California Dream For All Program Lessons Learned

Pursuant to Health and Safety Code Section 51526, the **California Housing Finance Agency (CalHFA)** is pleased to submit this report to the Legislature providing an assessment of and recommendations for the **California Dream For All (DFA) Shared Appreciation Loan Program.**

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A copy of this report may be downloaded from the CalHFA website.

Please call (916) 326-8000 to request a hard copy of the report.

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Executive Summary

Program Overview

The California Dream For All Program (DFA Program or Program) is a revolving shared appreciation loan initiative designed to help low- and moderate-income first-time homebuyers with down payments and closing costs. The loan is repaid through a share of the home's appreciation upon sale or transfer. The Program is administered by CalHFA and has completed two phases since its inception in 2022.

Phase 1 Highlights (Launched March 2023)

- Funding: $300 million deployed; fully committed within 11 days due to overwhelming demand.
- Eligibility: First-time homebuyers earning up to 150 percent of Area Median Income (AMI).
- Loan Terms: Up to 20 percent of home price; repayment includes original loan and proportional share of appreciation.
- Social Equity Feature: Lower-income borrowers (<80 percent of AMI) repay a reduced share of appreciation (e.g., 15 percent instead of 20 percent).
- Outcomes:
  - Strong uptake in Latino and AAPI communities.
  - Low participation in Black and African American communities due to concerns about the loan product.
  - High participation in inland regions; increased access in high-cost coastal areas, as compared to traditional down payment assistance programs.

Phase 2 Highlights (Launched April 2024)

- Funding: $220 million total ($200 million carryover and $20 million new).
- Key Changes:
  - Introduced first-generation homebuyer eligibility.
  - Implemented geographic set-asides to further regional equity.
  - Lowered income cap to 120 percent of AMI and capped loans at $150,000.
  - Introduced a preregistration and randomized selection system to replace first-come, first-served model.
- Outcomes:
  - Over 18,000 applications; ~1,700 conditional awards issued.
  - Over 75 percent of awardees identified as people of color.
  - Significant improvement in Black and African American participation.
  - Slower fund deployment due to 6-month window for award usage.

Key Lessons Learned

- Market Volatility: Real estate cycles drive borrower equity and program sustainability.
- Loan Perception: Mixed public understanding of shared appreciation loans necessitates robust borrower education.
- Delivery Model: Pre-registration improved equity but introduced complexity and delays.
- Demographics: Geographic targeting affects racial/ethnic distribution of borrowers.
- Affordability: Even with assistance, many borrowers struggle to find affordable homes.
- Sustainability: Recycling of repaid funds is critical for long-term viability.

Recommendations & Next Steps

- Potential Administrative Improvements:
  - Streamline award processing and waitlist management.
  - Enhance borrower communication and documentation processes.
- Program Design and Delivery Options:
  - Supply Pilot: Use funds to help support construction of affordable homes and expand supply-side impact.
  - Adjustments to assistance amount: Calibrating assistance amount may be appropriate to target funds where most needed and maximize funding efficiency.
  - Employer Partnerships: Leverage co-investment opportunities with large employers to expand reach through shared appreciation loan partnerships.

Introduction

Chapter 70, Statutes of 2022 (SB 197) established DFA as a revolving, shared appreciation loan program designed to increase access to homeownership for low- and moderate- income Californians. The shared appreciation loans provide funding to assist prospective first-time homebuyers with down payments and closing costs.

Pursuant to Health and Safety Code section 51256, the enclosed report offers an evaluation of the first two phases of DFA. Specifically, this report:

1. Assesses outcomes and lessons learned from the first two rounds of the Program,
2. Provides recommendations for further improvements to the existing program, and
3. Develops options for the next phase of the Program, including, but not limited to an option to expand the Program to enable participation by entities such as local governments, public institutions of higher education, nonprofit organizations, school districts, community foundations, and large private employers.

The sections immediately following offer a summary level overview of shared appreciation loans generally, as well as parameters for and outcomes of the first two phases of the Program. Based on the outcomes of the first two phases of the Program, CalHFA offers key lessons learned, as well as recommendations and options for future phases of the Program.

Overview of DFA Shared Appreciation Loan

DFA offers eligible homebuyers down payment and closing cost assistance through a shared appreciation loan. A shared appreciation loan is a loan that is repayable via a share in the increased value of the home over time. For example, if a borrower takes out a shared appreciation loan, the borrower pays back the original loan amount plus a share of the increase in home value at the point of sale.

The DFA shared appreciation loan is structured as a second mortgage, subordinate to the first mortgage lien – the same as CalHFA's existing down payment assistance programs (https://www.calhfa.ca.gov/homebuyer/programs/myhome.htm). The homebuyer does not make any payments on the loan until they sell, refinance under certain circumstances, or transfer the property, at which time they would owe the original loan amount plus the designated share of appreciation in the home's value.

DFA offers a shared appreciation loan with a pro rata (1:1) appreciation share (i.e., the appreciation share is equal to the percentage of the original investment relative to the original purchase price). In other words, if a borrower takes out a shared appreciation loan for 20 percent of the home purchase price, the appreciation share would be 20 percent, and the homebuyer would also repay 20 percent of the appreciation in the value of their home.[1] The effective interest rate on the loan is therefore equal to the average annual appreciation in the home's value. Over the long term, the average annual home price appreciation in California has been approximately 4.5 percent,[2] although home value changes in any given year can vary greatly, and the effective interest rate on a DFA loan may not be lower than prevailing mortgage or lending rates.

[1] Note that borrowers under 80 percent of AMI pay back a lower share of appreciation, as described under the Phase 1 eligibility parameters.
[2] California Forward, "CA Dream For All: A Proposed Shared Appreciation Loan Investment Fund for the State of California," June 2022 [https://cafwd.org/resources/california-dream-for-all/]

DFA Phase 1

Chapter 45, Statutes of 2022 (AB 178) originally appropriated $500 million for the Program, $300 million of which was deployed in March of 2023 in Phase 1 of the Program. The authorizing statute designates CalHFA as the administrator of the Program and established programmatic parameters for DFA, providing the following specific requirements:

- Must include a shared appreciation loan feature.
- Objective is to expand access to homeownership by helping low- and moderate-income homebuyers purchasing owner-occupied homes.
- Design of the loan product should not unreasonably impede wealth creation through homeownership for participating homebuyers.
- Should maximize the number of households assisted over time, ensuring that funds used to help one homeowner are then recycled upon repayment to help future homeowners.
- Shared appreciation loan must be paired with a CalHFA first mortgage.
- Because shared appreciation loans are a complex financial product, the program design must include adequate consumer protections and disclosures to ensure that the consumer understands their loan.

DFA Phase 1 Program Eligibility

With consideration of the above statutory requirements, CalHFA established the following eligibility and other program parameters for DFA Phase 1:

1. **Homebuyer Eligibility.** Prospective first-time homebuyers[3] earning up to the CalHFA income limits (~150 percent of AMI) were eligible to receive a DFA Shared Appreciation Loan in Phase 1. A separate eligibility track conferred additional benefits for communities that have historically been underserved by the mortgage market—see Social Equity Features discussion below.
2. **Eligible Costs** Permissible uses of DFA Shared Appreciation Loans included funding down payments and closing costs, including interest rate buydowns
3. **Level of Assistance.** Phase 1 provided Shared Appreciation Loans of up to 20 percent of the home sale price. Home price appreciation was distributed between the homeowner and the Program on a pro rata (1:1) basis, subject to the caps on the Program's share of appreciation described below. In other words, if DFA funded a Shared Appreciation Loan of 20 percent, when the homeowner sells, refinances, or transfers the home, they will owe the original amount borrowed plus 20 percent of the increase in the home's value.

[3] A first-time homebuyer is defined as someone who has not owned and occupied their primary residence in the last three years, and who has not lived in a home owned by a spouse in the past three years.

4. **Cap on Program Share of Appreciation**. The Program's share of appreciation is capped at 2.5 times the original loan amount. This is roughly equivalent to how much appreciation the Program would earn over the course of a 30-year loan with home values appreciating an average of 5 percent annually.
5. **Social Equity Feature**. DFA includes a feature designed to confer additional benefits to communities that have historically been underserved by the mortgage market and have lower rates of homeownership. Prospective homebuyers earning up to 80 percent of AMI receive a larger share of appreciation relative to the Program's investment. To improve generational wealth building, these lower-income borrowers keep a greater share of the appreciation; those who received a 20 percent Shared Appreciation Loan will ultimately pay back the original amount of the loan plus 15 percent (instead of 20 percent) of the home price appreciation.

Phase 1 DFA Program Deployment

CalHFA launched the DFA Program Phase 1 with $300 million available in March 2023. On March 27, 2023, CalHFA made DFA available to its entire network of lenders.

To access a CalHFA down payment assistance program, borrowers worked with an approved CalHFA lender that originated the first mortgage and subordinate down payment assistance loans. CalHFA's network of lenders was and continues to be robust, with over 100 lenders located throughout the State. While a borrower may use a lender located anywhere in the State, all counties are included in a CalHFA preferred lending officer's primary territory and CalHFA continues to actively recruit and expand the lending network. More than 60 percent of CalHFA preferred loan officers speak Spanish. CalHFA also has sought loan officers that speak Tagalog, Vietnamese, Hindi, Punjabi, and Arabic.

For DFA Phase 1, CalHFA lenders worked with eligible borrowers to qualify them for the DFA Program and an associated first mortgage loan. Lenders reserved the borrower's loan in CalHFA system and funds were committed when the lender locked in the borrower's interest rate on the associated first mortgage loan. Lenders then submitted DFA loan files to CalHFA for review. Upon ensuring that the borrower and the loan met all CalHFA, master servicer, Government-Sponsored Enterprise (GSE), and program requirements, CalHFA purchased the first mortgage as well as the DFA subordinate loan.

The response to DFA's launch was overwhelming, with unprecedented lender and consumer uptake. All available funds were committed within 11 calendar days and CalHFA closed lender access to the Program on April 6, 2023.

Phase 1 Outcomes

The initial launch of DFA Phase 1 resulted in demand far beyond expectations. CalHFA's internal systems and loan delivery infrastructure withstood the unprecedented level of loan activity with only minor delays related to homebuyer education and counseling capacity. However, the rapid pace of uptake disrupted CalHFA's planned implementation program, eliminating the agency's ability to assess the program deployment and adjust the Program over time. The speed of program uptake essentially resulted in a first-come, first-served deployment of funds, and homebuyers that had already begun the home shopping and purchase process were advantaged.

Demographic Outcomes

The demographic outcomes of Phase 1 were mixed. The Program outperformed in communities of color, particularly in the Latino and AAPI communities, with the share n of Latino and AAPI DFA borrowers well outpacing the share of Latino and AAPI households and current homeowners in California. However, uptake in the Black and African American community fell short of expectations, with the total share of Black and African American DFA borrowers falling below the total share of Black and African American households in California and matching the current share of Black and African American homeownership.[4]

This outcome was highly unusual for a CalHFA down payment assistance program, as CalHFA programs typically perform very well in the Black and African American community, supported by a diverse and robust lender network. In agency debriefs with key advocates and business partners representing the community, CalHFA learned that significant concerns about the shared appreciation loan product itself were a primary impediment to higher uptake among the Black and African American community. Building on this insight, CalHFA implemented a dedicated outreach and trust-building campaign to address product misunderstandings and strengthen community confidence. Through targeted engagement and borrower education, CalHFA worked to improve awareness and transparency around the loan structure. Additionally, lender diversification has continued to expand access for prospective borrowers.

[4] Note that this data relies on data collected per the Home Mortgage Disclosure Act (HMDA). Under HMDA, if borrower does not provide race and ethnicity information, the loan officer is required to note ethnicity and race based on visual observation or surname. A review of self-reported race and ethnicity data collected via the preregistration portal implemented for Phase 2 suggests this may result in underreporting of Black and Latino borrower and an overreporting of white borrowers.

Geographic Outcomes

The Phase 1 geographic outcomes generally followed expectations for CalHFA programs, but home purchases in the Bay Area, Los Angeles, and other coastal regions were notably higher than is typical for CalHFA programs.

Overall, DFA Phase 1 uptake was concentrated in the inland areas of the State where home prices are more accessible to low- and moderate-income borrowers. DFA loans financed the most home purchases in the Central Valley, and DFA loans exceeded the regional share of California households in the Central Valley, Capital, and Inland Empire regions.

However, the more generous down payment assistance level led to a significant increase in uptake in higher-cost coastal areas. More Bay Area homes were purchased using DFA than other CalHFA down payment assistance programs, with the Bay Area share of DFA loans approaching that region's share of households.

The share of DFA Phase 1 loans in Los Angeles, San Diego, Orange County, and the Central Coast was lower than the share of households in each respective region, due to high home prices and low inventories constraining the affordability of homes to low- and moderate-income first-time homebuyers. However, the share of DFA Phase 1 loans in these regions still significantly outperformed other CalHFA down payment assistance programs, indicating that the DFA loan product could make significant inroads in higher cost areas of the State.

Detailed outcomes from Phase 1 of DFA are available here: California Dream For All Annual Report 2023.

DFA Phase 2

Chapter 189, Statutes of 2023, provides $20 million in addition funding, supplementing the $200 million remaining from the 2022-23 appropriation, to support Phase 2 of the Dream for All Program. Statutory changes in Chapter 196, Statutes of 2023, establish specific requirements for Phase 2.

Chapter 196 requires CalHFA to adopt program guidelines that:

1. Define first-generation homebuyers and target funds to aid first-generation homebuyers.
2. Support an equitable distribution of program funds in different regions of the State.
3. Prioritize participation by homebuyers in the lower tiers of the income eligibility structure.

Phase 2 Program Calibrations

CalHFA established these eligibility and other program parameters that apply to all Dream For All loans originated and securitized in Fiscal Year 2024-25:

1. Incorporated "first generation" eligibility criteria.
2. Implemented geographic set asides to support an equitable distribution of program funds in different regions of the State.
3. Changed loan parameters (income, shared appreciation loan amount, and limitations on borrower-funded down payment) to prioritize lower income homebuyers.
4. Changed the loan delivery system to provide more time to access the Program and to encourage new homebuyers to enter the market.

Each program calibration is described in further detail below.

First Generation Eligibility Criteria

Consistent with requirement for all CalHFA down payment assistance program, all DFA borrowers are required to be first time homebuyers. Phase 2 of DFA further narrowed eligibility by requiring at least one of the borrowers on the loan to be a "first-generation" homebuyer meeting the following general criteria:

- The borrower has never owned a home in the United States; and
- The borrower's parents or legal guardians do not currently, or did not at the time of their death, own a home in the United States; or the borrower grew up in foster care.

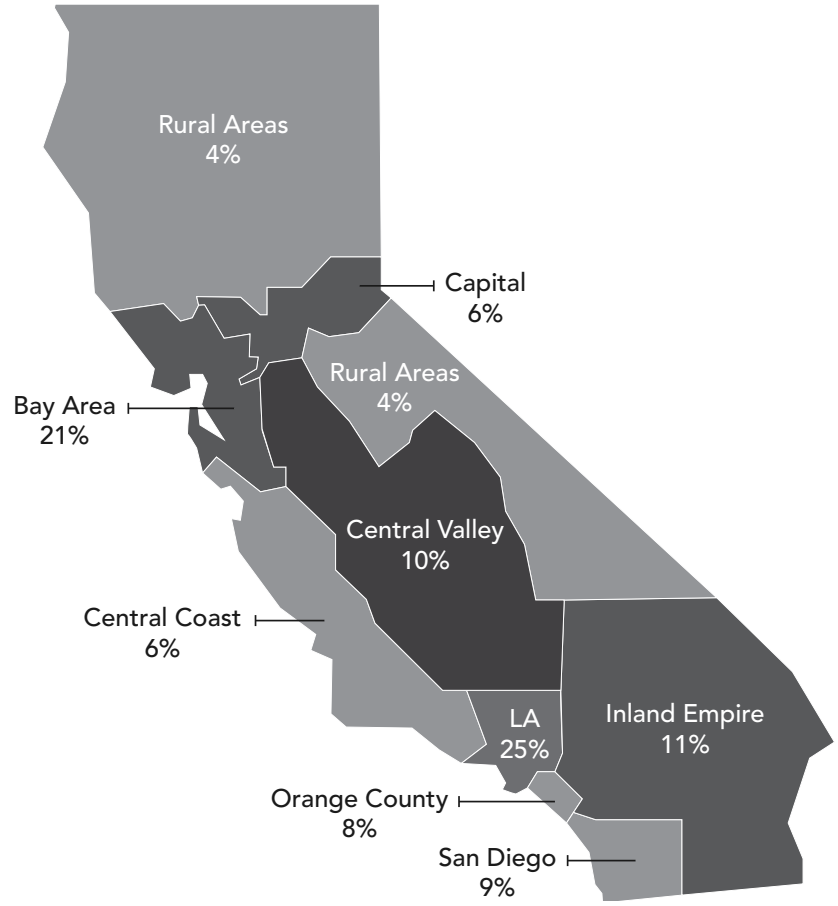
For Phase 2, first-generation Homebuyer eligibility was initially established based on an attestation under penalty of perjury. A random subset

of first-generation borrowers were then subject to a quality assurance investigation that verified their stated parental relationships and their parents' homeownership status.

Geographic Set Asides

To support an equitable distribution of program funds in different regions of the State, CalHFA implemented geographic set asides for DFA. CalHFA established nine separate regions, and DFA Phase 2 funding was awarded to those regions proportionate to each region's share of California households. Regions and their assigned share of DFA funding are shown in **Map 1**, below. Borrowers were qualified based on their current address and were able to purchase a home in any county where they were income qualified.

The implementation of geographic pools has implications for overall demographics of borrowers served by the Program. Typically, CalHFA programs perform well in the central areas of the State where homes are more affordable and inventories more plentiful—the Inland Empire, the Central Valley, and the Capital regions. Reducing loan volumes in these regions and increasing loan volumes in coastal areas may therefore also shift the racial/ethnic distribution of program performance given significant demographic differences between inland and coastal areas of the State.



Map 1: Distribution of California Households by Region

Revised Loan Parameters to Serve Lower Income Borrowers

For Phase 2, CalHFA implemented several revisions to the DFA Shared Appreciation Loan parameters to prioritize homebuyer participation in the lower tiers of the income eligibility structure. These include reductions to the DFA Program income limits, limiting the amount of additional down payment a borrower can make, and capping the loan amount.

- **Reduced Income Limits.** DFA Phase 2 income eligibility was reduced from income limits based on 150 percent of AMI to limits based on 120 percent of AMI. This reduction was based on real estate market analysis showing that while these lower income limits may present challenges in high-cost areas, median home prices are largely within affordable ranges for most of the State. Where high housing costs do present challenges, DFA borrowers may choose to buy a home in any county in which they are income qualified.
- **Limits on Borrower Funded Down Payments.** For Phase 2, CalHFA instituted a minimum cumulative loan to value ratio of 95 percent, which means that the total amount borrowed to purchase a home must be 95 percent of the actual purchase price. This parameter thus limits borrower funded down payments to 5 percent of the purchase price so that DFA loans are reserved for those borrowers that do not otherwise have the means to make a substantial down payment.
- **Cap on Shared Appreciation Loan Amount.** In DFA Phase 1, borrowers were eligible for a shared appreciation loan of up to 20 percent of the home sales price. For DFA Phase 2, the shared appreciation loan amount was capped at the lesser of 20 percent or $150,000.

Changes to Loan Delivery System

CalHFA's down payment assistance programs are typically distributed via a system whereby a loan reservation is secured after the borrower enters a contract to purchase a home. This system works well when program demand is well balanced with available funding resources. However, because DFA Phase 1 was significantly oversubscribed, for Phase 2, CalHFA established a pre-registration system that allowed borrowers to secure a DFA loan conditional commitment (i.e., a "conditional award" for a DFA loan) before entering a contract to purchase a home.

The preregistration system was programmed to award funding in accordance with the geographic set asides and regions described above. Prospective DFA borrowers had a specified period to submit a complete application and preliminary DFA loan eligibility information via the preregistration system. After a preliminary eligibility screen, a subset of applicants was selected to receive a conditional DFA Program award via a randomized selection process for

each region. Every eligible applicant in a given region had the same chance of receiving a conditional award.

Conditional awards were finalized and announced after an additional quality assurance assessment confirming the first-generation homebuyer status of a random sample of awardees. Those conditional award holders then had up to 6 months to shop for a home, enter a purchase contract, and reserve their loan in CalHFA's system. Those borrowers were permitted to use their DFA award to purchase a home in any county where they were income qualified. Receipt of a conditional award does not guarantee that a borrower will qualify for a DFA loan – they must still work with their CalHFA approved lender to confirm they meet all eligibility and underwriting criteria.

Through the randomized selection process, CalHFA also established a prioritized waitlist for each region. As loans came in below the maximum loan amount and as fallout funds were available from program applicants who do not use their award, additional awards were issued to waitlisted borrowers in the same geographic region.

By providing prospective DFA borrowers more time to access the Program, the preregistration system promoted equitable access for historically underrepresented communities and ensured the Program offered the opportunity for buyers not already on the cusp of purchasing a home to enter the market.

Phase 2 Outcomes

CalHFA opened the preregistration portal for applications from April 3, 2024, to April 29, 2024, receiving over 18,000 eligible applications for an estimated 2,000 DFA awards. After a robust eligibility review, CalHFA used a randomized selection process to issue conditional awards to approximately 1,700 borrowers and place an additional 4,500 borrowers on a waitlist. Borrowers were notified of their conditional award in late June 2024 and were given up to 6 months to enter a contract to purchase a home and reserve their DFA loan in CalHFA's system. As loans came in below the maximum amount, or selected borrowers did not use their conditional award, CalHFA continued to issue additional conditional awards to borrowers on the waitlist for each region.

CalHFA initially had approximately $260 million to support the 2024 preregistration process, consisting of remaining funds from the FY 2022–23 and FY 2023–24 State Budget allocations. Following the high demand generated during preregistration, CalHFA received an additional $300 million from the FY 2025–26 State Budget, which allowed the Agency to issue awards to all borrowers remaining on the waitlist. After completing these awards, approximately $220 million from the FY 2025–26 allocation remains available. CalHFA must carefully pace conditional

awards in concert with available funding and ensure that funding utilization does not exceed funding availability, as fluctuations in demand and award utilization can affect how quickly borrowers move off the waitlist and into the loan reservation process.

Overall, the Phase 2 calibrations were very successful in achieving the stated policy and statutory objectives. The preregistration system allowed CalHFA to implement first-generation eligibility criteria and establish a robust process to ensure that applicants accurately reported their first-generation status. The preregistration system also facilitated the implementation of geographic set asides that ensured funds were distributed equitably throughout the State.

Coupled with the changes to loan parameters described above, these changes were highly effective in ensuring equitable access to the DFA Program, particularly for borrowers in lower income tiers and those for whom homeownership appeared out of reach.

Continued strong demographic performance underscores the successful Phase 2 deployment. Over 75 percent of borrowers that reserved a DFA loan in Phase 2 (as of June 30, 2025) self-identified as belonging to a community of color, compared with only about 45 percent of homeowners in California who identified as belonging to a community of color.

Phase 2 continues to build upon the strong Phase 1 performance in the Latino and AAPI communities, with the share of borrowers in those communities remaining well above the share of California households and homeowners. Importantly, a dedicated outreach and trust building campaign facilitated by the design of the preregistration process led to much stronger uptake in the Black and African American community. To date, the share of DFA borrowers self-identifying as Black or African American nearly doubled over Phase 1, exceeding the share of Black and African American households and homeowners in California.[5]

A full accounting of the performance of DFA Phase 2 in Fiscal Year 2024-25 can be found here: https://www.calhfa.ca.gov/about/press/reports/DFA-report-2026-01.pdf

[5] All numbers reported as of June 30, 2025. Final numbers may vary. Does not rely on and may vary from HMDA data. Based on self-reported data for primary borrowers as entered by applicant in DFA preregistration portal.

Lessons Learned

External market forces and internal program design decisions both influence implementation of the DFA Program. Deployment of Phase 1 and Phase 2 offered key opportunities to calibrate the Program – this section outlines key lessons learned that have informed program adjustments and continue to inform program implementation.

External Factors

- **Economic Volatility**. Economic and real estate market volatility will have major impacts on DFA. Both Phase 1 and Phase 2 funding were deployed at high points in the real estate market cycle. Should home prices soften, borrowers may find themselves owing more on their first and second mortgages than their homes are worth, which may result in higher rates of strategic foreclosures and short sales. It is important to note that federal guidelines severely limit the amount that may be collected from a short sale to repay a subordinate lien – the maximum repayment for a subordinate lien is $6,000. This dynamic will affect loss mitigation options that CalHFA can offer DFA borrowers if values decline substantially.
- **Shared Appreciation Product**. Because the shared appreciation loan product is fairly new to the market, perceptions of the product are often skewed by all forms of media and other influences. Borrower education is therefore paramount. Borrowers need to be educated on all aspects of the loan – some borrowers and communities are highly suspicious of the shared appreciation loan product, and significant trust building is needed. Conversely, other borrowers and consumers may falsely view the Shared Appreciation Loan product as an "interest-free" loan and need to be educated regarding their obligations under the loan, the ultimate cost of the loan, and alternative forms of assistance that may better suit their needs.

Program Design

- **Loan Delivery Process**. Managing policy objectives and outcomes can be very challenging for oversubscribed programs, and those challenges were exacerbated by an over-the-counter lending infrastructure utilized in Phase 1. While the preregistration portal was a time and resource intensive process, it appears to have contributed to more equitable demographic and geographic outcomes.
- **Geography and Demographics.** The geographic distribution of loans has important implications for the demographics of borrowers served. With the implementation of geographic set asides, many more borrowers originated from the coastal areas of the State, leading to significantly

increased numbers of AAPI borrowers and fewer Latino borrowers than are typically represented in CalHFA down payment assistance programs. That said, DFA Phase 2 is on course to overperform in all communities of color, supported by a robust marketing and outreach campaign and careful attention to program accessibility.

- **Income.** Because affordability is a significant challenge in the California housing market, it is important to carefully calibrate income levels to median home values in each county and region of the State. CalHFA established income limits based on a detailed analysis of income levels and housing affordability. CalHFA's analysis suggested that lowering the income limits further would undermine affordability and jeopardize the Program's overall success.
- **Affordability.** Despite careful income and housing affordability analysis, CalHFA found that many borrowers still struggled to find a home that they can afford. For this reason, it is essential that borrowers have the flexibility to purchase a home in any county where they meet income qualifications, as doing so expands their opportunities to access home ownership.
- **First Generation Definition.** Establishing a definition for a first-generation borrower is inherently complex. It is particularly challenging to navigate the myriad of individual family circumstances and personal hardships, which can vary widely and defy rigid categorization. As such, stakeholder input is essential to establishing a thoughtful definition that meets policy goals, is verifiable, and broadly considers the diversity of borrower circumstances.
- **Fund Recycling.** One of the key goals of the DFA concept is that when borrowers repay their shared appreciation loan, their repayment amount is on par with the amount needed to help the next borrower at a commensurate level. Fund recycling can support long term program sustainability for future borrowers. Because repayments are critical to program sustainability, it is also critical to maintain a high loan quality, ensuring that borrowers meet strong underwriting criteria to minimize delinquency and default rates.

Opportunities for Program Operational Improvements

CalHFA intends to implement several administrative changes aimed at accelerating the preregistration and conditional award process, particularly waitlist utilization. These changes include:

- Engagement of call center services to allow for increased applicant and borrower outreach.
- Enhanced loan officer training to ensure that lenders accurately and consistently convey key program terms, parameters, and conditions.
- Requiring borrowers to upload additional supplemental documentation that will assist CalHFA in verifying first-generation borrower status.
- Collecting more information on all first-generation borrowers on the loan to streamline verification of first-generation borrower status and increase flexibility during loan origination.
- Utilizing loan and fallout data from Phase 2 to issue more conditional awards based on actual loan amounts and fallout rates by region.
- Communicating regularly with borrowers on the waitlist to determine if they wish to maintain their place or if circumstances have changed and they are no longer interested in utilizing the Program.

These administrative changes will help CalHFA move through the preregistration process more efficiently and improve the speed of the overall utilization of awards. However, because borrowers have up to 6 months to use their award, it will still take several months to work through the waitlist.

Options for Next Phase of DFA

To date, CalHFA has successfully deployed 2 phases of DFA, helping over 4,000 Californians realize the dream of homeownership. The Program remains incredibly popular with consumers, lenders, and realtors, highlighting the challenges that low- and moderate-income first-time and first-generation homebuyers face accessing homeownership in the current real estate market. However, those challenges, namely lack of inventory and high home prices, remain persistent, and continued investment in high levels of down payment assistance runs the risk of perpetuating market distortions. The Program is also constrained by the State's fiscal circumstances and limitations on the availability of General Fund revenues to continue to support the Program. With those constraints in mind, CalHFA offers the following potential options for future phases of DFA.

Supply Incentives

The efficacy of any down payment assistance program is dictated by the inventory of homes available to income-eligible borrowers. In California, first-time and first-generation homebuyers face increasing impediments to home ownership as low inventories continue to push home prices up and the supply of entry level homes diminishes.

A portion of DFA funds could be used to incentivize the production of new homes affordable to entry level home buyers. CalHFA recommends considering a pilot program that can offer a scalable proof of concept: can down payment assistance and the shared appreciation model be used to catalyze the construction of new units affordable to entry level buyers? Specific program parameters should be carefully considered to ensure that borrower incomes, regions, and other policy objectives are reflected as part of program design.

Because the supply pilot program would be intended to catalyze the construction of units that would not otherwise be produced, it is important to note that the full disbursement of funds under such a model could take many months to years, as new developments would have to navigate the land use entitlement and construction process before coming to market. Such a program could also potentially capture recently built or pipeline projects that would otherwise have not been affordable to entry level home buyers. Focusing on pipeline and recently constructed projects could expedite the disbursement of DFA funds. Focusing on pipeline and recently constructed projects could expedite the disbursement of DFA funds.

Several developers have indicated interest in participating in a supply focused down payment assistance programs, and other Housing Finance Agencies have experienced success with similar approaches such as the Utah Housing

Corporation program [6]

Adjustments to Assistance Level

Adjustments to the amount of assistance provided to individual borrowers may be appropriate to address variability in borrower need and to maximize the number of borrowers assisted through DFA.

While home prices and inventories constrain access to homeownership opportunities throughout California, significant geographic disparities do exist. Prices in interior regions of California are much more accessible to low- and moderate-income first-time homebuyers than coastal areas, where median home prices routinely approach and exceed $1 million.

While CalHFA income limits are calibrated to county income levels, those adjustments are not always sufficient to overcome the housing affordability challenges in California's highest cost regions.

As a result, much of CalHFA's assistance for non-DFA programs gravitates towards the central regions of the State, where low- and moderate-income borrowers can find an affordably priced home. CalHFA's flagship program, MyHome, offers up to 3.5 percent down payment assistance and has helped tens of thousands of Californians access homeownership. However, the down payment assistance offered through this program is not sufficient to help borrowers in extremely high-cost regions on a significant scale. The DFA Program, however, was highly oversubscribed in the coastal areas, demonstrating that higher down payment assistance can meaningfully improve access to homeownership opportunities in these areas.

The successes of both the MyHome and the DFA Program can be instructive for future phases of DFA. Funding limitations combined with significant down payment assistance amounts means that DFA funding can only assist a relatively few borrowers. Reducing or scaling the down payment assistance amount based on housing affordability offers one avenue to maximize the number of borrowers assisted and utilize limited funding more efficiently.

Employer Based Funding and Other Partnerships

Demand for DFA has well exceeded available funding. Strategic partnerships with major California employers may be one way to expand the Program's availability to more homeowners. These employers could be major private employers but could also be large scale public employers such as public universities, local governments, or school districts. Extending these partnerships to include local supply-based initiatives would help maximize homeownership benefits and market efficiency.

[6] Utah Housing Corporation, "UHC - First-time Homebuyers Assistance Program (New Construction)," 2023 [https://utahhousingcorp.org/homebuyer/sb240/]

Because housing is closely linked to economic development initiatives, major California employers have a vested interest in ensuring that their workforce can access affordable homeownership opportunities. CalHFA has invested significant resources to develop the expertise and capabilities necessary to implement a shared appreciation loan program. Employers interested in labor force attraction and retention may be willing to partner with CalHFA and fund a DFA-like down payment assistance program offered to their employees.

Such a partnership would have the dual advantages of helping California employers meet workforce attraction and retention goals and providing alternative capital to fund a shared appreciation loan program.

Ultimately, any expansion or continuation of the DFA Program must be tied to strengthening the inventory of homes affordable to low- and moderate-income first-time homebuyers. This is particularly true for employer-based partnerships, where employers' ability to attract a qualified workforce will remain tied to housing opportunities accessible to those employees, even with down payment assistance. Furthermore, locally targeted programs have an even greater potential to introduce market distortions, with new homeowner demand contributing to higher prices and further inventory pressure.

Local supply-based initiatives will therefore be a critical feature of employer-based partnerships. Partnerships with local governments, institutes of higher education, or school districts that may have financial resources, land and land use, or other regulatory authority or assets to help facilitate new development that could help relieve the demand pressures fueled by constrained supply and should be considered an important component where possible.