



Assemblymember Tom Daly

69th Assembly District

AB 1423 – Reduce Affordable Housing Costs by Funding HCD Loans During Construction

Summary

Reduces the cost of affordable rental housing by allowing developers to receive HCD funds during the construction period, saving hundreds of thousands of dollars in construction period interest expenses.

Background

The Department of Housing and Community Development (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 draws based on verified invoices when development milestones are met.

Problem

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 draws is important and saves state workload, the additional interest on a larger construction loan adds hundreds of thousands of dollars to the cost of each affordable rental housing development.

Solution

AB 1423 significantly reduces construction period interest expenses by allowing developers to receive HCD loan funds during the construction period. There would still be a private construction loan, albeit significantly smaller, and the private construction lender would continue to monitor construction progress and approve draws. To ensure that the State can rely on the private construction lender's due diligence, the bill requires the private lender to have skin in the game by funding 25% of each draw until HCD's funds are fully disbursed.

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

Support

California Housing Partnership (co-sponsor)
BRIDGE Housing (co-sponsor)

For More Information

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