



BERKELEY CITY COUNCILMEMBER  
**TERRY TAPLÍN**  
DISTRICT 2

CONSENT CALENDAR  
November 3, 2022

To: Honorable Mayor and Members of the City Council

From: Councilmember Taplin, [Vice Mayor Harrison \(co-sponsor\)](#)

Subject: Budget Referral: Down Payment Assistance (DPA) and Closing Cost Assistance Revolving Loan Fund Pilot

RECOMMENDATION

Refer to the budget process \$500,000 for a local Down Payment Assistance (DPA) and Closing Cost Assistance Revolving Loan Fund Pilot Program, providing third-lien shared appreciation loans (SALs) to cover down payments and closing costs for qualifying applicants in a racial equity and reparative justice framework consistent with regulations for local, state, federal, and nonprofit DPA programs including, but not limited to: California Dream For All (CalHFA), AC Boost (Alameda County), Community Seconds (Fannie Mae), and Black Wealth Builders Fund. [The City should aim spend no more than 10-20% on administrative costs if existing resources are insufficient.](#)

FINANCIAL IMPLICATIONS

\$500,000 in general fund impact. Shared appreciation loans are repaid only upon transfer, refinancing, or sale of qualifying properties; the effective interest rate would be the property's net appreciation. [All funds not allocated to program staffing would thus eventually be repaid with interest.](#) To the extent feasible, administrative costs should be leveraged with [state and regional resources](#), and other approved policy initiatives focused on reparative justice, including the Office of Racial Equity and consulting/community outreach for reparations.

The maximum loan amount for AC Boost applicants earning up to 100% of Area Median Income is \$210,000 and \$160,000 for households earning less than 120% AMI for a 97%-100 Combined Loan-to-Value (CLTV). Therefore, at a maximum, if \$210,000 only covered a 17% down payment, a household could cover the remaining 3% with roughly \$37,000. Since not all applicants qualify for the maximum amount or will require a full 3%, and layering with other assistance programs is strongly encouraged, smaller loan amounts per applicant can be anticipated.

CURRENT SITUATION AND ITS EFFECTS

Down Payment Assistance and Closing Cost Assistance is a Strategic Plan Priority Project, advancing our goal to champion and demonstrate social and racial equity.

Rising housing costs have widened the racial wealth gap, exacerbated gentrification and accelerated displacement in historically red-lined Black and brown communities across the Bay Area. Patterns of historical discrimination against people of color in mortgage lending, insurance, and consumer credit enforced by government policy and

private sector practices<sup>1</sup> have compounded with discrimination in appraisals, infrastructure, employment and education such that homeownership increasingly drives the racial wealth gap.<sup>2</sup> The disproportionate declines in homeownership rates for Black and Latino households following the Great Recession and COVID-19 Recession have widened this gap further.<sup>3</sup>

High costs in Berkeley are driven in part by the lack of available housing for a growing population of middle-income households (80-120% of Area Median Income) who are increasingly priced out of first-time homeownership opportunities. As recent Census maps published in *Berkeleyside* have shown, South Berkeley saw a dramatic decline in the share of its Black population from 2010 to 2020 (34/3% decline in the San Pablo Park tract), while the share of Black populations increased in census tract with increased multifamily housing in the same period of time (e.g. Downtown Berkeley tract, 44.1% increase).<sup>4</sup>

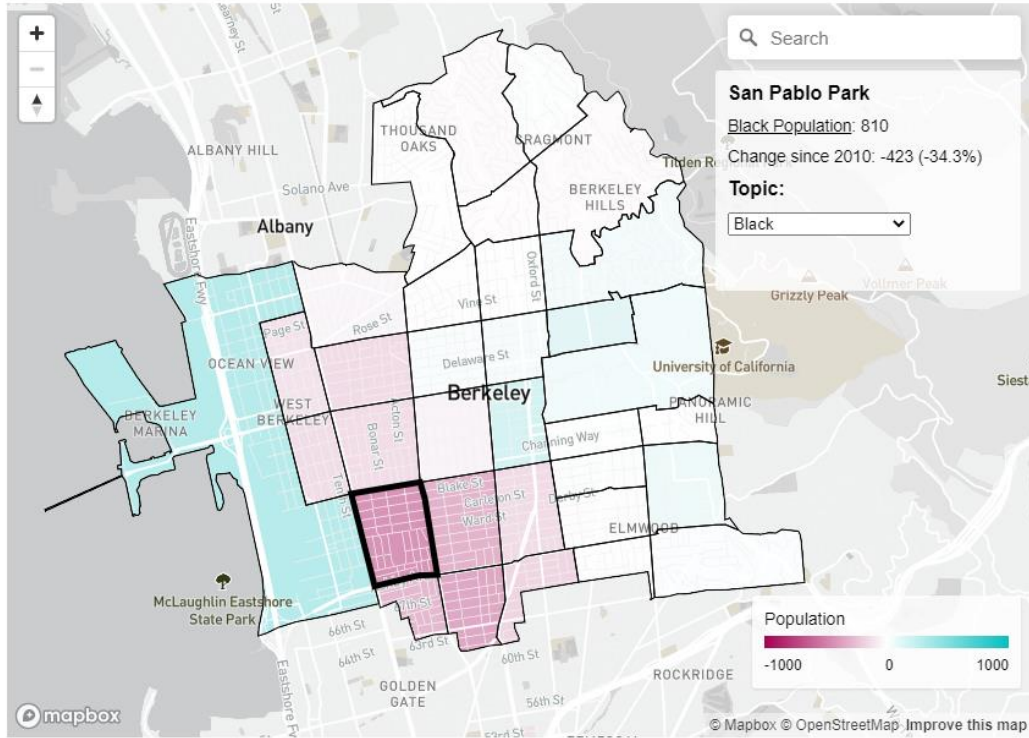
---

<sup>1</sup> Baradaran, M. (2017). *The color of money: Black banks and the racial wealth gap*. Harvard University Press.

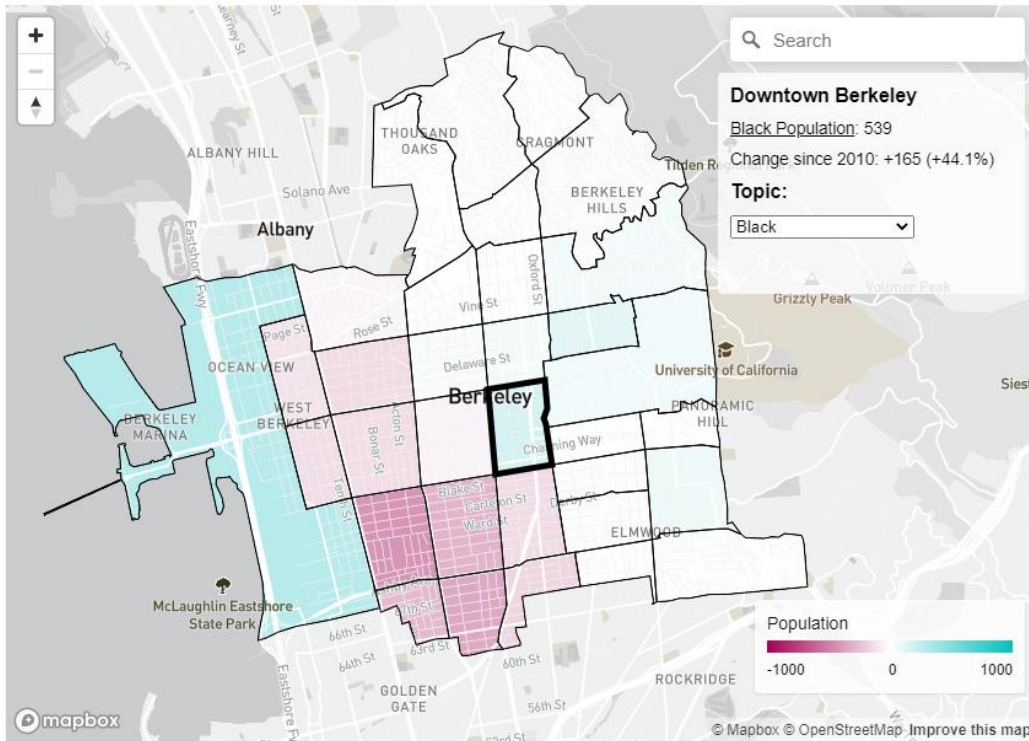
<sup>2</sup> Ray, R. et al. (2021). Homeownership, racial segregation, and policy solutions to racial wealth equity. *Brookings Institution*. Retrieved from <https://www.brookings.edu/essay/homeownership-racial-segregation-and-policies-for-racial-wealth-equity/>

<sup>3</sup> Choi, J.H. (2022). Disparate impacts of the COVID-19 Pandemic Across Race and Ethnicity in the Housing Market: Statement before the Committee on Financial Services, U.S. House of Representatives. *Urban Institute*. Retrieved from <https://www.urban.org/sites/default/files/2022-08/Disparate%20Impacts%20of%20the%20COVID-19%20Pandemic%20Across%20Race%20and%20Ethnicity%20in%20the%20Housing%20Market%20with%20QFRs.pdf>

<sup>4</sup> Markovich, A. (2022). A changing Berkeley: 6 maps show how the past decade has reshaped the city. *Berkeleyside*. Retrieved from <https://www.berkeleyside.org/2022/07/17/berkeley-population-demographics-housing-census-2020-maps>



Demographic change in race/ethnicity by census tract, 2010 to 2020. Select a racial/ethnic group from the drop down menu to see the group's change in population from 2010 to 2020. Data: U.S. Census. Visualization: Darrell Owens and Doug Ng



The Berkeley City Council has committed to equitably increasing housing supply in its Sixth Cycle Housing Element Update in a 2021 Resolution to End Exclusionary Zoning in Berkeley and pursuant to Affirmatively Furthering Fair Housing standards in Assembly Bill 686 (2019). Additionally, Berkeley's Neighborhood Preference Program aims to affirmatively redress displacement in lower-income communities of color by providing preference to former Berkeley residents in our affordable housing lottery. Due to the persistent high cost of housing in Berkeley, further efforts to level the homeownership playing field offer an important tool for redressing the racial wealth gap.

Recent efforts in the state of California and Alameda County have focused on maximizing racial justice outcomes in homeownership through Down Payment Assistance (DPA). The California Dream For All program, established by Senate Bill 197 (2021), established a revolving fund for shared appreciation loans (SALs) providing down payment assistance to low- and moderate-income homebuyers in the purchase of owner-occupied homes. The California Housing Finance Authority (CalHFA), which administers the program, is currently developing draft program terms.

In Alameda County, voters approved \$580 million in General Obligation bonds for affordable housing as Measure A1 in June 2016, which included funds for down payment assistance. The AC Boost program was established by the Board of Supervisors to provide second-lien shared appreciation loans capitalized by \$50 million in Measure A1 funds. As of March 2022, the program had reserved \$7.43 million in funds for 38 applicants. The program design includes provisions to encourage applicants to purchase homes near work or public transit, benefit former residents who have been displaced from the County, and benefit educators and first responders. The program provides multilingual outreach and marketing, and tracks racial equity outcomes (see Attachment).

The high cost of housing in Berkeley means fewer homes available on the market will qualify an applicant for the maximum loan amount (\$160k-\$210k for a 0-3% down payment), and that additional closing costs will price out marginal applicants.

Hello Housing, the nonprofit program manager for AC Boost, reported to the District 2 Council Office that 22% of survey respondents said they could cover the 3% down payment but not closing costs.

In AC Boost's first and second funding cycles, out of 17 Berkeley residents who submitted complete applications:

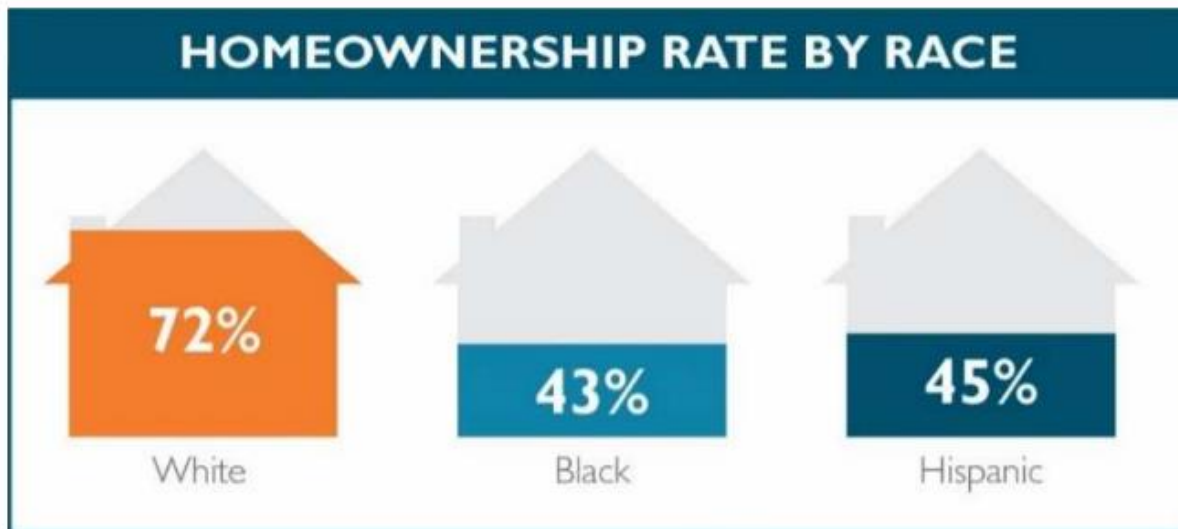
- 9 applicants were approved for a reservation of funds
  - 3 had their reservation of funds expire
  - 3 are currently shopping for homes
  - 3 purchased a home in:
    - Emeryville (2)
    - Oakland (1)

## BACKGROUND

Between 1934 and 1968, 98% of mortgages that received government backing were extended exclusively to White households. Evidence indicates that a first-time Black homebuyer is less likely to be able to afford a 20% down payment, but no more likely to default on payments than a white homebuyer who can—rather, the disparity in mortgage defaults has been attributed to higher and variable interest rates in predatory lending practices that target communities of color.<sup>5</sup>

Because Black households have historically been excluded from wealth-building opportunities even after centuries of zero compensation for forced labor, the asset wealth and liquid savings of white households are more easily transferred and sustained across generations, while Black wealth has remained tenuous over repeated cycles of theft and destruction through redlining, Urban Renewal, and predatory lending.

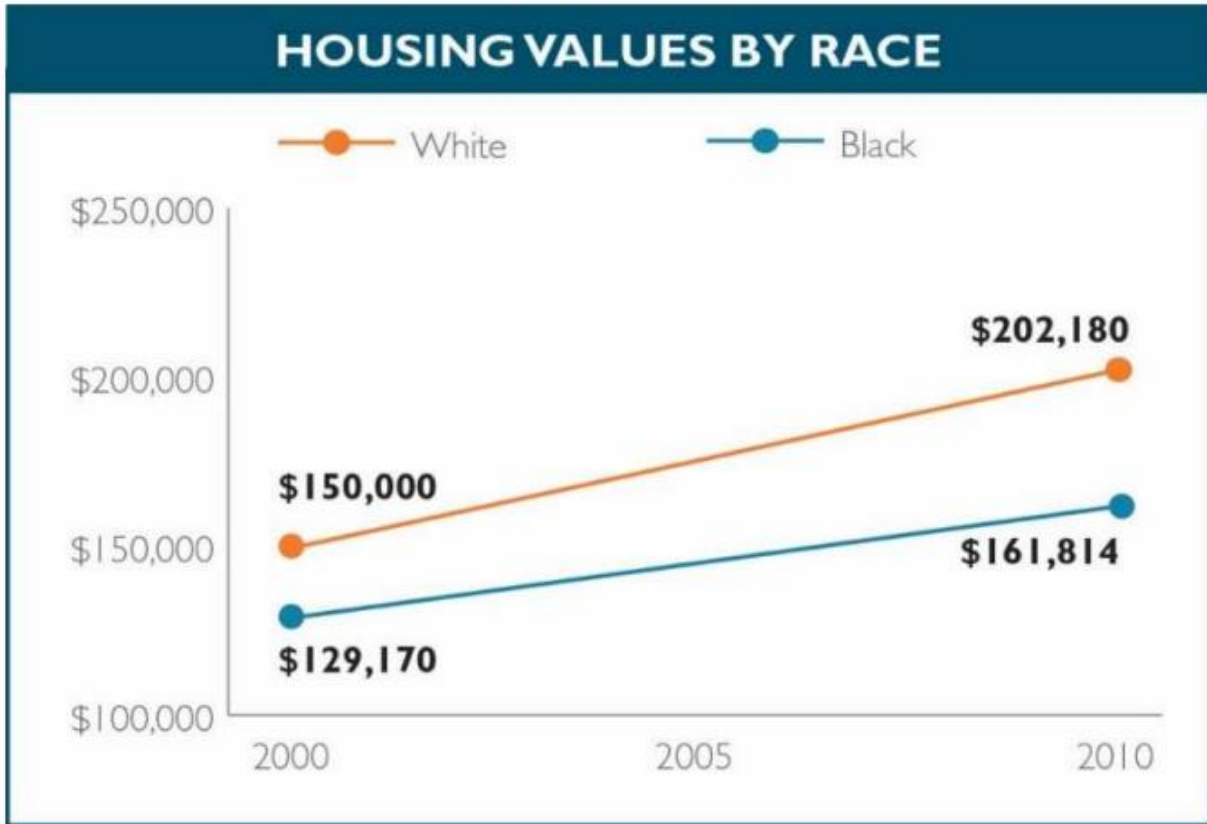
Disparities in property appraisal and lending discrimination have exacerbated the institutionally-enforced racial wealth gap. Inequities in access to credit effectively make the homeownership gap a self-fulfilling prophecy of poverty and lending discrimination. This is the result of public policy choices intended to reinforce racial inequality; affirmative and targeted public investment must now reverse it.



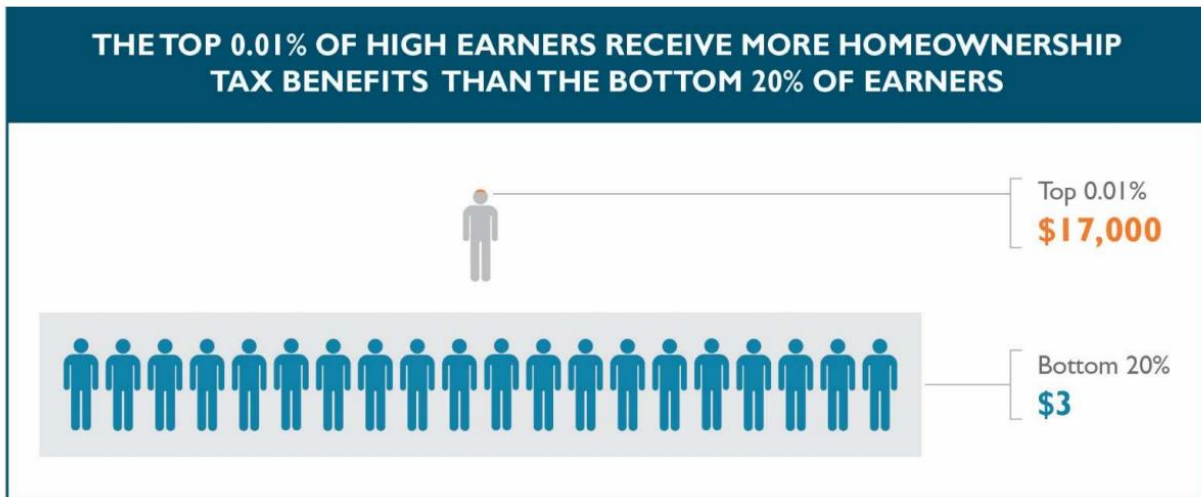
Source: Pew Research Center, 2017

---

<sup>5</sup> Chopra, A. et al. (2017). A Downpayment on the Divide: Steps to Ease Racial Inequality in Homeownership. *Prosperity Now*. Retrieved from <https://prosperitynow.org/resources/downpayment-divide-steps-ease-racial-inequality-homeownership>



Source: Institute on Assets and Social Policy, 2014



Source: From Upside Down to Right-Side Up, 2014

CA Dream For All and other DPA programs are financially sustainable policy interventions to close the racial wealth gap primarily because sufficient cash savings to

afford 20% combined loan-to-value (CLTV) down payments for a first home demonstrably do not correlate with future debt servicing capacity. However, Black households disproportionately lack access to high quality mortgages. Nationally, Black households nationally had a median debt-to-income ratio of 41% in 2020, compared to 37% for white households; in October 2020, 45% of Black consumers had subprime credit scores, compared to 18% of White consumers. Black and Latino homebuyers disproportionately rely on federal assistance through FHA loans, which private lenders perceive as riskier and thus have larger mortgage payments to account for lower down payments. However, the California Treasurer’s Office reports that sellers are indifferent to the use of shared appreciation loans (SALs) covering down payments, which makes them a potentially effective and scalable tool for reducing racial disparities in homeownership.<sup>6</sup>

Figure 12: Loan Application Denial Rates for All Applicants and Applicants Over 120 AMFI, by Race

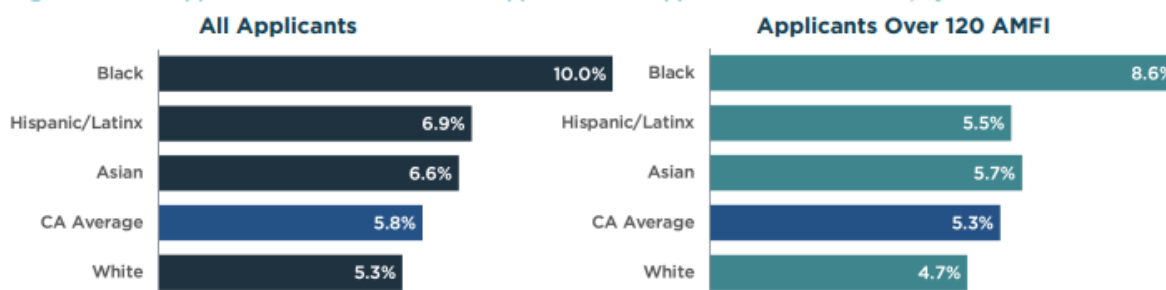
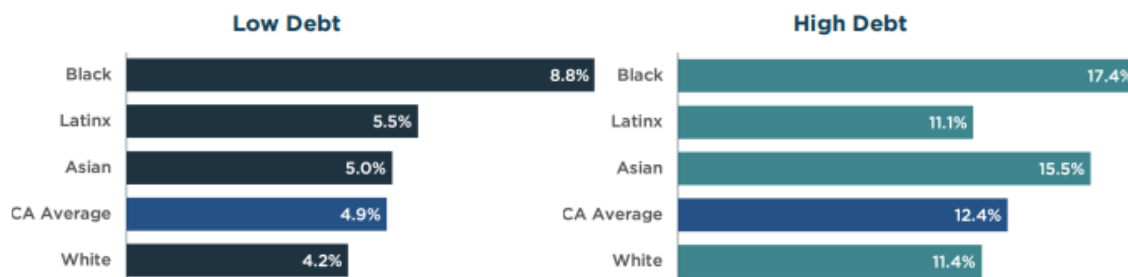


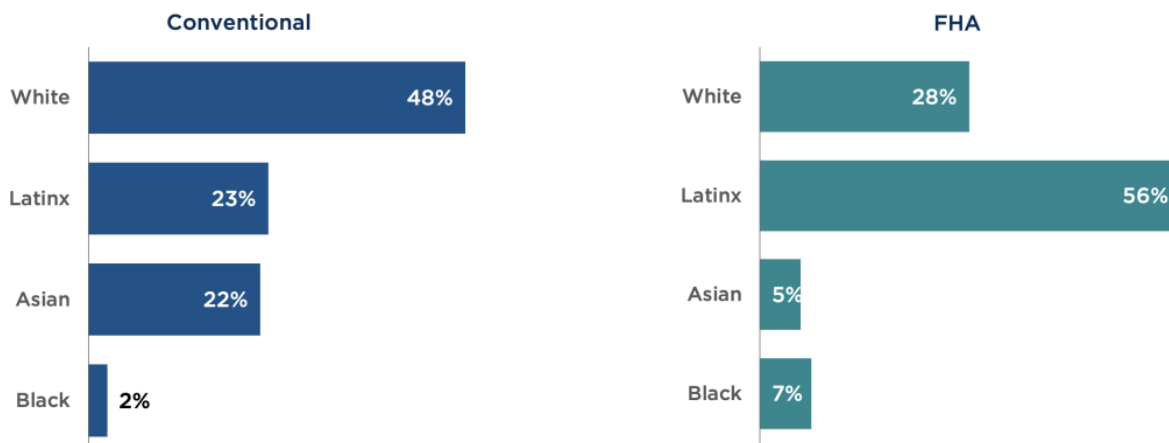
Figure 13: Loan Application Denial Rates for Low-Debt and High-Debt Applicants, by Race



Source: HMDA 2020

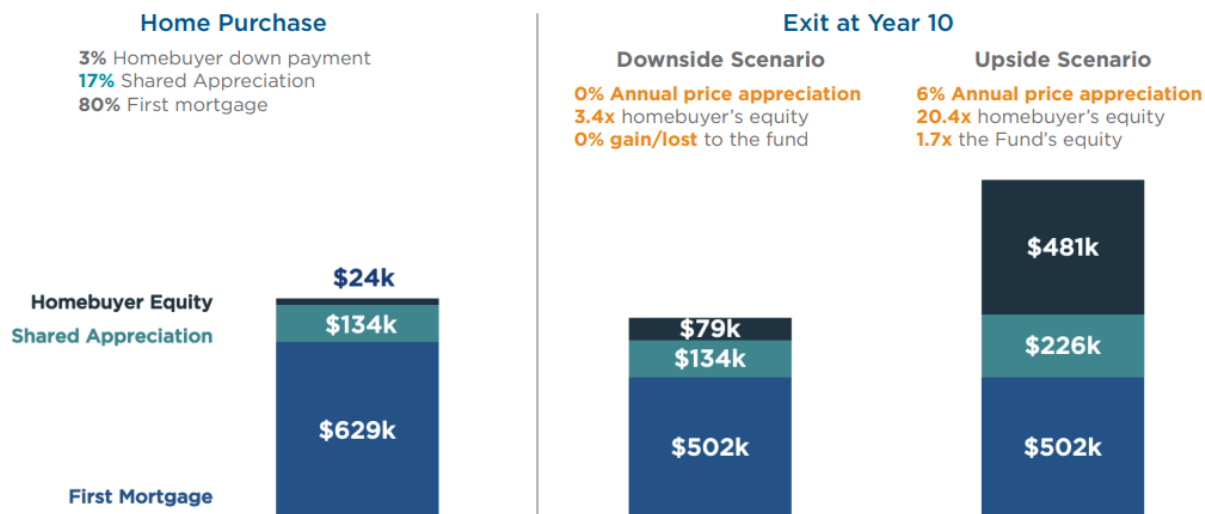
<sup>6</sup> CA Fwd. et al. (2022). California Dream For All: A Proposed Shared Appreciation Loan Investment Fund for the State of California. *California Treasurer’s Office*. Retrieved from <https://www.treasurer.ca.gov/publications/ca-dream-for-all-report.pdf>

Figure 14: Share of Conventional and FHA Loans Issued to Borrowers, by Race



The Treasurer’s report further states: *“SAL’s most compelling advantage is the combination of reducing the monthly payment to a household, while generating revenue to serve future households and providing protection to the homebuyer in the event of depreciation. The biggest drawback is the financial complexity of the terms for a SAL... A well-designed SAL can provide borrowers the opportunity to build wealth in upside scenarios and share losses in downside scenarios.”*

Figure 22: Illustrative Example of Shared Appreciation Loan in Downside and Upside Scenarios



Sources: HR&A Advisors



In order to maximize reparative racial justice outcomes and maintain fiscal sustainability for future generations, a municipal DPA initiative should include the following program considerations:

- 1. Ensure that applicant eligibility is compatible with existing DPA programs so that applicants can “layer” multiple loans to cover 100% combined loan-to-value (CLTV).** As a second lien program, Alameda County has approved layering AC Boost loans with subordinate loan programs such as WISH Funds, NeighborhoodLIFT Funds, the Black Wealth Builders Fund, and several closing cost assistance programs. However, the lotteries of AC Boost applicants and their corresponding applications for subordinate loans may not necessarily overlap, making layering more difficult.
- 2. As much as feasible, integrate administrative processes so that applicants in high-cost cities can seamlessly layer state and regional assistance programs, including CA Dream For All loans and future programs planned for the Bay Area Housing Finance Authority (BAHFA).**
- 3. Enable SALs to cover closing costs in addition to down payments.** Consider cost-benefit tradeoffs for limiting closing cost assistance to escrow fees (e.g. escrow services, title insurance, document preparation, recording fees, etc.) rather than lender fees (e.g. mortgage origination).

#### ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

AC Boost’s down payment assistance fund includes incentives to reduce Vehicle Miles Traveled (VMT) while mitigating displacement by encouraging home purchases close to jobs and public transit. According to Wheeler et al (2018), the urban core of the San Francisco Bay Area (including Berkeley) contains some of the lowest carbon emissions per capita in California, making urban infill housing a key policy lever for cities to reduce carbon footprints by reducing VMT per capita.<sup>7</sup> Preventing displacement from Berkeley also prevents increased emissions from households who would otherwise be priced out to areas with higher per capita emissions.

#### CONTACT PERSON

Councilmember Taplin      Council District 2      510-981-7120

#### ATTACHMENTS

1. CA Dream For All - Treasurer’s Office Report
2. AC Boost: Measure A1 Oversight Committee Presentation
3. Black Wealth Builders Fund - Frequently Asked Questions

---

<sup>7</sup> Wheeler, S. M., Jones, C. M., & Kammen, D. M. (2018). Carbon footprint planning: quantifying local and state mitigation opportunities for 700 California cities. *Urban Planning*, 3(2), 35-51.

