

US Housing Chief speaks in Dublin

At a CIF Breakfast Briefing in October, **Jerry Howard**, CEO of the National Association of Home Builders (USA) gave an insight into how the problems with the American housing market emerged and how they might be solved.

(Synopsis by Alan Cooke, IAVI CEO)

In the aftermath of 9/11, Americans sought a safe haven for their dollars and nothing at the time was seen as a safer haven than bricks and mortar. A 'must buy now' syndrome emerged, echoes of which IAVI members will have seen in Ireland at the height of the Celtic Tiger market.

President Bill Clinton began a move to increase the rate of home ownership among non-Caucasian Americans to bring the rate closer to the 80% rate among Caucasians. President George W Bush expanded the programme and exotic types of mortgage products emerged involving no down payment, the sole criteria apparently being that if you could 'fog a mirror' you could get a mortgage. In other words, everyone qualified and residential prices escalated accordingly.

This deregulation was taken to extremes by many overly eager mortgage intermediaries who were driven by commissions based on the creation of the mortgage products and who had no personal risk from the ultimate failure of the borrower to repay the loan.

In many cases, not a single loan repayment was made and, eventually, very many of these 'sub prime' borrowers ran into repayment problems that were very predictable. The market effect of thousands of foreclosures on properties where loans had failed was exacerbated both by investors taking flight and a serious construction overrun in new build, with 2.4 million new

homes per annum built compared to a demand of 1.6 million.

The result was a general downturn in residential values since 2005 in the order of 10% nationally, but as high as 30% in some hot markets, or areas of previously high demand, such as Southern California, Miami and Florida.

There is no such thing as the 'American housing market', according to Jerry Howard, more a conglomeration of hundreds of local markets. There can be as many as 15 local and diverse housing markets in a single major US city. Not all US markets operate in tandem as can be seen by the variance in the percentage downturn outlined above. Some more conservative US markets, where residential prices have traditionally tended to escalate only slightly ahead of inflation, have not suffered at all in the downturn. Perhaps there is a lesson there for us all.

American mortgage backed financial products were bundled and sold through securitisation, with mortgages being split, with different percentages of the asset (the loan) being apportioned into several packages alongside percentages of hundreds or thousands of other loans.

These packages were then offloaded to institutions around the globe with what appears to have been little or no due diligence. They were viewed as a safe product because they had been created in the United States and it was therefore assumed that a



proper degree of due diligence had gone into their creation for, surely, the USA banking system was among the world's most regulated. Not so, as we have all discovered to our cost!

The view of the US home builders is that all that is being done to correct the world's financial system amounts to triage. Real surgery is required and cannot be provided unless residential property prices in the United States are stabilised, as the building industry tends to provide the first evidence of a recession and of recovery – housing construction accounts for 15% of the US economy.

A Housing Stimulus Package is required and will be pursued now that the presidential election is out of the way. Tax credits on home purchase were used to stimulate the market previously and will be sought again as part of the new package, which might also include an interest rate subsidy. Prevailing mortgage rates in the United States in October were around 6-7% and the NAHB would like to see these subsidised by 2-3%. With such measures,

there is confidence that the market would recover.

However, with 12 months inventory currently on the market in America, it will be the end of 2009 or early 2010 before the market can move ahead as, even with a stimulus package, it will take that long to clear the overhang.

A major new Housing Bill is likely to emerge in the United States that will provide for much stricter lending criteria and tighter regulation.

Howard concluded by saying that the role of Rating Agencies (companies that partly make their money from providing ratings on financial institutions and other public companies) in the entire debacle needs to be examined closely.

The CIF is to be congratulated for bringing Mr Howard to Ireland and for giving a large group of property and economic experts the opportunity to hear first hand the 'view from the coalface'. ■

