

California Real Estate Finance
Chapter 3
Fiduciary Sources for Real Estate Finance

Chapter Purpose

This chapter is the first of two chapters that answers the question *Where do we get the money?* and describes the sources of funds for real estate finance. The activities of commercial banks, thrifts, life insurance companies, pension programs and credit unions are examined as to their fiduciary responsibilities to their depositors and premium payers.

Unlike some of the lenders we will examine in the next chapter, the aforementioned participants in the mortgage market do not lend their own money. Whenever the companies described in this chapter enter into a financial agreement with a borrower, they are held and returned intact when called for. Thus, these lenders are charged with an extra amount of trust. They must be careful about their investment decisions and constantly aware of their fiduciary responsibilities.

Learning Objectives

Upon completion of this chapter, the student should be able to:

1. define a fiduciary and understand the responsibilities of a fiduciary relationship;
2. define a financial fiduciary (intermediary) as an organization that holds money for depositors;
3. identify the fiduciary sources for financing real estate loans;
4. understand the conservative attitude of financial fiduciaries in minimizing risks for the benefit of their depositors and premium payers;
5. know the real estate loan investment activities of these fiduciaries in terms of types of property involved;
6. identify the sources and costs of funds available to financial fiduciaries;
7. realize the emerging importance of pension funds and credit unions as sources of funds for real estate finance.

Presentation Outline

- I. Understanding the market
 - A. Definition of a fiduciary
 1. Acts as an agent for another
 2. Based on trust and confidence
 3. Financial intermediaries are fiduciaries

- B. Activities of financial fiduciaries
 - 1. Total assets
 - 2. Mortgage loans outstanding by type of property Table 3.1
 - 3. One-family to four-family mortgage loans outstanding by lender, Table 3.2
 - 4. Multi-family mortgage loans outstanding by lender, Table 3.3

- II. Financial Fiduciaries (Intermediaries)
 - A. Commercial Banks
 - 1. History of banking
 - a. money holders vs. money lenders
 - b. evolution of checking system
 - c. underwriting requirements
 - 2. Organization and operation
 - 3. Mortgage loan activities
 - a. construction loans
 - b. home improvement loans
 - c. mobile home loans
 - d. equity loans
 - e. mortgage banking
 - f. trust department activities
 - 4. California chartered banks
 - a. regulated by the Department of Banking under Section 1227.1 of Financial Code
 - b. limits on real estate lending
 - c. ability to invest in real estate developments to the extent of 10 percent of total assets
 - B. Savings and loan associations/savings banks
 - 1. Origins and development
 - a. self-terminating trusts
 - b. serial associations
 - 2. Now regulated by the OTS
 - a. accounts insured by the SAIF
 - b. must be chartered
 - 3. California chartered savings and loan associations
 - a. regulated by the California Department of Savings and Loans
 - b. authorized to participate in the market to the full extent of national laws
 - c. no single loan can exceed one percent of the lender's total assets
 - d. redlining is prohibited under the California Housing Financial Discrimination Act of 1977
 - C. Life insurance companies
 - 1. Control about 12% of all savings
 - 2. Invest 20–30% of assets in real estate loans
 - 3. Concerned more with safety than liquidity

4. Activities
 - a. single family home loans through services of mortgage bankers brokers
 - b. commercial and industrial loans
 - c. participation loans
 - d. purchase blocks of loans in secondary market
- D. Pension and retirement programs
 1. 250 million persons in some retirement program
 2. Hold over \$50 billion in mortgage-related investments
 3. Prefer office building loans
 4. Purchase mortgages in the secondary market
- E. Credit unions
 1. Competitive interest rates offered to their members
 2. Make real estate and personal property loans
 3. Make junior loans