

New Jersey Housing and Mortgage Finance Agency's

CHOICE PROGRAM

Understanding the CHOICE Program

The CHOICE Subsidy allows developers to build higher quality homes than can be currently supported by the economics of Emerging Markets across the state. The New Jersey Housing and Mortgage Finance Agency (HMFA) has prepared this memorandum to help you understand the benefits and responsibilities of owning an "Emerging Market Unit" that has received this subsidy.

What is the CHOICE Program?

CHOICE (Choices in Home Ownership Incentives Created for Everyone) is a new program developed by the NJ Home Mortgage Finance Agency (NJ HMFA) to encourage the development of a diverse range of home ownership opportunities for residents of New Jersey.

What is an Emerging Market Unit?

An Emerging Market Unit ("EMU") is a single family home or condominium unit that has received a specific type of subsidy from HMFA. This subsidy finances the gap between market price and cost of producing a high quality residence in designated "emerging markets" across the State of New Jersey. The goal is to stimulate market appreciation that will support future high-quality construction (and restoration) without subsidies.

EMUs may be sold at market prices to any owner-occupant buyer with the financial means to buy them. There are no income restrictions on who may buy an EMU.

What is the Subsidy?

A CHOICE subsidy has been paid to the developer of new or restored housing units, and used to finance the completion of a single family home or condominium unit, which you may be considering. The specific amount of the subsidy varies from project to project and unit to unit. The developer or real estate agent can tell you the specific Subsidy Amount associated with the particular housing unit you may be considering. Keep in mind that as long as you continue to live in an Emerging Market Unit, and neither sell it, or increase the mortgage ("cash-out refinancing"), **THERE IS NO OUT-OF-POCKET COST TO YOU FOR THE SUBSIDY.**

How is the Subsidy Repaid?

Recognizing the limited resources, which are available to HMFA to fulfill its mission, the Agency seeks to recover this Subsidy by sharing in the appreciation you may earn when the unit is sold in the future. As long as at least 3 years have passed since the initial sale by the developer, this appreciation is capped at the lesser of:

- 25% of the Net Sales Proceeds¹ earned from sale of the EMU
- The subsidy amount plus accrued interest. Accrued interest is limited to a maximum of 4% simple interest, which means that interest is charged only on the original subsidy principal and does NOT compound.

If you sell your EMU, and do not fully repay the subsidy from the shared appreciation, the remaining Subsidy balance becomes an obligation of the next buyer on these same terms². Note that if the EMU does not appreciate in value, there is no out of pocket cost to you as the seller.

What Other Restrictions are There?

You must live in your EMU as your principal residence, and are not permitted to rent it to others, unless you have paid off the Subsidy Balance.

In order to discourage “flipping” of EMUs, if you sell your unit within 3 years of the initial sale by the developer, you will be required to pay 100% of the Net Sales Proceeds you earn from the sale of the EMU, up to the Subsidy Amount plus accrued interest.

There are also some restrictions on refinancing (see below).

¹ Net Sales Proceeds” means the arms-length fair market sales price, less the following: documented down payment paid when the owner purchased the unit; original mortgage amount, real estate commission, New Jersey realty transfer fees, closing agent fees, cost of repairs necessary to get a Certificate of Occupancy, documented cost of adding an additional bedroom or an additional bathroom.

² This continues until either the Subsidy is fully repaid, or until the first “arms length” sale of the unit after the 30th year from your original purchase.

³If the refinancing takes place in less than three years, you would be required to pay 100% of the cash-out proceeds up to the Subsidy Amount – generally there would be no reason to do this, unless the equity appreciation on your home were so great that you could afford to pay off the entire Subsidy Amount.

What if I Refinance?

You may refinance your mortgage in order to achieve a lower interest rate, as long as you do not increase the mortgage balance.

If you wish to take advantage of the appreciation of your home to receive cash from a refinancing (“Cash-Out Refinancing”), you will need to pay a share of the proceeds to HMFA to reduce the Subsidy Amount. The portion will be 25% of your cash proceeds (if the refinancing takes place after 3 years), up to the Subsidy Amount.³

You will need to get the advance approval of HMFA in writing to secure a refinancing, equity loan, secured letter of credit, or any other mortgage obligation or other debt (collectively “Debt”) to be secured by the Emerging Market Unit. No more than 90% of the estimated equity appreciation (i.e., the current appraised fair market value, less current principal balance of first mortgage, the borrower’s original down payment, other secured debt, and the CHOICE Subsidy balance) may be encumbered.