

PN-PTZ-015

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HOUSING FINANCE TRAINING PROGRAM
FELS CENTER OF GOVERNMENT

EVALUATION

University of Pennsylvania
Philadelphia, Pennsylvania

January 3-24, 1987

Prepared for:

Office of Housing and Urban Programs
U.S. Agency for International Development

Prepared by:

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with Carol A. Oman, Senior Housing Finance Specialist
Technical Support Services, Inc.
Washington, DC

February 1987

EVALUATION
HOUSING FINANCE TRAINING PROGRAM
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I. Introduction

The Office of Housing and Urban Programs (PRE/H) has established the following goal for its training efforts: the enhancement of skills and capacities of host countries to effectively address shelter and urban development issues. The specific objectives are: (1) communicating policy goals and AID shelter and urban development experience to decision-makers in developing countries; (2) developing the capacity and competence of public and private implementing institutions in the shelter and urban development sector, including the informal sector and small scale private entrepreneurs; and (3) assisting in the development of sustainable training institution capacity in developing countries.

An important component of the PRE/H strategy is support for the participation of key developing country personnel in US-based short courses in appropriate subject areas. One subject area of critical concern to PRE/H is that of housing finance. In response to this identified need, a three week training course in housing finance was developed and offered by the Fels Center of Government in collaboration with the Wharton School of Finance, at the University of Pennsylvania in Philadelphia. Participation in the course of all but one of the 13 students was financed by AID - Missions, RHUDOs, or PRE/H.

This evaluation was undertaken for the PRE/H Central Training Unit and its Training Officer, Barbara Foster. The objectives of the evaluation were to ascertain whether the training program was appropriate to the shelter and urban development context of developing countries, and to judge the program's overall effectiveness in order to plan and program similar future courses.

This evaluation of the program was conducted by John D. Miller through course observations (during two two-day visits), and individual and groups discussions with students and faculty. Carol A. Oman reviewed the program's written material.

Other interested parties are in one way or another also evaluating this training program and PRE/H should seek information from them in drawing its final conclusions. Partners for International Evaluation and Training (PIET), an AID contractor involved with many support and logistical matters, administered an extensive questionnaire to the participants. Program support issues will be the focus of their evaluation, and consequently were of less concern to this

evaluation. (PIET's evaluation will be made available to PRE/H upon completion.) The Fels Center itself will be preparing its own analysis of the program. In addition, the involved Missions and RHUDOs will discuss and review the program with the returned participants. And, most participants will be preparing a written report for their home institutions.

II. The Program

As described in the course brochure (Annex A), the Fels Program was designed for public and private sector officials in charge of developing and managing housing finance policies and systems. For senior government officials and senior staff of non-governmental housing finance agencies, Fels intended to emphasize macro governmental and market institutions that guide housing finance systems. For mid-level government officials and personnel of housing finance institutions, the emphasis was to be on the managerial and administrative aspects of housing finance. On both levels, attention was to be given to the housing finance system in general.

About half of the students who ultimately participated in the course were senior officials; the other half were mid-level officials. They represented five public, one parastatal, four private, one international, and two regional institutions. Annex B provides a list of the students and their positions in their home institutions.

The core faculty was from both Fels and the Wharton School. It was augmented by lectures from other Wharton professors, and staff from the World Bank, AID, and the Federal Home Loan Mortgage Corporation. (Annex C lists the faculty.)

The course consisted of lectures, seminars, field trips, clinics, laboratories, and written materials. (Annex D is the daily schedule.)

III. General Observations

The overall quality of the training program was excellent. The several factors that contributed to its success can be summarized as follows:

- 1) The development of housing finance systems that are able to facilitate the provision of housing to low income families is of critical concern throughout the developing world. Issues related to resource mobilization, interest rates, subsidies of all kinds, mortgage instruments, secondary mortgage markets, regulatory mechanisms, and efficiency vs equity are among those that developing country governments are currently dealing with, frequently in conjunction with multi-lateral

and bi-lateral assistance agencies. In this context, the training program was a timely and comprehensive instruction of the subject.

- 2) The content of the program was, for the most part, responsive to the needs of the students, and appropriate to their backgrounds. The program covered a great deal of material in a relatively short period of time.
- 3) The faculty adapted program components to the needs of the participants by spending more time on some subjects, less on others, and in general encouraging lively discussions that led the group in important new directions. The subject of secondary mortgage markets, for example, was planned to be treated briefly but, as a result of the group's and the faculty's flexibility, became a subject of major study.
- 4) The 13 participants were serious, hard working, and enthusiastic, representing a variety of countries, professional experience, institutions, and positions in those institutions.
- 5) The core faculty members were experienced, knowledgeable, flexible and available. Equally important, they were excellent teachers.
- 6) Participants benefitted from individual attention to their needs, certainly from the core faculty, but as well from Fels assistants in the use of calculators and microcomputers.
- 7) The facilities of the Fels Center were ideal for this size group. Located in an elegant former residence, the Fels Center conveys the serious and comfortable atmosphere of an executive training center. Even the room where course sessions were held provided an academic setting that encouraged the student attention necessary for an effective program.
- 8) The participants benefitted a great deal from their informal interaction with each other and the faculty. This may be the easiest benefit to predict and the most natural to happen, but it is nevertheless important. Discussions of housing finance issues - learning from each others experience - were a regular feature of the participants' free time enjoyed among themselves and at social functions hosted in Philadelphia by some of the faculty, and in Washington by AID personnel.

IV. Issues and Recommendations

The following issues do not diminish the judgement that the program was successful, but rather are intended to suggest issues to be considered in the development of subsequent courses, whether by Fels or AID.

- 1) Course content. One important issue regarding the content of the course is the place of housing finance in a larger framework. That framework is first, national economic development, in which housing is only one sector. Housing should have been placed in this context first, along side of other productive and non-productive sectors of an economy. Then, the several components of the housing sector, including finance, should have been reviewed. This kind of introduction was apparently planned but, as time constraints quickly presented themselves, never carried out.

One of the most important analytical skills to teach - and one of the most difficult - was the ability to understand what parts of the sophisticated and complex US housing finance system may be applicable or adaptable to another country. The participants' feelings that the program should have covered more country-specific issues and that more clinics should have been held, reflect their desire to understand the applications of the US housing finance system experience to systems in their own countries. Since much of the course was devoted to the US system, the participants had expectations that clear guidance would help them make that transition from US experience to developing country applications. Some of the clinic work did, in fact, provide that opportunity. For the most part, however, the participants felt that informal discussions among themselves were more useful for this purpose than classroom sessions.

Recommendations: Course instructors should make clear how subject matter of the course - whether housing finance, urban land policy, private sector delivery of urban services, or any other - fits into the larger context of national economic development and its sectoral activities.

Clinics present an effective forum to teach the transferability of US experience to developing countries and should be expanded. Additional means to enhance the achievement of that teaching objective should be developed.

- 2) Participants. Participants came from eight countries representing East Africa (Kenya), West Africa (Ivory Coast), Caribbean (Jamaica and Barbados), Near East (Jordan, and in this context, Portugal), Central America (Guatemala and Honduras). In addition, the AID participant was able to "represent" South America, and the IBRD participant was able to "represent" other Near East countries. This mix resulted in a valuable exchange of viewpoints and experiences among the participants; they clearly benefitted from the several disciplines and institutional functions represented.

At the same time, however, the range of professional backgrounds (business administration, economics, accounting,

even chemical engineering), institutions (private, public, parastatal, regional, international), positions in those institutions (management, operations), and even English language ability (native speaking to marginally capable), meant that the course occasionally had to be tailored to a common ground less advanced than planned. Given the nature of recruitment of appropriate and available participants, such a situation is probably inevitable.

A more desirable mix of students would include two persons from each of six or seven countries, ideally one from a policy position, the other from an operational position, or, one from a private housing finance institution, the other from a public agency involved with housing finance.

Recommendations: Future training programs could choose from a range of course candidates if the recruitment effort goes well beyond AID's network. The IBRD, UN, and other international development agencies, for instance, should be enlisted to assist in identifying appropriate candidates.

PRE/H and RHUDC staff could also benefit greatly from this course. Such staff could participate almost as an exception to the normal student body (as one AID person did in this program), or a slightly altered course could be designed especially for AID personnel.

Since neither AID nor the training institution is likely to be able to control the mix of students that ultimately attend a course, the training designers should structure the course to be flexible, prepared to make changes based on participants' backgrounds and abilities.

- 3) Course context. The program brochure was, by necessity, general, providing sufficient information to attract suitable candidates. Throughout the course, the program schedule (Annex D) remained the originally conceived, broad outlines of what was to be covered. The first days of the program were wisely used to gauge the level and interests of the students in order to focus more on some topics, reduce others, and in general, adapt the major content areas of the course to the particular group. While this exercise left the core faculty with a clearer view of the program, that view was not adequately conveyed to the students, nor ever put in writing. As a consequence, the subject areas, the extent of coverage, the logical sequence of their instruction, and even the relationship among subjects, were never developed, and consequently the students never fully understood the overall context.

Recommendation: The program flexibility that permits changing and adapting the course to the participants'

needs is important. Nevertheless, at the point at which program components fall into place, the content of the scheduled topics should be described and related to each other. Such a course syllabus will not only provide a frame of reference for each topic and for each course activity (lecture, clinic, etc.), but will be particularly useful for students at the conclusion of the program, as a permanent reference of the material covered.

- 4) Participant preparation. As the participation of each student was confirmed by cables, they were to have been requested to bring a description of the housing finance system in their country. That material was to provide the basis for the clinics in which each country's system would be discussed and analyzed by the entire group. These clinics were an important part of the program, and indeed were the structured opportunity to apply US housing finance experience to the countries represented.

The request to bring the materials was not adequately conveyed to the students - neither as a simple assignment to bring a "description" nor a more useful assignment that would have provided an outline of the requested material. Once at the course, the participants prepared such a description from their memories and the limited documents they happened to have brought or that were made available by Fels. Nevertheless, the impact of the clinics definitely suffered without properly prepared materials.

Recommendation: PRE/H and the training institution should jointly develop a message to accepted candidates, in adequate time, that provides clear guidance regarding candidate preparation.

- 5) AID involvement. The policies, objectives and programs of AID were, by design, not expressly presented in this program. AID contributed nearly no substantive guidance to the development of the course. Though the program was by no means intended to reflect AID's concerns (subsidies, secondary mortgage markets, etc.) it, in fact, did so for several reasons. First, the housing finance issues that concern AID are, in fact, reflected in any soundly developed training program. Second, one of the core faculty had recent, substantial AID housing experience, and was able to contribute that perspective to the course development. Third, one program participant was the AID director of a regional housing and urban development office; his contribution reflected AID's approach to the issues. Fourth, since nearly all of the participants are in positions with their home institutions in which they are directly involved with the implementation of AID housing programs, many issues

of AID concern were raised and discussed. Finally, two PRE/H staff persons made presentations to the group, one specifically on the Housing Guaranty loan program.

Recommendation: A direct-hire PRE/H representative should participate in the training programs, not only to improve his own skills, but to bring a PRE/H perspective to the program. In addition, PRE/H representatives should make select presentations, as successfully done in this course.

- 6) Faculty. The core faculty was very effective, well regarded by the students as teachers, and as knowledgeable experts with a clear understanding of the course content and flow. One of the core faculty had substantial, practical field experience in developing countries.

The effectiveness of the visiting lecturers varied widely. In general, the IBRD lecturers, though knowledgeable professionals, were not effective teachers. In addition, the material presented by the non-core faculty (both IBRD and Wharton) was somewhat removed from the flow of the course, not readily and clearly integrated in the course.

Recommendation: The preparation of the one-time visiting lecturer can be improved if he is able to spend at least a previous day participating in the course, can get detailed guidance from the core faculty, and perhaps focus his presentation on more practical, less theoretical material. On the assumption that at least one member of the core faculty attends and can assist the visiting lecturer's presentation, the lecturers should be selected based as much on their teaching ability as on their acknowledged expertise in the field.

- 7) Course schedule. There was some feeling that too much material was presented, that the program was too ambitious and hence too intense. At a schedule of six hours a day, five days a week, the students received the equivalent of two one-semester courses in three weeks.

Recommendation: Given the nature of this kind of program in which the students' academic experience and English ability vary, consideration should be given to a reduction in planned hours per day and planned total days, with the knowledge that the days will fill up as the course is adapted to the students' needs. In fact, schedules should be developed with the expectation that the first days will not proceed evenly. Time should be available for support matters, course adaptation, and the open discussions that frequently follow introductory presentations.

- 8) Written material. Over the duration of the course, the students were given at least 32 different documents to read, including a book, complete and partial textbook chapters, professional journal articles, pamphlets, and papers especially prepared for the course. That written material now provides the basis of a reference library for each participant. Given the paucity of literature available in their countries, this is a useful by-product of the program.

As course material, however, the documents were quantitatively too much, and qualitatively uneven and overlapping. In addition, the material was apparently neither organized nor distributed in a very useful way.

The readings, taken together, represent interesting and potentially useful material. Annex E provides a brief review of each. The Christian and Renaud monographs are the most comprehensive and directly relate to developing country experiences. These monographs can be considered mainly as substantial overviews that treat the major housing finance issues and are consistent with AID views. The Shelter Strategies article is good, and could bring some new theoretical information to participants, and reinforce AID policy positions. Smith's paper deals specifically with the Housing Guaranty program and is also appropriate as an approach for other international donor aid. The Struyk-Turner book may perhaps be useful to show the role of formal housing finance in two developing countries, but it is questionable whether the methodology described at length is applicable or even comprehensible to most of program participants.

The series of Guttentag papers are basic, descriptive pieces that outline major housing finance system functions and served as a useful basis for stimulating discussion. Some of these papers should be updated to be more relevant.

The chapters on US mortgage securities and mortgage purchasers provide useful information about how the US secondary mortgage market operates. The two book chapters on sensitivity analysis for financial institutions are technical, good descriptions. They provide information about current US techniques that could usefully be applied to developing country institutions by those program participants involved in asset/liability management.

Recommendation: Written material should be presented in a more organized and selective fashion, that includes a bibliography annotated to reflect the documents' use in the course. Beyond the students' own notes, this material is the only written matter covering the course that the students will have available as reference material. As such, it should be organized, prepared, even augmented, to provide a permanent reference library for the subject matter.

- 9) Calculators and microcomputers. Several analytical exercises were carried out on HP-18C calculators (one donated to each developing country representative by the core faculty) and microcomputers (available in the Fels laboratory for scheduled and after-hours use by the participants). These were very effective teaching tools, most notably regarding the implications of various subsidies and interest rate differences on housing finance operations. For both the calculators and the microcomputers, the participants benefitted from the close personal attention of experienced teachers and assistants.

One great advantage of the use of the calculators is that the participants received, in the US, basic instruction and immediate applications to problem solving, and then were able to take the calculators home with them. This benefit, however, served to accentuate the fact that the participants were unlikely to have microcomputers so readily available in their home institutions, and in any case, were not able to take their newly-learned programs with them. Though the privileged-information nature of the programs was explained, the participants remained quite disappointed that their newly-learned skills were likely to be only marginally useful without the programs in hand.

Recommendation: For courses in which calculators are an important teaching tool, the cost to provide them to students should be included in the budget.

- 10) Field trips. The training program included two formal field trips, both regarded as very useful. In Philadelphia, the participants benefitted from a well-prepared, excellent presentation by a major housing finance institution, the Atlantic Financial Corporation. In Washington, the participants benefitted from a systematic presentation of the financial arrangements of the Housing Guaranty loan program. The discussion that followed was valuable, and, in fact, an important reminder that most participants are involved with HG loans in their countries. This discussion was unfortunately shortened to accommodate perfunctory individual meetings arranged with AID personnel.

Recommendation: Similar training programs should plan several field trips not only for their intended substantive content, but also for their importance as a break from the routine of the classroom.

- 11) Program support. It is not the intent of this evaluation to cover program support issues, except to the extent such issues had an impact on the training itself. Two support issues in particular did adversely affect the morale of the participants, at least at the beginning of the course, and were consequently detrimental to the overall training experience. The per diem arrangements for several of the

participants were inadequately explained by their host AID missions, a situation that was worsened upon arrival in the US when per diem funds were neither forthcoming expeditiously nor without extraordinary efforts.

The other serious support issue was that of accommodations. Although cost, privacy, location, and other accommodation features are difficult to balance, the fact remains that, at the Sheraton, the per diem was adequate only when hotel rooms were shared, a situation provoking dissatisfaction among all participants. For a three week duration, other options were and are available, and should have been permitted.

It should be noted also that important orientations from AID Missions - about the content of the course, its place in the Mission's country strategy, etc. - were not provided to most participants prior to their departure to the US.

Recommendation: PRE/H should be sure RHUDOs and Missions understand the importance that timely and comprehensive information be conveyed to course participants. PRE/H should provide the field offices with written guidance regarding the responsibilities and sequence of events necessary to adequately prepare participants for their US trip.

- 12) Follow-up. Participants' reflections on a course long after their return home is one element of these kinds of training programs that is frequently not considered until near the end of a program, and in any case, is often regarded as a luxury budget item. Some of the participants are likely to keep in touch with each other and Fels due simply to their own professional interests.

Recommendations: A structured follow-up should be considered. Such a follow-up would be important to provide vital information about medium and long term training impact and for designing future training activities. There are several obvious means by which follow-up can be carried out. First, Fels itself could send its own questionnaire to each participant six months to a year after the program concluded. Second, PRE/H could do the same. Third, PRE/H could coordinate a follow-up effort, establishing an agenda for a personal discussion with each participant by a representative of an appropriate Mission, RHUDO or consultant working with the participants' home institution.

- 13) Costs. It should be noted that the Fels Center faculty felt that the program was very labor intensive (including course development), and consequently, well underpriced (at \$3,500 per participant, excluding living expenses and international travel). From AID's perspective, of course, the cost seemed

reasonable, and in fact, even more cost effective than it appeared since AID spent nothing toward course development.

Recommendation: PRE/H should be aware of the considerable development costs associated with training programs, and consider supporting participants to subsequent similar courses offered by the same institution.

Training is regarded by PRE/H as a major tool in its provision of shelter and urban development assistance to developing countries. US-based participant training can meet identified needs when it is designed around issues that cut across national and regional boundaries, as was the case in this program.

A more subtle, but important opportunity of US-based training is to enhance the image of the US as a development partner. This occurs not only in but outside the classroom situation. The entire US experience provides this opportunity and it is consequently important to permit and encourage it in the course schedule. Unprogrammed time should be regarded as an integral part of the learning experience.

In this training program, the participants' skills and capabilities to address housing finance problems were improved. The training was clearly linked to development objectives of their countries and institutions, and certainly appropriate to the shelter and urban development context of developing countries.

 H O U S I N G

 F I N A N C E

 T R A I N I N G

 P R O G R A M



Fels Center of Government
University of Pennsylvania

The Fels Center of Government

In 1937, the brilliant industrialist and philanthropist, Samuel S. Fels of Philadelphia, joined with the president of the University of Pennsylvania and the dean of the University's Wharton School, in creating a center for the study and teaching of government. Presently, there are more than 800 alumni of the Master's program in government, many of whom are elected and appointed leaders of the highest rank.

In addition to its three-semester Master's program, The Fels Center offers several shorter courses of study for administrators who do not have the necessary time to pursue traditional graduate education. One of these programs is an intensive course in housing finance, specifically designed for participants from developing countries. This program is directed at both public and private sector officials in charge of developing and managing housing finance policies and systems.

The University

The University of Pennsylvania, one of the oldest and most venerable universities in the United States, offers a wide range of academic and cultural resources, including an extensive central library and a variety of lectures and special programs in the Wharton School, the School of Fine Arts, and the various regional study programs covering the Middle East, Latin America, Africa, and South East Asia.

Cultural events in music, performing arts, and visual arts, are abundant at the University and elsewhere in the city of Philadelphia. Philadelphia is within easy travel distance by train of both Washington (two hours) and New York (75 minutes).

The Housing Finance Program

The training program in housing finance provides an intensive three-week period of instruction on the institutional, managerial, and mathematical aspects of housing finance with special emphasis on developing countries. It consists of seven components:

- functions and institutional building blocks of a housing finance system
- mechanisms for attracting savings into the housing market
- allocation of mortgage funds to middle and low income households

- the role of markets in housing finance systems
- types and uses of mortgage loan instruments
- management problems in housing finance
- the mathematics of housing finance

These materials will be presented at two levels, depending on the specific needs of the participants. For senior government officials and senior staff of non-governmental housing finance agencies (in charge of developing housing finance policy and finance systems) the emphasis will be on macro governmental and market institutions, guiding housing finance systems.

For middle-level government officials and personnel of housing finance institutions the emphasis will be on the managerial and administrative aspects of housing finance. On both levels, however, attention will be given to the housing finance system in general.

Courses will be offered both at the Fels Center of Government, and in developing countries in either a national or regional context at the request of individual governments or international development agencies. A mixture of training methods will be used, including lectures, seminars, field visits to public and private housing institutions, and workshop instruction in practical analytical tools used in various aspects of housing finance.

The use of micro-computers for financial analysis and in financial management information systems will be an important part of the course. Each participant will have the use of a micro-computer as well as instruction on its use.

Program Structure

1. Functions and Institutional Building Blocks of a Housing Finance System

- How savings and loan associations, commercial banks, and other lending institutions attract and distribute funds and perform other financial services.
- The role of central institutions and government secondary market agencies in maintaining structural stability of the housing finance system.
- Regulation of the housing finance system.
- Policy mechanisms for influencing the flow of resources into the residential sector.

2. Mechanisms for Attracting Savings Into the Housing Market

- Savings-for-Housing Instruments
- Deposits, Debentures, and other Untied Liabilities
- Collateralized Mortgage Obligations

3. Allocation of Mortgage Funds to Middle- and Low Income Groups

- The role and limitations of various types of subsidy arrangements
- Government quotas and directives
- Private market allocation

4. The Role of Markets In Housing Finance Systems

- Primary versus secondary loan markets
- Requirements for making mortgages marketable
- Marketability and insurance
- Marketability and rating agencies

5. Types and Uses of Mortgage Loan Instruments

- Characteristics of fixed and variable rate mortgages
- Market conditions and administrative considerations affecting the use of various types of fixed and variable rate mortgages

6. Management Problems In Housing Finance

- Administering the loan origination and servicing function
- Controlling loan default and delinquency
- Administering interest-rate policy on assets and liabilities
- Administering subsidy programs

7. The Mathematics of Housing Finance

- Diagramming cash flows
- Calculating internal rate of return, present values, future values, and annuities
- Calculating mortgage payments

The Faculty

The teaching faculty participating in the program have extensive experience in housing finance systems and management both in the United States and in developing countries. Core instructors are drawn from the teaching faculty of the Fels Center of Government, the Finance Department at the Wharton School, University of Pennsylvania, and from private housing agencies with a focus on developing countries.

Faculty Include:

Jack M. Guttentag, Professor of Finance and Robert Morris Professor of Banking at the Wharton School, has served as Chief of the Domestic Research Division of the Federal Reserve Bank of New York and on the senior staff of the National Bureau of Economic Research. He is currently a Director of the Federal Home Loan Bank of Pittsburgh and Editor of *The Housing Finance Review*. His international consulting experience has focused on housing finance and loan policies in various countries in Africa, the Middle East, and Central America.

William Grigsby, Professor of City and Regional Planning and member of the program faculty committee of the Fels Center of Government, has specialized in housing problems, including market analysis, finance, and the shelter problems of low income populations. He is former Chairman of the Department of City and Regional Planning of the University of Pennsylvania and past president of the American Real Estate and Urban Economics Association. His overseas experience includes an assignment at the Korean Institute of Science and Technology and the Korean Research Institute on Human Settlements.

Marja Hoek-Smit, Lecturer and Research Associate at the Fels Center of Government, specializes in the field of housing policies and urban institutional development for developing countries and has worked in East and Southern Africa and South Asia. Her work focuses on the development of housing upgrading policies, housing demand and affordability analysis, the development of monitoring and evaluation systems for urban housing programs, and training aspects of urban development.

Peter D. Linneman, Associate Professor of Finance and Public Policy and Management at the Wharton School, has done major consulting work for the construction industry, the Federal Trade Commission, and the Governor's Commission on Tax Reform for the State of Pennsylvania.

Program Participants

The program is meant for senior and middle-level officials of public and private agencies in developing countries, dealing with development of housing finance policy and systems. The program aims at a mixture of participants from both the public and private sector, to stimulate the interaction between officials with government and non-governmental backgrounds. Full-time students from developing countries at the University will also be allowed to participate in the course under certain conditions.

Special three-week English training classes for students with insufficient fluency in the English language are available at the University.

For additional information, contact:

Fels Center of Government
University of Pennsylvania
39th and Walnut Streets/B1
Philadelphia, Pa. 19104

Telephone: (215) 898-5113
(215) 898-8216

REGISTRATION FORM FOR HOUSING FINANCE PROGRAM

SCHEDULE:

The course will be offered twice during the 1985—86 academic year

~~February 22 through March 15, 1985~~

~~May 24 through June 14, 1986~~

August 16 - Sept 5, 1986

January 3 - 23, 1987

Fees and Other Costs:

Course fee is \$3500. The fee includes the cost of training materials, use of computer equipment and other University facilities, as well as transportation for field trips. The fee does not include living expenses of the participants and any other travel costs. Participants must provide their own round trip tickets and necessary visas. Fees must be paid in US dollars prior to the beginning of the course.

Arrangements for lodging can be made through the Fels Center of Government if requested. The Center will also provide other logistical support during the course period.

REGISTRATION

Please enroll me for the three weeks intensive training program in housing finance for developing countries.

Dates: _____

Name: _____

Affiliation: _____

Position: _____

Address: _____

Telephone/Telex: _____

Please mail all completed registration forms to:

Housing Finance Training Program
Fels Center of Government
39th and Walnut Streets/B1
Philadelphia, Pa. 19104

For additional information, contact:

Fels Center of Government
University of Pennsylvania
39th and Walnut Streets/B1
Philadelphia, Pa. 19104
Telephone: (215) 898-5113, 898-8216

ANNEX B: PARTICIPANTS

<u>Name</u>	<u>Country</u>	<u>Position</u>
1) Pedro Antonio Lovo Cortes	Honduras	Housing Promotion Officer, CABEI
2) Mario Rafael Alberty Garcia	Honduras	Financial Officer, CABEI
3) Carlos Alfredo Villeña Oliva	Guatemala	Banking Section Analyst, Central Bank
4) Salah Rimawi	Jordan	Loan Manager, Housing Bank
5) Nabih Jweinat	Jordan	Loan Officer, Housing Bank
6) Sultan Zu'Bi	Jordan	Manager, City Branch Office, Housing Bank
7) Ronald Fitt	Barbados	Administrative Officer, Ministry of Housing and Lands
8) Collin O. Wilson	Jamaica	Director of Finance, Jamaica Cooperative Credit Union League
9) Jean Baptiste Gomis	Ivory Coast	Director, Banking Operations, Caisse Autonome D'Amortissement
10) Francis H. Mayieka	Kenya	Deputy Secretary, Ministry of Works, Housing and Physical Planning
11) Jose Pocinho dos Santos Rodrigues	Portugal	Economist, National Institute of Housing
12) Michel Chretien	USA	Urban Finance Specialist, World Bank
13) William Gelman	Panama	Chief, Regional Housing and Urban Development Office, AID

ANNEX C: FACULTY

Core Faculty

- 1) Jack M. Guttentag, Professor of Finance and Robert Morris Professor of Banking, Wharton School
- 2) William Grigsby, Professor of City and Regional Planning, University of Pennsylvania, and Fels Center of Government
- 3) Marja Hoek-Smit, Lecturer and Research Associate, Fels Center of Government

Lecturers and Discussants

- 1) Anthony Santomero, Professor of Finance, Wharton School
- 2) Peter Linneman, Associate Professor of Finance, Wharton School
- 3) Gerald Hurst, Associate Professor of Decision Sciences, Wharton School
- 4) Chester Foster, Federal Home Loan Mortgage Corporation, Washington, DC
- 5) Bertrand Renaud, Housing Finance Advisor, Water Supply and Urban Development Department, World Bank
- 6) Robert Buckley, Senior Housing Finance Specialist, Water Supply and Urban Development Department, World Bank
- 7) Stephen J. Malpezzi, Operations Policy and Research Division, Water Supply and Urban Development Department, World Bank
- 8) Peter M. Kimm, Deputy Assistant Administrator for Housing and Urban Programs, AID
- 9) Michael G. Kitay, Assistant General Counsel, AID

HOUSING FINANCE TRAINING PROGRAM
FELS CENTER OF GOVERNMENT
WHARTON SCHOOL
January 3-24, 1987

Jan. 5	Introduction	Jim Spady Director Fels Center of Government
	Key Note	Peter Kimm, Office of Housing and Urban Development/USAID
	Discussion of the Course	Jack Guttentag, Bill Grigsby, Marja Hoek-Smit
	Objectives and Strategies for Housing Finance	Marja Hoek-Smit
	Clinic Introduction	Bill Grigsby
Jan. 6	Functions and Institutional Building Blocks of a Housing Finance System	Jack Guttentag
	Lab on Analytical Methods	Jack Guttentag Gerald Hurst
Jan. 7	Functions and Institutional Building Blocks of a Housing Finance System	Jack Guttentag
	Lab on Analytical Methods	Jack Guttentag Gerald Hurst
Jan. 8	Functions and Institutional Building Blocks of a Housing Finance System	Jack Guttentag Marja Hoek-Smit
Jan. 9	Field Trip to Washington Visit to USAID	Marja Hoek-Smit
Jan. 12	Mortgage Instruments	Jack Guttentag
	Analytical Methods/Computer Use	Jack Guttentag Gerald Hurst
Jan. 13	Mortgage Instruments	Jack Guttentag
	Analytical Methods/Computer Use	Jack Guttentag Gerald Hurst

Jan. 14	Management of the Financial Firm	Anthony Santomero Marja Hoek-Smit
	Why Housing Finance Systems Fall Short of Their Objectives: Diagnosis and Suggestions for Change	Bertrand Renaud
Jan. 15	Secondary Mortgage Market	Jack Guttentag Guest Speakers
Jan. 16	Management of a Housing Finance Institution Field Trip to Savings & Loan Clinic	Jack Guttentag Bill Grigsby
Jan. 19	Regulation and Other Forms of Public Intervention Housing Finance at the National Level	Peter Linneman Bob Buckley
Jan. 20	Housing Finance Subsidies Housing Finance Subsidies	Bill Grigsby Marja Hoek-Smit Steve Malpezzi (preliminary)
Jan. 21	Clinic	
Jan. 22	Clinic	
Jan. 23	Wrap-up/Debriefing	

About half of the following documents were distributed to the training program participants at the beginning of the course; the other half were distributed as the subject matter was discussed during the course. Except for an original copy of the Struyk book, the other documents were photocopy versions of articles, chapters, etc., and as such, sources were only available for those documents whose complete citations were included in the copy. Some of the documents were assigned as "homework" for discussion the subsequent day. Others were assigned as more general reading. The review below reflects the documents' content and general usefulness to a course such as this, but does not reflect the actual way they were used in this course. They are grouped according to major subject areas. See item 8, page 8 of the evaluation text for a general discussion of the reading material.

Housing Finance

Christian, James W., Housing Finance for Developing Countries, International Union of Building Societies and Savings Associations, Chicago, Illinois, 1980.

This monograph is a practical summary of approaches and techniques that can be used to mobilize resources to finance housing. Specific examples of these techniques are provided. While quite comprehensive and theoretically sound, it does not discuss in detail many management and policy issues such as liquidity management, credit risk, interest rate structure, profitability and capital management. It does, however, make clear reference to developing country situations. The monograph discusses a variety of techniques available for financing housing, their strengths and weaknesses when applied to developing country situations, and the common principals of housing finance system management and operation that successful housing finance systems observe. Subjects covered include the role of housing in economic development, alternate techniques for savings mobilization, alternate techniques for lending (various loan instruments), housing finance system support facilities (e.g., deposit and mortgage insurance, secondary mortgage markets and institutions), and housing finance institution management (asset and liability management). A final section covers informal sector financing for housing.

Draft report on restructuring FONAVI (an Argentine system of mandatory 5% tax on employers which is redistributed to Provincial Housing Institutes for lending to households; title, author, date, context not cited).

This is an analysis of the operations of FONAVI and its relationship to the Argentine economy. It appears to be an example of an ineffective program and the paper suggests ways the program could be restructured.

Guttentag, Jack M., "Institutional Systems for the Financing of Housing and Community Facilities: Prospectus for a Study," undated (1971?).

This brief paper notes that housing finance systems must be designed to meet the particular needs of a developing country and that no particular model will work in all countries. It suggests undertaking a comparative study which analyzes and evaluates alternative housing finance systems, focussing on performance relative to the major functions of a housing finance system. The paper briefly comments on some problems encountered in developing country housing finance systems. The paper is quite general, and its value is to stimulate initial discussion on the functions of a housing finance institution and how developing country policy-makers could approach the analyses and evaluation of housing finance systems in their own countries.

Guttentag, Jack M., "The Functions of a Housing Finance System," September 1986.

This paper summarizes the major functions of a housing finance system with reference to developing countries and to objectives, individuals, financial institutions, and governments. It describes the functions of providing a primary loan instrument; providing facilities for lending; servicing loans and savings; reallocating funds from one area to another; and attracting "large account" savings to the mortgage market. The paper notes the need for maintaining structural stability and for mechanisms to control the allocation of resources to residential housing. The paper raises fundamental issues with respect to the functions of housing finance systems, and notes a number of ways in which these issues can be addressed. This paper is useful for discussions on how a housing finance system functions and how fundamental issues can be tackled.

Renaud, Bertrand, "Another Look at Housing Finance in Developing Countries" (source of article and date not cited).

This article examines three issues in housing - the priority of housing in the economy and public policy, the capacity to mobilize savings from low-income households, and the need for specialized housing institutions. The particular roles for the public and private sector are discussed. This brief article touches on some key issues with respect to housing finance. It is a summary think piece that is generally consistent with current views of international donors including AID.

Renaud, Bertrand, Housing and Financial Institutions in Developing Countries, International Union of Building Societies and Savings Associations, Chicago, Illinois, July 1984.

This monograph presents an overview of the nature of housing markets in developing countries, their role in the national economy and the problems of encouraging growth of financial institutions that can serve the housing sector effectively. It also discusses development of housing finance systems and reviews major housing finance policy issues. This informative monograph emphasizes the development of housing finance institutions in developing countries and uses many cross-country examples as illustrative. In addition, it refers to a number of industrialized countries, rather than focussing only on US experience. It is generally supportive of AID policy concerns and clearly reflects current thinking of international donors, such as the importance of building functioning institutions, carefully reviewing the need for costly subsidies, removing policy impediments, and mobilizing private sector resources.

Renaud, Bertrand, "Housing Finance in Korea," lecture at course, January 14, 1987.

This document was used as a framework for the course presentation. It provides an example of synthesized approaches as to how to analyze a housing finance system and how to develop proposals for action. As an example, it points to many of the key issues in developing a housing finance system in the context of current policies and institutions as well as proposed directions for developing capital markets.

Renaud, Bertrand, "Urban Development and Housing Finance," Proceedings of the XVIIth World Congress of the International Union of Building Societies and Savings Associations, Vienna, Austria, September 13-18, 1986.

This well-written contribution to an international conference briefly describes some of the major issues in developing country housing finance and includes World Bank objectives.

Struyk, Raymond J. and Turner, Margery Austin, Finance and Housing Quality in Two Developing Countries: Korea and the Philippines, The Urban Institute, 1986.

This book takes survey results about households that obtained formal or informal financing for housing in Korea and the Philippines and constructs an econometric analysis to explore the effects of formal housing finance in the two countries. Specifically the book attempts to determine who receives formal financing, how such financing affects the value of homes purchased, if formal funds

substitute for informal sources, and what is the effect of formal financing on housing quality. This book is very technical. Readers need to have a fairly strong background in economics and statistics to comprehend it fully. The authors demonstrate that obtaining formal housing finance greatly increases the chances that a household will occupy a unit meeting minimum housing standards. This conclusion may well be spurious since formal financing institutions generally only finance housing that meets minimum standards. Making more financing available will only result in more people getting better housing if such housing is available and affordable, and if families can meet the formal lending criteria. Many of the conclusions in the summary and policy implication chapter draw from other studies and do not directly follow from this work.

Regulation

"An Overview of Government Regulation," (author, source, title and date not cited) pp. 3-15.

This article contends that regulation of business is expanding and affecting business operations in areas which may benefit consumers but may also have disadvantages to business which are passed on to consumers. The article is quite one-sided and its value to the course is only to show that the US has significant regulation; developing countries are not alone.

"Can Regulatory Agencies Protect the Consumer?" (author, source, date not cited, but appears to be 1971).

This article reflects one side of a debate which holds that regulatory agencies do not necessarily protect the consumers and certainly not more than the individual's own ability to assess risks, i.e. caveat emptor. While setting forth a view on the lack of benefits from government regulation, the article's relevance to the course is marginal. It does argue for less or no consumer regulation, the consequence of which would be that the real impact of proposed regulations should be carefully considered.

Claybrook, Joan, "Viewpoint: Crying Wolf," AIE Journal on Government and Society, (no date cited) pp. 14-16.

This article supports government regulation to protect the health and safety of a country's citizens and comments that industry blames government for overregulation, but at the same time seeks special incentives. The article is an appropriate contrast to the two documents above, and the Kahn article below. It would be inappropriate indeed for a course to suggest to other countries that all regulation is overregulation and disruptive to business.

Coase, Ronald, "The Problem of Social Cost," (source, title and date not cited, but appears to be a published reprint of an article which appeared in the Journal of Law and Economics in October 1960) pp. 484-517.

This piece is a theoretical analysis of the social cost of regulation as measured in economic terms. A cost/benefit approach is advocated. While interesting as an adequate example of theoretical analysis, its usefulness to a course on housing finance may be marginal.

Garvin, David A., "Deregulating and Self-Regulating," The Wharton Magazine, Spring 1981, pp. 57-63.

This article contends that self-regulation can work effectively in certain environments, particularly where there are a large number of firms. In other areas, however, the absence of public regulation may open the door to abuse when self-regulation is used to restrict competition. The article takes a different approach from the other regulation articles in that it evaluates regulation not as a government role but as a private role. As such, it provides some balance in the readings.

Kahn, Alfred E., "Applying Economics to an Imperfect World," Regulation, November/December 1978.

This article is a personal view based on the author's experience. It advocates deregulation and focusses arguments on airline deregulation. Based on what has happened since this article was written, the jury is still out on the effects of deregulation. The direct relevance to a housing finance course is hard to establish, except that US policy to a certain extent has and still does practice deregulation.

Posner, Richard A., "Theories of Economic Regulation," (book or journal title and date not cited) pp. 335-354.

This piece details several theories of economic regulation by government including public interest (public demand for correction of inefficient or inequitable market practices) and interest group theories. In the context of this course, the article helps to explain why government regulation is enacted.

Reich, Robert B., "Warring Critiques of Regulation," Regulation, January-February 1979, pp. 37-42.

This article discusses two approaches to regulation - that it should be based on its political responsiveness as determined by the participants it affects, and that it should be based on economic analysis of benefits and costs. The author concludes that regulations that have wide impact are likely to result from political responsiveness criteria and more narrow regulation from economic impact analysis. This interesting article is a layman's equivalent of the Posner theoretical piece above, and thus may be more accessible to course participants. Whether US experience is actually relevant to developing countries in this area is not clear.

Subsidies

"Defining a Subsidy," Chapter I (book title, author and date not cited), pp. 3-10.

This is a compilation of various definitions of subsidy in the US, provoking some thought as to the extent of "subsidies" in government, whether described as such or not.

Mayo, Stephen K. and Gross, David J., "Sites and Services and Subsidies: The Economics of Low-Cost Housing in Developing Countries," The World Bank's Water Supply and Urban Development Department, Operations Policy Staff, Report No. UDD-83, June 1985 (revised).

This paper provides a background and evaluation of sites and services projects, presents an analytical model of how the sites and services paradigm influences household behavior, reviews recent evidence on housing demand in developing countries, and makes conclusions and recommendations to improve sites and services project design and the choice of housing policy instruments in developing countries. The paper provides insights into effective demand and the need to structure programs to reflect demand and to evaluate real subsidies in order to implement replicable projects. This paper is interesting on the subsidy and demand issues related to project and program design.

Secondary Mortgage Market

Dall, Robert F. and Schapiro, Richard M., "The Role of Mortgage Securities," Chapter 4 (book and title date not cited), pp. 73-86.

This chapter, from a book which appears to have been published in 1985, discusses the development of mortgage securities in the US and describes problems and reasons why changes were made or new securities developed. It briefly covers some new techniques developed in the 1980s and suggests that more innovations will follow. The chapter is somewhat repetitive of the Thygerson chapter described below, except that it looks at the secondary market from the point of view of the reasons for changes in securities, while the Thygerson chapter is oriented to the institutions and how they operate.

Hendershott, Patric H. and Villani, Kevin E., "Residential Mortgage Markets and the Cost of Mortgage Funds," AREUA Journal, vol. 8 (date not cited), pp. 30-75.

This article describes the secondary mortgage market in the US and the role of government in creating it with the results of greater competition in supplying some intermediate functions, improved interregional flow of mortgage funds, and increased access by mortgage borrowers to capital markets generally. The author demonstrates that the major result has been a decline in mortgage rates relative to other market rates. This is a useful article on the impact of secondary market activities that also presents some sound theoretical analyses. While the article is long, it is directly related to the course study of secondary markets and could be thought provoking in countries contemplating the establishment of such markets.

Thygerson, Dr. Kenneth J., "Federal Government-Related Mortgage Purchasers," Chapter 3 (book title and date not cited), pp. 57-72.

This chapter, from the same book as the Dall chapter above, describes the development of the the products offered by Fannie Mae, Freddie Mac and Ginnie Mae, and briefly FHA, VA and FmHA. The chapter is a basic description of how the US government operates in the secondary mortgage market. It provides useful information and is well written, but does not directly relate to developing countries.

Interest Rates

"Interest Margin Sensitivity Analysis," Chapter 28 (author, title of book and date not cited), pp. 495-575.

This chapter is essentially the same as the article immediately below. However, it has more complex, more realistic examples as well as questions and problems to solve which are useful to understand the concepts. Both chapters contain sections on lending in the financial futures markets. While this may be interesting to program participants, it is probably not relevant to the situation in nearly all developing countries.

"Managing Interest Sensitivity and Margin," Chapter 12 (author, title of book and date not cited), pp. 485-507.

This chapter describes the causes of fluctuations in interest margins and introduces methods banks can use to anticipate and control interest fluctuations. It discusses the importance of maintaining an interest margin sufficient to cover other expenses and earn a satisfactory return on owner's equity. An interest sensitivity methodology for assets and liabilities is outlined to indicate required returns to the bank. This is a good discussion of why interest rate sensitivity and margin are important, and provides readable examples of the methodologies used currently by US financial institutions to manage interest margins.

Policies and Strategies

"Dimensions of Housing Policy," Chapter 2 (book title, author and date not cited), pp. 11-26.

This chapter aims at setting a foundation for examination of housing and community development policy. It defines policy, outlines the reasons for public intervention in housing, describes essential features of housing policy in the context of community development, and discusses the local dimensions of housing policy. This summary chapter could be considered useful as an outline of possible areas to pursue.

Guttentag, Jack M., "Financing Housing and Human Settlements in Developing Countries: The Loan Policies of Official Institutions," Savings and Development, No. 3, IV, 1980, pp. 171-195.

This article discusses loan policies of government institutions in developing countries and how these policies can be structured to provide the greatest benefit to low-income households. Common policy features - e.g., interest rates and fees, minimum downpayment

requirements, maximum or minimum ratios of income devoted to housing, maximum loan size, specified loan purposes, borrower characteristics and property restrictions - are described in relation to loan policy objectives of rationing demand, generating earnings, controlling risk, providing funds and allocating loans. This well written discussion of loan policies is directly related to developing country experience. It contains sufficient detail to be useful for developing policy approaches and is supportive of AID policy objectives.

Mayo, Stephen K., Malpezzi, Stephen and Gross, David J., "Shelter Strategies for the Urban Poor in Developing Countries," Research Observer (The World Bank) 1, no. 2, July 1986.

This article examines ways to improve strategic planning and project design in housing in developing countries. It emphasizes the need to consider effective demand for housing and to understand housing supply relative to overall economic activity, and the importance of government solving problems through selective inputs rather than by building housing. It discusses the various ways governments intervene in housing markets and notes some of the problems and opportunities in their application. Specifically considered are direct measures to increase the number of houses (conventional public housing, sites and services, and squatter upgrading); actions to affect the supply of housing finance, land, infrastructure, materials and other inputs; and regulations such as rent controls, and building codes and standards. Two strategic guidelines are suggested: economic development is the most effective way of improving housing conditions; and governments should promote the efficiency of the housing sector to ensure maximum benefits, avoiding policies that cause significant market distortions and are counterproductive. The well-documented article cites recent research results on housing in developing countries, and emphasizes many of the same concerns and policy objectives as AID. This represents a good statement of the general views of the international donor community at the present time.

Smith, Timothy J., "The Dual Transaction Nature of Housing Guaranty Loans," National Council of Savings Institutions, prepared for Office of Housing and Urban Programs, AID, August 1985.

This paper describes the two essentially separate financial transactions in AID's Housing Guaranty (HG) loan program: the foreign exchange transaction in which the cost of funds is attributable to the purposes for which the dollars are used; and the local currency transaction where local funds are on-lent to public or private financial institutions based on local market interest rates, and these institutions in turn making housing loans at prevailing terms. The rationale for keeping the rates separate is

discussed. This is a good description of how HG funds can be effectively used to integrate housing finance with the larger financial sector and clearly reflects AID policy concerns. While the paper is specifically directed at using HG funds, the analysis is useful in the broader context of using local sources of funding as well as other international resources.

"The Choice of a Housing Policy," Chapter 2 (book title, author and date not cited), pp. 25-52.

This chapter sets out a narrative decision model for determining national housing policy. It outlines a series of steps to select an optimum housing strategy. The chapter is somewhat dated and the model is not very useful unless supplemented with other chapters in the book which discuss components of the model.

Capital Markets

Guttentag, Jack M., "The Role of Capital Markets in the Financing of Housing in Developing Countries," prepared for the United Nations Interregional Seminar on Financing of Housing and Urban Development, May 1970.

This document discusses capital markets and housing finance systems. It describes the functions and performance of centralized and decentralized systems, noting how decentralized systems may require institutional modifications by government in order for markets to develop. The paper then considers what actions can be taken to improve the efficiency of markets and characterizes the advantages and disadvantages of modifications to a decentralized system, with reference to mortgage insurance, guaranteed mortgage bonds, cash flow insurance, secondary market operations, credit facilities for savings institutions and housing taxes. The paper covers many topics briefly, concentrating on the US experience until 1970 as an example of a decentralized system. The discussion does not relate this experience to developing countries except in a very summary way. The paper should be updated to reflect the impact of significant swings in the mortgage and mortgage securities markets in the US in the last 15 years. Also, it needs to consider the development of new instruments and roles of various financial intermediaries which have changed significantly in the last 10 years.

Financial Institutions

Guttentag, Jack M., "Traditional Functions of Financial Institutions," September 1986.

This short paper describes the different types of US financial institutions and the services they offer, serving as a framework for

analyzing the evolution of financial institutions in developing countries and assessing public policy toward these institutions. This paper is a very basic background piece which orients program participants to the functioning of the financial system in the US.

World Bank

Renaud, Bertrand, "Bankers to the World," Housing Finance International, vol. 1, No. 1, August 1986.

This article is a summary of World Bank activities in urban development and housing finance. It outlines current Bank objectives in housing finance and lists active projects. This article is a brief sketch of World Bank activities, not a substantive article.