LAO

PROPOSITION 37

Creates Loan Program for Middle-Income Buyers of Qualified New Homes. Initiative Statute.

ANALYSIS OF MEASURE

BACKGROUND

State Revenue Bonds. Bonds are a way that governments borrow money, most commonly for public projects such as schools or bridges. The state sells bonds to investors to receive up-front funding for these projects. Over time, investors are repaid with interest. The state sells two main types of bonds: general obligation bonds and revenue bonds. The state usually repays general obligation bonds using the state General Fund. (The General Fund is the account the state uses to pay for most public services, including education, health care, and prisons.) In contrast, revenue bonds are repaid using revenue from fees or other payments by the users of the project (such as from bridge tolls).

Some People Seek Down Payment Assistance. When purchasing a home, most people pay some of the cost up front—typically 3 percent to 20 percent of the home price. The up-front payment is known as a down payment. If people cannot afford the down payment, there are different government programs available to provide down payment assistance to eligible homebuyers. To cover the remaining cost of the home, homebuyers get a loan, called a mortgage. Homebuyers then pay off the mortgage by making monthly payments that include interest.

California Housing Finance Agency (CalHFA). CalHFA is a state entity that administers programs designed to help low- and moderate-income Californians afford housing. CalHFA has a few programs that provide down payment assistance to homebuyers. The down payment assistance programs are loans that must be repaid under certain terms and conditions.

Construction Defect Law. To try to prevent construction defects, state law sets minimum standards that builders must follow for new residential construction. Current law also establishes a process that homeowners and housing builders must follow before a homeowner is able to sue a builder for alleged violations of those minimum standards. For example, the homeowner must provide notice to the builder that includes certain information concerning a claim of construction defect.

PROPOSAL

Revenue Bond to Pay for a New Down Payment Assistance Program. Proposition 37 allows CalHFA to sell up to $25 billion in revenue bonds. CalHFA would use the bond funds to create a down payment assistance program called the "middle-class homeownership loan." Each loan would cover up to 17 percent of the home price. (Homebuyers would need to provide a down payment of at least 3 percent of the home price.) Homeowners' monthly payments on their loan would be designed to repay the bonds over time and cover the program's administrative costs. CalHFA also would be required to keep interest costs for homebuyers as low as possible. CalHFA would decide how much of the bonds to issue (up to $25 billion) and over what time period.

Buyers and Homes Must Meet Certain Requirements. To participate in a middle-class homeownership loan, people and homes would need to meet certain requirements. For example, an applicant would need to be a resident of the state and have a household income no more than double the typical income level in their area. For a home to be eligible for purchase through the program, among other requirements, the buyer would need to be the first purchaser of the home and the price could not exceed certain limits.

Housing Developer Options. Under Proposition 37, all developers could build homes eligible for purchase under the program. Developers also could choose to participate in a "qualified builder option." Developers that chose this option would be required to meet higher labor standards, such as using workers with a certain type of training for certain types of housing projects. In exchange, developers would be subject to different construction defect rules, which generally aim to provide more flexibility to developers.

FISCAL EFFECTS

No Direct State or Local Costs. Because Proposition 37 uses the payments from homebuyers to repay bond investors, it would not result in direct state or local costs.

Other Potential Effects. A number of factors, which are unknown at this time, could affect Proposition 37's scope and impact. These include (1) the extent to which investors want to buy the bond, (2) how much the loans available under this proposed program cost homebuyers compared with other down payment assistance options, and (3) whether the program results in increased home construction and homebuying.

YES/NO STATEMENT

A **YES** vote on this measure means: The state would create a new homebuying assistance program. The state could sell up to $25 billion in revenue bonds to fund the program. Bonds would be paid back by homeowners' payments on their home loans.

A **NO** vote on this measure means: The state would not be required to create a new homebuying assistance program.

SUMMARY OF LEGISLATIVE ANALYST'S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT

- No direct state or local costs.

BALLOT LABEL

Fiscal Impact: No direct state or local costs.