

PUBLIC HEARING

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ASSEMBLY COMMISSION TO STUDY THE AVAILABILITY OF URBAN HOUSING

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MEMBERS OF COMMITTEE PRESENT:

Assemblyman Peter Shapiro (Chairman)

Assemblyman Emil Olszowy

Assemblyman Charles Mays

Assemblyman William L. Gormley

ALSO:

James L. Wunsch, Research Assistant

Legislative Services Agency

Aide, Assembly Commission to Study the Availability of  
Urban Housing

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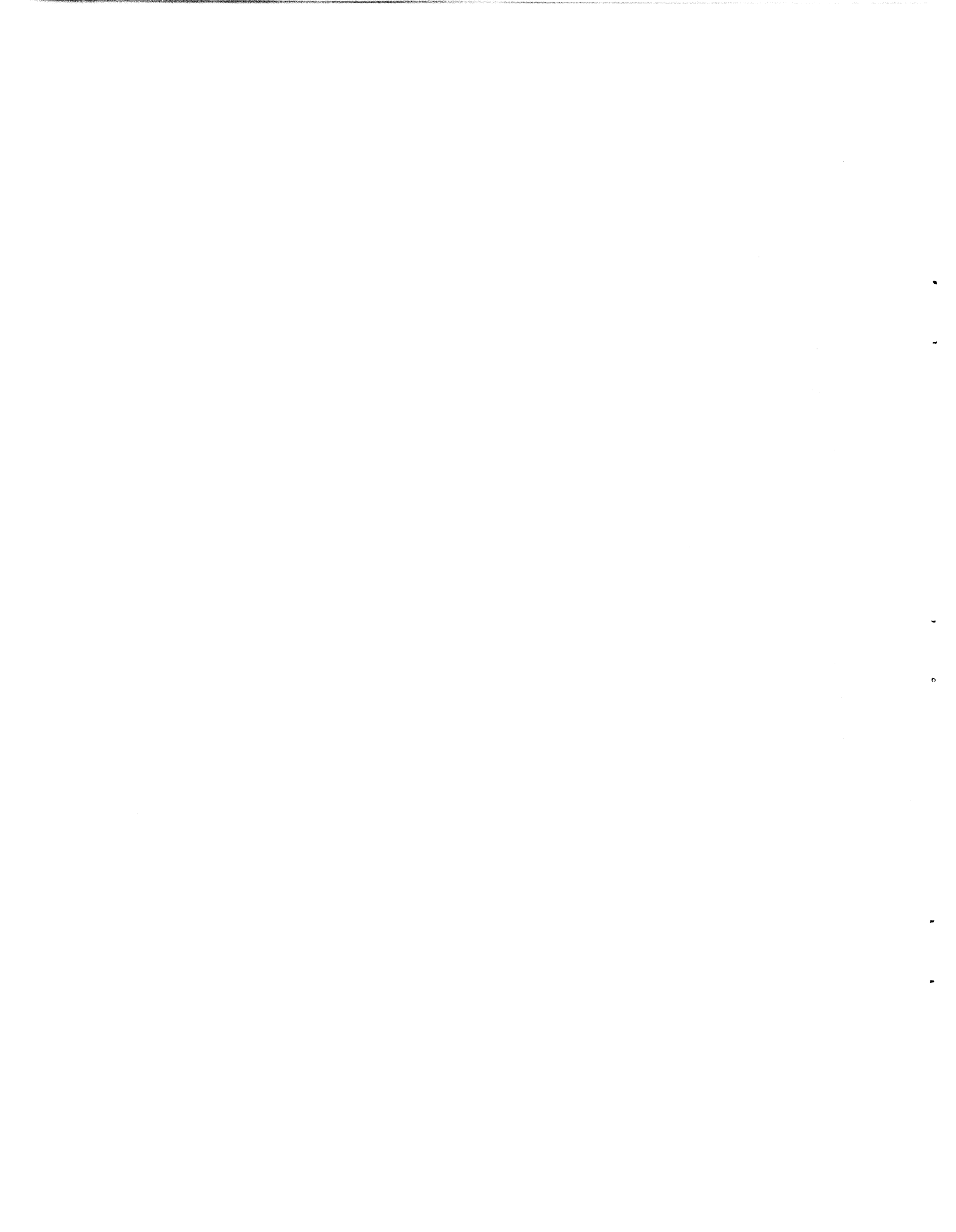
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ASSEMBLYMAN PETER SHAPIRO (Chairman): My name is Peter Shapiro. I am the Assemblyman from District 28, which is Essex County. I am Chairman of this Housing Study Commission, which is charged by the New Jersey Assembly with studying the problems of urban housing. We have here every member of the Committee. Assemblyman Olszowy, I think, is just out in the hall and will be joining us shortly. We have Assemblyman Bill Gormley from Atlantic County over on the far right with some staff people and Assemblyman Charles Mays who will be chairing the hearing as the representative from Jersey City. I will turn it over to him at this point.

ASSEMBLYMAN CHARLES MAYS (Acting Chairman): Our first speaker today will be Samuel Kaye, Freeholder of Hudson County, from Bayonne.

S A M U E L D. K A Y E: Assemblyman Mays, Assemblyman Shapiro, and members of the Commission, I would like to welcome you on behalf of Hudson County. I studied some of the aspects this Commission is going into and I feel it is a very important Commission.

I have contacted our Planning Officer in Bayonne, Joe Polaski, who will send in a written statement as to the views of the City of Bayonne.

Again I would like to welcome you here and, if you need me at all, I will be in my office and you can contact me. Thank you.

ASSEMBLYMAN MAYS: Thank you, Mr. Kaye. We will call on you in the near future.

Our next speaker will be Miguel Torres, Chairman of the Downtown Urban Housing Corporation.

M I G U E L T O R R E S: My name is Miguel Torres and I am the Chairperson of the Downtown Urban Housing Corporation.

Before I start giving my testimony, I want to thank you for bringing attention to displacement, a problem that has been neglected for too many years. And I hope something comes out of this besides just meetings, committees and suggestions, because this is such a big and such an important problem to low-income families. They are moved around from one deteriorating neighborhood to another deteriorating neighborhood, to yet another deteriorating neighborhood, without ever being given the opportunity to set down roots and claim a neighborhood for generations to come.

The Downtown Urban Housing Corporation we see as one answer to displacement and one way of providing low-income, large families with sanitary dwellings.

The Downtown Urban Housing Corporation established itself as a non-profit organization in April of 1976, seeking ways to find adequate housing for low-income people, especially those with large families. As you know, HUD and other private developers have done just about zilch in new construction for low-income people and large families. The units that they are doing now are one-bedroom or no bedroom. It is as simple as that. When a person has four kids in the family and is living in a neighborhood where they buy up his house - a private developer comes in, tears it down or rehabilitates it - that family can never come back to that area.

So the Downtown Urban Housing Corporation was formed. When we first started out, we were writing proposals for Section 8. After we learned about the

problems of housing and the problems with Section 8, we turned away from it. We didn't think Section 8 was the answer. We kept seeking and we kept writing proposals. We finally hit upon the concept of sweat equity and that is what we feel is our strong point. It is an answer to Section 8. It is an answer to the outrageous cost of rehabilitation. As you know, to rehabilitate a dwelling, it costs about \$44 thousand for new construction and about \$32 thousand for rehabilitation. Under sweat equity, we can do it for under \$16 thousand per unit.

I will go back to a little of the history of this. The Board is made up of 10 people. There are 5 Hispanics on the Board and 5 - I don't know what you want to call them - Anglo Americans, White Americans. Most of us have come from low-income backgrounds. I come from a family of eleven children. I know a little bit about the crowding problems and about a family of thirteen trying to live in a four-room apartment. I also know the problem of a family never being allowed to own its own apartment - own its own destiny and control it - and the difference that it makes to own your own dwelling.

We feel that an answer for displacement, an answer to this problem of moving low-income people around, is to give them an opportunity to own their own house.

You say you don't have enough room in the inner cities. We are saying, why must it be horizontal ownership - why not vertical ownership? And we are asking, why not cooperatives? Knock out the speculators who want to make a profit. We are saying that low-income people can exist together, can live together, can cooperate together, and enjoy a fruitful existence in a neighborhood, without being moved around.

We know that middle-class young couples are looking to the inner cities, looking to Jersey City, and wanting to move back in. We have no problem with that. Come back in. We need you. We need role models. We need a tax base. But don't kick us out.

Then you have the Governor coming out with that Executive Order 35. Finally, they are opening up the suburbs for low-income people after so many years when they didn't want us there. I have to wonder why. If you are going to stick us out there after you have moved us around so long, what is going to happen to our services? They have better schools out there now. But what is it going to be in ten years when the middle-income people move back to the cities and abandon the services in the suburbs? What I am saying is: Give us the opportunity to stay here. Give us the opportunity to build our own homes. Give us the opportunity to exist and have a future here in the inner city.

The Downtown Urban Housing Corporation is presently preparing a proposal to the Department of Community Affairs for a low-income, sweat-equity project on Bower Street in Jersey City. We hope to make it 20 units. Right now, the apartment probably has about 35 units. We will trim that down to 20 units. The way we plan to do it is to have the cooperators come in and gut-demolish the building. They will leave it broom clean. At that point the contractors will come in to do the electricity and the plumbing. When they have finished the electricity and the plumbing, the cooperators will come in and do the rest of the work and the cosmetics. And they will own their apartment or own shares in the cooperative.

We are in what is known as a borderline neighborhood. When you talk about borderline neighborhoods, there is a policy that exists - it is probably not admitted

too much - a policy called triage. It is an old French word. If anybody has ever been in any battle in any war -- I remember Vietnam where they used triage. They would separate the wounded into different categories. The ones that were beyond help were put aside and let die. The ones that they could patch up real quickly, they would patch and let them be. The ones they could save, they would save. This triage policy exists in our inner cities.

The government follows the private developers into areas where the private developers feel like spending money. When the private developers start, then the government will say, "Okay, we will put money in there," and ignore the other areas. When you ignore the other areas, you are going to have deterioration. When you have deterioration, you are going to have a high concentration of low-income people with no future and nowhere to go. When you have that kind of concentration, sooner or later, you have displacement. After displacement, and after everybody is chased out, some federal money comes along to put a new class of people in. This has been happening repeatedly.

When I first came to this country, I was four years old. From the time, I was four until I was five, I thought all Americans were Black. I came to an area on 9th and Grove Street where all my neighbors were Black. All the people I ever saw were Black. I didn't know White people existed until I went to school. The Black people are no longer around 9th and Grove Streets. They are up around Bergen and Lafayette Streets. They have been displaced.

I come from a large Hispanic family in a Hispanic neighborhood. We have stayed here for two generations. Despite the fact that the services were no longer being delivered to us, we stayed there. We built up our homes. We built up our neighborhoods. Now from what I see going on around in Montgomery Gateway and Hamilton Park, it is happening again. They are displacing all of us out of our neighborhoods. And we feel very strongly about our neighborhoods. We mostly came from farm backgrounds and rural areas. We were migrants into an urban area - migrants into a new type of living that took us a generation just to understand. Now nobody seems to want to give these people an opportunity to improve themselves and hold on to what they have.

Sweat Equity -- The reason low-income people have never been able to own their own houses is: How can they possibly come up with two or three thousand dollars for a down payment on a mortgage for a home? It is impossible. What I am saying is, even if they don't have the two or three thousand dollars, they do have some muscle power, they do have their hands and they do have desire. You can give them the opportunity to take over an abandoned building that is city owned. Let the city give them the deed. Give them enough seed money to buy construction materials and work on it themselves. It has been proven in the Bronx, it has been proven in Manhattan and it has been proven all through the Midwest that cooperatives and low-income cooperatives can work. We are trying to push it here. We are about three inches away from getting funded. Martha Lamar seems very hipped up on our idea. She is anxious for our proposal. It will probably be ready by next week. We still have the committees meeting and finishing it up.

We feel that the future can be changed and the Downtown Urban Housing Corporation can show one way of bringing about a change in housing which is needed.

I have an article that appeared, I think it was yesterday, in the Jersey Journal, in which it says that Florio, a representative from New Jersey, is asking the House for funds for neighborhoods, and I will read you a quote. He testified Monday that "the residents of our cities and neighborhoods are most keenly aware of their needs, as well as the most efficient ways of dealing with community problems." There is supposed to be a package of \$15 million in Carter's rehabilitation plan for urban areas. That is what we need. We need moneys like that. We need people to realize that our citizens are not so stupid that they don't know what is going on around them. They do know. They know exactly what is going on around them. And, if given an opportunity, they will jump at the chance to change the course of the future, to change the course of housing rehabilitation, and to stop speculators from coming in and destroying neighborhoods, making profits off these neighborhoods and making profits off the misery of the people living in these neighborhoods.

That is about all I have to say. I didn't prepare any notes. I just talked off the top of my head. If you have any questions, I will field them.

ASSEMBLYMAN OLSZOWY: One question: Will you elaborate on speculators coming in and making money on deteriorating houses?

MR. TORRES: I don't think I have to go into that too much further. Everybody knows about that. You have an area downtown where there are a lot of brown-stone houses, beautiful structures, and architecturally sound. You have a neighborhood which is inhabited by undesirables, low-income people. So all the fears surface. These houses aren't worth anything. The people around there aren't worth anything. Who would want to live there? So a speculator will come in and pay zilch for these houses and then start attracting middle-class people in. And you know, he is not selling those houses back at only a \$500 profit. If he is buying a house for \$12 thousand, he is selling it for \$35 thousand. It is happening. When you see houses changing ownership and changing mortgages two or three times a year and the prices are going up, somebody is making money off of that. When you see mortgages changing hands two or three times and then the houses are burning, somebody is making profits. Those are the speculators.

ASSEMBLYMAN OLSZOWY: Don't you think even though someone is speculating - and I am just throwing this out for thought - if you are bringing back middle-class income people into a declining neighborhood that you are strengthening that neighborhood?

MR. TORRES: Yes, but not at the cost of the present residents. That is what I am saying. Why at their cost? What are you going to do with them, move them back up to Bergen and Lafayette? And when you decide that you want to fix Bergen and Lafayette, what are you going to do with them then, move them to Westside Avenue? And when you decide you are going to fix up Westside Avenue, what are you going to do with them then, move them to the suburbs? Then you have a situation similar to South America where the affluent live in the inner cities and the poor people live on the fringes - and the hell with them. When they are not seen and not heard, they don't exist.

ASSEMBLYMAN OLSZOWY: In other words, you are saying people are in the buildings at the present time.

MR. TORRES: Not the buildings that we are talking about. What we are trying to do is find an answer to abandonment. We are taking abandoned buildings

first. Phase one, the way we plan it, is to take the abandoned buildings first, rehabilitate them, bring in the people for them, and then go on to the second phase, which will be trying to organize tenants in city-owned properties, to buy these properties from the city.

ASSEMBLYMAN OLSZOWY: I am going back one step to the brownstones. You have people living in them. Then someone buys them and displaces the people.

MR. TORRES: Some of them. And they are mostly low-income people.

ASSEMBLYMAN SHAPIRO: I have a few questions. When you talk about sweat equity, what are you doing in order to provide the people with the skills that they are going to need in order to be able to do this? I would imagine a lot of the skills involved in construction are very technical and complex ones, ones that most of our citizens, whether they are extremely well educated or extremely under educated, are really poorly equipped to do. How are you able to make it so that, when we are talking about a particular disadvantaged population, they have those skills and they can, in fact, have their sweat crew for this work?

MR. TORRES: Our proposal in the section we are writing for the State draft includes some moneys for a construction supervisor, construction foreman, a carpenter, a tile-setter, and some tools and equipment.

These people would act as supervisors to the cooperators, showing them the skills that they need to spackle, the skills that they need to set a floor, the skills that they need to put a partition up. As these people learn this, they will be doing it in their own apartments. We also will be having workshops from October on, on how to run a house, how to order fuel, how to take care of your books - the whole operation that these people will have to know to maintain this on their own.

We have an oral agreement between the Builders' Union whereby they are going to waive certain minimum wages for these people, so they will come in, as long as it is not scab labor. As long as the workers are the cooperators and are the owners, they are willing to come in and teach.

I differ with you on people not having these skills. Low-income people cannot afford a plumber if something goes wrong in the house. They have to learn it themselves. Low-income people cannot afford a window-setter when something goes wrong with their windows. They have to learn it themselves. And they do a pretty good job of it.

ASSEMBLYMAN SHAPIRO: To follow that up, a number of these aren't very skilled crafts; certainly a person who has to get by, will get by, making a lot of those repairs herself. But they are not going to be at the level of somebody who is trained in construction.

To take the argument a little further, is there any exclusive effect that occurs based upon the fact that people, number one, need to have the time and need to have the fitness. For one thing, people without the physical stamina, people without the physical fitness to really take part in the program, would have difficulty in doing that - senior citizens would, as would people who had to hold down two jobs and, therefore, wouldn't have that much time to be involved in it, as many of our people do today. I represent a very urban district. I represent a third of the City of Newark. Then there are the working mothers with large families and no husbands in the household, as is true in many of our families.

They would have difficulty finding the time to put in that extra sweat when they are sweating all day, trying to hold down a job and trying to take care of a large family. This might be restricted to a smaller group of people than the ones you want to necessarily get. I am not criticizing the program. I am just saying that it has its limitations.

MR. TORRES: We have made room for somebody, such as a mother who is 50 some years old and can't climb up and do certain things.

ASSEMBLYMAN SHAPIRO: Say it is a mother even younger than that who has eight children and no husband.

MR. TORRES: We ask, in order for you to be a cooperator, for 500 hours of your sweat.

ASSEMBLYMAN SHAPIRO: Over what period of time?

MR. TORRES: Over a year's period of time. It doesn't make much difference if she can't nail because then she can maybe sit the other cooperators' children. She can get water. She can hand over a hammer. She can work on the books. She can do anything for 500 hours to be qualified as a cooperator. Say we have one cooperator who is a good carpenter in his own right. And some of the cooperators are going to be doing things in different units, not necessarily in their own unit. While she cannot handle this part of it and other cooperators will do it, she, in turn, will do something else that they don't have the time to do. But she will give us our 500 hours of sweat in one way or another. It doesn't necessarily mean that she is going to come in and grab pieces of wood and carry them up the stairs. If she cannot do that, she will do something else.

ASSEMBLYMAN SHAPIRO: How about financing? How is the money made available, what percentage rate are we talking about, and over what period of time?

MR. TORRES: We are talking about a Section 312 loan that the cooperators will take out over 20 years at 3 percent interest. We are talking about a proposed neighborhood preservation plan because our first project is in neighborhood preservation and there is a grant of \$3,000 per unit - a \$60,000 grant. We are also talking about an \$80 thousand State grant from the housing demonstration project to cover construction costs and operating expenses.

ASSEMBLYMAN SHAPIRO: We have been told in previous testimony about the shortage of funds like Section 312 funds.

MR. TORRES: There is none now until October. So we are ready for them in October.

ASSEMBLYMAN SHAPIRO: --- if they come.

MR. TORRES: We are pretty sure they will. If not, we will go for 235, which is 4 percent over 30 years.

ASSEMBLYMAN SHAPIRO: To touch on another area, you spoke extensively about displacement. Could you describe to the Commission how this displacement is occurring? Is it done largely through private displacement of people through private acquisitions of buildings that are currently inhabited by low-income people? Is it occurring through fire? Is it occurring through condemnation by a public agency? Is it occurring through declarations that the buildings are unsuitable for habitation?

MR. TORRES: I would say all of the above.

ASSEMBLYMAN SHAPIRO: Am I leaving out anything?

MR. TORRES: I would say, yes, quite a few - government action, government

planning.

ASSEMBLYMAN SHAPIRO: Well, condemnation by public agencies.

MR. TORRES: When the private developers look at a neighborhood and the city says, "It is not as important as another neighborhood, so we are not going to concentrate here," for a while they are left on their own. So the strongest survive. They stay there. Then the city says when they finish that one, "How about over there now?" And those strong survivors who have stayed there, through hell or high water, all of a sudden find themselves with no chance of staying there because people are coming in and looking at that area as it is today in comparison to what that area should be.

ASSEMBLYMAN SHAPIRO: How much of the displacement though would be due to direct action of the government in terms of rehabilitation or of private developers in terms of rehabilitation, as compared to fire or condemnation due to declarations that it is unsuitable for habitation, or other public condemnation for, say, highway construction or other public works construction?

MR. TORRES: I would only be guessing if I tried to answer that question.

ASSEMBLYMAN SHAPIRO: Would you say it would be more than 50 percent or less than 50 percent?

MR. TORRES: I would only be guessing if I tried to answer that.

ASSEMBLYMAN MAYS: Take a guess.

MR. TORRES: I wouldn't even guess. I am sure that you know the numbers better than I do.

ASSEMBLYMAN SHAPIRO: No, we really don't. There is very little that has been done accurately on this and it is interesting to get a feel from the local community.

MR. TORRES: Like I said, we are a local community. We would never have gotten this far in this proposal without some help from some technical advisors who came in and gave us some of their time. We would not have been able to put it together.

ASSEMBLYMAN SHAPIRO: One further question, if I might. You talk about redeveloping and rehabilitating abandoned buildings first. The Commission has previously heard testimony by at least one developer who emphasized not doing abandoned buildings first because it was generally found the abandoned buildings were in such bad condition and were in such rough areas that it was too hard to make the rehabilitation work.

MR. TORRES: Right away, those rough areas is what I am throwing out.

ASSEMBLYMAN SHAPIRO: I am repeating really more or less what his testimony was. In effect, he was maintaining that if you start on the edge of the tough areas rather than the center of the tough areas, the likelihood of success of rehabilitated housing is much greater. We have also heard a lot of testimony about the failure of efforts to rehabilitate and the failure of various kinds of housing within even five years of the rehabilitation.

MR. TORRES: I don't agree with that.

ASSEMBLYMAN MAYS: Why don't you give him the definition of "tough area?" I think that is what he wants to know.

MR. TORRES: I don't agree with that concept at all. You can't get a tougher area than the South Bronx.

ASSEMBLYMAN SHAPIRO: That is true.

MR. TORRES: And they sure as hell did it there and are doing it, and are making it viable for the rest of the City of New York from the Bronx.

ASSEMBLYMAN GORMLEY: When you used the term "survivors," you were talking about renters who would be displaced. In other words, they are not actually owners of the property.

MR. TORRES: They may be owners also.

ASSEMBLYMAN GORMLEY: They may be owners.

MR. TORRES: Yes, there are owners now who are being displaced through a different type of tactics.

ASSEMBLYMAN GORMLEY: A renter is an obvious survivor who could be displaced by the landlord who sees the speculator or who then becomes a speculator himself. We talked about condemnation as a possible means of getting out certain individuals through government action. But I am worried about the owner of the property. What has been done to owners, specifically?

MR. TORRES: I am not going to mention any names. Let's say there is a development corporation that is looking at a block that they want to do. Say they have two buildings there now and wish to go a little further. They would start making phone calls late at night - and it has happened. They would tell these people that their property isn't worth zilch and that they should sell out now while the going is good, because it is not going to be worth anything tomorrow. These people believe this. When they hear these things, they believe it. They are frightened because they have made an investment in the house. It is a big sacrifice for a poor working-class family to make an investment in a house. They are put in a position where they are afraid that they will lose their investment and it is not going to be worth much. It is very easy for them to be moved out by a developer who is looking to speculate in that area. And he will sell him out. I know one person who owned a house on West Hamilton Place. He was Hispanic and worked two jobs. He was hardly ever home. He had a wife and one daughter. She was getting phone calls late at night threatening that they were going to burn the place down if they didn't sell, that they were going to attack the daughter if they didn't sell, and that the best thing to do was to get out of that neighborhood.

ASSEMBLYMAN GORMLEY: And a developer did that?

MR. TORRES: He sold.

ASSEMBLYMAN GORMLEY: Was it a particular developer who did that? Was anything ever done about it?

MR. TORRES: No. He sold the house and moved. He was afraid for his wife's and his daughter's safety. He moved. The house was sold with a little profit to him and sold with a bigger profit by the person who bought it.

ASSEMBLYMAN GORMLEY: Another point - you talk about the 500 hours that everyone pledges to be a part of the program. Tentatively - I am curious - how many people do you have lined up who would participate at the 500-hour level? Do you have a handle on how many people are willing to do this? Have you taken a poll?

MR. TORRES: The 500 hours would be the unit, the family.

ASSEMBLYMAN GORMLEY: All right, but how many families?

MR. TORRES: We have 20 families who are going to be the cooperators in this house. We will also have a tremendous waiting list as soon as we make

this a little more public, which we hope to do. We haven't filled up. We have taken names. We haven't designated them as the cooperators yet. All the names have to go before the screening committee. For example, we don't want somebody who has an extensive criminal record to be a cooperator with 20 other people. They are going to be screened. We also don't want to do it before we put this out publicly so other people can have this opportunity. We have three preferences for the people that we are going to accept: people who have been relocated out of downtown, people who are about to be relocated out of downtown, and people who are living in substandard dwellings.

ASSEMBLYMAN GORMLEY: You look at those for categories.

Now I would like to get back to a point that Assemblyman Shapiro brought up. You are talking about 20 families with 500 hours pledged apiece. You are talking a total of 10,000 hours that are pledged. Suppose within that 10,000 hours, you do not have the specific skills. Suppose they fit the category of people that you want to help - maybe you have mothers with the eight children as in the example that was given before - but you don't have the skills within those 10,000 hours. Then what is done to get that skill in to do the sweat portion?

MR. TORRES: The 500 hours is only to qualify as one of the cooperators. It is going to take much more than 10,000 hours of work.

ASSEMBLYMAN GORMLEY: It could be 100,000; it doesn't matter. Suppose the cooperators do not have the skill. They need the housing; they qualify; they are fine people; they have been relocated; they have been pushed out before; they deserve this chance; but the skills just aren't there, not because of any fault of their own but they just don't have the skills. Maybe there is only one plumber in the whole crew. You can't expect that person to do all the plumbing work.

MR. TORRES. He will not, but the other 19 will learn from that one.

ASSEMBLYMAN MAYS: In other words, you go outside and hope to get professional help.

MR. TORRES: We are going outside to get the electricians and the plumbers.

ASSEMBLYMAN GORMLEY: For training or to do the actual work?

MR. TORRES: No, to do the actual electricity and plumbing.

ASSEMBLYMAN MAYS: For the benefit of the Commission and for the record, can you give us the location of downtown?

MR. TORRES: It is the beginning of Jersey City. The census tracts that I am talking about are census tracts 36, 37, 38 and 39. I guess you will be able to look that up and find out where they are. If you went from this building down Newark Avenue, down the hill, you find it down there. Or if you went to the top of the hill, you could see downtown. It is sitting down there. It is an old, inner-city industrial area. It is an area that has a history of immigrants coming in and migrants. At one time, the majority of the people living there were foreign born. Still about 40 percent are foreign born or came from rural areas in the south - rural areas of Puerto Rico and South America. The people are mostly working-class. They have stayed there despite many, many problems. They have owned houses there and refused to leave. They want to stay there. And they have been ignored for too many years.

ASSEMBLYMAN MAYS: Also, in your testimony, it was my understanding you said the suburbs are opening up to low-income families, but suburban people will be moving back into the cities - they will be taking over the big cities. Was that your testimony?

MR. TORRES: It is not going to happen as quickly as that. But some of these smaller towns in the suburbs realize, if they are going to get any federal money, they have to open up to low-income people. They realize a lot of their residents now are moving back into the cities; and if they want to start getting some money from the federal government, they have to open up to low-income people. If that happens, the whole cycle begins of the undesirables coming in, property values going down, and people moving out. Then you have the whole breakdown of social services again.

ASSEMBLYMAN MAYS: One other thing, I would like for you, if possible, to submit your proposal to our Commission so we can look at it.

MR. TORRES: I would like to submit it and will as soon as it is complete. We have other proposals that we handed to the Campaign on Human Development, CDGB, which are just about the same. But there are a few things still missing in our current proposal. We are submitting it at the end of August to the Department of Community Affairs. At that time, I would be glad to submit a copy to you. And if anybody feels that they can endorse it, I would also welcome an endorsement.

ASSEMBLYMAN MAYS: Thank you, Mr. Torres.

MR. TORRES: Thank you.

ASSEMBLYMAN MAYS: Douglas Browne, Former Director of New Jersey Public Action.

D O U G L A S B R O W N E: Good morning. My name is Douglas Browne. I reside at 546 Park Avenue in East Orange.

For the last year and a half, I have been working with a group called New Jersey Citizen Action Alliance and, after that, with a group called New Jersey Public Action. Part of the work involved in both these organizations was to do research on the issue of red-lining and disinvestment.

I passed out some suggestions that I personally have after doing my research on this topic. I will just read the three suggestions very briefly and then I will skim over the materials that are part of the packet, after which I will accept any questions on why I think each of these recommendations is needed.

Recommendation Number One is: Require banks to disclose from what communities they have obtained their savings deposits and to disclose the dollar amount of those deposits broken down by zip code or by census tract boundaries.

Recommendation Number Two. Require that public notice of branch applications be placed in the local newspapers of all of the communities presently being served by the bank seeking the additional branch office.

Finally, Recommendation Number Three. Enlarge the New Jersey mortgage disclosure statement so that a bank must present an overview of its mortgage-lending activity, and such an overview would illustrate that bank's total mortgage activity in each of that bank's service areas.

One of the studies that I conducted as part of New Jersey Public Action was in the City of Elizabeth. The citizen group was fearing that they were being the victims of disinvestment at the hands of the banks. We put together a study which reviewed the mortgage-lending patterns of each of the banks doing business in Elizabeth. We found, by chance, in working with the Banking Commission down in Trenton that one of the banks which received 13 percent of all of the deposits of Elizabeth residents made only 1 percent of Elizabeth's mortgages in 1976. This

same bank, it turned out, had 15 branch applications to open up branches outside in the suburbs and distant suburbs. It was quite evident that the bank seemed to be fleeing from the city, even though it still depended on Elizabeth residents for some 85 percent of all of its deposits. It seemed as though it was trying to lessen its commitment to the city.

As a result, we filed a formal objection to all of the bank's branch applications, gave testimony before the Banking Commission, and, in essence, hit them in the head with a huge two-by-four. We managed to get from this one bank a formal agreement for them to make \$5 million available to Elizabeth neighborhoods at below market interest rates. It was very successful.

In working with a citizen group in Jersey City, HAND, we started to do a similar study for them as well. Previously, the Citizens Action Alliance simply reviewed the home mortgage disclosure statements of each of the banks and was able to determine which neighborhoods were getting so much money and from whom. That is nice to know, but it doesn't really tell you enough. It doesn't tell you what each bank should be giving to that community. How much does that bank owe that community? What is that bank's fair share? A small bank should have a larger share of the local community if it gets more funds from that community than does, say, a large bank which doesn't get as much from that section of the community.

That is why we need to know exactly: Where does that bank get its money? How much does that bank owe that community? The way we find out, we look on the first sheet right here (indicating). I got the data using the FDIC deposit reports. What that shows is how much money each bank has in savings deposits in each of its individual branches - how much it holds. That doesn't mean necessarily that all that money in that branch came from that community. For instance, with this one bank, the Harmonia Savings Bank in Elizabeth, we assumed that they had about 20-odd percent of Elizabeth's deposits, based on the FDIC deposit data. As it turned out, they don't have any branches just outside the community. So there is a lot of deposits that they received from, say, Roselle Park and other communities right outside Elizabeth. They were able to provide us with the actual dollar amount that they did receive from Elizabeth. So we were able to amend that. Other banks didn't give us the requested information as to exactly how much they got from Elizabeth. So we went with the FDIC reports.

Looking at this again - and this is all the banks that do business in Jersey - we find out that Provident Savings Bank, for instance, has 26 percent of all of Jersey City's deposits. That, again, is just based on the FDIC deposit data. When we look down, we would thus expect them to handle about 26 percent of the mortgage activity in Jersey City, of the banks doing business in Jersey City. We find really that they do 58 percent of all the mortgages in Jersey City. They are doing by far much more than their fair share of the mortgage activity, meeting the mortgage demands and needs of Jersey City. Other banks aren't doing nearly as much.

This next sheet which says quite a bit, I feel is a very good overview of all the banks doing business in the city. Going across, we see, for instance Commercial Trust, since they are up on the top, has 41 percent of all of their deposits coming from Jersey City or is held in their Jersey City Branches; that is \$108 million out of \$267 million. We look over and we see that in 1977 only 13 percent of their mortgage activity was made in Jersey City, a little over \$1

million out of just about \$9 million, even though they depend on Jersey City for 41 percent of their deposits.

Looking over again to the other sheet, we see that Commercial Trust Company has a 90 percent share of Jersey City's deposits and made a 6 percent share of that city's mortgage activity. For each dollar that they hold in Jersey City in deposits, that one dollar generated a bit over a penny in 1977 in Jersey City or in its local mortgage activity.

We go down the list and we see who is doing the best - who had the highest rate of reinvestment in Jersey City. We see that Provident Savings Bank again had the highest rate of reinvestment.

The one that really kind of sticks out in my mind is Statewide Savings and Loan. Savings and loans as opposed to commercial savings banks or even savings banks have a fairly specific obligation. It is local people working for you and your community. That is what the Savings and Loan Association likes to present itself as. They have a fairly stringent requirement that they put their local deposits back into the local community's housing needs. But when we look at the mortgage activity compared to where they get their money, they depend on Jersey City for 79 percent of their deposits, but they only put 4 percent of the mortgage activity back into Jersey City. Obviously, they are using Jersey City money to build up the housing of other communities, and it just doesn't seem right.

Congress passed recently the Community Reinvestment Act which requires banks, before they are granted branch applications, mergers or other changes in structure of that sort, to prove that they are already meeting the credit needs as well as the savings needs of the communities which are already being served.

I would say that Statewide Savings and Loan has not done nearly its fair share in meeting the housing needs of Jersey City.

One of the things banks say - and this is what we found out in dealing with Elizabeth - is that the money that they use to make mortgages is the increase in their savings deposits. If they don't have any new savings deposits, they don't have any money available for mortgages. For instance, we found out in Elizabeth, in the case of Harmonia Savings Bank, that they said they were going through a period of disintermediation. What that means is that their holdings in savings were not keeping up with what they should have, given a 5 1/2 interest rate. Say they were expected to have a million dollars one year; they should have at least one million plus 5 1/4 percent more than that the following year, just to keep even, basically. They were saying not only were they not keeping even, but they actually had fewer deposits in holding in '77 than they did in '76. So how could they be expected to make money available?

What we found - and what our counter argument was to them - was that they had a disproportionate number of their investments in securities, as opposed to investing in housing. The Elizabeth banks - the savings banks - had about 80 percent of their investments in the form of mortgages; whereas, this one bank, in particular, had only about 45 percent of its investments in the form of mortgages. A large percent of that, about \$70 million, I believe, - that is just off the top of my head - was in the form of GNMA and FNMA, which are really securities backed by mortgages. Most likely, I would say, they are not mortgages located in New Jersey because New Jersey does not offer a high rate of return on the investments.

Thus, they are probably securities backed by out-of-state housing. So we said that they did, indeed, have quite a bit of money available for local housing, and they were able to make the commitment of making \$5 million available.

This sheet right here (indicating), just reviews each of the banks doing business in Jersey City and how much their deposits have increased in Jersey City. What we find is that, even giving the banks the 5 1/4 percent interest, they still had about \$45 million in new deposits generated in Jersey City. But when we look on the other sheet, we see that that \$45 million generated less than \$20 million in local mortgage activity. Obviously those new deposits are going outside of Jersey City. (See 1X for material submitted by Mr. Brown.)

I learned about the hearing being held here today from a gentleman who works with some neighborhood groups and tenant groups in Hoboken. He had asked me a few months ago to do a study on the City of Hoboken. I started doing this work, but for various reasons I haven't been able to complete the work. But I did do a study on one of the banks in Hoboken, which happens to be the largest bank in Hoboken. That is the Washington Savings Bank, if you would like to know. What I found is that the Washington Savings Bank has branches in about seven different communities: Hoboken, Weehawken, Guttenberg, Englewood, Lyndhurst, Ridgefield Park and Ringwood. In Englewood, they have a fairly new office. It has been there for about four years. They increased their deposits in Englewood by about 21 percent in one year, '77 over '76. The way they repaid the community was by not putting one penny in either mortgages or home improvement loans in Englewood, which seemed very shocking. At the same time, this bank has put over \$200 thousand in various mortgages in one year in such places as Englishtown and Middletown, down in Monmouth and Ocean Counties. There is no question but they are using urban depositors' money to build up the suburbs.

Senator Merlino, who was one of the chief sponsors, I believe, of the anti-red-lining legislation in New Jersey, said that this law establishes the responsibility of banks to invest their urban depositors' savings in local housing, not transfer poor people's money to finance richer suburbs. It doesn't really prevent that. All it does is prevent banks specifically from denying mortgages based solely on a neighborhood's location. That still doesn't prevent them from first investing all their money out in the suburbs and it is a legitimate excuse to turn down a mortgage, let's say, because they don't have any money left. If they have put all their money already out in the suburbs, it is a nice way to get around the legislation.

I can cite another situation in Bloomfield. I did some work in Bloomfield. The Bloomfield Savings Bank has only three branches. They are all in Bloomfield and Bloomfield receives only 1 percent of the mortgage activity. Only about 5 percent is in the entire metropolitan area. The rest, about 95 percent, continuously goes into purchasing mortgages out of state where they get a higher interest rate. That seems inexcusable to me.

Getting to recommendation number three, the way we found out that the Harmonia Savings Bank had all these branch applications pending was because we just happened to ask the right people at the right time. When banks apply for a branch application, a notice must be put in the trade journal of the banks so that other banks can have the chance to object because of unfair competition in the community in which the branch application is being sought. But the people

in the communities -- for instance, in Elizabeth, the people there didn't know one of their larger banks was trying to lessen its commitment to the community by opening up all these new branches. And they did not have the ability or the opportunity to see that they had a chance to put pressure on the bank and get a commitment from that bank to the community. They must have that opportunity. That is why I think notice should be given, either through the local newspapers or to the town councils of the communities presently being served.

The new disclosure statements of New Jersey are very good, but they are very hard to read in the sense that they list each loan individually. Previously, they listed the total amount of money given to an area so you could see a certain area has so much money given to it. Here each one is individual and you have to really jump around and add them up. It is just a little pain on my part as a researcher having to go through all that. So if banks could be required to put that in a proper order so that people could get a better understanding of what the effect of the mortgage lending patterns have been, it would be very helpful.

A couple of other facts --- With respect to Washington Savings Bank, 77 percent of their mortgage activity in 1977 was in communities where they don't even have branches, which seems like a very high percent of the mortgage activity. Obviously, they are using the money in the communities which they are serving to build up other communities. I don't think that is quite correct.

I would be more than glad to answer any questions that you have.

ASSEMBLYMAN MAYS: On your chart on page 2, you show a breakdown.

MR. BROWN: Page 2.

ASSEMBLYMAN MAYS: The pie chart. You have a breakdown of who received the deposits and how much money they invested in mortgages. You have this bank set down for 15 percent, but you don't have a breakdown of the neighborhoods. They could be in the Heights or anywhere.

MR. BROWNE: It was spread throughout the city. That is another part of the study - I did that as well - how much was put in each census tract, I can provide that to you.

ASSEMBLYMAN MAYS: Do you have that?

MR. BROWNE: No, that is not in here. There are a couple of corrections I made. I have a map in here somewhere in my files on how much money was put into each neighborhood - each census tract - in Jersey City, and by which banks.

ASSEMBLYMAN MAYS: I am surprised that the First National Bank and Trust Company mostly gets the city's money and they only provide 1 and 2 percent of the mortgages in the City of Jersey City.

MR. BROWNE: That is quite correct. Commercial banks are not as heavily involved in the mortgage activity. So a large percentage of their savings deposits has gone into security investments as opposed to mortgages. On a national level, however, commercial banks are increasing their activity in the mortgage market. They are starting to compete with the savings banks and the savings and loans, which is why savings and loans now want to get checking, so they can more fairly compete with the commercial banks.

ASSEMBLYMAN MAYS: One final question: What is the difference between A and B on page 2?

MR. BROWNE: All right.

ASSEMBLYMAN MAYS: Excuse me, B and D.

MR. BROWNE: B is the percent of their total statewide mortgage activity, like on commercial on the first column.

ASSEMBLYMAN MAYS: Are we talking about the same thing? I asked about the percent of bank mortgage activity located within Jersey City.

MR. BROWNE: That is D.

ASSEMBLYMAN MAYS: That is B.

MR. BROWNE: Percent of banks mortgage activity located within Jersey City - that's right. On Commercial Trust, 13 percent of all its mortgage activity was located in Jersey City.

ASSEMBLYMAN MAYS: And D is that 58 percent of all this mortgage activity was in Jersey City?

MR. BROWNE: No. You are looking at Provident Savings Bank now.

ASSEMBLYMAN MAYS: Twenty-nine and 58 percent -- look at Provident.

MR. BROWNE: Okay, Provident Savings Bank.

ASSEMBLYMAN MAYS: B is percent of bank mortgage activity located in Jersey City. That is 29 percent.

MR. BROWNE: That is correct. Twenty-nine percent of its total mortgage activity in 1977 was in Jersey City.

ASSEMBLYMAN MAYS: Then it says, bank share of total mortgage activity in Jersey City.

MR. BROWNE: --- within Jersey City. Of the banks doing business in Jersey City, Provident Savings Bank made 58 percent of the city's mortgage activity.

ASSEMBLYMAN MAYS: I would like to know just where in Jersey City. Who is getting the mortgages? That is the purpose of it: Who is getting it? Are the people who qualify the ones who have the big money and can afford it?

MR. BROWNE: I can provide that to you. I would have to go shuffling through all my files. But I have it and I would be more than glad to give it to you.

ASSEMBLYMAN OLSZOWY: I have no questions. But I would like to compliment you on a well documented report. I am very familiar with what you are talking about, so there will be no questions from me.

ASSEMBLYMAN SHAPIRO: I would just like Mr. Browne to stick around awhile. We will be hearing testimony from one of the banks which he studied. In fact, they should be on after the next witness testifies. We have testimony scheduled from Statewide Savings and Loan Association after this next witness.

MR. BROWNE: Thank you.

ASSEMBLYMAN GORMLEY: I have no questions. I am also waiting for the other witnesses.

ASSEMBLYMAN MAYS: Thank you very much.

Philip Caton, Director of Division of Housing and Urban Renewal, Department of Community Affairs.

PHILIP B. CATON: Good morning, Assemblymen. My name is Philip Caton, Director of the Division of Housing and Urban Renewal, Department of Community Affairs.

Two weeks ago at this Commission's initial hearing in Newark, Commissioner Patricia Sheehan testified to the general scope of the programs that the Department of Community Affairs administers, which impact on the housing problems in the State of New Jersey.

This morning, I would like to focus my testimony on specific programs in which the Department, through the Division, has been working closely with the City of Jersey City and other local agencies to improve housing conditions here. These "working accounts" of actual projects underway in this city are intended to provide an added dimension to the comprehensive programmatic descriptions and background data which the Commissioner gave you two weeks ago.

The first is the Demonstration Rehabilitation Grant Program, which was funded through the Housing Demonstration Program in 1973 when the Nixon administration imposed a moratorium on all housing programs, including the Section 312 program, which was, at that time, a proven, successful program for rehabilitating urban housing. The moratorium came as a terrible blow to many New Jersey municipalities who had accumulated staffs with proven expertise in administering the program and long lists of homeowners who were waiting to receive loan assistance. This was especially important in highly urbanized counties like Hudson County where 77 percent of the housing stock was built prior to World War II. In Jersey City, itself, that percentage is even higher. But considering that the normal systems - that is, electrical, plumbing, roofing, structural systems of a building - are normally expected to last somewhere on the order of 40 years before some kind of maintenance is required, cities like Jersey City are in a position of having to replace and renovate a vast majority of their housing stock.

To fill the vacuum that was created when this program was terminated, the Department of Community Affairs used Housing Demonstration Program grant funds for an experimental 312 replacement program, called Demonstration Rehabilitation Grant Program. We applied it in 16 urban municipalities, one of which was Jersey City. This program used conventional bank loans at conventional rates, but applied a 30 percent grant to the rehabilitation work which effectively created a 3 percent mortgage interest rate for the rehabilitation costs.

Jersey City was funded with a contract for \$215 thousand. They chose to concentrate these funds in the Jackson-Arlington Park neighborhood, an area where the city had already been investing substantial funds through the Urban Renewal Program.

Through the use of those funds and leveraging private bank funds, Jersey City, through the Redevelopment Agency and through the Salem-Lafayette Non-Profit Housing Corporation, has been able to renovate over 30 dwelling units and has been able to leverage over two private dollars, through lending institutions, to every one dollar for public expenditure.

The Demonstration Rehabilitation Grant Program gave us some indications of strategies for neighborhood preservation that could be put in place on a broader basis. Building on that experience, in 1975, Governor Byrne instituted a \$4 million Neighborhood Preservation Program in 12 cities on a demonstration basis. The keystone of this program is to again utilize public moneys to leverage private sector support for rehabilitation efforts, in conjunction with organizing the neighborhood residents in the communities and to bring all those resources to bear on the problems of deteriorating housing in urban neighborhoods.

The Department committed \$500 thousand for funding the neighborhood

preservation activities in the Greenville area of Jersey City. The Greenville area consists of approximately 1200 dwelling units as well as a commercial area along Ocean Avenue. The grant has provided funds for staff, grants and interest reduction grants to neighborhood residents interested in rehabilitating their houses, and certain capital improvements, including a park, which was funded half with our money and half with Green Acres money, a site office and tool bank located in the neighborhood.

To date, these neighborhood preservation activities have resulted in improvement to 53 buildings, totalling 117 dwelling units, with a total value of some \$670 thousand. An additional 70 units in the neighborhood have been improved privately by their owners.

This neighborhood preservation program is a good example of a city using our funds to leverage other funds, both from the State and Federal governments. Public improvements were installed, including \$106 thousand for a park where Green Acres funds were used with our funds; \$28 thousand for improving vacant lots in the neighborhood; \$19 thousand for the tool loan bank, which used Neighborhood Preservation funds and Federal Community Development Block Grant funds; and \$16 thousand to seal and secure vacant multi-family housing units, which utilize Safe and Clean Neighborhood funds, which is also administered by the Department.

ASSEMBLYMAN SHAPIRO: How do you improve a vacant lot, if I can interrupt for just a moment? \$28 thousand for improvement on vacant lots - I was puzzled by that.

MR. CATON: For neighborhoods that have a substantial number of vacant lots that are deteriorated, trash-filled, weed-choked - they can do just as much to bring a neighborhood down as a deteriorated house can. In this case, that money was used over a period now of three years to clear out the lots and, in some cases, pave them, fence them and secure them from this kind of further deterioration.

The total public improvements in the neighborhood preservation area are estimated at about \$940 thousand.

Efforts are continuing to organize merchants and businessmen in the commercial strip along Ocean Avenue to work with the neighborhood block associations to upgrade the appearance of their commercial area.

The Housing Demonstration Program is also supporting the efforts of the Salem-Lafayette Housing Corporation, a non-profit neighborhood management and development corporation. They are also engaged in housing rehabilitation work in the Arlington Park-Jackson Avenue urban renewal area. The rehabilitation completed to date includes 74 units funded, in part, by a Housing Demonstration loan. An additional 50 units in the area have been rehabilitated through the New Jersey Housing Finance Agency, an independent agency related to the Department of Community Affairs. The HFA also financed new construction of 362 units for families and senior citizens in the area.

The Housing Demonstration Program has provided one grant for \$70 thousand and a loan of \$87 thousand to assist Salem-Lafayette in training housing management staff and to involve residents in the community.

Salem-Lafayette is unique in a number of ways. It has successfully combined rehabilitated housing with new construction in a way which complements the existing

neighborhood while providing new construction housing where needed. This has addressed the needs of low- and moderate-income persons, and they have effectively brought together a range of funding sources, local, State and Federal, for a total investment on the order of \$23 million, of which the total of our loans and grants comprised less than \$400 thousand.

The Demonstration Program also provided a grant of \$82 thousand to the Jersey City Division of Property Conservation to implement a rent-receivership program. This utilizes the New Jersey Rent Administration statute passed in 1975, which allows municipalities to temporarily manage buildings and make needed repairs where the owners fail to make those repairs.

Our grant funds project staff provide legal services, cost estimation on needed repairs, and tenant counseling services for the residents of properties involved. In rent receivership, there is a fairly long process that is involved and every effort is made to negotiate a settlement with the owners to effect rehabilitation rather than take legal action. In fact, we have been able to negotiate settlements in the vast majority of cases and we have been able to eliminate violations in over 580 units through negotiated settlement. We have placed 3 buildings, involving 27 units, in actual receiverships. But again the major effort has been abating violation in 560 other units in 17 buildings through negotiations between the owners, the city and the tenants. We will be publishing these results for use in other cities as a viable approach towards rehabilitating existing multi-family buildings. Incidentally, this is only done where the rent roll will be sufficient to pay for the improvements that are needed. These are cases where the owners are receiving sufficient rents to improve the buildings but are milking them and not returning a proper proportion of the rents into the maintenance and upgrading of the structures.

In 1974, we granted the Jersey City Housing Authority \$21 thousand to test a new approach to tenant organization and project management in the A. Harry Moore housing complex. This complex was, at that time, in terribly deteriorated condition. The windows in the hallways had been broken so many times that eventually they had just plated them over. It was a housing complex that was one step away from abandonment.

The thrust of the program was to put the tenants and the Housing Authority together so that the tenants could organize themselves into floor patrols and building patrols, and that degree of organization would be complemented with physical improvements that would be undertaken by the Housing Authority in the project. This has been very successful in reducing maintenance costs due to vandalism, improving rent collections and establishing a viable living environment and sense of community in the complex.

Again, our relatively limited funds were coupled with HUD modernization funds, this time to the tune of about \$12 million. Also employment incentive and crime prevention programs were provided by other agencies. The program objective was to document and refine this process that was put into place in the A. Harry Moore complex and transfer this information to other housing authorities across the State. Toward this end, we are now in the process of publishing a report which will detail the steps which might be applicable to other housing authorities.

Jersey City Housing Authority now has gone the next step after A. Harry Moore and initiated the tenant management capability and, from what we understand,

the tenant management concept is working well there. The corridors are immaculate, a play area and activities center has been built in the central courtyard and a public housing complex that in 1973 was one step away from abandonment has been brought back to a healthy condition.

In relocation assistance, Jersey City operates an active code enforcement program which involves displacing a substantial number of people. These households are each entitled to relocation benefits under the Relocation Assistance Acts of 1967 and '71, which can total up to \$4,500 per household.

During fiscal 1979, to give you an idea of the scale of this kind of program, Jersey City alone anticipates relocation expenses for initial displacees at approximately a quarter of a million dollars. Since the displacees are entitled under State law to benefits over a 4-year period, their total relocation program for the city involves continuing payments from households originally displaced from 1976, '77, and '78 as well. The State used to fund through the Department of Community Affairs 100 percent of the cost of this relocation. But because of the increased demands for money, with limited resources available, in fiscal '78, the State instituted a two-thirds State, one-third local matching program; and we have evened that this year in fiscal '79 to a 50-50 matching basis.

One of the critical needs for relocation assistance is in conjunction with rehabilitation projects. Currently Section 8 rehabilitation projects run either privately through developers directly with HUD or through the New Jersey Housing Finance Agency generally do not include funds for relocation assistance. It is critical that, when renovating occupied structures, relocation assistance be provided both in terms of the ease of development and in terms of the people that are being displaced by it. HUD has taken the stance that either through existing Section 8 rental unit assistance or through the city's community development block grant funds that relocation resources can be provided. We feel that that is an unreasonable position and that relocation funds do have to be set aside for these projects.

The Section 8 rental assistance program is run by the Department of Community Affairs in 15 counties in New Jersey since starting in 1974. The Section 8 program for existing housing is the federal government's major operating program for satisfying the housing needs of low- and moderate-income people. Participating families pay 25 percent of their income for rent while the rental assistance program will pay the balance to the landlord directly each month.

In 1974, we had 410 units under contract across the State in four counties for a grant contract with HUD of \$1.1 million. As of August 1st, we now have expanded that up to 2800 units across the State in fifteen counties, with \$6.7 million of HUD funds coming into the State. Some of these units are allocated to Hudson County, 175 to be exact.

The Jersey City Housing Authority also runs an existing Section 8 unit program. Since we have a policy of not competing but rather cooperating with existing housing authorities and other local and county agencies who run these programs, we agreed to target our participation in this program in Jersey City strictly to handicapped and disabled people. We have been able to place about half, 92 units of the 175, in Jersey City on this basis; and we work with 15 social service agencies to maintain a liaison and a social contact with the people in these units. The balance of the 175 are elsewhere in Hudson County. Approximately \$12 thousand per month in housing assistance payments are currently

being made to landlords on behalf of the participants in this program residing in Jersey City.

The rental assistance program provides safe and sanitary housing for people in a number of ways. Some people relocate from substandard housing into standard housing through this program, approximately 23 percent in Jersey City.

Additionally, in order for a unit to be recertified for an additional year, it has to meet the HUD minimum property standards. So oftentimes moderate rehabilitation can be taking place because the landlord is guaranteed an income stream through the fair-market rent provision. Therefore, there is an incentive for a landlord to rehabilitate a unit to keep a tenant in this program in his building.

We have a waiting list for the program of about 140 in Jersey City alone; and, across the State, it is well over a thousand. We are currently lobbying with HUD to provide more money through this program.

The effectiveness of all the programs I have described is further supported by the State-Local Cooperative Housing Inspection Program, through which the Department reimburses the participating municipalities for part of the cost of registering and inspecting hotels and multi-dwelling buildings. Jersey City contains nearly 60 thousand dwelling units that are in this category and are inspected on a cyclical basis through the program. Effective code enforcement is an essential foundation for any other housing strategies.

I would like to thank the Commission for hearing my testimony today. I hope it provided a little more in-depth look at some of the programs that we are operating in Jersey City and which were described in general by the Commissioner. (See page 12X for written statement submitted by Mr. Caton)

I would be pleased to have my staff work with you in developing some of the proposals that the Commissioner mentioned and in providing any other information you require. I would be happy to answer questions from you at this time.

ASSEMBLYMAN GORMLEY: Have you a total figure - we might have had this before -- but do you have a total figure on what is spent on all the programs throughout the State, both money from federal grants and State money, on housing? I was just wondering if you had that figure? What is the total cost of all the programs on housing that are administered by the Department? What is being spent by the State of New Jersey, either through federal moneys coming in or by the State through its own revenues, on housing? I am just curious as to what is being spent.

MR. CATON: I don't have that figure with me, but we can compile it. You are interested not only in the State moneys that are appropriated and spent, but also ---

ASSEMBLYMAN GORMLEY: What is our total package that is spent on housing?

ASSEMBLYMAN MAYS: Are we talking about State money?

ASSEMBLYMAN GORMLEY: What is the combined effort?

MR. CATON: We can work that figure up for you. Would you be including, for instance, mortgage finance agency bond moneys and housing finance agency mortgage moneys in that total?

ASSEMBLYMAN GORMLEY: Whatever would go into housing assistance. Quite possibly, you have a breakdown per program.

MR. CATON: Okay, because the numbers are very different. The Mortgage Finance Agency just sold \$75 million worth of bonds for their neighborhood loan

programs; whereas, the Neighborhood Preservation Program operates on a very much smaller scale, but leverages private funds. So a breakdown would be appropriate.

ASSEMBLYMAN GORMLEY: I am curious about the \$28 thousand figure on the vacant lots that was mentioned before. Are those publicly owned vacant lots? Who owns those vacant lots? I was curious as to whether we fence privately owned lots? Do we fence the lots of speculators?

MR. CATON: I can't answer specifically. If it were in the public interest, you could fence along a sidewalk the public right-of-way of a privately owned lot.

ASSEMBLYMAN GORMLEY: I wonder whether ---

ASSEMBLYMAN MAYS: The ones in Jersey City, I think, were city-owned property.

ASSEMBLYMAN GORMLEY: Okay. Thank you.

ASSEMBLYMAN OLSZOWY: Just one brief question. On page 2, you talk about the Salem-Lafayette non-profit housing corporation of 30 units, which according to your report were rehabilitated in 1973. What is the condition of those homes today?

MR. CATON: Every one of them is still occupied and still meets housing code standards.

ASSEMBLYMAN OLSZOWY: Do they meet the minimum standards as of today?

MR. CATON: Yes, they do. One of the key elements of the Neighborhood Preservation Program, and the reason that we take such care in developing a sense of community among the neighborhood residents, is so that you don't put money into rehabilitating homes and then two years later turn around and have the same abandonment problem and deterioration subsequently as existed before.

We find one way to abate that problem is to develop a sense of community and educate the neighbors that the city is interested and that the neighborhood lending institutions are interested in the health of the neighborhood. That helps to eliminate that problem.

ASSEMBLYMAN OLSZOWY: That is the reason I am interested. I am interested in pumping State money into housing and rehabilitate, providing those properties are maintained and do not deteriorate within five or six years because then we are just throwing good money after bad.

MR. CATON: We agree.

ASSEMBLYMAN OLSZOWY: The only way we are going to do that is with individual home ownership. If it is going to be State-owned, forget it. It will just deteriorate. It has to be individual home ownership as far as I am concerned or landlord occupancy on the premises. That is the only way you are going to maintain these properties.

MR. CATON: Home ownership or, as you say, occupancy by an owner in a multiple-dwelling building is certainly preferable. Much of the housing stock, especially in this part of the State, is multiple-dwelling and, oftentimes, investor owned. We have to find a way of dealing with that as well because it constitutes such a large portion of the housing stock. One of the ways of doing it is through tenant-management and tenant-ownership concepts.

ASSEMBLYMAN SHAPIRO: Mr. Caton, one thing that strikes me in listening to your testimony is not only how many efforts there are, but how big the problem is. How much do you feel that you make a dent in the overall problem? The problem is so big and you mention 30 units here and 79 units there; how big a dent does it

really make, do you feel?

MR. CATON: There is no question that the need is much greater than the resources that we can provide. We operate the Neighborhood Preservation Program currently in 38 cities across the State. It has just been expanded recently with a statewide appropriation last year to 26 additional cities from the 12 that were originally part of the neighborhood demonstration. We had applications from 64 municipalities for the funds that were distributed among the 26 new municipalities. And we funded those at levels substantially lower than the original demonstration. That is just one indication of the interest and the need for funds which exists among relatively educated and capable municipalities across the State. The 64 municipalities are not the only ones who would need that kind of assistance.

ASSEMBLYMAN SHAPIRO: Given the limited amount of resources available, how do you select the neighborhoods that you go into? How do you decide which areas to pick? I understand you do that in many ways in cooperation with the local jurisdiction or local government. You mentioned that in your testimony. But how are the neighborhoods arrived at?

MR. CATON: We found that once a city is designated, the city has to have a commitment to the neighborhood as well as the State. Oftentimes, we require -- we always encourage and require as much as possible city investment in a neighborhood through public improvements - new streets, new sewers or sanitary storm drainage systems - to let the residents know that the city has identified their neighborhood as targeted for rehabilitation. So we take the lead from the city in designating the neighborhood. Once the city has picked a neighborhood, we look at the income profile of the residents, the kind of housing stock and the extent of deterioration of the housing stock as key indicators of the ability of the residents who live there to rehabilitate their own homes, because we are providing money to help them get a loan. These programs sometimes have grant components, especially for elderly or handicapped people on fixed incomes. But, mostly, it is a loan-incentive program. So the residents have to have some capability themselves to secure a loan.

ASSEMBLYMAN SHAPIRO: Then, just to follow this up, in general, targeted areas will not be the very poorest areas?

MR. CATON: No, the neighborhood loan program is not oriented towards the absolutely most deteriorated sections of the city. The funds are nowhere near what would be required to tackle neighborhoods that are in that kind of deteriorated state.

ASSEMBLYMAN SHAPIRO: We have heard testimony this morning, as well as elsewhere - one person this morning referred to it as triage, a French term referring to the treatment of the wounded in wartime - that there are those who can make it on their own, those who can make it with some help, and those who they just decide they are not going to be able to help and aren't going to make it. Is there a similar kind of theory that is operative within your agency?

MR. CATON: I wouldn't say so. The cities have other funds that are available to them, specifically, state aide and community development block grants, that can be allocated on a municipal priority.

ASSEMBLYMAN SHAPIRO: Given the shortages of resources that you have discussed, how likely is that to really make a dent in what we are talking about, the most deteriorated and the poorest areas where the local capacity for self-help is quite low?

MR. CATON: I would say that in those absolute worse areas where there is a high degree of housing abandonment and deterioration, where there is almost no home ownership, where the income profile of the residents is below poverty level, and where public infrastructure is in a seriously decayed state, the prospects for these programs reaching those neighborhoods are slim.

ASSEMBLYMAN SHAPIRO: When are we going to get to those neighborhoods? How are we going to get to them?

MR. CATON: Well, with the popularity of Proposition 13, I hate to say that those neighborhoods are going to take money.

ASSEMBLYMAN SHAPIRO: That is a political matter maybe best left out.

MR. CATON: It is clear that you can't get to those neighborhoods unless you have the funds to deal with them. This level of funding can make an impact in neighborhoods that are suffering deterioration and are showing signs of urban blight and need help. We are not taking easy neighborhoods with the Neighborhood Preservation Program. We are dealing with real problems that need to be solved - and I think we are dealing effectively with them. That is on a relatively limited basis of funding. Clearly more deteriorated neighborhoods are going to require more funding.

ASSEMBLYMAN MAYS: To follow up on this neighborhood loan program, throughout the State so far you have given money to 486 homes in the State of New Jersey. Two hundred and one were in Paterson, three were in Jersey City and thirty-three were in Newark. Why is it that Paterson has 201, Jersey City has 3 and Newark has 33, when it is Newark and Jersey City that are crying out for help?

MR. CATON: Assemblyman, the program is administered by the Mortgage Finance Agency. Chris Kelly, the Director of that agency, testified in Newark two weeks ago. I think properly that he should address that question. My personal response would be that the Neighborhood Loan Program depends on the participation of banks and in areas designated by the city.

ASSEMBLYMAN MAYS: How much does a bank get? Who says that a bank gets \$100 thousand or \$200 thousand or \$500 thousand?

MR. CATON: I think you ought to address that question to Mr. Kelly.

ASSEMBLYMAN MAYS: I would like to know the answer to that.

ASSEMBLYMAN SHAPIRO: Mr. Chairman, if I could continue, I have a couple other questions on a slightly different subject. We have heard a lot of testimony before concerning various aspects of the Section 8 program. There is a lot of dispute about the program in general, about its value, about the way it has been administered, and about the fact that we just don't have enough of it, although I understand we have just been given an additional grant of 1700 more units from the Department of Housing and Urban Development. One of the major charges against the program is its lack of dealing with the large family, that it has been restricted almost entirely to one- and two-bedroom apartments, and, therefore, there is very little housing available for a very large number - it may even be the majority - of low-income families who have a large number of people in their family where one

and two bedrooms are simply insufficient. What do we do about that situation?  
What is being done?

MR. CATON: You are referring to new construction?

ASSEMBLYMAN SHAPIRO: I am referring also to rehabilitation.

MR. CATON: The Housing Finance Agency does have trouble financing either substantial rehabilitation or new construction of three- and four-bedroom and five-bedroom family units in Section 8 projects. That relates to the fair-market rent structure and the mortgage commitment with regard to Section 8 programs. When those fair-market rents can be raised so that the agency can afford and the project financing can bear the cost of the larger units, I think you will find that they will want to abate the problem as much as the need would dictate.

ASSEMBLYMAN SHAPIRO: You say the financial structure of the federal program, the way it is set up, makes it so you can't economically do these?

MR. CATON: When you build large units into these projects, it puts a relative strain on the project financing. Since the income stream that comes to the projects is dependent upon the number of dwelling units - and it is adjusted for smaller units versus larger units - it is relatively easier to build smaller units as opposed to large family units.

ASSEMBLYMAN SHAPIRO: Basically, what you are saying is that we should bug Congress and Pat Harris and Walter Johnson about that problem.

MR. CATON: Absolutely. HFA and our agency through the existing program continually appeal to HUD for the administrative extensions and allowances that they can make to increase the fair-market rent levels for these units, but there is a limit to what they can provide.

ASSEMBLYMAN SHAPIRO: One final area, and that is this whole question of relocation that we have been dealing with to a great extent in the hearings. It is one thing that keeps coming up wherever we go, the big problem that people have with relocation, the lack of relocation assistance and the lack of emergency relocation shelters. We heard one witness testify if they just had an emergency shelter, they could, through a variety of charitable agencies, put together available housing; but they need just a little while to do it. If they could just be given a 60-day shelter or something like that, they would be able to do that. Is there any thought or any contemplation about working on emergency relocation shelters?

MR. CATON: I heard a woman in Newark testify concerning the shelters and I believe she said that she would be forwarding a proposal to the department, if I remember correctly. And we would be receptive to it. We have done some thinking about legislation which might direct emergency assistance through relocation benefits to people who are displaced by fire or other natural catastrophies. Currently, since these people are not displaced by a unit of government for some public purpose, they are not entitled to relocation benefits. But I think that legislation could be considered that would entitle them to some benefits which might then be repaid through insurance once the insurance comes through.

ASSEMBLYMAN SHAPIRO: Believe it or not, a lot of the people we were talking about were displaced by government, not just by fire or other natural accidents. They were often displaced by government or government contractors through scare tactics. These were some of the examples that were given to us. In violation of the relocation assistance law, very often, notices were sent out to tenants or to homeowners saying, for example, a parking lot is about to be built underneath your

feet and you had better start making plans. There is a panic reaction to that which often causes people simply to feel they have to move out. In other cases, we have heard testimony about a developer doing similar things. We have heard testimony about arson and other devices being used to clear out areas where somebody for his own reason wants to take over the building or take over the land. We don't really hear very much of a solution being proposed for the people displaced. We don't even know what happens to those people by and large. There is a lot of speculation that they move in with other poor families or that they move into worse housing.

MR. CATON: Well, the Department requires municipalities to file a workable relocation assistance plan which specifies the amount of relocation that they anticipate occurring through code enforcement activities for the coming year, the income profile, employment profile, racial profile of the people who will be displaced, and the opportunities for housing which exist in the community. If there are sufficient opportunities, then the plan is approved and they can be funded through a contract with the Department on this now 50-50 matching basis.

Federal programs carry to greater or lesser extents - in Section 8, it is completely void - their own relocation allowances, for instance, urban renewal. People who were dislocated in accordance with urban renewal had to be compensated in accordance with the Uniform Relocation and Real Property Acquisition Act of 1970, which provided benefits that are in line with the State benefits.

The municipalities were monitored by HUD in those instances. And, to the extent that they complied or didn't comply, that was HUD's job and is, and it remains its job, to monitor community development activities.

ASSEMBLYMAN MAYS: Further, with regard to this question of emergency shelter, if your agency can put \$28 thousand into these vacant lots, couldn't you also build up some of these houses that the city owns for emergency shelters?

MR. CATON: There are a number of ways either through State funding or through community development funds that cities could renovate city-owned buildings that are abandoned and have come to the city through tax foreclosure to provide homes of that sort.

ASSEMBLYMAN MAYS: I wanted to ask you a question about the Salem-Lafayette project. The people who were displaced from that place were supposed to get first choice for the housing. Has your agency checked whether they were notified they could move back in or whether they were called for an interview, or whatever?

MR. SWANSON: We have.

MR. CATON: I would like to introduce Larry Swanson. He is our project manager in Jersey City.

MR. LARRY SWANSON: When you talk about Salem-Lafayette, our participation was limited to rehabilitated units. We didn't participate in the demonstration program. And you have new construction there as well. When you talk about the new construction, you are talking about an HFA sponsored project, in which we have no monitoring involvement at all.

The answer to that question is that the people who were displaced originally should have been considered.

ASSEMBLYMAN MAYS: That was part of the contract, wasn't it?

MR. SWANSON: Right. The demonstration program is not involved.

ASSEMBLYMAN MAYS: You do put money in the program.

MR. SWANSON: Not in the new construction.

MR. CATON: Assemblyman, maybe I can help clear this up. The project is being financed through the Housing Finance Agency. The Division has helped to subsidize the rehabilitation of housing in the area. But the actual monitoring of any contract components like the ones you are speaking of for the new construction would be done through the Housing Finance Agency. And I can't really speak to their involvement with it.

ASSEMBLYMAN MAYS: Is the application being sent to Trenton? After they apply for housing, do they send it to Trenton for your approval?

MR. CATON: Well, if they did, it wouldn't come to my division for approval and I am not prepared or authorized to testify for the Housing Finance Agency to that. If it were to come to Trenton, it would be to the Housing Finance Agency. Two weeks ago, Gus Escher, one of the Deputy Directors of that agency, testified before you; and I think you could direct that question to him.

ASSEMBLYMAN MAYS: I ask that because our first witness today testified they are trying to keep their community and the people who were moved out of, say, Jackson and Martin Luther King Drive were supposed to go back into that community in the housing. To my knowledge, according to the information I have, that has not happened. People from Brooklyn and people from outside of Jersey City are getting in there. I would like to find out more about it if you would check into it for me.

MR. CATON: Yes, I will.

ASSEMBLYMAN OLSZOWY: I realize we are beyond the time we allocated for you to talk. But since you mentioned the fact that the 480 units that Assemblyman Mays referred to were in Paterson and Passaic -- and did I understand you to say there was a lack of cooperation from banks?

MR. CATON: It could have been.

ASSEMBLYMAN OLSZOWY: Would you not say it was because of a lack of cooperation by our government officials who failed to do their job and Paterson and Passaic did their job and got the people interested?

MR. CATON: Assemblyman, again that is ---

ASSEMBLYMAN OLSZOWY: I would rather put the blame where it belongs because if the banks in our area cooperated, I am quite sure the other banks would have cooperated if the people on the payroll had done their job.

MR. CATON: I really don't know how those allocations were made and what attempts were made to interest banks in the program.

ASSEMBLYMAN OLSZOWY: I got a little upset over that one because the blame should be put where it belongs. The program is sponsored by the State or the federal government and the funds are available. If the people drawing \$18 and \$20 thousand on the job are not doing their jobs, nobody is going to get that money. But apparently in Paterson and Passaic, they are doing the job and that is why they got the money.

ASSEMBLYMAN MAYS: Thank you very much.

MR. CATON: Thank you.

ASSEMBLYMAN MAYS: Next we will hear from Edward Mallaney, President of the Statewide Savings and Loan Association, and Michael D'Antuono.

E D W A R D M A L L A N E Y: Good morning, gentlemen. It is past morning, as a matter of fact. I am Edward Mallaney, President and Chairman of the Board of Statewide Savings and Loan Association here in Jersey City. I am here this morning at the behest of Assemblyman Mays, simply because we want to cooperate with your goals, as we have cooperated and participated in all of the programs dealing with housing in the State of New Jersey.

I have with me Mr. Michael D'Antuono, our Mortgage Officer. He has been intimately involved in these programs and I think he can answer some of the questions I heard asked before. He has a prepared statement for you.

I don't think we have the answer to the solution you are seeking. But, with regard to mortgage disclosures, I would just like to point out for the record, if I may, something that is obvious and that I think you are all aware of, and that is that there is a fiduciary responsibility that the financial institutions have to their depositors which requires caution in lending. And, secondly and most import is that the demand for mortgage credit in the cities does not in any way match the flow of savings funds into the institutions. We have gone out and sought mortgages in the cities and they are not there. So, you can't match one against the other.

Perhaps what you should be looking for is a state program of insured mortgages to encourage lenders to lend in the inner cities. Perhaps it should be a coinsurance program, so that the financial institutions have a stake in it and a responsibility to make it work.

Beyond that, I have nothing to say, but I will be available for questions. Mr. D'Antuono has a statement for you.

M I C H A E L A. D ' A N T U O N O: Mr. Chairman and members of the Commission, our Association assisted the New Jersey Mortgage Finance Agency in setting up the neighborhood loan program. We were the only institution in Jersey City to participate and we got a commitment in the amount of \$300 thousand on March 29, 1977. That was to originate FHA and VA mortgage loans on one to four family dwellings at an interest rate of 7 1/2%. Unfortunately, there were 20 loan submissions and not one of them met the criteria for Jersey City's code enforcement, nor the appraisal value and the repairs that the appraisers - the independent fee appraisers - of the VA and the FHA required.

There is a lot of time and effort put into interviewing people, getting the appraisal set up and so forth. We weren't able to make one loan. Then the state came out with more money and we were able to get \$100 thousand and were able to originate three conventional mortgages under the Neighborhood Loan Program, with an additional two that are in process now.

At the inception, the boundaries set up by whoever helped the MFA set this program up, only took four areas of Jersey City into consideration. In my opinion, these are inadequate. It took in Hamilton Park, Van Vorst Park, the Jefferson-Arlington area - Jackson, Jefferson, Arlington Avenues - and part of Wayne Street and Sussex Street. I personally went to Christopher Kelly on numerous occasions and requested that this boundary be opened up to encompass almost all of Jersey City, with the exclusion of Country Village, which in my opinion doesn't need the assistance program.

This was done on January 21, 1978. Now, we made, in that same period of time, at least 20 loans in Jersey City that would have qualified for the MFA program but because they were out of the boundaries, they didn't qualify.

Streets like Princeton Avenue, Linden Avenue - just to name a few - Van Nostrand Avenue, Neptune, all of these areas need the assistance and that happened.

Now, I have spoken with Mr. Joe Barn, one of the gentlemen in charge of the Jersey City Redevelopment Agency. Three years ago we helped to completely rehabilitate a house on 21 Madison Avenue. This program was comprised of a grant from the State of New Jersey and it brought an owner into a three family house whereby he could get an income. The problem with this was that the rehabilitation was supposed to take a period of nine months and it took almost 20 months. What should have been six inspections wound taking close to 25 inspections. The Redevelopment Agency picked the architect and picked the builder, but they changed their supervisor at each phase of the construction and you can't do this. When you are running a program, there has to be one party - or a number of parties - involved in it that follow something from the beginning to the end. Now, that house functions and is something on the tax role that was not on the tax role prior to that.

I tried to process eight mortgages for the Redevelopment Agency between Clinton Avenue and Madison Avenue. The houses supposedly were rehabilitated but the VA would not put a value on them in order to make the loans that the Redevelopment Agency was looking for. They challenged the value, which I told them they could do, and the VA appraiser said that if certain work were done, the house would then go, let's say, from a value of \$20 thousand to \$25 thousand, or from \$25 thousand to \$30 thousand, up to about \$40 thousand. But, where they ran into a problem was, they used market value and you couldn't establish that as a market. You didn't have a regular market there because the only loans that have been extended were done by a couple of the institutions like ourselves that went into this rehabilitation program.

Now, getting back to the program that the Redevelopment Agency has, in preservation areas they make a grant available and rehabilitation money at a rate of 3 1/2% interest. I said, "Why can't you do this for the whole of Jersey City because there are other streets that need it." They say, "No, it is only for these areas." So, I think one thing that could help would be for the Redevelopment Agency, and perhaps the Federal Government, to make money available because all owners need this assistance, not only three or four areas in the City of Jersey City.

Getting back to redevelopment and things of this nature, you can't develop only one or two houses on a block. If you are going into an area, then that whole area has to be redeveloped, otherwise the money that you put in, even though in a period of two or three years a house will be rehabilitated, it will again have no value because the rest of the neighborhood isn't upgraded.

We went into a program with the Mortgage Finance Agency for home improvement loans. This program really never got off the ground because the income guidelines were just not realistic and everyone that came in for a loan exceeded those guidelines. So, we borrowed \$100 thousand and we were able to make one loan. We are still trying. I have met with a number of local realtors. We have talked to members of block communities. We went out to local brokers and it hasn't produced anything.

With the multi family dwellings, the problems center on the fact that violations are caused and then the landlord is hauled into court and he is fined for the violations. With the rising cost of repairs, taxes, and insurance, the

properties do not produce sufficient income to cover expenses, therefore the owner gets to a point where he gets fed up and decides he will walk away from it. You then have another abandoned building which, again, turns to neighborhood blight. If there are programs whereby the landlord and tenant could be brought together, or possibly a cooperative program whereby the tenants have a stake in the ownership, then some of the vandalism that occurs might not occur and these properties could be put back on the tax roll.

In my own opinion, money available for home improvements would keep more people in the community. When you get the neighborhood loan program, the middle class people now have a chance to sell and get out of the area and that brings in people of a lesser economic ability who can't always maintain the house they buy. They think they are getting a plum and it is not a plum in the end. They can't keep up with the maintenance.

So, in my opinion if improvement money could be made available throughout the city, I think it would give middle class people the same chance to improve properties and stay there. We make home improvement loans, and we always have, on a house that could be a one family, all the way up to fifty and sixty family apartments. The only drawback here is that you can't make a loan to the corporate borrower. If the state could make money available to a borrower that is a corporation but let the principal sign individually so he can't walk away from the obligation, I think this would be a step in the right direction and help housing that is deteriorating to be put in a more habitable condition.

Another thing, where you have rent control, if you are taking in unrealistic rent, there is no way that you can maintain the building today. So, there has to be a happy medium someplace, whereby if an owner is going into a venture, he is not going into it because he is charitable; he is looking to make a return. If he or she can't make the return then they walk away from it and they have a tax loss.

These are the things where federal programs, state programs, and city programs should be coordinated and work together, not like autonomous bodies - "a, b, c, and d" - because the right hand doesn't know what the left hand is doing. I think if things along this nature were done, you could make inroads and some of this property could be productive property and be on the tax roll. Because, what is good for the city is good for everyone that is in the city. That is why we have given our time to these programs.

When you say three loans were closed in Jersey City, that is correct. But, there is a little more to the problem than the number of loans that are closed. I can show you 20 files where the loans couldn't be granted. We have closed three loans. We will be going to the state very shortly and two more are in process.

I don't know about this Neighborhood Loan Two because what I read in the paper today is that the state has set a rate of 8 1/2% on the interest. We did put in for another allocation of \$300,000. I don't know if any other institution did or not. But, in conclusion I would like to say that we have been in the programs with the Mortgage Finance Agency from its inception. In total we had \$7 1/2 million in those loans throughout the state and we have certainly tried to work with groups. We met with three development agencies, and with members of the community and with all of this meeting, we weren't able to get one loan. That is the way I would like to conclude. Thank you for hearing me.

ASSEMBLYMAN MAYS: I have one question relating to the housing loan. What risk does the bank take? Since Community Affairs is putting the money up - \$300,000 - what risk does the bank take when giving the loan?

MR. D'ANTUONO: Number one, they have to put up one half of one percent commitment fee. If you don't originate a loan, you lose your commitment fee. If you originate a loan and it is not a loan that the state will buy, then you have a below the market interest rate loan on your hands that you can't dispose of.

ASSEMBLYMAN MAYS: You are saying that if the Legislature changed this and made a rate that could reach the low income people and tells Community Affairs, "This is the way we want it done; this way," people who make \$15,000 and under will qualify.

MR. D'ANTUONO: That's right, if they are given help.

ASSEMBLYMAN MAYS: Because I can't understand that. If we passed a bond for \$100 million, the people that it is supposed to reach so that they can get a house never get them.

MR. D'ANTUONO: Well, you see what happened is the houses -- we are processing a house on Cole Street right now and we are processing one on Hamilton Avenue -- need repairs. You see, this is where the problem is. As I stated previously, if money were made available, then the houses wouldn't get to this state of disrepair.

ASSEMBLYMAN MAYS: They do have that kind of program.

MR. D'ANTUONO: But the thing is, the houses that we are talking about, that are in these designated areas, don't meet the code enforcement. So, when an owner is asked to sell a house and he or she is willing to sell it, then the appraisal comes back and it doesn't meet the appraisal value. They then might have to pump three or four thousand dollars into it to make this sale. But, this doesn't increase or enhance the value of the house. So, what happens is, many of these just die right there.

ASSEMBLYMAN MAYS: Then I think, personally, from my side of it, that the legislators - the state legislators - and the presidents of banks in Jersey City should meet and find out what is the drawback in these programs. How can we get them to the people they are supposed to reach? I think we should meet with the president of each bank. They meet with us concerning other things, why don't they meet us on things that can help the people? We have to have a meeting and say, "These programs cannot work because such and such is stopping us."

MR. D'ANTUONO: I can't answer for the other institutions but our president has made me available and I have met with local people. What I am saying to you is, we did not get the mortgage application from local bankers and community groups.

ASSEMBLYMAN SHAPIRO: If I may - just on that one subject in particular, because it is sort of a sore point in a lot of ways - I have a very difficult time believing that the mortgage demand is as low as it is stated to me by a lot of the bankers I talk to. As I said earlier - and I don't know if you were here for that - I represent one-third of the city of Newark.

MR. D'ANTUONO: No, I wasn't here.

ASSEMBLYMAN SHAPIRO: I represent one-third of the City of Newark. It is an area where the bankers say the same thing, but our experience just doesn't bear that out. There was a study done by Rutgers University concerning Newark and it showed that 50% of the loan activity relating to real estate was done through

what they call informal roots. This basically means that people felt that they couldn't get the money from banks so they went to friends and through various illegal, or alegal, methods of obtaining financing. This was clear particularly over the census tract that involved neighborhoods that are considered to be decent risks - not great risks, but decent risks. These are the North Ward area of Newark, for example, parts of the Ironbound area of Newark, the Weequahic area of Newark, the Vailsburg area of Newark and the West Side of Newark in particular.

The conclusion that at least many of the neighborhood people came to was that there was a subtle form of discouragement coming through from the banks and there was no active solicitation in the urban areas for customers. There was a feeling that urban customers were not wanted and that there was really no active program to involve them.

One of the witnesses who previously testified said that one of the problems with the redlining law is that it only shows rejections of mortgage applications that are written; it doesn't show any of the oral rejections, and many of them are oral, over-the-telephone rejections. A lot of times the bank officer will say don't bother paying the filing fee for a mortgage application because you are not going to make it. That won't show up on the record of redlining disclosure.

I wonder, when we look at this, what affirmative steps we ought to be taking to have banks show a greater involvement in the urban areas where they are still largely located, and used to be almost exclusively located. Maybe this should be directed to Mr. Mallaney because he was the one who made the point.

I didn't mean to put you on the spot. I may need to apply for a mortgage someday myself.

MR. MALLANEY: No, that's okay. That is an interesting question. I don't think there is any informal rejection today because most of the lending institutions are quite concerned with compliance with all of the Federal regulations. I think there may be a historical problem in that for years and years and years the bank had the money. They didn't have to go out and look for anybody. The people came to them. So, lending institutions aren't geared to, nor have they learned to go out and solicit mortgages. They sat there with the money and people came to them. Perhaps it is an educational problem that has to be developed through presidents of banks, showing them their responsibilities to the community by developing methods to solicit mortgages.

We have advertised and, as Mr. D'Antuono said, attended meetings, and so forth, to try and get that point across. But, honestly, I can say from my experience that the demand for mortgages isn't there. We have gone into all of these New Jersey programs carefully because there were penalties if you didn't get your money out from the beginning. But, we just couldn't seem to get the mortgages that would meet the requirements of the agency.

ASSEMBLYMAN SHAPIRO: There is considerable advertising--

MR. MALLANEY: It is not a good answer but--

ASSEMBLYMAN SHAPIRO: (continuing) --by the banking industry. I just wonder if it is aimed toward the people we ought to be trying to reach. I know when I drive on Route #3, I see these big signs "Money for Rent" at one of the banks, which has that little campaign going.

MR. MALLANEY: Yes. Those are consumer loans; those aren't mortgage loans.

ASSEMBLYMAN SHAPIRO: Some of them are consumer loans, clearly, but others are not. I get them in the mail from time to time, ones for home repair or for mortgages, I guess.

MR. MALLANEY: Yes.

ASSEMBLYMAN OLSZOWY: Mr. D'Antuono, you stated that the appraisers - you made this statement, if I heard you correctly - put a market value on property and yet there is no market. How can you arrive at a market value if there is no market?

MR. D'ANTUONO: This is the problem the FHA and VA had and this is what caused some of the sales not to be consumated.

ASSEMBLYMAN OLSZOWY: Say "x" appraiser comes in with a market value of \$20,000--

MR. D'ANTUONO: Let me put it like this: The VA or the FHA has independent fee appraisers that are employed by them and what they do when a conditional commitment is asked for from the FHA is, a form is filed, it goes out, and they send an appraiser out. Part of what the appraiser does is to try and get comperable sales in the area to see if the property has a value. Many times they request repairs to be done. Because of this there are times when owners have just said, "Well, we are just not making these repairs and we are not selling for that price" and it has stopped right there.

ASSEMBLYMAN OLSZOWY: If there are no comparable sales, how can they come up with market value? This is what bothers me.

MR. D'ANTUONO: They can't. That's what I said. They can't come up with a market value, so they use something based on maybe other appraisals they have made in order to come up with some kind of a value. They put a value on and in many instances, that value is not great enough to make the sale so you don't have a sale.

ASSEMBLYMAN OLSZOWY: Maybe the answer to this will have to come from someone else, but do the lending institutions loan mortgage money outside of the State of New Jersey?

MR. D'ANTUONO: Do they lend money outside of the State of New Jersey?

ASSEMBLYMAN OLSZOWY: Yes, outside of the State of New Jersey.

MR. D'ANTUONO: Yes.

ASSEMBLYMAN OLSZOWY: Okay, then I think what we are looking for here is basically a feeling from you people who are in the finance business that maybe we need Federal legislation to limit the amount of interest throughout the entire 50 states, so interest may be stabilized - 8% or 10%, rather than maybe 12% in Florida and 8% in New Jersey. This would then maybe offset the flow of money into other states.

MR. D'ANTUONO: That would be a step in the right direction, yes.

ASSEMBLYMAN OLSZOWY: Okay. No further questions.

ASSEMBLYMAN GORMLEY: I remember when I went to get a mortgage-- I don't remember what the formula was but there was some indication that depending upon your amount of income you should only go to a mortgage of a certain level -- three times whatever your income was, or two and one-half times. Is there something like that that is a rule of thumb used to advise people who come in?

MR. D'ANTUONO: It is a rule of thumb but you don't necessarily use the rule. You have to process the application to see if the people make the income they say they make, what their expenses are, and if they have the ability to carry the house and repay the loan.

ASSEMBLYMAN GORMLEY: But, basically what you just said enforces that rule of thumb. For example, if someone wanted, after improvements and everything else, a \$40,000 mortgage, what income would that person have to have?

MR. D'ANTUONO: Let's say that the monthly payment for principal and interest and taxes comes to \$400 per month - all right?

ASSEMBLYMAN GORMLEY: Four hundred dollars a month, that would be about--

MR. D'ANTUONO: No, no, that is the mortgage payment.

ASSEMBLYMAN GORMLEY: Oh, the mortgage payment.

MR. D'ANTUONO: I said principal, interest, and taxes.

ASSEMBLYMAN GORMLEY: Yes.

MR. D'ANTUONO: Okay? Now, for something like that, a borrower should be earning at least \$400 a week, or close to it.

Now, the other factors that come into this are what are the other expenses that that individual has?

ASSEMBLYMAN GORMLEY: All right. So, if we are talking about \$400 per week, we are talking about \$20,000 a year. I am doing this off the top of my head. You are more familiar with these figures. If you are talking about a \$40,000 mortgage -- Oh, excuse me, if you are talking about over 20 years, if a person in the \$15,000 bracket, let's say, wanted to buy a home, it just seems impossible for him to qualify even.

MR. D'ANTUONO: They would have to stay around a \$35,000 to a \$40,000 house or they couldn't make the carrying charges.

ASSEMBLYMAN GORMLEY: You see, but \$15,000 is \$300 a week. Okay?

MR. D'ANTUONO: Right.

ASSEMBLYMAN GORMLEY: So, at \$300 a week, if we deduct a certain percentage, we are talking of an under \$30,000 home with improvements and everything. In other words, it is physically impossible--

MR. D'ANTUONO: To carry the loan.

ASSEMBLYMAN GORMLEY: (continuing) yes, so is there such a thing as refurbishing any of these houses with any improvements? I mean, this is what you run into with all of these loans. Once you get done with refurbishing, you are talking about a \$40,000 unit and unless the person is making \$20,000, whether you call it a rule of thumb or not, they can't do it.

MR. D'ANTUONO: They can't. They can't qualify, that's correct.

ASSEMBLYMAN GORMLEY: I wasn't here when MFA started but I would assume there was an acknowledgement of this problem and it was an inducement for the banks to realize that maybe they don't fit the rule of thumb, or whatever, but they should go ahead and make the loans because, you know, it is our money and there is the one-half percent problem. The figures are never going to come out the way a bank would traditionally look at it and give a loan on.

MR. D'ANTUONO: Well, if you are talking about a VA loan or an FHA loan, you can go up to 35% and even up to 40% of income for those payments. That is why you have the guarantee by the government on a VA loan and the insurance on an FHA loan. That is precisely what it is for.

ASSEMBLYMAN GORMLEY: I am talking about the --

MR. D'ANTUONO: Yes, the New Jersey Finance Agency uses the same criteria that the VA and the FHA uses.

ASSEMBLYMAN GORMLEY: They use 35% to 40%?

MR. D'ANTUONO: Yes, on their VA and FHA loans. And, if you do a

conventional loan, it runs up to about 35% of the income. So, if the borrower couldn't qualify, then you can't make the loan because it is a loan that will not meet the established criteria.

ASSEMBLYMAN GORMLEY: Just go over that 35% or 40%. That is 35% or 40% of what?

MR. D'ANTUONO: Of the gross income of the borrower. Their expenses - their housing expenses - shouldn't exceed that. There are some cases where it does exceed it if there is a justification for it.

ASSEMBLYMAN GORMLEY: So, what it comes down to is, we have a housing program to do a job for people of a certain income but we have set down criteria that is traditionally financially sound, let's say criteria that you should have, but that criteria makes it impossible to make use of our housing program. It is a circle; it will never come out right.

MR. D'ANTUONO: Well, you can't say that because the programs, going back to series a, b, c, d, and e of the Mortgage Finance Agency were successful programs and they did make money available to the people you are talking about. The program they have right now does it. But, with inflation the way it is, you just can't dole out money.

ASSEMBLYMAN GORMLEY: No. What I am saying is, I am just talking about the economics of today - the way things run. The numbers are getting further and further apart.

MR. D'ANTUONO: It is very difficult for a person today with the kind of income you are talking about to be able to sustain a house. If you own your own home, you know what your utility bills cost you every month. What was your gas and electric five years ago and where is it today? So, you have to take everything in perspective.

ASSEMBLYMAN GORMLEY: I agree with you. What I am saying is, with -- whether you call it inflation or whatever you might call it, if you take that 35% or 40%, that is reasonable. People do want to protect the loan. The State wants to protect it. Whatever agency it is, it wants to protect it. But, once you apply that criteria, this program would only be available for people above the mean income in the United States. I don't know where it is. I think the average family is -- I am not sure. But, this would be above what that average family makes.

I think the program was designed for a certain category of individual, to upgrade their lifestyle - whether it is low or middle income. I am not saying you gentlemen are responsible for this; you go by the rules and regulations. The rules and regulations are counter-productive, apparently, by what you said.

MR. D'ANTUONO: Well, let me put it to you this way: The three loans that we closed -- one loan was a \$25,000 loan; one loan was for \$20,240; and the other one was for \$16,000. I am working on one right now that will be a \$13,000 mortgage and also one that will be an \$18,000 mortgage. They are not the average loans, but this is where the program is working, in that direction.

ASSEMBLYMAN GORMLEY: The program works there and obviously we are not going to go into the individual breakdown of each loan. But, if you ever want the people to be in the category of where the middle income lives -- and I don't know how this is going to be upgraded - the problem is the majority of the homes, or 90% to 95%, are just not in that bracket, no matter where they might be. Once you refurbish them, you are going to wind up at over \$25,000, usually. I am not criticizing what you have done. It is just that you are stuck

with it. Something is wrong somewhere. I don't think the program really gets down to the huge majority that it wants to.

MR. D'ANTUONO: I think you would have to look at the statistics of the Agency. They did put a booklet out that has a breakdown in it as to what their average loan is. I think before you draw a conclusion, if you spoke to Chris Kelly or Joe Levey, or someone there, they would be able to give you all the statistical data that you need.

ASSEMBLYMAN MAYS: Just one final question. In 1977 the total mortgage activity was \$23,861,000. Of this, what mortgage was outside the city and what was outside the state? What percentage of this was outside of the state?

MR. D'ANTUONO: I'm sorry, I don't follow the question.

ASSEMBLYMAN MAYS: The total mortgage activity for 1977 was 23,861,000.

MR. D'ANTUONO: Are you talking about Statewide Savings?

ASSEMBLYMAN MAYS: Yes, I am.

MR. D'ANTUONO: Okay. That is why I said I didn't understand.

ASSEMBLYMAN MAYS: What percent was outside the city and what percent was outside the state?

MR. D'ANTUONO: Outside the state I would say there was probably \$1 million. The rest of it was in the State of New Jersey. And, in the city it was probably about \$2 1/2 million between our home improvement loans and our mortgage loans.

ASSEMBLYMAN MAYS: In the city it was 4%, wasn't it?

MR. D'ANTUONO: What is that?

ASSEMBLYMAN MAYS: We have a record that you have 4% within the City of Jersey City.

MR. D'ANTUONO: I would have to see what you are reading, sir.

ASSEMBLYMAN MAYS: The reason why I ask you these questions is because it was brought up on the record. First of all, do you agree with these figures?

MR. D'ANTUONO: Could I just review these figures, please?

ASSEMBLYMAN MAYS: Yes.

MR. BROWNE: My name is Douglas Browne. I spoke previously. I am from 546 Park Avenue, East Orange. The mortgage activity of Statewide Savings and Loan seems to be throughout the city. What activity it did have in Jersey City does seem equally divided amongst all of the sections of the city. As far as the question--

ASSEMBLYMAN MAYS: I think that is the question I asked that I wanted the answer to. I asked you that. I would like to get that answer from you. I would like to get that breakdown.

MR. BROWNE: Right. I have that here for banks individually and for all of them put together as well. The only thing I would add as far as what the demand actually was in Jersey City is, the actual demand would be at the bottom of the column, which is \$19,666,000. That was the actual dollar amount of mortgages that were actually granted in Jersey City. So, that could be used as the base demand. There was at least that much demand because that is how much was actually granted. That is only the total amount of mortgages that were granted just by Jersey City banks. Of course, the money came in from banks outside of Jersey City as well.

The four percent figure, or share of-- The way to view this is, based on my figures, how much is Statewide expected to make? Of that \$19 1/2 million,

Statewide Savings and Loan made up 5% of that figure.

MR. D'ANTUONO: I want to take exception to your figures - okay?  
If you looked at the total, there was \$220,213.00 from January 1, 1977--

ASSEMBLYMAN MAYS: What are we talking about?

MR. D'ANTUONO: We are talking about mortgage loans. (continuing) --to June 30, 1977. That was for nine mortgage loans and originations. Then, if we come down to originations, from 7/1/77 through 7/31/77, there were 24 loans made for \$631,583.00. If you add those two figures together, you would come up with \$851,793.00 in mortgage monies.

Now, let's take our home improvement loans. I don't see any sheet with the total of our home improvement loans.

MR. BROWNE: Do you think the home improvement loans were added in there just based on the documents that your bank provided to me?

MR. D'ANTUONO: We had sixty nine home improvement loans from June 1st to December 31st for \$286,800.00. So, when you take the \$800 and the \$200--

MR. BROWNE: That includes outside Jersey City.

MR. D'ANTUONO: This is Hudson County. These are the ones we made in the county.

MR. BROWNE: I am speaking only of Jersey City.

ASSEMBLYMAN MAYS: We are trying to find out what we can do for Jersey City.

MR. D'ANTUONO: I was just disagreeing with the numbers.

MR. BROWN: You are comparing apples and oranges.

ASSEMBLYMAN MAYS: This question was unfair to you; you didn't have the records in front of you. So, maybe the next time you will have the records with you.

MR. D'ANTUONO: Sure.

ASSEMBLYMAN MAYS: Thank you, Mr. D'Antuono.

We will now take a two minute recess.

#### AFTER RECESS

ASSEMBLYMAN MAYS: Our next witness will be Gregory Diebold.

G R E G O R Y D I E B O L D: Mr. Chairman, members of the Committee. My name is Gregory Diebold. I am a staff attorney for Hudson County Legal Services and I have been so for three years. In that capacity I specialize in aspects of Housing Law, specifically as it concerns this Commission -- landlord/tenant law, problems with relocation, and problems involving federal housing programs.

What I would like to speak about today is the problem with relocation but before I do that, I would like to emphasize that I personally consider relocation to be an interim remedy to the problem of housing for low income people. We want to emphasize that despite our concern for relocation, we are most concerned with the critical housing shortage for large families that exists in this city, this county, and I believe throughout the State. No amount of relocation benefits will do anybody any good if there is not decent, safe, sanitary housing for the beneficiaries of that program to go to, because one of the prerequisites of obtaining relocation funds is that you have someplace to move to which meets code specifications.

By way of a very short example, I currently represent a woman who has been found eligible to receive \$4,000 a year. Despite this, she faces

eviction on Monday. She and her seven children will have no place to live because of two things: Number one, her current apartment - I shouldn't say apartment, she actually has to rent two apartments for her family - that she is living in does not meet code specifications and we can't get the landlord to fix it. So, as a result of that, relocation will not pay her the benefits because she is not currently living in a standardized apartment. Secondly, she cannot find anywhere in this city to move to. She has literally called every real estate broker in in the city in an attempt to find an apartment which will accommodate her seven children. She actually took the phone book, the yellow pages, and went right down the list and she cannot find an apartment. This is not an isolated situation; I have had this situation on numerous occasions and the result is that families either have to take more than one apartment and separate their children into different units, or the families end up being broken up.

ASSEMBLYMAN OLSZOWY: May I interrupt you? Why is she being evicted?

MR. DIEBOLD: She is being evicted because the apartments - the two apartments together - rent for \$350, which is 63% of her monthly income. Her income is limited solely to a grant from the Hudson County Welfare Board.

She ended up in these apartments because the previous apartment she lived in was declared unfit for human habitation by the city as a result of the landlord refusing, or being unable to supply, heating oil for the building in the middle of the winter. So, she found herself put out by the city in January, unable to get any place, other than these two apartments which, for her, were an exorbitant amount of rent. Now, she could pay the rent if she got the relocation benefits because the relocation benefits would make up the difference between her former rent and her present rent. But, since she can't get the relocation benefits for the reasons I have stated, she is being evicted for non-payment of rent.

I use that example solely to emphasize the point that relocation benefits actually do no good until people are provided with some kind of adequate housing. A colleague of mine will testify tomorrow about some of the reasons why this is not available. But, I would like to say that we feel if this Commission can do anything, it would be to put pressure on, or take some steps to change the Housing Finance Agency's policy of permitting only two bedroom, or less, apartments to be financed. Again and again we see that as a major problem here because private landlords are not going to put up this kind of housing. There just is no money in the private sector for new construction or substantial rehabilitation. This is only going to be done through public funds, through the Housing Finance Agency, and they are unwilling for one reason or another to do it.

I would like to point out that the justification for rehabilitation in cities is because people who are actually displaced will have an opportunity to come back to those places. Yet, in practice this is impossible because it is large families that are being displaced and when the buildings are rehabilitated or new construction is put up, there are no apartments for large families. There are only apartments for small families. As a result, the goals of the program are not being achieved and the people who are supposed to be reached by these programs are not benefiting from them. The people who are benefiting from them are middle class people who certainly have a right to housing, but who I don't think were supposed to be the primary beneficiaries of the programs that you and the Federal Government have instituted.

With regard to relocation, I think one of the main problems we are facing is - and I am sure you are sick of hearing this - the lack of funding. I have been involved in litigation in the City of Hoboken, but also I have run into problems in other cities where the cities contend that they just simply cannot meet the burden of relocation. I recently obtained a judgment on behalf of a class of 15 people against the City of Hoboken, ordering them to appropriate the money to pay the people who have been displaced since 1972, who were determined in 1972 to be eligible for benefits of up to \$4,000 and who simply have not been paid.

Now, the city contends that the state should take on the responsibility for this money and, in fact, the state was made a party to my suit. The state, on the other hand, contends - and correctly - that the law places the burden on the city to make these payments.

I think possibly one remedy that this Commission could undertake is to determine whether or not the cities actually have the financial ability to meet these obligations which the state law imposes upon them and if it is determined that they are unwilling to meet the obligation, for the Commission to take some action through the Department of Community Affairs to better monitor why people are not getting relocation benefits when they are entitled to them.

If, in fact, it is determined that the cities are just simply financially unable to pay, then I suppose the problem shifts to the state to better finance it. There was a two-for-one matching grant that the state was paying - double the share that the cities were putting in under the workable relocation plan - but now that has dropped down to one-for-one matching grant, so the cities are getting less money from the state through the Department of Community Affairs. It may be that relocation is primarily a state problem.

One thing I know is, where people are displaced as a result of code enforcement for a city, relocation benefits are invoked and the result of the cities having to share this burden is that the cities will not enforce their building codes stringently because they realize that if they enforce them too stringently - or stringently - they will incur liability for relocation benefits. When the cities stop enforcing their code enforcement activities, the landlords are under less of an obligation to maintain their buildings and as a result, more buildings slip into uninhabitable conditions. So, you have a circle of people living in less habitable buildings simply because the relocation funds are not there to give them should the building be declared unfit for human habitation.

I would suggest further that possibly some legislation could be enacted to put some of the burden for relocation on to the landlords themselves. As it stands now, a landlord incurs no liability whatsoever for relocation benefits, even if the displacement of the people living in his building is directly the result of his failure to maintain the building. Landlords are getting, I believe, a substantial tax benefit as a result of depreciation when a building is declared unfit for human habitation. Yet, despite this tax benefit, they incur no share of the liability that the state or city is charged with, even if the displacement occurs from a situation, such as the landlord's failure to supply heat or hot water to the building. I am not suggesting that the primary responsibility be shifted from the state to the landlord because I think the benefits to them would never be paid. But, I think that some provision ought to be enacted to enable the state or the city to seek reimbursement of these relocation benefits from the landlords. That, I think, would provide an added inducement for landlords

to maintain their buildings according to code classifications and would result in less displacement, which would mean less of a burden to the taxpayers as a result of relocation benefits having to be paid.

The second issue that I would just briefly like to touch on is the anti-eviction act which I think has been attacked before this Commission. It is our position that the Legislature had enacted a really excellent statute in its anti-eviction act and that any attempt to weaken it should not be permitted. The act itself comports with both federal and state policy of minimizing displacement of people from cities. The act has been attacked on the grounds that it acts as an impediment to the rehabilitation of buildings because of the fact that you can't evict somebody if you want to rehabilitate the building. That is a misapprehension which isn't true. Subsection G of the Anti-Eviction Act permits the removal of tenants and the payment of relocation benefits where a building has been cited for violations which affect the health and safety of the tenants and where the landlord has to remove the tenants to rehabilitate the building. We feel that to repeal that would do two things: Number one, it would not insure that the landlord is really acting honestly nor that the tenants' displacement is really necessary before there is an eviction and, number two, it would allow a landlord to evict people from buildings which really aren't in need of substantial rehabilitation. There are plenty of provisions to remove a tenant if it is really necessary to rehabilitate a building. But, where a building does not need to be rehabilitated and the landlord simply wants to turn it from a low income type of housing into a middle or upper middle type of housing project, we don't think the state should countenance the eviction of people in those situations.

If there are any questions, I will be happy to answer them.

ASSEMBLYMAN OLSZOWY: Just one. How do we decide when a community is not capable of bearing the cost of displacement, or relocation?

MR. DIEBOLD: I think that is a function of the amount of rehabilitation or code enforcement which each individual city is undertaking. I think you have to determine that by looking into the amount of substandard housing that is in the city. For instance, a city like Short Hills, as an example, certainly doesn't need state aid because there is not a lot of code enforcement going on there. Cities, such as Hoboken, Jersey City, Newark have a lot of substandard housing, as everybody is aware, and that requires more code enforcement, in turn requiring more relocation.

ASSEMBLYMAN OLSZOWY: Okay. Part two of that question would be, we would have to then appropriate money for the Department of Human Affairs to funnel it down, correct?

MR. DIEBOLD: Yes.

ASSEMBLYMAN OLSZOWY: Where do we get the money?

MR. DIEBOLD: You could like Ann Klein.

ASSEMBLYMAN OLSZOWY: I am not being facetious. I am saying this is an ever climbing ladder. Where are we going to reach a happy medium? Or, should we attack this now on a different level, establishing a program not for our generation but maybe for 50 years from now where we set up an IRS program, where a building must come down after it has lived out its usefulness in order to be replaced. If you keep buildings that are 150 years old they are going to become ghettos and substandard.

MR. DIEBOLD: Well, we both know where the money has to come from, if

it is going to come at all and that is from the taxpayers. The question is essentially a political one.

ASSEMBLYMAN OLSZOWY: Yes.

MR. DIEBOLD: Do we want to have people in suburbs, or more affluent areas, subsidizing the cities? My position is that we should because essentially our cities are vital to the continuing viability of this state. The only way we are going to continue the viability of the cities and to revitalize them is to channel money from the more affluent areas into the cities.

ASSEMBLYMAN OLSZOWY: Yes.

MR. DIEBOLD: Certainly, that is not going to be a popular decision.

ASSEMBLYMAN OLSZOWY: I am not criticizing; I am looking for answers. Sometimes we have to be antagonistic in order to draw an answer out of a person. We want to help. We are going to try to help. We have to make a report to the Legislature, but our report cannot say, "We need this; we need this; and we need that." We must come back and make recommendations. How do we raise these funds? Who is going to be responsible? How do we allocate them?

ASSEMBLYMAN MAYS: Those are questions that have to be answered. If we did that we certainly wouldn't have this Commission. However, you asked who is responsible for relocation. I think it is both the state and the cities. The city gets paid, and the county gets paid for its population. If we are going to relocate them outside of the city in another county, then we are going to lose in a way. Jersey City and Hudson County is going to lose. So, I think the community itself is responsible for everybody because they want them to stay in that community. That is what we are fighting for, to have our own community. People can do their own work, put up their own houses, and fix up these houses that are maybe 50 years old. That is something to cherish. We have to have respect. We have to have good management in housing and we also have to have good housing to manage. You don't get a good manager if you don't have a good house to manage.

MR. DIEBOLD: I agree with that. I think, though, that it is essential to make sure that good management and good housing works for the benefit of people who need those things most - and those are the people who are there now who are living in substandard housing at this time and who have the right, I believe, to have the housing brought up to standard housing.

ASSEMBLYMAN MAYS: To what standard though? To a living standard, not to a state standard, or whatever standard, because some of these standards are below level and I think we should focus our attention on that.

You know the attitude is, if we can just get them out, then we are going to put middle class people in there. You said that before. For instance, you said they were going to have two-family apartments and the people who moved from there had about eight or nine in the family. What are we going to do about that? That is what we are saying. What happens to those people? Do they go down to the projects? What are we doing for these people? Why don't we give them houses to live in?

MR. DIEBOLD: I agree. I don't have the answers, certainly. But, I can speak from experience. There is just no place for these people to go, other than to the most substandard of other houses in the city.

ASSEMBLYMAN MAYS: Then I must say something else. The state agencies come in and say which area should have financing. How can they say that, they don't even live in the urban areas. We should get somebody from the urban area to tell us what they need. That is what has been happening. Also, we have to get the

legislators off their behinds to do their work also. They don't have to go around suing people. That should be normal practice in the City of Jersey City, or in Hudson County, or in the State of New Jersey.

Are there any further questions? (no questions) Thank you very much, Mr. Diebold.

MR. DIEBOLD: Thank you.

ASSEMBLYMAN MAYS: Robert Ricci, Hudson Alliance for Neighborhood Decision.

R O B E R T R I C C I: Thank you for the opportunity to address this Assembly Committee. My name is Robert Ricci. I am the organization director for the Hudson Alliance for Neighborhood Decision, which is a citizen advocate group that deals with the notion of self-reliance for neighborhoods, based on the belief that the neighborhood is the building block for the urban environment. That is the theory side. The practical side - or my practice - is, I am the project director for the Village Revitalization Corporation in downtown Jersey City. This is a community development corporation that is in its first year of development.

What I would like to do is to make a presentation, but I have to understand that this presentation goes along with an assumption. I would like to ask you a question so I don't waste too much of your time. Are you familiar with the two terms triage and gentrification?

ASSEMBLYMAN MAYS: Yes, we heard that this morning.

MR. RICCI: Okay. I would like to draw the point home for both of them because they are interrelated. If you do not understand these two principles, you are not in the ball park. What you are doing is moving pieces in a puzzle that you will never put together.

Triage historically came from the First World War where the military establishment was successful in completing combat missions.

ASSEMBLYMAN MAYS: Excuse me. We might know of it, but we might not know of your terminology.

MR. RICCI: Yes, sir. That is triage. The triage is still used as a medical policy, but where it originated was in the military, on the battlefield. When you have so many wounded coming in, a decision had to be made because there were limited resources. So, there were three categories set up: Those who needed minor attention, those who needed major attention, and those would not receive any attention.

American cities are classified along urban policy that is called triage - land shrinkage - advocated by Mr. Anthony Downs and also in New York by Mr. Roger Stalk. The basic translation is there is just so much money to go around and we have to make decisions as to what neighborhoods survive and what neighborhoods don't survive. That policy is followed in all urban areas because it is a given.

The problem with that is neighborhoods are being classified. We talk about, for instance, stable neighborhoods - that is, a high presence of middle class where municipal services are provided and there is a good inter-reaction between those neighborhoods. An area that is considered borderline means there is a lack of those municipal services, the people that are living in that area are predominantly working class, and there is a fear of undesirables.

The third category is considered to be abandoned. The area that I am in presently - which is downtown - is categorized as an abandoned area. Unfortunately the people in that area don't consider themselves to be abandoned.

We have within downtown three historic districts that survived and are continuing to fight not because they were considered to be abandoned, but because of the resistance of the people to be written off the books. The area that I am working in - the Village - is a working class and a poor neighborhood. It has been historically that way and we are in the process right now of taking the theory and putting it into practice as a community development corporation.

The notion is - and I think you will find that regardless of where you come from in the state this is true - if you offer people a chance and not charity, they will take it and they will make the best of it.

Gentrification is something that I am sure you are aware of - whether it be because of Executive Order No. 35 or whether it be because of what you have in the city at this moment. What we are seeing is overturn of the middle class from the suburban areas to the urban areas. The problem in Hoboken with displacement and the problem in Jersey City with displacement is that people find a 150 year old house for \$25,000 and it is a steal. You are not going to find the material that was used to build 100 years ago nowadays. So, what you are getting is an intellectual class that can understand that there are market values that have the fluid mobility to get the mortgages and are moving in. That causes displacement and when you displace people, just like a boat in water, they find the path of least resistance. So, what you have is a constant situation where you are creating, due to the policy of triage, a recycling of the same people moving from an area that was borderline into an area that is abandoned and being forced to pay exorbitant rents for substandard units. You have second and third generations of people being moved and relocated when the city can find the time and the money to revitalize that area.

I don't know if anyone spoke before about the Montgomery Gateway Project, which is important at this moment. One reason is, it is downtown, the second reason is it deals with a predominately Hispanic and black population, and third it borders my area, the Village, and a neighborhood preservation area. The people who have lived there have lived there for years without any real services. Now, with a grant of \$7 1/2 million coming in, the people that suffered with no services are going to be subject to the whims of private developers, not the city because the city's hands are tied. They are not going to get assistance from the state because the state has a limited budget.

Now, let me just take you back to the notion of triage again. Triage in a military situation, that dealt with the care of the wounded, changed substantially from the First World War to the Second World War, and by the time Korea came about we had technology - the helicopter - that allowed for more saving of lives. By the time we had Vietnam, we had the helicopter that served as a hospital, so we had technology serving -- still the same framework, but serving -- the needs of people who were suffering.

Now, what we have to do in this situation and what I have to do every day as a project director to a small project dealing with community development is to see how you stretch something as far as you can. To do that, you have to do more than hear the same problems again. We have an area that is working class. We have submitted five different requests for mortgages to the banks and we have been told: You work at Colgate, you don't make enough money; you work at Dixon, you don't make enough money. The same people who have scrimped and saved to put money aside to buy a house can't get a matching situation from the agencies that are supposed to provide it. All the money is used up. So, it is a "catch 22."

Now, if you have people being displaced from areas that they want to live in and being forced into other neighborhoods that they don't particularly feel too comfortable with because they do not come from there, and the people of that area naturally being resistant to the influx of people, and you have private developers coming in and speculating on, in essence, what was left over, and then an increase of the middle class, what you are building to if you do not have the insert of what I call not charity but chance - allowing people a chance - to allow neighborhood people to take their own skill and knowledge and develop it - because that is supposed to be what America is all about anyway - what you are going to have is a constant dependency on federal and state and municipal agencies who do not have the money to do the job.

I read yesterday in a UPI report that Representative Florio made a statement concerning President Carter's bill on urban aid. In general, that bill is not the best piece of pie that has come down the pike, but it is something. What I have to deal with every day is to find how do we pay? If you give me enough lemons, I am going to make lemonade - okay? We have a community development corporation that is starting. There are other neighborhood organizations also who are opposed to triage, which looks at three different parts and tries to take the most viable and maintain it with beautification, ignoring the borderlines that are shakey, and the ones that are abandoned. The abandoned ones are abandoned; whatever happens, happens. There is no police. There is no fire. There are no schools. There is nothing. We let that dry up and die. Then we come back and build it up. People from this area - and probably people from around the state - can testify to areas that have been blighted, cleared, and nothing has been done. This is because there is no money to go around.

Before you destroy an area, allow the people who live there an option. And, this is where the state can be beneficial in establishing the enabling legislation to create something in order to force the community development corporations, with the appropriate checks and balances, to make the maximum use of that money. If you do something like that, if you do what the Downtown Urban Housing Corporation wants to do - that is, the utilization of CETA funds, the utilization of CD funds, the utilization of any kind of money that is available - you take people from that area and put them to work in their own neighborhoods on something that they can identify with.

For example, at this point the projection of the UDAC concerning the Montgomery Gateway is that 30% of the new housing is going to be for low income people. I don't believe it. Quite honestly, no matter how many people tell me that, I don't believe it. Because what you have having is a class difference. You are moving poor people out and you are leaving it up to private developers to, in their moral judgment, provide 30% of Section Eight -- Section Eight is welfare. We have to get away from that mentality. We have to talk about self-reliance and allow people to be able to stand up. If we do that, we have to look at different modes. At this point what we have, for example - and Mr. Torres suggested the notion of cooperatives - is the notion of cooperatives or condominiums, which have been, to this point, the exclusive domain of people who have ready capital for that. You find condominiums on the Jersey Shore. You buy a piece of property. The notion of home ownership has been changed from horizontal to vertical.

That would be the solution to the problem of multi-unit dwellings, allowing people with large families to find the space as well as pick up a skill

and do something for their own neighborhood. They get a chance to do that.

Key in that notion is where you deal with the old issue of blighting. You can't blight 17 blocks, move everybody out, and hope that either a private developer will do something about it - morally correct - or that the people who have just been pushed into even more substandard dwellings will some day come back. I would like to see this Committee provide me with 10 names of 10 people who have been relocated back to the buildings that they were forced to move out of. Okay? And, that has nothing to do with skin color. It deals with an issue that causes class lines. If you are poor, you get it.

We see - and when I say we, I mean the Village Revitalization Corporation - that the way to look at a neighborhood is as an entire entity; it is an organism that lives. It has to be cared for that way. Within our own neighborhood we have areas that are abandoned and blighted. We have areas that are sound. And, we have areas that fluctuate and are called borderline. We have to take care of - instead of bolstering the ones that are sound - the area that has nothing in it and make it generate and produce. That area has no capital. People have to generate their own capital by joining a community development corporation for \$5.00 a year. That is not a lot of money. What we are saying is that is a sign that the people in that area are willing to do something.

Let's get back to the Montgomery Gateway project. It is seven and one-half million dollars - one shot.

ASSEMBLYMAN MAYS: We have to wind up in five minutes.

MR. RICCI: Yes, sir. If you take new notions of building, whether it be cooperatives or condominiums and you cover that with sweat equity, in essence you develop the technology that you have at present and combine that with staggered rehabilitation of buildings - not wiping out entire neighborhoods, but staggering rehabilitation of neighborhoods - and what you will see is that people who are there can visually see a change for the better and can identify with that change themselves. If what we are talking about is finding a solution, we have to begin to address the people that deal with those problems on a daily basis. If you continue to be locked in and accept the policy of triage without trying to find alternatives, we are going to be back here five years from now. It will be a different situation and a different neighborhood, but the topic will be the same. Thank you.

ASSEMBLYMAN MAYS: Are there any questions? (no questions) Thank you, Mr. Ricci.

Our next witness will be Edward Blau, Blau Mortgage Company.

E D W A R D B L A U: I would like to introduce myself to you. I am Ed Blau, President of Blau Mortgage Company in Perth Amboy. I also happen to be Treasurer of the Mortgage Bankers Association of New Jersey, but I am not speaking on their behalf. I have spent most of my business life in Newark and I am past President of the Real Estate Board of Newark.

I am going to talk today on just one very brief and small aspect of the entire problem. There are obviously many economic and sociological factors that affect urban neighborhoods, but I am going to limit my remarks to the methods and the necessity for adequate mortgage financing, or the lack of that, in these neighborhoods, which might be necessary to provide for the purchase of one to four family homes.

Basically, I am talking about neighborhoods that are in urban areas and that are still good neighborhoods. We would like to keep neighborhoods good

before decay sets in. The survival of the urban neighborhood is important for the decent moderate-priced housing that it provides. The people that live in these neighborhoods have less dollars to spend for housing and less dollars to spend for transportation to get to their places of work. The urban area, with good public transportation, is ideal for their needs.

However, if adequate mortgage financing is not available on a continuing basis, there is a snowball-type effect on the neighborhood. Potential home buyers not only need financing to purchase their homes, but they also must have the confidence that later, when they wish to sell their home, financing will be available for their buyers. If they feel that they will not be able to get their money out of the property at the time they want to sell, they won't purchase the property now, even if mortgage money is available for that purchase.

I would like to add at this point that it has been my observation that more repair and maintenance work goes into a home at the time that is purchased than at any other time. So, the continual viability of the purchase program is important for the rehabilitation because that is when it normally takes place.

All of this leads up to one point: For a neighborhood to remain viable, there must be continuing financing available for the purchase and the sale of homes within that neighborhood. This financing must be of all types, conventional, VA, and FHA, and must be on terms generally available in other areas if our urban neighborhoods are to survive. If this financing is not available, the relatively few transfers of title will be financed by high-rate, short-term privately held mortgages - I think they were referred to before - and new owners being strapped for cash will allow their properties to deteriorate because they won't have any other choice. Speculators will take advantage of sellers' inabilities to sell, and a former owner-occupied neighborhood will be changed to a tenant-occupied one. There have been many studies done that indicate that this flow of financing is not available on a continuing basis in our older neighborhoods.

During the last year, the New Jersey Mortgage Finance Agency has done a remarkable job in this area, making many millions of dollars of mortgage financing available for the purchase and rehabilitation of homes in selected urban neighborhoods. The MFA has had a great impact on the situation but, frankly, I don't believe that this agency can do the entire job, nor do I believe that it should. One of the problems is that the Agency's funds are not available at all times. Another is that there are many towns with older neighborhoods that aren't eligible for MFA funds. The state needs the MFS, but with all of the financial institutions that are located in New Jersey, it should not have to rely on it to do all of the urban financing.

If private lenders, banks, insurance companies, and Savings and Loan Associations are reluctant to lend in urban areas, I believe it is vital to find out why. They should be encouraged to lend in these areas, because it is profitable, not forced to lend through legal or political pressure. I believe all businesses, as well as individuals, have social responsibilities, and these responsibilities should be discharged, but it should be remembered that their primary responsibility is to show a return on the investment of their stockholders.

Certain lenders are reluctant to lend in urban areas, because of either real or imagined problems. I might add, parenthetically, that we see more and more urban based institutions lending, or trying to lend, in their own areas. We see very

little suburban institutions lending in urban areas.

These problems that they have are either real or imagined. These problems run the gamut from loss of their capital investment on the one hand, to higher administrative and servicing costs on the other. It is becoming even more costly just to maintain adequate insurance on urban properties. Insurance companies have been cancelling policies in New Jersey urban areas in ever-increasing numbers. This means the lender - because the property owner in most cases has ignored the cancellation notices - in order to protect his investment, must take steps to replace the insurance - which, in some cases, isn't possible at all. The forms, the red tape, and then possible abuse from the homeowner when the insurance is placed at even higher rates and the escrow payments go up, just increase the administrative headaches. Of course, in those cases where replacement insurance isn't available at all, the capital investment of the lender is at risk. This is equally true on a VA guaranteed loan as it is on a conventional loan.

Delinquencies are a bigger problem in the urban areas than in suburban areas, as well. These delinquencies are costly in two ways: One, higher collection costs and, second, there is a loss of income on the delinquent payments that haven't come in. Delinquency and insurance problems are just given as examples of problems of urban lending. There are more.

Mortgage lending institutions have a finite - not infinite - amount of funds to invest. They believe that there are both more risks and more problems in lending these funds in urban rather than suburban areas but because of the New Jersey usury laws, lenders generally cannot obtain more compensation for lending in high risk areas than in the low risk areas.

Under our law, the Commissioner of Banking has the duty to set the conventional interest rate between 8% and 9 1/2%. The present rate has been set at 9 1/2%. Today lenders are lending in suburban areas at that rate. They have no incentive to invest in what their statistics show to be riskier areas at the same rates. Present New Jersey law also prohibits the charging of points on conventional loans. A one point charge will increase a lender's yield on a thirty-year loan by approximately .14%. This allows for fine tuning of interest rates.

Point prohibition in New Jersey on conventional loans protects no one, but does discriminate against the less affluent "little guy." Why do I say that the present point prohibition discriminates against the buyer in urban areas? This buyer is typically a little guy of modest means. When the lender compares his income with the payments necessary to repay the loan and finds that the buyer cannot qualify for the mortgage, the "little guy" can't afford the mortgage. We went through this whole thing just a few minutes ago here. The buyer, however, might well afford the loan at a lower interest rate, if he would be allowed to pay points, in order to bring the lower rate mortgage up to a yield satisfactory to the lender. More specifically, by paying two points, for example, on a loan at the time of closing, a buyer could increase the yield to a lender by more than 1/4%, and the interest rate charged could be reduced by that amount in order to allow the buyer to qualify for the loan with lower monthly payments. However, since points are illegal in this state, the loan for this little guy would be rejected, and the funds would be channeled to a more qualified, more affluent borrower, probably in a suburban, rather than urban, neighborhood.

Interestingly enough, the legislature, in its wisdom, passed legislation some years ago that exempted VA and FHA mortgage loans, and conventional loans

that are sold to FNMA, from both the usury statutes and the point prohibition law. These exemptions were passed to encourage VA and FHA financing in our state and to encourage FNMA - the Federal National Mortgage Association - to purchase conventional loans on New Jersey properties. Frankly, I fail to see why we in New Jersey want to put FNMA into a position where it can purchase conventional loans in Jersey City, for example, that are closed by Mortgage Bankers, such as ourselves, at, say, a 10% rate with a two point charge, and tell our banks that these same loans are illegal for them to buy because they violate our usury laws.

There are some institutions that might be unwilling to invest in the urban areas at 9 1/2%, but might be willing to do so if they were allowed to charge a fair rate. We have given FNMA an exclusive in this area without competition, while we have encouraged our banking institutions to buy mortgage loans from out of state, where their legislatures have allowed rates higher than in New Jersey.

My remarks have been directed at what I believe to be a most important part of the urban decay with resulting declining values and ultimate deterioration of residential properties -- the lack of adequate mortgage funds for the purchase and the sale of these existing housing units. It should be obvious, however, that the lack of adequate financing can seriously affect rehabilitation and new construction in our urban areas as well.

I did not come here today to offer simple solutions to very complex problems. I don't believe that by solving the mortgage financing problems of our older areas, that that alone will cure all of our urban housing problems. I do believe, however, that until we find a way to provide substantial mortgage funds for our urban areas, these areas will continue their way to decay.

In conclusion, let me strongly urge this Commission to recognize that in order to keep our urban neighborhoods alive and viable, we must encourage capital investment in these areas. There is generally ample capital in this state seeking investment. Today, New Jersey lending institutions are looking at investment opportunities in out-of-state urban areas, where they can receive yields of more than 10%. I am dealing with some right now and they are not city oriented institutions, they are suburban institutions and they are dealing in cities outside the State. By legislative action that would eliminate our maximum mortgage rate, and our point prohibition statute on conventional loans that are not sold to FNMA, the same investment opportunities would be available to New Jersey lending institutions in our New Jersey urban areas.

Let's encourage New Jersey money to stay here, and out-of-state money to flow here by making mortgage loans in our state competitive and attractive investments.

I might add that in our particular business we are conduits between savings institutions, thrift institutions, and applicants for loans and the flow of money is out of the state, not to it. There are almost no investors around the country that we deal with that are buying New Jersey mortgage loans. It is all the other way. It is the rate. Everybody knows, "Well, I can't get the rate in New Jersey." I say to you gentlemen that it is our Legislature that has done that, not this Legislature but our Legislature. That is our law.

ASSEMBLYMAN OLSZOWY: Just one question. What do you think is a fair rate of return in New Jersey then?

MR. BLAU: Well, that changes from time to time. I personally believe

that the rate should not be fixed. There shouldn't be a level. We had a level fixed by regulation at 9% for a long time. When that was the maximum rate, the rates in New Jersey were 9%, 8 3/4%, 8 1/2%, 8 1/4%, and there were some 8% -- well, 8 1/4% was about it. The point is, the maximum rate did not become the only rate. Competition forced it down - 50% loans, 60% loans, and 70% loans all had their level. As money became tighter, we finally raised the rate to the maximum that the Commissioner can raise it to, which is 9 1/2%, and there is no lending going on at 9% because you can get 10% out of state. The 9 1/2% maximum became the minimum because it really should be something like 10% or 11% and then there would be money being lent at 10%, 9 3/4%, and 9 1/2%, and it would run the gamut according to how good the borrowers are, how good the neighborhood is, and what the the risk is.

ASSEMBLYMAN OLSZOWY: So, your recommendation is to eliminate the ceiling and have an open, competitive market?

MR. BLAU: That would be my recommendation.

ASSEMBLYMAN MAYS: Do you recommend that people in the undesirable areas get the same benefits with the VA -- have the exemptions so they can get mortgages?

MR. BLAU: Well, there were a lot of comments about the VA. I am not sure if I understand your question. People in the poor areas--

ASSEMBLYMAN MAYS: Let's say undesirable areas.

MR. BLAU: Undesirable? I am not sure who they are undesirable for - the people or the lenders. Is this what you are talking about?

ASSEMBLYMAN MAYS: Well, that is what you have put on us.

MR. BLAU: Undesirable, okay. From a lender's standpoint, there are undesirable areas, okay. Now, your question is should they get the same benefits from the VA?

ASSEMBLYMAN MAYS: Exemptions, yes, in our laws. You said there were exemptions for the VA.

MR. BLAU: Oh, no, I'm sorry. What I was saying is that the buyers - some of the buyers - are exempt from usury. FNMA, VA and FHA loans are presently exempt from usury. If the Veteran's Administration in Washington set the rate at 10% next week, we have passed legislation in New Jersey that that would not be usurious. We allowed that. So, yes, I think that is fine. Those loans are exempt from usury anywhere in the State. The FHA loans are exempt from usury and conventional loans are exempt from usury as long as the bank doesn't buy it. But, if FNMA buys that loan, it is exempt from usury and I just think that you are telling the banks something when you say, "You can only charge 9%, but all over the country you can get 10%." You are telling them something. I don't know what you are telling them, but you are telling them something. I know they don't want to buy our mortgages at 9 1/2% in a 10% market.

ASSEMBLYMAN MAYS: Why don't the banks get together and have a pioneer program and put some money aside - like one-half million dollars - so poor people can borrow it. You know, you have those losses anyway. You put in losses in at the end of the year anyway. So, if you want the city to grow, as the city grows and as the urban area grows, so is your bank going to grow. You said here before that the suburbs are not going to lend us any money, so we have to do it ourselves in the urban area.

MR. BLAU: Right.

ASSEMBLYMAN MAYS: So, why don't the banks do something?

MR. BLAU: Well, first of all I can't speak for the banks because I am not one. We have our mortgages and we sell them. I know when we go to the banks and we have mortgages to sell and our rates are lower than they are being offered in California, or Las Vegas - and many other cities around the country - they are more interested in buying those loans.

Now, our company has branches in some of these places, very frankly. I don't blame the banks, as a matter of fact, at all. They have to be competitive with those banks. I can remember six or seven years ago when the California Savings and Loans were offering in the New Jersey papers depositor's yields higher than the New Jersey Savings and Loans were doing and the money was flowing out of the State into the California banks. That is not happening now. But, if our institutions don't pay the same dividends as the ones out West and in the Southwest pay, they will not stay competitive. So, they must have fluid money. Money is fluid. The depositor's are going to put the money where they are going to get the higher rate and the banks and the savings and loans must, I think, take most of their money and invest it at the highest rates that they can get, commensurate with money market conditions.

I would say that they are going to go where the money is and we ought to encourage them to lend in this state.

ASSEMBLYMAN OLSZOWY: Question two: Would legislation be satisfactory to the lending institutions or mortgage companies if we would then give the Commissioner of Banking the authority to adjust along Federal guidelines, along with the VA? If the VA raises it automatically to the New Jersey level it would be the same.

MR. BLAU: Right. There are many proposals. I would think that would be a good one. There is a proposal being talked about now under which we have a yield concept so that the points could be built in and we wouldn't have to raise the rate the whole way.

But, I think some type of a fluctuating rate, maybe geared to the VA, FHA rate, would be one way. That might do it. There are other ways that can be done. I didn't want to go into the details of all of the programs that are possible.

But, I would agree, conceptually, that the VA-FHA rate goes up and down according to money market conditions and there is no limit. New Jersey's rate goes from 8% to 9 1/2% and there it sticks. The minute you get to 9 1/2%, where we are now, that is when you have trouble. Then you might go through a period of nine or ten months where there is no money available and it is a rationing system - as the gentleman just said; it is a rationing system. When money is tight, the cities are the first ones rationed.

I would say that a year ago when money was quite loose - or even six months ago - the cities were getting money. I saw it dry up and I saw it come in. The banks were flush with money. They were looking to invest their money. But, the people don't know it because six months before that there wasn't any money around. Then, when it is there - and it was there - you know, it may have been at 9% when somebody else was 8 3/4%, but it was there.

ASSEMBLYMAN MAYS: Just one final question. You are familiar with the Neighborhood Loan Program?

MR. BLAU: Yes, we are very active in it.

ASSEMBLYMAN MAYS: By right, the bank is not taking a chance. The only thing the bank is doing is, it is doing a credit check for the State. Am I right?

MR. BLAU: There are minor risks. There are risks. We did about 4 1/2 million dollars worth of business with the MFA in the last program - our affiliate company - and we lost no money. We have one loan that has gone delinquent and the Mortgage Finance Agency will not buy it. There is a problem with it and we are stuck with that loan. I suspect that the problem will not be cured and the loan will not be foreclosed and we are stuck with the 7 1/2% loan. That is not our business. We borrow money. We have to pay that money back in six months to the banks with the idea of selling it. We must own the loan first, by the way. We do more than a credit check. We close the loan with our funds, which we borrow, and we then sell the loan to the MFA. If something goes wrong with that loan in the middle, we are stuck with it. That is where we are with our one loan in four million. That is not too bad. We are willing to take that.

ASSEMBLYMAN OLSZOWY: Your company basically finds the mortgage, arranges the closing, and once you have it, in order for you to stay in business you must disclose--

MR. BLAU: We must sell it, right.

ASSEMBLYMAN OLSZOWY: Okay.

MR. BLAU: And, we basically sell those loans to the banks in New Jersey and out of state.

ASSEMBLYMAN MAYS: Thank you Mr. Blau.

MR. BLAU: You are welcome.

ASSEMBLYMAN MAYS: We will now take a recess until 2:15.

(recess)

Afternoon Session

ASSEMBLYMAN MAYS: We will start the afternoon session.

Mr. Walter Johnson, Area Director of HUD, will be our first witness.

WALTER JOHNSON: Thank you, Mr. Chairman. My name is Walter Johnson. I am Area Manager for the Department of Housing and Urban Development, located in Newark. Our office is responsible for the implementation of HUD programs throughout the State of New Jersey.

I am pleased to have the opportunity to speak to you, Mr. Chairman.

I might mention, first, something very briefly of the HUD's involvement in the areas of your concern. We are responsible, of course, for the national housing goal of a decent home and suitable living environment for every American family. The principal vehicle of housing subsidy and housing rehabilitation today is the Section 8 Lease Subsidy Program, of which this fiscal year we have approximately \$50 million of annual contribution authority. That means that we are enabled to sign commitments which will obligate the department to pay subsidies at the rate of \$50 million a year. When you run that out for the length of the commitments, which are up to 40 years, there is a total federal exposure involved of over a billion dollars and the capacity to commit to subsidy approximately 10,000 additional units.

That sounds like a lot of money. But when you consider it against the needs in our State, it is a small part of what is needed and it is very important, of course, that we use it efficiently and effectively.

We have 5,000 apartments in 45 projects that are under construction at this moment with previous years' funding throughout the State of New Jersey. That includes both new construction and substantial rehabilitation. The funds are administered in a variety of ways. The State Housing Finance Agency, as you are aware, administers a portion of it, combines it with mortgage funds of their own, and some of the projects go forward in that way. Others are financed conventionally - FHA mortgage insurance, the housing authorities selling their own bonds, Farmers' Home, Section 202 direct federal loans, etc.

Each of these projects requires a cooperative effort of local government, state government and federal government, and private enterprise, both profit and non-profit - private groups.

What I thought I might do in the few minutes that I have is raise a couple of points where the laws of the State bear upon the process where I think I might have some useful suggestions to make.

At the outset, I would like to say that I do not consider myself in anyway expert with respect to the State laws or their implementation; but rather I represent that, as a federal official responsible for implementing federal programs which involve a case-by-case review of housing proposals, I have a certain viewpoint which may or may not be of value.

The first concern would be rehabilitation. The programs, both the subsidy program under Section 8 and mortgage insurance, which is our vehicle to finance without subsidy or independent of subsidy or in conjunction with the subsidy, are applicable to new construction and substantial rehabilitation. So with the appropriated funds made available to us in New Jersey, we could put more

into rehabilitation and less into new construction as we saw fit to do it. We rely basically upon the housing assistance plans prepared by the cities and the urban counties. There has been much interest lately in the rehabilitation aspect. The President in his national urban policy and the Governor in his state urban policy have both spoken to the importance of dealing with our aging housing stock in our cities and the condition of that housing.

There has been in this State a lot of rehabilitation activity, more so than in other areas of the country, which I think is very good, because if we fail to build a new construction project in our cities, we won't have something we might have had. But if we fail to rehabilitate existing buildings which are deteriorated and a blight in the neighborhood, then that blighting influence remains, which is more serious than not building a new building. So in terms of the well-being of our cities and our neighborhoods, it seems to me that in a state where we have old cities and aged housing stock, the rehabilitation of those buildings is important not only to the people who live there, but in terms of the neighborhood, in terms of the cities and in terms of our whole state.

It has been brought to my attention that there is a state law which could adversely affect the ability of the industry utilizing federal assistance to continue with the rehabilitation program as we have known it in the past, just at the time when there appears to be an increasing emphasis both at the state and federal level on rehabilitation. I think the Act is referred to as the Reasonable Cause for Eviction Act, with which I presume you are familiar. The problem, as it has been explained to me, is that in order to do substantial rehabilitation, you have to move the people. They may come back. They may go from one unit to another unit or they may go to temporary housing and come back. But there has to be some movement. It is very difficult and usually not successful to do substantial rehabilitation with the tenants in place. There have been some exceptions, but I think they are exceptions which prove the rule. In the typical housing that we hear about, it doesn't work that way. Without the ability of the landlord to move those people, one occupant of one unit could thwart the desires and needs of all the other tenants and the landlord and the neighborhood and the city seeking to achieve the goals of rehabilitation. The risk that one tenant might take that position discourages investors and specialists in rehabilitation from investing the money up front that is required to get a project to the point where you would even find out whether the people would be willing to leave or not.

People who are active in this work and have done a good job in the past, working with our department, advise me that they wouldn't tackle the buildings they have tackled in the past. I see them coming in with nonresidential buildings, factories, hospitals, industrial buildings, office buildings, all manner of non-residential buildings to rehabilitate for housing, which is fine where that is appropriate. But they are avoiding the areas where people live which are deteriorated and where there is this great need. It is my understanding that if the building is condemned under state or local codes, then they can evict. But that has the effect of going into an area and taking the very worse building and leaving other blighted buildings around it. Our experience in rehabilitation is that if you don't take an area and put all the pieces together - the public facilities, the street improvements, the services - and deal with all or most of the buildings that are

deteriorated, then the ones you do deal with do not succeed and they fail.

Therefore, the idea that one could go the route of a code as a vehicle to achieve evictions doesn't seem to me to be practical realistically in dealing with neighborhoods.

Another aspect of this problem, I am told - this is secondhand -- but I am told that you can evict the people to tear it down. You can evict the people to convert it to an office building. But you can't evict the people to preserve the housing stock. It seems to me that is discriminating in a way against housing for people, although I am sure it wasn't intended to do that.

There is also a problem that relates to the relocation payments. If it is condemned under the codes, then the people are entitled to benefits which are very expensive and the funds appropriated by the State for those relocation expenses are small in proportion to the rehabilitation program we would like to see. It constrains the magnitude of our efforts in rehabilitation to the size of the funds appropriated for relocation, which appear to be less than the funds appropriated at the federal level for rehabilitation. So the tail is constraining the dog, as it were.

We are concerned with relocation and we would not approve any project in which people are occupying the units already unless provision were made to house those people in decent housing and in a suitable environment at rents they could afford to pay. There is a variety of ways of achieving that. One is to put them into temporary housing and bring them back into the unit after it is done, and subsidizing them so that while the building is now worth more, they are not actually going to be paying more. They will be paying 25 percent of their income as rent.

Another way to do it is to find housing which is decent and which they can afford, and you put them in it and pay their moving expenses.

These approaches would satisfy the federal requirement that people are not moved into substandard housing as a part of the process. It would be unacceptable to our department to have the effect be putting people in substandard housing. We are to get them out of it, not into it. But there are more ways you can achieve that which would be less expensive than the level of benefit the State law provides. So either we need enough money or we need other ways. It would seem to me, for example, that if people are offered housing which is decent housing and a suitable living environment and they are not paying more than 25 percent of their income in rent, they really don't need a rent differential. To give those people a rent differential is really giving them a prize for being involved beyond that which others enjoy. It assures, of course, that the people who are of low income would have to have subsidies wherever they went, and that we would require also.

So I would suggest - and again I am not saying that I am an expert in the legislation at the State level - that it would appear to us that the implementation of the federal program is going to be less effective in New Jersey in rehabilitation in the future than it has been in the past because of the inability of the sponsors in the communities to deal with that legislation. I simply put it on the table as something the State might give thought to.

The second area I would like to touch on and be more brief is the conservation of the housing stock which is presently standard. We want to keep

it that way and not allow it to deteriorate. And the legislation I refer to has to do with rent levelling. It is my understanding there are over a hundred communities in the State of New Jersey that have rent levelling ordinances of one type or another. Philosophically, I have no problem with the concept. You may be aware that in the National Housing Act, which is the authority for FHA mortgage insurance, there is provision that a sponsor who develops housing with FHA mortgage insurance is constrained by virtue of our contractual relationship from raising the rents in that building above a level determined by HUD at the time the project was initially approved, without the permission of HUD. When they seek permission to raise those rents, we require that they demonstrate that the money is needed to pay operating expenses. We will not approve increases beyond those required to cover operating expenses. So there is a form of rent levelling, if I could put that word in quotation marks, built into our own process.

What I have a problem with is that the one hundred and some odd communities of New Jersey implementing rent levelling are all doing it in different ways. Their formulas are different. Their procedures are different. Their approaches are different. It is exceedingly confusing. And, in some cases, some communities are not permitting the landlords to raise the rent even as much as they are raising the taxes or as much as the electricity rates have been permitted to be raised by the State agency. Obviously, a landlord who cannot raise the rents to cover the cost of electricity or fuel or local taxes is going to have to take that money out of someplace else. What I fear is that they take it out of maintenance, the building deteriorates, and we get into the downward spiral which is precisely what we are all trying to avoid.

Other communities are working these ordinances very well. I don't mean to categorize them all in one brush. But what would certainly make it appear simpler to me - maybe that is my limitation -- but it would appear more equitable and better if the State either by legislation or some kind of administrating rule were to provide the communities with more guidance, a standard way of looking at what is a reasonable increase in rent, some standardization of procedure that we could relate to and understand and which would give the communities more guidance. I might say as a HUD Manager, if I didn't have the regulations that we live with and had to dream them up myself each day, it would boggle my mind. Each of us needs some parameters, some specificity as to those concerns for which we are responsible, and some ways of dealing with the conflicting desires of different parties.

Perhaps it would be possible for the State somehow to provide more guidance, more requirements or procedures for local communities to use so that their implementation of rent levelling would be clearer, more standard and more equitable to all parties, achieving the purposes of the legislation better.

That is the end of my remarks.

ASSEMBLYMAN SHAPIRO: I have a few questions to ask. You spoke about changes in what we refer to as our Eviction for Cause Statute. This is something that has been raised before us earlier and I can understand the argument that you are making in terms of the need for allowing rehabilitation for buildings which really are capable of being rehabilitated economically and effectively. One problem which seems to arise is: What do you do with the people? Even if you assume that there is adequate housing for temporary relocation, can you bring them all back? One of the big hang-ups we get back to

again and again in this area of bringing them back to their building once it has been rehabilitated is that there is apparently no Section 8 money available for large families. Once you get over a two-bedroom apartment, we have been told by witness after witness, that the amount of Section 8 money available for that kind of housing, be it due to a policy of HUD, be it due to a policy of this area office, or be it due simply to the externally imposed economics, as imposed by the federal guidelines, makes it so that three- and four-bedroom apartments are unfeasible. That is what we have been told by witness after witness. Is this not true?

MR. JOHNSON: It is not literally true. Let me comment on that. It is certainly an area of concern. It is difficult to get the large bedroom units. It is difficult to find them and it is difficult to get sponsors to want to put them in. And, frankly, it is difficult to get local governments to want them to be in, which they constrain in a variety of ways.

However, the department has a particular concern for large families specifically for this reason. As you know, we work the housing program off the Housing Assistance Plans, which are prepared by the municipalities applying for Community Development Block Grant funds. Congress specified this link back in '74 when we went to the Community Block Grant Program. They felt there had to be a tie, the carrot-and-the-stick approach, and the community had to be willing to address the needs of people who need housing assistance or they ought not to be able to get Block Grant funds which generally are attractive to a community. In the form of the Housing Assistance Plan, we require the community to specifically identify that portion of the need which is for large families. And we specifically require that the community at least encourage housing to go forward which would proportionately benefit those people who need the larger units. That serves as a constraint on the community to prohibit them.

There is a certain resistance. Frankly, there is a resistance in many areas - not all areas - but in many areas of the State for family housing at all. They prefer elderly housing, and, among the families, for the smaller families. It is easier to manage and simpler from their point of view. We require the balance, remembering always that the appropriation is one body of money and while we are all in favor of helping the elderly, if we put it all with the elderly there will be nothing left for anybody else. Balance appears to us to be the way to deal with that.

There are large units about that are subsidized. We have built them and we have also done it with existing housing programs, which is another way of providing housing at rents people can afford to pay.

I think the more basic answer to your question - and it is a very good question - is: Will the people really find suitable housing in all respects, large units or small units, but decent housing which they can afford? What assurance do we have? Our approach is that when a proposal comes to us for subsidy, if the building is presently occupied, we require they submit to us a relocation plan. We are getting more and more sophisticated as to how we review these things. They may be moved temporarily and they may come back. If a project is big enough, they may use the checker-board approach. If you have a lot of buildings or if you have successive projects --and a lot of this was done in Hoboken where the Applied Housing people had a succession of projects and they would have a project nearing completion where units were coming on the

market and be ready to start on another project; the relocation would be into a unit maybe a couple of blocks away which had been newly rehabilitated with standard housing where the subsidies were available, including large families. People would be moved into a unit which was better than what they had before. And if the family is of an eligible income status, they will actually pay less and get more. We think that is a beautiful solution.

It may be that they can be relocated into housing presently on the market, subsidized or unsubsidized, depending on their income. If the sponsor in proposing a housing rehabilitation project, even though the project otherwise be a very good one, cannot demonstrate that he has the resources to relocate the people, we will not approve the project. And sometimes we reject good projects. Whereas another sponsor might be able to relocate the people, because of fortuitous circumstances that he may encounter, or it may be a cooperative community, or it may be circumstances that are not critical of the developer or faulty to the project, itself, but simply he has more resources made available to him. But we say to a sponsor, that's tough, but you can't just put those people on the street; and until you work that out, we can't deal with your project. We think that that is a way that we can go forward rather than, in effect, put a veto on each and every individual family so that any one can kill the project. Put it on a basis that either you can deal with the problem or you can't. If you can deal with it, fine; and if you can't deal with it, then the answer should be no.

ASSEMBLYMAN SHAPIRO: I understand that point. The thing is that some of the things you are saying this afternoon don't jibe with some of the other testimony we have been hearing. That is what troubles me.

MR. JOHNSON: Please tell me about it.

ASSEMBLYMAN SHAPIRO: To take it in reverse, for example, the housing people describe to us the importance and, in fact, their implementation of a very detailed tenant selection procedure. A tenant selection procedure tells me they are likely not to do exactly what you are saying; and, that is, move an existing group of tenants from an old building they are about to rehabilitate directly into one of their newly-rehabilitated buildings in that they may not, in fact, meet their tenant selection guidelines.

MR. JOHNSON: I think tenant selection is very important because we insure mortgages and we live with those projects for the life of the mortgage. And if the mortgage goes bad, we get it back. I have gotten some lemons. So I am concerned that they follow a good process of tenant selection. A good process of tenant selection has nothing to do with income when you deal with Section 8 because there is no minimum of income in Section 8. It has to do with housekeeping and orderliness and the qualities that make for good neighbors. But where people are being dislocated, then they are going to have to make provision for them. If that bends their tenant selection process, that is their problem; the alternative is, don't go for the new project.

ASSEMBLYMAN SHAPIRO: We are hearing again and again from witnesses that these problems are not dealt with; that there are many ways of getting around the laws; that there is inadequate enforcement of relocation laws; that there is inadequate relocation assistance money available; and, whether it is a public agency or a private developer, that they find a way of dislodging the tenants, often in ways that appear on the surface to be violations of our laws, really with a

great deal of impunity. I am not speaking of Applied Housing in this because I don't think that is the case with them. I am speaking about other people we have heard about. Tomorrow we will be in Hoboken. I know from the written testimony I have already read, we are going to hear an awful lot of allegations made about precisely that, that when it comes to rehab, when it comes to really anything that basically involves the relocation of tenants, it is not being done the way the rules say.

MR. JOHNSON: You raise good points. The first thing you want to keep in mind is that it is my understanding under the State law, which I started out by mentioning, if you want to tear the building down, you can evict them and give them nothing.

ASSEMBLYMAN SHAPIRO: I don't think it is "give them nothing." I think we have some protection in that. They are not protected entirely from eviction under our Eviction for Cause. There is a six-months notice and a few other requirements are in there.

MR. JOHNSON: Okay, but it is not the same.

ASSEMBLYMAN SHAPIRO: No, it is not the same. You are not allowed to evict for rehabilitation.

MR. JOHNSON: If you want to convert it to a commercial use, you don't have similar requirements.

By the same token, let's say a person who is sophisticated enough to understand these problems and these requirements acquires a building and has in mind coming to HUD. He could, talking about loop-holes, if that be the proper phrase, evict people first, except the fact that he is going to have vacant units. Let us take it the more reasonable way. He could just hold the building for a long period of time and, as people move out on their own volition, leave the units vacant. It is going to cost him some money to have vacant units. But, theoretically, if he could wait forever, everybody would leave and he would have a vacant building. Then if he came to us with a vacant building, there would be no relocation problem. At that point, we would approve it.

Let's go back again and say he hasn't got forever to wait. Maybe he gives them a little push. At that point, he is not coming to our department for assistance; he is emptying the building because he feels like it and that is between him and the applicable State laws. And there is nothing in our shop to reject. If when he comes to us for a project the building is now vacant or partially vacant, we are going to be concerned with the people who are in that building. But I can't go back two or three years ago and figure out who left the building and why. Yet maybe those people were evicted. Maybe he had rehabilitation in mind. I wouldn't know how to get a handle on that. I have no problem with the State law which tries to protect that person.

What I think could be done is, if you tie it into rehabilitation, you could provide that protection for the people where rehabilitation isn't intended or isn't proposed - there is nothing before us. I would think if I were dreaming something up, I would want to be careful about how they would get the power to evict people for the purposes of rehabilitation. You might talk about target areas. You certainly want to be sure you are talking about real rehabilitation. You don't want to give him the right to evict people because he is going to do his three-year painting job or minor repairs. It has to be something significant.

You could tie it into subsidies. There are a lot of ways that you could put constraints on the utilization of this means for eviction so that it is, in fact, tied into an accomplishable public purpose. I wouldn't suggest that it be done any other way.

I think when people come to you -- and I know I get a lot of people coming into my office complaining and I learn a lot from them. But I have also learned that in their anxiety to tell you about their pain, they are not too anxious to tell you that they fell under that little clause which made it legal. Do you know what I mean? You really have to ask each one to see whether they fell into categories which would not be protected under the State law or where HUD was not involved. Frequently, it is the nature of the role we have. We are not involved in every housing project. Some of the things that people talk about HUD never had anything to do with.

ASSEMBLYMAN SHAPIRO: Could you provide to this Commission the current set of guidelines that you have with regard to relocation, and the necessity for relocation by the group that you contract with for rehabilitation?

MR. JOHNSON: The requirement basically is that we select projects, excluding the jobs done by HFA where we delegate this to them and you would have to ask them what their procedure is --- but on all jobs that come directly to the department by any other financing vehicle - PHA-owned or whatever - they are coming to us and they are asking us to approve their project, to commit the federal government to make assistance available when the project is completed to their tenants. That commitment is very important to them. They couldn't finance the job if they didn't have that commitment up front. And they wouldn't invest their money if they didn't have that commitment up front. Before we make that commitment, we satisfy ourselves that all of our requirements are met. One of them is the relocation plan. Any project seeking our approval which has tenants in occupancy at that time, we require that they submit to us a relocation plan. We want to know who is there, what their circumstances are, where they intend to put them, how much money they intend to pay them. We review that to see whether it is reasonable.

ASSEMBLYMAN SHAPIRO: Are there written guidelines?

MR. JOHNSON: That requirement is written.

ASSEMBLYMAN SHAPIRO: Could we see those written guidelines?

MR. JOHNSON: I haven't them with me. I could send you something on it.

ASSEMBLYMAN MAYS: Do they also survey that same area and see how large the families are in that area, so when they do build their project, the housing will be appropriate for the people they moved out?

MR. JOHNSON: That is something that we are getting more sophisticated on as we get older. I have had the experience, not a happy experience, of having all kinds of promises made by a sponsor and then when it comes time to deal with relocation, he says, "They can't come back in the project because they require four bedrooms and we don't have any four-bedroom units." I have directed that --- we get a little bureaucratic sometimes. We try to correct these things as they come to our attention. Relocation people are different from the architectural people in my office. The architectural people are concerned with minimum property standards and in the past have not been aware that there may be a relocation aspect of the apartment size that is being created. Therefore, I have directed internally

in the Newark Office that from now on the relocation people will check all jobs with the architectural people and will determine whether the units are of an appropriate size. We have had one project in Hackensack where we actually had the sponsor go back and change partitions and enlarge units after the thing had started. But hereafter - and this started some months ago - we want that caught before we get into approving a project. That is a very important point.

Basically, we want the people who are there to be able to come back. Sometimes it may be more appropriate for somebody to be somewhere else. It is not uncommon that the building be overcrowded. And there is no way we are going to permit the building to be occupied in an overcrowded condition because that is substandard. Therefore, if there are more people living in that building in total than can fit into it under reasonable standards, somebody has got to move somewhere else; and that some place else has to be suitable, not overcrowded, and at a rent they can afford to pay. Unless they can satisfy us on both ends, we don't approve it. Also, there must be no discrimination. We are very sensitive to the use of our program for moving people around racially.

ASSEMBLYMAN SHAPIRO: Just to follow up on that point about the large units, what you said before is so different from what we have heard from other witnesses that it surprises me again.

MR. JOHNSON: Maybe you could send me copies of that testimony. I would like to know about that.

ASSEMBLYMAN SHAPIRO: We would be happy to. But witness after witness, whether it has been a sponsoring group, a municipal representative, a housing authority, the State HFA, or a representative of the State Department of Community Affairs, has said that it is the federal government's and HUD's requirements that prevent them from putting in large family housing. They said they want it. We are not talking about suburban housing. We are not talking about senior citizen housing. We are talking about where they want to have family housing. I just can't understand this enormous difference that we are hearing between what they say and what you are now saying about the large family units.

MR. JOHNSON: I would like to confront those people. I would that we were here in the same room at the same time.

Let me just give you a little more that swirls around this - and let's name names. The New Jersey Housing Finance Agency takes the position that the reason they are not doing as much family housing as we would like --- and under the Section 8 program, they have done mostly elderly. Historically out of the 236 program they did more family housing and their aggregate statistics look better than if you look at the Section 8 program separately. Quite frankly, we have a running disagreement on that. It is a sore point. They have stated a variety of reasons why this is their policy. They have said at times that the fair-market rents for family housing aren't high enough for family housing and for large units, and, therefore, in effect, HUD has precluded them. I respectfully submit - and I have said this to Mr. Johnson before and I will say it again - that I will show him projects financed with FHA mortgage insurance at less than 100 percent of the fair-market rent, which is providing family housing.

Frankly, if the Housing Finance Agency in the State - in Newark, in Jersey City and in Hoboken - isn't efficient enough to do it within those rents and private sponsors with other means of financing are, then maybe the money should go to other people. That is being blunt.

ASSEMBLYMAN SHAPIRO: HFA has been the largest single user of Section 8 funds in the country, I have been told.

MR. JOHNSON: No, it hasn't. Well, HFA in New Jersey in recent years has been the largest and most productive of all the State Housing Finance Agencies ever since New York got into trouble. And they have certainly done a very good job of producing a lot of housing. I do not want to take away from them the credit that they deserve. Most of it is elderly new construction. There are some family jobs and there are some rehab jobs. But most of it is elderly new construction.

Also, as a practical matter, they have a big pipeline of elderly new construction jobs and they would like to work them all off first and then get into something else; and the Assistant Secretary for Housing isn't that patient. So we strike a compromise.

ASSEMBLYMAN SHAPIRO: Just one final question, can you tell us how many units have been subsidized under the Section 8 program or under any of its predecessors for large families? Can you get us that figure perhaps in a year-by-year breakdown?

MR. JOHNSON: I don't have it with me. I could derive it.

ASSEMBLYMAN SHAPIRO: I am talking about two, plus, or more than two bedrooms.

MR. JOHNSON: More than two bedrooms. I could get the number. I should also tell you that we are not satisfied with the number. We are also not satisfied with the percentage of the money which has gone into family housing as opposed to elderly housing. But I could tell you that last year, of the non-FHA users of Section 8, it was about half and half. And the HFA, which was almost all elderly, distorted the ratio in the State of New Jersey. The large families obviously go into family projects, not exclusively elderly projects.

ASSEMBLYMAN OLSZOWY: Mr. Johnson, are you of Johnson and Johnson Company?

MR. JOHNSON: No connection, unfortunately, except that I use bandaids sometimes.

ASSEMBLYMAN OLSZOWY: I just wanted to bring to your attention that this legislative commission is a non-appropriated commission and we have travelled the length of the State at our own expense. So what we are doing here, we are doing from the heart in order to find a solution to this problem and help the people of the State of New Jersey. We all have to leave our normal businesses to be here.

You indicated something about rent control as I was walking in, that the rent control people do not permit the landlords to make a fair return on their money.

MR. JOHNSON: I wouldn't characterize them all that way. I think many of them do. There have been instances that have come to my attention where they were not. They are probably the exception. I have made no survey in order to determine what is the rule.

The suggestion that I made was that with over 100 communities each writing their own rule books, as it were, it is confusing.

ASSEMBLYMAN OLSZOWY: I can say after serving five years on a local council and working on the Rent Control Board that we found that HUD was not a cooperative organization. We had a case where HUD granted the landlord more money

than he actually requested. How do you justify that? That was in Passaic, New Jersey - the Towers. I believe that is in your area.

MR. JOHNSON: I don't have the facts of that case before me. Are you talking about a new job or an existing ---

ASSEMBLYMAN OLSZOWY: No, this is an existing apartment house which is financed by HUD. We had a rent control law in effect. We had no problems with it except from a few owners, and one of them happened to be the Towers. When it came before us, the owner was looking for x amount of dollars. I cannot recall the figure. Then came the HUD regulations that we have no control over HUD-financed projects. And you granted him more than he wanted.

MR. JOHNSON: I can't speak to that case.

ASSEMBLYMAN OLSZOWY: How do you justify that as a government agency?

MR. JOHNSON: That doesn't ring a bell. I don't know the facts of the case to which you refer. But I can tell you something about what we do. Projects that are not subsidized --- Was this subsidized?

ASSEMBLYMAN OLSZOWY: No, sir, not subsidized.

MR. JOHNSON: In projects that are not subsidized, the department does not pre-empt rent control unless the government insured mortgage is jeopardized. We do not protect his profit. We do not protect is reserve for replacement, which some people have criticized. We only step in when the mortgage which the government has insured is jeopardized because, if there is a default on that mortgage, the federal government is going to have to pay out the mortgage balance. So there is a direct federal interest in there being sufficient revenue to keep that mortgage current. We require audited statements on which we base that determination and we make a rather thorough study in every case.

ASSEMBLYMAN OLSZOWY: Your department granted him a greater amount of permissible increases than he was actually seeking. If he was actually seeking x amount of dollars, I am quite sure it would protect your mortgage plus his property.

MR. JOHNSON: Well, I am sure that we didn't grant more than what we deemed necessary to protect the federal interest. It may be that what he requested of us was different from the figure he quoted to you.

ASSEMBLYMAN OLSZOWY: Want to bet?

MR. JOHNSON: I don't know the case.

ASSEMBLYMAN OLSZOWY: We will let that lie.

My other question is: What states, if any, have such uniform regulations as you alluded to about HUD applications?

MR. JOHNSON: I am not familiar with the regulations of other states. We have an area office in New York that does the greater part of its business in the city - admittedly, it is only one municipality - but the population of the city is roughly equivalent to the population of our State. And there, of course, you have a standard set of regulations and everybody is familiar with them. I am a great believer in having many municipalities - this is my home state - but it does get difficult to deal with when we are being called from many different places.

But the most serious thing I think is to assist the boards in doing their jobs well by providing them with more guidance. Some certainly do very well.

ASSEMBLYMAN OLSZOWY: One final question: If the state has the authority to set up uniform regulations, why not HUD, itself?

MR. JOHNSON: We do have uniform regulations.

ASSEMBLYMAN OLSZOWY: Why in your statement then did you say you do not have uniform regulations?

MR. JOHNSON: HUD has uniform regulations nationwide.

ASSEMBLYMAN MAYS: There is one project here in Jersey City that I am interested in. It is the Salem-Lafayette housing project. Some people were relocated out of there. How are they going to go back? They are not going back now. There is a ten-dollar application they have to fill out. There are people moving in now. I have checked with the people moved out of that area and they have not gotten a notice to go back there yet. What is HUD doing about that?

MR. JOHNSON: It hasn't been brought to HUD's attention that the sponsor isn't giving the people the opportunity to come back. But I certainly would like to know about it. We will look into it.

ASSEMBLYMAN MAYS: I haven't any written proof of it. But people are saying --in fact there are some people here today who are saying that people are coming from Brooklyn and New York, and the people who had to leave there are not coming back.

MR. JOHNSON: As I said before, we require the sponsor to submit a relocation plan that he will provide for these people. The usual kind of a plan is that the people who moved out have a priority consideration coming back - some don't want to come back - but that all will be provided with assistance to find a decent, safe, sanitary home in a suitable living environment, at a rent they can afford to pay, and that that will be offered to them. They don't have to take it.

I have been assured by the sponsor of that project that that is what they are doing. If there is evidence that they are not, I would like to have it brought to my attention.

ASSEMBLYMAN MAYS: I will find out. Thank you very much.

MR. JOHNSON: Thank you, gentlemen.

MEMBER OF AUDIENCE: I would like to address a point brought out earlier.

ASSEMBLYMAN MAYS: Wait a minute. This is not open to the public now.

MEMBER OF AUDIENCE: This is just to maybe help the Commission to clarify the point about the number of units.

ASSEMBLYMAN MAYS: I am sorry. If you have anything you want to bring out, you might take Mr. Johnson aside and talk to him or bring it to the attention of the Commission later because we have a schedule we have to follow.

ASSEMBLYMAN SHAPIRO: If he wants to pass something up here in writing, then we could ask Mr. Johnson to answer it before he leaves. I think that would be within our rules.

ASSEMBLYMAN OLSZOWY: We will be in Hoboken tomorrow. Get your name on the list for Hoboken tomorrow.

MEMBER OF AUDIENCE: I can't take off two days in a row.

ASSEMBLYMAN MAYS: Our next witness is Constance Gibson, Director, Division of Development and Management, Mortgage Finance Agency.

C O N S T A N C E G I B S O N: Good afternoon. I am Constance Gibson with the New Jersey Mortgage Finance Agency.

I would like to briefly talk about the efforts the agency is undertaking and then talk about the needs that the agency could conceivably help to address in the future.

We are an agency which is dealing with and facilitating home ownership. We are not an agency which facilitates rental units. We are a single-family agency, by which we mean one- to four-family units. At least, that is the maximum number of units that our programs have dealt with heretofore. And I think that is an important distinction to keep in mind. We don't have a statutory limit on the number of units we can finance, but we are an agency created to facilitate the actual mortgage lending throughout the State, to encourage persons to buy homes and facilitate their purchase, and then to encourage the investment of properties on the part of homeowners.

The programs that the agency is operating at the present time are two. We have moved away from our earlier effort which was really to just loan money to lending institutions through the sale of tax-exempt bonds. We don't do that now. We could if we need to. But we have moved away in the mortgage area from a statewide program to a targeted program.

I am going to talk first about the neighborhood loan program which is a targeted mortgage-lending program. Then I am going to speak about our home improvement loan program. Then I am going to make some general comments.

The neighborhood loan program is a program which is designed to encourage people to buy homes in urban areas. The program began last year with the sale of \$100 million worth of tax-exempt bonds by the agency and has been very successful. The Star Ledger of today carries a partially correct article about the expansion of that program with the sale of a second \$75 million issue, and the addition of 14 new municipalities. The incorrect thing in the Ledger, which has been picked up by some of the wire services, I would like to correct on the record is that our mortgage interest rate will be 8 1/4 percent instead of 8 1/2 percent, which was reported. Through the sale of both of these bond issues and future ones which we will have as demand is there, we will be able to finance the purchase of between six and seven thousand homes.

The program so far I think has been successful in achieving our goal of encouraging tenants and apartment dwellers who live in urban areas to remain there and become homeowners, as well as to encourage people who live outside of the city to take advantage of the housing values that exist there and become residents of the area. Ninety-one percent of the people who have been buying homes through our program are former apartment dwellers and about two-thirds of them are buying homes in municipalities in which they were living. So I think that that shows that we are reaching those goals.

Now we are not a direct lender. We don't have the statutory authority to be a direct lender nor do we particularly seek that authority. We work through the lending industry and we work through the voluntary participation of lending institutions and mortgage bankers who make a commitment with the agency to originate a certain dollar amount of loans and sell them to us. In other words, we have created a secondary market for these lower interest rate loans. The lower

interest rate is possible because we go out to the bond market, sell our bonds, invest those proceeds in those mortgages at a slightly higher rate, and buy these mortgages from the lending institutions. We use the lending institutions then in a number of ways. I am happy to say that the amount of participation, the number of lenders who participate in this program, has doubled between last year and this year. We now have 73 lending institutions participating as opposed to 36 last year. The major increase has been in the number of conventional locally based lenders. We consider this to be a major accomplishment of the program. We have expanded the number of cities and, therefore, it is very important that we have local lenders which are seeing our program as another way of serving residents of the community.

When I say we have 39 municipalities which are eligible, the entire municipality is not, but we have done some fairly careful delineation of neighborhoods in conjunction with the local municipality. Eligible neighborhoods are those where it is somewhat difficult to get a mortgage or it is difficult to get an affordable mortgage. We are looking at areas where down payments might be higher than usual or interest rates might be higher, although interest rates statewide are at their highest and that is not a function of Neighborhood at this point.

We are looking for neighborhoods which are sound and where the municipality is planning to do various things to increase and encourage home ownership. I think that the results of the program to date have shown that there has been an increase in institutional faith in the neighborhoods and the fact that we see some evidence that a lot of families are taking advantage of moving into neighborhoods and finding mortgages through our program which perhaps were not there before.

We are a wholesaler. We are not a direct lender. We don't deal directly on an individual basis with potential buyers. We work through the lending institutions. However, we have a small, but quite sensitive and effective field staff which works with our participants and which works with municipalities and community organization to get the word out that the mortgages are available.

One of the things we do is to try to tie our program into particular local needs. Here in Jersey City, for example, there are a number of ways in which the Neighborhood Loan Program has tied in. For one thing, we can finance condominium units and we have just done a couple of units like this, two of which were rehabilitated dwellings on Hamilton Place, working in conjunction with the Jersey City Redevelopment Authority. There were two buildings. I think they were five stories tall. One was completely burned out and vandalized and the other was partially occupied, as I understand. The Authority received a Bicentennial Grant from HUD, which is a one-time grant, did the rehabilitation and during this process looked around for permanent financing. And now, through one of our participating lending institutions, those six units are now financed through six 7 1/2 percent mortgages.

Prospectively, we will probably be financing 200, or at least part of 200, new units, which are planned to be built in the Montgomery Street area or on Montgomery Street, again working with the city and through a participating lending institution. We understand that the city has a UDAG grant which will be

essentially for site improvements and construction will begin in the spring. Then ultimately these final mortgages will be made at a lower interest rate through our program.

The Neighborhood Loan Program is an excellent way of encouraging new construction of single-family housing, and I think we are just beginning to see that.

A third one is the Salem-Lafayette area which may happen. I can't say for sure. But there are 15 houses there which have been rehabilitated or are being rehabilitated - I am not sure of the exact status - by the Redevelopment Agency. I think there is a good likelihood that final mortgages will come through the Neighborhood Loan Program there.

We have had some increase in the number of conventional lenders here in Jersey City, I am happy to say. Provident Savings Bank and First Jersey National Bank have now joined Statewide Savings and Loan in the program. Statewide was in the program from the beginning.

Let me turn now to briefly mention the Home Improvement Loan Program which got under way in March of this year. It is a very new program. Let me also put in a plug and say that the Neighborhood Loan Program is the first in the country. There had never been a mortgage purchase program before which was targeted to urban areas, and we are now being copied, which we consider a compliment. In the Home Improvement Program, we are the second. We patterned ours after the State of Minnesota's. This program differs in this way: It is a statewide program with no geographic limits, but does have income limits. It is targeted for the moderate-income homeowner. We are talking in this area about families of four who make no more than \$16.9 thousand, which is still pretty low with all the taxes and all the other obligations that a family has. But we are talking about families which cannot afford to go and get a conventional home improvement loan, which is 12 percent these days, but can afford our loan, which is 7 3/4 percent.

There is a further tie-in in Jersey City, again working with the Jersey City Redevelopment Authority where through Metropolitan Federal Savings and Loan they are providing interest reduction grants so that low-income or lower-income homeowners can take out a home improvement loan and pay a lower interest rate. But here again we have seen some very significant participation on the part of local lenders. In Jersey City again we have Statewide, Metropolitan Federal, Commercial Trust, First Jersey; and other banks which are active in Jersey City are Panrapo Savings and Loan, which is in Bayonne, New Jersey Bank, and Garden State National Bank. This is a program which is just really getting going now. We only have a handful of loans that have come through Jersey City so far. But we think that the potential here is excellent.

Let me turn for a moment to say what some of the gaps, the problems and the concerns are that we have. I will emphasize that we are not an agency that has the ability or the capacity to solve all the problems. But we do have certain capacities as a finance agency which perhaps could be brought to bear on some of the needs.

One of the things that I think we need to encourage even more - and again, as a wholesaler it is tough for us to do this - is to make it possible for lower-income families to buy homes, particularly in areas which are undergoing

substantial increase in property values, where you have the brown-stone movement, etc. I think that we want to seek ways of encouraging economic integration in areas like that so we don't see a lot of displacement. We would like to make it possible, through perhaps tying in with a modified 235 program of the federal government or creating a down payment assistance program or something of that sort, for there to be a greater income spread between homeowners.

Another gap - and I am not sure how well we can address this ourselves, but I just want to point out this - is in financing the acquisition and rehabilitation of properties which are vacant and vandalized and in need of a great deal of work. Our program the way it is structured at the present time though the lending institutions doesn't really address that problem directly. That is a very primary need and it could tie in very well with the Section 312 program of the federal government.

The other problem that I wanted to mention and one where I think the agency could conceivably provide one of the financing tools is in the gap of the number of small multi-family units, which is particularly a problem here in Jersey City. We go up to four units at the present time. The Housing Finance Agency, our so-called sister agency, really doesn't do anything below 85 units, and they are rental and we are home ownership. There is a very large gap in financing the smaller multiple-dwelling, 5 to 20, 5 to 50, whatever. It is very tricky and it is very complex. I know that there is some attention being given to this at the State level as well. But I think there is a possibility that the agency could develop a program in concert with others. It is going to be a very complex kind of program that will need to be addressed by a variety of programs and agencies.

In summary, I think that as far as Jersey City is concerned, we see some signs of revitalization in parts of the city. We are concerned about the displacement of lower-income families in some parts of the city. I think that the multi-family problem is a major problem for which financing is only one facet. I think as an agency we are having some impact on the problems. It is very small at the present time, but I think the potential is quite large. Thank you.

ASSEMBLYMAN OLSZOWY: Some of the points you brought up we had testimony on in Newark, especially the gap between the 85-unit and the one and four. I am quite sure Assemblyman Shapiro is going to ask you a question on that.

ASSEMBLYMAN SHAPIRO: What was that?

ASSEMBLYMAN OLSZOWY: The difference in financing between the one and four and the 85. We heard quite a bit of testimony on that. We are looking into that.

ASSEMBLYMAN SHAPIRO: I was planning on skipping that one.

ASSEMBLYMAN MAYS: On your Home Improvement Program, what is the maximum anyone can borrow?

MS. GIBSON: The maximum for a single-family dwelling --- I should say that we use the HUD FHA-Title 1 insurance on that. So we follow their maximum, which is \$15,000 for a single-family, \$12,000 for a two-family, and \$20,000 for a four-family dwelling.

ASSEMBLYMAN MAYS: My next question is on the Neighborhood Loan Program. As you said, it is not geared to the low-income person who wants to buy a house. How do we get to those people who want houses but the bank won't approve them?

Do you need legislation to permit your agency to be the lender in such cases?

MS. GIBSON: I think that one of the ways is by tying in with the federal subsidy program for home ownership, which is the 235 program. That has not been utilized much at all since it got revitalized within the past year. I don't know what the reason for that is. I wouldn't presume to say. But it is on paper a program which should provide lower-cost financing for families - lower down payment and lower financing - down to 4 percent interest rate.

ASSEMBLYMAN MAYS: Mr. Shapiro.

ASSEMBLYMAN SHAPIRO: No questions.

ASSEMBLYMAN MAYS: Thank you.

Robert Kerr, Executive Assistant of Congressman Andrew Maguire.

R O B E R T K E R R: Congressman Maguire wishes to thank you for inviting him here. He is involved today in floor debate on the CETA legislation, so he has asked me to present a statement for him on his behalf.

ASSEMBLYMAN SHAPIRO: I hope he is in favor of the CETA legislation.

MR. KERR: He is very much in favor of the CETA legislation. He is directly involved in some of the amendments to the program as well, working with Hawkins. In fact, his work on the CETA legislation derives from the same committee work which has gotten involved in housing, which is the Manpower and Housing Subcommittee of the Government Operations Committee.

He wished to commend the Commission for calling this important hearing today. Your interest in taking the time to listen to neighborhood leaders, city officials and others concerned about urban housing and redevelopment demonstrates your understanding of the crucial nature of this issue.

A city cannot survive or grow unless it represents an atmosphere in which people can live, not just exist. If the neighborhoods of a city do not comprise places which the residents can affectionately call home, in which people can search out and find a dignified living, then a city will decline.

Congressman Maguire has been concerned for many years with the problems of urban neighborhoods, urban housing, and urban development. Most recently, during the past two years, as a member of the Subcommittee on Manpower and Housing, he was involved in an investigation of the effectiveness of federal housing programs, with particular emphasis on the Section 8 Rent Subsidy Programs. Hearings were held in a number of cities around the country, including one in our own state in Newark. That was held early this spring. We heard a great deal in those hearings about the problems in the operations and goals of existing HUD programs, and what we learned from those hearings provides a significant part of the background for the comments the Congressman wished to present today.

But, his own background, however, involves a great deal of first-hand experience. In 1970 and in 1971 he was Director of the Office of Development of the Jamaica Planning Board of the Borough of Queens, in New York City.

Jamaica Plains, at that time was an ethnic enclave consisting partly of brick homes built before 1930 and partly of frame homes built immediately after World War II. It was clear that Jamaica was stagnating economically. A mentality of disinvestment had developed and was beginning to spread, held not only by those in the local banking community but also by the citizens of the area as well. Consequently, what they faced there was not only a significant decrease in the number of home improvement loans being issued by local banks and savings institutions, but a concurrent lack of demand by the residents for such loans. People instead were saving their money for a down payment on a home in the suburbs.

The cycle of disinvestment in Jamaica paralleled the similar experiences of many other inner city neighborhoods, including some of those in New Jersey. In Jamaica, they were able to persuade the city to maintain, and even improve, public services and amenities, and then to win acceptance by a number of lenders with a proposal to pool local mortgage funds. Our initial victory came when Chase Manhattan Bank agreed at that time to place \$2 million into the mortgage pool. Other banks slowly followed suit.

In many ways, what was involved in Jamaica was an attempt to develop what was described as an urban reinvestment strategy. Public policy at that time was based on the unfortunate Urban Renewal Program and the sophistication required for the development of a successful community-banking-government partnership had

not yet arrived. But, the awareness of the opportunity for such a partnership does exist now, and a central effort of state and federal programs in housing should be to develop and expand that partnership.

Early federal housing programs were not based on any notion of partnership. The public housing programs which began in the late 1930's seem to have been based on the notion that what was needed was simply reasonably solid physical enclosure with plumbing, heating, and electricity for those families without a place to stay. There was no effort to talk with the people involved, or with the leaders of local communities. What turned out, of course, was that government agencies were very good at putting together buildings but very bad at making them the kinds of places where people could stand to live. Huge buildings like the Stella Wright complex were constructed without adequate concern for areas in which children could play and people could breathe. We are now in the position of being forced to attempt to salvage what we can from the derelicts put up over the last thirty years in the name of public housing, and HUD has recently announced a new initiative to try to discover what can be done with what remains of the existing structures.

Not only was there no partnership in the past, there was no real planning. Instead of establishing long-term goals for the best mix of economic development and combined urban-suburban growth at the federal level, a morass of haphazard programs were undertaken, many of which simply had the effect of encouraging disinvestment in the cities -- including such programs as highway construction and FHA mortgages, which were largely used in the suburbs.

Clearly, we need effective planning and active community involvement if we are to solve the problems we face in preserving urban neighborhoods. This is the only way we can insure that the end result of a federally assisted housing project is habitable housing, with adequate attention to long-term maintenance and management. It is the only way we will end up not with an isolated cluster of buildings but with incentive for development of a vital new part of an existing neighborhood.

How do we create the incentive for private reinvestment in a neighborhood to complement the influx of federal funds? And, how do we target federal funds so that they are not so widely dissipated over an entire city that they have little or no long-term effect?

The study carried out by the Manpower and Housing Subcommittee has made clearer to the Congressman a number of problems in existing HUD programs. First, two of the principal needs of the cities have been ignored. Inadequate emphasis has been given to the need for family housing under HUD's programs. This has been true administratively in virtually every area the committee conducted its investigations, not just New Jersey. You cannot seriously talk about making housing part of an urban neighborhood revitalization strategy if you are not going to make family housing central. In addition, you can't solve the problems of older urban neighborhoods with bulldozers and new construction. Everyone likes to look at a new building, but we have to recognize that rehabilitation of existing structures is likely to be far more cost effective in terms of rebuilding older neighborhoods with minimal dislocation.

In New Jersey we have had specific problems with overly-restrictive fair market rents and inadequate minimum standards for family housing - both established by HUD - which have exacerbated the problem of getting an adequate volume and quality of family housing. If fair market rents are not sufficient,

builders will look elsewhere than family rehab or new construction for their profits. And, if the minimum standards for family housing are insufficient to create a livable atmosphere, we are creating the potential for still another round of the Stella Wright type of situation, where the facilities rapidly deteriorate not long after they are first constructed.

Of course, adequate management and tenant participation are equally important if a building or cluster of buildings are to become a long-term part of a serious revitalization and reinvestment effort. Unfortunately, examples came to the attention of the committee where both are inadequate - both the management and tenant participation - and HUD's efforts to participate in rectifying existing problems have been limited, to say the least.

The Congressman would like to stress here his belief that the role of the regional and area offices of HUD should be one of activism and advocacy. There are two ways of looking at this issue. One is that a regional office, or an area office, is primarily the representative of the Federal Government and of HUD in Washington in dispensing money and enforcing regulations. The other is that the area office is the communicator and advocate of local needs and problems to the necessarily less directly involved Washington bureaucracy. We are not talking about it being purely one way or the other. But, there is an important difference in emphasis. All of us are aware how complex and tangled the regulations for the various housing programs are and we all know that there are frequently, in any kind of government program, significant areas of discretion in the interpretation of regulations. When an area office sees itself merely as a local adjunct to the central bureaucracy, it is all too easy to discover the twist in a regulation which makes it impossible to carry out an innovative project or expedite the processing of a proposal. On the other hand, someone who takes the advocacy perspective can often find amazing ways to untie a maze of tangled regulations to help, say, a local community group launch a project which might otherwise die. While an issue of this kind is always difficult to be precise about, the Subcommittee would have been happy to find greater responsiveness in area offices.

The Congressman strongly supports the Administration's initiatives for stressing urban reinvestment and urban neighborhoods in its housing programs. Essentially, the Administration has moved toward making our housing program one of the tools in the array of programs which it is hoped will result in a broad urban redevelopment policy. Whatever the weaknesses of the overall urban program, the Congressman believes that the thrust of the Administration's housing policy is on the right track. In particular, the notion of leveraging private dollars through providing federal funds in areas where a city administration is working closely with local community groups in a defined neighborhood strategy area is clearly just the kind of coordinated effort we have sorely needed for years. The large expansion of loans and grants under Section 312 should be a major asset in developing the effectiveness of the Neighborhood Strategy Area Program.

There is a major opportunity, using 312 funds, to involve local community-based organizations in rehabilitating homes and the Congressman believes that this is a direction which HUD area offices and local government development offices should be encouraging. Funds for materials could be made available through Section 312, while the labor for construction could be provided through CETA training programs. This would involve projects generally too small or scattered to be profitable for commercial builders unless they were to charge exorbitant rates. Since the areas involved would often include large numbers of three and

four family multi-family units, it would, however, be helpful to remove the 312 restriction against funding for other than single-family units. Unfortunately, the effort to remove that restriction was defeated in committee a few weeks ago. It will not be revived this year but there will be another attempt made to remove that restriction next year.

For a program of this kind to be most successful, it is extremely important that counseling be available for the potential residents of the rehabilitated units -- counseling that focuses on financial problems, and so forth. Counseling, unfortunately, has been the neglected element in virtually all of the HUD subsidy programs. The fault, I believe, however, does not lie in HUD. The fault lies in the individuals responsible for this budget area at the Office of Management and Budget, who have routinely annihilated HUD budget requests for increased funding for counseling. In response to HUD's arguments and substantial evidence that existing studies have indicated limited expenditures for counseling could save over \$51 million in losses which occur when it becomes necessary to foreclose, the responsible OMB official has reportedly told HUD that the evidence is unconvincing. They have not indicated what evidence would be convincing and the indications have been, in fact, that there is a general disbelief in the ability of counseling at OMB. Congressman Maguire believes that there is no question of the vital importance of counseling programs and he will be working to overcome the OMB blockade. Unfortunately, that is often difficult to do since it is difficult to determine where in OMB the decision is being made.

There is one last problem the Congressman would like to address. The successes of urban revitalization efforts have occasionally brought problems with them. As we all know, there have been cases where reinvestment in an urban neighborhood has taken the form of middle class families moving in from the suburbs and displacing the current poorer residents in an entire section of the city. There are clearly a number of examples, but one which is close to where the Congressman works is on Capitol Hill. That has been happening, systematically, over a number of years in that area.

While we all recognize the importance of getting the middle class back into the cities to assist in creating a stronger tax base, the wholesale removal of the present residents of a neighborhood is clearly not desirable. The Congressman believes there is a remedy which would meet both needs. We need to provide for the development, perhaps as part of the Neighborhood Strategy Area program, of a package of loans and subsidized mortgages which would enable tenants to buy the homes in which they are living. The mechanism might work along these lines: A city would designate a Neighborhood Strategy Area, or a segment of that area, as one in which existing tenants were to be given a special incentive to participate in the reinvestment and economic growth of the neighborhood. Working with local community organizations, the city government would stipulate that landlords who desired to sell houses they were renting would be required to inform tenants and give them the first opportunity for purchase. Counseling services would be provided through the community group to the prospective homeowners. The loans and subsidized mortgages necessary to make the purchase possible would be provided either entirely through a direct Federal program, or, preferably, through a mixture of direct Federal funds and loan guarantees encouraging the involvement of local lending institutions.

It would be hoped that we might be able to develop the details of such

a program during the next Congress. It should offer the opportunity of encouraging the redevelopment of neighborhoods where suburban families are moving back into the city without simply relocating the problems of those who live in such neighborhoods now.

We know from our past experience in this country that job opportunities shift to the places where people want to live. Imaginative housing programs which emphasize the preservation and rebuilding of communities and neighborhoods within our cities will go far toward attracting new residents and persuading those who already live in the cities that they should stay there. If we can begin to persuade people, because of effective programs, that cities could once again really be interesting and enjoyable places to live, we will have taken a long step toward resolving our urban problems. Thank you, gentlemen.

ASSEMBLYMAN SHAPIRO: I have just one or two questions. That was excellent testimony. I hope the written copies are for all the members of the Committee.

The one area in particular that you touched on - and we were talking of that before with HUD representative, Walter Johnson - is a particularly bothersome one with fair market rents. It is particularly bothersome, I suppose, in light of the fact that the reality in most of our urban areas is that there is no such thing as fair market and to talk about fair market rent is to discuss mythology. Perhaps what we ought to be looking for on the federal level is some sort of better definition so that we don't have this squeeze of so-called fair market rent and so-called housing standards which end up being a vicious cycle and which, as we heard earlier, discriminates against larger families, as well as against families in general. It has led to other problems that we are talking about.

MR. KERR: We have received a great deal of evidence from community organizations and from representatives of the cities that we had at the hearing early in the spring in Newark, which shows it is a widely recognized, very severe problem in the state. I am sure you have picked that up as well in your hearings. We have advocated that there be some effort to redefine the process by which these are established.

ASSEMBLYMAN SHAPIRO: Yes. Just to emphasize the point about the fair market rents, we are lacking a fair market for, number one, the sale of rental buildings because there is no financing available and because there is no desire to purchase them. This produces a lack of a fair market for individual tenants because of the shortage of available housing. We lack a fair market on the other side for the landlord who is controlled by rent leveling laws, which I support fully. We have very little vestage of a fair market left. So, we are talking about what seems to be strictly fiction from the standpoint of even setting a fair market rent.

MR. KERR: I would agree.

ASSEMBLYMAN OLSZOWY: I want to thank you. Based upon what I heard from you, how does Jersey do what other states have done, in terms of winning federal housing money?

MR. KERR: The answer to that is, through a year ago New Jersey did extremely well, largely because of the failure of the other states in the region to make adequate use of the funds which they should have been obtaining. I believe this was the case in both New York and Puerto Rico. They failed to

even be able to initiate contracts that were allocated to them under Section 8, so New Jersey, essentially, was able to pick up what they failed to get by the end of the fiscal year.

This year, it seems to me we have not done nearly so well. There is some confusion. We have tried to get this out through the hearings, and we are going back at it again. We are trying to find out the implications of a fair market rent, in terms of determining units for the amount of money and the number of units that actually, in effect, come into the state. That turns out to be a reasonably complicated problem. I do not think it is simply a formula question without any other question involved.

ASSEMBLYMAN OLSZOWY: I raised the question because of our delegation in Washington. We are one of the most congested states but according to my information we don't do as well as the other states as far as getting the money.

ASSEMBLYMAN SHAPIRO: Assemblyman, I don't think that is true.

ASSEMBLYMAN OLSZOWY: Well, he entered that into testimony.

MR. KERR: Yes, if you are speaking in terms of--

ASSEMBLYMAN OLSZOWY: I am asking a fair question. You have taken politics into it.

ASSEMBLYMAN SHAPIRO: No, it is not politics at all. In terms of the allocation of Section 8 monies, I think we are the nation's leader - or we were last year.

MR. KERR: Yes, two years ago we were. If you are talking about overall funds coming into New Jersey and not just housing programs, then I think, in fact, statistically - that includes defense programs and so forth - obviously New Jersey does not so as well as states such as Louisiana, and so on, who have large defense programs.

ASSEMBLYMAN OLSZOWY: I think it is important that the people know this. Maybe that is why we can't get good housing.

MR. KERR: I am not sure if the housing ties into the defense field.

ASSEMBLYMAN OLSZOWY: Funds are the key. Money. M-O-N-E-Y.

ASSEMBLYMAN MAYS: Thank you.

Our next witness will be Ralph Klopper, Director of the Jersey City Redevelopment Agency.

R A L P H S. K L O P P E R: Chairman Mays, Assemblymen, while most of this statement will deal with relocation and related housing problems plus problems with existing state laws, the question of financing for housing rehabilitation and new construction is crucial. There is no housing being constructed in Jersey City today of which I am aware without some type of direct or indirect subsidy. The closest we come to a little subsidy is, we have private stick builders building one and two family homes, but this is all being done on land assembled and cleared for resale by the Redevelopment Agency. Other subsidies are more direct.

The funds available from the Federal Government, whether in the form of 312 loans, Section 8 Tenant subsidies, or any other program, is woefully inadequate to the needs of a metropolitan center like Jersey City. For example, the latest earmarking of federal funds for rehabilitation of multi-families, which is particularly acute in our city, was \$10 million nationally - a very piddling sum.

What is needed from the state are funds to supplement the federal programs which so far, in my experience over the last 10 years, have been functioning with regard for what kind of a program it is on a stop-and-go basis. The Housing Finance Agency of the State, and more recently the Mortgage Finance Agency of the

State are well run and in the case of the Housing Finance Agency, has an enviable track record. However, they both need more resources, particularly recently -- particularly when federal programs falter, or run out of funding, such as has happened with Section 312. The last half of the fiscal year was done without any funding through the HUD office on 312, a crucial program.

The Mortgage Finance Agency for Housing Rehabilitation is currently lending at an 8 1/4% rate, which is considerably higher than the federal Section 312 loans at 3%. Since these rehabilitation loans to homeowners are limited to low and moderate income families, a much lower interest rate is needed for the Mortgage Finance Agency.

Too much of the Mortgage Finance Agency's loan processing is geared to FHA and VA inspections and appraisals, which creates serious problems because of what to us appears to be the redlining mentality of FHA as it is functioning in urban centers today. The possible answer to this might be staff appraisers for the Mortgage Finance Agency or approved fee appraisers.

One of the most critical housing areas in Jersey City today is the question of multi-family buildings, the condition of which runs from good, well-maintained, well-tenanted buildings, all the way to total bombed out shells that would remind one of the South Bronx. Because of the deterioration in the multi-family buildings of Jersey City, the Commercial Banks and Savings and Loans have been shying away from normal mortgaging for these buildings. What is needed, therefore, is more easily available mortgages for purchase of multi-family buildings by qualified owners, as well as more extensive low interest, rehabilitation loans for rehabilitation and modernization.

The Jersey City Redevelopment Agency has an excellent staff - and, I might add, an excellent track record - for administering housing and multi-family building rehabilitation, to insure the efficient and expeditious use of the funds available. A staff like ours, however, consisting of engineers, architects, and construction inspectors at various levels, requires administrative funds, which are sometimes excluded as eligible costs in State Grants. I would hope that any increased money made available by the state for housing rehabilitation would recognize the necessity of administrative costs as an eligible item in order to achieve efficient use of these public funds.

Relocation is a prerequisite for code enforcement and development activities in Jersey City. It is covered by Federal Law and State Law with a great deal of similarity, but with one glaring difference. Our funding sources in terms of federal origin are Community Development Block Grants, which cover both specific program area allocations and one for code enforcement. These are basically covered by Federal Relocation Law where acquisition is involved. The City Budget Funds and State Grants which are used for code enforcement exclusively are covered by State Relocation Law.

The glaring difference between state and federal law revolves about the Replacement Housing Payment for Tenant claims where in the Federal Law now mandates a lump sum payment of up to \$4,000, depending on the calculated eligibility, whereas the state law mandates four annual payments, adding up to the total lump sum amounts. This difference is further complicated by a conflict between the New Jersey State Relocation Law and the New Jersey State Local Budget Law. The Local Budget Law of the State forbids the municipality from encumbering funds beyond the budget year. Therefore, if we were to make annual payments as called for in the State Relocation

Law, we would make the first year payment and have to encumber second, third, and fourth year payments.

Because of our extensive Code Enforcement Program, the accrual of funds for the second, third, and fourth year payments could amount to from several hundred thousand dollars to one and one-half million dollars. In light of the tight budget constraints under which the older urban areas of New Jersey are laboring, it would become a very sensitive political issue as well for a city to accrue funds and not expend them until they are needed two, three, or four years later.

We would prefer to make payments over a four year period to eligible claimants rather than a lump sum, but until this conflict between budget laws and relocation laws is resolved we have a serious problem. For a number of months we have been after the Attorney General, through the Department of Community Affairs, to give us an opinion on this but we have had no response as yet.

In connection with problems of law relating to relocation, we have many instances of property owners renting apartments illegally with the relocation burden being thrown on the city when such occurrences are discovered by inspection. Specifically, we have numerous instances of property owners renting clearly unfit units, illegally converted units, and seriously overcrowded units to tenants with clear knowledge on their part of the illegalities. When these occurrences are discovered by Property Conservation inspectors, the city is loaded with the cost of relocation of these families. We would therefore urge an addition to the Relocation Law which would permit the municipalities to levy these costs under these circumstances on the property owner.

Last year, Jersey City received only 17% of its code enforcement relocation budget from the State of New Jersey. The balance came from city funds of one kind or another. Although in 1972 the State revised its relocation law to become consistent with the federal law, the State has never funded this program to a level consistent with the increased amounts of claim benefits. These changed from a \$200 maximum in the old law to a \$4,500 maximum in the new law, an increase by a factor of over 22 times, but the State assistance has never increased at all commensurately.

Approximately 58% of our present work loan involved families displaced by fires where damage is great enough to require relocation. The state does not recognize any relocation claim eligibility for these emergency fire cases, so that this burden is left entirely to the city. While one would not want to reward arson with relocation claims, in most cases the fire victims are blameless and possibly the law could be extended to cover such emergency cases more clearly. Or, possibly the state could fund some emergency relocation facilities which neither the city nor the Red Cross is able to provide on a temporary basis. The only such successful emergency shelter program that I am aware of, however, is in one of the Scandinavian countries where the jail is used with appropriate quarters. The members of the family are separated by sex, thereby discouraging too comfortable a setting, and thus encouraging families to find or be receptive to other suitable permanent housing as it becomes available.

As mentioned previously, one means of heading off the relocation payment burden the city labors under now because of illegal renting of unfit or overcrowded units would be through a citywide Certificate of Occupancy Program. In addition to this, a Certificate of Occupancy Program would also avoid tenant/landlord friction and pinpoint blame for a Housing Court to deal with between a property owner and a destructive or unsocialized tenant.

Such a citywide Certificate of Occupancy Program would require a beefed-up inspection staff by the city, which means additional funding, which

the city does not have today. This is particularly crucial in the multi-family buildings today to maintain them against further deterioration and decay. If there are any legal impediments to such a program, this also - beside funding - should be dealt with by the Legislature.

The New Jersey State Redevelopment Agencies Act - N.J.S.A. 40:55C - is the State Law which governs a great deal of the activities of our Redevelopment Agency. There is a tremendous lack of clarity between what appears to be the first half of the sections and the last half which deals more with "conservation and rehabilitation." This lack of clarity particularly revolves around the necessity or lack of necessity for a Declaration of Blight, and precisely under what circumstances it would or would not be required.

It would be helpful to the Municipalities and Agencies such as ours if this matter were clarified in a revised Redevelopment Agencies Law.

That was the end of my prepared testimony. I couldn't help but overhear some of the other comments. If, in fact, this committee and the legislature does address themselves to the sticky problem of large families, I would hope that they look at the totality of the problem, rather than part of it. In the case of a city like Jersey City, we have substantial numbers of large families, a great many of whom are on Welfare and because we have a very active development program, we would be particularly penalized if any legislation introduced or passed were to put a burden on the municipality with substantial resources coming from elsewhere.

We are running into this problem with HUD now. Some of the cases Mr. Johnson was alluding to were in Jersey City and the long and short of it, could be if it were pursued to a partial conclusion, would be the stifling of development in a city like Jersey City.

Incidentally, I heard the comments that were made about fair market rents. They are based on comparables. They are not based on construction costs. If there is any way the Legislature can bring pressure to bear on the Federal Government, it would be helpful in that regard.

ASSEMBLYMAN MAYS: You mentioned emergency shelters in your testimony. Do you feel that we should have that in Jersey City?

MR. KLOPPER: I don't know of any municipality that could not utilize them. The big problem occurs when the maintained emergency shelter is always superior to the substandard quarters that are vacated by the fire victim or the unfit, or so forth. It is extremely difficult - as has been demonstrated across the country where such shelters were set up - to pry people out of desirable housing, even though it is supposedly temporary.

ASSEMBLYMAN MAYS: Thank you.

Our next witness will be Donald J. Wolff, Catholic Community Services.

D O N A L D J. W O L F F: My name is Don Wolff and I am the Assistant Executive Director of Catholic Community Services, which is one of the largest non-profit corporations in the State of New Jersey, covering the four counties of Bergen, Hudson, Essex, and Union.

We have also been involved in housing since 1968 and we have about 250 units of housing in the Hudson County area: 100 in Jersey City and 154 units in Hoboken, next door to where you are going to be meeting tomorrow.

The subject I want to bring up relates to many of the things I heard here this afternoon. It would turn some of the negatives of the urban area into positives. This is connected with somewhat of a prepared text that I sent to the National Commission on Neighborhoods, which met in New York and in Washington

last month. The topic is the Limited Partnership Syndication and Community Housing Non-Profit Corporations.

The syndication process has been basically the arena of the builder/sponsor corporation who was looking for the fees of the land; the builder's fee; the management fee; and the tax writeoffs. The non-profit corporation is really under-utilized many times because of the sophistication that is needed in putting these together.

Community non-profit has built a substantial amount of housing under the Housing Finance Agency of New Jersey and also the Federal Housing Administration in New Jersey. Community non-profit organizations consist basically of church organizations and associations, like the United Oil Workers, etc. They have built a substantial amount of the low and moderate income housing in the State of New Jersey.

So, historically, the community non-profit has entered the housing market and the urban market because of social concern and local identity with the community. Because of these reasons, they have been lured into some of the most treacherous and high risk real estate markets in America - namely the urban housing market. Typically, the non-profit has received a 100% financed construction loan at a rental structure which is usually outdated by the time of occupancy because of increased utilities costs and construction change orders during the process of construction. The non-profit also suffers because of the fact that it doesn't realize the situation until one year of full occupancy. It is at that time that the non-profit realizes that its resources cannot effectively take care of the increased rents which are needed to place the operation in a sound position. There isn't any free money or new money around in the non-profit to be put into the housing units.

Therefore, a grave burden has been placed on the non-profit corporation. The corporation exists in a high risk market; has little management or fiscal experience, and no outside resource for needed cash for stabilization of the project.

Despite all of these negatives, I believe that the tax syndication process for the non-profit can be turned into positives. We can look at this in four ways:

1. Local Identity: Even though the urban market is high risk because of economy and social conditions, business places a high emphasis on controlling problems before they become serious and damaging. The Community Corporation should be able to sense, communicate, and resolve problems of a social nature in the housing units before they become excessive. The non-profit corporation, through the tax syndication process, can be compensated for this service by an incentive management fee from the tax writeoff.

2. Unique Tax Benefits of Non-profit Corporations: Most urban land has been acquired or cleared by Federal Urban Action through Redevelopment Agencies. The community corporation can usually obtain the land at tremendous write-down. This freeing up of dollars by land write-down and tax abatement and financial supplements allows more dollars to pass through to the construction of the building. The limited partnership wants to tax shelter their income by depreciation and revenue loss. Therefore, the more dollars in the building, the more tax shelter for the investors. This, in turn, can mean more dollars in write-off to the sophisticated non-profit who can get their percentage of the tax shelter.

3. The Risk of the Urban Market is an Advantage: The highest loss period for the non-profit is the initial stages of occupancy and the first year of operations when true costs become recognizable, at the end of their first audit year.

This fiscal loss period is a disaster to the non-profit but is the reward to the limited partnership for tax losses. The community corporation can sell this loss and make this failure point into a success. The urban market provides low cost land, high cost construction and start-up losses. These are the marketable ingredients which can be used by the non-profit corporation when it negotiates its part in the syndication.

The non-profit corporation can and must remain non-profit. Therefore, it must utilize all of its generated funds for the services to the tenants, funds for planning and staffing or funds to serve as the dollar match to federal programs. The write off and the throw off that comes to the non-profit can be used as a match for the federal and state grants. This is a key point, I believe, where one dollar can be made into four dollars for services for the units. Presently, we - Catholic Community Services - are negotiating to use a dollar amount of our syndication as the match for a state grant for the elderly. Thus, over one dollar of equity funds will provide four dollars of services to the tenants. Thus, syndication can provide the dollars for the non-profit corporation to supply the software social services to the community and therefore accomplish the initial goal of the non-profit for getting into the housing arena.

#### 4. Limited Partnership Syndication and Community Housing Corporations:

The syndication process, when accomplished with expertise and good will, can satisfy the goals of all participants in the housing process, namely:

1. The non-profit has the housing built, which the community needs;
2. It has the extra dollars from syndication for social service planning and service to the tenants;
3. It has dollars to retain professional expertise for that particular project and for planning others;
4. It has the dollars to keep the rent increases to a lower level by using the equity dollars of the tax syndication.

The Investors: They receive substantial tax benefits for their investments and must, by Federal Law, maintain their interest in the investment.

The Mortgagee: The Housing Finance Agency, or the Federal Housing Administration has an equity interest rather than a 100% loan to call upon if the project experiences difficulties. Because of this equity position in the project, such agencies as the Housing Finance Agency has a stronger financial position for their bonding capacity and for their underwriting role.

In conclusion, the syndication process can be used advantageously by non-profit corporations. However, there are several recommendations:

1. There is needed training in the necessary expertise at the State Housing Finance Agency level and also at the local community level. This is a sophisticated market and there needs to be an urban bank that will have expertise to fall back on so that the non-profit is not ripped off by sophisticated personnel on the tax syndication side.
2. There should be a greater flexibility by the I.R.S. on assisting the conversion of existing housing units now owned by non-profits which are experiencing problems - possibly to go into the syndication process. This would create a combination of public and private money to go into existing units and to convert them over to a syndication process which will in turn bring in capital improvements into those properties, plus the social services.

This, I believe, is the new and relatively untouched area for syndication that is going to develop in the future, taking the what is called second-usurer

positions and renegotiate them into a limited dividend partnership with the non-profit there for the social service purposes.

At this point, I have just summarized it generally because it is a sophisticated area, but it is an area where social service can be hooked with the brick and mortar of construction, where public money can be put together with private money. It takes the negatives of the urban area, which we have been hearing about over and over again - high cost and so on - and turns it into somewhat of a positive. It is not a total solution. It is one that has only been started in New Jersey within the last three years.

ASSEMBLYMAN MAYS: We thank you. I would also look at the non-profit centers because there has also been a rip off in non-profit. People hide behind that. So, I think we should check that also, especially the housing part; that is a scapegoat. They do make a profit in salaries and administration cost. So, we will check that out. I thank you for your testimony.

Our next witness will be Freeholder Glenn Cunningham.

G L E N N C U N N I N G H A M: I would like to take this opportunity to commend the members of the New Jersey State Assembly for participating in this Commission. I would especially like to thank Assemblyman Mays for what must have been his influence in bringing these hearings to Jersey City and Hoboken.

Jersey City is probably unique in its housing problems due to several factors: Jersey City is part of Hudson County, which happens to be one of the most densely populated areas in the United States, and also large segments of Jersey City's population are engulfed in recession far more serious than the effect felt by citizens nationwide.

Between 1970 and 1975, total employment declined by 30,200, or 12.6%. Certainly, the economic effect this has had on poverty-stricken neighborhoods and Jersey City residents in general has damaged the prospects for better housing and the maintenance of present structures.

A drive through some of the depressed areas of Jersey City, such as Ocean Avenue, Martin Luther King Drive, Bergen Avenue, and many side streets would expose some of the poorest housing conditions in the nation. These streets are filled with vacant lots and sub-standard housing, a testimony to the existing conditions. It should be noted that there are some bright spots in the picture, such as the Salem/Lafayette Housing Project in the Bergen/Lafayette section. There are also several low interest loan programs and restoration programs. However, these projects, simply put, are not enough.

The United States Bureau of Census estimates that of all the housing built in the county prior to 1950, there is a deterioration rate of 1% per year between the period of 1970 to 1978. With little or no construction of new housing in many sections of the city, the problem threatens to create a ghost town environment in many areas.

The United States Census also indicated that of 91,925 housing units in Jersey City there are over 4,080 vacant units. Certainly, this situation has worsened in more recent years.

As a Freeholder of District 3, I have been approached on hundreds of occasions by constituents who have a need for better housing, less expensive housing, and at times by some who had no housing at all. These people have found it extremely difficult to relocate themselves in decent housing. Many have been forced to flee the city in order to find appropriate housing.

Additionally, in some instances when new housing is built, the previous residents of the destroyed buildings have found it impossible to afford the rents, even though subsidized, in the new housing that was meant for them. In an attempt to determine the seriousness of the housing problem in Jersey City, I uncovered some of the following facts:

There are currently 1,000 families waiting to be assigned to public housing units in Jersey City. Public housing usually entails living in high density projects throughout the city. Often, these projects were placed, when built, in the least desirable geographical vacinities, next to highways, such as the projects along Route 29, the Turnpike, etc.

There are over 300 senior citizens waiting for housing in the few senior citizens buildings that currently exist, such as the Berry Gardens in Jersey City. Obtaining units for many of these senior citizens is am impossibility, or at the lest discouraging, because there is currently a ten-year waiting list. There are some 370 senior citizen units existing now.

In the private sector program, identified under Section 8, over one-half of the city's residents would be eligible to apply for some form of subsidized rent payment. Needless to say, this fact creates a serious backlog and a long waiting list.

I discussed some of the problems involving the housing conditions in Jersey City, as I see them. I have no firm solutions at this time and admittedly I am not an expert on this subject. The one suggestion I would like to make is that this Committee of Assemblymen establish a grace period of several weeks, allowing additional time to gather additional information from some of the local experts in the field of housing problems. These experts should be sought out by this Committee and given sufficient time to present written papers - it shouldn't necessarily be required to appear in person - outlining what they feel are some of the solutions - and I would like to emphasize "solutions" - to the problems confronting us concerning the rehabilitation of existing housing, the construction of new housing and the relocation of displaced tenants and homeowners.

One person who comes to mind immediately is Mr. Robert Rigby, who is the Director of the Jersey City Housing Authority.

Finally, a great effort may have to be made to establish a rapport with residents of some of the affected areas. Perhaps it would be wise to go to these residents, visit them in their homes, examine their problems first hand. The combined testimony of the experts and the victims of poor housing may further some of the efforts of this Committee.

Once again, I would like to thank you for giving the citizens of Hudson County an opportunity to appear before you.

ASSEMBLYMAN MAYS: Freeholder Cunningham, thank you for your testimony. I would like to say personally that this is one of the best pieces of testimony we have had because it gave input on what we are here for today as a Commission -- to find out what this is all about. One thousand people waiting for housing. The senior citizens waiting on a 10-year waiting list. This is what we needed. The so-called experts that you talk about are maybe expert in certain fields, but not in the field of the Committee itself.

I do feel that maybe we do need a walking tour in Jersey City. We have one scheduled in Hoboken tomorrow at 9:00 A.M., if you want to join us. It is on 13th Street. We are also having a hearing at 11:00 A.M. tomorrow at 124 Grant Street.

But, also I think that we should try and utilize what we have here. As Mr. Torres testified to this morning, I think we should try and use the trade schools in order to teach these people that want to their own plumbing and electrical work. We should let them sit in on those classes. We should also get the people who attend those classes to come and work on the homes as points towards their course. I think we could then succeed in getting housing for Jersey City and Hudson County.

I thank you all for coming today and I hope you will join us tomorrow. The hearing is adjourned.

(hearing concluded)



LEGISLATIVE RECOMMENDATIONS PERTAINING TO THE  
MORTGAGE LENDING PATTERNS OF NEW JERSEY BANKS

submitted by:

DOUGLAS L. BROWNE

546 Park Av.

East Orange

678-7627

RECOMMENDATION #1: Require banks to disclose from what communities they have obtained their savings deposits and to disclose the dollar amount of those deposits broken down by zip code or census tract boundaries.

RECOMMENDATION #2: Require that public notice of branch applications be placed in the local newspapers of all of the communities presently being served by the bank seeking the additional branch office.

RECOMMENDATION #3: Enlarge the New Jersey Mortgage Disclosure Statement so that a bank must present an overview of its mortgage lending activity. Such an overview would illustrate that bank's total mortgage activity in each of that bank's service areas.

OVERVIEW OF JERSEY CITY BANKS IN 1977

BANK	TOTAL DEPOSITS	JERSEY CITY DEPOSITS	TOTAL MORTGAGE ACTIVITY	JERSEY CITY MORTGAGE ACTIVITY	A	B	C	D	E
COMMERCIAL TRUST CO.	\$267,066,000	\$108,496,000	\$8,925,445	\$1,163,349	41%	13%	9%	6%	1.07¢
1st JERSEY NATIONAL	\$339,580,000	\$268,270,000	\$10,501,452	\$2,448,021	79%	23%	18%	12%	0.91¢
GARDEN STATE NAT. BANK	\$608,186,000	\$73,881,000	\$10,058,687	\$725,784	12%	7%	5%	4%	0.98¢
HUDSON CITY SAVINGS	\$757,514,000	\$228,916,000	\$119,427,475	\$2,285,985	30%	2%	15%	12%	1.00¢
METROPOLITAN FED. S&L	\$126,913,000	\$35,681,000	*	*	28%	*	2%	*	*
N.J. BANK NATIONAL	\$755,657,000	\$13,374,000	\$13,673,366	\$268,320	2%	2%	1%	1%	2.00¢
PROVIDENT SAVINGS BANK	\$518,484,000	\$381,924,000	\$40,029,521	\$11,468,832	74%	29%	26%	58%	3.00¢
STATEWIDE S&L	\$213,513,000	\$169,131,000	\$23,861,943	\$943,130	79%	4%	11%	5%	0.56¢
TRUST COMPANY OF N.J.	\$388,940,000	\$199,874,000	\$3,428,000	\$363,000	51%	11%	14%	2%	0.18¢
TOTALS & AVERAGES	3,975,853,000	1,479,547,000	\$229,905,040	\$19,666,421	37%	9%	101%	100%	1.32%

A) Percent of bank's deposits held in Jersey City offices.

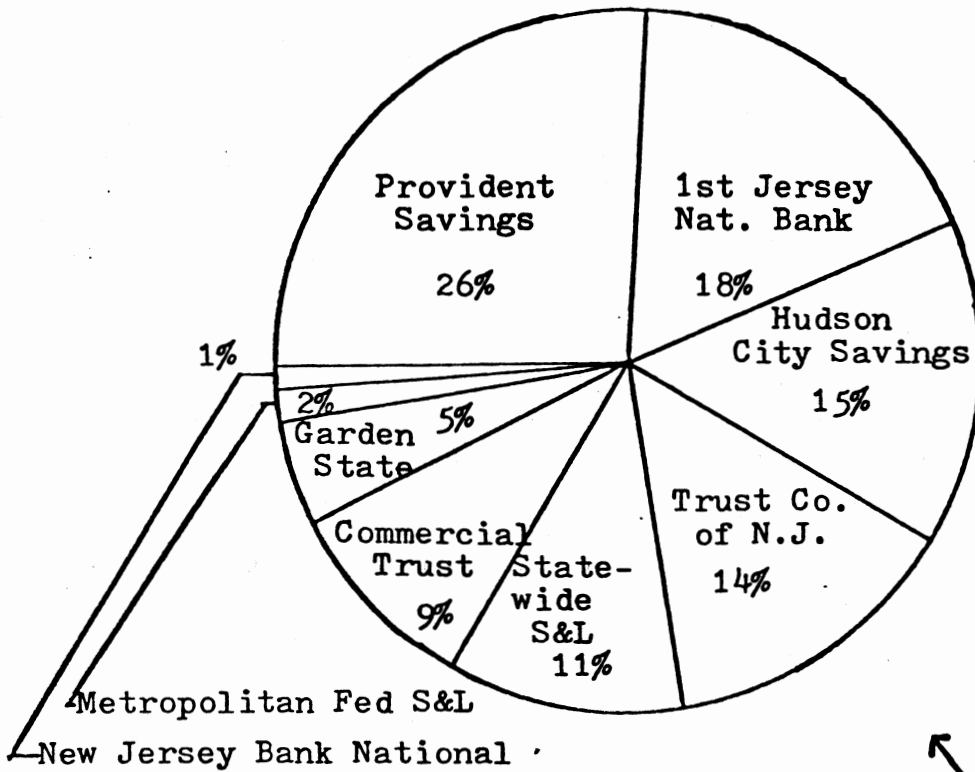
B) Percent of bank's mortgage activity located within Jersey City.

C) Bank's share of total deposits held by all banks within Jersey City.

D) Bank's share of total mortgage activity in Jersey City generated by Jersey City banks.

E) Amount of mortgage activity generated within Jersey City for every deposit dollar that is held in that bank's Jersey City offices.

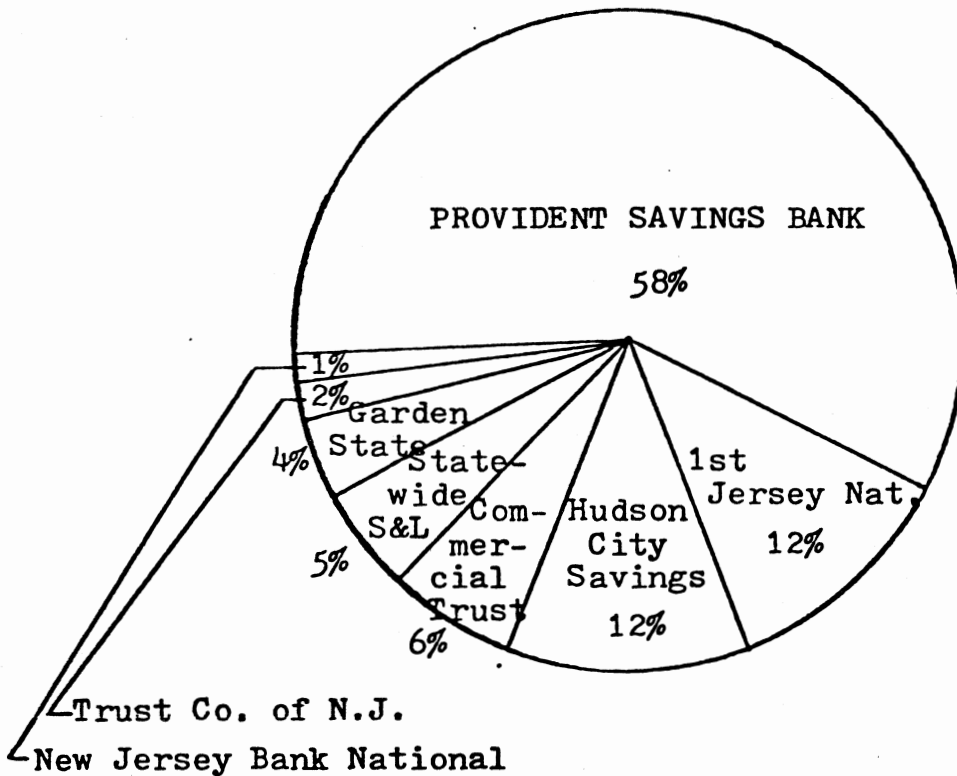
\* Metropolitan Federal Savings & Loan filled out its disclosure statement incorrectly, making it impossible to determine where its loans were made.



WHO RECEIVED THE DEPOSITS?

AND

WHO GAVE THE MORTGAGES?



DEPOSITS HELD IN JERSEY CITY BANKS

<u>BANK &amp; BRANCHES</u>	<u>1976</u>	<u>1977</u>	<u>DIFFERENCE</u>
<u>COMMERCIAL TRUST</u>	\$101,371,000	\$108,496,000	+\$7,125,000 +7%
Home office	26,811,000	26,080,000	
Bergen	14,151,000	13,983,000	
5 Corners	22,952,000	23,547,000	
Grove St.	12,952,000	20,503,000	
Jackson St.	8,437,000	7,780,000	
Newark Ave.	16,549,000	16,603,000	
<u>1st JERSEY NATIONAL</u>	\$229,268,000	\$268,270,000	+\$39,002,000 +17%
Home office	121,926,000	160,244,000	
Bergen Sq.	33,613,000	29,665,000	
Journal Sq.	13,413,000	15,291,000	
Old Bergen	17,458,000	16,557,000	
Central Av.	22,520,000	24,435,000	
Western Slope	20,338,000	22,078,000	
<u>GARDEN STATE NATIONAL</u>	\$69,962,000	\$73,881,000	+\$3,919,000 +6%
Montgomery St.	16,080,000	18,214,000	
Central Av.	14,041,000	16,333,000	
Jackson Av.	6,856,000	5,547,000	
Journal Sq.	26,291,000	26,343,000	
Holland Plaza	6,694,000	7,444,000	

<u>BANK &amp; BRANCHES</u>	<u>1976</u>	<u>1977</u>	<u>DIFFERENCE</u>	
<u>HUDSON CITY SAVINGS</u>	\$213,563,000	\$228,916,000	\$15,353,000	+7%
Home office	121,344,000	135,234,000		
Bayview	14,460,000	13,985,000		
Boulevard	60,544,000	61,816,000		
Jersey City	17,215,000	17,881,000		
<u>METROPOLITAN FED. S&amp;L</u>	\$34,049,000	\$35,681,000	\$1,632,000	+5%
Home office	31,607,000	32,106,000		
Hudson Mall	2,442,000	3,575,000		
<u>NEW JERSEY BANK NAT.</u>	\$13,181,000	\$13,374,000	\$193,000	+1%
Jersey City Branch	10,991,000	10,782,000		
Journal Sq.	2,190,000	2,592,000		
<u>PROVIDENT SAVINGS</u>	\$365,936,000	\$381,924,000	\$15,988,000	+4%
Home office	75,539,000	76,685,000		
Heights	60,049,000	62,515,000		
Bergen Av.	63,109,000	63,833,000		
Greenville	59,237,000	63,172,000		
Lafayette	22,994,000	23,100,000		
Bergen	85,008,000	92,619,000		
<u>STATEWIDE FED. S&amp;L</u>	\$160,269,000	\$169,131,000	\$8,862,000	+6%
Home office	83,922,000	85,827,000		
Jackson Av.	6,909,000	6,760,000		
Central Av.	52,546,000	55,691,000		
Newark Av.	15,629,000	17,022,000		
PATH Plaza	1,263,000	5X 3,831,000		

<u>BANK &amp; BRANCHES</u>	<u>1976</u>	<u>1977</u>	<u>DIFFERENCE</u>	
<u>TRUST CO. OF N.J.</u>	\$175,057,000	\$199,874,000	\$24,817,000	+14%
Home office	87,158,000	106,010,000		
Bergen/Lafayette	5,432,000	5,444,000		
Claremont	9,707,000	10,722,000		
Jersey Av.	13,053,000	13,562,000		
Peoples' Safe Deposit	19,072,000	20,015,000		
West Bergen	19,890,000	21,864,000		
JERSEY CITY TOTAL	\$1,362,656,000	\$1,479,547,000	\$116,891,000	+9%

WASHINGTON SAVINGS BANK

DEPOSITS HELD IN EACH OF ITS OFFICES\*

<u>HUDSON COUNTY OFFICES</u>	<u>1976</u>	<u>1977</u>	<u>difference</u>	
HOBOKEN (main office)	\$104,209,000	\$104,899,000)		
HOBOKEN (Wash. St.)	\$9,603,000	\$10,479,000)	+\$2,934,000	+2.4%
HOBOKEN (10th St.)	\$6,455,000	\$7,823,000)		
WEEHAWKEN	\$9,308,000	\$10,596,000	+\$1,228,000	+14%
GUTTENBERG	\$3,198,000	\$6,902,000	+\$3,704,000	+116%
HUDSON COUNTY TOTAL	\$132,773,000	\$140,699,000	+\$7,926,000	+6%
 <u>BERGEN COUNTY OFFICES</u>				
ENGLEWOOD	\$14,179,000	\$17,101,000	+\$2,922,000	+21%
LYNDURST	\$4,793,000	\$6,297,000	+\$1,504,000	+31%
RIDGEFIELD PARK	\$5,400,000	\$6,838,000	+\$1,438,000	+27%
BERGEN COUNTY TOTAL	\$24,372,000	\$30,136,000	+\$5,864,000	+24%
 <u>PASSAIC COUNTY OFFICES</u>				
RINGWOOD	\$2,597,000	\$3,088,000	+\$491,000	+19%
GRAND TOTAL DEPOSITS	\$159,742,000	\$174,020,000	+\$14,278,000	+9%

\*Deposit data is based upon FDIC Summary of Deposits as of June 30th of 1976 and 1977.

WASHINGTON SAVINGS BANK

1976

<u>CITY</u>	<u>LOCAL HELD DEPOSITS AND PERCENT OF TOTAL</u>		<u>LOCAL MORTGAGE ACTIV- ITY &amp; PERCENT OF TOTAL</u>		<u>RATE OF REINVESTMENT PER \$1 LOCAL DEPOSIT</u>
HOBOKEN	\$120,267,000	72%	\$2,127,536	15%	1.77¢
WEEHAWKEN	\$9,603,000	6%	\$403,735	3%	4.34¢
X8 GUTTENBERG	\$3,198,000	2%	\$103,457	0.7%	3.24¢
ENGLEWOOD	\$14,179,000	9%	\$96,265	0.7%	0.68¢
LYNHURST	\$4,793,000	3%	\$67,971	0.5%	1.42¢
RIDGEFIELD PARK	\$5,400,000	3%	\$35,000	0.2%	0.65¢
<u>RINGWOOD</u>	<u>\$2,597,000</u>	<u>2%</u>	<u>\$15,000</u>	<u>0.1%</u>	<u>0.58¢</u>
TOTALS	\$159,742,000	100%	\$2,848,964	20%	1.78¢

(The bank's total mortgage activity in 1976 amounted to \$14,583,751, of which \$2,848,964 was located within the communities listed above having branch offices.)

WASHINGTON SAVINGS BANK

1977

<u>CITY</u>	<u>LOCAL HELD DEPOSITS AND PERCENT OF TOTAL</u>		<u>LOCAL MORTGAGE ACTIV- ITY &amp; PERCENT OF TOTAL</u>		<u>RATE OF REINVESTMENT PER \$1 LOCAL DEPOSIT</u>
HOBOKEN	\$123,201,000	71%	\$1,600,415	17%	1.30¢
WEEHAWKEN	\$10,596,000	6%	\$442,000	5%	4.17¢
GUTTENBERG	\$6,902,000	4%	-0-	0%	0.00¢
ENGLEWOOD	\$17,101,000	10%	-0-	0%	0.00¢
LYNDHURST	\$6,297,000	4%	\$13,346	0.1%	0.21¢
RIDGEFIELD PARK	\$6,838,000	4%	\$85,948	1%	1.26¢
<u>RINGWOOD</u>	<u>\$3,088,000</u>	<u>2%</u>	<u>\$8,431</u>	<u>0.09%</u>	<u>0.27¢</u>
TOTALS	\$174,020,000	100%	\$2,150,140	22%	1.26¢

(The bank's total mortgage activity in 1977 amounted to \$9,675,785, of which \$2,150,140 was located within the communities listed above having branch offices.)

X6

WASHINGTON SAVINGS BANK

1976

<u>COUNTY</u>	<u>COUNTY HELD DEPOSITS AND PERCENT OF TOTAL</u>		<u>COUNTY MORTGAGE ACTIV- ITY &amp; PERCENT OF TOTAL</u>		<u>RATE OF REINVESTMENT PER \$1 COUNTY DEPOSIT</u>
HUDSON	\$132,773,000	83%	\$5,629,185	39%	4.24¢
BERGEN	\$24,372,000	15%	\$2,243,906	15%	9.21¢
PASSAIC	\$2,597,000	2%	\$1,166,178	8%	44.90¢
<u>OTHER</u>	<u>*</u>	<u>*</u>	<u>\$5,544,482</u>	<u>38%</u>	<u>*</u>
TOTALS	\$159,742,000	100%	\$14,583,751	100%	9.13¢

XOI

WASHINGTON SAVINGS BANK

1977

<u>COUNTY</u>	<u>COUNTY HELD DEPOSITS AND PERCENT OF TOTAL</u>		<u>COUNTY MORTGAGE ACTIV- ITY &amp; PERCENT OF TOTAL</u>		<u>RATE OF REINVESTMENT PER \$1 COUNTY DEPOSIT</u>
HUDSON	\$140,699,000	81%	\$3,938,804	41%	2.80¢
BERGEN	\$30,233,000	17%	\$2,102,644	22%	6.95¢
PASSAIC	\$3,088,000	2%	\$222,431	2%	7.20¢
<u>OTHER</u>	<u>*</u>	<u>*</u>	<u>\$3,393,906</u>	<u>35%</u>	<u>*</u>
TOTALS	\$174,742,000	100%	\$9,675,785	100%	5.54¢

JERSEY CITY, NEW JERSEY

AUGUST 9, 1973

TESTIMONY BY PHILIP B. CATON, DIRECTOR  
DIVISION OF HOUSING AND URBAN REHABIL  
DEPARTMENT OF COMMUNITY AFFAIRS

BEFORE THE  
NEW JERSEY ASSEMBLY COMMISSION  
ON THE AVAILABILITY OF HOUSING

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TWO WEEKS AGO AT THIS COMMISSION'S INITIAL PUBLIC HEARING IN NEWARK, NEW JERSEY, COMMISSIONER PATRICIA Q. SHEEHAN BEGAN HER TESTIMONY BY ACKNOWLEDGING THAT THE QUANTITY AND QUALITY OF HOUSING IN OUR STATE IS NOT ADEQUATE TO MEET THE NEEDS OF EVERY CITIZEN OF NEW JERSEY. SHE THEN DESCRIBED THE ARRAY OF PROGRAMS WHICH ARE ADMINISTERED BY THE DEPARTMENT OF COMMUNITY AFFAIRS TO RESPOND TO THIS HOUSING CRISIS.

THIS MORNING I WOULD LIKE TO FOCUS MY TESTIMONY ON SPECIFIC PROGRAMS IN WHICH THE DEPARTMENT HAS BEEN WORKING CLOSELY WITH THE CITY OF JERSEY CITY AND OTHER LOCAL AGENCIES TO IMPROVE HOUSING CONDITIONS. THESE "WORKING ACCOUNTS" OF ACTUAL PROJECTS UNDERWAY IN THIS CITY ARE INTENDED TO PROVIDE AN ADDED DIMENSION TO THE COMPREHENSIVE PROGRAMMATIC DESCRIPTIONS AND BACKGROUND DATA WHICH WERE CONVEYED BY THE COMMISSIONER IN NEWARK.

DEMONSTRATION REHABILITATION GRANT PROGRAM (DRGP)

IN EARLY 1973, THE U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) ANNOUNCED A MORATORIUM OF ALL HOUSING PROGRAMS. ONE OF THESE WAS THE SECTION 312 REHABILITATION ASSISTANCE PROGRAM WHICH PRO-

VIDED 3% LONG TERM LOANS TO REHABILITATE DETERIORATED URBAN HOUSING. THIS MORATORIUM CAME AS A TERRIBLE BLOW TO MANY NEW JERSEY MUNICIPALITIES THAT HAD TRAINED STAFFS ADMINISTERING THE 312 PROGRAM AND HUNDREDS OF HOMEOWNERS SIGNED UP AND WAITING FOR LOANS FOR REHABILITATION. TO FILL THE VACUUM FROM THIS PROVEN SUCCESSFUL PROGRAM, DCA UTILIZED HOUSING DEMONSTRATION PROGRAM GRANT FUNDS FOR AN EXPERIMENTAL 312 REPLACEMENT PROGRAM CALLED DEMONSTRATION REHABILITATION GRANT PROGRAM (DRGP), IN 16<sup>URBAN</sup> MUNICIPALITIES. THIS PROGRAM USED CONVENTIONAL BANK LOANS AT CONVENTIONAL RATES, BUT THE FIRST 30% OF REHABILITATION COSTS WERE PAID BY A GRANT. ACTUAL MONTHLY PAYMENTS WERE THE SAME AS IF A 3% LOAN FOR THE TOTAL REHABILITATION COSTS HAD BEEN MADE.

JERSEY CITY WAS ONE OF THE COMMUNITIES TO TAKE ADVANTAGE OF THIS PROGRAM AND IN JULY, 1973, SIGNED A \$215,000 GRANT AGREEMENT WITH DCA. IT WAS JERSEY CITY'S STRATEGY TO CONCENTRATE THESE FUNDS IN THE JACKSON-ARLINGTON NEIGHBORHOOD, AN AREA WHERE THE CITY HAD ALREADY INVESTED SUBSTANTIALLY THROUGH FEDERAL URBAN RENEWAL.

THROUGH THE USE OF DRGP GRANTS TWENTY DWELLING UNITS ON MONTICELLO AND MADISON AVENUES BY THE SALEM-LAFAYETTE NON-PROFIT HOUSING CORPORATION WERE REHABILITATED. THE REDEVELOPMENT AGENCY REHABILITATED ELEVEN DWELLING UNITS ON BRAMHALL AND MADISON AVENUES. IN ALL INSTANCES, ONCE VACANT STRUCTURES ARE NOW FULLY OCCUPIED. CURRENTLY THE DRGP CONTRACT STILL CONTINUES IN JERSEY CITY. AN EXTENSION OF THE CONTRACT PERIOD WAS RECENTLY GRANTED THE REDEVELOPMENT AGENCY SO THAT A MODEST AMOUNT OF UNEXPENDED CONTRACT FUNDS COULD STILL BE UTILIZED. AN ADDITIONAL VACANT THREE-FAMILY STRUCTURE IS BEING REHABILITATED FOR A PROSPECTIVE HOMEOWNER ON MADISON AVENUE.

JERSEY CITY RECEIVED SIGNIFICANT LEVERAGING AND IMPACT FROM THE USE OF THE STATE DRGP DOLLARS. FOR EACH STATE DOLLAR THAT WAS SPENT OVER TWO ADDITIONAL DOLLARS IN PRIVATE FUNDS WERE EXPENDED. THE ABILITY AND COMMITMENT OF THE CITY TO CONCENTRATE FUNDS EFFECTIVELY IN A SINGLE NEIGHBORHOOD HAS MADE A STUNNING VISUAL IMPACT THAT HAS ATTRACTED NATIONAL ATTENTION.

### NEIGHBORHOOD PRESERVATION DEMONSTRATION PROGRAM

BUILDING ON THE ACHIEVEMENTS AND EXPERIENCE OF THE DEMONSTRATION REHABILITATION GRANT PROGRAM, IN 1975 GOVERNOR BYRNE INSTITUTED THE \$4 MILLION NEIGHBORHOOD PRESERVATION PROGRAM IN 12 CITIES. ALSO A DEMONSTRATION EFFORT, THE PROGRAM ASSEMBLES THE RESOURCES OF THE PUBLIC SECTOR (GOVERNMENTAL AGENCIES), THE PRIVATE SECTOR (LENDING INSTITUTIONS), AND THE LOCAL RESIDENTS AND BRINGS THEM TO BEAR ON THE THREAT OF URBAN BLIGHT IN A TARGET NEIGHBORHOOD.

THE DEPARTMENT OF COMMUNITY AFFAIRS COMMITTED \$500,000 FOR DEMONSTRATION NEIGHBORHOOD PRESERVATION ACTIVITIES IN THE GREENVILLE AREA OF JERSEY CITY. THIS NEIGHBORHOOD PRESERVATION EFFORT IS ONE OF TEN CONDUCTED BY THE JERSEY CITY REDEVELOPMENT AGENCY. THE GREENVILLE AREA CONSISTS OF 1,200 DWELLING UNITS AS WELL AS COMMERCIAL AREAS ALONG OCEAN AVENUE. THE NEIGHBORHOOD PRESERVATION GRANT PROVIDES FUNDS FOR STAFF, TOTAL GRANTS, AND INTEREST REDUCTION GRANTS TO NEIGHBORHOOD RESIDENTS, CAPITAL IMPROVEMENTS INCLUDING A PARK, AND A SITE OFFICE AND TOOL BANK LOCATED IN THE NEIGHBORHOOD.

NEIGHBORHOOD PRESERVATION-SPONSORED ACTIVITIES HAVE LED TO IMPROVEMENTS IN 53 PROPERTIES, BOTH SINGLE AND MULTI-FAMILY, INVOLVING A TOTAL OF 117 UNITS. THE TOTAL VALUE OF THIS REHABILITATION EFFORT IS \$667,000.

AN ADDITIONAL 70 UNITS OF HOUSING IN THE AREA HAVE BEEN IMPROVED BY PRIVATE OWNERS.

OTHER PUBLIC IMPROVEMENTS IN THE GREENVILLE AREA INCLUDE:

- \$106,000 ARMSTRONG/VAN NOSTRAND PARK (50% NEIGHBORHOOD PRESERVATION/50% GREEN ACRES)
- \$28,000 VACANT LOT IMPROVEMENTS (NEIGHBORHOOD PRESERVATION)
- \$19,000 TOOL LOAN BANK (NEIGHBORHOOD PRESERVATION AND LOCAL FUNDING)
- \$16,000 SEAL AND SECURE VACANT MULTI-FAMILY HOUSING (SAFE & CLEAN)

THE TOTAL PUBLIC IMPROVEMENTS IN THE NEIGHBORHOOD PRESERVATION AREA TO DATE ARE ESTIMATED AT \$936,000.

RECENT EFFORTS IN THE GREENVILLE NEIGHBORHOOD PRESERVATION AREA HAVE BEEN DIRECTED TOWARDS DEVELOPING A MERCHANT'S ASSOCIATION FOR OCEAN AVENUE AND MARTIN LUTHER KING DRIVE BUSINESSMEN, WORKING WITH THE NEIGHBORHOOD BLOCK ASSOCIATIONS TO UPGRADE AND MAINTAIN THE APPEARANCE OF THE AREA, AND OPENING A SITE OFFICE WHICH WILL PROVIDE TOOLS AND TECHNICAL ADVICE TO RESIDENTS WHO WANT TO MAKE THEIR OWN REPAIRS AND IMPROVEMENTS.

#### SALEM-LAFAYETTE HOUSING, INC.

THE HOUSING DEMONSTRATION PROGRAM IS SUPPORTING THE EFFORTS OF SALEM-LAFAYETTE HOUSING, INC., A NON-PROFIT NEIGHBORHOOD MANAGEMENT AND DEVELOPMENT CORPORATION, THAT IS ENGAGED IN HOUSING REHABILITATION AND NEIGHBORHOOD REVITALIZATION IN THE APLINGTON PARK-JACKSON AVENUE URBAN RENEWAL AREA. REHABILITATION COMPLETED TO DATE INCLUDES 74 UNITS FINANCED, IN PART, BY A \$133,000 (1974) HOUSING DEMONSTRATION PROGRAM LONG TERM LOAN.

AN ADDITIONAL 50 UNITS IN THE AREA WERE REHABILITATED THROUGH A LOAN FROM THE NEW JERSEY HOUSING FINANCE AGENCY. THE REHABILITATED UNITS ARE ADJACENT TO 362 UNITS OF HFA-FINANCED NEW CONSTRUCTION FOR FAMILIES AND SENIOR CITIZENS.

THE HOUSING DEMONSTRATION PROGRAM ALSO PROVIDED SALEM-LAFAYETTE HOUSING, INC., A \$70,000 (1976) GRANT FOR TRAINING HOUSING MANAGEMENT STAFF AND TO INVOLVE RESIDENTS IN THE COMMUNITY. AN ADDITIONAL SHORT TERM LOAN OF \$87,000 (1977) ASSISTED SALEM-LAFAYETTE WHEN DELAYS IN OTHER CONTRACT PROCESSING CREATED TEMPORARY FUND SHORTAGES.

THE SALEM-LAFAYETTE REPRESENTS A UNIQUE PROJECT IN MANY WAYS. IT HAS SUCCESSFULLY COMBINED REHABILITATED HOUSING WITH NEW CONSTRUCTION, ADDRESSES THE NEEDS OF LOW- AND MODERATE-INCOME RESIDENTS, AND HAS EFFECTIVELY BROUGHT TOGETHER A RANGE OF CITY, STATE, AND FEDERAL RESOURCES. THE TOTAL INVESTMENT IN REHABILITATED HOUSING, NEW CONSTRUCTION, PUBLIC IMPROVEMENTS AND SUPPORTING PROGRAMS REPRESENTS OVER \$23,000,000, OF WHICH THE HOUSING DEMONSTRATION PROGRAM LOANS AND GRANTS COMBINED COMPRISE LESS THAN \$400,000.

#### JERSEY CITY RENT RECEIVERSHIP

THE HOUSING DEMONSTRATION PROGRAM PROVIDED A GRANT OF \$81,800 (1977) TO THE JERSEY CITY DIVISION OF PROPERTY CONSERVATION FOR IMPLEMENTING A RENT RECEIVERSHIP PROGRAM. THE RECEIVERSHIP PROGRAM ALLOWS THE CITY TO DEAL WITH MULTI-FAMILY BUILDINGS WITH SERIOUS CODE VIOLATIONS BY ULTIMATELY APPLYING COLLECTED RENTS TOWARD THE ABATEMENT OF THE VIOLATIONS. THE PROGRAM UTILIZES A 1975 NEW JERSEY RENT ADMINISTRATION STATUTE THAT ALLOWS MUNICIPALITIES TO TEMPORARILY MANAGE BUILDINGS AND MAKE NEEDED REPAIRS WHERE OWNERS CONSISTENTLY REFUSE TO ACT.

THE DEPARTMENT GRANT SUPPORTS PROJECT STAFF WHO PROVIDE LEGAL SERVICES, COST ESTIMATION ON NEEDED REPAIRS, AND TENANT COUNSELING SERVICES FOR THE RESIDENTS OF PROPERTIES INVOLVED. EVERY EFFORT IS MADE TO RESOLVE CODE VIOLATIONS PRIOR TO LEGAL ACTIONS. THE PROJECT STAFF ALSO WORK WITH OWNERS, RESIDENTS, AND COMMUNITY ORGANIZATIONS TO PROVIDE VIABLE MANAGEMENT IN THE BUILDINGS.

THE PROGRAM HAS PLACED THREE BUILDINGS INVOLVING 27 UNITS IN ACTUAL RECEIVERSHIPS. DURING ONE YEAR OF OPERATION THE STAFF HAS BEEN INVOLVED WITH ANOTHER 17 BUILDINGS COMPRISING OVER 560 UNITS. CURRENT EFFORTS ARE FOCUSED ON FIVE BUILDINGS INVOLVING ABOUT 200 UNITS. RESOLUTION OF THE PROBLEMS IN FOUR OF THE FIVE BUILDINGS HAS BEEN ACHIEVED BY COMPLETING COOPERATING AGREEMENTS WITH THE OWNERS. THE PROGRAM STAFF IS ATTEMPTING TO BRING THE REMAINING BUILDING UNDER RECEIVERSHIP AUTHORITY.

EMERGING FROM THE EXPERIENCE OF THIS DEMONSTRATION IS THE REALIZATION THAT RENT RECEIVERSHIP PROCEDURES CAN SERVE AS AN EFFECTIVE TOOL FOR INDUCING RELUCTANT OWNERS TO ABATE SERIOUS CODE VIOLATIONS IN MULTI-FAMILY BUILDINGS. THE EFFECT OF THIS DEMONSTRATION HAS BEEN TO ELIMINATE SEVERE VIOLATIONS IN OVER 500 UNITS.

#### JERSEY CITY HOUSING AUTHORITY

IN 1974, A GRANT OF \$121,000 TO THE JERSEY CITY HOUSING AUTHORITY WAS USED TO TEST A NEW APPROACH TO TENANT ORGANIZATION AND MAINTENANCE IN SIX SEVERELY DETERIORATED BUILDINGS IN THE A. HARRY MOORE COMPLEX. THE APPROACH INVOLVED A BARGAIN NEGOTIATED BETWEEN THE HOUSING AUTHORITY AND THE RESIDENTS OF THE COMPLEX: IF THE TENANTS WOULD ORGANIZE BUILDING AND FLOOR PATROLS, THE AUTHORITY WOULD PAINT AND MODERNIZE THE BUILDINGS. FUNDS WERE USED TO:

1. PURCHASE THE MATERIALS AND HIRE EXTRA MAINTENANCE STAFF REQUIRED TO REFURBISH THE PUBLIC HALLS AND LOBBIES IN FIVE BUILDINGS;
2. ENGAGE THREE TENANT ORGANIZERS TO ASSIST IN THE FORMATION OF TENANT MAINTENANCE AND SECURITY PATROLS;
3. ENABLE THE ADMINISTRATIVE STAFF TO COORDINATE THE SCHEDULING OF BUILDING REPAIRS WITH THE DEVELOPMENT OF TENANT PATROLS.

THE TENANT ORGANIZATION AND MANAGEMENT PROGRAM HAS BEEN DRAMATICALLY SUCCESSFUL IN REDUCING MAINTENANCE COSTS DUE TO VANDALISM, IMPROVING RENT COLLECTIONS, AND PROVIDING A VIABLE LIVING ENVIRONMENT. THE TENANT INVOLVEMENT EFFORT WAS ACCOMPANIED BY EXTENSIVE MODERNIZATION EFFORTS (HUD) AS WELL AS EMPLOYMENT AND SAFETY PROGRAMS PROVIDED BY OTHER AGENCIES. THE HOUSING DEMONSTRATION PROGRAM OBJECTIVE WAS TO DOCUMENT AND REFINE THE PROCESS OF INVOLVING TENANTS IN SECURING AND IMPROVING THE LIVING CONDITIONS AT A. HARRY MOORE AND AID IN THE TRANSFER OF THIS INFORMATION TO OTHER HOUSING AUTHORITIES. TOWARDS THIS END A REPORT ON THE MANAGEMENT EFFORTS AT THE A. HARRY MOORE DEVELOPMENT IS IN PUBLICATION.

THE HOUSING AUTHORITY HAS NOW TAKEN THIS SUCCESSFUL FIRST STAGE OF INVOLVING TENANTS IN THE MAINTENANCE AND SECURITY OF THEIR BUILDINGS A STEP FURTHER TO TENANT MANAGEMENT. A TENANT MANAGEMENT CORPORATION HAS BEEN ESTABLISHED AT A. HARRY MOORE. CORRIDORS ARE IMMACULATE. A PLAY AREA AND ACTIVITY CENTER HAS BEEN BUILT IN THE CENTRAL COURTYARD. A PUBLIC HOUSING COMPLEX THAT MANY AGREED IN 1973 WAS DOOMED HAS BEEN BROUGHT BACK TO A VERY HEALTHY CONDITION.

#### RELOCATION ASSISTANCE

JERSEY CITY OPERATES AN ACTIVE CODE ENFORCEMENT PROGRAM WHICH INVOLVES

DISPLACING A SUBSTANTIAL NUMBER OF HOUSEHOLDS. THESE HOUSEHOLDS ARE EACH ENTITLED TO RELOCATION BENEFITS UNDER THE PROVISIONS OF THE RELOCATION ASSISTANCE LAW (P.L. 1967, c. 79) AND THE RELOCATION ASSISTANCE ACT (P.L. 1971, c. 392) WHICH MAY REACH A MAXIMUM OF \$4,500 PER HOUSEHOLD.. DURING FY '79 THE CITY OF JERSEY CITY ANTICIPATES RELOCATION EXPENSES FOR INITIAL DISPLACEES ALONE TO EXCEED \$250,000. SINCE DISPLACEES ARE ENTITLED, DEPENDING ON ELIGIBILITY, TO RENTAL ASSISTANCE PAYMENTS FOR A FOUR YEAR PERIOD FOLLOWING DISPLACEMENT, THE TOTAL RELOCATION COST INCLUDES SUCH PAYMENTS (UP TO \$1,000/YEAR/HOUSEHOLD) FOR HOUSEHOLDS ORIGINALLY DISPLACED IN FY '76, '77, AND '78.

THE STATE FUNDED 100% OF CODE ENFORCEMENT RELATED DISPLACEMENT THROUGH FY '77; HOWEVER, DUE TO INCREASED DEMANDS FOR THESE LIMITED FUNDS, IN FY '78 A 2/3-STATE: 1/3-MUNICIPALITY FUND SHARING ARRANGEMENT WAS INITIATED. IN FY '79 THIS HAS BEEN EVENED TO A STRAIGHT MATCHING BASIS.

AS COMMISSIONER SHEEHAN POINTED OUT IN NEWARK, REHABILITATION PROJECTS UTILIZING SECTION 8 FEDERAL SUBSIDIES ARE IN JEOPARDY DUE TO THE LACK OF PROVISION OF FUNDING FOR RELOCATION WHICH MAY BE NECESSARY PRIOR TO CONSTRUCTION. THIS NEED IS ESPECIALLY CRITICAL IN A HIGHLY URBANIZED MUNICIPALITY LIKE JERSEY CITY WHICH IS ACTIVELY PLANNING LARGE-SCALE REHABILITATION PROJECTS.

#### RENTAL ASSISTANCE PROGRAM

THE RENTAL ASSISTANCE PROGRAM, WHICH ADMINISTERS EXISTING SECTION 8 HOUSING UNIT SUBSIDIES IN 15 COUNTIES IN NEW JERSEY, HAS EXPERIENCED GREAT SUCCESS SINCE ITS INCEPTION IN 1974. THIS IS THE FEDERAL GOVERNMENT'S MAJOR OPERATING PROGRAM FOR ASSISTING LOW AND MODERATE INCOME FAMILIES AND

AND HANDICAPPED INDIVIDUALS TO SECURE DECENT, SAFE AND SANITARY HOUSING. PARTICIPATING FAMILIES PAY ONLY 25% OF THEIR MONTHLY INCOME TOWARD THEIR RENT WHILE THE RENTAL ASSISTANCE PROGRAM PAYS THE BALANCE DIRECTLY TO THE LANDLORD EACH MONTH.

THE DEPARTMENT RECEIVED AN ALLOCATION OF 175 SECTION 8 UNITS FOR HUDSON COUNTY FROM HUD. SINCE THE JERSEY CITY HOUSING AUTHORITY ALSO ADMINISTERS AN EXISTING SECTION 8 PROGRAM, WE AGREED TO TARGET OUR PARTICIPATION WITHIN JERSEY CITY EXCLUSIVELY TO HANDICAPPED AND DISABLED PEOPLE. THIS IS IN ACCORDANCE WITH OUR STRICT POLICY OF COOPERATING, NOT COMPETING, WITH LOCAL AND COUNTY UNITS OF GOVERNMENT FOR FEDERAL FUNDS FOR THIS PROGRAM.

A TOTAL OF 92 FAMILIES IN JERSEY CITY ARE CURRENTLY PARTICIPATING IN THE RENTAL ASSISTANCE PROGRAM, WHILE THE OTHER (APPROXIMATELY) HALF OF OUR UNITS ARE ELSEWHERE IN HUDSON COUNTY.

APPROXIMATELY \$12,000 PER MONTH IN HOUSING ASSISTANCE PAYMENTS ARE CURRENTLY BEING MADE TO LANDLORDS ON BEHALF OF THE PARTICIPANTS RESIDING IN JERSEY CITY.

SOME 23% OF THESE FAMILIES HAVE BEEN ABLE TO RELOCATE TO BETTER HOUSING AS A RESULT OF THEIR PARTICIPATION IN THE RENTAL ASSISTANCE PROGRAM.

FOLLOW-UP AND SUPPORTIVE SERVICES ARE PROVIDED BY RAP IN CLOSE COOPERATION WITH SOME 15 STATE AND LOCAL SOCIAL SERVICE AGENCIES BASED IN JERSEY CITY.

CURRENTLY, THERE ARE 140 FAMILIES IN JERSEY CITY WHOSE APPLICATIONS FOR RENTAL ASSISTANCE HAVE BEEN PLACED ON A WAITING LIST. IN ORDER TO ADDRESS THE HOUSING NEEDS OF THESE APPLICANTS, THE RENTAL ASSISTANCE PROGRAM HAS REQUESTED ADDITIONAL FUNDING FROM THE U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT.

THE OVERALL EFFECTIVENESS OF THESE PROGRAMS IS FURTHER SUPPORTED BY THE STATE-LOCAL COOPERATIVE HOUSING INSPECTION PROGRAM, THROUGH WHICH THE DEPARTMENT REIMBURSES THE PARTICIPATING MUNICIPALITY FOR PART OF THE COST OF REGISTERING AND INSPECTING HOTELS AND MULTIPLE DWELLINGS. JERSEY CITY CONTAINS NEARLY 60,000 DWELLING UNITS WHICH ARE INSPECTED ON A CYCLICAL BASIS THROUGH THIS PROCESS.

I HOPE THAT THIS IN-DEPTH LOOK AT SOME OF THE DEPARTMENT'S PROGRAMS OPERATING IN JERSEY CITY HAS BEEN OF VALUE TO THE COMMISSION AND HAS PROVIDED AN INSIGHT INTO THE COMPLEXITY OF URBAN HOUSING PROBLEMS AS WELL AS THE COMPREHENSIVENESS OF OUR PROGRAMMATIC RESPONSE TO THOSE PROBLEMS.

I WOULD LIKE TO THANK THE COMMISSION FOR HEARING MY TESTIMONY TODAY AND WOULD BE PLEASED TO HAVE MY STAFF WORK CLOSELY WITH YOU TO PROVIDE FURTHER INFORMATION OR DEVELOP ANY OF THESE ISSUES IN MORE DETAIL. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS THE COMMISSION MAY HAVE AT THIS TIME.

