CALIFORNIA BUDGET PROJECT

LOCKED OUT 2008:

The Housing Boom and Beyond

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California Budget Project

The CBP was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, publications, and individual contributions.

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EXECUTIVE SUMMARY

The story of housing in California in recent years is one of both dramatic change and fundamental continuity. Change has been most striking in California's home sales and prices, which boomed for several years and then sank when demand for homes plunged starting in late 2005, eventually giving way to a rising wave of foreclosures that could exacerbate the state's current economic slowdown. Although the housing downturn has been dramatic, other characteristics of California's housing market – such as lack of affordability and high rates of overcrowding – have remained relatively constant. *Locked Out 2008: The Housing Boom and Beyond* analyzes recent housing trends in California and outlines steps that policymakers could take to help increase the supply of affordable housing, assist homeowners who face foreclosure, protect future homebuyers, and reduce and prevent homelessness.

Chapter 1: Homeownership During California's Housing Boom and Bust

California's housing market has entered a period of turmoil following a boom in which home sales and prices soared. Although the housing market has tumbled, the median home price throughout the state remains unaffordable for most Californians. Despite high home prices, the state's homeownership rate increased modestly during the boom as lenders loosened underwriting standards and promoted loans with risky features, such as adjustable-rate mortgages (ARMs) with short-term promotional or "teaser" interest rates. Many Californians have experienced "payment shock" as low promotional rates have jumped to higher levels after as little as two years, helping to trigger an increase in mortgage delinquencies and foreclosures across the state.

- **Home prices have boomed and exceed what many Californians can afford.** California's median home price boomed between 2000 and 2006, more than doubling from $200,000 in March 2000 to $470,000 in March 2006. Although the median home price stabilized somewhat beginning in 2006 and began to decline in late 2007, it remains out of reach even for middle-income Californians. The income needed to purchase the median-priced home exceeds the median household income throughout the state and is more than double the median household income in 14 counties, 13 of which are in the San Francisco Bay Area and/or on the coast.

- **California's homeownership rate is relatively low, but increased modestly during the housing boom.** Fewer than six out of 10 California households (58.4 percent) owned their homes in 2006 – compared to more than two-thirds (67.3 percent) of households in the nation as a whole. Despite the rapid escalation in home prices, California's homeownership rate increased modestly in recent years, from 56.9 percent in 2000 to 58.4 percent in 2006 – a 1.5 percentage point gain. Homeownership rates increased among both young and non-white Californians during this period.

- **How did Californians manage to buy homes during the housing boom?** Increased homeownership was aided by the fact that lenders allowed borrowers to put little or no money down and to provide few or no details about their income and assets. Lenders also promoted a variety of loans that allowed homebuyers to borrow larger sums than they could have with a conventional fixed-rate loan as well as to qualify for financing despite having credit problems. These loans include ARMs with short-term teaser rates; interest-only loans; and "subprime" loans, which are generally provided to borrowers with weak credit histories and those who choose not to specify their income and assets when they apply for a loan. Subprime loans were often structured as ARMs with low promotional interest rates. Other factors that helped Californians purchase homes during the housing boom include the decline of mortgage interest rates after 2000, the migration of many Californians to less expensive areas of the state, and the substantial income gains of the state's wealthiest residents during the past decade.

- **Home sales have plunged and the state's median home price has begun to decline.** Between 2005 and 2007, August home sales declined by more than half (53.8 percent), falling from 73,285 in August 2005 to 33,887 in August 2007. August home sales in 2007 were at the lowest level since 1992, when California was struggling to recover from a severe recession. Rapid home-price appreciation began to slow significantly in 2006 as home sales plunged. The statewide median home price reached a peak of $487,500 in May 2007 and then declined to $402,000 in December 2007, which marked the fifth consecutive month of year-over-year price declines.

- **Tens of thousands of California homeowners face foreclosure.** As introductory mortgage interest rates expire, payments are increasing to unaffordable levels for many homeowners with ARMs, including homeowners with subprime loans. Many homeowners who bought their homes or refinanced their mortgages in 2005 find themselves "locked in" to loans they cannot afford: they are unable to refinance their loans or sell their homes because the amount they owe exceeds the current market value of their home. Research suggests that more than 1 million US homeowners, including more than 190,000 in California, could lose their homes as introductory rates reset to higher levels. The state and federal governments have promoted initiatives to help stem the increase in foreclosures among homeowners with subprime ARMs. However, unless such relief efforts are expanded, the number of foreclosures is likely to increase as California's homeowners face higher mortgage payments at the same time that credit standards tighten and home prices soften, making it harder to sell a home or refinance to a more affordable loan.

Chapter 2: California's Renters Face Significant Affordability Challenges

Many California families cannot afford to buy a home, while others choose not to become homeowners. Many Californians, particularly low-wage workers, struggle to afford safe and decent rental housing.

- **California has the second-highest share of renter households in the US.** More than four out of 10 California households (41.6 percent) rented their homes in 2006, compared to approximately one-third (32.7 percent) of renter households in the US as a whole.

- **Many Californians struggle to afford rents.** California has the second-most-expensive rental housing in the nation, after Hawaii. Consequently, many Californians, particularly low-wage workers, struggle to afford to pay rents. A Californian who earns the state's minimum wage of $8.00 per hour in 2008 would need to work 83 hours per week, year-round, in order to afford the statewide Fair Market Rent (FMR) of $868 per month for a studio unit. The gap between rents and incomes is even wider in some counties.

- **Rental housing is unaffordable for many who receive cash assistance.** Cash assistance for low-income seniors, people with disabilities, and families with children has failed to keep up with housing costs. The two-bedroom FMR exceeds the maximum California Work Opportunity and Responsibility to Kids (CalWORKs) Program grant for a family of three in all but one of California's 58 counties. In addition, the studio FMR exceeds half of the Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program grant for individuals in all 58 counties and exceeds the entire grant in 12 counties.

- **Federal "Section 8" voucher assistance has not kept up with need.** The Section 8 Housing Choice Voucher Program assists approximately 2 million low-income families – including nearly 300,000 California families – to obtain affordable rental housing. Families use "vouchers" to help pay for modest rental units in the private market. Section 8 voucher assistance has not kept up with the need for affordable rental housing. Nationally, only about one-quarter of eligible households receive voucher assistance, and many areas have waiting lists for vouchers.

- **California is at risk of losing tens of thousands of federally subsidized rental units.** The federal government provides subsidies to owners of rental housing to ensure that rental units remain affordable to low-income individuals. However, many contracts that provide guaranteed rental payments to property owners are reaching their expiration dates, allowing owners to "opt out" of – rather than renew – their contracts. In addition, many property owners who received low-cost financing may prepay their loans, giving owners the ability to refinance and increase rents. Since 1996, more than 17,000 affordable housing units in California have been lost due to owners' decisions to opt out of their contracts or prepay their mortgages. Nearly 93,000 additional units are at risk of being lost by 2017 due to opt-outs and mortgage prepayments.

- **Multifamily construction continues to lag behind its 1980s level.** After plunging in the 1990s, overall housing construction in California rebounded in the 2000s. However, multifamily construction continues to lag behind the level achieved prior to the 1990s. On average, developers built about 50,000 multifamily units each year between 2000 and 2007, compared to an average of more than 90,000 units annually in the 1980s. In contrast, the average number of single-family homes built each year between 2000 and 2007 exceeded the levels achieved in the 1980s and 1990s. Boosting construction of multifamily units could help to increase the state's supply of affordable rental housing.

Chapter 3: The High Cost of Housing Imposes Significant Burdens on Many Californians

Despite the downturn in the housing market, California continues to face a shortage of housing that is affordable even for middle-income families. Because housing costs have outpaced wages and incomes of many Californians, the state's residents spend a large share of their incomes on housing, leaving less for food, clothing, health care, and other necessities. Some Californians live in overcrowded conditions or are homeless, while others have sought less expensive housing far from major job centers.

- **Housing costs have outpaced many Californians' wages and incomes.** The cost of the state's median-priced home nearly tripled between 1989 and 2006, increasing by 193.4 percent. In contrast, the state's median hourly wage – the wage of the worker at the middle of the distribution – increased by 60.3 percent and the state's median household income rose by 67.6 percent during the same period.

- **Californians spend a large share of their incomes on housing.** The disparity between housing costs and incomes in California means that the state's homeowners and renters are more likely than are their counterparts in the rest of the US to spend a large share of their incomes on housing. For example, more than four out of 10 California owner households (43.5 percent) spent 30 percent or more of their incomes on housing in 2006, compared to 29.1 percent of owner households in the rest of the US – a 14.4 percentage point gap that reflects California's relatively high home prices.

- **Many Californians cannot afford to live near their jobs.** Many Californians have sought less expensive housing in areas that tend to be relatively far from major job centers. Californians who live far from major job centers can face long commutes to work. In 2006, one out of 10 California commuters (10.1 percent) spent at least one hour commuting to work, compared to 7.9 percent of commuters in the US as a whole. Increased commute times have a negative impact on air quality, increase wear and tear on roads and highways, increase families' transportation costs, and reduce the time workers have to spend with their families and participate in community activities.

- **Overcrowding is more prevalent in California than in the US.** In order to cope with the high cost of housing, some California families live in overcrowded conditions, defined as more than one person per room. Aside from diminishing these families' quality of life, overcrowding can leave individuals vulnerable to illness and other health problems. One out of eight renter households in California (13.0 percent) was overcrowded in 2006, more than twice the share in the US as a whole (5.8 percent). California's Latinos are the most likely to live in overcrowded conditions. More than one-fifth (21.1 percent) of Latino households in California were overcrowded in 2006, compared to 10.7 percent of Latino households in the rest of the US.

- **Homeless Californians face the most severe housing crisis.** Estimates suggest that more than half a million Californians could be homeless at some point during the year. Complex factors contribute to homelessness, but lack of affordable housing is a major cause. The most comprehensive study of homelessness in California to date found that California has the third-highest rate of homelessness in the nation, that homelessness is prevalent throughout the state, and that more than half of homeless individuals live in families with children in several areas of California.

Chapter 4: Responding to California's Housing Challenges

Greater local, state, and federal efforts are needed to meet the housing challenges identified in this report. California's policymakers, in particular, can take a number of steps to help increase the supply of affordable housing, help homeowners who face foreclosure and protect future homebuyers, and reduce and prevent homelessness.

- **Increasing the supply of affordable housing.** California continues to lack an adequate supply of housing that is affordable even for middle-income families. Policymakers could take several steps to help increase the supply of affordable housing, including creating a stable source of funding for such housing, using state infrastructure dollars to encourage local governments to meet housing goals, and requiring communities to adopt "inclusionary zoning" policies.

- **Helping homeowners who face foreclosure and protecting future homebuyers.** Tens of thousands of California homeowners with ARMs are at risk of losing their homes as introductory interest rates expire and mortgage payments rise. Some homebuyers were lured into loans with risky features by unscrupulous lenders using aggressive and deceptive practices. Policymakers could increase efforts to help Californians facing foreclosure to remain in their homes, such as by connecting homeowners with counselors who can help them negotiate more favorable loan terms and continuing to work with lenders to develop objective standards for modifying loan terms. Policymakers also could require lenders to follow sound underwriting standards, prohibit prepayment penalties on subprime loans, curb deceptive lending practices, and promote consumer financial education.

- **Reducing and preventing homelessness.** Policymakers could help to reduce and prevent homelessness by addressing the housing and service needs of Californians who leave publicly funded programs and institutions, such as foster care; assisting homeless individuals to apply for public benefits in order to help promote financial stability; requiring communities to incorporate strategies that address homelessness into their state-mandated housing elements; and making surplus state property available for building housing for homeless individuals.

Conclusion

California's home sales and prices boomed in recent years, driven in part by loosened mortgage underwriting standards and the promotion of loans with risky features – such as ARMs with short-term teaser rates – that allowed many Californians to buy a piece of the "American Dream." As teaser rates have expired, mortgage payments have jumped to unaffordable levels for many homeowners, helping to trigger a rising wave of foreclosures that could exacerbate the state's current economic slowdown. Although the housing downturn has been dramatic, other characteristics of California's housing market – such as lack of affordability and high rates of overcrowding – have remained relatively constant.

Greater local, state, and federal efforts are needed to meet California's housing challenges. State policymakers, in particular, can take a number of steps to help increase the supply of affordable housing, assist homeowners who face foreclosure and protect future homebuyers, and reduce and prevent homelessness. Although the current economic climate and the state's deteriorating fiscal condition increase the difficulty of meeting these challenges, failure to act could further undermine the state's economic health – a prospect that California's working families can ill afford.

INTRODUCTION

The story of housing in California in recent years is one of both dramatic change and fundamental continuity. Change has been most striking in California's home sales and prices, which boomed for several years and then sank when demand for homes plunged starting in late 2005, eventually giving way to a rising wave of foreclosures that could exacerbate the state's current economic slowdown. Although the housing downturn has been dramatic, other characteristics of California's housing market – such as lack of affordability and high rates of overcrowding – have remained relatively constant.

California's housing market heated up during the first half of this decade. Home prices escalated rapidly, driven by Californians' persistent demand for homes coupled with low interest rates, loosened mortgage underwriting standards, and the promotion of loans with risky features, such as adjustable-rate mortgages with introductory "teaser" rates that can increase significantly after as little as two years. Teaser rates were often incorporated into "subprime" loans, which are generally provided to borrowers with weak credit histories. Due to these and other factors, the share of California households that owned their homes increased even as home prices skyrocketed. However, the housing boom gave way to a downturn as higher interest rates and escalating prices caused many potential buyers to pull back beginning in late 2005. As sales plunged, home-price appreciation slowed significantly before prices began to drop in 2007.

Meanwhile, a rising number of homeowners, including those with adjustable-rate subprime mortgages, face substantial increases in their monthly payments as their teaser rates reset to higher levels. Many of these homeowners find themselves "locked in" to mortgages they cannot afford: they are unable to refinance their loans or sell their homes because the amount of the loan exceeds the current market value of their home. The expiration of introductory interest rates has triggered an increase in mortgage delinquencies and foreclosures across the state. These trends are likely to continue to the extent that homeowners are unable to obtain more favorable terms from lenders.

Although the recent downturn in the state's housing market has been dramatic, other aspects of California's housing story have remained relatively constant. Many Californians, particularly low-wage workers, continue to struggle to afford safe and decent rental housing. Tens of thousands of federally subsidized affordable rental units are at risk of being lost to market-rate rents in coming years to the extent that owners of rental housing terminate their federal contracts. Housing costs have outpaced the wages and incomes of many Californians, and a substantial share of households spend more than 30 percent of their incomes on housing – the maximum recommended by the federal government – leaving less for food, clothing, health care, and other necessities. Some families live in overcrowded conditions or are homeless, while others have sought less expensive housing far from major job centers, thus increasing their commute time to work and their transportation costs.

Greater local, state, and federal efforts are needed to meet California's housing challenges. This report outlines a number of steps that policymakers can take to help increase the supply of affordable housing, assist homeowners who face foreclosure, protect future homebuyers, and reduce and prevent homelessness.

CHAPTER 1: HOMEOWNERSHIP DURING CALIFORNIA'S HOUSING BOOM AND BUST

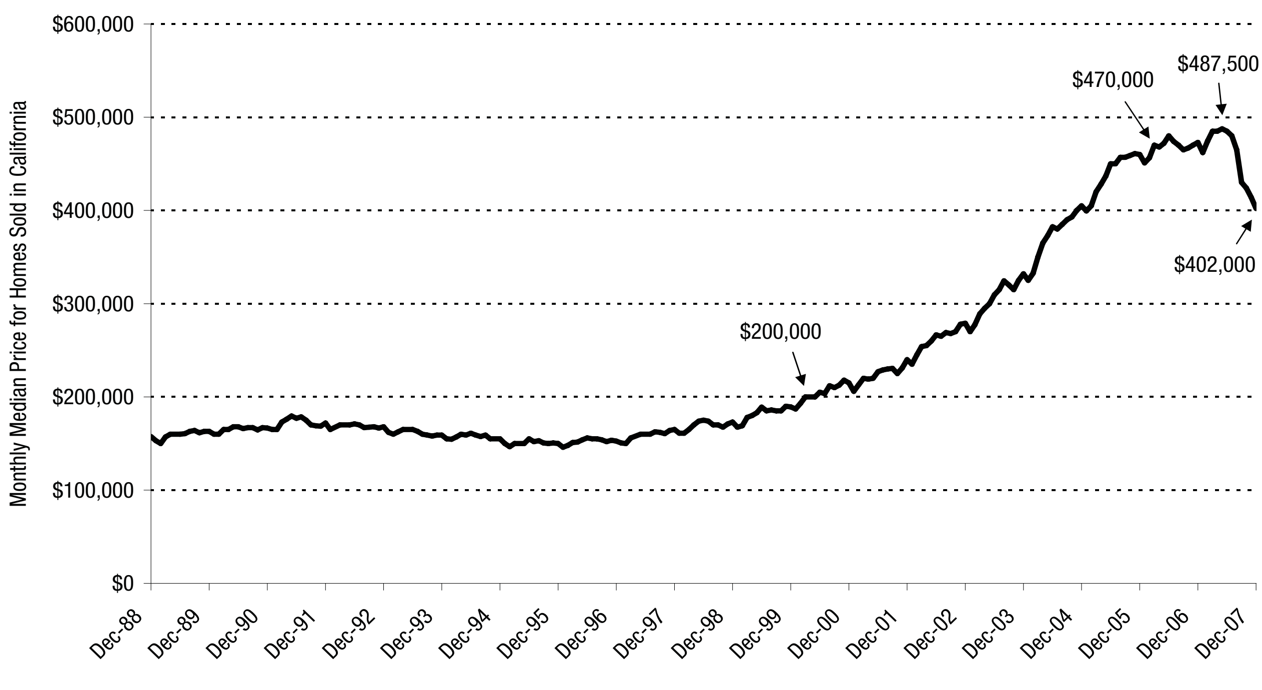
California's housing market has entered a period of turmoil following a boom in which home sales and prices soared. Although the housing market has tumbled, the median home price throughout the state remains unaffordable for most Californians. Despite high home prices, the state's homeownership rate increased modestly during the boom as lenders loosened underwriting standards and promoted loans with risky features, such as adjustable-rate mortgages with short-term promotional or "teaser" interest rates. Many Californians have experienced "payment shock" as low promotional rates have jumped to higher levels after as little as two years, helping to trigger an increase in mortgage delinquencies and foreclosures across the state.

Home Prices Have Boomed and Exceed What Many Californians Can Afford

California's median home price boomed between 2000 and 2006. The median home price more than doubled from $200,000 in March 2000 to $470,000 in March 2006, and the year-over-year home price increased by double digits in percentage terms nearly every month during this period (Figure 1.1).[1] Although the median home price stabilized somewhat beginning in 2006 and began to decline in late 2007, it remains out of reach for even middle-income Californians.

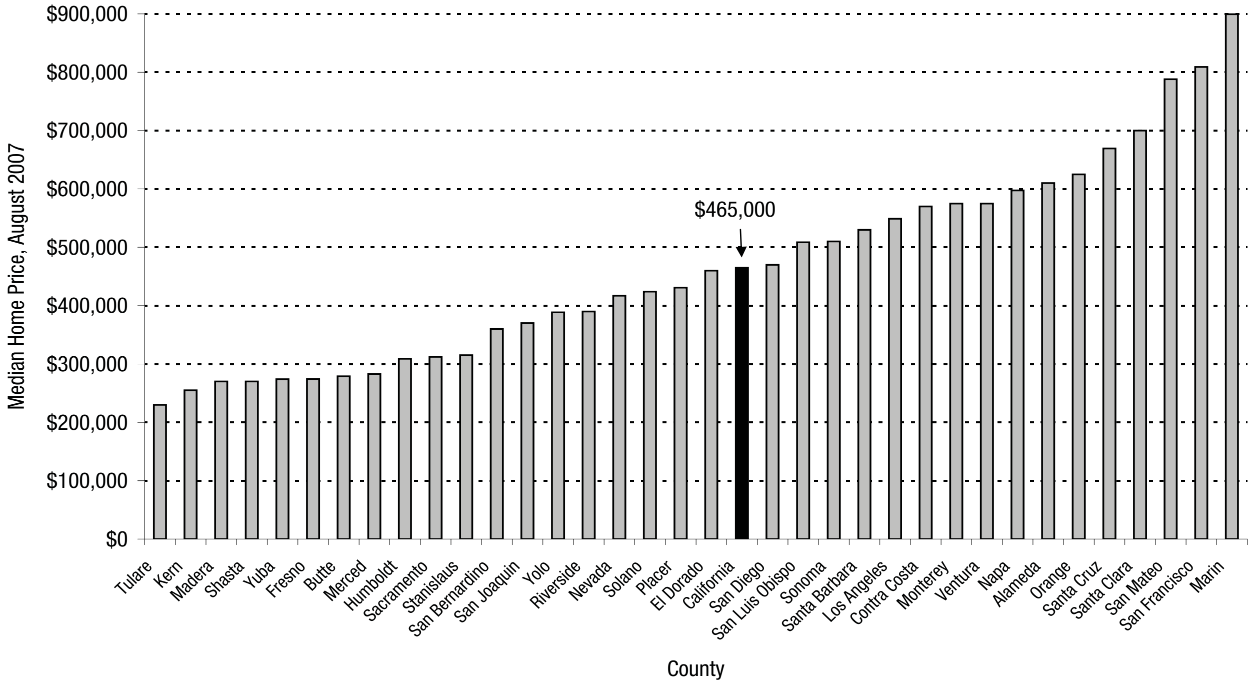
Home prices vary significantly across California, but they tend to be lower in inland counties and higher in coastal counties. In August 2007, the median home price – the price in the middle of the distribution for homes that have sold – ranged from $230,000 in Tulare County to nearly $900,000 in Marin County (Figure 1.2). Despite the housing market downturn, buying a home anywhere in California remains a daunting prospect, especially for homebuyers who want the stability of a conventional fixed-rate mortgage. In order to purchase the median-priced home in August 2007 ($465,000) with a 30-year conventional fixed-rate mortgage and a 5 percent down payment, a household needed an income

Figure 1.1: California's Median Home Price Boomed Between 2000 and 2006



Note: Includes new and resale condominiums and single-family detached homes.
Source: DataQuick Information Systems

Figure 1.2: Home Prices Vary Subtantially Across California



Note: Includes new and resale condominiums and single-family detached houses.
Source: DataQuick Information Systems

of $113,162 – double the statewide median household income of $56,645 (Table 1.1). The income needed to purchase the median-priced home exceeds the median household income throughout the state and is more than double the median household income in 14 counties, 13 of which are in the San Francisco Bay Area and/or on the coast.[2]

California's Homeownership Rate Is Relatively Low, but Increased Modestly During the Housing Boom

California has the second-lowest homeownership rate among US states (Figure 1.3). Fewer than six out of 10 California households (58.4 percent) owned their homes in 2006 – 8.9 percentage points below that of the nation as a whole (67.3 percent).[3] This gap is not a recent phenomenon – California's homeownership rate historically has lagged behind that of the US.[4]

Homeownership Rates Vary Substantially Across California

Homeownership rates vary substantially across the state. Fewer than half of households in Los Angeles County and San Francisco owned their homes in 2006, while the share of households that owned their homes exceeded the US homeownership rate in six counties: Contra Costa, El Dorado, Nevada, Placer, Riverside, and Ventura (Figure 1.4). Contra Costa and Ventura counties have among the highest rates of homeownership in the state despite the fact that their home prices are high relative to the statewide median home price.

Homeownership in California Increased Modestly During the Housing Boom

California's homeownership rate increased modestly during the first six years of this decade despite the rapid escalation in home prices. The share of California households that owned their homes rose from 56.9 percent in 2000 to 58.4 percent in 2006 – a 1.5 percentage point gain.[5] Homeownership rates increased among both young and non-white Californians during this period. For example, the share of Californians between the ages 25 and 34 who owned their homes increased from 31.8 percent in 2000 to 34.0 percent in 2006. In addition, the share of Latinos who owned their homes rose from 43.7 percent to 47.9 percent and the share of Asians who owned their homes increased from 55.4 percent to 59.0 percent during this period.

Table 1.1: How Much Income Do Californians Need to Buy a Median-Priced Home?				
County	Median-Priced Home (August 2007)	Income Needed to Purchase the Median-Priced Home*	Median Household Income (2006)	Income Needed as a Percentage of Median Household Income
California	$465,000	$113,162	$56,645	199.8%
Alameda	$610,000	$148,450	$64,424	230.4%
Butte	$279,000	$67,897	$40,897	166.0%
Contra Costa	$570,000	$138,715	$74,241	186.8%
El Dorado	$460,000	$111,946	$70,516	158.8%
Fresno	$274,250	$66,741	$42,732	156.2%
Humboldt	$309,000	$75,198	$40,749	184.5%
Kern	$255,000	$62,057	$43,106	144.0%
Los Angeles	$549,000	$133,605	$51,315	260.4%
Madera	$270,000	$65,707	$39,068	168.2%
Marin	$899,500	$218,902	$81,761	267.7%
Merced	$283,000	$68,871	$40,447	170.3%
Monterey	$575,000	$139,932	$55,045	254.2%
Napa	$597,500	$145,408	$66,645	218.2%
Nevada	$417,000	$101,481	$50,675	200.3%
Orange	$625,000	$152,100	$70,232	216.6%
Placer	$431,000	$104,888	$70,013	149.8%
Riverside	$390,000	$94,910	$53,508	177.4%
Sacramento	$312,250	$75,989	$53,930	140.9%
San Bernardino	$360,000	$87,610	$52,941	165.5%
San Diego	$470,000	$114,379	$59,591	191.9%
San Francisco	$809,000	$196,878	$65,497	300.6%
San Joaquin	$370,000	$90,043	$51,951	173.3%
San Luis Obispo	$508,500	$123,749	$50,209	246.5%
San Mateo	$788,000	$191,768	$77,914	246.1%
Santa Barbara	$530,000	$128,981	$53,477	241.2%
Santa Clara	$700,000	$170,352	$80,838	210.7%
Santa Cruz	$669,500	$162,930	$62,193	262.0%
Shasta	$270,000	$65,707	$44,120	148.9%
Solano	$424,000	$103,185	$61,533	167.7%
Sonoma	$510,000	$124,114	$60,821	204.1%
Stanislaus	$315,000	$76,658	$48,566	157.8%
Tulare	$230,000	$55,973	$41,933	133.5%
Ventura	$575,000	$139,932	$72,107	194.1%
Yolo	$388,500	$94,545	$51,128	184.9%
Yuba	$274,000	$66,681	$38,006	175.4%

* Assumes a 5 percent down payment on a 30-year conventional fixed-rate mortgage with a 6.63 percent interest rate.
Source: CBP analysis of DataQuick Information Systems, Federal Reserve System, and US Census Bureau data

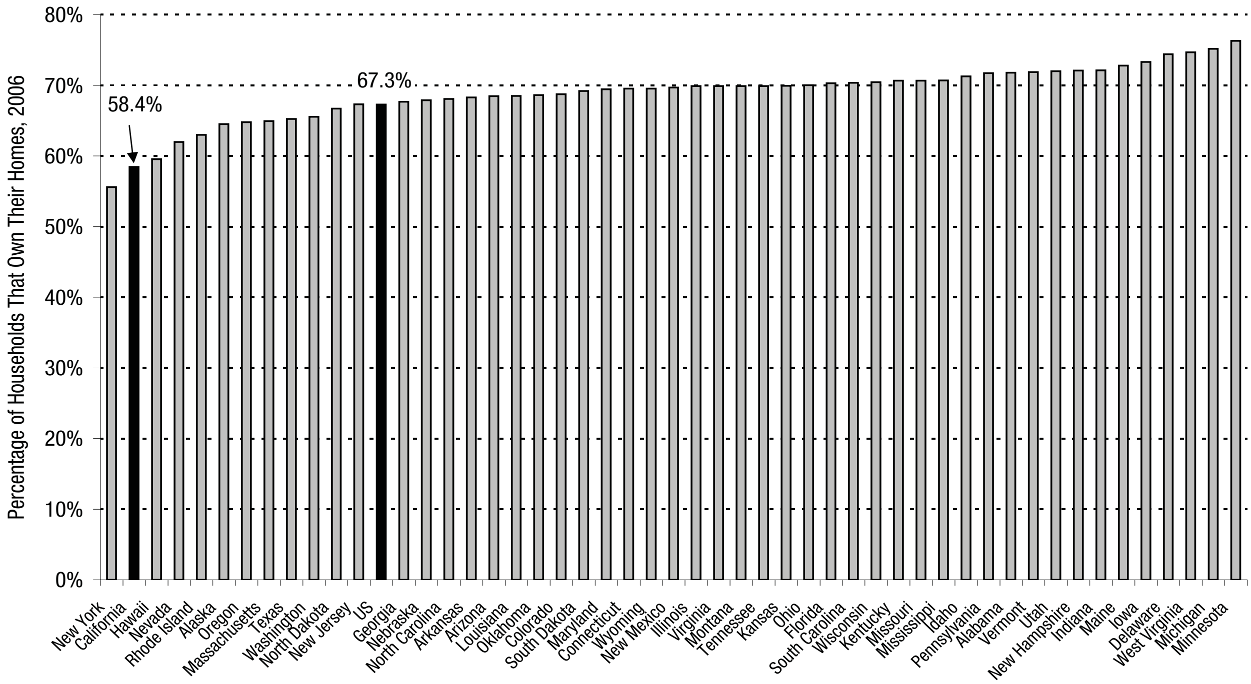
How Did Californians Manage to Buy Homes During the Housing Boom?

Many Californians managed to purchase homes even as housing prices escalated substantially during the first half of this decade. In fact, Californians' persistent demand for homes helped to fuel rapid appreciation in home prices during this period.[6] Multiple factors help to explain Californians' ability to purchase homes during the housing boom, including loosened underwriting standards and the promotion of loans with risky features.

Lenders Loosened Underwriting Standards and Promoted Relatively Risky Loans

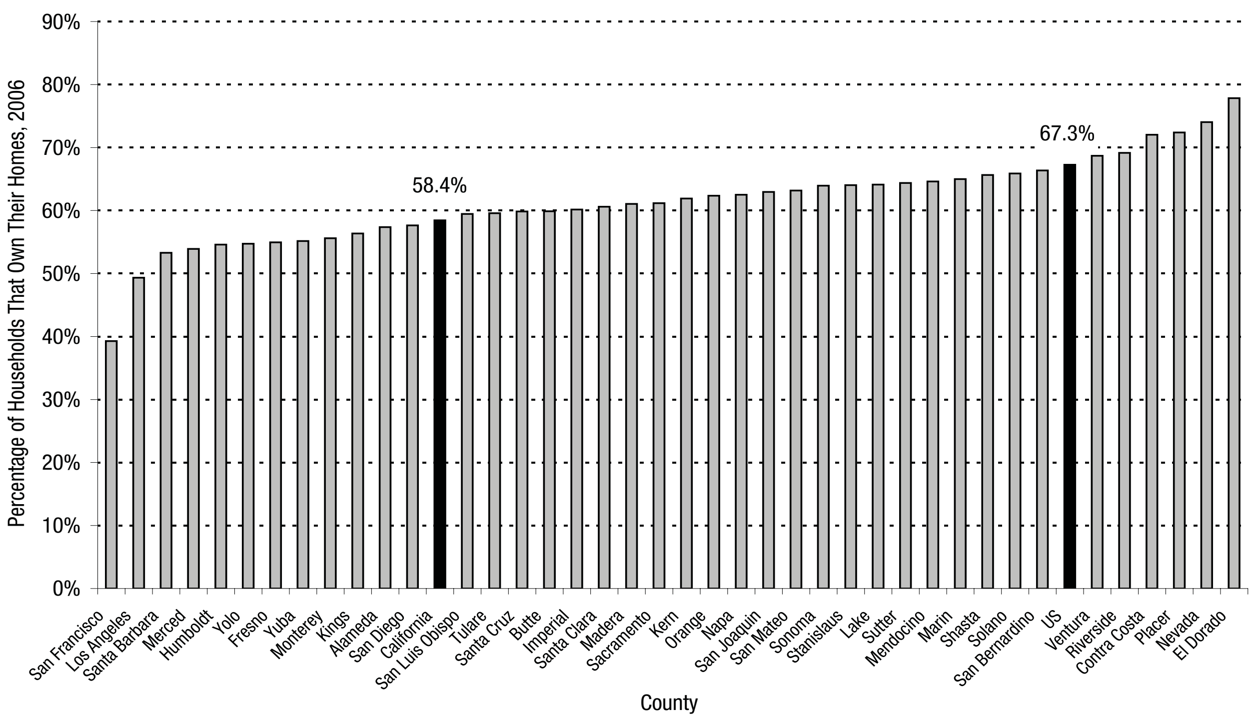
During the housing boom, lenders relaxed underwriting standards and promoted relatively risky loans that allowed more consumers to qualify for financing. Lenders increasingly allowed borrowers to put little or no money down, provide few or no details about their income and assets, and spend more than 30 percent of their income on housing costs – the limit recommended by the federal government.[7] Lenders also promoted a variety of loans that allowed homebuyers to borrow larger sums than they could

Figure 1.3: California Has the Second-Lowest Homeownership Rate Among the 50 States



Source: US Census Bureau

Figure 1.4: Homeownership Rates Vary Substantially Across California



Source: US Census Bureau

The Changing Face of California's Homeowners

Homeownership has declined for some Californians and increased for others since the late 1970s. Specifically:

- **Homeownership has declined among non-elderly Californians.** Homeownership decreased among non-elderly Californians between 1979 and 2007. The drop-off was particularly steep among Californians in their thirties. Fewer than half (46.4 percent) of Californians in their thirties owned their homes in 2007, compared to 58.4 percent in 1979. In contrast, the share of Californians age 65 or older who owned their homes increased by 5.6 percentage points between 1979 and 2007.

- **Homeownership has fallen considerably among black Californians, but has increased among other groups.** Blacks were the only racial/ethnic group in California to experience a drop in homeownership between 1979 and 2007. Fewer than four out of 10 blacks (39.2 percent) owned their homes in 2007, down from 46.1 percent in 1979. In contrast, the shares of Asians, Latinos,

The Changing Face of California's Homeowners, 1979 to 2007

	Percentage Who Are Owners		Percentage Who Are Renters	
	1979	2007	1979	2007
Age of Head of Household				
Under 30	28.1%	24.4%	71.9%	75.6%
30 to 39	58.4%	46.4%	41.6%	53.6%
40 to 49	72.1%	65.2%	28.0%	34.8%
50 to 64	74.3%	69.6%	25.7%	30.5%
65 or Older	67.1%	72.7%	32.9%	27.3%
Race/Ethnicity of Head of Household				
Asian and Other	54.0%	59.8%	46.0%	40.2%
Black	46.1%	39.2%	53.9%	60.8%
Latino	45.5%	47.7%	54.5%	52.3%
White	62.7%	66.1%	37.3%	33.9%
Children in the Household				
One or More Children	64.1%	59.2%	35.9%	40.9%
No Children	56.0%	58.0%	44.0%	42.0%
Household Income (2006 Dollars)				
Less Than $25,000	41.3%	36.2%	58.7%	63.8%
$25,000 to $49,999	48.8%	48.9%	51.2%	51.1%
$50,000 to $74,999	69.5%	59.0%	30.5%	41.0%
$75,000 or More	84.0%	77.7%	16.0%	22.3%
Poverty Status of Head of Household's Family				
Income Below Federal Poverty Line	39.1%	28.2%	60.9%	71.8%
Income Between 100% and 199% of Federal Poverty Line	43.6%	41.2%	56.4%	58.8%
Income at or Above 200% of Federal Poverty Line	66.6%	67.9%	33.4%	32.1%

Note: Income is for 1978 and 2006. 1979 poverty status is based on 1978 income and 2007 poverty status is based on 2006 income. Percentages may not sum to 100 due to rounding.
Source: CBP analysis of US Census Bureau data

and whites who owned their homes increased during this period, with Asians experiencing the largest gain. White Californians continued to have the highest rate of homeownership (66.1 percent) of any racial/ethnic group in the state in 2007.

- **The "homeownership gap" between households with children and those without children has narrowed considerably.** In 1979, California households with children were much more likely to own their homes (64.1 percent) than were households without children (56.0 percent). This gap has since narrowed considerably, primarily due to the decline of homeownership among households with children. Consequently, households with children and those without children were nearly equally likely to own their homes in 2007.
- **Middle-income households have experienced a significant drop in homeownership.** Homeownership among California's middle-income households – those with inflation-adjusted incomes of between \$50,000 and \$74,999 – fell by 10.5 percentage points between 1979 and 2007, the steepest drop experienced by any income group during this period. In addition, homeownership among very low-income households – those with inflation-adjusted incomes of less than \$25,000 – declined by 5.1 percentage points between 1979 and 2007. In contrast, homeownership among households with incomes of between \$25,000 and \$49,999 remained steady: nearly half of these households owned their homes in both 1979 and 2007.
- **Homeownership has dropped among families with incomes below 200 percent of the federal poverty line.** Families with incomes below twice the poverty line – for example, a projected \$33,784 for a family of three in 2008 – are less likely to own their homes today than were similarly situated families in the late 1970s.[8] This decline has been particularly steep among families with incomes below the official poverty line. Fewer than three out of 10 families living in poverty (28.2 percent) owned their homes in 2007, compared to nearly four out of 10 poor families in 1979 (39.1 percent). In contrast, the share of families with incomes at or above twice the poverty line increased modestly during this period.

have with a conventional fixed-rate loan as well as allowed many borrowers with weak credit histories to qualify for financing. These loans include:

- **Adjustable-rate mortgages with short-term promotional interest rates.** Adjustable-rate mortgages (ARMs), which have interest rates that adjust periodically based on changes in a specified index, became increasingly common during the housing boom. Nationally, ARMs nearly tripled as a share of purchases and refinances, from 13 percent in mid-2003 to 35 percent in mid-2005.[9] Many ARMs include deeply discounted promotional or "teaser" interest rates that are fixed for a temporary period – often as little as two years. When this introductory rate expires, mortgage payments rise by the discounted percentage points as well as by any increase in the indexes to which the loan rates are tied. This change can cause a homeowner's monthly payment to jump substantially, a factor that has led to an increase in mortgage delinquencies and foreclosures.
- **Nontraditional mortgages, primarily interest-only and "payment-option" loans.** These loans initially help to keep mortgage payments low by allowing borrowers to temporarily defer principal payments or to make payments that do not cover principal or all accrued interest.[10] These loans carry potential risks for borrowers. For example, homeowners who make only the minimum payment on a payment-option loan add to, rather than pay down, their loan principal. Nationally, loans with interest-only and payment-option features "went from serving a fringe market to over 32 percent of all [purchases and refinances] in 2006."[11] Nontraditional loans generally include adjustable interest rates and are concentrated in California and other high-priced housing markets.[12]
- **Subprime loans.** Subprime loans are intended to serve borrowers who do not qualify for "prime" loans, including borrowers with weak credit histories and those who choose not to specify their income and assets when they apply for a loan.[13] Subprime loans have higher interest rates than prime loans and are more likely to include costly features such as prepayment penalties, which can cost borrowers thousands of dollars if they pay off their loan early, such as by refinancing.[14] During the housing boom, subprime loans were often structured as ARMs with low promotional interest rates, and many had interest-only features.[15] Nationally, subprime loans "soared from near zero in the early 1990s to 8.6 percent of [purchases and refinances] in 2001 and 20.1 percent in 2006."[16] More than 5 million US households, many with low incomes, have subprime mortgages.[17] While many subprime borrowers have weak credit histories, a substantial number of credit-worthy borrowers have received subprime loans. One analysis found that more than half of subprime mortgages in 2005 (55 percent) and 2006 (61 percent) were made to borrowers who had credit scores high enough to qualify for conventional loans with far better terms.[18]

In California, subprime lending increased considerably as home prices soared. The number of new home loans with high interest rates rose from nearly 300,000 in 2004 – approximately 12 percent of mortgages initiated in 2004 – to nearly 600,000 in 2006 – approximately 30 percent of mortgages initiated in 2006.[19] The number of high-rate home loans increased even though the total number of new home loans in California declined between 2004 and 2006.[20] Home loans with high interest rates made up more than one-quarter of mortgages initiated in 2006 in 15 metropolitan areas located primarily in inland California (Figure 1.5). In Riverside-San Bernardino, for example, high-rate home loans accounted for 38.7 percent of all mortgages in 2006, more than double their share in 2004 (17.1 percent).

Additional Factors Allowed Californians to Purchase Homes During the Housing Boom

In addition to loosened lending standards and the promotion of relatively risky loans, other factors that contributed to Californians' ability to buy homes during a period of rapid price appreciation include:

- **Mortgage interest rates declined significantly.** Declining interest rates allow homebuyers to obtain larger mortgages without a corresponding increase in their payments. The interest rate for a 30-year conventional fixed-rate mortgage dropped from 8.06 percent in 2000 to 5.87 percent in 2005, before rising to 6.41 percent in 2006.[21]

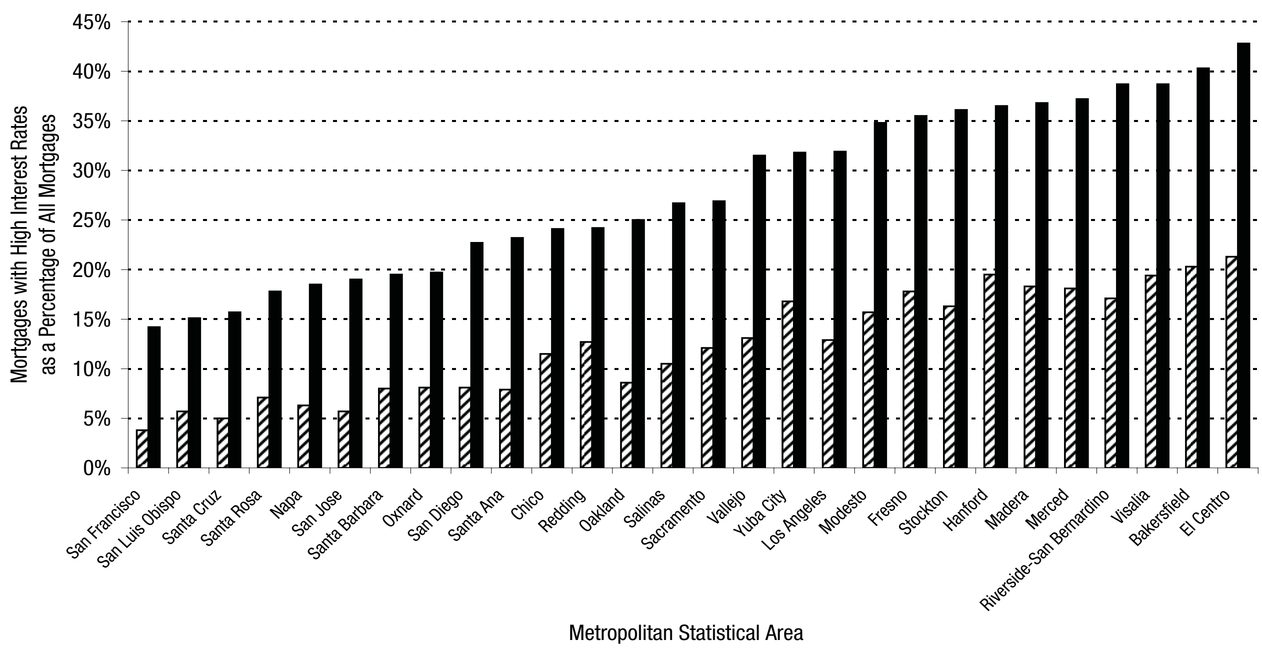
  This interest rate decline provided homebuyers with a substantial discount on their monthly mortgage payments and helped to keep homeownership within reach of more Californians even as home prices increased.

- **Many Californians moved to less expensive areas.** Many Californians, particularly those from relatively expensive coastal counties, have been able to buy homes by moving to less expensive areas of the state. In some cases, homebuyers find jobs in their new communities, but often they must commute back to their original jobs.

- **Some Californians bought smaller homes than have previous homebuyers.** More Californians bought smaller homes than in the past. For example, approximately one-third (32 percent) of Californians who owned a home for less than two years in 2003 bought homes with two or fewer bedrooms, compared to one-quarter of Californians who had owned their homes for 10 or more years.[22]

- **The state's wealthiest residents have experienced substantial income gains.** Individuals with higher incomes qualify for larger mortgages and therefore can afford homes that are more expensive, and income has become

Figure 1.5: Home Loans with High Interest Rates Increased as a Share of All Home Loans, 2004 to 2006



Note: High-rate loans include many, but not all, subprime loans. See Technical Notes.
Source: *Wall Street Journal* analysis of federal Home Mortgage Disclosure Act data

Some Lenders Used Predatory Practices to Lure Borrowers into Loans with Risky Features

Some homebuyers were lured into loans with risky features by unscrupulous lenders who used aggressive and deceptive practices, particularly in the subprime market. In 2006, for example, Ameriquest Mortgage Co. – once the nation's largest subprime lender – agreed to pay $325 million to consumers and states after investigations revealed predatory practices, including inadequately disclosing prepayment penalties and improperly influencing appraisals to inflate home values.[23] Some observers suggest that predatory lending practices have been widespread, rather than limited to a few "bad apples."

- The Center for Responsible Lending contends that subprime lenders have knowingly made "reckless loans to families who have no prospect of repaying those loans."[24]
- The National Association of Realtors suggests that "abusive lending occurs much too often in subprime markets," including "charging extremely high interest rates and loan fees unrelated to risk [and] using aggressive sales tactics to steer consumers into unnecessarily expensive or inappropriate loan products."[25]
- The US Government Accountability Office has found that advertising tends to emphasize the benefits of risky loans "without effectively explaining the associated risks" and that federally required disclosures given to borrowers generally were "too complex," "used small, hard-to-read typeface," and "buried key information."[26]
- Furthermore, *The Wall Street Journal* reports that many borrowers "whose credit scores might have qualified them for more conventional loans say they were pushed into risky subprime loans. They say lenders or brokers aggressively marketed the loans, offering easier and faster approvals – and playing down or hiding the onerous price paid over the long haul in higher interest rates or stricter repayment terms."[27]

increasingly concentrated among California's richest taxpayers.[28] For example, the average adjusted gross income (AGI) of the top 10 percent of California taxpayers increased by 57.4 percent, from $214,378 in 1995 to $337,517 in 2005, after adjusting for inflation.[29] In contrast, between 1995 and 2005, the inflation-adjusted average AGI of the middle fifth of California taxpayers increased by just 9.3 percent, while that of the bottom fifth of taxpayers increased by 10.9 percent.[30]

Home Sales Have Plunged and the State's Median Home Price Has Begun to Decline

California's housing market has tumbled, as higher interest rates and skyrocketing prices caused many potential buyers to pull back. Home sales have declined, leading to slower statewide home-price appreciation and, more recently, a drop in the statewide median home price.

Home Sales Have Plunged Since Late 2005

Home sales in California have plunged since late 2005, following several years of relatively steady growth. Between 2005 and 2007, August home sales declined by more than half (53.8 percent), falling from 73,285 in August 2005 to 33,887 in August 2007 (Figure 1.6).[31] August home sales in 2007 were at the lowest level since 1992, when California was struggling to recover from a severe recession.[32] In percentage terms, year-over-year home sales have fallen by double digits every month since December 2005, with declines exceeding 40 percent during September and October 2007.[33]

Home Prices Continued to Increase into 2007, but Have Begun to Decline

Rapid home-price appreciation began to slow significantly in 2006 as home sales fell. Although the statewide median home price generally continued to rise through the spring of 2007 – reaching a peak of $487,500 in May 2007 – year-over-year price appreciation slowed to single digits. The median home price subsequently declined to $402,000 in December 2007, which marked the fifth consecutive month of year-over-year price declines.[34] Prior to these decreases, California had not experienced a year-over-year decline in the statewide median home price since January 1996.

Analysts point to two key reasons that the median home price continued to increase during 2006 and early 2007 as sales declined. First, home prices "tend to be 'sticky' on the downside" of a housing-market cycle, because some sellers take their homes off the market if they cannot sell for their preferred price, which initially keeps home prices from falling.[35] Second, the composition of home sales had changed. The downturn in sales was most apparent in neighborhoods with lower-priced homes, in part due to rising foreclosures, tightened underwriting standards, and the decline of investment funds for subprime loans. Meanwhile, sales of higher-priced homes remained steadier as Californians with higher incomes continued to purchase homes. As a result, higher-priced homes made up a larger share of sales, thereby boosting the statewide median home price even as overall sales declined.[36]

Tens of Thousands of California Homeowners Face Foreclosure

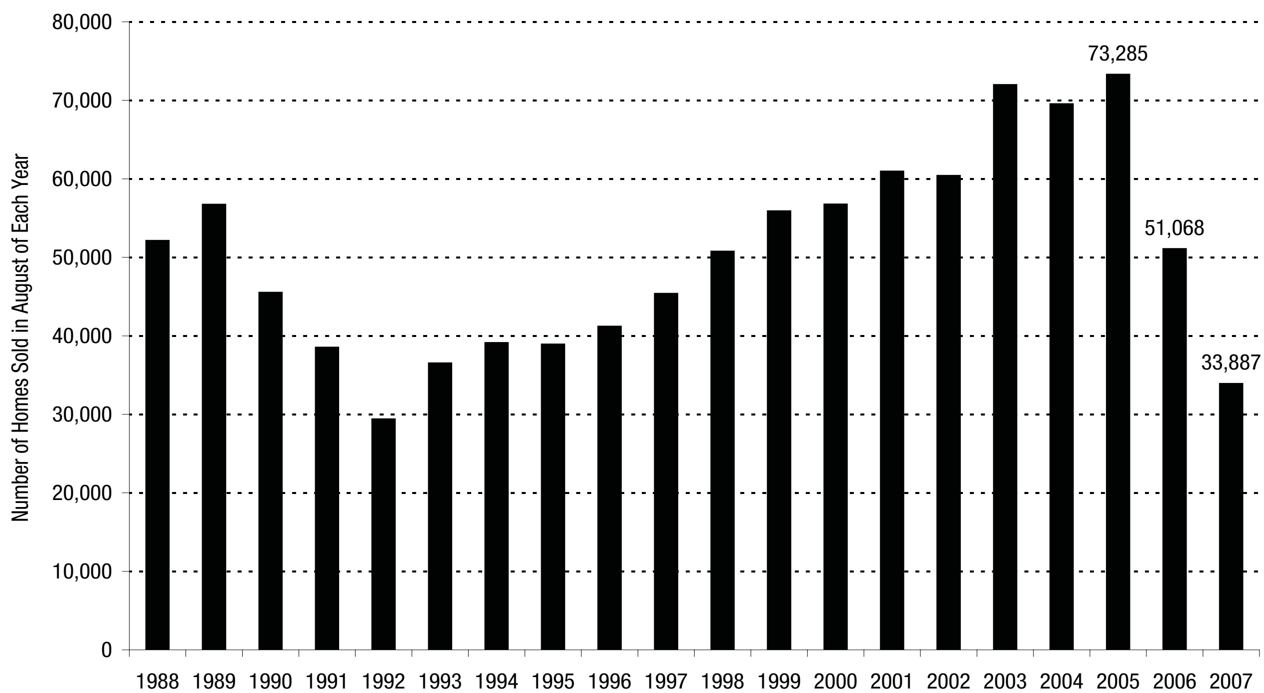
Although California's homeownership rate increased in recent years, many families are at risk of losing – or have already lost – their homes. Mortgage delinquencies and foreclosures have increased as more and more homeowners experience "payment shock" – a substantial increase in their monthly mortgage payment.

Mortgage Payments Are Rising for Many Homeowners

Mortgage payments have increased for many homeowners with ARMs, and monthly payments will rise for many more in coming months as introductory interest rates expire. One investment firm estimates that interest rates will reset on more than $500 million worth of ARMs in the US in 2008, including $362 million worth of subprime mortgages.[37] Many homeowners are unable to afford the higher payments, partly because lenders often failed to consider borrowers' ability to repay their loans after the promotional interest rates jumped to a higher level.[38] Borrowers can face payment increases of hundreds of dollars per month. For example, monthly payments on a subprime loan of $180,000 could jump from $1,265 to $1,990 (57.3 percent) once the introductory rate expires.[39]

During the housing boom, escalating home prices allowed some homeowners to avoid higher payments by selling their home or refinancing their mortgage before their payments rose steeply.[40] However, many homeowners who bought their homes or refinanced their mortgages in order to tap into their home equity in 2005 or later cannot sell or refinance again because they have gone "upside down" on their mortgage, meaning the

Figure 1.6: August Home Sales Plunged After 2005



Note: Includes new and resale condominiums and single-family detached homes.
Source: DataQuick Information Systems

The Impact of the Housing Slowdown on California's Economy

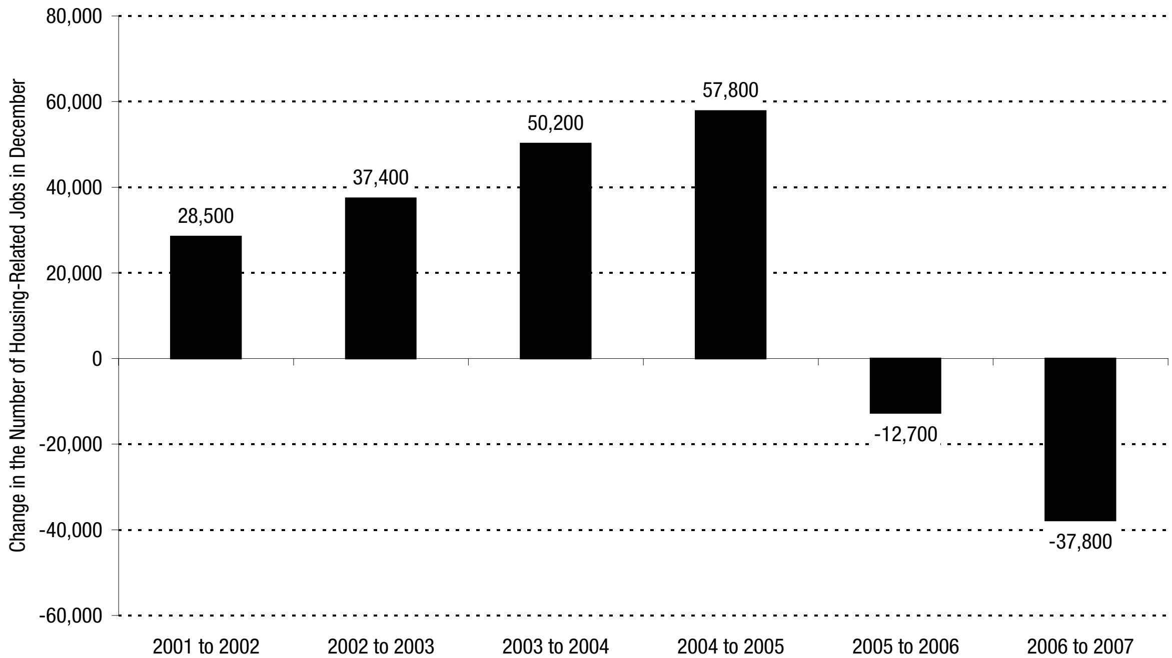
The housing market slowdown has taken a toll on both the nation's and the state's economy.

- **Housing-related industries supplied a majority of California's job gains in the early 2000s.** Six out of 10 jobs created in California between 2000 and 2005 (59.4 percent) were in three key housing-related industries – residential construction, residential specialty-trade contracting, and real estate – even though the jobs in these industries accounted for just 3.7 percent of the total number of nonfarm jobs in 2000.[41] California gained 50,200 housing-related jobs between December 2003 and December 2004 alone, followed by an increase of 57,800 housing-related jobs the next year.[42]

- **More recently, the housing market slowdown has resulted in substantial job loss.** Between December 2006 and December 2007, the state lost 37,800 jobs in housing-related industries, representing a 5.1 percent decline in housing-related jobs.[43] This decline followed a loss of 12,700 jobs (1.7 percent) during the prior year. The number of housing-related jobs in the rest of the US decreased by 5.3 percent between December 2006 and December 2007.[44]

- **The decline in housing-related jobs has weakened California's overall job growth.** The number of nonfarm jobs in the state increased by a modest 0.5 percent between December 2006 and December 2007 – less than one-third of the increase during the prior year (1.7 percent).[45] Diminished nonfarm job growth reflects the decline in housing-related jobs as well as weak gains in nonhousing-related sectors of the economy.[46] As job growth has slowed, California's unemployment rate has increased sharply. The state's unemployment rate reached 6.1 percent in December 2007 – its highest level in more than three years.[47] In addition, the number of unemployed Californians increased by nearly 250,000 in 2007. Forecasters expect the housing slowdown to further weaken the state's job growth through the end of 2008.[48]

The Number of Housing-Related Jobs Declined Between December 2005 and 2007



Note: Housing-related industries include residential construction, residential specialty-trade contracting, and real estate.
Source: CBP analysis of Employment Development Department data

- **The housing slowdown has dampened national economic growth for seven straight quarters.** The contraction of residential construction has pulled down growth in the inflation-adjusted gross domestic product (GDP) – the value of all goods and services produced in the US – by between 0.6 of a percentage point and 1.3 percentage points each quarter since the second quarter of

2006.[49] In the fourth quarter of 2007, inflation-adjusted GDP grew by just 0.6 percent – a slower growth rate than economists had expected – reflecting slower growth in all major components of GDP, including residential construction.[50] Forecasters project relatively weak growth in inflation-adjusted GDP in 2008 as the housing correction intensifies.[51]

- **The housing market downturn has helped weaken consumer spending – a key driver of the economy.** Between November 2007 and December 2007, US personal consumption expenditures rose by just 0.2 percent, compared with a 1.0 percent increase during the previous month.[52] In addition, California's third quarter taxable sales declined by 1.9 percent between 2006 and 2007, after having increased by 2.3 percent during the prior year.[53] These trends reflect the slowdown in housing market, as well as rising energy prices and diminished job growth.[54]
- **The housing slowdown will have a significant impact on the state budget.** Revenue forecasts for 2006-07, 2007-08, and 2008-09 are $7.5 billion below the amount assumed when the 2007-08 Budget was enacted. Much of this shortfall is due to lower-than-anticipated state tax receipts. For example, projected sales and use tax revenues for the three years combined are $2.8 billion below the 2007-08 Budget forecast.[55] This shortfall reflects the fact that taxable sales have weakened for this period, largely because of the housing market slowdown.[56] In addition, the housing market downturn has produced lower-than-anticipated local property tax revenues. In 2007-08, local property tax revenues are projected to be $645 million below the amount assumed when the 2007-08 Budget was developed.[57] Lower property tax revenues will increase the state's school funding obligations under the Proposition 98 school funding guarantee.[58]

Tapping into Home Equity to Pay the Bills

Rising home values during the housing boom allowed many homeowners to refinance their mortgages in order to obtain cash from the increased value of their home. Nationally, homeowners "cashed out" $1.2 trillion in home equity between 2001 and 2006, more than six times the amount cashed out between 1995 and 2000 ($189 billion).[59] Homeowners cashed out $352 billion in 2006 alone. In addition, the share of homeowners who opted for cash-out refinancing increased from 36.3 percent in 2003 to 85.7 percent in 2006, "a level not seen since before the 1991 recession."[60] Furthermore, the amount borrowed using home equity loans – in which homeowners borrow against their equity without refinancing their mortgage – has steadily increased since the mid-1990s, rising from $314 billion in 1995 to $1.0 trillion in 2006.[61]

Home equity can be used for a variety purposes, including home improvements, paying down credit card debt, financing a major purchase, such as a vehicle, and/or paying for basic living expenses. While tapping into home equity can help families make ends meet, it also can diminish families' wealth, leaving fewer assets to draw on during retirement or pass on to children. One study reports that in 2001 and 2002, fewer than half (43 percent) of homeowners used their cashed-out equity for home improvements. The majority (51 percent) used the funds to cover living expenses and to repay non-mortgage debt, such as credit card debt, while one-quarter (25 percent) used the funds for major expenditures such as vehicle purchases, education, and medical expenses.[62]

amount they owe exceeds the current market value of their home. Homeowners whose mortgages include prepayment penalties encounter an additional obstacle – substantial penalties for early repayment of their loan.

Mortgage Delinquencies and Foreclosures Have Increased Substantially

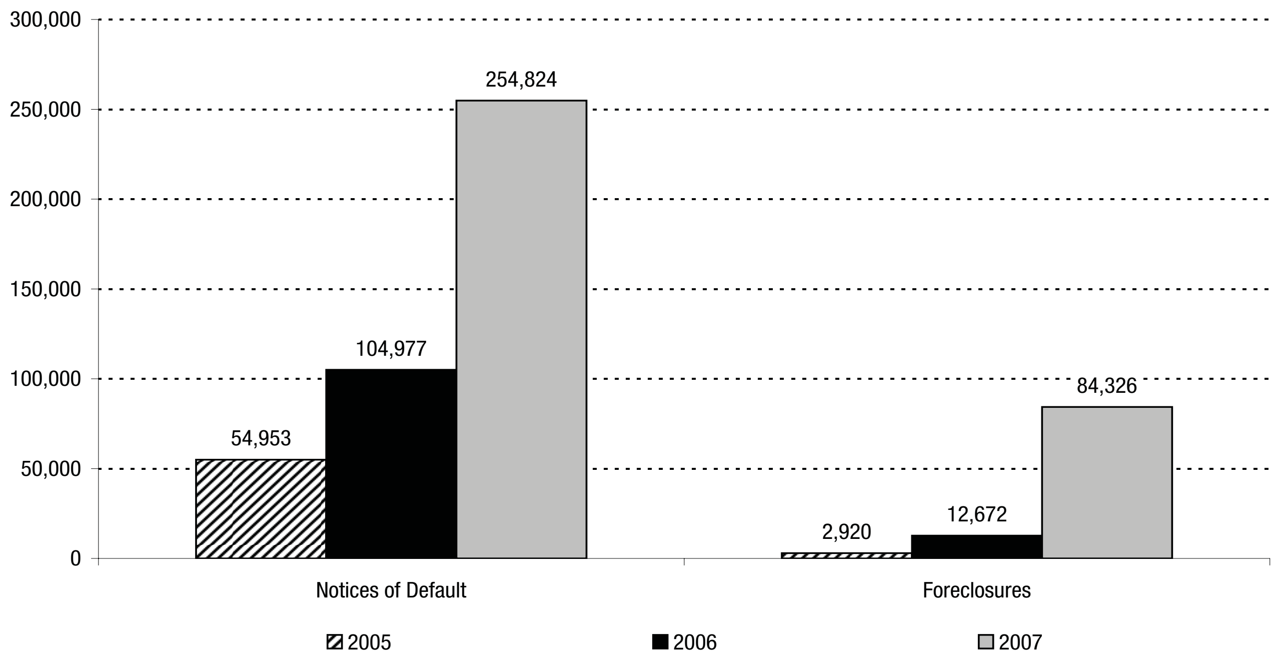
Many homeowners have fallen behind on their mortgage payments as their payment levels have increased. In California, the vast majority of homeowners with delinquent payments occupy their homes.[63] Consequently, many California families are at risk of losing – or already have lost – their homes to foreclosure, a legal action that removes property from a homeowner. California had the fourth-highest rate of foreclosure-related filings among US states in 2007, according to one measure.[64] Both default notices, which are sent to homeowners who are delinquent on their payments, and foreclosures, which reflect the number of homes that lenders have taken possession of or have been sold at auction, have increased substantially in California since 2005 (Figure 1.7). Specifically:

- **Default notices.** Lenders filed 254,824 default notices statewide in 2007, compared to 54,953 in 2005 – a 363.7 percent increase. County-level data indicate that default notices have increased substantially throughout the state. For example, the number of default notices more than tripled between the third quarters of 2006 and 2007 in several counties, including Contra Costa, Merced, Napa, Riverside, San Joaquin, and, Stanislaus (Table 1.2).[65]
- **Foreclosures.** Foreclosures totaled 84,326 statewide in 2007, compared to 2,920 in 2005 – an increase of 2,787.9 percent. County-level data show that foreclosures have risen significantly across the state. Foreclosures jumped by at least 500 percent between the third quarters of 2006 and 2007 in more than two dozen counties and increased by more than 1,000 percent in Kern, Madera, Merced, Monterey, and San Benito counties.[66]

Research suggests that more than 1 million US homeowners could lose their homes as introductory interest rates reset to higher levels. One analysis of 8.4 million US adjustable-rate loans initiated between 2004 and 2006 through purchase or refinance – including market-rate and subprime loans – estimates that 1.1 million loans (13 percent) could end in foreclosure by 2014 as introductory interest rates expire.[67] Congress' Joint Economic Committee estimates that 1.3 million subprime loans outstanding as of mid-2007 (18.0 percent) – including more than 190,000 in California – could end in foreclosure by 2009.[68]

The number of foreclosures could be lower than these studies estimate if lenders modify loan terms for homeowners who cannot make higher payments after introductory rates expire. To help stem foreclosures, the state and federal governments have reached agreements with lenders that would provide relief to some homeowners with subprime ARMs.[69] Lenders could freeze introductory interest rates for five years or longer for borrowers who are making timely payments. However, many homeowners would not be helped by these initiatives, including those who have fallen behind on their mortgage payments because their interest rates have already jumped to unaffordable levels. Unless such relief efforts are expanded, the number of foreclosures is likely to increase as California's homeowners face higher mortgage payments at the same time that credit standards tighten and home prices soften, making it harder to sell a home or refinance to a more affordable loan.[70]

Figure 1.7: Mortgage Delinquencies and Foreclosures Have Increased Substantially in California



Note: Notices of default are sent to homeowners who are delinquent on their mortgage payments. Foreclosures reflect the number of homes that lenders have taken possession of or have been sold at auction.
Source: DataQuick Information Systems

Table 1.2: Mortgage Delinquencies and Foreclosures Have Increased Substantially in California's Counties Since 2006						
	Notices of Default			Foreclosures		
County	3rd Quarter 2006	3rd Quarter 2007	Percent Change	3rd Quarter 2006	3rd Quarter 2007	Percent Change
Alameda	803	2,126	164.8%	115	674	486.1%
Contra Costa	1,012	3,216	217.8%	119	1,159	873.9%
El Dorado	120	278	131.7%	13	110	746.2%
Fresno	789	1,807	129.0%	78	483	519.2%
Kern	741	2,196	196.4%	66	729	1004.5%
Kings	46	108	134.8%	5	18	260.0%
Los Angeles	5,565	13,583	144.1%	535	3,627	577.9%
Madera	106	320	201.9%	9	110	1122.2%
Marin	89	172	93.3%	4	41	925.0%
Merced	282	1,076	281.6%	30	423	1310.0%
Monterey	202	751	271.8%	20	266	1230.0%
Napa	43	163	279.1%	5	41	720.0%
Orange	1,500	3,882	158.8%	179	1,280	615.1%
Placer	443	728	64.3%	45	294	553.3%
Riverside	3,040	9,250	204.3%	478	3,462	624.3%
Sacramento	1,761	4,947	180.9%	343	2,065	502.0%
San Benito	63	178	182.5%	5	62	1140.0%
San Bernardino	2,548	7,038	176.2%	232	2,255	872.0%
San Diego	2,355	5,673	140.9%	453	2,157	376.2%
San Francisco	149	252	69.1%	22	66	200.0%
San Joaquin	898	2,961	229.7%	119	1,136	854.6%
San Luis Obispo	94	249	164.9%	21	75	257.1%
San Mateo	290	581	100.3%	37	155	318.9%
Santa Barbara	188	598	218.1%	29	211	627.6%
Santa Clara	670	1,655	147.0%	51	410	703.9%
Santa Cruz	103	267	159.2%	17	71	317.6%
Solano	510	1,513	196.7%	63	495	685.7%
Sonoma	231	749	224.2%	33	201	509.1%
Stanislaus	631	1,909	202.5%	73	752	930.1%
Sutter	77	155	101.3%	12	58	383.3%
Tulare	268	595	122.0%	21	167	695.2%
Ventura	578	1,377	138.2%	77	454	489.6%
Yolo	101	303	200.0%	12	96	700.0%
Yuba	66	227	243.9%	16	108	575.0%

Note: Reflects counties for which individual county data are available. Notices of default are sent to homeowners who are delinquent on their mortgage payments. Foreclosures reflect the number of homes that lenders have taken possession of or have been sold at auction.
Source: DataQuick Information Systems

CHAPTER 2: CALIFORNIA'S RENTERS FACE SIGNIFICANT AFFORDABILITY CHALLENGES

Many California families cannot afford to buy a home, while others choose not to become homeowners. Although owning a home may be part of the "American Dream," some analysts argue that renting may be a better option for certain families.[71] Regardless of the costs and benefits of renting, many Californians, particularly low-wage workers, struggle to afford safe and decent rental housing.

California Has the Second-Highest Share of Renter Households in the US

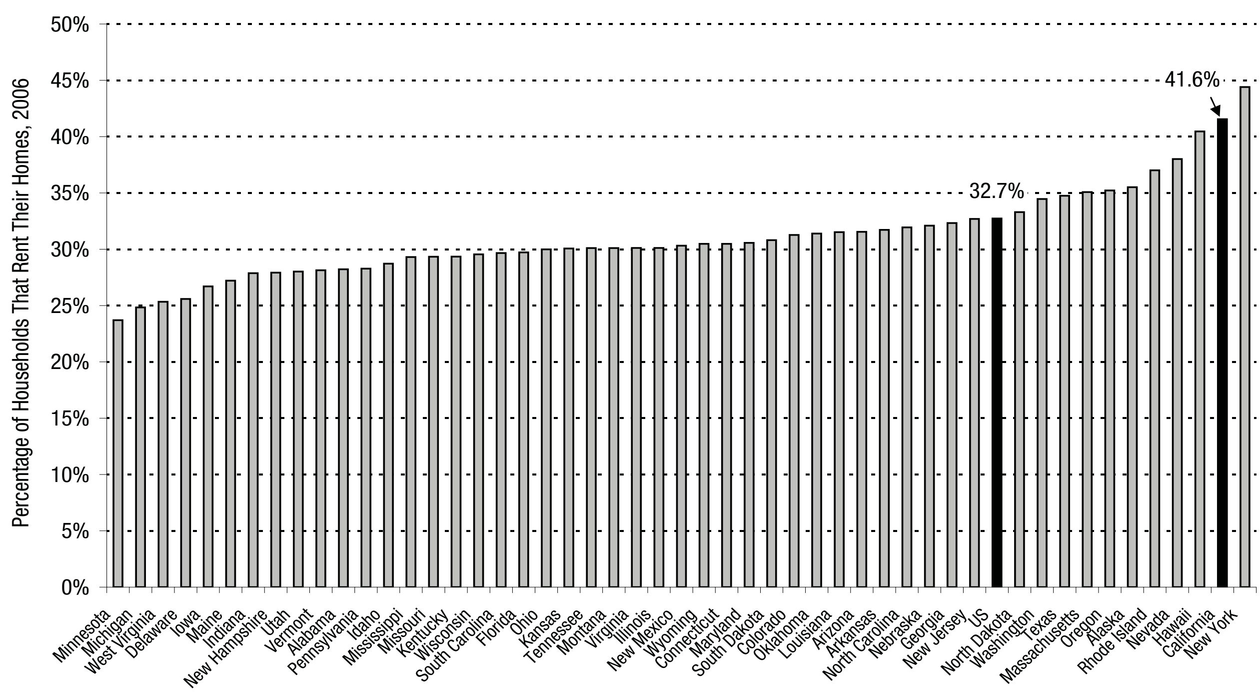
California has the second-highest share of renter households among US states. More than four out of 10 California households (41.6 percent) rented their homes in 2006, compared to approximately one-third (32.7 percent) of renter households in the US as a whole (Figure 2.1). California was one of just 10 states – including Oregon, Nevada, New York, and Texas – in which more than one-third of households rented their homes in 2006.

The share of households that rent their homes varies substantially across California (Figure 2.2). More than half of households in San Francisco and in Los Angeles County rented their homes in 2006. In contrast, fewer than one-third of households rented their homes in six counties in 2006: Contra Costa, El Dorado, Nevada, Placer, Riverside, and Ventura. Contra Costa and Ventura counties have among the lowest shares of renters in the state despite the fact that median home prices in these counties are relatively high.

Many Californians Struggle to Afford Rents

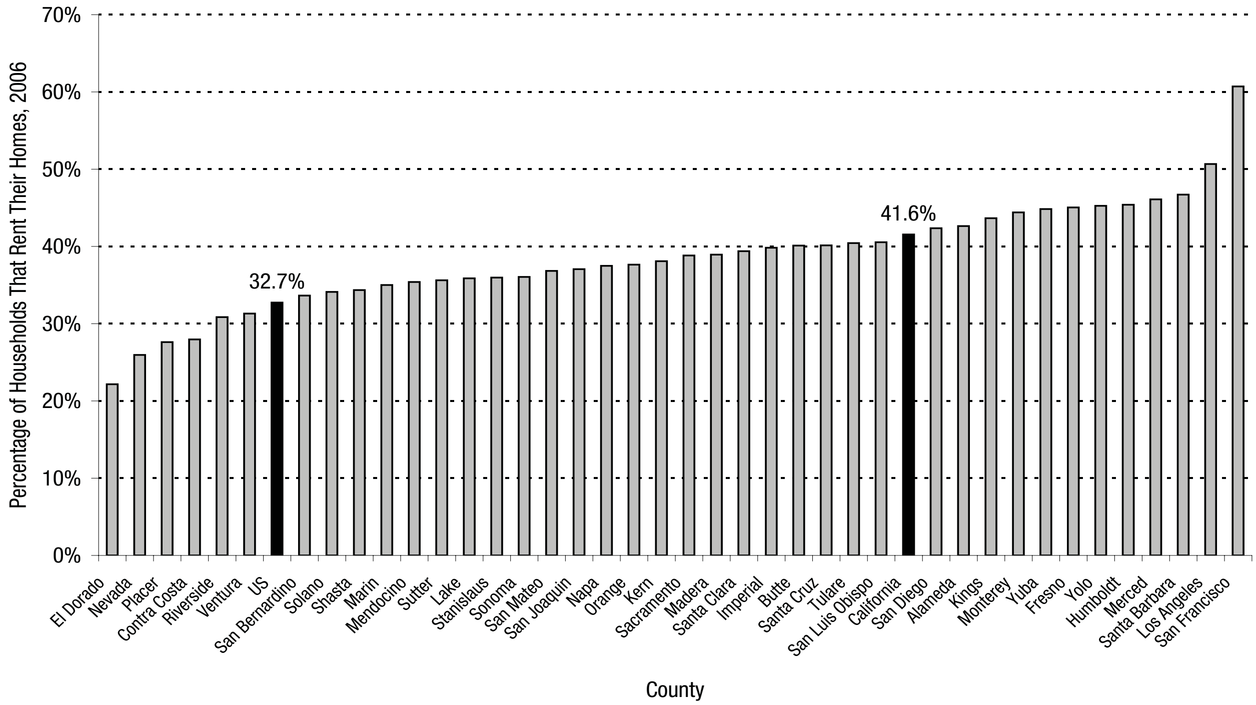
California has the second-most-expensive rental housing in the nation, after Hawaii.[72] Consequently, many Californians, particularly low-wage workers, struggle to afford to pay rents. A Californian who earns the state's minimum wage of $8.00 per hour in 2008 would need to work 83 hours per week, year-round, in order to afford the statewide Fair Market Rent (FMR) of $868 per month for a studio unit (Figure 2.3).[73] The gap between rents and incomes is even wider in some counties. For example, a

Figure 2.1: California Has the Second-Highest Share of Renter Households Among the 50 States



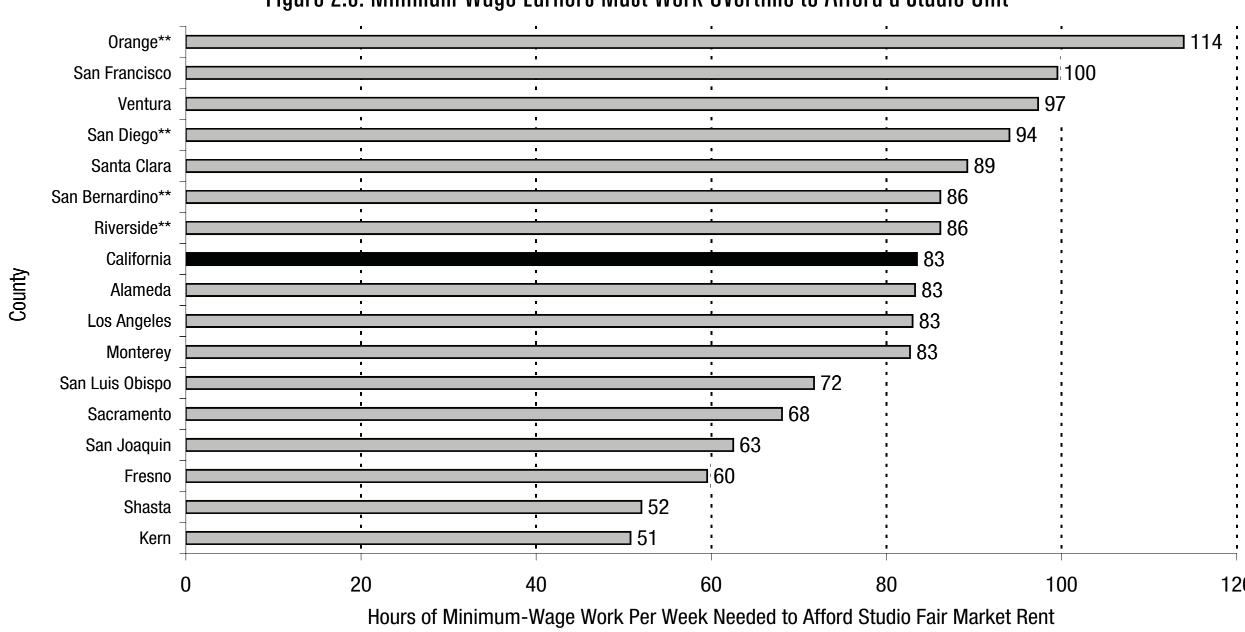
Source: US Census Bureau

Figure 2.2: The Share of Households That Rent Their Homes Varies Substantially Across California



Source: US Census Bureau

Figure 2.3: Minimum-Wage Earners Must Work Overtime to Afford a Studio Unit



* Based on California's minimum wage of $8.00 per hour effective January 1, 2008 and 2008 Fair Market Rents (FMRs). Assumes an individual works year-round and spends 30 percent of his or her income on rent.

** FMR set at 50th percentile to reflect an insufficient number of low-rent units and a concentration of individuals who receive federal rental assistance. In general, HUD sets FMRs at the 40th percentile, meaning that 40 percent of an area's rents are lower than the FMR.

Source: CBP analysis of US Department of Housing and Urban Development data

What Are Fair Market Rents?

The federal Department of Housing and Urban Development (HUD) determines Fair Market Rents (FMRs) for federal housing assistance purposes. The FMR estimates the dollar amount below which 40 percent of standard-quality rental housing units are rented. In recent years, some FMRs have been set at the 50th percentile to reflect an insufficient number of low-rent units and a concentration of individuals who receive federal rental assistance.[74] FMRs are based on the distribution of rents paid by "recent movers" – renter households that have moved within the past 15 months. FMRs include the cost of shelter and utilities, excluding telephone service, cable or satellite television service, and Internet service. FMRs are set for studio, one-bedroom, two-bedroom, three-bedroom, and four-bedroom housing units and are updated annually.

minimum-wage earner would need to work 100 hours per week – the equivalent of 2.5 full-time, minimum-wage jobs – in order to afford the studio FMR in San Francisco.[75] Even in less expensive areas of the state, such as Kern and Shasta counties, a minimum-wage earner would have to work more than 40 hours per week to afford the FMR for a studio unit.

Rental Housing Is Unaffordable for Many Who Receive Cash Assistance

Cash assistance for low-income seniors, people with disabilities, and families with children has failed to keep up with housing costs. The two-bedroom FMR exceeds the maximum California Work Opportunity and Responsibility to Kids (CalWORKs) Program grant for a family of three in all but one of California's 58 counties (Table 2.1).[76] In Los Angeles County, for example, the two-bedroom FMR of $1,300 exceeds the maximum CalWORKs grant by $577. The studio FMR exceeds half of the Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program grant for individuals in all 58 counties and exceeds the entire grant in 12 counties (Table 2.2).[77] In Riverside and San Bernardino counties, for example, the studio FMR of $896 exceeds the SSI/SSP grant by $26. The disparity between grant levels and housing costs increases the risk that individuals and families will become homeless.

Federal "Section 8" Voucher Assistance Has Not Kept Up with Need

The federal Section 8 Housing Choice Voucher Program assists approximately 2 million low-income families – including nearly 300,000 California families – to obtain affordable rental housing.[78] Families use "vouchers" to help pay for modest rental units in the private market.[79] Families generally pay 30 percent of their incomes toward rent, with the federal government paying the remainder.[80] Research shows that housing vouchers promote positive outcomes for families, including helping families move to better neighborhoods and reducing homelessness.[81] However, Section 8 voucher assistance has not kept up with the need for affordable rental housing. Nationally, only about one-quarter of eligible households receive voucher assistance, and many areas have "long and growing" waiting lists for vouchers.[82] In addition, federal funding cuts and changes to the Section 8 funding formula reduced the number of vouchers in use nationally by approximately 150,000 between 2004 and 2006.[83] Although Congress recently increased funding – allowing public housing agencies to restore some of the lost vouchers – the number of US families assisted by Section 8 vouchers remains below the 2003 level.[84]

California Is at Risk of Losing Tens of Thousands of Federally Subsidized Rental Units

In addition to providing housing vouchers to low-income families, the federal government provides subsidies to owners of rental housing to ensure that rental units remain affordable to low-income individuals. Subsidies include low-cost financing and guaranteed rental payments up to a specified rent amount.[85] In exchange, property owners agree to maintain the affordability of their housing for a fixed period.[86] This arrangement has assured property owners sufficient income to pay debt service and operating costs, while providing affordable housing for lower-income families.

Many rent-subsidy contracts are reaching their expiration dates, allowing property owners to "opt out" of – rather than renew – their contracts.[87] In addition, many property owners who received low-cost financing may prepay their loans, giving owners the ability to refinance and increase rents.[88] Consequently, a significant share of low-income rental housing is at risk of being lost. Since 1996, more than 17,000 affordable housing units in California have been lost due to owners' decisions to opt out of their contracts or prepay their mortgages, according to the California Housing Partnership Corporation (CHPC).[89] The CHPC estimates that nearly 93,000 additional units are at risk of being lost by 2017 due to opt-outs and mortgage prepayments.

Table 2.1: Two-Bedroom Apartment Rent Exceeds Maximum CalWORKs Grant in Nearly All Counties			
County	Maximum CalWORKs Grant for a Family of Three*	Two-Bedroom Apartment Fair Market Rent	Percentage of Grant Needed to Rent Two-Bedroom Apartment
Alameda	$723	$1,239	171.4%
Alpine	$689	$850	123.4%
Amador	$689	$987	143.3%
Butte	$689	$790	114.7%
Calaveras	$689	$788	114.4%
Colusa	$689	$779	113.1%
Contra Costa	$723	$1,239	171.4%
Del Norte	$689	$767	111.3%
El Dorado	$689	$982	142.5%
Fresno	$689	$805	116.8%
Glenn	$689	$690	100.1%
Humboldt	$689	$837	121.5%
Imperial	$689	$784	113.8%
Inyo	$689	$733	106.4%
Kern	$689	$679	98.5%
Kings	$689	$732	106.2%
Lake	$689	$821	119.2%
Lassen	$689	$804	116.7%
Los Angeles	$723	$1,300	179.8%
Madera	$689	$797	115.7%
Marin	$723	$1,592	220.2%
Mariposa	$689	$850	123.4%
Mendocino	$689	$899	130.5%
Merced	$689	$740	107.4%
Modoc	$689	$748	108.6%
Mono	$689	$1,077	156.3%
Monterey	$723	$1,111	153.7%
Napa	$723	$1,214	167.9%
Nevada	$689	$1,035	150.2%
Orange**	$723	$1,595	220.6%
Placer	$689	$982	142.5%
Plumas	$689	$822	119.3%
Riverside**	$689	$1,142	165.7%
Sacramento	$689	$982	142.5%
San Benito	$689	$1,045	151.7%
San Bernardino**	$689	$1,142	165.7%
San Diego**	$723	$1,355	187.4%
San Francisco	$723	$1,592	220.2%
San Joaquin	$689	$914	132.7%
San Luis Obispo	$723	$1,075	148.7%
San Mateo	$723	$1,592	220.2%
Santa Barbara	$723	$1,334	184.5%
Santa Clara	$723	$1,293	178.8%
Santa Cruz	$723	$1,493	206.5%
Shasta	$689	$766	111.2%
Sierra	$689	$968	140.5%
Siskiyou	$689	$713	103.5%
Solano	$723	$1,090	150.8%
Sonoma	$723	$1,137	157.3%
Stanislaus	$689	$864	125.4%
Sutter	$689	$707	102.6%
Tehama	$689	$721	104.6%
Trinity	$689	$725	105.2%
Tulare	$689	$612	88.8%
Tuolumne	$689	$889	129.0%
Ventura	$723	$1,422	196.7%
Yolo	$689	$1,013	147.0%
Yuba	$689	$707	102.6%

* The 2007-08 budget package froze CalWORKs maximum grant levels for the third consecutive year.
** FMR set at 50th percentile to reflect an insufficient number of low-rent units and a concentration of individuals who receive federal rental assistance. In general, HUD sets FMRs at the 40th percentile, meaning that 40 percent of an area's rents are lower than the FMR.
Source: CBP analysis of Department of Social Services, Legislative Analyst's Office, and US Department of Housing and Urban Development data

Table 2.2: Studio Rent Exceeds Half of an SSI/SSP Grant in All Counties			
County	SSI/SSP Grant for an Individual*	Studio Fair Market Rent	Percentage of Grant Needed to Rent Studio
Alameda	$870	$866	99.5%
Alpine	$870	$594	68.3%
Amador	$870	$642	73.8%
Butte	$870	$551	63.3%
Calaveras	$870	$655	75.3%
Colusa	$870	$597	68.6%
Contra Costa	$870	$866	99.5%
Del Norte	$870	$585	67.2%
El Dorado	$870	$708	81.4%
Fresno	$870	$619	71.1%
Glenn	$870	$511	58.7%
Humboldt	$870	$543	62.4%
Imperial	$870	$562	64.6%
Inyo	$870	$538	61.8%
Kern	$870	$528	60.7%
Kings	$870	$592	68.0%
Lake	$870	$538	61.8%
Lassen	$870	$522	60.0%
Los Angeles	$870	$863	99.2%
Madera	$870	$595	68.4%
Marin	$870	$1,035	119.0%
Mariposa	$870	$594	68.3%
Mendocino	$870	$600	69.0%
Merced	$870	$534	61.4%
Modoc	$870	$518	59.5%
Mono	$870	$700	80.5%
Monterey	$870	$860	98.9%
Napa	$870	$834	95.9%
Nevada	$870	$673	77.4%
Orange**	$870	$1,185	136.2%
Placer	$870	$708	81.4%
Plumas	$870	$533	61.3%
Riverside**	$870	$896	103.0%
Sacramento	$870	$708	81.4%
San Benito	$870	$694	79.8%
San Bernardino**	$870	$896	103.0%
San Diego**	$870	$978	112.4%
San Francisco	$870	$1,035	119.0%
San Joaquin	$870	$650	74.7%
San Luis Obispo	$870	$746	85.7%
San Mateo	$870	$1,035	119.0%
Santa Barbara	$870	$1,065	122.4%
Santa Clara	$870	$928	106.7%
Santa Cruz	$870	$970	111.5%
Shasta	$870	$541	62.2%
Sierra	$870	$629	72.3%
Siskiyou	$870	$465	53.4%
Solano	$870	$883	101.5%
Sonoma	$870	$740	85.1%
Stanislaus	$870	$664	76.3%
Sutter	$870	$510	58.6%
Tehama	$870	$486	55.9%
Trinity	$870	$526	60.5%
Tulare	$870	$471	54.1%
Tuolumne	$870	$579	66.6%
Ventura	$870	$1,012	116.3%
Yolo	$870	$783	90.0%
Yuba	$870	$510	58.6%

* Effective January 1, 2008.
** FMR set at 50th percentile to reflect an insufficient number of low-rent units and a concentration of individuals who receive federal rental assistance. In general, HUD sets FMRs at the 40th percentile, meaning that 40 percent of an area's rents are lower than the FMR.
Source: CBP analysis of Department of Social Services, Legislative Analyst's Office, US Department of Housing and Urban Development, and US Social Security Administration data

Overall Housing Construction Rebounded in the 2000s, but Multifamily Construction Continues to Lag Behind Its 1980s Level

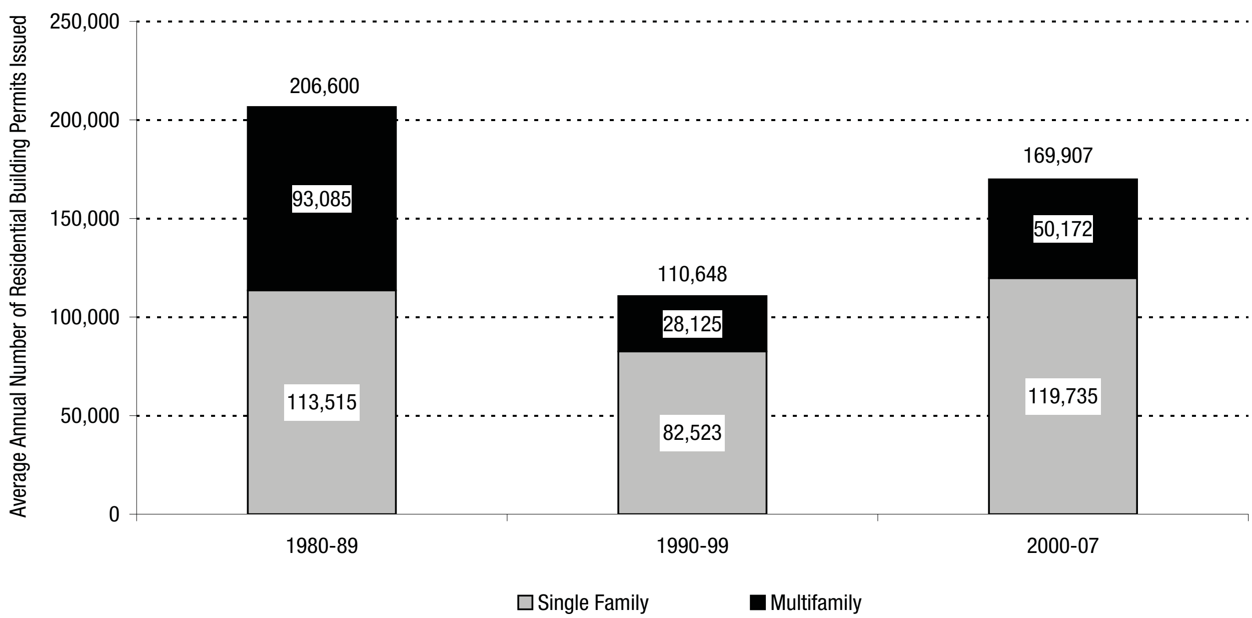
Overall housing construction in the 2000s has exceeded that of the 1990s, when housing construction plunged. Despite the recent housing slowdown, developers built an average of 169,907 housing units each year between 2000 and 2007, a 53.6 percent increase over the average of 110,648 housing units built annually during the 1990s (Figure 2.4). In addition, the average number of single-family homes built each year between 2000 and 2007 exceeded the levels achieved in the 1980s and 1990s. The current level of total housing construction remains somewhat below the state's annual need projected by the Department of Housing and Community Development, but falls within the range projected by other analysts (Table 2.3).[90]

Table 2.3: Projected Average Annual Number of New Housing Units Needed in California Through 2010	
Department of Housing and Community Development (2000)	190,000 to 240,000
Myers, Pitkin, and Park (2002)	160,000 to 230,000

Note: The Department of Housing and Community Development projection is for 1997-2010; the Myers, Pitkin, and Park projection is for 2000-2010.
Source: Myers, Pitkin, and Park and CBP analysis of Department of Housing and Community Development data

In contrast to single-family home construction, multifamily construction continues to lag behind the level achieved prior to the 1990s. On average, developers built 50,172 multifamily units each year between 2000 and 2007, compared to an average of 93,085 units annually in the 1980s.[91] Boosting construction of multifamily units could help to increase the state's supply of affordable rental housing.

Figure 2.4: Overall Housing Construction in California Rebounded in the 2000s, but Multifamily Construction Continues to Lag Behind Its 1980s Level



Note: Multifamily units generally include apartments and condominiums located in multistory buildings. Data for 2007 are preliminary.
Source: Construction Industry Research Board

CHAPTER 3: THE HIGH COST OF HOUSING IMPOSES SIGNIFICANT BURDENS ON MANY CALIFORNIANS

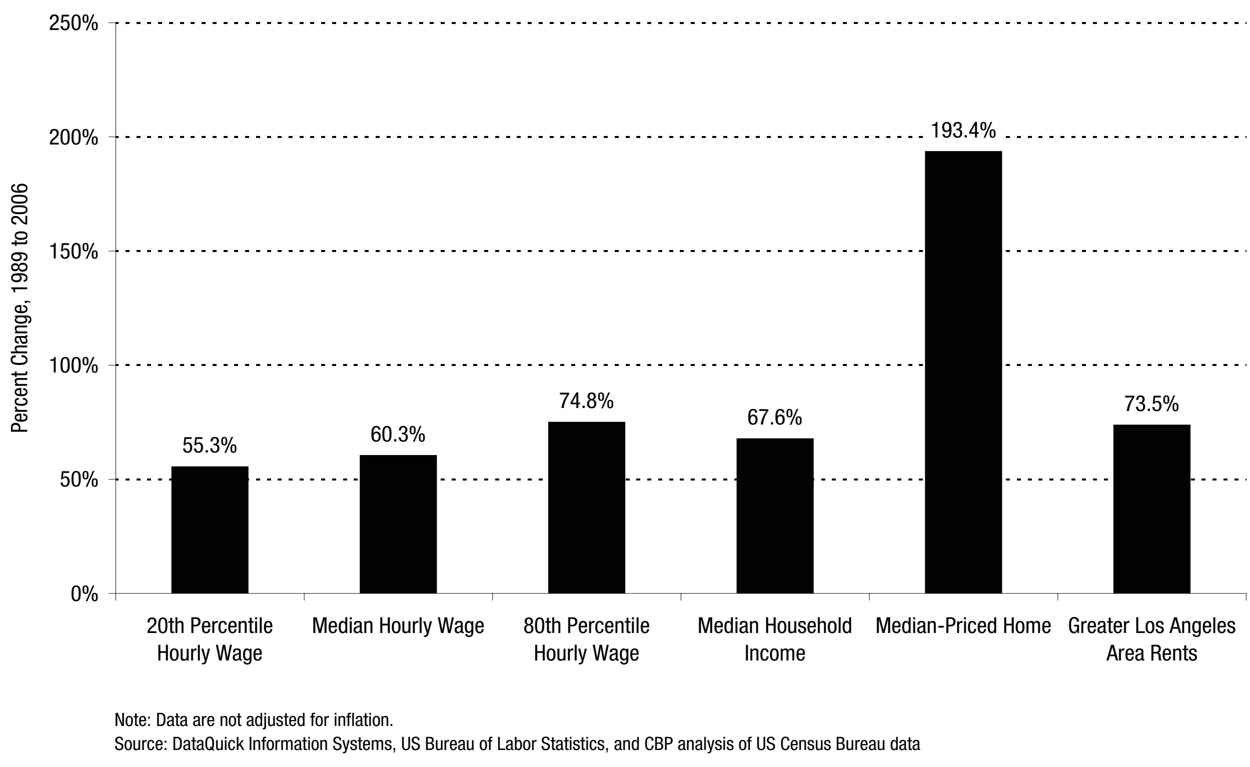
Despite the downturn in the housing market, California continues to face a shortage of housing that is affordable even for middle-income families. Because housing costs have outpaced wages and incomes of many Californians, the state's residents spend a large share of their incomes on housing, leaving less for food, clothing, health care, and other necessities. Some Californians live in overcrowded conditions or are homeless, while others have sought less expensive housing far from major job centers.

Housing Costs Have Outpaced Many Californians' Wages and Incomes

Housing costs have outpaced the wages and incomes of many Californians. For example, the cost of the state's median-priced home nearly tripled between 1989 and 2006, increasing by 193.4 percent (Figure 3.1).[92] In contrast, the state's median hourly wage – the wage of the worker at the middle of the distribution – increased by 60.3 percent and the state's median household income rose by 67.6 percent during the same period. Rising rents in the greater Los Angeles area, which has nearly half (48.6 percent) of the state's population, also outpaced Californians' wage and income growth between 1989 and 2006, with the exception of high-wage Californians – those at the 80th percentile – whose wages kept pace with the increase in rents in the greater Los Angeles area.[93]

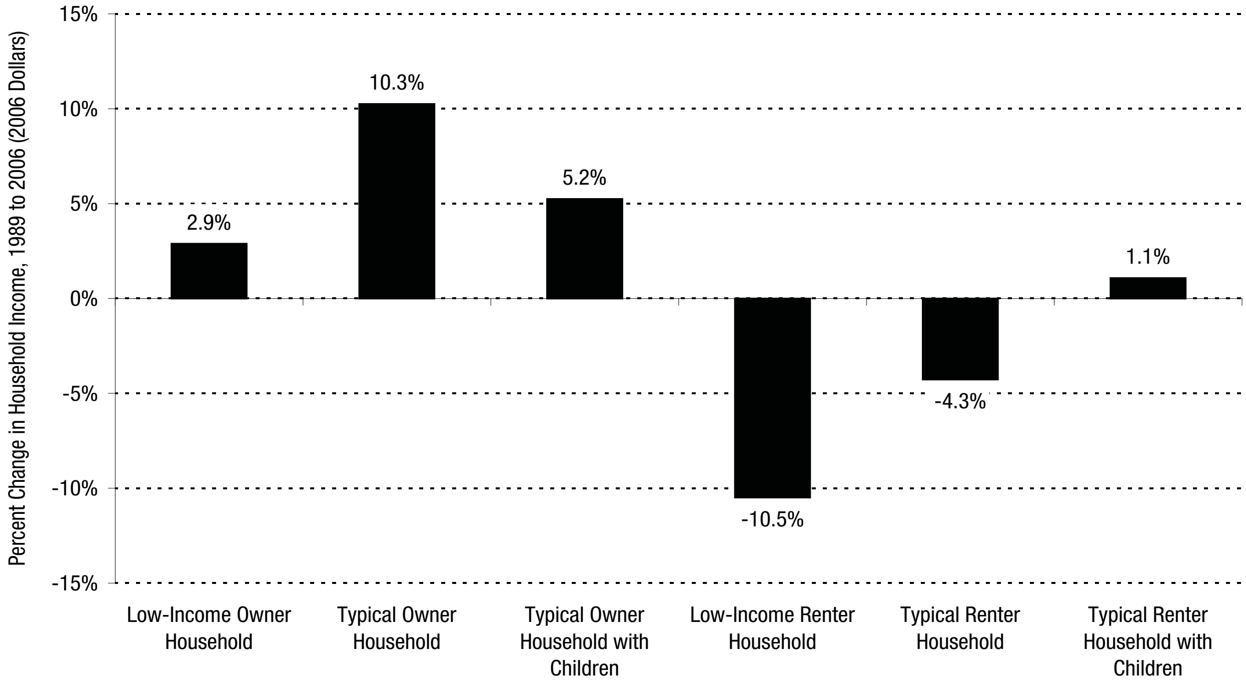
The incomes of many renter households in California have not kept pace with inflation. The income of the typical renter household – the renter household at the middle of the distribution – declined by 4.3 percent between 1989 and 2006, from $39,210 to $37,537, after adjusting for inflation (Figure 3.2). The inflation-adjusted income of low-income renter households – those at the 20th percentile – declined even more steeply during this period, falling by 10.5 percent, from $17,741 to $15,880. Although the inflation-adjusted income of the typical owner household increased modestly between 1989 and 2006, the income of low-income owner households only slightly outpaced inflation.[94]

Figure 3.1: Housing Costs Have Outpaced Many Californians' Wages and Incomes



Note: Data are not adjusted for inflation.
Source: DataQuick Information Systems, US Bureau of Labor Statistics, and CBP analysis of US Census Bureau data

Figure 3.2: The Incomes of Many California Renter Households Have Not Kept Pace with Inflation



Note: Low-income households are those with incomes at the 20th percentile of the income distribution.
Source: CBP analysis of US Census Bureau data

Californians Spend a Large Share of Their Incomes on Housing

The federal government recommends that families spend no more than 30 percent of their incomes on housing because families who spend more "may have difficulty affording necessities such as food, clothing, transportation and medical care."[95] In general, the disparity between housing costs and incomes in California means that California's homeowners and renters are more likely than are their counterparts in the rest of the US to spend more than 30 percent of their incomes on housing (Table 3.1). Notably, the gap between homeowners in California and rest of the US is larger than that between California renters and their US counterparts. For example, more than four out of 10 California owner households (43.5 percent) spent 30 percent or more of their incomes on housing in 2006, compared to fewer than three out of 10 owner households in the rest of the US (29.1 percent) – a 14.4 percentage point gap that reflects California's relatively high home prices.[96] In contrast, this gap was just 5.6 percent among renters – 54.6 percent of California's renter households spent at least 30 percent of their incomes on housing in 2006, compared to 49.0 percent of renter households in the rest of the US.[97] In addition, recent data show that:

- **California's homeowners are much more likely to spend a large share of their incomes on housing than are homeowners in the rest of the US.** Nearly two out of 10 owner households in California (18.8 percent) spent half or more of their incomes on housing in 2006, compared to approximately one out of 10 owner households in the rest of the US (10.9 percent).
- **California's renters are somewhat more likely to spend a large share of their incomes on housing than are renters in the rest of the US.** More than one-quarter (27.4 percent) of California's renter households spent half or more of their incomes on housing in 2006, compared to one-quarter (24.8 percent) of renter households in the rest of the US.
- **California's lower-income renters and homeowners are more likely to spend a large share of their incomes on housing than are their counterparts in the rest of the US.**[98] Nearly all of California's lower-income renter households (91.5 percent) spent 30 percent or more of their incomes on housing in 2006, compared to 86.0 percent of lower-income renter households in the rest of the US. In addition, more than three-quarters of lower-income owner households in California (75.8 percent) spent 30 percent or more of their incomes on housing in 2006, compared to seven out of 10 lower-income owner households (70.0 percent) in the rest of the US.

- **Californians age 65 or older are more likely to spend a large share of their incomes on housing than are seniors in the rest of the US.**[99] Slightly more than two-thirds of senior renters in California (67.7 percent) spent 30 percent or more of their incomes on housing in 2006, compared to six out of 10 senior renters in the rest of the US (60.3 percent). In addition, nearly one-third of senior homeowners in California (32.3 percent) spent 30 percent of more of their incomes on housing in 2006, compared to fewer than three out of 10 senior homeowners in the rest of the US (28.4 percent).

Many Californians Cannot Afford to Live Near Their Jobs

Many Californians have sought less expensive housing in areas that tend to be relatively far from major job centers. For example, the average annual number of individuals who moved to the northern San Joaquin Valley from the rest of California more than doubled between the late 1990s and early 2000s; more than half of migrants to the northern San Joaquin Valley who were surveyed cited housing as the main reason for their move.[100] Californians who live far from major job centers, along with those who live in congested urban areas, can face long commutes to work. In 2006, one out of 10 California commuters (10.1 percent) spent at least one hour commuting to work, compared to 7.9 percent of commuters in the US as a whole (Table 3.2). The share of commuters who spent at least one hour commuting was higher than the statewide rate in more than a dozen California counties, including Contra Costa (17.2 percent), Riverside (16.9 percent), San Bernardino (14.5 percent), San Joaquin (16.0 percent), and Solano (15.6 percent).[101] Increased commute times have a negative impact on air quality, increase wear and tear on roads and highways, increase families' transportation costs, and reduce the time workers have to spend with their families and participate in community activities.

Overcrowding Is More Prevalent in California Than in the US

In order to cope with the high cost of housing, some California families live in overcrowded conditions, defined as more than

Table 3.1: How Much of Their Incomes Do Californians Spend on Housing Compared to the Rest of the US? (2006)

	California		Rest of US	
Renters	Percentage of Households	Number of Households	Percentage of Households	Number of Households
Households Spending 30% or More of Their Incomes on Housing	54.6%	2,618,200	49.0%	14,170,100
Households Spending 50% or More of Their Incomes on Housing	27.4%	1,312,800	24.8%	7,167,900
Households with Incomes Below $20,000 Spending 30% or More of Their Incomes on Housing	91.5%	1,094,300	86.0%	8,528,500
Senior-Headed Households Spending 30% or More of Their Incomes on Housing	67.7%	353,700	60.3%	2,254,100
	California		Rest of US	
Homeowners	Percentage of Households	Number of Households	Percentage of Households	Number of Households
Households Spending 30% or More of Their Incomes on Housing	43.5%	3,071,000	29.1%	19,690,600
Households Spending 50% or More of Their Incomes on Housing	18.8%	1,326,300	10.9%	7,388,500
Households with Incomes Below $20,000 Spending 30% or More of Their Incomes on Housing	75.8%	450,200	70.0%	5,675,500
Senior-Headed Households Spending 30% or More of Their Incomes on Housing	32.3%	536,500	28.4%	4,587,900

Source: US Census Bureau

Table 3.2: How Long Does It Take to Get to Work? (2006)			
County	Percentage of Workers by Length of One-Way Commute to Work		
	0 to 29 Minutes	30 to 59 Minutes	60 Minutes or More
US	65.1%	27.0%	7.9%
California	61.2%	28.7%	10.1%
Alameda	56.0%	34.7%	9.4%
Butte	76.8%	19.7%	3.5%
Contra Costa	50.8%	31.9%	17.2%
El Dorado	64.0%	24.5%	11.4%
Fresno	76.6%	19.2%	4.1%
Humboldt	81.4%	16.3%	2.3%
Imperial	85.2%	10.8%	4.0%
Kern	72.9%	19.9%	7.2%
Kings	74.5%	21.5%	3.9%
Lake	66.9%	21.3%	11.8%
Los Angeles	54.7%	33.4%	11.9%
Madera	61.8%	29.0%	9.1%
Marin	58.0%	30.9%	11.2%
Mendocino	79.8%	12.2%	8.0%
Merced	74.1%	15.6%	10.3%
Monterey	72.2%	21.9%	5.9%
Napa	67.3%	23.6%	9.1%
Nevada	76.2%	16.3%	7.6%
Orange	61.0%	30.7%	8.3%
Placer	62.1%	29.7%	8.2%
Riverside	56.0%	27.1%	16.9%
Sacramento	63.9%	29.0%	7.2%
San Bernardino	59.5%	26.0%	14.5%
San Diego	65.1%	28.1%	6.9%
San Francisco	52.9%	38.2%	9.0%
San Joaquin	63.8%	20.1%	16.0%
San Luis Obispo	78.3%	17.6%	4.1%
San Mateo	61.5%	30.6%	7.9%
Santa Barbara	78.1%	16.9%	5.0%
Santa Clara	66.8%	27.7%	5.5%
Santa Cruz	63.2%	27.3%	9.5%
Shasta	82.1%	14.2%	3.7%
Solano	58.3%	26.1%	15.6%
Sonoma	67.6%	22.7%	9.7%
Stanislaus	68.5%	20.3%	11.2%
Sutter	64.1%	24.4%	11.5%
Tulare	72.3%	22.1%	5.6%
Ventura	65.6%	25.4%	8.9%
Yolo	77.0%	18.2%	4.8%
Yuba	58.3%	28.3%	13.4%

Source: US Census Bureau

one person per room.[102] Aside from diminishing these families' quality of life, overcrowding can leave individuals vulnerable to illness and other health problems.[103] Both California's renters and homeowners are more likely to live in overcrowded conditions than are their counterparts in the nation as a whole. One out of eight renter households in California (13.0 percent) was overcrowded in 2006, more than twice the share in the US as a whole (Figure 3.3). The rate of overcrowding among renters exceeds the statewide rate in several California counties. In Los Angeles County, for example, more than one out of six renter households (17.9 percent) were overcrowded in 2006. In addition, 4.1 percent of owner households in California were overcrowded in 2006, more than twice the share in the nation as a whole (1.6 percent).[104]

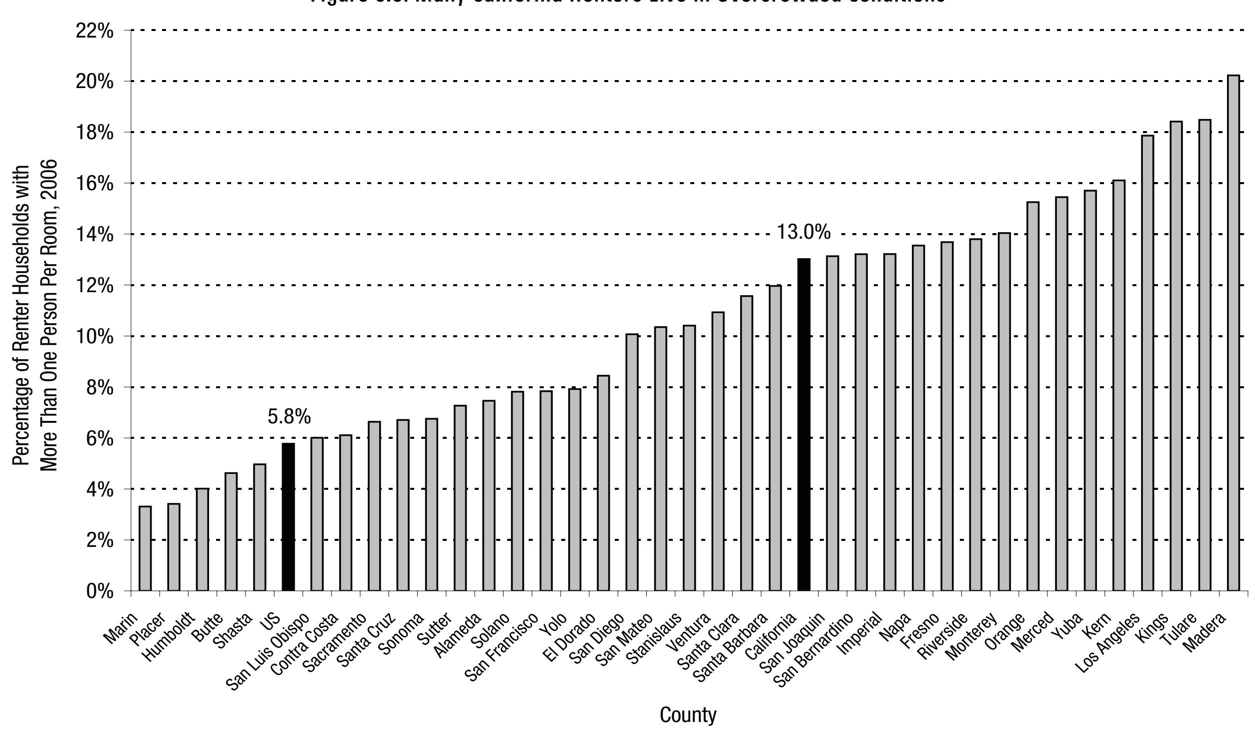
California's Latinos are the most likely to live in overcrowded conditions (Figure 3.4). More than one-fifth (21.1 percent) of Latino households in California were overcrowded in 2006, compared to 10.7 percent of Latino households in the rest of the US.[105] The rate of overcrowding among Latino households exceeded the statewide rate in some counties, including Los Angeles (26.5 percent), Napa (34.0 percent), and Orange (28.6 percent).[106]

Homeless Californians Face the Most Severe Housing Crisis

A significant number of Californians, including families with children, are homeless. Complex factors contribute to homelessness, but research suggests that lack of affordable housing is a major cause. For example, one study of homelessness in US urban areas, including in California, found that lower vacancy rates and higher rents are associated with higher levels of homelessness.[107] Although issues such as mental illness or job loss "may increase vulnerability to homelessness… they cannot explain the magnitude of the problem," according to one national expert.[108] Instead, the decline of affordable housing has put increased pressure on families living in and at the margins of poverty. "Under these circumstances, homelessness will happen even to people whose only personal vulnerability is poverty."[109]

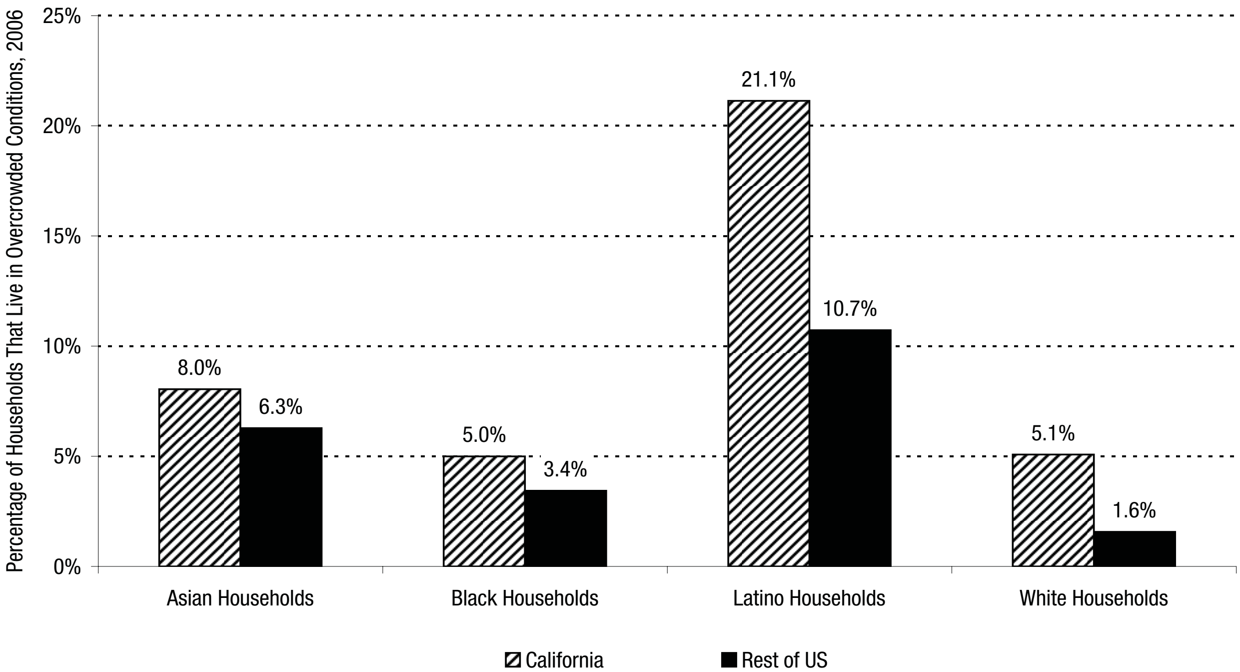
Developing an accurate count of homeless Californians is inherently difficult, in part because many homeless individuals remain out of sight when counting occurs.[110] In January 2005, "Continuums of Care" – local or regional networks that provide

Figure 3.3: Many California Renters Live in Overcrowded Conditions



Source: US Census Bureau

Figure 3.4: Latinos Are Most Likely to Live in Overcrowded Conditions



Note: "Overcrowded" is defined as more than one person per room.
Source: US Census Bureau

California's Farmworkers Face Significant Housing Challenges

California's agricultural industry employs approximately 650,000 farmworkers – more than one-third (36 percent) of the nation's estimated 1.8 million farmworkers.[111] Data on California's farmworkers in federal fiscal years (FFYs) 2003 and 2004 indicate that:

- Three-quarters (75 percent) of farmworkers and more than half (52 percent) of farmworker families earned less than $15,000 per year.
- More than one out of five farmworkers (22 percent) had incomes below the federal poverty line, compared to 13.1 percent of all Californians in 2003.[112]
- Approximately six out of 10 farmworkers (61 percent) worked on a seasonal basis, while only two out of 10 (20 percent) were employed year-round.[113]
- More than six out of 10 farmworkers (64 percent) were married and more than half (54 percent) of all farmworkers had children.[114]
- Slightly more than half (51 percent) of the state's farmworkers lived with members of their immediate family.

Farmworkers face significant housing challenges. A 1999 survey of California farmworkers found that one out of eight (12 percent) lived in temporary structures or vehicles.[115] Nearly half (48 percent) of dwellings occupied by California farmworkers were overcrowded and one-quarter (25 percent) were extremely overcrowded.[116] In addition, more than four out of 10 dwellings occupied by California farmworkers (42 percent) were shared by two or more unrelated households.

Despite a high level of seasonal employment, most farmworkers (67 percent) lived within 75 miles of their agricultural job sites and were considered settled, while one-third (33 percent) were migrant farmworkers in FFYs 2003 and 2004. More than eight out of 10 migrant farmworkers (85 percent) were "shuttle migrants" who had a "home base" more than 75 miles from their job site – primarily in Mexico – and traveled to a single destination to work. In contrast, just 15 percent of migrant farmworkers had two or more farmwork locations and "followed the crops." These data suggest that, although some farmworkers need temporary housing near their job sites, most farmworkers – similar to other low-income Californians – need affordable permanent housing in California year-round.

housing and services to homeless individuals – counted approximately 170,000 homeless Californians using a "point-in-time" method.[117] Point-in-time estimates do not reflect the number of Californians who experience homelessness in a year because "the homeless population is quite fluid – people move in and out of homelessness and most are homeless for short periods of time."[118] One national study estimated that between 0.9 percent and 1.3 percent of US residents are likely to experience homelessness at least once during a year.[119] This estimate suggests that more than 500,000 Californians could lack permanent shelter at some point during the year.[120]

Despite its limitations, the 2005 point-in-time study provides the most recent and comprehensive published data available quantifying the magnitude of homelessness in California. Specifically:

- **California has the third-highest rate of homelessness in the nation.** Homeless individuals comprised 0.47 percent of California's population in January 2005, the third-highest rate in the US. Nevada (0.68 percent) and Rhode Island (0.64 percent) had the highest and second-highest rates.[121]
- **Homelessness is prevalent throughout California.** Although most homeless individuals live in or near the state's major metropolitan areas, homelessness is prevalent in less populous areas as well. More than six out of 10 Californians who were homeless in January 2005 (63.8 percent) lived in the state's nine counties with more than 1 million residents, including Los Angeles, Orange, and San Diego counties. However, substantial numbers of homeless Californians lived in areas with fewer than 500,000 residents, including 4,058 in Santa Maria/Santa Barbara County, 3,540 in Vallejo/Solano County, 3,353 in Watsonville/Santa Cruz City and County, and 2,554 in Merced City and County (Table 3.3).
- **Many homeless Californians do not live in temporary shelters.** More than half of homeless Californians lacked temporary shelter in January 2005 – when the weather is coldest – in many areas of the state, including Los Angeles City and County (83.6 percent), Merced City and County (92.1 percent), San Bernardino City and County (78.9 percent), San Diego County (63.7 percent), and Vallejo/Solano County (84.2 percent).
- **Many families with children are homeless.** In several areas of the state, more than half of homeless individuals lived in families with children in January 2005. For example, more than three-quarters of homeless individuals in Merced City and County (77.7 percent) lived in families with children, as did two-thirds (66.6 percent) of homeless individuals in Fresno/Madera County and six out of 10 homeless individuals (59.8 percent) in Colusa/Glenn/Tehama/Trinity Counties.

Table 3.3: Who Is Homeless in California? (2005)					
Continuum of Care	Total Homeless Persons	Homeless Persons Who Are Unsheltered*	Share of Homeless Persons Who Are Unsheltered	Homeless Persons in Families with Children	Share of Homeless Persons in Families with Children
Bakersfield/Kern County	1,653	616	37.3%	428	25.9%
Chico/Paradise/Butte County	856	300	35.0%	352	41.1%
Colusa/Glenn/Tehama/Trinity Counties	199	126	63.3%	119	59.8%
Daly City/San Mateo County	1,231	491	39.9%	310	25.2%
Davis/Woodland/Yolo County	633	315	49.8%	129	20.4%
Fresno/Madera County	14,228	7,786	54.7%	9,470	66.6%
Glendale (Los Angeles County)	362	238	65.7%	115	31.8%
Humboldt County	1,847	1,401	75.9%	742	40.2%
Imperial County	424	155	36.6%	203	47.9%
Long Beach (Los Angeles County)	4,475	2,805	62.7%	2,017	45.1%
Los Angeles City and County	60,289	50,414	83.6%	5,554	9.2%
Marin County	1,017	442	43.5%	332	32.6%
Mendocino County	1,651	1,509	91.4%	150	9.1%
Merced City and County	2,554	2,352	92.1%	1,984	77.7%
Napa City and County	337	143	42.4%	98	29.1%
Oakland/Alameda County	5,129	2,539	49.5%	2,119	41.3%
Oxnard (Ventura County)	642	324	50.5%	254	39.6%
Pasadena (Los Angeles County)	1,217	1,031	84.7%	599	49.2%
Richmond/Contra Costa County	6,271	5,278	84.2%	1,466	23.4%
Riverside City and County	4,785	3,131	65.4%	1,588	33.2%
Roseville/Placer County	466	91	19.5%	247	53.0%
Sacramento City and County	2,229	645	28.9%	482	21.6%
Salinas/Monterey County	1,570	1,067	68.0%	306	19.5%
San Bernardino City and County	4,475	3,530	78.9%	1,067	23.8%
San Buena Ventura/Ventura County	1,313	894	68.1%	514	39.1%
San Diego (City)	4,268	1,446	33.9%	1,521	35.6%
San Diego County	5,190	3,305	63.7%	1,639	31.6%
San Francisco (City and County)	5,404	2,655	49.1%	612	11.3%
San Jose/Santa Clara City and County	7,012	4,389	62.6%	1,214	17.3%
San Luis Obispo County	277	0	0.0%	120	43.3%
Santa Ana/Anaheim/Orange County	2,848	747	26.2%	749	26.3%
Santa Maria/Santa Barbara County	4,058	2,911	71.7%	852	21.0%
Santa Rosa/Petaluma/Sonoma County	1,737	783	45.1%	840	48.4%
Stockton/San Joaquin County	3,360	588	17.5%	875	26.0%
Turlock/Modesto/Stanislaus County	1,613	935	58.0%	623	38.6%
Vallejo/Solano County	3,540	2,979	84.2%	2,533	71.6%
Visalia, Kings, Tulare Counties	7,757	7,235	93.3%	3,964	51.1%
Watsonville/Santa Cruz City and County	3,353	2,679	79.9%	586	17.5%

* Unsheltered includes homeless persons who are not living in emergency shelters or transitional housing.
Note: Estimates are based on point-in-time studies conducted by local Continuums of Care (CoCs) in January 2005. Point-in-time estimates do not reflect the total number of people who experience homelessness at any point during the year. CoCs do not overlap.
Source: National Alliance to End Homelessness

Housing Policies Favor Tax Subsidies for Homeowners

Several federal and state programs help low- and moderate-income Californians afford the high cost of housing. Federal programs include public housing, Section 8 rental assistance, and housing assistance for low-income seniors and people with disabilities. California operates a number of homeownership, multifamily, farmworker, and emergency housing programs that are generally supported by federal funds and bond funds, such as those authorized by Proposition 46 of 2002 and Proposition 1C of 2006.[122]

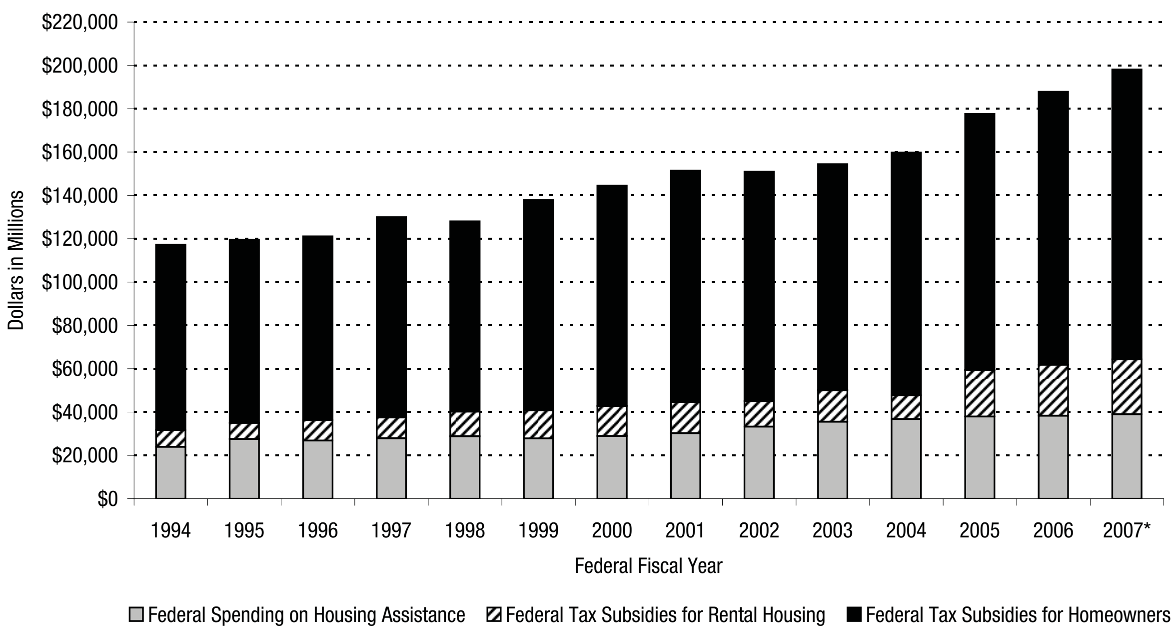
In addition to these "on-budget" housing assistance programs, the federal and state governments also provide tax subsidies for homeowners and rental housing, which reduce beneficiaries' taxes and thereby decrease the amount of revenues that the federal and state governments receive. For example, state and federal laws allow taxpayers who own homes to:

- Deduct the interest paid on up to $500,000 – or up to $1.0 million for a married couple – of mortgage debt on a first and/or second home from their taxes.
- Deduct the property taxes paid on their home from their taxes.[123]
- Exclude up to $250,000 – or up to $500,000 for a married couple – of gains from the sale of a principal residence from their income for tax purposes.[124]

These tax subsidies for homeowners primarily benefit higher-income families, because lower-income families generally owe little or no federal or state income taxes and thus do not benefit from tax breaks for homeowners.[125] In addition, the federal and state governments provide tax subsidies for rental housing, including federal and state credits to encourage the construction or rehabilitation of affordable rental units. Although tax breaks for rental housing primarily benefit investors, California also provides a state credit for certain renters who file a tax return.[126]

The vast majority of federal and state spending on housing – which includes housing assistance for low- and moderate-income families as well as housing-related tax subsidies – supports tax subsidies for homeowners. In FFY 2007, for example, federal tax subsidies for homeowners cost an estimated $133.8 billion – more than two-thirds (67.5 percent) of total estimated federal housing-

The Majority of Federal Housing-Related Spending Supports Tax Subsidies for Homeowners

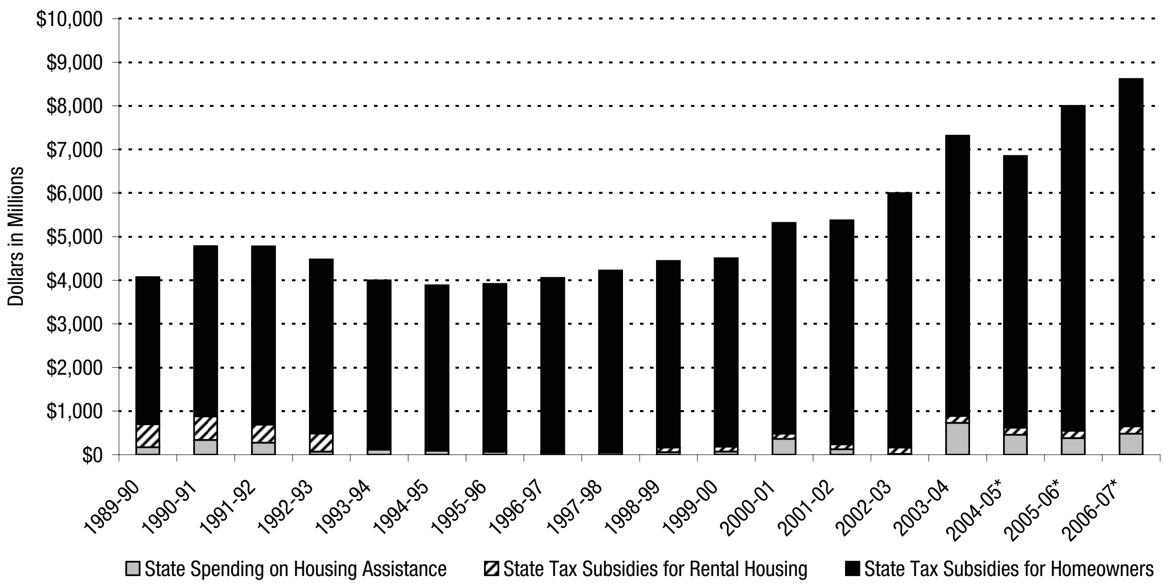


* Federal spending on housing assistance is estimated for 2007. Federal tax expenditures are estimated for all years.
Note: Federal tax subsidies for rental housing include the low-income rental housing credit and accelerated depreciation on rental housing. Federal tax subsidies for homeowers include the mortgage interest and property tax deductions and the capital gains exclusion on home sales.
Source: US Office of Management and Budget

related spending of $198.1 billion. In contrast, the federal government spent an estimated $39.0 billion on housing assistance, one-fifth (19.7 percent) of total estimated federal spending on housing in FFY 2007.[127] In other words, the federal government spends more than three times as much on tax subsidies for homeowners as it spends on direct housing assistance for low- and moderate-income families.

Tax subsidies for homeowners make up an even larger share of California's housing-related spending. State tax subsidies for homeowners cost an estimated $8.0 billion in 2006-07 – 92.5 percent of total estimated state housing-related spending of $8.6 billion. In contrast, California spent an estimated $480.8 million on housing assistance, just 5.6 percent of total estimated state spending on housing in 2006-07.[128] In other words, California spends more than 16 times as much on tax subsidies for homeowners as it spends on direct housing assistance for low- and moderate-income families.

Most of California's Housing-Related Spending Supports Tax Subsidies for Homeowners



* State spending on housing assistance is estimated for 2006-07; state tax subsidies are estimated for 2004-05, 2005-06, and 2006-07, except for the capital gains exclusion on home sales, which is estimated for all years.

Note: State spending on housing assistance includes state General Fund and bond fund spending. State tax subsidies for rental housing include the low-income housing credit and the renter's credit. State tax subsidies for homeowners include the mortgage interest and property tax deductions and the capital gains exclusion on home sales.

Source: Department of Finance, Franchise Tax Board, Housing California, and Legislative Analyst's Office

CHAPTER 4: RESPONDING TO CALIFORNIA'S HOUSING CHALLENGES

Greater local, state, and federal efforts are needed to meet the housing challenges identified in this report. California's policymakers, in particular, can take a number of steps to help increase the supply of affordable housing, help homeowners who face foreclosure and protect future homebuyers, and reduce and prevent homelessness.

Increasing the Supply of Affordable Housing

California continues to lack an adequate supply of housing that is affordable even for middle-income families. Policymakers could take several steps to help increase the supply of affordable housing.

- **Create a stable source of funding for affordable housing.** Proposition 46 of 2002 and Proposition 1C of 2006 provided substantial funding to expand the state's supply of affordable housing. However, bond funds are both limited and expensive – the proceeds last only a few years and the state can pay as much as $1.30 for each dollar it borrows over a 30-year period.[129] Policymakers could explore options for creating a dedicated revenue source that supports the construction of affordable housing and does not reduce funding available for other state priorities. For example, the state could consider increasing fees on real estate-related documents processed by county recorders and using the proceeds to support affordable housing. Several states, including Ohio, Pennsylvania, and Washington, have used document-recording fees as a dedicated revenue source for affordable housing.[130]
- **Use state infrastructure dollars to encourage local governments to meet housing goals.** California requires local governments to plan for housing needs by periodically updating the "housing element" of their general plans.[131] This requirement aims to ensure that communities accommodate their "fair share" of a region's housing needs, including housing that is affordable to low- and moderate-income families. Research indicates that compliance with the law affects the mix of housing in a community. Specifically, cities that do not comply with the housing element law build more single-family housing and fewer rental units, which tend to be more affordable to low-income families.[132] However, California currently lacks the authority to penalize communities that fail to comply. California could penalize violators by withholding funds for transportation or other infrastructure. The state also could reward communities that meet specified performance standards, such as achieving affordable housing production goals. For example, the state could exempt such communities from the state review process, allowing them to "self-certify" their housing elements during a subsequent update.[133]
- **Require communities to adopt "inclusionary zoning" policies.** Inclusionary zoning policies aim to expand the supply of affordable housing by requiring or encouraging developers to include a certain percentage of housing units – usually 10 to 20 percent – that are affordable to low- and moderate-income households in new residential developments.[134] California does not require communities to adopt inclusionary zoning policies.[135] Less than one-third (31.7 percent) of the state's cities and counties – an estimated 170 – used these policies as a tool to develop affordable housing in 2006.[136] One study estimates that inclusionary zoning policies have facilitated construction of more than 34,000 affordable houses and apartments in California since the 1970s.[137] California could require communities to adopt mandatory inclusionary zoning policies within a broad framework that allows for a degree of local flexibility.

Helping Homeowners Who Face Foreclosure and Protecting Future Homebuyers

Tens of thousands of California homeowners, including those with adjustable-rate subprime loans, are at risk of losing their homes as introductory interest rates expire and mortgage payments increase. Some homebuyers were lured into loans with risky features by unscrupulous lenders using aggressive and deceptive practices. California could take a number of steps to assist homeowners who face foreclosure as well as help future homebuyers avoid home loans that they cannot afford.[138]

- **Increase efforts to help homeowners facing foreclosure remain in their homes.** To help stem foreclosures, the state and federal governments have reached agreements with lenders that would provide relief to some homeowners with subprime ARMs. Lenders could freeze introductory interest rates for five years or longer for borrowers who are making timely payments. However, many homeowners would not be helped by these initiatives, including those who have fallen behind on their mortgage payments because their interest rates have already jumped to unaffordable levels. In order to assist additional homeowners, California could increase its efforts to connect homeowners who are at risk of losing their homes with nonprofit counselors who can help them negotiate more favorable loan terms with lenders. In addition, policymakers could continue to work with lenders to develop objective standards for modifying loan terms and require lenders to report the number of loans that they modify. Policymakers also could require lenders to provide substantial advance notice to homeowners who face a large increase in their mortgage payment; to meet with homeowners who have fallen behind on their payments; and to notify tenants when a notice of default is filed on a rental property as well as to provide 60 days notice prior to eviction due to foreclosure. Finally, policymakers could consider allowing homeowners who face foreclosure to rent their homes at the fair market rate.[139]

- **Require lenders to follow sound underwriting standards for nontraditional loans.** During the housing boom, many mortgage lenders loosened underwriting standards and did not effectively evaluate borrowers' ability to repay loans. Consequently, many borrowers obtained loans they ultimately could not afford. The federal government has proposed rules requiring lenders to verify borrowers' income and assets and to establish "escrow accounts" for property taxes and homeowner's insurance, which would help borrowers evaluate whether a home loan is affordable.[140] However, these new rules would apply only to higher-cost subprime loans, excluding payment-option ARMs and other nontraditional mortgages. California could require state-regulated lenders to verify income and assets and establish escrow accounts when evaluating borrowers' ability to afford any type of nontraditional home loan, regardless of the loan's interest rate. California also could prohibit lenders from approving loans based on artificially low introductory interest rates.
- **Prohibit prepayment penalties on subprime loans.** Subprime loans are more likely than lower-cost prime loans to include prepayment penalties, the steep "exit fee" for paying off or refinancing a loan early. Prepayment penalties can cost thousands of dollars and serve to lock borrowers into expensive loans. Although California regulates prepayment penalties on certain high-cost loans, the state permits such penalties to be included in home loans under most circumstances. California could prohibit prepayment penalties in subprime loans in order to help borrowers with high-cost home loans refinance to a more affordable mortgage.
- **Curb deceptive lending practices.** Lenders may increase commissions for mortgage brokers who sell home loans with prepayment penalties and higher interest rates and fees. This arrangement provides an incentive for brokers to steer homebuyers toward more costly mortgages, even when borrowers qualify for lower-cost financing. California could prohibit state-regulated lenders from providing such commission "premiums" for all subprime loans.[141] Policymakers also could explore extending liability for abusive lending practices to investors who purchase home loans. This change would give investors an incentive to ensure the loans they purchase comply with the law. Finally, policymakers could require brokers and lenders to provide clear and concise information on the total cost of loans. Clear mortgage disclosure documents – in plain English or the primary language of the borrower – that highlight key risks could help consumers understand the potential consequences of various loan products.
- **Promote consumer financial education.** Financial education can increase individuals' understanding of the use of credit, including home loans. California could launch a public awareness campaign to increase consumers' knowledge of the risks of high-cost financing and could include money management in the high school curriculum.

Reducing and Preventing Homelessness

Complex factors contribute to homelessness, but research suggests that lack of affordable housing is a major cause. In addition to adopting measures to help increase the overall supply of affordable housing, California could take other steps to help provide shelter for the homeless and prevent individuals and families from becoming homeless in the first place.[142]

- **Address the housing and service needs of Californians who leave publicly funded programs and institutions, such as foster care and the corrections system.** Many Californians who leave publicly funded programs and institutions end up living on the streets or in emergency shelters. For example, youth who leave foster care face a high risk of homelessness because they often lack family support networks, financial resources, adequate educational attainment, and employment and "life" skills. Addressing the housing and service needs of these young Californians as well as individuals who frequently are involved with the mental health, drug and alcohol treatment, and corrections systems can help to prevent homelessness.
- **Assist individuals who are homeless or at risk of becoming homeless to apply for public benefits.** Some individuals who have serious health, mental health, or addiction issues are potentially eligible for publicly funded benefits that can help promote financial stability. California, for example, could support local efforts to help individuals apply for Social Security Disability and SSI/SSP benefits. The state also could help individuals to obtain documents, such as birth certificates, that are required in order to receive public benefits.

- **Require communities to incorporate strategies that address homelessness into their housing elements.** California could strengthen the state's fair-share housing law by requiring local governments to incorporate strategies that address homelessness, such as those identified in local 10-year homelessness action plans and other planning documents, into their state-mandated housing elements.
- **Make surplus state property available for building housing for homeless individuals.** California could create an inventory of state property that is suitable for building housing for the homeless and help facilitate the construction of such housing.

CONCLUSION

California's home sales and prices boomed in recent years, driven in part by loosened mortgage underwriting standards and the promotion of loans with risky features – such as ARMs with short-term teaser rates – that allowed many Californians to buy a piece of the "American Dream." As teaser rates have expired, mortgage payments have jumped to unaffordable levels for many homeowners, helping to trigger a rising wave of foreclosures that could exacerbate the state's current economic slowdown. Although the housing downturn has been dramatic, other characteristics of California's housing market – such as lack of affordability and high rates of overcrowding – have remained relatively constant.

Greater local, state, and federal efforts are needed to meet California's housing challenges. State policymakers, in particular, can take a number of steps to help increase the supply of affordable housing, assist homeowners who face foreclosure, protect future homebuyers, and reduce and prevent homelessness. Although the current economic climate and the state's deteriorating fiscal condition increase the difficulty of meeting these challenges, failure to act could further undermine the state's economic health – a prospect that California's working families can ill afford.

Appendix A: 2008 Fair Market Rents*				
County	Studio	One-Bedroom Apartment	Two-Bedroom Apartment	Three-Bedroom Apartment
California	$868	$1,006	$1,224	$1,707
Alameda	$866	$1,046	$1,239	$1,680
Alpine	$594	$666	$850	$1,212
Amador	$642	$752	$987	$1,434
Butte	$551	$655	$790	$1,114
Calaveras	$655	$656	$788	$1,149
Colusa	$597	$599	$779	$1,006
Contra Costa	$866	$1,046	$1,239	$1,680
Del Norte	$585	$593	$767	$1,117
El Dorado	$708	$805	$982	$1,417
Fresno	$619	$682	$805	$1,171
Glenn	$511	$524	$690	$898
Humboldt	$543	$636	$837	$1,200
Imperial	$562	$636	$784	$1,079
Inyo	$538	$564	$733	$1,068
Kern	$528	$570	$679	$981
Kings	$592	$630	$732	$1,067
Lake	$538	$631	$821	$1,190
Lassen	$522	$612	$804	$1,169
Los Angeles	$863	$1,041	$1,300	$1,746
Madera	$595	$625	$797	$1,159
Marin	$1,035	$1,272	$1,592	$2,125
Mariposa	$594	$666	$850	$1,212
Mendocino	$600	$740	$899	$1,227
Merced	$534	$609	$740	$1,055
Modoc	$518	$571	$748	$1,066
Mono	$700	$843	$1,077	$1,475
Monterey	$860	$968	$1,111	$1,570
Napa	$834	$935	$1,214	$1,679
Nevada	$673	$786	$1,035	$1,495
Orange**	$1,185	$1,330	$1,595	$2,282
Placer	$708	$805	$982	$1,417
Plumas	$533	$624	$822	$1,199
Riverside**	$896	$979	$1,142	$1,622
Sacramento	$708	$805	$982	$1,417
San Benito	$694	$939	$1,045	$1,481
San Bernardino**	$896	$979	$1,142	$1,622
San Diego**	$978	$1,117	$1,355	$1,976
San Francisco	$1,035	$1,272	$1,592	$2,125
San Joaquin	$650	$741	$914	$1,255
San Luis Obispo	$746	$883	$1,075	$1,566
San Mateo	$1,035	$1,272	$1,592	$2,125
Santa Barbara	$1,065	$1,189	$1,334	$1,757
Santa Clara	$928	$1,076	$1,293	$1,859
Santa Cruz	$970	$1,145	$1,493	$2,148
Shasta	$541	$630	$766	$1,118
Sierra	$629	$734	$968	$1,372
Siskiyou	$465	$558	$713	$1,015
Solano	$883	$950	$1,090	$1,528
Sonoma	$740	$901	$1,137	$1,613
Stanislaus	$664	$734	$864	$1,239
Sutter	$510	$575	$707	$1,029
Tehama	$486	$552	$721	$1,048
Trinity	$526	$552	$725	$995
Tulare	$471	$526	$612	$875
Tuolumne	$579	$688	$889	$1,229
Ventura	$1,012	$1,118	$1,422	$2,038
Yolo	$783	$829	$1,013	$1,476
Yuba	$510	$575	$707	$1,029

* 2008 Fair Market Rents (FMRs) took effect October 1, 2007. The CBP calculated the state FMR based on methodology developed by the National Low Income Housing Coalition.
** FMR set at 50th percentile to reflect an insufficient number of low-rent units and a concentration of individuals who receive federal rental assistance. In general, HUD sets FMRs at the 40th percentile, meaning that 40 percent of an area's rents are lower than the FMR.
Source: US Department of Housing and Urban Development

Appendix B: Hours of Minimum-Wage Work Per Week Needed to Afford Fair Market Rents*

County	Studio	One-Bedroom Apartment	Two-Bedroom Apartment	Three-Bedroom Apartment
California	83	97	118	164
Alameda	83	101	119	162
Alpine	57	64	82	117
Amador	62	72	95	138
Butte	53	63	76	107
Calaveras	63	63	76	110
Colusa	57	58	75	97
Contra Costa	83	101	119	162
Del Norte	56	57	74	107
El Dorado	68	77	94	136
Fresno	60	66	77	113
Glenn	49	50	66	86
Humboldt	52	61	80	115
Imperial	54	61	75	104
Inyo	52	54	70	103
Kern	51	55	65	94
Kings	57	61	70	103
Lake	52	61	79	114
Lassen	50	59	77	112
Los Angeles	83	100	125	168
Madera	57	60	77	111
Marin	100	122	153	204
Mariposa	57	64	82	117
Mendocino	58	71	86	118
Merced	51	59	71	101
Modoc	50	55	72	103
Mono	67	81	104	142
Monterey	83	93	107	151
Napa	80	90	117	161
Nevada	65	76	100	144
Orange**	114	128	153	219
Placer	68	77	94	136
Plumas	51	60	79	115
Riverside**	86	94	110	156
Sacramento	68	77	94	136
San Benito	67	90	100	142
San Bernardino**	86	94	110	156
San Diego**	94	107	130	190
San Francisco	100	122	153	204
San Joaquin	63	71	88	121
San Luis Obispo	72	85	103	151
San Mateo	100	122	153	204
Santa Barbara	102	114	128	169
Santa Clara	89	103	124	179
Santa Cruz	93	110	144	207
Shasta	52	61	74	108
Sierra	60	71	93	132
Siskiyou	45	54	69	98
Solano	85	91	105	147
Sonoma	71	87	109	155
Stanislaus	64	71	83	119
Sutter	49	55	68	99
Tehama	47	53	69	101
Trinity	51	53	70	96
Tulare	45	51	59	84
Tuolumne	56	66	85	118
Ventura	97	108	137	196
Yolo	75	80	97	142
Yuba	49	55	68	99

* Based on California's minimum wage of $8.00 per hour effective January 1, 2008 and 2008 Fair Market Rents (FMRs). Assumes an individual works year-round and spends 30 percent of his or her income on rent.
** FMR set at 50th percentile to reflect an insufficient number of low-rent units and a concentration of individuals who receive federal rental assistance. In general, HUD sets FMRs at the 40th percentile, meaning that 40 percent of an area's rents are lower than the FMR.
Source: CBP analysis of US Department of Housing and Urban Development data based on a methodology developed by the National Low Income Housing Coalition

TECHNICAL NOTES

Characteristics of Owner and Renter Households in 1979 and 2007

Data on the characteristics of California's owner and renter households for 1979 and 2007 come from the US Census Bureau's Current Population Survey Annual Social and Economic Supplement (CPS ASEC). The California Budget Project (CBP) grouped heads of households into four race/ethnic groups: black, Latino, white, and Asian/other. Heads of household who report being Latino, Hispanic, or Spanish are classified as Latino irrespective of their race. The Asian/other category is composed of Asians as well as Pacific Islanders (including Hawaiian Natives), Native Americans, Alaskan Natives, and those of multiple races. This grouping is necessary because of changes over time in how the US Census Bureau has collected data on race.

Housing Costs Compared to Californians' Wages and Incomes

Median home-price data are from DataQuick Information Systems and reflect sales of all homes – new and resale condominiums and single-family detached houses. Household income data are from the US Census Bureau's CPS ASEC. Income includes wages and salaries, self-employment income, interest and dividends, and other sources of income, such as cash assistance. Hourly wage data are from the US Census Bureau's Current Population Survey Outgoing Rotation Group (CPS ORG). For a description of the analysis of CPS ORG wage data, see California Budget Project, *A Generation of Widening Inequality: The State of Working California, 1979 to 2006* (August 2007), p. 61.

Owner and Renter Households, Income Spent on Housing Costs, Travel Time to Work, and Overcrowding in 2006

Data on owner and renter households, income spent on housing costs, travel time to work, and overcrowding are from the US Census Bureau's 2006 American Community Survey (ACS). "Black households" refer to households headed by someone who is black, "white households" refer to households headed by someone who is white, and so on. Heads of household who are Latino may be of any race. "All households" include those headed by people who are Pacific Islanders (including Hawaiian Natives), Native Americans, Alaskan Natives, "some other race," and multiple races.

To calculate the share of income spent on housing for owner households, housing costs include mortgage payments, real estate taxes, insurance premiums, utilities, and fuels. Housing costs for renter households include rent as well as utilities and fuels. Households with zero or negative income are excluded from these calculations. The CBP defines "low-income households" as those with incomes below $20,000 per year and "senior households" as those headed by someone age 65 or older.

Travel time to work includes workers age 16 and older who worked outside of their home. Travel time to work refers to the total number of minutes that it usually takes workers to get from home to work, including time spent waiting for public transportation and picking up passengers in carpools.

Households are defined as overcrowded if they have more than one person per room, excluding bathrooms, hallways, utility rooms, or other areas not used for living purposes.

The ACS data are only available for counties with at least 65,000 residents. Data are not available for the following counties: Alpine, Amador, Calaveras, Colusa, Del Norte, Glenn, Inyo, Lassen, Mariposa, Modoc, Mono, Plumas, San Benito, Sierra, Siskiyou, Tehama, Trinity, and Tuolumne. In addition, certain data are not available for all counties.

Because the ACS data come from a survey of a portion of the population, the ACS data cited in this report are estimates and could vary from the actual population values due to sample error or other reasons. Thus, caution should be used when interpreting the data.

Cost of Renting

Fair Market Rent (FMR) data are from the US Department of Housing and Urban Development (HUD) and are for federal fiscal year (FFY) 2008. The CBP calculated California's FMR by averaging the FMRs in each of the state's counties, weighted by population. The hourly wage needed to afford the FMR was calculated by first dividing monthly FMRs by 0.3, because HUD recommends that households spend no more than 30 percent of their incomes on housing, and then by multiplying that figure by 12 months, dividing by 52 weeks per year, and dividing by 40 hours per week.

Cost of Buying a Home

Median home-price data are from DataQuick Information Systems and reflect August 2007 sales of all homes – new and resale condominiums and single-family detached houses. Calculations for the income needed to buy the median-priced home assume a

5 percent down payment on a 30-year conventional fixed-rate mortgage with a 6.63 percent interest rate. This interest rate represents the average interest rate on conventional mortgages in July and August 2007, as reported by the Federal Reserve System. In addition, calculations for the income needed to buy the median-priced home assume that mortgage payments make up 30 percent of household income.

Job Trends in Housing-Related Industries

The analysis of December job trends in housing-related industries is based on the Current Employment Statistics (CES) survey of employers. However, the number of California jobs in residential specialty-trade contracting was estimated from the Quarterly Census of Employment and Wages (QCEW) because the CES data for California do not differentiate between residential and nonresidential specialty-trade contracting jobs. Using the QCEW data, the CBP calculated the percentage of specialty-trade contracting jobs that are residential in the fourth quarter of each year. Then the CBP multiplied this percentage by the total number of specialty-trade contracting jobs based on the CES data for December of each year. To estimate the number of residential specialty-trade contracting jobs in 2007, the CBP used the percentage of residential specialty-contracting jobs in the first quarter of 2007 because these were the most recent data available.

Home Loans with High Interest Rates

Data on home loans with high interest rates in 2004 and 2006 are from a *Wall Street Journal* analysis of federal Home Mortgage Disclosure Act (HMDA) data. The HMDA requires most lenders to collect and publicly disclose information about their home-loan applications and originations. In 2006, the HMDA covered 8,886 institutions that generated an estimated 80 percent of home lending in the US. Home loans with high interest rates are defined as those having an annual percentage rate of at least three percentage points above a Treasury security of comparable maturity for first-lien loans and five percentage points for second-lien loans. High-rate loans include many, but not all, subprime loans.

The names of certain metropolitan statistical areas (MSAs) are abbreviated in the CBP's description of high-rate home-loan trends as follows:

Abbreviated Name of MSA	Complete Name of MSA
Hanford	Hanford-Corcoran
Los Angeles	Los Angeles-Long Beach-Glendale
Oakland	Oakland-Fremont-Hayward
Oxnard	Oxnard-Thousand Oaks-Ventura
Riverside-San Bernardino	Riverside-San Bernardino-Ontario
Sacramento	Sacramento-Arden-Arcade-Roseville
San Diego	San Diego-Carlsbad-San Marcos
San Francisco	San Francisco-San Mateo-Redwood City
San Jose	San Jose-Sunnyvale-Santa Clara
San Luis Obispo	San Luis Obispo-Paso Robles
Santa Ana	Santa Ana-Anaheim-Irvine
Santa Barbara	Santa Barbara-Santa Maria-Goleta
Santa Cruz	Santa Cruz-Watsonville
Santa Rosa	Santa Rosa-Petaluma
Vallejo	Vallejo-Fairfield
Visalia	Visalia-Porterville

ENDNOTES

[1] DataQuick Information Systems data. Due to the cyclical nature of the housing market, a common method for analyzing changes in prices and sales is to compare data for the same month in consecutive years in order to assess "year-over-year" trends.

[2] Nevada County is the exception. The analysis in this paragraph includes counties for which 2006 income data are available and in which at least 100 homes sold during August 2007.

[3] Only New York had a lower homeownership rate than California in 2006.

[4] US Census Bureau, *Housing Vacancies and Homeownership (CPS/HVS) Annual Statistics: 2006*, downloaded from http://www.census.gov/hhes/www/housing/hvs/annual06/ann06t13.html on November 28, 2007.

[5] This change is statistically significant at the 0.10 level. The data in this paragraph are based on a CBP analysis of the US Census Bureau's 2000 Decennial Census and American Community Survey data.

[6] As one analyst notes, "Homebuyers' expectations of continued and rapid home price inflation…appear to have played a central role in propelling prices upward" during the housing boom, along with low interest rates and the expansion of subprime mortgage products. See Peter R. Orszag, *Turbulence in Mortgage Markets: Implications for the Economy and Policy Options,* testimony to the US Congress Joint Economic Committee (Congressional Budget Office: September 19, 2007), pp. 3-4.

[7] For example, more than one out of five buyers (21.1 percent) put no money down to finance a home purchase in 2006, compared to fewer than one out of 20 buyers (4.5 percent) in 2000. California Association of Realtors, *Home sales fell after four years of impressive gains; share of first-time buyers second lowest on record; price appreciation slows in 2006, according to annual report from C.A.R.* (February 6, 2007), downloaded from http://www.car.org/index.php?id=MzcwNzU= on August 17, 2007. See also Michael D. Calhoun, testimony to the US Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on Housing and Transportation and Subcommittee on Economic Policy (Center for Responsible Lending: September 20, 2006), p. 9; Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2006* (2006), p. 17; and Hans P. Johnson and Amanda Bailey, "California's Newest Homeowners: Affording the Unaffordable," *California Counts Population Trends and Profiles* 7 (Public Policy Institute of California: August 2005), p. 13.

[8] CBP analysis of Department of Finance and US Census Bureau data. The projected poverty line is based on the projected increase in the Consumer Price Index for All Urban Consumers (CPI-U). Family of three assumes one adult and two children. Some experts argue that twice the poverty line is a more accurate measure of families' economic well-being than the poverty line. However, an income of twice the poverty line is far less than that required for California families to achieve a modest standard of living without assistance from public programs. See California Budget Project, *Making Ends Meet: How Much Does It Cost to Raise a Family in California?* (October 2007).

[9] Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2007* (2007), p. 16. Includes both prime and nonprime loans, of which subprime loans are a subset.

[10] US Government Accountability Office, *Alternative Mortgage Products: Impact on Defaults Remains Unclear, but Disclosure of Risks to Borrowers Could Be Improved* (September 20, 2006), p. 1.

[11] Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2007* (2007), p. 16. Includes both prime and nonprime loans, of which subprime loans are a subset.

[12] US Government Accountability Office, *Alternative Mortgage Products: Impact on Defaults Remains Unclear, but Disclosure of Risks to Borrowers Could Be Improved* (September 20, 2006), p. 4. For example, approximately 47 percent of interest-only ARMs and 58 percent of payment-option ARMs in the nation were made in California in 2005.

[13] In contrast to subprime loans, prime loans are made to borrowers with relatively high credit scores and include fixed-rate mortgages, standard ARMs, and common hybrid ARMs. Board of Governors of the Federal Reserve System, *The July 2007 Senior Loan Officer Opinion Survey on Bank Lending Practices* (August 13, 2007). See also Paul Leonard, testimony to the California Senate Committee on Banking (Center for Responsible Lending: August 21, 2007), pp. 6-7.

[14] Most subprime loans are used to refinance an existing mortgage rather than to purchase a home. See Center for Responsible Lending, *Subprime Lending: A Net Drain on Homeownership* (March 27, 2007), p. 3.

[15] Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2007* (2007), p. 17.

[16] Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2007* (2007), p. 17.

[17] Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2007* (2007), p. 17 and Edward M. Gramlich, *Subprime Mortgages: America's Latest Boom and Bust* (Urban Institute Press: 2007), chapter 1, downloaded from www.urban.org/books/SubprimeMortgages/index.cfm on July 5, 2007.

[18] Rick Brooks and Ruth Simon, "Subprime Debacle Traps Even Very Credit-Worthy," *The Wall Street Journal Online* (December 3, 2007), downloaded from http://online.wsj.com/article_print/SB119662974358911035.html on December 4, 2007. Data reflect subprime mortgages that were ultimately packaged into securities for sale to investors.

[19] *Wall Street Journal* analysis of federal Home Mortgage Disclosure Act (HMDA) data, downloaded from http://online.wsj.com/public/resources/documents/retro-SUBPRIME07.html on December 10, 2007. HMDA data reflect most, but not all, home lending in the US. In 2006, the HMDA covered 8,886 institutions that generated an estimated 80 percent of US home lending. High-rate loans are defined as those having an annual percentage rate of at least three percentage points above a Treasury security of comparable maturity for first-lien loans and five percentage points for second-lien loans. High-rate loans include many, but not all, subprime loans.

[20] The number of home loans made in California by institutions covered by the HMDA declined from 2.3 million in 2004 to 1.9 million in 2006.

[21] CBP analysis of Federal Reserve System data.

[22] See Hans P. Johnson and Amanda Bailey, "California's Newest Homeowners Affording the Unaffordable," *California Counts Population Trends and Profiles* 7 (Public Policy Institute of California: August 2005), p. 14.

[23] Broderick Perkins, "Ameriquest To Pay States, Consumers $325 Million," *RealtyTimes* (January 31, 2006), downloaded from http://realtytimes.com/rtcpages/20060131_ameriquest.htm on September 5, 2007. Ameriquest was subsequently purchased by Citigroup Inc., making Ameriquest one of a number of subprime lenders to shut down in the wake of the housing downturn.

24 Michael D. Calhoun, *Statement of Michael D. Calhoun, President Center for Responsible Lending: Response to Subprime Lender Proposed Principles* (May 22, 2007), downloaded from http://www.responsiblelending.org/press/statements/page.jsp?itemID=32679035 on August 29, 2007.

25 Pat V. Combs, testimony to the US Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on Housing, Transportation, and Community Development (National Association of Realtors: June 26, 2007), p. 1. See also Mike Hudson and E. Scott Reckard, "More Homeowners With Good Credit Getting Stuck With Higher-Rate Loans," *Los Angeles Times* (October 24, 2005), downloaded from http://www.kristinstolte.com/trends_latimes051024.html on September 4, 2007, and Sarah Ludwig, "Losing Ground," *Shelterforce* 29 (Summer 2007), pp. 8-13.

26 US Government Accountability Office, *Alternative Mortgage Products: Impact on Defaults Remains Unclear, but Disclosure of Risks to Borrowers Could Be Improved* (September 20, 2006), pp. 7-9.

27 Rick Brooks and Ruth Simon, "Subprime Debacle Traps Even Very Credit-Worthy," *The Wall Street Journal Online* (December 3, 2007), downloaded from http://online.wsj.com/article_print/SB119662974358911035.html on December 4, 2007.

28 The data in this paragraph are from California Budget Project, *A Generation of Widening Inequality: The State of Working California, 1979 to 2006* (August 2007), pp. 33-34.

29 The inflation-adjusted average AGI of the top 1 percent of taxpayers more than doubled during the same period, rising from $804,727 in 1995 to $1.7 million in 2005. AGI is income reported for tax purposes and differs from household and family income reported by the US Census Bureau. The primary difference is that AGI includes capital gains – profits from the sale of assets that have increased in value – reported for tax purposes.

30 The inflation-adjusted average AGI of the middle fifth of California taxpayers increased from $31,609 in 1995 to $34,561 in 2005, while that of the bottom fifth of taxpayers increased from $6,519 in 1995 to $7,231 in 2005.

31 DataQuick Information Systems data.

32 Home sales were 29,383 in August 1992, according to DataQuick Information Systems – the lowest August sales since DataQuick began collecting sales data in 1988.

33 Year-over-year home sales dropped by 45.2 percent in September 2007 and by 40.9 percent in October 2007, according to DataQuick Information Systems.

34 DataQuick Information Systems data.

35 Nancy Bolton, "California's Real Estate Market: The Unfolding of a Story," in Controller John Chiang, State of California, *Statement of General Fund Cash Receipts and Disbursements* (August 2007), p. 7, downloaded from http://www.sco.ca.gov/ard/cash/summaries/0707.pdf on September 4, 2007.

36 See Department of Finance, *Finance Bulletin* (June 2007) and Nancy Bolton, "California's Real Estate Market: The Unfolding of a Story," in Controller John Chiang, State of California, *Statement of General Fund Cash Receipts and Disbursements* (August 2007), pp. 7 and 9, downloaded from http://www.sco.ca.gov/ard/cash/summaries/0707.pdf on September 4, 2007.

37 Banc of America Securities analysis cited in Ruth Simon, "Sub-prime mess set to get worse," *The Australian* (November 26, 2007), downloaded from http://www.theaustralian.news.com.au/story/0,25197,22819452-36375,00.html on December 5, 2007.

38 Michael D. Calhoun, testimony to the US Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on Housing and Transportation and Subcommittee on Economic Policy (Center for Responsible Lending: September 20, 2006), p. 7.

39 Michael D. Calhoun, testimony to the US Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on Housing and Transportation and Subcommittee on Economic Policy (Center for Responsible Lending: September 20, 2006), p. 6. This example assumes an introductory interest rate of 7.55 percent that resets to a fully indexed rate of 13.25 percent after two years. The monthly payment in this example includes only principal and interest.

40 Governor Randall S. Kroszner, *The Challenges Facing Subprime Mortgage Borrowers* (Board of Governors of the Federal Reserve System: November 5, 2007), downloaded from http://www.federalreserve.gov/newsevents/speech/kroszner20071105a.htm on December 5, 2007.

41 CBP analysis of Employment Development Department data. Specialty-trade contracting includes specific activities related to construction, such as pouring concrete, plumbing, painting, and electrical work. Housing-related industries supplied a majority of the state's job growth during the first half of this decade, in part because of weak job growth in nonhousing-related industries. The number of nonhousing-related jobs increased by 0.9 percent between 2000 and 2005, compared to a 34.0 percent increase in the number of housing-related jobs. Housing-related industries supplied a considerably smaller share of job growth in the late 1990s than in the early 2000s. Just 6.8 percent of California's job gains between 1995 and 2000 occurred in housing-related industries, reflecting, in part, strong gains in nonhousing-related industries. The number of jobs in nonhousing-related industries increased by 16.0 percent between 1995 and 2000, compared to 34.9 percent increase in housing-related jobs.

42 CBP analysis of Employment Development Department data.

43 CBP analysis of Employment Development Department data.

44 CBP analysis of US Bureau of Labor Statistics and Employment Development Department data.

45 Employment Development Department.

46 The following nonhousing-related sectors of the economy experienced notably weaker job gains between December 2006 and December 2007 than they did during the previous year: leisure and hospitality; professional and business services; and transportation, warehousing, and utilities. In addition, retail trade lost jobs between December 2006 and December 2007, after having gained jobs during the period year.

47 Employment Development Department data.

48 The Department of Finance projects wage and salary employment growth of just 0.7 percent in 2008 and forecasts that the state's unemployment rate will average 5.7 percent in 2008. See Department of Finance, *Governor's Budget Summary 2008-09*, p. 28, downloaded from http://www.ebudget.ca.gov/pdf/BudgetSummary/FullBudgetSummary.pdf on January 31, 2008. The UCLA Anderson Forecast projects job growth of less than 1 percent in California through the end of 2008 and forecasts that the state's unemployment rate will peak at 6.1 percent in late 2008. See UCLA Anderson Forecast, *UCLA Anderson Forecast Reports Plenty of Troubles but No Recession on the Horizon In California, Sluggish Economy will Continue* (December 6, 2007), downloaded from http://uclaforecast.com/contents/archive/media_12_07_1.asp on December 27, 2007. The Legislative Analyst's Office (LAO) projects a modest 1.0 percent increase in the number of wage and salary jobs in California in 2008 and forecasts that the state's unemployment rate will average 5.7 percent that year. See Legislative Analyst's Office, *California's Fiscal Outlook: LAO Projections 2007-08 Through 2012-13* (November 14, 2007), p. 13.

49 US Bureau of Economic Analysis.

50 Fourth quarter 2007 figures reflect data that are incomplete and subject to revision. In contrast, national economic growth in the second and third quarters of 2007 was relatively strong, reflecting robust consumer spending as well as growth in net exports.

[51] For example, the LAO projects national inflation-adjusted GDP growth to slow from 2.1 percent in 2007 to 1.9 percent in 2008. See Legislative Analyst's Office, *California's Fiscal Outlook: LAO Projections 2007-08 Through 2012-13* (November 14, 2007), p. 13. A more recent forecast by the Department of Finance projects US inflation-adjusted GDP growth of 1.6 percent in 2008, down from 2.6 percent in 2007. See Department of Finance, *Governor's Budget Summary 2008-09*, p. 28, downloaded from http://www.ebudget.ca.gov/pdf/BudgetSummary/FullBudgetSummary.pdf on January 31, 2008.

[52] In addition, several surveys have found that US consumer confidence weakened during the past year. See Jeannine Aversa, "Confidence Sinks to Record Low," *Associated Press* (January 11, 2008) and Michael Barbaro and Louis Uchitelle, "Americans Cut Back Sharply on Spending," *The New York Times* (January 14, 2008).

[53] Department of Finance.

[54] In recent years, homeowners used equity from rapidly appreciating home values to finance a variety of purchases. In fact, "the consumption made possible by mortgage equity withdrawal [was] a key factor driving recent economic growth." See Dimitri B. Papadimitriou, Edward Chilcote, and Gennaro Zezza, *Are Housing Prices, Household Debt, and Growth Sustainable?* (The Levy Economics Institute of Bard College: January 2006), p. 2. However, as home values have declined, many homeowners have lost the ability to supplement their incomes by refinancing their homes and cashing out equity. In addition, the decline in home sales has reduced demand for household goods, such as furniture.

[55] Department of Finance, *Governor's Budget Summary 2008-09*, p. 30, downloaded from http://www.ebudget.ca.gov/pdf/BudgetSummary/FullBudgetSummary.pdf on January 31, 2008.

[56] Taxable sales are projected to increase by just 0.9 percent in 2007. Department of Finance, *Governor's Budget Summary 2008-09*, p. 36, downloaded from http://www.ebudget.ca.gov/pdf/BudgetSummary/FullBudgetSummary.pdf on January 31, 2008.

[57] Legislative Analyst's Office, *2008-09: Overview of the Governor's Budget* (January 14, 2008), p. 10.

[58] Legislative Analyst's Office, *2008-09: Overview of the Governor's Budget* (January 14, 2008), p. 10. The Proposition 98 school funding guarantee is met by the sum of local property tax revenues and the state's General Fund revenues.

[59] Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2007* (2007), p. 36. Dollar amounts are adjusted for inflation using the CPI-UX for All Items.

[60] Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2007* (2007), p. 6.

[61] Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2007* (2007), p. 36.

[62] Demos, *A House of Cards: Refinancing the American Dream* (Winter 2007), p. 4. Percentages sum to more than 100 because each refinanced loan could have been used for multiple purposes.

[63] Mortgage Bankers Association, *Investor Loans Major Part of Defaults in States with Fastest Rising Delinquencies, MBA Says* (August 30, 2007), downloaded from http://mortgagebankers.org/NewsandMedia/PressCenter/56535.htm on November 30, 2007. According to this analysis, 85 percent of subprime loans and 79 percent of prime loans that were in default as of June 30, 2007 were for owner-occupied homes.

[64] RealtyTrac, *U.S. Foreclosure Activity Increases 75 Percent in 2007* (January 29, 2008), downloaded from http://www.realtytrac.com/ContentManagement/pressrelease.aspx?ChannelID=9&ItemID=3988&accnt=64847 on January 30, 2008. Foreclosure-related filings include the notice of default, the auction sale notice, and the house reverting to the lender. The number of filings does not represent the actual number of foreclosures because it includes notices that do not result in foreclosure.

[65] DataQuick Information Systems, *Record California Foreclosure Activity* (October 26, 2007), downloaded from http://www.dqnews.com/RRFor1007.shtm on November 8, 2007. The number of default notices can be higher than the number of homes affected because a home may be financed with multiple loans.

[66] DataQuick Information Systems, *Record California Foreclosure Activity* (October 26, 2007), downloaded from http://www.dqnews.com/RRFor1007.shtm on November 8, 2007.

[67] Christopher L. Cagan, PhD, *Mortgage Payment Reset: The Issue and the Impact* (First American CoreLogic, Inc.: March 19, 2007), p. 4.

[68] US Congress Joint Economic Committee, *The Subprime Lending Crisis: The Economic Impact on Wealth, Property Values and Tax Revenues, and How We Got Here* (October 2007), p. 13. In addition, the Center for Responsible Lending estimates that 1.1 million subprime loans made between 2005 and the third quarter of 2006 (19.4 percent) could end in foreclosure. Ellen Schloemer, et al., *Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners* (Center for Responsible Lending: December 2006), pp. 15-16.

[69] See *Fact Sheet: Helping American Families Keep Their Homes* (The White House: December 6, 2007), downloaded from http://www.whitehouse.gov/news/releases/2007/12/20071206-7.html on December 11, 2007; Jeannine Aversa, "Freeze leaves many in cold," *The Sacramento Bee* (December 7, 2007); Office of the Governor, *Gov. Schwarzenegger Works with Lenders to Help Homeowners Avoid Foreclosure* (November 20, 2007), downloaded from http://www.gov.ca.gov/press-release/8147/ on November 29, 2007; and Kevin Yamamura and Jim Wasserman, "Home lenders offer relief," *The Sacramento Bee* (November 21, 2007).

[70] See, for example, Margaret Cannella, *Subprime Mortgages: More Troubles Ahead for a Challenged Sector* (JPMorgan: July 19, 2007), p. 3.

[71] Although owning a home can provide a family with an asset that increases in value over time, homeownership is not necessarily beneficial for all families, particularly low-income families. One analyst, for example, argues that many low-income homebuyers "will lose money as a result of the decision to buy rather than rent." This result occurs, in part, because low-income homeowners typically do not own their homes long enough to recoup "transaction costs" – such as commissions and closing costs – associated with buying and selling a home. In addition, low-income homeowners generally owe little or no federal income taxes and thus do not benefit from federal tax deductions for mortgage interest and property taxes. See Dean Baker, *Who's Dreaming? Homeownership Among Low Income Families* (Center for Economic and Policy Research: January 11, 2005), pp. 4-5.

[72] US Census Bureau, 2006 American Community Survey.

[73] The CBP calculates the statewide FMR using HUD data and a methodology developed by the National Low Income Housing Coalition. The examples in this paragraph assume that tenants spend 30 percent of their income on housing.

[74] FMRs for Orange, Riverside, San Bernardino, and San Diego counties are set at the 50th percentile in federal fiscal year (FFY) 2008.

[75] See Appendix A for 2008 California FMRs and Appendix B for the hours of minimum-wage work needed to afford FMRs statewide and in all 58 counties.

[76] The CalWORKs Program provides time-limited cash assistance and services to approximately 450,000 low-income families with children.

[77] SSI/SSP grants help 1.3 million low-income seniors and people with disabilities in California meet basic living expenses.

[78] Center on Budget and Policy Priorities, *Introduction to the Housing Voucher Program* (Revised July 6, 2007), p. 3, and Douglas Rice and Barbara Sard, *The Effects of the Federal Budget Squeeze on Low-Income Housing Assistance* (Center on Budget and Policy Priorities: February 1, 2007), p. 32. This program is sometimes called "Section 8" after the section of the US Housing Act that authorizes it. Public housing agencies operate the program at the local level.

[79] Center on Budget and Policy Priorities, *Introduction to the Housing Voucher Program* (Revised July 6, 2007), p. 2.

[80] Center on Budget and Policy Priorities, *Introduction to the Housing Voucher Program* (Revised July 6, 2007), pp. 5-6. A family's income is adjusted to reflect various deductions, including child care costs. A family may be required to spend more than 30 percent of its income on rent under certain circumstances. The maximum amount of rent a voucher can cover is set by public housing agencies and is based on FMRs.

[81] Gregory Mills, et al., *Effects of Housing Vouchers on Welfare Families* (Abt Associates Inc. for the US Department of Housing and Urban Development: September 2006), pp. vi and ix.

[82] Douglas Rice, Will Fischer, and Barbara Sard, *HUD Bill Avoids Deep Cuts in 2008: President's Veto Threat Risks Loss of Housing Assistance for Low-Income Families* (Center on Budget and Policy Priorities: November 14, 2007), p. 3, and Center on Budget and Policy Priorities, *Introduction to the Housing Voucher Program* (Revised July 6, 2007), p. 3.

[83] Douglas Rice and Barbara Sard, *The Effects of the Federal Budget Squeeze on Low-Income Housing Assistance* (Center on Budget and Policy Priorities: February 1, 2007), pp. 21-22.

[84] Douglas Rice and Barbara Sard, *Congress Should Increase HUD's Budget to Prevent Families from Losing Assistance and Address Growing Needs* (Center on Budget and Policy Priorities: Revised June 1, 2007), p. 4, and Douglas Rice, Will Fischer, and Barbara Sard, *HUD Bill Avoids Deep Cuts in 2008: President's Veto Threat Risks Loss of Housing Assistance for Low-Income Families* (Center on Budget and Policy Priorities: November 14, 2007), p. 4.

[85] Low-cost financing programs include the Section 515 Rural Rental Housing Program operated by the US Department of Agriculture (USDA) and HUD's Section 236 Program, which subsidizes mortgage interest payments and was active between 1968 and 1975. Rent subsidies are provided through HUD's Section 8 Project-Based Rental Assistance Program and the USDA's Section 521 Rental Assistance Program; tenants generally pay 30 percent of their income toward rent and the federal government pays the remainder up to a specified limit.

[86] Affordability periods vary by program. Although Section 8 project-based rent-subsidy contracts initially had terms of 15 to 40 years, the USDA's Section 515 Rural Rental Housing Program finances affordable multifamily housing with loan terms of up to 50 years.

[87] HUD generally renews Section 8 project-based rental-subsidy contracts for one or five years, with funding renewed annually subject to appropriations. See US Government Accountability Office, *Project-Based Rental Assistance: HUD Should Update Its Policies and Procedures to Keep Pace with the Changing Housing Market* (April 2007), p. 9.

[88] Property owners with HUD-subsidized mortgages have been allowed to prepay their loans since the mid-1990s. USDA Section 515 mortgage loans that were provided prior to 1990 either have no prepayment restrictions or may be prepaid after 20 years; loans provided in 1990 or later may not be prepaid.

[89] Reflects units lost through September 2007. Data provided to the CBP by the California Housing Partnership Corporation on November 20, 2007.

[90] See Department of Housing and Community Development, *Raising the Roof: California Housing Development Projections and Constraints, 1997-2020* (May 2000), chapter 2, and Dowell Myers, John Pitkin, and Julie Park, "Estimation of Housing Needs amid Population Growth and Change," *Housing Policy Debate* 13 (2002), p. 591.

[91] Some observers partly attribute the decline in multifamily housing construction to tax law changes that reduced the investment return on multifamily housing. See, for example, Legislative Analyst's Office, "The California Economy," *CalGuide – A Profile of State Programs and Finances* (January 1995) and Jan Breidenbach, *Whither Housing in California?* (Pat Brown Institute of Public Affairs: August 2006), p. 2.

[92] The figures cited in this paragraph are not adjusted for inflation.

[93] DataQuick Information Systems, US Bureau of Labor Statistics, and CBP analysis of US Census Bureau data. The greater Los Angeles area is defined as Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties.

[94] CBP analysis of US Census Bureau, Current Population Survey data.

[95] US Department of Housing and Urban Development, *Affordable Housing* (no date), downloaded from http://www.hud.gov/offices/cpd/affordablehousing/index.cfm on November 15, 2007.

[96] Although HUD recommends that households spend *no more than 30 percent* of their incomes on housing costs, data tables available on the US Census Bureau's website estimate the percentage of households that spent *30 percent or more* of their incomes on housing in 2006. These data tables provide a close approximation of the percentage of households that spend more than the recommended share of their incomes on housing costs.

[97] The data in this section are based on a CBP analysis of US Census Bureau, American Community Survey data.

[98] "Lower income" refers to households with annual incomes of less than $20,000. This is a CBP definition and does not reflect the low- or lower-income limits established by the federal government for housing assistance purposes.

[99] The data in this paragraph refer to seniors who are the head of a renter or owner household.

[100] Hans P. Johnson and Joseph M. Hayes, *The Central Valley at a Crossroads: Migration and Its Implications* (Public Policy Institute of California: 2004), pp. viii and 57. Figures reflect net migration, which equals the number of individuals who moved to the northern San Joaquin Valley minus those who left.

[101] US Census Bureau, American Community Survey.

[102] See Patrick A. Simmons, *Patterns and Trends in Overcrowded Housing: Early Results from Census 2000* (Fannie Mae Foundation Census Note 09: August 2002), pp. 3-4.

[103] Barbara J. Lipman, *Something's Gotta Give: Working Families and the Cost of Housing* (Center for Housing Policy: April 2005), p. 35.

[104] US Census Bureau, American Community Survey.

[105] This analysis contrasts variations in overcrowding among Latinos in California and in the rest of the US. Comparing California to the US as a whole – that is, including California the US total – would understate these variations because California has more than one-quarter of the nation's Latino households, and thus the US overcrowding rate would disproportionately reflect the California rate.

[106] US Census Bureau, American Community Survey.

[107] John M. Quigley, Steven Raphael, and Eugene Smolensky, "Homeless in America, Homeless in California," *The Review of Economics and Statistics* 83 (2001), pp. 37, 44, and 50.

[108] Martha R. Burt, "Time for a Common Sense Policy on Homelessness," *Shelterforce Online* (National Housing Institute: March/April 2002), downloaded from http://www.nhi.org/online/issues/122/WN&V.html on July 26, 2007.

[109] Martha Burt, et al., *Helping America's Homeless: Emergency Shelter or Affordable Housing?* (Urban Institute Press: 2001), chapter 1, downloaded from http://www.urban.org/pubs/homeless/chapter1.html on July 27, 2007.

[110] One observer notes, "Despite the development of sophisticated methodologies, difficulties inherent in homeless enumeration render nearly all counts open to criticism." Heidi Sommer, *Homelessness in Urban America: A Review of the Literature* (Institute of Governmental Studies Press, University of California, Berkeley: 2000), p. 3.

[111] The data in the first and last paragraphs are from Aguirre International, *The California Farm Labor Force: Overview and Trends from the National Agricultural Workers Survey* (June 2005). This report analyzes data from the National Agricultural Workers Survey (NAWS) conducted in FFYs 2003 and 2004, which included 2,344 farmworkers in California. The NAWS interviews farmworkers who work in "crop agriculture," which includes nursery products, cash grains, and fruits and vegetables.

[112] The federal poverty line was $9,573 for an individual under age 65 and $14,680 for a family of three in 2003.

[113] Approximately two out of 10 farmworkers surveyed in FFYs 2003 and 2004 (19 percent) did not know whether their job was seasonal or year-round.

[114] More than seven out of 10 married farmworkers (72 percent) lived with their spouse, and nearly three-quarters of farmworker parents (74 percent) lived with their children in FFYs 2003 and 2004.

[115] The data in this paragraph are from the California Agricultural Worker Health Survey (CAWHS) as reported in Don Villarejo, PhD, and Marc Schenker, MD, MPH, *Environmental Health Policy and California's Farm Labor Housing* (John Muir Institute of the Environment, University of California, Davis: May 2007). The CAWHS included 970 farmworkers who were interviewed between March and December 1999. A temporary structure is a dwelling that is not recognized by a county assessor or the US Postal Service, excluding labor camps and vehicles.

[116] "Overcrowded" is defined as more than one person per room; "extremely overcrowded" is defined as more than 1.5 persons per room.

[117] See National Alliance to End Homelessness, *Homelessness Counts* (January 2007), Appendix A, downloaded from http://www.endhomelessness.org/content/general/detail/1440 on June 27, 2007. HUD requires Continuums of Care (CoCs) to conduct point-in-time counts of homeless individuals every other year. In *Homelessness Counts*, the National Alliance to End Homelessness (NAEH) tabulated and summarized data from point-in-time counts conducted in January 2005 by 463 CoCs across the US, including 38 in California. The NAEH notes, "The quality of these point-in-time counts is uneven, with some jurisdictions using more rigorous methods than others" (p. 9). Most California CoCs conducted their surveys between January 24 and January 28, 2005. California CoCs that participated in the 2005 survey included 38 of the state's 58 counties. California counties that were not represented in the 2005 survey were rural counties with fewer than 100,000 residents, with the exception of El Dorado and Shasta counties, which each had approximately 175,000 residents in January 2005.

[118] National Alliance to End Homelessness, *Homelessness Counts* (January 2007), pp. 8-9.

[119] See Urban Institute, *Millions Still Face Homelessness in a Booming Economy* (February 1, 2000), downloaded from http://www.urban.org/publications/900050.html on August 7, 2007, and Urban Institute, *America's Homeless II: Populations and Services* (February 1, 2000), downloaded from http://www.urban.org/Presentations/AmericasHomelessII/index.htm on August 7, 2007. This study developed estimates of the homeless population based on the 1996 National Survey of Homeless Assistance Providers and Clients conducted by the US Census Bureau. The Urban Institute stated that these estimates "bring the nation as close as it is ever likely to get to a full representation of homeless adults and children."

[120] California's population was estimated to be 37.7 million on January 1, 2007. See Department of Finance, *E-4 Population Estimates for Cities, Counties, and the State, 2001-2007, with 2000 Benchmark* (May 2007), downloaded from http://www.dof.ca.gov/HTML/DEMOGRAP/ReportsPapers/Estimates/E4/E4-01-06/HistE-4.asp on July 27, 2007.

[121] National Alliance to End Homelessness, *Homelessness Counts* (January 2007), pp. 13-14. Homeless individuals also comprised 0.47 percent of the populations of Colorado and Hawaii in January 2005.

[122] California voters have authorized the sale of $5.0 billion in general obligation (GO) bonds for housing-related purposes since 2002. Proposition 46 of 2002 provided $2.1 billion in GO bond proceeds primarily to develop affordable housing and promote homeownership. Proposition 46 has provided funding for more than 15,000 affordable rental units, more than 10,000 shelter spaces for homeless families and individuals, and nearly 7,000 farmworker housing units. In addition, Proposition 46 funds have helped approximately 30,000 low- and moderate-income families purchase their homes. In November 2006, voters passed Proposition 1C authorizing $2.85 billion in GO bond proceeds to support multifamily, homeownership, farmworker, and other housing programs and to encourage urban housing developments. The 2007-08 budget package provided $808 million from Proposition 1C funds for housing programs.

[123] In addition, California exempts the first $7,000 of the assessed value of a homeowner's principal residence from property taxes. The state Constitution requires the state to reimburse local governments for property tax revenues lost due to this exemption.

[124] Most other capital gains are taxed at their full value, with no exemptions.

[125] In addition, tax subsidies for homeowners provide an incentive for taxpayers to invest more of their savings in a home relative to other types of assets.

[126] For tax year 2007, the amount of the credit is $60 for single filers with AGI of $33,272 or less and $120 for joint filers and heads of household with AGI of $66,544 or less.

[127] In addition, the federal government spent an estimated $25.4 billion on tax subsidies for rental housing – 12.8 percent of total estimated federal spending on housing in FFY 2007.

[128] In addition, the state spent an estimated $168.0 million on tax subsidies for rental housing – 1.9 percent of total estimated state spending on housing in 2006-07.

[129] Legislative Analyst's Office, *Infrastructure Overview*, testimony to Conference Committee on Infrastructure Bonds (February 16, 2006), p. 11. Assumes a 5 percent interest rate and reflects the state's cost of borrowing after adjusting for inflation.

[130] Kalima Rose and Judith Bell, *Expanding Opportunity: New Resources to Meet California's Housing Needs* (Housing California and Policy Link: Winter 2005), pp. 14 and 16.

[131] State law requires every local government to adopt a general plan that consists of seven "elements," one of which addresses housing needs. The housing element must be updated every five years.

[132] Paul G. Lewis, *California's Housing Element Law: The Issue of Local Noncompliance* (Public Policy Institute of California: 2003), p. 68.

[133] See Housing Element Working Group, *Final Report to the Assembly and Senate Housing Committees* (April 2004), p. 11.

[134] Home Builders Association of Northern California and Non-Profit Housing Association of Northern California, *On Common Ground: Joint Principles on Inclusionary Housing Policies* (July 2005), p. 3.

[135] However, state law establishes inclusionary zoning requirements for residential projects built in redevelopment zones (California Health and Safety Code, Section 33413). In addition, the state's "density bonus" law requires local governments to provide incentives to developers who voluntarily build a specified percentage of housing units affordable to low- and moderate-income households. See California Government Code, Section 65915 and California Coalition for Rural Housing and Non-Profit Housing Association of Northern California, *Inclusionary Housing in California: 30 Years of Innovation* (2003), pp. 17-18.

[136] California Coalition for Rural Housing, *California Inclusionary Housing Policy Database*, downloaded from http://calruralhousing.org/housing-toolbox/inclusionary-housing-policy-search on June 28, 2007.

[137] California Coalition for Rural Housing and Non-Profit Housing Association of Northern California, *Inclusionary Housing in California: 30 Years of Innovation* (2003), p. ii.

[138] Some recommendations in this section are included in Center for Responsible Lending, *California Lags in Responding to the Foreclosure Crisis on Subprime Home Loans* (September 20, 2007) and Paul Leonard, testimony to the California Senate Committee on Banking (Center for Responsible Lending: August 21, 2007).

[139] See Dean Baker, *The Subprime Borrower Protection Plan* (Center for Economic and Policy Research), downloaded from http://www.cepr.net/content/view/1274/45/ on November 12, 2007.

[140] See Board of Governors of the Federal Reserve System, press release (December 18, 2007), downloaded from http://www.federalreserve.gov/newsevents/press/bcreg/20071218a.htm on December 27, 2007. The new rules could take effect after a three-month public-comment period.

[141] New rules proposed by the federal government would allow brokers to continue to receive commission premiums as long as they disclose the premiums to borrowers. See Board of Governors of the Federal Reserve System, press release (December 18, 2007), downloaded from http://www.federalreserve.gov/newsevents/press/bcreg/20071218a.htm on December 27, 2007, and Center for Responsible Lending, *Federal Reserve Would Allow Reckless Lending to Continue* (December 18, 2007), downloaded from http://www.responsiblelending.org/press/releases/federal-reserve-would-allow-reckless-lending-to-continue.html on December 27, 2007.

[142] The recommendations in this section are included in *The Governor's Ten Year Chronic Homelessness Action Plan – DRAFT* (April 20, 2007), downloaded from http://www.hrsa.gov/homeless/statefiles/ca10.pdf on October 4, 2007.