

Date of Hearing: April 22, 2026

ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

Matt Haney, Chair

AB 2166 (Carrillo) – As Amended March 19, 2026

SUBJECT: Multifamily housing development: offsite housing factories: backstop financing

SUMMARY: Establishes the Multifamily Backstop Financing Program at the California Housing Finance Agency (CalHFA) with the stated purpose of supporting multifamily projects through the provision of state-backed credit backstops that would enable surety companies to issue payment and performance bonds to offsite housing factories in the state, as specified. Specifically, **this bill:**

- 1) Includes the following definitions:
 - a) “Qualified applicant” means a surety company or surety insurer that issues construction bonds;
 - b) “Qualified factory” means an offsite housing factory, whether volumetric, panelized, or otherwise, in the state that delivers obligations for qualified multifamily projects;
 - c) “Qualified multifamily project” means a project located in the state that consists of multifamily residential uses only or a mix of multifamily residential and nonresidential uses, with at least two-thirds of the square footage of the development designated for residential use; and
 - d) “Tail risk” means a risk that occurs either when the frequency of low probability events is higher than expected under a normal probability distribution or when there are observed events of very significant size or magnitude.
- 2) Authorizes CalHFA to provide credit backstops to qualified applicants in accordance with the following:
 - a) A credit backstop shall be issued only to a surety company or a surety insurer that issues bonds if the backstop will be used by the applicant to issue payment bonds or performance bonds to qualified factories on qualified multifamily projects;
 - b) The credit backstop shall cover an unspecified percentage of the payment or performance bond value, at the discretion of the agency; and
 - c) The credit backstop shall not replace surety underwriting and shall only be used to reduce tail risk. The qualified applicant shall continue to decide the specific details of the payment or performance bond following industry standards.
- 3) Provides that it is the intent of the Legislature to include provisions relating to the prioritization and review of applications received.

EXISTING LAW:

- 1) Establishes the Home Purchase Assistance Fund at CalHFA. (Health and Safety Code (HSC) 51342)
- 2) Requires CalHFA to administer a home purchase program to assist low- and moderate-income homebuyers to qualify for the purchase of owner-occupied homes. Authorizes assistance in the form of any of the following:
 - a) An interest rate subsidy to reduce the interest rate;
 - b) A deferred-payment, low-interest, subordinate mortgage loan, including downpayment assistance, closing cost assistance, or both, to make financing affordable to low- and moderate-income homebuyers; and
 - c) Buying down the cost of mortgage insurance. (HSC 51343)
- 3) Establishes the IBank within the Governor's Office of Business and Economic Development (GO-Biz) and authorizes it to undertake a variety of infrastructure related financial activities including, but not limited to, the administration of the Infrastructure State Revolving Loan Fund (ISRF), oversight of the Small Business Finance Center, and the issuance of tax-exempt and taxable revenue bonds.
- 4) Authorizes the IBank to provide financing for economic development facilities by:
 - a) Issuing taxable revenue bonds, as specified, to provide financing for economic development projects. Financed projects are required to be compatible with the public interest, which is defined as having the project be located in California, those seeking funds are capable of meeting obligations incurred under the agreement, and in the case of loans or bonds, the amount of the payments are adequate to pay the related expenses of the IBank;
 - b) Issuing taxable revenue bonds, as specified, to provide financing for the revolving loan funds and economic development projects of small business development corporations, local economic development corporations, community development corporations, and nonprofit organizations in which revolving loan funds and economic development projects shall be compatible with the public interest;
 - c) Issuing tax-exempt revenue bonds, as specified, to provide financing for economic development facilities as permissible under federal law and in accordance with applicable California law relating to the distribution of state allocations for private activity bonds. Financed projects are required to be compatible with the public interest, which is defined as having the project be located in California, those seeking funds being capable of meeting obligations incurred under the agreement, and in the case of loans or bonds, the amount of the payments are adequate to pay the related expenses of the IBank; and
 - d) Issuing tax-exempt revenue bonds, as specified, for economic development facilities of public sector and nonprofit organizations qualifying for exemption under federal law.
- 5) Defines an "economic development facility" to mean real and personal property, structures, buildings, equipment, and supporting components thereof that are used to provide industrial, recreational, research, commercial, utility, goods movement, or service enterprise facilities,

community, educational, cultural, or social welfare facilities and any parts or combinations thereof, and all facilities or infrastructure necessary or desirable in connection therewith including provision for working capital.

FISCAL EFFECT: Unknown

COMMENTS:

Author's Statement: According to the author, "We all know California is in the midst of a housing crisis. The cost of building homes is high, leading to a construction shortage, that ultimately passes on these costs to homeowners and renters. This is especially true with affordable housing, which struggles even more than market-rate housing to find developers willing to build. A large part of that is just the cost of the building itself, which is the largest percentage of the cost of a new development. One way to significantly reduce that cost is by using factory-built housing. These homes are constructed in a factory and then brought to the project site to be propped up or put together, allowing lower costs due to their mass production. Unfortunately, these factories struggle in California, as they are unable to receive insurance coverage, preventing developers, lenders, and general contractors from using this cheaper alternative. AB 2166 creates a state-backed credit backstop, to allow these factories to be insured, subsequently creating a more affordable option for housing development. To build more affordable housing, we have to make it more affordable to build, AB 2166 will do that."

Factory-Built Housing: FBH, often referred to as modular, manufactured, or prefabricated housing, involves the construction or assembly of various components of a housing unit or room in a factory and the transport of those components or structures to the construction site, where they are installed and fixed to a building foundation. This is in contrast to traditional ("site-built" or "stick-built") homes, which are built piece by piece on top of the foundation at the actual construction site. The mass production techniques in a factory environment can sometimes be faster and cheaper than site-built construction methods and are not as impacted by weather constraints that might hamper construction progress on a site, though benefits will vary widely between projects.

HCD has maintained building code and plan approval authority over FBH since the California Factory-Built Housing Law was first enacted in the 1960s. HCD currently contracts with various Design Approval Agencies (DAAs) who perform third-party review and approval of FBH designs according to regulations established by HCD and the building standards governing FBH. Approved FBH must bear a California Insignia of Approval on each FBH system or component in the project. There are also Quality Assurance Agencies (QAAs) approved by HCD that inspect FBH during the production phase in the manufacturing facility or offsite. Local agencies maintain authority over a variety of post-manufacture elements of these projects (for example, snow load, wind pressure, building setback, and architectural requirements) and are also responsible for inspecting and approving the installation of the FBH at the project site.¹

¹ For more information, see HCD's "Factory-Built Housing Handbook for Local Enforcement Agencies, Builders, and the General Public," <https://www.hcd.ca.gov/building-standards/manufactured-modular-factory-built/factory-built-housing/docs/hcdfbh314.pdf>

Select Committee on Housing Construction Innovation: In late 2025, the Assembly Select Committee on Housing Innovation (Select Committee) was established to explore how the state can play a role in reducing housing costs by facilitating innovation in housing construction. The Select Committee conducted two hearings in January 2026 and received testimony from industry experts. These experts discussed all of the following: the benefits and risks of industrialized construction methods, including potential cost savings; the ability to reduce project timelines; and, regulatory, labor, and budget considerations. The hearings also explored barriers to opportunities for scaling construction innovation.

The Select Committee requested support from the University of California, Berkeley’s Turner Center for Housing Innovation (Turner Center) to conduct research, including interviews with people familiar with the industry. The Turner Center interviewed 65 people representing different perspectives in the industry, including market-rate and affordable housing developers, general contractors, off-site manufacturers, architects, investors, lenders, building trades unions, carpenters union members, state and regional government staff, building code experts, and representatives from companies using 3D printing, artificial intelligence, or other emerging technologies.

The Turner Center published a white paper, titled “Potential Pathways to Scale Innovative Construction Methods in California.” The Turner Center’s white paper details seven categories of approximately 40 policy proposals identified by stakeholders as potential pathways to reducing barriers to accelerating industrialized construction, including FBH, at scale. These categories of proposals include:

- increase certainty through building code reform;
- increase consistency and certainty through other process reforms;
- reduce financial risk and liability to encourage industry growth;
- support pipeline certainty through demand aggregation;
- increase long-term industry certainty by developing a strong workforce pipeline;
- modify existing state funding stream to better align with the realities of FBH; and
- address negative perceptions of industrialized construction through education and data

This bill incorporates one of the Turner Center recommendations to reduce financial risk and liability to encourage industry growth.

State Intervention: Stakeholders that participated in the Turner Center interviews argued that the FBH industry will not grow and reach the scale necessary to help address the state’s housing shortage without the state providing access to capital. Financial institutions and insurers view FBH as riskier than site-built construction. This risk results from the fact that FBH is fundamentally different than traditional construction and involves logistics not associated with site-built housing, like the need to sequence delivery of FBH. In addition, some FBH factories and project failures support the lending community’s concerns with the risk of backing a new and unproven industry. Stakeholders believe the state could provide several types of financial backing to the FBH industry that would help the industry grow.

First, the state could issue bonds to support factories to guarantee performance and agree to compensate developers, lenders, and subcontractors if a factory were to fail mid-project. State-backed bonds would help the industry to grow, especially in the early stages of growth. Second, the state could provide a loan guarantee program for FBH factories. The state would assume some of the risk from loans originated by the private lenders on specific projects. If the factory failed mid-project, the state would be on the hook for some portion of the loans. Stakeholders liken this proposal to federally backed loan guarantee programs. Finally, the state could create a revolving loan or credit facility that could support predevelopment costs, including deposits or financing gaps that private lenders are reluctant to cover.

A surety company ensures risks generally through bonds, which are issued for public works construction projects. If the contractor fails to fulfill the contractual terms, the owner can compel the surety to complete the project. This bill proposes that the state, through CalHFA, provide a “credit backstop” to a surety company or a surety insurer that issues payment bonds or performance bonds to support production of FBH to qualified factories on qualified multifamily projects. CalHFA would have the authority to determine how much of the total bond the surety insurer will back. This amount is unspecified in the bill.

According to this bill, the credit backstop provided by CalHFA will not replace surety underwriting and shall only be used to reduce tail risk. Tail risk is defined as the risk that occurs either when the frequency of low probability events is higher than expected under a normal probability distribution or when there are observed events of very significant size or magnitude. The surety company would decide the specific details of the payment or performance bond following industry standards.

CalHFA: CalHFA is the state’s affordable housing lender. In addition to a multi-family loans and grant programs, CalHFA runs several programs to support firsttime homebuyers, including a 30-year fixed interest mortgage and down payment assistance. The fixed interest first mortgage is an FHA-insured loan that is secured on a property. CalHFA does not lend money directly to consumers. CalHFA-approved lenders qualify consumers and make all mortgage loans. CalHFA purchases closed loans that meet CalHFA's requirements.

CalHFA’s Mixed-Income Housing Program (MIP) provides loans to multi-family affordable housing developments with a mix of incomes with the average income at 60% of the AMI. Historically, CalHFA also provided construction loans to affordable development. CalHFA’s Conduit Issuer Program is designed to facilitate access to tax-exempt and taxable bonds by developers financing multifamily rental housing. CalHFA is not liable for funding; the debt is secured solely by the revenue from the project.

CalHFA has a separate credit rating from the state. The agency’s credit rating was upgraded to AA+ by S&P Global Ratings in August 2025. A high credit rating allows CalHFA to issue debt at lower interest rates, which translates to more affordable financing for homebuyers and rental developers.

Overview of the IBank: The IBank was established in 1994 to promote "economic revitalization, enable future development, and encourage a healthy climate for jobs in California." Housed within GO-Biz, it is governed by a five-member board of directors comprised of the Director of GO-Biz (chair), the State Treasurer, the Director of the Department of Finance, the Transportation Agency, and a Governor’s appointee. With the exception of funds for programs to support and the Small Business Loan Guarantee Program administration, which must be

annually appropriated by the State Legislature, all IBank funds are continuously appropriated without regard to fiscal year. The IBank administers three programs: (1) the Infrastructure State Revolving Fund which provides direct low-cost financing to public agencies for a variety of public infrastructure projects; (2) the Conduit Bond Program which provides financing for manufacturing companies, public benefit nonprofit organizations, public agencies and other eligible entities; and (3) the Small Business Finance Center which helps small businesses access private financing through loan guarantees, direct loans, and performance bond guarantees. The Small Business Finance Center provides credit support to sureties issuing bonds to contractors.

Arguments in Support: According to the California Housing Consortium, “Lenders, developers, and general contractors often need factories to be bonded to protect against factory failure. However, insurance providers, or sureties, are reluctant to issue bonds to scaling factories. Without bonding, developers and their lenders must take on additional risk of financial loss to work with factories or opt to move forward with conventional construction methods instead. To promote industry growth, reduce financial risk, and address liability gaps, AB 2166 creates a fund that covers a percentage of the surety bond, enabling surety companies to insure more modular housing factories. By creating a state bonding mechanism for modular housing factories, AB 2166 will support factory growth, help stabilize the industry, and lead to lower construction costs over time.”

Arguments in Opposition: None on file.

Committee Amendments: The Small Business Finance Center operates a surety and loan guarantee program, which is more in line with what this bill is trying to model for FBH. Therefore, the Committee may wish to consider if the functions created by this bill would be more appropriately housed at IBank to utilize that existing expertise.

REGISTERED SUPPORT / OPPOSITION:

Support

California Housing Consortium (Sponsor)
 Abundance Network
 Autodesk, INC.
 California Conference of Carpenters
 California Council for Affordable Housing
 California YIMBY
 Casita Coalition
 CBIA
 Circulate Planning & Policy
 LeadingAge California
 Non-profit Housing Association of Northern California
 Student Homes Coalition

Opposition

None on file

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