

LLOYD E. PLANK

I entered the real estate business in 1971, and began my career with Karpe Real Estate Center. In 1972 – 1973 – 1974 I was their number one producer. In 1975 I opened my own real estate office, also in 1975 I was awarded Bakersfield's "Real Estate Salesman of the Year". In 1982 I was named Bakersfield's Board of Realtors' "Real Estate Broker of the Year". My company soon grew to thirty-five associate brokers and associates. I have sold, supervised and closed approximately 10,000 homes. From 1976 to 1990 we constructed and sold more than 600 homes, many of these homes were built on land I developed. At Lloyd E. Plank Real Estate Consultants we make construction loans and we build and sell custom homes.

For the construction loan part of our company, we use in part our own money, in addition we enjoy a medium, seven figure unsecured line with a major bank. Our guidelines are stronger now than they have been in the past, if a builder comes to us with a customer that wants to build an \$800,000 house. The customer owns a \$200,000 lot which he assigns to us for security for the loan. Additionally the buyer will put up \$160,000; our construction loan will be \$440,000. When the house closes everyone gets paid.

I have witnessed three major real estate downturns in my career. In the mid 1970's there was no money available, we called this the "tin can era". People who wanted to purchase homes had to dig up their tin cans from the backyard to pay for it. In 1982 – 83 we suffered through extremely high interest rates, prime rate finally leveled off at 21%. In 1992 another downturn, fortunately it was short lived.

This current financial crisis has plenty of faults to go around. In 2000, we got an inkling that things were beginning to get out of hand, I had been offered 110% loan by a

mortgage broker, the points and interest looked good on paper, but I chose not to participate. Those who made such loans are all upside down. In 2001 there was a great deal of pressure from Washington on home ownership. That is a wonderful American dream, but somewhere along the line, they could not come up with a way for the buyers to pay for them.

By 2004 money seemed to be coming in very fast and from everywhere. The greater Bakersfield area became inundated by investors from various places, such as the California coast. They would purchase a house in Bakersfield, keep it for a short period and resale it. Sometimes they would flip the house while it was still in escrow, and would still make 20 – 30%. Bakersfield was having a 30 – 40% growth rate so there was no need to hold the house for very long. This influx of money flow affected our business. Historically, we made 80% loans ratio to value to loans. If someone's credit was cloudy then it went down to 70%. In 2008 when the loans started falling out if someone had a loan of 70% on a \$100,000 house, all of a sudden their property value decreased to \$60,000, far below what they owed.

Until 2000, we had only dealt with one or two foreclosures out of three hundred or four hundred, but since 2000 this has increased to approximately twenty foreclosures or Deeds in Lieu of Foreclosure. We have rewritten some loans by lowering the loan amount and adjusting the interest rate.

The homes we built and held loans for, we would lose about 30 – 40%, even 50%, on each house in trouble between the cleaning, getting people out, and foreclosing. We finance homes in the \$500,000 – \$900,000 range. When we take a hit on 30 – 40%, it is significant. It took us between January 2008 and November 2009 to get all the

money repaid to the bank from the foreclosures. We did so by adjusting salaries and spending no money.

During the height of the boom in 2008, we owed our bank several million dollars, but our cash flow slowed. We still made every single interest payment. We met with our bank's executive committee for the type of lending we do and gave them the information of where we stood, and asked what they wanted us to do. Sell properties? We were told by our bank that it is business as usual.

There was a period of six months that life was very difficult, however, because of the niche we created for ourselves, that we have the ability to borrow, lend, build, and so forth, we often lend to people who can't get a loan from banks because they don't have the financial backing required from a bank, and that niche began to grow, as the bank lending standards became so stringent.

In 2006, we started to see that things were slowing in the market. In early 2007, we made 25 – 30% less loans than we would have if it had suddenly dropped out, but things didn't suddenly drop out, so we started realizing that something was going to happen, so we pulled back a little bit. While we didn't pull back enough, it was enough so that we didn't go bankrupt.

We are better businessmen now. We concentrate on good construction loans to good people on good lots and do what we said we would do. We have rebuilt our reserves and feeling good about our business.