

55:14K-1

LEGISLATIVE HISTORY CHECKLIST
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"Housing Incentive Finance Fund"

NJSA: 55:14K-1 et seq

LAWS OF: 1992 **CHAPTER:** 114

BILL NO: S589

SPONSOR(S) Littel and others

DATE INTRODUCED: March 16, 1992

COMMITTEE: **ASSEMBLY:** Appropriations
SENATE: Commerce; Budget

AMENDED DURING PASSAGE: Yes Amendments denoted by supercript
second report enacted numbers

DATE OF PASSAGE: **ASSEMBLY:** August 3, 1992
SENATE: June 29, 1992

DATE OF APPROVAL: October 1, 1992

FOLLOWING STATEMENTS ARE ATTACHED IF AVAILABLE:

SPONSOR STATEMENT: Yes

COMMITTEE STATEMENT: **ASSEMBLY:** Yes
SENATE: Yes 6-18-92 & 6-25-92

FISCAL NOTE: No

VETO MESSAGE: No

MESSAGE ON SIGNING: Yes

FOLLOWING WERE PRINTED:

REPORTS: No

HEARINGS: Yes

Related hearing:

974.90 New Jersey. Office of Legislative Services.
H842 Public hearing on financing role of New Jersey Housing and
1992d Mortgage Finance Agency held 9-21-92. Trenton, 1992.

[SECOND REPRINT]

SENATE, No. 589

STATE OF NEW JERSEY

INTRODUCED MARCH 16, 1992

By Senators LITTELL, Sinagra, Bassano,
Bennett, Cardinale, Scott, Kyrillos,
Ciesla, Kosco, Dimon, Connors, Corman,
Inverso, LaRossa, Matheussen, Palaia,
Haines, Ewing, Brown and Adler

1 AN ACT authorizing the issuance of bonds ²by the New Jersey
2 Housing and Mortgage Finance Agency² to establish the
3 Housing Incentive Finance Fund, providing for ²[loans and]²
4 loan guarantees for housing developers under certain
5 circumstances, and supplementing P.L.1983, c.530 (C.55:14K-1
6 et seq.).
7

8 BE IT ENACTED by the Senate and General Assembly of the
9 State of New Jersey:

10 1. This act shall be known and may be cited as the "Housing
11 Incentive Finance Act."

12 2. The Legislature finds, determines and declares:

13 a. Changing economic conditions and the current state of
14 financial markets have curtailed the amount of capital available,
15 upon terms tolerable and practicable to developers, for the
16 development of land and construction of housing.

17 b. The factors that have led to these conditions -- such as
18 changes in federal government supervision of institutional
19 lenders, increased reserve requirements imposed on financial
20 institutions, and other structural changes in financial markets --
21 will continue to affect the home-building industry for the
22 foreseeable future.

23 c. The depressed state of this industry exerts a significant
24 adverse impact on the national economy, particularly severe in
25 this densely populated and highly industrialized State, by
26 curtailing employment opportunities and depressing accustomed
27 standards of living.

28 d. The distresses of the economy have fallen with exceptional
29 severity upon the housing supply for home-seekers at all
30 economic levels, and most particularly for those of mid-level and
31 modest incomes.

32 e. Significant alleviation of the current economic situation
33 requires cooperation between public and private institutions,
34 which can be effectively fostered by a State program directed
35 towards meeting short-term capital requirements.

36 f. The most logical State agency to administer such assistance
37 is the New Jersey Housing and Mortgage Finance Agency
38 (HMFA), with its many years of successful experience in actively
39 but prudently financing a variety of housing initiatives.

EXPLANATION--Matter enclosed in bold-faced brackets [thus] in the
above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

Matter enclosed in superscript numerals has been adopted as follows:

¹ Senate SCM committee amendments adopted June 18, 1992.

² Senate SBA committee amendments adopted June 25, 1992.

1 g. It is, accordingly, the intention of this act to establish,
2 under the administration of the HMFA, ¹[but funded separately
3 from its general operations,]¹ a program that will stimulate the
4 housing industry in this State by making available, in adequate
5 volume and on reasonable terms, ¹[development and]¹
6 construction ²[loans and]² loan guarantees that will enable
7 builders to initiate development of housing of all types and for
8 persons of all income levels in this State.

9 3. As used in this act:

10 "Agency" means the New Jersey Housing and Mortgage
11 Finance Agency.

12 ¹"Bonds" means bonds, notes or any other form of evidence of
13 indebtedness of the agency, bearing either a fixed rate or
14 variable rate of interest, issued pursuant to this act.¹

15 "Construction costs" means all expenditures made or incurred
16 by a qualified ²housing² developer, ²[exclusive of development
17 costs] inclusive of reasonable pre-construction costs², prior to
18 the obtaining of permanent financing on a completed housing
19 development.

20 "Construction loan" means a loan made to a qualified
21 developer ²[pursuant to section 6 of this act]² for the financing
22 of construction costs.

23 "Development" means development within the meaning of the
24 "Municipal Land Use Law," P.L.1975, c.291 (C.40:55D-1 et seq.).

25 ²["Development costs" means the amount approved by the
26 agency as an appropriate expenditure that may be incurred prior
27 to the obtaining of permanent financing on a completed housing
28 development, exclusive of the actual costs of construction and
29 preparatory and ancillary to actual construction, and may
30 include, without limitation: (1) payments for options, deposits or
31 contracts to purchase properties on the proposed housing
32 development site; (2) legal and organizational expenses, including
33 attorneys' fees, and salaries, office rent and other incidental
34 expenses for a project manager and office staff; (3) fees for
35 preliminary feasibility studies, planning advances, borings,
36 surveys, engineering and architectural work, and fees for the
37 services of architects, engineers, planners and attorneys in
38 connection therewith; (4) expenses for tenant surveys and market
39 analyses; and (5) such other expenses as the agency may deem
40 necessary and appropriate to effectuate the purposes of this act.]²

41 ¹["Development loan" means a loan made to a qualified
42 developer pursuant to section 6 of this act for the financing of
43 development costs.]¹

44 "Fund" means the Housing Incentive Finance Fund established
45 pursuant to section 5 of this act.

46 "Housing developer" means any person, firm, corporation or
47 association of persons that has undertaken or proposes to
48 undertake a housing development.

49 "Housing development" means development undertaken for the
50 purpose of creating one or more residential structures ¹[,
51 whether]¹ for owner occupancy ¹[or rental]¹, and whether in the
52 form of detached units ¹[,] or¹ attached units for separate
53 occupancy, ¹[or multiple dwellings,]¹ together with any
54 structures or facilities appurtenant or ancillary thereto.

1 "Institutional lender" means any bank or trust company,
2 savings bank, national banking association, savings and loan
3 association, or building and loan association maintaining an office
4 in this State, or any insurance company or any mortgage banking
5 firm ²[of] or² mortgage banking corporation authorized to
6 transact business in this State.

7 "Qualified housing developer" means a housing developer who
8 has qualified for a ¹[development loan or]¹ ²[construction loan
9 under the terms of section 6 of this act, or for a]² loan guarantee
10 pursuant to ²[section 7 of]² this act.

11 "Qualified housing development" means a housing development
12 for which a ¹[development loan or]¹ ²[construction loan, or a]²
13 loan guarantee may be made pursuant to ²[section 6 or 7 of]² this
14 act.

15 4. a. In addition to the bonding authority conferred by section
16 20 of P.L.1983, c.530 (C.55:14K-20), the agency is hereby
17 authorized to issue bonds ¹[in so that¹ the total capital sum ¹of
18 the bonds does¹ not ¹[to]¹ exceed ¹[\$500,000,000] \$200,000,000 of
19 bonds outstanding at any one time¹, for the exclusive purpose of
20 funding ²[loans and]² loan guarantees in the manner and to the
21 extent provided in ²[sections 5 , 6 and 7 of]² this act.

22 b. These bonds shall be designated as Housing Incentive Bonds
23 and shall not be general obligations of the agency, but shall be
24 ¹special¹ obligations of the ¹[fund established pursuant to section
25 5 of this act] agency¹; and the payment of interest on and
26 repayment of principal of these bonds shall be secured by and
27 paid out of the revenues accruing to the fund pursuant to ¹[that]¹
28 section ¹5 of this act¹ or, if at any time the revenue should prove
29 insufficient for the full and punctual payment thereof, out of
30 moneys provided through the ¹[insurance] credit enhancement¹
31 arrangements authorized in section 8 of this act.

32 c. Except as otherwise explicitly authorized in this act, any
33 bonds issued or to be issued pursuant to this section shall be
34 subject to all the requirements, conditions and restrictions of
35 P.L.1983, c.530 (C.55:14K-1 et seq.) ²[for the issuance of bonds
36 by] upon the bonding authority of² the agency.

37 d. The interest rate and other terms upon which bonds are
38 issued pursuant to this section shall not create a prospective
39 obligation of the ¹[fund] agency¹ in excess of the amount of
40 revenues that can reasonably be expected from the fees ²[and
41 interest charges]² that the agency can reasonably expect to
42 charge pursuant to subsection d. of section 5 of this act.

43 5. a. There is hereby established in the agency the Housing
44 Incentive Finance Fund, which shall be continuing and nonlapsing,
45 for the purpose of funding ²[loans and]² loan guarantees
46 authorized pursuant to this act. ¹[The State Treasurer shall hold
47 and account for the fund, and upon certification of the agency
48 and warrant of the Comptroller shall make disbursements
49 therefrom for any of the purposes authorized by subsection c. of
50 this section.]¹ Moneys in the fund not immediately required for
51 payment or liquid reserves may be invested and reinvested by the
52 ¹[Division of Investment in the Department of the Treasury]
53 agency¹ in the same manner in which other ¹[State] agency¹
54 funds may be invested.

1 b. There shall be paid into the fund: (1) all proceeds from the
2 sale of bonds ¹[or notes]¹ pursuant to section 4 of this act; (2)
3 fees ²[and loan repayments]² received pursuant to ²[sections 5, 7
4 and 8 of]² this act; (3) any income earned upon investment of
5 moneys in the fund by the ¹[Division of Investment] agency¹
6 pursuant to subsection a. of this section; and (4) any other funds
7 that may be available to the fund through appropriation by the
8 Legislature or otherwise.

9 c. Moneys in the fund shall be used exclusively for (1) funding
10 ²[loans and]² loan guarantees pursuant to ²[sections 6 and 7 of]²
11 this act; (2) paying the interest on and repaying the principal of
12 bonds issued pursuant to section 4 of this act; (3) entering into
13 agreements pursuant to section 8 of this act for ¹[insurance]
14 credit enhancement¹ of bonds issued by the ¹[fund] agency
15 pursuant to this act¹; (4) making payments in fulfillment of the
16 terms of loan guarantees entered into pursuant to section 7 of
17 this act; and (5) defraying the administrative costs of the agency
18 in carrying out the purposes and provisions of this act.

19 d. ²[Interest upon loans made by or through the fund and fees]
20 Fees² for the issuance of loan guarantees issued by the fund shall
21 be established by the agency at the lowest rate compatible with
22 the integrity of the fund and its proper administration,
23 maintenance of adequate reserves for the actuarially sound
24 funding of guarantee pledges, and the ability of the agency to pay
25 the interest upon and repay the principal of bonds ¹[and notes]¹
26 issued pursuant to section 4 of this act.

27 6. a. The agency is hereby authorized to ²[make] guarantee
28 with moneys in the fund² ¹[development loans and]¹ construction
29 loans ²[out of the fund] made² to qualified housing developers of
30 qualified housing developments, in compliance with the terms of
31 this act and subject to the conditions set forth in this section.

32 b. A ¹[development loan or]¹ construction loan may be ²[made]
33 guaranteed² only to a housing developer who has qualified
34 therefor by demonstrating to the satisfaction of the agency that
35 the housing developer has the ability to develop, construct and
36 complete the housing development in which he is engaged or
37 proposes to engage, and that he has sufficient ability, reputation
38 and credit-worthiness to obtain permanent financing upon such
39 completion.

40 c. A ¹[development loan or]¹ construction loan may be ²[made]
41 guaranteed² only with respect to a housing development of 100
42 units or fewer, or to a segment not exceeding 100 units of a
43 larger housing development projected or in progress; and no such
44 loan shall be made for a subsequent unit of a larger housing
45 development until the satisfaction of any loan made with respect
46 to a prior segment of the same development.

47 d. A ¹[development loan or]¹ construction loan with respect to
48 any housing development may be ²[made] guaranteed² only when
49 it has been demonstrated to the satisfaction of the agency that,
50 with respect to the size, location, potential sales ¹[or rental]¹
51 market for units in that development, the proposed marketing
52 policy and projected sales ¹[or rental]¹ revenue to the housing
53 developer, and other pertinent economic factors indicate an
54 economic viability sufficient to qualify that development for such

1 a loan ²guarantee² within the terms and purposes of this act.
2 Aside from this, no constraints may be placed upon the marketing
3 or pricing policy of a qualified housing developer as a condition of
4 a ¹[development loan or]¹ construction loan ²guarantee².

5 e. No ¹[development loan may be made for a term in excess of
6 five years, nor any]¹ construction loan ²guaranteed pursuant to
7 this act² ¹shall be made¹ for a period of more than two years;
8 except that the agency may, by regulation, provide for cases in
9 which unforeseen economic changes or physical obstacles may
10 warrant an extension.

11 f. Every loan ²[made] guaranteed² pursuant to this ²[section]
12 act² shall be secured by a first lien upon the real property
13 concerned in the development, or segment thereof, with respect
14 to which the loan is made and such other collateral as the agency
15 may consider necessary to secure the interests of the fund in
16 accordance with the provisions and purposes of this act; and the
17 agency may, if it deems necessary, require the loan to be secured
18 ¹by a personal loan guaranty by the developer or¹ by a lien upon
19 other real property contained in a development not included in
20 the segment with respect to which the loan is made, or upon any
21 other real property, or interest therein, belonging to the qualified
22 housing developer to whom the loan is made.

23 g. ¹[No development loan shall exceed 90 percent of the
24 development costs, as estimated to the satisfaction of the
25 agency, of the qualified housing development, or segment
26 thereof, with respect to which it is issued.]¹ No construction
27 loan shall ²[exceed] be guaranteed if the loan exceeds² 80
28 percent of the sales price of the development, or segment
29 thereof, or the total sales price of all units therein, as estimated
30 to the satisfaction of the agency at the time when the loan is
31 issued ¹[; or, if the developer proposes to retain ownership of the
32 development, 80 percent of the capitalized value of the total
33 projected rental income, as estimated to the satisfaction of the
34 agency at the time when the loan is issued]¹.

35 h. None of the restrictions or conditions attached to the
36 issuance of an "eligible loan," and the qualifications of a "housing
37 sponsor" to whom ¹[or the characteristics of a "housing project,"
38 for which]¹ such a loan may be made, as those terms are defined
39 and used in P.L.1983, c.530 (C.55:14K-1 et seq.), shall apply to
40 any qualified housing development, qualified housing developer,
41 ¹[development loan]¹ or construction loan ²guaranteed² pursuant
42 to the terms of this act.

43 ²[i. The agency shall adopt rules and regulations governing
44 the issuance of construction loans pursuant to this section,
45 including:

- 46 (1) procedures for the submission of requests for such loans;
47 (2) standards and requirements governing and determining the
48 fees to be charged therefor and the manner of payment of those
49 fees; and
50 (3) any other matters related to the duties and the exercise of
51 the powers of the agency under this section.¹²

52 7. a. The agency is hereby authorized to contract with
53 institutional lenders to guarantee on behalf of a housing
54 developer the repayment of the full principal balance of that loan

1 outstanding at the time of any default, if (1) the loan was made
2 for ¹[development costs or] ¹ construction costs as defined in
3 section 3 of this act; ²[(2) the housing developer and the housing
4 development with respect to which the loan was made were, at
5 the time when the loan was made, qualified to receive a
6 ¹[development loan or] ¹ construction loan pursuant to section 6
7 of this act, and (3)] ²(2) ² the amount of the loan and the terms on
8 which it was made conform substantially to the amount and terms
9 then available to the borrower on such a ²[development loan or] ²
10 construction loan; and ²[(4)] ³(3) ² the regulations of the agency
11 pursuant to subsection c. of this section are complied with.

12 b. The agency shall establish within the fund sufficient
13 reserves and liquid reserves, aside from those moneys required to
14 meet payments of interest and repayments of principal on bonds
15 ¹[and notes] ¹ issued pursuant to section 4 of this act, to provide a
16 sufficient and actuarially sound basis for its pledges contained in
17 any guarantee contract entered into pursuant to subsection a. of
18 this section.

19 c. The agency shall adopt rules and regulations governing the
20 issuance of loan guarantees pursuant to this section, including:

21 (1) procedures for the submission of requests for such
22 guarantees;

23 (2) standards and requirements governing the allocation of
24 guarantees to applicant institutional lenders, and determining the
25 fees to be charged therefor and the manner of payment of those
26 fees;

27 (3) restrictions as to the maturities and interest rates of any
28 loan, or the return realized therefrom by the institutional lender,
29 upon which a guarantee is to be issued;

30 (4) requirements as to commitments by institutional lenders
31 with respect to loans upon which guarantees may be issued; and

32 (5) any other matters related to the duties and the exercise of
33 the powers of the agency under this section.

34 8. In order to secure purchasers of the bonds issued pursuant to
35 section 4 of this act against any default arising out of
36 insufficiency of moneys in the fund and resulting in failure to
37 make full and punctual payments of interest and principal in
38 accordance with the terms of their issuance, the agency ¹[shall]
39 is authorized to ¹ enter into a contract or contracts with one or
40 more corporations authorized under Title 17 of the Revised
41 Statutes to insure against loss from such defaults.

42 9. The agency is hereby authorized to promulgate, in
43 accordance with the provisions of the "Administrative Procedure
44 Act," P.L.1968, c.410 (C.52:14B-1 et seq.), all rules and
45 regulations necessary or expedient to the effectuation of the
46 purposes and provisions of this act.

47 10. This act shall take effect on the 90th day next following
48 its enactment, except that section 9 shall take effect
49 immediately.

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54 "Housing Incentive Finance Act."

1 upon which a guarantee is to be issued;

2 (4) requirements as to commitments by institutional lenders
3 with respect to loans upon which guarantees may be issued; and

4 (5) any other matters related to the duties and the exercise of
5 the powers of the agency under this section.

6 8. In order to secure purchasers of the bonds issued pursuant to
7 section 4 of this act against any default arising out of
8 insufficiency of moneys in the fund and resulting in failure to
9 make full and punctual payments of interest and principal in
10 accordance with the terms of their issuance, the agency shall
11 enter into a contract or contracts with one or more corporations
12 authorized under Title 17 of the Revised Statutes to insure
13 against loss from such defaults.

14 9. The agency is hereby authorized to promulgate, in
15 accordance with the provisions of the "Administrative Procedure
16 Act," P.L.1968, c.410 (C.52:14B-1 et seq.), all rules and
17 regulations necessary or expedient to the effectuation of the
18 purposes and provisions of this act.

19 10. This act shall take effect on the 90th day next following
20 its enactment, except that section 9 shall take effect
21 immediately.

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STATEMENT

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26 This bill provides for the establishment of a "Housing Incentive
27 Finance Fund," with the issuance of \$500,000,000 in "Housing
28 Incentive Finance Bonds" by the New Jersey Housing and
29 Mortgage Finance Agency. The purpose of the fund would be to
30 make "development loans" to finance the costs incurred in
31 preparing the way for a housing development, and for
32 "construction loans" to finance the actual construction costs.
33 Both types would be relatively short-term loans, and would hinge
34 on the developer's ability to arrange for long-term financing
35 from other sources after the completion of construction, as well
36 as upon HMFA's judgment of the credit-worthiness and ability of
37 the developer and the economic viability of the proposed
38 development.

39 The bill directs that (1) this fund be kept separate from other
40 bond funds and not be reckoned among the general obligations of
41 HMFA; (2) principal and interest payments on the bonds would
42 come solely from the revenues accruing to the fund; and (3)
43 bondholders be protected against default by the purchase of
44 insurance on the bonds with money in the fund.

45 No more than 100 housing units -- whether a whole
46 development or a segment of a larger development -- would be
47 financed at any one time under this program. Development loans
48 would be limited to five years, and construction loans to two
49 years, except under exceptional circumstances. Interest rates
50 would be set to meet the fund's obligations to the bondholders,
51 pay administrative costs and the costs of insuring the bonds, and
52 maintain necessary reserves.

53 Instead of loans from the fund, loan guarantees might be issued
54 on loans made to a developer by an institutional lender.

1 Developers and developments would have to meet the same
2 qualifications as for a direct loan from the fund; and the loan
3 upon which the guarantee was issued would have to be
4 substantially similar in amount and terms to a loan from the fund
5 for which he would have qualified.

6 The financing offered by this program differs from ordinary
7 HMFA financing, in that (1) it offers only development and
8 construction loans, and not permanent mortgage financing; (2) it
9 is not restricted to any particular category of residential
10 development, but includes every sort of single and multiple-unit
11 structure, rental or owner-occupied, in all price ranges and in all
12 forms of legal tenure (fee-simple ownership, condominium,
13 cooperative, etc.); and (3) it does not restrict the developer's
14 choice of size, style, location, marketing strategy and methods of
15 construction and design, so long as the development's
16 practicability and economic feasibility can be demonstrated to
17 HMFA's satisfaction.

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22 "Housing Incentive Finance Act."

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

[SECOND REPRINT]

SENATE, No. 589

STATE OF NEW JERSEY

DATED: JULY 20, 1992

The Assembly Appropriations Committee reports favorably Senate Bill No. 589 (2R).

Senate Bill No. 589 (2R) provides for the establishment of a "Housing Incentive Finance Fund," with the issuance of \$200,000,000 in "Housing Incentive Bonds" by the New Jersey Housing and Mortgage Finance Agency (HMFA), for construction loan guarantees to provide for the development of owner-occupied housing of all types and for persons of all incomes. The guaranteed construction loans would finance the actual construction costs and would be limited to two years, except under exceptional circumstances. Interest rates would be set to meet the fund's obligations to the bondholders, pay administrative costs and the costs of insuring the bonds, and maintain necessary reserves. A construction loan may be guaranteed only: on a housing development which the HMFA determines is economically viable; for a housing development of 100 units or less; and to a housing developer who has, in the judgment of the HMFA, the ability to develop, construct and complete a housing development and the ability and credit-worthiness to obtain permanent financing upon completion of the housing development. No other constraints may be placed upon the marketing or pricing policy of a housing developer as a condition of a construction loan. Every loan that is guaranteed must be secured by a first mortgage upon the real property concerned in the development and such other collateral as determined by the HMFA to be necessary to secure the interests of the fund. A construction loan guaranteed pursuant to this bill may not exceed 80 percent of the estimated sales price of the development.

The bill provides that: (1) the fund be kept separate from other bond funds of the HMFA and the bonds issued for the fund not be among the general obligations of HMFA; (2) principal and interest payments on the bonds would come from the revenues accruing to the fund; and (3) bondholders may be further protected against default by the purchase of insurance on the bonds with money in the fund.

The financing offered by this program differs from ordinary HMFA financing, in that: (1) it guarantees only construction loans, and not permanent mortgage financing; (2) it is not restricted to any particular category of owner-occupied residential development, but includes every sort of single and multiple-unit structure, in all price ranges and in all forms of legal tenure (fee-simple ownership, condominium, cooperative, etc.); and (3) it does not restrict the developer's choice of size, style, location, marketing strategy and methods of construction and design, so long as the development's practicability and economic feasibility can be demonstrated to

HMFA's satisfaction.

The bill is identical to Assembly Bill No. 1231 (1R), as amended.

FISCAL IMPACT:

This bill is not certified as requiring a fiscal note. The bonds to be issued pursuant to this bill are not obligations of the State and will not be repaid with State funds.

SENATE COMMERCE COMMITTEE

STATEMENT TO

SENATE, No. 589

with committee amendments

STATE OF NEW JERSEY

DATED: JUNE 18, 1992

The Senate Commerce Committee reports favorably and with committee amendments Senate Bill No. 589.

This bill, as amended by the committee, provides for the establishment of a "Housing Incentive Finance Fund," with the issuance of \$200,000,000 in "Housing Incentive Bonds" by the New Jersey Housing and Mortgage Finance Agency (HMFA), for construction loans and loan guarantees of those loans to provide for the development of owner-occupied housing of all types and for persons of all incomes. Construction loans would finance the actual construction costs and would be limited to two years, except under exceptional circumstances. Interest rates would be set to meet the fund's obligations to the bondholders, pay administrative costs and the costs of insuring the bonds, and maintain necessary reserves. A construction loan may be made only: on a housing development which the HMFA determines is economically viable; for a housing development of 100 units or less; and to a housing developer who has, in the judgment of the HMFA, the ability to develop, construct and complete a housing development and the ability and credit-worthiness to obtain permanent financing upon completion of the housing development. No other constraints may be placed upon the marketing or pricing policy of a housing developer as a condition of a construction loan. Every loan made must be secured by a first mortgage upon the real property concerned in the development and such other collateral as determined by the HMFA to be necessary to secure the interests of the fund. A construction loan may not exceed 80 percent of the estimated sales price of the development.

The HMFA may also use the fund to guarantee construction loans (on the full principal balance) made to developers by institutional lenders. For loan guarantees, developers and developments are required to meet the same qualifications as for a construction loan from the fund, and the loan upon which the guarantee is issued would have to be substantially similar in amount and terms to a loan from the fund for which the developer would have qualified.

The bill provides that: (1) the fund be kept separate from other bond funds of the HMFA and the bonds issued for the fund not be among the general obligations of HMFA; (2) principal and interest payments on the bonds would come from the revenues accruing to the fund; and (3) bondholders may be further protected against default by the purchase of insurance on the bonds with money in the fund.

The financing offered by this program differs from ordinary HMFA financing, in that: (1) it offers only construction loans, and not permanent mortgage financing; (2) it is not restricted to any particular category of owner-occupied residential development, but includes every sort of single and multiple-unit structure, in all price ranges and in all forms of legal tenure (fee-simple ownership, condominium, cooperative, etc.); and (3) it does not restrict the developer's choice of size, style, location, marketing strategy and methods of construction and design, so long as the development's practicability and economic feasibility can be demonstrated to HMFA's satisfaction.

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

[FIRST REPRINT]

SENATE, No. 589

with committee amendments

STATE OF NEW JERSEY

DATED: JUNE 25, 1992

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 589 (1R), with committee amendments.

Senate Bill No. 589 (1R), as amended, provides for the establishment of a "Housing Incentive Finance Fund," with the issuance of \$200,000,000 in "Housing Incentive Bonds" by the New Jersey Housing and Mortgage Finance Agency (HMFA), for construction loan guarantees to provide for the development of owner-occupied housing of all types and for persons of all incomes. The guaranteed construction loans would finance the actual construction costs and would be limited to two years, except under exceptional circumstances. Interest rates would be set to meet the fund's obligations to the bondholders, pay administrative costs and the costs of insuring the bonds, and maintain necessary reserves. A construction loan may be guaranteed only: on a housing development which the HMFA determines is economically viable; for a housing development of 100 units or less; and to a housing developer who has, in the judgment of the HMFA, the ability to develop, construct and complete a housing development and the ability and credit-worthiness to obtain permanent financing upon completion of the housing development. No other constraints may be placed upon the marketing or pricing policy of a housing developer as a condition of a construction loan. Every loan that is guaranteed must be secured by a first mortgage upon the real property concerned in the development and such other collateral as determined by the HMFA to be necessary to secure the interests of the fund. A construction loan guaranteed pursuant to this bill may not exceed 80 percent of the estimated sales price of the development.

The bill provides that: (1) the fund be kept separate from other bond funds of the HMFA and the bonds issued for the fund not be among the general obligations of HMFA; (2) principal and interest payments on the bonds would come from the revenues accruing to the fund; and (3) bondholders may be further protected against default by the purchase of insurance on the bonds with money in the fund.

The financing offered by this program differs from ordinary HMFA financing, in that: (1) it guarantees only construction loans, and not permanent mortgage financing; (2) it is not restricted to any particular category of owner-occupied residential development,

but includes every sort of single and multiple-unit structure, in all price ranges and in all forms of legal tenure (fee-simple ownership, condominium, cooperative, etc.); and (3) it does not restrict the developer's choice of size, style, location, marketing strategy and methods of construction and design, so long as the development's practicability and economic feasibility can be demonstrated to HMFA's satisfaction.

COMMITTEE AMENDMENTS:

The committee amended the bill to remove the authority for making construction loans and to include "reasonable pre-construction costs" in the definition of construction costs.

FISCAL IMPACT:

This bill is not certified as requiring a fiscal note. The bonds to be issued pursuant to this bill are not obligations of the State and will not be repaid with State funds.



OFFICE OF THE GOVERNOR

NEWS RELEASE

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Contact:

Jon Shure
Jo Glading
609/777-2600

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GOVERNOR SIGNS HOUSING INCENTIVE BILL TO BOOST CONSTRUCTION INDUSTRY AND CREATE JOBS

In an effort to spur the housing construction industry and create jobs, Governor Jim Florio today signed legislation creating a program that would establish a housing incentive finance fund which could guarantee loans to builders constructing housing in New Jersey.

"Housing construction is one of New Jersey's most essential job generating sources, not only in construction, but in secondary industries such as appliances or home furnishings as well. This bill makes New Jersey the first state to tackle the high cost of construction loans head on by helping builders cope with the credit crunch," said Governor Florio, who was joined by members of the New Jersey Builders Association. "It keeps New Jersey far in the lead when it comes to devising practical, effective ways to spur the economy. When it comes to this national recession, New Jersey knows how to fight back hard. No other state is doing more to help business and workers compete and win again."

"The New Jersey Builders Association represents one of the hardest working industries in the Garden State and we're adding a strong, new recession hammer to their tool kit today," he said.

The program establishes a "Housing Incentive Finance Fund" under the New Jersey Housing and Mortgage Finance Agency. The fund would enable the agency to issue \$200 million in "Housing Incentive Bonds" to guarantee loans for the development of owner-occupied housing, allowing developers to secure construction loans.

Today's job initiative follows last week's unveiling of the Garden State Growth Fund -- a new \$2.5 million venture capital initiative designed to create jobs and spur economic development. The fund is the first program from the Governor's \$225 million Economic Recovery Fund -- a cornerstone of his efforts to create jobs today and invest in New Jersey's tomorrow. The Economic Recovery Fund will ultimately leverage more than \$800 million in private sector investment, and will create 20,000 construction and 75,000 permanent jobs over the next three years.

"Housing and jobs are the foundation of the American Dream. They are one of the best investments we can make in our people and our quality of life, and they are part of our legacy to our children and their future," the Governor said.

The legislation, S 589/A 1231, was sponsored by Senator Robert Littell, and Assemblymen Joseph Doria and Richard Kamin.

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