Title
Can California Effectively Address Its Racial and Ethnic Wealth Gaps Through the Dream for All Loan?

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Can California effectively address its racial and ethnic wealth gaps through the Dream for All loan?

From the early 1930s until the passing of the 1968 Fair Housing Act, redlining enforced forms of de jure segregation by limiting people of color's access to essential financial services such as loans, home insurance, and mortgages by deeming their communities too risky to invest in. The nearly 40-year enforcement of redlining policies created a structure that incentivized housing discrimination. The establishment of redlining permitted the development of generational wealth and stability for white Californians, while denying access for Black and Brown Californians, setting back millions in its wake by further accelerating wealth gaps. If we don't take action to address the issue, California's wealth gap will continue to widen, disproportionately forcing people of color and low-income individuals out of the Golden State.

One of the most recent attempts to address this issue and close the gaps is the California Dream for All Shared Appreciation Loan, a loan program sponsored by the California Housing Finance Agency that provides first-generation homebuyers within county-set income limits with down payment assistance, which includes up to 20% of closing costs or a downpayment, of no more than $150K[1].

Unfortunately, the loan's lottery system application was exhausted in 11 days, distributing $288 million[2] to support the purchase of about 2500 homes. Across the state's 58 counties, the loan was only granted in 10 counties, despite the staggering decline of homeownership across the state. The program is expected to return in 2025 but has had a slight decrease in conditional loans granted and funds given since its 2023 inception. Recognizing this decline and the costly nature

[1] California Housing Finance Agency. (n.d.). *Dream for all | Shared appreciation loan*. California Housing Finance Agency | CalHFA. https://www.calhfa.ca.gov/dream/#FAQ
[2]Ibid.

of the program I am interested in what characteristics contribute to the higher use rates in certain regions. Broadly, I am interested in existing relationships between programs similar to this one and their role in addressing the state affordability issue, that most affects low-income Californians[3]. In this paper, I hope to explore the usage rate across the ten counties that used the program and see if inland regions with higher homeownership rates and more single-unit housing used the program more as more housing is readily available in these regions. Additionally, I want to examine the effectiveness of such programs by observing the default rates in counties that received the loan, before and after the program.

CONTEXT & SIGNIFICANCE

The gaps in California's equity crisis come as a result of centuries of discrimination against Black and Brown people at the federal and state levels, and the generational wealth gaps are only one aspect of the issue. As aforementioned, redlining has greatly limited people of color across the country, regardless of locality during the legal period of redlining. Redlining severely disenfranchised Black and Brown people, denying them access to loan services, insurance, and mortgages by deeming their communities poor investments, solely because of their racial and ethnic makeup[4]. The massive barriers to ownership do not only impact one individual or generation but instead have a ripple effect, that people of color continue to be impacted by. Such practices persist subversively and the absence of explicit barriers has proven to be an ineffective solution to the crisis of socioeconomic inequality across our state and country. Homeownership provides individuals with stability and generates equity which can be leveraged for the development of small businesses, purchases of other properties, and investments in education,

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[3]Johnson, H., & McGhee, E. (2024, July 10). *Who's leaving California—and who's moving in?* Public Policy Institute of California. https://www.ppic.org/blog/whos-leaving-california-and-whos-moving-in/

[4] Ware. (2021). Plessy's Legacy: The Government's Role in the Development and Perpetuation of Segregated Neighborhoods. *RSF: The Russell Sage Foundation Journal of the Social Sciences*, *7*(1), 92. https://doi.org/10.7758/rsf.2021.7.1.06

just to name a few financial benefits.[5] These are more likely to be part of the toolkit of many more white Californians than Californians of color though, and equitable and intentional policy is necessary to address the foundationally racist policy failures of the past.

While not a written law, another example of these policies was blockbusting. A widespread real estate practice that triggered white flight, and often completely shifted property values upon the arrival of Black families. The tactics involved real estate agencies leveraging existing racial biases to panic white homeowners to sell below market value when Black families bought homes in the area. Then these homes would be sold to Black families with exorbitant lending terms and markups[6]. A 2022 study by the Federal Reserve Bank of Chicago found that this was widespread practice in 45 out of 60 major US cities[7]. An impacted city was Compton, California, a community whose Black population was less than 5% in the late 1940s, shifting to 40% in 1960, and 65%[8] after the Watts Riots[9] in 1965. White flight induced by blockbusting laid the foundation for much of the de facto segregation our state experiences today.

Despite California being the fifth-largest economy in the world and the largest state economy in the nation, it also has one of the widest wealth gaps in the country. As found by the California PPIC, "Families at the top of the income distribution -90th percentile-earn 10 times more than families in the 10th percentile ($305,000 vs. $29,000, respectively)."[10] In terms of homeownership, 54% of the state overall owns a home but only 34.5% of Black Californians

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[5] Alexandra Killewald, & Brielle Bryan. (2016). Does Your Home Make You Wealthy? *RSF: The Russell Sage Foundation Journal of the Social Sciences*, *2*(6), 110–128. https://doi.org/10.7758/rsf.2016.2.6.06

[6] Bennett, K., Hartley, D. H., & Rose, J. (2022, July). *How common was blockbusting in the postwar U.S.? - Federal Reserve bank of Chicago*. Federal Reserve Bank of Chicago - Federal Reserve Bank of Chicago. https://www.chicagofed.org/publications/chicago-fed-letter/2022/468#ftn1

[7] Ibid.

[8] Feder-Haugabook, A. (2023, January 23). *Compton, California (1867-)*. Welcome to Blackpast. https://www.blackpast.org/african-american-history/compton-california

[9] Watts Riots of 1965, series of violent confrontations between Los Angeles police and residents of Watts and other predominantly African American neighbourhoods of South-Central Los Angeles that began August 11, 1965, and lasted for six days.

[10] *Income inequality in California*. (2024, April 17). Public Policy Institute of California. https://www.ppic.org/publication/income-inequality-in-california/

own and 43.2% of Latines own[11], with lower rates in major countries such as Alameda and Los Angeles. Social safety net programs keep poverty levels from being lower, with many families relying on these resources to keep them out of poverty but this relationship is not sustainable or a fair distribution of resources in a time of such abundance.

Because generational wealth drastically lowers the barriers to entry for homeownership through wealth accumulation[12], it is much more challenging to buy a home as a first-generation homebuyer, a challenge that disproportionately affects people of color. The California Housing Finance Agency's (CalHFA) Dream for All Loan Program tries to bridge these gaps through active intervention, providing a shared appreciation loan to first-time home buyers within county-specific income limits with up to 20% assistance on closing costs up to $150,000[13]. The program also requires that buyers complete a home buying class which costs $90. Applicants were selected through a lottery system. In a long-term execution, the program would become regenerative and any repaid appreciation would be used to grant again. State legislators such as Toni Atkins (D-San Diego) are in great support and continue to advocate for the program expansion. Still, in the face of California's 2024 budgetary restrictions, it is unclear how the program will be impacted. Programs that promote wealth transfers have been highly contested as many argue that they will not reach the target audience. Instead, they will support people who may have already been interested in buying a home regardless of the program's assistance.

In my research, I aim to understand what regions have benefited most from the program and why they have, especially because of the program's costly and slowly regenerating nature.

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[11] Torres, B. (2023, August 29). *Why Bay Area Black, Latino residents struggle most to become homeowners*. KQED | News, Radio, Podcasts, TV | Public Media for Northern California. https://www.kqed.org/news/11959201/bay-area-black-latino-residents-struggle-most-to-become-homeowners

[12] Alexandra Killewald, & Brielle Bryan. (2016). Does your home make you wealthy? *RSF: The Russell Sage Foundation Journal of the Social Sciences*, *2*(6), 110. https://doi.org/10.7758/rsf.2016.2.6.06

[13] California Housing Finance Agency. (n.d.). *Dream for all* | *Shared appreciation loan*. California Housing Finance Agency | CalHFA. https://www.calhfa.ca.gov/dream/#FAQ

As well as developing an understanding of the concentration of resources, because our state resources are finite, it is vital that we act with caution when attempting to address these gaps of inequity because failures can lead to loss of support or negative impacts on the targeted communities.

LITERATURE REVIEW

While there is an existing consensus in most literature that generational wealth gaps exist between people of color and white people in the US and scholars recognize the absence of barriers has not closed gaps, there remains no agreement on the most effective way to address this issue. In my literature review, I will examine how wide wealth gaps are in different communities including appreciation gaps, shifts away from homeownership, and two approaches to closing the gaps; wealth transfer and increased investment subsidies toward Black entrepreneurs.

In *A Renter or Homeowner Nation?,* Acolin, Goodman, and Wachter note a significant post-2010 decline in homeownership across age and racial/ethnic groups due to tightened mortgage credits, also emphasizing the value and boom added by the GI Bill and other veteran benefits. Their work uses projection models that observe two scenarios, one of a slow transition scenario that follows the homeownership trends of 2000-2010 and another that offers a fast transition rate scenario that follows trends set in 1990-2000. Recovery varies by region: the Midwest and South have homeownership rates in the high to mid-70 percent, while the West and Northeast are in the low to mid-50 percent. Areas with rapid population and economic growth saw the steepest declines, reaching homeownership rates akin to the 1960s. Future trends are uncertain, but if rent relative to income stabilizes, homeownership may remain high; otherwise, it could drop to about 50 percent.

While the above-mentioned piece focuses on a broader housing crisis, it doesn't focus on how such a crisis disproportionately impacts people of color. *Falling Behind: The Role of Inter and Intragenerational Processes in Widening Racial and Ethnic Wealth Gaps through Early and Middle Adulthood* by Killewald and Bryan focuses specifically on wealth accumulation between groups in annual limits to address the cumulative nature of wealth gaps. It finds that Black and Hispanic families accumulate their wealth much slower and that there is a greater gap at the median across wealth distributions. For example, "At age 21, the gap in median wealth is $2,581 between blacks and whites and $1,591 between Hispanics and whites. By age 30, the black-white median wealth gap exceeds $21,000, and the Hispanic-white gap is over $17,000.(Killewald, Bryan 2018)"

Hembre, Moulton, and Record's article, *Low Income Homeownership and the Role of State Subsidies: A Comparative Approach* is in close agreement with the trends observed in the above piece but introduces government subsidies and supports as a way of creating an eligible homeowner market. It finds that state HFA programs are extremely effective as they reduce the default rate by 30% (Hembre, Moulton, Record 2020). Estimating that 37% (Hembre, Moulton, Record 2020) of this difference can be attributed to the loan delivery practices and mortgage conditions which are easier to manipulate to reduce the risk of default. Stronger outreach programs that provide direct financial assistance and or downpayment assistance are crucial in improving homeownership rates and sustainability for low-income households. These programs seem to be crucial in improving homeownership rates and sustainability for low-income households.

This approach is not widely agreed upon and is contested by other scholars, one of them being Boerma and Karabarbounis, authors of 'Reparation and Persistent Wealth Gaps.' They run different economic analyses to research the impact of reparations, social welfare programs, and intergenerational resource transfers to estimate their effectiveness in closing gaps. Boerma and Karabarbounis find that despite the well-intended approaches of wealth transfers and short-term closing, the transfers don't equalize the gaps and instead converge to the same value without the reparations. Their research instead argues that the most effective solution is investment subsidies that are financed with progressive taxes, which have a slower return effect but close the wealth gap to only .85 percent(Boerma, Karabarbounis 2022). Making this investment a wiser use of resources and a more effective approach. While focusing on a different region, Markley, Hafley, Holloway, etc explore similar challenges but focus on Atlanta Georgia, supporting Karabarbounis and Boerma's argument. *The Limits of Homeownership: Racial Capitalism, Black Wealth and the Appreciation Gap in Atlanta* outlines the main issue to be the slow appreciation rates which regardless of accessibility will continue to pose challenges to the financial benefits of homeownership. Markley, Hafley, etc find that because the exchange rate of a home is based on the area in which it is racialized, there are greater limitations on the financial advantages of owning a home. While owning a home is not worse than renting because of the differing appreciation gaps, it makes the feasibility of closing wealth and equity gaps through homeownership debatable. Similar to Boerma and Karabarbounis they also suggest that this system uplifts the principles of racial capitalism and profits white property owners more than anyone else.

THEORY/ HYPOTHESIS

Inland counties in Southern California with higher levels of homeownership will have higher usage of the loan program since these regions have more single-unit homes and units for sale, which lowers barriers to entry simply through expanded access. As opposed to coastal counties where the cost associated with buying a home has grown exponentially in comparison to the cost of renting in these regions[14]. Given that 55% of California renters are cost-burdened (spending 30% or more of their income on housing[15]), you can expect more challenges saving for down payment and developing good credit. One of the largest barriers to entry for home buying in any region is downpayment costs, but this uniquely impacts coastal regions where the cost of renting and owning are extremely different. Furthermore, homes in these regions are out of budget for most who qualify for the California Dream for All Loan. These barriers are likely to make it more difficult to use the program and qualify to purchase a home in a coastal region. I also hypothesize that counties that have used the program will have lower loan default rates since the program's inception because of the more flexible terms that are associated with these types of loans.

My causal mechanism is that counties with fewer barriers to entry like smaller gaps between the cost of owning or renting in a region, and less expensive homes will have higher use rates because homeownership in the inland southern region, meaning the program would pair with these characteristics. Finally, because of these lower barriers to entry and support from the participant counties will have lower default rates.

RESEARCH DESIGN

The independent variable is the different county characteristics, such as median household income, the rent-to-own ratio in each county, and whether or not they are as these characteristics are unaffected by the treatment, the CA Dream for All Loan. I have chosen these variables as they reflect the availability of housing and the access people have to this resource,

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[14] "California Housing Affordability Tracker (April 2024)," California Housing Affordability Tracker (April 2024) [EconTax Blog], January 24, 2024, https://lao.ca.gov/LAOEconTax/Article/Detail/793.

[15] *Californians and the housing crisis*. (2021, August 28). Public Policy Institute of California. https://www.ppic.org/interactive/californians-and-the-housing-crisis/

attempting to monitor the supply and demand of units within each region. While the CalHFA makes no explicit statement that this program is intended to support people of color specifically, in theory, it would support people of color, as they are overrepresented in these income brackets and as first-generation home-buyers. I have collected all of my data from the US Census, county-wide homeownership reports, the Consumer Financial Protection Bureau, and the Legislative Analysis Office.

The primary dependent variable is the usage rates of the loan program across the following ten counties: Sacramento, Los Angeles, Contra Costa, Riverside, San Bernardino, Orange, Kern, Alameda, San Joaquin, and San Diego. Focusing solely on the use in the 2023 fiscal year. I chose this variable because it is the data that is accessible to the public right now and is an immediate reflection of the outreach of the program, specifically because these were the ten participant counties out of the state's 58 counties. Since there is limited data available, I am accessing the rates through an article that was published by CalMatters, which they secured from the California Housing Finance Agency.

My two control variables include geographic location, coastal or inland, and cost of living in each county. Geographic location may impact the relationship between use rates and the different counties because high-demand regions like Los Angeles County and the Bay Area have high concentrations of rental properties and fewer mortgaged properties. The cost of living is also a factor I hope to consider, as people in areas that are more rent-burdened may find it more challenging to save for a downpayment or qualify to own a home. These barriers to entry heavily impact participation therefore can influence how certain demographics interact with homeownership broadly, which could lead to bias or absences in participation in the program as well. Access is the largest barrier and these variables encompass the recent trends in homeownership which have propelled internal state migration towards inland counties. The primary unit of analysis will be the 10 counties discussed above and the use of the California Dream for All Loan Program for the 2023 fiscal year, unfortunately since the program only reached success in 10 counties this will be a small n study. For the sake of understanding the state of homeownership more broadly, I will also include the homeownership statistics of these counties generally for the 2023 year, to identify any outlying conditions which may influence program use.

RESEARCH METHODS

My research methods will primarily use a difference in means function to measure the accessibility of the variables in participant and non-participant counties, as well as measure the difference in loan default rates between these counties for the last 5 years to observe any trends that may indicate a healthier housing market in those counties. My data will mainly be quantitative but I plan to use qualitative data in my reflections and outlooks regarding the outcomes. I have limited access to data and therefore am unable to create a proper control group. To run my functions specific to the loan program, I compiled several spreadsheets that include the following details about counties: homeownership rates, median household income, cost of living, single-unit to multi-units ratio, and their default rates for the last 5 years, then using the R programming system to create subsets and conditions to test my hypothesis. To test my hypothesis specific to the default rates, I will be running a difference in means function that includes participant and non-participant default trends; only 31 counties, including participants, have data on these trends. Many of the unavailable counties are major outlier counties in the North Eastern and Sierra Nevada counties, where as many as 80.9%[16] of residents own their

[16]Johnson, H., Cuellar-Mejia, M., Lafortune, J., & Alesi Perez, C. (2024, February 27). *Homeownership trends in California*. Public Policy Institute of California. https://www.ppic.org/blog/homeownership-trends-in-california/

homes. After collecting these data points, I plan to observe trends and look for major differences that suggest my hypothesis is correct or bring to light new contributing factors that I had previously not considered.

RESULTS

Unfortunately, because of my data limitations, much of my study is inconclusive and rooted in simple comparison. Despite this, I did find through my difference in means tests that inland counties' success may be related to the concentration of ideal home-buying conditions. The five inland counties observed were Sacramento, Riverside, San Bernardino, San Joaquin, and Kern County. They maintained the highest use rates except for the outlier of Los Angeles, which is likely to be an outlier because of its vast population share. While I could not run a Pearson's correlation because of limited data, most inland counties shared the following characteristics, **high homeownership rates** of 59% to 69%[17] in addition to the average cost markup of a **mortgage compared to rent** in each county being below 45%[18]. Similarly, the inland counties' rates of **single-unit homes remained high**, ranging from 66% -to 81%[19]. While many of the inland counties' inceptions begin with their development as suburbs, notorious for single-unit homes; the availability of the idealized unit and relative affordability when transitioning from renter to homeowner makes for a less jagged shift than the coastal counties. On average single units make up nearly 75% of the available units in inland regions, possibly increasing participation when using the program and having more homeownership broadly. The inland counties data set has an outlier, with Sacramento's 11% use rate, which cannot be

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[17] *California housing affordability tracker (January 2024) [EconTax blog]*. (2024, January 24). Legislative Analyst's Office. https://lao.ca.gov/LAOEconTax/Article/Detail/793
[18] Ibid.
[19] Ibid.

attributed to population or a uniquely available housing market, while it is unclear what distribution methods may have influenced the participation, this may suggest that future reiterations will require additional randomization to accomplish the program's intention of benefiting counties across the state.

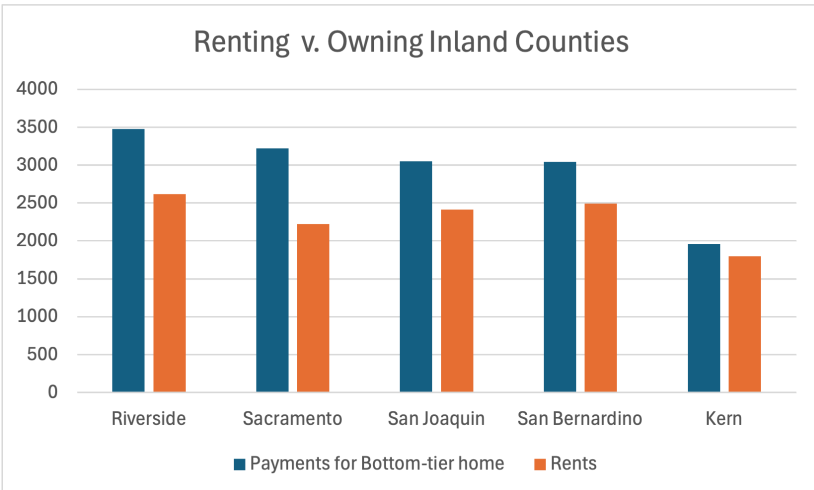

Figure 1. Displays the differences between renting and owning in the inland counties. Y-Axis: Monthly Payments in USD, X-Axis: Inland Counties, Data Sourced: Legislative Analyst Office

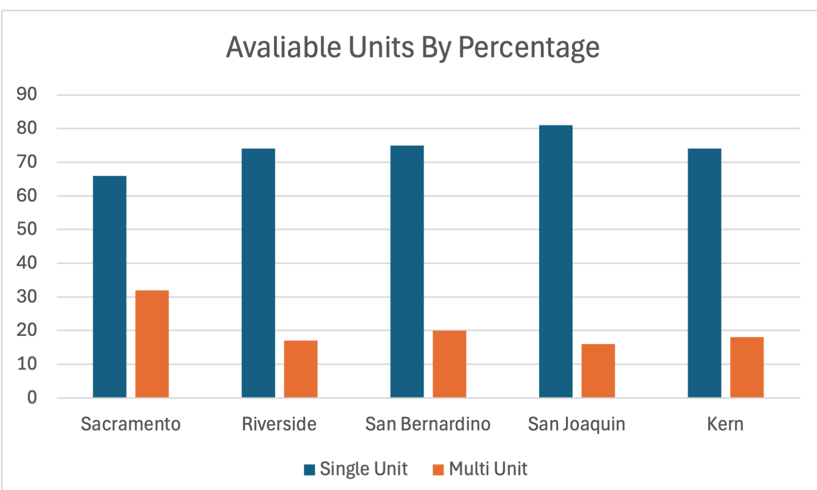

Figure 2. Displays different units available in the inland counties. X-Axis: Inland Counties, Y-Axis: Percentage of Units Data Sourced: US Census

Contrastly, the coastal counties had lower use rates with one outlier, Los Angeles County which had the second highest use rate of all participant countries. It likely came in at a 9% use rate because 25% of the state population lives here. Coastal counties had lower use rates, and while these are proportionate to what they represent of the state population, the barriers to entry are significantly higher, requiring much more from renters hoping to transition to ownership. For example, in Orange and Alameda counties, people hoping to buy a home can on average expect a 90% jump from the cost of renting when becoming homeowners, with significantly higher costs of renting as well when compared to inland counties. Given the popularity of single-unit homes, in these coastal counties, most buyers can expect to have a greater challenge in finding such homes in coastal counties, with the average amount of single units in coastal counties being 62.66%. These conditions accentuate the barriers to entry for homeownership and may be part of why the program was used as much in the coastal counties.

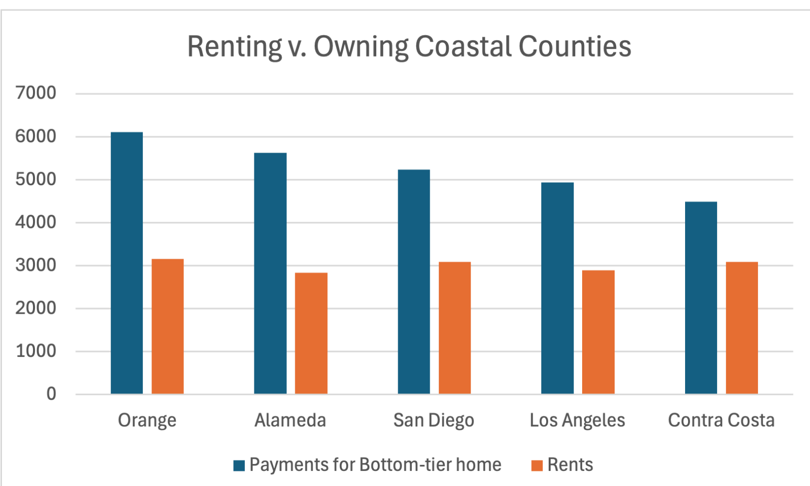

Figure 3. Displays the differences between renting and owning in the coastal counties. Y-Axis: Monthly Payments in USD, X-Axis: Coastal Counties; Data Sourced: Legislative Analyst Office

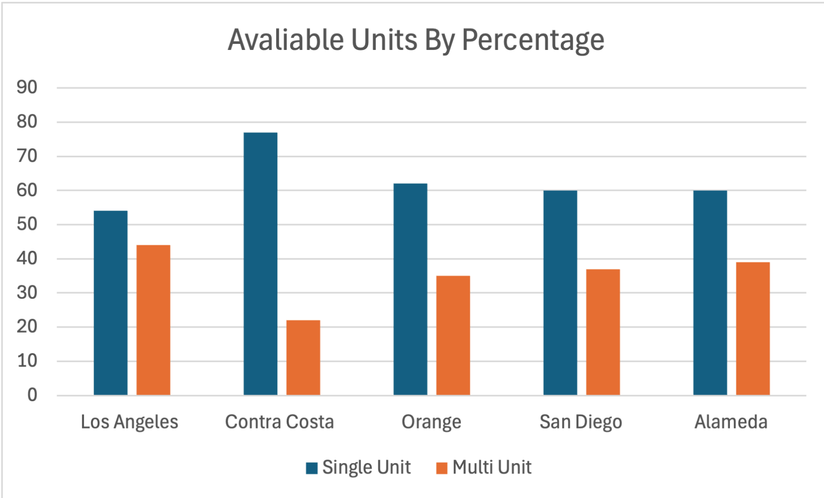

Figure 4. Displays different units available in the coastal counties. Y-Axis: Percentage of Available Units X-Axis: Coastal Counties; Data Sourced: US Census

Counties that were closer to Sacramento, California's State Capitol seem to have disproportionately high use rates when compared to their population shares, which may be indicative of distribution issues. While the program functioned on a lottery system, bias can still occur in the current model because it doesn't control for minimum or maximum applications from counties. Possibly making it a bit more likely for people who live in nearby counties to have more insight or get more information regarding the program before it's released.

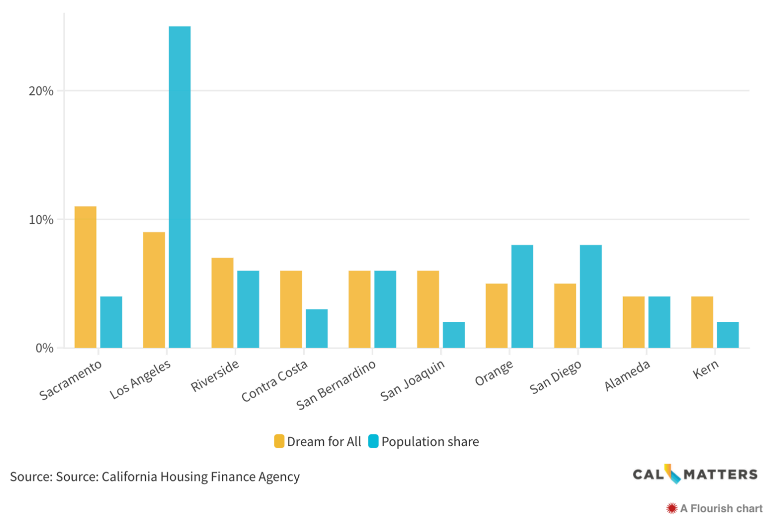

Figure 5. Bar graph showing use rate relative to population shares. Figure Source: CalMatters

Finally, the relationship between default rates remains unclear, because of the lack of control groups. Broadly, the participant countries tend to have higher default rates than non-participant counties, this may be attributed to the large populations in these counties though. Since the inception of the program though, California counties have had an increase or stagnation in the default rates of mortgage loans, which can either have a positive or negative effect on the program's public perception and success. Research on other regions has suggested that loan programs like, California Dream for All, prevent mortgage defaults because of their more flexible loan terms. On the negative side, though, the program may be perceived as a poor use of resources at a time when loan defaults are rising and the state budget is in a deficit.

DISCUSSION OF RESEARCH IMPLICATIONS

Given that the program is only going into its third distribution cycle, these early iterations have some challenges with distribution that must be addressed to ensure that these resources are allocated fairly. While the concentration in certain areas is expected and encouraged, having a use rate proportional to the population share of that county, is useful for distributing resources equally while we attempt to create socio-economic equity. Further randomizing may also spread the loan program to other counties and allow for a more extensive reach across the state.

The higher barriers to entry that coastal counties experience, suggest that simply providing this extra push may not be enough to address the affordability crisis and socioeconomic wealth gap but instead will require efforts from all sides. Including preventing gentrification, which often leads to long-standing communities being eliminated for a higher profit. Reinvestment and reinforcement of the existing communities may be a necessary step to not only keep Californians in the Golden State but also allow them to remain in their communities, rather than creating a chain of migration and movement between coastal, inland counties, and eventually out of the state for some.

Default rates across the state are increasing or stagnant, a program with flexible loan terms and additional support may be beneficial and could support first-generation buyers and decrease mortgage default rates at the same time. While the loan program impacts less than 1% of buyers, meaning it would likely have a limited effect on the broader rate, it could still have an impact relative to an untreated control group. The program is quite costly though and has a limited reach, and while I was not able to test for this, likely, continuing it would do little to close the state wealth gaps. Similar programs have been successful in other parts of the country but conclude that their reach is not enough to close wealth gaps or socioeconomic gaps.

The California Dream for All Shared Appreciation Loan has many benefits, but the current model may need modification to serve those who are least likely to buy a home and prevent the concentration of resources in unnecessarily populated areas.

FUTURE ATTEMPTS

If I had the opportunity to reconduct this study in the current conditions, I would want to collect more data to run regressions and create control groups because this would provide insight into the effectiveness in counties and tailor our model to meet needs accordingly. Much of my data regarding the program's reach could have been expanded, offering no information about the buyers, homes purchased, and income levels. Having these details would have allowed for different methods for testing my data and visualizing it, which may have revealed more trends. The absence of a control group also made it difficult to gauge if any of the observed patterns were just coincidental, and monitor what the existing conditions of homeownership were for low-income and middle-income households.

Ideally, a future attempt would run the program lottery system as it currently does for another distribution cycle and then wait 1-2 years after the loan was distributed and create a control group for the same period. Control groups would have to be in the same counties, and have similar income levels, cost of the home, education levels, and race to those who received the program view the Dream for All loan's lottery system. The primary independent variable would be the county and type of unit, the treatment would be the California Dream for All Loan, and the dependent variable would be the default rates in the 2 years. Hopefully, this test will reveal trends, benefits, and challenges to improve.

Repeating this at 5-year or 10-year intervals would be very beneficial and could reveal challenges, stagnation, or success of the program. In addition to collecting data that could be used to modify loan conditions to support current buyers and prevent mortgage defaults within the program.

CONCLUSION

While my project is a very limited study of this program and the benefits of government-sponsored homeownership programs, I suggest additional randomization to reduce the concentration of resources and improve the success of the program in supporting first-generation home buyers and Californians who are more affected by the state's affordability crisis. While the participant counties were varied, many of them were amongst the most populated in our state and are dealing with an affordability crisis' pushing out their residents. The program had a high concentration of its resources in counties near the state capitol, a region that is not as densely populated as other countries, suggesting that the lottery system may disproportionately provide funds in regions where these are not necessary. It is unlikely that the loan program will have an impact on our state's mortgage default rates, and while it may positively affect the wealth gaps, it will not be a cure-all for the crisis we are facing.

Any approach taken to address the gaps created by socioeconomic injustice must work in tandem with other programming, facilitating multiple programs and engaging both the community and government on the issue. Doing so gives communities agency and allows the expertise of lived experience to inform our solutions with considerate and specific approaches that uplift the challenges of any space.

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