

ORER Conference to Address Real Estate Outlook

Real Estate Outlook: 1990 is the theme of the fourth annual Real Estate Outlook Day conference to be sponsored by the Office of Real Estate Research. The event, to be held from 1:00 P.M. to 5:00 P.M. on Tuesday, January 9, will consist of a series of presentations by experts on various aspects of the real estate market and the nation's economy. There is a \$40 registration fee.

Unlike the conferences of the two prior years, the 1990 Outlook will consist of only one day of presentations, rather than two. The program will be held at the Oak Brook Hills Hotel and Conference Center, located at 3500 Midwest Road in Oak Brook, Illinois. The ORER conference is being held in connection with the triannual meetings of the Illinois Association of Realtors®.

The Program

Four speakers will present their views on the outlook for real estate in the coming

year:

Fred Boelter, CIH, PE, who serves as Principal Consultant for Boelter Environmental Consultants in Chicago, will talk on environmental issues that real estate owners and lenders face.

William R. Bryan, Director of the University of Illinois Bureau of Economic and Business Research and Director of the Office of Real Estate Research, will discuss the state of the economy and its likely impact on real estate.

Joe F. Hanauer, Chairman of Combined Investments L.P. and former Chief Executive Officer of Coldwell Banker Residential, will discuss trends in residential real estate for 1990 and beyond.

David F. Seiders, Chief Economist and Senior Vice President for Economics, Mortgage Finance, and Housing Policy for the National Association of Home Builders, will address two topics. The

first is a housing forecast for the U.S., Illinois, and the Chicago metropolitan area. Seiders' second topic is the impact that thrift reform will have on the housing sector.

Following the presentations, ORER will sponsor a reception for those who attend Outlook Day.

Registration Information

Anyone wishing to register for the program should contact Brenda Bishop at the Office of Real Estate Research. The Office's address and telephone number are included with the editorial information on page 2. Those who do wish to attend are encouraged to contact the Office early and pay the registration fee in advance; seats may be limited.

The Office of Real Estate Research thanks the Illinois Association of Realtors® staff for helping to publicize the event.

Charles Hill Speaks on the Future of the Thrift Industry

The following are excerpts from a speech given on November 10, 1989, by Charles M. Hill of the Federal Home Loan Bank of Chicago. Hill had been invited to address a Chicago luncheon meeting of alumni of the University of Illinois working in the real estate field.

Hill holds an M.S. degree in Urban Affairs from the University of Wisconsin, and is a graduate of the University of Michigan Graduate School of Bank Management. He has been with the FHLB of Chicago since 1978, and has served as Executive Vice President and Chief Operating Officer since 1980. He is also the Chicago FHLB's Community Investment Officer. Hill has held several governmental posts, including positions with the Wisconsin Housing Finance Authority and the Department of Housing and Urban Development. He currently serves on the ORER Advisory Committee. Mr. Hill thanks Ms. Leicia Vandercar for assistance in preparing his remarks.

The Federal Home Loan Bank (FHLB) System was created during the Great Depression to promote home ownership through the extension of credit to S&Ls. Interestingly, FHLBs could also loan directly to individuals, but chose to serve only as conduits, channeling funds through thrifts. Though there were ups and downs, and periods of disintermediation, this housing finance system operated smoothly; indeed, it was housing's salvation during the Depression. But over the last decade, several disruptions took a toll. Among these were depressed economic conditions, particularly in the Southwest, and overbuilding in some places. We hear about high vacancy rates in commercial buildings, in which S&Ls were not used to investing; when new powers are granted, there is always a sucker who will loan on something everybody else turns down.

There was also lopsided deregulation. Deregulation on the liability side in 1980

meant market rates had to be paid on deposits, but fixed rate mortgages still dominated the asset side until the 1982 deregulatory legislation. In addition, poor managers focused on quick profits rather than long-term stability, and there was some blatant wrongdoing, including criminal activity. From the mid 1980s to 1989 several plans were put forth; some of these were embodied in 1987's Competitive Equality Banking Act. Among other things, we pumped \$10.8 billion of surplus capital from the FHLBs into FSLIC. Another measure was the Southwest Plan, designed to create synergies by combining insolvent associations with a few well-managed institutions. But what we created instead were a few big insolvencies. All of these antidotes were too late and too little.

So Congress had to administer strong medicine in restructuring and refinancing the thrift industry, which it did by passing the Financial Institutions Reform,

Recovery, and Enforcement Act of 1989, affectionately referred to as FIRREA.

Through this legislation the government has kept its commitment to thrift depositors by honoring the \$100,000 limit per account on deposit insurance. While the cost of the Act's provisions is not known, estimates range up to \$200 billion.

FIRREA allocates \$50 billion to resolving insolvent thrifts over the next three years. You, the taxpayer, paid part of the cost; the Treasury provided the first \$18.8 billion in funding, included in the budget for fiscal year 1989, which ended September 30. Ironically, that spending does not technically violate Gramm-Rudman, since the year affected had ended before the money was allocated to it. Congress wanted to keep "off budget" the spending for years that hadn't yet ended, so they created two new and exotic government-sponsored corporations, dummy corporations I call them: the Resolution Trust Corporation (RTC) and Resolution Funding Corporation (REFCO).

REFCO will borrow \$30 billion in the bond market to finance thrift resolutions; the principal will be backed with zero-coupon Treasury securities, paid for by capital contributions from the 12 regional FHLBs. As of the end of October, the Chicago FHLB had already contributed \$172 million of our stockholders' surplus funds to resolving the thrift crisis, and we're the smallest Bank in the system. Interest on REFCO bonds is to be paid with S&L industry money, but FHLBs could be the interest payors of last resort.

RTC's job is to manage and resolve insolvent thrift cases; it will become the world's largest real estate owner, maybe surpassing the Japanese and Donald Trump combined, and it must dispose of billions of dollars in assets. But RTC's wonderful mandate is contradictory. It is supposed to quickly liquidate assets like subdivisions and vacant land and even golf courses, but without depressing real estate markets. Yet buyers are waiting for fire sale prices. So a slow disposition will slow the recovery, while a rapid sell-off will depress prices and increase the cost of the rescue, since sale proceeds go toward the resolution of other insolvent

thrifts. Either taxpayers or the industry will have to make up the shortfalls.

The President and Congress have assured us that there will never again be such a financial crisis. They dissolved FSLIC and replaced it with the Savings Association Insurance Fund (SAIF), and created the Bank Insurance Fund (BIF) to insure commercial banks. SAIF and BIF are both administered by the Federal Deposit Insurance Corporation, because there is no longer an FSLIC, but the two funds, and the premiums collected from each industry, will remain separate.

The Federal Home Loan Bank Board

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(FHLBB) was an interesting creature. It had jurisdiction over the FHLBs, the thrifts, and the bottomless pit called FSLIC; and it served as the board of directors for Freddie Mac, the Federal Home Loan Mortgage Corporation. A huge interlocking directorate controlled all these regulatory activities. Fifteen years ago that was viewed as the model for financial institution regulation. I dare say no one feels that way now.

FIRREA abolished the FHLBB and replaced it with the Office of Thrift Supervision (OTS). OTS is a bureau within the U.S. Treasury Department, much like the Office of the Comptroller of the Currency, which regulates the national banks. The OTS director supervises thrifts, subject to general oversight by the Treasury Secretary. Freddie Mac has been privatized, much like Fannie Mae, with an 18-person board; five are appointed by the President and the rest are elected by the common share holders. The Secretary of HUD now has general oversight and regulatory authority over Freddie Mac.

The FHLBs are under a new agency, the Federal Housing Finance Board (FHFB). This 5-member board is now headed by HUD Secretary Jack Kemp, who is also on the RTC board and oversees Freddie Mac, and has many other

responsibilities. In fact, until the other members are appointed, Kemp will be the FHFB. FHLBs can now provide banking services related to housing finance, not only to thrifts, but to commercial banks and credit unions as well; the legislation broadens our base of eligible membership. However, it has narrowed our focus and made members subject to more stringent regulations; those that we serve should do specialized home lending.

Two exciting new programs have been mandated by FIRREA to supply housing credit. First is the Community Reinvestment Program, in which FHLBs lend to member institutions at about 10 basis points over Treasury rates, instead of the normal 30-40 basis point markup over cost. Every FHLB must designate a Community Reinvestment Officer (I'll be Chicago's, by the way) to implement these loan programs for low and moderate income people.

The second is the Affordable Housing Program. Its purpose is to channel earnings from the FHLBs to member institutions to provide long-term, below market financing on owner-occupied or rental units for low or moderate income people. This program will apply to home buyers who earn no more than 80% of the median income and to renters who earn no more than 50%. Median income in this area is about \$41,700 for a family of four, so the 50% and 80% figures would be about \$21,000 and \$33,000. These are subsidy funds, not loan funds; money that is not used is returned to the FHLB system, where it is up for grabs. I hope to grab some and bring it back here.

I think FIRREA will have a stabilizing effect on housing finance and the thrift industry. The worst has been weeded out; it is mostly the healthy part of the industry that remains. Moreover, stricter capital requirements will leave the remaining institutions better able to face economic downtrends. When the crisis in the insurance fund is solved, healthy thrifts will be recognized as necessary, specialized lenders committed to housing finance. And now that the regional FHLBs' housing mission has been expanded, we can help to make affordable housing a reality, not just a dream. ■