Chapter 2: The Decision to Sponsor the Research Roundtable

A Hot Topic for HHI Research Support

Newspaper reports, during the latter part of August 2007, on the subprime mortgage crisis, and its side effects, prompted Hoyt Group leadership in an exchange of e-mails to discuss the idea of the Homer Hoyt Institute taking the lead in developing a research program to develop and disseminate knowledge that would improve the quality of decisions being made in dealing with the subprime crisis issues.

The opening e-mail quoted an op-ed piece that focused on the need for assistance to those consumers injured by the market failure in contrast to the mortgage instrument investors. The federal policies were focused on the capital markets rather than the impact on the housing markets. The idea was to foster workouts.

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1 The e-mail was as follows:

MEMO

[August 19, 2007]

To: Homer Hoyt Institute Executive Committee
From: Maury Seldin
Subj: A hot topic for HHI research support

The following quote is from an August 19 op ed piece by Paul Krugman titled “Market needs workouts, not bailouts.”

“…There’s a serious market failure, and fixing that failure could greatly help thousands, maybe hundreds of thousands, of Americans. The federal governments shouldn’t be providing bailouts, but it should be helping to arrange workouts….

“…My guess is that it would involve federal agencies buying mortgages - not the securities conjured up from these mortgages, but the original loans – at step discount, then renegotiating the terms. But, I’m happy to listen to better ideas.”

The logic is that under previous institutional structures, with local lenders, many potential foreclosures could be avoided by arranging workouts. The loss to the lender could be mitigated as well as the loss to the borrower. In many cases the foreclosure results in cannibalized properties, great delays, and unrecoverable costs. It makes sense to avoid these when a workout can be a viable alternative to a foreclosure. Furthermore, the market prices of houses are adversely affected by increasing offerings at a time in which demand has been weakened.

A lot of money was made in the private sector when it picked up on the disposition of assets after the S & L scandal. There was substantial research on the whole S & L situation and those results and the experience would be helpful in devising an approach to the current situation.

Krugman suggests the federal government intervention and gives the example of the intervention in a Latin American crisis. My thought is that commercial banks, and other financial intermediaries with local offices, could make a substantial profit by buying defaulted mortgages at deep discounts, but at net prices better that the mortgage holders would realize under foreclosure. These defaulted mortgages would be selected on the basis for a potentiality of becoming a workout.

The role of the mortgage servicer is unclear, but it can be developed in considering which institutions would be prime prospects. The Fed has been pumping big bucks into the system to help the lenders of the tranches in trouble. Krugman points out the help is for the wrong parties. Better provide at least some of the liquidity to the banks or others who would buy the mortgages at the deep discount. The lessons of risk taking are important.

We have access to researchers who could with some modest support provide significant results of wide societal benefit. What are your thoughts on sending out an RFP from HHI?
The following is a discussion of perspectives held at that time in approaching the problem. Part of the problem in focusing on the workouts is that many of the mortgages were securitized and the role of the mortgage servicer is unclear. The idea of a conference that included the government sponsored financial institutions and the organizations representing the mortgage lending institutions was put on the table. Also the idea of a white paper was advanced. All of this was in the context of getting at a program of sponsoring the most relevant research for effective strategies to deal with the issues.

The idea of mitigating the housing market crisis that was developing from the fallout of the subprime debacle included some analytical ideas to assist the borrowers from avoiding foreclosure and contributing to avoiding a downward price spiral in the market. It is based on a strategic approach to housing markets rather than simply avoiding the chaos in the capital market by bailouts.

Another item in the news aroused great concern. The other was a story about the contagion effect of foreclosures that could cascade. The cascading, in the form of an approaching freefall in house prices is of great concern as to its impact in generating and/or exacerbating a recession. (See Figure 2-1.)

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**Figure 2-1**

Excerpts from New York Times, September 2, 2007,

Can the Mortgage Crisis Swallow a Town? By NELSON D. SCHWARTZ
Maple Heights, Ohio [EMPHASIS ADDED]

TAMMI and Charles Eggleston never took out a risky mortgage, never borrowed more than they could afford and never missed a monthly payment on their neat, three-bedroom colonial in the Cleveland suburbs. But that hasn’t prevented them from getting caught in the undertow of the subprime mortgage mess now submerging this town.

Over the last 18 months, the Egglestons have watched one house after another on their street, Gardenview Drive, end up foreclosed and vacant. Although lawns are still tidy and empty homes are not boarded up and stripped as they are in inner-city Cleveland, the Egglestons say Maple Heights no longer feels safe after dark. Nor do they have the confidence they had when they moved in a decade ago that this is the ideal place to raise their 6-year-old twin girls, Sydney and Shelby. So, in May 2006, they put their home on the market in order to move closer to Mrs. Eggleston’s parents in another middle-class Cleveland suburb, Richmond Heights.

They have had no takers. Although they lowered the asking price to $99,000 from $109,000, no one has even come to look at it in more than six weeks. “My heart panics every time I drive down the street and I see another for-sale sign,” says Mrs. Eggleston, pointing past the placards in front of her porch to others that dot surrounding yards like lawn furniture. “Some people on the street couldn’t pay, so they just left. The competition to sell is just ridiculous.”

It is a scene being repeated in cities and towns across America as loans that were made to borrowers with little or no credit history, many of whom could not even afford a down payment, fail in ever-growing numbers. It is also a story of how local economic trends are intersecting with national politics, with local foreclosures drawing the attention of Democratic presidential candidates, including John Edwards and Representative Dennis J. Kucinich of Ohio.

On the Republican side, President Bush announced on Friday several steps aimed at alleviating the impact of the subprime crisis on homeowners. In a Rose Garden appearance, he ruled out a federal bailout, citing both “excesses in the lending industry” and unduly optimistic homeowners who took out “loans larger than they could afford,” as reasons for the mortgage woes.
Indeed, what was once a problem confined mostly to economically struggling areas is quickly becoming a national phenomenon. Last year, there were 1.2 million foreclosure filings in the United States, up 42 percent from 2005, according to RealtyTrac, a firm that analyzes such data. At current rates so far this year, RealtyTrac expects foreclosure filings to hit two million in 2007, or roughly one per 62 American households — a rate approaching heights not seen since the Great Depression.

Analyzers also say that the fallout from mortgages gone bad is spreading well beyond borrowers now in default. It has begun to engulf middle-class communities like Maple Heights, where nearly 10 percent of the houses — or 910 properties — have been seized by banks in the last two years. And it foreshadows what could lie in store if mortgage holders default on what the Federal Reserve conservatively estimates to be $100 billion in risky subprime loans. Many of these loans were made in 2005 and early 2006, when standards were at their most lax and cities like this were blanketed with aggressive pitches from mortgage providers.

“I don’t think we’ve hit bottom,” says Michael G. Ciaravino, the mayor of Maple Heights. “My fear is that foreclosure rates could go to double where they are today.”

In terms of the subprime mortgage meltdown, Ohio has been among the hardest-hit states, according to the Mortgage Bankers Association. In Cuyahoga County, which includes Cleveland and surrounding suburbs, roughly 30 percent of subprime mortgages are either delinquent or in foreclosure, says Jim Rokakis, the county treasurer.

But this leafy community of bungalows and small family homes built after World War II could be described as its epicenter. Already, Maple Heights, with a population of 27,000, ranks No. 1 in Cuyahoga County in foreclosures per capita, according to Policy Matters Ohio, a nonprofit research group. Ranked by ZIP code, the number of foreclosures here puts Maple Heights in the top one-half of 1 percent nationally, RealtyTrac says.

Mayor Ciaravino has already had to shut his town’s two swimming pools, cut the ranks of police officers and firefighters and eliminate services like free plowing for senior citizens with snow-covered driveways.

With so many houses vacant, says Michael H. Slocum, the finance director of Maple Heights, “it puts a big question mark out there; historical collection patterns for taxes are becoming less reliable.”

In fact, when the town made its annual assessment on homes for garbage collection last month, receipts came in 15 percent below projections, forcing a 50 percent rate increase.

“There is truly a cascading effect,” says Mr. Ciaravino, 43, who grew up in Maple Heights and was a local prosecutor before being elected mayor four years ago. Sitting in his 1950s-style wood-paneled office in City Hall, he says that “the folks living next to these empty homes get discouraged, and middle-class people are leaving.”

For a mayor presiding over a town in crisis, Mr. Ciaravino doesn’t seem angry, but beneath an affable exterior is barely concealed frustration that the danger of subprime debt became a national issue only after Wall Street began to wake up to the threat this summer. “We’ve been warning of problems for years,” he says. “I’m just a small-town mayor. Where was the foresight?”

That same question is echoing among politicians with constituencies far larger than Mr. Ciaravino’s. In July, Mr. Edwards came to Cleveland to tour a neighborhood hammered by foreclosures. Two months earlier, Mr. Kucinich took reporters on a walking tour of the neighborhood where he spent part of his childhood, Slavic Village, pointing out boarded homes and criticizing what he called “predatory lenders.”
What’s more, Cleveland is key in a crucial battleground state in the next presidential election, so it is a good bet that more candidates from both parties will be here touring neighborhoods dotted with foreclosed homes, much the way Ronald Reagan went to the South Bronx in 1980 to highlight what he called the failure of Jimmy Carter’s economic policies.

“*There’s plenty of blame to go around,*” warns Mr. Ciaravino…

...WHY has the impact of the subprime meltdown been so much more severe in communities like Maple Heights than in other parts of the country? Mr. Rokakis suggests that it is a combination of Cleveland’s underlying economic problems and a lack of the steadily appreciating housing prices that other areas enjoyed. That shut off a crucial safety valve — in other regions, overwhelmed borrowers could often turn around and sell their homes for at least a slight profit.

In Maple Heights, the situation is now reversed: with so many properties on the market, home values are dropping, and some delinquent mortgage holders owe more than their homes could now fetch in a sale. “The tax base is eroding,” says Mr. Ciaravino, the mayor. He warns that property values may soon have to be reassessed downward, further crimping tax revenue and raising the heat on Maple Heights’ remaining property owners. “This has affected virtually every aspect of community life, like increasing the rate of transient students in the schools,” he says.

All of these factors are reasons the Egglestons want to move, but they are not sure they will be able to do so anytime soon. “We’re torn,” says Mrs. Eggleston, who works as an executive assistant at a Cleveland nonprofit organization. “You can see and feel the change in the neighborhood. We’re really not sure what to do.”

Mr. Ciaravino is torn, too. He understands the Egglestons’ fears but needs middle-class families like them to stay if Maple Heights is to have a decent future. “We’re not giving up the fight here,” he says, with a trace of weariness in his voice. “It’s frustrating because this could have been avoided. We as a nation are capable of much better than this.”

The three sets of analytical issues identified were as follows: One is the set of conditions that make workouts better than foreclosure. The second is what organizational arrangements need to be made to implement the acquisition of the mortgages to be worked out and their administration. The third set of issues is revolves around avoiding chaos in the capital market and dealing with the ethical issues of incidence of losses.

The Fed’s bailouts were designed to provide liquidity to the investors in the mortgages, or the mortgage tranches, apparently with repurchase agreements. Furthermore, the holders of the debt may take the foreclosure route and that is likely to exacerbate the softness in the housing market. The great danger is a downward spiral in prices because houses would be dumped on an already soft market. The strategy suggested was to soften that blow by finding out what is the range in a potential workout where the lender is better off than foreclosure, and so is the borrower, and facilitating that process beyond existing institutional arrangements.

The variable rate mortgage, with no equity and with rising rates and cash requirements, is the great difficulty. This is especially true because the borrowers got in over their heads to start with. But, if in time they will be able to afford the housing they supposedly own then the issue is how much can they pay, how much is to be accrual in debt, and how much will the lender write off. That model may be the subject of an RFP.

The second set of analytical issues is based upon organizational issues, especially institutional arrangements. The first question is to identify the role of the mortgage
servicer in the process. If the servicer is a mortgage banker with the capability of acquiring the ownership of the mortgage, negotiating the restructures agreement, and selling the mortgage, that is an option. What is more likely is the existence of a bank or other financial intermediary with a local office with the ability to acquire the mortgage at a deep discount, renegotiate the terms, and retain it in its portfolio, or possibly resell after payment history is established. Such an operation may require an infusion of funds to the commercial bank or other financial intermediary. Initially it might be the Feds action, but participatory interests could be an option.

The incidence of loss is a big issue. The reason for the bailouts of investors should be based on avoidance of chaos in the capital market, not saving investors from there folly. The avoidance of chaos may mitigate losses of investors, but it is the byproduct. The second set of analyses is the design of institutional arrangements that would make the amelioration of damage to housing markets feasible, especially to avoid a downward spiral of prices.

The third set of analyses is the avoidance of chaos in the capital market. The Long Term Capital Management bailout was such a case. Some bailout actions have already been taken, but they are focused only on the capital market, not on the reduction of foreclosure issue. The strategy that may emerge is one that ties further bailout assistance to the mortgage holder’s participation in the write down program, where appropriate. The lenders need to be willing to take their share of the losses as a condition of getting federal assistance. This third set of issues is dependent on some results from the two earlier sets.

The thought was that HHI could design a set of RFPs, maybe through a research roundtable. The research roundtable approach has a long history for HHI. (See Figure 2-2).

It was clear that HHI was not in the position to fund the whole project; but it didn’t need to be. It can serve as is a facilitator of the process. At some point, industry was expected to be willing to provide funding for the research. HHI solicited inputs from Hoyt Group leadership as to how to proceed. The white paper idea remained on the table with a decision to pursue the research roundtable approach but precede it with a state of the art literature survey. The series of outputs considered were as follows: [1] a white paper that provides a brief summary of the situation and advances some ideas to be discussed as worthy of research, [2] a conference to review the paper and consider what research is worthy as a step in policy change, [3] the development of the RFP’s following the conference and the subscriptions of funding organizations to pay for the research, and [4] the research administration.

Additional inputs were solicited from four Weimer School Faculty members: Susan Wachter, John Weicher, Richard Green, and Jim Follain. Then, As a summary of the discussion to proceed and an outline of an approach, Maury Seldin developed a draft of a piece titled “Don't Panic Yet: A Strategy for Dealing with the Emergence of a Housing Bubble Resulting from the Interdependence of Space and Capital Markets.”

That draft, subsequently published in the ASI Newsletter, focused on immediate impacts rather than long term solutions. See Figure 2-3. A subsequent piece titled “The Market as an Icon: The Case of the Subprime Mortgage Debacle” was prepared as a companion piece to the Don’t Panic Yet essay. The second piece focused on the longer
run institutional changes in contrast to dealing with the avoidance of a cascading of the housing market and the fallout to the rest of the economy. See page S-7 of Figure 2-4.

Both pieces were included in the supplement to the Advanced Study Institute’s newsletter as an insert to the edition that followed the report on the research roundtable. The institutional arrangements need to be modified if we are to buttress our faith in the system in which the market represents a good way to induce production and provide distribution using price as a vehicle.

“Perfect market systems have sets of conditions such as a level playing field with symmetric rather than asymmetric information and equal bargaining power among players. In the absence of some of these conditions, or with some shortfall, governments intervene with regulation in order to make the system work better.”

That was prepared prior to the October 24, 2007 research roundtable in Washington D.C. designed to develop a research agenda that would (1) enhance understanding of institutional arrangements so as to avert a reoccurrence of the debacle caused by the subprime mortgage catastrophe; and (2), to enhance understanding that would assist in the development of a strategy to mitigate the damage from the current catastrophe, especially to minimize the cascading of foreclosures that would destroy some local housing markets and spread to adversely impact the rest of the economy, especially to avoid a precipitous downturn in general economic activity.

The essay opened as follows: “The current subprime mortgage debacle is a failure of the The key paragraph summing up the situation is as follows: “A major failing of the market in the subprime case emerged from a mismatch of the distribution of risks and rewards. Great rewards went to originators, packagers and distributors of the mortgages and investment instruments derived from their packaging and slicing-an'-dicing. The great risks were borne by borrowers and by investors who wound up holding the long term instruments.”

Some ideas advanced were as follows: “Consumer education and protection is a good place to start. Sophisticated consumers know enough to consider competitive options, negotiate the terms, and assess the risks if there is adequate disclosure and honest representation. Thus, adequate disclosure and honest representation is a first step. …

The compensation system for some mortgage agents has induced some to knowingly make poor recommendations to the prospective borrower because the agent’s compensation is higher with the poor choices. Ethical behavior is one approach to dealing with the issue. Another is licensing requirements. A third is punishment to agent’s who violate regulation. An option is to also punish the organizations charged with supervising the agents. There are other areas of business with similar problems. Research on results of different approaches would be helpful in developing strategies to deal with the agent problem. It would be a lot better than superficial public arguments. The companies that originate the mortgages are in the next level up the chain in the system. The compensation issues are the same as with the agents as to the selection of mortgage types. But, where the originator is a packager and has no long term interest in the repayment risk, the underwriting standards may fall short of what a long term investor would expect. The market is a useful tool, but the institutional arrangements are in need of revision. Research is critical in the process of getting revisions that will actually improve the system. This was the thinking that launched the HHI Subprime Crisis Research Program. The initial priority was on mitigating the housing market crisis.
Research Roundtables, Conferences, and Seminars

Research Roundtables

A key element of HHI’s efforts to promote productive interaction between industry leaders and researchers has been its research roundtable program. These sessions enable members of the academic community to share pertinent information from their research with decision makers, and also give real estate leaders the opportunity to provide information and valuable insights that help to influence the direction of future research programs.

The Institute’s research roundtable program was initiated in 1984 in Washington, D.C., with a session focused on Innovations Needed in Real Estate Finance. Some of the country’s foremost authorities on land economics participated, including Gary Driggs, president of Western Savings & Loan Association, Phoenix; William C. Greenough, retired chairman, Teachers Insurance Annuity Association/College Retirement Equity Fund, New York; Leon T. Kendall, chairman of the board, Mortgage Guaranty Insurance Corporation, Milwaukee; R.J. Saulnier, professor emeritus, Columbia University, and former chairman, Council of Economic Advisers; and Norman Strunk, secretary-general, International Union of Building Societies & Savings Association, Chicago. (See photo on page 23.)

The caliber of these participants set the tone and standard for subsequent roundtables. More recent topics have included Institutional Investment in Real Estate, Asbestos Concerns, Property Risk Rating Systems, the Flow of Funds in Mortgage Markets, Real Estate Data, Use of GIS in Real

Estate Market Analysis, Corporate Asset Management, Market Analysis and R41c Requirements as They Relate to Appraisals, and Asbestos and Its Problem for the Real Estate Industry.

Over the years, the scale of the research roundtables has tended to grow. This May, a research roundtable is being sponsored by the International Council of Shopping Centers (ICSC) with the Homer Hoyt Institute to bring together in a conference forum 25 academic and 24 task force members.

Conferences and Seminars

Recognizing the importance of the exchange of ideas among leaders in various facets of the real estate field, the Homer Hoyt Institute has sponsored and organized conferences for leaders in academia and industry—often joining forces with universities and associations of industry professionals to present these programs.

For example, HHI has co-sponsored a seminar on housing markets with the Daniel Management Center of the University of South Carolina. It co-sponsored the Engineering Foundation Conference on Land-Use Policy, and sponsored the 1982 and 1984 meetings of the Real Estate Center Directors and Chairholders Association.

As an outgrowth of the 1986 Real Estate Center Directors and Chairholders Association meeting, the Institute sponsored a planning session on developing a research agenda for land data and market
information systems in November 1986. Topics included the creation of a consortium of Real Estate Centers for cooperative research efforts and the potential use of urban development systems as a research topic for a consortium of centers.

HHI sponsored a seminar on Geographic Information Systems (GIS) in Arlington, Virginia, in 1989, that featured a demonstration of SPANS (Spatial Analysis System) presented by Giulio Maffini, president of T&DAC Technologies, Inc. This seminar led directly to the Institute’s involvement with the use of a GIS for spatial modeling and data collection.

The Advanced Studies Institute and the Wharton School of Business at the University of Pennsylvania co-sponsored a conference entitled Housing Policy in the 1990s in March 1990. The list of distinguished speakers was led by James Rouse, chairman, American Enterprise Foundation; John Weicher, assistant secretary for policy development and research, HUD; and Ira Gribin, president, National Association of Realtors.

In May 1992, the Homer Hoyt Institute of Maryland joined with the Indiana University Center for Real Estate Studies to sponsor a pension fund seminar in Indianapolis. Entitled The Role of Real Estate in Pension Fund Portfolios: What Have We Learned from Recent Research, the seminar focused on the practical implications of the latest research on institutional investment in real estate. It was inspired by requests for objective information about institutional investment in real estate at a time of unprecedented opportunity – and risk – in real estate markets. The program was so well received that plans were made to repeat it in Los Angeles, California; Chicago, Illinois; and at the Hoyt Center in North Palm Beach, Florida. A research roundtable on pension fund investment in real estate will follow the seminar at The Hoyt Center in February 1993.
Understanding the interdependence of housing space markets and the capital market is essential to developing an effective strategy to ward off a bubble in the housing market. The discussion that follows touches on the nature of the current crisis in the capital market, the role played by the mortgage market, and the relationship to the housing market. Having done so, an overview of a strategy to be developed for averting housing bubbles in local housing markets will be presented and it will be include some ideas for research that would help in designing the detail of such a strategy; and, bringing on board those who could be instrumental in the creation and implementation of programs engendered in the strategy.

Such a strategy is proposed as a companion piece to measures taken by the Fed and to be taken by the Fed and other government agencies, including state agencies, to mitigate the current financial crisis in the capital market and to avert a repeat of the disruption of orderly capital and housing markets. While some reference may be made to potential long term institutional to avoid recurrence of crises in the capital market the focus of this essay is on local housing markets.

The first side heading of the lead article in the Economist of August 18, 2007 asserts “The new financial order is undergoing its harshest test.” The opening sentence of the last paragraph is “Because this crisis taps so deeply into the newly devised structures of finance, anyone who says the worst is definitely over is either a fool or someone with a position to protect.” A vignette of the current crisis is in the lead story of the August 20, 2007 Wall Street Journal, “How a Panicky Day Led the Fed to Act.” It starts with “Strains in financial markets had been evident for weeks, but Thursday, Aug. 16, was different.” The article relates the following: how $45.5 in Euro commercial paper in London was maturing, but what would normally be gone by noon was still half unsold by the end of the day; Countrywide Financial, the largest mortgage issuer in the U.S., was unable to get buyers for its commercial paper as it usually did and it used its bank credit line to borrow $11.5 billion; by the end of the day the flight of the market to more secure paper that “had been around 4%, dropped as low as 3.4%; and, the market distress was calling for some action by the Fed. Further, the WSJ noted that “On Friday morning, following a conference call the previous evening convened by Chairman Ben Bernanke, the Fed blinked.”

The Current Crisis
There is more to be reported on the Fed’s actions, but the point is that there is enough to call it a crisis. Mortimer B. Zuckerman in his U.S. News & World Report editorial of August 13 / August 20, 2007 earlier identified the situation as a “Credit Crunch.”

The Zuckerman editorial relates the following: [1] “With more than $1.8 trillion worth of securities backed by subprime mortgages created since 2000, banks and investors are suffering losses that are exposed every week, affecting overall confidence in the credit markets.” [2] “Sales of new homes are down 22 percent below a year ago.” Negative equity exists in 20% of

*Dr. Seldin is Chairman of the Board of Directors of the Homer Hoyt Institute, an independent not-for-profit organization focused on real estate and urban land economics.
adjustable rate mortgages and it will increase as teaser rates kick in. [4] The default rate on prime home equity loans has tripled from a year earlier. All of this is seen as part of a pattern of riskier loans.

Other sources reveal that the slicing and dicing of mortgage loans into tranches with descending claims in order to price different risk levels, accompanied by excessively generous credit ratings contributed to unrealistic risk assessments by investors. Some of those investors, typically hedge funds, leverage the purchase; say at 4:1 of borrowed money. The declines in the value of the derivatives may wipe out the equity of the leveraged investor.

Thus far the actions of the Fed have gone to ease the capital market. It lends to banks, not to these other mortgage investors. So, as the WSJ reports, the paper holders bring the paper to their bank and the bank uses it as “collateral to the Fed for a 30-day loan.” It is unclear what happens afterward, especially if the paper loses value – who takes the loss.

The Role Played by the Mortgage Market

The role played by the mortgage market is centered on the rise and fall of subprime mortgages including the innovative packaging and distribution of the assets in the form of sliced and diced risk positions. The impact of the subprime mortgages was exacerbated by hedge fund investing with the use of leverage. The quant jocks that develop the sophisticated econometric models to forecast market behavior do a fine job when the structures are unchanged. When the relationships stay the same the outcomes are predictable. But, when relationships change because of structural innovations the outcomes are less predictable. That was the story in 1998 when Long-Term Capital Management got into trouble and there was a massive rescue operation.

The current debacle is not only attributable to sophisticated investors making errors, and to rating agencies underrating risks, but to naïve borrowers, some greedy, but others just hoping for better housing. The story of subprime mortgages is the story of mortgages that started out subprime but became “junk mortgages” as the counterpart to junk bonds. The euphemism of subprime obfuscates the reality of exceptionally high risk that would probably not be taken by a lender that intends to hold the mortgage for a long term investment. The issue may be seen as a mismatch of who bears the risk and who reaps rewards beyond risks taken.

The role of the mortgage lender should not be underestimated. A New York Times story of August 26, 2007 by Gretchen Morgenson reports “Such [high risk] loans were made, former employees say, because they were lucrative – to Countrywide. The company harvested a steady stream of fees or payments on such loans and busily repackaged them as securities to sell to investors. As long as the housing prices kept rising, everyone – borrowers, lenders, and investors – appeared to be winners.” The article continues with a later quote from a former sales representative, “The whole commission structure in both prime and subprime was designed to reward sales people for pushing whatever programs Countrywide made the most money on in the secondary market.” An understanding of the historical perspective of how this all developed is provided by John C. Weicher in a paper “The Long and Short of Housing: The Homeownership Boom and the Subprime Foreclosure Bust. He wrote, “The subprime market is new, and it has grown very fast. It barely existed 20 years ago; now, it constitutes about 15 percent of the home mortgage market, and may have accounted for 20 percent of home mortgage originations last year.” He writes that 20 years ago the subprime mortgages were generally refines or debt consolidation loans. They were at low loan to value ratios and when there were foreclosures there were losses to the lender.

Dr. Weicher also reports that by 2002, when he was FHA Commissioner he “had occasion to take a further look at the subprime market, it had changed from its early years. Home purchase loans moved to become about one-third of subprime originations, a much larger share, but still a minor fraction [of the total of subprimes]. LTVs[loan to value ratios] were also quite a bit higher, but still nearly all were 90 percent or less; by comparison, nearly all FHA borrowers had LTVs
above 95 percent. By 2006, the home purchase share was up to 44 percent, but more importantly subprime loans now carried very high LTVs and were generally riskier in other respects as well.”


The first generated its influence by ending deductibility of consumer interest; IRS regulations encouraged home equity lines of credit. The second public policy generated its influence through an increase in the stringency of regulations that encouraged the financial intermediaries to shift to mortgage banking activities rather than focusing on being long term holders of mortgages. That increased activity in the secondary market, especially with purchases by Fannie Mae and Freddie Mac. The regulatory changes to the traditional lenders encouraged them to move “away from making relatively risky loans, [and so] they left an opportunity for the consumer lenders.” The third policy “was more amorphous: federal encouragement of a conventional mortgage-backed securities (MBS) market. For many years the financial markets were only willing to accept MBS with an explicit or implicit federal guarantee. Market acceptance of MBS backed by conventional mortgages and issued by fully private institutions came slowly, but by the late 1980s conventional MBS were being successfully issued. During the early 1990s, subprime MBS were beginning to earn market acceptance.” Weicher notes “Each policy served important public purposes. Taken together, they had the unintended consequence of facilitating the subprime mortgage market. From $3 billion in subprime mortgages in 1988, as best the market could be measured, originations increased to $38 billion in 1996 and then to over $500 billion by 2004.”

Weicher provides substantial data in his paper and indicates “…the charts suggest to me that the current problem is likely to be limited to the subprime market. It is not likely to be contagious and infect the prime market, although some prime lenders, and especially Wall Street analysts and the media, are expressing the opposite view. It seems clear, moreover, that the problems are concentrated in the loan cohorts of 2004 to 2006. Before 2004, loans were less risky, and borrowers enjoyed the double-digit home price appreciation of 2004 and 2005.”

Weicher’s charts may be giving the right impression about the containment of the problem to the subprime sector, but although his paper is tremendously helpful in providing a historical perspective of subprime mortgage lending and is allaying some fears about the incidence of hardship through foreclosure, and it is especially informative in the reporting on forbearance, it does not focus on the broader systemic changes.

While the impression may be correct, there is a risk that conditions could further deteriorate and the hardships could spread beyond the borrowers that made poor decisions. Some were victims of predatory lending, others simply were overly optimistic about the continuation of the rising prices in their local housing markets. But still others, while stretched at the margin were doing no more that what was a common practice of buying as much house as they could foreseeably afford.

Relationship to the Housing Market

However, as a relatively new student of the science of networks it seems to me that as with electric power, web communication, and fashion, that some activity goes a long way before it reaches a cascade point, but when it crosses that threshold the system crashes. The behavior of the group, in this case the participants in a local housing market, is an important element in strategy involving the avoidance of a market crisis generated by what is called cascading. The problem is that we don’t have a very good understanding of aggregate market behavior reaching a cascading point, even though we can do pretty well with individual behavior and market behavior continuing on a trend. The great difficulty is in the turning point – and that is what counts.

While there does not seem to be much concern that the housing crisis would drive a thriving economy into recession, the August 24 issue of NY Times on the first page, right hand column, has a story titled “Analysts See Dim Outlook for Growth.” The lead sentence is “The
financial turmoil that began with the seemingly narrow meltdown forcing both policy makers and Wall Street analysts to scale back their expectations for growth in the overall economy.” Obviously, we should be mindful that the subprime crisis had an effect on other segments of the capital market; but, we don’t really know what the unfolding impact will be and while it is not prudent to spread an alarm, it is prudent to reduce the risk.”

The housing market underwent a boom during the low interest rate period earlier in this decade. Borrowing at low rates increased purchasing power. The booming demand pushed up prices. The rising prices gave homeowners increasing wealth. During this period, consumer spending increased more rapidly than household income. Some homeowners, especially those who were increasing wealth from rising stock prices as well as rising values of their homes, were spending more than their income using debt to finance the living style.

Some of this debt was from home equity loans that contained variable rates. As noted earlier, the aggressive lending under new securitization of mortgages fueled the demand for real estate and contributed to rising prices. The combination of developments in ease of capital flowing from the capital markets contributed to an overbuilding. There is now an excessive supply of housing, perhaps in the neighborhood of 500,000 houses. These are, however, in local markets. The markets that boomed the most tend to have their greatest oversupply.

The crisis in the credit market is limiting the availability of money for the housing market. Lenders are being more realistic in assessing ability of borrowers to pay and some of the long term investors are shying away, especially since there may be bargains in the re-sales of imprudently made investments.

A Strategy for Averting Housing Bubbles

The strategy is to mitigate the possibility of a downward spiral in housing prices and the side effect of bringing on a recession. This paper is not focusing on the policies for dealing with the financial crisis as a whole, including preventive measures. That is for parallel work. Rather, the focus is on the avoidance of the financial crisis generating excessive impact on the housing market and the housing market generating an excessive impact on the rest of the economy including the capital market.

Housing markets are generally local. The strategy is to focus on those housing markets that have the greatest risk of an addition to supply of available housing because of foreclosures or threats of foreclosures. The idea is to keep people in their houses whenever possible.

The easiest cases are where the homeowner is still employed but living expenses have eroded the discretionary income, and they are faced with an increase in mortgage payments because of a variable rate mortgage, especially teaser rate mortgages. Using such cases as an example, a research program can be designed that would identify the geographical location of defaulted mortgages and mortgages that are high risk.

Such a study would have an output of market areas that may get substantial increases in supply. Along with such a study would be one that revealed the current oversupply of housing and the trend in local pricing. The result would be the selection of a series of markets which are at risk of a bubble. That could be checked against those markets that already experienced high foreclosure rates. The pattern that is likely to emerge is a concentration in a number of states. Some states have already started legislation or other action to help homeowners caught in the problem. See the HHI website, Subprime Crisis Research Program, “the Subprime Mortgage Market, a Review and Compilation of Research and Commentary,” for a discussion of state programs. This research would help them in developing programs and getting them passed. There might also be federal assistance.

A good place to start in analyzing a local market is Maple Heights, Ohio. The New York Times published an article on September 2, 2007, “Can the Mortgage Crisis Swallow a Town?”
That story indicated that the cascading of foreclosures in that Cleveland suburb led to a particular family abandoning their home even though they were not in default because they no longer felt safe in the area with so many abandoned homes.

A related analysis is to develop a model that would indicate when workouts made sense for both the security holder and the homeowner. Lenders may have such models, but buyers are at the risk of asymmetric information. Leveling the playing field may help in getting negotiations that avoid foreclosure.

Adding foreclosed property to the available supply in an overbuilt market may not help anyone and could do a lot of damage to other homeowners by further depressing prices. The lenders using models may be using micro models that look at the single case without looking at the probability of other lenders taking similar action with the combined result that the oversupply thereby created yields less in proceeds to lenders with numerous mortgages in the area than would be yielded had the market not been further depressed. This is especially true if there is a cascading in the local market.

The whole idea is to reduce the risk of a cascading price level that would reverberate throughout the local economy and perhaps the national economy in addition to helping homeowners that are in over their heads because they were led astray by aggressive marketing techniques and didn’t realize the risks.

The strategy just outlined indicated some ideas for research that are focused on a single housing market. The strategy is to avoid a cancerous decline of prices in the high risk markets, not only because of the impact within the high risk market, but having the price decline metastasize to other local markets.

While it is true that housing markets are local, there are two ways in which seemingly unconnected housing markets relate to each other. One is that local housing markets are generally tied to their local economies, and not only do downturns in local economies affect the local market, but downturns in the local housing market affects the local economies. Further to this line of reasoning, various local economies are linked by their respective economic bases such that depending upon the linkage, what happens in one local economy will generate impacts on its linked other local economies, those from which it buys and those to whom it sells.

In a sense, the national economy is a series of linked local economies, some with closer ties than others, but linked. To an increasing extent this is becoming true of selected international economies which may be viewed as linkages of metropolitan areas.

A second way in which seemingly unconnected markets relate to each other is through the psychological impact of events. A series of downturns in various local markets will cause some alarm in other markets and may curtail home buying decisions because of the appearance of rising risk. Behavioral science studies show that many people even when told that some event resulting from behavior isn’t necessary typical of most other cases because the behavior is not representative, nevertheless proceed to act on the unrepresentative behavior.

The series of research projects that may emerge in order to flesh out a strategy for avoiding rampant housing bubbles may be classified in a number of ways. One way is to start with a national perspective that explores the relationships between a financial crisis and the spread to economic downturn in general as well as to a housing downturn in particular. Such a study would apply the relatively new science of network science and be particularly concerned with emergence.

The second group of research projects would concern itself with what policies would reduce the likelihood of further downturns in a specific local market. Part of this is relief of hardship for those households directly affected.

Additionally, part of this may consider reducing the negative impact of the capital market on the local housing market, or put differently looking for measures that would get favorable influences from the capital market. But the focus is on seeing what policies would contribute to
averting excessive declines in the local market. Obviously this is through a reduction in would be foreclosures. But, that raises the questions for the next set of research issues.

The third set of research issues is highly dependent upon underlying values, or what may be thought of as philosophical views, and matters of law. On the matters of law it is not only existing law, but public policy and changes in law.

These questions require research in such issues as to how much of the problem is a result of predatory lending and how much is simply poor decision making on the part of borrowers. That, and the criteria used for relief to borrowers will influence the nature of programs to be developed as a matter of strategy. What will the courts enforce when misrepresentations were present in loans with teaser rates? Is the combination of onerous prepayment penalties enforceable if misrepresentations were made? Will it take class action suits to deal with predatory lending results or will state legislators provide relief in staving off foreclosure under certain circumstances?

This essay is not advocating any particular set of public policies. Rather it is advocating research that would assist public policy decision makers and other participants in the process, borrowers and those on the lending side including mortgage servicers as well a the holders of the mortgages and the derivatives where they exist.

As this is being drafted, the next series of steps is uncertain, except that the research roundtable that is scheduled within the week of this draft brings together potential researchers and potential funders of research in addition to the Homer Hoyt Institute representatives. The discussion that ensues will likely have on the table a variety of ideas, and the interested parties may explore what questions are critical to get answered in tuning up a strategy. HHI has invited John Weicher and Susan Wachter to co-chair the roundtable and to have their respective institutions co-sponsor the roundtable. Richard Green of George Washington University and the George Washington University Institute for Public Policy joined Weicher and Wachter as co-sponsors.

The Weimer School of Advanced Studies in Real Estate and Land Economics of the Maury Seldin Advanced Studies Institute has allotted some time in the January Session of the Weimer School for vetting the research agenda that emerges from the research roundtable. Additionally, Dr. Richard Green of George Washington University and Weimer School faculty, who is serving on the steering committee for the roundtable, is heading up the May Session of the Weimer School and will focus on the subprime issues.

In April, preceding the Weimer School May Session, ARES will have a plenary session reporting on the research program, and possibly additional smaller sessions reporting on research. AREUEA will allot some time in its Mid- Year meeting, late in May, to have some presentations where many industry and government people will, in addition to academics, discuss some research results.

Presumably, at some point a white paper, or series of papers, would emerge, authored by and representing a variety of interested parties. Such a paper or compilation would be suitable for wide distribution as an educational service to help people make better decisions.

Conclusion

Some strategies are expected to emerge from the research that is spawned by the forthcoming roundtable. While some strategies will be addressed to institutional change that would avoid recurrence of similar debacles in the capital markets, this essay is focused on avoiding a cascading of foreclosures in some local housing markets. The concern is not only for those directly affected in such markets, but for those to which migration of default would similarly affect other markets, and for the fallout to the economy in general.
The Market as an Icon: The Case of the Subprime Mortgage Debacle
by Maury Seldin*

The current subprime mortgage debacle is a failure of the market. The institutional arrangements need to be modified if we are to buttress our faith in the system in which the market represents a good way to induce production and provide distribution using price as a vehicle.

Perfect market systems have sets of conditions such as a level playing field with symmetric rather than asymmetric information and equal bargaining power among players. In the absence of some of these conditions, or with some shortfall, governments intervene with regulation in order to make the system work better.

“What we need and do not have enough of, Mr. Paulson [Secretary of the Treasury] said are: honest disclosure about mortgage costs, better licensing for mortgage brokers, a crackdown on predatory lending practices and tougher consequences for lenders who cross the line.” That was according to a Tom Blackburn editorial in the Palm Beach Post of October 22, 2007, reporting on the current administration’s secretary of the Treasury speech the previous week at George Washington University.

The October 24, 2007 research roundtable in Washington D.C. that is the focus of this essay is designed to develop a research agenda that would (1) enhance understanding of institutional arrangements so as to avert a reoccurrence of the debacle caused by the subprime mortgage catastrophe; and (2), to enhance understanding that would assist in the development of a strategy to mitigate the damage from the current catastrophe, especially to minimize the cascading of foreclosures that would destroy some local housing markets and spread to adversely impact the rest of the economy, especially to avoid a precipitous downturn in general economic activity. This essay is focusing on the longer term institutional changes, and is a companion piece to the “Don’t Panic Yet” essay focused on the cascading issue.

One would expect that the Democrats would be favoring increase in regulation while the Republicans would avoid it. It remains to be seen what the Democrats come up with, but there may be a clue in Paulson’s not focusing on aid to the home owners. But, wherever one is in the liberal to conservative spectrum it makes sense to get a better understanding of likely outcome of different policies. Thus, this discussion focuses on the mechanics of the system. Decision makers may develop their own strategies, but they may use the same understanding of the mechanics of the system.

A major failing of the market in the subprime case emerged from a mismatch of the distribution of risks and rewards. Great rewards went to originators, packagers and distributors of the mortgages and investment instruments derived from their packaging and slicing-an'-dicing. The great risks were borne by borrowers and by investors who wound up holding the long term instruments.

Real estate mortgages typically engender a mismatch of time horizons. Borrowers want long term financing and lenders want liquidity. In the early days of contemporary financial intermediaries, the bank or S & L would take proceeds of short term deposits and lend them long based on the bet that not many of the depositors would want their money at the same time. That worked as long as there was not a run on the bank. And to guard against a fiasco a banker’s bank would stand ready to provide liquidity in the event of an emergency that required exceptional liquidity. The key was that the lending institution “ate its own cooking.” They retained the loans in the portfolio and were thus greatly concerned with the credit risk of the borrower and the value of the collateral. The subprime debacle emerged out of a transition from those institutional arrangements to the current institutional arrangements. The issue is

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how to make modifications to a system that went from local housing finance to national capital markets, to international capital markets.

Consumer education and protection is a good place to start. Sophisticated consumers know enough to consider competitive options, negotiate the terms, and assess the risks if there is adequate disclosure and honest representation. Thus, adequate disclosure and honest representation is a first step. There is a problem with naïve consumers who just take what is offered, especially when what is offered is riskier and costlier than other options available.

The compensation system for some mortgage agents has induced some to knowingly make poor recommendations to the prospective borrower because the agent’s compensation is higher with the poor choices. Ethical behavior is one approach to dealing with the issue. Another is licensing requirements. A third is punishment to agent’s who violate regulation. An option is to also punish the organizations charged with supervising the agents. There are other areas of business with similar problems. Research on results of different approaches would be helpful in developing strategies to deal with the agent problem. It would be a lot better than superficial public arguments.

The companies that originate the mortgages are in the next level up the chain in the system. The compensation issues are the same as with the agents as to the selection of mortgage types. But, where the originator is a packager and has no long term interest in the repayment risk, the underwriting standards may fall short of what a long term investor would expect.

As discussed in the literature review and commentary for the roundtable, there are others in the chain converting whole mortgages into partial interests of different risk characteristics. These face the same situation of obtaining great short term rewards without long term retention in the risks of holding the derived instruments. Some of this flows to international capital markets.

The market is a useful tool, but the institutional arrangements are in need of revision. Research is critical in the process of getting revisions that will actually improve the situation.

October 22, 2007

This item and other items related to the Research Roundtable on the Subprime Mortgage Crisis are on the Homer Hoyt Institute web site at www.hoyt.org. The list from the web site is as follows:

Introduction
- Literature Review and Commentary
- Research Roundtable
- Research Projects
- Don’t Panic Yet

Other ASI Newsletter inserts are on the website. Some of these are:
- Thinking Changes Over Time
- The Mind, Brain and Heart: A Paradigm for Predicting Outcomes
- Visions and Values: Western and Islamic Heritages
- Institutional Reform to Reflect Our Values: Part I: The Current Situation
- Institutional Reform to Reflect Our Values: Part II: Moving Toward a Solution
- Education - The Notion Potion
- Developing a Strategy to Change Academic Behavior

**Mitigating the Housing Market Crisis**

The process of getting the program launched included sending a follow-up e-mail and the original to the Hoyt Group leadership comprised of Hal Smith, Ron Donohue, Jeff Fisher, Norm Miller, and David Ling by Ron Racster and Maury Seldin. Here is the follow-up e-mail.² (See footnote)

Here is the Memo:
Mitigating the Housing Market Crisis  [August 20, 2007]

Further to the RFP idea occasioned by the Krugman op ed piece in the NY Times, here are some analytical ideas. The context is buyouts and workouts focused on assisting the borrowers from avoiding foreclosure and contributing to avoiding a price spiral in the market as the strategic approach rather than simply avoiding the chaos in the capital market by bailouts.

There are three sets of analytical issues. One is the set of conditions that make workouts better than foreclosure. The second is what organizational arrangements need to be made to implement the acquisition of the mortgages to be worked out and their administration. The third set of issues is revolves around avoiding chaos in the capital market and dealing with the ethical issues of incidence of losses.

Thus far the Fed’s bailouts have revolved around providing liquidity to the investors in the mortgages, or the mortgage tranches, apparently with repurchase agreements. The incidence of loss, if the instruments are not repurchased, is not clear to me. Furthermore, the holders of the debt may take the foreclosure route and that is likely to exacerbate the softness in the housing market. The great danger is a downward spiral in prices because houses would be dumped on an already soft market. The strategy suggested here is to soften that blow by finding out what is the range in a potential workout where the lender is better off than foreclosure, and so is the borrower, and facilitating that process beyond existing institutional arrangements.

We had some presentations at ASI in which the idea of a put option was relevant to the decision to walk away from a mortgage debt. As I see it, the borrower may choose to maintain that option even if the market price obtainable for the house is less that the debt. This makes sense to the borrower where there is the expectation that the mortgage payments and related costs are an attractive option for retaining the current housing and there is the potential of an equity emerging over time, especially with a market recovery. Of course, the key is an ability on the part of the borrower to come up with the cash on a current basis.

The variable rate mortgage, with rising rates and cash requirements, is the great difficulty. This is especially true because the borrowers got in over their heads to start with. But, if in time they will be able to afford the housing they supposedly own then the issue is how much can they pay, how much is to be accrual in debt, and how much will the lender write off. We should be able to a model that. That model may be the subject of an RFP.

The second set of analytical issues is based upon organizational issues, especially institutional arrangements. The first question is to identify the role of the mortgage servicer in the process. If the servicer is a mortgage banker with the capability of acquiring the ownership of the mortgage, negotiating the restructures agreement, and selling the mortgage, that is an option. What is more likely is the existence of a bank or other financial intermediary with a local office with the ability to acquire the mortgage at a deep discount, renegotiate the terms, and retain it in its portfolio, or possibly resell after payment history is established. Such an operation may require an infusion of funds to the commercial bank or other financial intermediary. Initially it might be the Feds action, but participatory interests could be an option. This participatory interest is the same system that brought the trouble, but it may be workable if the risk takers are still there.

Ron D tells me that there are some master servicers that already engage in the business of acquiring defaulted loans. I am unfamiliar with their scale and structure; but, while they may play a key role in the process, the scale of the problem may be beyond their resources.

The incidence of loss is a big issue. The reason for the bailouts of investors should be based on avoidance of chaos in the capital market, not saving investors from there folly. The avoidance of chaos may mitigate losses of investors, but it is the byproduct. The second set of analyses is the design of institutional arrangements that would make the amelioration of damage to housing markets feasible, especially to avoid a downward spiral of prices.

The third set of analyses is the avoidance of chaos in the capital market. The Long Term Capital Management bailout was such a case. Some bailout actions have already been taken, but they are focused only on the capital market, not on the reduction of foreclosure issue. The strategy that may emerge is one that ties further bailout assistance to the mortgage holder’s participation in the write down program, where appropriate. The lenders need to be willing to take their share of the losses as a condition of getting federal assistance. This third set of issues is dependent on some results from the two earlier sets.

What we probably ought to do is to circulate this memo, or a variation of it, along with the earlier e-mail and possibly copy of the op ed piece, to a select Weimer School Fellows and Hoyt Fellows for their review and comment. We could then design a set of RFPs or maybe a research roundtable.
HHI is not in the position to fund the whole project; but it doesn’t need to be. What it can serve as
is a facilitator of the process. At some point, industry may be willing to provide funding for the research.
Another possibility is that a major institution would steal the ideas, do the research, and go it alone as the
leader in the process. Others would follow.

We could treat it as proprietary research through HAS if we were so inclined. It could make a lot
of money. However, our priority is in improving the quality of decisions and we have a variety of venues.
That is our story and this is a great opportunity to develop it and disseminate it.

We need inputs as to how to proceed. Please share this with any of those who are close enough
for comfort and let us see what options are available.

Hal makes some good points. In considering them, I am trying to visualize a critical path of how a
project would proceed and succeed.

The white paper may be the critical communication device to the various federal agencies. The
dilemma is selecting the point at which to involve them. The early approach gets buy-in when their
thinking is reflected in the output. The later approach gets a greater chance of acceptance when the
evidence is stronger than in an early approach.

The result was a decision to move ahead with the research roundtable. That is discussed
in later chapters [links].

As discussed by HHI leadership, the series of outputs might be as follows: [1] a white
paper that provides a brief summary of the situation and advances some ideas to be
discussed as worthy of research, [2] a conference to review the paper and consider what
research is worthy as a step in policy change, [3] the development of the RFP’s following
the conference and the subscriptions of funding organizations to pay for the research, and
[4] the research administration.

This is a long process and there is the risk of a cascading of the housing market, or
bubble, or whatever you want to call a downward spiral that feeds on itself. Of course,
policy changes are made on incomplete information and the question may be how far
along in the process will changes be made. There is a big difference between long run
policies to fix the system to avoid a future crisis and policy changes to mitigate the
damage of the current crisis. Our focus is on the latter, but the former has crept in and
may well be part of the project.

As to costs, HHI could provide the modest fund that would be appropriate to get the
white paper produced. The authors can determine what outreach they need to make to
reach their comfort zone. We could consider a small research roundtable to help them in
developing the white paper. It would obviously have some ideas on research needed, but
does not purport to do what a conference would do. That would add to costs and we
might consider soliciting support for it from interested parties, with credits noted. But, we
can take the first step on our own through HHI.

One of my favorite stories is of the syndicator looking for funds. It is a tough go if he says
he knows of a property and is looking for partners. It is not nearly as tough if he says he
has a contract to buy a property and is accepting partners. HHI should take the latter
position and Hoyt Fellows, Advanced Studies Institute, HIRE, and HAS, are all, welcome
on board, as well as others to be designated. My recommendation is that Ron R talk with
those he sees as appropriate and based upon responses we may have a project on which
to act.

The cornerstone of a structure to proceed is a person, or possibly a small team committed
to produce the white paper. Selecting that person or those persons is the first step. The
leader’s or leaders’ preferences on size of team or task force then control the first output.