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PUBLIC HEARING  
before  
ASSEMBLY BANKING AND INSURANCE COMMITTEE  
on

"Policies, practices and procedures followed  
by the State Mortgage Finance Agency and  
lending institutions in distributing mortgage  
loan funds from the Mortgage Finance Agency's  
bond issue of October 7, 1982"

**New Jersey State Library**

Held:  
November 22, 1982  
Senate Chamber  
State House  
Trenton, New Jersey

MEMBER OF COMMITTEE PRESENT:

Assemblyman Michael F. Adubato (Chairman)  
Assemblyman John V. Kelly  
Assemblyman Louis F. Kosco

ALSO:

Spiros J. Caramalis, Senior Research Specialist  
Office of Legislative Services  
Aide, Assembly Banking and Insurance Committee

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ASSEMBLYMAN MICHAEL F. ADUBATO (Chairman): Good morning, ladies and gentlemen. We are here today for a public hearing being conducted by the Banking and Insurance Committee in the New Jersey Assembly on the allegations that have been made about the process in issuing the MFA (Mortgage Finance Agency) mortgages that were available to the public officially as of October 18, 1982.

This is an inquiry into trying to understand and to learn and to share accurate information. It is not the intent of this Committee, nor is it the purpose, to confuse the issue. I would submit that this is a nonpartisan discussion, and I would submit that, being a person as the other people here are, who are elected officials, that we are employees of the people, not the State, and not the institutions -- the people who elect us every two years employ us. We are not appointed, and I am sure that many appointed officials feel the same way, even though they are appointed -- that they represent the peoples' interest. But more directly, I want this to be a situation where we can be more helpful to each other in establishing a word called "credibility" in the system. And, "in the system" does not mean the banking system. It means the free enterprise system. It means that our priorities are total in that we see a threat to the free enterprise system, not based on socialism or communism, but based on the insensitivity of those people in the private sector who profess to be the advocates of free enterprise, and I submit, are the biggest threat to free enterprise. I submit that it is the same people in the free enterprise system who some think have a license to "screw" people.

Free enterprise in the private sector does not mean you have a license to give people the "shaft." It means that you have a right to a profit. It means you have a right to do your business, as long as you obey the law, the way you see fit. It does not mean, and it will never mean, that you can "screw" people because the threat to our nation is not communism or socialism. It is anarchy, and that is my fear and the fear of the members of the Committee, and it is the fear of my colleagues who are sensitive to what we are talking about. It is not an accusation made at 86 institutions that were kind enough to use their institutions to help people. That is not the issue.

The issue is that if the public thinks you are "shafting" them, and I submit that many people do think that, then we have an obligation to establish, for the record, what the process is and why it was somewhat confusing to some people, and, maybe if that is true, how we can make it better. If there is anything that we all want in this room and outside of this room, 99 and 9/10's of the good people that are called Americans and obey the law, we want to keep our system a free enterprise. And we want to keep it with equity, because fair play is the American way. That is what this hearing is about -- fair play, the American way, as corny as that may sound. That is what it is, no more, no less. Fair play, equal opportunity, not equality -- equal opportunity -- that is the purpose of this hearing.

I would like to, for the record, introduce Assemblyman John Kelly who is here with us today, and I would ask Assemblyman Kelly if he has anything to say.

ASSEMBLYMAN KELLY: I have nothing to say right now.

ASSEMBLYMAN ADUBATO: Okay. I am sure that during the process of this hearing, Assemblyman Kelly will make some inquiries.

However, at this time, I would like to thank all of you for coming here.

I would like to ask two gentlemen who have been extremely helpful when this all began, and I might say that this public hearing began, quite frankly, when I was watching New Jersey News, the Nightly News, and I saw a person with a problem being interviewed. The following morning, I had four letters in my mailbox. And, that was before I announced the public hearings -- before.

I would also, for the record, like to say that I am a public person, and, naturally, as public people, we have an obligation to share information. In the nine years that I have been in office, I have sent out one press release. That was to announce the Automobile Insurance Reform Plan. I understand that the staff sent out a press release, and that is why we have the television cameras here today. That is very nice; I am glad they are here.

In fact, maybe -- and I don't know if they are here or not, so forgive me -- maybe as a result of this public hearing and the two to follow after January -- one to be held in Essex County and one in Ocean County, where the public who have written will be asked to attend -- if you are here now -- I see some people shaking their heads back there. We announced before that if there was anyone here from the public -- are you ladies here for this Committee?

AUDIENCE: (answer) Yes.

ASSEMBLYMAN ADUBATO: Will you please all come right up here in the front? The last place you belong is in the back of the room. Come up here, please. I would appreciate it very much if you would sit in these seats right over here, please.

So, there are going to be two other public hearings. I did ask the people who wrote me and the people who have been talking to me on the phone that I haven't had the pleasure of meeting as yet -- that we would conduct these two other meetings on what we call "offbeat" hours, either in the evening or on Saturday -- because they are not paid lobbyists. I am not talking about the people out here. But, they are not paid lobbyists, and they are not paid to come to Trenton. So, I think we have an obligation to try and make ourselves a little more available, and that is why we are having these two other public hearings. And we don't ask for overtime either.

The interesting thing is that the two people who I started to talk about, and I went off on a tangent because, quite frankly, I saw the ranking minority member walking in. And when he walks around, I pay attention. That is Assemblyman Kosco. I want to thank Assemblyman Kosco for coming down, and I want to recognize his presence for the record.

I would like to ask Commissioner Renna and Director Kelly if they would please come up here to these microphones. These two gentlemen, I must say, have been so helpful to this chair, and for the record --

Good morning, Commissioner, and thank you very much for attending the session -- and Director. I would like to ask Commissioner Renna if he would like to make a statement?

COMMISSIONER JOHN P. RENNA: I would just like to say that I am pleased to be here today to indicate my support to the Committee and to the public. I would like to let you know that we are here to offer whatever support that we can to try to cover whatever questions may be on the minds of some of the members of the Committee and also the members of the public as to the bond sale that we had. We want to offer our complete cooperation, and I will have,

of course, Executive Director, Chris Kelly, make some statements, and whatever questions that you or any members of the Committee have of me, I would be very happy to answer them at a later time during this hearing.

I would also like to say, of course, that not only are you and the members of your Committee people who have the responsibility to the citizens of the State, even though you are elected by them. I want to say without any question that as an appointed individual by the Governor and a member of his cabinet, I too, have an obligation to the citizens of our State, and that is my foremost objective in whatever I do with government. I do whatever I think is right for the citizens of our State, and I think that at all times, I conduct myself in that manner. So, it is not only elected officials who have an opportunity and an obligation to the citizens, but also those people who are appointed in government such as myself and also Chris Kelly, who have the same opportunity and the same obligation to do what we can to see what is right for the citizens of our State.

So, with that, I would just as soon turn the microphone over to Chris Kelly, the Executive Director of the MFA. As I said earlier, if there are any questions from you or any members of the public or the Commission, I would be very happy to answer them at that time.

ASSEMBLYMAN ADUBATO: Thank you very much, Commissioner.

Good morning, Mr. Kelly.

CHRISTOPHER KELLY: Mr. Chairman, good morning. Thank you very much, Mr. Renna.

Chairman Adubato, I am Chris Kelly as the Chairman said, and I have been the Executive Director of the MFA since 1974. I'm happy to have the opportunity to address the Committee today and explore the concerns of the Committee over the last bond issue of the Agency, which I'll refer to from now on as the Statewide Mortgage Program, SMP-1, as we call it.

ASSEMBLYMAN ADUBATO: Excuse me, Mr. Kelly. I am going to ask myself first and my two colleagues not to interrupt you during your presentation. I think it is extremely important. So, I am interrupting you now, and I won't do it again.

I would ask you, however, in your presentation, not to assume that we know anything about anything. I would like you, in your statement, to include, which you may have already included, the beginning of MFA, what it means, what Act made it responsible, how it functions, and any other basic points -- as an expert, quite frankly, that you may take for granted we know. I would appreciate that kind of -- and again, I don't mean to interrupt your presentation -- but that is the direction we are going. And not only the process of this past bond issue, but as you pointed out, the previous bond issues and so forth, and at the end of your presentation, we will have some questions then. But, I would ask my colleagues, and I am the biggest problem, not them, not to interrupt you during your presentation. Thank you, Mr. Kelly.

MR. KELLY: Well, thank you very much. You have anticipated the request that I was going to make, and that was that I be permitted to make a statement, and I think it is in the interest of brevity anyway because I will stay on the subject of the formation of the MFA and its history.

I want to say initially that I can assure you of the utmost cooperation of the Agency in your inquiry, and I can assure you of the utmost cooperation of

our Agency to the extent necessary for any information further than I have in my presentation. We also have other members of our staff here today -- two Assistant Directors, Mrs. Gibson and Mr. Dippold, and two other staff members who have worked on the SMP Program, Mrs. Mann and Miss Cahoon.

As I said, I will endeavor to be brief, but thorough on this. So, returning to the formation of the MFA -- MFA was created by the Legislature in 1970 under the public laws of 1970, expressly to expand the supply of funds available for single-family, residential mortgages in the State. To date, the Mortgage Finance Agency has issued over one billion dollars in tax-exempt mortgage revenue bonds, and has financed the purchase of over 32,000 housing units in the State. It has further financed 5,000 home improvements for one-to-four family homes also throughout the State.

The Mortgage Finance Agency's activities are governed by State law and Federal law, specifically the most recent Federal Mortgage Subsidy Bond Tax Act of 1980. This Tax Act imposes an annual cap on the amount of mortgage revenue bonds issued by each state, which guarantees that State programs fill only a portion of the mortgage demand within that state. In New Jersey, the 1982 Federal ceiling for the issuance of tax-exempt mortgage revenue bonds was \$304 million.

The MFA does not have the statutory authority to make direct loans. Since 1977, the Agency has operated as a secondary mortgage market using the State's existing mortgage lenders to originate eligible mortgage loans, something in the nature of a State Fannie Mae. MFA purchases loans which are made according to MFA requirements by banks, S & L's, savings banks, and mortgage bankers. The MFA has experienced excellent cooperation from participating lending institutions over the past decade, and that cooperation has been the key to the success of our programs. The Agency operates a business with over \$900 million in assets, with annual revenues of \$50 million, with a staff of twenty-eight, one of the smallest State entities.

The MFA depends upon the participating lenders for both the origination and timely delivery of mortgage loans. The latter is particularly important since under the Federal Tax Act, restrictions on financial mortgage structure of mortgage revenue bonds were imposed, which makes it imperative that the proceeds of a bond issue be disbursed as quickly as possible.

Since 1977, MFA's mortgage programs were directed entirely to urban neighborhoods. The mandate for the expansion into the new statewide program came from our Board in recognition of the depressed condition of the housing industry throughout New Jersey and the lack of affordable financing for first-time homebuyers.

The Statewide Mortgage Program, which is the subject of this hearing today, was funded with a \$239 million bond sale on October 7, 1982, which, incidentally, required a \$7 million subsidy from the MFA. We used the accumulated proceeds of about ten years operations to fund this because it was necessary for this subsidy to make the bond issue viable. The mortgage proceeds from the sale were divided equally to address three separate purposes:

1. \$75 million for the Urban Category to maintain the Mortgage Finance Agency's commitment to the State's urban neighborhoods. That, incidentally, also conforms to a requirement of the Federal Act, which requires that 20% of

the proceeds of any bond issue has to be directed to so-called targeted neighborhoods, which are the urban neighborhoods.

Do you have a question, sir?

ASSEMBLYMAN ADUBATO: Mr. Kelly, as I stated, I am the problem, not my colleagues. I have several questions already, and I think maybe it would probably be better if we stopped you, if it is that kind of situation.

The basic question, and it is really not so much a question as it is clarification -- the basic question, again for clarification, and, again, I am trying to wear the hat of many people, is that this is a Federal, as well as a State Agency.

MR. KELLY: No, sir. We are a State Agency, but because we have the authority to issue tax-exempt bonds, that puts us under the purview of the Federal government. Therefore, the Federal government has the right to restrict --

ASSEMBLYMAN ADUBATO: (interrupting) guidelines are Federal.

MR. KELLY: The guidelines for the issuance of bonds are Federal guidelines.

ASSEMBLYMAN ADUBATO: And, as long as you follow those Federal guidelines, you have flexibility -- that you have minimum requirements. Is that what you are saying? But, you can go beyond that as we have done in this previous bond issue, which we haven't done before, in sharing those monies.

MR. KELLY: If I may just change that. The Federal guidelines apply to the bond side of how we raise our money. We have no Federal guidelines on how we use the money. That is a State prerogative.

ASSEMBLYMAN ADUBATO: Okay, so we're saying that we can give out 100% of these bonds to any entity. It doesn't have to be 20% urban targeted area? That is what I thought you said.

MR. KELLY: No, I did. I misspoke a moment ago when I said that the Federal regulations do not apply to the program side. The Federal regulations do apply to the program side, and I withdraw my statement because I misspoke.

ASSEMBLYMAN ADUBATO: Okay. I don't mean to split hairs with you. The thing is that there is that 20% --

MR. KELLY: Yes, and I will come to that in a moment. I'm sorry.

ASSEMBLYMAN ADUBATO: I don't want to make that an issue. It is just a question of understanding. So, beyond that, the State Agency has the authority -- you have the authority to do whatever you want with the other 80% of those bonds, more or less.

MR. KELLY: Yes.

ASSEMBLYMAN ADUBATO: As long as you have the 20% participation in the targeted urban areas. Now, backing up --

COMMISSIONER RENNA: It is at least 20%.

ASSEMBLYMAN ADUBATO: Pardon, Commissioner?

COMMISSIONER RENNA: It is at least 20%. I think we gave more now --

ASSEMBLYMAN ADUBATO: At least 20%, right. No, I am saying at least 20% for targeted urban areas. Now, prior to 1977, 100% of the money went into the urban areas.

MR. KELLY: That is correct.

ASSEMBLYMAN ADUBATO: Is that a fair statement?

MR. KELLY: Yes.

ASSEMBLYMAN ADUBATO: The purpose of MFA was originally a concept to deal with the individual, single-family home owner. Is that a fair statement?

MR. KELLY: Yes.

ASSEMBLYMAN ADUBATO: Okay. So now we have this transition of time, a change of attitudes in trying to be more innovative in meeting the needs of people, and making other people participate in this program from its original concept. To me, that is not a negative, by the way, for what it is worth.

MR. KELLY: It is only one of the regions, of course.

ASSEMBLYMAN ADUBATO: Right. I am not taking that as a negative. I want you to understand that. I think it is a good thing to be open to change. The basic issue when you talk about the MFA cannot sell the mortgage -- that it has to go through a vehicle -- lending institution, mortgage bankers, whatever -- to sell the mortgage. Is that a fair statement?

MR. KELLY: To originate the mortgage.

ASSEMBLYMAN ADUBATO: Originate the mortgage in layman's terms so I can get a mortgage. I have to go, I can't get it from you.

MR. KELLY: That is right.

ASSEMBLYMAN ADUBATO: Even though I'm getting the information from you about process -- and that is what I am getting to.

MR. KELLY: Exactly.

ASSEMBLYMAN ADUBATO: But, you cannot give me the money.

MR. KELLY: That is right because the Legislature, in its wisdom, did not give us that authority.

ASSEMBLYMAN ADUBATO: Well, that wisdom is in doubt many times, but let's not get into that. Let's talk about the fact that the process right now is that the individual who wants a home reads about it, not by an institution -- you make them aware of the process. That is my point -- that the government -- not you, we do. We, in government, make people aware by telling them, as we did this past August, that these monies are working and we are going to try -- the government is going to try and make more money available. Mortgages were high and, you know, you're trying to give a shot in arm to everybody -- builders, homeowners, whatever. Totally positive things. Is that a fair statement? The announcement doesn't come from the banks.

MR. KELLY: No.

ASSEMBLYMAN ADUBATO: That is my point.

MR. KELLY: That is a cooperative effort. We make the initial announcement, we do most of the publicity --

ASSEMBLYMAN ADUBATO: All right, I'm sure you are going to go into that, but let me go on with the train of thought that I have.

MR. KELLY: Fine.

ASSEMBLYMAN ADUBATO: Therefore, it would appear that without any maliciousness or intent on anybody's part, in my opinion, it is easy for people to be confused on who is doing what, not because anybody said anything wrong, but because you are not the same people. I've got letters that say that "the MFA refused me a new home." You have never refused them anything.

MR. KELLY: No.

ASSEMBLYMAN ADUBATO: That is my point. The MFA never refused anybody a loan. Is that a fair statement, Commissioner?

MR. KELLY: That is completely accurate.

MR. RENNA: I can understand their confusion from the press and from the statements made. They would not know that the MFA does not give the mortgages directly to the individual.

ASSEMBLYMAN ADUBATO: Thank you. That is the only thing I am trying to put on the record -- is that the MFA does not give the mortgage to the individual. It goes to an institution that asks for money, and the money is distributed by that institution, not by the State of New Jersey and not by the MFA? Fair statement?

MR. KELLY: A very accurate statement.

ASSEMBLYMAN ADUBATO: Thank you, sir. That was the purpose of my interruption. Please continue, Mr. Kelly.

MR. KELLY: Thank you, Mr. Chairman. As I mentioned, the \$75 million of the bond proceeds went to the urban category to maintain our previous and existing neighborhood loan program.

\$75 million went into the New Construction Category to provide a stimulus for the building industry.

\$75 million went into the Existing Statewide Category to assist first-time homeowners to buy existing homes throughout the State. This last category is the focus of our discussion today.

The procedures for lender participation in the Statewide Mortgage Purchase Program were established so as to encourage the broadest representation of lenders possible, both in numbers and in location.

The chronology of the program went like this: On August 18, 1982, Governor Kean announced plans for the new program following the MFA Board Meeting at which time the new program was approved. On that day, 452 mortgage lenders in the State were invited to participate in the program as mortgage loan originators. That number included supervised lenders and mortgage companies throughout New Jersey.

Approximately two hundred replied, expressing an interest in participating and were mailed a Commitment Application package on August 24. The lenders were asked to complete the Commitment Application package by September 24, one month later, and to indicate the dollar amount of loans they could expect to originate under each category of the new program.

In order to ensure that lenders made a good faith estimate of anticipated demand for the program, the MFA required that a commitment fee of 1% of the dollar commitment requested accompany the application.

Eighty-six lending institutions, only 19% of the 452 originally invited, submitted Commitment Applications to the MFA. Until September 24, the MFA had no firm estimate of the lenders who would participate or for what amount, or where they were located.

The commitment requests total \$588 million, more than twice the total available estimated bond proceeds. Initially the MFA had approved a bond sale in the category of \$100 million to \$200 million, but upon this information of this enormous demand, the Board then increased the amount to \$225 million to attempt to meet that demand as much as possible. In the Statewide Existing category of funds, which is the subject of the hearing, the oversubscription was even more dramatic. Requests for funds in that category totaled over \$257 million, nearly four times the \$75 million available for allocation.

Needless to say, in light of such extraordinary demand, the allocation

of funds required careful deliberation by the MFA staff during the week of September 27. Our final criteria for allocation under the Statewide Existing and Urban categories took into consideration the lenders' requests, their loan origination capacity, their performance under previous MFA programs, if any, and the geographic distribution of their service areas. The MFA --

ASSEMBLYMAN ADUBATO: (interrupting) Excuse me, Director Kelly, at that point -- with that subject matter, can I interrupt you now?

MR. KELLY: Certainly.

ASSEMBLYMAN ADUBATO: The question that I have, and I need your help on this, is that when we talk about the announcement of the program by the Governor on August 18 of 1982, that is referring to the public press release that was in the State newspapers.

MR. KELLY: That is correct.

ASSEMBLYMAN ADUBATO: Okay, that has no correlation to the availability of monies as of that date. It only announces a tentative program without set patterns or processes involved at this time for this bond issue. In other words, the amounts were up in the air, the amount of interest to be charged was up in the air, whether points and how many points were involved was up in the air -- so it was the intention of MFA in the future to issue these funds, and the Governor stated that he was going to do it, and that was the time to do it because of the urgency of many factors -- the high cost of mortgages, the non-productivity in the homebuilding market, the slack in the economy -- all these things, but the announcement was made in August officially -- on that date. We're talking about -- and forgive my being redundant -- it is because this is crucial to this hearing. This is the thing we are really concerned about. That, as Mr. Citizen, who is interested in buying a home -- that is the thing I am going to grab. That is my hope, that announcement. I don't know, as that individual, just what the circumstances are, but I do know that if I can qualify for one of these loans, then I am going to be a lot better off than if I have to go through the conventional market. Is that a fair statement?

MR. KELLY: Certainly. It is always below market rate with us.

ASSEMBLYMAN ADUBATO: Yes, sir. It is always below market rate. Okay. Again, I apologize for interrupting you, but I wanted to focus on that date of August 18.

MR. KELLY: You are correct. The Governor's statement gave no specifics. He could not give a rate. We had not sold the bonds, and he could not give the total amount of the bond sale. We also had not sold the bonds (inaudible) He could not give specifics. He, however, announced that the timing would be a proposed bond issue in October, so what he was doing was giving the general parameters of what the program would look like and when it was projected for.

ASSEMBLYMAN ADUBATO: All right, the next thing thing that appears -- I don't know if it appears publicly, but it appears with the institutions, is that they are asked to complete the application process by September 24 of 1982, which --

MR. KELLY: Correct.

ASSEMBLYMAN ADUBATO: -- which is approximately a month after the announcement. And, the institutions, at that time, would make a request of how much money in these areas that they would like to have in their institution to give to the general public. That is so you can, I think -- and I am being a little presumptuous on this part, so help me. That is so you have a guideline as to how many

institutions, I think, want to give out these mortgages and what amounts they are requesting. You can better judge your distribution across New Jersey based on that data? Is that the purpose for that September 24 deadline?

MR. KELLY: Exactly.

ASSEMBLYMAN ADUBATO: All right, thank you very much.

MR. KELLY: September 24, by the way, was a Friday, and upon the receipt of the --

ASSEMBLYMAN ADUBATO: (interrupting) One other thing, I'm sorry. When we talk about the \$7 million subsidy to back up in order to make this go, would you please explain to us a little bit as to what that means? Who subsidized what?

MR. KELLY: This was not a subsidy of the mortgages. In order for -- if I may, this is complex, and I'll make it as simple as I can. I --

ASSEMBLYMAN ADUBATO: Thank you for your understanding.

MR. KELLY: Let me explain that from 1974 to 1980, the MFA operated under very simple, but very prudent, rules. When the Federal government passed the Tax Act in 1980, they created a whole new profession of tax experts, arbitrated experts, and people who now we have to call on when we have a bond issue. It is a very intricate operation.

The purpose of the \$7 million is that previously the Agency, when it went to market and raised its money, as an example, at 9%, that it was permitted to put a spread or a markup on that money of 100 -- I won't call it 150 basis points, because that is going to make it sound very -- a point and one-half, plus the cost of issuance. Now, again, Congress said, "No, from now on you are permitted to add up to one point, and out of that one point, you have to pay your cost of issuance."

ASSEMBLYMAN ADUBATO: That point is received by the Agency?

MR. KELLY: It is, in effect, our spread. What it does is it permits the Agency to pay its operating expenses; it permits us to pay services for our mortgages; it permits us to pay any number of expenses, and we are not, as you well know, a profit-making organization. We are a State Agency --

ASSEMBLYMAN ADUBATO: That is very important for the record. The MFA is not a profit-making agency.

MR. KELLY: Over the years, the accumulation of this \$7 million, over ten years, represented the part of the spread that was not applied to our expenses and our reserves. We need reserves like everybody else. We have losses from time to time. So, those increments each year, invested through the State Department of Investment, amounted recently to \$7 million.

Since we cannot make ends meet out of one point, we have to subsidize expenses such as the cost of issuance. Otherwise, what happens --

ASSEMBLYMAN ADUBATO: The cost of issuance, for clarification -- the cost of issuing -- does that deal with the total cost as far as the underwriting goes? Does that deal with the Commission factors involved?

MR. KELLY: It includes the underwriting -- what we actually do.

ASSEMBLYMAN ADUBATO: Does it include the printing of paraphernalia to alert the public?

MR. KELLY: No, that is an operating expense of ours. If there is a program --

ASSEMBLYMAN ADUBATO: Okay.

MR. KELLY: If it is printing bond documents which go to the investor, that is a cost of issuance.

ASSEMBLYMAN ADUBATO: All right. But the data that the Agency sends out to the general public --

MR. KELLY: That is a budget item with --

ASSEMBLYMAN ADUBATO: Okay. And that is a budget item that comes from --

MR. KELLY: Spread.

ASSEMBLYMAN ADUBATO: Your spread. What I am getting at, and thank you for your patience, in a roundabout way. What I am getting at, is that your Agency is not funded by the general Treasury. Is that a fair statement?

MR. KELLY: Not to the extent of five cents.

ASSEMBLYMAN ADUBATO: All right. Now, let me say that again -- from my consumption and everyone else's, because I think it is very important that the MFA functions primarily without State revenue. Is that a fair statement?

MR. KELLY: Absolutely correct.

ASSEMBLYMAN ADUBATO: Okay. So, with the fiscal crunch that we are facing in this State and most states for whatever reasons, it has nothing to do with your Agency's budget. Is that --

MR. KELLY: Absolutely correct.

ASSEMBLYMAN ADUBATO: Okay.

MR. KELLY: I think Commissioner Renna would --

ASSEMBLYMAN ADUBATO: I'm sorry, Commissioner. Please, if you have at any time --

COMMISSIONER RENNA: I think what you were asking in the beginning, Assemblyman, was the fact that you were concerned, or at least interested, in knowing whether or not the \$7 million was either a subsidy from State government or Federal government.

ASSEMBLYMAN ADUBATO: You said it much clearer than I did.

COMMISSIONER RENNA: Okay, and I just want to make sure that you understand that the \$7 million was not a subsidy or any kind of funds that were given to the Agency either by the State or Federal government. It was funds from their own budget.

ASSEMBLYMAN ADUBATO: That you generated --

COMMISSIONER RENNA: Right.

ASSEMBLYMAN ADUBATO: (continuing) with that point, point and one-half spread.

MR. KELLY: That is right. Which no longer --

ASSEMBLYMAN ADUBATO: So, when we talk about this previous bond issue as an example, where the total allocation -- not allocation -- but the total bond issue was \$239 million, and the allocation was \$225 million. You have got a \$14 million differential that did not go into the general marketplace. That \$14 million then is broken down into commission, cost of issuance and reserves.

All right. Now, what amount are reserves and what amount in this bond issue was toward commission?

MR. KELLY: Normal cost of issuance -- those are the expenses paid to the entire underwriting syndicate. In order to sell bonds, Mr. Chairman --

ASSEMBLYMAN ADUBATO: The word "syndicate" disturbs me. What do you

mean by syndicate?

MR. KELLY: I agree.

ASSEMBLYMAN ADUBATO: What syndicate?

MR. KELLY: Bonds are sold through a senior underwriter who heads up the whole group who sells the bonds. In a bond sale of this size, they could very well be in various tiers of importance. The initial underwriting group would be ten major firms. As an example, Goldman-Saks was the senior managing --

ASSEMBLYMAN ADUBATO: Where is Goldman-Saks from? What state?

MR. KELLY: New York City.

ASSEMBLYMAN ADUBATO: Are any of these firms located in New Jersey?

MR. KELLY: Many of them.

ASSEMBLYMAN ADUBATO: In this bond issue, how many were located in New Jersey that participated in these revenues?

MR. KELLY: I think you would understand, of course, that the major firms are headquartered in New York.

ASSEMBLYMAN ADUBATO: I have no problem with that. I am just trying to get a handle on --

MR. KELLY: Okay. I'm sorry.

ASSEMBLYMAN ADUBATO: I have no problem on that. My only problem is that I wish they were all in New Jersey, but that is life. You know, I'm just saying --

MR. KELLY: Again, we did select firms whose headquarters were in New Jersey and firms that had a sizeable branch office network in New Jersey. And, going down the list, the New Jersey firms whose headquarters were in New Jersey were the First National State Bank --

ASSEMBLYMAN ADUBATO: Terrific.

MR. KELLY: Ryan Beck --

ASSEMBLYMAN ADUBATO: Terrific.

MR. KELLY: Fine. All of the firms with, I guess, one or two exceptions, have branch offices in New Jersey.

ASSEMBLYMAN ADUBATO: All right. I don't mean to make this a real issue except to say that, and I'll get off that -- where they come from -- except to say to you that I am very, very much aware, as my colleagues are -- and they can speak for themselves -- but having had the privilege of serving with them, I know how they feel about New Jersey institutions. I am sure that every effort is made where is humanly possible, as long as the firms are qualified to handle the kind of complexity you are talking about -- that the efforts will be made, and have been made, and I hope will even improve, because anything can improve. I am not criticizing your operation.

I would like to see the day come when we have 100% of New Jersey institutions. Now, that is a heck of a statement to make. I would like to see it; I'm sure everyone would like to see it. But, I mean that from my gut that I would, and you are kind to allow me to do this, but I would really ask you and the Commissioner -- and I'm sure -- again, I am not criticizing you. What I am saying is, I would like to see that concerted effort beyond, to see if we can't get even more participation. And I mean 100% if it is humanly possible, you know, to New Jersey. And, I am getting a little carried away on

that, because when you mentioned the New York firms, I keep thinking about the Meadowlands and the pullout in the twelfth hour. And, thank God, we had some institutions in New Jersey -- some that you mentioned -- some you didn't mention that aren't in this area -- that came to the rescue of the people. I think we have an obligation to these institutions to show them and go beyond -- go beyond -- go out of our way to show the New Jersey financial institutions that we, in government, and the people of your Agency, and everybody in this State, including the Treasurer's Office, including the pension funds, to participate more with New Jersey institutions that are qualified than anything else. I mean that very parochially -- I mean that.

Again, I apologize for getting carried off on the other areas, but --

MR. KELLY: Mr. Chairman, I can assure you that our Board has been very conscious of this, and our minutes will indicate that on each one of the recent Board meetings that related to this bond sale, there was the Director from our Board to involve as many and as prominent firms in New Jersey as we could.

ASSEMBLYMAN ADUBATO: I don't doubt that at all, Mr. Kelly. Let me say that again, and I am not trying to make this a defensive struggle. I have no problem with that.

I am just saying that anything that we can do in the Legislature to even improve that situation, we're ready. If it takes legislation -- I'm not saying it does -- if it takes input from us, whatever we can do to keep that going and improve it, we're here to do that. That is all I wanted to say.

The breakdown from \$239 million to \$225 million is \$14 million roughly. The question, again, I have, is how much of that went to reserves and how much went to commission, because I'll tell you the figures I got, and maybe you can help me. The figures I got were that \$9 million went to reserve and \$5 million was the cost of underwriting. Is that a fair --

MR. KELLY: That is a fair statement, yes.

ASSEMBLYMAN ADUBATO: A fair statement. All right. My next question that follows is, naturally the \$5 million in commission is split up against these ten firms. How much of that commission do you know went to total, combined -- no, strike that; that is not important today. We'll talk about that later.

The important thing is, where is the \$9 million in reserve?

MR. KELLY: Well, that is invested.

ASSEMBLYMAN ADUBATO: Where?

MR. KELLY: Through the Division of Investment here in the Treasury.

ASSEMBLYMAN ADUBATO: All right, now, wait a minute. The Treasurer's Office handles that money?

MR. KELLY: Not as general funds. As you know, there is a Division of Investment here in the Treasury, which we can use in the same fashion as we would use an investment of --

ASSEMBLYMAN ADUBATO: All right. This is my whole point, Mr. Kelly, and it has nothing to do with your Agency or you or -- I'm sorry, Commissioner, are you trying to get someone's attention? Let me help you.

COMMISSIONER RENNA: I'm just trying to get Mr. Dippold --

ASSEMBLYMAN ADUBATO: Would you please go -- The Commissioner is -- Aren't you his boss?

COMMISSIONER RENNA: He is an employee. I am not a boss.

ASSEMBLYMAN ADUBATO: Mr. Renna, I say that respectfully.

COMMISSIONER RENNA: Kurt Dippold, incidentally, is Assistant Executive Director of the MFA.

KURT DIPPOLD: I would just like to say, with regard to the question of reserves and the \$9 million you are talking about -- this issue was done with some discount bonds, so the difference between the \$239 million that you are looking for and the \$225 million is a difference of funds actually received by our Agency. We issued \$20 million in discount bonds for which we got funds of only \$11 million, so there was \$9 million in there that shows up on the issued sides, but we never get proceeds for them because they were issued at a discount. So, that is not a reserve.

ASSEMBLYMAN ADUBATO: It is not a reserve?

MR. DIPPOLD: It is not a reserve.

ASSEMBLYMAN ADUBATO: Well, how much is the reserve?

MR. DIPPOLD: The reserve is 3% of the issue which comes out to be --

ASSEMBLYMAN ADUBATO: About \$9 million.

MR. DIPPOLD: Okay, but that is not --

ASSEMBLYMAN ADUBATO: My math is not that good, but \$225 million -- 3% --

MR. DIPPOLD: Right. It is somewhere close to \$7 million.

ASSEMBLYMAN ADUBATO: \$7 million?

MR. DIPPOLD: That is our contribution, but that is not the explanation of the difference between the bond issue size and the amount of loan proceeds available. Okay? That is a function of discount bonds.

ASSEMBLYMAN ADUBATO: I am not going to get into that complexity right now because we are not prepared to handle it with knowledge and understanding, and we can spend several days here dealing with that issue alone.

My point is simple -- whatever your reserves are, whether it is \$7 million or \$9 million, that those monies are now allocated with the discretion of the investment portfolio -- that is a separate entity outside of the general Treasury in the State of New Jersey dealing with pensions and things like that, or what are we talking about?

MR. KELLY: Where you are concerned that these funds would be available to the general Treasury or --

ASSEMBLYMAN ADUBATO: No, my concern is that, if I understand this properly, that these monies -- this \$7 million -- are quite possibly being invested in Texas or California.

MR. KELLY: Well, as you know, the Division of Investment has this problem, I would call it, outside of the MFA. They are constantly being caught between the need for the best rate they can get anywhere and the need to invest in New Jersey. That is not a parochial problem with us.

ASSEMBLYMAN ADUBATO: No, no, no, I am not saying that it only exists with this money. I'm saying that this would be in the same category, that the monies would be available to be distributed without any criteria to New Jersey.

MR. KELLY: Let me just re-phrase it and answer it this way. If you ask me right now if I knew that any part of those reserves was invested out of the State or all in the State, I couldn't answer you.

ASSEMBLYMAN ADUBATO: Okay, then let's drop that. I know the cooperation you have been giving us right along -- that we can get that information --

MR. KELLY: I know it, but I do not know it. I am not withholding any information from you.

ASSEMBLYMAN ADUBATO: Oh, I know that. I know that. Will you continue, please?

MR. KELLY: Okay. The point at which I just cut off what that the MFA can only provide 20% of the demand of \$257 million under the statewide existing category.

During the week of September 27, the Board approved the allocations which you were given as part of the presentation.

ASSEMBLYMAN ADUBATO: (interrupting) What date was that again?

MR. KELLY: September 27.

ASSEMBLYMAN ADUBATO: All right, September 27 -- the Board approved it three days after --

MR. KELLY: This is what you received, I believe, in the mail -- the --

ASSEMBLYMAN ADUBATO: The printout.

MR. KELLY: The printout. Exactly.

ASSEMBLYMAN ADUBATO: All right. But, that was on September 27.

MR. KELLY: Okay, that is on September 27. On September 30, a bulletin was sent out to all participants, advising them that no applications were to be taken until MFA application forms were received, which went out on October 15 --

ASSEMBLYMAN ADUBATO: Wait a minute now. Wait a minute, wait a minute. That is not in your statement, is it? There are several things that you have injected in your statement that I can't find.

MR. KELLY: Oh, well, I'm sorry, I didn't mean to extemporize. I just --

ASSEMBLYMAN ADUBATO: No, no, I want you to. Do not, as I told you before you started to speak, you are being extremely patient with us and extremely helpful. I do not want you to restrict anything to this paper. We have asked you for other things --

MR. KELLY: You are correct.

ASSEMBLYMAN ADUBATO: (continuing) and you are being more than patient and cooperative, and I hope we can be as patient and cooperative as you are.

MR. KELLY: Thank you. I see what happened here. You are correct. Last evening, in going over the testimony and trying to improve it, I did make extemporaneous notes, and one of them is on here which is not in your -- but

ASSEMBLYMAN ADUBATO: All right. There isn't anything official about this.

MR. KELLY: There is nothing official.

ASSEMBLYMAN ADUBATO: I want you to know that, in our eyes, there is nothing official about this. This is not going to go into any record. The only thing that is going into the record is what we say right here.

MR. KELLY: I think at this point -- all right -- continuing --

ASSEMBLYMAN ADUBATO: Those dates --

ASSEMBLYMAN KELLY: Give us those dates over again.

MR. KELLY: Okay, fine. I was seeing just for a moment here that I might be out of place, but I'll give you the dates. All right.

As I said, all the Commitment Applications were to be returned on the twenty-fourth, which was a Friday. On the 27th, the staff spent about three days working up the allocations because we had \$558 million or some figure of that

nature in demand for \$225 million in supply. So, at that point, we did the allocations, which -- Assemblyman Kosco, do you have a copy of that, by the way? That was the printout that we (inaudible). This printout shows what each lender requested in each category, what each lender received in each category, and then it goes on to describe the basis for the allocation -- how they received that allocation and what the formula was. So, if you have that, I think you would be in a better way to understand what we did.

At any rate, continuing -- on the 27th we did this, and upon the finishing of that allocation process, the Board approved the allocations after considerable discussion.

ASSEMBLYMAN ADUBATO: The important thing here is that you had a limited amount of money to distribute, and the cry for money was well beyond your capabilities to distribute those monies. You did not have the money.

MR. KELLY: Two and one half-times.

ASSEMBLYMAN ADUBATO: What was that again, Commissioner?

MR. KELLY: Two and one-half times the request of what we originally had.

ASSEMBLYMAN ADUBATO: All right. So the requests were 250% higher than what you had.

MR. KELLY: That is right.

ASSEMBLYMAN ADUBATO: Right off the bat you knew that there were a lot of people out there that these institutions felt that they could distribute this money if they had it to distribute. Is that a fair statement?

MR. KELLY: We knew --

ASSEMBLYMAN ADUBATO: (interrupting) In other words, what I am getting at is, no matter what you did, there were going to be a lot of unhappy people around.

MR. KELLY: Exactly.

ASSEMBLYMAN ADUBATO: Even if you are perfect, and you are not.

MR. KELLY: For every loan that we were able to make --

COMMISSIONER RENNA: We are nearly perfect.

ASSEMBLYMAN ADUBATO: I won't put that in the record.

MR. KELLY: News of the program, since the Governor's announcement, had generated considerable attention -- and the media and -- the Agency itself received 7,000 phone calls in Newark. We had to put out temporary --

ASSEMBLYMAN ADUBATO: That is exactly why. When you talk about Newark, I have letters, and I have some outrageous accusations where people have called my home and they don't leave me their name. I tell them if they are not going to leave me their name, there is nothing I am going to do about anything. Unfortunately, they also call my office, and as the Commissioner knows, when we are not there, we have a tape machine, and I have quite a few messages on tape in my office. Some people have left their names, and, you know, with confusion, and many of them keep complaining about Newark MFA -- the Newark office -- like you are the people who are giving them the money. That is the point.

COMMISSIONER RENNA: I think we have clarified that for the purpose of the hearing that we don't give the money out directly.

ASSEMBLYMAN ADUBATO: Right, but the interesting thing is that while it is true that the MFA doesn't give the money, the MFA -- and we are talking about the process now, the application process -- is what we are getting into now with

the time frame. So, we are saying that as of September 27, MFA notified these institutions how much -- help me.

MR. KELLY: Sorry, I'll have to break in there. We did not notify them at that point. It was not until the 15th that we arrived at the dollar amount. We new ourselves what they were going to get, but we did not tell --

ASSEMBLYMAN ADUBATO: All right, now, let's get that straight because that is probably the most important thing we are going to talk about today, so be patient with me.

On September 27, the Agency knew how much money was going to be allocated to each institution based on the requests that were made and based on the Agency's desire to be fair and to distribute these monies in the three categories and to distribute it across the entire State of New Jersey as much as possible based on the institutions that requested money. Is that a fair statement?

MR. KELLY: Yes.

ASSEMBLYMAN ADUBATO: Okay. So, in that desire, you came down with the numbers, realizing you had a limited amount of money to begin with and trying to spread it around as much as you could. The Agency knew on September 27 how they were going to do that. The institutions at that time did not know how much they were getting?

MR. KELLY: Exactly right, they did not know. They did not know until the 15th of October by mail, which meant that they received it on the 18th. I'm sorry -- it went out by United Parcel. Let me reiterate that.

ASSEMBLYMAN ADUBATO: I want you to finish that because we are going to come back to it, naturally, but I want to get the total process out first.

MR. KELLY: What was occurring at this point was that we were in a constant communication with our underwriters as to what the bond market would take, so that we were working on one side --

ASSEMBLYMAN ADUBATO: Now, what we are saying in layman's terms is because of the fluctuations that were happening in rapid order with the price of money, more or less -- that it was difficult for the Agency, if I can try to be helpful, to come up with a number that made sense. You know, once you are locked, you are locked because the original press release, going back to August 18, spoke about the possibility of as much as four points, and spoke about -- the press release I got -- and that is something I want to get back to later; I don't want to confuse the issue. But, it also spoke about a higher rate of interest of about 14% --

MR. KELLY: Thirteen, I think.

ASSEMBLYMAN ADUBATO: Thirteen, fourteen, something like that -- not eleven.

MR. KELLY: No.

ASSEMBLYMAN ADUBATO: Not eleven. And now when it comes time to actually have those issues, the markets drop. Fair statement?

MR. KELLY: Right.

ASSEMBLYMAN ADUBATO: The markets drop, and now you are saying, "Hey, we can put this out lower than what we anticipated." And these mortgages are thirty years? Straight?

MR. KELLY: Straight.

ASSEMBLYMAN ADUBATO: Thirty years. They are not adjustable every six months or ninety days or two years or one year? In other words, the person who gets this mortgage knows that for thirty -- my God, isn't that incredible? For thirty years, he is going to have the same rate of interest. No wonder why the people are upset! Anyway, this means that you knew, but the institutions did not know on September 27 how much they were getting.

MR. KELLY: That is correct.

ASSEMBLYMAN ADUBATO: All right -- for those reasons that were stated.

MR. KELLY: At that point we were working with two figures. One, we knew what the demand was -- roughly \$550 million. One, we were working with the underwriters to determine what apparently was the amount the market would take. So, at that point, the \$239 million figure evolved. So, now, we had this knowledge, but the lenders did not.

In our inter-office communications and our bulletins to our lenders, which go out frequently -- on September 30 a bulletin was sent out to the lenders, to all participants, who now we knew the 86 names, advising them that no applications were to be taken until MFA applications were received from the Agency, which were expected to be mailed on October 15. And they were; they went out by United Parcel.

ASSEMBLYMAN ADUBATO: All right, let's stop right there. I made a statement when I opened this hearing -- talk about credibility, talk about perception -- people's perception. See, Mr. Kelly, I have an advantage over many people. I have had the good pleasure of talking to you and learning from you, and talking to the Commissioner, and talking to some of the institution's representatives here who, through the nine years I have been here, we have fought and argued and debated different philosophies, but, I believe -- you see, I have an advantage. I believe that if every institution in this State -- it may sound corny -- that I am aware of is honest. And, when they are not honest, whatever happens to them should happen to them. Certainly, if we become aware of that, we would act and share information.

But, perception is extremely important, and I think you all agree with me. The perception now at this time is to the public, as you stated -- that no allocation, and correct me, please -- no allocation is to be made by any institution prior to the MFA applications being sent to them and being used as the document for that loan. I want to make that so emphatic and so clear, and I hope that I have the ability to do that, and I will ask my colleagues for their help if I am not. And even if I am not, I want their opinion and their advice -- is that in the general public's mind at this point in time -- now, we backed up to August 18. Bang, there is a press release, money is going to be available, so forth and so on. And, no one knows exactly what it is. And then we come down to September 24 -- a certain amount of money. We come down to September 27 after you have received the requests from the institutions. On September 27 the Agency knows how much money they are going to give out. And, they notify the institutions that they are going to get the applications mailed out on October 15. I want to back up to this question, and maybe you answered it and I didn't catch it. At what point in time did the Agency know how much money they were going to have? Did they still know?

MR. KELLY: No, not until October 7 when we sold the bonds.

ASSEMBLYMAN ADUBATO: All right. Now, that is the date I didn't hear before. You might have said it, but I didn't hear it.

MR. KELLY: I think I did earlier because the date --

ASSEMBLYMAN ADUBATO: (interrupting) Okay.

MR. KELLY: (continuing) The date of the bond sale was October 7. Now, while the Agency was working against a perceived figure for the bond sale of \$239 million, even a week or so early, I must impress upon you that a bond sale does not occur until the day of the sale when the underwriter and myself sign a bond purchase agreement, and to indicate how fragile that understanding is -- if something occurs that day, that the underwriter perceives to be an event which will affect the bond sale that he has to sell those bonds, he can withdraw up until that day. And, I might quickly say that on the day that the hostage attempt was made in Iran, we were selling bonds, and at nine o'clock in the morning, the underwriters decided they would wait until eleven o'clock before they signed the purchase agreement because they weren't sure of the extent of what hostilities would occur.

What I am saying is that on October 7 there was a bond sale. But, until --

ASSEMBLYMAN ADUBATO: October 28.

MR. KELLY: No, on October 7 there was a bond sale.

ASSEMBLYMAN ADUBATO: Yes.

MR. KELLY: Okay. The closing was the 28th. We'll come to that in a moment.

ASSEMBLYMAN ADUBATO: What I am saying is that at the closing, not at the sale, are we talking about the fact that they can walk away from the situation on October 7 or they can walk away from it October 28?

MR. KELLY: They owned the bonds as of --

ASSEMBLYMAN ADUBATO: Of October 7.

MR. KELLY: That is right.

ASSEMBLYMAN ADUBATO: Right. That is what I am getting at. So, as of October 7, prior to the announcement that the institutions would have the applications, probably on the 18th -- being sent parcel post on the 15th to these institutions -- or whatever way they were sent -- that they would be first available to the public on Monday, October 18.

MR. KELLY: I'm not sure I understand the statement. I have it pretty clearly in mind, but, first the bond sale was subsequent to the announcement in the bulleting saying, "We want to call to your attention that MFA application forms will be in your hands presumably on the morning of the 18th. They would leave us on --" But, that was a week prior to the sale of the bonds.

ASSEMBLYMAN ADUBATO: Was that information given to the institutions on October 7th?

MR. KELLY: No, it was given to them on September 30. The bulletin which I --

ASSEMBLYMAN ADUBATO: Oh, on September 30, they knew how much money they were -- That is what I am trying to get at. On what date did the institutions know how much money they were going to get?

MR. KELLY: Okay, October 15. The 15th was the date on which a package went out, and in it, you were told how much money you were going to be allocated.

These are the application forms and various other --

ASSEMBLYMAN ADUBATO: So, even though the bond sale was completed on October 7, and the Agency knew at that time how many bonds were going to be sold, and at what rate and so forth and so on, the actual allocation to the institutions was not public to the institutions until they received the distribution package.

MR. KELLY: They received a carbon copy of their own commitment application form. We kept one copy and they received one copy, and in it was what they had asked for, what they were getting, and since they weren't getting all they asked for, there was a check for the refund of the commitment fee that they had put up.

ASSEMBLYMAN ADUBATO: Okay.

ASSEMBLYMAN KELLY: Just one thing on the dates. You said that you found out, the Commission found out, on the 15th of how you arrived at a dollar amount.

MR. KELLY: Was that October 15th?

ASSEMBLYMAN KELLY: No, September 15. That was what you said before, or else I wrote it down wrong.

MR. KELLY: September 24 was the date that we received all the requests. I don't think there was a date on September 15 --

ASSEMBLYMAN KELLY: You said that you arrived at a dollar amount --

ASSEMBLYMAN ADUBATO: I think the confusion on the date of the 15th -- I've kept saying the 15th, and maybe I might have slipped and said the 15th of September. I meant the 15th of October, so I may have misled you.

MR. KELLY: I understood that it was the 15th of October because nothing occurred on the 15th of September.

ASSEMBLYMAN ADUBATO: Okay, I may have said --

ASSEMBLYMAN KELLY: Let me take it to October 15. On October 15, you arrived at the dollar amount. Is that the date that you arrived at the dollar amount that the institutions were going to get?

MR. KELLY: We had arrived at it before, but that was the date that we sent them official notification that they would receive --

ASSEMBLYMAN KELLY: So, they didn't really know what the dollar amount was until sometime after that then.

MR. KELLY: Exactly, and I must mention again that during the period that they did not know what they were going to receive; certainly we felt it would be highly imprudent for them to be either allocating it to their own customers -- we felt that they would be, at best, just waiting for us to --

ASSEMBLYMAN ADUBATO: Thank you, Director. Now we are dealing with the crux of perception and the credibility that we all want. So, the institutions did not know how much money they were going to have. They were asked for a request. They were not told that whatever they requested, they were going to get.

MR. KELLY: Absolutely not.

ASSEMBLYMAN ADUBATO: And, I think you used the word "prudent" when you described the fact that your letter, which you were kind enough to send me a copy of, said to the institutions, and I am not going to quote exactly word for word. I have it here, but I am not going to go through the whole letter, except to say that your letter set down guide lines. And your letter said to the institutions that "these transactions must take place using the MFA application." Is that a

fair statement?

MR. KELLY: I think it is a paraphrase, but it is --

ASSEMBLYMAN ADUBATO: It is a paraphrase, but is it a fair statement?

MR. KELLY: Yes, I was just looking for that exact language. I believe the exact language said, "You will get the application forms in the mail on October 15." Obviously the inference is, use these forms.

ASSEMBLYMAN ADUBATO: Is it a fair statement to say, Mr. Kelly, that the reason why you did that was to more or less give everyone in the State an equal opportunity if they were qualified to have an opportunity for that mortgage -- at the same starting point? In other words, when a horse race starts, and assuming that all the horses in the race are of equal calibre, and it is the Kentucky Derby, let's say -- they all carry the same weight. It is not a handicapped race. This is a race where all the people in the State of New Jersey are given the same opportunity if they are qualified. I'm not saying that non-qualifying people or you or the institution should make bad loans or to give out money to people who show they can't afford to pay a loan. Certainly, I think we have tried in the past to help many people and we have suffered for it -- those borderline cases, where, unfortunately, some agencies have had to take back the homes and take back the mortgages. I'm not saying that.

What I am saying is that your letter that went out said to these people, "Look, we are not giving you all the money you wanted. We don't have it to give you." Even though you didn't say this -- there is nowhere where I'm saying that you said this. Your intent, when I look at your letter, is to say to these people in a nice way, "Look, you are not getting all the money you wanted. This is all we can give you, and please use the applications provided for by the MFA." Is that a fair statement?

MR. KELLY: Yes, it is a fair statement as to our policy. I'm trying to distinguish there, and I am looking for exactly -- here is the September 30th letter.

ASSEMBLYMAN ADUBATO: Yes, sir. I have a copy of that.

ASSEMBLYMAN KOSCO: Wasn't the procedure as far as the application form is concerned more specific than that? Wasn't it that that particular form had to be used and no other form?

MR. KELLY: Here is the way it reads: "Upon receipt of the commitment acceptance and programmatic forms, lenders may begin accepting mortgage loan applications from prospective borrowers under the program." This is exactly the language. It didn't say, although it is implied, that -- I would have to believe it is implied that when you receive the forms, use them.

If I may step back a moment, Mr. Chairman, we have had since 1977 -- this would be the fifth program of this type -- in each case we followed the same procedure. There are some small variations, but nothing really substantive. This flood of applications never occurred before. We had no way of anticipating it prior to embarking on the program. So, we didn't change the rules, and the rules basically were that on the date we receive our money, which was, in this case, on October 28, at which time the underwriter hands me, and I hold for a moment a check for roughly \$225 million -- \$230 million -- and I have to endorse it and immediately it goes into the bank. So, I am a millionaire for just a minute. That check now indicates that we have the money to fund the program, and until that

moment, we don't want people making commitments for that money. Not applications; that is the first step. The commitment is when the lender says to the borrower, "You have a commitment from me, and I am getting the money from MFA for your \$50 thousand loan." That is the critical date to us.

ASSEMBLYMAN ADUBATO: Well, let me make that a little clearer for us. That commitment, you are saying, should not be made prior to the institution knowing how much money they have.

MR. KELLY: No, prior to us closing on the bonds and us knowing that we are going to get our money from the bond sale, and the lender now knowing that there is no question. The money is now in the bank.

ASSEMBLYMAN KOSCO: But he still doesn't know how much --

MR. KELLY: He knows at that point. He has already been told on the fifteenth that it is a million dollars, but until we sell the bonds and we get the million dollars, which as you know was on the 28th --

ASSEMBLYMAN KOSCO: This is October 15th?

MR. KELLY: No, the date of the closing. The bonds sell on the 7th; that is the date that the underwriter sells the bonds and actually the bonds are sold to investors on that date, generally. They may not all be sold; there may be some at the end of the day, but they are sold. As far as we are concerned, they are sold. We don't get our money until the closing, which means that, in the meantime, the underwriter has collected his money from the people who bought the bonds, and now he has the money to give to us.

That is the critical date from our standpoint. We have always said, "Do not make any firm commitments prior to the date of the closing." In previous programs, the date of application was not critical. There was always plenty of money. We have had programs -- \$136 million in 1980 -- it took us about 18 months to get out.

ASSEMBLYMAN ADUBATO: Director, I think that the reason why we are here now though is obvious because of the times we are living in, and where in the past, maybe it wasn't that much of a crunch for some people, and the competition was a little different than it is today-- that with the double digit unemployment, with the cost of money still skyrocketing to the people, in spite of the prime rate coming down, in spite of discount rates coming down, the people still have not been the beneficiaries of those programs -- of those escalations now. And, I am not making any charges or accusations at anything. What I am saying is, is that some people have an opinion that what institutions are trying to do, and it has nothing to do with this bond sale, except that the stampede, as one paper story reported this -- as a stampede -- which is something, certainly, your Agency has never seen before. Is that a fair statement?

MR. KELLY: Correct.

ASSEMBLYMAN ADUBATO: Okay. The stampede that took place in this transaction highlights -- highlights the fact that the care in the process has to be looked at a lot more carefully than it has ever been looked at before because there is great competition for those monies today. That never existed before. The people out there are competing for that more so than ever before -- to have that American dream of owning their own home and so forth and so on.

That is something of the past. When you talk about a thirty-year mortgage at 11% -- let's not go into what is happening in the market. I'm not

blaming an institution. I'm just saying that it is obvious to me why there was that stampede. It is obvious that the confusion, with all the technical skills aside, that I still come back to the dates of October 15 and October 18 being crucial -- very crucial. And, I still say that my interpretation of your letter is clear, and that letter to me says, when I read it, that no monies are to be allocated without using the MFA mortgage application. To me, that is very clear. Now, I thought that was your intent.

MR. KELLY: I am not quarreling with your interpretation of that, Mr. Chairman. What I am saying is that the --

ASSEMBLYMAN ADUBATO: Okay, thank you. Now, let me help -- get back to commitment. You, sir, have no jurisdiction over what an individual institution commits to at any time. Is that a fair statement?

MR. KELLY: That is correct.

ASSEMBLYMAN ADUBATO: Okay. The institutions, however, on these applications, on these forms, did not have them until the 18th of October. Fair?

MR. KELLY: That is correct.

ASSEMBLYMAN ADUBATO: So, if an institution allocated their money before they got the application by making commitments, you could not stop them, could you?

MR. KELLY: It would be without our knowledge.

ASSEMBLYMAN ADUBATO: Without your knowledge.

MR. KELLY: Of what is going on out in the --

ASSEMBLYMAN ADUBATO: What I am driving at is that you are not inside the banks.

MR. KELLY: That is correct.

ASSEMBLYMAN ADUBATO: Now, if you did know that before these institutions got an application that they already committed their money, and you see, we have to get back to perception -- we have to get to the horse race. If everyone is starting from the same gate and carrying the same weight with equal ability in the jockey, and they are all going for the finish line at the same time -- and that analogy says to me, that is the way I perceive the program to exist -- as long as they are qualified for the money and meet the criteria. And your letter certainly supports that in saying that these applications are going to be available in these institutions. And that was in the newspaper, wasn't it?

MR. KELLY: I can't say specifically because I have some news reports here, but I don't know if I have that. Maybe I can help also here. I did not read the full letter because there was a question from Assemblyman Kosco, which I --

ASSEMBLYMAN ADUBATO: I apologize. Go ahead.

MR. KELLY: (continuing) accepted. The letter of September 30 starts by saying, "It has recently come to our attention that several prospective SMP participants have started to accept and process mortgage loan applications in anticipation of the upcoming program."

"This procedure is not acceptable to the Agency --"

ASSEMBLYMAN ADUBATO: Director, thank you very much, and for public consumption, let me say this. You have been through -- already. You are both patient. You have been through a heck of a lot, and you have been answering questions that have been coming at you from all directions.

For the record, I want to say that when I called you and Commissioner Renna, I got nothing but cooperation. For the record, I want to state that you

sent me every documentation, every letter, and every correspondence that ever had anything to do with this bond sale. I want that on the record. And the mere fact that you may not remember something, I want everyone here to know that you have already given me the receipts. You have already given me these letters.

And, that was the thing, when you talked about your opening statement there. Aren't you more or less admonishing these institutions?

MR. KELLY: I don't know really --

ASSEMBLYMAN ADUBATO: Well, maybe not admonishing, but aren't you asking them in a nice way to cease --

MR. KELLY: We are putting them on notice that we have heard about this, and we are telling them to cease. That is the second paragraph. That is not acceptable to us.

ASSEMBLYMAN ADUBATO: Thank you, sir. And, to get a total picture, isn't it a fair statement to say -- again, backing up -- the fact of what kind of an entity the MFA is -- that you need these institutions to distribute these monies. You can't do it.

MR. KELLY: Absolutely correct.

ASSEMBLYMAN ADUBATO: And these institutions really don't make a whole lot of money on these deals, do they?

MR. KELLY: They are always telling us that they actually lose money on it, but they come in from the standpoint of public participation and public --

ASSEMBLYMAN ADUBATO: I will not give you my response on record. But, I will say to you, bull, and let you finish it. The important thing is that these institutions do not probably make as much money as they would make in a conventional transaction. I would accept that. I would accept that totally.

MR. KELLY: No question.

ASSEMBLYMAN ADUBATO: Totally accept that. But, I don't think they lose money. And I also think that part of the problem here is that some of these institutions, and forgetting that I am the Chairman of Banking and Insurance, and I am going to say it without coming forward -- that these institutions have an obligation also to the people who make deposits in those institutions. It is common sense that the savings and loan or even a commercial bank would -- even though we perceive this to all coming from the same starting block -- would, in a rational way, show a preference to people who have been doing business with them for twenty years who are qualified and they need a mortgage. I'm not saying it is right or wrong; I say I understand it.

MR. KELLY: That would seem logical.

ASSEMBLYMAN ADUBATO: I understand it. What I don't understand is mortgage bankers doing it. What I don't understand are some other financial institutions doing it because I don't understand that relationship with the individual because there isn't any. It is an arm's length paper deal.

Now, in those kinds of institutions that are listed here that don't have applications available or are going to going to another conduit -- and that is the next question I have.

COMMISSIONER RENNA: May I say just a few words, Mr. Chairman? I have to beg that off on the continuation of the meeting only because I have three or four other commitments. I just want to let you know that if there are any

questions that you have before I go, I would be very happy to answer them. I think the problem here, and you can pursue it through the course of your discussion here -- I think the problem we face here is the fact that even though there is a perception on the outside, it is a perception of a lot of things on the outside, and maybe perception of people working in government that are not doing what they are supposed to do. There is a perception on a lot of things on the outside, and I can understand the perception that the people have here. Your analogy of a horse race is something that I don't really see because there are seven or eight horses in a race or whatever amount there are, and that is all that there is in that race. There are no other horses in that race. If you put a bet on one of them, and make 8,000 people bet on that horse, only one or two or three or maybe a hundred of them will collect on that horse. The other 7,000 or 8,000 people who bet on that horse do not collect because they happened to pick the wrong horse or because the horse lost.

What I am trying to saying is the comments that have been made here that of all the bond sales that the MFA has had in the past, the same criteria was used and the same process was used. It is obvious that the situation that we have now was something that was never anticipated only because of the fact that we received so many calls and so many people were interested in the program of necessity, of course. In any case, the making -- the making that we should look into more of these programs. We can't do it only because we only have a limit of what we can sell on bonds in any one year.

I would suggest to the people who did not receive a mortgage that they contact their Congressmen or Senators to tell them to be sure that they come in and try to extend the law that expires December 31 of next year, which will put the MFA out of business as far as selling these bonds. Maybe they should contact them and say, "Hey, this is one method of buying a home. Yes, we don't have enough of it, but we do have something here that we never had before. We don't want this bill to die in December of 1983. We want it extended." Let their Congressmen and their elected officials in Washington know that they need this type of thing, and they would like to have them push this through for an extension or at least do something about extending it so that we don't go out in December of 1983. Maybe in 1984 we can come out with another \$250 million or \$275 million worth of bonds that will again put some people into housing for their American dream, as you pointed out.

But, the fact of the matter is that the problem that was created here was that there were, as Mr. Kelly pointed out, 7,000 people approximately that contacted their office. I don't know how many contacted the DCA, my department. I don't know how many people contacted the various banks that we have in the State of New Jersey. I would say somewhere in the neighborhood of 10 thousand, 12 thousand, or 14 thousand people made requests for a mortgage of which we could only fund some 3,000 units. Even though we had this big amount of money, we could only fund some 3,000 units. We had some maybe, as I said, 12 thousand or 15 thousand interested in getting a mortgage. There is absolutely no question about the fact that the people who did not get it are disturbed, they are upset, and they are disturbed. I can agree with that 100%. But, the fact of the matter is, perhaps when this is all over, the MFA, through its staffing, myself, and members of the Board of the MFA can sit down and perhaps come up with some sort of a future method of selecting those people

who will be getting the mortgages -- whether it be by raffle or whatever the method that we try to determine would be a little more fair, if you want to put it that way. I don't believe, unless someone points to me -- I don't really believe that any mortgage banker or institution is purposely or fraudulently trying to keep some of the people from getting a mortgage. I don't believe that. I think it was a case of where you may have had a thousand applications and able to submit, as Mr. Kelly pointed out in his letter to you -- some institutions only had 4 or 5 mortgages that they could give out with the money. Some had 40 or 50 maybe.

But, the fact of the matter is, I don't think any institution had enough money to give to the people who really requested a mortgage. That is where the problem is. So, the perception -- yes, I don't think anybody is going to deny the perception that something was wrong. Why didn't I get a mortgage? Well, he got one or the next person got one. That is perception. The actual tracks, of course, you could probably tear out with some of the people who are here when they talk to you later. Some of the institutions, I understand, are here and can tell you how they arrived at how they get the mortgages out.

I think it is ~~unfortunate~~ that we don't have enough money. I am certainly pleased, and let me say that I am very pleased that the MFA was able to sell \$225 million worth of bonds. I am pleased that, for the first time, we did go statewide because in giving \$75 million to the construction industry, you put people to work. The unemployment situation, as you know, is just as bad, and putting people back to work means taxes -- sales tax, income tax -- it means a lot of things to the State of New Jersey's economy. I think that is a plus on the whole program, and I know you had said from the outset, and I certainly want to congratulate you that it is not a witch hunt. It is not something that you are talking with the MFA. It is something that you want to try to correct the perception as has been given on the outside as far as the public things were done, with the money that each institution had. We, of course, being on the other side of the coin, are not in the position to tell you what they did. We can only say that in the future, if we have another big bond sale, which we certainly hope we have -- if the bond market is available after the first of the year and we get our new allocation of bonding, that we would certainly like to go to market and try to get another big bond sale out. If we do, at that point, before we do, we will probably sit down and discuss various ways of making, awarding the different people a mortgage. If we can do that, maybe that will take some of the perception away.

But, I did want to say before I left that the MFA has been doing this now for many years, and they have done the same thing this year that they have done in the past. They have sent out the notices the same as they have in the past, the cooperation is the same as it has been in the past, and, of course, it is something that no one expected even though maybe we should have in view of the fact that the economy was the way that it was. When you are talking about eleven percent mortgages, as you pointed out, the thirty years is unheard of today. Based on that, we had an an over and over and overabundance of applications for a small amount of money. I think that is really the problem that we have been faced with here today, and I think that maybe when it is all over, we will probably come up with some sort of method for future sale of how we can be -- as I said

before, if you want to use the word more "fair" in distributing the mortgages, then we'll take it up at that point.

But, I want to thank you fellows for having this hearing, and having me here. I told you in the beginning that I was here to try to cooperate in everyway possible, and I think you will agree that I have. You have the other members of the staff here. You have the Executive Director, you have Kurt Dippold who is an Assistant Executive Director, and you have Connie Gibson who is also an Assistant Executive Director and who can answer any question you want to know about the program and about the other methods of how the Agency operates. I am just very pleased to be here and hear some of the questions that are asked, and hopefully, we will get to a situation where, in the future, we can at least -- we will never satisfy everybody, but at least we can let the people know whether it be by the press -- and that is another thing, you know, you can't really tell twelve or fifteen thousand people individually how you are going about the process, and that is about what we have to do. We want everybody to know what we are going to do.

So, hopefully in the future, when we get another bond sale, we'll sit down and analyze what happened now and find out what we can do with anything to alleviate any of the perceptions that may be wrong from the outside because we, in the MFA -- the staff and myself, the Board members are there, as you said in the very beginning -- and I want to reiterate, to serve the public of our State. We want to do whatever we can to be sure that that service is done in the proper manner. We will always do that as long as we are in office.

Thank you.

ASSEMBLYMAN ADUBATO: Commissioner, thank you for your statement, and thank you for coming. We'll continue the process with the Director.

Does anyone have a question of the Commissioner before he leaves? No, thank you, Commissioner.

ASSEMBLYMAN KELLY: I want to ask a question now. If I am a lending institution and I have \$10 million in commitments from you or MFA money, how soon must I close those mortgages and deliver the loan to the Housing Finance? Thirty days, sixty days, ninety days or a year? Must those loans be transferred to you immediately?

MR. KELLY: Are you talking now about when you must -- within what period you must commit your money and within what period you must deliver?

ASSEMBLYMAN KELLY: When must I deliver the loans to you?

MR. KELLY: All right. Within the period you have to deliver loans to us, first, you have to make your commitments to your borrowers and then you have to deliver. All right? The commitment period is ten months, and within that time, you have to commit all your money, and there is a thirteen month delivery period.

ASSEMBLYMAN ADUBATO: I think what the Assemblyman asked is something that we all want to ask, and I thank him for it. It is the understanding in your letter dated September 30th, isn't it?

MR. KELLY: There was a letter of September 30th, yes.

ASSEMBLYMAN ADUBATO: Two weeks prior to the applications being mailed out, two weeks prior to the institutions knowing exactly how much money they were going to have available, two weeks plus prior to the public understanding,

which is my understanding, that you could not get a loan unless you filled out these applications because the testimony we are going to hear from the people, not only at this hearing, but in 1983, when these hearings continue in Essex and Ocean Counties, is that they were told by the institutions when they applied for a loan that there were no applications available, and they would have to come back on the 18th to fill out an application in order to qualify for that loan. That is the issue. That is the charge. That is the inquiry.

In looking at these allegations of the public perception and my perception -- that you could not get this loan unless you filled out that application. Now, when we get into the commitment process, as Assemblyman Kelly pointed out vividly, they had ten months --

MR. KELLY: Not quite, not so. I think the --

ASSEMBLYMAN ADUBATO: Then correct me. I want to be corrected.

MR. KELLY: Fine. Assemblyman Kelly --

ASSEMBLYMAN ADUBATO: Give me hell because then that statement, if it is true, it even appears to be worse than what it might be.

MR. KELLY: Assemblyman Kelly, unfortunately, is no relation -- the question was directed more at the period during which the lender ships into us a completed loan package. There are a number of steps and a time frame, and I think the Assemblyman would agree that it is certainly a -- what would you say, a minimum from the time that you would take an application, make the loan, and if you were, by any chance, selling that loan to one of the secondary markets, and got all of your papers together, what would you guess would be the amount of time before you were ready to ship that loan to Fannie Mae or anyone else that is a secondary -- or an investor?

ASSEMBLYMAN KELLY: Are you addressing me?

MR. KELLY: I'm sorry. Yes, I am.

ASSEMBLYMAN KELLY: I would say two months. About two months.

MR. KELLY: Two months. Okay, that is the minimum, and normally the period we give for that delivery of the loan is designed to be completely adequate. We don't want to -- because the penalty involved in not meeting the commitment period is the forfeiture of your commitment fee, so the ten months is sort of academic. We will accept it obviously in two months, four months or six months. But, if you go to ten months, we are going to keep your one percent. Now, the twelve-month period is designed to be an absolute cutoff, and the point that I am trying to get at is the ten-month -- if you are alluding to the fact that there were ten months to make loans, under normal conditions we have had issues and programs that did not go well. If anyone wants some very attractive thirteen and one-quarter percent money from our bond issue in April, just see me after the --. So, we have 13¼% money --

ASSEMBLYMAN ADUBATO: Director, that is the whole point. I didn't want to keep the Commissioner; he was very kind to stay as long as he did. And, I want to continue this; I want to go for another ten minutes and then break.

But, that is the whole point. The whole point was that the Mortgage Finance Agency from its inception in 1970 up until 1977, functioned in a certain way to meet certain needs. And, then you changed to meet the times. I suggest that what happened with this transaction is that the institutions and the Finance

Agency, as was stated, did not meet the times, and did not change their operation. They operated under the old operation where you didn't get rid of your money -- where you had time lapse because there wasn't that demand out there. And, I think what has happened here is obvious. Not to be redundant again and go over that whole thing again, I'm not going to do it.

The fact remains that because of getting availability of mortgage money four points under the market, and with a thirty-year payout, it is obvious that there was going to be a stampede. It is obvious to the institutions. I'm sure they knew that they were going to get a stampede, and it is obvious that the people and the confusion -- the confusion that exists is based again on the premise that the individual could not qualify for a loan. I keep coming back to that, and I also refer back to your letter of September 30th saying to the institutions to cease taking commitments on money that they didn't have, and to use the MFA application. It is that basic, that simple -- we can color it, we can say we need more money. That is true. You can say Congress can do more things. That is true. It is all true. It does not, however, I submit, deal with the fact that those monies were allocated before the applications were in hand in many cases -- many cases -- many cases. And, I can say that without any pang of being corrected.

MR. KELLY: Mr. Chairman, you did say earlier -- I think your own statement was that a lending institution, with its own list of customers, independent of MFA --

ASSEMBLYMAN ADUBATO: Yes, sir.

MR. KELLY: (continuing) would apparently follow possibly a logical method of doing business by at least taking names. We are not saying -- and this is again, unknown to us. You are going to have some testimony today by lenders. I would prefer that any speculation of what the lenders did be put off until the lenders, themselves, testify.

ASSEMBLYMAN ADUBATO: Yes, sir. No, that is fair. That is fair, but let me inject a very brief, and I mean brief, letter. I have permission to read the peoples' names and where they live.

This is a very brief letter from a Thomas and Laura Kaufman in Morristown:

"Dear Assemblyman Adubato:

"I read with interest your concerns voiced on the recent MFA mortgage loan program. We are one of the thousands who were unsuccessful applicants, and I have one question and one comment as follows:

"Question: Does a relationship exist between those giving the loans and those receiving the loans? Is it blood? Are they co-workers, etc?

"Comment on what these priorities are. While I think it is good, we never even received an application! Ms. Logan of Morris County Savings in September kept telling us to call back because they weren't available. (Referring to the application) On our last call, she said, "The money was all lent out."

"So, unfortunately, we are not related to anyone, and this would leave people like us outside again." "Very truly yours," And, then she makes some personal comments about what we are doing, but I won't go into that.

This is a letter in simple terms that goes to and connects every single communication I got that by innuendo, as well as by flat-out statement, the people feel that the only way they could have gotten those loans was that you

had to be related to somebody, had to be a good friend of somebody's -- you see, or had to have what is known as a "connection." That is the charge. It is a very serious charge. That is the allegation.

What these people see is that in September, following the August press release, August 18th or whatever it was, of the Governor saying that, "We are going to have these monies available in the near future." And people calling MFA in Newark and not getting applications because they couldn't get any from MFA. MFA didn't have them to give.

MR. KELLY: And couldn't give them.

ASSEMBLYMAN ADUBATO: And couldn't. Thank you, sir. Then going to an institution -- now, this person lives in Morristown. The institution is in Morristown. And I say that because I am sad to say to you that some people have said to me, off the record, and so I won't use their names, but I will certainly use their comments -- that, off the record, "why should an institution give a loan to somebody down in Newark who wants to buy a house up in the suburbs?"

You know what that says to me? First of all, for the record, I have not gotten one complaint, I have not heard of one complaint from any source or any citizen or resident in the City of Newark. The overwhelming majority of complaints that we have gotten come from people who are good people who live in the community that the institutions are located. And, having been refused from those institutions, then proceeded to go outside of their community, and they did, to other institutions when they found out that these other institutions had a lot more money allocated to them than the institutions in their own town. And, the record is almost unanimous that they were told, they were strung along -- I've got documentation here, Director, that shows people paying fees -- paying fees to institutions saying that they were going to commit them a loan without the application -- before the application. I've got it documented, and you know something, some of these people took the pain and the time to send me certified mail, notarized letters, which are legal documents. Now, when people go to that length, they are serious; they are very serious. I want you to know how serious this is.

I remember sitting in these same chambers in 1976, and I don't mean to cast any stones, and finding about the inequities that existed for 50 years in automobile insurance, and some of the lobbyists smurked and laughed and smiled when I made a commitment, and I said, "I was going to know more about your business than you do" to them, and, "we're going to have an equitable business practice in New Jersey in automobile insurance." And, we will. Before this year is out, it will be completed.

Today, during the course of this hearing, I have seen some smurks from some people. And, I have seen some sarcasm from some people. Not you, Commissioner, believe me, and not you, Director. I am not talking about you, believe me. But, these people, I have a message for you with all your smurks and all your smiles, and your attitude, I call it. Thank you for coming, and I hope you are laughing when these things are completed in February. And, I hope the people are going to get a fair deal because certainly while MFA, Director, have changed its principles in allocating monies, certainly under the times we are living under, I suggest very strongly that we also change your practices on the way you give out these monies. I also very strongly -- I am going to say it now, and you'll

hear it again -- that I understand there are some monies left over -- very small amounts in the suburban market and the new home market -- several million dollars in each category that have not been given out, that are still in MFA. There are a few million dollars there that you are holding onto for some reason?

MR. KELLY: In the new construction portion, it is money that has not as yet probably been committed, because as you know, in new construction, you have a process that would take almost a year.

ASSEMBLYMAN ADUBATO: But, you haven't given that out.

MR. KELLY: Yes, there are 300 developers in the new construction category, all of whom have a certain allocation. It may be even nothing more than two or three or four houses. Again, I have to refer to this, if I may.

ASSEMBLYMAN ADUBATO: No, I don't want you to go into -- What I am saying is that the allocations that are out are out. I'm saying from that \$75 million, my information, and I am not going to look in it right now, shows me that there is as much as several million dollars left, or \$2.5 million to be given out.

MR. KELLY: In the new construction category.

ASSEMBLYMAN ADUBATO: Yes. Is that a fair statement?

MR. KELLY: I would guess that it probably is true because we do not allocate to the very last dollar.

ASSEMBLYMAN ADUBATO: All right. So, in other words --

MR. DIPPOLD: In the new construction category, the process we used to solicit participants or developers or banks was such that we sent out letters to every builder in the State and said, "If you want to participate in the MFA program, contact your bank, and get --

ASSEMBLYMAN ADUBATO: Every builder?

MR. DIPPOLD: Yes. Okay? We are talking new construction only here. At our Board meeting, when this procedure was gone through, the comment was made, "Well, what happens about the person who owns his own land for some reason and wants to build a new house? Is he shut out of the program?" The answer to that was, "Yes." Therefore, we set aside money for that type of individual who would be shut out because he is not dealing with a developer for new construction. That money was set aside and was dealt with by the Agency on a waiting list basis. Okay? So, those funds were substantially allocated. I don't know what the balance is, but that new construction category is substantially allocated through that procedure for those kinds of people.

ASSEMBLYMAN ADUBATO: Let me try to understand that again. You are saying that if a person owns the land --

MR. KELLY: And is just going to have his own house built --

ASSEMBLYMAN ADUBATO: and is going to build his own house --

MR. KELLY: That is correct.

ASSEMBLYMAN ADUBATO: with a private contractor --

MR. KELLY: That is correct.

MR. DIPPOLD: Now, what happens is, again, through our procedure, that type of individual was shut out.

ASSEMBLYMAN ADUBATO: How would he know about it?

MR. DIPPOLD: Through our own Agency.

ASSEMBLYMAN ADUBATO: Wait a minute, wait a minute -- If he owns

the land -- you are talking about an individual, not a corporation --

MR. DIPPOLD: I am talking about two things. I am talking about an individual as well as what I will call a spot builder who comes into a bank and --

ASSEMBLYMAN ADUBATO: Well, that is different. Spot builders are a heck of a lot different than an individual who owns land and wants to build a house.

MR. DIPPOLD: Absolutely. I said I am talking about the builders. Okay?

ASSEMBLYMAN KELLY: But that person wouldn't qualify, so why would you put that money away?

MR. DIPPOLD: Which person wouldn't qualify?

ASSEMBLYMAN KELLY: The person who owns the land and then went out and built a house would not qualify for this --

MR. DIPPOLD: He wouldn't have gotten in for the new construction funds under how the program was set up -- why money was --

ASSEMBLYMAN KELLY: The Statewide Mortgage Program specifically says that the person may not own any other real estate at the time of the closing.

MR. DIPPOLD: That is correct. There is an exclusion for people who own their own land, and this comes to a Federal exclusion for -- Well, there is no exclusion for that. I take that back; that is not a Federal requirement, but he can't own any other real estate other than the property he is going to build at the time. Yes, that is true. It must be his principal residence that he ends up with.

MR. KELLY: Mr. Kellogg is one of our Directors. It was Mr. Kellogg's concern that the small builder, the spot builder, with building maybe one, two or three houses a year, or the man owning his own land who maybe wanted to build his own house, was shut out of our new construction program, so --

ASSEMBLYMAN ADUBATO: I asked the same question. How would the individual who owns his own land and wants to build his house know about it?

MR. DIPPOLD: He would come into an institution and ask for new construction money, and the institution would say, "Gee, we don't have any. You have to go through a developer." Okay? At that time, institutions were instructed to contact the Agency for those type of loans and funnel them through us.

ASSEMBLYMAN ADUBATO: All right. Listen, I appreciate this very much, and I am going to ask your indulgence -- both of you, because I would really appreciate it if you can come back after the break. In the meantime, as far as I know, is there anybody here who has a specific -- besides you -- is there anybody else here from the public who sent any letters to anyone who wants to testify about anything?

Director, would you please move over and let that young lady sit in your chair?

MR. KELLY: Certainly.

ASSEMBLYMAN ADUBATO: I want to thank you, first of all, Ms. Hacker. It is interesting because you were only one of three people in the district that I represent who complained, and they all live in Irvington. So, you have two other neighbors who have also complained in Irvington.

Ms. Hacker, what would you like me to do? Would you like to read your own letter or would you like us to read it? I want you to feel totally comfortable.

Do you feel comfortable reading your letter? Why don't you read it to us? Come up to the microphone and read your letter.

E I L E E N H A C K E R: I'll start. This is a first for me, so bear with me.

ASSEMBLYMAN ADUBATO: Can I back up and say this? When or how or what made you write a letter, as stupid as that may sound?

MS. HACKER: In the Star Ledger, there was a small article which said that you were investigating --

ASSEMBLYMAN ADUBATO: Very small article. In fact, the media hid it very good. In spite of it, we got a lot of inquiries. They didn't think it was that important.

MS. HACKER: (continuing) And, I read that and I was very, very pleased that someone was investigating it because I had so many questions, and that is when I wrote to you.

ASSEMBLYMAN ADUBATO: Now, have I ever met you before?

MS. HACKER: No.

ASSEMBLYMAN ADUBATO: Have I ever spoken to you before today?

MS. HACKER: On the telephone.

ASSEMBLYMAN ADUBATO: On the telephone.

MS. HACKER: Yes.

ASSEMBLYMAN ADUBATO: We are not related, are we?

MS. HACKER: No, not at all.

ASSEMBLYMAN ADUBATO: I don't even know if you are a Democrat or a Republican.

MS. HACKER: Independent.

ASSEMBLYMAN ADUBATO: Independent. Well, I never ask, but thank you very much for coming down to Trenton today. Would you please read your letter?

MS. HACKER: Surely. This is dated October 27, and is addressed to Assemblyman Michael Adubato. The subject is "Inquiry into Distribution of MFA Funds."

"Dear Mr. Adubato:

"Thank you for your quick response to the avalanche of questions regarding the disbursement of MFA funds to first-time buyers, urban areas, and new home construction. What seemed like the answer to many families' prayers has turned into a nightmare.

"As a potential first-time buyer (at the age of 'blank') I would like to relate my recent experience. After reading in the Newark Star Ledger that money would be available in October to qualifying families, we rushed to a real estate office and in one week selected a home, signed a contract with the seller, and had it approved by both attorneys. In order to be within the limits of the prevailing rates and have the contract legally acceptable, all contracts were written up as follows: up to 14-3/4%, 3 points to be paid by buyer to lending institution. (All this activity under the guise of having a fair chance in the new mortgage money.) The next step was a Mr. Jay Carldon, field representative for City Federal Mortgage Department, visited the real estate office, McMahon & Somers in Union, on the evening of October 14 and proceeded to take financial information on a standard mortgage application form from myself and two other families, all the while assuring us a 98% guarantee that we would receive the funds. The financial information was to be transposed to MFA forms as of Monday,

October 18, 1982. Mr. Carldon stated that the only risk would be a delayed closing, such as six to eight months away, for then the funds would be exhausted.

"Needless to say, a fiasco followed. Mr. Carldon and City Federal were never heard from again, along with my financial disclosure, until it was returned in this morning's mail, with nary a note to explain what happened. My calls to City Federal on Monday, October 18 were answered with a curt, "Sorry, all the money is gone." Mr. Carldon's response to questions was, "The money went to commitments that were made in July and August, mostly FHA and VA."

I am sure many hopeful buyers are as dismayed as we are with the tactics displayed by the lending institutions. At this point, we are in the position of having a contract that was amended to 11% with no points to appear (actually two were required of the buyer), which is of no value as applications are not being accepted. Our options at this point are few -- either renegotiate at the present rate, which brings the monthly payments up to an unrealistic, migraine-producing level, or forego our dreams. It is simple and disheartening.

"Thank you for listening to my plight. I applaud your efforts to get to the bottom of this situation and would appreciate hearing from you on this matter. There is more at stake than 1400 home buyers -- the integrity of our lending institutions has been questioned!

Signed, Eileen Hacker"

I live in Irvington. My question is: Will it ever be documented for the public where the money went? I would like to know for myself because I don't know of anyone who got a loan at 11%. Now, I see in the paper constantly, for new home buyers, 11% is available. But, for someone in my position who never owned a home, who was really a novice at this-- I didn't know what I was doing when I went to the real estate office. I had to have them guide me. And, they did. They were very kind and very helpful. They didn't seem to know much about what was going on. They knew about VA and FHA and the procedures there, but they did not know what to do with MFA. It was something that was totally new.

How do we know that this was appropriated as he would have it appropriated? How do I know that the lending insitution didn't give it to Joe's brother? I would really like to know.

ASSEMBLYMAN ADUBATO: Or his uncle.

MS. HACKER: Or his uncle. I deal with City Federal, and I have my accounts there. ~~It was~~ a double blow.

ASSEMBLYMAN ADUBATO: That is my first question.

MS. HACKER: Yes, I do.

ASSEMBLYMAN ADUBATO: I don't think it is relevant, by the way --

MS. HACKER: No, it shouldn't be.

ASSEMBLYMAN ADUBATO: My first question: Do you do business with City Federal?

MS. HACKER: Yes.

ASSEMBLYMAN ADUBATO: How long have you done business with City Federal?

MS. HACKER: For the past five years.

ASSEMBLYMAN ADUBATO: Five years.

MS. HACKER: Yes.

ASSEMBLYMAN ADUBATO: Director, do you have any comments to make on this young lady's -- I don't want to put you under to gun with anything, because I think

the institution should be here.

MR. KELLY: Well, certainly --

ASSEMBLYMAN ADUBATO: I don't know if they are. Is City Federal here? Is anybody here from City Federal? Going once.

City Federal was one of the largest participants in this program, weren't they?

MR. KELLY: Yes, by --

ASSEMBLYMAN ADUBATO: By large and far, City Federal is one of the largest participants in this program. And, it is obvious that they refused the kind invitation of this Committee to come here. Now, I'll ask again; maybe you can't hear me. Is anybody out there from City Federal? Anybody in the balcony? No one in the hall?

How much did City Federal get, Assemblyman Kosco?

ASSEMBLYMAN KOSCO: A total of \$8.3 million.

ASSEMBLYMAN ADUBATO: \$8.3 million total, one of the largest, if not the largest, damned close to it. Would you say it is in the top 5%, 10%?

ASSEMBLYMAN KOSCO: I think it is the fourth largest.

ASSEMBLYMAN ADUBATO: Fourth or fifth, third largest entity? You know, the good people who are here -- it is like the minister in church. You go to church or to the synagogue, and they tell you that you have to go to church, so forgive me. I thank you all for being here to begin with, and I'll say it again -- Thank you for coming here, even if it is just to be abused. Thank you for coming here.

ASSEMBLYMAN KOSCO: Is there going to be a way that we can answer this lady's question? How can we --

MR. KELLY: I certainly expect the Chairman to see to that the way he is, I think, indicating, because while we have few lenders here today, I --

ASSEMBLYMAN ADUBATO: This was an invitation, by the way. It was not a subpoena. Let's make that for the record.

MR. KELLY: I understand that.

ASSEMBLYMAN ADUBATO: There was not any insistence; there was not an investigation. It is still not an investigation. It is an inquiry into very serious allegations that go beyond -- beyond this issue.

As this young lady has stated, and I concur, and it may sound corny to some people -- there is more at stake than 1400 home buyers. The integrity of our lending institutions has been questioned! That is serious, very serious. What is more important in the free enterprise system than our financial institutions? Free of government control, free of over-bureaucracy and over-regulation, free to operate in trying to function in a true, competitive market that we all believe in. What is more important to us? Nothing! And, it behooves the people in the institutions. So, open their eyes and not wait to be called before a public hearing. That is the cry. We picked up this challenge, not by desire, not by exposure, because the issue itself is the exposure, but because if not us on this Committee, who? I challenge you, the people here today, to tell me. Who? Who was going to make the inquiry? Who was going to ask the question? Or should people just walk away and lose confidence, even more than they have in the credibility of government, of free enterprise, which to some people means that

you have a right to "screw" people? And, continue that kind of an attitude?

I promise you that you will have the information no matter what it takes. I promise you that every institution that got one cent is going to be asked to disclose, and they have, they will, to this Committee, every dollar that went to every person. That is a promise that I make publicly to you. And, if there is anything in there, and if there are any factual things that maybe would lead people to not only suspect, but believe, as -- It is obvious that many people do -- that you had to have a connection to get a loan. We will find out, and if it is true, then the inquiry will be turned over to those people who do investigations -- the proper people. We are not those people. This is a hearing, and based on cooperation and sharing of information, we'll determine what happens beyond the hearing.

I want you to know that we are having another hearing in Essex County and we are having one in Ocean County after the first of the year. I think I asked you not even to come down to Trenton today, and I am surprised that you came. I told everyone else, "Please don't come." That was on the phone. But, I am glad that I have had the opportunity to meet you.

I don't want to ask any of the institutions that are here to speak for City Federal or whoever it was unless they want to. If any member of any institution is here and would like to comment, I would appreciate your comment. You are free to do so. I'm not asking you to involve yourself with another institution, but if you have a logical -- if you can help us understand what happened, I promise I am not going to ride anybody. (no response) That is fair, I certainly wouldn't get up either after she read that letter.

Yes, sir?

MR. KELLY: Mr. Chairman, I would like to clarify one point that Ms. Hacker raised, and it is understandably confusing to her. There are ads in the real estate sections of the papers over the weekends which do mention the availability of 11% money. This is the new construction portion. These are all developments, and those developers received small amounts of money. There were three hundred developers and \$75 million, and if you do maybe a little quick arithmetic, that may mean like \$250,000 for each one.

ASSEMBLYMAN ADUBATO: Yes, but Mr. Kelly, isn't it fair to say that because of the new change in policy and who was getting the money, there has been a lot of confusion on many people's part of how to go through the process of getting that money?

MR. KELLY: That would be an understandable confusion. If I missed that --

ASSEMBLYMAN ADUBATO: All right. So, isn't it fair to say that when you are talking about the newspaper, you're being helpful, believe me. When you talk about newspaper advertisements over the weekend and 11% mortgage, those monies have already been allocated to the developer. Are these monies passed through someone else, or does the developer get that money directly? Who wants to answer that?

MR. KELLY: He gets it, in a sense, through a lender. The lender is allocated money for the developer. The developer can't get money directly from us.

ASSEMBLYMAN ADUBATO: Right. So, in other words, whatever money he gets,

is passed through an institution. Is that a fair statement?

MR. KELLY: That is right, but it is earmarked for that developer.

ASSEMBLYMAN ADUBATO: Yes, they can't use it for anything else.

MR. KELLY: The lender can't use it for anything else.

ASSEMBLYMAN ADUBATO: That is what I am saying. So that means that that developer is selling those homes at that 11%, using that as the vehicle.

MR. KELLY: That is right.

ASSEMBLYMAN ADUBATO: So, if someone today feels shut out, with some justification, I would say, that if they are interested in buying a specific home in a specific area, they could still get 11%. The only thing is that they have to buy that house from that developer -- the new house.

MR. KELLY: Since there are three hundred developers, you certainly have a choice of what developer and what town and what price range.

ASSEMBLYMAN ADUBATO: Right, I agree. Let me ask you something else, and I shouldn't ask you this. I should ask the institutions, but I'll spin it off. Are the fees consistent or can the institution charge different, various fees for application processing and so forth and so on with these applications?

MR. KELLY: They cannot charge an inconsistent fee for an MFA application and their own non-MFA. They can't suddenly decide that is is five --

ASSEMBLYMAN ADUBATO: So, in other words, because they are giving out 11% mortgage, they can't charge a person \$2,000 as opposed to \$250.

MR. KELLY: They already have to justify their fees to us, consistent with what --

ASSEMBLYMAN ADUBATO: How about a mortgage bank?

MR. KELLY: They are bound by the same rules.

ASSEMBLYMAN ADUBATO: All right. How about --

MR. KELLY: By the way, I might mention that our permissible origination fee is \$300, plus --

ASSEMBLYMAN ADUBATO: Okay. Is that non-refundable?

MR. KELLY: No, that is a fee when and if they deliver the mortgage. What is --

ASSEMBLYMAN ADUBATO: What about the non-refundable fees?

MR. KELLY: That is the commitment fee to get a commitment for the money, not to disburse the money to a borrower.

ASSEMBLYMAN ADUBATO: So, in other words, if someone goes to an institution and puts in an application, and they have a non-refundable fee application --

MR. KELLY: I am not aware that any part of the origination fee, other than what is out of pocket. If you have an appraisal done, and you are paying the appraiser --

ASSEMBLYMAN ADUBATO: I'm not talking about an appraiser; I'm talking specifically about non-refundable application fees.

MR. KELLY: If any part of that --

ASSEMBLYMAN ADUBATO: And, I shouldn't go through this with you. I apologize, but I'll be happy to share it with you, and maybe I can learn more from some of the people here.

MR. KELLY: I appreciate that. I am aware of the general process, but a lender could tell me whether any portion of an origination fee, exclusive of our \$300, is non-refundable -- whether or not it is out of pocket or they can't

refund it.

ASSEMBLYMAN ADUBATO: Your fee is refundable. Do you demand that this be refunded if they don't get the loan?

MR. KELLY: I think now we are talking about two separate fees. Let me make it clear.

ASSEMBLYMAN ADUBATO: We are talking about two different fees. The primary thing I am talking about is an application by an individual to a bank for a mortgage.

MR. KELLY: And your question is, is any part of that not refunded?

ASSEMBLYMAN ADUBATO: To find out if they are qualified. Okay?

MR. KELLY: Yes, and if any part of that is non-refundable? Is that your question?

ASSEMBLYMAN ADUBATO: I'm saying in your transactions. I'm already making a statement that there are institutions, I am told, that do not refund fees -- application fees.

MR. KELLY: Just for the privilege of putting in an application fee, not for any particular expense. Again, I come back to the appraisal fee. I need some help from Assemblyman --

ASSEMBLYMAN ADUBATO: No, no, no, I apologize for the second time. I shouldn't be talking to you about this.

MR. KELLY: Okay, fine. I'll --

ASSEMBLYMAN ADUBATO: You have, again -- and Eileen, we are going to break for a half hour, and we are going to come back.

I don't know, in fairness to the people who have been so patient in being here since ten o'clock -- I have a list of people who are in the room, but I don't know if they are going to testify. Do the people who gave me that list want to speak? Terrific. Gee, I am glad to hear that because I was told that everyone just wants to sit here and listen. Great.

What we will do is we will come back here at 1:30, and we will end this public hearing by five o'clock -- no later than five o'clock, and we will finish, Director, again, with your testimony if you will be kind enough to come back, and when you have completed your testimony, we will go right down that list.

We will deal with any prepared statements that you have. Please have a copy -- if you are going to make a prepared statement, give it to us and we will make copies for you if you don't have copies with you, so we can have your prepared statement. If it is not a prepared statement, it is okay. But, if you do have a prepared statement, we would like to have copies. Thank you.

(LUNCH BREAK)

ASSEMBLYMAN ADUBATO: Thank you, Director Kelly, for coming back. Again, I appreciate your patience.

I would like to start the afternoon session of this public hearing looking into the allegations of fairness and distribution of these funds to the public by sharing, for the record, a letter -- another letter from a different part of the State. Copies of this letter were forwarded to Assemblyman Kavanaugh, Assemblyman Smith and Senator Ewing.

This is a photostatic copy of a letter sent to Allstate Mortgage Company,

122 Route 173, West Clinton, New Jersey. It is addressed to the attention of Edwin H. Brinton. Is Mr. Brinton here by any chance? Is anyone from Allstate Mortgage Company here by any chance? (no response)

Okay. For the record, let it be noted that these institutions were invited to come here today.

"Dear Mr. Brinton:

"This is to confirm the events which have transpired between my wife and myself and Allstate Mortgage Company relative to our attempts to obtain an eleven percent MFA mortgage for first-time home buyers from your institution. On October 11, 1982, we signed a contract for the purpose of the above property. Either on that date or the following date, we contacted you relative to obtaining possible MFA financing. You informed us that such financing was available, and that you would meet with us Thursday night, October 14th in order to take an application -- on Thursday night, October 14th to take that application."

I said that three times now because I think it is very important that we keep in mind the other dates that we spoke about.

(continuing letter)

"On Tuesday afternoon, October 12th, you contacted us and explained that you were not allowed to take applications until the close of the business day on October 15th."

I am going to repeat that sentence -- "On Tuesday, October 12th, you contacted us and explained that you were not allowed to take applications until the close of the business day on October 15th," which Director Kelly has stated is the day that the applications were mailed to the lending institutions.

(continuing letter)

"Accordingly, our appointment was rescheduled for Saturday morning, October 16th. On Thursday, the 14th, you again contacted us and said you were not allowed to take applications until Monday morning, the 18th. Accordingly, our appointment was rescheduled for that time.

"On Sunday evening, October 17, at 7 P.M., you called me at my home and explained that all of the money that was allotted to Allstate Mortgage had been used up. The only applications being taken by Allstate would be on a standby basis. I expressed to you that I could not see how this would happen since you had explained to us that applications could not be taken until Monday morning, the 18th. You told me that you did not know what caused the monies to be used up. You understood that the monies were allotted to individuals who had previously filed applications for conventional mortgages, which applications were rolled over to MFA applications.

"On Tuesday, the 19th, you contacted me to set up an appointment to file a standby application. You explained to me that you misunderstood what your company had told you. The monies were not used up. All applications for mortgages were being taken on a standby basis -- all applications.

"I attempted to elicit from you an answer as to how decisions would be made as to whom the mortgages would go or as to when the commitments would be made. You stated that you did not have any knowledge as to these facts. I subsequently contacted you on or about October 26, attempting to arrange a meeting for the purpose of filling out a standby application. You stated to me at this time that your company was not even taking, in fact, any applications. They had not made a

decision as to how they would disperse their MFA funds, but as soon as you found out, you would contact me since my wife and I were first on your list.

"It is now November 2, 1982. I have still not received a credible answer. I would appreciate the courtesy of the same in the next five days."

This is a letter to the President of Queen City Savings and Loan Association in Plainfield. Is there anyone here for Queen City Savings and Loan? (no response) No one here from Queen City Savings and Loan.

Their Mr. O'Keefe -- this is from an attorney to the President of this bank who represents an applicant who was denied application, so to speak:

"Dear Mr. O'Keefe:

"Please be advised that I represent John and Deborah (so forth) who recently have applied for a mortgage with your institution on Monday, October 25, 1982. My clients appeared in your Mortgage Department to obtain one of the new MFA mortgages for first-time home buyers. Mr. and Mrs. (name left out) were qualified to obtain such a mortgage since they were, in fact, first-time home buyers. They were told by your mortgage officer, Mr. Lawrence, that the bank had \$1.2 million worth of MFA funding available for first-time home buyers, and the bank would take applications the next morning.

"The following morning my clients appeared at your bank. The bank took six mortgage applications and advised the balance of the individuals attempting to obtain such financing, including my clients, that all remaining funds had been used up. The six mortgage applications which were taken could not have resulted in more than \$500,000 worth of financing.

"When my clients asked Mr. Lawrence as to the disposition of the other monies, they were advised that applications were taken prior to Monday morning, and that this money was committed to those individuals who put in the earlier applications. They were told that this procedure was approved by the MFA."

MR. KELLY: Which we know is not true from our bulletin of September 30.

ASSEMBLYMAN ADUBATO: Absolutely, Mr. Kelly. That is why I am reading this letter. Thank you for interrupting me at that point, and interrupt me at any time.

(continuing letter)

"My clients contacted the MFA and were advised that, to the contrary, this was not an acceptable procedure."

So, your people are on the ball, Mr. Kelly.

(continuing letter)

"No applications were to be taken prior to Monday morning, the 18th. These prior applications were violative of the spirit of the MFA Act, and resulted in an equitable and preferential distribution of such money. As a result, eligible, prospective mortgagors who appeared at your bank in accordance with the procedure as set forth by the MFA, were denied funding.

"I am not sure whether you are aware of the problems which have resulted from the actions of your institution or as to what remedy you plan on taking. However, I am sure you are aware that if the same is not satisfactorily resolved, my clients may be forced to pursue their legal remedies.

"I appreciate your contacting me relative to the points raised in this letter."

By the way, Assemblyman Kosco points out that the \$1.2 million figure

is incorrect. They received \$2.121 million. Of course, \$1.2 million was for the statewide homes and \$721,000 was for the new construction. The \$1.2 million, as applied in this letter, but for clarification, they got more than \$1.2 million.

Mr. Kelly, do you think that that is a pretty accurate understanding of what the MFA had asked the institutions to do since you have said here since these people -- and I have other letters that I am not going to read at this time -- but that thread that goes through all the letters is the same, and that is that on October 18, the MFA set down a policy decision that stated, in fact, that no mortgage money was to be processed without the MFA application being used. That is the issue that brings us together today. It is not whether or not we need more money. Of course, we would like to have more money.

The issue is simple; it is basic. As was stated by a previous individual that came down to share with us her plight, her letter states that -- you know, this goes to the credibility -- I'll use that word. She used "integrity." I call it credibility and integrity of the institutions that are doing a good service, by the way, a very good service to the people by having the availability of these institutions across the State to make a much smaller profit than the normal institutions I am talking about, than they would have in other transactions and to service some good customers. That is all good; there is nothing negative about that. What is negative is the fact that applications, it is obvious to me, that the allegations bear some truth -- that there was not fairness in the distribution of these monies.

If anyone wants to help us after Director Kelly gets finished with his statement -- and, I want to thank you again for allowing us to keep you here and go back and forth -- but, I would defer to my colleagues if they have questions about these letters or what they think about what has happened so far today.

ASSEMBLYMAN KELLY: I just want to get one thing straight. The lender, when he closes the loan, he turns the loan over to the Mortgage Finance Company. Correct?

MR. KELLY: Yes.

ASSEMBLYMAN KELLY: What does he retain? Does he get service for that? Does he get paid for that? Two points, one point, a half of a point? What does he retain?

MR. KELLY: What does he retain in terms of funds?

ASSEMBLYMAN KELLY: Yes.

MR. KELLY: All right.

ASSEMBLYMAN KELLY: What does he get paid? Is there any pay to him for services at all?

MR. KELLY: What does he get paid for servicing the mortgage?

ASSEMBLYMAN KELLY: Yes.

MR. KELLY: He gets three-eighths of one percent to service the mortgage if he is an eligible seller.

ASSEMBLYMAN KELLY: Okay. Now, if he is not an eligible seller, he sells to you --

MR. KELLY: Eligible servicer -- seller/servicer.

ASSEMBLYMAN KELLY: If he is not an eligible servicer, then he remits the mortgages to you.

MR. KELLY: That is right.

ASSEMBLYMAN KELLY: What does he get for closing that particular loan?

MR. KELLY: He winds up with the \$300 origination fee, plus --

ASSEMBLYMAN KELLY: He retains that?

MR. KELLY: He retains that, plus a fee for a prompt delivery of that loan. We would like to have that loan in within 45 days, so we will give him a half of one percent of the loan, plus the \$300. Let's say a \$60,000 loan -- he'll wind up with \$600, \$300 for his fee, one-half of one percent of the \$60,000 loan.

ASSEMBLYMAN KELLY: Okay, he gets a half of a point, you are telling me.

MR. KELLY: Call it a half a point.

ASSEMBLYMAN KELLY: How about the mortgage bankers? What were they getting? If they close a million dollars in loans, do they get the same thing?

MR. KELLY: Exactly the same.

ASSEMBLYMAN KELLY: \$300, plus a half a point?

MR. KELLY: Exactly, no distinction between the lenders.

ASSEMBLYMAN KELLY: The same with any large bank that would turn over a million dollars in loans to you immediately, they would get that half a point?

MR. KELLY: Exactly, exactly.

ASSEMBLYMAN KELLY: Thank you.

ASSEMBLYMAN ADUBATO: Let me try and clarify that. I didn't want to get into that, but being that Assemblyman Kelly did, I want to take advantage of the opportunity to ask you something else that I should be asking other people here.

If a mortgage banker is dealing with a large developer, or a large commercial bank is dealing with a large developer, and they provide construction money, not for permanent financing -- construction money -- isn't it a fact that by having the vehicle to supply the permanent financing, they can charge anything they want for construction money? They can charge all the points they want, they can charge any interest rate they want. If the market is able to take it, and assuming that they are going to now turn over that construction money into that low-cost permanent financing, and the cost of the developer that he paid, you see -- I'm not saying there is collusion there now, Mr. Kelly. I am not saying there is any connection. What I am saying is that from the construction money standpoint though, they can charge until the final money is there -- the complete package of permanent financing is in place. They can charge all the points they want, whatever the traffic will bear. And, that one state turned this over and rolled over the permanent financing, and they are limited to that half of a point, they, in effect, aren't paying anything. Neither is the developer. They put that in the cost of construction of the home and to profit.

I don't want you to respond because it does not really have anything to do with MFA.

MR. KELLY: No, I am getting the drift of your remark, and I am not sure that it is anything that we have control over.

ASSEMBLYMAN ADUBATO: Oh, no, I know you don't have control over it. I absolutely, emphatically state that you don't have control over it, and I am not accusing anybody of anything unethical or immoral. I am not saying that what they are doing is bad -- no value judgment. I am just saying that it appears that when you have the power of an 11% permanent financing as a bank, or a mortgage

bank or a commercial bank, you are dealing with a large developer. I am not talking about the small tracks -- a large developer. And, you are providing construction financing, not permanent, which they do, right? That the attractiveness of that situation brought about in the rollover to deal with that institution -- you know, people have track records, and some large institutions deal with the same developers over and over and over again. What I am saying is, there is nowhere that it should be recorded, nor is it required to be recorded, how much they pay for those construction monies.

MR. KELLY: Mr. Chairman, Bob Sonzoni is our Chief Mortgage Officer, and that is all he deals with -- mortgages, everyday. He has kindly come up here with a copy of one of our agreements. I would like to have him point out --

ASSEMBLYMAN ADUBATO: Bob, would you please bring that up here for a minute?

MR. SONZONI: (from audience) Sure.

ASSEMBLYMAN ADUBATO: Can we have copies?

MR. SONZONI: I have a couple of copies, Assemblyman, but I don't have that many.

ASSEMBLYMAN ADUBATO: That is all right. All we need is one or two.

R O B E R T S O N Z O N I: It is a certification that we require by the lender regarding the fees and charges that he will charge if he is the construction lender. We anticipated that problem.

ASSEMBLYMAN ADUBATO: Okay, but this has nothing to do with construction costs of financing.

MR. SONZONI: I would like to direct your attention to the back of this, okay, sir, and the affirmation by the seller, which the seller under our program is the construction lender.

ASSEMBLYMAN ADUBATO: Okay. For the record, the affirmation states, further -- I'll only read this one sentence because I think that is what is important. "If the seller is the construction lender for the project described in Section 3, seller affirms that the developer/builder or builder has paid no more than the usual and reasonable fees and charges connected with such construction financing."

I guess that is about as tight as you can get for your purposes, but, it certainly is debatable what is reasonable and, you know -- it certainly is debatable -- it doesn't. I mean, I am not condemning this. I am saying that this is as tight as you can get.

MR. KELLY: We cannot police every part of the transaction so that is --

ASSEMBLYMAN ADUBATO: No, but it doesn't prevent anyone from charging ten points on construction money.

MR. KELLY: Again, if that is not normally considered to be reasonable and acceptable, I presume that that --

ASSEMBLYMAN ADUBATO: Except that they can't get the construction money anyplace, which they couldn't get, then any cost is not prohibitive --

MR. KELLY: Well, I guess that is true.

ASSEMBLYMAN ADUBATO: And that is the current of the times because this document makes sense if things are reasonable and rational. This does not deal with the unavailability of money. This does not -- and I am not knocking this -- what I am saying is that it is plausible that because of supply and demand, which

is the way we function in our country, that people would be willing to pay what we might consider exorbitant points or interest rates to get money when they can't get it anywhere. That is all. And, I want to end that right there.

I don't want to cause any problems and drift beyond this here except to say that that is something we will all continue on in the near future.

MR. KELLY: May I just make one remark on that?

ASSEMBLYMAN ADUBATO: Yes, sir.

MR. KELLY: We did not, in our documents, try to reinvent the wheel. We have used documents and paraphrased them and copied them exactly in some cases from Fannie Mae, Freddie Mac and other institutions that deal with --

ASSEMBLYMAN ADUBATO: Director Kelly, there is nothing that I find at fault with your document, for the record. Will you please pick up your statement?

MR. KELLY: Fine. All right, I think much of this may be redundant now because we have gone over it, but I'll quickly glance at it.

We have been talking about the fact that when the program began -- I'm going back to -- I'm sorry. Again, I think we have gone over this. If I may just -- without taking anymore time on what has been gone through -- I will just scan this. Again, most of this has been touched on.

ASSEMBLYMAN ADUBATO: Mr. Kelly, let me ask you this again. I would accept the fact that we have been allowed to go back and forth, and I will accept that your statement --

MR. KELLY: If you wish, by the way, I was going to say I will read it; no question about that.

ASSEMBLYMAN ADUBATO: No, no, no, it is up to you. If you feel it is pertinent to some things that we didn't say or haven't been brought out, please read it. If not, I'll accept your statement as was given verbally here. You don't have to leave that prepared as an official document because that would be totally unfair to you. We have been going back and forth, and I don't want that documented into the record. Okay? Let's go by what we've said and what we've discussed. That is important. That is our official document.

I would ask your opinion though, based on some of the information that I think you may have heard for the first time, and based on that information, while it is not certainly a total picture of all the institutions, I would like to know your impression if you think it is fair to say -- based on what you said before and based on these letters -- that one, MFA -- and also reverting back to your letter of September 30 -- after, that came after, because on the 27th, you knew what the institutions were going to get. The 24th was their deadline, on the 27th you knew, and on the 30th, you suspect they were giving out money on other applications or commitments. And, that is why you wrote that letter, to tell them to cease. Is that a fair statement?

MR. KELLY: Yes, that is an accurate statement.

ASSEMBLYMAN ADUBATO: Okay. Thank you, Mr. Kelly. I have nothing more to ask. Would you like to add --

MR. KELLY: No.

ASSEMBLYMAN ADUBATO: Director, I want you to know how proud we are that you are there, and how cooperative you have been. I feel very comfortable in knowing that you are the Director there, and I think that the people should feel

that way too. I really do.

MR. KELLY: Thank you, again, very much. May I just say that I think the inquiry has been conducted very fairly and without any preconceived ideas, certainly, as far as the Agency's performance is concerned. I would like to say that I am, as a citizen, not as a Director of the Agency, just as disturbed as you are about any type of misuse of our funds. I have to believe and want to believe that what was done may be the exception rather than the rule.

During the course of the lunch break, I stopped and talked to one gentleman here in the room. If he wishes to make his presence known and make the same statement, we will leave it to him. His institution did not make a loan until November 1 when they had satisfied themselves about all the rules, regulations and forms.

Some of the letters that did come to my attention, over which we had no control, since it was after the fact, were very disturbing -- very disturbing, and I would like to see myself, some explanation by the institutions involved and their side of the story. On the face of what we know, the first glance is very difficult to tolerate. But, again, I want to thank you very much for this opportunity. I, myself, and the Agency are at your disposal for the other hearings, and until we satisfy your concerns.

Thank you again, both yourself, Assemblyman Kosco, and Assemblyman Kelly.

ASSEMBLYMAN ADUBATO: I want to invite you to our St. Patrick's Day party, by the way, with a name like Kelly.

MR. KELLY: I'll accept right now.

ASSEMBLYMAN ADUBATO: Good.

We have a list here, and I am not sure -- Okay, some people have changed their mind. Maybe it is because, quite frankly, in fairness to everyone, that somebody felt they would be repetitious. I can understand that, and I appreciate that. Maybe things have already been said that they wanted to say.

I have a prepared statement from the Vice President and mortgage officer from Morris County Savings Bank -- a Mr. Jerry Smith. Mr. Smith, would you please -- it is a very brief statement, and I haven't read it yet, Mr. Smith, quite frankly. I wanted to read it along with you. I don't want to have the edge on you; I want to read it along with you. But, thank you for coming down, Mr. Smith.

J E R R Y F. S M I T H: Thank you for the opportunity to come down. Do you want me to just go ahead and read the statement?

The Morris County Savings Bank participated in the MFA, SMP, and I assume I can use that terminology. It has been fairly explained at this point -- Program to the extent of \$1,500,000, of which \$750,000 was allocated to urban-eligible neighborhoods and \$750,000 to first-time home purchasers. The bank subscribed for \$2,000,000 (\$750,000 for urban -eligible neighborhoods and \$1,250,000 for first-time home purchasers); however, the committed amount was reduced to \$1,500,000.

From the time of the first announcement of this program by the media, the bank was deluged with phone and in-person inquiries as to the details of the program. During the three-day period of October 18, 19 and 20, there were 410 phone inquiries alone about SMP-1. At no time did the Morris County Savings Bank keep any list for purposes of reserving funds. Prospective applicants were

told that funds would be given on a first-come, first-served basis, and the bank followed that policy strictly.

Approximately thirty applicants were waiting in the Mortgage Origination reception area when we received the applications and forms from the MFA on Tuesday, October 19, 1982, at approximately 2:00 p.m. From 2:00 p.m. to 5:00 p.m. on that day, seven applicants were qualified to the extent of \$428,000. Others took application forms home to complete them. On Wednesday, October 20, 1982, from 8:30 a.m. to 10:00 a.m., seven additional applicants were qualified to the extent of \$326,000, and at that point, we had used up all of our allocation for SMP-1 funds. It was a total of \$754,000.

Thus far, five applicants have been qualified for \$218,000 in the urban-eligible neighborhoods, and we have \$532,000 still available for this part of the program.

Of the 19 applicants, only 4 have a depositor relationship with the bank, which further illustrates the impartiality of our participation in this program.

ASSEMBLYMAN ADUBATO: I guess we can say, "thank you" very clearly for re-establishing the integrity and credibility of the suspicion of some of your brothers. I can't add anything to this statement except that I think we are all too ready to raise our voices and be negative about things that we should be just as ready to raise our voices and be positive when we have those opportunities.

I want to commend your institution, the offices in your institution, and I have never met you to my knowledge.

MR. SMITH: No, sir.

ASSEMBLYMAN ADUBATO: And, I don't think I have ever spoken to you to my knowledge before today.

MR. SMITH: No, sir.

ASSEMBLYMAN ADUBATO: Why did you come down?

MR. SMITH: I felt, because of some of the dispersions that were being cast upon the industry, that they were a bit unfair, and being that we were involved with it, and I felt that anything we did was strictly above board, and I am not afraid to say so.

ASSEMBLYMAN ADUBATO: That is a good reason for coming down, the best reason I can think of.

Who is the President of your institution?

MR. SMITH: Mr. Harold J. Paterson.

ASSEMBLYMAN ADUBATO: Harold J. Paterson?

MR. SMITH: Yes, sir.

ASSEMBLYMAN ADUBATO: Would you please pass along to Mr. Paterson the attitude of this Committee?

MR. SMITH: He is in attendance at this moment.

ASSEMBLYMAN ADUBATO: Really, where is he? Mr. Paterson, thank you for sharing this information with us. We appreciate it and respect it very much. We all appreciate you taking the time to come down here today.

MR. PATERSON: (from audience) We were happy to do that.

ASSEMBLYMAN ADUBATO: And, I wish next time that we can give you a lot more money.

MR. PATERSON: We hope so too.

ASSEMBLYMAN ADUBATO: I want you to know that you've got my vote. Are there any questions from the Committee members? Is there anything that you would like to add?

MR. SMITH: Not really.

ASSEMBLYMAN ADUBATO: Have you ever been to Trenton before?

MR. SMITH: I have been to Trenton, but not in this position obviously.

ASSEMBLYMAN ADUBATO: Okay. Thank you again very, very much for coming down. I appreciate it, and you, too, Mr. Paterson, thank you, sir.

I guess we never would have heard from Mr. Smith or Mr. Paterson if we didn't have these hearings, so already, we are ahead of the game -- and also Mr. Kelly.

Again, let me say this: Being human doesn't mean that you are dishonest; being human means that we all make mistakes. That is what being human is. I certainly don't want myself to be under a magnifying glass every day because there are many things, I am sure, that my children would like to see me do better. But, that is being human. And, the whole idea here is that because we are human, and if we are making these mistakes, if we can openly discuss them and maybe come up with a better way for the next \$304 million next year that is left, then we won't have to have a public hearing. All our screams and all our yells and all our shouting will be directed at Congress as it should be -- that more money put into the marketplace here in New Jersey, and to direct our attentions to the real problem that none of us, I don't think, has an answer or a solution to. But, I think we have a better chance if we are working together, and instead of being divisive -- and that is the purpose of this hearing -- no other purpose.

I hope I am not -- help me on this -- is Mr. William Sharp here please?

MR. SHARP: (from audience) Yes, sir.

ASSEMBLYMAN ADUBATO: Sir, would you please --

MR. SHARP: (from audience) May I introduce Sandra Rink?

ASSEMBLYMAN ADUBATO: Absolutely. Sandra is also here. Mr. Sharp is the Chief Executive Officer of the Lenape State Bank in Woodbury, and Sandra Rink is the Mortgage Officer of that same institution.

Thank you for taking the time to come down here today.

W I L L I A M S H A R P: Thank you, Mr. Chairman. I don't really have any prepared remarks because I didn't really have an idea of what this hearing or inquiry was about until I got here this morning. I do have some thoughts, however. I agree with Mr. Smith. When this program was first made available to our bank, my first response was, "Well, I don't think that I want to get involved in it." The reason for that was, I perceived that as interest rates were declining, there would be less funds available for more people. I do the investing for the bank, and I am familiar with how complex it is to pull together a bond issue at a point in time.

At the time that MFA started to pull this bond issue together, rates began to plummet. I had heard it would go out for 13%, and I made some judgments of my own that it would be 12.5%, and as it got closer and closer to the date of the settlement or the date of the bond issue really, it went out at 11%, much to everyone's surprise. We were looking at 12% and 12.5%, and that is a little marginal in my opinion for the funds that would be available. At 13.5%, it would

have been a non-event. So, there is a fortuitous circumstance involved insofar as that real reduction in rate.

Our bank is a small, community bank. In fact, you have got 20% of the lending officers here, and, I think, about 12% of the staff. However, one of the guiding policies of our bank is to seek funds from wherever they are available and bring them into the community. We make Fannie Mae loans, we make Fannie Mae direct acquisition rehab, we do Section VIII rehab, we do SBA loans, we are involved with UDAG's, and a considerable amount of Section VIII Assistant 15-Year Multi-Family rehabs. That is Sandy, myself and another person or two.

The real decision was made about three days before the first training session. I suppose it was Sandy. I was on vacation at that time, and I called Sandy at the office and said, "Sandy, get that memo off my desk. You had best get up there." The theory there was that any funds that I can bring into my community from whatever source, I'm certainly going to do.

Ms. Rink has certainly done a super job, but we did perceive that there would be more people seeking these funds than are available. We did set up a system of priority. Of course, after the press and the real estate people got ahold of it, we set a policy at our bank that since there would be this demand problem, the scarcity of funds, that we wanted to be absolutely certain that the first-come, first-served was really the issue, and that would be our procedure. We did that. In fact, I might ask Sandy to lay out the procedure that she did. In fact, it was only a week ago that I even knew as Chief Executive Officer what the names were. It wasn't discussed at staff meetings, and it wasn't discussed at Board meetings. We didn't care who. Whoever came in saying, "I would like to apply for that money," whether they banked with us or not, it was made available to them.

Sandy, I don't know whether you want to go over the procedure or not. Would you like to hear that, Mr. Chairman?

ASSEMBLYMAN ADUBATO: Absolutely.

S A N D R A R I N K: We were aware of the fact that we were not able to entertain or accept an application until at least October 18 when we received our commitment from the MFA. We did receive it on the 18th, and at that point, we could have accepted applications if, in fact, we had them. Unfortunately, they did not arrive at the same time.

Inquiries that had been made prior to October 18, either in person or over the phone, all we could do was tell them that we could not accept any application until October 18 and it would be handled on a first-come, first-served basis at that time, and we told them to please come back or call back on the 18th or after.

When the 18th came and we had our commitment, we could accept applications. Our hands were tied because we had no applications to give out. They, in fact, arrived on Thursday, the 21st, so we had a lag time in there with a lot of anxious customers who did what we told them to do -- come back, first-come, first-served on or after the 18th. At that point, we resorted to a waiting list because the people were eligible to apply at that time.

Beginning October 18, we started a list of people who were ready to come in as soon as we had the right form. We received the forms on Thursday, the twenty-first, and spent Thursday reviewing them with our staff so that they under-

stood the procedure and how to use the forms and the documents -- familiarize themselves with the forms. We spent Friday calling all the people who had come in as they did come in or as they did call, and scheduling appointments on a first-come, first-served basis.

We did not have our first appointment, nor accept our first application until Monday, the 25th, due to the fact that we had such a wait for our applications from the MFA. Our first applications were accepted on the 25th.

Inquiries from October 18 through November 1 have applied for mortgages with us to date, and at that point, we had applications to fill the commitment we had been issued. We have a few, I might add, people who have inquired about the program since November 1, which we have on a list, and in the event that we have a declined application or a withdrawn application and some amount of funds may become available, we can call in the next person that inquired. That was what we felt to be the equitable and fair way to make sure that people were served as they inquired.

ASSEMBLYMAN ADUBATO: So, is it safe, Mr. Sharp and Sandra, that the public being made aware by media, that you were supposed to have those applications on the 18th, and being told -- you know, we are all victims of this. I read something in the paper and more or less, I believe it. I'm not saying that everything in the paper is accurate or it isn't, but I would tend to believe that most things that are reported, especially dates or things like that -- and I am sure that the newspaper was reporting accurately what was the intent of having them out. But, in that kind of charged-up atmosphere, where people were scrambling and then coming to your institution on the 18th and saying, "What do you mean, you don't have the applications? I read it in the newspaper." It certainly might make people suspect that something wasn't kosher, to use that expression.

MR. SHARP: We are down in Gloucester County, and that is not an unusual thing for mail to be delayed and to be late. We are out in a smaller community called West Deptford Township, so --

ASSEMBLYMAN ADUBATO: Do you believe it or not? I am familiar with the area.

MR. SHARP: Good. So, it is not unusual to have a very good lag in mail or UPS service. We certainly are not the most densely populated portion in the State.

The thing that I really wanted to say is that insofar as mortgage funds to be available in the State of New Jersey, I think this is a good use of the authorities of the State, and I think that the MFA has certainly used all of the procedures and tools that they have available to provide this money. I would not like to see programs like this end, neither would I like to see the lenders, small community banks like myself, shy away from these programs by virtue of the fact that it gets to be a very trying event -- that there is over-regulation, too much inspection or introspection.

As I said, I, myself, said, "Shall I or shall I not do this?" Out of the 236 State, independent banks, only 20 applied -- only 20, and I --

ASSEMBLYMAN ADUBATO: Why is that?

MR. SHARP: There are several reasons. Number one, they are under-

staffed and under-trained. They are not familiar with the secondary markets, nor do they want to take the time to make their staff available for training. They may be under-staffed.

Sandra is a young mortgage officer, and she has been with the bank for seven years. She has accepted the challenge of secondary markets. She has accepted the challenge in the community to learn these new things. I have accepted that and my Board of Directors has since the industry is changing. Please change with it. So, we look through everything to see how to bring new funds into our community to help it grow, because the gathering of deposits is about over at a fair rate. There is no growth in the banking system as you well know, so we must look to the secondary market's sophisticated lending procedures, and it is difficult.

I think the main reason that I came is to tell you that we have done our very, very best at Lenape Bank, and I think my peer banks, a few of them that I know are on the list, have done that too. And, I think to ask you to not cause other banks to deny these opportunities to provide these funds because it can happen.

ASSEMBLYMAN ADUBATO: I am glad you brought this up, Mr. Sharp. Let me clarify something. First of all, I have no suspicion about your intent because what I am going to say might appear that way, and I don't. I appreciate and respect your honesty very much, and your guts for saying, "Hey, you can have too many regulations and they are really bombing us out, and to hell with you. We are just not going to do anything anymore."

That is a rational point of view, believe it or not, in my opinion. However, this is not related to what you said, but it was more or less sent back to me to lay off, in a way that was threatening, in saying that, "Well, the institutions aren't going to carry the money anymore. If we can't do what we want, how we want, then damn it, we are not going to take anymore money."

Let me tell you something, Mr. Sharp. I don't want to play with fire, and I don't want to test that, but that attitude isn't going to change me or this Committee into finding out if people did their utmost under the circumstances -- their utmost under the circumstances -- to be fair, in spite of the fact that it might have been literally impossible for some to follow the strict letter of the guidelines. That is all I am concerned about. I am not concerned about admonishing people just to admonish them. I am not concerned about institutions that are trying, and there are new circumstances involved, and some institutions have never been involved in this area at all. I welcome their involvement, and I certainly don't want to be the cause of discouraging that involvement. I can respect that statement very much, just like I respect the statement of the insurance industry that says, "Hey, we can't stay in business in the private sector if we can't turn a profit. We can't stay; there is no way we can stay in business." And, I have no problem with that except that when they use that to threaten to leave New Jersey and not deal with the inequity in the situation or in the system, then I say better you should leave -- better you should leave. Now, that is not directed at you, so help me, or you, Sandra, so help me.

I just want you to get a broader picture of some of the things that we have had to confront with some people who believe as we do in free enterprise and the right to function and operate their institution as long as it is being done

honorably and honestly as the effort to equity and fairness. That is all -- the effort -- the effort. That is what this hearing is all about.

MR. SHARP: Mr. Chairman, in no way did I suggest that you lay off. In fact, I welcome this inquiry. I have taken time from my institution to come up here only to say that these issues and these methods of financing are very important and that we should consider the continuation of these programs.

Your inquiry into the fairness and equity is one that I think is justified, and if I didn't, I wouldn't be here. I wanted to say these things. If there are abuses, please let's not lose sight of the availability of those funds through the tax consequences in the IRS laws. We need that money in the State of New Jersey.

ASSEMBLYMAN ADUBATO: How much money did you apply for in the different areas? Do you know?

MR. SHARP: We applied for \$3 million. It was a --

ASSEMBLYMAN ADUBATO: How was it broken down?

MR. SHARP: We applied in -- no urban, because there are no urban areas close to us --

ASSEMBLYMAN ADUBATO: We will be glad to share the urban areas with you. I love the urban area, and I think that is what we ought to do -- give more urban areas.

MR. SHARP: As a matter of fact, Mr. Chairman, we serve the urban areas.

ASSEMBLYMAN ADUBATO: I am only teasing.

MR. SHARP: There are some blighted areas that we do serve with HUD money.

ASSEMBLYMAN ADUBATO: Although, I do love the urban areas, that is true.

MR. SHARP: We do serve that with other programs that we have. Statewide we applied for \$1.874 million, and we received \$300,000.

ASSEMBLYMAN ADUBATO: Wait a minute. You applied for how much?

MR. SHARP: The total we applied for was \$3 million broken down as follows: Statewide we applied for \$1.874 million, and we received \$300,000. In new construction, voter's loans, we applied for \$1.126 million, and we got \$559 thousand.

ASSEMBLYMAN ADUBATO: In new construction.

MR. SHARP: Yes.

ASSEMBLYMAN ADUBATO: In statewide you got \$300,000 from \$1.874 million.

MR. SHARP: Yes, sir.

ASSEMBLYMAN ADUBATO: Let me ask you a question. Have you ever dealt with the Agency before this?

MR. SHARP: We did a few mod programs -- not too --

MS. RINK: Home improvements.

MR. SHARP: Home improvement -- what was that called? The Mod Program I mean? We have the Health Program, which is under part of the Mortgage Finance Agency. We have been involved in that, and we have done a few of the --

ASSEMBLYMAN ADUBATO: What I am trying to get at, Mr. Sharp, is that this is really the first time --

MR. SHARP: The first time out.

ASSEMBLYMAN ADUBATO: Good. Okay, good, so there really wasn't that much of a track record.

MR. SHARP: Insofar as our bank is concerned --

ASSEMBLYMAN ADUBATO: Dealing with MFA, that is what I meant.

MR. SHARP: We're in a learning mood, and I like the programs.

ASSEMBLYMAN ADUBATO: Okay.

MR. SHARP: I have had a lot of experience with --

ASSEMBLYMAN ADUBATO: The thing I am getting at is the criteria that MFA used to disburse their funds was based on many things. One of those things, I would assume, and Mr. Kelly is here, would be their track record in dealing with institutions.

Mr. Kelly, can you just nod your head to me? Is that a fair statement?

MR. KELLY: (from audience) Yes, I was looking for the actual criteria --

ASSEMBLYMAN ADUBATO: No, no, that is okay, but that is one of the criteria?

MR. KELLY: One of the criteria would certainly be --

ASSEMBLYMAN ADUBATO: I just want it to go on record, Mr. Kelly, at this meeting, saying that I like their track record as short as it is, and certainly, these are the kind of people -- and that I am probably right in most of the institutions that try to deal with the haste, the demand, and the confusion to the best of their ability. I am sure that is correct, that most of the institutions overwhelmingly did that. It is my opinion. That is not to say that we don't have an obligation to make it clearer the next time and make it easier for them and easier to transact that business. I also, quite frankly, unfortunately, must say this early on, that I think there are some institutions that leave a lot to be desired in the way people were strung along.

MR. SHARP: It appears so.

ASSEMBLYMAN ADUBATO: I have to say to you, Mr. Sharp, through you and Sandra and the people here, that at the conclusion of these hearings -- there will be two more -- and primarily, whoever is here is invited to come back, and whoever is not here, let them know about it, whatever -- but primarily we are going to be hearing from people who have had problems.

I have, again, notarized statements, letters, certified mail -- very serious charges in my opinion about the way people were handled. I wanted today to be an opportunity for the 86 institutions to come here. To say I am disappointed is an understatement. To say I am disappointed by the people who did not come, I say that it kind of surprises me a little bit. I hope it is not because they did not give a damn about public perception. I hope it is not because they think that we are here just to ride them or criticize them. I hope that is not why they didn't come.

We are here, again, simply looking into allegations that are serious, in trying to undo whatever damage has been done, legitimately done, or by misconception and misperception by these hearings to the credibility of the institutions more than anything else. I think it is unfortunate that they are not here to speak their mind like you just did.

See, I can understand your language very clearly. We communicate very clearly. The last thing we want to do -- the last thing -- is to make the system more difficult to function, but that does not mean that we cannot make it function a lot smoother, maybe with less bureaucracy, not more. But, when you say something, damn it, you have got to live up to it. I am not blaming anybody. I am just saying that we have got to work together, it is obvious to me -- to come up with a cleaner situation if it is humanly possible and maybe with that money market

changing the way it did -- now, that is a hell of a good excuse. You know, not knowing what they were going to come out at, and maybe it might be better to say to people when you know you are going to float the issue -- that we are going to have maybe temporary applications there, and assuming that the mortgages come under this limit as the young lady said before that she signed -- that if it was fourteen and a quarter percent on there, with so many points -- nothing above that. But, based on that kind of a situation, she would be eligible and she was in line even without the MFA mortgage application.

I have no problem with that as long as everyone has the same shot out of the box. That is the problem, not whether you use an MFA mortgage or you don't use an MFA mortgage application. The problem is people want the same shot out of the box. That is why, you see, with all your efforts, you did as good as you could. You did a good job. Under the circumstances, I think you did an excellent job.

MR. SHARP: Any reasonable institution making the decisions on a scarce item would have approached it the same way. Now, the question of the application or the non-application -- the fact of the matter is that when you have to deal with a scarce product, and you know it is going to be scarce, you have to be even more fair. And, we did everything that we could in our institution to be fair because the last thing I need in my community is a charge of inequity and unfairness. We are here to serve the public.

We have never priced this out. You know, \$300,000, with all the handling we are going to have to do in the bank, we are not going to make absolutely any money. We have never discussed price lent.

ASSEMBLYMAN ADUBATO: I believe that.

MR. SHARP: I don't even care if we make money if we have a customer with an 11% mortgage. If there are three customers and one gets it, it is better than all three not getting it. That is the main intent of my attendance here. It is to say, "better one than none." The fairness really resides within the institution, and this inquiry may ferret out something that really was grossly inequitable. I favor that too because we went to the effort to come up with these major funds for our community at the expense of the bank, I believe. That is why we are here. These funds and these programs are important, and I thank you, Mr. Chairman, for letting us come here. And, I thank you for this inquiry.

ASSEMBLYMAN ADUBATO: I'll let that close with that statement.

Before we close down, is there anyone else here from the institutions that would like to say anything about anything? Al? I don't mean to put you on the spot. Is there anything you would like to say, Al? Okay.

Al, will you please tell us who you are?

A L G R I F F I T H: Yes, my name is Al Griffith, and I am the Secretary and Government Relations Director for the New Jersey Bankers Association. We were aware of this hearing. I know that Assemblyman Adubato indicated the problem and indicated the need for such an inquiry on the Assembly floor, and we were very anxious to solicit input from the commercial banking community, and particularly, and probably more important than anything, try to work with the inquiry to find out exactly how the Association, which represents all the commercial banks in the State, can be helpful.

Bill Sharp, other than being a fine community banker, is also the Chairman

of our mortgage committee, so whatever recommendations perhaps we can pass on through our mortgage committee of our Association, we will try to do.

It is unfortunate -- I know that it is a very scarce product -- the 30-year mortgage loan itself, nonetheless at 11%. I know that it appears from what I have seen and heard that there were some situations where the rule as, what I have read, by the 30th of September bulletin of MFA, there appears to be cases from even the letters that we heard today where perhaps that spirit was violated. It seems as though more testimony from the public will probably bear out some other specific examples maybe where there was variance from that letter, and it will probably make good sense when this has all been said and done to perhaps devise an even clearer system that tells everybody far and front-end specifically and exactly what should be done -- maybe a lottery method or whatever it might be. There has to be something that clearly makes sure in the public mind that the institutions are dealing with the members of the public in a fair manner.

We are a private business. I think the people in our business feel that they also have a public obligation, particularly when you are interacting with an agency which is somewhat considered to be a governmental agency.

So, Assemblymen, we support what you are trying to do here, and we stand ready to try to help you and to help make known to our members whatever changes in direction might be necessary in the future activities like this.

We also feel strongly that this type of program is an excellent program that we hope will continue in the future years. I thank you.

ASSEMBLYMAN ADUBATO: I want to thank you for allowing me to call you forward. I want to direct to Director Kelly and the people who are left here, for the record, that this chair and this Committee want to compliment, as well the Department of the MFA, the people, the Commissioner and Director, as well as the Governor, quite frankly, for broadening the scope and the impact to those middle-class people who, unfortunately, are left out in many programs, and in broadening it in those different areas to help the economy, as was pointed out by the Commissioner. I think because of the negative impact of some of these transactions, we lose sight of all that overabundance of good that is coming from this program. I sure as heck don't want to do that. That is not what we are about, and I admit that we are too easy to just come out and jump at the negatives. And, it is true. However, I would hope that any media coverage of this hearing would not, while I would like to see it focus on the fact that there were serious allegations and even accusations specifically of some people who -- it is obvious to me -- were not treated fairly. I'll say that unequivocally based just on the documentation we have gotten already.

That does not dismiss the other institutions that have been here testifying and how they, in spite of that, really dealt with equity and really dealt on a first-come, first-served basis. I don't have an answer except to say that this Committee will meet again two more times. I would ask whatever media is here, and I know there is some media here -- I can't tell them what to write or what to say, but I would hope that they would give us a free advertisement that says to the people of this State -- "We are making our inquiry, it is continuing, we need your help, we would like you to share with us data and information of how you were treated, not only if you were refused on the 18th, but if you, in fact,

went to an institution and feel you were treated fairly, I would like to hear it." I want to know about it because I haven't heard anyone say that to me yet. I have heard it from the institutions, and I know that sounds like poetry, but if there are people out there, an overabundance who have been mistreated because of that 15th and then the 18th cutoff date -- and I think that is going to be the majority of the inquiries we are going to get, in my opinion, that the institutions should have followed Mr. Sharp's, Mr. Smith's and Mr. Paterson's institution more than they did their own, based on what I have seen. /

It is obvious from these two institutions that in spite of all the problems in dealing and the nuances of getting involved in a new program -- with all that, there were still, even though it was small amounts of money -- that even made it more serious to be fair -- more serious. I want to commend them both, publicly, and I submit that if they could do it fairly and equitably, every other institution had the same obligation to do it fairly and equitably. That is all.

I am going to go beyond that. I am not trying to chase any institutions away, and I am not looking to stop any mortgage commitments or prevent any commitments. I said that to Mr. Kelly the first day I spoke to him on the phone. I said, "I want you to know that --" In fact, for the record, I will state that I had this public hearing put back -- put back -- because I did not want to influence any people in the financial market if we could in getting them to bale out, if that was possible and so forth -- that negative attitude with the transactions. I decided to put it back to this date. It was still fresh enough, but was beyond any problems happening with that money.

The only thing, for the record, I would also say, and I made the statement before, and I'll make it again -- any monies that are left, and I know that we may have some disagreement on this -- any monies that are left in the Mortgage Finance Agency that have not been allocated, I want to look into. When we talked about those spot developers -- I am very curious about that area. I want to know how that functions and how that works, or the individual home owner who has got a piece of land there -- I want to look into that --and, any monies that are there that have not been allocated statewide, because, again, Mr. Kelly, I have been told that there are a couple of a million dollars there in the statewide -- not the new homes development -- statewide money. I don't know if that is true or not.

MR. KELLY: It is not true apparently. The monies that you are talking about were allocated to the extent of \$75 million. Now, if there are any contingency funds in there that were put in, I am not aware of it myself. If they were put in by a lender who may have thought, "I could really use a million dollars, but I'm going to put in for a million, and if I only use \$750 thousand, I can turn it back to them."

ASSEMBLYMAN ADUBATO: Mr. Kelly, how much money do we have -- you see, I see the differential there is in the new construction and the statewide. We show \$73 million in statewide, \$73 million in new construction, which leads me to believe, according to these records, that we have \$2 million left.

MR. KELLY: (from audience) What are these figures?

ASSEMBLYMAN ADUBATO: They are from the allocation. It says, "(a) A statewide allocation \$2 million retained for future allocation."

MR. KELLY: Just one moment there. Connie Gibson is signaling to me, but she handles our special projects, our projects that are in particular towns.

She may have an explanation for that.

MS. GIBSON: (from audience) The \$2 million that is reserved under our program is because we allowed each lending institution a latitude of having a \$10 thousand overage. It is difficult when you are making a lot of loans to have that come out exactly to the penny, and so we allowed each lending institution the latitude of going over their commitment by \$10 thousand. If every lender did that, we would have to have the money available, and that is what that \$2 million reserve is for.

ASSEMBLYMAN ADUBATO: So, you allowed that \$10 million of the total application. Is that it?

MS. GIBSON: \$10 thousand.

ASSEMBLYMAN ADUBATO: You mean \$10 thousand?

MS. GIBSON: Each lending institution has in its contract with us that they can exceed their allocation by \$10 thousand -- for good reasons. Their total amount of mortgages comes up to on just \$10 thousand -- more than their allocations.

ASSEMBLYMAN ADUBATO: Let me get this straight. I am a little confused, so maybe you can help me. You are saying \$10 thousand is put into reserve for each institution. Is that a fair statement?

MS. GIBSON: \$2 million is held in reserve by the Agency should any lending institution need to go over his allocation by \$10 thousand.

ASSEMBLYMAN ADUBATO: Well, I am not too good at math, but I understood that there were only 68 institutions that got money -- or 86. I'm sorry, 86. Now, I don't know. What does that come to? Does that come to \$2 million or does that come to \$860,000?

MS. GIBSON: That comes to \$860,000.

ASSEMBLYMAN ADUBATO: What do you do with the rest of the money?

MS. GIBSON: That is held in reserve for Federal projects as Mr. Kelly mentioned that when we have (inaudible) relationships with the municipalities or --

ASSEMBLYMAN ADUBATO: No, he didn't mention it, and please, I apologize, but I don't need anymore explanation. I'll get it in writing. Thank you. That is not satisfactory to me. I don't accept that response. It is not accurate, and it is not fair. You made a flat-out statement, and then you rejected your own statement. You told me you gave out \$10 thousand in reserve -- that you held out \$10 thousand for each institution if they had an overage, and you said that was the \$2 million. Now you are telling me it is not. There is something else involved. Well, maybe we need more time to look at the \$2 million.

The important thing, Mr. Kelly, is -- how much money do you have left for the allocations from this year? Do you have anything left to sell more bonds?

MR. KELLY: (from audience) Oh, all right. That is another (inaudible) We have approximately \$25 million.

ASSEMBLYMAN ADUBATO: From your total \$304 million?

MR. KELLY: Exactly.

ASSEMBLYMAN ADUBATO: What are you going to do with the \$25 million, Mr. Kelly?

MR. KELLY: To begin with, our time frame right now, from this point to the end of the year, is a very impractical time frame of the bond issue.

ASSEMBLYMAN ADUBATO: Well, do we use that? What happens to that money

if we don't use it?

MR. KELLY: It will be lost.

ASSEMBLYMAN ADUBATO: Well, I submit that you should sell it. I submit that that \$25 million should be out on the street tomorrow.

MR. KELLY: It is practically impossible to have it out on the street.

ASSEMBLYMAN ADUBATO: Well, why wasn't the \$25 million included in the total allocation now? Why was the \$25 million not included in this bond issue?

MR. KELLY: Because the bond market at that point indicated that we went to the maximum. This bond issue of ours, by the way, was the second largest ever sold in the United States. It was the largest with \$250 million. We sold \$239 million. At that point, it was not apparent that we had this problem; I think we have gone through that all along -- that an additional \$34 million was not necessary.

Now, let me explain. The State of New Jersey is a small state, but it has many requirements. Right now, we have been asked to have a special issue for Atlantic City, which has special problems, as you know, due to casino gambling and the housing. It seems we cannot do that. We have already told Atlantic City that it is not going to be practical to do a bond issue. They are only looking at \$15 million.

The point I am making is that we are well aware of the allocation total, and it wasn't that we willfully decided that, "hey, we are going to waste that." We couldn't do it at the time we did it on October 7, and now, if you are saying to us that that money should not be unused, certainly we will accept your direction.

Another point that is going to be raised in a moment through Kurt Dippold -- I'll come to it. We understand. It is plain arithmetic that we still have about \$25 million still unused. I think what I can say is that we will make every effort to use it. We will do what you want us to do.

ASSEMBLYMAN ADUBATO: Mr. Kelly, I don't want to be unfair to you, and as we are getting down to shutting down, I was unaware until this very second that we had \$25 million unallocated.

MR. KELLY: That was not from lack of candor. Earlier --

ASSEMBLYMAN ADUBATO: No, I am not blaming you for anything. I am just saying that I was not aware, after listening to all this testimony, that we have got to write Congress, and we need more money. The program is going to end next year. We are going to have another \$304 million allocation. Bankers are coming here saying, "I could use much more money."

I am not blaming you for anything.

MR. KELLY: Another thing we did, we used up all the money we had for the subsidy. An additional \$34 million requires about a 3% subsidy. There is a million dollars right there that we don't have right now for the subsidy.

ASSEMBLYMAN ADUBATO: I admit I am being unfair to you, Mr. Kelly. I admit it, and I am going to cease right here because I am getting very emotional about seeing \$25 million going down the drain in a mortgage situation, because whatever the reason, as legitimate as it is, and I am not saying they are not -- what I am saying is, it is obvious to me that the planning has to be there.

With that \$25 million, that is lost forever. We can't recapture that.

MR. KELLY: Apparently there is something that, between you and I -- Kurt, are you signaling me for something?

MR. DIPPOLD: I would just like to say a few things again regarding --

ASSEMBLYMAN ADUBATO: You know, I am really letting this go off half cocked, but that is okay. I like it. Go ahead.

MR. DIPPOLD: I would just like to say that the initial \$25million, like Chris said, (inaudible) was able to put up to do the bond issue. We could not have done a larger issue.

There is also a contributing factor that we don't issue bonds (inaudible) Our paper has an effect on the State. The State Treasurer has some concerns about our dollar volume and how much paper goes out at once, in addition to how the bond market receives our money.

The underlying factor in this case was the fact that we simply did not have enough funds to contribute to do the extra \$25 million.

ASSEMBLYMAN ADUBATO: I am confused. We are talking about the State Treasurer being involved, and we say they are not involved, and they are involved with the investment.

Let me ask you something. Do these bonds have a rating?

MR. KELLY: Yes. May I make one thing clear, by the way? The State Treasurer --

ASSEMBLYMAN ADUBATO: What is the rating of the bonds?

MR. KELLY: We are A1-A.

ASSEMBLYMAN ADUBATO: Aren't these bonds backed up by the State of New Jersey?

MR. KELLY: No, we have no moral obligation. Let me make one thing clear, by the way. The Treasurer is on our Board. He is not functioning on our Board as the State Treasurer alone. He is functioning on our Board as a traffic cop who tells us when we can go to market, for how much, how we don't conflict with other bond issues, Great Acres, schools, and so on. He is there to tell us what the State's wishes are -- when we can go to market. Even though we have to go to market, he determines the rules under which we go to market.

Now, we also have the --

ASSEMBLYMAN ADUBATO: You are saying that the State has no control over you. You are an autonomous body, but they dictate to you when you can go to market and when you can't?

MR. KELLY: In the sense that we don't want to conflict, we don't want to have two State bond issues coming in the same week. I think you will agree that would be counter-productive.

ASSEMBLYMAN ADUBATO: Not necessarily, not if one is to build homes and the other is to build parks.

MR. KELLY: But the investor who has to buy bonds may not want to see two New Jersey issues come during the same week. He thinks that, as the expression is -- too much New Jersey paper. He wants to see us space our issuance so that there is not a flood of New Jersey paper at any one time.

I admit that it is not very easy to understand whether one is a housing issue or one is a school issue and how they should affect each other, but they do. Again, I want to express that we have the Commissioner of Banking, the Commissioner of Community Affairs, and the --

ASSEMBLYMAN ADUBATO: By the way, for the record, I want you to know that the Commissioner of Banking was invited today, and I didn't get any response from him.

MR. KELLY: His representative was here earlier -- Don Mazzigetti.

ASSEMBLYMAN ADUBATO: He never spoke to -- I don't even know who he is. I am glad that you know him. I am only the Chairman of the Committee, but that is okay.

MR. KELLY: I am sorry.

ASSEMBLYMAN ADUBATO: I am glad that you know who he is.

MR. KELLY: He was here earlier.

ASSEMBLYMAN ADUBATO: Go ahead.

MR. KELLY: I meant that these men are ex officio --

ASSEMBLYMAN ADUBATO: Yes.

MR. KELLY: They are two public members. We obviously respond to our Board as employees, and the members of the Board do defer to the Treasurer in his -- I'll call it his wisdom about when to go to market.

ASSEMBLYMAN ADUBATO: Mr. Kelly, please, I apologize to you. Please, sit down. You have been so gracious and so kind today. I want to end on that kind of a note. My emotions got carried away when I was triggered by \$25 million going down the drain after listening to this testimony all day. I am not going to deal with the complexities of it. I am sure they are real. I am sure your staff knows what they are doing. Of course, it is probably trying to them to be accurate.

When we look at a statement from your Department that tells us you still have \$2 million there -- and, let me read to the young lady who said that that money is there for reasons. It says, "Statewide \$2 million retained for future allocation." That allocation can mean anything, but it is assumed -- it is assumed that any rational being reading this would mean that it is \$2 million to be allocated for mortgages. And, I want to see your rules and your guidelines in writing on this issue. I want to see every statement that was made in regard to this \$4 million. That is a request I am making to you, Mr. Kelly, because I have a desire, Mr. Kelly, that those people who can document that they were treated totally inequitably and totally unfair -- I think we have an obligation, either by lottery or what it is, that if you have \$1 million or \$2 million or whatever you have got left, that they should have an opportunity for that money.

And, certainly, the next allocation -- and after the next two hearings, we are going to come down with recommendations that we hope are going to be stronger than just recommendations for those institutions again -- not to over-regulate, not to be over-bureaucratic, but to simply say that if you tell people you can only use that application, and it is not available until the 18th -- damn it -- that is the only way it is going to be. That is the way it has got to be. You can't tamper with that unless you say in your guidelines that the applications are going to be available on the 18th; however, the institutions have the discretionary power to deal with it in such a manner. That is fine. If that is what you want to do, let the public know. Put up here on the table where everyone can see it.

But, when you tell the public that you cannot get a loan until you have that application on the 18th, and then they go to an institution on the 18th, and they tell them that not only can't you get an application, but that the money is gone.

Something is wrong. That is obvious. Something is wrong, and that is the thing that has got to be avoided -- not hurting Mr. Sharp or anyone else -- but that kind of a situation must be avoided again as was stated here for the integrity of the institutions themselves. That is the key.

I want you to know that we were winging it, and again, the reason why we had this public hearing was because if we didn't have it, we didn't know who would. If we didn't have it, we didn't know what agency of government would inquire, because certainly none other has, including the Banking Department -- not that they have any jurisdiction. I am not saying that they should -- that they sit on the Board. I think it would have been in the interest of the people of this State if the Banking Commissioner had taken the time to come here today. I am sorry he didn't. I am sorry he didn't call the Chairman and I am sorry that there were no communications with this body. But, I will let the Commissioner of Banking know how I feel, for the record, and we will invite him to the next public hearing in Essex County. Maybe he will have the time to come to that one.

Thank you all very much for coming here today, and I appreciate your patience.

(Hearing concluded)



TESTIMONY BEFORE NEW JERSEY ASSEMBLY COMMITTEE ON BANKING AND INSURANCE

NOVEMBER 22, 1982

Good Morning. I am Christopher Kelly, and I am the Executive Director of the New Jersey Mortgage Finance Agency. Thank you for the opportunity to testify before this Committee on your concerns about our most recent mortgage program, the Statewide Mortgage Program.

As you know, the New Jersey Mortgage Finance Agency was created by the State Legislature in 1970 expressly to expand the supply of funds available for single family residential mortgages. To date, the Mortgage Finance Agency has issued over one billion dollars in tax-exempt mortgage revenue bonds, and has financed the purchase of over 32,000 housing units in the state. It has further financed improvements for over 5,000 one-to-four family homes throughout the State.

The Mortgage Finance Agency's mortgage activities are governed by State statute and by federal law, specifically the Mortgage Subsidy Bond Tax Act of 1980. The Tax Act imposes an annual cap on the amount of mortgage revenue bonds issued by each state which guarantees that State programs fill only a portion of the mortgage demand within the State. In New Jersey, the 1982 federal ceiling for the issuance of tax-exempt mortgage revenue bonds is

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\$304 million.

The Mortgage Finance Agency does not have the statutory authority to make direct loans. Since 1977 the Agency has operated as a secondary mortgage market using the State's existing mortgage lenders to originate eligible mortgage loans. MFA purchases loans which are made according to MFA requirements by banks, savings and loan associations, and mortgage companies. The MFA has experienced excellent cooperation from participating lending institutions over the past decade and that cooperation has been key to the success of our programs.

The Mortgage Finance Agency depends upon the participating lenders for both the origination and timely delivery of mortgage loans. The latter is particularly important since the federal Tax Act imposes restrictions on the financial mortgage structure of mortgage revenue bonds, which makes it necessary for the proceeds to be disbursed as quickly as possible.

Since 1977, MFA's mortgage programs were directed entirely to urban neighborhoods. The mandate for the expansion into a new statewide program came in recognition of the depressed condition of the housing industry throughout New Jersey and the lack of affordable financing for first-time homebuyers.

The Statewide Mortgage Program, which is the subject of this hearing today, was funded by a \$239,000,000 bond sale on October 7, 1982. The mortgage proceeds from the sale were divided equally to address three separate purposes:

- 1) \$75,000,000 for the Urban Category to maintain the Mortgage Finance Agency's commitment to the State's urban neighborhoods.

- 2) \$75,000,000 for the New Construction Category to provide a stimulus to the building industry,

- 3) \$75,000,000 for the Existing Statewide Category to assist first-time homebuyers throughout the State; this last category is the major focus of

our attention today.

The procedures for lender participation in the Statewide Mortgage Program were established so as to encourage the broadest representation of lenders possible, both in numbers and location.<sup>X</sup>

On August 18, 1982, Governor Kean announced plans for the new program,<sup>X</sup> and on that day 452 mortgage lenders in the state were invited to participate in the program as mortgage loan originators. That number included supervised lenders and mortgage companies<sup>X</sup> in New Jersey.

Approximately two hundred<sup>X</sup> lenders expressed an interest in participating and were mailed a Commitment Application package. The lenders were asked to complete the Commitment Application by September 24, 1982, and to indicate the dollar amount of loans they could expect to originate under each category of the new program.

In order to insure that the lenders made a good faith estimate of anticipated demand for the program, the MFA required that a commitment fee of one percent of the dollar commitment requested accompany the application.

Eighty-six (86) lending institutions, only nineteen percent of<sup>X</sup> those originally invited, submitted Commitment Applications to the Mortgage Finance Agency.<sup>X</sup>

The commitment requests totaled<sup>X</sup> \$588,376,200, more than twice the total available loan proceeds.<sup>X</sup> In the Statewide Existing category of funds, which is the subject of the hearing, the oversubscription was even more<sup>X</sup> pronounced. Requests for funds in that category totaled over \$257,000,000, nearly four times the<sup>X</sup> amount available for allocation.

Needless to say, in light of such extraordinary demand, the allocation of funds required careful deliberation by the MFA.<sup>X</sup> Our final criteria for allocation under the Statewide Existing and Urban categories took into consideration the lenders' requests, their loan origination capacity, their

performance under previous MFA programs, if any, and the geographic distribution of their service areas. The MFA could only provide funds for 30 percent of the demand total under the Statewide Existing Category. X

For the New Construction category of funds, the allocations were a percentage of the actual dollars requested by builders for new developments.

All participating lenders were notified of their allocations by mail on October 15, 1982. At that time, lenders were advised that the closing date of the bond sale was scheduled for October 28th, after which time program funds would be available.

However, news of the program had generated considerable attention from the media and in turn, the public, well in advance of these events.

Following the Governor's announcement of the program in August, the MFA received over 7,000 inquiries from potential homebuyers throughout the State. A disproportionate share of these inquiries related to the Statewide Existing category of funds.

By the time the program began, lending institutions had been inundated with requests for the funds. While the Agency did not make public the names of participating lenders until the mailing of the brochure on October 15th, hundreds, possibly thousands, of prospective homeseekers called lenders, discovered one which was planning to participate and made a request for a mortgage as early as last August.

While the point at which inquiries for the funds were accepted by lenders varied, it is the Agency's belief that the Statewide Existing category of funds under the Statewide Mortgage Program were committed to potential borrowers by each participating lender on a first-come first-served basis.

In the initial guidelines published by the Mortgage Finance Agency, the only restriction placed on the lenders' application procedures was a restriction on when firm commitments to mortgagors could be issued and loans

closed: that is after the closing date of the bond sale on October 28th. The Agency believes that it would have been imprudent for prospective participants to entertain applications prior to receipt of an allocation from the Agency. Furthermore, Statewide Mortgage Program loan applications and other forms were not distributed to the lenders until after October 15th.

In the five years of previous mortgage purchase programs, the Mortgage Finance Agency encouraged lenders to use their allocations quickly. The volatility of mortgage rates has made prompt delivery of mortgage loans an essential ingredient in the MFA's ability to make timely payment of Bond debt service.

In distributing funds in the Statewide Mortgage Program, some lenders, following a common industry practice, allocated funds to real estate brokers with whom they regularly do business, while others set aside allocations for their various branch offices. Such reservation of funds for branch offices and brokers throughout the State served to direct the Statewide Mortgage Program funds to a broader geographic area than would have been possible with only 86 main lending offices participating. In fact, the lenders' ability to serve a wide geographic service area was one of the primary criteria in the allocation of funds by the Agency.

Lenders were not prohibited from taking waiting lists of interested potential borrowers, and therefore acted in good faith and did not violate program requirements by doing so.

Most lenders maintained their waiting lists in order of names taken and those that did not were encouraged by the MFA to hold a drawing in their offices. Therefore the spirit of the program and the first-come first-served basis was maintained.

The fact, however, remains that the total supply of MFA mortgage loans under the Statewide Mortgage Program was totally disproportionate to the demand

for such funds.

MFA is not able to and should not fill the entire demand for mortgage funds which can be met by the conventional market. The MFA is mandated only to supplement the conventional market and relieve a portion of the pent-up demand for mortgage financing during periods of shortages.

Approximately 1,250 mortgage loans could be made under the Existing Statewide category of MFA loans, filling only a fraction of the annual demand for such financing by first-time homebuyers. Based on the pent up demand for homebuying in the past years due to the unavailability of affordable mortgage financing, there may have been a demand for as much as a billion dollars in mortgage loans.

Clearly many homeseekers were disappointed. However it is important to note the accomplishments of the program.

Approximately 1,250 first-time homebuyers will receive mortgage financing for their first home purchase, thus relieving some of the pent-up demand resulting from economic conditions of the last two years.

\$75 million is being invested in newly constructed housing in over 300 developments around the State. This allows the financing of completed inventory and encourages new development, and will stimulate building industry jobs.

\$75 million is allocated to 40 New Jersey urban areas, supplementing New Jersey Mortgage Finance Agency's previous mortgage investment of \$340 million in those areas. The funds will continue New Jersey Mortgage Finance Agency's goal of assisting in the revitalization of urban neighborhoods.

In addition to the jobs created, the neighborhoods assisted and the first-time homeowners benefited, the new program also stimulates the general

economy through the fees, commissions and taxes generated by home sales.

Thank you for the opportunity to address this committee. I will now entertain any questions you may have.



October 28, 1982

## MEMORANDUM

TO: *Chairman Arusato*  
~~Spina-Campbell~~

FROM: Christopher G. Kelly, Executive Director

RE: Statewide Mortgage Program (SMP) Allocations and Procedures

In response to your request, I have outlined the steps which the Mortgage Finance Agency (NJMFA) followed in establishing its new Statewide Mortgage Program (SMP).

CGK/shm

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Constance B. Gibson  
Assistant Executive Director



## I. Statutory Purpose:

### A. HISTORY:

In 1970 the Legislature created a corporate agency of the State, the New Jersey Mortgage Finance Agency (NJMFA), to aid in remedying the conditions creating the housing crisis, to promote the expansion of the supply of funds available for residential mortgages and thereby help alleviate the shortage of adequate housing. (New Jersey Mortgage Finance Agency Law, Chapter 38, P.L. 1970, as amended - emphasis added).

To fulfill this purpose the NJMFA issued over \$800,000,000 in tax-exempt bonds from 1970 through April 1982 and financed the purchase of over 32,000 housing units and the improvement of over 5,000 one-to-four family homes.

Since 1977, following a revision to the NJMFA enabling legislation expressly for such, the Agency has operated as a secondary mortgage market using the State's existing loan delivery system, (banks, savings and loans and mortgage companies) to originate mortgage loans for purchase by MFA. Eight thousand families in 41 urban neighborhoods have been assisted in home purchases through MFA's mortgage purchase programs.

### B. Mandate for New Program

In recognition of the depressed state of the housing industry and the lack of affordable financing for first time homebuyers and urban area home purchasers and in keeping with its legislative mandate, NJMFA initiated its most recent bond sale for the Statewide Mortgage Program through Board action on August 18, 1982.

On October 7, 1982, the NJMFA sold \$239 million in tax-exempt mortgage revenue bonds providing lendable proceeds of \$225 million for the express purposes of assisting the building industry, residents purchasing homes in urban areas, and first-time homebuyers throughout the State. The proceeds of the issue were divided equally among the three categories:

Urban neighborhoods	\$ 75 million
Newly constructed homes statewide	\$ 75 million
Statewide existing housing	\$ 75 million
Total Loan Fund	\$225 million

## II. NJMFA Procedures for Participation:

### A. Lenders

1. On August 18, 1982, the day the program was authorized by the Members of the NJMFA, an invitation to participate in the Agency's Statewide Mortgage Program (SMP) was sent to 452 mortgage lenders in the State compiled from the most recent published lists of the New Jersey Savings and Loans League, the New Jersey Mortgage Bankers Association and a list of commercial banks from the Zeller & Letica mailing service. (Copy of invitation attached as Exhibit A).

Lenders were informed that the Agency intended to sell tax-exempt mortgage revenue bonds to finance this program and that funds were expected to be available in late October.

Lenders were invited to participate in the program as mortgage loan originators and to return a form if they wished to receive a Commitment Application.

2. Any lenders who expressed interest and all participants in the previous mortgage programs were mailed a Commitment Application on August 25, 1982. (See Exhibit B.) Approximately 200 of the 452 mortgage lenders requested the Commitment Application package. Lenders were advised that they could apply for a commitment of funds for any of the three categories of the program.

Every builder in the State was also notified of the forthcoming program and advised that applications for newly constructed units should be made through local lending institutions. (See Exhibit C.) As part of their commitment applications, lenders were required to submit a New Construction Information and Certification form for each builder/developer with information on the principals in the development company, as well as the development itself. A limit of \$2 million per developer was placed on applications.

3. September 24, 1982 was the deadline for receipt of commitment applications from lenders; 19 percent (86) of the original 452 invited to participate responded.

The commitment requests from the 86 lenders totalled \$588,376,200, more than 200 percent of the \$225,000,000 available in loan proceeds. The actual breakdown is as follows:

Category	Urban	Statewide	New Construction
Commitment Requested	\$96,996,700	\$257,939,940	\$234,439,560
Amount Available	75,000,000	75,000,000	75,000,000

4. Commitment allocations were made after careful development of criteria which took into consideration geographic service area, mortgage loan origination capacity and performance under previous Agency programs.

Lenders applying for the Urban category received allocations based on an application of these criteria against a maximum allocation of \$7 million.

For the Statewide category which was the most oversubscribed, seventy-two per-cent of the 76 lenders requesting funds received \$1,000,000 or less (enough for between 3 and 15 loans.) Nearly one-third of the 76 lenders received \$300,000 or less (enough for 3-4 mortgage loans). Only two lenders received \$4,000,000, which was the maximum allocation.

The allocations to lenders for the New Construction category were based on Developer requests for setasides. Each developer request was cross-checked to insure that no developer had applied for more than the original maximum. A new maximum of \$600,000 per developer was imposed and each developer request was reduced by approximately two-thirds.

Exhibit D lists individual Commitment Allocations and the allocation procedure.

5. Bonds were sold on October 7, 1982. Lenders were notified of their allocation through the Notification of Acceptance mailed on October 15, 1982. (A supply of forms and applications were sent simultaneously by United Parcel Service). The lenders also were advised that the closing date of the bond sale was scheduled for October 28, 1982, at which time funds would be available and firm commitments could be made to mortgagors.

### III. Public Response

#### A. General Publicity

The advent of the program was announced by the Governor in a press release of August 18, 1982 (attached as Exhibit E) and was introduced by Treasurer Biederman at a briefing the same day. Attending the briefing were representatives of:

New Jersey Builders Association  
Savings Bank Association of New Jersey  
New Jersey Association of Realtors  
New Jersey Bankers Association  
Homeowners Warranty Council  
New Jersey Savings League  
Mortgage Bankers Association  
Pension Fund Task Force

At the time of the bond sale, October 7, 1982, a second release was sent to the press (See Exhibit F).

During the two month period following the announcement, information about the program was carried by Associated Press and United Press International wire services, and was announced on New York, New Jersey and Philadelphia radio stations. Information about the program further appeared in over 56 articles in newspapers with New Jersey circulation.

Additionally, all State Legislators and the Mayor of each municipality with an eligible urban area received notice of the program (See Exhibit G).

#### B. Availability of Funds

The Statewide Mortgage Program loan fund of \$225 million could finance approximately 3,750 mortgages (based on an average mortgage of \$60,000), divided equally among the three categories:

Statewide existing	1,250 mortgages;
New construction	1,250 mortgages in over 300 developments;
Urban	1,250 mortgages.

### C. Demand

By October 15, 1982, at which time brochures with the list of lenders were released by MFA, over 7,000 persons had already requested information on the program from NJMFA alone. A disproportionate share of the inquiries regarded the Statewide category.

In New Jersey, the annual mortgage lending activity of \$3.3 billion financed approximately 55,000 mortgages, of which approximately 14 percent or over 7,700 are for first-time homebuyers. (Based upon statistics developed by the United States League of Savings Associations for the Northeast region for 1981.)

The 1,250 mortgages made available under the statewide portion of the SMP could fill only 16 percent of the annual demand of first-time homebuyers.

### IV. Limitation on Funds

The U.S. Congress passed and the President signed the Mortgage Subsidy Bond Tax Act of 1980 in December 1980. The Tax Act imposes a maximum dollar limit on the amount of mortgage revenue bonds issued by each state for the purpose of financing homeownership programs. The federal limit is set at 9 percent of the average annual aggregate principal amount of mortgages executed during the immediately preceding three calendar years for single family owner-occupied residences located within the jurisdiction of such State (103A.g(4)), of the 1954 Internal Revenue Code. The limitation guarantees that State programs may only fill a portion of the mortgage demand.

In New Jersey, the 1982 federal ceiling for the issuance of tax-exempt mortgage revenue bonds is \$304 million. After the Statewide Mortgage Program bond sale on October 7th, the NJMFA's bond sales in 1982 totaled \$275 million, or 90 percent of that allowed under the federal ceiling.

The federal Tax Act further imposes restrictions on the financial structure of mortgage revenue bonds. The severity of these restrictions makes it necessary for the loan fund to be disbursed (invested as mortgage loans) as quickly as possible. Therefore participating lenders are encouraged to originate loans for the full extent of their allocations as quickly as possible.

### V. Responsibility

The NJMFA provides a secondary market for mortgage and home improvement loans in the State of New Jersey and does not have the statutory authority to serve as a direct lender.

A loan is originated by the participating lender in the name of the lender and offered to MFA for purchase subsequent to loan closing. Each lender is responsible for originating loans in accordance with all Federal and State laws, as well as NJMFA procedures.

SMP mortgage loans were committed to applicants by each participating lender on a first-come first-served basis. The point at which inquiries were

The only restriction placed on lenders' application procedures at onset was a statement contained in the Commitment Application. "The Agency will not purchase any Mortgage Loan originated (actually closed) pursuant to a commitment issued to a potential mortgagor prior to the date that the Agency executes the Mortgage Purchase Agreement." (Mortgage Purchase Agreements are executed at the time of closing of the bond sale on October 28, 1982.) On September 30, 1982 NJMFA notified lenders that no mortgage loan applications should be accepted prior to receiving their Notice of Acceptance of the Commitment Allocation and the NJMFA forms on or about October 18, 1982. (See Exhibit H.)

Lenders who had taken applications prior to receipt of this notice acted in good faith and did not violate the requirements of the program. Furthermore, lenders were not prohibited from taking waiting lists of interested potential borrowers.

In the five years of previous mortgage purchase programs, NJMFA has not restricted the taking of applications by lenders, but rather has encouraged lenders to use their allocations quickly. The volatility of mortgage rates makes prompt delivery of mortgage loans an essential ingredient in the Agency's ability to make timely payment of Bond debt service.

While the Agency did not make public the names of participating lenders until the mailing of the brochure on October 15th, hundreds of prospective homeseekers called lenders, discovered those which were planning to participate and made a request for their mortgage as early as last August. Lenders were inundated with requests for information and applications from prospective homebuyers even before many lenders had decided to apply for a commitment of funds.

Some lenders took applications from prospective borrowers prior to receiving NJMFA's Bulletin which advised them to wait until after October 18th. Following a common industry practice, some lenders also set aside funds for real estate brokers with whom they regularly do business.

While lenders and applicants can not be penalized for acting in good faith by taking loan applications and/or waiting lists prior to October 15th, this action did decrease the total supply of funds available to potential applicants after that date. However, as most lenders maintained their waiting list in order of names taken and those that did not were encouraged by the Agency to hold a drawing in their offices, the spirit of the program and the first-come first-served basis was maintained.

The fact, however, remains that the total supply of MFA mortgage loans was totally disproportionate to the demand for such funds.

#### IV. Results of the Program

While NJMFA is not able to and should not serve all of the would be applicants in New Jersey, the accomplishments of the program must be highlighted:

1. Approximately 1,250 first-time homebuyers will receive mortgage financing

for their first home purchase, thus relieving some of the pent-up demand resulting from economic conditions of the last two years.

2. \$75 million is being invested in newly constructed housing in over 300 developments around the State. This allows the financing of completed inventory and encourages new development, and will stimulate building industry jobs.
3. \$75 million is allocated to 40 New Jersey urban areas, supplementing NJMFA's previous mortgage investment of \$340 million in those areas. The funds will continue NJMFA's goal of assisting in the revitalization of urban neighborhoods.

In addition to the jobs created, the neighborhoods assisted and the first-time homeowners benefited, the new program also stimulates the general economy through the fees, commissions and taxes generated by home sales.

10/28/82

# New Jersey Mortgage Finance Agency

1180 Raymond Boulevard 23rd Floor Newark, New Jersey 07102 201 648-2774



August 18, 1982

Re: Statewide Mortgage Program

Dear President:

I invite you to join the New Jersey Mortgage Finance Agency (MFA) in the Kean Administration's first step toward fighting the housing crisis. Through participation in MFA's first statewide mortgage purchase program, your institution can be a leader in the community by bringing financing costs back to earth and making homeownership a reality once more.

The new Statewide Mortgage Program (SMP) will provide below market rate financing for first time homebuyers throughout the state as well as purchasers in urban areas. Permanent mortgage financing for new construction will also be emphasized.

Since its creation in 1970, the MFA has financed the purchase of over 30,000 housing units in New Jersey. Of these, approximately 10,000 units were financed through the Agency's targeted urban mortgage purchase program, the Neighborhood Loan Program (NLP).

The new statewide program marks a dramatic expansion of the MFA's efforts to help you meet a greater portion of the credit needs of your community.

The SMP will be financed through a forthcoming sale of tax-exempt mortgage revenue bonds, which is expected in October. The size of the issue will depend on the amount of commitments received from participating lending institutions and will probably be in the \$100 million range. The interest rate on the mortgage loans will be determined at the time of bond sale, but is expected to be around 13 percent.

The SMP mortgage loans will be originated and closed by participating lending institutions and mortgage companies for sale to the MFA. Many of these lenders also service the loans for the Agency if they meet MFA servicing guidelines. Lenders not meeting the Agency's servicing guidelines can still originate and sell loans to MFA; servicing of their loans will be assigned to an approved MFA servicer of their choice. Participating lenders will receive fees for both origination and servicing of MFA loans.

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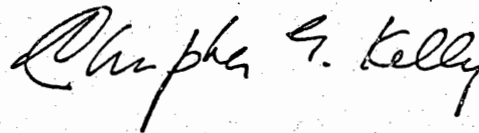
If you are interested in considering participation in the statewide program, return the enclosed Request Form and we will send you a Commitment Application Package for your consideration. Each lender will have approximately three weeks to make its decision to participate and submit a formal Commitment Application. If the bonds are sold according to schedule, we expect to have funds available for lenders to make loans in late October.

The Request Form carries no obligation on the part of the lender. It must, however, be returned to the MFA by August 25, 1982 in order for the Commitment Application Package to be mailed for your consideration.

Once we have mailed the program materials, we will schedule information meetings to answer any questions you may have.

We hope you will consider participation in the new program and look forward to hearing from you.

Very truly yours,



Christopher G. Kelly  
Executive Director

CGK/shm  
Enclosures

# New Jersey Mortgage Finance Agency

1180 Raymond Boulevard 23rd Floor Newark, New Jersey 07102 201 648-2774



August 25, 1982

Dear Lender:

We are pleased to send you a set of documents for the Mortgage Finance Agency's (MFA) first Statewide Mortgage Program. This program will enable your institution to offer lower interest rate mortgage loans for the purchase of one-to-four unit homes throughout the state.

It is important that the documents be read carefully.

We will be pleased to respond to any questions you may have at the informational meeting scheduled for September 9th. In addition, optional technical training sessions will be held to thoroughly familiarize your personnel with loan packaging and submittal procedures at the start of the program.

The formal commitment period begins upon your receipt of these documents. A completed Commitment Application and executed Mortgage Purchase Agreements and Mortgage Servicing Agreements must be received by the Agency by September 24, 1982.

As of this writing the Agency expects to sell bonds to finance this program so that funds will be available in late October. We will keep you fully informed about the progress of the sale. You will receive sufficient notice prior to the start of the program so that your institution will be fully prepared to accept loan applications at the proper time.

Very truly yours,

Christopher G. Kelly  
Executive Director

Informational Meeting will be held:  
Thursday, September 9, 1982  
Ramada Inn, Edison, New Jersey  
Exit # 10, New Jersey Turnpike  
9:30 A.M.

CGK/shm

P.S. Pending President Reagan's signing of the 1982 tax legislation, the Acquisition Cost Limits listed in the Guide will increase by 20 percent for the Statewide limits and by 10 percent for the Eligible Neighborhood limits. We will inform you of the specific changes when they are signed into law.

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Assistant Executive Director  
Constance B. Gibson  
Assistant Executive Director



# New Jersey Mortgage Finance Agency

1180 Raymond Boulevard 23rd Floor Newark, New Jersey 07102 201 648-2774



August 30, 1982

Re: Statewide Mortgage Program  
Funds for Permanent Mortgages on New Construction

Dear New Jersey Builder:

Governor Kean is pleased to announce the New Jersey Mortgage Finance Agency's (MFA's) first statewide mortgage purchase program. The new program will provide between \$100 and \$200 million in below market rate financing for the purchase of residences throughout the state beginning in October.

One third of the total available loan fund for the Statewide Mortgage Program will be allocated for mortgage loans on newly constructed single family homes.

If you are interested in obtaining a commitment of funds for mortgages on a portion of new single family homes which you are building or have in existing inventory, now is the time to contact your lender.

All lending institutions in the state have received an invitation to participate in the new program. Contacting lenders now will encourage their participation in the program and make certain that your financing needs are considered in their request for a commitment of funds from MFA.

Lenders must return their Commitment Applications to the MFA by September 24, 1982.

The new program will be funded by a sale of tax-exempt bonds which is expected in October. The interest rate on the mortgage loans will be determined at the time of the bond sale but will probably be 13 percent or less.

The Highlights of the new program are herein described along with maximum purchase prices. Complete details will be available through lending institutions which have requested commitment packages from MFA.

MFA looks forward to great interest in this new program from builders/developers as well as residents statewide. We urge you to contact your lender promptly in order to share in the limited funds which will be available.

Very truly yours,

Christopher G. Kelly  
Executive Director

Enclosures

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SECRET

STATEWIDE MORTGAGE PROGRAM  
ALLOCATION PROCEDURE

Urban

Maximum to new lender: \$1.5 million; to previous participant: \$7 million.

Further reductions were imposed according to criteria listed below.

Statewide

Maximum to new lender: \$4 million; to previous participant: \$7 million.

Further reductions were imposed according to criteria listed below. Following such reductions, new lenders' requests were further reduced by 60 percent; previous participants by 50 percent. Finally, some adjustments were made to provide modest increases in allocations to previous participants with excellent performance history.

New Construction

Allocation made by individual developer: 30 percent of amount requested; with a maximum allocation of \$600,000.

CRITERIA FOR REDUCTION IN COMMITMENT REQUESTS

1. Reduction based on inability to fulfill commitments in previous MFA programs.
2. Reduction based on mortgage origination capabilities indicated in Commitment Applications.
3. Reduction based on quality of loan packages submitted under previous MFA programs.
4. Reduction because commitment requested substantially exceeded loan production under previous MFA programs (urban only).
5. Reduction based on organization in transition.
6. Minimum allocation of \$200,000 for statewide category.
7. Reduction based on geographic areas served relative to size of commitment requested.
8. New participant receiving large allocation for new construction; therefore other requests limited since performance ability unknown.

10/6/82

COMMITMENT REQUESTED

COMMITMENT ALLOCATION

EXHIBIT D

<u>NAME OF PARTICIPANT</u>	<u>COMMITMENT REQUESTED</u>				<u>COMMITMENT ALLOCATION</u>			
	<u>URBAN</u>	<u>STATEWIDE</u>	<u>NEW CONST.</u>	<u>TOTAL</u>	<u>URBAN</u>	<u>STATEWIDE</u>	<u>NEW CONST.</u>	<u>TOTAL</u>
Allstate Enterprises Mort. Corp.	\$2,000,000	\$7,041,940	\$ 958,060	\$10,000,000	\$1,750,000 <sup>3</sup>	\$2,200,000 <sup>3</sup>	\$ 689,000	\$4,639,000
Amboy Madison Nat. Bank	-0-	3,000,000	6,000,000	9,000,000	-0-	800,000 <sup>2,7</sup>	1,285,000	2,085,000
Anchor S & L Assoc.	-0-	1,150,000	850,000	2,000,000	-0-	400,000 <sup>7</sup>	175,000	575,000
Berkeley Federal S & L Assoc.	2,000,000	5,000,000	2,300,000	9,300,000	1,300,000 <sup>a</sup>	1,200,000 <sup>a</sup>	800,000	3,300,000
Broadway Bank & Trust Co.	400,000	1,100,000	-0-	1,500,000	400,000	500,000	-0-	900,000
Brokers Mort. Service	8,000,000	23,000,000	6,500,000	37,500,000	5,000,000 <sup>1,3</sup>	1,700,000 <sup>1,3</sup>	1,975,000	8,675,000
Central Mort. Co.	4,350,000	14,000,000	200,000	18,550,000	1,200,000 <sup>1,3</sup>	1,000,000 <sup>1,3,5</sup>	199,500	2,399,500
Chase Home Mort. Corp.	-0-	10,000,000	500,000	10,500,000	-0-	1,600,000	175,000	1,775,000
City Federal S & L Assoc.	1,000,000	15,000,000	15,000,000	31,000,000	1,000,000	3,000,000 <sup>1</sup>	4,300,000	8,300,000
*Citizens Federal S & L	-0-	700,000	300,000	1,000,000	-0-	200,000 <sup>a</sup>	200,000	400,000
Clarion Mort. Co.	300,000	2,300,000	22,400,000	25,000,000	-0- <sup>8</sup>	900,000	7,484,000	8,384,000
Collective Federal S & L Assoc.	2,000,000	3,875,000	6,069,900	11,944,900	1,500,000 <sup>4</sup>	1,100,000 <sup>4</sup>	2,290,900	4,890,900
Colonial Mort. Service Co.	1,000,000	6,000,000	-0-	7,000,000	700,000 <sup>1</sup>	1,000,000 <sup>1</sup>	-0-	1,700,000
Columbia S & L Assoc.	-0-	10,000,000	4,800,000	14,800,000	-0-	1,000,000 <sup>7</sup>	1,480,000	2,480,000
Commercial Trust Co. of NJ	3,400,000	900,000	5,700,000	10,000,000	2,500,000 <sup>1</sup>	500,000	1,475,000	4,475,000
County Mort. Co., Inc.	700,000	300,000	1,000,000	2,000,000	600,000 <sup>1</sup>	200,000 <sup>6</sup>	350,000	1,150,000
Crestmont Federal S & L Assoc.	500,000	500,000	-0-	1,000,000	500,000	200,000	-0-	700,000
Eastern American Mort. Co.	1,750,000	1,750,000	-0-	3,500,000	1,750,000	1,200,000	-0-	2,950,000
Empire S & L Assoc.	300,000	2,700,000	-0-	3,000,000	300,000	400,000 <sup>a</sup>	-0-	700,000
*Farmers & Mechanics S & L	100,000	200,000	-0-	300,000	100,000	200,000	-0-	300,000
Farmers & Merchants Nat. Bank	100,000	900,000	-0-	1,000,000	100,000	250,000 <sup>7</sup>	-0-	350,000
Fidelity Union Bank	1,000,000	2,500,000	700,000	4,200,000	800,000 <sup>1,3</sup>	1,000,000 <sup>1,3</sup>	200,000	2,000,000
First Federal S & L Assoc.	500,000	650,000	1,500,000	2,650,000	400,000 <sup>1,3</sup>	300,000	475,000	1,175,000
First Financial Mort. Corp.	2,000,000	1,000,000	-0-	3,000,000	2,000,000	500,000	-0-	2,500,000
First Jersey Nat. Bank	1,200,000	-0-	5,800,000	7,000,000	1,000,000 <sup>1</sup>	-0-	1,686,000	2,686,000
First Nat. Bank & Trust Co. of Nev.	50,000	950,000	900,000	1,900,000	50,000	200,000 <sup>a,7</sup>	315,000	565,000
First Nat. State Bank of W. Jersey	800,000	-0-	-0-	800,000	800,000	-0-	-0-	800,000
First S & L Assoc.	1,000,000	500,000	4,000,000	5,500,000	1,000,000	400,000	1,200,000	2,600,000
Franklin State Bank	1,000,000	3,250,000	2,750,000	7,000,000	700,000 <sup>a</sup>	800,000 <sup>a</sup>	775,000	2,275,000
Freehold S & L Assoc.	-0-	-0-	500,000	500,000	-0-	-0-	175,000	175,000
Garden State Bank	200,000	2,000,000	6,370,000	8,570,000	200,000	800,000 <sup>4</sup>	1,460,000	2,460,000
Globe Mortgage Co.	3,000,000	3,000,000	-0-	6,000,000	3,000,000	3,000,000	-0-	6,000,000

	<u>URBAN</u>	<u>STATEWIDE</u>	<u>NEW CONST.</u>	<u>TOTAL</u>	<u>URBAN</u>	<u>STATEWIDE</u>	<u>NEW CONST.</u>	<u>TOTAL</u>
Guardian S & L Assoc.	-0-	200,000	-0-	200,000	-0-	200,000	-0-	200,000
Heritage Bank, H.A.	500,000	500,000	1,450,000	2,450,000	500,000	250,000	450,000	1,200,000
Heritage Mort. Finance Co.	5,000,000	5,000,000	-0-	10,000,000	4,500,000 <sup>4</sup>	2,400,000 <sup>4</sup>	-0-	6,900,000
Home Mort. Corp.	200,000	200,000	-0-	400,000	200,000	200,000	-0-	400,000
Hudson City Savings Bank	-0-	-0-	1,500,000	1,500,000	-0-	-0-	450,000	450,000
Hunterdon Cty. Nat. Bank	-0-	1,000,000	-0-	1,000,000	-0-	250,000 <sup>7</sup>	-0-	250,000
Inter-Boro S & L Assoc.	-0-	8,200,000	6,800,000	15,000,000	-0-	1,000,000 <sup>2,7</sup>	2,155,000	3,155,000
Intercounty Mortgagee Corp.	10,000,000	10,000,000	5,731,000	25,731,000	6,500,000 <sup>4</sup>	3,500,000	2,038,000	12,038,000
International Mort. Co.	-0-	-0-	2,000,000	2,000,000	-0-	-0-	625,000	625,000
Jersey Mort. Co.	8,000,000	8,000,000	18,200,000	34,200,000	7,000,000	4,000,000 <sup>2</sup>	5,045,000	16,045,000
Jersey Shore S & L Assoc.	500,000	2,000,000	320,000	2,820,000	500,000	550,000 <sup>2</sup>	175,000	1,225,000
Larson Mort. Co.	1,500,000	12,000,000	3,850,000	17,350,000	1,500,000	3,000,000 <sup>3</sup>	1,250,000	5,750,000
Lenape State Bank	-0-	1,874,000	1,126,000	3,000,000	-0-	300,000 <sup>2,7</sup>	559,000	859,000
Lumbermens Mort. Corp.	3,000,000	4,000,000	5,545,700	12,545,700	3,000,000	2,500,000	1,952,700	7,452,700
Margaretten & Co., Inc.	3,500,000	7,500,000	10,400,000	21,400,000	3,500,000	4,000,000	2,445,000	9,945,000
Mercury, Inc.	500,000	1,000,000	-0-	1,500,000	500,000	400,000	-0-	900,000
Midlantic Mort. Corp.	-0-	1,000,000	10,700,000	11,700,000	-0-	400,000	3,045,000	3,445,000
Midlantic Nat. Bank/Merchants	100,000	400,000	-0-	500,000	100,000	200,000	-0-	300,000
Millville S & L Assoc.	280,000	120,000	-0-	400,000	200,000 <sup>2</sup>	100,000	-0-	300,000
Montclair Savings Bank	200,000	400,000	-0-	600,000	200,000	200,000	-0-	400,000
Morris County Savings Bank	750,000	1,250,000	-0-	2,000,000	750,000	750,000	-0-	1,500,000
Mortgage Services of America	1,600,000	5,000,000	2,400,000	9,000,000	1,600,000	2,500,000	1,030,000	5,130,000
Murray Financial Assoc., Inc.	700,000	500,000	-0-	1,200,000	700,000	250,000	-0-	950,000
Nassau S & L Assoc.	-0-	2,000,000	2,000,000	4,000,000	-0-	700,000 <sup>7</sup>	300,000	1,000,000
National State Bank, Eliz.	2,500,000	6,000,000	10,805,000	19,305,000	2,200,000 <sup>3</sup>	1,800,000 <sup>3</sup>	3,515,000	7,515,000
New Jersey National Bank	2,000,000	2,000,000	-0-	4,000,000	750,000 <sup>2</sup>	600,000 <sup>2</sup>	-0-	1,350,000
North Jersey S & L Assoc.	-0-	500,000	700,000	1,200,000	-0-	250,000	245,000	495,000
Northwest Mort. Co., Inc.	-0-	-0-	1,000,000	1,000,000	-0-	-0-	300,000	300,000
Nutley S & L Assoc.	-0-	-0-	500,000	500,000	-0-	-0-	175,000	175,000
Old Borough S & L Assoc.	400,000	600,000	2,000,000	3,000,000	400,000	300,000	600,000	1,300,000
Pamapo S & L Assoc.	150,000	850,000	-0-	1,000,000	150,000	350,000	-0-	500,000
Peoples Nat. Bank of Cent. Jersey	400,000	-0-	800,000	1,200,000	400,000	-0-	280,000	680,000
*Phillipsburg Nat. Bank & Trust	200,000	-0-	-0-	200,000	200,000	-0-	-0-	200,000
Pioneer Mort. Inc.	400,000	3,429,000	1,771,000	5,600,000	400,000	900,000 <sup>2</sup>	925,750	2,225,750
Prospect Park S & L Assoc.	-0-	500,000	-0-	500,000	-0-	250,000	-0-	250,000
Provident Savings Bank	500,000	1,500,000	-0-	2,000,000	500,000	750,000 <sup>7</sup>	-0-	1,250,000
Queen City S & L Assoc.	200,000	6,000,000	2,545,000	8,745,000	200,000	1,200,000 <sup>7</sup>	721,500	2,121,500
R. E. Scott Mort. Co.	266,700	700,000	5,033,300	6,000,000	250,000	350,000	2,241,900	2,841,900
Residential Financial Corp.	1,250,000	3,000,000	26,300,000	30,550,000	-0- <sup>4</sup>	1,200,000	8,140,000	9,340,000
Robert G. Rose Mort. Co.	300,000	1,500,000	-0-	1,800,000	300,000	750,000	-0-	1,050,000
Rona S & L Assoc.	300,000	800,000	-0-	1,100,000	300,000	400,000	-0-	700,000

EXHIBIT I

	<u>URBAN</u>	<u>STATEWIDE</u>	<u>NEW CONST.</u>	<u>TOTAL</u>	<u>URBAN</u>	<u>STATEWIDE</u>	<u>NEW CONST.</u>	<u>TOTAL</u>
Security S & L Assoc.	3,000,000	9,000,000	4,794,600	16,794,600	1,800,000 <sup>1</sup>	2,500,000 <sup>4</sup>	1,633,000	5,933,000
Shadow Lawn S & L Assoc.	250,000	250,000	-0-	500,000	250,000	200,000	-0-	450,000
Statewide S & L Assoc.	600,000	-0-	-0-	600,000	600,000	-0-	-0-	600,000
Suburban S & L Assoc.	2,000,000	8,000,000	-0-	10,000,000	1,500,000 <sup>5</sup>	1,500,000 <sup>5</sup>	-0-	3,000,000
Tri-County S & L Assoc.	1,000,000	500,000	-0-	1,500,000	600,000 <sup>2</sup>	200,000	-0-	800,000
United Jersey Bank/N.W.	500,000	1,000,000	-0-	1,500,000	500,000	500,000	-0-	1,000,000
United Jersey Mort. Co.	1,400,000	2,000,000	3,000,000	6,400,000	1,400,000	1,000,000	1,055,000	3,455,000
United S & L Assoc. of Trenton	200,000	300,000	-0-	500,000	200,000	200,000	-0-	400,000
US Mortgage Corp.	750,000	3,250,000	4,000,000	8,000,000	750,000	2,000,000	1,200,000	3,950,000
Valley National Bank	2,000,000	8,000,000	-0-	10,000,000	1,000,000 <sup>2</sup>	400,000 <sup>2</sup>	-0-	1,400,000
WestAmerica Mort. Co.	300,000	2,000,000	2,570,000	4,870,000	300,000	800,000	775,000	1,875,000
White Horse S & L Assoc.	150,000	350,000	-0-	500,000	150,000	200,000	-0-	350,000
Yardville Nat. Bank	-0-	500,000	1,500,000	2,000,000	-0-	200,000	525,000	725,000
<b>TOTAL</b>	<u>\$95,996,700</u>	<u>\$257,939,940</u>	<u>\$234,439,560</u>	<u>\$588,376,200</u>	<u>\$75,000,000</u>	<u>\$73,000,000</u>	<u>\$73,016,250</u>	<u>\$221,016,250</u>

A. Statewide: \$2 million retained for future allocation

B. New construction: \$1,983,750 retained for spot loans to individuals

RELEASE: IMMEDIATE, AUGUST 18, 1982

CONTACT: CARL GOLDEN  
MIKE O'SULLIVAN  
MELINA MANN

TRENTON-----The Administration of Governor Thomas H. Kean today unveiled a new, broad-based fiscal program to stimulate the State's depressed housing industry by pumping \$100 to \$200 million in bond issue funds into the home mortgage market in October.

"This is just the first step in our long-range commitment to get New Jersey's housing and home-building industry back up to its full potential. That industry, so vital to our State, must be regenerated, and by taking progressive action in making mortgage money available at affordable rates we will see an immediate effect," said Governor Kean.

Treasurer Kenneth R. Biederman, who conducted a State House briefing on the new program for leaders in the banking, mortgage, realty and building industry, said, "We want to alert the people in our State to a series of initiatives we have planned to make home-buying possible, despite depressed market conditions."

The first stage of the plan calls for:

- The State's Mortgage Finance Agency will float a tax-exempt bond issue from \$100 to \$200 million, making funds available to lenders for mortgage loans throughout the State.
- The funds, to comply with Federal regulations, will be used for permanent loans on new single family construction and the purchase of existing housing by first time homebuyers statewide as well as home purchases in targeted urban neighborhoods.

According to Christopher G. Kelly, Executive Director of the Mortgage Finance Agency, "The bond issue money will be allocated for fixed rate mortgage at an expected 13 percent interest rate, or lower, which is about 4 percent below the current mortgage market interest rates."

The financing plan calls for conventional mortgage loans with the purchaser needing as little as 5 percent down payment. If market conditions at the time of the bond sale indicate a need for growing equity mortgage financing or other short term plans we will consider these options, but at present we are looking at a traditional fixed term mortgage," said Kelly.

Mortgage money will be made available to qualified buyers as soon as the bond issue is sold in October. There are no maximum income restrictions, but the purchaser must live in the property. Borrowers must be first time homebuyers except in targeted areas. There will also be purchase price limits on the program.

"Housing starts have fallen by about 25 percent in the past year. The new program will provide financing for between 2,000 and 3,000 home purchases which will be a major stimulus to the industry," said John P. Renna, Commissioner of the Department of Community Affairs, and Chairman of the Mortgage Finance Agency Board of Directors.

Banking Commissioner Michael Horn said, "This new statewide program will help thrift institutions to meet mortgage credit needs in their communities."

"By using imaginative finance mechanisms, Governor Kean intends to keep his pledge to get the economy in New Jersey moving again. We have developed methods which combine the natural advantage of tax-exemption on MFA bonds with other sources of funds. The State Pension funds, the Federal National Mortgage Association (FHMA), Federal Home Loan Mortgage Corporation (FHLMC) can be tapped as investors for future bond issues using these mechanisms, said Biederman.

"These alternatives will not be used for the current bond issue because at this time, traditional long term bonds will produce the most favorable mortgage instrument for the homebuyer. However, the alternatives can be incorporated as this administration continues to set more housing and home purchase initiatives on the table," said Treasurer Biederman.

The New Jersey Mortgage Finance Agency, created by the Legislature in 1970 to increase total mortgage activity, has created some \$850 million for housing through bond issues.

**STATE OF NEW JERSEY****OFFICIAL NEWS RELEASE****New Jersey Mortgage Finance Agency**

1180 Raymond Boulevard  
Newark, New Jersey 07102

Christopher G. Kelly, Executive Director

**FOR RELEASE:****For further information call:****201-648-2774**

October 7, 1982

Melina Napolitano Mann  
Public Information Officer

**\$239,000,000 IN BONDS SOLD TO PROVIDE MORTGAGES**

Governor Thomas Kean today announced the sale of \$239,000,000 in tax-exempt mortgage revenue bonds by the New Jersey Mortgage Finance Agency (MFA). Proceeds from the bond issue will provide mortgage financing for approximately 4,000 New Jersey residents at an interest rate of 11 percent under the Agency's new Statewide Mortgage Program.

"We are delighted to be able to provide an infusion of mortgage funds at a below market interest rate during this critical period for the state's housing industry. The mortgage revenue bonds sold by the MFA is a solid step toward solving the state's housing problems", according to the Governor as he made the announcement.

The bonds, which by federal regulation were sold in registered form, had a true interest cost of 10.60 percent. The issue was rated A and A1 by Standard & Poors and Moody's respectively. Goldman, Sachs and Company as manager, led the underwriting syndicate which sold the issue. Co-managers included Bear Sterns & Company; Blyth Eastman Paine Webber; First National State Bank of New Jersey; Gruntal & Company; Kidder Peabody & Company; Merrill Lynch White Weld Capital Markets Group; L.F. Rothschild, Unterberg, Towbin; Salomon Brothers, Inc. and Ryan, Beck & Company.

The bond sale was approved at a meeting of the Mortgage Finance Agency Board of Directors today. According to John P. Renna, Commissioner of the New Jersey Department of Community Affairs and Chairman of the MFA Board of

Directors "Favorable bond market conditions have allowed MFA to offer participants in this new broadened mortgage program an attractive interest rate of 11 percent and a 30 year mortgage term as well.

Executive Director of the Agency, Christopher G. Kelly, described the forthcoming program in further detail.

"The new Statewide Mortgage Program will finance one-to-four unit home purchases for first time homebuyers throughout the State and in eligible urban neighborhoods of 40 municipalities", said Kelly.

All loans will be conventional mortgages and will be available through participating lending institutions throughout the state. The lenders will start taking mortgage loan applications in late October. Complete details on the new Statewide Mortgage Program and Neighborhood Loan Program are available from the MFA at 1180 Raymond Boulevard, Newark, New Jersey 07102 or by calling (201) 648-2774.

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10/6/82

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# New Jersey Mortgage Finance Agency

1180 Raymond Boulevard 23rd Floor Newark, New Jersey 07102 201 648-2774



August 24, 1982

Dear Legislator:

I am pleased to report Governor Thomas Kean's announcement of the New Jersey Mortgage Finance Agency's (MFA) plans for a new Statewide Mortgage Program.

The new program will be funded from the forthcoming sale of tax-exempt mortgage revenue bonds, currently scheduled for October. Loan proceeds from the bond issue will finance home purchases for first time homebuyers throughout the state.

Since there has been considerable press coverage of the announcement, you may already be receiving inquiries from your constituents. I have enclosed a copy of a brief information sheet which describes the program as well as a copy of the Governor's release, so that your office may respond to these questions more easily. In addition, I will forward printed promotional material as soon as it is available. The MFA also has a waiting list for information to which individuals may be referred.

I will keep you advised of the status of the program. If you have any questions, do not hesitate to call.

Very truly yours,

Christopher G. Kelly  
Executive Director

CGk/shm

Enclosure

#### Board of Directors

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Commissioner, New Jersey  
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Public Director  
David S. Rosty

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Christopher G. Kelly  
Executive Director  
G. Curtis D'Adda  
Assistant Executive Director  
Constance B. Gibson  
Assistant Executive Director



**New Jersey Mortgage Finance Agency**

1180 Raymond Boulevard 23rd Floor Newark, New Jersey 07102 201 648-2774



August 1982

New Statewide Mortgage Assistance Program

Dear Mayor:

Last week the Administration of Governor Thomas H. Kean unveiled a new, broad-based fiscal program to stimulate the state's depressed housing industry. The first step in this effort will be a \$100 to \$200 million Mortgage Finance Agency (MFA) bond issue in October to pump funds into the home mortgage market. This new mortgage program will provide funds:

- 1/3 to Eligible Neighborhoods of urban municipalities -- the existing Neighborhood Loan Program areas;
- 1/3 to newly constructed homes statewide;
- 1/3 to existing homes statewide.

The program will utilize MFA's ability to sell tax-exempt bonds and make funds available to lenders for mortgage loans throughout the state.

There will be no lessening of the state's commitment to those urban areas where the MFA has made below market interest rate loans for the past five years since a substantial portion of the available funds will be held for loans in the Eligible Neighborhoods. Your municipality is, as you know, one of the 40 which have heretofore participated in our Neighborhood Loan Programs.

There are two benefits to purchasing loans in the "targeted areas," as the NLP Eligible Neighborhoods are called:

- 1) buyers do not have to be first-time homebuyers; and
- 2) purchase price limits are higher.

Through this letter we wish to inform you of the expected timetable for the availability of new mortgage funds and to request your continuing efforts in encouraging lending institutions to join the program as loan originators.

**Board of Directors**

John P. Renna  
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Commissioner, New Jersey  
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Public Director

Christopher G. Kelly  
Executive Director  
G. Curtis Dippold  
Assistant Executive Director  
Constance B. Gibson  
Assistant Executive Director

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All lending institutions and many mortgage companies have now received a letter of invitation to participate, along with the enclosed fact sheet outlining the highlights of the new program. As in the past, the MFA is providing an opportunity for lending institutions in the State of New Jersey to become mortgage originators in a program which has been successful in increasing homeownership in municipalities such as yours throughout the state. Today, more than ever, this partnership is vital to the citizens of the State of New Jersey.

Lenders have until September 24, 1982 to return a commitment application if they wish to participate.

We suggest that you or your staff contact lenders based in your community and impress upon them the desirability of becoming a participant in the new statewide mortgage program.

A copy of the map of the Eligible Neighborhoods in your municipality is enclosed.

If you have any questions about this new program and how it may differ from previous MFA mortgage programs, do not hesitate to call me.

Sincerely,

Constance B. Gibson  
Assistant Executive Director

CBG/b

Encs.

cc:

**New Jersey Mortgage Finance Agency**

1180 Raymond Boulevard 23rd Floor Newark, New Jersey 07102 201 648-2774

September 30, 1982

STATEWIDE MORTGAGE PROGRAM - 1BULLETIN NO. 1

Dear Lender:

It has recently come to our attention that several prospective SMP-1 participants have started to accept and process mortgage loan applications in anticipation of the upcoming program.

This procedure is not acceptable to the Agency and lenders who have adopted this practice should immediately cease accepting applications.

On or about October 15, 1982, the Agency will notify all prospective lenders of the amount of their commitment which has been accepted and further provide each lender with a supply of forms which are necessary for the origination of mortgage loans under the program.

Upon receipt of the Commitment Acceptance and programmatic forms, lenders may begin accepting mortgage loan applications for prospective borrowers under the program.

We would appreciate your anticipated cooperation in this matter.

Robert P. Sonzogni  
Senior Mortgage Officer

RPS/mac

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Executive Director  
G. Curtis Doppaid  
Assistant Executive Director  
Constance B. Gibson  
Assistant Executive Director

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# New Jersey Mortgage Finance Agency

1180 Raymond Boulevard 23rd Floor Newark, New Jersey 07102 201 648-2774



October 15, 1982

Dear Participant:

We are pleased to advise you that the Agency has concluded a successful sale of our bonds, the proceeds of which will be used to finance the Statewide Mortgage Program - 1.

Accordingly, we are enclosing an executed Commitment Application Notice of Acceptance, together with an Agency check representing the pro-rated commitment fee refund in the event that your commitment request has been reduced.

For participants who have requested a New Construction commitment, we have enclosed a computer listing which indicates the amount of the commitment accepted for each particular development.

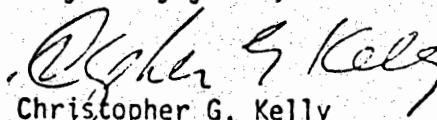
Under no circumstances may program participants transfer New Construction commitments between developments without the written consent of the Agency.

Within the next several weeks the Agency will provide you with executed copies of the Mortgage Purchase and Servicing Agreements, all programmatic forms and change pages to the procedural guides.

The bond closing is scheduled for October 28, 1982, which will be the inception date of the program. Participants are cautioned that loan applications should not be taken until you are in receipt of all necessary programmatic forms and change pages to the procedural guides.

Should you have any questions, please do not hesitate to contact Robert P. Sonzogni, our Senior Mortgage Officer or myself.

Very truly yours,

  
Christopher G. Kelly  
Executive Director

Enclosure

CGK/mac

#### Board of Directors

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