

H.B. NO. 1046

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.

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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 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19 has not realized its full potential due to funding and outdated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

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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."

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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 "[+] §201H-161 [+] **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.

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

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

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

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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

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1 approved by the United States Department of Housing
2 and Urban Development."

3 SECTION 6. Statutory material to be repealed is bracketed
4 and stricken. New statutory material is underscored.

5 SECTION 7. This Act, upon its approval, shall take effect
6 on July 1, 2017.

7 INTRODUCED BY: _____



8 BY REQUEST

JAN 23 2017

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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.

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.

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.