

BOSTON COLLEGE  
DEPARTMENT OF ECONOMICS

EC 395  
MWF 9 a.m.  
Fall 1997

Joe Peek  
Office: Carney 141, 2-3686  
Office Hours: M&W 2:00-3:30  
and by appointment

## Real Estate Finance

Text: William B. Brueggeman and Jeffrey D. Fisher, Real Estate Finance and Investments, Irwin, 10th edition, 1997

In addition to the set of articles included in the course outline, I will hand out in class numerous short articles from current newspapers and magazines that are particularly relevant to the topic being discussed. All assignments are to be read before the class during which they will be discussed.

This course applies the standard tools of financial analysis and economics to issues in real estate finance. The focus will be on the financing instruments, not on investment analysis. We will cover chapters 1-11, and 17-20 in the text. Because Real Estate Finance is a rapidly changing field, a number of supplementary readings will be assigned.

Method of Evaluation: The course has two major components, one based on course lectures and assigned readings and the second based on a term project. The lecture component will have two exams. The first exam will be on October 6, and the second exam will occur at the end of the lecture portion of the course. The term project component will continue throughout the semester, culminating in a presentation to the class. The presentations will occur during the meetings at the end of the course, after the second exam. Course grades will be calculated using the following weights: first exam 30%; second exam 40%; project 20%; class participation 10%.

## OUTLINE

- I. Introduction  
B&F, Chs. 1-2.
- II. Interest Rates and Present Values  
B&F, Ch. 3.
- III. Financing Residential Properties
  - A. Fixed-Rate Mortgages  
B&F, Ch. 4.

## B. Alternative Mortgage Instruments

B&F, Ch. 5.

Joe Peek, "A Call to ARMs: Adjustable Rate Mortgages in the 1980s," *New England Economic Review*, March/April 1990, pp. 47-61.

Joe Peek and James A. Wilcox, "A Real, Affordable Mortgage," *New England Economic Review*, Jan/Feb 1991, pp. 51-66.

Stanley L. Iezman, "The Shared Appreciation Mortgage and the Shared Equity Program," in R.L. Florida, *Housing and the New Financial Markets*, 1986, pp. 387-95

Randall Pozdena, "Home Equity Lending: Boon or Bane?," *FRBSF Weekly Letter*, June 2, 1989.

Christopher J. Mayer and Katerina V. Simons, "A New Look at Reverse Mortgages: Potential Market and Institutional Constraints," *New England Economic Review*, March/April 1994, pp. 15-26.

## IV. The Loan Decision and the Loan Process

B&F, Ch. 6.

Stanley D. Longhofer, "PMI Reform: Good Intentions Gone Awry," FRB Cleveland *Economic Commentary*, March 15, 1997.

Neil G. Waller, "Home Mortgage Default: How Lenders Can Control It," *Real Estate Review*, Winter 1990, pp. 84-87.

Robert Van Order, "Those Were the Days," *Secondary Mortgage Markets*, Spring 1990, pp. 12-15.

Alicia H. Munnell, Geoffrey M.B. Tootell, Lynn Browne, and James McEneaney, "Mortgage Lending in Boston: Interpreting HMDA Data," *American Economic Review*, March 1996, pp. 25-53.

Geoffrey M.B. Tootell, "Redlining in Boston: Do Mortgage Lenders Discriminate Against Neighborhoods?," *Quarterly Journal of Economics*, November 1996, pp. 1049-1079.

Geoffrey M.B. Tootell, "Discrimination, Redlining, and Private Mortgage Insurance," Federal Reserve Bank of Boston Working Paper No. 95-3, November 1995.

## V. Residential Financial Analysis

B&F, Ch. 7.

## VI. Financing Income Properties

B&F, Chs. 8-11.

## VII. Sources of Mortgage Funds

B&F, Ch. 17.

## VIII. Secondary Markets and the Securitization of Mortgages

B&F, Chs. 18-19.

Simon H. Kwan, "Innovations and Recent Developments in Mortgage-Backed Securities," *FRBSF Weekly Letter*, January 5, 1996.

Joseph G. Haubrich, "Derivative Mechanics: The CMO," FRB Cleveland *Economic Commentary*, September 1, 1995.

## IX. REITs

B&F, Ch. 20.



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### Project/Paper Guidelines

Each student will be responsible for selecting a topic, but the topic must be approved by me. Each student will make a presentation of his or her research to the class and respond to questions. The presentations will occur during the last few weeks of the course. I will be available throughout the semester to talk with you about your paper.

The schedule for the project is as follows:

Sept. 3 (W)	Open Season
Sept. 19 (F)	Submit brief description of the topic (1-2 pages)
Nov. 14 (F)	Submit first draft of paper
Nov. 24-Dec. 8	Presentations (dates approximate)
Dec. 8 (M)	Submit final draft of paper

All due dates should be read as "No later than...." You can, of course, complete any and all tasks (other than the presentation) prior to the recorded due date.

The key word for the paper/project is analyze. A literature review (summary) or historical description alone is not sufficient. I expect a research paper that makes use of economic and finance arguments and analysis, and includes a bibliography. Some general topics are listed below, many others would be satisfactory. The primary limitation is that the topic should be related to real estate finance or investment **and not be covered in class**. I want each of the projects to be on a different topic, although there may be some overlap. In case more than one student selects the same specific topic, the first individual turning in his or her topic selection gets the topic. However, several of the listed topics are broad enough to allow more than one project without serious overlap.

### Possible Topics

Mortgage Insurance--Public and Private  
 Financial Deregulation--Effects on Mortgage Markets  
 Tax Reform--Effects on Mortgage Markets  
 Regional Differences in Housing Affordability  
 Regional Differences in House Prices  
 Case Study: The Anatomy of a House Price Boom and/or Bust  
 Evaluation of the Prospects for House Prices in Boston  
 Mortgage Servicing Contracts: Valuation and the Impact of Recent Regulatory Changes  
 Buying a Commercial Property: Evaluation and Financing  
 Property Values and Economic Activity  
 Property Values and Banking  
 RTC (Resolution Trust Corporation)  
 Foreclosures  
 Real Estate Auctions  
 Real Estate Investment Trusts (REITs)

Below I list some journals that represent a good starting place to search for information for your projects.

<i>Real Estate Economics</i>	HD251.A493C
<i>Real Estate Review</i>	HD251.R286
<i>Real Estate Today</i>	HD251.R293
<i>Real Estate Finance Journal</i>	HD1361.R4235
<i>Housing Finance Review</i>	HD7293.A1H615 (1989 last year published)
<i>Journal of Real Estate Finance and Economics</i>	HG2040.J66
<i>Secondary Mortgage Markets</i>	HG2040.25.S4
<i>Mortgage Banking</i>	HG2051.U5M8
<i>Journal of Housing</i>	Social Work Library
<i>The Journal of Real Estate Research</i>	
<i>The Mortgage Banker</i>	
<i>Housing Economics</i>	

In addition, the economic reviews of the various regional Federal Reserve Banks often have relevant articles and the B.C. Law Library has some additional journals that might be relevant.

Additional bibliographic sources include the Business Periodicals Index, the American Bankers Association Banking Literature Index, and the *Journal of Economic Literature*.

Pearl Alberts and Barbara Mento are excellent reference librarians at O'Neill. They are quite knowledgeable and very helpful.

Finally, once you select your topic I may be able to help get you started with a few relevant articles or data sources.