

INDIANA BUILDERS ASSOCIATION
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HIGHLIGHTS

Americans Spend More Than \$230 Billion on Home Remodeling in 2007

In 2007, it is estimated that Americans will spending more than \$232 billion on home remodeling according to the NAHB's 2007 industry forecast. That is a 1.9 percent increase from the recording breaking \$228 billion spent in 2006. Currently, remodeling accounts for more than 40% of the home construction industry by dollar volume. Remodeling is a component of the housing market that has been able to remain strong, and has seen growth, throughout the current housing slump.

Long-Term Rates Remain Low

The Federal Reserve held monetary policy steady at the May 9th meeting of the Federal Open Market Committee (FOMC). This maintains the 5.25% federal funds rate target that has been in place since mid-2006. This expected decision maintained the "real" funds at about 3%, which is a slightly restrictive monetary policy stance. The May 9th FOMC statement did make a note that "the adjustment in the housing sector is ongoing," which is the language used in the March 21st FOMC statement. However, it is much different from the wording used on January 31st when the FOMC said that "some tentative signs of stabilization have appeared in the housing market". This statement was released prior to the highly visible blowup of the subprime mortgage market; which inevitability was an event that provoked another down leg to the housing correction. Financial market participants did foresee the May 9th FOMC interest-rate decision, and the statement did not provoke major changes in the long-term interest rates. Both long-term Treasury and prime fixed-rate mortgage yields did remain with historically low ranges that have lasted for quite some time; there is expectation for little change in the interest rate structure over the balance of the year.

The Vacant Housing Inventory Climbs to Record Highs

According to the Commerce Department, the number of vacant year-round housing units on the market has increased to another new record in the first quarter of 2007. The ratio of vacant units on the market to the total housing stock has also surged to a new record in

the first quarter of 2007. It appears that there are roughly 1.4 million vacant housing units on the market.

The recent increase in vacant housing inventory has been concentrated in for-sale units, both single-family homes and multifamily condos. It is important to note that the number of for-rent units on the market also has increased to a new record. This reflects recent increases in rental vacancy rates for both the single and multifamily sectors. Rental units compete with for-sale units on the market and vacant units for-rent can easily convert to vacant units for-sale (or vice versa) as market conditions change. Inevitably investors will become weary of negative cash flows on units they acquired during the housing boom and now are unable to rent out, which will lead to them to put the units onto the for-sale markets; with negative implications for new-home sales and house prices.

Subprime-Related Tightening of Mortgage Lending Standards is Playing Out

The meltdown of the subprime mortgage market has continued rapidly, and the credit standards for new loans have been tightening in the subprime market, as well as in the “near-prime” market and even in the prime segment. Apparently, the inadequate documentation of the borrower income and debt ratios infected a broad swath of mortgage lending; not only during the housing boom, but also in the 2006 housing retreat and various types of risk layering became common.

Recently NAHB sent out surveys to builders and the results suggested that two-fifths of all builders reported adverse effects on their home sales during April, and nearly three-fourths of large companies (starting more than 100 units/year) said their sales had been reduced because of stricter mortgage lending standards. The median reduction was 15% among companies reporting adverse impacts. There were also adverse impacts on sales cancellations, especially among big builders. Four-fifths of big builders reported adverse impacts on cancellations, and on average, these companies said that the increase in cancellations in April had wiped out 10 percent of their backlog of signed sales contracts. Although Freddie Mac and Fannie Mae have announced efforts to keep credit flowing from higher-risk borrowers, and the FHA program is regaining some market share as the subprime component weakens; the net effect of the subprime-related tightening of lending standards on home sales is likely to be negative for both 2007 and 2008.

2007 Indiana Small Business Forum

The 2007 Indiana Small Business Forum is on Tuesday, June 5th from 12:30-4:30 in Columbus, Indiana. There will be leaders among the Internal Revenue Service, Small Business Administration, Social Security Administration, Indiana Department of Revenue, Indiana Workforce Development, and Indiana Secretary of State present at the forum to share pertinent information. This is a wonderful opportunity for all business leaders to attend and gain helpful insight to interact with agencies that can benefit their business. Although the forum is free; seating is limited so it is important to register early. Register with Charles Barrington via phone or email: 574-232-0130 or Charles.Barrington@irs.gov

Housing

Despite rising interest rates, the pace of mortgage loan applications increased 1.4% last week according to the Mortgage Bankers Association. Applications have increased 9.4% over the past year. Refinancings accounted for 41.5% of all loans, which was down from 43.4 percent the prior week. Interest rates for 30-year mortgages averaged 6.15%, which is up from 6.13%. The average rate for 15-year mortgages also increased from 5.82% to 5.83%.

Indiana Fiscal Policy Institute

The Indiana Fiscal Policy Institute (IFPI) has released their monthly budget report for April, 2007. Tax collections in April exceeded expectations targets across the board; up ten percent. In other revenue news, the 2007 budget has been enacted and it spends over \$26 billion; and the cigarette tax was increased by 44 cents per pack to help pay for health insurance for low income Hoosiers.

Housing and Business Face Repercussions under Proposed Title III Language in Immigration Bill

The National Association of Home Builders (NAHB) is calling on the Administration and Senate lawmakers of the Immigration bill to proceed cautiously when in regards to Title III language. NAHB is concerned about any provisions that would hold general contractors responsible for any hiring decisions made by their subcontractors in the comprehensive immigration reform bill. Legislation containing similar language could have major repercussions for the nation's business and housing communities. NAHB feels that the burden needs to be placed, not on the general contractor, but rather on the person who actually hires and pays the illegal worker.

Housing Starts Increase in April; Permits Drop to Slowest Pace in a Decade

While housing starts increased slightly in April, new building permits dropped to the slowest pace since June of 1997, according to recently released figures by the Commerce Department. With an increase of 2.5% in April, housing starts are at an adjusted annual rate of 1.528 million units. Building permits, a more trustworthy indicator of housing construction activity, plummeted 8.9% in April to a seasonally adjusted annual pace of 1.429 million units. Permits were down 28.1% from 2006. This pattern clearly shows that the home buyer demand has clearly been affected by the tightening of the mortgage lending standards, and there is a heavy supply of vacant housing units on the market. Because of these factors, builders are cutting back on new construction and intensifying their efforts to increase sales and limit cancellations.

Indiana is not alone in Combating Mortgage Foreclosures

Indiana, along with twenty other states, is pushing ahead with consumer-protection legislation and bond sales to try and minimize the impact of the deepest housing downturn since the Great Depression. A bill signed by Governor Mitch Daniels contains language that allows consulting to homeowners who are in danger of foreclosure. New York is considering legislation that would allow borrowers to take on fixed-rate mortgages in place of riskier loans; Texas legislators are toying with a bill that would require all first time buyers to get mortgage counseling; and Colorado lawmakers may force mortgage brokers to learn more about a borrower's income before offering credit. Legislators feel that this issue must be addressed due to the fact that nationally foreclosure rates are at a 62% increase from 2006.

Green Building Seminar

IBA staff attended the Developing Green: High Performance Affordable Housing Symposium this week. Major topics discussed included: costs for building Green; benefits to Green Building; Governmental initiatives for Green Building; and various case studies for Green Building developments. The symposium was beneficial and informative for IBA staff because we have recently created a task force to study Green Building guidelines for residential construction.

Onsite Wastewater Plan Implementation Work Group

IBA staff attended the latest Indiana State Department of Health's Onsite Wastewater Work Group, which was in the beginning of May. Issues discussed included Onsite Wastewater Training and Certification; ongoing training efforts in Indiana; and status of certification in other states. Also, the Indiana State Department of Health issued a draft regarding the process for approving methods for onsite sewage programs. IBA staff is reviewing this language and will give our input to the State Department of Health.