

## **Chinese Drywall and the Economy- How to turn this into a Winning Situation**

Everywhere we turn, there is a CRISIS looming and according to the media, another disaster pending. Florida has been hit hard over the past 5 years; with a convoy of hurricanes during 2004 & 2005, then the aftermath shortage of contractors and construction materials, then gouging, increased insurance rates and cancellations of policies, increased taxes, then the real-estate bubble burst causing severe loss of property value / equity leaving many homeowners 'underwater' in their loans. And now the latest insult- CHINESE Drywall – that is eating away at their homes and possessions. The CPSC, EPA and CDC, even knowing of the acute health affects continue to indicate to the homeowners that it is OK to live in a foul smelling home that causes headaches, respiratory and eye irritation among other acute symptoms. Most likely due to the fact they are not stuck having to live in one.

MSNBC and others have reported more than 300 million pounds of Chinese Drywall was imported into the US during 2005 and 2006 in response to the shortage of building materials here in the U.S. It has now been confirmed that the same Chinese Drywall was being imported and used as early as 2001 and as late as 2009. Now records indicate that the estimates were increased to more than 540 million pounds (540,000,000) that has been imported. This would be enough to drywall more than 100,000 homes for the standard 2500 square foot homes. Since many homes damaged by the hurricanes in 2004 / 2005 did not have ALL their drywall replaced. Since many homes have various mixes of moisture resistant and 5/8" domestic board along with the reactive board, the actual number of homes affected could be much larger than this. When the lower estimates of total imported pounds were being used, it was estimated that in Florida alone may have more than 32,000 homes that have Chinese Drywall installed. One and a half times that was estimated to be located in other states. It has been confirmed that the Chinese drywall has been found in at 44 states along with Puerto Rico and American Samoa. As this situation is further investigated, these numbers continually are increasing, home with the reactive board are being discovered still, and therefore the total magnitude of the problem is still unknown.

The effects the drywall is having on the materials in homes includes multiple failures of the AC coils and corrosion of electrical wiring systems, of plumbing fixtures (faucets, drain pipes, etc.) as well as copper supply water piping and fittings which will eventually lead to failures. Some dezincification (losing their galvanized protective exterior cover) of metal studs appears to be occurring in some residences containing reactive drywall. Additionally personal property is affected: both large and small electrical appliances as well as computers, TV's, VCR's, microwaves, etc.- basically anything with electronic boards and thin copper and silver cladded wiring connections, etc. Almost every appliance made today has an electronic board with thin film connections. Refrigerators have the same evaporator coils and copper piping as air conditioning units; these are failing in the same way but at a slower rate.

The lawsuits and insurance claims are filed against contractors, builders, suppliers and manufacturer's policies, and homeowner's policies are also a target. Insurance companies seem to respond with an initial 'claim denied' positions and require legal action to move them off that position, leaving the homeowner with few options. For a homeowner to continue paying their mortgage, while coming up with funds to pay an attorney to fight for them and at the same time tearing their house apart to remove the offending drywall and damage caused by it – is just unrealistic. In an economy with job security failing, no remaining (or negative) equity in their home value and no real prospects of selling the home to get out from under it, repair is not an option for the average homeowner. The Federal Government is more concerned about financial companies that lost billions of these same individuals' funds and helped put them out of jobs than they are the consumer homeowner themselves. They have repeatedly squandered billions of dollars, giving to companies who paid bonuses the same individuals responsible for these losses.

The choices for the consumer/homeowner/voter/taxpayer are to:

1. remain in a home where they are unsure of health affects, but they don't have the means to move elsewhere,
2. or letting the home go back to the mortgage company, since they are underwater or will be and can't afford to remove and replace the damaged materials without insurance money;

Either of these choices results in a flurry of insurance claims, lawsuits and other expensive methods of trying to correct the situation. The costs involved to repair homes with Chinese drywall is (estimated at between \$100,000 and \$200,000 per home) are beyond the means of someone who is struggling to pay a mortgage for a home that has lost its previous equity value. With credit card limits having fallen like rocks and loan money impossible to come by, homeowners have nothing to borrow against. Realistically, these individuals cannot absorb even a low interest loan into their budget. Additionally, the extent of the renovation work needed requires they find another home to live in. Therefore they not only have to continue to pay their mortgage, but must also pay rent. With acute health problems being experienced by some sensitive individuals while living in their home, health insurance claims will increase and the as of yet unknown health consequences may create stress that just further aggravates the health conditions. Make no mistake, despite the 'official position' of the studies conducted by the offending drywall's manufacturers and the government agencies, there are very real occurrences and consequences of individuals having acute reactions to these contaminated spaces (eye irritation, upper respiratory irritation, rashes, nose bleeds, headaches, etc.). The current situation (from a government that rescues only the rich) leaves homeowners to fend for themselves and leaves them feeling hopeless as well as disillusioned; their government really doesn't care about them, their health or their wellbeing. In the end, it is going to be very costly to the American Economy and psyche and take years to sort this all out.

## **Creating a Winning Situation out of this crisis:**

Economic stimulus funds have been given to many groups and often the benefits will take months or years to develop since planning time is required to properly move forward,

followed by implementation and finally the trickle down effect must occur to see the real impact and stabilization of the economy. Much of the money has already been thrown away on bonuses for those who got us in these positions to begin with, a rationale that this writer will never understand. There is no 'stimulation of the economy' by giving such a small group of people such large sums of money. Additionally, monies given to entities such as the automotive industry may put some people temporarily back to work, but that is only temporary unless the rest of the economy stabilizes so that the public have money available to purchase the products manufactured. Stimulation of the American Economy with 'shovel ready' projects, of great necessity, which have immediate economic impact in the near future are hard to find, but they do exist.

The situation created by use of Chinese drywall in homes is the perfect candidate for stimulus of the economy. The negative impact to the economy and directly to tax payers is HUGE without some assistance from the federal government, and the positive impact of the assistance not only avoids a crisis known now to affect at least 44 states, but truly provides immediate short term stimulus of jobs and manufacturing while increasing sales tax revenues. It directly helps tax payers faced with loosing their homes and / or their health; stress does degrade a person's health if you believe nothing else is affecting them. The government is presently paying for these homes just to the wrong entity. These homes are subjects of foreclosure and short sales, and the government is paying banks for these losses. So why not redirect this money and stimulate the economy.

**Negative economic impacts involved with this situation include:**

- Neighborhoods with empty homes in developments built with reactive Chinese drywall lowers the home values and towers the tax base to the government.
- Potential crime increase in the abandoned neighborhoods – with the abandoned homes, abandoned homes are being vandalized
- Loss of property value to properties surrounding these neighborhoods
- Loss of Tax base affecting both state and municipal tax bases due to the loss of property values
- Insurance claim impact due to these homes and the loss of insurability of other homes in the area due to the presence of the abandoned properties nearby (this is happening)
- Potential failure of small start-up insurance companies who picked up the slack after the hurricanes- leaving a huge void in many of the states already ravaged by the hurricanes
- Increased stress on already over burdened police and fire department officials as they try to cope with the problems that come with abandoned homes in neighborhoods.
- Impact to banks, which have to take back homes that otherwise the occupants would have continued to be paying the mortgages on. Fed's already provide funds to bail out these situations, let's use those funds appropriately.
- Extreme loss of value on those homes that are turned back to the banks
- Unknown health insurance claim increase
- Unknown long term health impacts
- Continued dissatisfaction by taxpayers and years of legal battling to hold CPSC, the EPA and others in government responsible for allowing inferior and dangerous products to enter American homes.

**Positive impacts involved with use of stimulus funds to ‘bail out’ this situation:**

- Alternative to FEMA/HUD loans that would not resolve the economic issues; FEMA/HUD loans would be putting out funds short term that could never be repaid, and people may choose not to participate due to not being able to see how they will ever pay back the loans
- Create jobs instantly for construction workers currently unemployed due to the downturn in construction (demolition and rebuilding is required, so multiple skill levels would be impacted). All areas of the construction trades will be impacted from rough carpentry, electricians, plumbers, AC installers, drywall hangers and finishers, finish carpentry, cabinetry, tile installers, & painters.
- Accessory trades such as truckers, movers, phone and utility connection technicians will also be impacted.
- The added jobs reduce unemployment payouts, while increasing taxable income levels and keep those people in their homes and paying taxes
- These projects are ‘SHOVEL READY’; Demolition could begin almost immediately, so delay of impact is short
- Currently empty homes, rentals, foreclosure property could be short term locations for relocated families
- Manufacturers in multiple states of drywall, electrical wiring, electrical components, plumbing fixtures, AC units, metal studs, etc. would have immediate impact due to need for new materials to replace the old (manufacturing facilities for drywall alone involve stimulating production (jobs) in 44 states!)
- Transport companies to move the materials (both demolition and new) would be impacted
- Appliance manufacturer’s, would also be impacted
- Bank’s investments would be protected – therefore not worsening the Fed’s payout situation
- Property values remain stable and/or increase in neighborhoods adding to the tax base
- Insurance companies would be protected from the extreme and massive loss situations
- Sales Tax impact will be seen for all the materials used
- Distributors as well as manufacturers will be impacted by the material movement and sales
- Direct impact to taxpayers who feel like they too need to be ‘bailed out’ – especially when they were totally innocent in the situation and feel like the government (CPSP/EPA) should have been looking out for them and protecting them from imports that are inferior and dangerous.

**Implementation**

There are several class action lawsuits filed, it should be proposed that the States/Fed’s place a steering committee of both the Plaintiffs and Defense firms in the lead and consolidate them to work together in retrieving the monies back for the Government

much like the State did with the Tobacco funds. There are already a group of very smart consultants and a federal judge that knows what must be done. And should be taked to approve any protocol developed.

**Implementation** of such a program could be handled by organizations such as Florida's Department of Community Affairs who has experience in dealing with the administration of large grants as they did in the past with grants such as EXXON Valdez grant funds for Energy projects. The Florida State Department of Health has established criteria to determine if your home qualifies as a case related to reactive Chinese Drywall.

<http://www.doh.state.fl.us/Environment/community/indoor-air/casedefinition.html>

Banks should be required to forgive / postpone a minimum of 6 months to a maximum of 9 months mortgage payments to allow the homeowners to pay rent at another home during the time when the work is being completed.

Builders who have already stepped up to the plate and done the right thing for the homes they built, should be given economic incentives to continue handling the problem without burdening the economic situation further. They are Ideal for remediating these homes and already have the experience.

Insurance companies, manufacturers and suppliers should be enlisted to provide support for the costs of investigating the product content and good scientific studies to determine the real short and long term health issues that could be associated with people occupying homes with high contaminant levels in them. These studies should be conducted as legitimate scientific studies not under the control of those having a financial interest in the outcome of the study. Studies should be done under peer review of an appointed panel, including Experts already involved in the litigation and those Organizations familiar with Scientific Study requirements.

Economic Sanctions should be placed on ALL Chinese imported good sufficient for paying the bill for shipping toxic and inferior products into the US and to fund a legitimate agency to protect the public for inferior products- a pay to play concept.

Triple Win- the People win, the economy wins and the government wins by taking the lead and in the long run recovering the investment in taxes in all forms, real estate sales and wages. Triple \$core!

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