

An Interview with Joseph W. Grimsley



Joseph W. Grimsley, 46, has been secretary of the N.C. Department of Natural Resources and Community Development (NRCD) since August of 1981. Reared in Wilson, N.C., where he was a boyhood chum of Gov. James B. Hunt, Jr., Grimsley studied at the University of North Carolina at Chapel Hill (B.A., 1961) and George Washington University (M.A., 1964). He worked with the Peace Corps from 1963-68 and then joined the Coastal Plains Regional Commission in 1968. "I have been in and out of the Department of Administration since 1968," says Grimsley, "where I've seen the whole (housing development) process take place." The early state housing studies were based in the Department of Administration, where Grimsley has been a program development assistant (1970-71), assistant secretary (1973-74), and secretary (1977-79, 1981). Grimsley interrupted his tenure at the Department of Administration to work as a special assistant to Jim Hunt (1974-75) and to lead Hunt's successful campaigns for lieutenant governor (1972) and for governor (1976, 1980). For more information on the major housing program within NRCD, see the article on page 16. Bill Finger and Priscilla Cobb conducted this interview with Mr. Grimsley on June 25, 1982.

What do you feel are the most serious housing problems in the state?

Housing for the very poor. In the last ten years we've made a lot of improvement; we've reduced the substandard housing by 50 percent. When I grew up in rural eastern North Carolina, there were a lot of houses that were sitting out in the countryside with poor people in them. You ride along those roads now and most of those folks don't live there any more. Many of them have moved into improved subsidized housing in town or FmHA [Farmers Home Administration] housing.



Photo by Paul Cooper

But today the affordability of housing is an absolute disaster. The marketplace problems that upper- and middle-income homebuyers face may be affected by short-term changes in interest rates. But the long-term solutions to the shortage of good housing for low-income people are still very serious. The state has 194,000 substandard housing units. Housing for the elderly, who live on fixed incomes, is going to be a continuing problem as our population ages. The only way low-income people will receive housing in the future is through government involvement. We don't see the private sector building low-income housing without some public support.

What is the state's role in housing?

We see ourselves in state government as having a gap-filling role in the housing field. The gap-filling area has to be viewed as the low- and moderate-income area. I have been in and out of the Department of Administration, in different roles, since 1968. I was involved in the preparation of the state's housing elements and in the development of the N.C. Housing Corporation.

I've seen the whole process take place. The state posture has been to keep an eye on housing and monitor it and, where it was appropriate within a reasonable amount of resources, to step in and take a position or action. We felt that the feds have the major-league role in housing. We also knew that a lot of local communities were very intent on keeping their programs, particularly public housing. So we maintained our gap-filling role.

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An Interview with Gary Paul Kane



Photo by Paul Cooper



Gary Paul Kane, 39, has been executive director of the North Carolina Housing Finance Agency (HFA) since February of 1981. An attorney (University of California at Berkeley, 1966), Kane has served as tax counsel for the state of California, vice president and general counsel for the California Housing Finance Agency, and counsel to eight local California redevelopment agencies. From 1979-1981, he served as secretary and counsel to the Mortgage Roundtable, a group of 16 chief executive officers from major financial institutions, in Washington, D.C. While in Washington, Kane also administered HFA programs for the U.S. Department of Housing and Urban Development and served as counsel to the National Association of Home Builders. For more information on the N.C. Housing Finance Agency, see the article on page 2. Bill Finger and Priscilla Cobb conducted this interview with Mr. Kane on June 25, 1982.

What are the most serious housing problems in the state?

There are really two, but these are the same kinds of housing problems that exist everywhere. One is the number of substandard units that exist, by whatever definition you want to use. The second is the problem of affordability; people can simply not afford to buy a new house now. Many cannot afford the rents for a newly constructed apartment building.

Are there any problems peculiar to North Carolina within those two?

No, I don't see anything peculiar here. There are a large number of people moving into the state. Therefore there's going to be a greater need for housing in this state than there might be in other states.

How about the fact that we're a very rural state?

I don't think there is anything peculiar about rural rather than urban areas. There are substandard units in both areas and a lack of needed units in rural as well as urban areas. One difference in North Carolina is in the size of apartment projects. In states with substantial urban populations, these apartment projects consist of 150-200 units. The apartment projects that we finance in this state mainly consist of 30, 40, and 50 units, serving smaller size communities. That's a reflection of perhaps the more dispersed nature of the population of this state.

What responsibility do you have for developing and implementing a housing policy in North Carolina?

A housing finance agency is one component of the overall attempt to satisfy the housing needs of the state. We attempt to address the needs of one segment of the population — low- and moderate-income families. We attempt to provide money that might not otherwise exist so that housing can be developed for those people.

Is that a part of a current housing policy for North Carolina?

The state has a commitment to housing, expressed through various mechanisms — the Housing Finance Agency, the Department of Insurance, and others. Ours is one component of that overall picture.

What do you view as the major housing programs in the state today?

First there are privately financed housing programs by savings and loan associations and others,

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Do you still think of yourselves that way?

For the moment, but I'm looking forward to the Ruth Cook Study Commission report [Housing Study Commission chaired by Rep. Ruth Cook, see page 44.] That commission is delving deeper into housing than the state ever has before. It is an exciting project because before this it was tough get a lot of attention to housing.

As long as I have been in this business I have never seen a grassroots clamoring to make housing a top issue in North Carolina. I don't think we ever set out to have a major housing effort at the state level. I don't think any former governor has ever felt that housing was to be a major area. The state did not view itself as being a major factor in the housing industry.

Do you think it does now?

I can't say it does but it's the first time we've had a structure — the study commission — that has incorporated such a broad, in-depth perspective on housing. It can raise issues regardless of the power structures, the political bases, and the special interests. I think a new awareness is going to come from the Cook effort. I believe that in 1983 or 1984 we're going to see another move in housing

at the state level. I don't know exactly what it's going to be. But there will definitely be some progress made in the further involvement of state and local government. Housing may be the medical care issue of the 80s and 90s.

Do you think the state needs a housing policy?

We continually need to be involved in housing, and I think we have a housing policy in a sense. We view housing as an important element in the quality of life in North Carolina, as an important element of economic development. The state of North Carolina has decided that the low- and moderate-income people deserve access to affordable housing so they've gone to a subsidized financial group with the HFA [N.C. Housing Finance Agency]. Establishing the HFA was a major commitment, putting money into the housing business and having the HFA borrow in the state's name. Our willingness to take on the CDBG program [Community Development Block Grant, from the U.S. Department of Housing and Urban Development (HUD)], shows we are now taking on some responsibilities.

What executive-branch department is responsible for developing and implementing a housing policy for the state?

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without any government subsidy or interference. Then there are the heavily subsidized federal programs, which let you reach the really low-income families; these are the HUD [U.S. Department of Housing and Urban Development] and Farmers Home programs [see article on page 57]. The state has the Housing Finance Agency and NicMic [North Carolina Mortgage Insurance Company]. The Department of Insurance has some building and regulatory functions. NRCD [Department of Natural Resources and Community Development] is now working with Community Development Block Grants in small areas. That will have some impact.

In this array of programs, do you view the role of the N.C. HFA as the principal state housing program?

I think of it as a major program of the state of North Carolina. We have a responsibility to help provide better housing for a particular group of citizens of this state. That is our stated purpose, to provide funding for housing for low- and moderate-income individuals. A second function is to work with the private sector, to funnel our financing through the private sector and act as a catalyst for

the home building and the real estate financing industries of this state.

Housing finance agencies have a dual mission, do they not, to provide subsidized housing to low- and moderate-income people and at the same time to function as a sound financial institution? Does one mission take priority over the other?

I see our mission as providing housing for low- and moderate-income people. We do that within the context that we were set up by the legislature to do: to operate essentially as a business, without state appropriations, without administrative expenses [to the state]. To take some risks but to protect the state's credit rating against unnecessary risks. The agency's programs must be self-sustaining, where enough revenue is generated from a bond program to pay the debt service on those bonds. There are no state subsidy funds available so the program has to be self-sufficient. So we operate very much on a businesslike basis. [Since 1974, the General Assembly has appropriated \$6 million to the HFA as a reserve for bond issues. The HFA can spend a portion of the interest on this reserve on administrative expenses.]

Do you think a state housing plan can be developed which guides state housing programs? Or do you have to respond to the bond market and the needs of lenders, factors which are beyond the control of

The N.C. 2000 Project out of Policy Development [Division of the Department of Administration] is the appropriate place to set those overall goals and parameters.

What distinguishes the state's current focus on housing – through the study commission and the N.C. 2000 Project – from previous efforts?

They're more important than the state's housing elements prepared for HUD because they are North Carolina initiatives. They are part of our thrust. One is the Governor's initiative; one is the legislature's. They have a great potential for receiving attention because of the personalized leadership.

Would it be possible to implement a housing policy which identified specific targets, say to rehabilitate houses in the ten poorest counties? Or target particular groups of people?

We could, certainly, if those were our goals. But targeting geographically is not an agreed-upon policy concept in North Carolina. There's an old basic ethic here that's called equity. It's very hard to give preferential treatment with state money; you can do it with federal, but the state legislature does not buy into that. Through our balanced growth policy, for example, we continue to reach

out. We don't let the big cities grab all the dollars. CDBG won't do that, HFA won't do that. There's a benefit to that system, but it also makes it more difficult to target.

The state, on the other hand, does target low-income persons. Any gap-filling we do essentially has to target low-income persons. And we're going to have to look at unique kinds of categories within that income group: single heads of households, elderly, and others.

Do you think of yourself as the chief executive branch person responsible for housing?

There are lots of pieces to the pie. The HFA is the primary appropriation base of the state's housing interest. But it's not the only place in state government where things are happening. We've got the CDBG program in NRCD and a uniform state building code, which is another way to maintain the state's housing stock, through the Department of Insurance.

The appropriate thing to say is that I am the [Hunt] administration's spokesman. The Governor still views NRCD as having an interest in housing even though HFA was shifted to another base [Office of State Budget and Management in 1981, before Grimsley came to NRCD]. We maintain our communication with them; we are still working together.

any state policy? Put another way, do the financial elements dictate which policy you can follow or is the policy articulated first, and then you follow it?

It is a complicated question. We are looking to the legislative study commission [Housing Study Commission chaired by Rep. Ruth Cook (D-Wake) see page 44] to formulate its ideas of how housing programs should operate and then follow within that context. I think that Rep. Cook's Commission is making a very thorough study. I think that will help us in maintaining a direction. There are some constraints that market conditions place upon us, constraints as to when we can lend money and the group of people that we can serve. As interest rates go up, for example, it becomes more and more difficult for us to finance single-family housing at affordable rates for people at the low- and moderate-income levels.

What if a state housing policy – developed by the Cook Commission and then passed by the legislature – mandated some kind of single family assistance that in your judgement would be too risky. How would you reconcile that conflict?

No conflict has arisen yet. I don't see any conflict necessarily arising from the Cook Commission. If we're given direction by the legislature, then it's our function to try and carry out that direction as best we can.

What do you think are the state's major housing priorities? Are there geographic priorities, for example?

There are housing needs all across the state, and we attempt to distribute our funds as equitably as we can across the state. Different communities have different needs and to the extent you're going to tailor programs, you tailor them to the specific housing needs of a particular community. If we found an area of the state that wasn't using our programs as we would like them to do, we would try to get out into those communities to encourage them to use our programs. Our function, as I read the legislative direction, is to spread our resources as equitably as we can rather than to target.

Do you have to design your programs differently to find people in rural areas to participate in them?

It does require an outreach effort to reach lenders who lend in rural areas. A rural lender will originate one or two or three mortgages; they won't be generating very many. It takes a while for them to understand how our process works and then go out and make the mortgage money available to people in their communities. We have quite an outreach effort. Before we did this single-family bond issue [November 1981], we made a very concerted effort to make lenders throughout the

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What type of coordination now exists between NRCD and HFA?

We have a good flow of talk and conversation with Gary Paul [Kane, HFA executive director]. I get minutes from his meetings; he sends me an agenda. We've been meeting with his staff and they come to our workshops on CDBG grants. He doesn't administer his budget through us. But we're in the process of negotiating an agreement with him to provide the HFA with the resources for one staff person to liaison with us on CDBG. There are benefits to leveraging the CDBG program against any other housing program, whether it's ARC [Appalachian Regional Commission] or Section 8 [HUD rental assistance], or rental rehabilitation. We don't want to get into a great deal of the financing end. If it's a public sector program, the grants will come through us; if it involves the private sector it will probably go through the housing finance agency. So there is going to be some mixing of programs. [For more on the CDBG programs administered by the HFA and NRCD, see articles on pages 2 and 16 respectively.]

I've known John Crosland [chairman of the

HFA Board of Directors] for many years; we don't have any problems working across the lines. He's been very conscientious in letting us know what they're doing, in keeping us informed. Day-to-day contact is not so important. But basic coordination is important. Are our policies in agreement? Are we going in the same direction? Are there opportunities to collaborate and do a better job? I don't see any problems of collaboration at present.

How does N.C. activity in the housing field compare with that of other states?

If you consider housing in a larger context, keeping in mind that North Carolina is largely rural, we are very favorable. Using clean water bonds, for example, the state has put an awful lot of resources into building the infrastructure of water and sewer which urban areas need to increase their housing stock. [Clean water bonds totaling \$380 million were issued between 1974-1981, some of which were used for residential development.]

In the rural areas, North Carolina has used its share of FmHA housing funds — and those funds that other states weren't able to spend — to subsidize rural housing [see article on page 57]. North Carolina has been an effective state working with HUD on urban programs and with FmHA in rural

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state and especially in rural areas aware of our programs and to encourage them to participate in the programs.

How about certain population groups? Migrants? Indians? Handicapped?

I don't know how you determine what group has greater needs than another. Our function is to serve low- and moderate-income individuals. That is a select group.

How about rehabilitation vs. new construction?

Both are important. Through our Home Improvement Loan program, for example, we're specifically directing some attention to helping people fix up their houses. There's some housing stock in this state that can be fixed up and make for much better living accommodations. In time this state is going to need more and more units just to take care of the population. That means that you're going to have new construction.

Will more interagency programs be attempted at the state and/or local levels? For example, you have a kind of interagency program with your Home Improvement Loans. Is that a model you will pursue more?

Yes, we hope so. The Home Improvement Loan Program is the first time we've worked in partnership with local communities to develop a housing program tailored to the needs of those communities. On our first home improvement loan program, we're working with 11 cities; that would become a prototype so that we can use it in other communities.

How about with other state departments?

We have a very close tie with NRCD and their Community Development Block Grant [CDBG] program. [NRCD Secretary] Joe Grimsley, [NRCD Assistant Secretary for Policy Coordination] Billy Ray Hall, and I are in regular communication. I send all of the materials I send to my board members to them just as if they were board members.

Your primary coordination process now is keeping them posted?

Talking with them about our programs and discussing how they intend their programs to operate. To try and coordinate those efforts. We're talking very much with each other now about CDBG funds and how they can be best used to tie into our home improvement loan program. I meet with Joe and Billy Ray on a regular basis and my staff people meet their staff on a regular basis, invite them to seminars in local communities to show them how our program is operating, how we're

areas. So you see a state that has been working very hard in the area.

What have been the state's major failures in housing?

I don't see us having any failures. The Housing Corporation as it was first created didn't work, it didn't get off fast, so I'd say we weren't as successful as we ought to have been in creating that institution. So we recreated it as the Housing Finance Agency.

Given the past reliance on federal housing programs and the current cutbacks in federal programs, do you anticipate an expansion of the state's housing role beyond gap-filling?

We've had the Housing Finance Agency's programs. We've had the Appalachian Regional Commission although the ARC is winding down. We've had the "107" program through which the Division of Community Assistance [within NRCD] provides technical assistance to CDBG recipients. The N.C. Mortgage Investment Corporation that Harlan Boyles created shows an intervention by the state.

The government's role depends on what happens to the economy. The economy may come back strong and be able to provide housing for a larger share of the population than at present. If not, the public sector's going to get involved, just

like in other countries, in a greater way than ever before.

I see the marketplace being obviously the major force in housing still, and the governments — state, federal, and local — filling the gaps. The larger cities in North Carolina have been moving in on their own to fill the gaps. So the state's really concerned about the smaller cities and rural areas. And of course the FmHA was doing such a great job in the rural area that we didn't have to go into it.

And the FmHA is being cut back severely now?

Yes, and that's a whole new program problem. Our Housing Finance Agency doesn't have enough resources to close those gaps of financing. And that's where I think the question arises: How much more of those gaps can we fill?

What will make the state take a more aggressive stance in filling these gaps?

Middle-income people who want to buy a home as well as the building and lending sectors are feeling a real pinch in the housing area now. It's no longer just a low-income problem. More segments of the population need assistance with housing-related problems. That might make the difference, might create the support for housing to become a higher priority than it's been in the past. □

structured, and to see if they have any problems with anticipating how their CDBG program is working.

How did moving the HFA from NRCD affect your coordination?

The results of moving the agency out are demonstrated by the fact that since the agency was made quasi-independent by the legislature, we've issued \$90 million in bonds. The agency in its previous eight years had only issued \$135 million. The proof of the wisdom of the state legislature is what the agency has been able to accomplish. Another factor is that no person can work for two bosses. Under the previous structure I was working both for a board of directors and a cabinet level secretary. A person just can't have two masters. The legislation clarified my reporting responsibilities.

Do you think there's some duplication of efforts now?

I don't think so. We're working well with NRCD and their CDBG program. Part of their program will involve housing and I think we have a good communication network with them. Our housing development offices are located in NRCD's field offices. In developing housing in communities, they refer to the resources that

NRCD staff people have.

We're attempting to do a housing needs analysis of the state — substandard units, affordability, where housing is needed, etc. It will probably be a six-month study by our staff in cooperation with the City and Regional Planning Department [at the University of North Carolina] at Chapel Hill. NRCD is aware of this, and we will be sharing our information with them. We're going to try to examine statewide housing needs and that means defining substandard housing in more detail than was done in the 1980 Census.

Do you think we need a state housing department?

I think that's a question that the legislative study commission is going to address.

Do you view yourself more as a technician and administrator than as a policymaker?

Our Board of Directors was given some ability to make policy by the legislature. Our board makes some policy and gives us some direction.

In many cases you bring policy priorities to the board and then they approve those.

The function of the staff is to bring ideas to the board and to present the pros and cons of those ideas, the risks involved, and the returns. And then let the board make a decision. □