BUILDERS & BANKERS

Home builders share their views on credit availability, appraisals, and alternative financing

By Mike Beirne, Senior Editor

Builders, anecdotally at least, seem to be griping more about the availability of labor these days than they are about their access to financing. Tight credit has been a factor holding back a stronger rebound in new-home construction, but that situation appears to be improving. For example, the volume of residential AD&C loans outstanding posted its ninth consecutive quarter of growth, according to the FDIC, increasing 4.7 percent during second quarter 2015 and 16.4 percent compared with the 2014 second quarter.

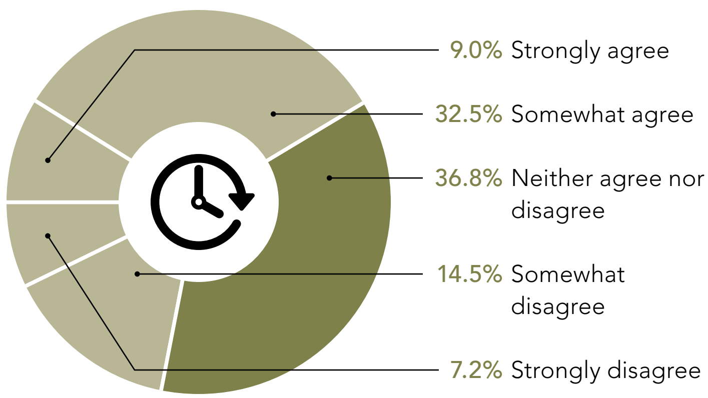
The NAHB's most recent survey on AD&C financing found nearly all builders reporting that credit availability during the second quarter for land acquisition, land development, and single-family construction was about the same or better than the previous quarter. The finding is in line with *Professional Builder*'s 2015 Finance survey where most participants noted that the financing environment improved from last year. For more results, see the charts that follow.

METHODOLOGY & RESPONDENT INFORMATION

This survey was distributed between August 3 and September 1, 2015, to a random sample of *Professional Builder*'s print and digital readers. No incentive was offered. By closing date, a total of 171 eligible readers returned completed surveys. Respondent breakdown by discipline: 35 percent custom home builder; 25 percent diversified builder/remodeler; 13.7 percent production builder for move-up/move-down buyers; 5.9 percent architect/designer engaged in home building; 5.9 percent luxury production builder; 3.6 percent production builder for first-time buyers; 2.9 percent multifamily; 0.6 percent manufactured, modular, log home, or systems builder; and 7.1 percent other. Approximately 48.5 percent of respondents sold one to five homes in 2014, and 17.2 percent sold more than 50 homes.

INDICATE THE EXTENT TO WHICH YOU AGREE OR DISAGREE WITH THIS STATEMENT: "BANKS IN MY MARKET(S) ARE MORE OPEN TO PROVIDING FINANCING TO MY COMPANY/HOME BUILDERS THAN THEY WERE THIS TIME LAST YEAR"

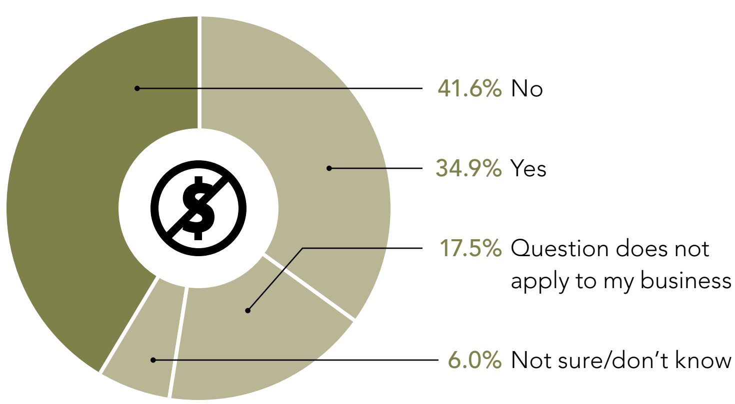
BASE: 166; PROFESSIONAL BUILDER 2015 FINANCE SURVEY



The perception among builders is that bankers are more active than not this year in courting their business.

HAS YOUR COMPANY HAD TO PASS ON A POTENTIALLY LUCRATIVE PROJECT (VERTICAL CONSTRUCTION, LAND PURCHASE, OR DEVELOPMENT) IN THE PAST 12 MONTHS BECAUSE YOU COULD NOT SECURE FINANCING?

BASE: 166; PROFESSIONAL BUILDER 2015 FINANCE SURVEY



Results are on par with last year's survey and much improved from the mid-recession poll in 2011 when 55.4 percent of respondents indicated that they had to pass on projects because they were unable to secure financing.

WHICH OF THESE ISSUES, IF ANY, HAS YOUR COMPANY EXPERIENCED WITH YOUR LENDER/BANK IN THE PAST 12 MONTHS? SELECT ALL THAT APPLY

Bank is willing to lend but documentation for appraisals, inspections, and other administrative requirements is onerous and time consuming	42.7%
Other bankers have contacted my company about the possibility of doing business with us	29.8%
Home appraisal(s) came in lower than the purchase price	27.5%
My current banker(s) is/are more open to financing vertical construction projects and offering better terms than a year ago	25.7%
My current banker(s) is/are more open to financing land acquisition/development and offering better terms than a year ago	19.8%
Bank will fund vertical construction but not land acquisition/development	12.9%
Lines of credit stopped	9.9%
Bank is unwilling to fund new projects	9.4%
My primary bank was acquired by another bank or taken over by the FDIC	5.9%
Loans called even though payments were current	4.7%
Other	5.9%

Smaller percentages of respondents, compared with the 2014 Finance Survey, reported that their lines of credit were closed or that their bank was unwilling to fund new projects, perhaps reflecting better availability of credit versus last year. However, there were more builders that experienced burdensome documentation requirements and low appraisals than there were builders offered better financing terms than they were a year ago.

BASE: 171; PROFESSIONAL BUILDER 2015 FINANCE SURVEY

SELECT THE TOP THREE FINANCIAL CHALLENGES YOUR COMPANY HAS FACED IN THE PAST 12 MONTHS

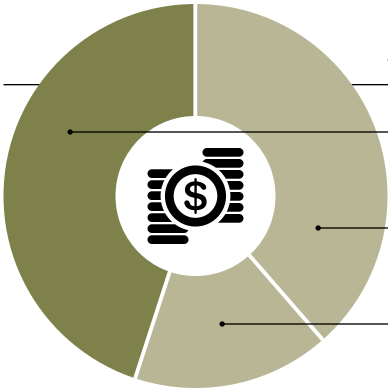
Land values are too high	43.3%
Home appraisals undervalue my product	39.8%
Buyers unable to secure a loan	36.8%
Finding a bank that will do development lending	23.4%
Rising bank fees	21.1%
Securing quicker availability of capital by securing alternative financing	18.1%
Banks taken over by FDIC	1.8%
Other	4.7%

"Buyers unable to secure a loan" was the top challenge that builders cited in last year's survey. That issue was surpassed in the 2015 survey by high land values and problems with low home appraisals.

BASE: 171; PROFESSIONAL BUILDER 2015 FINANCE SURVEY

HAVE YOU USED ALTERNATIVE FINANCING METHODS TO FUND PROJECTS IN THE PAST 12 MONTHS?

BASE: 166; PROFESSIONAL BUILDER 2015 FINANCE SURVEY



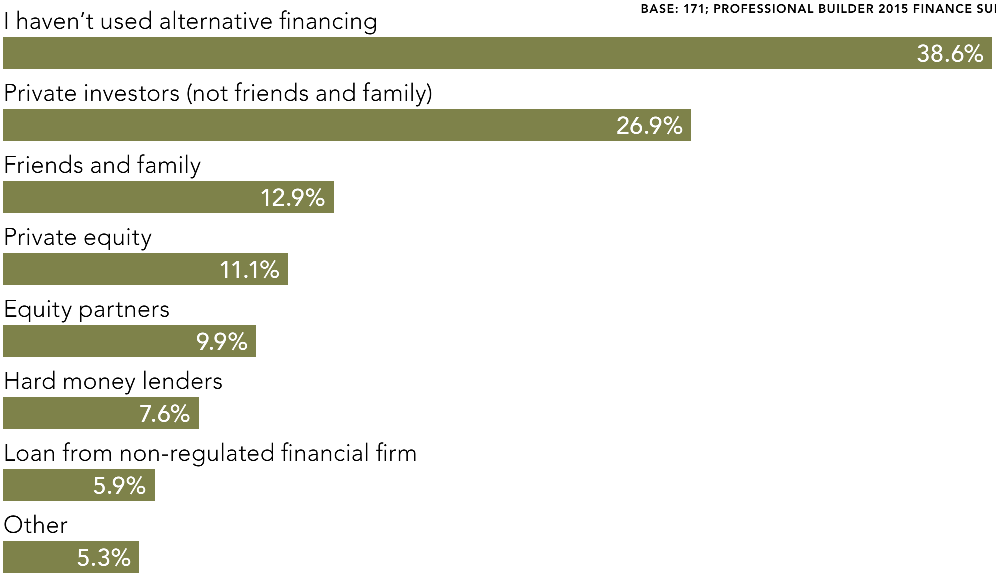
45.2% Yes

38.6% No

16.3% Question does not apply to my business

WHAT TYPES OF ALTERNATIVE FINANCING METHODS (ALTERNATIVES TO BANKS) HAVE YOU BEEN ABLE TO SECURE? SELECT ALL THAT APPLY

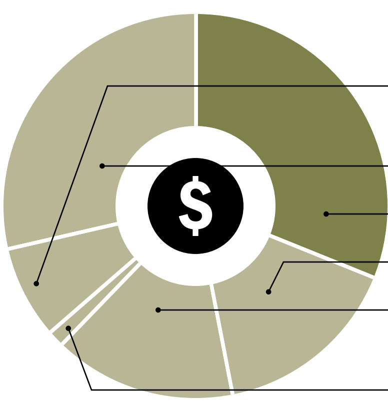
BASE: 171; PROFESSIONAL BUILDER 2015 FINANCE SURVEY



The ratio of financing sources is consistent with last year's and the 2011 survey figures. Types of alternative financing mentioned in the "other" category include payday loans, loans from a life insurance policy, mortgage-backed construction loans, and OnDeck, an online non-bank lender.

HOW STRONGLY DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENT: "THE LENDING ACTIVITY BY BANKS IN MY MARKET(S) IS REFLECTIVE OF THE DEMAND FOR NEW HOMES"

BASE: 171; PROFESSIONAL BUILDER 2015 FINANCE SURVEY



7.9% Strongly agree; banks are adequately financing building and homebuying demand

28.7% Somewhat agree

31.1% Neither agree nor disagree

15.9% Somewhat disagree

15.2% Strongly disagree; there would be more building and homebuying if banks were more active

1.2% Other

Positive sentiment (strongly agree and somewhat agree) was highest among builders from the West South Central (Ark., La., Okla., and Texas) and West North Central (Iowa, Kan., Minn., Mo., Neb., N.D., and S.D.) regions. Builders indicating that banks could be more active (strongly disagree and somewhat disagree) hailed from New England (Conn., Mass., Maine, N.H., R.I., and Vt.) and the Middle Atlantic (N.J., N.Y., and Pa.).