tasks for conference preparation will include:

- draft agenda
- identify speakers and commission presentations
- begin preparation of presentations and background papers
- arrange all logistics

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Tasks for the lender workshops will include:

- I. conduct survey among housing lenders
- II. design course materials

Anticipated Result: Agendas will be established, materials under development, and preparations for the events well underway.

Deliverables

Draft agenda.

Level of Effort

US Technical LOE

Senior Housing Finance Specialist (Diamond)	20 days
Senior Legal Specialist (Rabenhorst)	20 days
Renovation Finance Specialist (TBN)	20 days
Housing Analyst (Banks)	20 days
Housing Finance Specialist (TBN)	20 days
Banking Trainer (Twadell)	20 days
Training Project Manager (Stoner)	10 days
Marketing Specialists (TBN)	24 days
Business Unit Specialist (TBN)	11 days
<i>Subtotal US LOE</i>	<i>165 days</i>

CCN Technical LOE

Senior Housing Finance Specialist (Hegedus)	20 days
Senior Housing Analyst (Tosics)	10 days
Housing Finance Specialist (TBN)	20 days
Renovation Finance Analyst (Gerohazi)	20 days
Program Assistant (Somogyi)	40 days
Conference Organizer (Balas/Magyari)	40 days
<i>Subtotal CCN LOE</i>	<i>150 days</i>

Total LOE 315 days

Time Frame

March 1, 1998 - September 30, 1998

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**HOUSING AND URBAN DEVELOPMENT ASSISTANCE
IN CENTRAL AND EASTERN EUROPE
CONTRACT No. EPE-0034-C-00-5110-00
RFS No. 555A**

**STATEMENT OF WORK
HOUSING FINANCE CONFERENCE: PROGRESS AND PROSPECTS
Under Activity Three:
HOUSING FINANCE SYSTEM REFORM IN HUNGARY**

Objective

This RFS covers the preparation of a national housing finance conference to be held in Hungary in late 1998, under the life-of-project work plan for bringing about housing finance system reform. The work plan contributes to USAID/Hungary's Strategic Objective 2: *a more competitive and market-responsive financial sector.*

Tasks

Life-of-Project Aim: Housing finance conference will take place in Hungary late in 1998.

Quarters II and III, 1998:

The contractor will plan housing finance conference to take place in late 1998. The two-day conference will be addressed to the major players in the housing finance sector, including banks, investors, developers, and policy-makers. The conference will be preceded by one day of hands-on workshops for lenders, and followed by a special day on housing finance throughout the region, attended by policy makers from other Central European countries.

Tasks for conference preparation will include:

- draft agenda
- identify speakers and commission presentations
- begin preparation of presentations and background papers
- arrange all logistics

Tasks for the lender workshops will include:

- conduct survey among housing lenders
- design course materials

Anticipated Result: Agendas will be established, materials under development, and preparations for

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the events well underway.

Amendment A

Quarter IV, 1998 and Quarter I, 1999. The contractor will:

- finalize background papers
- finalize conference preparations including invitations, presentations, and all logistics
- prepare course material for lender workshops
- hold the conference in early November including pre-conference lender workshops
- conduct media outreach surrounding the conference and its principal issues

Deliverables

Draft agenda.

Amendment A: all conference and training materials, including background papers.

Level of Effort

	<u>To Date</u>	<u>This RFS</u>	<u>Cumulative</u>
<i>US Technical LOE</i>			
S Housing Finance Specialist (Diamond)	20 days	0 days	20 days
Senior Legal Specialist (Rabenhorst)	20 days	0 days	20 days
Renovation Finance Specialist (TBN)	20 days	(20 days)	0 days
Housing Analyst (Banks)	20 days		
Housing Finance Specialist (O'Brien)	20 days	0 days	20 days
Banking Trainer (Twadell)	20 days	0 days	20 days
Training Project Manager (Stoner)	10 days	10 days	20 days
Training Specialists (TBN)	35 days	17 days	52 days
Business Specialist (Lazar)	0 days	55 days	55 days
<i>Subtotal US LOE</i>	<i>165 days</i>	<i>62 days</i>	<i>227 days</i>

CCN Technical LOE

Sr Housing Finance Specialist (Hegedus)	20 days	10 days	30 days
Senior Housing Analyst (Tosics)	10 days	15 days	25 days
Sr Hsng Development Specialist (Baross)	0 days	5 days	5 days
Senior Banking Specialist (Varhegyi)	0 days	20 days	20 days

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Housing Finance Specialist (Szanto)	20 days	0 days	20 days	
Housing Analyst (Zsamboki)	0 days	20 days	20 days	
Renovation Finance Analyst (Gerohazi)	20 days	10 days	30 days	
Housing Construction Analyst (Erdosi)	0 days	15 days	15 days	
Development Specialist (Banyai)	0 days	10 days	10 days	
Program Assistant (Somogyi)	40 days	0 days	40 days	
Conference Organizer (Balas/Magyari)	40 days	0 days	40 days	
Data Analyst (Toth)	0 days	15 days	15 days	
Hsg Fin Specialist, Slovakia (Zapletalova)	0 days	10 days	10 days	
<i>Subtotal CCN LOE</i>	<i>150 days</i>	<i>130 days</i>	<i>280 days</i>	
<i>Total LOE</i>	<i>315 days</i>	<i>192 days</i>	<i>507 days</i>	

Time Frame

March 1, 1998 - March 31, 1999

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TRAINING MATERIALS FOR HOUSING LENDER WORKSHOPS
Offered at the Progress and Prospects Housing Finance Conference, November
1998

Marketing and New Product Development

Marketing and Market Research from an Institutional Perspective

*Overheads (Market)**

Instructor's Guide in English (hmar2)

New Product Development

Overheads (Ujter1)

Checklist for elaborating new alternative products (new prod)

The Basics of Sound Underwriting

Underwriting the Borrower

Overheads (HitBirA2)

Underwriting Property

Overheads (IngHB)

Managing Interest Rate Risk and Asset and Liability Management

Overheads (Eszk-forr gazd A)

Servicing and Delinquency Management

The Fundamentals of Servicing

Overheads (Servicing A)

Delinquency and Foreclosure Prevention

Overheads (Foreclosure A)

The Bank-Customer Relationship in the 21st Century

Overheads (BankUFo1)

* The file name is in parentheses.