

# Flipping the Fate of Foreclosures Through the Foreclosure Intervention Pilot Program

**New Jersey Housing and Mortgage Finance Agency**

Homeownership: Home Improvement and Rehabilitation

**HFA Staff Contact**

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## **Summary of the Foreclosure Intervention Program (FIP)**

NJHMFA received an appropriation from the legislature to create the Foreclosure Intervention Program (FIP), a pilot program which launched in October 2023. The FIP provides nonprofit, community-based developers with up to \$400,000 per project for the acquisition and rehabilitation of vacant and abandoned single-family homes that have undergone foreclosure. Since program launch, the FIP has financed the renovated and sale of six properties, with another nine properties currently undergoing rehabilitation.

### **Housing Need: Addressing Affordability and Countering Institutional Investors**

Home values, particularly in high-density states such as New Jersey, have increased dramatically. These record high-prices have persisted despite interest rate hikes and created high barriers to entry for first-time homebuyers. According to U.S. Census Bureau data, 60.3 percent of New Jersey's owner-occupied homes were valued at \$300,000 or greater in 2019; by 2022, the proportion had increased to 73.6 percent.<sup>1</sup>

The median sales price of a single-family home is around \$560,000 as of March 2025. For a household earning the area median income, a home at this price is unaffordable. If a prospective buyer were to look for a fixer-upper that could reasonably be repaired, they would likely be bidding against professional home-flippers and institutional investors. In order to afford a market-rate single-family home, middle-income households often resort to purchasing homes that require substantial investment that may be unsuitable for living.

The competition for these properties was laid bare in a report published by the Rutgers Center on Law, Inequality and Metropolitan Equity, which noted that institutional buyers made up almost half of all Newark's residential buyers by 2020 and that, from 2017 to 2019, only 36 percent of residential sales transactions were made to individual buyers with local mailing addresses.<sup>2</sup> Ensuring that vacant and abandoned properties are brought back into sellable condition and are reserved for low-to-moderate-income households both ameliorates supply constraints and preserves local ownership.

### **Innovative: Disrupting the Market to Give Working Families a Chance**

The FIP disrupts current trends and fills the gaps where profit motivation fails to generate community investment by providing the necessary capital to nonprofit community partners renovate homes and make them available for a price affordable to households earning 120% or less of area median.

When reviewing applications, NJHMFA staff assesses both the capacity of the organization to complete the work and the proposed budget to determine feasibility. The FIP is structured such that NJHMFA disperses funds at two points: the point of acquisition and the point of sale to an eligible household. Throughout the rehabilitation process, the developer provides NJHMFA with receipts for hard costs. Staff determines if an expense qualifies for reimbursement and tracks the amount to be reimbursed at sale. Upon the completion of the rehabilitation, the nonprofit developer is required to sell the home to an eligible at a market-price affordable to their income level. The nonprofit developer and NJHMFA split the proceeds from the sale, with the developer keeping 30%, in addition to the fees they were paid for hard costs, and paying NJHMFA 70%. The revenue to NJHMFA from the sale is recycled back to the FIP account for

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<sup>1</sup> U.S. Census Bureau, 2019, 2022 American Community Survey 1-Year Estimates, Table DP04, [https://data.census.gov/table/ACSDP1Y2022.DP04?q=Home Values](https://data.census.gov/table/ACSDP1Y2022.DP04?q=Home+Values) (accessed August 27, 2024).

<sup>2</sup> David D. Troutt and Katharine Nelson, "Who Owns Newark? Transferring Wealth from Newark Homeowners to Corporate Buyers," *Rutgers Center on Law, Inequality and Metropolitan Equity*, May 2022, <https://static1.squarespace.com/static/5b996f553917ee5e584ba742/t/626fd98bb8357d201cb8dcb5/1651497359130/Who+Owns+Newark+Final+1.pdf>.

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future projects. The FIP, in effect, provides subsidy so that nonprofit developers and moderate-income households have the chance to participate in the single-family housing market.

### **Replicable: Designing a Flexible and Straight-Forward Approach to Rehabilitation**

The FIP is both replicable and adaptable. States need only to identify a relatively small source of funds and a department or division able to incorporate the program into their regular programming. On the financial side, the FIP requires seed money. The cost of housing and labor in New Jersey is high, so NJHMFA set the maximum award amount to \$400,000 per FIP project. These funds may be used for hard costs associated with the rehabilitation, including the cost of labor and the cost of acquisition. For NJHMFA, a few million dollars was necessary to ramp-up the pilot program. However, another state may find that \$150,000 per project is sufficient and could launch a pilot program with smaller amounts in seed money. On the personnel side, the FIP requires that staff communicate with nonprofit partners; collect documents; and track, review, and approve budgets on a per-project basis. NJHMFA was able to achieve this with staff dedicated to special programming and did not need to make any additional hires. The staff is experienced in administering community develop programs and was able to quickly incorporate the program into their workflow. The relatively limited barriers to launching the FIP and the ability to adjust the scale of the program make it a feasible option for a variety of states and circumstances.

### **Data-Driven: Ensuring a Data-Informed Design and Targeting Impact**

NJHMFA's mission is to provide safe and affordable housing, of all types, to low-and-moderate income households. New Jersey's high-priced single-family housing market is a difficult one, but low-to-moderate income homebuyers and first-time homebuyers face particularly tough circumstances. In keeping our core borrowers in mind when designing the pilot program, NJHMFA calculated a maximum grant amount that would be appropriate to rehabilitate a home affordable to target buyers. Community nonprofits provided the Agency with examples of completed rehabilitation to inform the limit. Finally, as required by the enacting statute, NJHMFA prioritizes buyers who are first-time homebuyers participating in our Down Payment Assistance Program. So far, all FIP buyers have been first-time homebuyers, with the average FIP buyer household income below the state average.

### **Cost-Benefit: Assessing Spillover Effects and Spurring Virtuous Cycles**

The benefits of the FIP extend beyond the individual homeowner, impacting the neighborhood and local community. Communities plagued by vacant and abandoned properties are more likely to see decreases in property values and to be subject to increases in municipal costs, often leading to disinvestment. The FIP seeks to counter the cycle of disinvestment and spur a trend toward reinvestment. The photos shown in the visual aids show a property in Camden, that was completely uninhabitable. Using the FIP, the nonprofit developer has given the home a new life, made neighboring properties more attractive, contributed to a safer environment, and uplifted the community. This investment is particularly important as there is a racial disparity in foreclosure rates, with Black and Hispanic households experiencing significantly higher foreclosure rates relative to White households.<sup>3</sup> As a result, communities of color have also suffered disproportionate losses from foreclosures. These losses have taken the form of declining home equity from the below-market sale of foreclosed homes and the negative impact on home prices from increased crime and disinvestment in the broader community. This decline has served to widen the racial wealth gap. Thus, the FIP benefits both the low-to-moderate income homebuyer and the surrounding community.

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<sup>3</sup> "Racial Difference in Economic Security and Housing" *U.S. Department of the Treasury*, November 4, 2022, <https://home.treasury.gov/news/featured-stories/racial-differences-in-economic-security-housing>

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### **Effective Use of Resources: Recouping and Reinvesting Funds for Program Continuity**

NJHMFA designed the FIP so that the proceeds from the sale of rehabilitated units would help to replenish the pilot program's fund. As a condition of receiving grant money, nonprofit partners must return 70% of the proceeds from the sale. These funds are reinvested and, when combined with a statutorily dedicated revenue source from foreclosure filings, are used to fund future FIP awards. The FIP serves as an investment in not only the individual unit, but also the larger neighborhood and community. To date, NJHMFA has been able to recoup more than half of the funds invested.

### **Employing Partnerships: Strengthening Connections with Community Partners**

From the beginning, NJHMFA reached out to nonprofit groups from across the State, representing the diversity of New Jersey. The Agency engaged in conversations with potential participants including multiple Habitats for Humanity and local community development organizations and networks. NJHMFA sought out any organization that would be eligible for the program within the limits set out in the enacting legislation to raise awareness of the FIP and to ensure the guidelines did not introduce any unnecessary bureaucratic hurdles.

The FIP has helped to strengthen the Agency's relationships with small nonprofit developers whose work typically falls outside of the Agency's financing activities. These relationships have continued to strengthen from the ongoing communication during the rehabilitation process and the shared sense of pride when a home is completed and sold to a qualifying borrower.

### **Strategic Objectives: Creating Affordable Housing and Stronger Connections and Communities**

The FIP achieves NJHMFA's key objectives, providing safe and affordable housing to low-to-moderate income households. One-third of lower-income homeowners had "unmet repair needs resulting from structural deficiencies; damage from leaks and mold; broken electrical, heating, or plumbing; or pests."<sup>4</sup> The FIP ensures that low-to-moderate income households not only become homeowners, but also are not faced with expensive repairs or purchases or living in inadequate conditions immediately upon moving into their homes. The pilot program does this while also strengthening community ties with nonprofit partners and reinvesting in vulnerable communities across the State.

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<sup>4</sup> Wedeen, Sohpiya, "Home Repairs and Updates Pose Considerable Burdens for Lower-Income Homeowners," *Joint Center for Housing Studies*, June 16, 2022, [https://www.jchs.harvard.edu/blog/home-repairs-and-updates-pose-considerable-burdens-lower-income-homeowners#:~:text=When%20homeowners%20are%20unable%20to,repair%20of%20\\$3%2C142%20per%20unit.](https://www.jchs.harvard.edu/blog/home-repairs-and-updates-pose-considerable-burdens-lower-income-homeowners#:~:text=When%20homeowners%20are%20unable%20to,repair%20of%20$3%2C142%20per%20unit.)

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**Visual Aids**

Before:



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In Progress:

