Date of Hearing: July 2, 2025

ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
Matt Haney, Chair
SB 750 (Cortese) – As Amended May 23, 2025

SENATE VOTE: 38-0

SUBJECT: California Housing Finance and Credit Act

SUMMARY: Creates the California Housing Finance and Credit Program (Program), a state-backed construction loan program at the California Housing Finance Agency (CalHFA) for purposes of constructing housing, as specified. Specifically, **this bill**:

1) Defines "affordable" as affordable to a mix of lower-income and moderate-income households, as specified.

2) Creates the California Housing Finance and Credit Fund and requires those funds to be continuously appropriated for purposes of the Program.

3) Requires CalHFA to administer and implement the Program including:

   a) Insuring construction loans or permanent loans for affordable housing development; and

   b) Offering credit enhancements for construction loans and permanent loans for affordable housing developments.

4) Authorizes the CalHFA Executive Director to do the following:

   a) Enter into contracts of insurance;

   b) Decline to insure any risk in which the minimum requirements of the Program are not complied with, or which is beyond the safe carrying of the fund;

   c) Reinsure any risk;

   d) Make rules for the settlement of claims against the Program and determine to whom and through whom the payments are to be made;

   e) Enter into any contracts or obligations relating to the Program;

   f) Conduct all business and affairs and perform all acts as they deem necessary to implement Program; and

   g) Charge an annual fee, a portion of the premium in advance until the loan is insured or until the commitment expires.

5) Requires CalHFA to submit an annual report to specified legislative committees annually that shall include an evaluation of the Program effectiveness in relation to cost and shall include recommendations for the improvement of the Program.

6) Requires the Legislative Analyst's Office to report annually to the Legislature regarding the effectiveness of the Program, with recommendations for adjustments to the program, as specified.

7) Requires the Governor to include a limit to the authorization for CalHFA to insure housing construction and expansion loans for the year in the annual budget. The limit shall not be set at a level that, in combination with other obligations of the state, creates an excessive risk of increasing interest rates for loans, including but not limited to adversely affecting the state's credit rating, as specified.

8) Requires CalHFA to establish minimum qualifications for a proponent of a housing development to qualify for construction loan insurance and permanent loan insurance available under the Program.

9) Requires CalHFA to establish minimum requirements for loans that are insured or subject to a credit enhancement, as specified.

10) Authorizes CalHFA to insure or issue commitments to insure loans upon the certification of an approved financial institution that the borrower is qualified for loan insurance.

11) Allows CalHFA to insure any loan that is eligible for insurance and to make commitments for the insuring of the loans prior to their date of execution or disbursement thereon.

12) Provides that nothing prohibits CalHFA, in the event of defaults, from taking any action authorized to protect the financial interest of the state.

13) Requires the housing project developer to pay all workers employed on the development no less than the general prevailing rate of per diem wages for work of a similar character in the locality in which the development is located, and not less than the general prevailing rate of per diem wages for holiday and overtime work.

14) Makes this bill contingent upon approval of a future constitutional amendment that is approved by the voters, and in that event, shall become operative on January 1, 2027.

15) Includes a severability clause.

EXISTING LAW:

1) Prohibits the Legislature from creating any debts or liabilities that on their own or in the aggregate exceed $300,000, except in the case of war or to suppress insurrection, unless the debt or liability is authorized by law for a single object or work, upon the vote of two-thirds' of the Legislature and a majority of the voters, as specified. (Cal. Const. Art. XVI, Sec. 1.)

2) Provides the Legislature with the authority to insure or guarantee loans made by private or public lenders to nonprofit corporations and public agencies for the construction, expansion,

enlargement, improvement, or renovation or repair of any public or nonprofit hospital or other health care facility. Specifies that no provision of the Constitution, including Section 1 of Article 16 and Section 14 of Article 11, shall be construed to limit this section. (Cal. Const. Art. XVI, Sec. 4.)

3) Establishes the California Housing Finance Agency, administered by a board of directors, to support the needs of low- and moderate-income renters and homebuyers through financing and various other programs. (HSC 50900)

4) Establishes the Health Facility Construction Loan Insurance Law, which provides for a mortgage insurance program for health facility construction, improvement, and expansion projects in order to stimulate the flow of private capital into health facilities construction, improvement, and expansion, and to help meet the need for new, expanded and modernized public and nonprofit health facilities. (HSC 129000.)

FISCAL EFFECT: Unknown.

COMMENTS:

Author's Statement: According to the author, "California's affordable housing pipeline includes projects that could provide rental housing for up to 559,944 low to moderate-income households. Given the state's current budget climate, we are in desperate need of a mechanism to unlock affordable housing with minimal cost to our General Fund. SB 750 would help solve this crisis by creating a program that guarantees loans and wraps bonds for housing. The program would accomplish this by unlocking private financing at favorable interest rates with no cost to the state General Fund, as administrative expenses would be covered by fees charged at origination. The Cal Mortgage Program at the Department of Healthcare Access and Information provides a clear precedent for using the state's credit to attract private capital to projects the state desperately needs. For over 50 years, that program has insured loans totaling $9 billion without an ongoing cost to the General Fund. It's time to do the same for housing. This bill is contingent on the accompanying Senate Constitutional Amendment passing the legislative process and being approved by the voters."

CalHFA: CalHFA is the state's affordable housing lender. In addition to multi-family loan and grant programs, CalHFA runs several programs to support first-time 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 their requirements.

CalHFA borrows money from the private financial market at below-market interest rates by issuing tax-exempt revenue bonds. CalHFA passes these interest rate savings on to low- and moderate-income first-time homebuyers and affordable rental housing developers by offering below market-rate mortgages. These bonds are backed only by CalHFA revenues and not by the state General Fund. CalHFA also operates multifamily housing programs, including their Permanent Loan Programs and their Conduit Issuer program. The Permanent Loan programs provide competitive long-term financing for affordable multifamily rental housing projects. Eligible projects include newly constructed or acquisition/rehabilitation developments that provide affordable housing opportunities for individuals, families, seniors, veterans, and special

needs tenants. The CalHFA Conduit Issuer Program is designed to facilitate access to tax-exempt and taxable bonds by developers that seek financing for eligible projects that provide affordable multifamily rental housing for individuals, families, seniors, veterans or special needs tenants. The conduit bonds may be used to finance the acquisition, rehabilitation, and/or development of an existing project, or they can be used for the construction of a new project.

Existing Federally-Backed Construction Loan Programs: The federal Department of Housing and Urban Development (HUD) operates several Federal Housing Administration (FHA) Mortgage Insurance programs for the new construction or substantial rehabilitation of multifamily rental or cooperative housing for moderate-income families, elderly, and persons with disabilities. These programs insure lenders against loss on mortgage defaults and assist the private industry in the construction or rehabilitation of rental and cooperative housing for moderate-income and displaced families by making capital more readily available. The program allows for long-term mortgages (up to 40 years) that can be financed with Government National Mortgage Association (GNMA) Mortgage Backed Securities.

Background of the Cal-Mortgage Program (an existing state-backed loan program): The Cal-Mortgage Program was authorized in 1968 by an initiative vote (Proposition 5), which added the following section to the State Constitution (Article 16, Section 4):

> "The Legislature shall have the power to insure or guarantee loans made by private or public lenders to nonprofit corporations and public agencies, the proceeds of which are to be used for the construction, expansion, enlargement, improvement, renovation or repair of any public or nonprofit hospital, health facility, or extended care facility, facility for the treatment of mental illness, or all of them, including any outpatient facility and any other facility useful and convenient in the operation of the hospital and any original equipment for any such hospital or facility, or both."

Legislation enabling the Cal-Mortgage Program was enacted in 1969. The Cal-Mortgage Program has assisted nonprofit healthcare facilities in obtaining private financing to develop or expand health facilities and services in communities throughout California at no cost to taxpayers. Without such a guarantee, many of these facilities could not arrange the financing required to serve their communities. Under the administration of the Department of Healthcare Access and Information (HCAI), the Cal-Mortgage Program insures loans to nonprofit and public healthcare facilities for construction projects that improve access to needed healthcare. HCAI can insure loans to nonprofit public benefit corporations or public entities (i.e., cities, counties, and municipalities including healthcare districts and joint powers authorities) in which the State of California guarantees the payments of principal and interest on the loans. The loan insurance allows the borrower to access lower interest rates, similar to the tax-exempt bond rates available to the state.

The California Health Facility Construction Loan Insurance Law (Insurance Law) established the Health Facility Construction Loan Insurance Fund (Insurance Fund). The Insurance Fund is used as a depository of fees and insurance premiums and may only be used to pay administrative costs of the Cal-Mortgage Program and payment shortfalls resulting from defaults by insured borrowers. As a trust fund, the Insurance Fund and the interest (or other earnings) generated may not be used for non-program purposes.

The Cal-Mortgage Program provides reports to the HCAI Director, the California Health and Human Services Agency (CalHHS), and the State Legislature. The Cal-Mortgage Program

prepares monthly and annual reports detailing Cal-Mortgage Program activity, the cash balance of the Insurance Fund, and, in conjunction with the HCAI accounting staff, the assets and liabilities of the Cal-Mortgage Program. In even-numbered years, HCAI contracts for an actuarial study of the Cal-Mortgage Program. Since the fiscal year ending June 30, 2000, the Cal-Mortgage Program has annually prepared two reports for the Legislature: (1) Financial Status of the California Health Facility Construction Loan Insurance Program and Insured Portfolio, and (2) Borrowers' Compliance with their Community Service Obligations.

According to the most recent Cal-Mortgage Consolidated State Plan, HCAI underwrote 44 loans between 2015-2020, including loans serving medically underserved populations, seismic retrofits for a hospital, community-based treatment centers, development of healthcare networks in rural communities, and technology improvements to improve quality of care for specialized populations.[1]

Arguments in Support: According to one of the bill's sponsors, Good River Partners, "this bill would allow the State to guarantee part or all of the financing for housing projects, with no cost to the State General Fund, as administrative expenses would be covered by fees charged at origination. As these fees accumulate, the program would be able to cover default payments as well. The success of the Cal Mortgage Program at the Department of Healthcare Access and Information shows that the state can guarantee financing without seriously impacting the general fund. Despite recent budget surpluses, the State has not yet found a way to effectively address the ongoing housing crisis. Punctuated by thousands of homes lost in the Los Angeles wildfires, and with projections of budget challenges in the near future, now is the time for policymakers to embrace innovative solutions."

Arguments in Opposition: None on file.

Policy Concerns: This bill proposes to create a large, new financing program at the same time the Administration is seeking to consolidate and streamline the state's housing and homelessness programs. The state has multiple agencies and departments that administer affordable housing financing. The Governor has proposed creating a new Housing and Homelessness Agency to align the state's funding resources and work toward creating a single application and award process for state funding. It's unclear how this new Program fits into the reorganization.

In addition, it's unclear how this Program would align with existing state programs in several ways. The state provides funding for affordable housing through loans, grants, and low-income housing tax credits (LIHTC). The federal government offers LIHTC to fund affordable housing as does the state in a smaller capacity. All state and local sources for multi-family affordable rental housing are limited to households that are 80% of the area median income (AMI) or less. Any financing provided by the Program will have to be leveraged by other sources, likely state or federal LIHTC. In addition, the state has long prioritized the limited and scarce funding available to lower income units because of the out-sized need for lower income units. California needs an additional 643,352 units for very low-income households and 394,910 units for lower income households. Homeownership units are funded through several state programs which are available to individuals making moderate income, generally capped at 120% of AMI with some

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[1] Department of Health Care Access and Information. 2017, 2019, 2021 Consolidated State Plan. March 2023, Accessed here: https://hcai.ca.gov/wp-content/uploads/2023/03/2017-2019-and-2021-Consolidated-State-Plan-Final.pdf

exceptions going up to 150% of AMI. Funding under this bill would go toward construction loans for "affordable" developments, defined as a mix of lower-income units and moderate-income units, but the bill does not specify how the mix would break down between these two income categories.

In addition, this bill has the potential to create significant risk to the state General Fund which would provide a guarantee for any construction loans or credit enhancements provided to affordable housing developments. This bill requires the Governor to set a limit on how much funding the Program has authority to finance. The committee may wish to consider if this is sufficient protection against the risk associated with this type of program.

To address these concerns, staff recommends limiting the affordable housing developments the Program can fund to those that receive funding from and have a recorded regulatory agreement with one of the state's existing entities – the California Tax Credit Allocation Committee, Department of Housing and Community Development, or CalHFA – to ensure funding under this Program aligns with existing state funding programs both on the level of affordability and other policy priorities. This will also reduce risk to the General Fund by requiring any affordable housing development that is financed using this new mechanism to be underwritten to reduce maximum risk.

Committee Amendments:

51708.

(a) The agency shall establish minimum qualifications for a proponent of an affordable housing development to qualify for credit enhancements for construction loan insurance and permanent loan insurance available under this part.

(b) The agency shall establish minimum requirements for loans that are insured or subject to a credit enhancement pursuant to this part that shall include, but not be limited to, all of the following:

(1) Maximum duration.

(2) Maximum amount.

(3) Loan security requirements.

(4) Loan-to-value limitations.

(5) Ensure a development is receiving financing from and will have a recorded regulatory agreement with the Tax Credit Allocation Committee, Department of Housing and Community Development, or California Housing Finance Agency.

(c) For the purpose of increasing the efficiency and minimizing the cost of the loan insurance program, the agency may insure or issue commitments to insure loans upon the certification of an approved financial institution that the borrower is qualified for loan insurance according to eligibility requirements specified by the agency pursuant to this section.

Double-referred: This bill was also referred to the Assembly Committee on Judiciary where it will be heard should it pass out of this committee.

REGISTERED SUPPORT / OPPOSITION:

Support

Good River Partners (Sponsor)
Ethos Real Estate Partners (Sponsor)
Association of Bay Area Governments
California Apartment Association
California Housing Partnership
County of Santa Clara
East Bay YIMBY
Grow the Richmond
Housing Action Coalition
League of California Cities
Metropolitan Transportation Commission
Mountain View YIMBY
Napa-Solano for Everyone
National Alliance to End Homelessness
Natural Resources Defense Council
Non-Profit Housing Association of Northern California
Northern Neighbors SF
Peninsula for Everyone
San Francisco YIMBY
Santa Cruz YIMBY
Santa Rosa YIMBY
SLOCo YIMBY
South Bay YIMBY
Ventura County YIMBY
YIMBY Action
YIMBY Los Angeles

Opposition

None on file.

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