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**SENATE COMMITTEE ON HOUSING**  
**Senator Jesse Arreguín, Chair**  
**2025 - 2026 Regular**

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<b>Bill No:</b>	AB 2020	<b>Hearing Date:</b>	6/24/2026
<b>Author:</b>	Gabriel		
<b>Version:</b>	2/17/2026	Introduced	
<b>Urgency:</b>	No	<b>Fiscal:</b>	Yes
<b>Consultant:</b>	Alison Hughes		

**SUBJECT:** Housing programs: financing

**DIGEST:** This bill allows the 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.

**ANALYSIS:**

*Existing law:*

- 1) Allows HCD to approve an extension of an HCD loan, the reinstatement of a qualifying unpaid matured loan, the subordination of an HCD loan to new debt, or an investment of tax credit equity under various older HCD rental housing finance programs.
- 2) 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.
- 3) Creates the Multifamily 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. 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 HCD in its sole discretion, which 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, of the loan.
- 4) Requires HCD to allow an owner of a property subject to a regulatory agreement with HCD to take out additional debt on the development to finance, with HCD'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 HCD's lien and regulatory agreement, as applicable, unless HCD reasonably determines that subordination of HCD'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 HCD'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, as specified;
    - iii. Utilized in the payment of any unpaid deferred developer fee for the project pursuant to any applicable HCD regulations;
    - iv. Applied toward payment for necessary repairs and rehabilitation of the project;
    - v. Utilized for the establishment or replenishment of HCD-approved project reserves; and,

- vi. Utilized for any other purposes approved by HCD.
  - d) HCD's regulatory agreement remains in place for the project for its remaining term; and,
  - e) HCD continues to be entitled to receive monitoring fees to ensure compliance with the existing regulatory agreement.
- 5) Defines "extracted equity" to mean debt added to a HCD-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 HCD-approved project specific uses.

**This bill:**

- 1) Defines "excess operating income" to mean 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.
- 2) Defines "excess reserves" to mean replacement reserves, operating reserves, or transition reserves no longer required by, or in excess of the minimum amount required by, the department regulatory agreement.
- 3) Allows 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.

**Background**

*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 affordable rent for the length of the regulatory agreement to lower-income tenants.

## Comments

- 1) *Author's statement.* "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."
- 2) *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.

- 3) *Shifting excess between projects.* To address the fiscal integrity of housing developments financed by HCD, this bill would give HCD the 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 (*e.g.*, from increased insurance costs or loss of rental income). The developer must still demonstrate that the initial project will have sufficient net operating income over a 15-year period.

- 4) *If at first you don't succeed...* This bill is substantially similar to AB 913 (Celeste Rodriguez, 2025), which was held in Senate Appropriations. That bill contained two separate policies intended to grant financial relief for affordable housing projects. This bill contains one provision, while AB 2626 (Gabriel, 2026) contains the other.

### **Related/Prior Legislation**

**AB 130 (Committee on Budget, Chapter 22, Statutes of 2026)** — required 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 913 (Celeste Rodriguez, 2025)** — would have authorized HCD to authorize the transfer of excess reserves or operating income from one rental housing development to another under specified conditions. AB 913 would have also authorize HCD to waive payment of residual receipts or annual loan payments required under regulatory agreements, as specified. *This bill was held in Senate Appropriations Committee.*

**AB 515 (Ward, 2023)** — would have amended the Loan Portfolio Restructuring Program (PRP) to authorize 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. *This bill was held in Senate Appropriations Committee.*

**AB 578 (Berman, 2023)** — would have reduced the amount of annual loan payments that developers pay to 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. *This bill was held in Senate Appropriations Committee.*

**FISCAL EFFECT:** Appropriation: No    Fiscal Com.: Yes    Local: No

**POSITIONS:** (Communicated to the committee before noon on Wednesday, June 17<sup>th</sup>, 2026.)

**SUPPORT:**

Nonprofit Housing Association of Northern California (Co-Sponsor)  
The California Housing Partnership (Co-Sponsor)  
Abode Housing Development  
California Apartment Association  
California Coalition for Rural Housing  
California Housing Consortium  
Emeryville; City of  
Enterprise Community Partners, INC.  
Housing California  
Housing Trust Silicon Valley  
Little Tokyo Service Center  
Local Initiatives Support Corporation  
National Equity Fund  
Resources for Community Development  
Southern California Association of Non-profit Housing (SCANPH)  
Supportive Housing Alliance

**OPPOSITION:**

None received.

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