NAHB
NATIONAL ASSOCIATION OF HOME BUILDERS

ACROSS THE COUNTRY HOME BUILDERS CARE

**REGULATORY & HOUSING POLICY AREA**

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Senior Staff Vice President

August 25, 2008

Ms. Mary Rupp
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Subject: Advance Notice of Proposed Rulemaking: Member Business Loans
RIN 3133-AD42

Dear Ms. Rupp:

On behalf of the 235,000 members of the National Association of Home Builders (NAHB), I welcome the opportunity to respond to the request for comment, issued by the National Credit Union Administration (NCUA), regarding possible amendments to the Member Business Loan (MBL) rules. The amendments deal with current MBL regulations, including those related to loan-to-value (LTV), collateral requirements, loan participations and waivers. NAHB is most interested in the potential increase in the LTV limit for construction and development loans (C&D) from the current 75 percent to 80 percent.

NAHB is a national trade association representing individuals and companies involved in the production of housing and related activities. Each year, NAHB's builder members construct about 80 percent of all new housing in America. NAHB's builder members are small businesses with limited capital of their own. These small businesses depend almost entirely upon commercial banks and thrifts for credit and our surveys show that more than 90 percent of all loans for residential construction, land acquisition and development come from these two sources.

Background

As part of a periodic review of its existing regulations, NCUA is considering a wide variety of amendments to clarify or revise MBL rules based on comments received during previous NCUA rulemaking. NCUA notes that it previously received a comment that requested an increase in the maximum LTV from 75 percent to 80 percent for C&D loans. The commenter suggested that this will make credit unions more competitive in this lending area. NCUA is requesting comments on this possible change.

NAHB Position

NAHB strongly supports an increase in the LTV limit for credit union residential C&D loans. Credit union participation in this market appears to be negligible as commercial banks and thrifts are the dominant lenders. A major factor in the minimal participation by credit union's is their regulatory LTV limit of 75 percent, which is considerably below the 85 percent limit for residential construction loans placed on banks and thrifts in the real estate lending guidelines established jointly by the federal banking regulators. NAHB believes an increase in the credit union LTV limit to 80 percent on residential C&D loans would foster improved competition in this market, therefore lowering housing costs for consumers. NAHB believes that credit unions could pursue such lending opportunities in a safe and sound manner by following well established principles for housing production lending.

Historically, residential C&D loan performance, has generally been very favorable. For many years leading up to the beginning of the credit crisis that began in earnest in August 2007, the performance of residential C&D loans was very strong. NAHB's analysis of time-series data from the Office of Thrift Supervision Thrift Financial Reports through year-end 2007 shows that the charge-off rates for residential C&D loans have been dramatically lower than for nonresidential real estate loans. In fact, the performance of single family home construction loans, as measured by the annualized rate of charge-offs, has been very close to the experience for home mortgages. The attached charts demonstrate the performance of residential housing production loans.

Market stresses that have occurred over the last several years have caused a higher level of defaults and charge-offs for almost all forms of mortgage based lending, including C&D loans. NAHB would not expect NCUA's members to liberalize underwriting criteria by reducing LTVs for C&D lending or for any other lending during this difficult economic period. However, this credit crisis will pass and credit conditions will moderate, home prices will stabilize and the supply of mortgage credit will increase over time. When conditions improve, homebuilders will operate in an environment without the excesses created by abysmal underwriting and ill conceived "affordable mortgages" that contributed to dramatically inflated home values. Legislative and regulatory responses to these problems are producing more appropriate mortgage lending rules, greater consumer protections, rating agency reforms, and investor reassessments of risk that will limit if not end these types of mortgage-related excesses in the future. NAHB believes, therefore, that an easing of the LTV requirement for high quality residential C&D loans is warranted at this time so credit unions will be in a position to effectively compete for qualified borrowers seeking financing on economically sound residential construction projects.

The LTV limit is a maximum threshold, and institutions should establish the limit for individual loans based on prudent underwriting factors and processes. NAHB believes the following are some of the many features, which when carefully analyzed during the underwriting phase, could justify higher LTVs:

- C&D project has a large number of pre-sold units under contract relative to speculative units.
- Adequate borrower net worth and overall strong financial strength and track record of the builder and the guarantors.
- Project is supported by thorough collateral valuation.
- Favorable outlook for residential housing demand.

The short construction period of C&D projects, typically less than 2.5 years, is also a risk mitigating factor. A June 2003 Federal Reserve Board white paper entitled *Loss Characteristics of Commercial Real Estate Portfolios* found that key features of single family construction loans such as these, particularly a high proportion of pre-sales, are positive factors contributing to lower capital requirements for such loans.

Conclusion

NAHB is in favor of easing the LTV requirements for residential C&D loans as it will allow credit unions to more effectively compete for qualified borrowers while increasing the availability of credit to builders on more reasonable terms. The result will improve housing affordability for a broad range of borrowers. We hope the foregoing discussion has been helpful. NAHB is available to answer any questions you may have regarding this comment. Please contact John Dimitri at 202-266-8529 (jdimitri@nahb.com).

Respectfully,

David Crowe

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Regulatory and Housing Policy

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Attachment