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Columnists

It Beats a CD

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How would you like a checking account that earns the same interest rate as you pay on your mortgage? If your banker won't cut that deal, switch to Wells Fargo. It isn't enough to have a great idea. You also have to make it real. Here we come back to one of our favorite why-nots, the all-in-one mortgage, and tell the tale of its evolution and recent arrival in the U.S. The all-in-one mortgage is a simple idea: a mortgage with a line of credit built in. Your mortgage becomes your checking and savings account. Any checks you write increase your mortgage balance. All of your savings reduce the balance. If you have a $200,000 mortgage and $10,000 in a checking account, you really have a net debt of $190,000 and should pay the mortgage rate on that amount. In effect, you get paid the mortgage interest rate on your savings.

This product was invented in Australia by the Bank of New South Wales. In 1997 Virgin Group brought it to the U.K. It became a winner in a relatively short period of time.

But the virtue of a single net-debt position is also a vice. According to Gordon McCallum, head of marketing at Virgin, "people were not keen to mix up their home ownership with their retirement savings and their credit card account." It can be depressing to look at your bank balance and always see a negative number.

Woolwich Bank went one up on Virgin. Under the Woolwich Openplan account, customers are allowed to have up to 12 different "cookie jar" savings accounts. Money in any of these accounts is used to offset the mortgage. From the bank's point of view, it's the same as the Virgin One account. From the customer's point of view, very different. If you want to create an account to save $24,000 to buy a Mini Cooper, it's more satisfying watching your savings balance increase from zero to $24,000 than seeing your mortgage gradually fall from $300,000 to $276,000.

The evolution from the Virgin One to the Openplan account helps us understand how to bring a new idea to the market. When you are doing something very different, look for a way in which the customer can get the benefit without having to change his or her behavior.

Openplan-type accounts have become the standard in the U.K. They are hard to find in the U.S. Why?

As we called big banks, we were quite surprised to find that many of the people who should know better seemed unaware of the overseas product. Others explained that the U.S secondary market in mortgages, which relies heavily on standardization, made such an innovation impossible.

Then we came across Joy Griffiths, executive vice president of home mortgages at Wells Fargo. She brought the product to our shores. (The Wells Fargo Home Asset Management Account has the same interest rates as its regular mortgages, although there is a $75 annual fee.) While not citing volume numbers, the bank says this account has been its most successful product launch ever. How did Wells succeed where its rivals failed?

Griffiths had been at Westpac (formerly the Bank of New South Wales) and therefore knew firsthand about the value of the product. Significantly, her career has been in consumer marketing. Richard Kovacevich, chief executive of Wells, deliberately put new product development under marketing rather than under capital markets. The two groups have quite different approaches. "Typical financial products have shockingly bad product names from the consumer perspective," Griffiths says. "How would you like a five-year ARM, subprime loan. Imagine calling Coke carbonated sugar water in an aluminum vessel."

Instead of segmenting customers into the strategist's "high value," "cash cows," "dogs" and the like, she emphasized the point, obvious in hindsight, that financial value doesn't translate into the customer's needs. She did attitudinal and behavioral market research. She broke customers down based on how they think about money (do they budget, are they savvy, are they do-it- yourselfers) and life events (buying a house, putting kids through school).

Why not routinely give the buyer of an expensive home a line of credit at the time of the mortgage? The work of appraising the house and creditworthiness is already done. The customer is in the office. The line of credit will automatically expand as the mortgage gets paid off or as the value of the house rises.

Part of the trick for Griffiths was to keep the basic mortgage unchanged and work within the standard secondary market as she tacked on the home-equity line of credit. The secondary market had to believe that mortgage pools from Wells would behave much like everyone else's. She overcame those hurdles.

Those who say something can't be done should get out of the way of those doing it. Hats off to Wells and Griffiths.

---- INDEX REFERENCES ----

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