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THE URBAN INSTITUTE

MEMORANDUM

February 2, 1993

To: **David Olinger, Sarah Wines, USAID**

From: **Tom Kingsley** 

Subject: **MEMORANDUM ON FINANCE CONFERENCE NOTEBOOK**

Ref: **RFS 07, Task B2, Housing Policy and Finance Contract, Contract No. EUR-0034-C-00-2033-00, AID Project No. 180-0034 (UI#6251), Prepared for Regional Housing and Urban Development Office, Eastern Europe (RHUDO/EE), U.S. Agency for International Development.**

Copies: **Morton Grant, Carlotta Molitor**

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The attached represents the notebook in satisfaction of this task requirement. Consistent with the terms of the RFS, experts making presentations at the conference were not asked to prepare written papers. The notebook, therefore, includes briefing charts and other materials that were made available at the conference.

NOTEBOOK

HOUSING AND INFRASTRUCTURE FINANCE CONFERENCE
PRAGUE, MAY 5-6, 1992

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PRAGUE CONFERENCE ON HOUSING AND INFRASTRUCTURE FINANCE

At the request of Vladimír Dlouhý, Czechoslovakia's Minister of the Economy, USAID sponsored a major conference housing and infrastructure finance at the Hotel Praha in Prague on May 5 and 6, 1992. Participants numbered 132, purposefully chosen to create a mix of three groups: (1) bankers and other specialists financial sector; (2) housing sector leaders (private developers, as well as Republic and municipal officials responsible for housing policy); and (3) Mayors and other officials responsible for the development, operation, and maintenance of local infrastructure systems—4 members of Parliament also attended.

The central purpose of the conference was to introduce these groups to the principles and mechanics of market-oriented finance systems. Until recently, all financing for housing and infrastructure in Czechoslovakia came solely from the central government budget. In the view of the Ministry of the Economy, there is now a much broader recognition that the massive subsidies of the past cannot be continued and that private financing systems will be essential if the nation is to maintain and improve the quality of its urban living environment. But few in Czechoslovakia have much understanding of the workings of such systems and why they are more efficient in mobilizing and allocating resources.

The conference was opened by Ambassador Shirley Temple Black. Minister Dlouhý then reviewed its purposes in the context of the progress of Czechoslovakia's overall economic reform program.

Remaining presentations at plenary sessions on May 5 focused directly on finance. David S. Olinger, Director of USAID's housing programs in Eastern Europe, presented an overview of the operations of market-oriented financial systems and their success in addressing housing needs in the United States and other countries. Richard Salzman, President of the Commercial Bank of the Czech Republic, next reviewed plans and prospects for the evolution of the financial system and the development of private financial institutions in Czechoslovakia. This was followed by presentations on policy options in this environment as they affect the financing of infrastructure and housing (by George E. Peterson and Raymond J. Struyk, respectively, both of the Urban Institute).

The afternoon sessions opened with views on urban problems and financing options in the Republics by Jan Prikryl, Deputy Minister of Economic Policy and Development for the Czech Republic, and Miroslav Zbirka, Deputy Minister of Construction for Slovakia. Kevin Villani, Professor of Finance and Real Estate at the University of Southern California, then reviewed comparative characteristics and efficiencies of housing finance systems in the United States and four West European nations. This was followed by a discussion of steps being taken to create a new housing finance system in Poland, presented by Jan Brzeski of the Real Estate Institute in Krakow.

The agenda on May 6 offered more in-depth treatment of approaches and techniques in two workshops. The first dealt with housing finance and covered: housing costs and affordability in the CSFR; the mortgage process (mortgage products, underwriting, servicing); construction lending; characteristics of alternative types of lenders; and funding and the role and operations of the secondary mortgage market. This workshop was led by Beth Marcus of the U.S. Federal National Mortgage Association (FNMA) and featured Tom Kingsley, of the Urban Institute, and Joan Linville, also of FNMA, as speakers.

The second workshop, focusing on infrastructure finance and land development, was led by George Peterson and offered presentations by Jim Smith, of the U.S. Council for Infrastructure Financing Agencies, and Lynne Sagalyn, Professor of Real Estate at Columbia University, along with CSFR experts including Jitka Pekova of the Prague School of Economics, Vladimira Skorpilova of the Central Bank, and Josef Kilan, Director of the Prague Water Company. Topics included the U.S. bond market; revolving funds, bond banks and devices used by U.S. states to finance infrastructure; potential linkages between land development and local finance; public-private partnerships in development; and comparisons of infrastructure finance systems in the United States and West European countries.

A closing plenary session (moderated by Tom Kingsley and Peter Tajcman, Conference Co-Chairmen, both of the Urban Institute) provided an opportunity for all participants to raise questions and suggest policy priorities. Several emphasized the need for training on financing and methods and techniques for broader audiences in the CSFR. Libor Kudlacek, member of the Federal Parliament, said he felt that the conference had imparted vital lessons (on the way market-oriented mortgage financing can work to expand housing production, on the need to deregulate housing finance to allow this approach to work, and on the need for municipalities to take the initiative in financing and shed their past total dependence on the national budget) and that these should be focal points for public debate in the coming months.

MINISTR HOSPODÁŘE ČSFR
Ing. Vladimír Dlouhý

Prague, April 1992

Dear Madame Ambassador,

We much appreciate the technical assistance and training provided to the CSFR by the U.S. Agency for International Development in the fields of housing and urban development over the past year. The purpose of this letter is to request additional assistance focusing on the issues that we believe are particularly critical to our reform agenda in these fields at this time.

As you know, our ambitious privatization plans that include also privatization of our housing stock. A recently passed Transformation Act that calls for transferring title to cooperative apartments to their occupants is one of a number of measures already adopted. With USAID's assistance /through the work of the Urban Institute/ we have also prepared a draft for a condominium law which will relate to all multi-unit housing but is essential to our efforts to privatize public sector housing.

Even with a reformed legal framework, there is a lack of appropriate financing institutions to facilitate the private purchase of domestic housing and also to fund the development of associated urban infrastructure. Unless this situation is somehow remedied it will act as a major constraint upon the process of privatizing the housing stock and the ability of local municipal authorities to upgrade urban infrastructure.

We are in the process of creating a framework to encourage the development of the financial service industry in general. However we understand that this will inevitably take time.

In the meantime, we would appreciate help from your Government so that we can come to understand which are the most appropriate financing institutions for housing and urban infrastructure; and as important, how best the Government might promote their development.

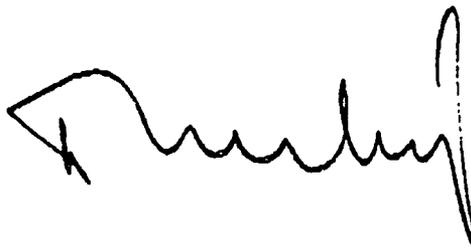
We would like to hold a conference on the above subject this year and have earmarked the 24th and 25th of May as the venue dates.

We request your Government's help in setting up the conference and in meeting the associated costs. We would, of course, closely collaborate with the Embassy and the USAID and would invite as speakers key figures from the financial, housing and urban development sectors.

We have one other request that we believe would much enhance the value of the conference. Jack Kemp, the Secretary of your Federal Department of Housing and Urban Development, is recognized here as one of the most prominent advocates of housing privatization. It would be excellent if he could agree to visit the CSFR and participate as the keynote speaker for the conference. We will correspond with him separately asking him to do so, but ask also that you encourage him to attend.

Thank you for your consideration of this request. I look forward to receiving your response as soon as possible.

Sincerely



Madame Ambassador
Shirley Temple-Black
U.S. Embassy
Prague

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**PRAGUE CONFERENCE ON HOUSING AND
INFRASTRUCTURE FINANCE**

Hotel Praha, Prague, May 5-6, 1992

THE NEED

A number of reforms implemented over the past two years have begun to lay the foundation for market-oriented processes of housing and urban development in Czechoslovakia. New private housing development firms are being formed and local officials are proposing plans to improve infrastructure systems and taking other steps to facilitate private investment in housing. Local governments are also well along in planning the privatization of much of their existing social housing stock. Both the private and government leaders are now recognizing, however, that the lack of adequate financing may be the most formidable constraint they now face in achieving their objectives.

Until just recently, development financing came solely from the central government budget. A continuation of the massive subsidies of the past, however, is now impossible given the demands of responsible fiscal policy. It is clear that the private lending for housing will be essential if a sharp curtailment of plans for improving the nation's urban living environment is to be avoided. Yet, few in the CSFR have a full understanding of the workings of a private market-oriented financial system and how it can mobilize and allocate resources efficiently in responding to national development needs.

THE CONFERENCE

Because of the urgency of this issue, Minister Vladimir Dlouhy of the Federal Ministry of the Economy has requested support from the U.S. Agency for International Development (AID) in holding an initial conference on housing and infrastructure finance. The conference, being held at the Hotel Praha in Prague on May 5 and 6, will bring together finance experts from the United States and Western Europe with three main groups of participants in Czechoslovakia:

- Bankers, financial economists, and other experts in the financial sector.
- Housing sector leaders--private developers as well as Republic and Municipal officials responsible for housing policy.
- Mayors and other officials responsible for the development and operation and maintenance of infrastructure systems.

AGENDA - TUESDAY, MAY 5

After introductions and orientation by U.S. Ambassador **Shirley Temple Black** and Minister **Vladimir Dlouhy**, the first day of the conference will focus on the overall structure and workings of market-oriented financial systems and, in particular, how they supply financing for housing and infrastructure.

David S. Olinger, Director of AID's Regional Housing and Urban Development Office for Eastern Europe, will then present an overview of the operations of market-oriented financial systems and their success in addressing housing needs in the U.S. and other countries. He will also discuss the role of external donors in stimulating improved credit systems.

Richard Salzman, President of the Commercial Bank of the Czech Republic, will then review plans and prospects for the evolution of a the financial system and the development of private financial institutions in Czechoslovakia. This will be followed by presentations on policy options in this environment as they affect the financing of infrastructure (by **George E. Peterson**, of the Urban Institute) and housing (by **Raymond J. Struyk**, of the Urban Institute).

After lunch, presentations will be made on housing problems in the CSFR and the need for improved financing systems. The first will be by Deputy Minister **Jan Prikryl** of the Ministry of Economic Policy and Development of the Czech Republic. The second will be by Deputy Minister **Jaroslav Zbirka**, of the Ministry of Building and Construction of the Slovak Republic.

Kevin Vilani, Professor at the University of Southern California, will then discuss the comparative characteristics and efficiencies of housing finance systems in the U.S. and four Western European nations. **Wladislaw Brzeski**, of the Real Estate Institute in Krakow, will review recent developments in the evolution of mortgage finance institutions and practices in Poland. The afternoon session will close with a panel discussion on comparative systems and lessons for Czechoslovakia.

AGENDA, WEDNESDAY MAY 6

On the second day, participants will break into two separate workshops to discuss approaches and techniques.

Housing Finance Workshop.

The moderator for this workshop will be **Beth Marcus** of FNMA and **Tom Kingsley** of the Urban Institute, and **Joan Linville** of FNMA, will offer a presentations. CSFR experts will serve as panelists. Presentations will cover: the mortgage process (mortgage products, underwriting, servicing); the construction lending process; characteristics of alternative types of lenders; and funding and the role and operations of the secondary mortgage market.

Infrastructure Finance Workshop

This workshop will be moderated by **George E. Peterson**. Presentations will be made by **James Smith** of the U.S. Council for Infrastructure Financing Agencies, **Lynne Sagalyn**, Professor at Columbia University, and CSFR experts. Topics covered will include the U.S. bond market; revolving funds, bond banks and devices used by U.S. states to finance infrastructure; public-private partnerships in development; and the infrastructure finance systems and techniques in Germany and other Western European countries.

Concluding Session

After lunch, a concluding plenary session will be moderated by **Tom Kingsley**, of the Urban Institute. This session will summarize issues raised during the conference, examine the role of subsidies in the evolution of market-oriented financial systems, and provide an opportunity for all participants to raise questions and suggest policy priorities.

**PRAGUE CONFERENCE ON HOUSING AND
INFRASTRUCTURE FINANCE**

Hotel Praha, Prague, May 5-6, 1992

AGENDA

TUESDAY, MAY 5 - PLENARY SESSION

8:30 *Welcome and Introductions: Ambassador of the United States of America, Shirley Temple Black.*

8:40 *Reforming the CSFR Economy and the Role of Finance: Vladimír Dlouhý, Minister of the Economy, CSFR.*

9:00 *Principles of a Market Oriented Financial System and the Role of International Agencies. David S. Olinger, Director, Regional Housing and Urban Development Office for Eastern Europe, U.S. Agency for International Development.*

Discussion

9:40 *Plans for the Evolution of a Market Oriented Financial Sector in the CSFR: Richard Salzman, President, Commercial Bank, Czech Republic.*

Discussion

10:20 **COFFEE BREAK**

10:40 *Financing Infrastructure on the New Environment: George E. Peterson, The Urban Institute*

Discussion

11:20 *Financing Housing in the New Environment: Raymond J. Struyk, The Urban Institute*

Discussion

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12:00 LUNCH

1:40 *Housing and Urban Development in the Czech Republic: Problems and Financing Needs.* Jan Prikryl, Deputy Minister of Economic Policy and Development, Czech Republic

Discussion

2:15 *Challenges in Finance and Development: Housing and Infrastructure in the Slovak Republic.* Jaroslav Zbirka, Deputy Minister, Minister of Building and Construction, Slovak Republic.

Discussion

2:50 COFFEE BREAK

3:10 *Comparative Analysis of Housing Finance Systems in Western Economies:* Kevin Vilani, Professor of Real Estate and Finance, University of Southern California

Discussion

3:50 *Foundations of a New Housing Finance System in Poland and Implications for Other Countries in Eastern Europe:* Wladislaw Brzeski, Krakow Real Estate Institute

Discussion

4:30 *Roundtable Discussion*

WEDNESDAY, MAY 6

Housing Finance Workshop

9:00 *Housing Finance in Czechoslovakia:* Tom Kingsley, the Urban Institute.

9:15 *Introduction: Importance of Housing Finance and U.S. History:* Beth Marcus, FNMA

9:45 *The Mortgage Process: Overview; Mortgage Products; Underwriting; Servicing:* Beth Marcus and Joan Linville, FNMA.

- 10:45 COFFEE BREAK
- 11:00 *The Construction Lending Process*: Beth Marcus, FNMA
- 11:45 *Lender Types*: Joan Linville, FNMA
- 12:05 *Funding and the Secondary Market*: Beth Marchus, FNMA
- 12:30 LUNCH

Infrastructure Finance Workshop

- 9:00 *Introduction and Goals of Workshop*: George Peterson, the Urban Institute.
- 9:15 *U.S. Municipal Bond Market and Use of Revolving Funds for Infrastructure Finance*:
U.S. Experience: Jim Smith, Executive Director of the Council for State Infrastructure Financing Authorities.
Prospects for the CSFR: Representative of the Central Bank
- Discussion*
- 10:15 COFFEE BREAK
- 10:35 *Developer Financing of Municipal Infrastructure*: Lynne Sagalyn, Columbia University, CSFR Mayor
- Discussion*
- 11:35 *Financing Water and Sewer Utilities*:
- 12:30 LUNCH

Closing Session

- 1:30 This session will summarize issues raised during the conference, examine the role of subsidies in the evolution of market-oriented financial systems, and provide an opportunity for all participants to raise questions and suggest policy priorities. Moderator: Tom Kingsley, the Urban Institute.

PROGRAM KONFERENCE

FINANCE V OBLASTI BYDLENÍ A MĚSTSKÉ INFRASTRUKTURY

Pořádá: **Federální vláda ČSFR - Ministerstvo hospodářství**

ve spolupráci s

Agenturou Spojených Států Amerických pro mezinárodní rozvoj

(USAID)

Termín: **5. a 6. května 1992**

Místo: **Hotel "Praha", Sušická 20, Praha 6**

Úterý, 5. května - Plenární zasedání:

- 8:30** **Slavnostní zahájení:** Velvyslankyně Spojených Států Amerických,
paní **Shirley Temple Black**
- 8:40** **Vladimír Dlouhý - Ministr hospodářství ČSFR**
Reforma československého hospodářství a úloha finančního systému
- 9:00** **David Olinger - Ředitel pro Východní Evropu; Office of Housing and Urban
Programs USAID**
Tržní principy finančního systému a role mezinárodních agentur
Diskuse
- 9:40** **Richard Salzman - Prezident, Komerční banka**
Perspektivy na vytvoření tržně orientovaného finančního systému v ČSFR
Diskuse
- 10:20** **Přestávka**
- 10:40** **George E. Peterson - The Urban Institute**
Financování infrastruktury v nových podmínkách
Diskuse

- 11:20** **Raymond J. Struyk - The Urban Institute**
Finance v oblasti bydlení v nových podmínkách
Diskuse
- 12:00** **Přestávka - oběd**
- 13:30** **Jan Příkryl - Náměstek Ministra pro hospodářskou politiku a rozvoj České republiky**
Současný stav a nové aspekty bytové politiky v České republice
Diskuse
- 14:15** **Miroslav Žbirka - Zmocněnec vlády Slovenské republiky pro bytovou politiku, náměstek ministra výstavby a stavebnictví**
Současný stav a nové aspekty bytové politiky ve Slovenské republice
Diskuse
- 15:00** **Kevin Vilani - Profesor of Real Estate and Finance, University of Southern California**
Komparativní analýza finančních systémů v oblasti bydlení v západních ekonomikách
Diskuse
- 15:30** **Wladislaw Brzeski - Krakovský institut nemovitostí**
Zavádění nového systému financí v oblasti bydlení v Polsku a důsledky pro ostatní země východní Evropy
Diskuse
- 16:00** **Všeobecná diskuse - Petr Tajčman, USAID Housing Program Czechoslovakia, The Urban Institute**
- 17:30** **Recepce**
Recepce pro účastníky konference pořádá pan David Olinger, ředitel Úřadu pro bydlení a rozvoj, USAID

Středa, 6. května - pracovní skupiny

- 8:30** **Finance v oblasti bydlení**
Pracovní skupina bude pracovat pod vedením moderátora **Beth Marcus, Federal National Mortgage Association (FNMA)**, a bude zahrnovat referáty **Joan Linville** a **Roberta Motleye**, oba z **FNMA**. Odborníci z České a Slovenské republiky budou prezentovat své názory v rámci panelové diskuse. Náplní práce pracovní skupiny bude proces hypotekárních půjček (hypoteční půjčky poskytování, uzavírání, platba atd.), úvěrování výstavby, charakteristika alternativních úvěrových zdrojů, financování, role a fungování sekundárního trhu hypoték.

Financování městské infrastruktury

Pracovní skupina bude pracovat pod vedením moderátora **George E. Petersona, The Urban Institute**. Referáty přednesou pánové **James Smith, U.S. Council for Infrastructure Financing Agencies**, a **Horst Zimmermann, University of Marburg, SRN**. Českoslovenští odborníci přednesou své příspěvky v rámci panelové diskuse. Pracovní skupina se bude zabývat funkcemi trhu s obligacemi ve Spojených státech, obligační bankou a způsoby financování infrastruktury v USA. Dále bude věnována pozornost financování běžném v Západní Evropě a konkrétním možnostem jejich rozvinutí v existujících podmínkách v ČSFR.

15:00

Závěr konference

Organizační poznámky:

Tajemník konference: Petr Tajčman - USAID/The Urban Institute

Veškeré informace týkající se konference lze obdržet od pana Tajčmana na tel./Fax čísle: 02/73 28 68

UBYTOVÁNÍ:

Pro mimopražské účastníky bude poskytováno hotelové ubytování ve dnech ze 4. na 5. května* , a z 5. na 6. května. Zájemci o ubytování nechtě neprodleně kontaktují tajemníka konference (Tel/Fax: 02/73 28 68), nebo zašlou vyplněnou přihlašku.

* Ubytování v tomto termínu (ze 4. na 5. května) bude poskytnuto pouze účastníkům z míst, která jsou z Prahy vzdálená 3 a více hodin.

PRAGUE CONFERENCE ON HOUSING AND
INFRASTRUCTURE FINANCE

Hotel Praha, Prague, May 5-6, 1992

List of Participation

Antalová Mária	Research Institute of Social Development, Bratislava
Daginský Jan	Director of Housing Company, Banská Bystrica
Bareš Štěpán	COOP Union of CSFR, Prague
Baruchová Zora	Research Institute of Labour and Social Affairs, Bratislava
Baňhová Marie	Magistrate Office of Prague
Beca Miloš	Lord Mayor of Košice
Bejbl Miloš	Advisor to the Government, Presidium of the Federal Government, Prague
Beliš Vladimír	Lord Mayor of Prešov
Boček Petr	Deputy Mayor of Prague 6
Beňuška Peter	Deputy Mayor of Bratislava
Burgess Villa	Planning Department of Píseň

Caine Chip Anthony	Chief Architect's Office, Prague
Callan Deborah	ECL, London
Callan Edward	ECL, London
Čepi Vojtěch	Vice Dean, Charles University, Law School, Prague
Čechová Tatjana	Chief Architect's Office, Bratislava
Čermáková Jana	Magistrate Office of Prague
Červenková Anna	Press Editor of "Econom", Prague
Čuda Lubor	Director, Dept. of Economic Instruments, Ministry of Building and Construction SR Bratislava
Dvořák Otto	Architect, Boston
Flášarová Lenka	COEX, Prague
Fleischer Cathryn	Multinational Strategies, Inc. Ministry of Privatization, Prague
Grey Thomas	Advisor to the Prime Minister SR, Bratislava
Gubric Alexandr	Housing Institute, Bratislava
Hallerova Alona	Federal Ministry of Finance, Prague
Herta Petr	Commercial Bank, Brno
Hofferek Miroslav	Technical University, Brno
Hrubá Helena	City of Plzeň
Chrobok Viktor	Tajčman Associates, Prague
Trpková Kubica	Commission for Economic Strategy of the Slovak Government, Bratislava
Jana Zdeněk	Head of Dept. of Services and Entrepreneurship, Liberec

From : Petr Tajman

PHONE No. : 42 2 732868

May. 25 1992 1:16PM P02

Lejsek Josef	Director, Water Management, Development and Construction Prague
Letocha Jan	Mayor of Kyjov
Lišková Gabriela	Investment Bank, Division 3, COOP Loans, Prague
Loudová Ivana	Ministry of Finance CR Prague
Macháček Jan	Press, Editor, "Rozpekt"
McGrav James D.	President, Spring Enterprises Limited, Cambridge
Marshall Ann	Financial Services, Volunteer Corps, Prague
Martinovský Václav	COEX, Prague
Matyáš František	Senior Urban Planner, Terplan Prague
Matyáš Jiří	Commercial Bank, Brno
May Jiří	Dept. of Territorial Development, Ministry of Environment CR Prague
Meadow Herbert	H.N. Gorin International Inc. Prague
Meistřík Jiří	Director, Dept. of Municipal Policies MMPR CR Prague
Merta Petr	Commercial Bank, Brno
Michlová Zdenka	Head of Dept. of Municipal Assets Karlovy Vary
Murgaš František	General Secretary of Association of Towns and Cities Bratislava
Nahálková Ludmila	Dept. of Industrial Policies

Jelínek Josef	Deputy Mayor of Ostrava
Kodal Roger	Advisor, Commercial Bank, Prague
Kahnůn Ján	Ministry of Finance SR, Bratislava
Kajfoszová Irena	Commercial Bank, Prague
Kandlová Anna	Research Institute of Construction and Architecture, Prague
Karas Ladislav	Mayor of Dubňany
Kilián Josef	Director, Prague Water Company Prague
Kláš JIŘÍ	Member of the Board, Czech Savings Bank, Prague
Kluněek Ivo	Director Dept. of Management of Municipal Assets, Liberec
Koldorová Monika	Dept. of Housing Policy MHPR CR, Prague
Komárková Jitka	Commercial Bank, Prague
Kupcecký Miroslav	Dept. of the Urban Planning, Písoň
Košacký Zdeněk	Head of the Department of Finance Prague 6
Krčmár Aloiz	City of Nitra
Krdlek Juraj	Ministry of Finance SR Bratislava
Křížková Libuše	Deputy Mayor of Prague 9
Křivák Jiří	President, COEX, Prague
Kudláček Libor	Federal Assembly, Prague
Kulhavá Ivana	Federal Assembly, Prague
Kynclová Alexandra	Association of Building Owners, Prague

Narva Petr	Rychnov nad Kněžnou
Němcček Zdeněk	Dept. of Investments Magistrate Office, Prague
Nižňanský Viktor	Regional Union of Towns Pouduňá P. 11. 11. 11.
Novák Petr	Bank of Bohemia Prague
Nováková Helena	Housing Dept., Ministry of Interior Prague
Oberstein Ivo	Chief Architect of Prague
Ocelka Michal	Vice Director Nitra
Ondráčková Jiřina	Press, Editor " Noviny " Prague
Pavlík Stanislav	Dept. of Water Management, Ministry of AGRICULTURE CR, PRAQUE
Páník Vojtech	Advisor to the General Director of Slovak State Savings Bank Bratislava
Peková Jitka	Dept. of Public Finance Prague School of Economics
Plechátý Jan	Director of the Dept. Ministry of Agriculture CR Prague
Podsklan Jozef	City of Danská Bystrica.
Pollak, Ladislav	Chairman, COOP Union Bratislava Bratislava
Pokorný Jaroslav	COOP Union Prague
Povolný Karel	Advisor, Ministry of Labour and Social Affairs CR Prague

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From : Petr Tajčman

PHONE No. : 42 2 732868

May. 25 1992 1:21PM P01

Provan Ladislav	Vice President, K. N. Gorin International Prague
Provazníková Romana	Tajčman Associates, Prague
Příkrýl Jan	Deputy Minister, MPR CR Prague
Puchovský Peter	Mayor of Banská Bystrica
Regál Jiří	Head of Financial Dept. Domažlice
Rohák John	Director of Marketing, ECI London
Rehák Štefan	Mayor of Trenčín
Romcovská Edeltraut	Investment Bank Prague
Romcová Hana	Head of Financial Department Investment Bank Prague
Řápek Břetislav	Commercial Bank Prague
Salzman Richard	President, Commercial Bank Prague
Salisbury Kate	Technical Office Plzeň
Stará Hana	District of Prague 6
Starý Vladimír	SIBTERA, Prague
Stěsň Jan	Managing Director, ALL IN Prague
Stránský Karel	Chief Architect City Brno

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Sušický Petr	Association of Towns and Cities Prague
Šiman Jiří	Ministry of Finance CR Prague
Šimůnek Igor	Institute of Building Economy and Organization Bratislava
Šimončíš Kamil	Association of Entrepreneurs of Slovak Republic Bratislava
Šindlerová Eva	Slovak Technical University Bratislava
Škorpilová Vladimíra	Director, Dept. of Securities and State Budget, Central Bank Prague
Škráček Jarmila	Mayor of Šternberg
Šlofar Tomáš	Deputy Mayor Frýdlant nad Orlicí
Štěřba Jan	Banking Supervision Division, Central Bank Prague
Švarcová Eva	Union of Czech and Slovak COOP Prague
Tauchman Oldřich	Deputy Mayor of Hradec Králové
Traxler Jaromír	Commercial Bank Prague
Trhlíková Jana	Investment Bank, Division 3, COOP Loans Prague
Trnka Vojtěch	Federal Ministry of Finance Prague
Tumalík Karel	TRADITION, Prague
Tunka Martin	Dept. of Regional Development, Ministry of Environment CR Prague

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Velok Martin	Deputy Mayor of Prague 4-Modřany
Víšek Petr	Federal Ministry of Labour and Social Affairs
Vodička Arnošt	Presidium of the Federal Government, Prague
Vohradská Jarmila	Association of Building Owners Prague
Vrba František	Deputy Mayor of Říčany
Vyvířal Pavel	Mayor of Frídek Místek
Vágnor Jan	Director, Dept. of Housing Policy, MHPK CR, Prague
Vágnor Václav	Federal Ministry of Finance Prague
Yaden David	Clean Air Policy Prague
Zajíček Tomáš	President Association of Towns and Cities Mayor of Písek
Zapletalová Jarmila	Director, Housing Institute Bratislava
Zelenková Hana	COEX, Prague
Zlámalová Blanka	Deputy Mayor of Šternberg
Želozník Petr	Deputy Mayor of Frídek Místek
Žlárský Jan	Guild of Contractors CR Prague
Žbirka Jaroslav	Deputy Minister, Commissioner of the Slovak Government for Housing Policy Bratislava

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Anthony Ross	Director, Development Resources USAID Washington D.C.
David S. Olinger	Director of AID's Regional Housing and Urban Development Office for Eastern Europe Washington D.C.
Sarah Wines	RHDDO/USAID Washington D.C.
Lee Roussel	USAID Office, Prague Czechoslovakia
Jin Bednár	USAID Office, Prague Czechoslovakia
Leoš Jirásek	USAID Office, Prague Czechoslovakia
Tom Kingsley	Director of Center for Public Finance, The Urban Institute Washington D.C.
George E. Peterson	Center for Public Finance The Urban Institute Washington D.C.
Raymond J. Struyk	Director of International Activity Center The Urban Institute Washington D.C.

Janez Smith

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Heth H. Marcus	Director of International Finance FNMA Washington D.C.
Joan Linville	FNMA Washington D.C.
Lynne Sagalyn	Professor Columbia University
Kevin Vilani	Professor University of Southern California
Wladislaw Brzeski	Real Estate Institute Krakow
Petr Tajčman	USAID Housing Program Czechoslovakia
Lerner Patricia	USAID Representative Slovak Republic
Miriam Maxian	The Urban Institute Washington D.C.
Peter Tatian	The Urban Institute Washington D.C.

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**PRAGUE CONFERENCE ON HOUSING AND
INFRASTRUCTURE FINANCE**

Hotel "Praha", Prague, May 5-6, 1992

List of Speakers

Shirley Temple Black	U.S. Ambassador Czechoslovakia
Vladimír Dlouhý	Minister, Federal Ministry of Economy, Prague
David S. Olinger	Director of AID's Regional Housing and Urban Development, Office for Eastern Europe Washington D.C.
Tom Kingsley	Director of Center for Public Finance, The Urban Institute Washington D.C.
George E. Peterson	Center for Public Finance The Urban Institute Washington D.C.
Raymond J. Struyk	Director of International Activity Center The Urban Institute Washington D.C.
James Smith	Executive Director of the Council for State Infrastructure Financing Authorities Washington D.C.
Richard Salzman	President Commercial Bank Prague

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Jan Příkrýl	Deputy Minister Ministry of Economic Policy and Development CR Prague
Jaroslav Žbirka	Deputy Minister Commissioner of the Slovak Government for Housing Policy Bratislava
Kevin Vilani	Professor University of Southern California
Wladislaw Brzeski	Real Estate Institute Krakow
Both H. Marcus	Director of International Finance FNMA Washington D.C.
Joan Linville	FNMA Washington D.C.
Lynne Sagalyn	Professor Columbia University
Jiří Klán	Member of the Board Czech Saving Bank Prague
Karel Povolný	Advisor Ministry of Labour and Social Affairs Prague
Vojtěch Čopl	Vice Dean Charles University Law School Prague
Petr Tajčman	USAID Housing Program Prague

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SPEAKERS AT THE CLOSING SESSION

Hotel "Praha". Prague. May 6, 1992

Tom Kingsley	Director of Center for Public Finance, The Urban Institute Washington D.C.
Petr Boček	Deputy Mayor of Prague 6
Libor Kudláček	Federal Assembly Prague
Alexandra Kynclová	Association of Building Owners Prague
Jarmila Zapletalová	Director Housing Institute, Bratislava
Petr Tajcman	USAID Housing Program Prague

KEYNOTE SPEECH

PRINCIPLES OF A MARKET ORIENTED FINANCIAL SYSTEM AND THE ROLE OF
INTERNATIONAL AGENCIES

PRAGUE CONFERENCE ON HOUSING AND INFRASTRUCTURE FINANCE

Hotel Praha, Prague
May 5, 1992

David Olinger
Assistant Director, Eastern Europe
Office of Housing and Urban Programs
U.S. Agency for International Development

INTRODUCTION

Thank you Ambassador Black and Minister Dlouhy. It is a pleasure to be here in Prague again. I would especially like to thank the Federal Ministry of the Economy for its help in making this conference possible. It is encouraging to hear of the progress being made in restructuring the housing sector in line with a more market oriented, demand driven economy.

Part of the obligation to structure the framework for reform has fallen on the people in this room and the transition has already begun. New private housing development firms are being formed; local officials are proposing plans to improve infrastructure systems and taking steps to facilitate private housing investment. Local governments are privatizing much of the social housing stock, especially through restitution to former owners.

Much however remains to be done. As private and government leaders are recognizing, the lack of adequate finance may be the most formidable constraint to be faced in achieving their objectives.

THE U.S. EXPERIENCE

In the United States, the housing sector, over a long period has produced a supply of shelter which has created what has become known as the "American Dream" -- the idea that the "average" family can buy and own their own home. The concept is fundamental to both the social and economic fabric of our country. Over the past 45 years, 79 million housing units were produced, allowing 60 million families, or 64% of the population to own their own homes. In addition, the number of sub-standard units has dropped from almost 50% in 1940 to less than 10% in 1985.

These statistics are not intended to imply the situation in the U.S. is perfect. We have serious problems -- including the homeless, urban crime, drugs and the potential of a permanent underclass with little hope of economic advancement. It is becoming increasingly difficult for the first-time buyer to get on the housing ladder. We are currently addressing a crisis in housing finance which will have an ultimate price of hundreds of billions of dollars. Nevertheless, most Americans are well-housed. The supply of mortgage money remains strong and most Americans are eligible to purchase a home with a loan of 90% or more of its value. The home can then be readily sold to another family who obtains a similar loan to buy the home.

This market system of finance allows for mobility in the U.S. labor force. The average American family moves every five years,

allowing it to respond to shifts in the economy as personal employment opportunities change. The private market has enabled most Americans to obtain a relatively high standard of housing.

While neither the U.S. or any particular system can be directly copied by Eastern Europe, there are principles underlying a market oriented finance system which are essential to its functioning anywhere.

The basis for the system is a division of labor between the public and private sector which combines the incentives for private profit with adequate concern for the public good. It requires a vigorous private sector including developers, homebuilders, lenders, realtors, investors, lawyers, architects, engineers and enlightened public officials.

A market-oriented financial system also depends upon efficient financial institutions operating under market principles. The terms of financial transactions are determined by the market rather than through administrative processes. Institutions must possess skills which allow them to realistically evaluate the risk of alternative investments to insure that resources flow to investments yielding the highest return. The role of government in these transactions is minimal. Regulation should be imposed only when necessary to protect the legitimate public interest. Where subsidies are justified, they should be distributed through the

government budget rather than through the financial system.

Successful financial systems also depend upon the creation of savings and lending instruments which also respond to market forces. When long term saving instruments are unattractive because of economic uncertainty, new instruments which reduce uncertainty must be devised. Where high interest rates make loans unaffordable, indexed instruments can make borrowing more affordable and still insure adequate returns to the lender.

Finally, the rights of all participants in the financial market must be protected. Lenders must accurately present information to potential borrowers on their obligations and the terms of financial contracts. Borrowers must offer adequate security to cover possible default to the lender. At the same time, the legal system must support the enforcement of these rights, protecting both lenders and borrowers from failure of the opposite party to uphold the terms of the contract (foreclosure laws).

Also critical to a successful housing policy is an adequate system for urban service provision. While an individual household can build housing on its own, in urban areas is impossible for a household to develop its own infrastructure support.

As responsibility is transferred from the central government to municipalities, a new question to address is which levels of

government will be responsible for the capital investment required for network services such as water distribution and wastewater collection, and how these major investments will be financed.

The Republics face massive new challenges. Not only must they increase the level of local capital investment to replace and upgrade the long neglected investments in municipal water treatment and distribution. At the same time, they will negotiate a new fiscal system that supports new local spending levels and also decide what authority for local service delivery and investment to transfer to local jurisdictions.

The capital investment required is great, particularly given the priority being placed on worldwide environmental improvement. Means must be found to generate revenues to recover the operating costs of such networks; local authorities must have the means to acquire the capital needed for such investments and the capacity to administer it.

Our experience demonstrates that the components of an effective market-based system of housing finance are complex and must evolve from the specific conditions and culture of each country.

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A. HOUSING AND URBAN DEVELOPMENT EXPERIENCE

In addition to the knowledge gained from experience in the U.S., we have also gained expertise in housing and urban programs outside the U.S. For more than 25 years, the U.S. Agency for International Development has worked in over 50 countries providing capital assistance, technical assistance and training for shelter, the provision of urban services, infrastructure and other development projects. Some of this experience in development is relevant for the Czech and Slovak Federal Republic.

Our international efforts are guided by a few fundamental objectives:

- We work on a continuing basis with countries who are pursuing their housing and urbanization efforts in a realistic manner.
- We assist such nations develop effective and efficient national shelter and urban policies.
- We provide assistance intended to help strengthen the institutions that are critical to the planning, finance, development and management of shelter and urban services.

As I have already mentioned, the tools available for our work include technical assistance, training and loans. Our principle

loan resource is known as the Housing Guaranty Program. Through this substantial program, we guaranty repayment of the U.S. private sector loans to developing countries at reasonable terms for shelter and urban development activities. Within the next few weeks, AID will sign a \$30 million HG program for Poland. We are also in the process of examining the possibilities for a somewhat small program in Hungary.

In each country where AID has provided assistance, the problems are complex and available resources are extremely limited. Working with senior policy makers, we have generally helped our clients come up with effective, pragmatic approaches. Through these experiences, and from our mistakes, we have evolved a set of principles which can be applied within the political, historical and cultural reality of a particular situation.

A critical component of the private real estate market is effective, participatory local government. The many years of experience with local government in the U.S., enables A.I.D. to provide substantial expertise in municipal administrative and financial management in developing countries. Although the role of local government is significant in many other countries, the U.S. has a rich base of experience with more than 80,000 units of local government in fifty states.

POTENTIAL FOR COOPERATION IN SUPPORT OF FINANCIAL SECTOR REFORM

A.I.D. believes it can provide meaningful assistance in support of financial sector reform. This prestigious and diverse group of Czech, Slovak and American professionals has been assembled to help identify the need for and nature of such support. While the Americans have obtained background information on the Czech and Slovak system of housing and infrastructure finance, they are here especially to listen and learn. The enormity and complexity of tasks confronting the Republic is clear. We hope to meet with each group here to discuss your ideas about how these important issues can best be addressed.

For more than a year, A.I.D. has supported initiatives in the Czech and Slovak Republic at the national level, at the municipal level and for the private sector.

At the national level, it has analyzed current housing policy, surveyed the stock of communal housing and examined reforms in relation to housing allowances and social payments programs. Advice was given on the new western-style condominium law and is also being provided now for a housing substitution law, land development regulations and other legislation relating to housing reform.

Two municipal districts in Prague are working with A.I.D. to find means of privatizing the ownership and management of their rental

housing stocks. Other municipalities have asked that the program be extended to their areas. Several have asked to work on strategies and methods of planning for future urban growth.

In the private sector, A.I.D. is working with the Associations of Private Contractors and the Guilds of Contractors in both Republics to assess the rapidly growing private construction and building materials industries. These studies have shown there is substantial potential for a significant private housing market. Sites for demonstration projects have been investigated and could possibly lead to development of U.S. sponsored pilot projects

These experiences suggest a few areas where expertise available from U.S. and other donors might prove useful. Placing the private real estate market on a firm foundation will require further legal and regulatory framework for housing and service provision, including laws regarding tenure, property transfer, contracts for financing, foreclosure procedures. Through technical assistance, lessons learned from experience in other countries can be adapted to suit the context in this country. Incidentally, the experience A.I.D. has gained from working on condominium legislation here has already proven useful in Poland where similar legislation is also being examined.

The same is true of elements of municipal management focused on infrastructure planning and revenue generation for water,

sanitation, solid waste disposal and other basic services. The role of the private sector in service delivery may require definition. It may be necessary to introduce reformed tax systems, incentives, infrastructure standards and urban environmental assessments.

Assistance may also be useful in introducing new technology relating to financial sector development. New techniques in instrument design, portfolio management and debt-servicing systems will be critical in managing the scale and complexity of financial transactions that will evolve as the financial market develops. Training in the use of new techniques in areas such as risk assessment, underwriting, accounting and management is another area in which donor assistance can play a role.

Finally, capital assistance through the Housing Guaranty program might be useful to finance pilot projects to demonstrate and test the feasibility of new lending instruments and new institutional and contractual relations.

By the end of the conference tomorrow, I hope we will all have a clearer picture of the greatest needs and opportunities for cooperation. We can then move as quickly as possible to develop these opportunities through the most appropriate means of assistance.

We look forward to exchanging ideas and experiences with you all and to a most interesting and useful two days. Thank you.

Draft #2 - 5/1/92

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Table 2.1
Summary of the Distribution of Risk Under
Alternative Ways of Mobilizing Funds
(entity bearing risk)

Source of Funds	Type of Risk			
	Credit Risk	Intermediation Risk	Interest Rate Risk	Prepayment Risk
Deposits	Originator	Originator	Borrower or Originator ⁺⁺	Originator
Term Loans ⁺	Originator	Originator	Borrower or Originator ⁺⁺	Originator
Bonds**				
Fixed Rate	Originator	None	Investor	Issuer
Variable	Originator	None	Borrower	Issuer
Participations**				
Fixed Rate ⁺	Originator	None	Investor	Investor
Variable ⁺	Originator	None	Borrower	Investor
Refinancing (NHB)	Originator	None	Issuer	Originator

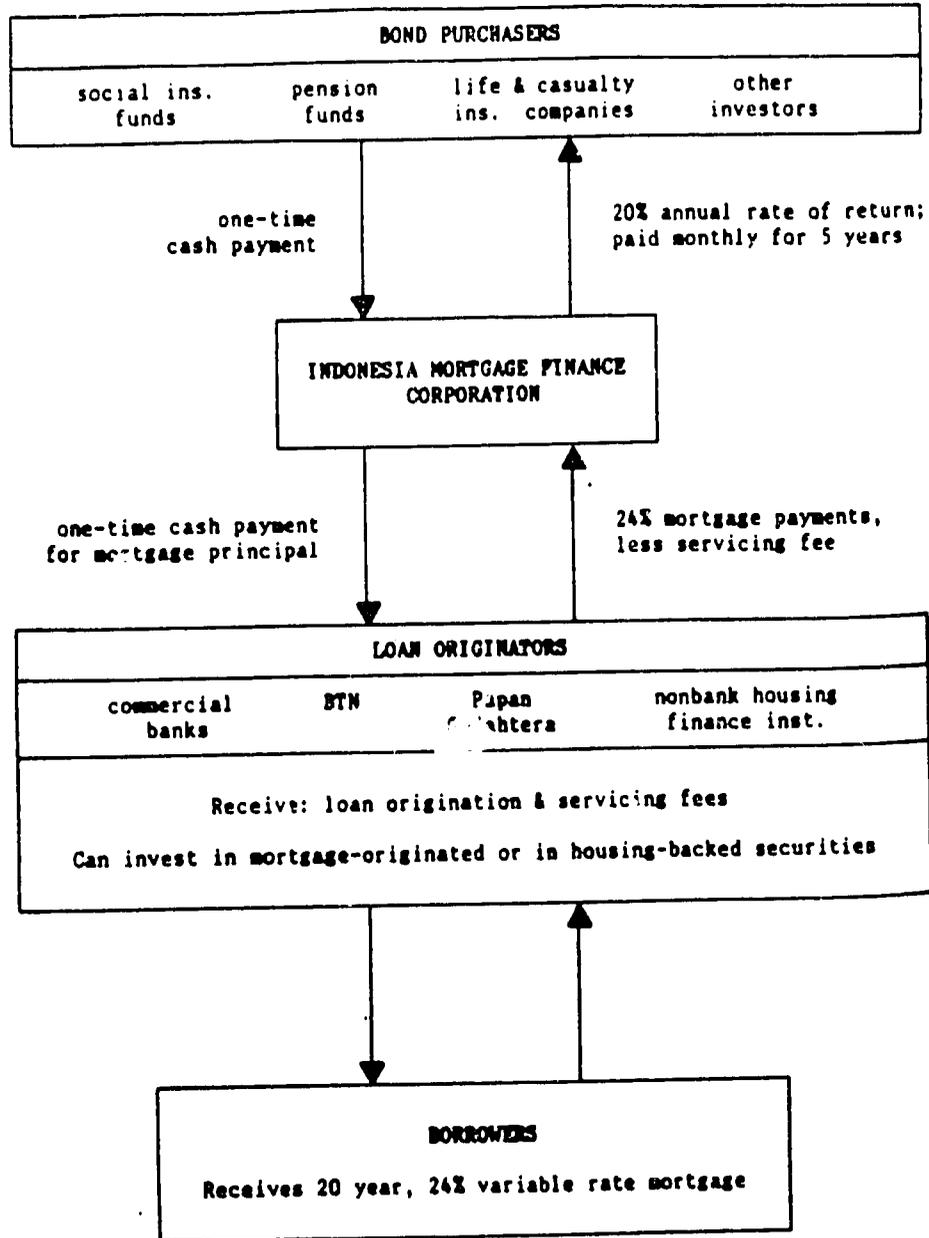
Notes:

- Assumes these loans are at a fixed rate. Intermediation risk occurs only if the loan has a call option.
- ** Assumes that the bonds have the same term as the underlying mortgages; bonds could be issued either by an individual lender or by a secondary facility but in either case use a pool of mortgages as the asset base. "Fixed rate" and "variable rate" refer to the interest rate structure on the underlying mortgages.
- + Whether the participation is fixed or variable rate depends on whether the mortgages in the underlying pool are fixed rate or adjustable rate mortgages.
- ++ Depends on whether fixed rate or adjustable rate mortgage is employed.

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Source: R. Struyk, A Secondary Mortgage Market for India: Notes on Feasibility and Structure. New Delhi: USAID, 1990.

Figure 6.2 SECONDARY MORTGAGE MARKET OPERATIONS: ILLUSTRATION FOR VARIABLE RATE BONDS



Source: R. Struyk et al. The Market for Shelter in Indonesian Cities. Washington, D.C.: Urban Institute Press, 1990.

Housing Finance Systems

	<u>funds mobilization</u>	<u>loan organization and servicing</u>	<u>investment</u>
deposit institution*	deposits; contract savings; term loans	deposit institution	deposit institution
mortgage banker	capital; term loans	mortgage banker	bond holders, MBS, secondary markets, other investors
hybrid	deposits; contract savings; term loans	originator	originator, bond holders, secondary market, etc.

*National Savings Bank, savings and loan association, building society, banks.

**Alternative Mortgage Investments
Compared to Fixed-Rate Mortgage**

<u>instrument</u>	<u>impact on affordability</u>	<u>interest rate risk</u>	<u>risk of default</u>
adjustable rate mortgage (ARM)	modest increase	shifted to the borrower*	relatively great
price-level adjusted mortgage (PLAM)	substantial increase	largely shifted to borrower**	moderately greater
dual index mortgage (DIM)	substantial increase	largely shifted to borrower**	slightly greater

*If adjustment limits are present, e.g. maximum interest rate increase of 5 percentage points over the life of the mortgage, then risk is shared with originator/investor.

**Adjustment limits in terms of the ratio of mortgage payment to income could be in effect.

ALTERNATIVNÍ HYPOTEČNÍ INVESTICE V POROVNÁNÍ S HYPOTÉKAMI S FIXNÍ MÍROU.

nástroj	důsledky z hledí- -diska dostupnosti	riziko úrokové míry	riziko platební neschopnosti	riziko likvidity
hypotéka s variabilní úrokovou mírou (ARM)	mírné zvýšení	přesunuto na vypůjčovatele*	poměrně velké	poněkud větší
hypotéka přizpůsobivá cenové hladině (PLAM)	podstatné zvýšení	do velké míry přesunuto na vypůjčovatele**	mírně větší	mírně větší
dvojindexová hypotéka (HDI)	podstatné zvýšení	do velké míry přesunuto na vypůjčovatele**	poněkud větší	podstatně větší

*Jestliže se vyskytnou limity přizpůsobivosti, jako například maximální nárůst úrokové míry o 5 procent za dobu trvání hypotéky, pak se o riziko dělí původce/investor.

**Je možno použít limitů změny na poměr hypoteční splátky k příjmu.

Příklady rozložení rizika při alternativních způsobech mobilizace fondů.

(Subjekt nesoucí riziko)

Zdroj fondů (peněžních prostředků)	Druh rizika			
	Riziko úvěru	Riziko zprostředkování (Intermediační r.)	Riziko úrokové míry	Riziko placení předem
Vklady	Původce nebo ručitel	Původce	Vypůjčovatel nebo původce	Původce
Obligace	Původce nebo ručitel	Žádné	Investor	Ručitel
Fixní míra		Žádné	Vypůjčovatel	Ručitel
Variabilní				

Dostupnost hypotéky s fixní mírou při alternativních úrokových mírách.

Měsíční příjem	935 LV
Splátka k příjmu	30 %
Dostupná měsíční splátka	280.5 LV
Doba splatnosti:	20 let

Dostupná hypotéka

Úroková míra (procent)	Dostupná hypotéka	Dostupná cena bydlení	Obytné plochy
3	50.577	72.235	36.1
20	16.511	23.588	11.8
50	6.731	9.652	4.8

*Předpokládá 30 ti % zálohu v hotovosti.

**Předpokládá cenu 2.000 LV za čtvereční metr.

SYSTÉMY FINANCOVÁNÍ BYDLENÍ

	<u>mobilizace fondů</u>	<u>zdroj a zpravo-</u> <u>vání půjčky</u>	<u>investice</u>
úkladové instituce	úklady: stavební spoření, časové půjčky:	úkladové instituce	úkladové instituce
hypotékární bankéř	kapitál: časové půjčky:	hypotékární bankéř	držitelé obligací: MBS, sekundární trhy jiní investoři

HOUSING FINANCE SYSTEMS LESSONS FROM FIVE MARKET ECONOMIES
 SYSTÉMY FINANCOVÁNÍ BYDLENÍ POUČENÍ Z PĚTI TRŽNÍCH EKONOMIK

I. THE GOOD NEWS IF THE 1980'S
 "DOBŘE ZPRÁVY" Z LET 80. TÝCH

FAILURES, BANKRUPTCIES AND LIQUIDATION OF SPECIAL 1390
 HOUSING FINANCE INSTITUTIONS

NEÚSPĚCH, BANKROT A LIKVIDACE 1390 TI SPECIÁLNÍCH
 FINANČNÍCH ÚSTAVU POSKYTUJÍCÍCH FINANCE NA BYDLENÍ

HOME CLOSURES AND EVICTION AT A 50 YEAR HIGH LEVEL
 POČET EXEKUCÍ A SOUDNÍCH VYSTĚHOVÁNÍ NEJVYŠŠÍ ZA
 POSLEDNÍCH PADESÁT LET

HOME PRICES AND INTEREST RATES
 EXPERIENCE RECORD VOLATILITY
 CENY BYDLENÍ A ÚROKOVÉ MÍRY
 JSOU VELMI NESTÁLÉ

SPECIALIZED HOUSING FINANCE INSTITUTIONS
 AND ARRANGEMENTS SHRINKING OR DISAPPEARING
 FINANČNÍ ÚSTAVY A PROGRAMY ZAMĚŘENÉ NA BYDLENÍ
 SE ZMENŠUJÍ A POSTUPNĚ MIZÍ

FINANCIAL MARKETS UNDERGOING PERESULATION
 FINANČNÍ TRHY PRODĚLÁVAJÍ DEREGULACI

HOMEOWNERSHIP LESS AFFORDABLE AND DECLINING
 VLASTNICTVÍ BYDLENÍ MĚNĚ DOSTUPNÉ A JE NA ÚSTUPU

II PROČ JSOU TO "DOBRÉ" ZPRÁVY"

COST OF CREDIT TO HOMEBUYERS IS
CLOSE TO THAT OF CENTRAL GOVERNMENT
NÁKLADY NA ÚVĚR JSOU PRO "KUPCE" BYDLENÍ
BLÍZKÉ NÁKLADUM VLÁDY (USTŘEDNÍCH ORGÁNU)

ACTIVE COMPETITION FOR MORTGAGE LENDING
REDUCES COSTS AND IMPROVES CONSUMER CHOICE
ŽIVÁ KONKURENCE V OBLASTI HYPOTEČNÍCH ÚVĚRŮ
SNIŽUJE NÁKLADY A DÁVÁ ZÁKAZNÍKOVI VĚTŠÍ
MOŽNOST VÝBĚRU

CREDIT IS READILY AVAILABLE TO FINANCE
HOUSING AND MEET MARKET DEMAND
ÚVĚR JE VŽDY K DISPOZICI PRO FINANCOVÁNÍ BYDLENÍ
A PRO KRYTÍ POŽADAVKU TRHU

FUNDS FLOW ACROSS POLITICAL BOUNDARIES
TO FINANCE HOUSING
KAPITÁL NA FINANCOVÁNÍ BYDLENÍ
PROUDÍ PŘES POLICKÉ HRANICE

DOMESTIC DEFICITS HAVE NOT "CROWDED
OUT" HOUSING FINANCE
VNITŘNÍ (DOMÁCÍ) DEFICITY "NEVYTLAČILY"
FINANCOVÁNÍ BYDLENÍ

III ŠPATNÉ ZPRÁVY

SPECIAL PREFERENCES FOR HOUSING MAY
INDUCE OVERCONSUMPTION

ZVLÁŠTNÍ PREFERENCE V OBLASTI BYDLENÍ
MOHOU VYPROVOKOVAT NADSPOTŘEBU

REDUCED INVESTMENT IN PLANT AND EQUIPMENT
HAS DAMPENED ECONOMIC GROWTH

SNÍŽENÍ INVESTIC NA BUDOVY A ZAŘÍZENÍ
ZTLUMILO EKONOMICKÝ RUST

HOUSING PREFERENCES ARE POLITICALLY
DIFFICULT TO CONTROL

PREFERENCE V OBLASTI BYDLENÍ JSOU
POLITICKY TĚZKO KONTROLOVATELNÉ

IV SOME IMPLICATIONS FOR "CONVERTING" ECONOMIES

WHAT ARE THE PRIORITIES?

NĚKOLIK DUSLEDKU PRO TRANSFORMUJÍCÍ SE EKONOMIKY
CO JE NEJDULEŽITĚJŠÍ?

1. INTEGRATION OF THE FINANCIAL SYSTEM
WITH THE GLOBAL FINANCIAL COMMUNITY
INTEGRACE FINANČNÍHO SYSTEMU S
CELOSVĚTOVÝM FINANČNÍM SPOLEČENSTVÍM
2. RESPONSIBLE MACROECONOMIC MONATERY AND FISCAL POLICIES
ODPOVĚDNÁ MAKROEKONOMICKÁ MĚNOVÁ A FISKÁLNÍ POLITIKA
3. A LEGAL SYSTEM OF "PROPERTY RIGHTS",
CONTRACT LAW, AND FREEDOM TO INNOVATE
PRÁVNÍ SYSTÉM OBSAHUJÍCÍ "VLASTNICKÁ PRÁVA",
SMLUVNÍ PRÁVO A OTEVŘENÝ ZMĚNÁM
4. AN ACTIVE MARKET FOR HOUSING SERVICES
AT MARKET CLEARING PRICES
ŽIVÝ TRH SLUŽEB V OBLASTI BYDLENÍ NA ÚROVNI
TRŽNÍCH CLEARINGOVÝCH CEN

- × History of U.S. mortgage finance
- × Vývoj hypotékárních financí
ve Spojených státech

- × The mortgage proces
- × Proces uzavírání hypoték

- × The construction lending process
- × Proces úvěrování výstavby

- × Lender types
- × Typy věřitelů

- × Funding and secondary market
- × Financování a sekundární trh

BENEFITS VÝHODY

- x Capital**
- x Kapitál**

- x Liquidity**
- x Likvidita**

- x Standardization**
- x Standardizace**

- x Market Efficiency**
- x Efektivnost trhu**

- x Credit Enhancement**
- x Zvýšení kreditu**

LESSONS LEKCE

- x Homebuyers Access
- x Přístup pro ty, kteří si kupují bydlení

- x Government Role to Leverage and Support System
- x Role státu při zavádění a podpoře systému

- x System Evolution
- x Vývoj systému
 - od FHA k PMI
 - od státního Fannie Mae k soukromému Fannie Mae

- x Creation of Standardization, Efficiency, and Innovations
- x Vytvoření standardizace, efektivnosti a inovace

- x Different lender types
- x Různé typy věřitelů

- x Construction Loans Available if Mortgage Loans Available
- x Jsou-li k dispozici hypotékární úvěry,
jsou k dispozici i úvěry na výstavbu

- x Secondary Market Facilitates Fund Resources
- x Druhý trh napomáhá vytvářet zdroje fondů

STAGE I: PRE - 1930s
I. OBDOBÍ: PŘED TŘICÁTÝMI LETY

* Primary Mortgage Market Only

* Prvotní trh s hypotékami

- Lender Directly Provides Mortgage Loan to Borrower
- Věřitel přímo poskytuje hypoteční půjčku vypůjčovateli

- Mortgages Funded With Deposits
- Hypotéky jsou financovány z vkladů

- Five Year Balloon Mortgages
- Pětileté balónové hypotéky

- x Depression: Government Intervenes to Prevent Possible Collapse
- x Deprese: Stát zasahuje, aby zabránil možnému zhroucení.

- x Creation of Secondary Mortgage Market
- x Vytvoření sekundárního trhu s hypotékami
 - Buyers and Sellers Trade in Mortgages
 - Kupující a prodávající obchodují s hypotékami

- x Efficient Fund Intermediation
- x Efektivní zprostředkování financování
 - FHLB System (1932)
 - FHLB system (1932)

 - FDIC/FSLIC (1933 - 34)
 - FDIC/FSLIC (1933 - 34)

 - FHA (1934)

 - Fannie Mae (1938)
 - Fannie Mae (1938)

STAGE II: 1968 - 1980s
III. OBDOBÍ: 1968 - do 80. let

- x Secondary Market Enhanced
- x Povýšení sekundárního trhu

- Fannie Mae Privatized (1968)
- Privatizace Fannie Mae (1968)

- GNMA (1968) and Freddie Mac (1970)
- GNMA (1968) a Freddie Mac (1970)

- x Private Mortgage Insurance Expands
- x Rozšíření soukromého pojištění hypoték

- x Loan Products/Process Standardized
- x Úvěrové produkty/Proces se unifikuje

- x Mortgage Securitization (MBS)
- x Zajištění hypoték (MBS)

- x Produkt Variation
- x Obměňování produktu

- x Greater Intermediation/Expanded Investor Base
- x Rozsáhlejší zprostředkovávání/Rozšířená základna investorů

THE MORTGAGE PROCESS
HYPOTEČNÍ PROCES

- x Homeowner Steps
- x Kroky vlastníků

- x Mortgage Product
- x Hypotékařní produkt

- x Underwriting
- x Upisování

- x Servicing
- x Obsluhování

HOMEOWNER STEPS
KROKY VLASTNÍKU

- x Find Home: Enter Into Contract
- x Majít bydlení: uzavřít smlouvu

- x Shop for Lender and Mortgage
- x Pohlédnout se po půjčovateli a hypotéce

- x Get Approved by Lender
- x Získat souhlas půjčovatele

- x "Close or Settle" on Home
- x "Uzavřít dohodu nebo založit" na bydlení

- x Make Monthly Mortgage Loan Repayments
- x Platit měsíční splátky hypoteční půjčky

HOUSING FINANCE TERMS
PODMÍNKY FINANCOVÁNÍ BYDLENÍ

- x Lender/Borrower Legal Relationship
- x Právní vztah mezi půjčovatelem a vypůjčovatelem
 - Loan
 - Půjčka

 - Mortgage
 - Hypotéka

 - Note
 - Dluhopis

- x Home Value \leq Principal and Downpayment
- x Hodnota bydlení \leq Základ půjčky a záloha v hotovosti

- x Amortization
- x Amortizace

- x Key Features That Can Vary
- x Klíčové charakteristiky, které se mohou různit

- x Different Mortgage Types
- x Různé typy hypoték

KEY MORTGAGE FEATURES THAT CAN VARY
KLÍČOVÉ CHARAKTERISTIKY HYPOTÉK, KTERÉ SE MOHOU RUZNIT

- x Term
- x Doba splatnosti

- x Interest rate
- x Úroková míra
 - Fixed or Adjustable
 - Fixní nebo variabilní
 - Ceiling or Floors
 - Horní či dolní limity
 - Index
 - Index
 - Margin
 - Margin(Rozpětí)

- x Payment
- x Splácení
 - Frequency
 - Frekvence
 - Amortization
 - Amortizace
 - Ceiling (Capitalization)
 - Strop (Kapitalizace)

DIFFERENT MORTGAGE TYPES
RUZNÉ DRUHY HYPOTÉK

- x Fixed-Rate Mortgage
- x Hypotéka s fixní mírou

- x Adjustable-Rate Mortgage
- x Hypotéka s variabilní mírou

- x Balloon Mortgage
- x Balónová hypotéka

- x Graduated Payment Mortgage
- x Hypotéka se stupňovaným splácením

- x Dual Index Mortgage
- x Hypotéka s dvojím indexem

- x Price-level Adjusted Mortgage
- x Hypotéka přizpůsobivá cenové hladině

UNDERWRITING
UPISOVÁNÍ

- x Ability of borrower to repay loan
- x Schopnost vypůjčovatele splácet půjčku

- x Creditworthiness of Borrower
- x Úvěruschopnost vypůjčovatele

- x Property Value
- x Hodnota majetku

ABILITY OF BORROWER TO REPAY LOAN
SCHOPNOST VYPUJČOVATELE SPLÁCET PUJČKU

- x Standardized Forms
- x Standardizované formy

- x Employment and Income Verification
- x Verifikace zaměstnanosti a příjmu

- x Asset and Liability Verification
- x Verifikace aktiv a pasiv/majetku a dluhů

- x Debt to Income Ratios
- x Poměry dluhů a příjmů
 - Housing Expense to Income Ratio
 - Poměr mezi výdaji na bydlení a příjmem

 - Total Expense to Income Ratio
 - Poměr mezi celkovým vydáním a příjmem

 - Special Circumstances
 - Zvláštní okolnosti

- x High Loan-to-Value Ratios
- x Vysoké poměry půjčky a hodnoty

CREDITWORTHINESS OF THE BORROWER
ÚVĚRUSCHOPNOST VYPUJČOVATELE

- x Employment Stability
- x Stabilita zaměstnanosti

- x Loan Guarantors
- x Ručitelé půjčky

- x Community Lending Programs
- x Společenské půjčovatelské programy

- x Community Guaranty Programs
- x Společenské ručiteléské programy

- x Property must be adequate security for the mortgage
- x Majetek musí být pro hypotéku dostatečnou zárukou

- x Appraisal system
- x Systém oceňování

- x Market trends
- x Vývoj trhu

SERVICING
OBSLUHA

x For Own Account x Vlastní účet

- Payment collection - Vybírání poplatků
- Delinquencies - Neplaticí
- Foreclosures - Vyvlastnění
- Property Managment - Správa majetku

x For Others x Pro jiné

- Payment Remittance - Poukázání splátky
- Reporting - Podávání zpráv
- Inspections - Kontroly
- Foreclosures - Exekuce
- Maintenance and Sales - Údržba a prodeje

x Value x Hodnota

- Flow of Income - Tok příjmu
- Liquid Assets - Likvidní aktiva

x Fees x Poplatky

x Relationship to mortgage finance

x Vztah k financování hypoték

x ADC

x ADC

x Loan terms

x Podmínky půjčky

x Underwriting

x Upisování

x Loan management

x Obhospodařování půjčky

x Funding source

x Zdroj financování

RELATIONSHIP TO MORTGAGE FINANCE
VZTAH K HYPOTEČNÍM FINANČÍM

- x Mortgage Loans Repay Construction Loans
- x hypoteční půjčky splatí stavební úvěry

- x Without Mortgage Loans, Construction Lending is Very Difficult
- x Bez hypotečních půjček jsou stavební úvěry velmi obtížné

x Acquisition

x Získání

- Land purchase

- Koupě pozemku

x Development

x Příprava stavby

- Infrastructure (Water, Sewer, Streets, etc.)

- Infrastruktura (vodovody, kanalizace, ulice, atd.)

x Construction

x Stavba

- House Building

- Stavba budovy

LOAN TERMS
PODMÍNKY SPLATNOSTI

- x Short term (2 až 3 years)
- x Krátkodobé (2 až 3 roky)

- x Adjustable rates
- x Variabilní sazba

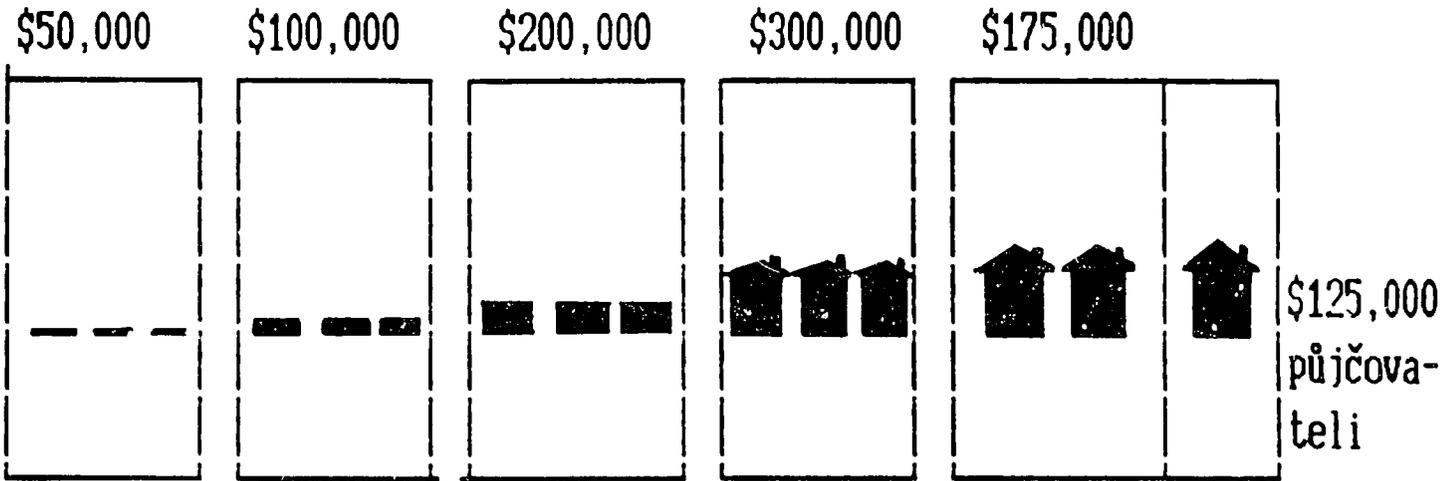
- x Interest payment: Current or Capitalized
- x Placení úroku: běžné nebo kapitalizované

- x Principal payment: House sale or At Loan Maturity
- x Placení základu: prodej domu nebo při splatnosti půjčky

- x Changing Loan Balances
- x Změna základu půjčky
 - Disbursals
 - Náklady

 - Repayments
 - Splátky

CHANGING LOAN BALANCE
ZMĚNA ZÁKLADU PUJČKY



75

76 25

UNDERWRITING UPISOVÁNÍ

- x Borrower
- x Vypůjčovatel

- x Project
- x Projekt

- x Loan Features
- x Charakteristika půjčky

BORROWER
VYPUJČOVATEL

x Financial Capability

x Finanční schopnost

- Statements

- Výpisy

- Referencies

- Reference

- History

- Minulost

x Building capability

x Stavební schopnost

- History of Borrower

- Minulost vypůjčovatele

- History of subcontractors

- Minulost subdodavatelů

x Integrity

x Integrita/Bezúhonost

- x Project Feasibility x Proveditelnost projektu
 - Legal (Zoning, Clear Lien)
 - Právní (zónování, jasné vlastnické vztahy)
 - Infrastructure (Utilities)
 - Infrastruktura (elektrické rozvody, kanalizace...)
 - Development Plan/Schedule
 - Příprava stavby - plán/časový harmonogram

- x Market Feasibility - Buyer Demand For:
- x Marketingová studie - poptávka ze strany kupujícího
 - po: - Amenities
 - Vybavenost
 - Design
 - Design/vnější úprava a provedení
 - Price
 - Cena
 - Location
 - Poloha

- x Financial Feasibility x Proveditelnost z finančního hlediska
 - Build For Projected Costs
 - Stavět za plánované náklady
 - Profit included
 - Zisk zahrnut

LOAN FEATURES
CHARAKTERISTIKY PUJČKY

- x Builder's Equity (10 % of Costs)
- x Jmění stavebníka (10 % z výšky nákladů)

- x Loan-to-Value: Lesser of
- x Půjčka k hodnotě: menší než -
 - 75 % Market Value; or
 - 75 % tržní hodnoty, nebo

 - 90 % of Costs
 - 90 % z nákladů

- x Security: Land and Improvements
- x Záruka: půda a vylepšení

- x Builder's Guaranty Covering Cost Overruns
- x Stavebníková záruka kryjící překročení nákladů

- x Disbursement
- x Vyplacení
 - After Completion
 - Po dokončení

 - Subcontractors Paid
 - Subdodavatelé zaplacení

 - Inspection process
 - Kontrolní proces

- x Partial Release/Partial Repayment
- x Částečné uvolnění/Částečná splátka

- x Asset Managment
- x Správa aktiv
 - Workouts
 - Správa

 - Foreclosure
 - Exekuce

 - Completion
 - Dokončení

FUNDING SOURCE
ZDROJ FINANCI

- x Primary market
- x Primární trh

- x Fund With Deposits
- x Financování z vkladů

LENDER TYPES
TYPY VĚŘITELU

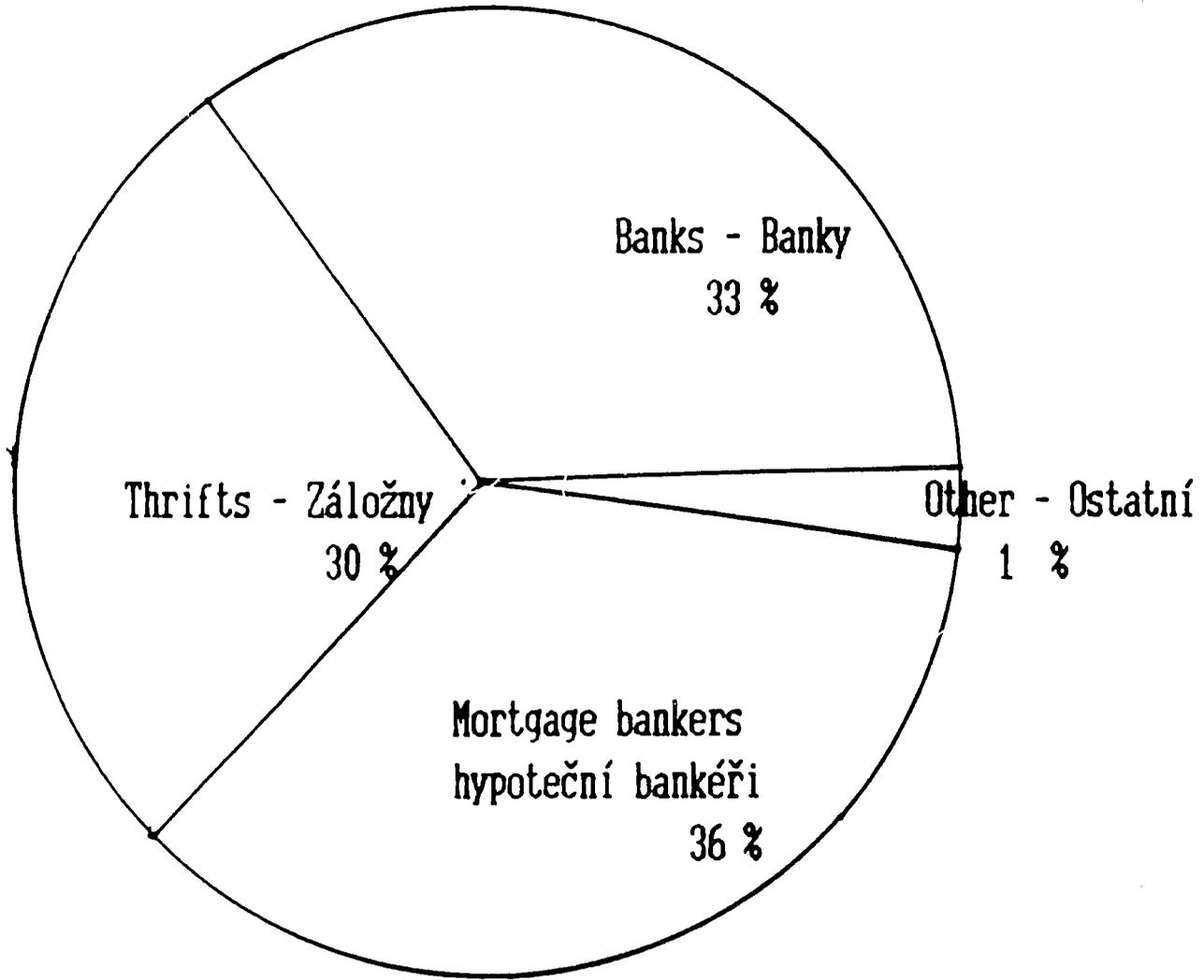
- x Mortgage Banks
- x hypoteční banky

- x Savings and Loans
- x Spořitelny a záložny

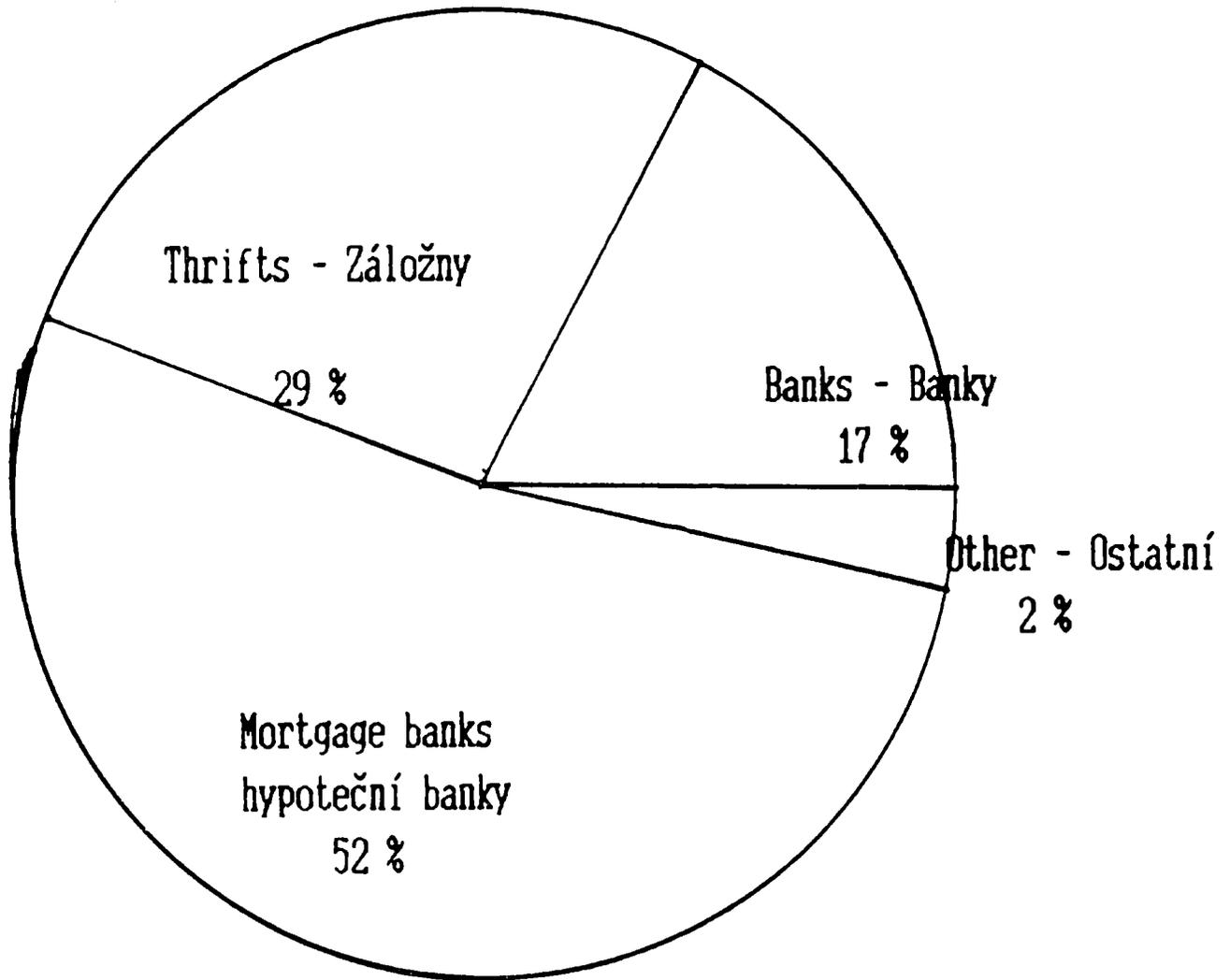
- x Commercial banks
- x Komerční banky

- x Others
- x Ostatní

MORTGAGE
ORIGINATIONS - 1990
PŮVOD HYPOTÉK - 1990



MORTGAGE SALES 1990
PRODEJ HYPOTÉK 1990



MORTGAGE BANKS
 HYPOTÉČNÍ BANKY

Mortgage
 Finance
 Hypotékární
 finance

Residential
 Loans
 Půjčky na individuální
 bydlení

- x Must sell all loans
- x Musí prodat všechny půjčky

- x Servicing income
- x Správa (obsluha) příjmu

- x Permanent residential loans
- x Trvalé půjčky na individuální bydlení

- x Specialists in mortgage lending
- x Odborníci na hypoteční půjčky

- x Work with brokers
- x Spolupráce s makléři

- x Affiliations with a bank or S&L
- x Sdružování s bankami nebo spořitelny

SAVINGS AND LOANS
ÚSPORY A PŮJČKY

1st Savings
1. úspory

Residential Loans
Půjčky na individuální
bydlení

- x Primary financer of residential homes
- x Prvotní financér obytných domů

- x Imbalance between deposit and loan interest rate
- x Nerovnováha mezi úrokovými mírami vkladů a půjček

- x Investment portfolio capabilities add to risk and competitiveness
- x Širokosti investičního portfolia zvyšují riziko a konkurenceschopnost

- x Development constructions and permanent mortgage loans
- x Příprava výstavby a permanentní hypoteční úvěry

- x Community oriented
- x Zaměření na obec

BANK

BANKA

Small Business Loans Půjčky drobným podnikatelům	Government Debt Státní dluh	Consumer Loans Spotřebitelské půjčky
---	--------------------------------------	---

Income

Property

Loan

Půjčky na příjem
a majetek

Foreign

Loans

Zahraniční
půjčky

- x Fastest growing residential lender
- x Nejrychleji se rozvíjející věřitelské služby na individuální bydlení

- x Benefited from:
 - Industry Streamlining
 - S&L debacle
 - Liquidity of MBS instrument
- x Získal na:
 - průmyslovém sektoruu
 - S&L debakl
 - Likvidita nástroje MBS

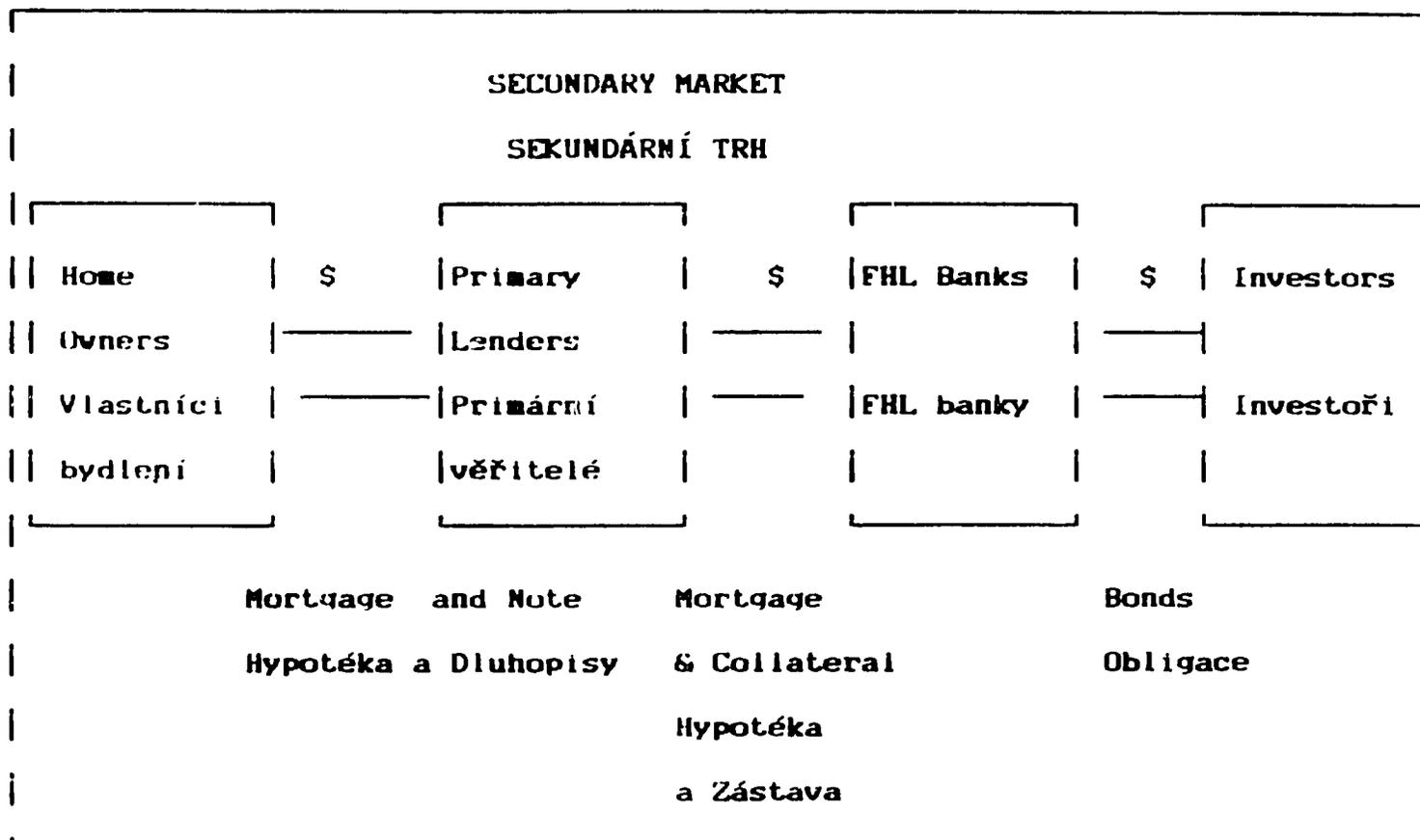
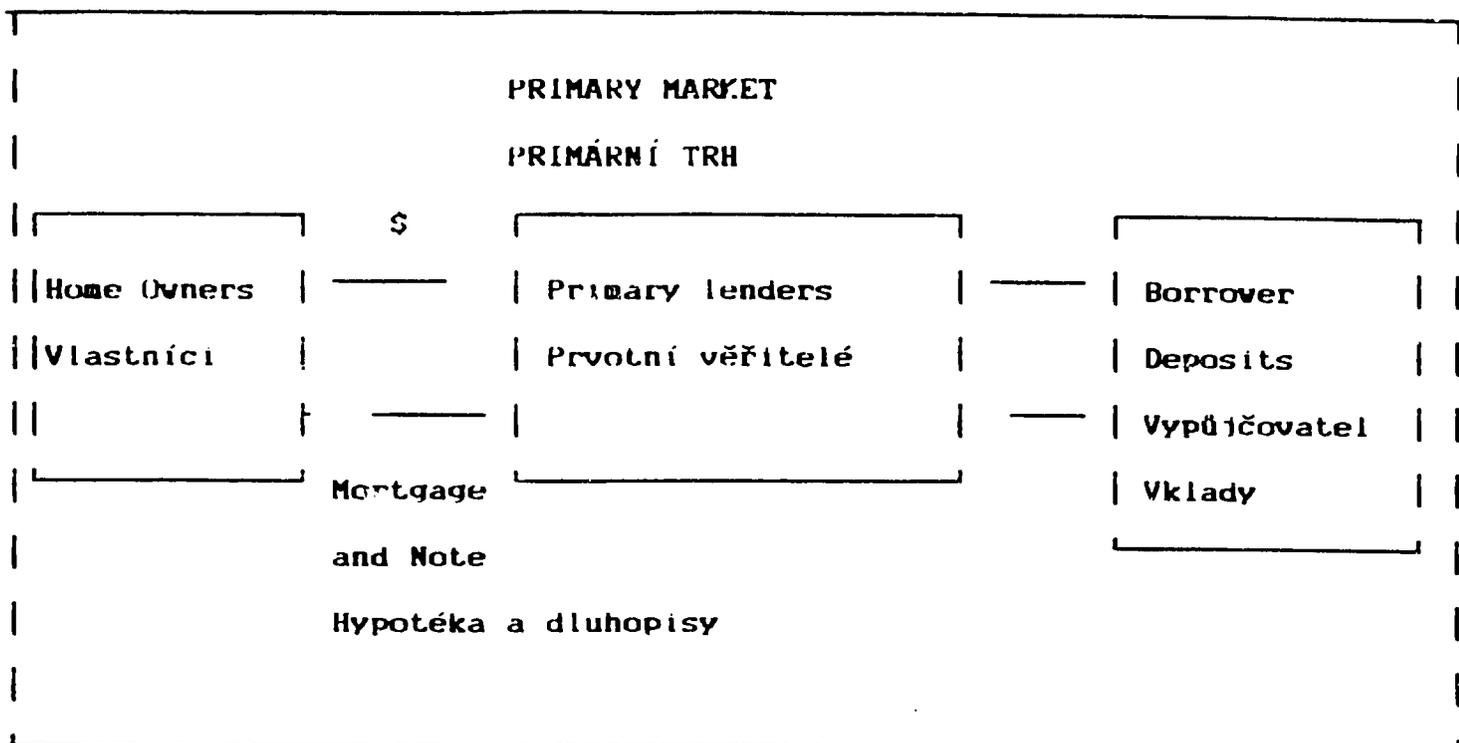
- x Development construction and permanent mortgage loans
- x Příprava výstavby a permanentní hypotéční úvěry

- x Investment portfolio for non-conforming loans
- x Investiční portfolio pro nestandardní půjčky

FUNDING AND THE SECONDARY MARKET
FINANCOVÁNÍ A SEKUNDÁRNÍ TRH

- x Overview
- x Přehled

- x Benefits
- x Přínosy



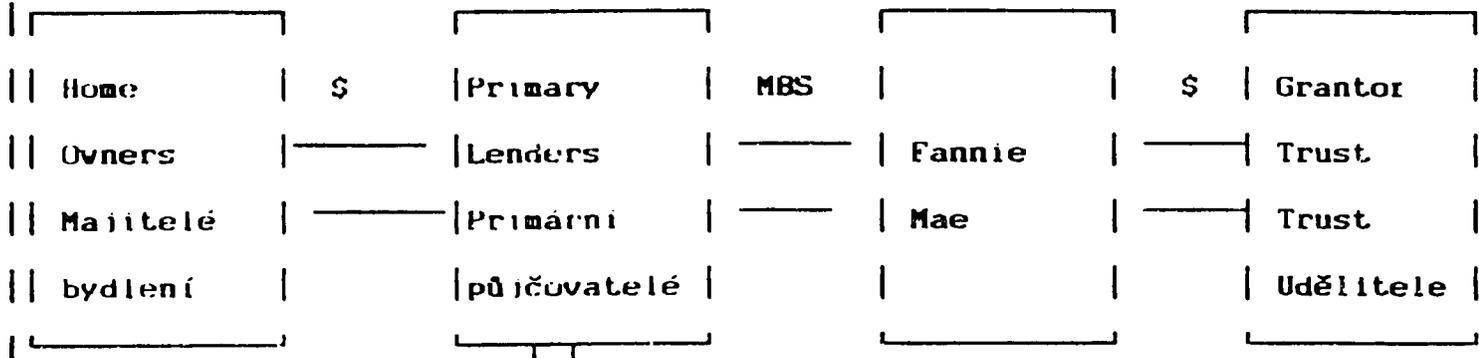
SECONDARY MARKET SALES (CASH)

PRODEJE NA SEKUNDÁRNÍM TRHU (ZA HOTOVÉ)

Home	\$	Primary	\$		\$	Investors
Owners	—	Lenders	—	Fannie	—	
Majitelé	—	Primární	—	Mae	—	Investoři
bydlení		půjčovatelé				
	Mortgage and Note	Mortgage				Bonds
	Hypotéka a dluhopisy	& Collateral				Obligace
		Hypotéka				
		a zástava				

SECONDARY MARKET SALES (MBS)

PRODEJE DRUHOTNÉHO TRHU (MBS)



Mortgage and Note

Mortgage

MBS

Hypotéka a dluhopis

& Note

& Notes

MBS

\$

Guar fee

MBS

Hypotéka

& dluhopisy

Investors

a dluhopisy

Garan. poplatek

Investoři

90

MARKET ORIENTED HOUSING PRODUCTION**(Replacing the CHCx)****TRŽNĚ ORIENTOVANÁ PRODUKCE BYDLENÍ****(Nahrazující KBV)**

- x **LOSS OF CSFR PRODUCTION**
- x **ZTRÁTA PRODUKCE ZABEZPEČOVANÉ CSFR**

- x **REQUIREMENTS - MARKET SYSTEM**
POŽADAVKY - TRŽNÍ SYSTEM
 - Reliable framework of laws
 - Spolehlivý právní rámec

 - Reasonable return on investment
 - Přiměřená návratnost investic

- x **WHY CONTRACT SAVINGS SCHEMES ARE INADEQUATE**
PROČ JSOU PROGRAMY STAVEBNÍHO SPŮŘENÍ NEADEKVÁTNÍ

- x **NEED TO FOCUS SUBSIDIES ON THE POOR.**
POTŘEBA ZAMĚRIT DOTACE NA CHUDÉ.

- x **CHC - Comprehensive housing construction**
KBV - Komplexní bytová výstavba

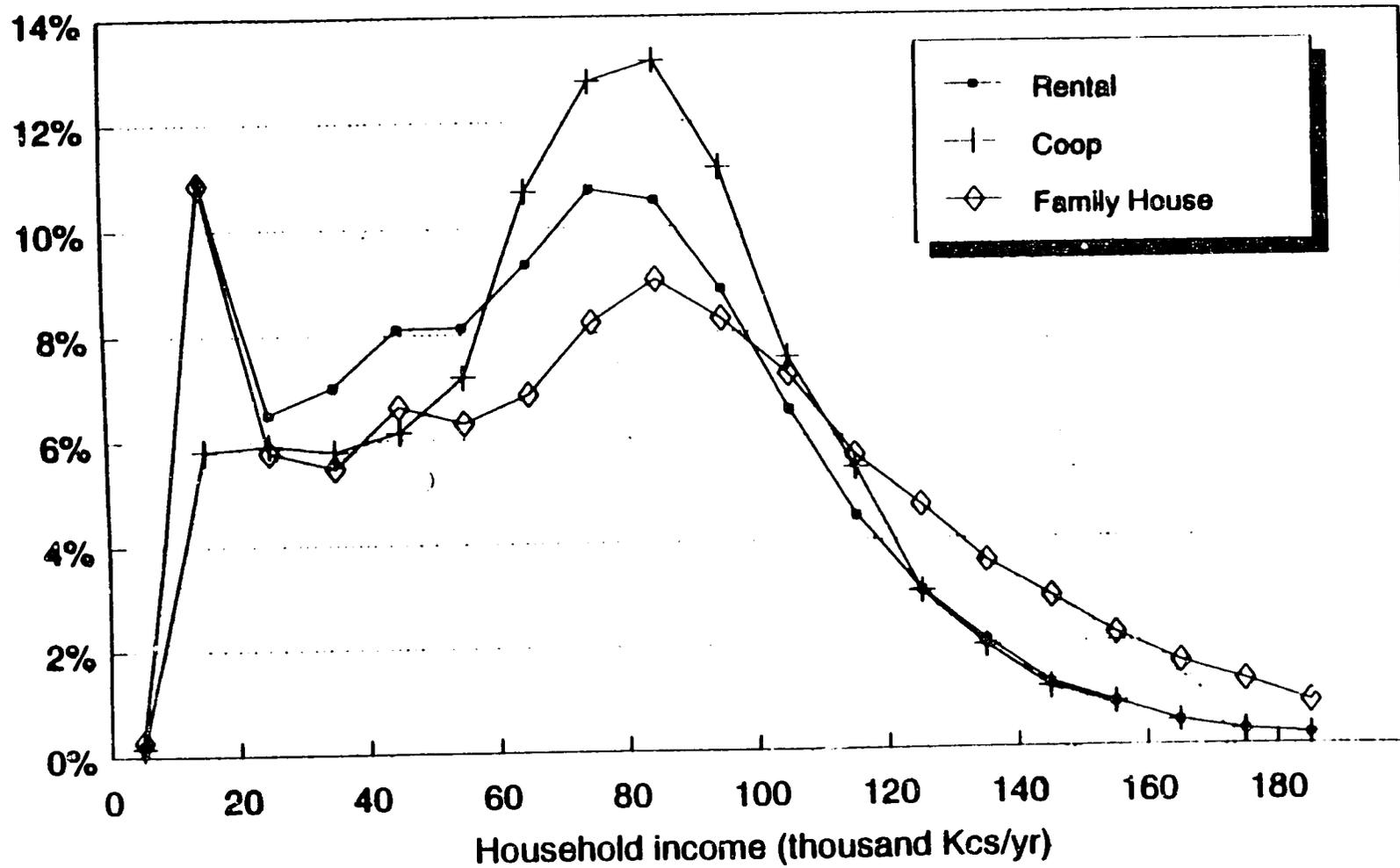
HOUSING AFFORDABILITY

	Development cost/unit (Kcs 000)				
	700	800	1,000	1,200	1,500
AMOUNT OF LOAN					
Down payment (%)	20	20	20	20	20
Down payment (Kcs 000)	140	160	200	240	300
Amt. Loan (Kcs 000)	560	640	800	960	1200
FIXED RATE MORTGAGE (12%, 20 years)					
Monthly payment (Kcs)	6,248	7,140	8,925	10,710	13,388
Annual Income Required (Kcs 000)					
20% paid for loan	375	428	536	643	803
30% paid for loan	250	286	357	428	536
PRICE LEVEL ADJ. MORTGAGE (4%, 20 years)					
Monthly payment (Kcs)	3,434	3,924	4,905	5,887	7,358
Annual Income Required (Kcs 000)					
20% paid for loan	206	235	294	353	441
30% paid for loan	137	157	196	235	294

COMPARISONS OF TOTAL COSTS PER UNIT (Kcs 000)

	Single Family		Apt. Bldg.	Panel High- Rise
	Detach.	Row		
HIGHER COST LAND				
Larger Unit-Lower Density				
Constr.Hard Costs	550	465	503	698
Site Prep.,infra.	125	114	41	10
Land Cost	460	376	179	84
Fees, Reserve, GC	138	119	112	186
Financing	205	173	133	186
Total	1,478	1,247	968	1,364
Smaller Unit-Higher Density				
Constr.Hard Costs	437	371	396	698
Site Prep.,infra.	93	86	32	8
Land Cost	312	256	122	57
Fees, Reserve, GC	109	94	86	145
Financing	153	129	101	143
Total	1,103	936	740	1,050
LOWER COST LAND				
Larger Unit-Lower Density				
Constr.Hard Costs	550	465	503	698
Site Prep.,infra.	125	114	41	10
Land Cost	115	94	45	21
Fees, Reserve, GC	138	119	112	186
Financing	147	125	110	175
Total	1,075	917	811	1,291
Smaller Unit-Higher Density				
Constr.Hard Costs	437	371	396	698
Site Prep.,infra.	93	86	32	8
Land Cost	78	64	31	14
Fees, Reserve, GC	139	94	86	145
Financing	113	97	86	136
Total	830	712	633	1,000

Income Distribution Czechoslovakia 1991



2

**PRAGUE CONFERENCE ON HOUSING
AND INFRASTRUCTURE FINANCE**

Hotel Praha, May 5-6, 1992

**Development-Based Strategies for Financing Public Goods:
Infrastructure, Facilities, Amenities**

Presentation by
Professor Lynne B. Sagalyn
Columbia University Graduate School of Business

Sponsored by
U.S. Agency for International Development (AID)
CSFR Federal Ministry of the Economy

**DEVELOPMENT-BASED STRATEGIES FOR FINANCING PUBLIC GOODS:
INFRASTRUCTURE, FACILITIES, AMENITIES**

- 1. Revenue Based Dispositions of Publicly Owned Land**
- 2. Land-Value Trades and Conversions for Public Goods**
- 3. Regulatory Requirements Imposed on Private Development**
- 4. Public-Private Financing with Dedicated Payback Revenues**

Revenue-Based Dispositions of Publicly Owned Land

- policy choice:
land lease or sale disposition
- implementation process:
developer selection -- competitive RFQ/RFP
terms and conditions -- negotiation/bargaining
- legal vehicle:
contractual development agreement between
public and private parties
- financial products:
lump-sum sale proceeds and/or
long-term rent streams

Land-Value Trades and Conversions for Public Goods

- policy choice:
 - agenda of public benefits sought
 - trade-offs between cash returns and in-kind benefits
- implementation process:
 - custom-tailored negotiations as part of public land-disposition process
- legal vehicle:
 - contractual agreement between public and private parties stating obligations and responsibilities to meet performance schedule and standards, with penalties for failure
- "financial" products:
 - on-site project improvements (sidewalks, streets, utilities, transit facilities)
 - amenities (open space, art, public facilities)

Regulatory Requirements Imposed on Private Development

- policy choice:
form of land-use intervention
- implementation process:
uniform application
predevelopment regulatory review
- legal vehicle: incentive-zoning ordinance
subdivision ordinance
special statutes
- "financial" products:
on-site improvements (roads, utilities, open space, art)
contribution of land, school buildings, parks
fees (exactions, linkage) to mitigate impacts
of development

Public-Private Borrowing with Dedicated Payback Revenues

- * policy choice:
 - type of spatially based taxing district
(utility, special assessment, TIF, BID)

- * implementation process:
 - authorizing statutory legislation
 - specified formal administrative process
 - bond issuance -- private market or
development bank

- * legal vehicle:
 - bond terms, conditions, covenants

- * financial products:
 - initial front-end capital funds

FACTORS AFFECTING CHOICE AND EFFECTIVENESS OF STRATEGY

- Public Policy Mandates
- Type of Development: Commercial or Residential
- Location: Urban Core vs. Suburban Growth
- Real Estate Market Conditions
- Information on and Certainty of Land Values
- Attitudes and Skills:
Entrepreneurial vs. Bureaucratic

ISSUES AND POTENTIAL PROBLEMS OF PUBLIC-PRIVATE DEVELOPMENT

- Risks of Partnership Delivery
 - lags in anticipated revenues
 - over-optimistic projections
 - business failure of private partner
 - complexity of obligations

- Problems of Public Management
 - absence of clear, identifiable objectives
 - lack of negotiation skills and
knowledge of real estate finance
 - benefits ad hoc/not in conformance with planning priorities
 - failure to consider full costs and benefits

- Issues of Public Policy
 - uniformity of implementation
 - accountability -- political and financial
 - potential conflict of interest