

JAN 25 2017

---

# A BILL FOR AN ACT

RELATING TO THE DOWNPAYMENT LOAN ASSISTANCE PROGRAM.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1       SECTION 1. The legislature finds that homeownership  
2 creates strong communities through economic growth. Homeowners  
3 have a greater sense of security, continuity, belonging and  
4 pride in their communities. According to the United States  
5 Department of Housing and Urban Development, with careful loan  
6 underwriting, homeownership helps lower income households build  
7 wealth even during tough economic times.

8       In a recently released national housing survey sponsored by  
9 Fannie Mae, the most cited reasons for wanting to own a home  
10 were to have a good place to raise children, a safe place to  
11 live, more space for family, and control over one's living  
12 space. These factors have been linked to better physical and  
13 psychological health, including greater satisfaction – with  
14 life, one's home, and one's neighborhood. Homeowners viewed  
15 their communities as stronger, safer, and more stable than did  
16 renters and were more likely to report that they felt connected  
17 to others, knew their neighbors, and were civically engaged.

S.B. NO. 912

1       The legislature further finds that one of the major  
2 barriers to homeownership is the lack of availability of down  
3 payment assistance. Even small amounts of down payment  
4 assistance increase the probability of moving first-time buyers  
5 into homeownership. Although about one out of five first-time  
6 homebuyers receives such help from their families, low and  
7 moderate income households are less likely to have this option  
8 available. The late Edward Szymanoski, former United States  
9 Department of Housing and Urban Development associate deputy  
10 assistant secretary for economic affairs, said that "First-time  
11 buyers often lack cash to pay the down payment and closing costs  
12 charged by conventional lenders and would otherwise have to  
13 defer homeownership for many years."

14       The Hawaii housing finance and development corporation's  
15 downpayment loan program was established in 1995 to assist  
16 eligible first-time homebuyers earning up to 120 per cent of the  
17 area median income with down payment loans. While there has  
18 been a continuing need for down payment assistance, this program  
19 has not realized its full potential due to funding and outdated  
20 programmatic constraints.

21       The purpose of this Act is to modernize the downpayment  
22 loan program and to establish a downpayment loan loss reserve

# S.B. NO. 912

1 program to assist low and moderate income households to become  
2 first-time homebuyers.

3 SECTION 2. Chapter 201H, Hawaii Revised Statutes, is  
4 amended by adding to part III, subpart F, two new sections to be  
5 appropriately designated and to read as follows:

6 "§201H- Downpayment loan program, fees. The  
7 corporation may establish, revise, charge, and collect fees,  
8 premiums, and charges as necessary, reasonable, or convenient,  
9 for its down payment loan program. The fees, premiums, and  
10 charges shall be deposited into the housing finance revolving  
11 fund established in section 201H-80."

12 "§201H- Downpayment loan loss reserve program. The  
13 corporation may set aside and provide funds to serve as a loan  
14 loss reserve for financial institutions that make down payment  
15 loans to eligible borrowers. In the event a down payment loan  
16 defaults, the loan loss reserve shall cover a percentage of the  
17 second mortgage loan pool or a percentage of each individual  
18 second mortgage in default, as determined by the corporation.  
19 The corporation may secure the services of nonprofit  
20 organizations, as defined in section 454F-1, to operate the loan  
21 loss reserve program."

S.B. NO. 912

1       SECTION 3. Chapter 201H, Hawaii Revised Statutes, is  
2 amended by amending the title of part III, subpart F, to read as  
3 follows:

4               "F. DOWNPAYMENT LOAN ASSISTANCE PROGRAM"

5       SECTION 4. Section 201H-161, Hawaii Revised Statutes, is  
6 amended to read as follows:

7       "~~[F]~~ §201H-161~~[F]~~ **Downpayment loans.** (a) The corporation  
8 may make ~~[direct]~~ downpayment loans, either directly, or through  
9 a nonprofit organization as defined in section 454F-1, to  
10 eligible borrowers who qualify for loans under section 201H-162.  
11 The downpayment loan to any one borrower shall not exceed  
12 ~~[thirty]~~ fifteen per cent of the purchase price or appraised  
13 value of the residential property or ~~[\$15,000,]~~ \$60,000,  
14 whichever is less. In no event shall the loan amount and  
15 purchase money mortgage amount exceed one hundred per cent of  
16 combined loan-to-value. The interest rate on the loans may  
17 range from ~~[zero]~~ one per cent to eight per cent, depending on  
18 the buyer's income.

19       (b) The repayment of every downpayment loan shall be  
20 secured by a duly recorded second mortgage executed by the  
21 borrower to the State on the residential property purchased with  
22 the downpayment loan.

S.B. NO. 912

(c) The principal of the downpayment loan, together with accrued interest, shall be due and payable upon the sale, transfer, or refinancing of the property, or shall be repaid by the borrower in installments as determined by the corporation; provided that the corporation may provide a period in which payments may be waived. The period over which the principal and interest shall be paid need not coincide with the period over which the loan from the mortgage lender for the balance of the purchase price must be repaid. The borrower may repay the whole or any part of the unpaid balance of the downpayment loan, plus accrued interest, at any time without penalty.

(d) The corporation may secure the services of nonprofit organizations, as defined in section 454F-1, to originate the downpayment loans, on behalf of the State, for an origination fee not in excess of the prevailing loan origination fee amount.

~~[(d)]~~ (e) The corporation may secure the services of the mortgage lender who loans to the borrower the balance of the purchase price of the residential property or the services of any other mortgage lender doing business in the State to collect, on behalf of the State, the principal and interest of the downpayment loan and otherwise to service the downpayment

S.B. NO. 912

1 loan, for a servicing fee not in excess of the prevailing loan  
2 servicing fees.

3 ~~[(e)]~~ (f) The corporation shall adopt rules pursuant to  
4 chapter 91 to carry out the purposes of this subpart."

5 SECTION 5. Section 201H-162, Hawaii Revised Statutes, is  
6 amended by amending subsection (a) to read as follows:

7 " (a) No person shall be qualified for a downpayment loan  
8 unless the person:

9 (1) Is a citizen of the United States or a resident alien;

10 (2) Is at least eighteen years of age;

11 (3) Is a bona fide resident of the State;

12 (4) Will physically reside in the residential property to  
13 be purchased for the term of the loan;

14 (5) Is accepted by a mortgage lender as a person to whom  
15 it is willing to lend money for the purchase of the  
16 residential property provided the required downpayment  
17 is made; ~~[and]~~

18 (6) Provides a portion of the downpayment which shall be  
19 equal to at least ~~[three]~~ five per cent of the sales  
20 price~~[-]~~; and

21 (7) Has successfully completed a homeownership counseling  
22 program provided by a housing counseling agency

8 BY REQUEST

S.B. NO. 912

**Report Title:**

Downpayment Loan Assistance Program

**Description:**

Expands the Downpayment Loan Program to provide greater assistance to low and moderate income first-time homebuyers.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*



# SB. NO. 912

## JUSTIFICATION SHEET

DEPARTMENT: Business, Economic Development, and Tourism

TITLE: A BILL FOR AN ACT RELATING TO THE  
DOWNPAYMENT LOAN ASSISTANCE PROGRAM.

PURPOSE: To improve the Downpayment Loan Program to  
promote homeownership among low and moderate  
income households statewide.

MEANS: Add two new sections to chapter 201H, part  
III, subpart F; amend the title of chapter  
201H, part III, subpart F; and amend  
sections 201H-161 and 201H-162(a), Hawaii  
Revised Statutes.

JUSTIFICATION: The Governor's State of Hawaii Housing Plan  
makes strengthening financial tools a key  
strategy to address the major housing needs  
of Hawaii households. One of the major  
barriers to homeownership is the lack of  
availability of down payment assistance.  
Approximately 28 percent of households  
responding to a housing demand survey  
conducted by SMS Research for the State and  
county housing agencies indicated they could  
not afford the down payment for a home.

Even small amounts of down payment  
assistance increase the probability of  
moving first-time buyers into homeownership.  
Although about one out of five first-time  
homebuyers receives such help from their  
families, low and moderate income households  
are less likely to have this option  
available.

The Hawaii Housing Finance and Development  
Corporation (HHFDC) has a down payment loan  
program created in 1995 that, due to funding  
and outdated programmatic constraints, is  
inactive. Updating the loan program could  
help make affordable homeownership more  
achievable for Hawaii households.

## SB. NO. 912

Furthermore, additional first time homebuyers could be assisted if the program were expanded to incorporate a new downpayment loan loss reserve program, which would leverage State funds in a public-private partnership to obtain downpayment loan capital from financial institutions.

Impact on the public: Would help promote homeownership among eligible first-time homebuyers by increasing the availability of down payment loans.

Impact on the department and other agencies: HHFDC will have to amend its program administrative rules to conform to this measure.

GENERAL FUND: None.

OTHER FUNDS: None.

PPBS PROGRAM  
DESIGNATION: BED 160.

OTHER AFFECTED  
AGENCIES: Department of Budget and Finance.

EFFECTIVE DATE: July 1, 2017.