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PHILIP D. MURPHY
Governor

LT. GOVERNOR SHEILA Y. OLIVER
Commissioner

June 1, 2018

Frank Haines
Legislative Budget and Finance Officer
Office of Legislative Services
State House Annex
P.O. Box 068
Trenton, New Jersey 08625-0068

Dear Mr. Haines:

During the Department of Community Affairs hearing before the Senate Budget and Appropriations Committee on May 17, we were asked about the Department's intentions with respect to the Choices in Homeownership (CHOICE) program. As that program originated in the HMFA, and its future will be primarily determined by the Agency's Executive Director, Charles Richman, he has provided the following information in response to Senator Cruz Perez's question.

By way of background the CHOICE program was designed to be a catalyst for the creation of viable and affordable opportunities for workforce and middle-income homeownership in municipalities where home values do not support a sustainable new construction housing market. CHOICE is a single family construction program where the Agency provides 50% of the construction financing needed to construct a single family for-sale housing project and an outside lender provides a like amount. In addition to the construction loan, the Agency provides up to \$50,000 in subsidy per housing unit, with a cap of \$1.5 million per project to cover the gap between the cost to construct the project and the achievable sales prices. CHOICE developers are required to submit a written application which is underwritten by the lender and the Agency. The HMFA Board approves the financing.

HMFA has been offering a single family construction loan program since 1996. The program has proven to be successful, producing 3,500 single family housing units at an Agency investment of \$172 million. However, in the last few years the Agency has realized the need to reconsider this type of subsidy program for the following reasons:

Changes in Market Conditions:

A typical CHOICE project takes on average 24 months to complete construction. Recently in several cases, while the initial underwriting showed a gap between the cost to construct and the projected sales prices, changes in the real estate market over the 24 month construction period resulted in higher achievable sales prices. The increase in the achievable sales prices resulted in over-subsidizing the project.



Difficulty Selling the Housing Units:

While certain areas have seen an uptick in housing prices and demand other areas are experiencing just the opposite. Currently, there are ten (10) CHOICE projects offering units for sale of which four are completed and six are under construction. The completed projects were completed in 2011, 2014 (two projects) and 2015. Only forty-eight (48) of the 90 units in the four completed projects have been sold. The projects are located in Camden (two projects), Trenton and Salem.

The six projects currently under construction received CHOICE financing in 2015 (four projects) and 2016 (two projects). Only two of the projects are close to completion. The projects include a total of 246 units. Ninety-seven (97) of the units are sold. The projects are located in Clementon (Camden County), Orange (Essex County), Mount Holly (Burlington County), Franklin Township (Somerset County), Roselle (Union County), and Manchester Township (Ocean County).

Additionally, two of the projects currently under construction have been transferred to the Agency's Delinquent Asset Department for workouts. One of the workout projects previously received two loan extensions (24 additional months) with the final extension expiring in January 2018. Only 50% of the units have been sold and the project has yet to achieve substantial completion. The second project was put into a workout as a result of the financing being radically restructured without the approval of the Agency. The restructuring of the financing may jeopardize the repayment of the Agency's construction loan. The loan expires in June, 2018 with only six (6) of the twenty-two (22) units sold.

It is important to note that the Agency construction loans are repaid from the proceeds from the sale of the units. The unsold units create financial stress on the project and leave the HMFA with outstanding loan balances.

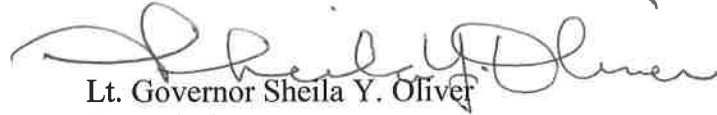
Limited Agency Resources:

The subsidy portion of the CHOICE Program is funded with excess revenue generated by the Agency. The Agency has seen this revenue decrease in recent years as a result of the financial crisis. The 2018 Agency budget projects excess revenue of approximately \$4 million. At this time the Agency does not feel that it makes good business sense to continue funding the CHOICE Program given the limited Agency resources and the current issues with the Program. The Agency feels that a better approach to homeownership would be through a mortgage assistance program which allows the homebuyer to purchase in all locations throughout the state rather than in select CHOICE neighborhoods. Therefore, the Agency remains committed to assisting first time home buyers by providing end loans at competitive interest rates along with assistance with the down payment. The Agency recently announced a statewide down payment assistance program which provides \$10,000 in assistance to qualified homebuyers. It is expected that 1,000 homebuyers will be assisted through this program.

The Agency may consider reinstating the CHOICE Program, at a later date, after a review and restructuring of the program guidelines and assuming a funding source can be identified.

I believe as the Senator does that creating affordable homeownership opportunities is vitally important for the future of the State. As the Chair of the HMFA board, I will challenge the HMFA staff to craft a program that will advance affordable homeownership for households with modest incomes.

Sincerely,

A handwritten signature in black ink, appearing to read "Sheila Y. Oliver". The signature is fluid and cursive, with a large initial "S" and "O".

Lt. Governor Sheila Y. Oliver
Commissioner