JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

I. Other Presentations In Which Either The Date And / Or Sponsoring Organization Is Missing

1. Risk Management/Investment Related Topics

i. "Capital Markets & Real Estate Mortgages", no date

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Capital Markets & Real Estate Mortgages

I. Each mortgage lending institution is a combination of several sub-systems:

A. A savings attraction system

B. A mortgage loan preference and transaction system

C. A liquidity system

D. A safety system

II. The supply and price of mortgage funds depends on solving the attraction of savings problem without damage to the liquidity position of the institution. In short, new mortgage loans depend on the rate at which old loans are paid off (portfolio run-off) minus changes in liquidity reserves plus new savings placed with the institution.

A. Run-off depends on:

1. Term of mortgage amortization
2. Rate of pre-payment (average life of loan)
3. Prepayment penalties
4. Amount of delinquencies, workouts, foreclosures, and non-accruing or owned real estate

B. Adjustments to liquidity reserve reflect:

1. Volume of existing commitments for future closings
2. Anticipated withdrawals of savings for seasonal or personal needs
3. Expected disintramediation (shifts between lenders)
4. Shifts among investment media (disintermediation)

(The problem of regulation Q and reform of the savings and loan)

C. The many variables affecting new savings

1. Discretionary new cash savings. (new deposits)
2. Discretionary demand deposits (existing old deposits)
3. Discretionary time deposits (CD's, savings plans)
4. Discretionary contract obligations (premiums, fund shares)
5. Forced savings to repay old debt. (principal amortization)
6. Forced saving to anticipate new debt (escrows, prepaid expenses)
7. Forced payment of income taxes. (percentage of tax allocated to mortgage money)

III. Over the last ten years the supply of money available for mrotgages has fluctuated drastically for a variety of reasons which has led the governemnt to intervene at every level of the capital market in order to insulate, in part, the supply of mortgage money from the rising interest rates caused by federal mis-management of both fiscal and monetary policies.

A. The withdrawal of major life insurance companies from residential lending - single family and multi-family.

B. The creation of multiple savings plans controlled by regulation Q.

C. The creation of GNMA to inject federal funds into mortgages through outright purchase, tandem plans, or insurance of colateral trust.

D. Subsidy of savings and loans by direct treasury payments to the Home Loan Bank

E. Encouragement of state housing finance agencies and direct lending by states for veterans mortgages, elderly housing, industrial development.

F. Encouragement of greater consumer savings or special tax deals for retirement of self employed persons, more regulation of pension funds and life insurance companies.

G. Subisdy of rents and purchase prices to reduce impact of interest cost for ultimate consumer

H. Encouragement of bank holding compahies to launch adventures into real estate trusts, mortgage banking, and direct mortgage investment participation arrangements

IV. United States is becoming a capital short country as all our major problems in terms of housing, energy conservation, pollution control, revamping of transportation system, revamping of our urban education system all require capital intensive solutions which compete with one another for money.

A. In Canada consumers must choose between housing and other consumer durables or luxuries.

B. In the U.S. the cost of large residences will rise faster than income because of construction costs, real estate taxes, and energy costs so that there will be growing economic incentive to have smaller houses closer to jobs and shopping and bus lines in order to reduce total capital invested in real estate with interest expense so that income would be available for energy, transportation, and recreation considered to be more satisfying than the prestige of a big house. The ultimate control on interest expense and financial risk is to borrow less.