

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

- o. "Real Estate Credit and the Federal
Government", no date

REAL ESTATE CREDIT AND THE FEDERAL GOVERNMENT

- I. The risk attributes of mortgages make them the stepchildren of the capital market. A long term mortgage investment requires control of the transaction risks relative to the borrower and his collateral, the liquidity risks in the investors mortgage portfolio because of his long short position and interest rate fluctuation, and the money risks involved in attracting and holding savings in the face of inflation, disintermediation, and non-market political interference.
 - A. The sensitivity of mortgage credit to exogenous forces conflicts with national priorities for stable housing production so that the government is continually trying to tinker with the mortgage market.
 - B. To provide a frame of reference for analysis of government objectives relative to mortgage investment several philosophical era's can be arbitrarily defined:
 1. 1925-1945--concern for reform of the mortgage instrument, underwriting procedures, and network of traditional institutional intermediaries
 2. 1946-1965--concern for increasing the physical housing stock for special groups in the housing market by means of credit manipulation
 3. 1966 to the ~~present~~¹⁹⁷⁸--concern for insulating residential construction and consumer housing costs from the consequences of other government policies which have disrupted normal capital markets, inflated housing costs or otherwise disrupted housing markets
 4. - 1978 - Reform of money market institutions
 - C. Money markets for mortgages are distorted by political pressures caused by:
 1. Inability of a price economy to produce housing for those who need it most, about 25% of the population.
 2. The dependence of the gross national product on full employment.
 3. Congressional preference for general credit controls as they cause less political pressure than selected credit controls while politically powerful building industry wants government to fix the price of money for housing (without fixed prices on the product, of course).
- II. Governmental interference in real estate credit markets has the following tactics at its disposal in advancing public values and priorities:
 - A. Interference in the operation of private contracts or legal enforcement of contract rights
 1. For example, in the depression state and federal government simply modified the legal remedies of mortgage creditors by delaying foreclosure suits, judgment, and execution. Moratoria.
 2. From 1938 to 1949 the federal government had the Frazier-Lemke Act which gave mortgagees no more preference than a general creditor in bankruptcy.
 3. States too can interfere. Iowa has a statute which will protect the borrower from foreclosure if the default appears by reason of crop failure, infestation, or "emergency".
 - B. The direction of credit to priority groups through insurance and guaranties. (FHA and VA) Economic feasibility is not required.
 - C. The creation of credit facilities for special groups of borrowers (to be illustrated ad nauseam by the current HUD programs)
 - D. Restriction of mortgage credit outlets through control of new construction permits

- E. The use of federal and state income tax policies and real estate tax preferences to indirectly control new construction activity.
 - 1. Accelerated depreciation rules for new and rehabilitated residential construction.
 - 2. Tax freeze on renewal or industrial sites
- F. Creating legal priorities for the benefit of special groups
 - 1. Emergency legislation following World War II included:
 - a. The Servicemen's Readjustment Act (the so-called "G.I. Bill of Rights")
 - b. The Veterans' Emergency Housing Act (the Patman Act)
 - c. The Price Control Extension Act of 1946
 - 4. The Housing and Rent Act of 1947
 - 2. Under VA program one could receive farm loans, business loans, as well as home loans. There was government scrutiny of each transaction, as a veteran was not allowed to pay more than the price fixed by a VA appraiser.
 - 3. Veterans qualified for emergency housing at war plants (Baraboo) or when a seller had offers from a civilian as well as a veteran, he was required by law to accept the veteran's offer. No one challenged that law but what about requiring sale to a minority group buyer today?
 - 4. War price controls lapsed for twenty-five days but fear of rising rents led to rent controls, construction material allocations, and government controlled building permits, rents, VA loans, and directed conventional mortgage funds could only be used for refinancing or for houses the government might permit. Federal rent controls and veteran preferences lasted until mid-1950.
- G. Maintenance of rent control over rental and management housing has reappeared and is in a state of general confusion. It remains doubtful that it will ever be removed. It is designed to force tougher bargaining with construction labor to offset the fact that subsidized government mortgage money on increasingly liberal terms had concealed the cost of construction wage increases.
- H. The direct use of federal treasury and state funds where other means seemed inadequate or too time consuming to achieve the ends of public policy.
 - 1. U. S. Housing Act in 1937 created first public housing after Ickes began building low income housing as public works in 1932. Plan: 45% written off as grant with remainder to be recaptured in 60 years at 3%.
 - 2. RFC made direct real estate loans and purchased mortgages originally bought by HLB
 - 3. Urban renewal land write-downs, open space grants, sewer treatment grants etc.
 - 4. Rent subsidies and interest subsidies

III. During the 1930's, the failure of the mortgage system was in large part due to institutional and legal problems with mortgage underwriting practices, and thus the government undertook a massive intervention program which had at least five main thrusts:

- A. A series of broad economic measures involving heavy federal expenditure designed to restore and maintain the farm economy and hence farm values
- B. The use of federal credit and subsidies to halt rural and urban foreclosures and to salvage ownerships
- C. The creation of new mortgage credit institutions, usually supported by government capital, and sometimes resulting in a wholly governmental operation
- D. The creation of a number of devices for restoring public confidence in private credit institutions and for renewing and expanding their lending activity.
- E. The direct use of federal funds for the alleviation of urban tenancy and the expansion of farm ownership.

IV. During the 1960's government was first interested in reconstruction of the cities, both as a problem of physical and institutional development. Towards the end of the decade government stressed modification of existing financial institutions to insulate the institutions from liquidity and solvency risks of inflation or lending risks of social impact investments of doubtful economic viability.

- V. In the 1970's the federal government has attempted to interfere in mortgage markets in order to insulate the housing consumer from the costs of inflationary monetary policy with devices to:
 - A. Subsidized interest rate directly or indirectly by controlling dividends to savers.
 - B. Promoting adjustable payment mortgages to postpone repayment of principal until consumer incomes rise.
 - C. Subsidies of home purchase by the middle class or rents of a lower middle class through 235-236, Section 8, or rental supplement plan.
 - D. Discouragement of variable rate mortgages which could sensitize borrowers to rising interest costs and savers to the hidden subsidies they provide to buyers.
 - E. Applying pressure to institutions and municipalities at the local level through block grants, controls on red lining on appraisal, and liberalization of property types eligible for S&L or credit union participation.