



**HOME BUILDERS ASSOCIATION OF CONNECTICUT, INC.**  
1245 FARMINGTON AVENUE, 2<sup>nd</sup> Floor, WEST HARTFORD, CT 06107  
Tel: 860-521-1905 Fax: 860-521-3107 Web: [www.hbact.org](http://www.hbact.org)

*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](http://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.