March 18, 2002

Hon. Bill Lockyer
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Tricia Knight
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Elections Code 9005, we have reviewed the proposed initiative entitled "Aid for Home Ownership Act" (File number SA2002RF0009).

MAJOR PROVISIONS OF THE INITIATIVE

This measure amends the California Constitution to establish a State Bank to provide loans for homes and property to citizens of California.

Provisions Related to State Bank

Under current law, the state provides homeowner assistance through a variety of mechanisms—such as an income tax deduction for mortgage interest expenses and through direct loans and grants to qualified buyers. This measure establishes the State Bank, housed within the State Treasurer's office, to provide loans or guarantees for home and property purchases to California citizens. The state would be required to offer a loan or guarantee to a citizen under the following conditions:

- Each citizen could receive only one loan every 12 years.
- Loan eligibility would be based on a three-year history of on-time housing payments (either rent or mortgage).
- Interest rates could not exceed the lowest available private market rate.

Provisions Related to Foreclosure and Property Taxes

Under current law, private lenders under specified conditions have the option of foreclosing on a property due to the owner's nonpayment of the loan. County governments—as part of their duties as property tax collectors—have the ability to charge property owners fees, penalties, and interest when property taxes are not paid on time.

The measure prevents the use of foreclosures by lenders. In cases of nonpayment due to hardship or illness, the measure requires private lenders to "make every effort" to bring the loan current. The measure also places restrictions on the manner in which counties collect unpaid property taxes. Counties would be required to make every effort possible to assist homeowners with the payment of property taxes—even to the extent of allowing property taxes to be paid over an extended period, with no additional cost or interest.

FISCAL EFFECT

We estimate that the measure would have the following fiscal effects on state and local governments.

Costs of State Bank Lending

Loans from the State Bank would offer better financial terms than most Californians could currently receive in the private market. Individuals who currently do not qualify for mortgage loans would qualify for State Bank loans. Other individuals would qualify for higher loan amounts and/or better interest rates. As a result, we would expect many Californians, possibly in the hundreds of thousands annually, to seek loans from the State Bank for purchases or refinancing. Loan amounts required under the measure could, therefore, total in the tens of billions of dollars annually (based on typical mortgage amounts). As a result, we estimate the following fiscal effect of these loans:

- ***Initial Capitalization Costs.*** In the first years of the bank, the loans would require a source of state funding potentially equal to tens of billions of dollars annually. Given this magnitude, the issuance of debt for some or all of the costs would be likely.
- ***Ongoing Costs.*** Over time, most loans would be repaid—allowing new loans to be funded. The ongoing funding of the bank would depend on a number of factors, such as the Legislature's choices in implementing the program, the rate of loan repayments, and the rate of loan defaults. Based on these factors, the program potentially could become self-financing. If, however, repayments were too low and/or defaults too high, the program would require an ongoing funding source to cover any annual operating shortfalls.
- ***State Tax Revenues.*** This measure would substantially alter the housing and capital markets in California. As such, it could directly and indirectly affect state and local tax revenues in many ways. For example, a shift in lending activity from the private sector to the State Bank would reduce state corporate tax revenues. In addition, based on how State Bank loans affected overall economic activity, the measure could increase or decrease general tax revenues to state and local governments. The net change in total tax revenues is not known, but the measure would likely result in some overall revenue losses.

Reduced Property Tax Fees, Penalties, and Interest

Fees, penalties, and interest on late property tax payments currently total tens of millions of dollars annually. This measure could eliminate the collection of some or all of these amounts. These lost revenues would generally affect all local governments receiving allocations of property taxes (cities, counties, special districts, and school districts). Any reduction in property tax revenues allocated to school districts would generally result in an equal increase in state General Fund obligations for spending on schools.

Summary

The initiative would have the following major fiscal effects:

- In the near term, potentially tens of billions of dollars in annual state costs for property loans by the new State Bank. In the longer-term, potential annual operating costs, depending on actions by the Legislature and the program's operation.
- Lost property tax fees, penalties, and interest revenues to local governments, potentially up to tens of millions of dollars annually.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance