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August 27, 2008

Ms. Sheila C. Bair  
Chairman of the Board of Directors  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> St, NW, Room 6076  
Washington, DC 20429

Dear Chairman Bair:

I write today to bring to your attention the potential consequences certain Federal Deposit Insurance Corporation (FDIC) policies are poised to inflict upon Oregon's home building industry and small financial institutions and to ask you to consider alternative approaches that may lessen these impacts.

As you know, the national housing market is experiencing a dramatic downturn in new home sales, resulting in a number of negative developments including, but not limited to, a decrease in the availability of credit and increases in unemployment in the homebuilding and wood products industries. Collectively, these events, among others, have had the effect of diminishing Americans' confidence in the ability of our economy to recover from the current slump.

To its credit the FDIC has recently taken a number of steps to restore that confidence. While many of these measures have been thoroughly thought through, some of them may benefit from more in-depth review.

For instance, in an effort to minimize the potential number of defaults, many banks have extended the terms of building loans as long as the borrower continues to make payments. This has allowed borrowers who are holding larger inventories of new housing stock to maintain and market the properties beyond the closing date specified by the initial loan.

However, FDIC appears to be ordering member banks to cease this practice, in effect forcing borrowers to sell their inventory at lower prices to pay off the construction loans. According to Portland area real estate experts, this is depressing appraisal values and having a deflationary effect on housing stock in Oregon—something our state has mostly avoided to date.

At the same time, the recent FDIC directive to member institutions to reassess the valuations of collateral underlying outstanding commercial homebuilding debt may actually be forcing financially stable borrowers into default. It is my understanding that borrowers whose newly assessed construction loans fail to meet the original 35% loan-to-valuation (LTV) ratio, are being forced to pay the financial institutions an amount necessary to bring the loans into compliance with the original LTV ratios. Due in part to the aforementioned sales downturn, many borrowers

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may be unable to meet these new financial requirements and may be forced into insolvency. In that event, the lending banks will then be forced to assume ownership of the collateral housing inventory.

Increasing the banks' Real Estate Owned (REO) assets may destabilize not just the real-estate market, but also the liquidity of the participating banks. Imposing this kind of liquidity crunch on these banks seems counter to the FDIC's mission of maintaining stability and public confidence in the nation's financial system.

For these reasons, and to avoid a further downward spiral in credit and housing markets, the public and the treasury might be better served by allowing banks to at least temporarily continue to extend the terms of development and construction loans as long as the borrower isn't otherwise in default. If the borrowers can plan out their finances for a prescribed period of time—perhaps 12 months—then they may be willing to designate other, not yet at risk assets, toward the marketing and sale of the subject properties.

As the homebuilding industry is a major contributor to the economic vibrancy of Oregon and the entire country, I ask you to carefully consider whether FDIC policies may be increasing the risk of default by borrowers and whether alternative policies, such as allowing banks to continue to extend development and construction loans as long as the borrower isn't otherwise in default, may reduce this risk as you carry out your monitoring and regulatory duties. Americans require and appreciate a vigorous FDIC, and will benefit from your careful exercise of your regulatory discretion.

If I can be of help to you in this matter, please do not hesitate to contact me or my staff. I have asked Jay Ward, Director of Business Outreach to act as my liaison in this matter. He can be reached in my Portland, Oregon office at (503) 326-7525 or at [Jay\\_Ward@wyden.senate.gov](mailto:Jay_Ward@wyden.senate.gov).

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink that reads "Ron Wyden". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ron Wyden  
U.S. Senator