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California State Senate

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COMMITTEES
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HOUSING
NATURAL RESOURCES AND WATER

SB 1032 – Housing finance: portfolio restructuring: loan forgiveness

The Housing and Community Development Department (HCD) still administers several loan programs authorized by the Legislature in the 1980s and 1990s to preserve existing affordable housing across the state. These programs offered loans to public housing providers (housing agencies) with terms that attempted to strike a balance between providing impactful funding and ensuring the rents charged by the housing agencies on these properties would remain affordable. HCD only required housing agencies to pay a monitoring fee, which was not applied to the principal or interest of the loan. All of these programs are closed and no longer offer loans.

While it was easy to obtain the loan, terms that allowed housing agencies to forgo making any payments on the loan effectively trapped these housing agencies in an endless debt cycle with no exit path. The loans were set up with the premise that the housing agencies would only pay against the loan interest. The intention was that housing entities could use excess future cash flows to pay down the principal. In reality, these affordable housing units seldom experience excess cash flows due to the rent affordability restrictions required by the loan program and the cost of maintaining the units.

Many housing agencies now have accrued large balances of principal and interest which appear on their balance sheet and negatively impact their ability to obtain other state and federal assistance. Given the reality of how these loans currently function, it is time to provide HCD the authority to forgive these loans to provide relief to the impacted housing agencies.

SB 1032 will give HCD the authority to forgive these specific legacy loans, at their discretion. In a high number of cases, housing agencies that would benefit from loan forgiveness serve as the main affordable housing providers in their regions. Without loan forgiveness, these housing agencies will default on these loans, increasing the possibility that a housing agency will need to close affordable housing sites. Continuing to operate with these loans on their books could also make it more difficult for agencies to access capital, stopping them from serving their communities. These impacts will ultimately lead less affordable housing options and more homelessness across the state. SB 1032 will help to unburden housing agencies, allowing them to continue to provide housing options to vulnerable Californians.

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