PrefabNZ Incorporated
www.prefabnz.com
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PREFABNZ FINANCE WORKSHOP SUMMARY + ACTION POINTS

Meetings 14 September Christchurch + 20 September Auckland

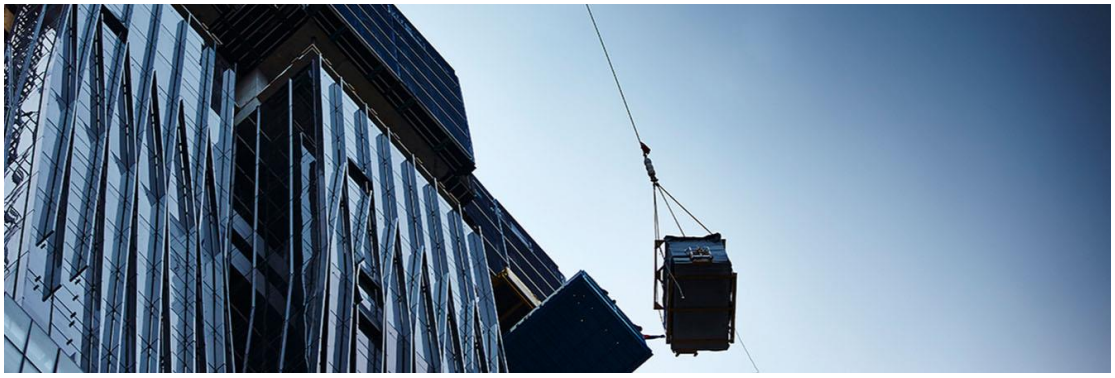
PrefabNZ is the hub for prebuilt construction – a non-profit member-based organisation for architects, manufacturers and builders www.prefabnz.com.

PrefabNZ hosted two workshops to discuss better finance of offsite construction, to enable the prebuilt construction sector to provide more affordable housing, through:

A. Identifying a path for banks to finance transportable homes for first-time buyers
B. Unlocking finance for larger prebuilt chunks (panels, pods etc.) that manufacturers and developers use to deliver affordable medium-density housing

The following ACTION POINTS were summarised from representatives of banking, finance, insurance, mortgage brokering, construction and design:

1. Clarify bank risk so that housing manufacturers (ie. panels, pods, or transportables) have **consistent industry funding guidelines** to meet bank requirements (eg. an industry developed checklist)
   ACTION POINT – PrefabNZ to follow-up with ANZ + BNZ about meeting with Risk team ASAP
2. **Education piece to banks** about prebuilt manufacture (ie. panels, pods, transportables) and value of lifecycle assessment (ie. lifetime costs vs cost up-front)
   ACTION POINT – PrefabNZ to investigate channels for bank education
3. **Insurance or Guarantee mechanism**
   ACTION POINT – PrefabNZ to follow-up with Built-in Insurance on options
4. **Bond mechanism**
   ACTION POINT – PrefabNZ to follow-up with Surety on options here
5. **Industry standard contract**
   ACTION POINT – PrefabNZ to investigate process and funding to develop
6. **Quality Assurance programme** by independent industry body, such as PrefabNZ
   ACTION POINT – PrefabNZ to investigate process and funding to develop



The following ISSUES CONTEXT was derived from housing manufacturers and builders involved with building panels, pods and transportable homes.
NB: The conversation is initially focused on financing a transportable house.

1. Land purchase occurs first. Housing manufacturer / builder needs confirmation that the buyer has first mortgage bank lending for both house and land.

2. It is possible that the buyer might use all their equity on the land purchase, leaving none for the progress payments on the house. In that case, they will need to prove that they have access to financing before the house can be procured.

3. The required works at the house site include utility connections, stairs, landscaping, gaining Council consents etc. can be coordinated by a single reliable party – usually this is the housing manufacturer / builder. Single oversight is ideally needed to have a clear path to the Code Compliance Certificate (CCC). For local sites, own builders are sent to complete work. For sites further afield, a local builder is subcontracted to the main builder.

4. The lender is concerned about what happens if the builder goes into receivership. The lender needs to be able to have the house (and materials) as security. Although a General Security Agreement (GSA) exists, it is acknowledged that this is not a hassle-free option. Small companies give an unconditional personal guarantee against builder failure – but this is of more comfort to the buyer, than the bank.
   DISCUSSION POINT: *What other instruments can enable a bank to claim the work completed to date when the work is completed away from the final building site?*

5. If the house is partially completed offsite, a third-party can gain access to complete it for the bank (including access to plans and consents etc.). This is a practical solution as the emphasis is on meeting Building Code (BC) compliance towards CCC which is the assurance that the bank is looking for.

6. The bank's establishment of the builder's experience should be the same, whether the house is constructed at site of offsite.

7. The bank should be conducting a 'check-box' exercise to determine that the relevant construction contract is in place and that BC is being met towards CCC being achieved.

8. The value of the part or the house before delivery if it had to be sold to a third-party to repay the debt would be the value of works completed to date, eg. 40% if it is for panels, and 100% if it is a transportable house. It will be the percentage relative to the entire project's value.
   NOTE: *The lowest risk option for the bank is to complete the job offsite, attach it to the land, and reclaim the project value that way. Fundamentally, the house-plus-land package is worth more together, than separately.*

9. There are no recorded issues with a potential buyer not accepting a house. If there is any dispute, then the dispute resolution process is the same regardless of whether the house is constructed at site or offsite.

10. Granting and payment of Building Consent Authority (BCA) costs and permits are transparent, and the same regardless of on site or offsite construction. Just BC and CCC is needed to be issued. Most cases of transportable housing do not require a Resource Consent (RC) but this needs to be confirmed with local BCA.

11. Council approvals take the statutory amount of time, excluding any Requests for Information (RFI) which can extend the process – same for on site or off site.
    NOTE: *There is general consensus that the BCA should nominate a single point-of-contact for each building project.*

12. If the bank had to repossess the house and sell it after delivery, then the bank would have access to all required documentation through the BCA. The bank is the first security, while manufacturers are second.

13. Costs associated with repossessing and transporting the house would be approximately $12,000 (and up to $30,000). There is very little chance that the house-in-a-yard doesn't sell – "everything sells, for a price".

14. If the buyer's situation changes before delivery eg. they lose their job, then the builder will negotiate an appropriate exit from the contract on a case-by-case basis.

15. If a buyer requests variations that reduce specification and or increase cost, then these are issued as variations to the contract – the same process whether the build is on site or off.

16. The builder may consider a lower level of total progress payments before delivery if they can secure requisite finance to manufacture the building. Normally, up to 90% is needed before handover / delivery.

17. If the bank puts in place mortgages for buyers with low equity to increase builder house sales, it is possible that the builder could take the first loss if things go wrong, eg. put the first 25% of progress payments in themselves to be repaid on final payment.
    NOTE: *This arrangement would need to be discussed with the banks, and only possible if bank secured lending was in place.*

Discussion Scenario where the Bank provides a Mortgage on Transportable House:

A loan for the construction of a house off-site to transport to a section and connect to services is more risky for a bank than one for an established house on land.

The bank will wish to have adequate security so if there is a default under the loan they do not lose money. Depending on the circumstances of the particular loan, the bank may be faced with a vacant section and a partially completed house as its security. This is poor security compared to an existing house and section.

Bare land is more volatile in value and difficult to sell in hard times – hence the reason banks lend smaller LVRs (Loan-to-Value ratios) on bare land.

Manufactured houses may be difficult to sell to another buyer and may need to be discounted substantially to find a purchaser who will accept the size, specification and price, and has a suitable site. Demand for a particular type of home may be very limited in that geographic location.

It is therefore unsurprising that presently banks do not wish to fund the progress payments on a manufactured house where the buyer has low equity.

Possible bank funding scenario

It might be possible to interest a bank to fund a transportable home and land package on the basis set out below. Please note: it may be that not all suggestions below are required.

Possible Steps

1. Bank valuer checks the land, and house plans and specifications, and confirms the future value of the completed house and land.

2. Bank confirms all the costs required to complete the house relocate it, and install it at site to the condition required for the valuation to be applicable, eg. Council consents landscaping and utility connections. This will include a contingency sum to cover cost overruns.

3. Bank makes mortgage offer.

4. Buyer contributes their equity. Note: discussion will be needed to consider the permutations of land ownership and buyer's equity situation.

5. Buyer makes initial payment to builder using own equity.

6. Bank receives security interest over house in builder's yard including the materials as in specification.

7. Bank will be granted access to complete house at yard or remove it from yard in case of default.

8. House will not be subject to prior security interest, eg. of building company's bank, or building material supplier.

9. Construction commences.

10. Mortgage is partially drawn down.

11. Bank funds pre-agreed progress payments to builder upon confirmation from bank valuer or quantity surveyor that work has been completed.

12. Bank may not be comfortable with 90% payments to builder and may require a lower amount so builder is taking some risk and incentivised to ensure house delivery and installation on-site goes well.

13. House transported to site.

14. House set on foundations and all connections made.

15. Builder may not get full payment until house is in place and rest of mortgage draws down, ie. not on physical delivery.

16. Bank Valuer confirms house is fully complying, has all necessary consents, is what was assumed in prior valuation and is connected to services as necessary.

17. Buyer draws down remainder of mortgage.

18. Final payment made to builder.