Ahearn: Gotta love 'Live Where You Work'

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Here's a program that is good for the towns and good for the homeowners.

THE RECESSION is deepening, in New Jersey and across the nation. Governor Corzine is taking another whack at an already bare-bones state budget, preparing for even sterner measures in the months ahead. Unemployment is rising. Housing markets are in disarray.

And yet, despite all this gloom and doom, the state is proceeding with a new home ownership program that helps families with modest incomes to live in the towns where they work. Sounds ambitious. More to the point, it sounds costly. How can this be? More about that in a minute.

Morristown is the latest community to join the Live Where You Work program, which was launched in February with a pilot project in Trenton. So far, five other towns have signed up: Atlantic City, Elizabeth, Jersey City, Rahway and Woodbridge.

The program is managed by the Housing and Mortgage Finance Agency, a unit of the state Department of Community Affairs. To qualify for assistance in Bergen and Passaic counties, a household of one or two members must generally have an income no higher than $87,500. With a household of three or more, the limit rises to $100,625.

There are also limits on the price of a home. For an existing one-family house in most of northern New Jersey, including Bergen, Hudson, Morris and Passaic, the cap is $429,619. For a two-family house, it is $550,000, and for a three-family, $665,000. The owner must live in the building.

To qualify, towns must be state-designated Smart Growth communities. These are characterized by mixed-use development, walkable town centers and neighborhoods, mass transit accessibility, sustainable economic and social development, and preserved green space.

Nothing in Bergen

The Department of Community Affairs, which decides which towns qualify, cites as examples sizable cities like Elizabeth and Jersey City, smaller towns like Red Bank and Hoboken, and rural communities such as Chesterfield in Burlington County and Hope in Warren.

Some qualifying towns include so-called Urban Target Areas, where participation is particularly encouraged and rules are loosened. There are no such towns in Bergen or

Morris. There are three in Passaic: Paterson, Passaic City and Clifton. In Hudson, there are six, including North Bergen, Hoboken and Jersey City.

What a North Jersey family with a couple of kids gets out of the program is a fixed-rate, 30-year mortgage issued by one of 66 banks, thrifts and mortgage companies, including such giants as Bank of America, Countrywide, JPMorgan Chase, Wachovia and Wells Fargo.

The current interest rate offered for a 30-year mortgage is 7.625 percent for a first-time homeowner with an income higher than $80,500 but lower than the cap of $100,625. The rate is one-eighth of 1 percent higher for a 40-year loan.

In addition, that family receives cash assistance from the agency for down payment and closing costs equal to 5 percent of the first mortgage. The money is treated as a second, four-year mortgage, with rates the same as for the first mortgage. However, at the end of every year, 25 percent of the remaining principal is written off. At the end of four years, the whole loan obligation has been satisfied. The owner has had to pay none of it.

For a similar family with an income less than $80,500, the term of the second mortgage is seven years. Again, if the family has kept up with payments on the first mortgage and continues to occupy the home as its primary residence, the second mortgage is written off.

The current rate on the first 30-year mortgage for such a family is 7 percent. The rates are higher than the 5 percent and below being offered last week by commercial lenders, but the Community Affairs Department argues that those rates are available only to the most credit-worthy applicants.

For typical first-time homeowners, the department says, rates in the 7 percent range are still appealing, especially since applicants get help with down payment and closing costs. Well, we'll see. If rates in the private market continue to fall, the department may be compelled to do some cutting of its own.

To return to the question I asked earlier, how can so substantial and expensive a program continue to function, given the state's fiscal constraints? The answer is that the Housing and Mortgage Finance Agency gets none of its operating or mortgage money from the state Treasury. Rather, it borrows money in private equity markets at preferential rates. Most of it goes for mortgages, but a small portion is used for operating expenses.

The lenders on the agency's approved list process applications and issue mortgages. Lending standards are set by the agency. Qualifying good-risk mortgages are bought by the agency from the originating lenders.

The program is good for the towns and good for the homeowners. The mayor of Morristown, Donald Cresitello, says it will help people working at places like restaurants, hotels and Morristown Memorial Hospital.

As the word spreads, more towns will want to participate in Live Where You Work.

James Ahearn is a contributing editor and former managing editor of The Record.