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# A BILL FOR AN ACT

RELATING TO THE DOWNPAYMENT LOAN LOSS RESERVE 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.  
3 Homeownership helps families build equity and enjoy stability.  
4 Homeowners have a greater sense of security, continuity,  
5 belonging, and pride in their communities. However, saving for  
6 a downpayment is often cited as the biggest hurdle for first-  
7 time homebuyers, particularly for young people grappling with  
8 student loan debt. The Hawaii Housing Planning Study, 2019,  
9 prepared for the Hawaii housing finance and development  
10 corporation, found that twenty-seven per cent of those  
11 interested in buying a single-family home could not afford the  
12 downpayment.

13           The legislature further finds that a loan loss reserve fund  
14 is a form of credit enhancement that helps lenders control for  
15 the risk that loans will not be repaid. If a borrower defaults  
16 on a loan, the lender may access funds in the lender's loan loss  
17 reserve account to mitigate losses. Because they have access to



1 the loan loss reserve fund, lenders can offer better rates and  
2 more attractive terms to borrowers or make financing available  
3 to borrowers having a wide range of credit scores. State funds  
4 could be leveraged at a ratio of 10:1 with private loan capital  
5 to assist from more than eight hundred to twelve hundred first-  
6 time homebuyers with downpayment loans.

7 Accordingly, the purpose of this Act is to facilitate the  
8 provision of downpayment loan assistance to first-time  
9 homebuyers by establishing a downpayment loan loss reserve  
10 program to address downpayment loan defaults.

11 SECTION 2. Chapter 201H, Hawaii Revised Statutes, is  
12 amended by adding a new section to part III, subpart F, to be  
13 appropriately designated and to read as follows:

14 "§201H- Downpayment loan loss reserve program. The  
15 corporation may set aside and provide funds to serve as a loan  
16 loss reserve for financial institutions that make downpayment  
17 loans to eligible borrowers. If a downpayment loan issued  
18 pursuant to this subpart is in default, the loan loss reserve  
19 shall cover a percentage of the second mortgage loan pool or a  
20 percentage of each individual second mortgage in default, as  
21 determined by the corporation. The corporation may secure the



1 services of nonprofit organizations, as defined in section  
2 454F-1, to operate the loan loss reserve program."

3 SECTION 3. There is appropriated out of the general  
4 revenues of the State of Hawaii the sum of \$ or so  
5 much thereof as may be necessary for fiscal year 2020-2021, to  
6 be deposited into the housing finance revolving fund established  
7 by section 201H-80, Hawaii Revised Statutes.

8 SECTION 4. There is appropriated out of the housing  
9 finance revolving fund established by section 201H-80, Hawaii  
10 Revised Statutes, the amount of \$ or so much thereof  
11 as may be necessary for fiscal year 2020-2021, to serve as loan  
12 loss capital for downpayment loans for first-time homebuyers  
13 pursuant to section 201H- , Hawaii Revised Statutes.

14 The sum appropriated shall be expended by the Hawaii  
15 housing finance and development corporation for the purposes of  
16 this Act.

17 SECTION 5. New statutory material is underscored.

18 SECTION 6. This Act shall take effect on July 1, 2020.

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INTRODUCED BY:

*Stanford M. ...*  
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JAN 23 2020



# H.B. NO. 2687

**Report Title:**

HHFDC; Loan Loss Reserve Program

**Description:**

Establishes a downpayment loan loss reserve program to address downpayment loan defaults under the Hawaii Housing Finance and Development Corporation's downpayment loan assistance program.

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

