



October 6, 2025

Hon. Rob Bonta
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative regarding home building and downpayment assistance (A.G. File No. 25-0013, Amendment #1).

Background

State Revenue Bonds. Bonds are a way that governments borrow money. The state government uses bonds primarily to pay for infrastructure projects that have a long useful life, such as bridges and office buildings. The state sells bonds to investors to receive up-front funding for these projects. Over time, the state pays back these investors with interest. The state sells two main types of bonds: general obligation bonds and revenue bonds. The state repays general obligation bonds using the state General Fund, which is funded primarily by income and sales taxes. In contrast, the state usually repays revenue bonds using revenue from fees or other charges paid by the users of the project (such as from bridge tolls).

Financing a Home. Unless a homebuyer is purchasing a home entirely with cash, they typically need a mortgage. A mortgage is a loan from a lender that is paid back over time with monthly payments that include principal, interest, and other fees. To be eligible for a mortgage, lenders generally require homebuyers to provide a downpayment, which is an up-front lump sum—traditionally equal to about 20 percent of the sales price—toward the purchase of a home. Homebuyers who do not have sufficient cash for their downpayment may be eligible for a downpayment assistance program. Downpayment assistance programs can be offered by various entities, including governmental agencies and nonprofit organizations. Downpayment assistance typically comes in two forms: grants, which do not have to be repaid; and “second mortgages,” which are loans that must be repaid under certain terms and conditions.


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California Housing Finance Agency (CalHFA). CalHFA is a state entity that administers programs designed to assist low- and moderate-income Californians in renting and buying homes. CalHFA's multifamily division helps pay for affordable rental housing through partnerships with local governments and developers, while its single-family division provides various mortgage and downpayment assistance programs to low- and moderate-income (and often first time) homebuyers. CalHFA receives its funding from several sources. These include direct state funding for certain initiatives, as well as through the issuance of revenue bonds in support of its multifamily and single-family assistance programs.

Construction Defect Law. Current law establishes minimum standards for new residential construction. Current law also establishes a set of procedures that homeowners and housing builders must comply with before a homeowner is able to bring civil action against 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. Also, a builder cannot require a release or waiver of the allegation from the homeowner in exchange for conducting repair work.

Proposal

The measure authorizes a second-mortgage program (known as a "middle-class homeownership loan"), to be administered by CalHFA, which is intended to assist qualified prospective homebuyers with their purchase of a new home. Funding for the proposed program comes from the proceeds of revenue bonds sold to investors. Below, we provide more detail on the proposal and program eligibility.

Use of Revenue Bonds to Fund Second-Mortgage Program. Under this measure, CalHFA could issue up to \$25 billion in revenue bonds. (This amount is in addition to the revenue bonds CalHFA already issues for other programs it administers.) The measure specifies that CalHFA would determine the interest rates on the bonds and the repayment terms for investors. CalHFA would use the proceeds from these bond issuances to offer a second mortgage of up to 17 percent of a home's sales price to persons meeting specified requirements and buying specified homes, as described below. CalHFA would be required to set interest rates and repayment terms for these second mortgages such that, "to the greatest extent possible," they pay back investors (the bondholders) as well as cover CalHFA's costs to administer the program. While the measure requires CalHFA to move forward with implementing the program within a year of enactment, the measure gives CalHFA discretion over how much in bonds to issue (up to \$25 billion) and over what time period. The measure also directs CalHFA to sell the bonds "in a manner that minimizes interest costs and encourages broad investor participation."

Homebuyer Qualifications and Requirements. Under the measure, an applicant must meet several requirements to qualify for the second mortgage, but would not need to be a first-time homebuyer. The requirements include being a resident of the state for at least one year, agreeing to occupy the home as a primary residence within 60 days of purchase, and having a family income of no more than 200 percent of the area median income (AMI). (100 percent of AMI

represents the midpoint of a region's income distribution, where half the population earns more and half earns less.) The measure allows CalHFA to adopt other policies pertaining to applicants' qualifications, such as a minimum credit score and maximum debt level. Approved applicants would also have to make a downpayment of at least 3 percent of the home's purchase price themselves. Homebuyers would need to secure their own first mortgage from a lender to finance the remaining purchase cost of their home.

Property Requirements. Under the measure, homebuyers could use their second mortgage through the program to purchase either a newly built home or a formerly nonresidential property that was retrofitted (repurposed) for residential use. In either case, the buyer must be the first purchaser of the home. Eligible homes could include single family dwellings, condominiums, townhouses, or certain other types of homes. The measure sets a maximum purchase price for a home financed with a middle-class homeownership loan, which in 2025 is roughly equivalent to between \$1 million to \$1.5 million depending on the county. (Annual adjustments to the purchase-price limit would be based on a federal methodology reflecting national average home prices.)

Housing Developers. The measure does not limit the type of developer that is involved in the construction of homes that can be purchased with a middle-class homeownership loan. The measure, however, would allow developers to participate in a "qualified builder option." Developers that chose this option would be subject to higher labor and liability enforcement standards, as specified in the measure. They also would be subject to different construction defect rules, which generally aim to provide more flexibility to developers than otherwise.

Fiscal Effects

No Direct State or Local Costs. The measure intends for the revenue bonds issued by CalHFA, as well as CalHFA's administrative costs, to be covered by homeowners' payments on their second mortgages. As structured, therefore, the measure likely would not result in direct state or local costs.

A number of factors, which are unknown at this time, could influence the measure's scope and impact. These include the demand among investors for the proposed revenue bonds (and thus how much in revenue bonds are actually sold over a given time period), the program's interest rate and other loan terms (and how those compare with other homebuying assistance programs), and the sort of effect the program could have on home construction and homebuying.

Summary of Fiscal Effects. We estimate that this measure would have the following major fiscal effects:

- No direct state or local costs.

Sincerely,

for Gabriel Petek
Legislative Analyst

for Joe Stephenshaw
Director of Finance