California Program to Assist New Home Buyers Ran Out of Money Fast

May 18, 2023 â€“ It's no secret that purchasing a home in California is an expensive proposition. Down payments in areas like San Francisco and Los Angeles frequently require buyers to have socked away well over $100,000, and that isn't for a mansion and probably doesn't come anywhere close to 20% down. We're actually talking about the proverbial "starter home." So legislators in the State decided to see if they could help out with a new down-payment assistance program for first time buyers. It was a well-meaning idea but it wasn't well thought out. And it ran out of money in about ten days.

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California's Dream For All Home Loan and Assistance program was miserably underfunded from the get go. In the end though, that's probably a good thing. It's different than most home loan assistance programs in that the state would agree to make the buyers down payment and then share equity in the house.

Those lucky enough to get into the program could have the state contribute the full 20% down payment on the purchase of a new home. The state would then claim an interest in the property of 20%. Buyers would be charged absolutely no interest for the money contributed but when they sell the home 20% of the amount that the home sells for would go back to the state.

Put another way, what the state was offering was an equity sharing program. They were gambling with taxpayer money. Betting the property value would increase, rather than decrease.

But that isn't the only gamble. The state is also gambling that these newly minted home buyers will continue to make their mortgage payments. That's anything but a sure bet in a faltering economy.

If the 2008 market downturn taught any lessons at all, one of the biggest was that homeowners that have little or no equity in their homes are much more likely to walk away from their mortgages than those that have money at stake. This particular program at this particular time is putting virtually all of the money that the state is contributing towards down payments at risk. Either they don't know their history or worse; they've learned nothing from it.

Fortunately for California taxpayers though, this program's well has run dry. At least for the rest of this year. Let's hope it stays that way.

by Jim Malmberg
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