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 life,

14 one's home, and one's neighborhood. Homeowners viewed their

15 communities as stronger, safer, and more stable than did renters

16 and were more likely to report that they felt connected to

17 others, knew their neighbors, and were civically engaged.

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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 the homebuyer's family, low

7 and moderate income households are less likely to have this

8 option available. The late Edward Szymanoski, former United

9 States Department of Housing and Urban Development associate

10 deputy assistant secretary for economic affairs, said that

11 "First-time buyers often lack cash to pay the down payment and

12 closing costs charged by conventional lenders and would

13 otherwise have to 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19 has not realized its full potential due to funding and outdated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.

1   The purpose of this Act is to modernize the downpayment

2   loan program and to establish a downpayment loan loss reserve

3   program to assist low and moderate income households to become

4   first-time homebuyers.

5   SECTION 2.   Chapter 201H, Hawaii Revised Statutes, is

6   amended by adding to part III, subpart F, two new sections to be

7   appropriately designated and to read as follows:

8   "**§201H-   Downpayment loan program; fees.** The corporation

9   may establish, revise, charge, and collect fees, premiums, and

10   charges as necessary, reasonable, or convenient for its

11   downpayment loan program. The fees, premiums, and charges shall

12   be deposited into the housing finance revolving fund established

13   in section 201H-80.

14   **§201H-   Downpayment loan loss reserve program.** The

15   corporation may set aside and provide funds to serve as a loan

16   loss reserve for financial institutions that make downpayment

17   loans to eligible borrowers. In the event a downpayment loan

18   defaults, the loan loss reserve shall cover a percentage of the

19   second mortgage loan pool or a percentage of each individual

20   second mortgage in default, as determined by the corporation.

21   The corporation may secure the services of nonprofit

1   organizations, as defined in section 454F-1, to operate the loan

2   loss reserve program."

3   SECTION 3.   Chapter 201H, Hawaii Revised Statutes, is

4   amended by amending the title of part III, subpart F, to read as

5   follows:

6   "F.   Downpayment Loan Assistance Program"

7   SECTION 4.   Section 201H-161, Hawaii Revised Statutes, is

8   amended to read as follows:

9   "[[]§201H-161[]]   **Downpayment loans.**   (a)   The corporation

10   may make [direct] downpayment loans, either directly, or through

11   a nonprofit organization as defined in section 454F-1, to

12   eligible borrowers who qualify for loans under section 201H-162.

13   The downpayment loan to any one borrower shall not exceed

14   [thirty] fifteen per cent of the purchase price or appraised

15   value of the residential property or [$15,000,] $60,000,

16   whichever is less.   In no event shall the loan amount and

17   purchase money mortgage amount exceed one hundred per cent of

18   combined loan-to-value.   The interest rate on the loans may

19   range from [zero] one per cent to eight per cent, depending on

20   the buyer's income.

1   (b)   The repayment of every downpayment loan shall be

2   secured by a duly recorded second mortgage executed by the

3   borrower to the State on the residential property purchased with

4   the downpayment loan.

5   (c)   The principal of the downpayment loan, together with

6   accrued interest, shall be due and payable upon the sale,

7   transfer, or refinancing of the property, or shall be repaid by

8   the borrower in installments as determined by the corporation;

9   provided that the corporation may provide a period in which

10   payments may be waived. The period over which the principal and

11   interest shall be paid need not coincide with the period over

12   which the loan from the mortgage lender for the balance of the

13   purchase price must be repaid. The borrower may repay the whole

14   or any part of the unpaid balance of the downpayment loan, plus

15   accrued interest, at any time without penalty.

16   (d)   The corporation may secure the services of nonprofit

17   organizations, as defined in section 454F-1, to originate the

18   downpayment loans, on behalf of the State, for an origination

19   fee not in excess of the prevailing loan origination fee amount.

20   [(d)] (e)   The corporation may secure the services of the

21   mortgage lender who loans to the borrower the balance of the

1 purchase price of the residential property or the services of

2 any other mortgage lender doing business in the State to

3 collect, on behalf of the State, the principal and interest of

4 the downpayment loan and otherwise to service the downpayment

5 loan, for a servicing fee not in excess of the prevailing loan

6 servicing fees.

7 [(e)] (f) The corporation shall adopt rules pursuant to

8 chapter 91 to carry out the purposes of this subpart."

9 SECTION 5. Section 201H-162, Hawaii Revised Statutes, is

10 amended by amending subsection (a) to read as follows:

11 "(a) No person shall be qualified for a downpayment loan

12 unless the person:

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

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

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

16 (4) Will physically reside in the residential property to

17 be purchased for the term of the loan;

18 (5) Is accepted by a mortgage lender as a person to whom

19 it is willing to lend money for the purchase of the

20 residential property provided the required downpayment

21 is made; [and]

1   (6)   Provides a portion of the downpayment which shall be

2   equal to at least [three] five per cent of the sales

3   price[.]; and

4   (7)   Has successfully completed a homeownership counseling

5   program provided by a housing counseling agency

6   approved by the United States Department of Housing

7   and Urban Development."

8   SECTION 6. Statutory material to be repealed is bracketed

9 and stricken. New statutory material is underscored.

10   SECTION 7. This Act shall take effect on July 1, 2017.

11

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Report Title:
Downpayment Loan Assistance Program; First-time Homebuyer

Description:
Expands the Downpayment Loan Program to provide greater assistance for eligible borrowers to become first-time homebuyers. (SD1)

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