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

t. "Shopping for Money", no date

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SHOPPING FOR MONEY-

I. Any agreement which gives use of a real estate interest is the loan of a capital asset. Any choice of residence represents a series of trade off decisions on the opportunity cost of capital and the possible variation or risk in future financial plans.

A. The shelter market offers the borrower an array of choices which represent various degrees of liquidity, opportunity cost of capital, reinvestment alternatives, and investment risk for the supplier of capital.

B. In the light of the above, consider the loan of capital represented by:

1. Flophouse Hotel room
2. Short-term apartment lease (unfurnished)
3. Three-year house lease with tenant paying all expenses
4. Semester lease (furnished and with meals)
5. Three-year apartment lease with lease/purchase of furnishings
6. Mobile home purchase complete with furniture
7. TSO (time share ownership) recreational unit
8. Cooperative apartment corporate share
9. Condominium apartment
10. Condominium townhouse
11. Single family detached in a PUD
12. Single family detached on one-acre lot with pool and tennis court

C. This array of housing choices demonstrates a number of financing strategies:

1. Gross rent--fixed cost (1 and 2)
2. Net cost with no reversion (3 and 4)
3. Net cost with small reversion (5 and 6)
4. Net cost with unpredictable reversion (6,8, and 9)
5. Net cost with stable reversion (9, 10, and 11)
6. Pooling of financing requirements for an individual (2, 5, 6, and 11)
7. Pooling of financing requirements by association (1, 4, 5, 6, 8, 9, 10, 11)
8. Packaging of a consumption system (1, 4, 6, 7, 8, 9, 10, 11, 12)

D. Packaging of a consumption system to simplify shelter financing requirements might be accomplished by a Sears retail store which could:

1. Contract to build a variety of housing via Homart
2. Market the housing via Sears
3. Mortgage and insure the housing via Allstate
4. Market and finance all furnishings via Sears
5. Finance all repairs and additions via Allstate
6. Insure against death, disability, or unemployment via Allstate
7. Transfer built up equity for a similar package in another community (charge account system)
8. Handle all of the above through a single housing finance specialist

E. The capital budgeting decision of rent or buy housing not only provides the advantage of high leverage and favorable opportunity cost and reinvestment rates (on escrow accounts), but also some advantages in the game of spendable cash.

1. Mortgage interest is deductible while rent is not (exception is Wis. income tax for those under $7500 a year).
2. Capital gains can be postponed on resale of legal residence if basis is reinvested in another legal residence.
3. Capital gain on first $25,000 is waived for those over 70.
4. Right of survivorship avoids cost of estate administration.

II. Pooling and packaging of financial needs is done by the developer while the individual shops for his own mortgage loan. For the moment we will consider the narrow problem of the individual shopping for money for the single family detached residence.

A. Possible primary sources for money might be the following, roughly in order of importance in terms of volume:

1. Savings and loans
2. Commercial banker
3. Mortgage banker
4. Seller
5. Credit union or savings bank
6. Government agency
7. Private investor

B. The bases of comparison of alternative sources and subject of negotiation might include:

1. Amount of money per loan
2. Current availability or future commitment
3. Interest rate
4. Length of mortgage term
5. Financial points
6. Loan fees and closing charges
7. Right of prepayment
8. Penalties for prepayment
9. Items included in monthly payment
10. Interest on open ended for additional credit
11. Penalties for delinquincy or late payment
12. Personal relationship with borrower
13. Business reciprocity
14. Title insurance or abstract required
15. Compensating balances required
16. Right to incur additional debt
17. Due on sale or other encumberance
18. Assignable or assumable