Public Hearing

before

ASSEMBLY HOUSING COMMITTEE

"To receive testimony concerning the financing role of the N.J. Housing and Mortgage Finance Agency (HMFA)"

LOCATION: Committee Room 8
Legislative Office Building
Trenton, New Jersey

DATE: September 21, 1992
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Jose F. Sosa, Vice Chairman
Assemblyman Steve Corodemus
Assemblyman John F. Gaffney
Assemblyman John Hartmann
Assemblyman Jerry Green

ALSO PRESENT:

John B. Lee
Office of Legislative Services
Aide, Assembly Housing Committee

Hearing Recorded and Transcribed by
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New Jersey State Legislature

ASSEMBLY HOUSING COMMITTEE
LEGISLATIVE OFFICE BUILDING, CN-068
TRENTON, NEW JERSEY 08625-0068
(609) 984-0231

N O T I C E   O F   P U B L I C   H E A R I N G
and
C O M M I T T E E   M E E T I N G

THE ASSEMBLY HOUSING COMMITTEE
will hold a public hearing on
Monday, September 21, 1992, at 9:30 a.m.
in the
Legislative Office Building
Committee Room 8
Trenton, N.J.

The purpose of this public hearing is to receive testimony concerning the financing role of the N.J. Housing and Mortgage Finance Agency (HMFA). Various factors will be examined addressing the agency's overall effectiveness, efficiency and productivity in contributing to New Jersey's supply of affordable housing.

The committee will receive testimony from invited speakers and other interested parties.

Following the public hearing the committee will be considering the following bill:

A-982 Albohn	Provides for voluntary dedication of municipal construction code fees.

The public may address comments and questions to John B. Lee, Committee Aide, and persons wishing to testify should contact Norma Morales, secretary, at (609) 984-0231. Persons presenting written testimony should provide 10 copies to the committee on the day of the hearing.

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ASSEMBLYMAN JOSE F. SOSA (Vice Chairman): We would like to get started, ladies and gentlemen, if you would all have a seat, please. My name is Jose Sosa. I am filling in for Chairman Kelly, who is away on business. I would like to read a brief statement before we begin testimony.

The Trenton Times recently published a series of articles criticizing the New Jersey Housing and Mortgage Finance Agency operations, ranging from the red tape mortgage applicants and developers must go through during the application process; delays and inordinate amounts of time to process and approve loan applications; and the dwindling number of approved financing transactions in comparison to past years. The efficiency, productivity, and effective outputs of the Agency are being questioned in these articles. The number of Agency staffers far exceeds, in some instances, some State department staffs and budgets.

The purpose of this hearing this morning will be, hopefully, to attempt to ascertain to what degree these articles tell the whole story, by hearing from not only Agency officials, but also groups that are involved with HMFA and affordable housing projects in the State of New Jersey. Also, what criticisms and problems are being addressed by the Agency currently, or in the future. And finally, which problems or criticisms fall outside the control of the HMFA -- in other words, perhaps some Federal or other constraints -- and what changes or reforms can be implemented to correct some of the procedures or processes that have been criticized.

I want, at the outset, to let you know that this is not, in any way, intended to be a witch-hunt on the part of this Committee. It is intended to see what it is we can sort out from what has been written in the press and other comments in letters that have been written to us as to what is happening in the Agency, and what it is that we can do, if anything needs to be done, to improve the operations of the Agency, to provide better services for the people of our State.

That short statement having been made, I would like to open the hearing up and say hello to DCA Commissioner designate Assemblywoman Stephanie Bush. Welcome.

ASSEMBLYWOMAN STEPHANIE R. BUSH: Thank you.

ASSEMBLYMAN SOSA: Congratulations to you. I wish you good luck. If you would like to make any comments, certainly please feel free to do so.

ASSEMBLYWOMAN BUSH: Thank you, Mr. Chairman, and member of the Committee.

ASSEMBLYMAN SOSA: They're coming, I hope.

ASSEMBLYWOMAN BUSH: I know; I know how it is. It is my privilege to have the opportunity to address you very briefly this morning.

As you know, I have been designated to become the Commissioner of the Department of Community Affairs for the State, tomorrow morning at 10:00. Today I am here as a legislator aware of many of the concerns that have been expressed in the articles of the newspapers here, as well as The New York Times.

Ironically, I began in the Legislature here in the Housing Committee with Assemblyman Kelly as my Chairman. In my second term I went to the Financial Institutions Committee as Vice-Chair, because I realized there was an important connection between the philosophy of housing and money being made available for housing.

When I become the Commissioner of the Department of Community Affairs, I will also become the Chairman of the Board of the New Jersey Housing and Mortgage Finance Agency. I am interested in looking at housing. It is a particular interest I have. My district, the 27th District, is one that probably personifies the need for affordable housing, and I realize this will allow me to work in a role that will benefit people throughout the entire State.

I am pleased, Mr. Chairman, to hear the tone you have established for these hearings. I am looking forward to working with you. What I would be doing is looking at the same things that you are doing, getting into the procedures and the process, seeing what problems exist, and whether they be with the Agency or outside of the Agency, because oftentimes there may be situations that are on both sides.

I would also like to meet with the people who will be coming forward today who have concerns or comments, with your permission and their permission, if I could be given a list later of who is testifying. I look forward to working with you, working with the staff of the New Jersey Housing and Mortgage Finance Agency and the other Board members, to make sure that housing is being done in this State, and to really work on it seriously. As you said before the meeting, we are not looking for Band-Aid measures; we are looking for input from everyone. We are looking to see what the process and the procedures are.

In that light, I would ask that I be given 90 days in order to do this -- I don't believe in taking on tasks with no ending -- at which point I would come back to you and, really during that time, I would look to work with the members of the Committee to see what we can do, you in your legislative role, and me in my role as Commissioner and as Chairperson.

ASSEMBLYMAN SOSA: Thank you, Commissioner. I completely agree with you. I think certainly that-- I would also urge anyone who is going to be testifying today-- Certainly if you have criticisms, we would hope that you would offer some constructive criticism, but also some recommendations about what improvements you think, as citizens, or perhaps people involved with organizations that relate to HMFA -- any recommendations that you think might be important to correct, and what you see as the problem, so we can move this process along as quickly as we can and not get bogged down in politics. We want to remove the issue of politics right now. This should be a bipartisan issue that we need to correct and address.

Thank you, Commissioner.

ASSEMBLYWOMAN BUSH: Thank you very much, Mr. Chairman, and members of the Committee.

ASSEMBLYMAN SOSA: Congratulations.

So, let's get to work. We have with us the first speaker, Kevin Quince, who is Executive Director. Am I correct in saying that?

K E V I N Q U I N C E: That is correct.

ASSEMBLYMAN SOSA: From HMFA. Welcome.

MR. QUINCE: Thank you. Vice Chairman Sosa, members of the Assembly Housing Committee, I am Kevin Quince, Executive Director of the New Jersey Housing and Mortgage Finance Agency. I thank you, and greatly appreciate the Assembly Housing Committee giving me the opportunity to acquaint, and in some cases reacquaint you with the Agency's financing programs. At the same time, I also thank this Committee for allowing the Agency the opportunity to clarify to what degree criticisms recently leveled in the media against the Agency, are accurate.

Vice Chairman Sosa, members of the Committee, sitting with me are Mr. Philip Miller, who is the Deputy Executive Director of the Agency, and Mr. William Abele, Assistant Executive Director.

With your permission, Vice Chairman Sosa, I would like to take a few brief moments to give an overview of the Agency and its programs, and Mr. Miller and Mr. Abele will give a brief overview of how and where the Agency obtains its money for its mortgage financing programs.

The Agency was created by the State Legislature to promote safe and affordable housing by providing low-interest loans for single- and multiple-unit dwellings.

It is important to note that the Agency raises its housing finance funds through the sale of taxable and tax-exempt bonds to private-sector investors, and it meets its administrative and operating expenses with its own revenues. No State or Federal taxpayers' moneys are used to fund these Agency operations.

The Agency was created as an independent authority in, but not of, the Department of Community Affairs, and has a Board of Directors which consists of the Commissioner of the Department of Community Affairs, who serves as the Chairman of the Board of Directors; the State Treasurer; the Commissioner of Banking; the Attorney General; and three public members who are appointed by the Governor with the advice and consent of the Senate.

The Board of Directors sets the direction and policies for the Agency and it is the responsibility of the Agency's staff to implement the Board's directives and policies.

The Agency has been operating as a nonprofit State Agency since 1967. This year, in fact, marks the Agency's 25th anniversary.

The Agency has become the largest nonprofit financier of low- and moderate-income housing in the State of New Jersey. It is also one of the most productive State housing agencies in the nation. The Agency is recognized nationally as a leader in the housing field because of its innovative and creative programs, and has received countless national awards. However, Vice Chairman Sosa, and members of the Committee, what we at the Agency seek most is to eliminate homelessness and help even more families in need of affordable housing in New Jersey.

Vice Chairman Sosa, before a brief overview of the Agency's programs, I would like, with your permission, for Mr. Philip Miller and Mr. William Abele to give a brief explanation of how and where the Agency obtains its housing finance moneys.

PHILIP MILLER: Vice Chairman Sosa, and members: As you can see on the pie chart, in order to obtain funds to make our below market rate loans, the Agency issues tax-exempt and taxable bonds. To date, we have issued bonds totaling over $4.5 billion, and have a currently outstanding bond indebtedness of $2.6 billion. The proceeds of these bonds are used to make loans for both home ownership units and multifamily rental units. The mortgage payments from these loans are then used in turn to pay the bond debt and provide some fee revenue to the Agency.

I would like to take a few moments to explain the Agency's top-tier status. We are proud of this designation and, contrary to what has been stated, this status has enhanced, not hindered our ability to produce affordable housing. The top-tier status is the highest designation of Standard and Poor's Corporation, the most recognized national bond rating agency. It was only given to us after a detailed evaluation of the Agency's operations, financial health, and management capabilities, and only 10 other agencies in the nation have this distinction. This credit rating makes it much easier for the Agency to issue bonds and, in fact, to sell them at lower rates. We are then able to pass the savings on to the ultimate home owner or multifamily developer. Tenants would also benefit in this equation. This alone is enough to make such projects feasible, and enables more people to realize the American dream of owning their own home.

One major advantage of the top-tier status is, it affords protection for the State of New Jersey and its General Fund. Quite simply, most Agency bonds have been sold backed by the moral obligation of the State of New Jersey. If there were to be a default or a shortfall in any of the required reserves for these bonds, the Legislature would be asked by the Governor, who is morally obligated to make such requests, to appropriate funds to make up the shortfall. The top tier includes maintenance of the Agency's several reserves, which would completely eliminate the possibility that the State's moral obligation would ever be called upon, and, in fact, it never has been.

Now I would like Mr. Bill Abele to describe for you briefly the Agency's operations. Mr. Abele?

WILLIAM F. ABELE: Good morning, Vice Chairman Sosa, and members of the Committee. I am not sure if everybody can see the pie chart (mounted on an easel facing the Committee), but hopefully in your packets you have a smaller version of it. As Executive Director Quince has indicated, I will try to give a brief overview of the Agency's operations, with particular emphasis on how we finance our operations.

I think it is important first to know who we are and who we are not. We are not a public housing agency. With very, very few exceptions, we do not own any multifamily units; we do not manage multifamily units. We are also not a developer. We don't build single family housing. Quite simply, we are a lender; the largest public lender in the State, and we have been designated by the Legislature to be the lead entity in providing affordable housing.

As Kevin mentioned, we do not receive any Federal or State tax appropriations to fund our operations. The primary source of our operating revenues, shown on the right-hand side of the pie chart-- A full 50 percent comes from bond funds. As Deputy Director Miller indicated, to date we have issued over $4.5 billion worth of bonds. The outstanding indebtedness is $2.6 billion. The overall health of those bond funds is very good.

Since most of our responsibilities are concerned with the maintenance of those bonds and the fiscal assets behind them -- the mortgages on the multifamily units and the single family side -- we are permitted to take allocable expenses from existing bond funds. That funds a fully 50 percent of our operations.

Twenty-five percent comes from mortgage fees and charges, and this is primarily on the multifamily side of our Agency. Another 25 percent comes from interest income on our assets -- the money in the bank.

A couple of things to note again are, no tax appropriations, and I feel I must note that we do not have an inexhaustable supply of money. The plain truth is, both our assets and our revenue are down. They have been decreasing. The primary reason for the revenue decreasing is that interest rates are at an all-time low, and we have not been sitting back holding on to the money in the bank. We have been aggressively pursuing a program of contributing those funds to make our program work.

The next chart I will show you is identified as, "Program Contributions." What we have done here is take a five-year analysis to show what moneys we have put into our two primary programs -- the multifamily loans and the home ownership loans. As you may be able to see, over the last five years we have contributed about $1 billion to keep these programs alive and to create new programs.

Now, while most of those funds have come from bond issues, approximately $100 million has come from our administrative assets, which we have put in in the last five years alone, again to keep these programs alive. That contribution of our administrative assets has taken several forms. It has taken the form of pledged reserves of approximately $18 million in both categories, where we have been required to set aside money in order to meet insurance requirements from a bond insurer, in order to maintain the top-tier status. It has taken the form of actually funding mortgage loans; $10 million worth of mortgage loans for the Down Payment and Closing Costs Assistance Program. That was not a result of a bond sale, and it was not a result of an appropriation. It was use of our administrative assets to fund those loans directly to make that Down Payment Program work.

It has also taken the form to the extent of some $39 million of contributions to multifamily developments in the form of grants or very soft second mortgages, in order to make the multifamily projects work. When we say a second mortgage -- a soft second -- what we mean is, those mortgages are repayable basically only to the extent that a project can repay them. So, if there is an available cash flow after all else is paid off, we will take some payments against that second mortgage. Otherwise, we are willing to wait until the end of the first mortgage, which sometimes is 30 years down the road, or if there is a refinancing or a sale of the project. In essence, they are all grants. Again, a total of $100 million in assets that we have actually put in from our account to make the program work.

Let's turn to chart 3. What this has done-- This has decreased our assets and decreased our revenue coming from interest income on those assets. It has enabled us to continue production. Yes, the production was higher in the early '80s when the Federal subsidy programs were a lot better than they are now, but we are proud of the production that we have been able to accomplish.

As you can see from our Housing Results chart, to date we have provided financing for some 38,000 dwelling units -- rental dwelling units that house over 100,000 people. In the last five years, when it has been extremely difficult for anyone to finance or build rental units, we have financed over

1000 units, again housing approximately three-and-a-half thousand people.

Currently in progress -- and this is something that we are proud of on both the single family and multifamily sides-- We have commitments outstanding now, and we hope work is going to get underway for an additional 1200 rental units, which would house approximately 4000 people.

On the right-hand side of this chart it shows our single family efforts. When we say single family, these are loans for one to four family houses. To date, we have provided loans to provide financing for some 49,000 units, housing over 171,000 people.

In the last five years -- and this was an area of criticism in The Times -- that number was 7000 units, which housed 24,500 people. Now, we contend that that is not a bad number, when one looks at the economy and what has been happening to the confidence people have in buying a house and to the volatile nature of mortgage rates.

Currently in progress-- When I say, "currently in progress," I mean there are staff back in the office right now working on some 2600 loan reservations that have come in in the last three or four months.

They are the two primary programs -- the multifamily and single family sides. When we have been asked by the Legislature to take on special programs, we have. As members of the Committee may or may not know, we have administered the Affordable Housing Funds working with DCA. We have, under the Fair Housing Act, been designated as the Agency to review and approve regional contribution agreements.

In addition, we have some special programs. On the left-hand side of the chart, one is identified as the Boarding Home Life Safety Program. This was a response by the Legislature to a rash of killer fires in the early '80s. A number of deaths occurred in boarding homes. The Legislature acted; set up a program and designated our Agency to administer it. We have financed repairs; just what it says: life safety repairs, sprinklers, fire escapes, and the like, for some 200 buildings that house over 6000 people.

In addition, we have been designated by the State to allocate the low-income tax credits. This is a separate area that we believe has helped to finance 8400 units, again housing approximately 29,000 people.

The last item on the chart is the Down Payment/Closing Cost Assistance; 1300 units, housing approximately 4500 people. Most of this activity -- 97 percent -- has occurred in the past four months. We have been inundated with this particular program. Apparently, there is certainly a need out there.

Those are the results. We are proud of the efforts. We are proud of the fact that recently -- September 1 -- we announced a new home buyers' rate of 6.85 percent. It is one of the lowest rates in the country. It is the lowest rate in the Northeast. We are proud of the fact that we have been designated by the Legislature to administer a loan program for policemen and firemen. The 30-year fixed rate on that program is 5.57 percent. That program alone-- In the last several months, we have taken over $90 million in applications.

So, short and sweet, we think we are producing. Kevin?

MR. QUINCE: Thank you, Mr. Abele. Thank you, Mr. Miller.

Now that you know how the Agency raises its money, we would like to respond briefly to two sections of our processing, because again, that was one of the issues raised by the articles. I have with me Ms. Diane Campbell, who is the Director of our Single Family Mortgage Loan Program, who will go into some brief detail about the single family mortgage loan process. Diane?

D I A N E   C A M P B E L L: Thank you, Kevin.

The Single Family Division is charged with the implementation of three programs at this time. The first is the Home Buyers Program. It is the long-term bond program the Agency has run since its inception. The second is the down payment and closing cost portion of the Welcome Home Program. And third is the Police and Firemen Retirement System Mortgage Loan Program.

The Agency itself does not originate the bulk of these loans. The Agency works through participating lenders throughout the State. Currently, there are about 40 lenders participating in the Agency's programs. The lenders provide both the expertise that is needed to originate the loan applications, as well as a statewide presence for the Agency. As you are aware, the Agency has one office in Trenton. The lenders, of course, are located throughout the State.

As noted, we raise all of our funds through the sales tax-exempt bonds. With the sales tax-exempt bonds come Federal tax requirements. Two of those requirements include: income limits and purchase price limits. For example, in Assemblyman Sosa's district, Burlington County, for a small family the income limits are $47,200, and for a large family $54,280. In urban target areas, such as Atlantic City -- Assemblyman Hartmann's district -- the income limits are higher: $56,640 for a small family, and $66,080 for a large family.

Purchase price limits in Burlington County are $158,000 for a new unit; $116,000 for an existing unit. In Atlantic City, again the purchase price limits are higher, $186,000 for a new unit, and $117,000 for an existing unit.

The Agency's bond rate was 8.88 percent during a period of time when the market rates fell dramatically. For some period of time, the Agency had a higher rate. However, recently we were able to remarket a portion of our bonds -- $70 million -- and that resulted in the 6.85 percent rate, which is among the lowest on the East Coast. To date, out of the $70 million, we have already reserved approximately $20 million. If you compare that to the current New York rate, New York is currently at 8.125 percent. We are very pleased with the results of our 6.85 money, and we look forward to continued success.

On the Down Payment and Closing Cost Assistance Program, which as we have noted has been very successful, the Agency has made a commitment to assisting people in buying their first homes. This is largely due to the fact that simply the lower interest rate is not enough anymore to help people to buy a home. In order to get into a house, the amount of the down payment and closing costs are often out of the reach of the ordinary buyer. Oftentimes we are looking at a house of $100,000 or $125,000, and people have to pay anywhere from $10,000 to $15,000 in closing costs. Again, for the median income family in New Jersey, which is about $47,000, this is just not obtainable.

Finally, the Police and Firemen Retirement System Program, our newest program, is, again, very successful. It is being originated through the lenders. I am sure that one of the problems you have been made aware of is that with the refinances in the private market, many of the police and firemen are having problems refinancing their homes. This is largely because-- Simply, the lenders have too much volume on refinancing, and are not necessarily accepting all applications from firemen. They are doing it either on a lottery basis, or they are taking applications six to eight weeks in advance.

The Agency is working with the lenders on this problem, and we look forward to that being resolved shortly.

Thank you.

MR. QUINCE: Thank you, Diane.

Again with your permission, I have asked another Division Director, Ms. Karen Torian -- she is the Director of

Research and Development, which is our Multifamily Processing Division -- to briefly explain our underwriting process for our multifamily programs. Karen?

KAREN TORIAN: Thank you. Good morning. I would like to focus my remarks today not so much on specific Agency programs, as on the development process. I'm sure you are all very interested in why it takes so long to develop housing nowadays and why it costs so much. Basically, the multifamily development process can be broken down into eight basic steps. These steps are: project origin, initial feasibility, the approval process, construction, loan closings, securing financing, marketing, and occupancy.

This chart is somewhat deceiving, because one would think that as you do each step within a phase, you would then move on to the next steps and complete those steps. Well, that is not the case in the market today by no stretch of the imagination. Oftentimes what we are finding is that each step is somehow in a circle. You are kind of backtracking as the process goes along.

To give you an idea of what is involved in the process, I would like to highlight two areas today: the approval process and the securing of financing. Certainly, in today's market we are finding that these two areas in particular tend to be the most time-consuming, and certainly the most costly. On the local level, I am sure you would all agree that no project can go forward without the support of the community. If the community is not supporting multifamily housing, then there will be no development there. Also, the local community is looked to to provide certain incentives or inducements for creating the housing. What we are finding in our portfolio, is that in order to ensure the ongoing viability of that housing project, you have to have a tax abatement from the municipality. This is a time-consuming constraint, because before a municipality will grant a tax abatement or any other incentive for housing, they want to make sure that what they are voting for, and what they are supporting is something that is going to happen. Not only that, but they want to know what the details are that are involved in it. Who is going to be living in that housing? How much money is going to be involved in it? What is the bottom line?

Oftentimes what we are seeing is that the local municipality will also play a very key role in terms of the building code. In today's market in the urban areas, where we are building in older infrastructure areas, we are finding that developers are being asked to create new streets and to upgrade the sewer system within the area. These things are expensive. Also, we are being asked to do a lot of rehabilitation. You have run into problems, environmental problems, in terms of rehabilitation. Asbestos and lead-based paint are major concerns. The abatement of these two environmental hazards is very time-consuming and costly, but I don't think any of us would disagree that it is needed. You can't put a price tag in terms of life safety.

In addition, a developer often has to go before county planning boards and zoning boards to make sure that the development is done in a rational pattern that fits in with the rest of the community. In addition, there are additional Federal requirements that are imposed on a project. So oftentimes a developer will design a project during this initial feasibility step, take the project to these local authorities -- county, State, and Federal governing bodies -- and find that he has to backtrack t the initial feasibility because it requires a redesign of the building, all of which could be very time-consuming.

That brings me to my final point in terms of securing financing. If you find that these areas of approval require redefining hiring of consultants, and so forth, then it is going to impede your financing. You will find that your earlier financing sources may not be able to accommodate what you had in mind. The project that you had envisioned and had talked to them about initially no longer exists. You have had to change your method of providing this housing.

So, when you take into consideration-- The average project that we see today has about five other sources of financing. As Ms. Campbell said, the Agency's below market interest rate, in and of itself, is not enough to make a project feasible. It is not enough. Most of the projects that we are seeing now have land contributed to them. They have some form of assistance from the Federal government. The Federal government has, within its programs, extremely stringent guidelines. They have an exorbitant amount of paperwork that has to be completed, but it is part of their responsibility for ensuring that Federal funds are being applied in a rational manner.

Each one of these lending sources -- for instance, balanced housing, and so forth -- must review plans and specifications themselves. They must assure themselves that they are doing what is best for their lending organization. In addition, the developer is often confronted with a problem of "Now you see it, now you don't." The funds are here today and gone tomorrow. I know from a staff perspective, by the time we have learned some of the Federal program guidelines, we have made contact with the people, we understand the nuances and we think we have a program rolling, that resource is gone within a matter of months.

So today we are finding that the process is certainly very time-consuming and costly.

Thank you.

MR. QUINCE: Thank you, Karen.

The Agency's philosophy has been that its services are only as valuable as the number of people who can benefit from its programs. In an effort to make as many residents and developers as possible aware of the programs offered, the Agency has undertaken an active outreach and public information campaign. I would like to note that these programs have consistently been recognized by State and national awards for their effectiveness in increasing awareness of the Agency and in making its target populations aware of the services it offers.

Because the importance of housing and the true meaning of home, safety, security, love, and hope, which we all believe in, might best be conveyed through the words of children, I would like to take 30 seconds to share the message of the winners of our "What My Home Means To Me" essay contest with you and show you how seriously the Agency takes their messages through its ongoing communication efforts. This PSA was produced in both English and Spanish for educational and public outreach purposes. Assemblyman Zangari may be proud to know that Jose Velazquez, one of the second place winners, comes from his legislative district.

ASSEMBLYMAN SOSA: Is this in English or Spanish?

MR. QUINCE: This one is in English. (witness' assistant attempts to turn videotape on, but there is a malfunction) Due to technical difficulties with the 30-second video--

ASSEMBLYMAN SOSA: Is it on tracking? Is there tracking on it? (no response)

MR. QUINCE: Well, there is a picture of Jose anyway, but we will move on.

Vice Chairman Sosa, members of the Assembly Housing Committee, I would like now, with your permission, to address some of the issues facing the Agency. As pointed out earlier, the Agency is self-supporting and uses no taxpayers' moneys for its operations. It is basic good business sense to keep a positive cash flow in order to perpetuate the ability to do business, i.e., produce affordable housing and fund mortgages for those who could otherwise not afford them on the conventional market. In this age of diminished Federal subsidies, as stated earlier, the Agency needs to keep its bond rating high to obtain low rates to continue making loans and to pass those low rates on to our prospective tenants and home buyers.

It is to the Agency's credit that despite a national housing downturn, in 1990 and 1991 it increased the number of units it funded. In light of the moribund economic climate of the State and the nation, production figures were down in the first half of 1992, but the Agency, as Mr. Abele stated, has been taking the initiative in lowering its rates through bond refinancings and committing moneys from its own administrative funds.

As to the number of multifamily units the Agency has produced since the Federal Tax Reform Act of 1986 eliminated accelerated depreciation and passive losses, there has been little incentive for developers to produce rental housing. Low-income tax credits have been the only tool that state housing agencies like the Agency have at their disposal to produce multifamily rental housing. Leveraging four or more sources of financing to make a project financially feasible is time-consuming and labor-intensive, and does slow up production. All housing finance agencies across the nation are faced with this same problem. The Agency is proud of the 8400 units of multifamily rental housing it has assisted through the tax credit program.

The Agency finds itself today in the unique and challenging position of being one of the few statewide lending institutions providing non-recourse construction and mortgage financing to both for-profit and nonprofit developers. In fact, historically, the Agency has been a pioneer in taking risks in lending in urban areas that had been redlined by other institutions. The Agency staff will work with developers by examining ways to construct projects more economically by making design changes, identifying and aiding in the preparation of funding applications, and coordinating municipal support and the requirements of a variety of funding sources. Although this process can be time-consuming, it is what makes the projects feasible long term and what allows nonprofit developers, who often lack experience, to capacity build so that they can tackle future projects more effectively.

Contrary to what many nonprofits' conception is of HASCO -- the Housing Assistance Corporation -- it is not a lending institution or a source of funding. A subsidiary of the Agency, HASCO is a provider of technical assistance to nonprofit sponsors seeking to develop housing. HASCO has been working in conjunction with the New Jersey Affordable Housing Network and the Community Loan Fund in developing relationships with nonprofit housing sponsors and providing capacity building for nonprofits, as well as advice on housing development.

Statements that the Agency is sitting on a virtual pile of readily available money are completely erroneous. Because the Agency's funds are primarily from bond proceeds, not allocations from the State Legislature or taxpayers' moneys, their use is very much governed by federally imposed restrictions. The Agency must comply with Federal tax regulations or it risks losing its ability to generate funds.

Over the past six months, the Agency has been engaged in strategic operational review and planning as it seeks to eliminate red tape to expedite lending. We have requested the American Affordable Housing Institute, which is headed by former Assemblyman and Housing Chairman, David Schwartz, to review the Agency and make recommendations on how we can do our job even better. The Agency will use criticisms constructively to make improvements to serve low- and moderate-income residents in even better ways than it does today. The Agency remains committed to its public purpose mission and continues to extend itself to educate nonprofit and for-profit developers and to assist them in creating affordable housing. We are confident that with the continued support of the members of this Committee and the Legislature, the Agency will continue to do its part and play a major role.

However, Vice Chairman Sosa, and members of the Assembly Housing Committee, we must do more to meet the shortage of affordable housing in this State. In your deliberations and in your studies of the housing crisis in this State, we at the Agency offer our assistance, recommendations, and cooperation to you.

Finally, we would like to again thank the Vice Chairman of the Housing Committee and its members for their continued support and assistance to the Agency in encouraging Congress to present Federal legislation extending permanently the mortgage revenue bonds and low-income tax credit programs to the President.

We are committed, Vice Chairman Sosa, and members of the Committee, to addressing the task given to us by the State Legislature.

Thank you again, Vice Chairman Sosa, and members of the Assembly Housing Committee. We are certainly here for your questions. Thank you very much.

ASSEMBLYMAN SOSA: Thank you, Mr. Quince. Take a breath; get a drink of water. I will defer to my colleague, Mr. Corodemus, for the first question. Steve?

ASSEMBLYMAN CORODEMUS: I would just like to compliment you, Mr. Quince. That was an excellent presentation. Obviously, you put a lot of time into it. It was very well organized. I can tell you, from my side of the table, it had a big impact because it was very informative. It is nice to have you here before our Committee again.

Unfortunately, I didn't see The Trenton Times' series of articles, so I am coming in here with a clean slate. We are going to consider this a healthy exercise, an intragovernmental review of your programs and procedures to hopefully make them stronger and clear up some misapprehensions.

My experience initially with your Agency was as a young attorney in the early '80s when interest rates were perhaps 20 percent. Nobody was able to buy a home, and the State came through with its First Time Buyers Program that provided for a 10 percent-- At that time, 10 percent was found money for mortgage rates, and it had a low down payment, I think, of 10 percent. Where I practiced in Perth Amboy, which was a targeted area, it enfranchised a lot of people. I am sure they are still in their homes now, and perhaps they would never have had that opportunity but for your programs. So, you have had a big impact.

One of my observations at that time, and perhaps it may continue to the present, concerned the actual processing of the applications. Who actually is on the frontline, let's say, for the advertisement of the programs? It was my understanding at that time, and from listening to your presentation, that you had participating banks. There was a set number of participating banks that handled one particular loan program. Does that continue today?

MR. QUINCE: Well, the banks-- The participating lenders participate in all the various programs the Agency has. In terms of the marketing and advertisement for these programs, as I mentioned earlier we have undertaken an extensive outreach effort in the form of housing fairs that have been held throughout the State of New Jersey. The first Fair Housing Fair was held in Trenton, New Jersey, at the Shiloh Baptist Church. We branched off from there to do another one in a largely Hispanic church in Trenton. Then we went to Newark, Plainfield, East Orange, and on and on. In each municipality we had the mortgage lenders participate, along with the Realtors--

ASSEMBLYMAN CORODEMUS: Yes, the Realtors are the gatekeepers there.

MR. QUINCE: --in order to get the message out. So, it is a cooperative effort on behalf of the mortgage community to the Realtors and the Agency to constantly get the message out. The PSAs have been appearing. We have had a number of video conferences where people have been invited to listen and actually call in to get some of their questions answered on the air to kind of remove the mystery from the process. That is something that is ongoing and something that we pursue very aggressively.

ASSEMBLYMAN CORODEMUS: With the participating lender, the lender has limited responsibilities, from my point of observation. One of the responsibilities of a lot of lenders that I dealt with was-- They did not do the actual underwriting or approval of the commitment. It seemed that they would accumulate a certain amount of information to one point; it would get shipped out -- I think it was to Newark at the time; I don't know if it still is -- they did certain reviews of the whole package that was sent to them; an approval was made/wasn't made, shipped back to that same point of origin, and then a commitment, a real firm commitment was made to the buyers.

At that juncture -- and I am sure things have improved -- where most banks were taking, at that time, 30 days, which is much shorter now, the HMFA was taking 60, sometimes 90 days after it left the bank to have that whole package approved and sent back to the participating bank. Has that changed as well now?

MR. QUINCE: Well, our average turnaround time is between 30 and 60 days. The banks do perform in an underwriting capacity. When the loans come to us, they are primarily underwritten by the banks, but we have an underwriting division that looks at them a second time. If any delays occur, we communicate between the initial lending institution to resolve any glitches in the package. Some home owners, first-time home buyers, have credit problems, which seem to be the biggest glitch in the process. Again, we work with them. We have a 100 percent No Down Payment/No Closing Cost Assistance Program, where we take the prospective home buyer through a series of counseling sessions to ensure that they know how to manage a household; that they know how to keep budgets and do remedial repairs.

So, we are working very closely with not only the banking institutions, but with the prospective home owners.

MR. ABELE: Assemblyman, if I may supplement Kevin's answer a little bit by way of some clarification--

ASSEMBLYMAN CORODEMUS: Sure.

MR. ABELE: Most of our loans are made through participating lenders. However, we do have a program that Executive Director Quince referred to -- 100 percent financing -- where we do all of the originating. People come to us. We do the entire underwriting, start to finish. On that program, 30 to 60 days, we feel, is comfortable as our norm. On the more traditional program that you describe, where the bank is responsible for the preliminary work and then it comes to us for review, normally that is a 10 working day period and we turn that loan around. In peak times, it is as much as 15--

ASSEMBLYMAN CORODEMUS: Well, that is not bad.

MR. ABELE: --but 10 days is what we have it down to. From the days of your experience when it was two separate agencies -- the Mortgage Finance Agency in Newark-- We made a conscious effort in the '80s to train the lenders better. We would like nothing better than for them to do the underwriting, if it meant that every "i" was dotted and every "t" was crossed, and we just had a cursory review. Sometimes that is the case; sometimes it is not. But I feel comfortable that it is a lot better than it was in the '80s.

ASSEMBLYMAN CORODEMUS: I'm glad to hear that. Has any thought been given to eliminating this red tape by training the participating lenders to a point where they actually do all the underwriting, as they do with their in-house portfolios, so that that rubber stamp is not required and the whole process can be expedited? In the real estate milieu there, a 30- to 60-day mortgage commitment process-- It is hard to be judgmental about it. Perhaps no one else would lend the money to them, but the fact that you are out there lending to them and taking 60 days, sometimes puts a lot of constraints on an individual's participating in the whole process.

MR. QUINCE: I think your question is a good one. Because we issue mortgage revenue bonds, we do have federally imposed requirements that the Agency must be involved in the underwriting process. I mean, that is a caveat. I don't think we have the ability to circumvent that.

ASSEMBLYMAN CORODEMUS: Is that something that you would recommend that Federal legislation change -- to eliminate that? Would you have a high degree of comfort in franchising your participating lenders to doing all of the underwriting work to eliminate that second process; the duplicative process where you are just reviewing what they have already approved?

MR. ABELE: Well, we feel comfortable that the situation has improved and the lenders make fewer and fewer mistakes. I guess the reality is, the nature of a mistake would cause the entire bond issue to become taxable.

Now, Diane Campbell mentioned that our most recent issue was $70 million. If a bank underwrites and makes mistakes and we don't catch them, and it turns out that we have violated a tax covenant that causes the entire bond issue to be taxable income to the holders, not only are we facing some major lawsuits, but we are facing the realistic aspect that the next time we go into the market, we will have a difficult time in marketing our bonds. Somebody who buys a tax-exempt bond does not want to hear that he or she has taxable income.

So I guess the answer is, if the Federal government could assure us that these lenders were qualified and there would not be any negative effect, there would be some breathing room before they declared a bond issue taxable -- a cure period -- perhaps then that would be something that could cut through the red tape.

ASSEMBLYMAN CORODEMUS: As your Director has stated, this Committee is very supportive of your Agency, and we would be in further support of resolving to have the Federal government make these types of changes if the ultimate result would be expediting the whole process, cutting the red tape. You know, the 100 percent financing, where you are lending the closing costs and the down payment-- Perhaps we would like to keep that in-house, to be very careful about that review. But the other ones-- I am glad to see it has been reduced in scope of time, but I think it is almost a waste of one's efforts because what you are asking the bank to do is something they do every day with their own moneys. Not that they have been without fault over the years either, but perhaps we could rely on them to some extent.

ASSEMBLYMAN SOSA: I think what my colleague is attempting to find out is whether or not we can avoid creating another DEPE and the bureaucratic red tape that exists in that Department. We certainly don't want that to happen.

Anything else?

MR. ABELE: Well, Vice Chairman, if I might add one other statistic on the down payment loans: We have taken particular pride in them. We promise a 48-hour turnaround time to Realtors. Quite frankly, that has backfired a little bit. We received an onslaught of several thousand loans in a 48-hour period, and we are now telling them five working days. But for the last several months we have been processing those loans in 48 hours.

ASSEMBLYMAN SOSA: Is that in relation to the Welcome Home Program?

MR. ABELE: Yes.

ASSEMBLYMAN CORODEMUS: This program right here, the 6.85 percent that Ms. Campbell talked about-- What are the terms? That is a fixed 30-year loan?

MR. QUINCE: Yes.

ASSEMBLYMAN CORODEMUS: No points, two points?

MR. QUINCE: Two points.

MR. ABELE: And 5 percent down.

ASSEMBLYMAN CORODEMUS: Now, other than-- How much was the down payment on that?

MR. QUINCE: Five percent.

ASSEMBLYMAN CORODEMUS: This is one program you have. What other programs do you have now out in the field that keep our Agency competitive -- more competitive than the existing private lender programs?

MR. ABELE: Of course, that presupposes that we are more competitive than a private lender is, and that is one of the problems. We have found, as we looked back over time, that we are the Agency of last resort. There is something about government red tape, whether or not it is real or perceived, that makes people shy away from governmental agencies. We have also heard in the past that there are some Realtors and some lenders that did not fully understand the program, and they, too, would make people shy away, in part because there might be greater fees if they had their own program.

What we found, is that people come to our program if they cannot afford the private side at all. When the rates get close -- and they are relatively close even now-- We have a 6.85 that we are real proud about, but there are mortgage rates out there on the private side at 7 1/2. The difference is 44 cents a month on a thousand dollars.

ASSEMBLYMAN CORODEMUS: So you're taking perhaps the less credit risky ones?

MR. ABELE: We are taking the ones that can't get a loan anywhere else. We take on the risks that no one else is willing to take on. Again, we don't want to be in competition. We work closely with the Mortgage Bankers Association and we are fortunate in this State to have a very active MBA. They do supply a greater number of loans than similar mortgage banking associations in other states.

But, backing up to your question: What other programs-- We have a program that Assemblyman Schwartz is very active in. We call it our HOPE program -- Home Ownership for Performing Employees. The program has not been anywhere near as successful as we would have liked, or as I am sure former Assemblyman Schwartz would have liked, but this is a program where if an employer comes up with a guarantee for a portion of the mortgage loan, we will offer our loan with graduated payments over 10 years, reducing the price of a broader underwriting spectrum, to get people involved. Again, it is not as successful as we would have liked. We have been gearing up for the last 30 days to program it more. We have recently entered into an agreement with the City of Paterson to actively pursue HOPE loans in that area.

MR. QUINCE: And Bally's also. The casino has recently come into the HOPE program.

ASSEMBLYMAN CORODEMUS: For their employees?

MR. QUINCE: Yes.

ASSEMBLYMAN CORODEMUS: At this juncture, are there any observations that you make as far as documentation that is required in the processing of these loans that can be trimmed? You know, again, as a closing attorney, I just get to see the closing documents, but sometimes they are overwhelming. Is there anything, from an applicant's standpoint, that you see that sets your-- There are many documentations that set your application procedure apart from the private lenders, but do you have any in-house policy that you currently undergo to see what can be eliminated, and what is needed?

MR. QUINCE: That would be our desire, too, but both on the multifamily side and the single family side since we are issuing tax-exempt bonds. Our underwriters in the insurance company perform their duties diligently, but they have not been quite receptive to the idea of reducing documents. So we have taken the approach of trying to make sure that developers are aware of the documentation requirements, and we educate. We take a position of education. We will sit down with any nonprofit, with any individual, with any developer to fully acquaint them with the Agency's processing documents, and we will fully explain them, because we find that that is basically the most prohibitive factor; that the documents are there and that they have not been fully explained.

ASSEMBLYMAN CORODEMUS: Well, that was a criticism years ago.

MR. QUINCE: Right, as to why you need them.

ASSEMBLYMAN CORODEMUS: You ship the package out, and if there is one document at fault the whole thing came back and you were on that-- Well, now it is not that bad, but you are back on the treadmill again for another 30 or 60 days.

That criticism no longer exists, that the participating banks and the applicants are surprised by missing document requirements, or anything?

MR. QUINCE: No. I don't think that exists any longer. I think a large part of that has been cut through because of our reestablishing our relationships with the lending institutions. There is a good dialogue. I think in your packets you have a letter from the Vice President of the First Fidelity, Jerome Greco, which speaks to the relationship

-- the cementing of the relationship between a major lending institution like First Fidelity and the Agency. So I think a lot of those glitches in the process have been smoothed over considerably.

ASSEMBLYMAN CORODEMUS: In going over your chart here of your different-- You know, it is really a credit to all the different units that have been constructed over the years. But the counts of numbers of people who are housed here-- You know, how was this derived? Is that an approximation of--

MR. QUINCE: Yes, it is.

ASSEMBLYMAN CORODEMUS: What was the criteria for approximating that many people for all these different units?

MR. ABELE: There was a spot sampling done of about 100 loans on the single family side and a slightly larger number on the multifamily side. On the multifamily side, our numbers are pretty accurate because we are obligated to certify tenant income on an annual basis. So, for every one of the residents in a multifamily apartment, we do see those persons before us at least annually, in terms of paperwork. Again, it was a spot sampling on the single family side; on the multifamily side it was a more accurate number.

ASSEMBLYMAN CORODEMUS: It just seems to me to be like a common factor of, like, three-and-a-half or four people to a household.

MR. ABELE: It works out that way, but it is not-- On the multifamily side, that is the factor that we used. I believe it was three-and-a-half.

ASSEMBLYMAN CORODEMUS: Interrupt me if you can--

ASSEMBLYMAN SOSA: I will.

ASSEMBLYMAN CORODEMUS: --but I have been waiting for an opportunity like this. This Committee has been very active in this field. Not too long ago, we took a tour of affordable housing and multiple family housing throughout the State. I think we visited two or three different locations. One location in particular was in Camden. We visited a beautiful project which was undertaken by, I believe, a religious trust, which purchased a group of homes. I think we visited one or two or them. They were beautifully restored. The occupants were the actual owners of the units, which is what we want to see. The sponsors of the tour and the actual people involved in the whole process described the situation to us, which seemed almost impossible, and I want to know what your Agency did to -- is doing to address the situation.

The problem is as follows: In the middle of -- and you remember this, Jerry; we were all there together-- It was almost like an oasis in Camden there, where this one beautifully restored row of houses was surrounded by burned out, abandoned, boarded up buildings. The problem was that the developers, or the rehabilitators of these units were unable to get financing from anybody. They had to package a mortgage here; package a mortgage from someone else; and attempt to get-- I think it was somewhere around $50,000 per unit, which would perhaps take care of a two- or three-bedroom apartment. Let's call it that, but they were more like condos.

The problem with them going to a private lender was that they could not get insurance, even though the actual units stand alone and would perhaps be worth 50 or 75-- I would say they would probably be worth about $75,000, in my lay opinion. The fact is, an insurance company would come in and say, "Well, this unit, if it was standing alone, would be worth that money. We could insure it. But we can't do it that way. The problem is we have to look at the whole area, and the whole area depresses those numbers down to about $25,000 or $30,000."

Then the problem really starts perpetuating. The lender says, "Well, I'll lend you the money. You are qualified, but I need insurance," which is a standard requirement every bank or lender has. Then they come back and say, "Well, the most we can get for this unit is $35,000;

therefore, how can we commit you to $50,000 or $60,000 for the repairs? We can't do it." The whole thing starts going into a bad tailspin after that.

I was surprised to see that DCA had little money. When they said "DCA," I immediately thought of you, but perhaps it was DCA from some other funds. Where does your Agency fit into this process now? What are your programs on the board now? To actually go into places like I just described could change the tide.

MR. MILLER: I think Camden is probably an extreme example of the problems that exist with producing home ownership in urban centers. I think Camden has the lowest per capita income of any of the State's urban centers.

What we also have here, in addition to low income, is, I guess, the rearing of an old demon called "redlining." That was something that was very prevalent in the '60s and '70s. It was overcome to some degree in the '80s after significant community protest in the previous decade.

In a place like Camden what we would hope to do, would be to work with mortgage insurers and also property and casualty insurers to see whether or not we couldn't share some of that risk; the increment between the lower value of insurability. The higher value, or freestanding, and appraised in a different area, is something that the Agency ought to consider indemnifying. The apparent gap is something that we will probably find not only in Camden, but in Newark. Quite frankly, we would like to work with some of the developers in Camden, like Peter O'Connor, St. Joseph's Carpenter Society, and so forth, to try to formulate a way to close this gap.

Right now I think we don't have anything to offer that would immediately fix this problem. We are certainly open to suggestions, and we would be glad to work with--

ASSEMBLYMAN CORODEMUS: I think that is my suggestion. I really do want you to consider thinking about that, and start formulating a program, because I find the situation intolerable where people in the private sector in a charitable function are doing a job that, really, the State should be doing. I think it would behoove your Directors-- I am not preaching to the choir here; I am just asking you to relay this to your Directors, that when they meet, they should be a little chancy, let's say, in allocating the risk. You know, they might want to keep 100 percent safe loans, so to speak, to keep that high bond rating, but somewhere out of all that money we have to carve out -- take the chance. I don't personally think it is much of a chance, because I don't know of any foreclosures on those units. Perhaps there is a specular view here or there that might have fallen by the wayside. But we have to start thinking along those lines. If it means a slight reduction in our bond rating that doesn't have a dramatic increase in cost, we have to start departing on that way. When it is your charge to provide for affordable housing, and we are not doing it, in that specific situation where we are talking about inner-city redevelopment, I think we are missing our goal.

You know, I am hoping that the next time you come back to us you can report to us that-- We don't want to be left out of the process; we would like to help you in the process, work with you in any way we can, so we can come back together -- perhaps that is the way I should state it -- and report to the State of New Jersey that we have a program that is going to address this specific problem.

MR. QUINCE: Okay. Just let me add to that: In the City of Camden recently, the--

ASSEMBLYMAN CORODEMUS: I don't mean Camden. We visited three other places.

MR. QUINCE: Well, no, I am using Camden as an example, and then I will launch on into something that we are doing in the City of Newark also.

ASSEMBLYMAN CORODEMUS: You can go to Perth Amboy, or Long Branch in my district. It doesn't matter.

MR. QUINCE: Yes, I understand. But we just donated a grant of $1 million to a housing development in the City of Camden known as the Royal Court. We did that so that they could combine that money with an application they have into HUD. Hopefully, with that million dollar contribution, this project that has been delapidated for years, and also has existing tenants there, will finally get the rehabilitation work underway to allow those tenants to live in a fully rehabilitated environment.

ASSEMBLYMAN CORODEMUS: I am glad to hear that.

MR. QUINCE: So that is one initiative that the Board did take.

Secondarily, in the City of Newark, the Agency has formed a relationship with the New York Regional HUD Office and the Newark Housing Authority to help them develop 1700 units of affordable housing. We have committed $6.5 million out of the Agency's administrative account to use as construction financing for the first phase of those developments known as Serenity Apartments. We will be having a final closing on Serenity, hopefully within the next 10 days so that they can start pouring the concrete for those foundations.

ASSEMBLYMAN CORODEMUS: That's excellent.

MR. QUINCE: You may be aware that a tenants' association in the City of Newark took the Housing Authority to court, and the Housing Authority is under court order to do those units. So they, along with the Commissioner of Community Affairs and the Mayor of Newark and Doc Villane -- who you all know well -- have formed a partnership where the Agency is going to act as the construction lender for those units.

So, they are some initiatives that we are undertaking that divert from our traditional role. The Board was quite enthusiastic about us deviating somewhat from our standard policies and procedures, such as a reduction in payment performance bond, a requirement for the developer. He could not meet it, so we came up with a calculation that we figured would secure our interest on the site during different phases of construction, instead of requiring a full 100 percent payment performance bond.

So I think we are, over the last two years-- Particularly, we are entering into an era where the Agency is trying to adjust, after 25 years in a certain mode, to the differences in the economic marketplace.

One other problem we have addressed is also in terms of the minority community. We are looking towards proposing -- devising a way to allow minority contractors and sponsors to get bonding, because that is one hurdle that no matter how good, or no matter what kind of track record they have, they always run up against this wall of not being able to acquire bonding. So that is another initiative that we can work on in conjunction with--

ASSEMBLYMAN CORODEMUS: That's good.

MR. QUINCE: --you know, the Housing Subcommittee.

ASSEMBLYMAN CORODEMUS: That is important. You have hit the nail on the head there. The problem is, when you go to do these rehabilitations, a typical private lender will not lend you money unless you own the property. Then they look for you to own that outright, 100 percent equity, before they lend money to you for rehabilitation. It just doesn't work that way in the real world. So we shouldn't be afraid to be a little radical now, because these are radical times. This is a very depressed economy. I hope I am wrong, but it might not turn around as quickly as we would like it to, and we have to start making these adjustments.

I commend you for the projects that you just described. This is what we need. But I'm saying, we need more. We need an institutional program now that will start embodying these pilot programs, for some type of a broad scheme.

Some of the other questions I have concern constituents. Perhaps I had them call you directly, because yours is the only business card I had from the Agency. They were interested in rehabilitating smaller units in inner cities like Long Branch and Asbury Park. A couple were in Newark. Contractors that I know who are out of business almost by virtue of the economy. They had opportunities to purchase perhaps abandoned buildings with three to ten units. I would like to know: What is the difference between those-- I know you have a preference for larger-scale projects. Is there any thought now to starting to put more emphasis on the smaller units? Can we do that?

MR. MILLER: Yes, Assemblyman. We recognize this problem. Currently, our lawyer -- the Attorney General's Office -- is telling us that we are not permitted by statute to use bond proceeds for projects of under 26 units. We are working with them to try to get a more favorable reading of that provision. In the meantime--

ASSEMBLYMAN CORODEMUS: Why don't we just change the statute? We will do that for you. We need help.

MR. MILLER: Wow! We'll be back. But in the meantime, we have, I guess for the past several years, designated a pot of money for projects of under 26 units. It is called Multifamily Reinvestment Projects. We will probably be the lender of last resort even if these particular projects are in the private market, primarily because, even though they are small, they, too, as Karen Torian pointed out, have multiple sources of financing.

MRIP, which is our small project fund, seeks to provide technical assistance to provide a first mortgage that will at least provide initial feasibility, and then be flexible enough so that as other sources of money come in, gaps are filled. That has been, I think, notable, for example in Camden in the Westwind Project, which is just 12 units.

In Jersey City, we have Taylor House, which is just nine units. Typically these are projects sponsored by nonprofit developers. There is some capacity building that goes on in the interim, but we need to do more of that.

ASSEMBLYMAN CORODEMUS: Absolutely. Don't overburden the Attorney General interpreting the law. You know, we will work with you.

MR. MILLER: Okay.

ASSEMBLYMAN CORODEMUS: We told you we would work with you if you want to change a statute. I am sure we are going to have bipartisan support on that, to get more money out into the decayed urban areas that need rehabilitation.

MR. QUINCE: Yes. Well, that is one of the aspects of the study that Dr. Schwartz has been requested to undertake in his investigation and analysis of the Agency. We have asked him to look very closely at our statute, since the statute was last revised in 1984, and the economic climate has changed substantially since that time.

And, you're right. We need not burden the Attorney General's Office with trying to interpret something in the Act that may not, in fact, be there. It would be much better to actually amend the Act and give us that capability.

So, we expect that Assemblyman Schwartz, as a part of his analysis, will come back with suggestions, and we will come back to you with our request.

ASSEMBLYMAN CORODEMUS: I will sponsor it with the Chairman. You just get us the language, and we'll do it.

ASSEMBLYMAN SOSA: Thank you, Steve. I'm sure you will have more questions in a few minutes.

You are quite right. I think, as I stated earlier in my comments, this needs to be a bipartisan approach. You have, certainly, our support on this Committee in terms of the mission. Certainly, not all of the questions that we would pose to you today can, or perhaps should be answered. We will present to you a series of other questions that we might have as a result of this meeting, based also on testimony from our other guest speakers.

I would also urge you to meet with the people who will be testifying here today, and perhaps other groups that may have some concerns about the way they perceive the mission of the HMFA to be ongoing. I think in some cases we tend to knee jerk and create legislation as a result of things like this that occur. I think that is not necessarily the best approach to resolving problems. I would prefer to see that process occur first; see what it could do to hammer out the problem that perhaps both sides have, and try to come to some reasonable conclusion with that. Then if there is something that needs to be fixed from the legislative standpoint, we can come back and sit down and talk about that.

This being bipartisan, I will ask my friend and colleague, Assemblyman Green, to pose any questions he might have, before we allow you to sit down for a few minutes and catch your breath and we ask for some other speakers to come forward.

ASSEMBLYMAN GREEN: Thank you very much, Mr. Chairman. I was very impressed with Steve's questions. It is obvious that the majority of them were the same questions I was going to ask of you.

You have my commitment that there will be bipartisan support, because it is obvious, I think, that both parties share the same concerns.

I would just like to piggyback on some of the questions that Steve asked pertaining to Camden. I was part of that tour. As we went through Camden, it was obvious that there was a lack of funds available. It seemed as though there was also a lack, really, of interest in the project, for whatever different reasons there might be. But what was very enlightening was, when we got in the van to go into Burlington County -- if that is correct -- there was a totally different atmosphere. Just about every home that was available to that agency -- it was a church agency-- They were able to have such a successful program.

I listened to the other individuals commenting about redlining. Well, I would like to ask one question at a time: How, from Camden, an hour's ride to Burlington County, could you have one program so successful and another program where it just seemed like there was no money there for them? It is obvious that it is redlining, and it is obvious that one agency is a lot stronger than the agency in Camden. A prime example: I have even taken it upon myself in my district, a month ago, to bring together the ministers as a nonprofit organization, because I felt that in Burlington County that was the agency that was so strong. In fact, three weeks from now we are going to be meeting again, and I hope you will attend that meeting.

My major concern is that there is still redlining in the State of New Jersey, even when it comes to affordable housing. Do you feel that my comment is true, or not?

MR. QUINCE: We think your comment is an accurate statement. I believe the Commissioner on Banking published a report recently that confirmed that redlining was still going on within the State of New Jersey. My earlier comments about the Agency's cooperating and educating lenders throughout the State is an ongoing process. We feel we are making headway, but obviously the City of Camden needs a big fix. Removing the concept, or the practice of redlining, is just one step to bring Camden along.

We certainly have to alleviate redlining as a problem and bring those banking institutions that are practicing it to some kind of charge.

ASSEMBLYMAN GREEN: As legislators, are there any areas where you feel we can address this problem to move the problem out of the way in terms of actually passing laws? It is obvious that somewhere along the line the banks are not getting the message that we would like them to be fair to everyone.

MR. QUINCE: Well, I understand that the Community Reinvestment Act has been putting pressure on a number of banking institutions that have been involved in redlining. I suspect that they are becoming more and more aggressive, because we do notice banks -- again, like First Fidelity -- in New Jersey being very aggressive in their investments in urban areas within the State. Some of them take on this charge by a natural inclination; others have to be prodded. But I do think there is Federal legislation that is enacted now that should serve as the primary catalyst to get these banks active again in urban areas, where they should be.

MR. MILLER: And also, Assemblyman, just to add-- There exists now a Community Financial Advisory Board, which was created by the Legislature about a year ago. That was the outgrowth of a study that Commissioner Connor, who is our Vice Chairman, announced last summer. The members of that commission are not sitting yet; I am not sure if they have even been appointed. But this would be, I think initially, a vehicle whereby the Legislature could gain some oversight with respect to the community investment practices of banks. In fact, it is sort of like a citizen review board, or police force. This would be a citizen review board for banks, because in New Jersey we don't have a Community Reinvestment Act, and relying solely on the Federal statute, as you point out, does not solve the problems entirely.

I would urge the members here, and Vice Chairman Sosa, to turn their attention to that commission. We would be glad to work with it and yourselves to make reinvestment in our communities a top priority.

ASSEMBLYMAN SOSA: I would certainly be interested in doing so. I would also be interested in perhaps meeting with you at your offices to get a better overview of the organization, as we know it now. I am extremely interested from a number of fronts. Having served as Mayor of Mount Holly Township--

MR. QUINCE: Regency Park.

ASSEMBLYMAN SOSA: Regency Park and Mount Holly Gardens are something that I am still trying to work on, trying to figure out what we can do to help it along. I am very interested in meeting with you and other-- I extend this to all of you out there who may have some perspective on how to address the problem of trying to revitalize the blighted neighborhoods. I would like to meet with you to talk about that. Believe me, this is a very open and very committed Committee to try to work to resolve these problems.

Let me move along, if I may, gentlemen and ladies, to get some other speakers to come up. You'll stay, I hope?

MR. QUINCE: Yes. I would also-- I will talk to you later.

ASSEMBLYMAN SOSA: In the interest of time, and I know a number of you have come from afar, we would like to get everyone to come up and speak. Because we have other Committee responsibilities this afternoon, we would try to limit comments to about 10 minutes per person, if that is okay, so we can get everyone in.

The next speaker will be Mr. Peter O'Connor, Executive Director, Fair Share Housing Development, Inc., of Cherry Hill. Welcome, Mr. O'Connor.

P E T E R J. O ' C O N N O R, ESQ.: Thank you for giving us the opportunity to appear before you to give the perspective of the nonprofit community. I will be followed by Diane

Sterner, who is the statewide Chairperson of all the nonprofits in the State. I am an attorney. I have specialized in the development of low- and moderate-income housing, both new construction and rehabilitation. I am also the attorney who, since 1969, has represented the plaintiffs in the Mount Laurel case. I have been involved in all phases of that case. We are still involved in Mount Laurel Township, which is not too far from Mount Holly Gardens.

I am not sure, really, what the focus of the hearing is today. I understand, because of a network report and the response of the Agency and then the articles in the Trenton paper, that an issue was created as to, "We better take a look at what the Agency is doing."

I have dealt with the Agency since it started, and have worked with each of the Executive Directors and each of the Commissioners of DCA and each of the Boards, so I think I have a pretty good perspective on what has happened. I think the crux of the problem is that the Agency was given a mission. That mission was to be done through tax-exempt financing. The tax-exempt financing was very easy to issue, as long as the Federal government was in the same business of providing Section 8 subsidies that were project based. That is the important term which means that they were given to the project for the life of the mortgage.

We have built over 400 units in Camden. The building of those units was rather simple, because if they cost "X" dollars, as long as we matched the subsidy amount, then the Agency could perform its "traditional" role and lend the money. There was no risk involved. You could get an AAA rating. The reason there was no risk was because the debt service was to be paid back guaranteed by the Federal government, and the operational costs were also factored in to be paid back by the Federal government. Each year, you get a 2

1/2 percent to a 3 1/2 percent increase to cover the cost of living increases.

So, we had a situation where we built a project that cost about $19.5 million. The total cost for that project exceeded $65 million when you played out the repayment coupling the subsidies with the interest on the mortgage. Now, that was really the job of the agency when it started. It went along during the '70s and the early '80s performing that role. It was rather simple for groups like ours to come to the Agency, and say, "Here is our project." You would meet with somebody who was doing the bond financing, and you would meet with someone from Mr. Quince's management division, who would review your operational budget, and as long as the two of them did not exceed the Section 8 project-based subsidy from HUD, the project was feasible.

What happened in the mid-'80s under the Reagan administration and has been continued under the Bush administration is, the project-based Section 8 subsidies have been done away with. In their place, HUD has put vouchers, or certificates. The vouchers or certificates have two problems: One, they are less by about a third than the project-based Section 8, so you have less money to deal with. But that is not really the crux of the problem. The crux of the problem is, they go to the tenant. So if our group comes into the Agency and says, "Here is the same project, same numbers," the project is no longer feasible because there is no guaranteed project-based Section 8 to cover the costs of the project. Therefore, the Agency cannot issue the bonds because there is no feasibility.

The HUD position is, the tenants still have the subsidies, yes, but there is no guarantee to the sponsor or to the Agency that those tenants will use their certificates or vouchers with this particular project. Therefore, there is no guarantee for the life of the mortgage that the project will be subsidized. Therefore, the project is not feasible; therefore, the Agency cannot issue the bonds.

Now, that is the crux of the financial problem that the Agency finds itself in, and that is not going to be rectified by HUD, regardless of who gets elected in November. I do not believe they will go back to project-based Section 8 subsidies which guarantee the feasibility of these projects.

The State, in response to that, and also as a response to our Mount Laurel efforts and the Fair Housing Act, came up with the Balanced Housing Program. The Balanced Housing Program is not a State appropriation, which is the important thing to understand. It is a payment out of the Realty Transfer Tax which, when the economy is rolling, can produce $30 million or more a year. Now it is producing less than $10 million because of the recession. In other words, unless there are real estate closings that the Assemblyman handles--

ASSEMBLYMAN CORODEMUS: No more.

MR. O'CONNOR: --then there is no Realty Transfer Tax. Therefore, there is no payment out of that tax into the Balanced Housing Fund, which is administered by Community Affairs.

Now, that money is either grant or soft loan money, but it cannot fill the gap of the lack of the Section 8 project-based subsidies which run for 30 or 40 years. It is also not an operating fund annually; it is a capital fund that might give you a grant or a loan of up to maybe $25,000, $26,000 per unit, up-front. The Agency, in getting those funds to supplement a project that we would present, still would determine, in all likelihood, that that project was not feasible, because there is a capital gap because the Balanced Housing does not meet the total need. But, there is a second problem. There is an operational gap because the income is going to basically stay the same with the tenants, but the costs are going to increase dramatically. Therefore, the project is not feasible.

If you look at the Agency's history, its number of units has declined dramatically in the multifamily area because of the factors I'm outlining. The Federal government, in response to this problem, put in a program of low-income tax credits. That program helps the situation, but does not really address the operational side. It helps with the capital side, and the capital resulting from those tax credits is divided into two. Part of it goes into the project, and part of it goes to the developer as a fee. In my opinion, the combination of the Balanced Housing and the low-income tax credits is not sufficient to make projects feasible when we are dealing-- The lower down the economic scale you try to address, the more infeasible the projects become, because you need more money. The Balanced Housing Program does not provide enough money. The Low-Income Housing Tax Credit Program provides some additional money, but not enough, and there is a gap.

So to answer the question your Committee asked about what the Legislature can do, the most critical thing this Legislature can do is to recognize that New Jersey does not have a housing funded program at all; that is, funded through appropriations. We are asking the Agency, coming out of a traditional mold of bond financing, to address these changing circumstances without providing the Agency with the financial tools to bridge the gap that is left after Balanced Housing and after low-income tax credits. That gap will appear in almost every project, and can only be met through a State appropriation. That State appropriation cannot come from a bond issue that has to be repaid. It has to come from a direct appropriation that does not have to be repaid. If the Agency had funds, and my recommendation would be something like 1 percent of the State budget -- which would be about $140 million a year-- If it knew it had that kind of money annually that did not emanate from a bond issue, but came from a direct appropriation, then the combination of tax-exempt financing, Balanced Housing funds, low-income tax credits, and that gap filler, would make these projects, all of them, feasible from a capital perspective. In other words, the project could get built. That funding may not totally address the operational needs, and that is a question of assessing each project.

But, we are really just running around chasing our tails to analyze the Agency and go through a heavy critique on the Agency, because the bottom line is, if the Agency does not have that gap-filling grant financing from the Legislature-- It is almost an embarrassment when I go out to speak at law schools and around the country as the attorney who brought Mount Laurel, getting huge applause that we are opening new ground in New Jersey, we are moving on land use, the new land use law, etc., etc., and then we cannot produce the units because we do not have any housing program that is funded by the Legislature. I exempt from that the Balanced Housing which comes through the Realty Transfer Tax.

So the most critical thing that the Committee could come away with would be an appreciation that for low- and moderate-income housing, for multifamily housing -- rental -- it is not feasible without some additional funding from the Legislature.

I have two other comments, given the restraints on the time. I would not use all of that 1 percent funds just for capital. I would break it down into three possibilities: 1) If it was 1 percent -- and I am using a rough $14 billion budget just for the sake of presentation-- If it were $140 million, I would recommend that about $90 million of it go towards capital financing to make these projects feasible, and that about $10 million go to seed money, because one of the problems is you can't get the projects to a point of examination without the seed money. The last $40 million would go towards operational and deficit reserves.

Without doing that, all of these projects really are going to run into a stone wall of lack of economic feasibility. That is the problem you witnessed in Camden; that is the problem in many of the areas where I work. You can get the project up to 65 percent, 70 percent, 75 percent feasibility, and then there is a gap. That is one of the frustrations of dealing with the Agency.

The last point I would like to make deals with the Agency statute which was amended to bring over the Mortgage Agency. One of the problems with working at the Agency deals with a unique situation, which is the role of the Attorney General in the statute. It puts the Attorney General, by statute, as one of the four public members on the Board. However, the Attorney General is also the attorney for the Agency. There is a far overreaching by the Attorney General's Office moving far away from legal review into policy-making because of this statute, and I would recommend that an amendment be made removing the Attorney General and substituting the Commissioner of Human Services. Many of these projects have social needs that are not being met, and having the Attorney General sit with two hats, as a policymaker, an inappropriate role, and as attorney, an appropriate role, causes a chilling effect on the Agency staff.

If we had about three weeks of my testimony, I could give you examples of going through decisions, decisions, decisions at the staff level, and then having everything freeze until the Attorney General can take a new look from ground zero on that same issue, when really the legal review of that issue is about an hour's work. But there is confusion as to whether the Attorney General is making a legal review or a new policy review because of his role on the Board. It has a tremendous chilling effect in dealing with the Agency staff, when you are a group trying to get the processing that Karen Torian outlined in that chart. Every step in that process is retarded, frozen, or delayed because of the need to have the Attorney General make some kind of comment, supposedly legal, but usually becoming a policy decision. There is really no need to have the Attorney General on the Board. I would recommend that he play his traditional role as attorney, and be substituted by the Commissioner of Human Services.

Thank you for your time.

ASSEMBLYMAN SOSA: Duly noted, Mr. O'Connor. Thank you for those comments. We appreciate it.

May we have Diane Sterner, Executive Director of the nonprofit Affordable Housing Network of New Jersey?

D I A N E S T E R N E R: Thank you for giving me the opportunity to address the Committee on an issue that is of critical importance to the Affordable Housing Network, to our many members, and to the tens of thousands of lower income constituents throughout the State that they represent.

My name is Diane Sterner, and I am the Executive Director of the Affordable Housing Network of New Jersey. As many of you know, the Network is a statewide association of over 130 nonprofit housing development corporations and their supporters who are working very hard to create affordable housing opportunities for lower income New Jersey residents. The Network was created when its members, all of whom faced the State's housing crisis firsthand, realized that government at all levels was not responding adequately to the housing problems in their communities. In fact, this crisis, which has existed for many years, has drastically worsened over the last decade because of the decline in Federal funds for housing.

The Network supports the nonprofit housing development sector by providing training and technical assistance, working with government policymakers to develop more resources for affordable housing, and analyzing existing programs to make sure resources are being utilized as effectively as possible to produce housing for those who need it most.

It is in the latter role that we began interviewing a number of our members late last year about their experiences working with, and getting projects funded through, the HMFA. This project was undertaken in response to complaints from many of our members about their experiences with the Agency, and the perception of many others that HMFA is simply too difficult to deal with to be worth even approaching for funding. The focus of our questioning was to determine what wasn't working and why, with the goal of makine recommendations that would make things work better. The result of this process was a report, completed in March of this year, which reflects the experiences and views of several dozen individuals who have had dealings with the HMFA, including nonprofit staff, for-profit developers, financial consultants, former HMFA staff, and others. This report has been provided to Assembly Housing Committee staff.

Since I believe you all have access to the report, I am going to focus my remarks on three areas the Network believes are important for Committee members, HMFA staff and Board, and other State policymakers to consider. First I will say a few words about the housing need and the difficult funding climate overall for producing affordable housing. Then I will focus on several of the obstacles that Network members perceive to be the most onerous in making things work at HMFA, and which we think the Committee could help to resolve. I will end by mentioning some of the types of programs that are needed in New Jersey in order to stimulate the production of affordable housing, and some possible ways to fund them.

To set the framework for this discussion, I would first like to emphasize the tremendous need for housing for low- and moderate-income people in New Jersey compared to the production level currently being achieved. The State has estimated the need for nearly 20,000 units of low- and moderate-income housing per year for the next 20 years. People included in the low- and moderate-income categories range from the very poor to families making over $40,000 per year. Many people in New Jersey are just a step away from being homeless, and it is no longer just poor people who are affected by the tragedy of homelessness.

Unfortunately, over the last five years State and Federal housing production programs combined have assisted in the production of fewer than 2000 units a year, or at best 10 percent of the number needed. HMFA, the Agency in the State with the most resources for housing, has assisted in the production of only a small percentage of these. The private market cannot be expected to fill the gap. Even in the best of times it has been able to produce only a small fraction of the affordable housing units needed, and since the recession began has produced even fewer.

This points to the need for a much more effective system of lower income housing production in New Jersey. The question is: What is preventing this from happening, and what can be done about it?

Since the drastic reduction of Federal housing programs in the early 1980s, many states, including New Jersey, have come up with new policies and programs to help fill the void. These programs have become increasingly critical as other resources have dwindled and the need has increased. New Jersey has several programs which have been helpful, but all are seriously underfunded. To make matters worse, DCA's Housing Demonstration Program was eliminated from this year's budget, and the Balanced Housing Program, which Peter O'Connor was talking about a few minutes ago, was cut by at least $2 million.

Despite the desperate need, housing for New Jersey's lower income residents has not been a priority in recent years. As the series in The Trenton Times pointed out, New Jersey has no State housing policy. Even worse, hardly anyone who could do anything about the situation is even looking at it. Now more than ever there is a need for housing experts and people in policy-making positions to work together, to be more creative with existing resources, and to look at some of the creative things other states are doing to address their affordable housing problems. While we can't expect New Jersey to make up for the loss of billions of dollars in Federal funds, much could be accomplished by making better use of available resources, such as those housed at the HMFA.

I accepted your invitation to be here today to urge you to look at New Jersey's housing problems in a comprehensive way, and to evaluate HMFA's difficulties and their potential as part of a larger picture that includes important roles for DCA, COAH, the Governor's Office, and the Legislature. We should not wait for more riots or other disasters to strike, to address this problem.

Now let's turn to the HMFA. The Network report I referred to earlier lays out a number of recommendations we feel would streamline the Agency's operations and make their resources more accessible to affordable housing sponsors, especially nonprofits. Most of these could be implemented either by HMFA staff or Board. There are, however, several areas where the Legislature could be very helpful.

One, as Peter O'Connor was mentioning also, has to do with the role of the Attorney General's Office with HMFA. The Attorney General has an ex officio position on HMFA's Board, and is also legal counsel to the Agency. According to the majority of people we have spoken with, his role as legal counsel is especially problematic. Problems cited included: frequent turnover of the Deputy Attorneys General assigned to HMFA; their tendency to be very late with assignments; their unfamiliarity with the housing development process; and their tendency to get involved in the business deal, rather than just the legal aspects of a project. This has contributed significantly to HMFA's problems in processing projects, and has led to serious delays in rulings on such issues as whether HMFA can undertake new program initiatives that have been proposed. The Committee should seek a way to remove the AG as counsel in favor of in-house or independent counsel for HMFA.

The Legislature could also help by making two amendments to the HMFA statute: One, which was mentioned earlier, permitting the financing of projects that are 25 units or under; and the other, eliminating the prevailing wage requirement for smaller projects receiving Agency financing. This requirement adds significant costs that often render small projects infeasible.

Finally, Committee members could play an important role by working with HMFA -- or DCA -- to help initiate new programs that are needed to fill gaps in the current array of existing programs and to help leverage private resources. Network research indicates that a number of other states have developed creative programs to address the housing needs of their residents and produce significant numbers of units, many through working with nonprofit housing development corporations. This has not always been achieved by spending more money, but often through more efficient use of existing resources, better coordination among diverse programs, or the streamlining of requirements and regulations.

Some of our recommendations would, however, require identifying new sources of funds. Two of them involve developing new financial mechanisms to leverage private investment in lower income housing. The first is a State mortgage insurance program to guarantee loans for residential rental projects. Both New York State and New York City operate successful mortgage insurance programs which have made it possible to finance thousands of affordable units that would have been difficult to finance any other way. The New York City fund began with an initial appropriation of $7.5 million and has since been supported through interest income, fees, and premiums. The leverage factor of these programs is between five and ten times the amount in the fund.

New Jersey also needs a tax credit equity fund, which would pool investments in multifamily rental projects utilizing the Federal Low Income Housing Tax Credit. This program would be fee generating within a short time, but would require an initial investment to design the program and hire a fund manager.

Two other programs that would address gaps in current programs are a revolving predevelopment loan fund, to provide start-up funds for nonprofit developers to start new projects, and a permanent loan program for rental projects.

Several possible ways to fund these programs, besides a legislative appropriation, include: using excess Agency reserves, if any are available; refinancing old bond issues; and reducing the Agency's administrative costs.

I have gone quickly over a number of ideas for changes or new programs, but if you wish, I could go into more detail in areas you are interested in. The Network is available to work with the Committee to further pursue any of these ideas at any time. We hope you will give serious consideration to these recommendations, and that you will work with us to increase affordable housing opportunities for New Jersey residents.

ASSEMBLYMAN SOSA: Thank you, Ms. Sterner. I would hope, and I would guess, since I do have the Chair and I do have the gavel-- I would, at this point, recommend to my fellow Committee members that we perhaps establish a workshop session with HMFA and perhaps designated members of this Committee and other interested parties to, in a roundtable fashion, begin the process of trying to sort through these problems -- some perceived, some real -- so we can sort of wend our way through these problems and try to move on with some very important needs that our citizens have.

I would also -- and you touched upon it briefly in your comments about other states having programs that perhaps we can model on-- I am a proponent of not having to reinvent the wheel if I don't have to. I would hope, perhaps through the good services of OLS and through yours, that we can perhaps get some more specific information about those programs to bring with us to the workshop, to see if there is any application that can be provided for our mission here.

I appreciate your comments. At some point in the near future -- and I say "near future" -- we will establish this series of meetings, if necessary, to get moving on this. Thank you, Ms. Sterner.

MS. STERNER: Great. Thank you.

ASSEMBLYMAN SOSA: Our next speaker will be Dale Ingram, a private citizen, and a home applicant. Is Dale Ingram here? (affirmative response from audience) Okay.

By the way, for those testifying, could you leave your cards, or if on a piece of paper somewhere we could get your name, address, and telephone number, in case we need to contact you, please.

Go ahead, Mr. Ingram.

D A L E I N G R A M: I recently purchased a home through the Agency's HOPE program. I believe Mr. Quince mentioned before that it is employer sponsored, or an employer guaranteed mortgage. I was asked to come here today to relay to you my experience.

ASSEMBLYMAN SOSA: Could you speak up a little? I have a jackhammer behind my ear. Also, I think the audience in the back wants to hear you.

MR. INGRAM: I'm sorry. I was asked to come today to relate my limited experience from that perspective. My experience is limited, from an applicant's standpoint, to working with the Agency. I really do not have any experience with conventional lenders, so I do lack a certain amount of the ability to compare between the process that I went through with the Agency and the process as it exists with a private lender.

In my situation, the period of time that it took from the submission of the application -- and I believe you voiced some concerns over that before-- They have made submitting an application much easier. They have an individual who comes to your home, takes the application, and makes sure that everything is completed and in order before he leaves, which makes it much, much easier.

The period of time from the submission of the application to the approval-- I received a verbal commitment a little over 40 days after the application was submitted. From that period of time until we closed on the loan, it was about another -- again about another 40 days. That would probably be my only complaint. The Agency was really very pleasant to deal with. The only complaint would be there should be a little bit more communication between the Agency and the home buyer, the reason being that there are certain reservations that sellers have about selling their home and getting involved with the State program. That may very well be a perceived problem, as opposed to a real one, but they tend to become more -- for lack of a better word, more nervous whenever things are delayed or do not -- or there is not sufficient communication. They tend to overreact.

The sales contract that I submitted with my application-- There are certain dates that are specified in there, mainly the commitment date and the closing date. Those, I know, are not set in stone, but they do hold some weight when it comes to making arrangements, from quite a few people's standpoints. I think there needs to be-- Whenever the dates are specified in there, or any other dates-- When it becomes evident that those are not feasible, and that those cannot be met, I think there needs to be more communication to the buyer, so there is not a concern that it is going to drag on forever, and so that the seller is going to be put at ease as well.

That was really my only criticism of the entire process. Other than that, it was not an unpleasant one; I guess not as much as I had expected it to be. In retrospect, it is not as bad as it seemed at the time, but I am sure that is the case regardless of who is lending you the money.

Anyhow, that is about all I had to say. If there are any questions, I would be happy to answer them.

ASSEMBLYMAN SOSA: What I think you are suggesting is simply that the Agency needs to be more in contact with the client -- with the customer about the whole process as it is moving along.

MR. INGRAM: Yes.

ASSEMBLYMAN SOSA: You feel that is a shortcoming right now?

MR. INGRAM: Well, I think that because of the stigma -- and this is not just the State; this is any government agency-- Whenever you are working for a government agency, inevitably something is going to go wrong somewhere along the line. That was not the case in this situation, but I think that everybody involved -- the real estate agents, the seller, and myself as well-- There was a little bit more of a need to have better communication in a situation like this, particularly towards the end where we had exceeded the date we had specified for the closing by over a week. There were a few things that had we known about them prior to that-- If they knew we were not going to be able to meet those dates two or three weeks beforehand, that should have been relayed so arrangements could have been made by all involved, as opposed to expecting that date to come to pass, and then finding out that it was not going to. That, I would say, would be the--

As you mentioned, there needs to be better communication in terms of the expectations and the status of the situation as it progresses.

ASSEMBLYMAN SOSA: Other than that, generally you have been pleased by the service you have gotten from the Agency?

MR. INGRAM: Yes. Like I said, in dealing with the people, they have not been unreasonable. I don't think their requests have been, or what they expect from the buyer has been unreasonable. I have heard horror stories of VA loans and so forth and the stringent requirements. That was certainly not the case here. There may have been -- and again, not having a basis for comparison -- a few more requirements than is the case in a private situation.

ASSEMBLYMAN SOSA: Well, comparisons do not matter. It is what happened to you.

MR. INGRAM: What happened to me, right.

ASSEMBLYMAN SOSA: That is the most important thing.

MR. INGRAM: As I said, during the process it seemed like it was never going to end. In retrospect, the situation was not that bad, and it was certainly not as bad as I think everybody makes it out to be.

ASSEMBLYMAN SOSA: Thank you, Mr. Ingram. How long have you lived in your home now?

MR. INGRAM: We closed July 30, so it has been about a month-and-a-half.

ASSEMBLYMAN SOSA: That's great. I wish you good luck. Thank you.

MR. INGRAM: Thank you.

ASSEMBLYMAN GREEN: Mr. Chairman?

ASSEMBLYMAN SOSA: Do you have a question, Jerry?

ASSEMBLYMAN GREEN: No, I don't have a question. I would just like to make a comment.

ASSEMBLYMAN SOSA: Sure.

ASSEMBLYMAN GREEN: From the home buyer to the Agency, it seems like everyone is very pleased. You had comments that you would like to see a little better communication. The people who have been up here representing the Agency seemed like they have everything in order. It seems like the government has let down -- we have -- in our part of putting the whole piece together. It seems like there is no financial base there for them to make sure this works.

So my comment at this point now -- and I'm glad you brought up the fact that you would like to have a roundtable type of a discussion -- is that we have to make a commitment. I feel that has been lacking.

ASSEMBLYMAN SOSA: You're absolutely right. I'm glad you mentioned that, because you are going to be one of the appointees on the legislative side from your side of the aisle. (laughter) So I'm glad to hear you say that.

Thank you, Mr. Ingram. We will now have Peter Van Brunt, Executive Director, Resurrection House, a limited partnership.

PETER VAN BRUNT: Good morning. Thank you for inviting me to appear before you. I must admit that I have learned probably more about the constraints that the Agency works in, or under, this morning than I was ever aware of in the four years it took us to put the Resurrection House project together. It has tempered my view of how the Agency has to operate in dealing with us. We are a small, single project, nonprofit. We renovated 28 units of low/mod housing in an abandoned school in Jersey City, using a multitude of financing sources.

There is very little doubt that we in the nonprofit sector will have to continue to deal with the Agency in the foreseeable future. The Agency really has an opportunity to be very innovative and productive, proactive, and it needs some legislative support to create the funding for it. It is constrained about how it has to raise its funds. It is not the cash cow that we would like to see it.

I have to relate to you that there are a number of projects that I have heard about, or that I have been told about -- I do not have personal knowledge of them -- that are not being funded because the developer -- these are worthwhile projects -- does not want to go through the bureaucratic maze of dealing with the Agency. These are inner-city projects. It is too bad that these projects will not get done because people will just not deal with HMFA's constraints. The need for the HMFA to protect its bond rating and uphold the trust is assumed, but we feel -- or I feel, anyway -- that these are benchmarks of confidence and should be used as building blocks, rather than as goals.

We certainly expect the Agency to be fiscally sound. That is to our own best interest. We expect the Agency, or hope the Agency to be innovative in dealing with small nonprofits and flexible in its approach in helping to produce affordable housing. In a word -- and I think this has been brought out by other people coming before you -- we would like the Agency to make a real effort to be "user friendly."

For example, in July, Commissioner Primas, of DCA, conducted a series of roundtable discussions around the State along the lines of -- with a variety of developers along the lines of DCA's purposes and how DCA can communicate better. Perhaps the HMFA could benefit by a similar dialogue.

An attitude of how this project can be moved forward, or how we can make this proposal work, is something that I have always received from DCA, but rarely from HMFA. The feeling is that the Agency has a staff of very well qualified, very able people, but they are somehow bound by a lot of red tape and a lot of regulation. I think this probably stifles, certainly, the communication process, and the process by which housing is built.

As far as speaking as a small nonprofit, I think perhaps a team or a group within the Agency that deals solely with small nonprofits would be very helpful. Often we are small, inexperienced, undercapitalized organizations that have neither the expertise nor the financial resources nor the staff to stay the course of dealing with the agencies.

For example, during the design phase, periodic meetings between the sponsor's architect and tech services would eliminate some of the duplicities and discussions that occur after plans have been approved by the Agency and construction is underway. Secondly, a team like this that is in place should be able to deal with reducing the red tape to manageable proportions and coordinate the efforts of various divisions within the Agency.

Third -- and this has been touched on several times before -- in-Agency legal staff familiar with the needs of nonprofits and their limited budgets, and legal staff who are empowered to practice their profession, would speed the process. If these people cannot be used as lawyers, then surely someone from the DAG's Office permanently housed within the Agency would speed this process along.

Fourth, the Agency's construction and architect contracts, while inuring to the benefit of the sponsor and the Agency, should be reviewed when being used by small nonprofits. Possibly an AIA contract amended to protect both the sponsor and the Agency would suffice. A great deal of time and expense go into getting over the hurdle of getting a contractor and an architect to accept a very difficult-to-deal-with contract. In a climate when contractors are not so hungry, we probably would have had trouble finding a contractor willing to enter into the HMFA construction contract.

Finally, in cases where several funding sources are being used, and even assuming the necessity for the Agency being in the first position, projects would move along very much more smoothly if the Agency were able to take a less dogmatic and bureaucratic stance in dealing with the other lenders.

These are a few very general suggestions of areas in which the Agency could be more effective in dealing with we nonprofits. I think the key is better communications between the Agency and ourselves and a better appreciation of the burden that is placed on both of us who need to produce housing, because our goals are really the same; that is, to produce affordable housing.

Thank you.

ASSEMBLYMAN SOSA: Thank you, Mr. Van Brunt. I would ask the Office of Legislative Services to provide the minutes of this meeting -- to submit them to HMFA officials, so that they can perhaps take into consideration all of the comments that are being made today in anticipation of the special committee that I am going to ask Chairman Kelly to formulate, so that we can begin, really, hashing these things out in front of each other, to try to get this thing resolved as quickly as possible.

Moving on now, Ms. Judith Siegel, a real estate developer from the Landex Corporation, Warwick, Rhode Island. Welcome. Rhode Island? What brings you down here?

JUDITH SIEGEL: A lot of work.

ASSEMBLYMAN SOSA: I should say. This is not supposed to happen in the Northeast. You're not that far south. You are supposed to be going further south for development.

MS. SIEGEL: That's right. As you know, I am Judith Siegel. I very much appreciate your allowing me to appear before you this morning. I am here today because I was concerned that the recent publicity surrounding low-income housing in New Jersey may hamper public and private efforts to respond appropriately to the critical need for affordable housing.

As a person with a great deal of experience in the development of low-income housing throughout the nation, I hope I can provide some national perspective on the critical housing issues you are facing in New Jersey. As you know, I am President of Landex Corporation, which is a Rhode Island-based corporation that specializes in the development of affordable rental housing.

Over the past 10 years or so, I have been involved in the development of several thousand units of low-income housing in more than a dozen states. During this period of time, I have seen some very profound changes in the way in which the public sector has supported, and the private sector has developed, housing for poor Americans.

I thought that Peter O'Connor's testimony to you-- I will not be repetitive, because a lot of what he said to you, I was going to tell you. Basically, one of the things that has seriously affected the development of housing throughout the country, is the erosion of Federal support in these programs. In the 1970s when the Federal government was providing rent subsidies, mortgage interest subsidies, and mortgage insurance programs, they had a goal of 300,000 new units per year. Today, that goal has been reduced by 80 percent. So today we are producing 20 percent of our goal. In other words, I think our new housing is approximately about 70,000 a year. So there was just a tremendous erosion of Federal support, which has had a tremendous effect in all of the states.

At the same time -- and this was pointed out in the testimony you heard today -- the need has been increasing, so that more than 50 percent of our renters are paying more than 30 percent of their income for rent. Coupled with that, in 1986, Congress dramatically overhauled the tax code and ended the tax incentives for conventional market housing. Although the 1986 Tax Act brought with it the low-income housing tax credit, it brought it only for a period of three years. Each year we never know if it is going to be renewed again, until the building housing programs and the agencies working with the programs don't know whether they will be here next year. It is very hard to plan housing when you don't know how you are going to fund it. That is one of the things that I think the Agency has been struggling with.

Against this backdrop, states like New Jersey have stepped in and tried to fill the gap. Programs that were mentioned today, like your Balanced Housing Program, the Affordable Housing Program, have allowed production to at least stay alive. Unfortunately, as the economy soured, resources in the State became more scarce and problems became more intense.

So I guess what I am saying to you is that the crisis that you face in New Jersey today is felt virtually by every other state in the country. I could go through a litany for you of everybody facing the exact same problem and asking the same questions.

To make matters worse, the process of developing low-income housing is terribly complicated, extremely time-consuming, and very risky. In the '70s, it was easy. You just went to HUD and they had all the resources available. Today, making a housing project pencil out involves multiple sources of assistance from different agencies at different levels of government. Inevitably the rules, the regulations, the procedures, the timetables are oftentimes very incompatible and do not work together. In fact, even the Federal programs have rules and regulations within that level of government that do not work together. As an example, in a neighboring state we are nearing completion of a rehabilitation that took nine sources of financing and two years to bring to closing. So you can see that this is happening everywhere in the country.

The question becomes: Can these obstacles be overcome? The answer is a resounding, "Yes." But the key is that all participants in the process, both public and private, must view the development of low-income housing as a cooperative team approach, and I think you have begun to allude to that from some of the testimony you have heard to this point. Developers, whether they are for-profit or nonprofit, must understand their role on that team. The developer must be an advocate and a coordinator. They have to be willing to push the system. They have to be the ones to push to get decisions made, to work to resolve issues, and to find solutions to the often very conflicting rules.

I think a developer has to be proactive, as opposed to taking the role of a victim. I think we have to be careful not to put ourselves in that role. We have to be an active participant. The developer must also be a realist, and recognize his or her or the transaction's limitations. There are times when developers, in their zeal to produce housing, will push for things that are simply infeasible. I think it is important that public agencies stay alert to this possibility. It is very important that the Agency work with a very competent team and understand that development in these times -- and I think you have heard this before today -- that deals be put together intelligently, and not haphazardly. That is somewhat of a problem that they face in determining what should go forth and what should not go forth.

My experience here in New Jersey demonstrates that the cooperative team approach can work. In 1989, my partners and I began work on a vacant multifamily project located in East Orange that had languished at HUD for 10 years. With the assistance of the New Jersey Housing Mortgage Finance Agency, the New Jersey Department of Community Affairs' Balanced Housing Program, and the City of East Orange, we convinced HUD that this project could be returned to service, and that 60 families could be housed in the redeveloped building. Without the team pulling together, we never would have made that project work. In fact, representatives of the Agency, DCA, the

City of East Orange, and Congressman Payne went to Washington to talk to HUD and convince them that they should work with us on this project. The project is up, it's running, and, as a matter of fact, we are now opening a Head Start Center in cooperation with the East Orange Child Development Program. So, it has been a cooperative effort and has produced housing and produced additional ancillary social services.

Likewise, in Jersey City, we have been working on a scattered site project for more than four years. Do you know what? It isn't anybody's fault. There isn't anybody whom I can point a finger at and say, "It isn't happening because of this group or that group." It is just that the necessary combination of resources that are central to this very complicated transaction have just not come together at the right time and the right place. It is a little bit like putting something together on a conveyor belt. Something falls off, get it back in, and something else moves out.

The fact that we expect this project to close this year is a tribute to everyone who has been involved: the Department of Community Affairs, the Housing Finance Agency, the City of Jersey City, the Jersey City Housing Authority, and the newly formed TICIC, which is the Thrift Institutions Community Investment Consortium. All of these entities, and others, have worked very hard to make this project a reality.

As the State looks to evaluate its programs and its capacity, I would urge you to focus your attention on the coordination of resources. I thought that your suggestion of looking to other states and what they're doing and how they're struggling with some of these problems, both good and bad, is an excellent way to go, and not reinvent the wheel.

ASSEMBLYMAN CORODEMUS: Do you have some tests for us?

MS. SIEGEL: Well, I think one of the suggestions that was made earlier was to look at the mortgage insurance. That makes a lot of sense. One of the complaints now is that we are not funding very risky programs. On the one hand, you want to expand financing of your programs, but I think you would be just as angry if we sat here today and talked about all the projects that were going into foreclosure. You just had the hearings about a different topic. I can point to other instances in other states that were more aggressive than your State, that are now faced with the foreclosures. On the other hand, some states have taken the position of providing the overall insurance, and that has been very successful.

So, yes, I think there is good and bad, and not everything is right for everybody. But a roundtable discussion looking at the total resources and who does what-- I think there is a great deal of confusion -- I noticed as I sat here today -- as to what agency is supposed to do what, and what are the responsibilities. Yes, there is money there, but how can this money, in fact, be used, and what are all the legislative restrictions on the various pots of funds?

So, I think the issue really is that programs have to be looked at in relation to each other, and not in isolation. These are very, very complicated times. These are very, very complicated matters. The State must ensure that the professional capacity of its Housing Agency is maintained and enhanced, and not divided. I think that is really important. The State should be working with the private sector, both for-profit and nonprofit, to make sure that the necessary skills exist in order to produce this housing.

As I have stressed, and as people before me have stressed, the team approach is the key. The State needs people working together in a cooperative, creative, and flexible manner. At the same time, the State needs to maintain its fiscal support for these programs. It is just like the Balanced Housing Program.

A final note of caution: The State needs to make sure that well-intended, but financially infeasible projects do not go forward. New Jersey does not need deals going sour. What it needs is the commitment to provide affordable housing and decent housing to low-income families, but balance that with fiscal responsibility. I think the key, as you suggested, is to bring people together to work this out.

I thank you for giving me the time today, and I wish you the best on this effort.

ASSEMBLYMAN SOSA: Thank you very much for testifying.

ASSEMBLYMAN GREEN: Mr. Chairman?

ASSEMBLYMAN SOSA: Assemblyman Green?

ASSEMBLYMAN GREEN: Yes. I would like to ask you a question, if you don't mind?

MS. SIEGEL: Yes?

ASSEMBLYMAN GREEN: During your travels, what do other states do to deal with risky projects, other than being insured by the particular state?

MS. SIEGEL: Many of the states, for example the State of Maryland which is facing probably as serious a fiscal crisis as you are now, has a very large state appropriation for housing. Some states have made the commitment to, in fact, earmark state funds for housing. Other states have done mortgage insurance. Some states have done similar to what you have done with the Balanced Housing, using a housing trust fund.

I think there are two levels: One is the issue of, what are the various resources available? And the second, which is even more important, is: How are these resources coordinated? Who works with who, and how do we make sure that all of the rules and regulations that govern these various sources of funding are compatible? That is one of the places where we really bog down. "Well, we can do this on this program, but we can't do it with this program." It is like when you put two medications together that don't work and you get cardiac arrest. You really need to look at the total picture, the sources, and then how those sources are applied. It is sort of a complex issue.

ASSEMBLYMAN GREEN: Thank you very much.

ASSEMBLYMAN SOSA: Thank you, Ms. Siegel, very much for your comments.

The next speaker will be Carol Kasabach, Director, Lutheran Office of Governmental Ministry in New Jersey.

CAROL KASABACH: Thank you. My name is Carol Kasabach, and I am the Director of the Lutheran Office of Governmental Ministry in New Jersey.

I am here to talk about the purpose of this Office, which is to advocate justice for the poor and the powerless, and to bring forth some concerns that I think are best articulated in the resolution from one of our synod assemblies, which you will find on the fourth page of my written statement, especially if you look at the bottom, numbers 2 and 3, the necessity of giving priority to developing housing for the following: a) single working or nonworking adults whose need is for a single room or efficiency unit; b) single parents with children whose need is for a few adequate rooms to rent. And you can see the others straight on down. And number 3, the necessity for easing red tape for nonprofit agencies working to develop affordable housing.

I have also been the Vice-President of the Alliance for Affordable Housing, Inc. I am a member of the Board of Right to Housing, a group that looks at sheltering issues, and I am a member of the Camden Lutheran Housing Corporation, the program that several of you visited when you went down to Camden and saw the houses on State Street in Camden.

Mr. Green, I was talking to Mr. Dixon, the Chair of our Committee, and he mentioned what good comments you made about that particular project.

So, you can see that I am well-aware of the need for low-income affordable housing in this State. I have included behind the resolution some of the examples that members of our churches have shown by living out their faith; by providing shelter, housing, and advocacy. It is not enough. The need is really great. A lot of our churches started out by providing shelter and trying to provide food, clothing, and things of that sort, and they finally ended up developing nonprofit housing corporations.

As a matter of fact, the Housing and Mortgage Finance Agency has made it possible to meet the housing needs where Lutherans have had intimate contact. One is the Amandla Crossing Transitional Housing Project, and your Chair, Mr. Kelly, visited that project. Middlesex Interfaith Neighbors was able to access $950,000 from a $4 million fund set aside to include transitional housing projects. It is our understanding that so far Amandla is the only one that has been funded. I was hoping that Pastor Eaton, who was involved in this, could have been with me this morning. He indicated that they certainly did have to go through a lot of hoops and a lot of paperwork, but they received a tremendous amount of assistance from the Housing and Mortgage Finance Agency to help make this come to fruition. It is an excellent project.

You heard this morning about the great need for affordable housing. In desperation, two years ago, the Legislature introduced a housing bond issue. All through 1990 and 1991, advocates worked to ensure that that $135 million that would be allocated by the Housing and Jobs Act would, in fact, address the housing needs of the most vulnerable residents in this State. As we know, that Housing Bond Act was defeated in 1990 by only 30,000 votes, in a very negative political climate, and in 1991, even though there was no overt opposition, it was not released from the Senate Revenue Committee because of concerns raised about its need and its timeliness.

The reason I raise that particular issue is because one of the reasons it didn't get out of that Committee was because it was said that the Housing and Mortgage Finance Agency had the capacity to address those needs. As you see, I contacted the Agency and found out that, in fact, the moneys that we are talking about were-- In fact, $250 million remaining of $300 million in bonds issued by the HMFA that year were for mortgages for first-time home buyers, at that time 8.8 percent for 30 years. The purpose of the $60 million first-time home buyers segment of that Jobs Bond Act was to provide down payments and closing costs for first-time home buyers who never get Housing and Mortgage Finance mortgages because they lack the necessary up-front funds. This was one area that make that Housing and Jobs Bond Act so vital. The remaining $75 million in the Bond Act was for construction and rehabilitation of affordable housing, and that was not available from the Agency.

Another concern was because this would have been a Bond Act that would have been financed by the taxpayers. New Jersey had gone from an AAA rating to AA+, and there was a concern that the interest rates would be so much higher to be carrying that kind of thing.

I contacted a gentleman in the Department of the Treasury and I found out that, in fact, that differentiation would be depending upon how things were between $3000 and $15,000. It is a concern, but is it so great a concern not to float the bond?

I mentioned that I work to advocate justice for the poor and the powerless. When we are looking at those people who need housing, we also have to take a look at other areas in this particular State. Right now, we have a welfare reform initiative called the Family Development Act. Well, this Act provides many of the same components as its predecessor, REACH. There is not one word in there about housing; not one word. The welfare grant levels remain the same, at $424 a month for a family of three.

We also have something in this State called Emergency Assistance. It is projected to assist 29,000 people on a very limited basis. This is a stopgap measure, but it does not provide safe, decent, affordable housing. We expect people to take responsibility for their lives and pull themselves up by their bootstraps. Those receiving public assistance, and many of the working poor in New Jersey, are finding it harder and harder to stabilize their living arrangements. There needs to be a concerted effort to address the housing needs of the very low income. There is a great deal of expertise around to make it happen. We have heard it today; we continue to hear it. But there has to be a willingness to make it happen.

What could the Housing and Mortgage Finance Agency do to make it happen? What might be done with the Realty Transfer Tax to put more dollars into the pipeline? What incentives are possible to encourage public/private partnerships?

I am here to say that the Lutherans are more than willing to work with you, the people in this room, and the people around the State to make it happen. We have a commitment to see that affordable housing is accessible to all the people of New Jersey.

Thank you.

ASSEMBLYMAN SOSA: Thank you. We agree, Ms. Kasabach. I think in the interest of trying to-- When we schedule the workshop session, if we can compile all of the testimony, in terms of the minutes and also written testimony, for the benefit of the HMFA and other parties which will be involved with those meetings, and put together a package of information, it will certainly contain questions which perhaps you can address as an agency before we convene those meetings, which will help to further the process and get it moving along a lot more quickly than having to answer those questions at the meetings. So, we will put that together for you.

The last individual I have on my list to speak is Barbara Finkleman, Executive Director, Jewish Federation Housing Corporation.

B A R B A R A F I N K L E M A N: My purpose in addressing this Committee is to inform you of our experience with HMFA, and not legislative issues.

Mr. Chairman, and honorable members of the Committee, this is my first time to address a legislative Committee. I thank you for this opportunity to speak to you about the New Jersey Housing and Mortgage Finance Agency. My name is Barbara Finkleman. I am the Executive Director of the Jewish Federation Housing Corporation, Cherry Hill, New Jersey. The Jewish Federation Housing Corporation is the nonprofit sponsor for a Section 8 elderly apartment facility in Cherry Hill managed by the Jewish Federation Management Company, a 144-unit facility opened in 1978.

In creating this facility, the New Jersey Housing and Mortgage Finance Agency provided us with technical advice and guidance, and is the Agency responsible for our compliance with current rules and regulations and for the disbursement of the Section 8 subsidy. Our relationship with the Agency goes back to our original planning stages in 1975. The Agency's guidance and advice have enabled us to run a successful operation.

With the encouragement, advice, and guidance of the Agency in 1983, we were introduced to syndication, whose end result is to raise capital for new construction for sorely needed affordable housing for low- and moderate-income families. Mr. Kevin Quince, a member of the Development Division of the Agency at that time, provided us with the sorely needed direction, advice, and explanation on the function and benefits of syndication, and provided assistance through this very complicated process.

We were able to close syndication in 1984, a period just short of one year from initiation to closing. Throughout the syndication process, we were provided with the interpretation of the law, explanations for the benefit of our Board, assistance to the attorneys, and what to look for in an investor. Without their encouragement, advice, and guidance, and their patient understanding of our lack of knowledge, we could not have undertaken this complicated procedure, nor could we have achieved success in this endeavor.

As a result of the syndication, our nonprofit Jewish Federation Housing Corporation received $1,200,000, which is managed and held in escrow by the Agency. This fund currently is approximately $2 million. Held in escrow by the Agency, this fund can only be used for community development, which includes affordable housing for low- and moderate-income elderly, the function we have a specific interest in this time.

In 1989, the Development and Planning Division of the Agency introduced us to tax credits for low- and moderate-income housing. They explained how the use of the tax credits and the fund held in escrow could be used with other available funds to create much needed affordable housing. By its very nature, this process is very complicated and time-consuming, and without their advice and interpretation of the laws, and application for various funding such as the Balanced Housing Grant through DCA, and Section 8 funds from the Department of Housing and Urban Development, we would not have been successful.

It should be noted that the Jewish Federation of Southern New Jersey, through an endowment fund, has agreed, as necessary, to provide funds through the life of the tax credit funding to offset deficits that operations may incur not covered by applicable funding.

We experienced various legal delays in trying to create this project for the elderly in Cherry Hill. Throughout our frustrations and through the legal tangles, the Agency provided patient encouragement, guidance, advice, and education to help us to reach our goal. With the guidance of the Agency, we are now able to acquire various available funds needed to provide this project for the elderly. A complicated process is the unique package: a package of tax credits to a California investor in the amount of $3.5 million; a Balanced Housing Grant in the amount of $1,400,000; from syndicated escrow funds, $1.6 million; from the U.S. Department of Housing and Urban Development, 18 Section 8 certificates; and from the Jewish Federation of Southern New Jersey, an endowment fund subsidy to offset the operating deficits.

With this package, we were able to acquire construction and permanent financing from our local bank, and we are now in construction. Currently we have under construction 104 units of affordable housing. This process has taken almost two-and-a-half years from conception to construction. It would not have happened without the support and encouragement and guidance of the Agency. We are thankful to them for their efforts on our behalf, and trust that they will have continued success.

Thank you for the opportunity to present this statement. Do you have any questions?

ASSEMBLYMAN SOSA: Thank you, Ms. Finkleman. I don't have any questions.

Unless I am misinterpreting what I have been hearing this morning, my gut tells me that I don't think we have to travel a very long distance to try to get at least some of our concerns and problems resolved. I think if we can work closely together, proactively together, we can. Certainly, the HMFA has a number of fans in this room, and outside of this room. Unless somebody is being very polite in testimony this morning, even the criticisms are, for the most part, things that can be worked out in fairly short order.

I see a very strong hope for that to happen. But I think that all parties, when we do set this meeting up, should come in with an open mind with specific recommendations about how they see things in, you know, terms of the relationship that they might want to have with HMFA, and vice versa. They need to come to the table with that, so that we don't spin our wheels and talk more rhetoric than actually sitting down and rolling our sleaves up and going at it.

So, let's see what we can do. I will talk to the Chairman. We will prepare a letter of recommendation to our Chairman to move along with this process, and I would hope that within this month -- a 30-day period -- we will communicate to all of you the formation of that special committee -- a bipartisan committee -- and, of course, comprised of those groups that are affected, so that we can truly represent those constituencies that are involved with this process.

That being said, unless there is anyone else with testimony to present, I will close this meeting. I thank the representatives from HMFA, and I hope you found this an encouraging dialogue. I look forward to working with you. I would like to spend some time actually with you, and certainly would invite other members of the Committee to spend some time with you, to better understand the organization's process.

MR. QUINCE: Thank you very much.

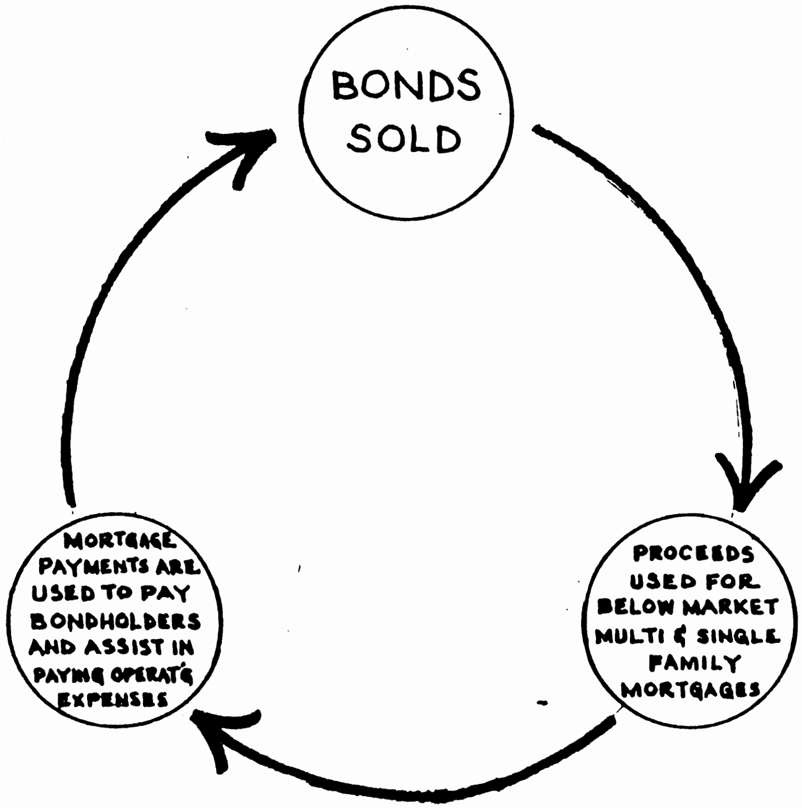
ASSEMBLYMAN SOSA: Thank you very much, all of you. This meeting is adjourned.

(HEARING CONCLUDED)

APPENDIX

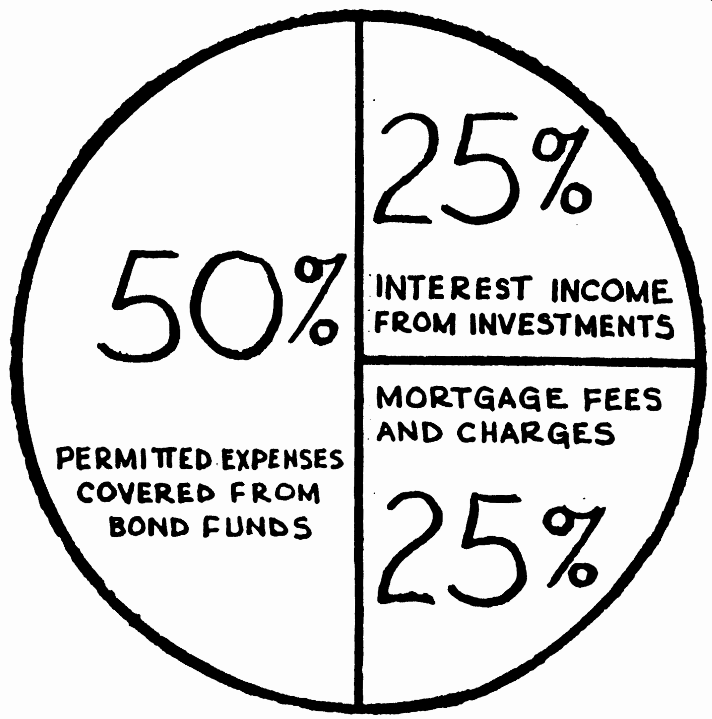
N. J. HOUSING & MORTGAGE FINANCE AGENCY

BOND PROCESS



$ 2.6 BILLION
OUTSTANDING BOND INDEBTEDNESS

OPERATING REVENUES



AGENCY MULTIFAMILY PROGRAM CONTRIBUTIONS
5-YEAR

I.	Bond Financings	$ 44,680,000
II.	Agency Multifamily Programs	38,806,039
III.	Pledged Reserves	18,856,344
IV.	Total Sources	$102,342,383

V. Low-Income Tax Credit Proceeds
Since Program Inception (1987)
$43,200,000 (allocated)

AGENCY SINGLE FAMILY PROGRAM CONTRIBUTIONS
5-YEAR

I.	Bond Financings	$875,900,256
II.	Down Payment/Closing Costs Assistance Program	10,000,000
III.	Contributions to Single Family Bond Issues	4,793,436
IV.	Pledged Reserves	18,000,000
V.	Total Sources	$908,693,692

NJHMFA HOUSING RESULTS

MULTI-FAMILY		SINGLE FAMILY
38,000 UNITS HOUSING 100,000 PEOPLE	TO DATE	49,000 UNITS HOUSING 171,500 PEOPLE
1,015 UNITS HOUSING 3,500 PEOPLE	LAST 5 YEARS	7,000 UNITS HOUSING 24,500 PEOPLE
1,200 UNITS HOUSING 4,000 PEOPLE	IN PROGRESS	2,600 UNITS HOUSING 9,100 PEOPLE

BOARDING HOME LIFE SAFETY PROGRAM	LOW INCOME HOUSING TAX CREDIT PROGRAM	DOWNPAYMENT/ CLOSING COST ASSISTANCE
191 BUILDINGS HOUSING 6,650 PEOPLE (TO DATE)	8,400 UNITS HOUSING 29,400 PEOPLE (TO DATE)	1,300 UNITS HOUSING 4,550 PEOPLE (LAST 4 MONTHS)

3X

HOME BUYERS PROGRAM

STATEWIDE INCOME LIMITS			URBAN TARGET INCOME LIMITS		
COUNTY OF PURCHASE	INCOME LIMITS SMALL FAMILY	INCOME LIMITS LARGE FAMILY	URBAN TARGET AREA OF PURCHASE	INCOME LIMITS SMALL FAMILY	INCOME LIMITS LARGE FAMILY
Atlantic, Burlington, Camden Cape May, Cumberland, Gloucester, Hudson, Monmouth, Ocean, Salem, and Warren	$47,200	$54,280	Asbury Park, Atlantic City, Bayonne, Bridgeton, Burlington City, Camden, Gloucester City, Guttenburg* Hoboken, Jersey City*, Keansburg*, Lakewood, Long Branch, Millville, Neptune Township, North Bergen, Phillipsburg, Pleasantville*, Red Bank, Union City*, Vineland, and West New York	$56,640	$66,080
Essex, Morris, Sussex, and Union	$49,400	$56,810	Dover (Morris County, East Orange, Elizabeth, Irvington, Montclair, Morristown, Newark*, Orange and Plainfield	$59,280	$69,160
Mercer	$50,600	$58,190	Trenton	$60,720	$70,840
Bergen and Passaic	$53,900	$61,985	Clifton, Englewood, Passaic and Paterson	$64,680	$75,460
Hunterdon, Middlesex, and Somerset	$54,600	$62,790	Carteret, New Brunswick, Perth Amboy, Sayerville, and Somerville	$65,520	$76,440

*The entire city is an Urban Target Area.

NJHMFA

SINGLE FAMILY MORTGAGE LOAN RATE **6.85%**

Interest Rate Comparison :

CONNECTICUT HFA	OUT OF FUNDS
N.Y. MORTGAGE AGENCY	8.125 %
PENNSYLVANIA HFA	7.85
DELAWARE STATE HOUSING	7.80
AVERAGE MARKET RATE (N.J.)	7.79
MASSACHUSETTS HFA	7.50
RHODE ISLAND HMFC	4.45-7.25
NEW JERSEY HMFA	6.85

NJHMFA MULTIFAMILY DEVELOPMENT PROCESS

1. PROJECT ORIGIN

Market Considerations
Site Availability
Preliminary Cost Analysis
Risk Determination
Available Resources

2. INITIAL FEASIBILITY

Form Development Team
Initial Capital
Initial Studies
Design Project
Estimate Costs
Site Control
Explore Funding
Risk Determination

3. APPROVAL PROCESS

Local
County
State
Federal
Building Codes
Planning/Zoning
Environmental
Tax Abatement

4. SECURE FINANCING

Construction Cost
Determine $ Needed
Raise Equity
HMFA Loans/Grants
Balanced Housing $
Affordable Housing $
CDBG Funds
Regional Contribution
Available Federal $
Low Income Tax Credits
Private Lender

5. LOAN CLOSINGS

6. CONSTRUCTION

7. MARKETING

8. OCCUPANCY

LUTHERAN OFFICE OF GOVERNMENTAL MINISTRY
IN NEW JERSEY

Carol Kasabach, Director *176 W. State St., Trenton, NJ 08608 609/396/4071 or 609/396/9546*

September 21, 1992

Testimony before the
New Jersey Assembly Housing Committee
Concerning
The Financing Role of the New Jersey Housing and Mortgage Finance Agency (HMFA)

My name is Carol Kasabach, Director of the Lutheran Office of Governmental Ministry in New Jersey (LOGM/NJ). This office is a partnership of the New Jersey Synod of The Evangelical Lutheran Church in America (ELCA), with the New Jersey Council of Churches (NJCC), and Lutheran Social Ministries of New Jersey (LSM/NJ). The purpose of this office is to advocate justice for the poor and the powerless. Today I come before you to express the concerns and views of the policy board of this office and in response to a resolution regarding homelessness and affordable housing adopted on May 17, 1990 by over 750 delegates at the Third Annual Assembly of the NJ Synod-ELCA respresenting the 200 congregations with a combined membership of over 85,000. Please see attached: RESOLUTION REGARDING HOMELESSNESS AND AFFORDABLE HOUSING especially at the bottom of the page #2, a-e. and #3. Specifically, I shall address the role of the New Jersey Housing and Mortgage Finance Agency (HMFA).

Also, as vice-president of the Alliance for Affordable Housing, Inc., as a member of the board of Right to Housing, and as a member of the Camden Lutheran Housing Corporation, I am well aware of the need for low-income affordable housing in this state.

I have attached the New Jersey insert to the January 30, 1991 issue of our church's magazine, The Lutheran. These are just a few examples of how the members of this church are living out their faith by providing shelter, housing and advocacy. It is not enough. The need is too great.

HMFA has made it possible to meet housing needs where the Lutherans have had intimate contact. One is the Amandla Crossing Transitional Housing project. Middlesex Interfaith Neighbors was able to access $950,000 from a $4 million fund set aside to include transitional housing projects. It is our understanding that so far Amandla is the only one funded.

All through 1990 and 1991, advocates worked to insure that the $135,000,000 that would be allocated by The Housing and Jobs Bond Act would, in fact, address the housing needs of the most vulnerable residents of this state. As we know, that bond act was defeated in 1990 by only 30,000 votes in a very negative climate. And in 1991 even though it had no overt opposition, it was not released from the Senate Revenue committee because concerns were raised about its need and timeliness.

The following is an excerpt sent to our Lutheran congregations on September 17, 1991 after I had done some research on these concerns:

"Concern 1: Senator Weiss has stated that the money is already there--that the New Jersey Housing and Mortgage Finance Agency (HMFA) has $277 million in unobligated money that would do ninety percent of what the bond issue would do. In reality however, the $250 million remaining from $300 million in bonds issued by HMFA last year is for mortgages for first-time home buyers at 8.8% for 30 years. Source: Stuart Bressler, HMFA.

The purpose of the $60 million first-time homebuyers segment of the Housing and Jobs Bond Act is to provide down payments and closing costs for first-time home buyers who never get HMFA mortgages because they lack the necessary upfront funds. This is one important issue that makes the Housing and Jobs Bond Act so vital.

The remaining $75 million in the Bond Act is for construction and rehabilitation of affordable housing--also not available from HMFA.

Concern 2: Because New Jersey's bond rating according to Standard and Poors has dropped from AAA to AA+, many suspect that the added interest per year would make it inadvisable to float additional bonds at this time. However, the added cost per year in interest rates would only be between $3,000 and $15,000! Source: Lawrence Singer, Office of Public Finance, NJ Dept. of Treasury.

The dream of home ownership and affordable rental housing has had to wait as a result of the decision not to place the Housing and Jobs Bond Act on the ballot; and the $1,000 a month tax payers pay to house people in motels will continue to be state policy."

On top of this, we now have a new welfare reform initiative called the Family Development Act. While this act provides many of the same components as its predecessor, REACH, including education, training and child care, it says nothing about housing. The welfare grant levels remain at $424 a month for a family of three.

Emergency Assistance is projected to assist 29,000 on a limited basis. This is a stop-gap measure but does not provide safe, decent affordable housing. We expect people to take responsibility for their lives and pull themselves up the boot straps. Those receiving public asisstance and many of the working poor in New Jersey are finding it harder and harder to stabilize their living arrangements. There needs to be a concerted effort to address the housing needs of the very low income. There is a great deal of expertise around to make it happen; but there must be a willingness to make it happen.

What could HMFA do to make it happen? What might be done with the Realty Transfer Tax to put more dollars into the pipeline? What incentives are possible to encourage public/private partnerships?

Thank you.

NEW JERSEY SYNOD
Evangelical Lutheran Church in America
1930 STATE HIGHWAY 33
TRENTON, N.J. 08690
Telephone (609) 586-6800

RESOLUTION REGARDING HOMELESSNESS AND AFFORDABLE HOUSING - SUBMITTED BY THE DIVISION FOR WITNESS THROUGH SERVICE AND ADVOCACY.

WHEREAS, the scriptural witness establishes the tradition of hospitality and advocacy; and

WHEREAS, "He who closes his ear to the cry of the poor will himself cry out and not be heard." (Proverbs 21:13); and

WHEREAS, "If a brother or sister is ill-clad and in lack of daily food, and one of you says to them, 'Go in peace, be warmed and filled,' without giving them the things needed for the body, what does it profit?" (James 2:15-16); and

WHEREAS, "...we are commanded to promote and further our neighbor's interests, and when he suffers want, we are to help, share, and lend to both friends and foes." (Large Catechism, Book of Concord, p. 399); and

WHEREAS, "...good works, like fruits of a good tree, certainly and indubitably follow genuine faith, if it is a living and not a dead faith." (Formula of Concord, p. 146); and

WHEREAS, the New Jersey Council of Churches states: "New Jersey has become a state divided by those who work at jobs that permit them to live in extraordinary affluence separated from growing numbers of people who may work but still remain poor--unable to find decent housing and economic security." (The Reshaping of New Jersey: The Growing Separation, 1988); and

WHEREAS, the National Low Income Housing Coalition in Washington, D. C. states that New Jersey has the second worst rental crisis in the country. The number of homes available to low-income renters at affordable prices has decreased dramatically in the last twenty years as evidenced by the fact that one half of low-income renters pay more than seventy per cent of their income on housing; and

WHEREAS, in 1988 there was, nationally, a 5.5 million deficit in rented units; and

WHEREAS, the federal appropriation for low-income housing assistance has been reduced by approximately eighty per cent since 1981;

THEREFORE, BE IT RESOLVED that the New Jersey Synod Bishop communicate to the New Jersey State Governor, Jim Florio, and to the New Jersey State Legislature and with himself, Carol Kasabach, and the chairperson of the Division for Witness Through Service and Advocacy seek an early audience with Governor Florio, the Speakers of the Assembly and the Senate, and the chairpersons of the appropriate committees or their representatives to address:

1. The necessity for the state to protect existing affordable housing units in both the public and private sectors throughout the state;

2. The necessity of giving priority to developing housing for the following:
   a. Single working or non-working adults whose need is for a single room or efficiency unit;
   b. Single parents with children whose need is for a few adequate rooms to rent;
   c. Mentally handicapped and developmentally disabled persons whose needs are facilities for group living;
   d. Intact families with low incomes or receiving public assistance who need adequate rental units;
   e. Middle income young people and retirees whose incomes are such that they cannot afford current rental unit prices;
3. The necessity for easing "red tape" for non-profit agencies working to develop affordable housing.

Adopted May 17, 1990, Third Annual Assembly, New Jersey Synod-Evangelical Lutheran Church in America