

Surplus, lending crimp builders

• Developer confidence drops to 1991 lows, National Association of Home Builders reports

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Inventory build-up and tightened lending standards caused builder confidence to drop to the lowest point since 1991, a national trade organization reported Tuesday.

"I think what most builders would tell you, both on and off the record, is that a substantial portion of (builders') business came from less than perfect credit," said Bob Burton, vice president of sales and marketing for the Hofmann Co., based in Concord. "I'd say upwards of 30 percent was subprime."

The National Association of Home Builders/Wells Fargo Housing Market Index, which measures home builder perceptions and expectations for the next six months, reported July's score was 24 national and 25 for the West. The monthly survey conducted by the association for the past 20 years reported that any score more than 50 means that builders view conditions as more favorable than not. It marks the fifth consecutive month the market index reported a decline.

Joseph Perkins, president and chief executive officer for the Home Builders Association of Northern California in San Ramon, agreed that credit tightening and a housing surplus sent the industry into a downturn.

Perkins said he believed some of the blame resides with the Federal Reserve Board, which decided to raise interest rates, to the detriment of the housing industry.

"You had a two-year campaign to ratchet up interest rates," he said. "That campaign ended up killing the housing boom. And what's so interesting is that there were so many people out there who thought it would be a good thing. Now we see it hasn't been."

The changing interest rates and lending criteria have made the labels of "preapproved" and "prequalified" less important for buyers than finding a locked-in rate, said Dustin Hobbs, spokesman for the California Mortgage Bankers Association.

Burton, whose company sells Waterford at the Lakes and Reflections at the Lakes in Discovery Bay, said that the "liberal lending climate" made more people able to afford a home. Without it, entry-level homeowners are having a tough time affording a house. He said that there have been buyers who "jumped through hoops" for their lender and then at the eleventh hour found that the loan wasn't available to them.

"That's very frustrating," Burton said. "They thought they had everything put together."

"The bottom line is that before you go and fall in love with a house, find out how much house you can afford," Hobbs said. "And you want to have as much wiggle room in the terms as you can because you can't overstretch as much as you could a year ago. ... All those tiny points are thousands of dollars every time."

Ed Jeffry and Luke Currier, loan consultants with Peregrine Lending Corp. in Walnut Creek, said there are

differences between a prequalification letter from a lender, which means a broker has your paperwork, and a "commitment to lend" letter.

"(The commitment to lend letter) says that if you meet these conditions, then you have actual approval from the lender," Jeffry said.

Jeffry said some builders use lenders who will allow buyers to lock in a rate for six months, although the loan may be more expensive to promise that rate.

Although the report may seem as if things are bleak for the industry, Burton said that builders shouldn't be pitied. For most builders, including the Hofmann Co., 2006 was a record year for profits.

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