

Protecting New Jersey Homeowners:

Preserving Wealth and Preventing Abuse with Affordable Home Repair Financing

Friday, July 15, 2005

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Summary Notes

Background

In light of recent trends threatening low and moderate income (LMI) homeowners in New Jersey, five collaborating organizations sponsored a convening to raise awareness of challenges faced by existing homeowners and begin designing ways to better protect them from abusive practices. Participants in the discussion included over 100 state and local officials, community leaders and advocates, banking and housing industry representatives, and funders concerned with helping existing homeowners access the resources needed to make critical home repairs without accumulating high debt or facing foreclosure. What follows is a summary of the day's discussions, which focused on ways to create financing vehicles to provide affordable home repair funds and how to prevent abusive practices by home improvement lenders and contractors.

1. The state of low- and moderate-income homeownership in New Jersey

Panelists presented information illustrating the broader trends in LMI homeownership and the challenges facing these homeowners.

- One-third (9 million) of low-income homeowners pay 50 percent or more of their income on housing or homeownership costs. As a result, these homeowners are left with very little income to cover daily expenses.
- In the past, organizations have focused heavily on promoting homeownership as a way to provide economic opportunity. However, recent trends merit a focus on ensuring new homeowners are able to keep their homes.
- Seniors, new, and LMI homeowners are most likely to be targeted by predatory loan terms such as hidden fees, high interest rates, and other abusive terms.
- Abusive lending and contracting practices are limited to a relatively small group of bad actors, but these exist predominantly in the subprime market.
- Home repair jobs are generally paid for with equity accumulated in the home. When home repair loans are predatory they strip equity from the home and put the owner in jeopardy of losing their home.
- Many homeowners also face difficulty finding reliable home improvement contractors. For example, problems with home improvement contractors account for the highest number of complaints to the Department of Consumer Affairs.
- Traditional sources for subsidized home repair funds, such as the CDBG and HOME programs are shrinking.
- Homeownership rates are declining in the majority of New Jersey's urban centers (10 out of 14). This decline is occurring despite rising homeownership rates statewide and nationally.

2. Toward a more effective strategy for protecting homeowners

Given the challenges facing homeowners, panelists detailed the various components necessary for an effective strategy to better protect homeowners, including.

- **Greater affordable funds for home preservation** and creative efforts to generate these funds such as developer fees or other public/private partnerships. Also emphasized was the need to combine grant dollars with private sector resources and using the former to leverage the latter. Several panelists recommended using existing Balanced Housing funds to support preservation and rehabilitation activities. Another recommended developing a state bank designed specifically to fund financial literacy and affordable housing given the high cost of operating these initiatives. The Department of Banking and Insurance is developing a program to encourage conventional banks and credit unions to establish branches in LMI communities and possibly use deposits as a source of affordable and non-predatory loans for home repair.
- **Financial literacy training** that help consumers recognize potentially abusive loans and maintain their finances in good standing. These programs should be developed collaboratively to identify and target consumers who may be vulnerable given their credit profile, demographic information, and their income and education levels. The New Jersey Financial Literacy Awareness Network (NJ FLAN) is one program providing financial literacy services to homeowners but several participants emphasized that greater efforts to raise the financial education and awareness of existing homeowners is necessary.
- **A list of reputable home improvement contractors and lenders** to help homeowners avoid abusive actors and **credible ancillary resources** related to home repair loans and contracts such as competent attorneys, appraisers, project managers, and financial advisors.
- **Effective outreach strategies** to ensure that any programs developed actually reach vulnerable homeowners, especially considering the heavy marketing of abusive products. Effective outreach is especially necessary for programs developed at the state level, such as the Home Sweet Home program, which was run by the Housing and Mortgage Finance Agency. This program's success was limited by inadequate outreach to the targeted communities. One panelist proposed establishing a tracking system for new homeowners to assist with outreach efforts.
- **Strong incentives for the private sector** to enter the market to provide affordable products to low-and moderate-income homeowners. The Bank of New York has issued over 2,500 rehabilitation loans to developers to help restore 2-4 family homes. They also issue a smaller number of spot loans to individual borrowers. However, there are few other conventional banks providing financing for preservation at this level.
- **Strong collaboration with community-based groups** is necessary to ensure that programs are responsive to local needs and reach the most vulnerable homeowners.

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