

Date of Hearing: April 15, 2026

ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

Matt Haney, Chair

AB 2020 (Gabriel) – As Introduced February 17, 2026

SUBJECT: Housing programs: financing

SUMMARY: Allows Department of Housing and Community Development (HCD) to authorize the transfer of “excess reserves” or “excess operating income” from one rental housing development, subject to a HCD regulatory agreement, to another rental housing development that is owned by the same sponsor or affiliate. Specifically, **this bill:**

1) Includes the following definitions:

- a) “Excess operating income” means the annual net operating income in excess of the amount that is 1.15 times the sum total of required annual debt service payments, provided that the owner can demonstrate sufficient net operating income over a 15-year period; and
- b) “Excess reserves” means replacement reserves, operating reserves, or transition reserves no longer required by, or in excess of the minimum amount required by, the department regulatory agreement.

EXISTING LAW:

- 1) Allows HCD to approve an extension of a department loan, the reinstatement of a qualifying unpaid matured loan, the subordination of a department loan to new debt, or an investment of tax credit equity under various older HCD rental housing finance programs. (Health and Safety Code (HSC) Section 50560)
- 2) Allows HCD to approve an extension of a loan, the reinstatement of a qualifying unpaid matured loan, or the subordination of an HCD loan to new debt or an investment of tax credit equity if it determines that the project will have, after rehabilitation of repairs, a potential remaining useful life equal to or greater than the term of the restructured loan. (HSC 50560)
- 3) Provides that HCD may subordinate its loan to refinance existing senior debt only as necessary for project feasibility and to reimburse borrower advances for predevelopment costs, recent capital improvements, and recent operating deficits. (HSC 50560)
- 4) Creates the Multi-family Housing Program (MHP), whose Regulations include the following prohibitions:
 - a) Prohibits the Sponsor from encumbering, pledging, or hypothecating the Rental Housing Development, or any interest therein or portion thereof, or allow any lien, charge, or assessment against the Rental Housing Development without the prior written approval of HCD. HCD will not permit refinancing of existing liens or additional financing secured by the Rental Housing Development except to the extent necessary to maintain or improve the Fiscal Integrity of the Project, to maintain Affordable Rents, or to decrease Rents and for no other purpose, including, but not limited to, cash payments to the

Sponsor, repayment of general partner loans or of limited partner loans, or for limited partner buyouts. Notwithstanding the general provisions in UMR Section 8308(g), this special condition controls, in that no MHP reserve balance can fund a limited partner buyout or exit; and

- b) No loan may be paid off prior to maturity without the prior written consent of the Department in its sole discretion, which consent shall be subject to conditions deemed necessary to ensure compliance with the Program requirements. All of the loan documents, including the Regulatory Agreement and Deed of Trust, shall continue in full force and effect notwithstanding any prepayment, in whole or in part, or the loan. (California Code of Regulations (CCR), Title 25, Subchapter 4, MHP Regulations 7322 (d)-(e))
- 5) Requires HCD to allow an owner of a property subject to a regulatory agreement with the department to take out additional debt on the development to finance, with the department's approval, rehabilitation of the property or investment in new affordable housing, if all of the following conditions are met:
- a) All hard debt, including the additional debt, is underwritten with a debt-service coverage ratio of at a minimum 1.15 and is demonstrated to project positive cash flow for 15 consecutive years. For the purposes of this subdivision, "hard debt" means debt that must be repaid via an amortizing payment or at a specified maturity date;
 - b) Any new debt is subordinate to the department's lien and regulatory agreement, as applicable, unless the department reasonably determines that subordination of the department's lien is necessary for the feasibility of a project and to fund reasonable rehabilitation or improvements, including soft costs;
 - c) Any extracted equity is any of the following:
 - i. With the department's approval, contributed to other projects that will increase or improve the supply of deed-restricted affordable housing serving low-income households in the state;
 - ii. Utilized in the purchase of a limited partner interest of a tax credit investor in the project, provided that the amount used to purchase that interest, as specified;
 - iii. Utilized in the payment of any unpaid deferred developer fee for the project pursuant to any applicable department regulations;
 - iv. Applied toward payment for necessary repairs and rehabilitation of the project;
 - v. Utilized for the establishment or replenishment of department-approved project reserves; and
 - vi. Utilized for any other purposes approved by the department.
 - d) The department's regulatory agreement remains in place for the project for its remaining term; and

- e) The department continues to be entitled to receive monitoring fees to ensure compliance with the existing regulatory agreement. (HSC 50406.4)
- 6) Defines “extracted equity” to mean debt added to a department-regulated property that is not used for any of the following purposes:
 - a) Approved project rehabilitation work;
 - b) To pay off existing debt;
 - c) Replenishment of reserves; and
 - d) Other department-approved project specific uses. (HSC 50406.4)

FISCAL EFFECT: Unknown.

COMMENTS:

Author’s Statement: According to the author, “California continues to face a severe housing crisis, making the preservation of existing affordable housing more critical than ever. To help address this challenge, affordable housing providers need flexible financial tools to preserve their affordable housing units and maintain the long-term stability of their developments in the face of rising costs. AB 2020 seeks to address this by allowing the Department of Housing and Community Development to authorize the transfer of excess reserves or operating income between affordable housing developments owned by the same sponsor. This simple change will help stabilize developments facing financial challenges and protect California’s existing supply of affordable housing.”

Affordable Housing Finance: The state finances affordable multifamily rental housing using a combination of loans, tax credits, and private activity bonds. Unlike market rate housing, affordable housing does not have enough cash-flow from rents to support conventional financing. Affordable housing is provided to tenants whose household income are below the area median income (AMI). To qualify, very low-income tenants must make 60% or less of the AMI, and lower-income tenants must make only 80% or less of AMI. Tenants in affordable housing are only required to pay 30% of their income toward rent, so the state provides enough long-term subsidy to reduce the overall debt service on a development. HCD loans serve as the permanent financing that comes in once a development is complete to take out the predevelopment and construction loans a developer took on to construct the development. HCD loans are secured with a lien in first position on the property. Developments are also subject to a 55-year recorded regulatory agreement, which runs with the project. If a developer pays off an HCD loan before the covenants expire, the regulatory agreement is not extinguished, and the developer must continue to provide the units at an affordability rent for the length of the regulatory agreement to lower-income tenants.

Challenges Facing Affordable Housing Developments: Due to several factors including the depletion of operating reserves resulting from the COVID-19 rent moratorium and unprecedented increases in insurance rates, affordable housing developments are facing financial challenges. Enterprise Community Partners recently conducted a survey of 130 affordable

properties and found that on average the developments were experiencing insurance cost increases of 70%, with some providers reporting increases up to 500%. Because rents are capped, these properties have fewer options to cover these increases. In some cases, the situation is made worse because the project's operating reserves have not recovered from the rent moratoriums. Due to these financial pressures, some properties are at risk of foreclosure or becoming market-rate developments, which would eliminate vital affordable housing units.

This Bill: To address the fiscal integrity of housing developments financed by HCD, this bill would give the department authority to allow for the transfer of excess reserves or operating income from one rental housing development owned by the same developer to another development. Previous bills, AB 2638 (Ward) (2024), AB 515 (Ward) (2023), and AB 578 (Berman) (2023) have attempted to address a similar issue. Those bills allowed for the early payoff of an HCD loan, if approved by HCD. Those funds could be used to develop a new project. Last year, AB 130 (Committee on Budget), Chapter 22, gave HCD authority to allow developers to utilize equity in their affordable housing projects to finance further investments in other affordable housing projects, purchase a limited partners interest of a tax credit investor in the project, pay any unpaid deferred developer fee for the project, and pay for necessary repairs and rehabilitation of the project. This bill is different from AB 130 in that it allows for the transfer of excess reserves or operating income rather than project equity between developments with HCD financing, to alleviate financial challenges from increased insurance costs or loss of rental income, for example. Excess operating income means the annual net operating income in excess of the amount that is 1.15 times the sum total of required annual debt service payments, provided that the owner can demonstrate sufficient net operating income over a 15-year period.

Arguments in Support: According to one of the sponsors, the Enterprise Community Partners Inc., "Affordable housing developments across California operate with extremely limited financial margins and rely on carefully structured reserves and operating income to remain viable over time. In recent years, many properties have faced significant financial strain due to rising insurance premiums, maintenance costs, and other operating expenses, particularly following the COVID-19 pandemic. When these developments experience operating deficits, the risk of financial distress or foreclosure increases, putting critical affordable housing units, and the residents who call them home, at risk. AB 2020 would provide a practical solution to these challenges by allowing the California Department of Housing and Community Development to authorize the transfer of excess reserves or operating income between affordable housing developments that share the same sponsor or affiliated ownership. This flexibility enables developers to stabilize struggling properties using existing portfolio resources, helping ensure the long-term viability of affordable housing developments."

Arguments in Opposition: None on file.

Related Legislation:

AB 130 (Committee on Budget), Chapter 22, Statutes of 2026 requires HCD to allow an owner of a property subject to a regulatory agreement with the department to take out additional debt on the development to finance, with the department's approval, rehabilitation of the property or investment in new affordable housing, as specified.

AB 2626 (Gabriel) (2026) would allow HCD to waive payment of residual receipts or minimum annual loan payments required under a department regulatory agreement to improve the fiscal

integrity of a development financed with departmental resources. AB 2626 will be heard in the Assembly Housing and Community Development Committee on April 15, 2026.

AB 913 (Celeste Rodriguez) (2025) would have authorized the HCD to authorize the transfer of excess reserves or operating income from one rental housing development to another under specified conditions. AB 913 would also authorize HCD to waive payment of residual receipts or annual loan payments required under regulatory agreements, as specified. AB 913 was held in Senate Appropriations Committee.

AB 515 (Ward) (2023) would amend the Loan Portfolio Restructuring Program (LPR Program) to authorize the HCD to approve the payoff of a department loan prior to the end of its term, and the extraction of equity from a development for purposes approved by the department, as specified. AB 515 was held in Senate Appropriations Committee.

AB 578 (Berman) (2023) would have reduced the amount of annual loan payments that developers pay to the HCD to cover the ongoing costs of project monitoring under the Multifamily Housing Program and the No Place Like Home Program to the lesser of the current amount or \$260 per unit. AB 578 was held in Senate Appropriations Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

California Coalition for Rural Housing (Co-Sponsor)
California Housing Partnership (Co-Sponsor)
Enterprise Community Partners (Co-Sponsor)
Non-profit Housing Association of Northern California (Co-Sponsor)
Abode Housing Development
California Apartment Association
California Coalition for Community Investment
California Council for Affordable Housing
California Housing Consortium
CTY Housing
East Bay Housing Organizations
East LA Community Corporation
Episcopal Community Services of San Francisco
Housing California
LeadingAge California
Linc Housing
Little Tokyo Service Center
Local Initiatives Support Corporation
MidPen Housing Corporation
Resources for Community Development
Self-help Enterprises
Southern California Association of Nonprofit Housing
Supportive Housing Alliance
Tenderloin Neighborhood Development Corporation

Opposition

None on file.

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