
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 the Federal National Mortgage Association, the most cited
10 reasons for wanting to own a home were to have a good place to
11 raise children, a safe place to live, more space for family, and
12 control over one's living space. These factors have been linked
13 to better physical and psychological health, including greater
14 satisfaction with life, one's home, and one's neighborhood.
15 Homeowners viewed their communities as stronger, safer, and more
16 stable than did renters and were more likely to report that they



1 felt connected to others, knew their neighbors, and were
2 civically engaged.

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

17 The Hawaii housing finance and development corporation's
18 downpayment loan program was established in 1995 to assist
19 eligible first-time homebuyers earning up to 120 per cent of the
20 area median income with down payment loans. While there has
21 been a continuing need for down payment assistance, this program



1 has not realized its full potential due to funding and outdated
2 programmatic constraints.

3 The purpose of this Act is to modernize the downpayment
4 loan program and to establish a downpayment loan loss reserve
5 program to assist low and moderate income households to become
6 first-time homebuyers.

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

10 "§201H- Downpayment loan assistance program; fees. The
11 corporation may establish, revise, charge, and collect fees,
12 premiums, and charges as necessary, reasonable, or convenient
13 for its downpayment loan assistance program. The fees,
14 premiums, and charges shall be deposited into the housing
15 finance revolving fund established in section 201H-80.

16 §201H- Downpayment loan loss reserve program. The
17 corporation may set aside and provide funds to serve as a loan
18 loss reserve for financial institutions that make downpayment
19 loans to eligible borrowers. In the event a downpayment loan
20 defaults, the loan loss reserve shall cover a percentage of the
21 second mortgage loan pool or a percentage of each individual



1 second mortgage in default, as determined by the corporation.
2 The corporation may secure the services of nonprofit
3 organizations, as defined in section 454F-1, to operate the loan
4 loss reserve program."

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

8 "F. Downpayment Loan Assistance Program"

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

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



1 range from [~~zero~~] one per cent to eight per cent, depending on
2 the buyer's income.

3 (b) The repayment of every downpayment loan shall be
4 secured by a duly recorded second mortgage executed by the
5 borrower to the State on the residential property purchased with
6 the downpayment loan.

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

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



1 [~~(d)~~] (e) The corporation may secure the services of the
2 mortgage lender who loans to the borrower the balance of the
3 purchase price of the residential property or the services of
4 any other mortgage lender doing business in the State to
5 collect, on behalf of the State, the principal and interest of
6 the downpayment loan and otherwise to service the downpayment
7 loan, for a servicing fee not in excess of the prevailing loan
8 servicing fees.

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

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

13 "(a) No person shall be qualified for a downpayment loan
14 unless the person:

- 15 (1) Is a citizen of the United States or a resident alien;
16 (2) Is at least eighteen years of age;
17 (3) Is a bona fide resident of the State;
18 (4) Will physically reside in the residential property to
19 be purchased for the term of the loan;
20 (5) Is accepted by a mortgage lender as a person to whom
21 it is willing to lend money for the purchase of the



1 residential property provided the required downpayment
2 is made; [~~and~~]

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

6 (7) Has successfully completed a homeownership counseling
7 program provided by a housing counseling agency
8 approved by the United States Department of Housing
9 and Urban Development."

10 SECTION 6. Statutory material to be repealed is bracketed
11 and stricken. New statutory material is underscored.

12 SECTION 7. This Act shall take effect on July 1, 2050.



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. Effective 7/1/2050. (SD2)

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

