Sloan profs study mortgages

By Paul Schindler

Two Sloan School of Management professors have been given $64,000 to investigate alternatives to the standard mortgage as a way for people to buy homes. Institute Professor Franco Modigliani and Assistant Professor Donald Lessard wrote the proposal which elicited the grant from the US Dept. of Housing and Urban Development (HUD), for MIT. The grant became effective July 1, and the project must be completed by December, Lessard told The Tech.

The US Federal Reserve Bank in Boston assisted in the preparation of the proposal, according to Sloan School Dean William Sloan. He said the work is a continuation of a study already being done by several people at Sloan in the area of finance.

"If the idea continues to look promising, there are a number of things to be explored," Pounds said. "For example, there is the idea of mortgages that they believe will be sufficient to overcome inflation. The alternative modes of financing would allow a low payment in the early years of a mortgage, when people are likely to have lower incomes, and a higher payment later, when incomes are usually higher. How much higher would depend on the actual, not the predicted, rate of inflation.

"The whole idea of mortgages in the first place was to allow people to make a large investment and to pay it back in level payments," Pounds said. "With inflation, the payments, in real dollars, are not level. They amount to a jump at the beginning which declines over the life of the mortgage. These proposals would allow a level repayment in terms of real dollars."

NOTES

* MIT Hill will hold High Holiday Selichot Services in the Chapel at 7:00 midnight, Saturday, Sept. 7.

* Open House for anyone interested in working on a newspaper. Free pizza and soda. Come to The Tech office, W20-483, after 8:00pm, Sunday, Sept. 8.

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