THIRD READING

Bill No: AB 2020
Author: Gabriel (D)
Introduced: 8/21/26 in Senate
Vote: 21

SENATE HOUSING COMMITTEE: 10-0, 6/24/26
AYES: Arreguín, Seyarto, Cabaldon, Caballero, Cortese, Durazo, Gonzalez, Grayson, Ochoa Bogh, Padilla

SENATE APPROPRIATIONS COMMITTEE: 7-0, 8/13/26
AYES: Cervantes, Seyarto, Cabaldon, Dahle, Grayson, Richardson, Wahab

ASSEMBLY FLOOR: 78-0, 5/27/26 - See last page for vote

SUBJECT: Housing programs: financing

SOURCE: Nonprofit Housing Association of Northern California
The California Housing Partnership

DIGEST: This bill allows the Department of Housing and Community Development (HCD) to authorize the transfer of residual receipts or excess reserves from one rental housing development to another rental housing development with the same owner.

Senate Floor Amendments of 8/21/2026 redefine "excess reserves" as replacement reserves, in excess of the amount needed to fund immediate and short-term capital repair needs, as specified, within the preceding three years by a qualified independent third party, operating reserves, or project-specific transition reserves by the HCD regulatory agreement, and makes other clarifying changes.

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 "department residual receipts share" as the portion of residual receipts, surplus cash, available cashflow, net cashflow, distributable cash, or other similar project cashflow distributions otherwise payable to HCD for the applicable fiscal year under the project's applicable financing documents and regulatory requirements, calculated after full satisfaction, or due provision for payment to all other lender, public agency, or governmental entity under the applicable note, regulatory agreement, deed of trust, residual receipts agreement, subordination agreement, intercreditor agreement, or other recorded operative project financing documents, as if no transfer authority under this bill existed.

2) Defines "excess reserves" as replacement reserves, in excess of the amount needed to fund immediate and short-term capital repair needs, as specified, within the preceding three years by a qualified independent third party, operating reserves, or project-specific transition reserves by the HCD regulatory agreement. Replacement reserves may not be transferred if doing so would reduce the balance below $1,000 per unit or if the project has not met or is not projected to meet the minimum annual replacement reserve deposit requirements.

3) Allows HCD to authorize the transfer of "residual receipts share" or "excess reserves" from one rental housing development, subject to a HCD regulatory agreement as equity, to another rental housing development that is owned by the same sponsor or affiliate.

4) Provides that no transfer shall reduce, offset, subordinate or otherwise impair any residual receipts, surplus cash, available cashflow, net cashflow, distributable case, reserve rights or other payment rights owed to any other lender, public agency, or governmental entity, including any city, county, or city and county, housing authority, successor agency, joint powers authority, or holder of federal, state, or local housing program loans.

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

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."

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.

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 residual receipts 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, Statutes of 2025), 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 HCD residual receipts share rather than project equity between developments with HCD financing, to alleviate financial challenges (*e.g.*, from increased insurance costs or loss of rental income). It also ensures that any funds owed to other entities, such as local governments, would still be paid.

Senate Appropriations Amendments. Author amendments clarify the definitions of HCD residual receipts and excess reserves, and provide that any transfers do not otherwise reduce payments owed to other lenders.

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

According to the Senate Appropriations Committee:

- Staff estimates that the bill would create ongoing General Fund cost pressures, at least in the mid-hundreds of thousands of dollars annually, to the extent HCD exercises the authority to establish and administer a program to provide for the transfer of reserves and operating revenues from one rental housing development to another owned by the same sponsor. The level of workload would vary depending on the number of transactions authorized, the complexity of the ownership structures, the financial condition of the involved projects, and the need to evaluate impacts on existing regulatory agreements, affordability covenants, and the involvement of other financing sources. While there would be no immediate direct costs to HCD since the authority is permissive, the bill creates General Fund cost pressures to fund HCD's costs to establish such a program, should it exercise this discretionary authority. (General Fund)

SUPPORT: (Verified 8/13/26)

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

OPPOSITION: (Verified 8/13/26)

None received

ASSEMBLY FLOOR: 78-0, 5/27/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

NO VOTE RECORDED: Quirk-Silva, Celeste Rodriguez

Prepared by: Alison Hughes / HOUSING / (916) 651-4124
8/24/26 11:22:05

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