

JAN 28 2026

A BILL FOR AN ACT

RELATING TO ECONOMIC DEVELOPMENT.

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

1 SECTION 1. The legislature finds that access to
2 affordable, right-sized credit is essential for small business
3 formation, survival, and expansion in the State's geographically
4 isolated and high-cost economy. Small businesses, particularly
5 startups, sole proprietors, and very small employers, depend on
6 smaller-dollar loans to finance working capital, equipment,
7 inventory, leasehold improvements, and early operating expenses.

8 The legislature further finds that publicly available data
9 from the United States Small Business Administration (SBA)
10 indicate that a substantial share of SBA-backed loans made to
11 Hawaii businesses are originated by lenders headquartered
12 outside the State, rather than by Hawaii-based banks and
13 community lenders. This pattern reflects limited local capacity
14 for smaller-dollar lending and constrained lender risk tolerance
15 in the absence of credit enhancement tools.

16 The legislature further finds that when small business
17 credit is primarily originated by out-of-state lenders, interest



1 payments, fees, and servicing revenues are more likely to leave
2 the State, reducing the local economic multiplier effect that
3 would otherwise occur if those dollars were retained and
4 reinvested through local financial institutions. Over time,
5 this dynamic contributes to capital leakage from the State and
6 weakens the State's locally rooted small business financing
7 ecosystem.

8 The legislature further finds that limited availability of
9 locally delivered micro-loans increases financial risk for
10 Hawaii entrepreneurs. In the absence of sufficient
11 micro-lending capacity among local lenders, small businesses may
12 be forced to rely on higher-cost or riskier credit products,
13 accept less favorable loan terms, or delay business formation,
14 expansion, and hiring altogether. These constraints
15 disproportionately affect early-stage businesses, rural
16 communities, and neighbor islands.

17 The legislature recognizes that other states have
18 successfully addressed similar capital access challenges through
19 state-supported loan loss reserve and credit enhancement
20 programs that share risk with lenders while leveraging private
21 capital. In particular:



- 1 (1) California operates a long-standing small business
2 capital access program that establishes loan loss
3 reserve accounts funded by borrower and lender
4 contributions matched by the state, enabling lenders
5 to extend credit to small businesses that would not
6 otherwise qualify on comparable terms;
- 7 (2) Colorado administers a credit reserve program that
8 uses borrower fees and state matching contributions to
9 capitalize lender-held reserve accounts that absorb
10 first losses on enrolled loans, expanding access to
11 smaller-dollar loans while preserving prudent
12 underwriting standards and voluntary participation;
13 and
- 14 (3) Florida operates a state capital access program that
15 similarly establishes loan loss reserve accounts
16 through borrower and lender contributions matched by
17 the state; demonstrating that credit enhancement
18 models can be successfully deployed in tourism-driven,
19 small-business-dominated economies with significant
20 seasonal cash-flow variability—conditions that closely
21 mirror Hawaii's economic structure.



1 The legislature further finds that these programs are
2 effective because they are market-based, voluntary, and fiscally
3 disciplined, leveraging private lending rather than replacing it
4 and expanding access to credit without imposing mandates on
5 lenders.

6 Accordingly, the purpose of this Act is to strengthen the
7 State's small business financing ecosystem by establishing a
8 state-supported micro-lending credit enhancement program that
9 expands local lending capacity, retains more financial activity
10 within the State, reduces reliance on higher-risk borrowing
11 options, and improves access to affordable, appropriately sized
12 capital for entrepreneurs in the State.

13 SECTION 2. The Hawaii Revised Statutes is amended by
14 adding a new chapter to be appropriately designated and to read
15 as follows:

"CHAPTER

HAWAII MICRO-LENDING CREDIT ENHANCEMENT PROGRAM

18 § -1 **Definitions.** As used in this chapter:

19 "Credit enhancement" means a loan loss reserve, first-loss
20 reserve, partial guarantee, or other risk-sharing mechanism



1 approved by the department to encourage lending that would not
2 otherwise occur on comparable terms.

3 "Department" means the department of business, economic
4 development, and tourism.

5 "Eligible lender" means a state- or federally-chartered
6 bank, savings bank, credit union, certified community
7 development financial institution, or other financing entity
8 approved by the department that originates and services business
9 loans in the State.

10 "Micro-loan" means a business loan with an original
11 principal amount not to exceed \$, as determined by the
12 department by rule.

13 "Qualified borrower" means a for-profit small business
14 that:

15 (1) Is authorized to do business in the State;
16 (2) Maintains its primary operations in the State; and
17 (3) Meets size standards as determined by the department
18 by rule.

19 **§ -2 Hawaii micro-lending credit enhancement program;**
20 **established.** (a) There is established within the department
21 the Hawaii micro-lending credit enhancement program to encourage



1 eligible lenders to increase the availability of micro-loans to
2 qualified borrowers through state-supported credit enhancement.

3 (b) Participation by lenders and borrowers shall be
4 voluntary. Nothing in this chapter shall be construed to
5 require an eligible lender to make any loan or alter prudent
6 underwriting standards.

7 **§ -3 Credit enhancement mechanisms; loan loss reserves.**

8 (a) The department may provide credit enhancement through one
9 or more of the following mechanisms:

10 (1) Loan loss reserve accounts established with
11 participating eligible lenders;
12 (2) First-loss reserve arrangements that absorb a portion
13 of initial losses on qualified micro-loans; or
14 (3) Other risk-sharing mechanisms approved by the
15 department that are consistent with recognized state
16 small business credit enhancement practices.

17 (b) The department may require, as a condition of
18 participation, that:

19 (1) A borrower pay a fee of up to one per cent of the
20 micro-loan principal, which shall be deposited into a
21 lender-held loan loss reserve account; and



1 (2) The program provide a matching contribution, in an
2 amount determined by the department, deposited into
3 the same reserve account.

4 (c) Funds in a loan loss reserve account shall be used
5 solely to cover losses on qualified micro-loans in accordance
6 with program guidelines established by the department.

7 **§ -4 Eligible uses; exclusions.** (a) Qualified
8 micro-loans may be used for standard business purposes,
9 including working capital, equipment, inventory, leasehold
10 improvements, and other uses approved by the department.

11 (b) The department shall establish by rule any exclusions
12 necessary to protect the integrity of the program.

13 **S -5 Administration; rules; contracts.** (a) The
14 department shall administer the program and may adopt rule
15 pursuant to chapter 91 to implement this chapter.

16 (b) The department may contract with a qualified
17 third-party program administrator to support lender enrollment,
18 reserve administration, compliance monitoring, and reporting.

19 S -6 Hawaii micro-lending credit enhancement special
20 fund. (a) There is established in the state treasury the
21 Hawaii micro-lending credit enhancement special fund.



10 (c) Moneys in the special fund may be expended for credit
11 enhancement, program administration, and reporting.

12 **§ -7 Reporting.** No later than twenty days prior to the
13 convening of each regular session, the department shall submit a
14 report to the legislature detailing:

15 (1) The number and dollar amount of micro-loans supported;

16 (2) Participating lenders;

17 (3) Geographic distribution of loans;

18 (4) Reserve contributions, claims, and recoveries; and

19 (5) Estimated private capital leveraged per state dollar."

20 SECTION 3. There is appropriated out of the general
21 revenues of the State of Hawaii the sum of \$ or so



1 much thereof as may be necessary for fiscal year 2026-2027 to be
2 deposited into the Hawaii micro-lending credit enhancement
3 special fund.

4 SECTION 4. There is appropriated out of the Hawaii
5 micro-lending credit enhancement special fund the sum of
6 \$ or so much thereof as may be necessary for fiscal
7 year 2026-2027 for the Hawaii micro-lending credit enhancement
8 program.

9 The sum appropriated shall be expended by the department of
10 business, economic development, and tourism for the purposes of
11 this Act.

12 SECTION 5. This Act shall take effect on July 1, 2026.

13

INTRODUCED BY: 



S.B. NO. 3165

Report Title:

DBEDT; Micro-Lending; Credit Enhancement; Loan Loss Reserve; Small Businesses; Special Fund; Reports; Appropriation

Description:

Establishes the Hawaii Micro-Lending Credit Enhancement Program within the Department of Business, Economic Development, and Tourism to expand micro-lending capacity by providing state-funded loan loss reserves or other credit enhancement that absorbs first losses on qualified micro-loans made by participating lenders to Hawaii small businesses. Allows borrower fees and state matching contributions to capitalize lender-held loan loss reserve accounts. Establishes the Hawaii Micro-Lending Credit Enhancement Special Fund. Requires reports to the Legislature. Appropriates funds.

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