

**HB2019,SD1**

**Testimony to the Senate Committee on Commerce and Consumer Protection**  
**Thursday, March 29, 2012**  
**10:30 A.M.**  
**Conference Room 016**

**RE: HOUSE BILL 2019 HD1 SD1 RELATING TO MORTGAGES**

Chair Clayton Hee, Vice Chair Maile Shimabukuro and Members of the Committee

My name is Peter Savio. I am one of Hawaii's largest providers of affordable housing and I oppose House Bill 2019 HD1 SD1.

This is a feel good bill, but one that will have a very negative impact on our first time buyers and our community. I understand the reason for the bill, but must oppose the bill as not being a solution, but contributing to the problem.

The bill will result in local banks having to stop or greatly curtail the financing of first time buyers. This is not good. The problem is we see our local banks as being large and they are large in Hawaii, but in reality they are banks to a community of just over one million people and are small by mainland standards. Also, the larger mainland banks can spread the risk over all 50 states so technically they only have 2% of their money in any one State. In Hawaii, our banks are committed to Hawaii with most of their funds invested in Hawaii.

If a mainland lender funded 3,000 first time buyers and all defaulted, the lost would be a small percentage of net worth.

If FHB or BOH funded the same number of loans and had the same number of defaults occurred, the loss would be a much bigger percentage of reserves and result in the need for greater reserves. This only increases the cost of lending.

The unintended consequence is the local lenders will have to greatly reduce the lending to the local first time buyer.

The normal local buyers can buy, but the bottom half of the market will be greatly reduced. The person that has a number of jobs or a few part time jobs may be unacceptable to the mainland lender.

The buyer with a minor credit problem may be eliminated.

The local banks have been pretty fair on allowing or taking back unit or homes that local buyers have defaulted on. They will work it out if you need help, but the buyer who has the ability to pay and just changes his mind or does not want to be responsible for his decision or is speculating can give the unit back and let all of us pay for the loss thru higher rates.

The reason for the bad market on the mainland is buyers were speculating and were able to do it because the note/mortgages are nonrecourse and you could take out excessive debt and speculate and then walk away if your investment scam failed. As buyers defaulted, values declined and more buyers walked away since the loans were the market was even lower than their mortgage. They could have waited it out, but since nonrecourse why not just walk away. The result is the nonrecourse loans allowed the market to decline much more than the economy required the losses were not the owner/borrower, but the banks and then the losses are passed on to the community through higher interest rates or bank failures.

We are going to force the local banks out of the affordable markets and allow the mainland banks to dominate the market, but the mainland lenders only taking the better properties and buyers. We need to protect our local lenders so they can compete with the bigger mainland institutions.

We need to recognize the unique nature of our island economy. This bill should not pass.

Respectfully submitted

Peter Savio  
President  
Hawaiian Island Development Co., Inc.