
A BILL FOR AN ACT

RELATING TO HOME LOANS.

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

1 SECTION 1. The Hawaii Revised Statutes is amended by
2 adding a new chapter to be appropriately designated and to read
3 as follows:

4 **"CHAPTER**

5 **HAWAII DIRECT HOME LOAN PROGRAM**

6 **-1 Definitions.** As used in this chapter:

7 "Corporation" means the Hawaii housing finance and
8 development corporation.

9 "Director" means the executive director of the Hawaii
10 housing finance and development corporation.

11 "Lender" means a private savings and loan institution,
12 bank, or mortgage company that makes, holds, and services a
13 loan. The lender is primarily responsible for originating,
14 underwriting, servicing, and where necessary, liquidating the
15 loan and disposing of the property in a manner consistent with
16 maximizing the government's interest.

17 "Qualified applicant" means an individual or family who:



1 (1) Has very low or low income. For the purposes of this
2 chapter:

3 (A) "Very low income" means an adjusted annual income
4 below fifty per cent of the adjusted area median
5 income; and

6 (B) "Low income" means an adjusted annual income of
7 fifty to eighty per cent of the adjusted area
8 median income;

9 (2) Has adequate and dependable income;

10 (3) Can afford the mortgage payments, requiring proof
11 that:

12 (A) For very low income individuals or families:

13 (i) The burden of principal, interest, taxes,
14 and insurance is twenty-nine per cent or
15 less of gross monthly income; and

16 (ii) The total of monthly debts is forty-one per
17 cent or less of gross monthly income;

18 (B) For low income individuals or families:

19 (i) The burden of principal, interest, taxes,
20 and insurance is thirty-three per cent or
21 less of gross monthly income; and



- 1 (ii) The total of monthly debts is forty-one per
2 cent or less of gross monthly income;
- 3 (4) Is unable to qualify for conventional mortgage credit;
4 and
- 5 (5) Has a credit history that indicates a reasonable
6 ability and willingness to meet obligations as they
7 become due.

8 **§ -2 Hawaii direct home loan program.** There is created
9 a Hawaii direct home loan program which shall be administered by
10 the director in accordance with the spirit and intent of this
11 chapter. The program objective is to assist eligible households
12 in purchasing adequate but modest, decent, safe, and sanitary
13 single family dwellings and related facilities for their own
14 use.

15 **§ -3 Hawaii direct home loan special fund.** (a) There
16 is established the Hawaii direct home loan special fund into
17 which shall be deposited:

- 18 (1) Moneys appropriated to the fund by the legislature;
- 19 (2) Gifts, donations, and grants from public agencies and
20 private persons;
- 21 (3) Interest earned or accrued on moneys deposited into
22 the fund; and



1 (4) All moneys received pursuant to this chapter.

2 (b) The corporation shall use funds for the purposes of
3 this chapter.

4 **§ -4 Direct home loans; interest; fees; payment.** (a)

5 Direct loans under this section shall be subject to section

6 -7. Direct loans shall be limited to qualified applicants
7 for the purpose of purchasing a completed dwelling and related
8 facilities or to purchase a new or existing dwelling to be used
9 by the qualified applicant as a primary residence. The loan may
10 be for "take out" financing for a loan to construct a new
11 dwelling or improve an existing dwelling when the construction
12 financing is arranged in connection with the loan package. The
13 loan may also include funds for the following purposes:

14 (1) The purchase and installation of necessary appliances
15 and energy saving measures;

16 (2) The payment of incidental expenses for tax monitoring
17 services, architectural, appraisal, survey,
18 environmental, and other technical services;

19 (3) Necessary related facilities such as a garage, storage
20 shed, walks, driveway, and water or sewage facilities
21 including reasonable connection fees for utilities
22 that the buyer is required to pay;



- 1 (4) Special design features or equipment necessary to
- 2 accommodate a physically disabled member of the
- 3 household;
- 4 (5) The cost of establishing an escrow or reserve account
- 5 for payment of real estate taxes, insurance premiums,
- 6 or annual fees when they come due;
- 7 (6) Title clearance, title insurance, and loan closing;
- 8 stock in a cooperative lending agency necessary to
- 9 obtain the loan; and, for low-income applicants only,
- 10 loan discount points to reduce the note interest rate
- 11 from the rate authorized in subsection (d) not
- 12 exceeding the amount typical for the area; and
- 13 (7) Provide funds for seller equity or essential repairs
- 14 when an existing guaranteed loan is to be assumed
- 15 simultaneously.
- 16 (b) Interest charged on a direct home loan made under this
- 17 section shall be determined by the corporation. Interest
- 18 charged on a direct home loan shall be modified and subsidized
- 19 based on the qualified applicant's current income to assist the
- 20 applicant with qualifying for the loan. The corporation shall
- 21 document the interest rate and the date the rate was determined.

1 (c) The corporation may assess reasonable fees to the
2 borrower.

3 (d) Unless the loan documents specify other loan repayment
4 terms, principal and interest shall be due and payable monthly.
5 The term for final maturity shall not be less than thirty-three
6 years from the date of the note and not more than thirty-three
7 years from the date of the first scheduled payment; provided
8 that loans for manufactured homes shall be thirty years;
9 provided further that a thirty-eight year term shall be
10 available for borrowers with incomes below sixty per cent of the
11 adjusted area median income who cannot afford a thirty-three
12 year term. The corporation shall collect all payments from the
13 borrower and otherwise service the loan.

14 (e) The corporation shall review annually each borrower's
15 eligibility for continued payment subsidy and determine the
16 appropriate level of assistance. To be eligible for payment
17 subsidy renewal, the borrower must also occupy the property.
18 The borrower shall notify the corporation whenever an adult
19 member of the household becomes employed or changes employment,
20 whenever there is a change in household composition, or if
21 income increases by at least ten per cent. The household may
22 also report decreases in income. If the change in the



1 household's income will cause the payment for principal and
2 interest to change by at least ten per cent, the household's
3 payment subsidy may be adjusted for a new twelve-month period.
4 The new agreement will be applied to the due date following the
5 date the borrower's information is verified by the corporation.

6 (f) If a borrower makes less than the scheduled payment,
7 the payment shall be held in suspense and shall not be applied
8 to the borrower's account. When subsequent payments are
9 received in an amount sufficient to equal a scheduled payment,
10 the amount shall be applied in the following order:

- 11 (1) Protective advances charged to the account;
- 12 (2) Accrued interest due;
- 13 (3) Principal due; and
- 14 (4) Escrow for taxes and insurance.

15 (g) The corporation shall cancel a payment subsidy if the
16 borrower does not occupy the property, has sold or transferred
17 title to the property, or is no longer eligible for payment
18 subsidy.

19 **§ -5 Functions, powers, and duties of director.** In the
20 performance of, and with respect to, the functions, powers, and
21 duties vested in the director by this chapter, the director may:



1 (1) Adopt rules pursuant to chapter 91 to carry out this
2 chapter; and

3 (2) Perform all functions necessary to effectuate the
4 purposes of this chapter.

5 **§ -6 Rules.** The rules adopted pursuant to section -5
6 shall:

7 (1) Establish preferences and priorities in determining
8 eligibility for loans under this chapter;

9 (2) Establish the conditions, consistent with the purposes
10 of this chapter, for the granting or for the
11 continuance of a grant of a loan under this chapter;

12 (3) Establish any loan costs owed by the borrower; and

13 (4) Provide for reasonable inspections of existing
14 dwellings and construction sites.

15 **§ -7 Hawaii direct home loans; terms and restrictions.**

16 (a) Payments required under loans under this chapter may be
17 deferred, but no loans under this chapter shall be forgiven.

18 (b) Prohibited loan purposes shall include:

19 (1) Payment of construction draws;

20 (2) Purchase of furniture or other personal property
21 except for essential equipment and materials
22 authorized in accordance with -4;



1 (3) Purchase or improvement of income-producing land, or
2 buildings to be used principally for income-producing
3 purposes, or to buy or build buildings that are
4 largely or in part specifically designed to
5 accommodate a business or income-producing enterprise;

6 (4) Improving the entry of a homestead entryman or desert
7 entryman prior to receipt of patent; and

8 (5) Purchase of a dwelling with an in-ground swimming
9 pool.

10 (c) Housing units may be financed in existing subdivisions
11 approved by local, regional, state, or federal government
12 agencies. An existing subdivision is one in which the local
13 government has accepted the subdivision plan, its principal
14 development and rights-of-way, the construction of streets,
15 water and water or waste disposal systems, and utilities; is at
16 a point which precludes any major changes; and is one in which
17 provisions are in place for continuous maintenance.

18 (d) Qualified applicants shall be required to recertify
19 the household's income on an annual basis. The amount of
20 subsidy that the household receives shall be adjusted
21 accordingly.



1 (e) Qualified applicants shall be required to refinance
2 their loans with a private lender when household income
3 increases substantially or home equity becomes significant.

4 (f) Payment assistance and subsidies received by the
5 qualified applicant shall be subject to repayment to the
6 corporation when the house is sold, assumed, released, or no
7 longer occupied by the qualified applicant.

8 (g) The corporation may contract with any financial
9 institution for administrative services related to home loans
10 provided under this chapter.

11 **§ -8 Application of other laws to this chapter.**

12 Notwithstanding any law to the contrary, chapter 515 and any
13 applicable federal law shall apply in administering this
14 chapter.

15 **§ -9 Reports.** The corporation shall make a report as of
16 December 31 of each year of operations under this chapter to the
17 governor, the president of the senate, and the speaker of the
18 house of representatives on the progress made under this
19 chapter. These reports shall be submitted no later than
20 February 1 immediately following the period covered by the
21 report."



1 SECTION 2. There is appropriated out of the general
2 revenues of the State of Hawaii the sum of \$ or so
3 much thereof as may be necessary for fiscal year 2014-2015 for
4 deposit into the Hawaii direct home loan special fund
5 established by this Act.

6 SECTION 3. There is appropriated out of the Hawaii direct
7 home loan special fund the sum of \$ or so much thereof
8 as may be necessary for fiscal year 2014-2015 for the Hawaii
9 direct home loan program.

10 The sum appropriated shall be expended by the Hawaii
11 housing finance and development corporation for the purposes of
12 this Act.

13 SECTION 4. This Act shall take effect on July 1, 2050.

14



Report Title:

Hawaii Direct Home Loan Program; Special Fund; Program Requirements; Appropriation

Description:

Establishes the Hawaii direct home loan program to assist residents who have a steady, very low or low income, and yet are unable to obtain conventional financing with purchasing a home. Appropriates funds for the Hawaii direct home loan program. Effective 7/1/2050. (SD1)

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