HOME BUILDERS & REMODELERS ASSOCIATION OF CONNECTICUT, INC.
3 Regency Drive, Suite 204, Bloomfield, CT 06002
Tel: 860-216-5858 Fax: 860-206-8954 Web: www.hbact.org

Your Home Is Our Business

February 19, 2013

To: Senator Carlo Leone, Co-Chairman
Representative William Tong, Co-Chairman
Members of the Banking Committee

From: Bill Ethier, CAE, Chief Executive Officer

Re: **HB 6355, AAC Homeowner Protection Rights**

The HBRA of Connecticut is a professional trade association with about nine hundred (900) member firms statewide employing tens of thousands of CT's citizens. Our members, all small businesses, are residential and commercial builders, land developers, remodelers, general contractors, subcontractors, suppliers and those businesses and professionals that provide services to our diverse industry and to consumers. While our membership has declined over the course of our seven-year Great Recession from its high of 1,500 members, we build between 70% to 80% of all new homes and apartments in the state each year and engage in countless home remodeling projects.

We have serious concerns about HB 6355 because of the threats it creates to the availability of credit that is critically necessary to restore a healthy housing market.

Admittedly, we are not competent to talk about the details of the foreclosure mediation process itself because, as new housing developers and builders, our clients (home buyers) are not generally in the group of people struggling with foreclosures. Therefore, our experience with the process is very limited. However, we do understand and depend on credit markets and we know all too well the critically important role that available credit plays in a healthy housing market.

The new home market, which must recover if Connecticut is to enjoy a healthier economy, is being depressed, in part, by larger than normal inventories of unsold and foreclosed homes in the existing market. While the existing home inventory is slowly improving as the number of existing sales increases in the state, the large inventory of foreclosed homes, which we understand to be greater than 7% of all homeowners, becomes more of a drag on the struggling rebound of a new home market. Anything you do regarding foreclosures should be to help speed up Connecticut's notoriously slow process to move foreclosed homes out of the system. We do not see how HB 6355 accomplishes this necessary task; in fact, the new out of balance burdens on lenders appear to be counterproductive by placing more potholes in the road to foreclosure resolutions.

Concerns over the availability of credit, both end mortgages and for ADC (acquisition, development and construction) financing, have been at or near the top of our list for the duration of our seven-year housing depression. Many of the concerns we expressed to you back in 2009 (see attached) are as relevant today as they were then. In particular, the continued lack of availability of ADC financing is a significant strain on our industry's ability to produce new homes. If the committee desires, I can share with you a more up to date quarterly national ADC financing survey of builders that is referenced in our 2009 memo.

Please do not be fooled by the positive national housing news. The healthy rebound of housing markets in the United Stated has not yet reached the northeast. Our national economists at NAHB (Nat'l Assoc of Home Builders) recently predicted that the northeast, being burdened by a number of impediments, is one to two years behind the national recovery and any number of economic disruptions could mean we will not recover prior to the next recession. We are teetering on the edge here of another drop in new housing activity. While we work hard to try and improve the heavy burden of regulations on our industry in Connecticut, and our national organization works hard to improve the federal rules and structures that govern housing finance, any further disruption to lending here will be destructive to our industry's hopes for a better future and a better Connecticut economy.

In particular, the vague and seemingly one-sided "good faith" requirements in HB 6355 as well as the litigation advantages provided to homeowners are very likely to slow down the foreclosure process or make the foreclosure process otherwise more expensive for lenders. This will lead lenders to be more reluctant to provide mortgage lending here in the first place. Why would you do this?

We are not banks, but we are business people. We understand making investments, taking risks and facing uncertainties. In any business, the higher risk one has to take or the more uncertainty looming in front of business prospects, the higher return on investments one demands. The lenders who choose to stay in Connecticut and be willing to lend if HB 6355 is adopted will tighten their credit underwriting even further – as confounding as that may be since getting a loan today is as difficult as it has ever been. They will do this to try to reduce risks and uncertainties. And, mortgage rates will be higher for everyone and fees could be charged to offset the higher risks lenders will face. It will likely also disrupt and make more costly ADC financing for new home developments because lenders will know any new development will be less viable if end mortgaging financing for the new home buyers is more costly to those buyers.

We strongly urge you to remove from the bill any provision that could disrupt the availability of credit for future mortgages or for ADC financing. We urge you to review what other states have done to speed up their foreclosure processes to help lift Connecticut off the bottom as a place to finance, build and sell homes.

Thank you for the opportunity to express our views on this important topic.

Attachment

HOME BUILDERS ASSOCIATION OF CONNECTICUT, INC.
1245 FARMINGTON AVENUE, 2nd Floor, WEST HARTFORD, CT 06107
Tel: 860-521-1905 Fax: 860-521-3107 Web: www.hbact.org

Your Home Is Our Business

December 9, 2009

Copy

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.

Web page (from 2-15-13): At www.hbact.org, under the Knowledge Center menu, click on "Housing & Economic Development" then click on "Homes Do Pay for Themselves":
http://www.hbact.org/displaycommon.cfm?an=1&subarticlenbr=226#HomesPay

Homes Do Pay for Themselves!

When considering the impact of new homes on a community, fully consider both sides of the equation. To accurately answer the age-old question of whether homes pay for themselves, towns and cities must consider 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 and the State!**

The Connecticut Economic Digest - State of CT extensively references the housing impact study that NAHB's Elliot Eisenberg did for us in the spring 2012; see lead housing article on pg 1 (7-20-12)

Housing's Impact on CT's Economy (1 pg summary), presentation by NAHB's Senior Economist, Elliot Eisenberg, to CT's legislature; Presentation Slides; backup REPORT; COSTS (March 8, 2012)

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.

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