

# Forgivable Equity Builder Loan

**California Housing Finance Agency**

Homeownership: Empowering New Buyers

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## **Program Description**

Home equity has proven to be one of the strongest ways for families to build and pass on intergenerational wealth, and the California Housing Finance Agency has committed to improving equitable access to homeownership for all Californians. The Forgivable Equity Builder Loan Program, which gave low-income, first-time homebuyers a 10% forgivable loan towards their down payment, helped more than 2,000 Californians buy their first home with a mortgage they could afford.

It's a special challenge to reach people of color and underserved populations in California, due to the restrictions of Proposition 209, which bar state programs from giving preferences based on race, ethnicity and other categories. Additionally, it's very challenging for first-time homebuyers to qualify for mortgages and find affordable homes to buy in high-cost areas. The state legislature tried to address both those obstacles by authorizing \$88 million in 2021 to help low-income borrowers—those with incomes at or below 80% of the Area Median Income—with their down payment.

The legislature also instructed CalHFA to design, implement and administer the program. After meeting with lenders, community leaders and other stakeholders, CalHFA launched the program in April of 2022. The program gained momentum through CalHFA's wide-ranging partnerships, social media and advertising campaigns. Its funding was fully allocated by November 2022, just seven months later.

## **Innovative**

The Forgivable Equity Builder Loan Program broke new ground in California, with down payment assistance loans of up to 10% of the purchase price to first-time homebuyers. What truly made this program unique was the forgivable aspect: if the homeowner stays in the home for five years, that 10% is forgiven. While CalHFA had run successful programs with a forgiveness aspect in the past, those had been much smaller. A 10% forgiveness loan was enough to truly give homebuyers from underserved populations a chance they never previously had to get a jumpstart on building home equity.

## **Replicable**

There's no doubt making this kind of funding available from state budgets takes political will, and we're fortunate that housing is an important priority for the California legislature and the Newsom administration. Our lender network also embraced this program, due in part to our aggressive outreach and training efforts. Our lenders understood that even though the program had income restraints, there were still some areas of the state where the housing was available at affordable prices. Making sure the network of lenders is on board is a key aspect for any HFA looking to replicate this program.

## **Respond to an important state housing need**

Housing affordability in California refuses to get easier, and it is of paramount importance that there be a pipeline of first-time homebuyers to free up rental space and help more people start building equity through home value appreciation. Although almost every demographic faces challenges with homeownership, we had a relatively small budget of \$88 million, so we built the program to target a very specific niche of potential homebuyers: low-income people who may live in high-cost areas.

## **Use data, research, and analysis to demonstrate measurable benefits to HFA targeted customers and underserved markets**

This program knocked it out of the park. More than 70% of Forgivable Loans went to socially disadvantaged households, per UCLA's Ownership Vulnerability Index. Every single loan went to a low-income borrower (below 80% of Area Median Income). Additionally, CalHFA's distribution of Forgivable loans outperformed both the African-American and Latino homeownership rates, in addition to those groups overall household rates, showing that we were able to reach those borrowers despite the Proposition 209 restrictions.

## **Have a proven track record of success in the marketplace**

CalHFA launched the Forgivable Loan in April of 2022 and finished reserving loans by the end of November. The program had fully allocated its funding in December 2022, helping a total of 2,022 first-time homebuyers. We still receive emails asking if this program is available.

One of our homebuyers is seen in this success story: ["A Home for Leslie Ann."](#) Using the Forgivable Loan Program, single mother and nurse Leslie Ann received \$54,000 in assistance for down payment and closing costs. Multiply her by 2,000 and that sounds like success.

### **Provide benefits that outweigh costs**

The total allocation of the program ended up at just over \$80 million. This funding helped more than 2,000 homebuyers, for an average cost of \$40,000 to transform renters into homeowners. Although it is hard to place a precise value on homeownership, the St. Louis Federal Reserve found that the median net worth of homeowners is 40 times the median net worth of renters.

### **Demonstrate effective use of resources**

We only had \$88 million to use for the program, so it was important to be thoughtful in making sure it went to the people who needed it most. A quick look at our data sheets on pages four and five will show that we hit all our targets for race and ethnicity, in addition to ensuring that loans were spread across the state, especially high-cost areas like the San Francisco Bay Area.

### **Effectively employ partnerships**

We worked extensively with our lender network, the legislature, non-profit organizations and others to design and roll out the Forgivable Equity Builder Loan Program. Their suggestions with regard to outreach and messaging were invaluable as we tried to maximize our presence in underserved communities. Our lenders were enthusiastic partners, sometimes building their own [dedicated web pages](#) for the program. Most importantly, our relationships with media helped publicize the program at minimal hard cost to us: staff did interviews in both English and Spanish on multiple television, radio and traditional newspaper outlets.

### **Achieve strategic objectives**

This \$88 million program helped CalHFA borrowers secure \$678 million in first mortgage loans spread over two fiscal years. We have a lending goal for every year; in Fiscal Year 21/22, for instance, goal was to “Secure \$2.1 billion in 1st mortgage loans to generate \$27.3 million in revenue.” The Forgivable loan program contributed immensely to that goal. This program, with its one-time allocation from the budget, was also perfectly in line with one of our three strategic pillars: “Facilitate the administration of one-time federal and state housing assistance funds that are linked to the desired outcomes of CalHFA’s Mission and Vision.”

### **Conclusion**

The Forgivable Equity Builder Loan Program was life-changing for more than 2,000 low-income Californians, giving them a tool to leap from renting to homeownership. That’s 2,000 families with a stable place to live, 2,000 families who have their own yards and garages, 2,000 families who are in a house they can call a home. And 2,000 families with a head start on building wealth through homeownership for future generations. This program was a success no matter how you look at it.



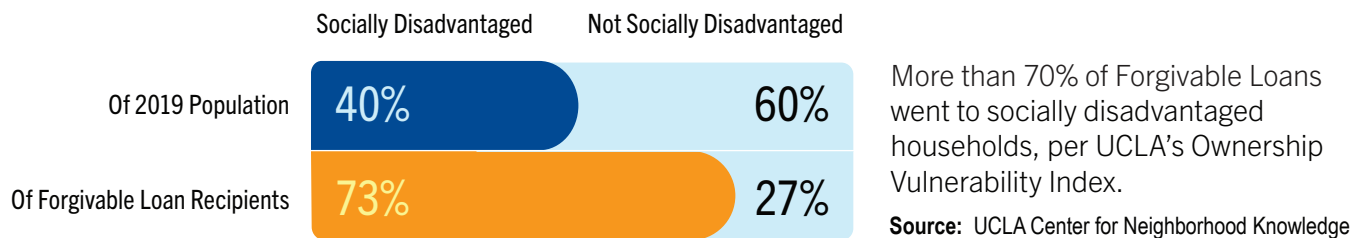
# CalHFA Forgivable Equity Builder Loan Program

The CalHFA Forgivable Equity Builder Loan program was introduced in March 2022. The program was authorized to use up to \$100 million in California budget funding to help low-income first-time homebuyers with a down payment of up to 10% of the purchase price of a home. Home equity has proven to be an effective way for families to build and pass along intergenerational wealth. This program was committed to improving

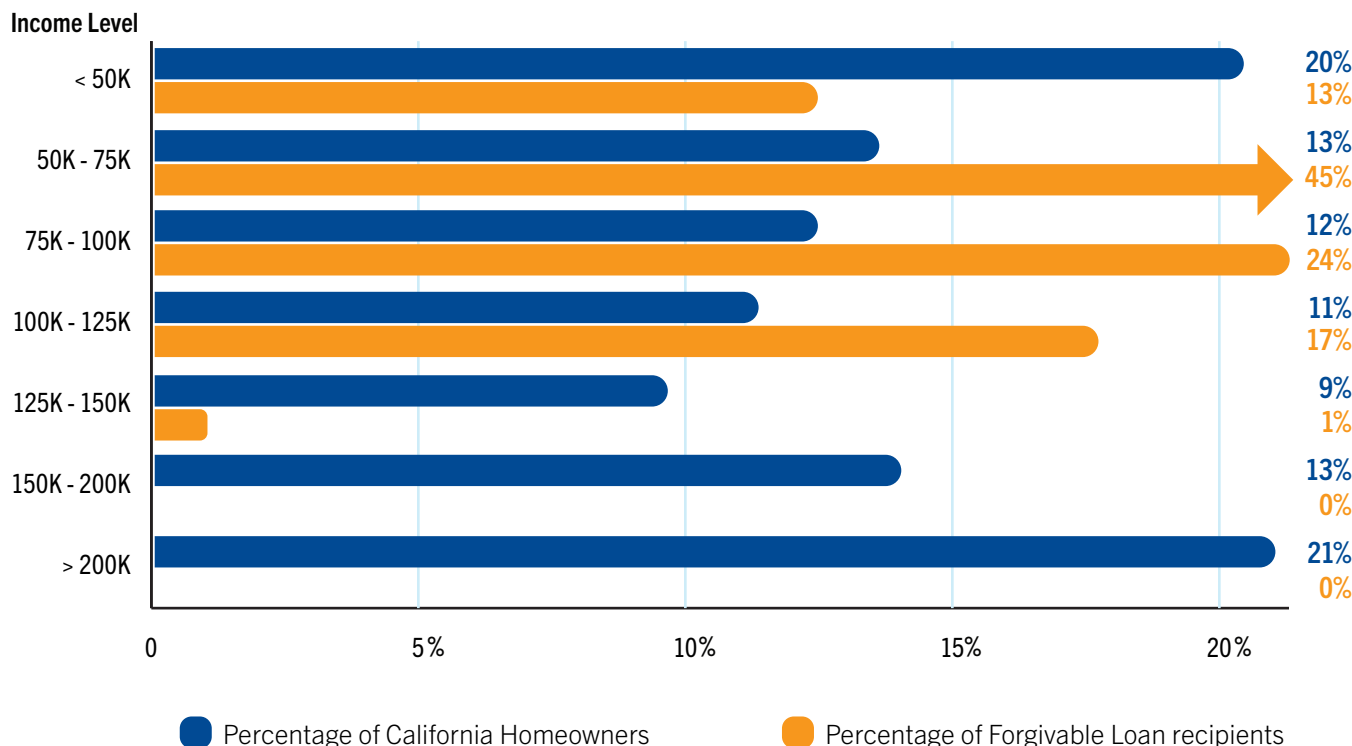
equitable access to homeownership for all Californians. If the buyer stays in the home for five years the full down payment amount will be forgiven.

The program fully allocated its funding in December 2022, helping more than 2,500 first-time homebuyers across the state to purchase their first home with a mortgage they can afford.

## Economic



100% of Forgivable Loans went to low-income households earning less than 80% AMI.

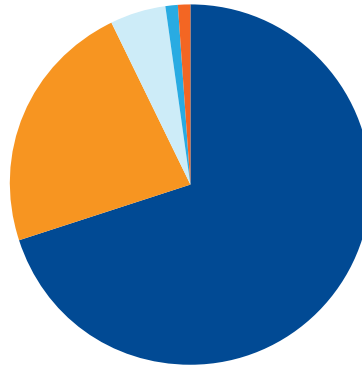


**Source:** American Community Survey

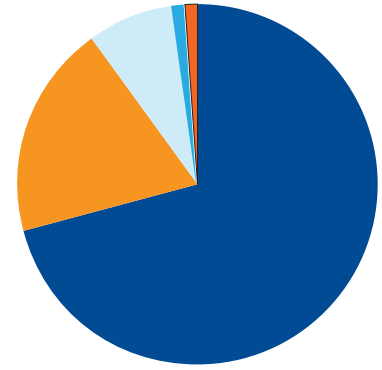
## Race & Ethnicity

CalHFA's racial distribution of Forgivable Loans is similar to the racial makeup of all California homeowners.

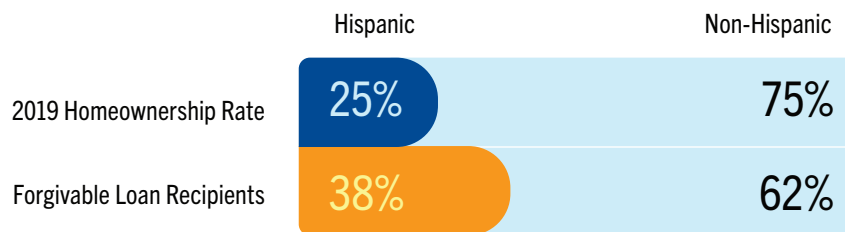
Race	Owners	Recipients
White	70%	71%
Asian	23%	19%
Black	5%	8%
Pacific Islander	<1%	1%
Indigenous	1%	1%



All California Homeowners



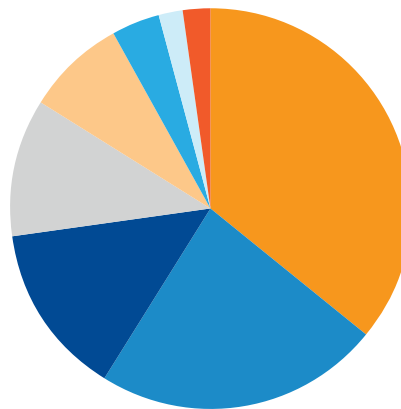
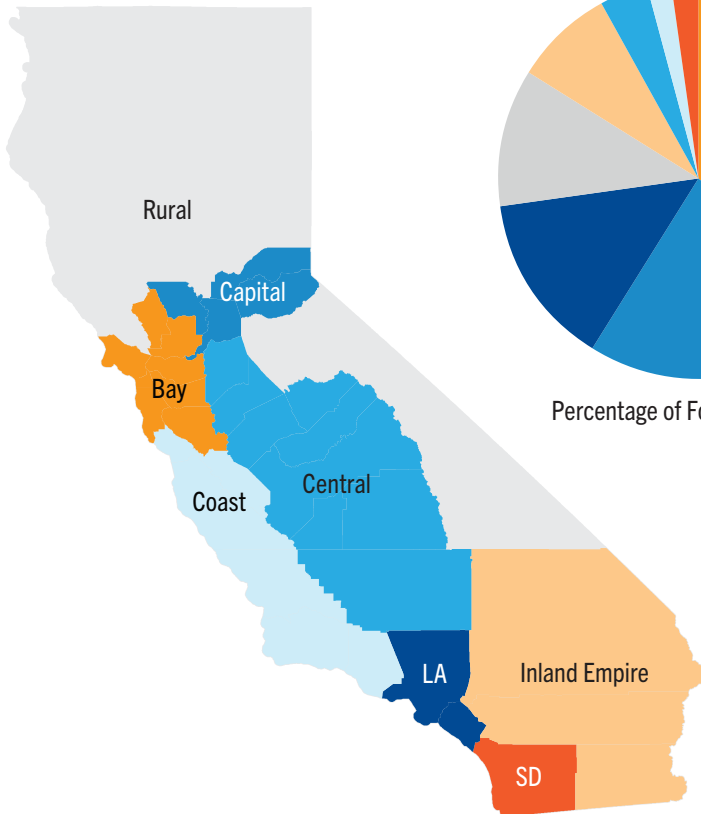
Percentage of Forgivable Loan Recipients



CalHFA's distribution of Forgivable Loans to Latinos was greater than their homeownership rate in California.

Source: American Community Survey

## Regional



Percentage of Forgivable Loans

Region	Loans
SF Bay Area	36%
Capital	23%
Central Valley	14%
Rural Areas	11%
Inland Empire	8%
Los Angeles	4%
Central Coast	2%
San Diego	2%