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
  - 6. Real Estate Finance/Mortgage Banking/Mortgage Guaranty Insurance
    - d. "Real Estate Finance & Risk Management", no date

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Real Estate Finance & Risk Management

I. Risk is the variance between assumptions and facts, expectations and realizations, proforma budgets and final closing of accounts.

   A. Investor in real estate buys a set of assumptions, expectations and budget.

   B. The subject of real estate finance is really the subject of devices to control variance for control of the buyer, the lender, all parties with a vested interest in the transaction, and society as a whole.

   C. Risk is of two kinds:

      1. Static - which can only cause a loss by external event - acts of God, governmental action, etc.

      2. Dynamic risks are inherent in the skill and motivation of management

   D. Devices to control risk include:

      1. Avoidance
      2. Statistical prediction to reduce variance
      3. Loss prevention and damage control
      4. Shift the risk by contract
      5. Shift the risk by insurance contract
      6. Limit liability
      7. Hedge

II. Mortgage lender faces the following types of threats to his assumption of repayment.

   A. Ability to repay

      1. Individual borrower
      2. Community purchasing power
      3. Maintenance of monetary system

   B. Existence of collateral

      1. Physical
      2. Market value

   C. Purchasing power of money advanced

      1. Indirect effect of inflation on interest rates
      2. Devaluation of currency

   D. Liquidity of lending institution

      1. Short term cash flow budget
      2. Long term solvency
      3. Competitive equilibrium with other sources and applications of capital