HOUSE RICH, POCKET POOR AND UNDER THREAT
Home Repair Financing and Homeownership Preservation in New Jersey

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Executive Summary

Is homeownership always the American Dream? Without question, owning a home has been fundamental to helping many families achieve economic stability and build wealth. In recent decades, unprecedented numbers of people in New Jersey and the country—including many historically underrepresented groups—have become homeowners.

Even as they have done so, however, the promise associated with homeownership is under threat. Increasingly, many homeowners face circumstances in which their homes, far from advancing their economic future, are depleting their resources and undermining the purported advantages of homeownership. One key issue that contributes to this dynamic is the inability of many individuals, especially low-income, minority, and elderly homeowners, to maintain their homes over the long-term and use their dwellings as a means to build wealth.

Currently, nearly a quarter of a million New Jersey homeowners have acute home repair needs, and in the state’s urban areas over a third of all homeowners face such a crisis. This situation is becoming more critical throughout the state as both homeowners and housing stock age. Low-income and elderly homeowners in particular face challenges finding affordable home repair loans and reliable home repair contractors to perform necessary repairs. The consequences are seen in the rising levels of abandonment and foreclosure in certain neighborhoods, and the increasing vulnerability of households to abusive contracting and financing practices. As described further below, these problems are exacerbated by the racial patterns of high cost lending, the expanding use of interest-only and nontraditional mortgage products, and other issues.

To date, the response of the public and private sectors in New Jersey and nationwide has been fragmented and insufficient. While state and local governments have noted the problem, what has emerged is a multiplicity of insufficiently funded grant programs that do not fully leverage private resources. Even as the nearly $250 billion-a-year remodeling industry has grown exponentially, the focus for major contractors and the financial services industry remains upper-income households and homes. Absent a sustained response, insufficient financial services for home repairs and abusive home improvement practices threaten to reverse decades of affordable homeownership and community development efforts.

Key Findings

In the following report the New Jersey Institute for Social Justice, in collaboration with Greater Newark LISC and the New Jersey Public Policy Research Institute, examines national and state data. It also builds on a series of meetings with community development practitioners, industry representatives, and state and local officials to assess the scale of home repair need in New Jersey and the challenges that homeowners face in obtaining affordable financing and quality contracting services. Key findings include:
• **High need for home repair assistance:** Approximately 250,000 (12 percent) of homeowners statewide are estimated to be in need of significant home repair assistance. Reflecting the greater need in urban areas and other communities where low- and moderate-income homeowners are concentrated, more than one-third of the homeowners in urban Essex County need significant home repair assistance.

• **Home maintenance spending gap:** Low- and moderate-income homeowners in New Jersey devote insufficient resources to regular home maintenance. Available data show that New Jersey homeowners earning below the poverty level spend nearly thirty percent less on routine maintenance than other homeowners. This gap increases dramatically when the cost of major repairs is included.

• **Lack of affordable home repair financing:** The state’s existing affordable home repair programs, undertaken by both state and municipal governments, are fragmented and inadequate. In urban Essex County, for example, municipal home repair programs serve fewer than 10 percent of vulnerable homeowners. Private lender initiatives, most frequently undertaken to fulfill Community Reinvestment Act (CRA) obligations, are also limited because consumers are unaware of these programs or unable to afford these loans. Other lenders are reluctant to make home repair loans in communities of highest need due to a perception that these loans are unduly risky and unprofitable given their generally small size.

• **Limited access to home repair contracting services:** Problems with contractors doing incomplete or shoddy home improvement work are rampant statewide. The number of complaints about home repair contractors received by the Department of Consumer Affairs in 2004 reached a high of 3,439—an increase of 75 percent in a three year period.

**Major Recommendations**

To enhance the contribution of homeownership to wealth-building and community stability, the state needs a sustained homeownership strategy with the following elements:

• **Enhanced public financing for affordable home repair:** A commitment is needed at the state level to launch a more effective strategy to protect vulnerable homeowners and better preserve affordable homeownership. Combined with funds from other sources, this commitment could be used to launch a demonstration program in one of the state’s high need areas. Such an effort would help model effective financing and delivery practices while also providing immediate assistance to a segment of the most vulnerable homeowners.

• **Better leveraging of private funds:** Appropriately deployed state funds can be used to leverage private sector investment to maximize the reach of public commitments. State financing should be devoted to supplementing or guaranteeing below market rate home repair loans to ensure that existing
commitments by private institutions are fully utilized and expanded to better serve the vast number of homeowners in need. The state should also work actively with the secondary mortgage market and private foundations to leverage additional funds.

- **Targeted marketing of new products and outreach to homeowners**: Targeted outreach in collaboration with community and faith-based organizations is necessary to ensure that affordable products reach vulnerable homeowners. These organizations often already serve as a first point of contact for homeowners experiencing problems. Targeted outreach is especially critical in light of the aggressive marketing of abusive home repair products and the limited access of low-income residents to affordable financial products. The mapping analysis in Appendix B depicts this disparate access to financial services.

- **Enhanced post-homeownership counseling**: To date, insufficient counseling and education efforts have been targeted at existing, as opposed to new, homeowners. A portion of newly committed resources for home repair assistance should be committed to ongoing post-purchase counseling and a targeted public education campaign to ensure that new homeowners are capable of maintaining their homes and avoiding equity-stripping practices.

- **Continued regulation of predatory practices**: Existing predatory lending laws as well as recently adopted contractor registration requirements should be strictly enforced and enhanced where appropriate. Two critical areas for further examination are the role of mortgage brokers and mandatory arbitration clauses in abusive lending. The recently enacted Contractor Registration Act is an important development and should be followed by highly publicized enforcement activity and actions against violators.

- **Further research**: Areas for further research include: 1) Improved data about homeowner spending on maintenance and repair and the extent to which low- and moderate-income homeowners are able to prioritize spending in this area; 2) Closer examination of the underutilization of existing bank home improvement loan products and how these products can be refined to promote greater usage; and 3) The limited supply of quality contractors serving low- and moderate-income homeowners and how public policy can promote expansion to better serve this market.
Introduction

With roughly 2.1 million homeowners, New Jersey’s homeownership rate has kept pace with the rest of the nation. New Jersey housing policy has also followed national trends in expanding affordable homeownership opportunities to minority and low- and moderate-income residents. Following decades of exclusion from the financial services market, the last decade has witnessed a surge in public and private sector efforts directing down payment assistance, low-cost loans, mortgage insurance, and other subsidized financial products toward low- and moderate-income buyers. The resultant growth in the homeownership rate of low-income Americans has far exceeded the level of other groups. Observers expect this “homeownership boom” to continue at least through the next decade.

Expanding affordable homeownership has been an especially critical strategy for revitalizing urban areas and helping low-income individuals build wealth. For individuals, reported benefits of homeownership include greater economic security and the improved health and welfare of owners and their children. For states and municipalities, the benefits of increased homeownership rates include the potential for greater tax revenue, a more stable and politically active citizenry, and neighborhoods more attractive for business investment and relocation.

Unfortunately, throughout the state, recently expanded homeownership opportunities are not being adequately sustained. Efforts to support existing low- and moderate-income homeowners have been limited in comparison to resources devoted to creating new housing for affordable homeownership. As a result, recent homeownership programs have not been as effective in ensuring that lower income owners keep their homes over the long-term and benefit from the wealth building potential of ownership. The state’s elderly and urban homeowners and others benefiting from recent homeownership expansion efforts are particularly vulnerable. Due to limited income, as well as limited skills and market awareness, these homeowners are often unable to carry out the maintenance necessary to maintain the safety and value of their homes.

The problem of neglected home repairs is exacerbated by a dearth of affordable home repair financing available to low- and moderate-income homeowners. Not only are these homeowners less likely to have the cash or savings needed to pay for home repairs, but they also have trouble finding affordable loans to finance necessary repair work. In recent years, a segment of lenders have exploited this gap in affordable home repair financing by aggressively marketing home repair loans with high costs and abusive terms. These lenders often work in...
collaboration with unscrupulous contractors to market abusive loans, together selling high-cost financing for substandard or incomplete home repairs (see Appendix A for case studies of abusive lending).

The result of predatory lending and abusive home repair contracting practices has been high debt and a concentration of foreclosures in vulnerable communities. Urban and elderly homeowners especially are often targeted for abusive practices. Homeowners in the Vailsburg section of Newark, for example, which has experienced a steep rise in foreclosures in recent years, report being inundated by marketing calls for home repair and refinance loans. These homeowners are targeted in part because they are more likely to live in communities poorly served by mainstream financial products. As a result they are forced to rely on alternative and subprime products: this a cause for concern given the substantial local and national evidence linking high-cost and subprime loan products to foreclosure. These patterns of aggressive marketing highlight the need not only for fairly-priced alternatives but also for extensive outreach to ensure that alternative products reach vulnerable homeowners.

These trends warrant an immediate response. Absent targeted intervention, abusive market practices threaten to reverse decades of efforts to expand affordable homeownership opportunities in New Jersey’s low- and moderate-income communities.

1. Home Repair Financing Needs in New Jersey

The limited investment by lower income homeowners in regular maintenance combined with New Jersey’s relatively old housing stock create a significant need for affordable home repair financing.

Lower income homeowners in New Jersey routinely spend less than other homeowners on home maintenance. Homeowners with incomes below the federal poverty level spend nearly thirty percent less on routine maintenance than others in the state. Although stark, even this gap significantly underestimates the need for home repair assistance since these available data do not include spending on major rehabilitation such as roof repairs or for the replacement of major systems such as wiring or plumbing. For lower income homeowners in New Jersey, these more costly repairs are the ones most likely to be neglected due to limited income and often result in higher cost burdens over the long run. As a result, municipal officials who operate local home repair programs report that the vast majority of assistance they provide is for major repairs and replacements.

Further increasing the need for home repair assistance among lower income homeowners is New Jersey’s relatively old housing stock. Owners of older homes are much more likely to incur repair expenses as major systems deteriorate. In New Jersey, nearly half of the housing stock was built before 1960, compared to about one-third for the rest of the nation. The percentage of older homes is especially high in the state’s urban areas, exceeding 75 percent in the cities of East Orange (87 percent), Orange (84 percent),
Irvington (82 percent), and Newark (76 percent).\(^8\) Low- and moderate-income homeowners are especially likely to be concentrated in these aging homes.

Using housing age and homeowner income it is possible to estimate statewide need for home repair assistance. Based on these data, there are approximately 247,000 homeowners in New Jersey potentially in need of home repair assistance. This figure represents about 12 percent of homeowners statewide.\(^9\)

Home repair needs are even higher in lower income urban communities. In the urban Essex County municipalities, for example, where aging homes and homeowners on fixed incomes are disproportionately concentrated, more than one-third of homeowners are potentially in need of home repair assistance.\(^10\)

2. Finance and Contracting Industry Gaps

Adverse trends in the mortgage market and the home repair industry exacerbate the vulnerability of homeowners in need of home repair assistance.

A. Home Improvement Finance

In recent years, the market for home improvement finance has grown significantly. The volume of the New Jersey market has nearly doubled in the last decade from 16,000 home improvement loans made in 1993 to 30,000 in 2004.\(^11\) However, lower income homeowners face limited access to financing for home repairs.

Contributing to this disparity is the way in which home repairs are generally financed. According to a recent study, only one-third of remodeling expenditures were financed through home equity debt or unsecured credit (such as consumer loans or credit cards). By contrast, the vast majority of homeowners chose to use savings or tax refunds in part or whole to pay for remodeling. Younger homeowners, those with the capacity to assume debt, as well as homeowners financing large projects are most likely to use a financial product to pay for repairs.\(^12\)

Considering these home repair financing patterns, homeowners on limited incomes are more likely to require private financing or financial assistance to pay for repairs. However, these homeowners live in communities that are poorly served by mainstream banks and other providers of fairly priced consumer financial services. Moreover, when they are present in lower income communities, mainstream financial institutions are often reluctant to provide financing for the relatively small volume loans that characterize home improvement financing. As a result homeowners in these communities are limited to more costly providers of fringe financial services such as check cashers and costly
subprime lenders. As shown in the case studies below and in Appendix A, they also often fall victim to abusive financing and contracting practices.

**Abusive Home Repair Lending: Case Study**

Mr. H is an elderly widower living in East Orange. Mr. H’s wife, with whom he purchased his home in 1964, passed away in 1998. For several months in 2000, Mr. H was called persistently by a mortgage representative from XYZ Mortgage Company who encouraged Mr. H to refinance his mortgage. At the time, Mr. H had a $60,000 mortgage with an 8.7 percent interest rate, and monthly payments of $472. Having recently discontinued his part-time gardening work, Mr. H’s only source of income was $700 in monthly social security payments. Mr. H eventually agreed to refinance because he was promised a lower interest rate, lower monthly payments that would include his taxes and homeowner’s insurance, and extra money to make needed improvements to his home. All paperwork and loan processing was handled by the mortgage representative and Mr. H only had to show up at the closing and sign the documents.

Despite what he was promised, Mr. H's monthly mortgage payment increased from $472 to nearly $800 as a result of the refinance. Taxes and home owner’s insurance cost him an additional $150 monthly. Moreover, his mortgage increased from $60,000 to $93,000, with a higher interest rate of 9.6 percent. Because his monthly mortgage debt was now significantly higher than his monthly income, Mr. H was forced to apply the loan proceeds that he intended to use for home repairs to his monthly bills. When that money was exhausted, Mr. H defaulted on his refinance loan.

* Special thanks to Legal Services of New Jersey and to Genia Philip of Essex/Newark Legal Services for providing this example, which is based on an actual case. See Appendix A for additional cases.

Limited access to mainstream financial institutions has also left low-income and minority communities vulnerable to the aggressive marketing of high-cost home repair loans. Geographic analysis of bank branches and check cashing outlets in Essex County show disparities in the number of mainstream and alternative financial institutions in minority and low-income communities. As shown in Appendix B, gaps in bank service occur primarily in areas with high concentrations of African American, Hispanic, and low-income residents. By contrast, check cashing outlets are concentrated in minority and low-income communities, though even the distribution of these outlets shows gaps in service. As a result, residents of lower income and inner city communities are likely to pay higher costs for basic transactions. They also face limited access to depository institutions necessary for more complicated financial transactions such as home equity and repair loans.
There is further national evidence that subprime and high cost loans dominate the mortgage market in lower income, minority communities. A study by the U.S. Department of Housing and Urban Development (HUD) reported that subprime loans are three times more likely in low-income neighborhoods than in high-income neighborhoods and five times more likely in black neighborhoods than white neighborhoods. Even borrowers who would qualify for reasonably priced loans based on their credit history are often limited to more costly loans because of their race, ethnicity, or neighborhood. Recent studies of 2004 mortgage lending data showed that African-American and Latino borrowers are more likely to receive higher interest rate loans than white borrowers, even when controlling for legitimate risk factors such as income and credit score.

B. Nontraditional Mortgage Products

The ability of lenders to make loans beyond an appropriate margin of risk and press the limits of a borrower’s ability to repay has risen significantly in recent years due to the increasing use of nontraditional mortgage products. Nontraditional mortgage products allow lenders to use more flexible eligibility and repayment criteria in making mortgage loans. These products, including interest-only and payment-option loans, down payments are lowered and monthly payments are adjusted over the life of the loan based on interest rates and other factors that are often left to the borrower’s discretion. Through other nontraditional products, most notably “low doc” and “no doc” loans, lenders approve mortgage loans based on limited or no documentation of a borrower’s assets, employment, or income.

Nontraditional mortgage products are increasingly popular. The percentage of homebuyers making zero and near-zero down payments to purchase their homes was more than five times higher in 2004 than it was in 1990. While in 2000 only 1 percent of new borrowers nationwide chose interest-only loans, by midyear 2005 about 23 percent of borrowers were using them.

By relaxing underwriting criteria, alternative products allow consumers who understand the terms and inherent risks greater latitude to purchase or refinance a home, which is a common way to pay for needed repairs. However, for borrowers on limited incomes, unpredictable payment amounts or sharp payment increases, particularly characteristic of interest-only loans, can significantly increase the risk of excessive debt and foreclosure. These risks raise serious questions about homeownership as an asset-building tool and are especially high in the context of rising interest rates.

C. Home Improvement Contracting

Similar to the market for home improvement finance, the home improvement contracting and remodeling industry has experienced rapid growth in recent years. Between 1995 and 2003, the size of the home remodeling market increased by over 50 percent to $176 billion. However, this growth in remodeling has been fueled primarily by spending on high-end home improvements by upper income Americans. Like mainstream financial institutions, home improvement contractors are often reluctant to take on the small scale,
low volume projects that characterize home improvement spending by homeowners on limited incomes. As a result, lower income and elderly homeowners often report difficulty finding quality home improvement contractors to perform necessary repairs. This gap in service has left these homeowners vulnerable to the marketing of substandard or outright abusive home repair products.

Abusive contracting practices appear to be limited to only a segment of the home improvement industry. Nonetheless, problems with contractors doing incomplete or shoddy home improvement work are rampant statewide. In 2004, problems with home repair contractors made up the highest source of consumer complaints in New Jersey. That year, the Department of Consumer Affairs received 3,439 complaints about home repair contractors up from fewer than 2,000 in 2001 (see Figure 1) when they were the fifth highest source of complaints. 21

**Figure 1**

![Graph showing consumer complaints about home improvement contractors in New Jersey from 2001 to 2004](Source: NJ Department of Consumer Affairs)

Lower income, African-American, and urban communities are particularly poorly served by reliable home repair businesses. Municipal officials operating local home repair programs report that difficulty finding quality contractors greatly limits the effectiveness of local programs. Some municipal governments have begun experimenting with ways to connect vulnerable homeowners to quality contractors through contractor lists or volunteer training programs. A small number of local community organizations such as La Casa de Don Pedro in Newark operate effective home repair programs. However, although critical, these efforts serve a relatively small portion of vulnerable homeowners.

Recognizing the pervasiveness of problems with fraudulent or unscrupulous home improvement contractors, state legislation was enacted in 2004 requiring home repair
contractor to register annually with the Division of Consumer Affairs. Additional restrictions were imposed as well, requiring contractors to provide homeowners with a written contract when the cost of repair work exceeds $500. As of December 2005, approximately 15,000 out of an estimated 25,000 home improvement contractors in the state had complied with the new registration requirement, suggesting that getting all contractors to comply will be challenging.

Nonetheless, if accompanied by highly publicized and targeted enforcement activity, registration requirements will go a long way in helping to monitor contractors and limit abusive activity. The state should also explore policy efforts to expand the number of quality contractors serving vulnerable homeowners. Recommendations for strengthening the regulation of abusive contractors and expanding the service of reliable companies are detailed further in Section 4.

3. Response to Date

Existing policy and programmatic efforts to expand access to affordable home repair financing are insufficient to meet the need for these services among low- and moderate-income homeowners.

Recognizing the gap in affordable home repair financing available to low- and moderate-income homeowners, there has been some response. Banks, state and municipal governments, and community organizations have developed various efforts to provide affordable financing or grant funds and contractor services to homeowners in need of assistance. However, these responses have varied in their effectiveness and have not been adequately financed to fully meet the repair needs of existing homeowners.

A. Bank Home Repair Products

In recent years, many of New Jersey’s largest banks have developed programs to provide below market rate mortgage products to lower income homeowners. Many of these products have been developed to fulfill Community Reinvestment Act requirements, often through agreements negotiated with community organizations such as Citizen Action of New Jersey and the Housing and Community Development Network of New Jersey. In the past 10 years, the state’s 30 largest banks have pledged over $13 billion to finance below market rate mortgages, affordable home improvement loans, down payment and closing costs, affordable refinance loans, and other products. However, these pledges have not necessarily translated into sufficient home repair financing. Affordable home improvement loans account for only a small portion of pledges disbursed in comparison to other mortgage products. Furthermore, banks have varied in their ability to meet initial pledges.

Those banks that have fulfilled pledges to offer low-cost home repair loans often report low utilization of their products. The reasons for this low-utilization are not well understood.
understood, but several explanations are likely. First, vulnerable homeowners may be unaware of the availability of affordable bank products, again raising the need for more effective marketing and outreach to vulnerable homeowners. Extensive outreach is especially necessary in light of the aggressive marketing of predatory loan products and should be done in collaboration with community-based organizations, religious institutions, and municipal governments who are familiar with local needs and are likely to be the first point of contact for struggling homeowners.

There is a second possible explanation for the gap between the high need for affordable financing described above and the apparent low utilization of bank products. Although below market rate, these products may still not be affordable to some of the most vulnerable homeowners. It is likely that a portion of vulnerable homeowners may not have the capacity to assume even below market rate debt to cover repair costs. These homeowners require grant funds to meet repair needs, thus explaining the high demand for municipal assistance shown in Figure 2 below.

The challenges faced by the relatively small number of banks independently offering home repair loans warrants further examination, especially concerning whether the limited take-up of these programs is due to inadequate outreach or because they are unaffordable. In addition, further research should consider ways to engage additional lenders in making affordable home repair loans to homeowners targeted by abusive products.

B. Public Home Repair Financing

Through various programs the State of New Jersey commits substantial resources toward helping lower income homeowners maintain their homes. However, the effectiveness of these resources is limited since most state assistance can only be used to cover a limited range of repair such as weatherization or lead paint abatement.

Weatherization assistance accounts for perhaps the largest category of state home repair assistance for lower income homeowners. The New Jersey Weatherization Assistance Program, funded by the state at a level of $5.1 million in 2004, provides ratepayer assistance and financing for energy-related home repairs. This program only funds repairs that increase a home’s energy efficiency such as a replacement boiler or storm windows. In January 2004, the state also authorized $10 million annually for a Lead Hazard Control Assistance Fund to evaluate and control lead-based paint hazards in low-income housing. The program offers low-interest loans and grants for lead paint abatement and hazard mitigation projects.

| Most existing state home repair assistance can only be used to cover a limited category of repairs such as those related to weatherization or lead paint abatement. Past efforts to run broader home repair assistance programs have faced significant challenges and, as a result, have not generally been sustained. |
Apart from these large but restricted funding sources, past efforts to run broader home repair assistance programs at the state level have faced significant challenges and have not generally been sustained. A notable example is the Home Sweet Home program, which was launched by the Home Mortgage Finance Agency in 2000. The program committed up to $10 million for rehabilitation mortgage loans for eligible homeowners in high need areas. However, the program failed to make many loans and did not use the full allocation. According to some observers, the program’s strict underwriting standards in particular rendered many vulnerable homeowners ineligible.

Many urban municipalities throughout the state also operate small-scale programs devoted exclusively to financing a broader range of home repairs. These programs are usually funded using Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) and the HOME Investment Partnerships programs. They generally provide up to $25,000 in forgivable loans to eligible homeowners for critical home repairs. Repairs commonly funded include repair or replacement of damaged roofs and the upgrading of vital, aging systems such as heating, plumbing and electrical wiring.

**Figure 2**

<table>
<thead>
<tr>
<th>Number of Homeowners</th>
<th>Receiving municipal assistance*</th>
<th>On waiting list for municipal assistance*</th>
<th>In need of home repair assistance**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>140</td>
<td>1796</td>
<td>14304</td>
</tr>
</tbody>
</table>

* Data reported to author by officials operating home repair programs in each municipality in January 2005. Includes data for East Orange, Irvington, Orange, and Newark. Data for Newark is estimated since program was not operational at time of report.
** Estimate based on the number of homeowners earning below $50,000 and living in homes built before 1960.
Due to limited funding and staffing, municipal programs in areas with the high home repair needs are limited to serving a small portion of vulnerable homeowners. Home repair programs in urban Essex County demonstrate limited capacity to serve homeowners in need and as a result report long waiting lists (See Figure 2). In response to excessive demand for home repair assistance, several municipalities have simply stopped publicizing their home repair programs.

In addition to the many eligible homeowners who fail to receive assistance through existing programs, a significant number of homeowners who do not meet income eligibility criteria are also in need of home improvement assistance. Many homeowners earning more than 80 percent of area median income, which is the eligibility level for HUD programs, are also limited in their ability to make necessary repairs and are at risk of being victimized by unscrupulous lenders and contractors. Existing municipal programs often cannot support these homeowners who are critical for community stability.

Municipal officials also report limitations in their ability to assist homeowners whose homes are in need of more extensive repairs than existing programs can finance. Municipal programs generally set a maximum grant or loan amount of $20,000 to $25,000 per unit, allowing them to disburse loans to the maximum number of homeowners possible given limited budgets. However, as a result, they are limited in their ability to meet the rehabilitation needs of homeowners with the most extreme repair needs.

These two capacity limitations – income eligibility and limits on grant or loan amounts – can only be adequately addressed through the availability of greater and more flexible funds for home repair. The following section recommends a strategy for enhancing the availability of financing and other resources for vulnerable homeowners.

4. Recommendations: Preserving Affordable Homeownership

The need for a targeted homeownership preservation strategy at the state level is clear. To better protect vulnerable homeowners and preserve affordable homeownership opportunities, the state should develop a targeted, well-publicized strategy to expand affordable home repair financing and improve access to quality contracting services. A demonstration program providing affordable financing and contracting services in a high need area would help to model effective practices.

Several key components of such a strategy include:

A. Increased Affordable Financing

Most critical for advancing state efforts to preserve affordable homeownership opportunities in New Jersey is increased affordable financing made available to vulnerable homeowners for maintaining and rehabilitating their homes.
As demonstrated above, the gap in affordable home repair financing available to vulnerable homeowners is a major factor contributing to the flourishing of abusive lenders. In response, the state should commit resources to launching a demonstration program in a high-need area. Resources should be sufficient to demonstrate noticeable impact in the targeted area. Ideally, such an area would include several high need neighboring municipalities in order to test strategies to leverage existing resources and better coordinate services across municipalities.

Further research is necessary to determine potential sources for additional grant funds. One potential source is the Balanced Housing trust fund, which is reserved for the creation and rehabilitation of low- and moderate-income housing, but is not being fully utilized. Additional state funds for home repair would go a long way in helping to better protect homeowners. Given the scale and diverse home repair financing needs of lower income homeowners, it is unlikely that grant funds alone will be sufficient to close the gap. There are a significant number of low-income homeowners who require assistance but cannot afford to assume debt to finance critical repairs. For these homeowners, grant support will be critical. However, those homeowners who can afford to assume a small amount of below market rate debt based on their income and credit profile can benefit from subsidized home repair loans. In other words, to maximize its ability to serve vulnerable homeowners, an effective home repair assistance program should include some combination of grant funds, soft or below-market debt, and conventional debt capital.23

1. Leveraging Private Capital

In order to maximize the reach and effectiveness of a model home repair program, a pool of loan funds is needed to provide low-cost home repair loans to vulnerable homeowners. Programs that provide only grant funds are limited to serving a small number and limited profile of borrowers. They make loans only to homeowners on limited incomes and until grant funds are exhausted, often leaving hundreds of homeowners unassisted. Blending grant funds with loan funds allows the possibility of providing a range of products, including grants, low-cost loans, or a combination of grants and loans depending on the financial profile of the homeowner and their capacity to assume debt.

Various issues would need to be resolved to develop appropriate financing. First, a source for loan funds needs to be identified. A viable approach would involve reaching out to banks already offering low-cost home repair loans and supporting better outreach and marketing of affordable products to increase usage. Bank funds could also...
supplement grant funding from public sources. Through this combined strategy, grants could be used in various ways to make the loans more affordable to homeowners. Grant funds could be used to lower the effective interest rate on the home repair loan or to reduce the overall amount of the loan. State funds could also be used to establish a loan loss reserve to support banks that provide low-cost financing to vulnerable homeowners using flexible lending criteria.

Other options for maximizing available loan financing include using federal Title I or 203(k) funds to insure home repair loans thereby lowering the risk taken on by bank or lending partners. Rarely used currently in New Jersey, the 203(k) program provides insurance for mortgage loans made for the purchase and rehabilitation or refinancing of homes with significant repair needs. The Title I program provides insurance for stand alone affordable home repair loans of up to $25,000. Local community development financial institutions (CDFIs) or intermediary financing organizations such as Fannie Mae, Freddie Mac, or state financing agencies would be well positioned to purchase or to provide partial insurance or to purchase loans that incorporate flexible underwriting criteria.

A significant challenge to offering affordable loans will be developing the capacity to underwrite loans into a publicly run program. Underwriting has posed a challenge for past state home repair programs since many borrowers have limited income and credit histories and the public sector has limited capacity to underwrite loans. To alleviate the potential burden on the public sector, alternative underwriting models should be considered. As a general principle underwriting criteria should be as broad as possible to maximize the number of homeowners assisted. Inflexible underwriting criteria have been a hindrance to the wide usage of previous state home repair programs. Many banks offering below market rate loans have been willing to broaden underwriting criteria, for example, relaxing standards for debt-to-income ratios, equity requirements, and credit scores particularly where loans are insured by public funds. Effective community programs, such as the Fix Up Fund in Cleveland have also successfully experimented with more flexible underwriting criteria.

2. Integrating Existing Sources

Given that weatherization funds are a major, albeit limited, source of funds used for energy-related repairs, a potentially effective financing strategy should layer these targeted funds with grant and loan funds that can be used for more general repairs. In 2002, the Ford Foundation launched a 5-year initiative in several cities, including Camden, to combine energy funds and other forms of housing assistance to address the rehabilitation needs of low-income families. La Casa de Don Pedro in Newark has also developed a home repair grant program that will combine state weatherization grants with funds from other sources. Leveraging energy funds and the existing delivery infrastructure helps to maximize assistance available to homeowners.
B. Expanded Quality Contracting

A second major component of an effective homeownership preservation strategy is improved access to reasonably priced, high quality home repair contracting services.

1. Improving Access

Improving access to home repair contractors is critical given the limited supply of quality contractors serving lower income neighborhoods and the rampant activity of abusive contractors. Improving access to quality home improvement contracting requires a dual strategy of tightly regulating unscrupulous businesses as well as creating incentives for quality contractors to expand service.

A model program should also provide homeowners with access to independent contracting experts who help develop work specifications and monitor and review repair work. This role is a key component of several municipal programs in New Jersey as well as model programs in other cities such as the Chicago and Cleveland NHS programs and the Cleveland Fix Up Fund, all of which have construction specialists on staff. These programs also assist homeowners, to the extent allowable by law, in finding reliable contractors, mainly by distributing approved contractor lists to program participants.

Additional options for expanding access to reliable contracting services include partnering with community organizations already providing these services at a small scale. La Casa de Don Pedro in Newark is a notable example of a community-based home repair program providing contractor services. Neighborhood Housing Services of Minneapolis also offers a home-repair contracting service called the Home Owners Prevention Service (HOPS), through which homeowners pay a nominal monthly fee based on their income to cover the costs of minor repairs done by HOPS staff. Other local community organizations that can be engaged in a municipal effort to expand access contractor services include Rebuilding Together, Habitat for Humanity, and YouthBuild, which provide similar services.

2. Regulating Abuse

The Contractor’s Registration Act is a significant development with respect to regulating abusive contractors. Ongoing efforts are necessary to ensure that the Act is implemented successfully and assess what, if any, refinements are necessary. A critical challenge for Consumer Affairs will be ensuring that as many of the estimated 25,000 contractors in the state as possible comply with the Act’s requirements. As part of an overall focus on ensuring implementation, Consumer Affairs should plan highly publicized and targeted enforcement measures, including potential actions against violators and upgraded steps to
ensure that municipalities do not grant permits to unregistered contractors. The agency should also undertake an independent evaluation of the Act’s implementation to measure contractor compliance.

Municipalities that maintain contractor lists for their home repair programs should consider sharing and coordinating their lists to ensure that abusive companies working in various municipalities are limited and that homeowners are aware of quality providers. Municipal home repair programs should also streamline programs to ensure that slow or complicated requests for proposals and payment processes do not deter reliable contractors from serving targeted homeowners.

Additional policy incentives to encourage quality contractors to serve vulnerable homeowners should be explored. The home improvement contracting industry, including organizations such as National Association of Home Builders Remodelers Council, should be consulted and fully engaged in the development of strategies to expand quality service since the contracting industry at large also benefits from limiting the practice of abusive companies.

C. Marketing and Outreach

Thorough marketing and outreach are critical for ensuring that newly developed affordable products reach vulnerable homeowners considering the pervasive and aggressive marketing of abusive products.

Both public and private home repair programs report difficulty reaching target homeowners with their alternative products. This difficulty is due in part to the fact that few lower income homeowners consider using mainstream financial providers when making home repairs. As indicated earlier, a relatively small portion of home repairs are paid for with a financial product as compared to other sources of funds such as savings. Those homeowners who do pursue financing are often limited to the aggressively marketed abusive products common in lower income communities.

To ensure that homeowners are aware of alternative products, it is necessary to overcome this aggressive marketing. State-sponsored affordable products must be heavily marketed in communities where vulnerable homeowners are concentrated. Collaboration with community development and faith-based organizations already serving vulnerable communities is a critical strategy for effective outreach. These organizations are generally familiar with local communities and the history and condition of local homes. They also often serve as the first point of contact for homeowners experiencing difficulty with maintenance.
D. Education and Counseling

There is significant evidence that individuals with limited education and financial sophistication are more likely than others to use subprime loans. Although most subprime loans are not necessarily abusive, predatory loans are concentrated in the subprime market. The state should consider launching a large scale educational campaign to ensure that vulnerable homeowners understand the general maintenance and rehabilitation needs of their homes, incorporate these needs into their budget, and avoid abusive lending and contracting practices.

Additional efforts should focus on providing counseling and loan restructuring assistance to homeowners facing foreclosure as a result of predatory or abusive loans. Counseling efforts should fully engage the existing homeownership counseling community who have expertise in this area but who have not focused heavily on existing homeowners. One exception in this respect is foreclosure prevention counseling efforts, which have been expanding nationwide in recent years.

Broader counseling efforts should consider existing effective models such as the Homeownership Preservation Foundation’s homeowner hotlines, which provide foreclosure prevention counseling and other resources to vulnerable homeowners. NHS Cleveland also offers a homeowner post-purchase counseling course, which they require for homeowners who apply for their foreclosure prevention loan program. This requirement creates an incentive for participation in prevention counseling given that many homeowners are reluctant to participate otherwise.

In addition to counseling and loans, preservation efforts should aim to provide legal assistance and reliable access to other necessary related services for repair and foreclosure prevention such as competent attorneys, appraisers, project managers, and financial advisors.

E. Regulation of Abusive Practices

Several critical regulatory steps have already been taken by the state to protect homeowners from abusive lending and contracting practices. Most notably, the New Jersey Home Ownership Security Act regulates abusive lending practices, and more recently, the Contractor Registration Act requires all home contractors...
to register with the state. Still, there is a need for continued regulatory efforts to limit persistent abusive practices. Several options should be considered.

First, the Department of Banking and Insurance should continue to use its annual examination of financial institutions to reveal and reduce problematic lending practices, particularly high cost or abusive home repair lending. Second, the legal framework related to mortgage brokers should be further refined considering their critical role in mortgage transactions and their potential role in abusive lending. Third, limits on mandatory arbitration clause, which can prevent victims of abusive lending from obtaining legal redress, should be considered. Finally, as indicated above, the 2004 Contractor Registration Act should be strictly enforced and accompanied by highly publicized enforcement activity as well as appropriate actions against violators. The Department of Consumer Affairs should also consider targeted efforts to identify the communities where abusive practices are concentrated and allocate enforcement resources accordingly.

5. Conclusion: Further Research and Next Steps

A moderate scale demonstration program to provide affordable financing and contracting services in a high need area would not only begin protecting vulnerable homeowners, but it would also help provide some of the critical information necessary for developing a larger scale effort.

There is an urgent need for a targeted homeownership preservation strategy in New Jersey. In order to prevent further erosion of community development and asset building efforts, the state should strengthen its efforts to protect the wealth of low- and moderate-income homeowners. The key components of a program to model effective home repair delivery and services in select high-need areas are laid out above. It should provide multi-tiered affordable financing, access to quality home repair contractors, and incorporate extensive outreach and counseling through community organizations.

There are also several areas where further information is needed to refine a large scale strategy for homeownership preservation. First, further research is needed to understand the scale and nature of homeowner needs with respect to rehabilitation. This analysis would help identify the precise number of homeowners in need of assistance, the most common rehabilitation needs of vulnerable homeowners, and the typical costs of these repairs.

Second, further analysis is needed to determine the most suitable funding arrangements for a model home repair program. Although it is clear that the demographic profile of vulnerable homeowners is diverse, particular information about available income and savings for repairs, the capacity and willingness to assume debt, and other information about potential clients that would inform the financing structure of a large-scale program are less clear.
Finally, effectively engaging mainstream financial institutions and home repair contractors will require a more comprehensive assessment of existing barriers that prevent these industries from more adequately serving vulnerable communities.

Developing a demonstration program to provide affordable financing and contracting services in a high need area would not only begin protecting vulnerable homeowners, but it would also help provide some of the critical answers necessary for a larger scale effort.
Appendix A:
Abusive Home Repair Lending – Additional Case Studies*

1. Mr. H, East Orange, NJ
Mr. H is an elderly widower. His wife, with whom he purchased his home in 1964, passed away in 1998. For several months in 2000, Mr. H was called persistently by a mortgage representative from XYZ mortgage company who encouraged Mr. H to refinance his mortgage. At the time, Mr. H had a $60,000 mortgage with an 8.7 percent interest rate, and monthly payments of $472. Having recently discontinued his part-time gardening work, Mr. H’s only source of income was $700 in monthly social security payments. Mr. H eventually agreed to refinance because he was promised a lower interest rate, lower monthly payments that would include his taxes and homeowner’s insurance, and extra money to make needed improvements to his home. All paperwork and loan processing was handled by the mortgage representative and Mr. H only had to show up at the closing and sign the documents.

However, as a result of the refinance, Mr. H’s monthly mortgage payment increased from $472 to nearly $800, not including taxes or homeowner’s insurance, which cost him an additional $150 monthly. Moreover, his mortgage increased from $60,000 to $93,000, with a higher interest rate of 9.6 percent. Because his monthly mortgage debt was now significantly higher than his monthly income, Mr. H was forced to apply the loan proceeds that he intended to use for home repairs to his monthly bills. When that money eventually ran out, Mr. H defaulted on his refinance loan.

2. Mrs. S, Elizabeth, NJ
In 1991, Mrs. S inherited a multi-family home from her recently deceased aunt and uncle. Mrs. S moved into one of the apartments and rented the other to her son and his girlfriend. In early 2001, while visiting a nearby friend, Mrs. S met a home improvement contractor from ABC Construction Company who was in her neighborhood selling home improvements. That same day, she invited the contractor to visit her home and he offered to fix her entire home, including a new roof, replacement windows and updated electrical and plumbing systems, for approximately $55,000. ABC also referred Mrs. S to a financing company to originate the home improvement loan, including a portion to cover outstanding taxes and liens on her property.

Because her less than $700 a month in Social Security benefits was not nearly enough to qualify her for such a large loan, the company suggested that her son’s girlfriend co-sign the loan. The two women made a telephone application for a 30-year, $62,000 loan with a 10.2 percent fixed interest rate. Unbeknownst to Mrs. S, in order to qualify her for the loan, the mortgage company altered the deed to her home granting her son’s girlfriend 50 percent ownership. Of the total loan amount, over $27,000 paid municipal real estate tax and public utility liens, $28,000 paid for the home improvements, and over $6,000 paid for points, fees, and other closing costs associated with the loan. The home improvement contract, which Mrs. S eventually signed, did not include a total cost for the work or a description of the work to be completed and ultimately only her windows and roof were replaced.

* Special thanks to Legal Services of New Jersey and to Genia Philip of Essex/Newark Legal Services for providing these examples, all of which are based on actual cases.
3. Mr. and Mrs. R, Glen Ridge, NJ

In January 1999, the R’s, who own a home in Glen Ridge, were telephoned by a representative from a home improvement company. The following month a contractor from the company visited their home and discussed a contract for kitchen renovations. The contractor encouraged the R’s to add vinyl siding to their home as well, indicating that with the two renovations, they would get a better deal. Weeks later, the R’s agreed to $25,000 of home improvements including full kitchen renovation and new vinyl siding, gutters, and window casings.

The contracting company arranged for financing for the repairs through a partner financial company. One Saturday evening in late February, the R’s signed a stack of loan documents brought to them by the contracting company. They were not given an opportunity to read through any of the documents. It was later revealed that many of the loan documents were falsified with erroneous dates and inflated incomes so that the R’s could qualify despite their limited incomes. The loan with an 11.99% interest rate also contained elements commonly considered predatory such as prepayment penalties, a one-sided arbitration clause, and a “simple daily interest” rate, which artificially inflated the interest payments on the loans. As a result of the daily increases in their outstanding interest, the R’s monthly payments barely covered interest payments and the amount owed for principal barely decreased.

To make matters worse, the repairs made to the R’s home were faulty and incomplete. They were left with a leaking sink and refrigerator, broken cabinets, and the refrigerator and tiles used were of lesser quality than the ones they selected. As a result, the R’s were forced to incur additional costs for further repairs and corrections. Despite their requests to the contrary, the R’s never received the loan proceeds; the loan was paid directly from the lender to the contractor. Thus they could not withhold payment pending proper completion of the work. When they refused to make loan payments in response to their various grievances, the lender sent them a default notice and initiated foreclosure proceedings.
Appendix B:
Access to Financial Services in Essex County – GIS Maps

Essex County, NJ, Municipalities (2005)

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Data Sources:
- SSRI GIS data
- US Census of Population and Housing
- Federal Depository Insurance Corporation
- New Jersey Department of Banking

This map was developed using New Jersey Department of Environmental Protection Geographic Information Systems digital data, but this secondary product has not been verified by NJDEP and is not state-authorized.

** Thanks to Giovani Graziosi (Ph.D. Geography Program / Rutgers University) for developing these maps.
Endnotes

1 “Low- and moderate-income” and “lower income” are used interchangeably throughout this report. Unless indicated otherwise, these terms refer to households earning 80% of median income, which is the New Jersey statutory ceiling for defining “low and moderate income” as well as the Federal criteria for “low income” households.

2 From 1997 to 2003, the rate of growth in the percentage of home purchase loans made to low- and middle-income borrowers (42% and 38%, respectively) outpaced the growth in the portion of loans made to high income borrowers (32%) during the same period (Home Mortgage Disclosure Act, Federal Financial Institutions Examination Council). The amount of mortgages purchased in New Jersey by Fannie Mae, one of the major purchasers of mortgages made to low- and moderate income individuals nationwide, increased from approximately $4 billion in 1995 to $20 billion in 2005. From 1995 to 2005 the total number of mortgage loans, including refinances, purchased by Fannie Mae was over 1.1 million, amounting to approximately $179 billion in loans.

3 Josephine Louie, Eric S. Belsky, and Nancy McArdle, “The Housing Needs of Lower-Income Homeowners” (Joint Center for Housing Studies, Harvard University, August 1998).


7 American Housing Survey for the Northern New Jersey Metropolitan Area, 2003. Table 3-13. Figure includes 14 counties (Bergen, Essex, Hudson, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, Warren).

8 U.S. Census, 2000


13 One study estimates that households without bank accounts spend up to three times more for basic services such as check cashing than do consumers with accounts at mainstream financial institutions. See Williams, Marva and Nieman, Kimbra, “The Foundation of Asset Building: Financial Services for Lower-Income Consumers” (Woodstock Institute, 2003) at www.woodstockinst.org/.


15 Debbie Gruensten Bocian, Keith Ernst, and Wei Li, “Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages” (The Center for Responsible Lending, May 31, 2006), at


19 Federal regulators have recently expressed concern about the risk to portfolios containing non-traditional mortgage products in the context of rising interest rates. See “Credit Risk Management Guidance for Home Equity Lending”, Federal Deposit Insurance Corporation (FDIC) Press Release (May 16, 2005) at www.fdic.gov/news/press/2005/pr4405a.html. Consumer advocates have also raised concern citing early evidence that alternative products place low-income and minority borrowers at greater risk since they are more likely to use alternative mortgage products and to misunderstand the risks involved. See for example, Consumer Federation of America, Press Release (July 26, 2004) at http://www.consumerfed.org/pdfs/ARM_survey_release.pdf.


21 In November 2005, the New Jersey Attorney General filed a lawsuit against seven home improvement contractors on behalf of homeowners alleging that “the contractors either failed to start work after receiving deposits, made substandard repairs, performed electrical or plumbing work without being licensed to do so, commenced work without obtaining the required permits, performed unauthorized work, or failed to complete repairs resulting in additional damage to consumers’ homes.” See New Jersey Office of the Attorney General, “Attorney General Harvey Files Suit Against Seven Home Improvement Contractors”, (Release November, 3 2005) at (http://www.njconsumeraffairs.com/press/harveycomp.htm).

22 This common ceiling on home repair grants and loans is also in part an attempt to avoid triggering potentially costly lead paint testing and abatement requirements. The HUD “Lead-safe Housing Rule” requires that any surface to be disturbed in a home built before 1978 and receiving over $25,000 in HUD rehabilitation assistance be tested for lead-based paint and that all hazards be abated. See http://www.hud.gov/offices/lead/leadsaferule/summary.cfm for further details.


24 In addition to flexible underwriting, an effective program should also incorporate broad eligibility criteria considering the diverse profile and repair needs of vulnerable homeowners. Past proposals for affordable home repair financing have focused on a single vulnerable group, such as the elderly, or a particular need, such as weatherization or lead paint. A bill introduced by Senator Ron Rice (S2381) in March 2005, for example, proposed providing $10 million to help elderly homeowners make necessary home repairs. The elderly are a particularly vulnerable population with respect to lending and contractor abuse, but a program targeted solely at elderly homeowners would be limited. While 50 percent of lower income homeowners have an elderly or disabled family member in their home, half do not. According to a national study, many lower-income homeowners struggling with repairs are single parents with children. (Josephine Louie et al, “The Housing Needs of Lower Income Homeowners”, Joint Center for Housing Studies, Harvard University, August 1998, p. 5-6).


27 For example, NeighborWorks America recently announced a partnership with the Homeownership Preservation Foundation to provide homeownership education and foreclosure prevention assistance nationwide. See http://www.nw.org/network/newsRoom/pressReleases/2005/netNews112205.asp.

28 See http://www.hpfonline.org/processPrograms/programs.html.