

U.L. v. Carteret (Assuming), Ascataway Dec 3, 1984

Letter from Daines to Gelber summarizing phone  
conferences

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**K. HOVNIANIAN COMPANIES OF NEW JERSEY, INC.**

10 HIGHWAY 35, P.O. BOX 500, RED BANK, NEW JERSEY 07701 ☐ (201) 747-7800

December 3, 1984

Bruce S. Gelber, Esq.  
National Committee Against  
Discrimination in Housing  
733 15th Street, N.W.  
Washington, D.C. 20005

RE: K. Hovnanian Companies' Proposal for  
Development of Affordable Housing at  
Society Hill at Piscataway

Dear Mr. Gelber:

This letter/memorandum will summarize the several telephone conferences which we held pertaining to your Memorandum of October 31, 1984. We appreciate the cooperation of yourself, Alan Mallach and the National Committee Against Discrimination in Housing in working with us in order to devise a mechanism for monitoring sales and resales of these affordable homes which balances the goal of retaining these homes in the pool of affordable homes against the pragmatic realities inherent in the construction and lending industries. As represented to the Court and yourself, it is the desired goal of K. Hovnanian at Piscataway, Inc. that the Township of Piscataway receive full "credit" for these 55 moderate and 54 low income homes towards its fair share of lower income homes. With this goal in mind, it is my understanding that we resolved the issues raised in your Memorandum as follows:

- (1) Median Income: For purposes of determining affordability, 94% of the median income for the Middlesex-Somerset-Hunterdon PMSA will be used for Piscataway.
- (2) Family Size: A family of 5 for a 3 bedroom unit and a family of 3 for a 2 bedroom unit will be used for appropriate income limits determination.
- (3) Housing Coefficients: We have verified that the mortgage coefficients for each of the interest rates were in fact transposed and will correct same. With respect to the insurance coefficient, it was agreed that our coefficient was reasonable in lieu of the fact that the homeowner under the condominium form of ownership does not insure the structure. The homeowners association obtains insurance coverage on the structure and the insurance premium for this is included in the homeowners dues. The only insurance coverage being obtained by the homeowner is personal property and liability. With respect to the homeowners association dues coefficient, the estimated fees were based upon actual fees levied in several of our projects. The following is a sample list of comparable projects and the respective association dues:

| <u>Project</u>                | <u>Location</u> | <u>Dues</u> | <u>Est. Annual<br/>Avg. Dues/<br/>Unit \$10,000<br/>Value</u> | <u>Value</u> | <u>Gross<br/>Coefficient</u> | <u>33%<br/>Coefficient</u> |
|-------------------------------|-----------------|-------------|---|--------------|------------------------------|----------------------------|
| Society Hill East II          | East Brunswick  | \$59        | \$75,000  | \$ 94        | .0094                        | .003                       |
| Society Hill East             | East Brunswick  | 45          | 74,000  | 72           | .0072                        | .0023                      |
| Club at Morris                | Lincoln Park    | 65          | 70,000  | 111          | .0111                        | .0036                      |
| Society Hill at Lawrenceville | Lawrenceville   | 42          | 77,000  | 65           | .0065                        | .0021                      |
| Society Hill at Hamilton      | Hamilton        | 49          | 63,000  | 93           | .0093                        | .003                       |
| Society Hill at Somerset      | Franklin        | 71          | 74,000  | 115          | .0115                        | .0038                      |
| Club at Mattix Forge          | Mattix Forge    | 70          | 62,000  | 135          | .0135                        | .0045                      |

Based upon the above, it was agreed that a coefficient of .005 was more than adequate to assure the affordability of these home. It was further agreed that we would not guarantee or ensure these fees.

(4)(a) no comment

(4)(b) It is our understanding that the Township of Piscataway has in fact committed to establish such an Agency, or cooperate with a similar agency of a nearby municipality.

(4)(c) Such clarificaton will be made.

(4)(d) After a long and productive telephone conference between Alan Mallach, Robert Scott, Jr., yourself and myself, it was agreed that for purposes of calculating the maximum affordable sales prices of these units, the interest rate to be used for calculating sales prices regardless of the specific mortgage rate of any individual buyer would be the greater of (1) the current index of one year Treasury bills plus two points and (2) two points less than the best available fixed rate mortgage. A developer would then be able to fix his sales prices at time of contract execution without having to purchase funds for mortgages in order to fix the interest rate. The sales prices would be adjusted quarterly to reflect changes in the one year Treasury bill index and/or changes in available fixed rate mortgages. In the alternative, the developer could obtain a commitment for 30 year fixed rate mortgages in sufficient quantity to provide financing for all of the affordable homes to be included within the development, in which event, the interest rate of the 30 year fixed rate program would be used for purposes of calculating sales prices even if such rate was lower than 1 and 2 above.

We did begin discussions addressing developer programs other than fixed rate 30 year programs, however, we deferred resolution of this important issue to give both sides an opportunity to analyze it further. It was agreed, however, that we were not seeking to restrict the programs which could be used, but were attempting to provide the methodology for determining the appropriate interest rate to be used for calculating the sales prices of these homes. The two major concerns we focused upon were "payment shock" (significant increases in payments) and foreclosure risk

(inability to continue meeting payments over life of the mortgage due to substantial, albeit gradual, increases in required payments over the life of the mortgage).

Conceptually, we explored the possibility of placing a limit on the percent (ie, 7 1/2%) by which the monthly payments can increase each year during the first 5 years of the program. If the percentage increase exceeded this limit, then the average payment rate during the initial 5 year period would be used for calculating the sales prices. Furthermore, we were considering whether the market place already adequately protected itself and these buyers against foreclosure by use of qualifying criteria. We agreed that it was not essential to resolve this issue of builder programs immediately because we had reached a consensus with respect to use of the one year Treasury bill index, however, we did agree to work expeditiously towards resolution of this matter so that it would not impede final approval of and sales in Society Hill at Piscataway.

- (4)(e) With respect to phasing, we agreed to the following schedule which we feel provides adequate assurance that these affordable homes will be completed, yet, does not create additional expenses which could result from an unduly restrictive schedule:

| <u>Maximum Number<br/>of Market Unit CO's (436)</u> | <u>Minimum Number of "Mt. Laurel"<br/>CO's Required Before Max Permitted</u> |
|---|--|
| 20% - 87 units                                      | 0  |
| 30% - 131   | 10% - 11   |
| 50% - 218   | 20% - 22   |
| 60% - 262   | 45% - 49   |
| 70% - 305   | 70% - 77   |
| 100% - 436  | 100% - 109   |

We appreciate the participation, input and cooperation of the NCDH. We will provide for the inclusion of the above comments in the Affordable Housing Plan and will recalculate the sales prices so as to reflect these changes. We will forward a revised Plan for your review as soon as possible. Upon receipt, consistent with our understanding of the statements by the Honorable Eugene D. Serpentelli, J.S.C. during the hearing held on November 14, 1984, we would ask that you review and advise the Court when it meets with your approval so that a Consent Order may be rendered. In the meantime, it is our understanding that we may proceed towards obtaining the approvals of the pending applications with respect to Society Hill at Piscataway.

Again, thank you for your cooperation and assistance in helping to expeditiously resolve this matter so that our pending applications may proceed in a timely manner.

Very truly yours,

K. HOVNIANIAN COMPANIES OF NEW JERSEY, INC.



Donald R. Daines  
Associate Legal Counsel

DRD:jac

cc: Honorable Eugene D. Serpentelli, J.S.C.  
Philip Paley, Esq., Township Attorney  
James Nolan, Esq., Planning Board Attorney  
Michelle Donato, Esq., Board of Adjustment Attorney  
Barbara Williams, Esq.  
Richard Scalia  
All Counsel on Annexed List