Everything Jersey

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A helping hand

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O'Ryan Goring and his fiancÃ©e, Sarai Jones, fell in love with a castle-like Pennsylvania estate called Cairnwood as the perfect setting for their marriage. But they also fell in love with a condo in Ewing that would be the perfect starter home for the first-time homebuyers.

Using traditional mortgage products, they wouldn't be able to have both, because they would have had to put $40,000 down to buy the condo. Lucky for them, the condo development, the Jefferson, had just received approval from the Federal Housing Administration -- a prerequisite for buyers who want to use the government-insured financing program. The FHA program asked for just 3.5 percent down -- or $7,000.

"All the money we saved, we've just transferred it over to the wedding," Goring said.

A surge of New Jersey condo properties have been approved this year by the FHA as developers try to reach as many potential buyers as possible in a slow market. With loan standards higher than they have been in years, buyers in droves have been turning to the FHA.

"It's become almost a functional necessity," said Michael Borodinsky, a manager with MetLife Home Loans. In 2008, 21 percent of all residential loans were insured by the FHA, up from less than 5 percent in 2005 and 2006, the Federal Reserve said Wednesday.

But critics of the program worry that defaults and foreclosures -- more common and problematic in the condo market -- will force a taxpayer bailout of an overburdened FHA.

"FHA is pretty much the loosest underwriting in the game right now," said Mark Calabria, director of financial regulation studies at the Cato Institute, a Washington-based think tank. "It's definitely something we should be worried about."

Shaun Donovan, secretary of HUD, has said the agency is likely to be able to maintain reserves above a federally mandated 2 percent of its loan portfolio. But other government agencies, such as the Federal Deposit Insurance Corporation, which insures bank deposits, have had to scramble to come up with creative ways to keep themselves afloat after initial estimates proved wrong.

This year, the U.S. Department of Housing and Urban Development, which oversees the FHA, is on pace to approve more than 100 condo developments in New Jersey, up from 34 in 2008 and three in 2007 and 2006. In order to buy a condo using an FHA-insured loan, either the unit or the entire project must be approved first.

The increase is partially market driven: In the past, there were so many options for buyers to get mortgages with little or no money down, developers did not find it necessary to get approval. Now, not only have other options dried up, but the FHA program has also become more competitive and available to more buyers. For example, Congress in February raised the limit on the amount the FHA was allowed to lend in many areas of New Jersey to $729,750.

Another reason for the pickup this year has been a change that will take effect next month: Buyers can only get FHA financing for their unit if the entire development has been approved by the federal agency.

The approval process can cost developers between $5,000 and $10,000 -- not a lot for a real estate development, but the amount of time needed is "significant," said Brian Stolar, chief executive of Pinnacle Companies, which received approval for two of its New Jersey developments this year: the Siena in Montclair and Mandalay in Jersey City.

But it's worth it, he said.

"Our sales are up dramatically since June, and I think the FHA approval certainly helped," Stolar said. "It's very, very attractive."

The increase in FHA financing for condos is particularly worrisome because condos historically are riskier than single-family homes, experts said.

"They have higher defaults, they suffer price depreciation much faster and much deeper than a single-family house," said Guy Cecala, publisher and CEO of the publication Inside Mortgage Finance.

Another risk is that the fate of the entire complex is tied together, Calabria said. When a borrower defaults, the condo association is stuck without dues for that unit, which increases costs for all other homeowners and could push the property into bankruptcy.

To help mitigate risk, another change that went into effect yesterday said that no more than 30 percent of units in a condo development can be financed by loans insured by the government.

Still, industry watchers are waiting to see whether the agency will be able to stand on its own.

"We will end up, as a taxpayer, putting money into FHA at some point," Calabria said. "The only way we won't is if we see a pretty quick turnaround in the housing market."

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