AGENDA #10

Presentation of Terner Center Report: “The Market for CalHFA Homebuyer Subordinate Financing Products”

THE MARKET FOR CALHFA SUBORDINATE FINANCING PRODUCTS

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MARKET STUDY OVERVIEW

- **Purpose:** Estimate market size and composition for CalHFA subordinate financing products.
- Focus on three CalHFA programs
  - MyHome Assistance Program
  - Zero Interest Program (ZIP)
  - Dream for All Shared Appreciation Loan (DFA) Program
- **Approach:**
  - Identify eligible borrowers using credit bureau data covering all California consumers' credit scores and previous mortgage activity
  - Refine estimates using local income distribution data

PROGRAMS AT A GLANCE

	MyHome Assistance Program	Zero Interest Program	Dream for All Program (Phase II, 2024)
Maximum Loan Amount	Up to 3.5% of appraised value/sales price, whichever is less	2% or 3% of first mortgage loan amount	20% of appraised value/sales price or $150K, whichever is less
Loan type	Down payment and closing costs assistance	Closing cost assistance only	Down payment and closing costs assistance
Minimum credit score	640		680 if income greater than 80% AMI, 660 otherwise
First mortgage type	Conventional, FHA, USDA, or VA mortgage	Conventional or FHA	Conventional only
Previous homeownership	First-time homebuyer		All first-time homebuyers; at least one first-generation homebuyer
Income limit	150% county AMI household size of 8		120% county AMI using household size of 8
Loan cost	1% simple interest	None	1:1 program appreciation share ratio if income greater than 80% AMI, 3:4 ratio otherwise
Allocation	Not restricted		One-time random lottery

DATA

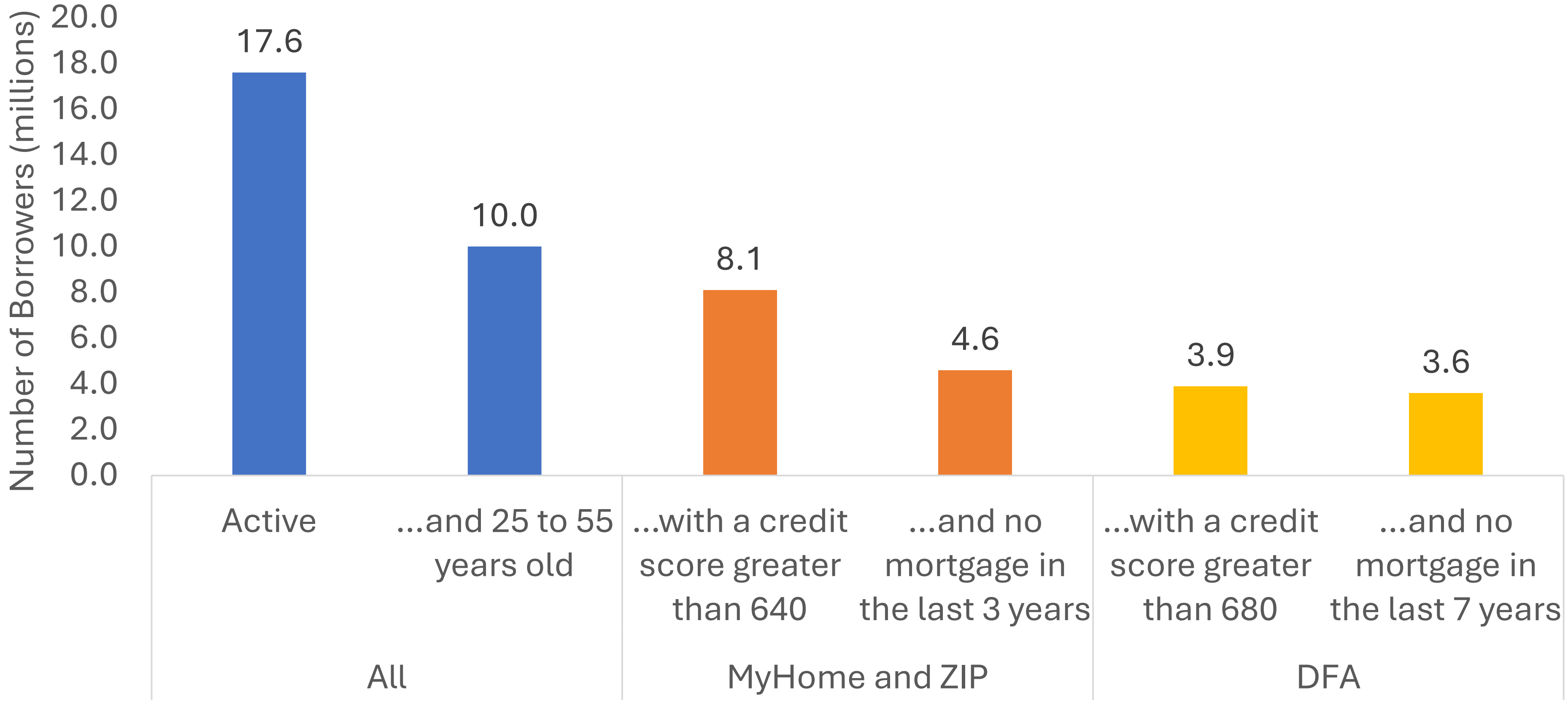
- **University of California Consumer Credit Panel (UC-CCP)**
  - Maintained by California Policy Lab at UC Berkeley + UCLA
  - Comprised of (de-identified) individual credit records
  - Covers 100% of individuals with credit histories who have lived in California from 2004 to present
  - Updated quarterly
  - **Key limitation:** Can't observe borrowers' incomes

- Supplement with **Census**, **HMDA** data to estimate effects of income eligibility limits and affordability constraints

BASELINE METHODOLOGY

1. Identify California consumers active in consumer credit market as of 2024Q4
2. Restrict to consumers aged 25-55 (“prime home-buying age”)
3. Restrict to consumers with credit scores at or above program guidelines (640 for MyHome and ZIP, 680 for Dream for All)
4. Restrict based on previous mortgage borrowing activity
   a. “First-time homebuyer:” no mortgage in past three years
   b. “First-generation homebuyer:” no mortgage in past seven years

BASELINE RESULTS



BASELINE RESULTS: TAKEAWAYS

- From a credit eligibility and mortgage history standpoint
  - ~4.6 million individuals eligible for MyHome/ZIP
  - ~3.6 million eligible for DFA
- Based on HMDA records, there are an average of 1.54 borrowers per mortgage, suggesting:
  - 3 million potential MyHome/ZIP-facilitated home purchases
  - 2.3 million potential DFA purchases

ACCOUNTING FOR INCOME

- Many potential borrowers based on credit/mortgage history may
  - Earn above CalHFA's income eligibility limits
  - Earn too little to afford mortgage payments

- Used ACS and HMDA data to
  - Exclude representative share of renters whose household income **exceeds** CalHFA income limits in county
  - Exclude representative share of renters whose household income is **lower than** 10^{th} percentile income of FHA homebuyers in county

ACCOUNTING FOR INCOME

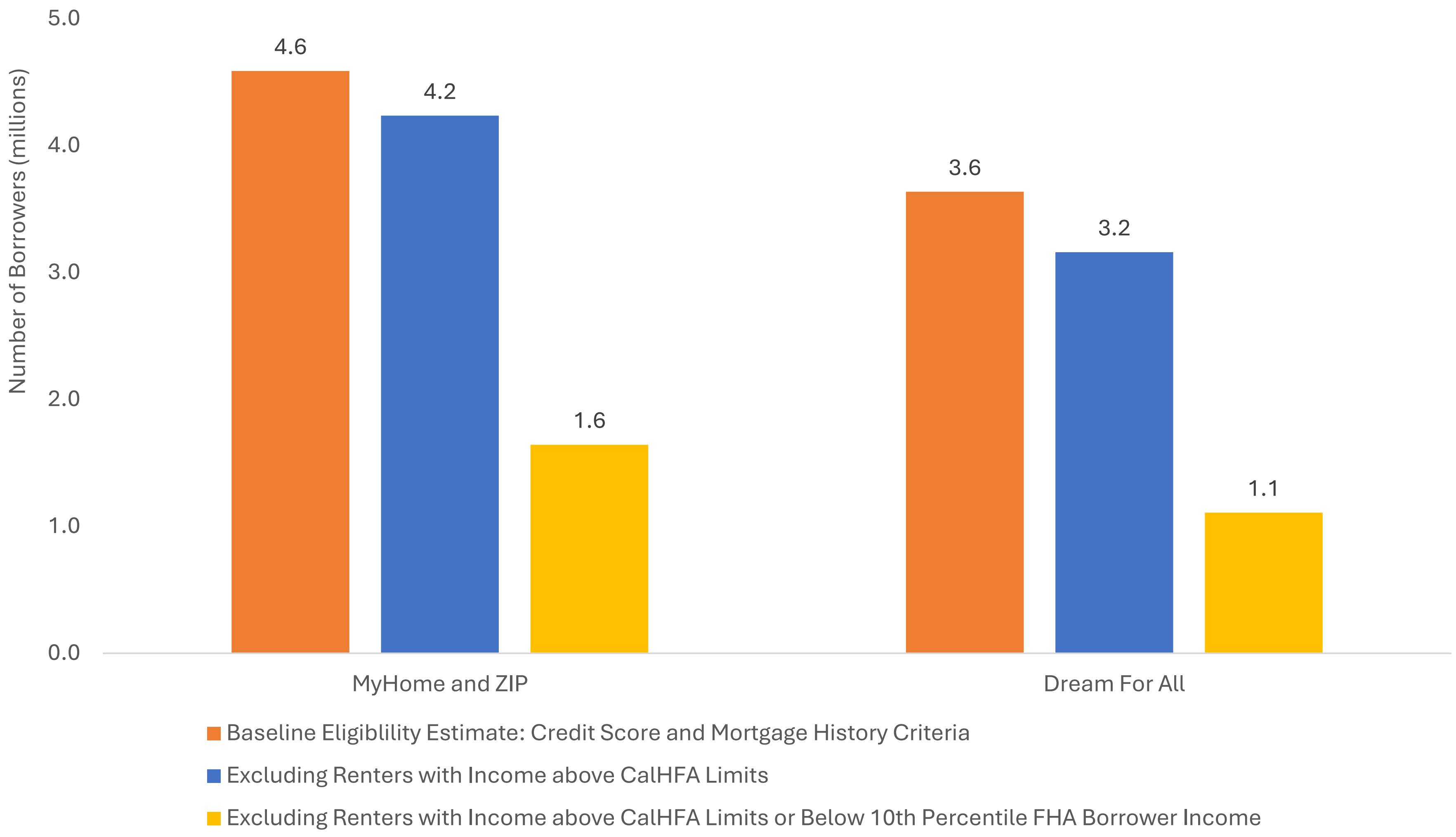
- **Example:** Alameda County
  - Program income limits:
    - 92% of renters aged 25 to 55 lived in a household with income less than MyHome and ZIP income limit
    - 86% fall under Dream for All income limit

    → Reduce MyHome/ZIP estimates by 8%, and DFA estimates by 14%

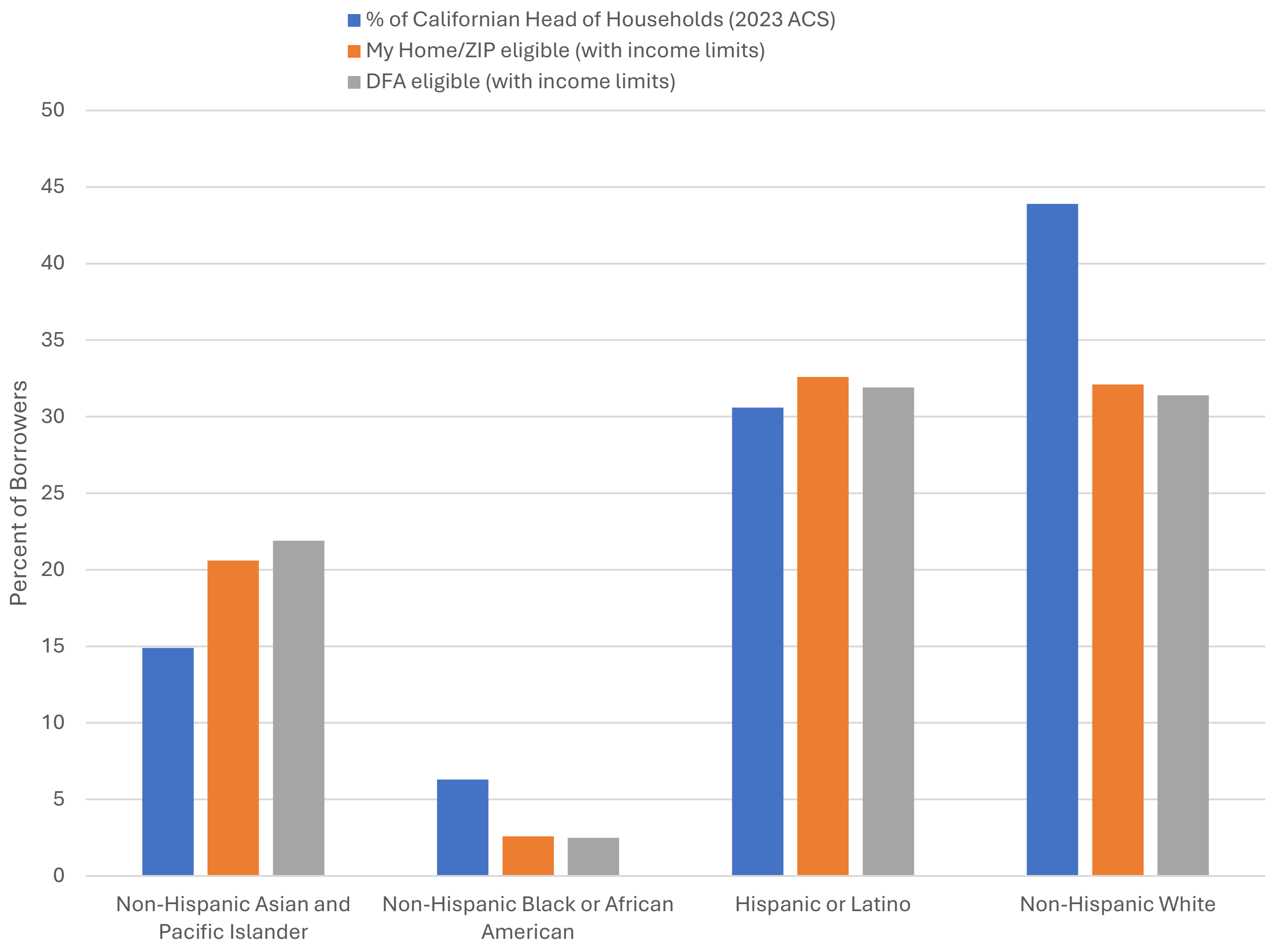
    Similar exercise for 10th percentile income among FHA borrowers

- Apply trimming to all counties using county-specific program income limits and FHA borrower income distributions

ACCOUNTING FOR INCOME: RESULTS

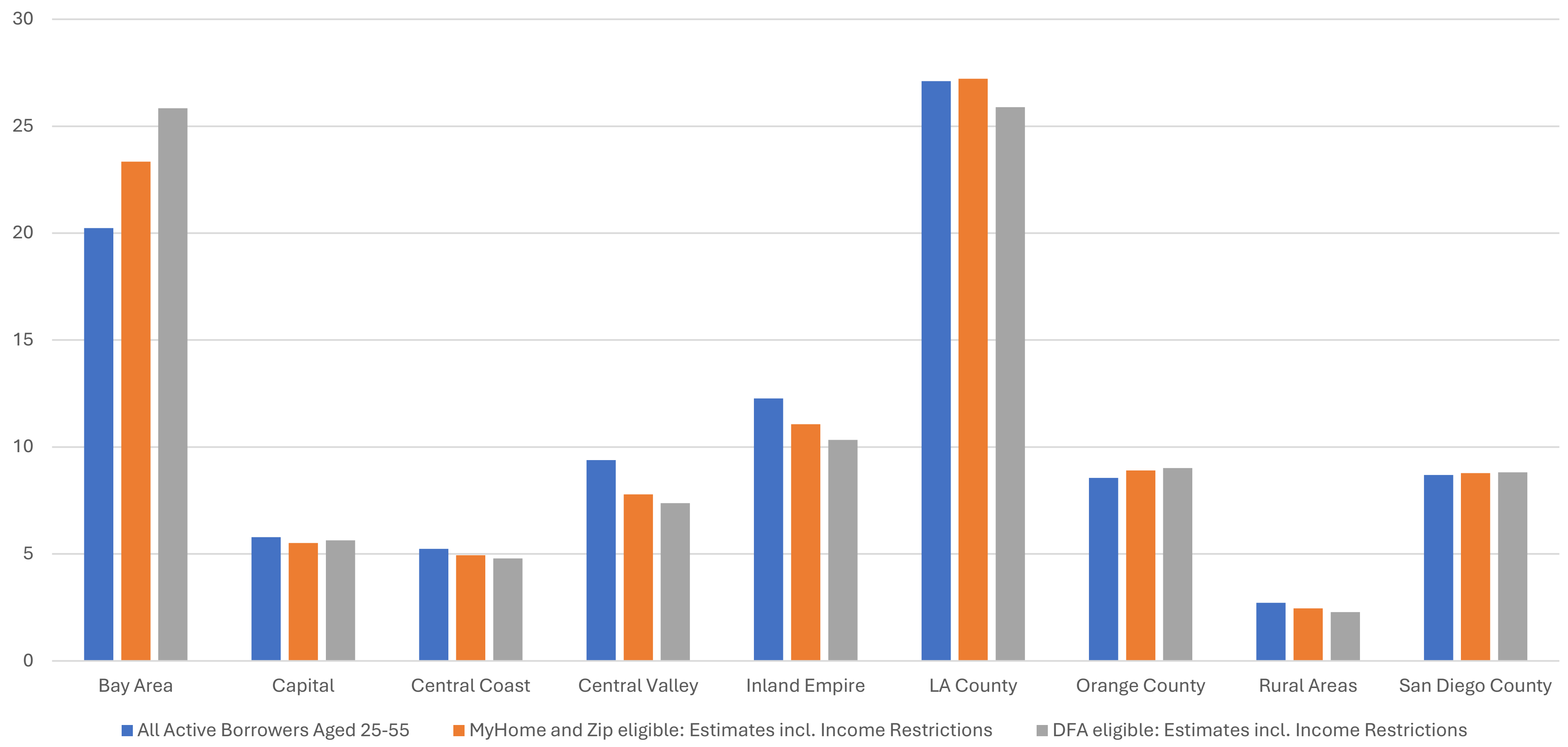


MARKET COMPOSITION: RACE/ETHNICITY



- Accounting for income limits, among borrowers with credit records:
  - Black and non-Hispanic White borrowers are under-represented among eligible borrowers
  - API borrowers over-represented
  - Hispanic and Latino borrowers roughly proportionally represented

MARKET COMPOSITION: GEOGRAPHY



MARKET COMPOSITION: GEOGRAPHY

- Largest markets for CalHFA products are most expensive regions: Bay Area, Orange County, San Diego County, Los Angeles County, and Capital Region

- Many borrowers with sufficiently high incomes to afford mortgages and good credit histories who have not yet bought homes
  - Supply constraints play a significant role in restricting homeownership
  - In less expensive regions, many borrowers with good credit and sufficiently high incomes have already bought homes

- Analysis in progress: many borrowers may be moving *out* of expensive regions when transitioning to homebuying

RECAP: KEY FINDINGS

- **<u>Market size</u>**
  - Using credit scores and mortgage borrowing history alone, 4.6 million homebuyers eligible for MyHome/ZIP and 3.6 million eligible for Dream for All
  - Refining estimates with income data, 1.6 million eligible for MyHome/ZIP and 1.1 million eligible for Dream for All
- **<u>Market composition</u>**
  - Black renters underrepresented in eligibility pools → both income and credit constraints
  - Hispanic or Latino borrowers proportionally represented, API borrowers overrepresented
  - Market concentrated in most populous, expensive regions

STUDY LIMITATIONS

- Cannot observe income directly in UC-CCP.
- No data on parental homeownership → DFA eligibility overestimated.
- Race/ethnicity imputed → potential misclassification.
- County-based affordability assumption ignores mobility across counties

NEXT STEPS: DREAM FOR ALL EVALUATION

- Random lottery assignment of vouchers permits evaluation of effects of Dream for All voucher offer on mortgage financing, other lines of credit, mobility…
- **Intuition:** Dream for All recipients only differ from non-recipients by random chance, so comparing initially offered applicants to not selected applicants gives the effect of a voucher offer
- ***Preliminary*** evidence
  - Dream for All voucher offer increases homeownership by over 45 percentage points four quarters after loan offers (by 2025Q2)
  - No effects on other lines of credit or adverse credit outcomes
- More to come!