

## Relief from the Credit Crunch – Action Plan

*The nation's credit crunch is having a debilitating effect on housing markets. New homebuyers are facing credit scarcities and high qualifying hurdles while homebuilders see the absence of capital and strict valuation practices virtually shutting down new loans for construction as well as forcing defaults on existing ones. In some cases, government and lender policies adopted in response to this credit crunch are actually making things worse. California is being particularly hard hit by these credit conditions to the point that a needed and long-awaited housing recovery can't occur unless something is done, and done soon.*

*Through its investigations of the myriad problems associated with the credit crunch, CBIA has identified some base, causal issues that it recommends be dealt with by both legislators and regulators, particularly at the federal level of government. The active involvement of NAHB in this effort is essential. Indeed, it is believed that CBIA should seek assistance from NAHB as its principal advocate for the following reforms but should also consider advice from other sources, such as a reliable third party (i.e. consultant) and the High Production Builders Council as to what is the best political/advocacy strategy to follow.*

*Bottom line: CBIA can't afford to wait for government to act. It needs to pursue a plan of action and execute on that plan.*

*The following is that plan of action. The plan is being simultaneously transmitted to NAHB, the Mortgage and Construction Finance Task Force as well as the Major Builders Council. CBIA officers intend to immediately re-engage the leadership of NAHB to present the plan and determine where the national organization can help and, through CMBC, seek the assistance of the High Production Builders Council in Washington.*

### 1. GSE Guideline Restrictions

- Relief from risk-based pricing mandates by GSEs – multiple pricing premiums increase the interest rate for new home buyers and remove a portion of potential homebuyers from the market by creating unaffordable loans
- Relief from restrictive appraisal standards – review of value determination in lieu of foreclosure sales (value vs. cost approach)
- Relax condo pre-sale requirements
  - 1) sales/cancellations/cash flow
  - 2) conversion of tower presale requirements
  - 3) condo pricing premium
- Determine decision makers and best contacts at Fannie and Freddie and who has influence with them

### **CBIA ACTION**

- **Gather examples**
- **Seek letters to Congress from affected CBIA members**
- **Seek assistance from NAHB in connecting CBIA with appropriate person at respective GSE, FHA, etc.**

## 2. Private Mortgage Insurance

- Relief from tightened guidelines – for example, in California a minimum 720 FICO score for mortgage insurance is required

### **CBIA ACTION**

- **Gather examples**
- **Set up meeting (in CA) w/ PMIs**
- **Determine what NAHB is doing and participate**

## 3. Credit Issues

- Provide some means to increase LTVs – are prohibitively low
- How will those with recent foreclosures be treated when trying to re-enter the homebuying market?

### **CBIA ACTION**

- **Gather examples**
- **Seek letters to Congress from affected CBIA members**
- **Seek assistance from NAHB in connecting CBIA with appropriate person at respective GSE, FHA, etc.**
- **Consider contracting w/ Washington-based specialist**

## 4. Mark to Market

- Banks need to be given immediate relief from this accounting rule which makes AD&C loans more risky and unaffordable by continually devaluing real estate:
  - putting impossible new cash requirements on already troubled loans; and
  - cutting off capital for future loans
- Ideas include:
  - 2-year suspension (until markets stabilize)
  - revise appraisal process used to mark down assets (i.e. employ use of a percentage cap or “governor”)

### **CBIA ACTION**

- **Gather examples**
- **Seek letters to Congress from affected CBIA members**
- **Forge alliance with CA bankers**
- **Follow NAHB’s lead**

## 5. Construction Loan Gap Financing

- Capital is needed to cover the gap created lower valued assets (i.e. land) which today is either requiring additional cash from strapped builders or causing defaults on existing AD&C loans
- Ideas include:
  - “mezzanine” financing from a public agency, Fed or GSEs

### **CBIA ACTION**

- Put concept in writing
- Ship concept out to experts for review
- Get positive testimonials from lenders
- Discuss with NAHB regarding how/where/with whom to make pitch

## **6. Federal Funding Assistance**

- TARP, other federal funds should flow to help AD&C finance
- Must have verifiable and enforceable accountability requirements for use of federal funding to ensure proper and most effective use

### **CBIA ACTION**

- Gather examples
- Get other states involved
- Get other state homebuilders to complain to Congress, Treasury
- Enlist NAHB to lean on Congress, Treasury

## **7. Alternative Sources of Funds**

- Since banks aren't lending, alternative sources for funding housing projects must be found or developed
- Ideas include:
  - CalHFA should receive funding to be a "lender of last resort"

### **CBIA ACTION**

- Get CalHFA's support
- Get Gov, Gov's staff support
- Seek passage of state legislation
- Seek support from other states
- Appeal to Congress, Treasury

## **8. Foreclosed Assets**

- How do we ensure foreclosed homebuilder "assets" get recycled (back to the market) to help with the homebuilding industry recovery?
- Implement the new Public-Private Partnership Investment Program (PPIP) that could result in \$500 billion to purchase toxic assets and prohibit any recourse against existing borrowers.

### **CBIA ACTION**

- Seek support of NAHB
- (Requires further discussion)
- (Specific plan?)
- (Lower priority?)

## **9. Personal Guarantees**

- Legislation to reform personal guarantees on AD&C loans should be sought at the state level
- Federal programs to dispose of “toxic assets” should include protections for homebuilders against claims by investors being placed on personal assets.

### **CBIA ACTION**

- **Continue discussions, negotiations with CBA**
- **Seek support of NAHB for either (federal) legislative or regulatory protection (in connection with new PPIP)**

As part of the foregoing plan, CBIA will consider pursuing the development of a white paper to help emphasize the burden these problems are placing on California homebuilders and the need for immediate action to solve them.