

**National Council of State Housing Agencies  
2012 Annual Awards for Program Excellence**

**Category:** Homeownership – Encouraging New Production  
**Nominator:** New Jersey Housing and Mortgage Finance Agency  
**Nominee:** CHOICES in Homeownership

**Description of Program**

The CHOICES in Homeownership program (CHOICE), following in the tradition of its predecessors, Urban Home Ownership Recovery program (UHORP) and Market Oriented Neighborhood Investment program (MONI) originally created in 1996, is the New Jersey Housing and Mortgage Finance Agency’s (HMFA or Agency) comprehensive financing program for the development of newly constructed and substantially rehabilitated workforce homeownership (owner-occupied primary residence) housing in New Jersey. The program features below-market interest rate construction loans and construction subsidy funding for developers as well as favorable end loan financing for eligible homebuyers. CHOICE is intended to and has proven to be a catalyst for the creation of viable homeownership markets in municipalities where home values currently do not support a sustainable new construction housing market.

The program was created to combat the need for quality affordable workforce homeownership opportunities in the State’s older urban centers, specifically places where the cost to build housing is more expensive than that for which it can be sold. The ultimate goal of the program is to stimulate mixed-income for-sale housing production in emerging market neighborhoods and increase the number of new homes available for workforce homebuyers. Through implementation of the CHOICE program, residents are empowered to make a permanent investment in their communities.

**How the Program Works**

The HMFA and a private lender of the developer’s choosing enter into an Inter-creditor Agreement, wherein the private lender is 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% 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 typically would be at or only slightly above the existing fair market housing comparable. The HMFA provides 100% loan to value (LTV), no mortgage insurance, and end loans to home buyers of the units.

Currently HMFA offers subsidy dollars of up to \$50,000 per unit for unrestricted “emerging market” workforce housing, areas where the housing costs more to build than that for which it can be sold. In previous versions of the program, HMFA provided \$75,000 in subsidy for emerging market units and also \$100,000 for a limited number of restricted affordable units. HMFA is continuously reviewing policy to determine the highest and best use effective use of the funds, most importantly, the most effective incentive for achieving the Agency’s mission of providing affordable housing opportunities for families across the State.

**Proven Track Record of Success, Achieve Strategic Objectives**

Although the program name has changed throughout the years, the driving goal has remained the same, to provide affordable homeownership opportunities for workforce families. The CHOICE program is by far the largest producer of government leveraged homeownership construction in the State. Some neighborhoods have been completely revitalized as a result of this program.

HMFA’s single family construction program has exceeded the Agency’s stated goals and has been extremely successful. Since the program’s inception nearly 20 years ago, it has consistently been highly

sought after, so much so that the Agency has had to develop a dynamic system for awarding the competitive subsidy funds fairly throughout the State year after year.

When the first developments were approved in 1996, the program goal was to eventually fund construction of 1,500 new homes; however, to date, the program has actually funded more than 4,000 housing units so far. Each year since 1996, the HMFA has approved between \$10 million and \$20 million in the subsidy portion of the program yielding on average 260 units a year. Funding has been provided for 151 projects in 30 cities, with a concentration of projects in the major urban centers of Camden (29), Trenton (24) and Newark (32). Few, if any, of these units would have been produced without the CHOICE program and its subsidy.

### **Respond to an Important State Housing Need**

All of the housing developed as a result of this program has been priced to be affordable for workforce income level households. Even though one of the program's driving goals is to push markets toward viability and most of the units can be purchased without regard to household income, the sales prices of the homes are always set based on market conditions of the area and affordable to buyers earning less than 100% of area median income (AMI). During the course of the program, a small percentage of units have been set aside as deed restricted to serve households earning as low as 42% of AMI. In 2011, the set-aside requirement was removed, but developers continue to have the option of including such units in their projects.

### **Innovative**

The creation and implementation of an Inter-creditor Agreement between the HMFA and the banks is an innovation of which the Agency is quite proud. Unlike a typical lender participation agreement, there are two lead lenders with co-first liens involved in the CHOICE program. This duality is needed as under the HMFA's enabling legislation, the Agency's financing must be in first position. The Inter-creditor agreement has been signed by at least 23 separate lending institutions, including the major lenders, and has worked well in practice. Of more than 150 project loans, only four have entered formal workouts, and there has been complete cooperation between the lead lenders and the HMFA.

In addition, several other aspects of the CHOICE program are unique. For example, subsidy is provided for non-deed restricted homes. Emphasis is provided on concentrating housing in core areas to build homeownership and market momentum. HMFA, as a government entity, participates more like a bank and partner than a grant provider; the Agency provides a helpful perspective and technical assistance regarding the project budget and the respective construction process. The HMFA also provides a lower than market rate construction loan, which when blended with the lead lender's construction loan rate, results in an interest rate savings to the developer. Lastly, the HMFA provides funding during construction and beyond by making end loans available to eligible first time and urban home buyers.

### **Replicable**

Based on the success of the program and the feedback the HMFA has received year after year from local officials and developers alike, the CHOICE program is able to be and worthy of replication across the country. Feedback from numerous focus groups conducted by the Agency, which solicited suggestions for program improvement, affirmed that the consensus among stakeholders in the development community is that the program is truly unique and critical for growing local markets and the development of workforce homeownership opportunities in cities across the State. The program's component parts are relatively simple and easy to transfer, but this requires a financial commitment and adequate resources to offer a program of a similar nature and scale.

### **Demonstrate Measurable Benefits to HFA Targeted Customers**

Through implementation of the CHOICE program, there are many advantageous permanent financing opportunities for purchasers of the units. For example, the HMFA provides high LTV self-insured loans for CHOICE home buyers through the Agency's 100% Financing Program. The HMFA also provides Live Where You Work and Smart Start loans that feature 4% down payment assistance. Lead lenders have frequently provided very attractive permanent financing to unit buyers to enhance Community Reinvestment Act standing, and lead lenders in the Federal Home Loan Bank system generally provide considerable matching funds for homebuyers as well. Municipalities and counties with substantial amounts of HOME funding have also been generous with HOME down payment assistance programs for buyers. Moreover, given the subsidy provided to the developer, homebuyers of CHOICE units are able to buy "more" house for their money.

CHOICE developments truly provide real opportunities to "live, work and play" in close proximity. Most developments are built near major employment centers, such as hospitals and universities, and very often, many of the homebuyers are from the local area and have employment nearby. More than half of the CHOICE units have been constructed in the state's major urban centers, all of which have major universities, hospitals and related employment.

### **Effectively Employ Partnerships, Benefits that Outweigh Costs, Effective Use of Resources**

The public/private partnership between the HMFA and the private lenders is the foundation of the CHOICE program and has been essential to the program's success. The Agency works in collaboration with a private lead lender to provide funding for the CHOICE construction loan for each project. The Agency and the lead lender partner each provide 50% of the total construction loan. The loan is secured by a separate pari passu first mortgage and note of equal lien hold status. The Agency also provides subsidy funds of up to \$50,000 per unit for emerging market units (not deed restricted), with a maximum of \$1.5 million total subsidy per project. The subsidy amount is provided as a second lien secured by a mortgage, with each mortgage lien partially discharged as each completed unit is sold.

Twenty-three (23) private lenders have participated as lead lenders. Since 1997, the program has benefited from approximately \$191 million of private sector construction loan funding. About half the sponsors are private for-profit developers. The HMFA has also provided 50% of the construction funding at approximately \$191 million and subsidy funding amounting to about \$150 million to date. Public and private resources are leveraged as well amounting to about \$72 million.

Housing that is built as a result of the CHOICE program is high quality construction that anyone would be proud to call home. Projects are built very conscious of energy conservation, often use sustainable materials and incorporate sophisticated finishes, while providing ample bedroom and living spaces. All CHOICE housing meets or exceeds the highest state and national building codes and is required to meet Energy Star or equivalent standards for efficiency.

### **Conclusion**

The CHOICES in Homeownership program is truly a hallmark of achievement for the State of New Jersey and the HMFA. CHOICE exemplifies tremendous results accomplished through open dialogue, collaboration and compromise by active partners in the State of New Jersey's affordable housing construction community resulting in the creation and/or rehabilitation of a staggering 4,000 plus workforce housing units. The breadth and sheer number of units produced statewide qualifies as a success story, not just for the cause of workforce housing, but also community revitalization and the economic vitality long term of local housing markets across the State of New Jersey.