



ASSEMBLY MEMBER

Jesse Gabriel
DISTRICT 46



FACT SHEET

AB 1053 – AFFORDABLE HOUSING CONSTRUCTION LOANS

SUMMARY

Assembly Bill (AB) 1053 reduces the cost of affordable rental housing by allowing developers to receive The Department of Housing and Community Development (HCD) funds during the construction period, saving hundreds of thousands to potentially millions of dollars in construction period interest expenses.

BACKGROUND

HCD makes rental housing affordable by providing financing in the form of 55-year deferred loans. HCD funds these loans after construction is complete when the development converts to permanent financing. To pay bills during the construction period, the developer obtains and pays interest on a construction loan from a private bank. This loan is larger than it would otherwise be if HCD funds were available during the construction period. The private lender monitors construction progress and approves releasing funds based on verified invoices when development milestones are met.

Affordable housing providers must piece together a combination of sources to fully fund a development. While the private construction lender's role in monitoring construction and approving when funds are released are important and reduces the workload for the state, the additional interest on a larger construction loan adds hundreds of thousands of dollars to the cost of each affordable rental housing development.

THIS BILL

AB 1053 significantly reduces construction period interest expenses by allowing developers to receive HCD loan funds during the construction period.

Although these changes will reduce the size of private construction loans, they will still be a piece of the financing during the construction period, albeit significantly smaller. Private construction lenders will continue to monitor construction progress and approve the release of funds, subject to HCD instructions and oversight. To ensure that the State can rely on the private construction lender's due diligence, the bill allows HCD to require the private lender to fund a percentage of each draw until HCD's funds are fully disbursed. Up to 10% of HCD's funds may also be retained until construction completion to ensure compliance with all program rules.

The California Housing Partnership calculates that this bill will result in the construction of an additional 500 affordable homes over the next ten years with existing funding. The impact will be even greater at higher levels of state investment.

SUPPORT

- California Housing Partnership (Sponsor)

CONTACT INFORMATION

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