



California Dream For All Annual Report 2023

Pursuant to Health and Safety Code Section 51526, the California Housing Finance Agency is pleased to submit this report to the Legislature providing an update on the implementation of the [California Dream For All 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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Summary

The 2022-23 State Budget established the California Dream For All Program, a revolving shared appreciation loan program to increase access to home ownership for low- and moderate- income Californians.

Pursuant to Section 51526 of the California Health and Safety Code, the California Housing Finance Agency's (CalHFA) annual report of the progress of this program provides an update regarding Phase 1 of the program, including number of loans and key characteristics of the borrowers, as well as an overview of the anticipated Phase 2 program parameters.

Introduction and Overview

State Budget Trailer Bill [AB 197 of 2022](#) established the California Dream For All Program 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 with down payments and closing costs for prospective homebuyers.

The 2022-23 State Budget ([AB 178 of 2022](#)) originally allocated \$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 the Dream For All Program, providing the following specific requirements:

- The Dream For All Program must include a shared appreciation loan feature.
- The Program's objective is to expand access to homeownership by helping low- and moderate-income homebuyers purchasing owner-occupied homes.
- The design of the loan product should not unreasonably impede wealth creation through homeownership for participating homebuyers.
- The Program 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. As part of that, CalHFA will explore selling the shared appreciation loans on the secondary market.
- The 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.

The 2023-24 State Budget ([SB 104 of 2023](#)) provided \$20 million in addition to the \$200 million remaining from the 2022-23 State Budget to support a Phase 2 of the Dream For All program. Associated trailer bill language ([SB 143 of 2023](#)) establishes specific guidelines for Phase 2 of the Dream For All program, as discussed further below.

Overview of Shared Appreciation Loans

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 the Program offered down payment assistance amounting to 20% of the home sale price, upon repayment, the borrower would pay back the original loan amount plus 20% of the increase in home value at the point of sale.

A shared appreciation loan is typically structured as a second mortgage, subordinate to the first mortgage lien – the same as CalHFA's existing down payment assistance programs. The homebuyer does not make any payments on the loan until they sell, refinance, or transfer the property, at which time they would owe the original loan amount plus the designated share of appreciation.

In a shared appreciation loan with a pro rata (1:1) appreciation share (i.e., the appreciation share is equal to percentage of the original investment relative to the original purchase price), the effective interest rate on the loan is equal to the average annual appreciation in the home's value. Over the long term, the average annual home price appreciation in California has approximated 4.5%, although home value changes in any given year can vary greatly.¹

Dream For All Phase 1 Program Parameters

CalHFA established the following eligibility and other program parameters for Dream For All Phase 1:

1. **Homebuyer Eligibility.** Prospective first-time homeowners earning up to the CalHFA income limits (~150% Area Median Income [AMI]) were eligible to receive a Dream For All 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 Dream For All 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% 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

¹ California State Treasurer's Office, "CA Dream For All: A Proposed Shared Appreciation Loan Investment Fund for the State of California," June 2022 <https://caf-wd.org/resources/california-dream-for-all/>

below. In other words, if the Dream For All Program funded a Shared Appreciation Loan of 20%, when the homeowner sells, refinances, or transfers the home, they will owe the original amount borrowed plus 20% of the increase in the home's value.

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% annually.
5. **Social Equity Feature.** The Dream For All Program 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% AMI received a larger share of appreciation relative to the Program's investment. In order to improve generational wealth building, these lower-income borrowers keep a greater share of the appreciation; those who received a 20% Shared Appreciation Loan will ultimately pay back the original amount of the loan plus 15% (instead of 20%) of the home price appreciation.

Dream For All Phase 1 Outcomes

CalHFA had \$300 million available to launch the Dream For All Program in March 2023. On March 27, 2023, CalHFA made the Dream For All Program available to its entire network of lenders.

CalHFA's network of lenders is robust, with over 150 lenders located throughout the State. While a borrower may use a lender located anywhere in the State, it merits noting that 54 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% of CalHFA preferred loan officers speak Spanish. CalHFA also has preferred loan officers that speak Tagalog, Vietnamese, Hindi, Punjabi, and Arabic.

While it was expected that a few additional weeks would be necessary to build the requisite lender capacity and begin originating loans in earnest, the response to the Dream For All program 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.

After lenders reserve a loan and lock in the rate for the first mortgage in CalHFA's system, it can take several months for the loan to close, at which time

CalHFA purchases the first and second mortgages. Loans for new construction homes can take a particularly long time to close, as construction of the home must first be completed, which can be subject to any number of delays.

The section below details the number and status of loans and borrower characteristics as of November 30, 2023.

Loan and Borrower Characteristics

As of November 30, 2023, the Dream For All program helped 2,182 new homeowners purchase a home. This corresponds to \$245 million in down payment assistance, leveraging nearly \$1 billion in first mortgage secondary market capital. A total of \$40 million was returned because the homebuyer did not close on escrow. These funds will be redeployed in Phase 2 of the Program.

Average Dream For All Loan and Home Values

The average Dream For All loan amount was \$113,000 with an average sales price of approximately \$564,000. The average Dream For All home purchase price was lower than the area median home value in all but one region, the Central Valley – see **Figure 1**, below.

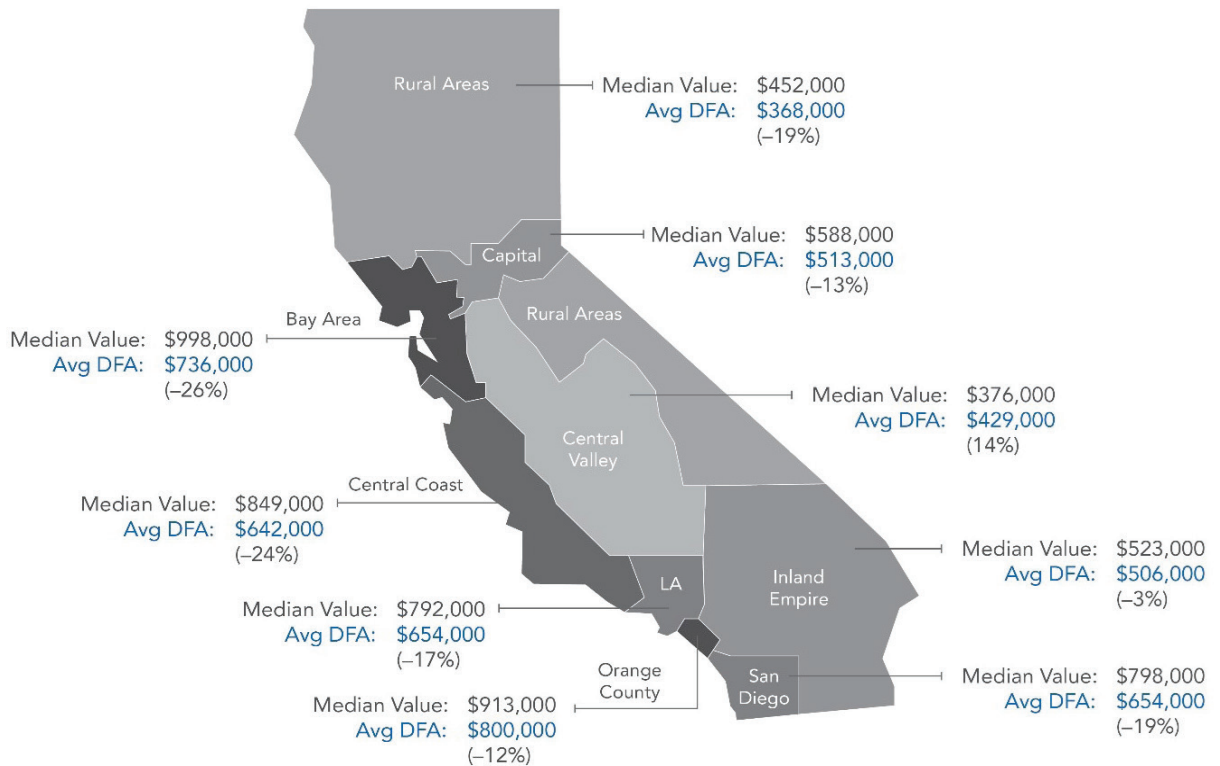


Figure 1: Regional Average DFA Home Sales Price

Race and Ethnicity

More than 55% of Dream For All borrowers self-identified as belonging to communities of color.

- 33% identified as Hispanic or Latino
- 19% identified as Asian American or Pacific Islander
- 3% identified as Black or African American.
- 35% identified as White (Not Hispanic/Latino)

The Majority of DFA Loans Went to Underserved Communities

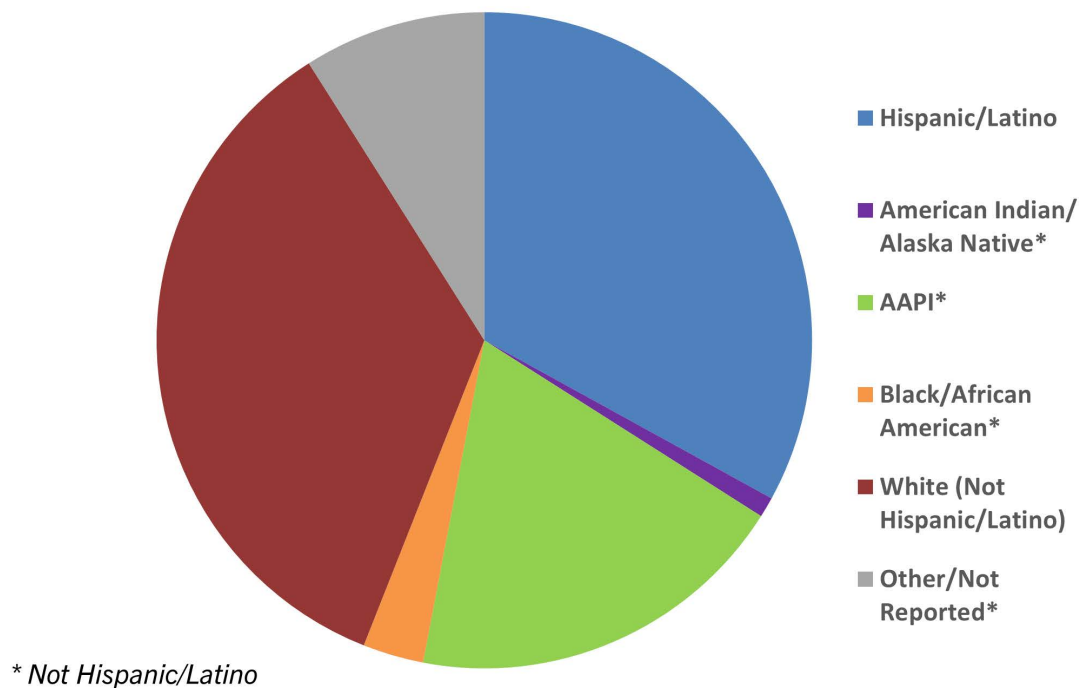


Figure 2: DFA Borrowers by Race/Ethnicity

Comparison to California Households and Homeowners

The proportion of Dream For All Hispanic/Latino, American Indian or Alaskan Native, and Asian American or Other Pacific Islander borrowers exceeds both the overall percentage of these groups among all California households and their share of all homeowners. The percentage of Black/African American borrowers in the Dream For All program, however, is lower than their share of all California households or homeowners. The proportion of Dream For All borrowers identifying as White (Not Hispanic/Latino) is also lower than their share of all California households or homeowners. This highlights the need for increased outreach and other program calibrations to maximize uptake of the program in underrepresented communities during Phase 2 (see Calibration 5 on page 14).

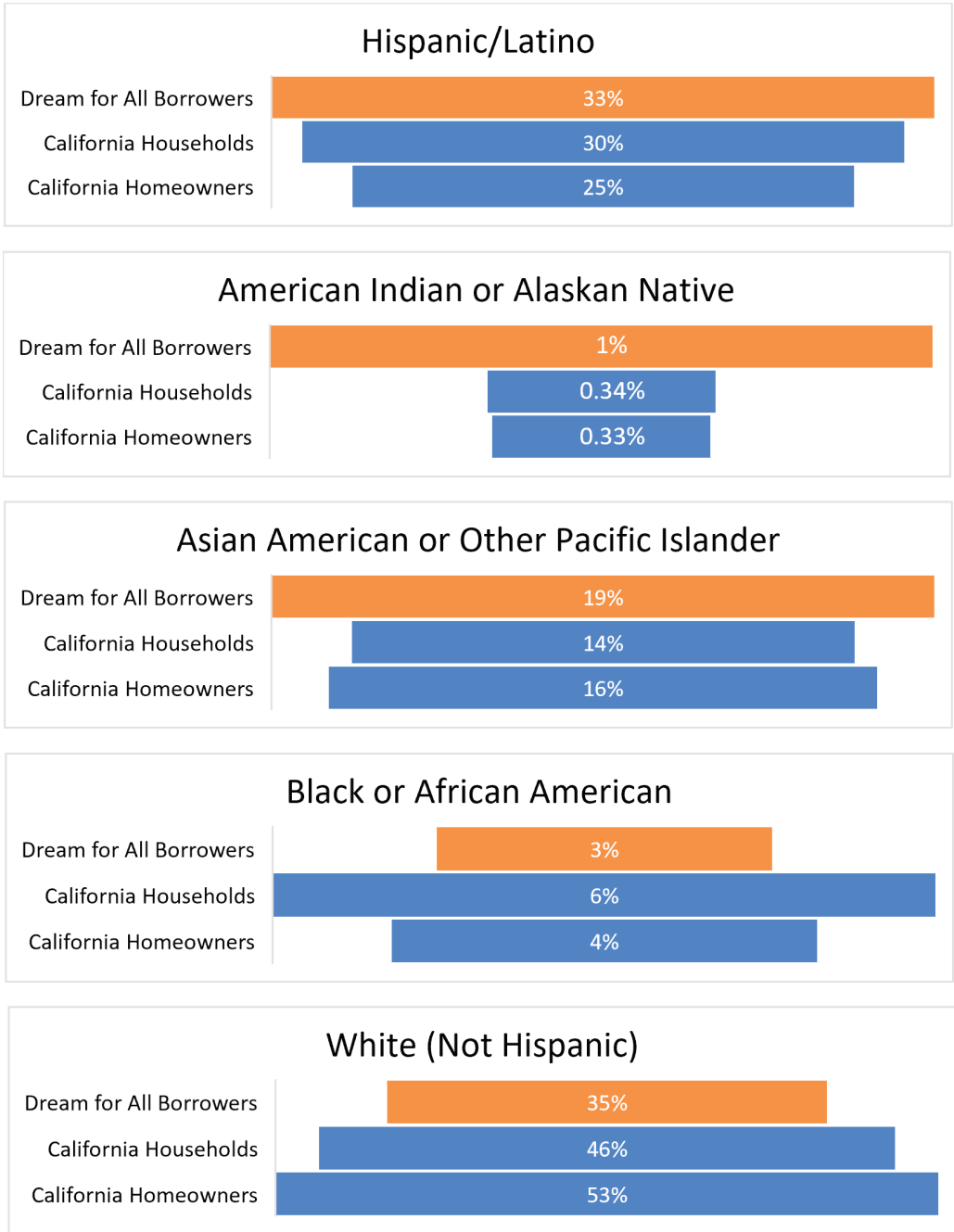


Figure 3: DFA Borrower Race/Ethnicity and Household Composition Comparison

Geography

Dream For All loans were geographically diverse, with loans in 53 of the State's 58 counties. Like all CalHFA down payment assistance programs, many loans occurred in the Central Valley, Capital, and Inland Empire regions, where housing prices are more affordable. The number of loans in these regions exceeded each region's share of California households.

The Dream For All program did, however, see a significant gain compared to CalHFA's other down payment assistance programs in the share of loans in the Bay

Area, with the composition of Dream For All loans just below the Bay Area's share of California households.

The share of loans in Los Angeles, San Diego, Orange County, and the Central Coast were lower than their share of California households, due to high home prices and low inventories in these areas. However, the share of Dream For All loans in these regions still significantly outperformed other CalHFA down payment assistance programs.

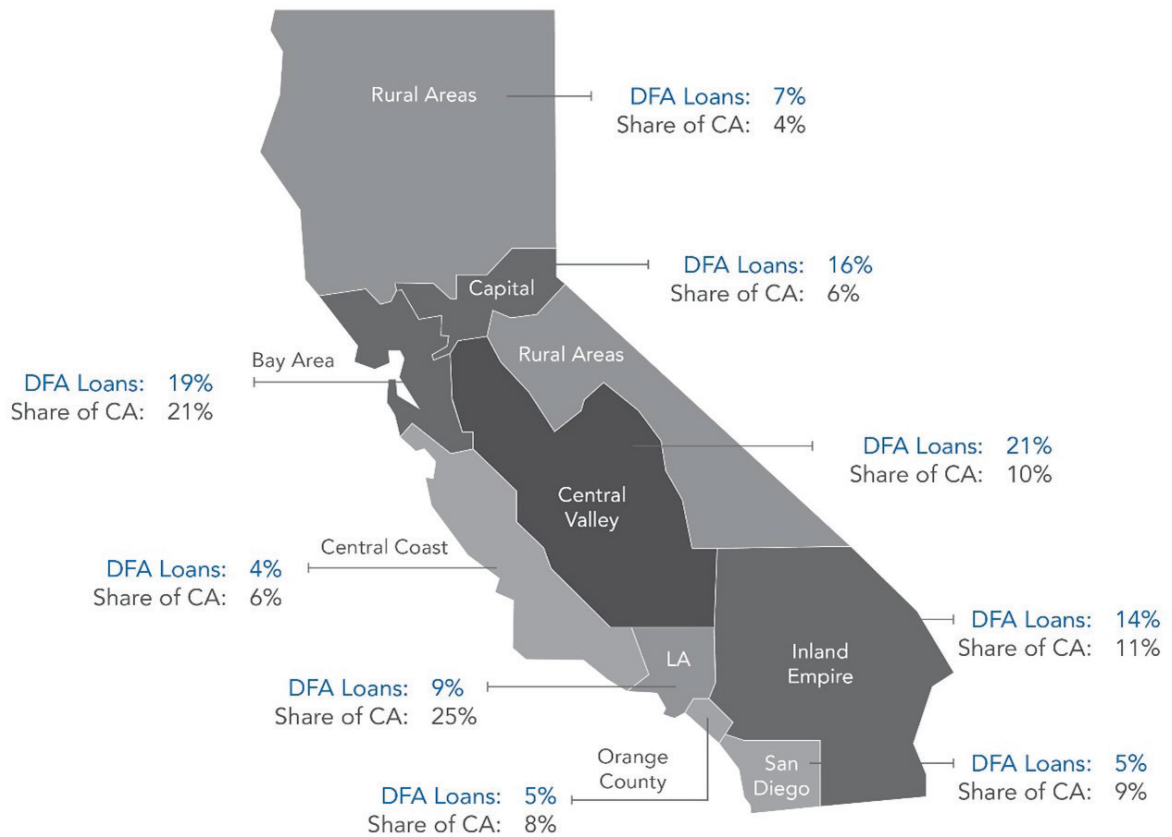


Figure 4: Share of DFA Loans versus CA Households by Region

Income

Elevated home prices in California present significant challenges to accessing home ownership, particularly for low- and moderate-income homebuyers. Median home prices for existing single-family homes in California exceed \$843,000, which requires a minimum qualifying income of over \$221,000. Median priced condominium and townhomes are estimated to require a minimum qualifying income of over \$170,000.² By contrast, the median income in California is approximately \$91,550.³

The California Association of Realtors estimates that only 15% of Californians can

² Assumes borrower has 20% down payment. Source - California Association of Realtors, [Housing Affordability Index - Traditional \(car.org\)](https://www.car.org/housing-affordability-index-traditional)

³ American Community Survey, 2022.

afford to purchase a median priced single-family home and only 23 percent of Californians can afford to buy a median priced condominium or townhome. With assistance from the Dream For All program, lower-income borrowers were able to buy their first home:

- Nearly 40% of DFA borrowers earned less than \$100,000.
- Over 60% of DFA borrowers earned less than \$125,000.
- Nearly 80% of DFA borrowers earned less than \$150,000.

Dream For All Phase 2

The 2023-24 State Budget provided \$20 million in addition to the remaining \$200 million from the 2022-23 state budget to support Phase 2 of the Dream For All program. CalHFA also has approximately \$35 million in fallout funds from canceled loans from Phase 1, for roughly \$255 million in total available funding for Phase 2.

Phase 2 Statutory Requirements

Senate Bill 143 of 2023 established parameters for Phase 2 of the Dream For All program, which requires CalHFA to establish program guidelines to accomplish the following:

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.

Program Calibrations

Based on the outcomes of Phase 1, discussions with stakeholders, and the statutory requirements outlined above, CalHFA has established several proposed program calibrations to implement the trailer bill requirements.

Calibration 1: Upgraded 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. However, because Dream For All Phase 1 was dramatically oversubscribed, for Phase 2 of the Program CalHFA will establish a preregistration system that will allow borrowers to secure a Dream For All reservation before entering into a contract to purchase a home.

Prospective Phase 2 Dream For All borrowers will have an established period to submit their application and preliminary eligibility information via the preregistration system. After a preliminary eligibility screen, a subset of

applicants will be selected via a randomized selection process to receive a Dream For All program voucher. Those voucher holders will then have a specified period of time to shop for a home, enter a purchase contract, and reserve their loan in CalHFA's system.

The preregistration system will also establish a waitlist of prospective Dream For All borrowers who may be awarded a voucher as additional funds are available through Program fallout.

By providing prospective Dream For All borrowers more time to access the program, this calibration is intended to promote equitable access to the program for historically underrepresented communities and ensure the program is serving buyers not already on the cusp of purchasing a home. The preregistration system is also integral to achieving the remaining Phase 2 objectives as described in the sections to follow.

Calibration 2: First Generation Eligibility Criteria

As with Dream For All Phase 1 and consistent with requirements for all CalHFA down payment assistance programs, all Dream For All Phase 2 borrowers will be required to be first-time homebuyers. In addition, Phase 2 of the Dream For All program will further narrow 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 not had an ownership interest in a home in the United States in the last 7 years; and
- To the best of the borrower's knowledge, the borrower's parents or legal guardians do not, or did not at the time of their death, have any present ownership interest in a residence in the United States; or
- The borrower grew up in foster care.

First-Generation Homebuyer eligibility will be established based on an attestation under penalty of perjury. During the implementation process, CalHFA will establish a procedure to sample a certain number of Dream For All borrowers whose First-Generation Homebuyer status will be reviewed and confirmed.

Calibration 3: Geographic Set Asides

To support an equitable distribution of program funds in different regions of the state, the preregistration system discussed in Calibration 1 will be programmed to award preregistration vouchers proportionate to each region's composition of California households. See **Figure 5**.

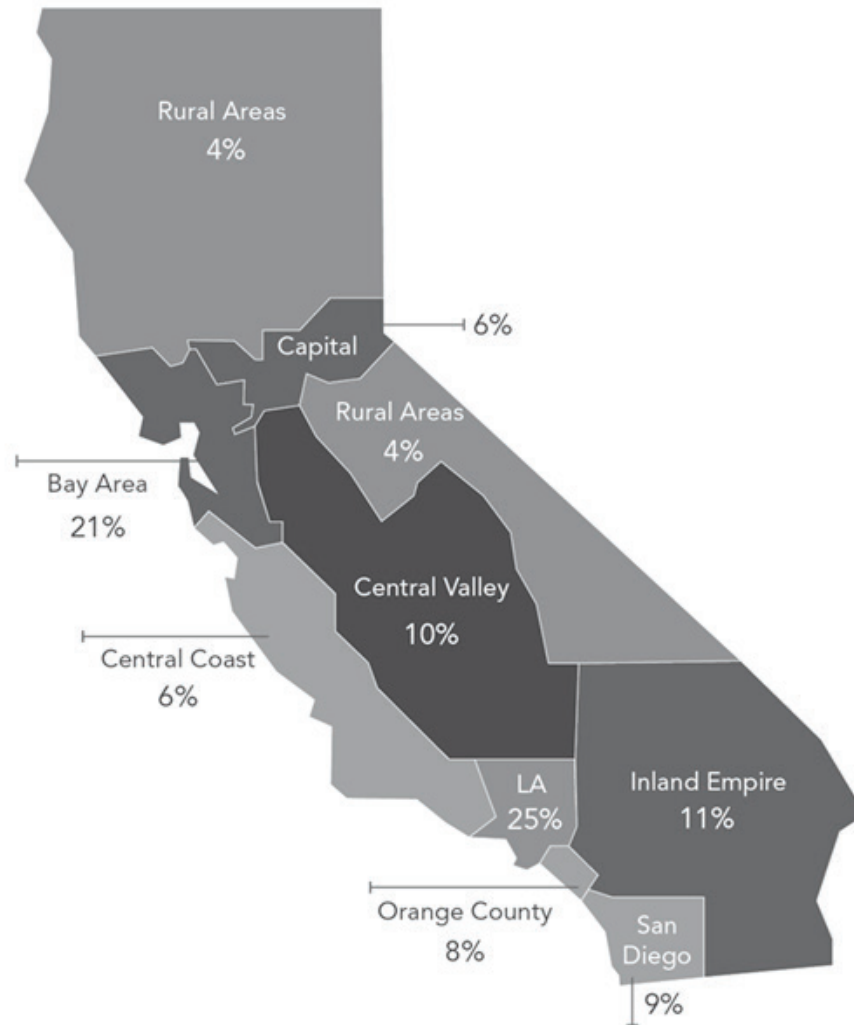


Figure 5: Distribution of California Households by Region

Borrowers would be qualified based on their current address and would be able to purchase a home in any county where they are income qualified. If the Geographic Set Aside percentage is reached, the program will establish a prioritized waitlist for each region. Fallout funds from program applicants that do not close on a home would, in the first instance be allocated to borrowers in the same geographic region on the waitlist in the prioritized order established by the lottery.

Calibration 4: Revised Loan Parameters to Serve Lower-Income Borrowers

CalHFA has developed several revisions to the Dream For All Shared Appreciation Loan parameters designed to prioritize participation by homebuyers in the lower tiers of the income eligibility structure.

- **Reduced Income Limits.** Dream For All Phase 2 income eligibility will be reduced from income limits based on 150% Area Median Income (AMI)

to limits based on 120% AMI. CalHFA has reviewed the estimated housing affordability at these income levels and finds that lower income limits may present some challenges in high-cost areas, but median home prices are largely within affordable ranges for most of the State.

- **Limits on Borrower Funded Down Payments.** Updated loan parameters will include a minimum cumulative loan-to-value ratio of 95%, which means that the total amount borrowed to purchase a home must be at least 95% of the actual purchase price. This parameter thus limits borrower-funded down payments to 5% of the purchase price.
- **Cap on Shared Appreciation Loan Amount.** In Dream For All Phase 1, borrowers were allowed to take a shared appreciation loan up to 20% of the home sales price. For Dream For All Phase 2, the shared appreciation loan amount will be capped at the lesser of 20% or \$150,000.

Calibration 5: Targeted Marketing and Outreach to Historically Underrepresented Communities

CalHFA has developed a comprehensive marketing and outreach plan designed to increase the share of Dream For All loans to diverse and underserved households and regions. Outreach will be targeted to first-generation homebuyers, with a particular focus on potential homebuyers from historically underrepresented communities that are not currently in the process of buying a home but may qualify and be ready to begin the homebuying process. Outreach and marketing will include social media and text campaigns; radio and print advertising; and engagement with community based and grassroots organizations. Early marketing will provide prospective first-generation homebuyers with more lead time to have documents and finances ready for the Phase 2 preregistration opening.

Taken together, these calibrations prioritize borrowers at the lower end of the income tier but allow sufficient flexibility to respond to market conditions in individual regions. CalHFA predicts these changes will place downward pressure on Dream For All sales prices but note that maximum affordable home price ranges vary significantly by geography.

CalHFA currently anticipates that the registration portal for Dream For All Phase 2 will open in Spring 2024.