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

Bill No:	AB 2166	**Hearing Date:**	6/30/2026
Author:	Carrillo		
Version:	4/27/2026 Amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Ryan Hardmeyer		

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

DIGEST: This bill establishes the Multifamily Backstop Financing Program at the California Infrastructure and Economic Development Bank (IBank).

ANALYSIS:

Existing law:

1) Establishes the "California Factory-Built Housing Law" for the purpose of ensuring the health and safety of persons using or purchasing factory-built homes (FBH) or FBH building components and helps provide California residents with reduced housing costs through mass production techniques resulting from a factory production environment.

2) Establishes the IBank within the Governor's Office of Business and Economic Development 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, oversight of the Small Business Finance Center, and the issuance of tax-exempt and taxable revenue bonds.

3) Authorizes 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.

4) 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.

This bill:

1) Defines "program" to mean the Multifamily Backstop Financing Program established by this bill.

2) Defines "qualified applicant" to mean a surety company or surety insurer that issues construction bonds.

3) Defines "qualified factory" to mean an offsite housing factory, whether volumetric, panelized, or otherwise, in the state that delivers obligations for qualified multifamily projects.

4) Defines "qualified multifamily project" to mean 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.

5) Defines "tail risk" to mean 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.

6) Establishes, upon appropriation by the Legislature, the Multifamily Backstop Financing Program for purposes 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.

7) Provides that under the program, the bank may provide credit backstops to qualified applicants in accordance with the following:

   a) A credit backstop shall be issued only to qualified applicants 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 bank.

   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, as specified.

8) States that it is the intent of the Legislature to include provisions relating to the prioritization and review of applications received pursuant to this bill.

9) Provides that the IBank shall adopt rules and regulations necessary to implement this bill.

Background

Factory-Built Housing (FBH). FBH refers to industrialized housing construction, where either the entirety of, or components of, a housing unit are produced or assembled in an offsite factory, or both, and then transported to the housing site. FBH is often colloquially referred to as modular or prefabricated housing. Where traditional "site-built" or "stick-built" housing is entirely constructed on a foundation at the actual housing site, FBH utilizes the efficiencies of an assembly line, similar to a car or an appliance. Entire units and modules are assembled in a climate-controlled factory and are much less susceptible to construction delays associated with traditional housing construction (*e.g.,* disruptive weather). While benefits may vary by project and jurisdiction, the Terner Center for Housing Innovation at U.C. Berkeley (Terner Center), finds that using FBH methods has the potential to reduce hard costs for a project by 10-25% and significantly reduce build times, compared to traditional construction.[1]

Select Committee on Housing Construction Innovation. In late 2025, the Assembly Select Committee on Housing Innovation (Select Committee) was established with the purpose of exploring 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 Terner Center to conduct research, including interviews with people familiar with the industry. The Terner 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, union members, state and regional government staff, building code experts, and representatives from companies using 3D printing, A.I., and other emerging technologies.

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 the Governor's Office of Business and Economic Development (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

[1] Stephanie Hawke, et. al. *Potential Pathways to Scale Innovative Construction Methods in California.* Accessible here: https://ternercenter.berkeley.edu/wp-content/uploads/2026/03/PathwaystoScaleInnovativeConstruction2026.pdf. March 2026.

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.

Comments

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

2) *State intervention in the public interest.* Stakeholders that participated in the Terner Center interviews (noted in the Background section) 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. Many housing factories are trapped in a difficult, self-fulfilling loop, where they need backing and longer-term investment to standup and continue operating. Financial backers are hesitant to back them until they have a proven record of producing housing. In addition, a mixed record of housing factory success (largely due to unpredictable demand and capital) supports the lending community's concerns of backing a new and unproven industry. This bill would establish a program within the IBank to 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. IBank would have the authority to determine how much of the total bond the surety insurer will back. This backing is not intended to

entirely replace surety underwriting, but rather reduce tail risk, which could help strengthen the FBH industry by improving lender confidence in it.

Much of the rationale behind the state providing this kind of backing is that it will reap a multitude of benefits from FBH expanding. Proponents argue that the expansion of FBH will drive down housing costs, improve development timelines, and generate economies of scale that all may harmonize to transform the state's approach to combating the housing affordability crisis. In particular, this bill's focus on multifamily housing at the center of backing FBH could play a role in bringing down the high costs associated with the development type, which could be particularly beneficial for affordable housing developers seeking to get the highest use out of every dollar to meet the growing needs of Californians who cannot afford market-rate housing.

3) *Incoming!* This bill was heard in the Business, Professions, and Economic Development Committee on June 22nd, where it passed on a vote of 8-1.

Related/Prior Legislation

AB 2185 (Quirk-Silva, 2026) — would require state agencies administering affordable multifamily housing programs to remove any barriers to, and create opportunities to fund, FBH no later than July 1st, 2027. *This bill is pending in the Senate Housing Committee.*

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

POSITIONS: (Communicated to the committee before noon on Wednesday, June 24th, 2026.)

SUPPORT:

California Housing Consortium (Sponsor)
Autodesk, INC.
Bay Area Council
California Conference of Carpenters
California Council for Affordable Housing
California Yimby
Casita Coalition
Cbia
Circulate Planning & Policy
Eden Housing
Housing Trust Silicon Valley

Inner City Law Center
Leadingage California
Student Homes Coalition

OPPOSITION:

None received.

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