

Frequently Asked Questions

California Senate Bill 686 (SB 686 - Reyes)



What is SB 686?

SB 686 is a proposed bill in the California Legislature for the 2025-2026 session. It would allow the [California Department of Housing and Community Development \(HCD\)](#) to approve the early payoff of loans and the extraction of equity from affordable housing projects—under specific conditions—something that current law does not allow.

Why is this bill important?

California is facing an unprecedented affordable housing crisis. Estimates show the state is behind by 2.5 to 4 million housing units¹, with tens of thousands of new affordable units stalled due to funding issues. At the same time, affordable housing production dropped 38%² over the past year due to declining state and local funding. SB 686 gives developers and nonprofits more flexibility to reinvest existing capital into building or preserving affordable homes—helping to close this massive gap.

What does the current law say?

Under existing law, developers who receive loans from HCD are not allowed to pay them off early or access the equity they've built in the property. This is meant to preserve long-term affordability, but it also limits the ability to refinance, rehabilitate, or reinvest equity from one project into other affordable housing projects—even when it would improve housing conditions or add more units.

How would SB 686 change the law?

SB 686 would authorize HCD to approve:

- The early payoff of a department loan (in full or in part)
- The extraction of equity from a property for purposes HCD approves

These tools allow developers to better manage their finances while continuing to meet long-term affordability goals.

Will allowing this change jeopardize affordable housing protections?

No. SB 686 includes clear safeguards:

- The regulatory agreement stays in place even if the loan is paid off—meaning affordability requirements still apply.
- Rent cannot increase beyond what's allowed in the original agreement.
- HCD can only approve these changes if the property remains viable and all existing covenants and restrictions on affordability remain in force for the full term of the affordability commitment.

¹ NRCC Annual Report, 2023

² California Housing Partnership Report 2024

What are the conditions for HCD approval?

To approve an early loan payoff or equity extraction, HCD must determine:

- The project is, or will be after rehab, physically sound for the duration of the affordability period.
- The action won't cause unreasonable rent increases or displace tenants.
- The purpose of the funds aligns with HCD's affordable housing mission.

How was the wording in the proposed legislation crafted? Were stakeholders consulted?

The bill sponsors worked closely with industry experts including affordable housing developers, tax attorneys, LIHTC experts, HCD to gain technical assistance and Legislative Counsel to ensure all parties needs were considered. The language in the bill is representative of the stakeholders needs.

Why is early payoff or equity extraction helpful to affordable homebuilders?

It gives affordable homebuilders more flexibility to reinvest in their properties or build new ones, especially in a time when housing is desperately needed and public funding is limited. Unlocking equity can jump-start stalled projects or make essential repairs possible without waiting for years of restricted cash flow.

Why is early payoff or equity extraction helpful to HCD?

When a loan is repaid, that capital is injected into HCD coffers and becomes available to be redeployed into new loans to help fund new affordable housing developments. In a nutshell, allowing early payoff gets more housing funded and into the pipeline.

How does SB 686 help address California's affordable housing shortage?

With the state behind by millions of units, and nearly 45,000³ affordable units stalled in the pipeline, every tool to unlock capital and move projects forward is critical. SB 686 helps make better use of existing resources—speeding up housing production and preservation when it's most needed.

What about costs? California is in a budget crunch.

There is little financial cost to the State for this bill. Additionally, the bill allows for reasonable fees and costs to be assessed to the affordable homebuilder as a condition of the transaction which should offset any costs.

How can I support or learn more about SB 686?

- Follow the bill on the California Legislative website or platforms like LegiScan.
- Tell your elected officials that you want them to support SB 686.
- Connect with housing advocacy groups such as the [California Council for Affordable Housing](#) or the [California Housing Consortium](#).
- Consult the author's [Fact Sheet](#)
- Read the [Bill Analysis](#)
- Contact your state legislators and voice your support for more flexible tools to expand affordable housing in your community.

³ Affordable Housing Finance