

PROP 37: THE MIDDLE-CLASS HOMEOWNERSHIP BOND INITIATIVE

Quick Facts

- **Official ballot title:** “Creates Loan Program for Middle-Income Buyers of Qualified New Homes. Initiative Statute” (as prepared by the attorney general). The attorney general’s summary reads that it “authorizes up to \$25 billion in bonds to offer eligible buyers fixed-rate mortgages for up to 17% of the purchase price of a ‘qualified new home.’”¹
- **Measure’s own name:** California Middle-Class Homeownership and Family Home Construction Act of 2026 (AG No. 25-0013A1)²
- **Type:** Initiated state statute. It adds a new chapter to the Health and Safety Code. It is not a constitutional amendment [1, SEC. 2].
- **A vote YES means:** The California Housing Finance Agency (CalHFA) could issue up to \$25 billion in revenue bonds to fund below-market second mortgages that cover up to 17 percent of the price of a newly built home for moderate-income buyers, repaid out of those buyers’ loan payments rather than from taxes.³
- **A vote NO means:** No such program is created. CalHFA continues its existing, smaller homebuyer and down-payment programs, and no new \$25 billion bond authority is granted.
- **Sponsor/proponent:** Robert M. (Bob) Hertzberg, former State Senate majority leader and former Assembly Speaker, through the California Homes Coalition. The California Association of Realtors supports the measure.⁴
- **On the ballot because:** Proponents submitted more than 900,000 signatures and qualified with over 600,000 valid signatures, above the 546,651 required for an initiated statute. It qualified for the November 3, 2026, ballot.⁵
- **Full legal text:** [Initiative 25-0013A1, “California Middle-Class Homeownership and Family Home Construction Act of 2026,” California Office of the Attorney General \(PDF\)](#)
- **LAO analysis:** [Legislative Analyst’s Office, Proposition 37 \(2026\)](#)

CALIFORNIA DECIDES

1. WHAT WOULD IT DO?

Proposition 37 would create a state-run second-mortgage program for moderate-income Californians buying newly built homes. It directs the California Housing Finance Agency to establish the Middle-Class Homeownership Loan Program and authorizes the agency to sell up to \$25 billion in revenue bonds to fund it [1, Sec. 51515, 51515.06].

The core mechanic is a second, or “secondary,” mortgage. A qualifying buyer would still take out a normal primary mortgage from a private lender. On top of that, the state program would provide a fixed-rate second loan covering up to 17 percent of the purchase price, the share ordinarily covered by a down payment. The buyer must still put in at least 3 percent of their own money [1, Sec. 51515.05(b), 51515.01(a)(1)(D)]. The second mortgage is a loan, not a grant. The buyer repays it, and those repayments are what pay back the bond investors over time.⁶

To qualify, a buyer must have lived in California for at least one year, must occupy the home as a primary residence within sixty days of closing, and must have family income no higher than 200 percent of the area median income for their county [1, Sec. 51515.01(a)(1)]. The home must be a “qualified new home,” meaning newly constructed housing where the buyer is the first purchaser, or a formerly nonresidential building converted to housing. Its price cannot exceed 125 percent of the federal conforming loan limit for the county, which works out to roughly \$1 million to \$1.5 million depending on location, adjusted annually [1, Sec. 51515.01(b)].⁷

The measure also tries to pull new supply into the market. It creates a voluntary “qualified builder option” with labor and enforcement conditions attached, and it states as a purpose the expansion of single-family home construction to address California’s housing shortage [1, Sec. 51515(a), 51515.02]. The Legislative Analyst estimates the program could support construction in the range of tens of thousands of homes, though the actual number is uncertain.⁸

2. THE LEGAL LANGUAGE

- **Full text:** [Initiative 25-0013A1, “California Middle-Class Homeownership and Family Home Construction Act of 2026,” California Office of the Attorney General](#) (amended version submitted September 22, 2025)

- **Key language:**

“Each middle-class homeownership loan shall be secured by a secondary mortgage and shall ... finance no more than 17 percent of the purchase price of a qualified new home that is ordinarily covered by the homeowner’s downpayment, where the applicant contributes no less than 3 percent.” [1, Sec. 51515.05(b)]

“This bond shall not be deemed to constitute a debt or liability or a pledge of the faith and credit of the State of California, other than the agency, but shall be payable solely from the funds provided therefor.” [1, Sec. 51515.06(b)]

- **What it amends:** It adds Chapter 11.5 (commencing with Section 51515) to Part 3 of Division 31 of the Health and Safety Code, the division that governs CalHFA [1, Sec. 2]. Because it is a statute rather than a constitutional amendment, the legislature may amend it without a return to the voters, but only by a vote of more than 60 percent of each house and only in ways consistent with the measure’s purposes [1, Sec. 3].

3. WHO, WHAT, WHERE, WHEN, WHY?

- **Who?** Sponsored by former State Senate majority leader and Assembly Speaker Bob Hertzberg through the California Homes Coalition, with support from the California Association of Realtors.⁹ The program would be run by the California Housing Finance Agency. The beneficiaries would be moderate-income buyers of newly built homes, private lenders who originate the loans, and homebuilders who opt into the builder program.
- **What?** Up to \$25 billion in CalHFA revenue bonds funding fixed-rate second mortgages of up to 17 percent of a new home's price, repaid from buyers' loan payments rather than from taxes.¹⁰
- **Where?** Statewide, administered by CalHFA, with per-county price caps tied to the federal conforming loan limit [1, Sec. 51515.01(b)].
- **When?** On the November 3, 2026, ballot. If it passes, the agency must stand up the program within one year of the effective date [1, Sec. 51515.05(a)].
- **Why?** The stated goals are to make home financing more affordable for middle-class buyers, expand single-family home construction, and do so "with no cost to taxpayers" by repaying the bonds through homeowner loan payments [1, Sec. 51515(a)(1)-(2)].

4. TRADE-OFFS

Most California bond measures authorize general obligation bonds, which the state repays out of the general fund, so every dollar borrowed carries decades of taxpayer-funded interest. Proposition 37 authorizes revenue bonds instead. The bonds are payable solely from the homebuyers' loan repayments and carry an explicit statement that they are not a debt or a pledge of the state's faith and credit [1, Sec. 51515.06(b)]. On that basis the Legislative Analyst concludes there would be "no direct state or local costs."¹¹ That claim is accurate as far as it goes. The interest on up to \$25 billion of borrowing is still real, but it is designed to be carried by the borrowers who benefit, not by the general taxpayer.

The big question is what "no cost to taxpayers" hides. The promise holds only if the loan pool performs. If defaults and losses run beyond the program's reserves, the legal text puts that loss on bondholders, not the general fund. But a \$25 billion program that carries the state's name and is run by a state agency could generate strong political pressure for a rescue if it faltered, whatever the fine print says. Analysts call this a moral-obligation or contingent risk. It is not a certainty, and the measure is drafted to avoid it, but it is the reason "no cost to taxpayers" deserves an asterisk rather than a period.

The deeper economic question is whether the program raises affordability or raises prices. A subsidy that lowers the cost of buying a home increases demand. If the supply of homes does not increase, that added demand tends to be capitalized into higher prices, so part of the subsidy ends up in the pockets of sellers and builders rather than buyers. This is the standard critique of down-payment assistance, and it is why the measure's design matters. Proposition 37 does not subsidize any home. It subsidizes newly built homes and adds a builder option meant to pull new construction into the market [1, Sec. 51515.02]. If that supply response is large, the price-inflation worry shrinks. If builders do not respond and the subsidy simply chases a capped pool of new homes, the measure could bid up the price of the very homes it targets. The Legislative Analyst lists exactly this—whether the program increases construction and homebuying—as an open question.¹² That uncertainty is the heart of the trade-off.

Two more points should be considered. First, the below-market promise depends on investor appetite. To sell \$25 billion in bonds while keeping homebuyer interest rates low, the spread has to come from somewhere, and the Legislative Analyst flags investor demand as an unknown.¹³ Second, the income ceiling is generous; 200 percent of area median income in an expensive county can exceed a quarter-million dollars for a family, so a "middle-class" subsidy would reach some relatively high earners.

5. POTENTIAL RISKS AND BENEFITS

Potential benefits

- The bonds are revenue bonds repaid from homeowner loan payments, not general obligation bonds. Unlike a typical bond measure, this creates no scheduled general fund debt service [1, Sec. 51515.06].¹⁴
- The assistance is tied to newly built homes and paired with a builder option, so the design at least aims at expanding supply rather than only subsidizing demand [1, Sec. 51515.02].
- The program lowers the down-payment barrier, the largest single obstacle for many first-time buyers, by covering up to 17 percent of the price [1, Sec. 51515.05(b)].
- It carries real consumer protections. The loans must be fixed-rate, origination fees are capped, prepayment penalties are barred, and lenders face agency-set consumer rules [1, Sec. 51515.04].
- The program is designed to qualify for federal Community Reinvestment Act credit, which could draw private lending into underserved communities [1, Sec. 51515(a)(4), 51515.03(b)].

Potential risks

- The “no cost to taxpayers” claim holds only if borrowers repay in full. Large losses fall on bondholders under the text, but a failing \$25 billion state-branded program could invite pressure for a state backstop [1, Sec. 51515.06(b)].
- If new construction does not actually expand, subsidizing demand for a capped set of new homes could raise their prices, capturing part of the benefit for sellers and builders.¹⁵
- Delivering below-market mortgages while paying competitive bond yields depends on investor demand that the Legislative Analyst treats as uncertain.¹⁶
- The 200 percent of area median income ceiling directs a large subsidy toward relatively high earners in expensive counties, which weakens the “middle-class” targeting.
- The agency’s program rules are exempt from the Administrative Procedure Act, and the legislature can amend the measure by a 60 percent vote, so the usual public rule making and voter-approval checks are reduced [1, Sec. 51515.05(a), Sec. 3].

6. OPEN QUESTIONS

- Will the qualified-builder option meaningfully expand new-home supply, or will it mostly subsidize buyers of homes that would have been built anyway?
- Can CalHFA sell \$25 billion in revenue bonds at rates low enough to deliver below-market mortgages without drawing down its reserves?
- If the loan pool underperforms, who actually bears the loss, and could the state face pressure to step in despite the no-liability language?
- Does a ceiling of 200 percent of the area median income target the households with the greatest need or does it spread the subsidy to higher earners in costly counties?
- How much of the subsidy reaches buyers as lower costs, and how much is captured by builders and sellers through higher new-home prices?

7. THE QUESTIONS TO ASK BEFORE YOU VOTE

This measure promises help for middle-class buyers at no cost to taxpayers. That is true only if borrowers repay \$25 billion in bonds in full. Ask who is left holding the loss if they do not and whether a state agency running a program this large could really stand aside.

A subsidy that lowers the cost of buying a new home only improves affordability if it also gets more homes built. Ask whether this measure will add enough new supply to keep from simply bidding up the price of the homes it covers.

CALIFORNIA DECIDES

ENDNOTES

¹ California Office of the Attorney General, official Title and Summary, Initiative 25-0013A1 (Oct. 21, 2025): [https://oag.ca.gov/system/files/initiatives/pdfs/Title%20and%20Summary%20\(25-0013A1\).pdf](https://oag.ca.gov/system/files/initiatives/pdfs/Title%20and%20Summary%20(25-0013A1).pdf).

² Full text, Initiative 25-0013A1, "California Middle-Class Homeownership and Family Home Construction Act of 2026," California Office of the Attorney General: https://oag.ca.gov/system/files/initiatives/pdfs/25-0013A1%20%28%26quot%3BCalifornia%20Middle-Class%20Homeownership%20and%20Family%20Home%20Construction%20Act%20of%202026%26quot%3B%29_0.pdf.

³ Full text, Initiative 25-0013A1; Legislative Analyst's Office, ballot analysis of Proposition 37 (2026): <https://lao.ca.gov/BallotAnalysis/Proposition?number=37&year=2026>.

⁴ Full text, Initiative 25-0013A1; Tim Fang, "California Voters May Decide on \$25B in Bonds to Boost Homeownership for Middle Class," CBS News, April 22, 2026: <https://www.cbsnews.com/sanfrancisco/news/california-middle-class-homes-25b-bond-program-november-2026-ballot/>.

⁵ Fang, "California Voters"; California Secretary of State, "Qualified Statewide Ballot Measures": <https://www.sos.ca.gov/elections/ballot-measures/qualified-ballot-measures>.

⁶ Full text, Initiative 25-0013A1; LAO, ballot analysis of Proposition 37.

⁷ California Office of the Attorney General, official Title and Summary, Initiative 25-0013A1 (Oct. 21, 2025): [https://oag.ca.gov/system/files/initiatives/pdfs/Title%20and%20Summary%20\(25-0013A1\).pdf](https://oag.ca.gov/system/files/initiatives/pdfs/Title%20and%20Summary%20(25-0013A1).pdf).

⁸ LAO, ballot analysis of Proposition 37.

⁹ Full text, Initiative 25-0013A1; Fang, "California Voters."

¹⁰ Full text, Initiative 25-0013A1; LAO, ballot analysis of Proposition 37.

¹¹ LAO, ballot analysis of Proposition 37; California AG, official title and summary, Initiative 25-0013A1.

¹² LAO, ballot analysis of Proposition 37.

¹³ LAO, ballot analysis of Proposition 37.

¹⁴ LAO, ballot analysis of Proposition 37.

¹⁵ LAO, ballot analysis of Proposition 37.

¹⁶ LAO, ballot analysis of Proposition 37.