2012 WINNER

ORGANIZATION
New Jersey Housing and Mortgage Finance Agency

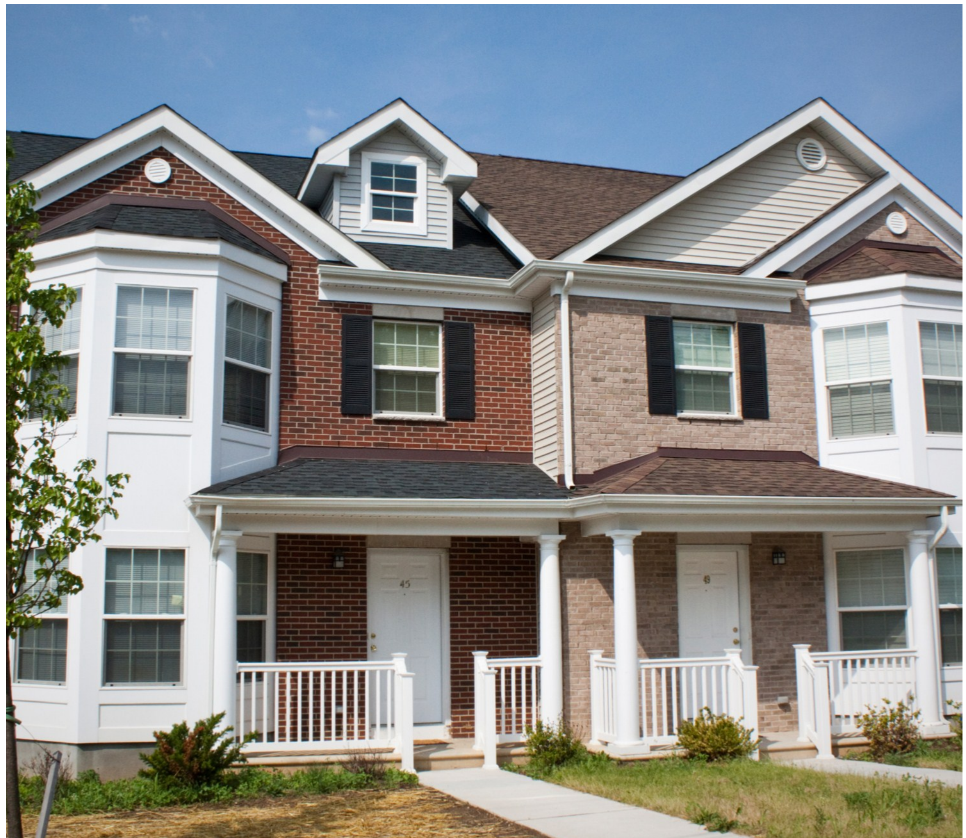
YEAR OF IMPLEMENTATION
1996

NUMBER OF UNITS PRODUCED
4,015

MIXTURE OF HOUSING TYPES
90 percent of total units affordable to households earning 60 to 120 percent of AMI
10 percent of total units affordable to households earning less than 55 percent of AMI

WEBSITE
www.nj-hmfa.com

Urban Land Institute
Terwilliger Center for Housing



CHOICE in Homeownership

New Jersey Housing and Mortgage Finance Agency

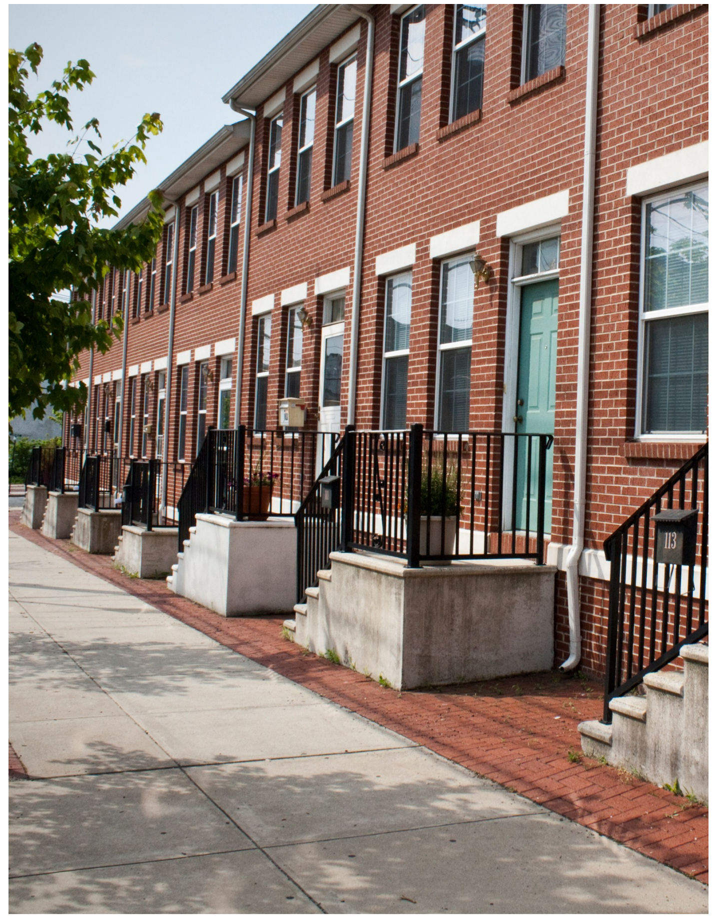
Workforce housing affordability and availability have long been an issue in New Jersey, particularly in the state's urban centers and inner-ring suburbs, where disinvestment and an aging housing stock have made it difficult to attract and retain working families. Instead, these families are relocating to the outer suburbs in pursuit of lower prices and newer construction. Urban centers and inner-ring suburbs seeking to compete by creating homeownership opportunities for working families have been especially challenged by the low comparable values for existing homes and the high cost of constructing new homes. Throughout the 1980s and 1990s, several communities implemented programs that created deeply subsidized rental and resale deed-restricted homeownership units in urban centers. Though this new deed-restricted housing targeted low-income households and helped meet that need, it did not provide sufficient housing opportunities for workforce households earning 60 to 120 percent of the area median income (AMI).

In 1995, the New Jersey Housing and Mortgage Finance Agency (HMFA) initiated a response to this issue by organizing a series of focus groups involving housing advocates, commercial construction lenders, and for-profit and not-for-profit developers. The resulting consensus from these focus groups was that cities needed help revitalizing their housing markets for workforce households, especially in terms of financing, and that lenders needed help reducing the risk involved in investing in workforce housing in emerging markets. Building on their initial findings, the focus groups participants continued their work, and through collaboration, agreed on a comprehensive strategy that would ensure predictability and diminish lender risk through the implementation of a single-family construction loan program, known as Choices in Homeownership (CHOICE).

Under the CHOICE program, the HMFA and a private lender of the developer's choosing enter into an agreement through which the private lender becomes the "lead lender" for underwriting and construction management purposes, and the lead lender and the HMFA have independent and equal co–first liens. The lead lender and the HMFA each provide 50 percent of the hard- and soft-cost financing, and the HMFA provides subsidy dollars needed to cover the gap between the development costs and the sales price, which is typically at (or slightly above) the existing fair-market housing values. Each project is required to have a municipal resolution of approval to proceed. As part of the program, special lower equity requirements are provided to nonprofit developers and to for-profit developers that enter into a joint venture with a nonprofit. And finally, the HMFA agrees to provide a 100 percent loan-to-value (LTV) ratio, no mortgage insurance, and end loans to homebuyers of the units.

The overarching objectives of the program are to stimulate production of mixed-income for-sale housing in emerging market neighborhoods and to increase the number of new homes available for workforce homebuyers. When the first CHOICE developments were approved in 1996, the program goal was to fund the construction of 1,500 new homes—a number far surpassed by the program, which to date has funded more than 4,000 new homes. Since 1996, HMFA has approved between $10 million and $20 million in the subsidy portion of the program each year, resulting in 260 new units, on average. Program funding has supported 151 projects in 30 cities across the state, with a concentration of developments in Camden with 29, Trenton with 24, and Newark with 32. All the housing developed as a result of this program has been priced to be affordable for workforce households.

Through implementation of the CHOICE program—most specifically, the 100 percent–LTV, no-mortgage-insurance financing that is offered to all end users of CHOICE units—members of the community are empowered to make a permanent investment in their neighborhoods by becoming homeowners. The CHOICE program exemplifies the tangible accomplishments that can be achieved through open dialogue, collaboration, and compromise by active partners in the New Jersey's housing community. The sheer number of units produced statewide qualifies as a success, not just for the cause of workforce housing, but also for the revitalization and economic vitality of communities across the state.



"The CHOICE program helps by creating incentives for nonprofit and for-profit developers to build new housing that is affordable to workforce homebuyers. The key to understanding the CHOICE program is that it funds the construction of housing that costs more to build than for what it can be sold. The second key is that buyers of the CHOICE units are not burdened with onerous resale restrictions. CHOICE homes establish sustainable new urban neighborhoods that benefit workforce households and the cities they call home."

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