**HOME BUILDERS ASSOCIATION OF CONNECTICUT, INC.**
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***Your Home Is Our Business***

December 9, 2009

To: Senator Gary LeBeau and Representative Jeffrey Berger, Co-Chairs, and members of the Commerce Committee
Senator Bob Duff and Representative Ryan Barry, Co-Chairs, and members of the Banks Committee

From: Bill Ethier, CAE, Chief Executive Officer

Re: Invitational Forum on the Credit Crisis

I apologize for not being able to attend today's forum due to prior meeting commitments that cannot be resolved. On behalf of the HBA of CT, we very much appreciate the invitation to highlight how credit issues are hurting the production of new homes and apartments and would welcome the opportunity to work with you on solutions.

**The HBA of Connecticut is a professional trade association with 1,100 member firms** statewide, employing tens of thousands of Connecticut citizens. Our members are residential and commercial builders, land developers, remodelers, trade contractors, suppliers and those businesses and professionals that provide services to our diverse industry. Despite a membership drop from 1,500 firms over the past 18 months, we remain strong and committed to rebuilding our industry and Connecticut's economy. To understand the economic and jobs engine of housing and the taxes produced for all levels of government, please see our Housing & Economic Development web page (attached).

**HBACT members are alarmed at the current lending environment.** Members are struggling to find lending sources for acquisition, development and construction (AD&C) loans, have problems with appraisals due (we think) to the new Home Valuation Code of Conduct (HVCC) regulations, and face stringent FHA pre-sale requirements on condos.

In meetings over the summer with the state's congressional delegation, builders from across the state repeated the same problem: a lending environment that has made bankers reluctant to fund any projects, even viable projects by borrowers with good credit. Builders spoke of long-standing banking relationships strained and even severed over the lack of credit – even for approved projects that were selling well. It's perplexing.

Our strong anecdotal evidence is backed by the Nat'l Assoc. of Home Builder's (NAHB's) Quarterly Finance Survey. The survey includes builders nationwide and the problems are identical to what builders in Connecticut are experiencing. Our summary of the latest NAHB survey, with a few of the report's charts, is attached for your review. The full report is posted on our website at www.hbact.org.

Some of the most relevant results of NAHB's survey explain the worsening conditions for all categories of lending in Quarter 2 2009 versus Q1. Builders' reasons for the worsening conditions are ranked, as are the reasons given by lenders to builders for restricting new loans. Finally, the survey reveals that an overwhelming majority of builders are putting projects on hold until financing conditions improve.

**The home building industry has led the country out of past economic downturns by building homes and creating jobs.** But this recession is burdened by the lack of lending to finance a recovery. In addition, in this recession the price of land has remained high so builders and developers are not buying land in preparation for the recovery. Not building new homes keeps the economy idling in neutral, rather than moving forward. In Connecticut, this trend is evident in the lack of building permits issued by towns. In an average year, 9,000 to 10,000 permits would be issued. In 2009, the number might not even reach 3,000, the lowest number of building permits since records were kept.

**We do not necessarily blame the banks for the difficult lending environment.** Their reluctance to lend due to possible over-reaching regulatory changes and uncertain liability for loan officers and other lending managers can be equated to our reluctance to invest our capital in brownfields or in other places where regulatory burdens and uncertain liability counsel against taking such risks.

**In addition to difficult or non-existent AD&C loans, new rules for appraisals** are also causing extensive problems with home sales. NAHB's November numbers show that builders are reporting one-third of new home sales are lost due to appraisal issues, higher than the reported one-fourth of sales lost due to appraisal problems last summer.

The Home Valuation Code of Conduct (HVCC) regulations passed in 2009 were designed to shore up lapses in the appraisal process that may have allowed inflated appraisals on properties. However, the new regulations go too far in the opposite direction. By trying to create even greater separation between the lending and appraisal process, the HVCC rules have resulted in the use of appraisal management firms and appraisals not consistent with the market (e.g., ignoring signed contracts between a willing seller and buyer), use of foreclosed or short sales as comparables, and automated valuation models. All of these are now driving appraised property values down and cancelling sales. At the very least, appraisers should be familiar with the community and prevented from using distressed sales as comps.

Finally, in the current lending environment, more buyers are turning to **FHA-backed mortgages, which create road blocks for members with condominium projects**. For a condo project to receive FHA approval, the builder can not own more than 50% of the units (was 70% until recently). These pre-sale requirements leave many sales in limbo until enough buyers are lined up to overcome the 50% hurdle – a new kind of "Catch 22" for the industry. One real estate agent reported having to tell a buyer their condo purchase would have to wait until several other buyers were also ready to buy before they would be able to get a mortgage. This has brought condo projects to a halt.

**To the extent legal and regulatory changes can be made in CT, we urge you to do so.** At the federal level, we need to all jointly pressure our Congressional delegation to make better rules to facilitate lending. Thank you for the opportunity to comment on these issues.

Edit Common Page

# Housing & Economic Development

The creation of more housing, affordable and cost competitive with other regions in the nation, is a top priority for the HBA of CT. The lack of affordable and workforce housing is driving young people out of the state to areas where the price of homes is within reach of younger families. The lack of affordable and workforce housing hurts businesses in the state who have difficulty hiring workers due to the high price of housing and the lack of "starter" homes.

On this page you'll find updates, resources, and links to other sites with information on affordable and workforce housing and what the HBA of CT and others are doing to push for the development of the housing Connecticut needs.

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HOME Connecticut News - links and information on CT's groundbreaking workforce housing law adopted in 2007 (Incentive Housing for Economic Development)

Regulatory Barriers Clearinghouse - from HUD (highlighting the regulatory barriers to affordable housing).

Housing Myths & Facts - From the Partnership for Strong Communities, see reports and links that will help you make informed decisions about housing.

Fact Sheets on Housing and HOME Connecticut - From the Partnership for Strong Communities.

Connecticut Housing Information - From the CT Dept. of Economic & Community Development (annual/monthly permits, housing sales, census bureau stats)

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## Homes Do Pay for Themselves!

When considering the impact of new homes on a community, consider both sides of the equation, i.e., all the taxes and fees paid by or from new homes, including from the new economic activity and job creation resulting from new homes, plus the true costs to service those homes. In particular, let facts dissolve the myth that homes produce too many public school children. The links below to articles and research reports reveal a factual truth: New Housing More Than Pays for Itself and Are Economic Engines for Our Communities!

See how the Cost of Community Services ("COCS") "studies," usually cited for the proposition that homes are economic losers for local governments, are economically flawed.

Residential Demographic Multipliers from Rutgers University - New Home Occupant Estimates for Connecticut - See how many public school children really come from new housing. Rutgers University, Center for Urban Policy Research, demonstrates that one or two bedroom apartments bring a community small numbers of school age children. Even three, four and five bedroom homes bring much fewer public school children to a community than most people assume.

University of Massachusetts, Donahue Institute - Fiscal Impact of Mixed-Income Housing on MA Communities - This study demonstrates that school costs in Massachusetts rose independently of school enrollment. Increased costs on local school systems were usually due to rises in health care costs and pensions expenses.

Deconstructing the Myths: Housing Development Versus School Costs - Federal Reserve Bank of Boston confirms what numerous studies prove: Housing Pays Its Own Way!

Massachusetts Institute of Technology, Center for Real Estate, Effects of Multi-Family Housing on Single Family Home Values - This MIT study found that mixed-income rental developments did not negatively impact the sale prices of houses in the neighborhoods surrounding the rental developments.

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State & Local HBA meetings

From the Partnership for Strong Communities - see **Housing and Municipal Budgets: Figures, Facts and Phenomena**

**NAHB Study Quantifies Contributions Home Building & Related Activities Make to the Economy.** Understanding housing's importance to state and local economies is particularly important as our leaders seek innovative ways to stabilize and rejuvenate communities across the nation. This report is done in terms that policymakers at every level can understand and appreciate. The study estimates the direct economic impacts of new residential construction and remodeling, including the number of jobs and income created as well as the amount of government revenues generated. In 2008, NAHB estimates that: Construction of 1,000 new single-family homes creates 3,049 jobs and generates more than $89 million in tax and other revenues for federal, state and local governments; Construction of 1,000 new multifamily rental units creates 1,155 jobs and generates more than $33 million in tax and other government revenues; $100 million worth of residential remodeling activity creates 1,109 jobs and generates more than $30 million in tax and other government revenues.

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Housing & Economic Development

**HBA of CT's testimony** to Dept. of Economic & Community Development on the state's 2008 economic strategic plan. On 9-16-09, the Governor released the **542 page Economic Plan**.

**The "Priced Out" Effect** - the impact of a rise in interest rates or home prices on knocking households out of the market; includes data on 318 metropolitan areas - from NAHB

**Transportation & Housing Policy** - Vital Economic Links Yet Huge Policy Disconnects in CT

**Connecticut Market Reports** - See quarterly and other updates on how housing is actually doing in CT.

Doing 55+ Housing? See **HUD's information on Seniors and Housing** - From U.S. Dept. of Housing & Urban Development.

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Affordable & Workforce Housing

**Inclusionary Housing: Policy, Practical, and Legal Challenges to Inclusionary Zoning** - a Resource Manual from NAHB, for NAHB Members Only

**Testimony on Affordable Housing Appeals Act** before the state legislature's Housing Committee. Liz Verna, HBACT First Vice President and Chair, Government Affairs Committee, convincingly defends the affordable housing appeals act, sec. 8-30g of the CT General Statutes, on 2-17-09.

**Testimony on Affordable Housing** at the state's Blue Ribbon Commission on Housing & Economic Development July meeting. Greg Ugalde, HBACT Immediate past President, & others testified on the need for greater density, fewer regulations to build affordable homes.

**Senator Dodd's press conference** on housing, attended by HBA of CT & HOMEConnecticut supporters (July 7, 2008)

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**Home Builders Association of Connecticut**

Summary of NAHB's Builders Survey of Finance Conditions – 2009 2nd Quarter
For the Commerce & Banks Committees
December 9, 2009
(see full NAHB survey report at www.hbact.org)

Some of the more salient responses include the following:

1. Builders were asked to **rate lending conditions** as better, same or worse than the previous quarter: 64% of respondents rated lending for land acquisition "worse" than previous quarter, and 75% of respondents rated lending for land development as "worse" than the previous quarter (see Exhibits 14 and 15 attached for these and other loan conditions).

Members who are trying to move forward on the next phases of successful projects are not able to continue financing due to reappraisals showing the value has dropped. For example, a member in Litchfield County has a project ***with interested buyers***, but cannot get the additional financing to build more homes in the development because the decreased value of the property has put him in "technical default" with the current loan to value ratio falling below the original lending agreement. Yet, it's a performing loan (payments are being made on time) with buyers who want to purchase new homes.

2. A number of **reasons given by builders who reported worse conditions** during the Q2 of 2009 vs. Q1 for the availability of 5 types of new loans: land acquisition, land development, single-family construction, multifamily condo construction, or multifamily rental construction. Eighty percent reported that "lenders are lowering the allowable LTV (loan to value) ratio," 76 % reported that "lenders are not making new loans," 62 % reported that "lenders are requiring personal guarantees or collateral not related to the project," and 56 % reported that "lenders are increasing the interest rates." (see Exhibit 17 attached for all reasons lending conditions were worse in Q2 2009 versus Q1).

3. Builders reported the following **reasons given by lenders for restricting new loans** or for tightening the terms of outstanding loans:

- 65 % reported because "Regulators are forcing lenders to do it"
- 45 % reported because of "Regulatory or accounting rules"
- 43 % reported because "Lender's Board of Directors is demanding it"
- 35 % reported because of an "Internal Decision"
- 34 % reported because "Lender is concerned about loan performance"
- 26 % reported because "Property is located in declining market"

There are some regional differences in responses regarding reasons lenders are giving for restricting the availability of new loans. For example, while 48 percent of respondents in the Northeast said that "regulators are forcing lenders to do it," 67 percent of those in the South and West regions as well as 68 percent in the Midwest were given the same reason. Also, while "regulatory or accounting rules" was cited by 35 percent of respondents in the South, larger shares did so in the Northeast (52 percent), Midwest (53 percent), and West (54 percent).

4. In response to the question "Are you **putting projects on hold, until the financing climate gets better**?" the following responses were received (see Exhibit 20):

- 69 % of the respondents reported putting "land acquisition" projects on hold,
- 71 % of the respondents reported putting "land development" projects on hold,
- 66 % of the respondents reported putting "single-family construction" projects on hold
- 57 % of the respondents reported putting "multifamily condo construction" projects on hold

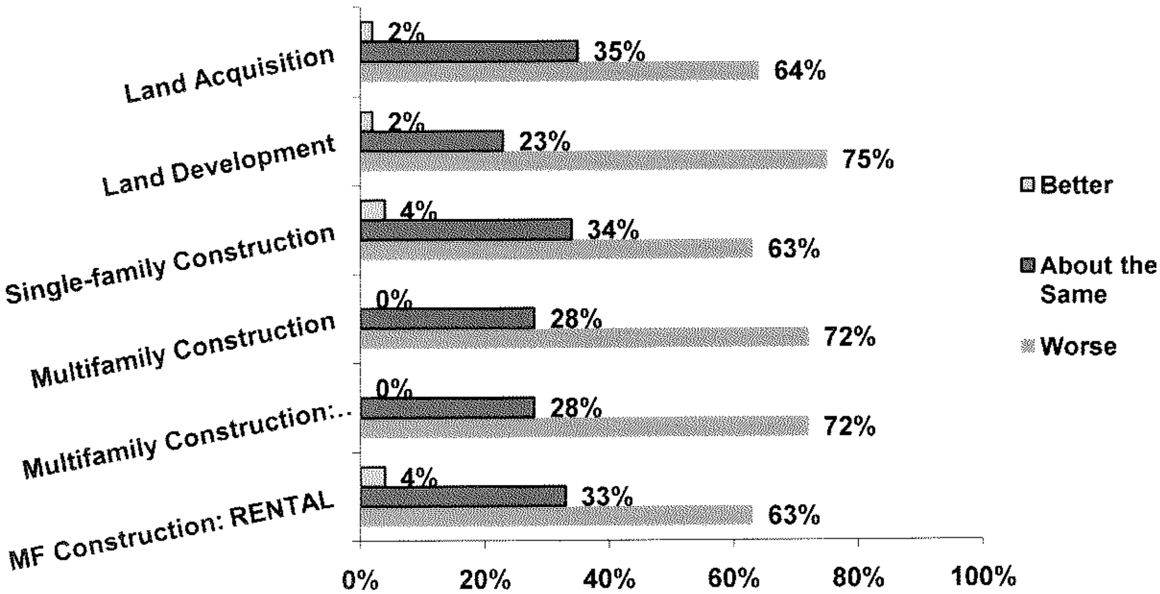
That is a tremendous amount of economic activity and job generation that is on hold due to financing conditions.

Attached Exhibits:
- Exhibit 14
- Exhibit 15
- Exhibit 17
- Exhibit 20

## Exhibit 14

***Q5. If "Yes" in question 4, how would you describe the availability of new loans for land acquisition, land development, and construction during the 2nd quarter of 2009, compared to the 1st quarter of 2009?***

*(Percent of Respondents)*




## Exhibit 15

**Availability of new loans - By Region**

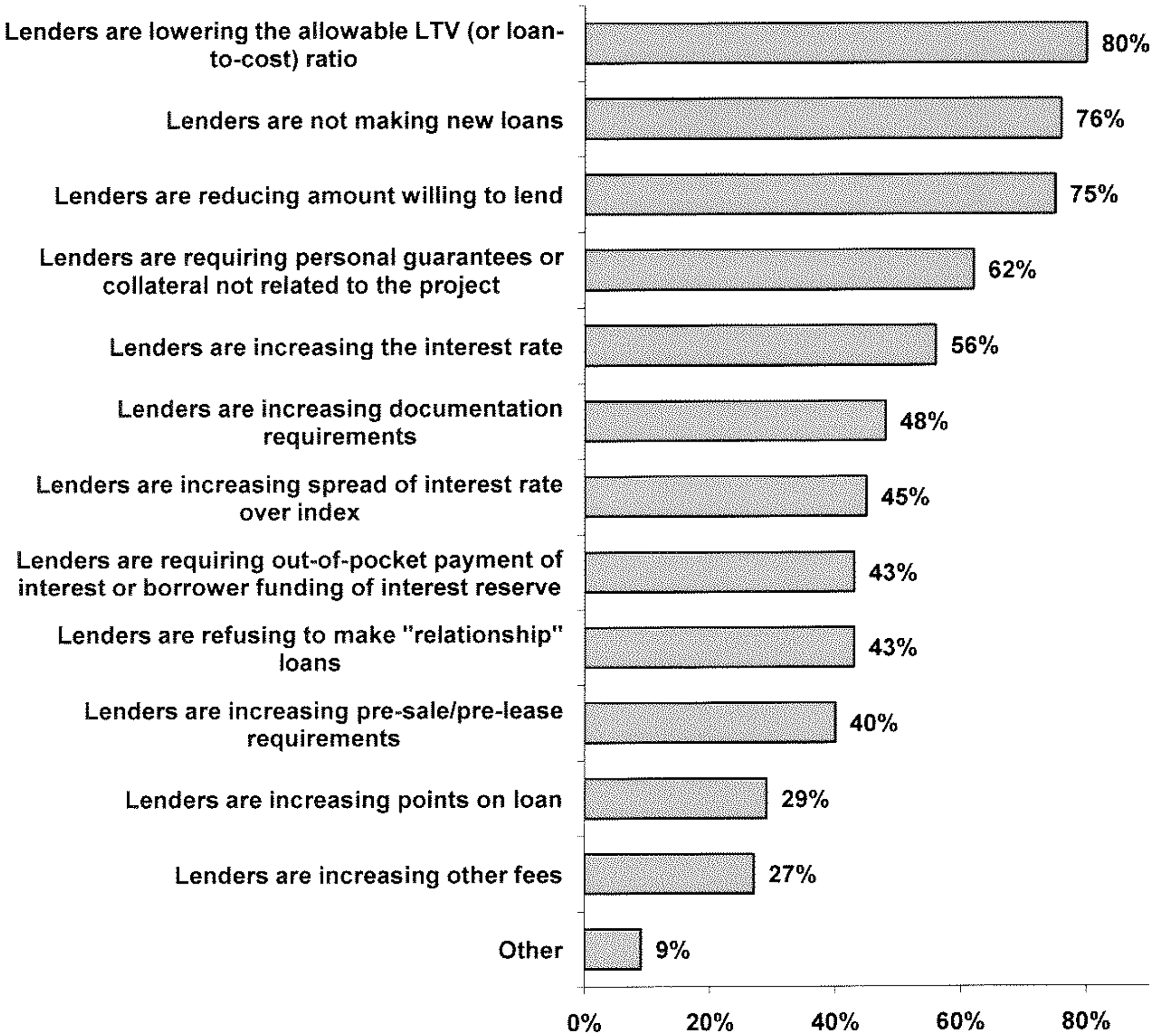
*(Percent of Respondents)*

| | Total | Region: Northeast | Midwest | South | West |
|---|---|---|---|---|---|
| **Land Acquisition** | | | | | |
| Better | 2% | 0% | 0% | 3% | 0% |
| About the Same | 35 | 40 | 43 | 26 | 50 |
| Worse | 64 | 60 | 57 | 71 | 50 |
| **Land Development** | | | | | |
| Better | 2% | 0% | 0% | 3% | 0% |
| About the Same | 23 | 17 | 40 | 22 | 25 |
| Worse | 75 | 83 | 60 | 76 | 75 |
| **Single-Family Construction** | | | | | |
| Better | 4% | 20% | 0% | 5% | 0% |
| About the Same | 34 | 20 | 25 | 38 | 37 |
| Worse | 63 | 60 | 75 | 57 | 63 |
| **Multifamily Construction** | | | | | |
| Better | 0% | 0% | 0% | 0% | 0% |
| About the Same | 28 | 25 | 23 | 42 | 14 |
| Worse | 72 | 75 | 77 | 58 | 86 |
| **Multifamily Construction: CONDO** | | | | | |
| Better | 0% | 0% | 0% | 0% | 0% |
| About the Same | 28 | 25 | 23 | 42 | 14 |
| Worse | 72 | 75 | 77 | 58 | 86 |
| **Multifamily Construction: RENTAL** | | | | | |
| Better | 4% | 0% | 0% | 8% | 0% |
| About the Same | 33 | 100 | 22 | 33 | 40 |
| Worse | 63 | 0 | 78 | 58 | 60 |

**Exhibit 17**

***Q6. If you checked "WORSE" in question 5, please indicate the nature of the change. (Check all that apply)***

*(Percent of Respondents)*

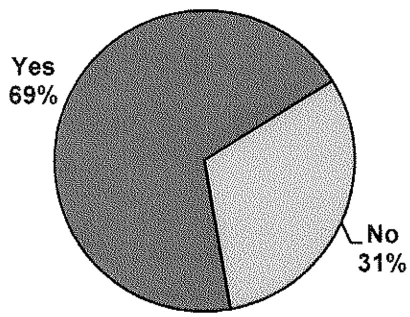


## Exhibit 20

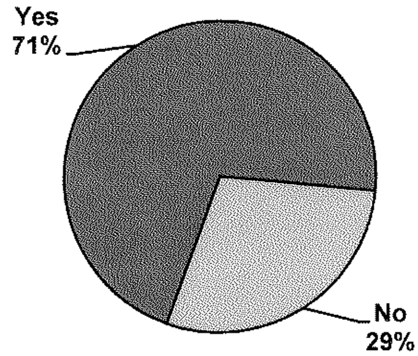
***Q7. Are you putting projects on hold, until the financing climate gets better?***

*(Percent of Respondents)*

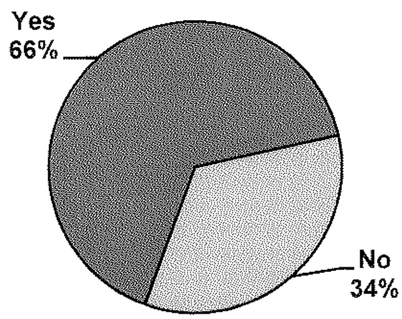
**Land Acquisition**



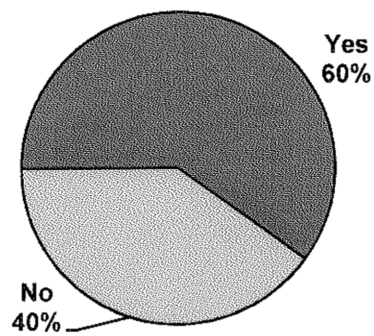

**Land Development**



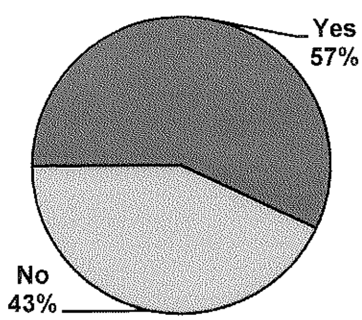

**Single-Family Construction**




**Multifamily Construction**




**Multifamily Construction: CONDO**




**Multifamily Construction: RENTAL**