

SB 2538

Measure Title:	RELATING TO HOME LOANS.
Report Title:	Hawaii Home Loan Guarantee Program; Revolving Fund; Program Requirements; Appropriation (\$)
Description:	Establishes the Hawaii home loan guarantee program to assist residents who have a steady, low or modest income, and yet are unable to obtain conventional financing with obtaining a home loan from a commercial lender that is guaranteed by the Hawaii housing finance and development corporation. Appropriates funds for the Hawaii home loan guarantee revolving fund.
Companion:	
Package:	Housing and Homeless Legislative Package
Current Referral:	HMS/EGH, WAM
Introducer(s):	CHUN OAKLAND, RUDERMAN, Baker

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEES ON HUMAN SERVICES, AND
ECONOMIC DEVELOPMENT, GOVERNMENT OPERATIONS AND HOUSING
ON
SENATE BILL NO. 2538

February 6, 2014

RELATING TO HOME LOANS

Senate Bill No. 2538 establishes the Hawaii home loan guarantee program to assist residents who have a steady, low or modest income, and yet are unable to obtain conventional financing with obtaining a home loan from a commercial lender that is guaranteed by the Hawaii Housing Finance and Development Corporation.

We defer to the Hawaii Housing Finance and development Corporation to determine the feasibility of such a program within the existing portfolio of mortgage assistance programs. The Department does have technical comments on the bill. The bill proposes to guarantee loans “based on a reserve level established at one per cent of the loan guarantee amount”. Please note that pursuant to Article VII, section 13 of the State Constitution, the State must establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the State. (Historically, the reserve funding levels have been recommended in the 15% to 20% range, depending on the degree of risk.) Accordingly, the Department recommends that the bill be amended to increase the reserve level from the proposed 1% to 15%-20% to ensure the reserve fund is adequately funded. In addition, loans guaranteed by the State are, under certain conditions, subject to inclusion in the State’s Debt Limit and as

such, may affect the total amount of general obligation bonds that may be issued to fund State projects/programs.

Thank you for the opportunity to provide our testimony on this bill.



STATE OF HAWAII

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO:

Statement of
Craig K. Hirai
Hawaii Housing Finance and Development Corporation
Before the

**SENATE COMMITTEE ON HUMAN SERVICES
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, GOVERNMENT
OPERATIONS AND HOUSING**

February 6, 2014 at 1:15 p.m.
State Capitol, Room 016

In consideration of
S.B. 2538
RELATING TO HOME LOANS.

The HHFDC ***offers the following comments*** on S.B. 2538, which establishes the Hawaii home loan guarantee program to assist low- and moderate-income residents to purchase a home. We defer to the Department of Budget and Finance with respect to whether the proposed program meets the prerequisites of a state loan guaranty.

The program appears to be modeled after the USDA-RD Single Family Housing Guaranteed Loan Program which provides mortgage loan guarantees in rural areas. The rural areas include all of Kauai, most of Maui (except Kahului), most of Hawaii (except Hilo), and most of West Oahu (e.g., Kapolei, Ewa, Waianae Coast), parts of Central Oahu (from Whitmore Village to the North Shore and Kunia), and parts of Windward Oahu (Kahuku and Waimanalo).

The HHFDC also administers mortgage programs which assist low- and moderate-income households. We have partnered with private lenders to provide first-time homebuyers with Hula Mae mortgage loans and mortgage credit certificates. As such, our programs supplement the USDA-RD loan guarantee and direct loan programs, offering assistance throughout the State of Hawaii.

We note that HHFDC will require an additional 2.0 full-time equivalent positions and funding to administer the loan guarantee program.

Thank you for the opportunity to testify.

TESTIMONY ON SB 2538 RELATING TO HOME LOANS
BEFORE THE SENATE COMMITTEES ON HUMAN SERVICES AND ECONOMIC
DEVELOPMENT, GOVERNMENT OPERATIONS AND HOUSING

February 6, 2014

1:15 pm

Conference Rm. 016

Aloha Chair Chun Oakland, Chair Dela Cruz, Vice-Chair Green and Slom and members of the Senate Committees on Human Services and Economic Development, Government Operations and Housing. My name is Stephen Morse and I am the Executive Director of Blueprint for Change. I am here to testify in **opposition to SB 2538 Relating to Housing in its present form and recommend changes to the bill.**

Members, for the record, BFC is the fiscal, technical, and administrative support entity for seven Neighborhood Place centers statewide that provide support and strengthening services to families at risk of child abuse and neglect under a POS contract with the Department of Human Services. Our Neighborhood Place programs are unique among CAN prevention programs for two reasons: (1) they are community-based and are located in communities where families are at high risk of child abuse and neglect; and (2) they are the only programs where children and families at risk of child abuse and neglect can get services without a referral or appointment and by simply knocking on the door.

We are interested in this bill and other bills in the Housing and Homeless Legislative Package this session, because we find that one of the biggest risk factors for child neglect in the families we serve is that they are living in unstable and often times overcrowded living conditions.

While we think SB 2538 has merits, we don't believe it goes far enough in terms of helping low-income families who have adequate, dependable income and an acceptable credit history obtain home loans. Many of these families are unable to obtain credit from commercial lenders, because they cannot afford calculated monthly payments based on current interest rates, in addition to down payments and other closing costs.

Members, rather than a loan guarantee program, we are recommending that the State consider developing a direct loan program modeled after the United States Department of Agriculture Rural Development's Section 502 Direct Loan Program. Under the program, individuals or families receive a loan directly from Rural Development. Payments are based on income, with no down payment required. To be eligible, the individuals or families must be unable to obtain homeownership loans from a bank or other conventional sources.

Loans under the Direct Homeownership Loan program are made to families with incomes below 80% of the median income level of the communities in which they

intend to live. Almost half of these loans are made to families and individuals with very low incomes. Since Rural Development is able to make loans to those who will not qualify for a conventional loan, the direct loan program enables many people to buy homes who otherwise could not do so. Even if individuals or families have minor credit problems, Rural Development may still be able to work with them.

Loans under this program may be made for the purchase of an existing home or to build a new home. Other uses include purchasing and preparing home sites, including providing water and sewage facilities, and repairing or renovating a house being purchased.

Again there is no required down payment for a Rural Development direct housing loan if an individual or family does not have the savings or assets to pay for one. The standard term for a loan is 33 years for most borrowers. However, 38-year loans are available to those who cannot afford a 33-year loan.

The interest rate for direct housing loans is set by Rural Development and is based on the individual or families current income. In Hawaii today, the current interest rate for Rural Development direct loans is 3.75%, but can be subsidized to as low as 1% in order to help an individual or family qualify for the loan. Any payment assistance (subsidy) received by the borrower is subject to repayment to Rural Development when the house is sold, assumed, released, or when no longer occupied by the borrower.

Loan costs for RD direct loans, such as credit reports, tax service fees, escrow, recordation, appraisal, notary, mortgage prep, title insurance, and 1-year pre-paid fire insurance average a very affordable \$3,000 per borrower, and are minimized by the fact that in the case of new home construction, the loans automatically convert from construction loans to permanent mortgages.

Rural Development direct housing loans are only available to individuals and families who wish to live in rural areas or rural cities and towns as designated by Rural Development, so our only other recommendation is that a State program, if adopted, be made available to individuals and families in urban areas as well.

Members, I believe that Rural Development direct housing loans are one of the most affordable home loan programs available to low income families in Hawaii today, and recommend that the State seriously consider developing a similar program.

Mahalo for the opportunity to testify this afternoon.



Community Alliance for Mental Health

February, 6, 2014

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To: the Committees on Human Services, Economic Development, & Housing
Re: SB 2538

Aloha Senators Chun-Oakland, Della Cruz, and the members of the committees,

On behalf of the Community Alliance for Mental Health as well as United Self Help we strongly support passage of SB 2538.

We believe that this is an essential part of facing our housing shortage and the lack of affordable housing for our workforce. There are many in our workforce who have steady, stable employment but have not and likely never will be able to save up a home deposit given the housing cost in Hawai'i. The passage of SB 2538 might give these hard working individuals a chance at home ownership.

Scott Wall
VP/Legislative Advocate
Community Alliance for Mental Health