



National Association of Residential Construction Lenders (NARCL)

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**The Changing Residential Construction Market**

**"Construction Lender Survey"**

**3rd Quarter – September 30<sup>th</sup>, 2007**

**Strategies for Success in Construction Lending Conference**

**December, 2007**

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**Purpose**

The recent downturn in the Housing Industry has impacted the new home and renovation construction market in a number of ways. Residential Construction Lenders for the first time in over 10 years have reported a decline in volume and subsequent increase in the delinquency within their construction loan portfolios. In an effort to obtain a better understanding on the market and mood of the construction lenders, NARCL conducted a survey of several of it's members (in a number of key category's), in the third quarter of 2007. The survey results were compiled and the top (5) issues were reported in this survey for each category. The results are quite interesting and potentially helpful in directing a construction lending program today. At the conclusion of the survey is a summary of significant results which appear to be the most important for the future.

Richard W. Nirk  
Executive Director

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National Association of Residential Construction Lenders

**Top Five (5) Trends - External**

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What have been the Top Five External Trends you have experienced, which has impacted your construction program?

Higher Risk & Default for Builder Profiles  
Overall Decline in Home Values & Appraisals  
Perceived & Actual Risk to Construc. Lending  
Reduction and Changes in the Secondary Mkt.  
Overall Downward Trend in Profiles

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**National Association of Residential Construction Lenders**  
**Top Five (5) Trends - External**

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3	Higher Risk & Default for Builder Profiles
2	Overall Decline in Home Values & Appraisals
1	Perceived & Actual Risk to Construc. Lending
4	Reductions & Changes in the Secondary Mkt.
5	Overall Downward Trend in Profiles

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**National Association of Residential Construction Lenders**  
**Top Five (5) Trends - Internal**

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What have been the Top Five Internal Trends you have experienced, which has impacted your construction program?

- Credit Policy & Product Tightening
- Changes & or Downsizing of Corp. Parent
- Risk Management Issues (Project & Funding)
- Long Term Funding Capabilities
- Managing Problem or Defaulted Loans

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**National Association of Residential Construction Lenders**  
**Top Five (5) Trends - Internal**

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4	Risk Management Issues (Project & Funding)
3	Long Term Funding Capabilities
5	Managing Problem or Defaulted Loans

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**National Association of Residential Construction Lenders  
Top Five (5) Sales & Origination Issues**

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What have been the Top Five Sales & Origination Issues you have experienced, which has impacted your construction program?

- Corporate Ability to Fund Loans
- Tightening of Credit Policies & Review
- Faster & Web Based Funding Processes
- Reduction or Loss of Sales Channels (Wholesale, etc.)
- Reduction in Construction Mktg Budgets

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**National Association of Residential Construction Lenders  
Top Five (5) Operational Issues**

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What have been the Top Five Operational Issues you have experienced, which has impacted your construction program?

- Capability to Manage greater Defaults
- Concerns w/ Changes to Budgets & Lien Releases
- Reduction in Staff (FTE's) – Doing More w/ Less
- Need for Technology to assist w/ Project & Funding
- Builder Risk as it relates to the Funding Process

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**National Association of Residential Construction Lenders**  
**Top Five (5) Operational Issues**

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2	Concerns w/ Changes to Budgets & Lien Releases
3	Reduction in Staff (FTE's) – Doing More w / Less
4	Need for Technology to assist w/ Project & Funding
1	Builder Risk as it relates to the Funding Process

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**National Association of Residential Construction Lenders**  
**Top Five (5) Credit Policy Exceptions**

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What have been the Top Five Credit Policy Exceptions in the underwriting of your construction loans?

- Overall Policy & Profile Cutbacks
- LTV (Loan to Value) & Value Issues
- Project Approval Guidelines
- Draw Funding & Disbursement Guidelines
- Specific Profile Changes – (Investor, second homes, etc.)

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**National Association of Residential Construction Lenders  
Top Five (5) Sr. Management Issues**

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What have been the Top Five Sr. Management Issues when examining the various construction lending programs?

- Concern for Risk in the Construction Markets
- Comfort with Credit Risk in the Portfolio
- Need to Reduce Cost (Budgets & Staff)
- Improved use of Technology & Processes
- Ability to Sustain Funding & Portfolio Growth

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**National Association of Residential Construction Lenders  
Top Five (5) Personnel Related Challenges**

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What have been the Top Five Issues in training, maintaining and acquiring construction lending personnel.

- Locating Experienced Personnel
- Managing Quality between Sales & Ops
- Maintaining Competitive Compensation
- Keeping Personnel in-front of Technology
- Ability to Consistently Re-Train

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**National Association of Residential Construction Lenders  
Top Five (5) Personnel Related Challenges**

What have been the Top Five Issues in training, maintaining and acquiring construction lending personnel.

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- 1 Managing Quality between Sales & Ops
- 2 Maintaining Competitive Compensation
- 3 Keeping Personnel in-front of Technology
- 4 Ability to Consistently Re-Train

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**National Association of Residential Construction Lenders (NARCL)  
Top (5) Reasons for overall Construc. Loan Default**

What are the Top Five issues which have contributed toward construction loan defaults?

- Aggressive Underwriting Guidelines & Loan Doc's Sub-standard Construction Project Review (Plans, Specifications, Contract, Budget & Pre-paid)
- Problem Builder (Experience, Financial Condition, Management Talent, etc.)
- Sub-Standard Draw Disbursement / Fund Control (Liens, Poor Review to Budget, Change Orders, Doc's, etc.)
- Below Average Lender Staffing & Training

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**National Association of Residential Construction Lenders (NARCL)  
Top (5) Reasons for Loan Default, due to the Builder**

What are the Top Five issues you have experienced with the Builder, that has led to problems with completion of the collateral and/or a construction loan default?

- Experience & Management Capability
- Lack of Working Capital
- Line of Credit Frozen or Cut Back
- High Number of Starts w/out Customer (Spec)
- High Cancellation Rate

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**National Association of Residential Construction Lenders (NARCL)  
Top (5) Objectives for Growth**

What are the Top Five objectives for growing and managing construction lending programs in the future?

- Moderation of Credit Policy & Product Issues
- Increased use of Technology to Control Risk
- Consistent Corporate Recognition & Funding
- Maintain Consistency in Secondary Functions
- Greater use of Specific External Resources

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**Summary**

- ✓ Stay in front of Key Corporate Management
- ✓ Manage Specific Credit Policy & Underwriting Changes
- ✓ Improve Control of Completion or Collateral Risk
- ✓ Tighten Builder & Project Validation Processes
  - ✓ Be timely with Builder & Borrower Defaults
- ✓ Look toward Technology to assist with Risk Management
  - ✓ Consistently evaluate the Local & National Markets

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