

FINC 472  
REAL ESTATE FINANCE

Section 500  
Spring Semester 2002  
8:00-9:12, TTh  
WCBA 129

Professor: Dr. Richard L. Haney, Jr.  
Office Location: 310E Wehner Building  
Class Hours: 8:00 a.m. - 10:50 a.m., TTh  
Office Hours: 11:00 a.m. - 12:00 p.m., TTh  
and by appointment (Dr. Haney is always happy to meet with you at a mutually convenient, pre-arranged time if you are unable to come by during his regularly scheduled office hours. In addition, he maintains an open-door policy whereby he is glad to see you whenever he is in his office.)  
Office Phone: 845.4830 (Please leave a message on his voice mail system if Dr. Haney is out of the office or busy with another student and unable to speak with you. He will return your call as soon as possible.)  
E-mail Address: dick.haney@tamu.edu

I. **Course Description**

This course explores the exciting world of real estate finance by taking a close look at its instruments, institutions, and techniques. Special attention is given to trust deed financing, mortgage underwriting and risk analysis, mortgage lending avenues, and the secondary mortgage markets.

Although Dr. Haney will offer problem-solving techniques for specific examples, you should keep in mind that the real estate lending environment is ever-changing. This causes frequent, but typically minor, revisions to the approaches presented in the course. Nevertheless, your ability to identify and solve problems by modifying the techniques you have already mastered always will be useful.

Prerequisite: FINC 471

II. **Course Procedures**

A. **Classes**

The lectures are designed both to clarify any confusing material in the text and readings and to present additional, supplementary material. You will, however, be responsible for *all* reading assignments and problem sets, as well as all material presented in class. Thus, if there is anything course-related about which you are uncertain, be sure to ask about it in class. Dr. Haney is happy to review material or go over items again. If you do not understand why or how a calculation was performed or an issue or concept was presented, just ask. Dr. Haney may not always sense that you do not understand a point he made or one made by another student. You asking questions and the ensuing discussion will help both you and others who have the same question.

As a student in this class, you may expect Dr. Haney to offer 1) clear and effective presentation of the more difficult subject matter, 2) prompt and accurate answers to your questions, 3) fair and careful grading of your work, 4) conscientious attention to his office hours, and 5) courteous and respectful treatment.

As your instructor, Dr. Haney expects each of you will 1) read the assigned materials and work the appropriate problem sets before class, 2) read the *Wall Street Journal*, or the financial section of a major newspaper, on a daily basis, and 3) ask questions in class *before* an exam if there are points about which you are uncertain.

**B. Classroom**

You have beautiful state-of-the-art classrooms in the Wehner Building. Of course, we all want to maintain the outstanding quality and condition of these classrooms for current and future students. In order to do so, please **do not bring beverages, food, tobacco products, or animals** (unless approved by the instructor in advance) into Wehner Building classrooms. Thank you for your understanding, assistance, and cooperation.

**C. Textbook, Reference Material, and Financial Calculator**

There is no single textbook for the course; instead, you will read selected chapters from several texts. You will be responsible for the material presented in class, as well as the material in a packet (or packets) of problems and other required readings. Most likely, the reserve room of the West Campus Library will have two packets of material available under the names *Class Notes for FINC 472 Haney* (or something similar) and *Class Readings for FINC 472 Haney* (or something similar). The packet of class notes, which also includes some readings for which Dr. Haney holds the copyright, may be purchased at Copy Corner as package #300. You can search for West Campus Library reserve materials on-line using LibCat at URL <http://libcat.tamu.edu> and looking under Course Reserves.

There are some additional materials on reserve in the library and further supplementary reading assignments may be announced during the semester. You are encouraged to keep current with the assigned material that will be in terms of weekly readings and problems that should be completed **before** the assigned week. Two reference books you may find useful, and which are on reserve in the West Campus Library, are the fourth edition of Reilly's *The Language of Real Estate* (KF568.5 .R44 1993) and Coffin's *The Negotiator: A Manual for Winners* (HF5386 .C724).

Finally, you must use a financial calculator to readily solve the numerical problems introduced in this course. If you do not have a calculator with keys labeled *N*, *I*, *PV*, *PMT*, and *FV* (or some similar scheme), you should acquire one or arrange to borrow one from someone who is not in this class. In addition, it would be noticeably easier for you if your calculator were able to solve IRR and NPV problems involving varying cash flows. Note that the constant memory feature of any calculator will be erased by the exam proctor prior to each examination.

**D. Academic Integrity**

For many years, Aggies have followed a Code of Honor which states that "Aggies do not lie, cheat, or steal, nor do they tolerate those who do." Dr. Haney knows you value honesty and personal integrity or you would not be attending Texas A&M University. Furthermore, you would not have selected this class if you did not have a strong sense of ethical behavior. Dr. Haney expects you to avoid cheating and to help prevent others from cheating.

The lectures and supplementary materials used in this course are copyrighted. The term "supplementary materials" is intended to include all materials generated for this class, which include, but are not limited to, syllabi, quizzes, exams, in-class materials, class notes, handouts, and problem sets. Because these materials are copyrighted, you do not have the right to use electronic equipment to record the lectures or to copy the supplementary materials, unless Dr. Haney expressly grants you written permission to do so.

Plagiarism consists of passing off as one's own the ideas, words, writings, problem solutions, etc., which belong to another. Thus, you are committing plagiarism if you copy the work of another person and turn it as your own, whether it is a written or an oral assignment or part of an examination. This is true even if you should have the permission of the other person. If you have any questions regarding plagiarism, including the university's remedies for those found plagiarizing, please consult the latest issue of the *Texas A&M University Student Rules*, under the section "Scholastic Dishonesty." It is available in print and can also be found on the web at <http://student-rules.tamu.edu/>. In addition, you might want to look at <http://wehner.tamu.edu/mgmt.www/mgmt.667/administration/plagiarism.html>.

**E. Examinations**

There will be a Midterm Examination and a Final Examination, each worth 100 points.

**F. Grading**

The course grade will be determined according to the following weighting scheme:

Midterm Examination . . . . .	100 points
Final Examination . . . . .	<u>100 points</u>
	200 points

In addition to the above grade determinants, frequent and constructive classroom participation may lead to extra credit.

Due to federal privacy laws, grades will not be posted, provided over the telephone, or sent via e-mail. However, if you provide Dr. Haney with a stamped and self-addressed envelope, he will be happy to mail your final grade to you.

#### G. Students with Disabilities

The Americans with Disabilities Act (ADA) is a federal anti-discrimination statute that provides comprehensive civil rights protection for persons with disabilities. Among other things, this legislation requires that all students with disabilities be guaranteed a learning environment that provides for reasonable accommodation of their disabilities. If you believe you have a disability requiring an accommodation, please contact the Department of Student Life, Services for Students with Disabilities, in Room 126 of the Koldus Building, or call 845-1637. In addition, please visit with Dr. Haney about this within the first week of classes.

#### H. Other

Texas A&M University has created a "student computing and information" web page that will answer many questions you might have about computing at TAMU. You can access it at [www.tamu.edu/scip](http://www.tamu.edu/scip).

Dr. Haney will announce in class any appropriate job opportunities as soon as he receives them. In the meantime, there are two things you should do. First, give Dr. Haney a current copy of your resume so that he is aware of your interests and qualifications. Second, you may want to search the [www.mortgagejobstore.com](http://www.mortgagejobstore.com) and [www.lendercareers.com](http://www.lendercareers.com) web sites periodically for real estate financing-related jobs and the [www.job-hunt.org](http://www.job-hunt.org) and [www.rileyguide.com](http://www.rileyguide.com) web sites for meta-lists of on-line job search resources. You also may wish to take advantage of the information in the "Using the Internet to Tap into the Job Network" material listed below as the first item in the initial section of the course outline. Good luck!

You must send Dr. Haney an e-mail message from the account that you regularly use for your e-mail. He will then send you a confirmation message in reply. To avoid a penalty, you must do this before Monday of the second week of classes. (Dr. Haney's e-mail address is <dick.haney@tamu.edu>; it is also listed on the first page of this syllabus.)

#### I. Web Resources

There are a growing number of web resources available to assist both mortgage lenders and mortgage borrowers, including:

An especially good web site for a real estate finance course is [www.mortgage101.com](http://www.mortgage101.com).

Dr. Jack Guttentag's "Mortgage Professor" site contains answers to a number of home borrower questions, as well as several excellent mortgage calculators: [www.mtgprofessor.com](http://www.mtgprofessor.com).

Fannie Mae and Freddie Mac both have web sites chock-full of useful information. Fannie Mae's main site is [www.fanniemae.com](http://www.fanniemae.com) and its consumer site is [www.homepath.com](http://www.homepath.com). Similarly, Freddie Mac's home page is [www.freddiemac.com](http://www.freddiemac.com) and its consumer site is [www.freddiemac.com/community/homebuy.htm](http://www.freddiemac.com/community/homebuy.htm).

There are several web sites that provide mortgage interest rate information. Four of my favorite ones are [www.hsh.com/statrel.html](http://www.hsh.com/statrel.html), [www.bankrate.com](http://www.bankrate.com), [QuickenLoans.quicken.com](http://QuickenLoans.quicken.com), and [homeadvisor.msn.com](http://homeadvisor.msn.com).

College Station is making major strides in increasing the availability, as well as ease of use, of public information about the community, different neighborhoods, and even individual sites. Key in the following address, then click on "Geographical Information Services" to see the fascinating work they are doing. [www.ci.college-station.tx.us/cbook](http://www.ci.college-station.tx.us/cbook).

An eclectic site that has links to many helpful residential and commercial real estate tools is *The Wall Street Journal's* Real Estate Journal: [RealEstateJournal.com](http://RealEstateJournal.com).

Do not forget to look at the local newspaper's website for the community in which you are interested. For example, the Houston Chronicle has gathered substantial single family home resources including neighborhood-by-neighborhood price trends, maps, property specific details, current mortgage rates, and a moving cost calculator at

[www.houstonchronicle.com/homefront](http://www.houstonchronicle.com/homefront).  
[www.houstonchronicle.com/reportcard](http://www.houstonchronicle.com/reportcard).

The paper also has information about local schools at

Finally, be careful: some of the information on any web site may be dated or in error. In addition, there are many more mortgage sites on the web; you should feel free to search and find those most useful to you. As I become aware of additional outstanding web sites, I will add them to this list for you.

### III. **Course Outline for the Week of:**<sup>1</sup>

January 14	<p><b><u>Overview</u></b></p> <p>“Using the Internet to Tap into the Job Network” (on reserve in the West Campus Library and in the Copy Corner packet)</p> <p>Boykin and Haney (hereafter, B&amp;H), Chapter 2, “Mathematics of Real Estate Finance” (on reserve in the West Campus Library)</p> <p>“Problem Solutions for B&amp;H’s Chapters 2 and 3” (on reserve in the West Campus Library and in the Copy Corner packet)</p> <p>“Time Value of Money Review Problems” (on reserve in the West Campus Library and in the Copy Corner packet)</p> <p>Reilly (optional, on reserve in EVANS Library)</p>
January 17	<b><u>Last Day to Drop a Course with No Record on Your Transcript</u></b>
January 18	<b><u>Last Day to Add a Course (Be sure to get the notes for all missed class periods.)</u></b> <b><u>Q-Drop Period Begins</u></b>
January 21	<b><u>Holiday (No Classes)</u></b>
January 25	<b><u>Last Day to Apply for May Graduation</u></b>
January 21 & January 28	<p><b><u>Mortgage Terminology</u></b></p> <p>Haney, Chapter 1, “Mortgages and Borrowed Capital” (on reserve in the West Campus Library and in the Copy Corner packet)</p> <p>Haney, Chapter 2, “Financing Single-Family Homes,” pp. 6-8 (on reserve in the West Campus Library and in the Copy Corner packet)</p> <p>“Mortgage Loans” (on reserve in the West Campus Library and in the Copy Corner packet)</p> <p>“Home Equity Loans in Texas” (on reserve in the West Campus Library and in the Copy Corner packet)</p> <p>“‘Standard’ Yield Maintenance Prepayment Clause” (on reserve in the West Campus Library and in the Copy Corner packet)</p> <p>“Prepayment with a Yield Maintenance Clause” problem (on reserve in the West Campus Library and in the Copy Corner packet)</p> <p>“Defeasance Clause” (on reserve in the West Campus Library and in the Copy Corner packet)</p> <p>“Overview of Selected Ownership Forms” (on reserve in the West Campus Library and in the Copy Corner packet)</p> <p>B&amp;H, Chapter 11, “Organizing to Finance,” pp. 286-290, 294-304, 305, 307-312 (on reserve in the West Campus Library); read however much of the chapter is necessary for you to understand the preceding “Overview of Selected Ownership Forms”</p> <p>“Limited Liability Companies” (on reserve in the West Campus Library and in the Copy Corner packet)</p>
February 4	<b><u>Lease and Leasehold Financing</u></b>
February 5 - 7	<b><u>Spring Business Career Fair in the Wehner Building</u></b>

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<sup>1</sup>Whenever you are assigned to read textual material in a chapter, you are also responsible for the corresponding summary, key terms, questions, problems, and exhibits, if any, at the end of that chapter.

- February 11 &  
February 18      **Loan Underwriting**  
                                  Haney, Chapter 1, "Mortgages and Borrowed Capital," pp. 23-25 (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  Haney, Chapter 2, "Financing Single-Family Homes," pp. 1-8, 12, 14-18, 27-30 (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Risks Inherent in Construction Lending" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Five C's of Credit" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Three Major Credit Bureaus" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Home Buyer's Qualification Form" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "VA Residual Balance Approach" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Equal Credit Opportunity Act" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Mortgage Calculation Problems" (on reserve in the West Campus Library and in the Copy Corner packet)
- February 25 &  
March 4      **Alternative Mortgage Instruments**  
                                  Haney, Chapter 2, "Financing Single-Family Homes," pp. 18-27 (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Graduated Payment Mortgage, Reverse Mortgage, and Growing Equity Mortgage" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Key Questions to be Asked by Mortgage Borrowers" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Distinguishing Characteristics of Alternative Mortgage Instruments" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Alternative Mortgage Instruments" (on reserve in the West Campus Library and in the Copy Corner packet)
- March 7      **MIDTERM EXAMINATION**
- March 11      **Spring Break**
- March 18      **Mortgage Market Overview**  
                                  "Time Value of Money Review Problems" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Mortgage Calculation Problems" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  B&H, Chapter 3, "Mortgage Markets" (on reserve in the West Campus Library)  
                                  Haney, Chapter 2, "Financing Single-Family Homes," pp. 30-31 (on reserve in the West Campus Library and in the Copy Corner packet)
- March 25      **Real Estate Lenders**  
                                  "Money Market Instruments" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Capital Market Instruments" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  Haney, Chapter 2, "Financing Single-Family Homes," pp. 31-35 (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Mortgage Debt" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Mortgage Pricing Problems" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Types of Real Estate Debt Financing" (on reserve in the West Campus Library and in the Copy Corner packet)  
                                  "Depository Intermediaries" (on reserve in the West Campus Library and in the Copy Corner packet)

“Commercial Banks” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Thrift Institutions” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Contractual Intermediaries” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Life Insurance Companies” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Pension Funds” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Conduits and Investment Banks” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Mortgage Banker” and “Mortgage Broker” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Credit Companies” (on reserve in the West Campus Library and in the Copy Corner packet)

March 29

**Reading Day (No Classes)**

April 2

**Last Day to Q-Drop a Course or Officially Withdraw from Classes**

April 1 &  
April 8

**Secondary Mortgage Markets**

Haney, Chapter 2, “Financing Single-Family Homes,” pp. 36-67 (on reserve in the West Campus Library and in the Copy Corner packet)  
 “GNMA-Guaranteed Mortgage-Backed Securities” (on reserve in the West Campus Library and in the Copy Corner packet)  
 Anders, “A Loan’s Odyssey: How a Home Mortgage Got Into a Huge Pool That Lured Investors,” (on reserve in the West Campus Library)  
 “Typical CMO Tranches” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Mortgage-Backed Security Default Risk” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “CMBS Credit Rating Firms” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Credit Ratings” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “CMBS Tranches” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Commercial Mortgage Rate Spreads to 10-Year Treasury Yields” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “CMBS Yield Spreads to 10-Year Treasury Yields” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Securitization Requirements” (on reserve in the West Campus Library and in the Copy Corner packet)

April 11

**Preregistration for 2002 Summer and Fall Semesters Begins**

April 15

**Mortgage Insurance and Guaranties**

B&H, Chapter 16, “Borrower Protection,” pp. 422-426 (on reserve in the West Campus Library)  
 Haney, Chapter 2, “Financing Single-Family Homes,” pp. 6-14 and Exhibit 2.8 (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Selected HUD/FHA Insurance Programs” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Maximum FHA 203(b) Mortgage Loan Amount” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Down Payment Required on a VA-Guaranteed Loan” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Illustrative Texas PMI Rates” (on reserve in the West Campus Library and in the Copy Corner packet)  
 “Lender’s Margin of Safety” (on reserve in the West Campus Library and in the Copy Corner packet)

April 21

**Muster (Campus Ceremony at 7:00 p.m.)**

April 22

**Future Directions**

- April 29            **“Dead” Day (Classes Meet but No Major Exams)**
- April 30            **“Redefined” Day (Students Attend Friday Classes)**  
**“Dead” Day (Classes Meet but No Major Exams)**
- May 1 & 2         **“Reading” Days (No Classes)**
- May 6              **FINAL EXAMINATION**  
Monday afternoon, 1:00 p.m. - 3:00 p.m.