



STATE OF HAWAII | KA MOKU'ĀINA 'O HAWAI'I
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

NADINE Y. ANDO
DIRECTOR | KA LUNA HO'OKELE

JOSH GREEN, M.D.
GOVERNOR | KE KIA'ĀINA
SYLVIA LUKE
LIEUTENANT GOVERNOR | KA HOPE KIA'ĀINA

DEAN I HAZAMA
DEPUTY DIRECTOR | KA HOPE LUNA HO'OKELE

KA 'OIHANA PILI KĀLEPA
335 MERCHANT STREET, ROOM 310
P.O. BOX 541
HONOLULU, HAWAII 96809
Phone Number: (808) 586-2850
Fax Number: (808) 586-2856
cca.hawaii.gov

Testimony of the Department of Commerce and Consumer Affairs

Before the
House Committee on Housing
Wednesday, March 15, 2023
9:00 a.m.
Conference Room 312

On the following measure:
S.B. 764 S.D. 1, RELATING TO AFFORDABLE HOUSING

Chair Hashimoto and Members of the Committee:

My name is Nadine Ando and I am the Director for the Department of Commerce and Consumer Affairs ("Department"). The Department offers comments on this bill.

The purpose of this bill is to allow a bank to invest, in aggregate, up to two per cent of the bank's total assets in limited partnerships, limited liability partnerships, limited liability companies, and corporations formed to invest in low income housing residential properties and requires approval from the Commissioner of Financial Institutions to exceed this amount.

The Department fully supports the intent of the bill to encourage financing of low income residential housing projects and notes that the department has in the past approved all requests for investment in low income housing projects requested by our banks.

Currently, if Hawaii's banks wanted to invest additional capital in affordable housing projects for tax credits, banks can use the "wild card" provision in the Chapter 412, HRS, to ask for the same treatment as national banks. National banks can invest up to 15% of capital and surplus with the OCC's approval for affordable housing projects. See 12 CFR 24.4. This wild card provision creates parity among all of our state chartered and national chartered banks to have the same opportunity for investment in affordable housing projects.

The Department also notes that the FDIC allows a bank to invest, in aggregate, up to two per cent of the bank's total assets after application and meeting their review, approval and regulatory requirements contained in CFR Title 12, Chapter III, Subchapter B, Part 362. A bank would need to form a subsidiary with FDIC's approval and obtain prior written consent to determine if the bank will continue to meet applicable capital standards. To create parity with the same statutory authority as the FDIC's rule, we recommend that provisions of Part 362 be included in the bill should this option be adopted.

Thank you for the opportunity to provide comments for this bill.

Representative Troy Hashimoto, Chair
Representative Micah Aiu, Vice Chair
House Committee on Housing

RE: SB 764 SD 1 - Relating to Affordable Housing – In Support
March 15, 2023; 9:00 AM; Conference Room 312, State Capitol

Aloha Chair Hashimoto, Vice Chair Aiu and Members of the Committee:

Central Pacific Bank (“CPB”) is submitting testimony in Support of SB 764 SD 1, which allows a bank to invest, in aggregate, up to two per cent (2%) of the bank’s total assets in limited partnerships, limited liability partnerships, limited liability companies, and corporations formed to invest in affordable housing residential properties and requires approval from the commissioner of financial institutions to exceed this amount.

CPB requested the introduction of SB 764 SD 1 to enable CPB to do more to support affordable housing in Hawaii. Due to CPB’s size in relation to its current funding of low-income housing tax credit (“LIHTC”) project investments and desire to fund future LIHTC projects, CPB is admittedly in a unique position of needing passage of this bill versus other banks. And, accordingly, CPB wants to be very clear that CPB is not in submitting this testimony, speaking for or on behalf of any other Hawaii banks who either do not invest in LIHTCs or due to their larger size have a larger LIHTC investment limit.

CPB fully appreciates the Hawaii Division of Financial Institution’s (“DFI”) need for funding and would not want the passage of this bill to adversely impact the DFI’s current funding. CPB would also not want the passage of this bill to adversely impact the other banks. CPB believes (but cannot confirm) that the collective franchise taxes paid by it and the other banks well exceeds the \$2 million the DFI receives in annual funding.

Safety and soundness is not compromised for the reasons below.

This bill amends State banking law to be consistent with Federal banking law. State law currently requires DFI approval before a bank can invest in a single LIHTC project in an amount exceeding 2% of a bank’s capital and surplus. Hawaii law also requires DFI approval before a bank’s aggregate investments in LIHTCs can exceed 5% of a bank’s capital and surplus. And Hawaii law prohibits a bank from aggregate investments in LIHTCs exceeding 10% of a bank’s capital and surplus. By comparison, the Federal Deposit Insurance Corporation (“FDIC”) which is CPB’s federal bank regulator, allows banks to invest an aggregate amount in LIHTCs up to 2% of a bank’s total assets without any FDIC approval needed.

The DFI and FDIC exercise strong oversight of banks. The DFI and FDIC examine CPB annually to ensure CPB operates in a safe and sound manner, which examinations include a review of CPB’s LIHTC investments. If the DFI or FDIC were to have any concern over CPB’s LIHTC investments or respecting any of CPB’s other activities, the DFI and FDIC have within their supervisory authority and under State and Federal laws and regulations, the authority to limit, restrict or prohibit CPB’s LIHTC investments. The DFI or FDIC has over CPB’s existence, examined and not had any concern over CPB’s LIHTC investments, all of which LIHTC investments have performed, and none of which CPB has taken any loss.

CPB exercises strong investment protocols. CPB maintains strong investment protocols, to include rigorous due diligence and reviews of proposed LIHTC investments by internal committees, pursuant to established policies and procedures. For CPB invested LIHTCs, CPB conducts regular monitoring. CPB has not in its long history of investing in LIHTCs taken any loss and all its LIHTC investments have performed.

CPB requests an increase in the statutory LIHTC limit due to CPB’s unique situation. This bill raises the individual and aggregate limits by which CPB could invest in LIHTCs, by allowing CPB to invest in LIHTCs up to 2% of

CPB's total assets, which is a greater amount than allowed under the current statute. Thus, if this bill passes, CPB would be able to increase its investments in LIHTCs and support more LIHTC projects in Hawaii.

CPB and other banks are allowed under current DFI laws/regulations and FDIC laws/regulations to make larger and more complex individual and aggregate loans and investments without the same level of regulatory restrictions and limits as are imposed on LIHTCs. For example, CPB and other banks are allowed to make and participate with other banks in large multi-million dollar residential and commercial construction loan projects and in large multi-million dollar investments without DFI or FDIC approval. Banks are specially staffed and experienced in making large and complex loans and investments.

CPB has total loans of \$5.5 billion, total investment securities of \$1.3 billion, and total assets of \$7.4 billion. Accordingly, with the bill's passage and increase in LIHTC investment limit, CPB's increase in LIHTC limit would not present any additional significant risk to the Bank.

CPB must and does per DFI law/regulations and FDIC laws/regulations maintain safe and sound loan and investment criteria, policies, procedures, practices, which include internal executive and committee level reviews and monitoring, all of which is audited by independent auditors both internal and external, which is overseen by an independent Board of Directors, and which are annually examined by the DFI and FDIC.

CPB wants to support more low income and affordable housing. CPB wants to continue to contribute to low income and affordable housing in Hawaii through investments in LIHTCs and the passage of this bill will provide CPB and other banks with the same flexibility and increased LIHTC investment limit that the FDIC already allows.

Please Support SB 764 SD 1. CPB requests your favorable consideration in passing this measure. As a bank founded by those intent on serving the underserved, CPB would like to be able to do more to support low income and affordable housing development and units for Hawaii's citizens and residents.

Thank you for your time and attention.

Arnold Martines
President & Chief Executive Officer
Central Pacific Bank

March 15, 2023

Dear Chair Hashimoto, Vice Chair Aiu, and members of the Housing Committee,

Housing Hawai'i's Future is a movement led by young locals who will create opportunities for Hawai'i's next generation by ending the workforce housing shortage.

On behalf of Housing Hawai'i's Future, **I write in SUPPORT of SB 764**, allowing banks to invest up to two per cent of total assets in limited partnerships, limited liability partnerships, limited liability companies, and corporations formed to invest in affordable housing residential properties.

One of the rate limiting factors for new construction and rehabilitation of affordable housing units is access to capital.

SB764 increases the available supply of capital.

Banks are risk averse by definition. And they hedge their bets.

Housing is a collateralized investment: in the event of an emergency a bank could liquidate their housing holdings or (more likely) borrow against its value. But such an emergency is extraordinarily unlikely.

Please support SB 764.

Thank you,



Sterling Higa
Executive Director
Housing Hawai'i's Future

sterling@hawaiisfuture.org

+1 (808) 782-7868



**Testimony to the House Committee on Housing
Wednesday, March 15, 2023, at 9:00am
Conference Room 312 & Videoconference**

RE: SB 764 SD1 Relating to Affordable Housing

Aloha Chair Hashimoto, Vice Chair Aiu, and members of the committee,

The Chamber of Commerce Hawaii ("The Chamber") **supports SB 764 SD1**, which allows a bank to invest, in aggregate, up to two per cent of the bank's total assets in limited partnerships, limited liability partnerships, limited liability companies, and corporations formed to invest in affordable housing residential properties. Requires approval from the commissioner of financial institutions to exceed this amount.

When polling our membership on issues that affect the economy, affordable housing and the cost of living always rise to the top. A 2019 study commissioned by DBEDT noted that the State will need an additional 50K new housing units by year 2025 (Oahu needing 22K new housing units, Hawaii Island needing 13K new housing units, Maui County needing 10K new housing units, Kauai needing 4K new housing units). Over 60% of the new housing units need is for residents at or below 80% of Area Median Income (AMI) in Hawaii.

While home ownership is a goal that many people in our state are striving for, renting a home in Hawaii is still unaffordable, and only getting worse. The annual cost reaching \$30K compared to annual salaries of \$60K. Per a 2021 study by NiceRx the average cost of rent in Hawaii was \$29,772 with residents spending about 49.3% of their income on rent, well above the 30% guideline for spending on housing costs. Hawaii residents are spending 49.3% of their salaries, virtually half of their earnings, just to cover the cost of rent. Those residents earning below 80% of AMI are unable to secure affordable housing.

Many of our businesses in the community are stepping up to solve the affordable housing crisis. Our local banks are interested in investing in affordable housing residential properties to drive the cost down for all our residents. This bill increases the Low Income Housing Tax Credit investment limit for local banks to a level already permitted by the federal government. Without the lending support of local banks, Low Income Housing Tax Credit development in Hawaii is unnecessarily limited. Affordable housing is crucial to serve our workforce needs and to keep businesses thriving.

Overall, we need our business community to be a part of the solution when addressing societal problems. Affordable housing is not only economic issue, but a human issue. The Chamber of Commerce Hawaii supports our local banks addressing the issue by investing more in projects throughout the state, including our neighbor islands.



Chamber *of* Commerce HAWAII

The Voice of Business

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

Thank you for the opportunity to testify.



Representative Troy Hashimoto, Chair
Representative Micah Aiu, Vice Chair
Members of the Committee on Housing

RE: **SB 764 SD1 – RELATING TO AFFORDABLE HOUSING**
Hearing date – March 15, 2023 at 9:00 a.m.

Aloha Chair Hashimoto, Vice Chair Aiu and members of the committee,

Thank you for allowing NAIOP Hawaii to submit testimony in **SUPPORT OF SB 764 SD1 – RELATING TO AFFORDABLE HOUSING**. NAIOP Hawaii is the Hawaii chapter of the nation's leading organization for office, industrial, retail, residential and mixed-use real estate. NAIOP Hawaii has over 200 members in the State including local developers, owners, investors, asset managers, lenders and other professionals.

Hawaii is in a housing crisis. In 2019, a study commissioned by DBEDT found that Hawaii will need an additional 50,156 homes by 2025. In order to meet this projection housing units will need to be developed in mass quantities. The affordable housing credit program seeks to assist in accomplishing this goal.

Furthermore, purchasing a home has become increasingly more difficult for local residents. Interest rates for 30 years fixed residential mortgages have significantly risen from 3.07% to 6.90% within the past 2 years representing a near 150% increase. This has led to a dramatic increase in monthly costs of owning a home in Hawaii. Moreover, the recent increases in interest rates have decreased the sales prices of income specified units built under HRS 201H due to the AMI price limitations. In conjunction, construction loan interest rates have increased from .05% to 3.81% representing a nearly seventy-five-fold increase which dramatically increase the costs of building residential units. The rising construction costs combined with the dramatic drop in sales prices due to AMI limitations has limited the feasibility of affordable housing projects.

In addition, Hawaii has the most unaffordable rent in the nation with the annual cost reaching \$30,000 compared to annual salaries of \$60,000. Per a 2021 study by NiceRx the average cost of rent in Hawaii was \$29,772 with residents spending about 49.3% of their income on rent, well above the 30% guideline. Those residents earning below 80% of AMI are unable to secure affordable housing and are forced to move outside of Hawaii.

NAIOP Hawaii is concerned that development of affordable housing projects may cease if policies are not implemented which provide a source of capital and offset some of

Representative Troy Hashimoto, Chair
Representative Micah Aiu, Vice Chair
Members of the Committee on Housing
March 13, 2023
Page 2

these rising costs, which would further strain the local's ability to continue to make Hawaii their home.

SB 764 would help to resolve some of these issues by increasing the capital available for affordable housing projects. The bill would allow a bank to invest up to 2% of the banks total assets in an entity formed to invest in affordable housing residential properties and would allow the commissioner of financial institutions to approve a higher investment amount. This bill increases the LIHTC investment limit for local banks to a level already permitted by the federal government. It is anticipated that the amount of capital available from local banks for investment in affordable housing would double. In addition, allowing the 2% total asset limit in SB 764 is consistent with federal guidelines. Without the lending support of local banks, LIHTC development in Hawaii is unnecessarily limited and hinders the development of affordable housing.

Accordingly, NAIOP Hawaii strongly supports SB 764 which will ensure the continued production of homes for locals.

Mahalo for your consideration,



Jennifer Camp, President
NAIOP Hawaii



March 15, 2023

Committee: House Committee on Housing
Bill Number: SB 764 SD1, Relating to Affordable Housing
Hearing Date and Time: March 15, 2023, 9:00am
Re: Testimony of HPM Building Supply in support

Dear Chair Hashimoto, Vice Chair Aiu, and members of the Committee,

I am writing to express my strong support for SB 764, SD1, which allows a bank to invest, in aggregate, up to two per cent of the bank’s total assets in limited partnerships, limited liability partnerships, limited liability companies, and corporations formed to invest in affordable housing residential properties and requires approval from the commissioner of financial institutions to exceed this amount.

HPM Building Supply is a 100% employee-owned company serving Hawaii's home improvement market and building industry for over 100 years since 1921. With 17 locations across Hawaii and Washington State, we offer various services and products, including retail stores, building supply and lumber yards, Home Design Centers, drafting, design, roofing, and manufacturing facilities. HPM is dedicated to enhancing homes, improving lives, and transforming communities. The company is guided by its core values of Heart, Character, and Growth, striving to provide top-quality products and exceptional customer service. HPM has earned recognition as a leader in the industry for its products, services, and commitment to its community.

SB 764 SD1 represents a significant opportunity for financial institutions to play a role in addressing the shortage of affordable housing in Hawaii. The bill will allow these institutions to support construction of affordable housing, which will positively impact the lives of many families and individuals struggling to find affordable places to live.

The Low Income Housing Tax Credit (LIHTC) program, enables developers to provide affordable rental housing to local families and kupuna. LIHTC provides long-term, subsidized, rent-restricted housing for low-income households with incomes up to 80% of the area median income (AMI). The program provides a dollar-for-dollar reduction in federal income tax liability for developers, leveraging federal subsidies for Hawaii. The program also supports jobs in Hawaii, as LIHTC projects are built by local union laborers, including plumbers, steamfitters, and metal workers.

Currently, local banks are limited by Hawaii law in investing in LIHTCs. This bill increases the LIHTC investment limit for local banks to a level already permitted by the federal government, enabling more investment in LIHTC projects. LIHTC is the federal government’s primary program for encouraging private investment in the development of affordable rental housing.



HPM Building Supply
18100 MELEKAPIWA STREET, KEAAUA, HAWAII 96749
OFFICE: (808) 966-5466 FAX: (808) 966-7564





BUILDBETTER.LIVEBETTER.®

for low-income households and has successfully attracted private dollars to create affordable housing.

In the past couple of years, we have seen an increase in demand for subsidized rental housing, and the demand for investment in LIHTC projects has expanded. There have been LIHTC projects on all islands, including over 10 projects on the Island of Hawaii, 4 projects on Kauai, 12 projects on Maui, and 17 projects throughout Oahu.

We respectfully request your favorable consideration of SB 764 SD1 and support for this critical measure. The bill will allow local banks to invest in LIHTC projects and support the creation of more affordable housing for our communities.

Sincerely,

Dennis Lin
Community Relations Administrator



(808) 966-5466 • FAX (808) 966-7564
16-166 MELEKAHIWA STREET • KEAAU, HAWAII 96749

HPMHAWAII.COM



*Expanding the range of opportunities for all by
developing, managing and promoting quality
affordable housing and diverse communities.*



Testimony of EAH Housing | Hawaii Region
RELATING TO SB764 SD1

March 15, 2023 at 9:00 AM
Written Testimony Only

House Committee on Housing

Chair Troy Hashimoto, Vice Chair Micah Aiu,
Members Luke Evslin, Darius Kila, Lisa Kitagawa, Lisa Marten
Richard Onishi, Chris Todd, and Lauren Matsumoto

Strong Support

The change to HRS §412:5-305 (h) specified in SB764 SD1 allows a bank to invest, in aggregate, up to two per cent of the bank's total assets in limited partnerships, limited liability partnerships, limited liability companies, and corporations formed to invest in affordable housing residential properties and requires approval from the commissioner of financial institutions to exceed this amount.

This measure increases the low income housing tax credit (LIHTC) investment limit for local banks to a level already permitted by the federal government. Without the continued lending support of local banks, LIHTC development in Hawaii will be unnecessarily constrained in addressing the soaring demand for affordable rental housing.

Thank you for the opportunity to provide input and we ask for your favorable consideration in passing SB764 SD1.

A handwritten signature in black ink that reads "Karen Seddon".

Karen Seddon, Regional Vice President
EAH Housing

EAH Housing is a non-profit corporation founded with the belief that attractive affordable rental housing is the cornerstone to sustainable, healthy, and livable communities.

1001 Bishop Street, Suite 2880
Honolulu, Hawaii 96813
(808) 466-7774

Ahe Group
157 Makawao Street
Honolulu, Hawaii 96734

Testimony in Support of SB764 SD1, Related to Affordable Housing

House Committee on Housing
Hawaii State Capitol, Conference Room 312
March 15, 2023

SB764 allows banks to invest, in aggregate, up to two per cent of the bank's total assets in limited partnerships, limited liability partnerships, limited liability companies, and corporations formed to invest in residential properties that qualify for the low income housing tax credit program under section 42 of the Internal Revenue Code provided that the aggregate amount invested shall not exceed two percent of the bank's total assets without prior approval of the commissioner. We are in strong support of this measure.

Since its founding in 2014 the Ahe Group has been engaged in the development of new affordable housing projects and the preservation and enhancement of existing affordable housing throughout Hawaii. The low income housing tax credit program has been an indispensable tool to finance our affordable housing projects, and local financial institutions vital partners in providing interim and permanent financing.

SB764 will provide local banks with greater capacity to invest in projects assisted through the low income housing tax credit program which will help local developers like the Ahe Group meet our community's need for more affordable housing. We therefore encourage your favorable consideration of SB764 SD1.



Makani Maeva
Managing Director



CATHOLIC CHARITIES HAWAII

TESTIMONY IN SUPPORT OF SB 764, SD1: RELATING TO AFFORDABLE HOUSING

TO: House Committee on Housing

FROM: Rob Van Tassell, President and CEO, Catholic Charities Hawai'i

Hearing: Wednesday, 3/15/23; 9:00 AM; CR 312 & via videoconference

Chair Hashimoto, Vice Chair Aiu, and Members, Committee on Housing:

Thank you for the opportunity to provide written testimony **in Support** of **SB 764, SD1**, which allows a bank to invest, in aggregate, up to 2% of the bank's total assets in limited partnerships, limited liability partnerships, and corporations formed to invest in affordable housing residential properties. Requires approval from the Commissioner on Financial Institutions to exceed this amount. I am Rob Van Tassell, with Catholic Charities Hawai'i.

Catholic Charities Hawai'i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai'i for over 70 years. CCH has programs serving elders, children, families, homeless, and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawai'i. Catholic Charities Hawai'i has a long history of working in the areas of affordable housing and homelessness.

Hawaii's developers are ready to build affordable rentals for our struggling families and elders. The Hawaii Housing Finance and Development Corporation (HHFDC) receives many more applications than they can fund to build new rentals. More resources are needed to create the affordable rental projects that Hawai'i so desperately needs.

Catholic Charities Hawai'i supports this bill since it will enable banks to make more funds available for affordable housing projects. Currently banks are limited to 10 percent of their total capital. If increased to 2 percent of their total assets, the amounts available for affordable housing would increase exponentially.

We must seek new and creative ways to fund the massive construction needed to provide sufficient inventory to meet the needs of our residents. We urge your support of this bill as one more tool the State can use to create more affordable housing.

Please contact our Legislative Liaison, Betty Lou Larson at (808) 527-4813 if you have any questions.



Hunt Development Group, LLC
737 Bishop Street, Suite 2750
Honolulu, Hawai'i 96813
Office: 808-585-7900

Representative Troy Hashimoto, Chair
Representative Micah Aiu, Vice Chair
Committee on Housing

Wednesday, March 15, 2023; 9:00 A.M.
Conference Room 312 & Videoconference

RE: SB 764 SD1 – Relating to Affordable Housing – IN SUPPORT

Aloha Chair Hashimoto, Vice Chair Aiu and Members of the Committee:

Hunt Development Group, LLC and Hunt Capital Partners, LLC appreciate the opportunity to submit testimony in support of the intent of SB 764 SD1.

Hunt Capital Partners, LLC is a syndicator of federal and state low-income housing, historic and solar tax credits, raising over \$3 billion since its inception in 2010. Hunt Capital Partners, LLC has helped finance 19 developments in Hawaii, providing over 1,300 affordable homes since 2011.

We support any and all actions that would increase the ability of Hawaii banks to invest in low-income housing tax credits, and support more affordable housing in the state.

Thank you for your consideration of this important measure.

Steven W. Colón
President – Hawaii Region
Hunt Development Group, LLC

Jeff Weiss
President
Hunt Capital Partners, LLC



holomua

COLLABORATIVE

OUR MISSION

To support and advance public policies that make Hawai'i affordable for all working families.

OUR VISION

Collaborative, sustainable, and evidence-based public policies that create a diverse and sustainable Hawai'i economy, an abundance of quality job opportunities, and a future where all working families living in Hawai'i can thrive.

BOARD MEMBERS

Jason Fujimoto
Meli James, *Board Chair*
Micah Kāne
Brandon Kurisu
Mike Mohr
Brad Nicolai
Mike Pietsch

ADVISORY COMMITTEE

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Alicia Moy
Ed Schultz

Josh Wisch
President & Executive Director

827 Fort Street Mall, 2nd Floor
Honolulu, Hawaii 96813

+1 (808) 909-3843
info@holomuacollaborative.org

HolomuaCollaborative.org

Page 1 of 2

Committee: House Committee on Housing
Bill Number: SB 764, SD1, Relating to Affordable Housing
Hearing Date and Time: March 15, 2023 at 9:00am (Room 312)
Re: Testimony of Holomua Collaborative in support

Aloha Chair Hashimoto, Vice Chair Aiu, and Committee Members:

We write in support of SB 764, SD1 Relating to Affordable Housing. This bill will allow local financial institutions greater ability to take advantage of the Low-Income Housing Tax Credit (LIHTC) Program so they can finance more affordable housing for local working families. The bill would permit a bank to invest, in aggregate, up to two per cent of the bank's total assets in limited partnerships, limited liability companies, and corporations formed to invest in affordable housing residential properties. This will positively impact the lives of many families and individuals struggling to find affordable places to live.

Holomua Collaborative's mission is to support and advance public policies that make Hawai'i affordable for all working families. Providing housing that working families can afford is a central part of making this possible. For families from a variety of income levels, housing is simply out of reach for too many people in Hawai'i. The median middle class mean household income in 2019 in Hawai'i was just under \$67,000.¹ As of January 2023, the median price of a single family home on O'ahu was \$970,000.² The situation is not much better for renters. As of late last year, Honolulu was the third most expensive place to rent in the country, with the median rent for a two-bedroom unit coming out to about \$2,500 per month.³ The numbers simply do not pencil out for local families to be able to pay for housing, whether they rent or own.

This is where the LIHTC Program comes in. It is a financing tool for private developers and non-profit entities to construct or rehabilitate affordable rental units. Federal and state tax credits are awarded by the Hawai'i Housing Finance and Development

¹ See <https://holomuacollaborative.org/resources/> ("Middle Class" households in Hawai'i are identified as those with an income ranging from two-thirds to double the state median household income, following the Pew Research Center's methodology in "[America's Shrinking Middle Class \(2016\)](#).)

² See "Honolulu real estate prices normalizing after pandemic frenzy," Hawai'i News Now, February 12, 2023 (<https://www.hawaiinewsnow.com/2023/02/12/honolulu-real-estate-prices-normalizing-after-pandemic-frenzy/>).

³ See "As Housing prices soar, Honolulu becomes the third most expensive place to rent in the country," Hawai'i News Now, August 2, 2022 (<https://www.hawaiinewsnow.com/2022/08/03/analysis-honolulu-is-now-nations-third-most-expensive-place-rent/>).

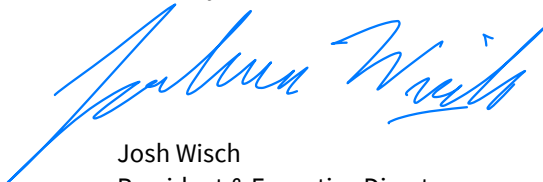
Corporation (HHFDC), and may be used to obtain a dollar for dollar reduction in income tax liability for 10 years for federal tax credits and 5 years for state tax credits.

The LIHTC tax credit is available only for units rented to low-income occupants. This means that a project must have: (1) at least 20% of its units rented to households with incomes of 50% or less of area median income; *or* (2) at least 40% of the units must be rented to households with incomes of 60% or less of area median income. Low-income rents are restricted based on the number of bedrooms in the unit and the area median income as established annually by the office of Housing and Urban Development (HUD). If the tenant pays for utilities, the rent must be adjusted by the applicable utility allowance.

While the program has proven successful, the ability of banks to participate is too limited. Currently, Hawai'i law prohibits a bank from aggregate investments in LIHTCs exceeding 10% of a bank's capital and surplus. By comparison, the Federal Deposit Insurance Corporation ("FDIC") allows banks to invest an aggregate amount in LIHTCs up to 2% of a bank's total assets without any FDIC approval needed. SB 764, SD1 amends Hawai'i banking law to be consistent with Federal banking law. In essence, the bill increases the LIHTC investment limit for local banks to a level already permitted by the federal government. This will enable more investment in LIHTC projects, which will enable the construction of more affordable housing.

We are proud to support this bill and appreciate the opportunity to testify.

Sincerely,



Josh Wisch
President & Executive Director



**TITLE GUARANTY
HAWAII**

March 14, 2023

Committee: House of Committee on Housing
Bill Number: SB 764, SD1, Relating to Affordable Housing
Hearing Date & Time: March 15, 2023 at 9:00 AM (Room 312)
Re: Testimony of Title Guaranty of Hawai'i in support

Aloha Chair Hashimoto, Vice Chair Aiu, and Committee Members:

We write in support of SB 764, Relating to Affordable Housing. The purpose of SB 764 is to allow a bank to invest in residential properties that will qualify for the low-income housing tax credit (LIHTC).

Title Guaranty of Hawai'i is the state's oldest and largest title company. We have been owned and operated by a kama'aina family since 1896, and we are proud to employ over 300 people who work in our branches all across the state. Being a longtime employer of so many people in Hawai'i, we know how important it is for all working families to have access to affordable living. The LIHTC program aids local banks with greater capacity to invest in projects assisted through the low income housing tax credit program which will help local developers meet the community's need for more affordable housing.

We support SB 764 and appreciate the opportunity to testify.

Sincerely,

Mike B. Pietsch
President and Chief Operating Officer
Title Guaranty of Hawai'i



Title and Escrow is our business. Hawaii is our home.





SanHi

GOVERNMENT STRATEGIES

A LIMITED LIABILITY LAW PARTNERSHIP

DATE: March 15, 2023

TO: Representative Troy Hashimoto
Chair, Committee on Housing

FROM: Mihoko E. Ito / Tiffany N. Yajima

RE: **S.B. 764 S.D. 1 Relating to Affordable Housing**
Hearing Date: Wednesday, March 15, 2023 at 9:00 a.m.
Conference Room 312 & Videoconference

Dear Chair Hashimoto, Vice Chair Aiu, and Members of the Committee on Housing:

We submit this testimony in **opposition** to S.B. 764 on behalf of the Hawaii Bankers Association (HBA) and proposes an amendment to this bill. HBA S.B. 764, S.D.1 which proposes to allow a bank to invest, in aggregate, up to two per cent of the bank's total assets in limited partnerships, limited liability partnerships, limited liability companies, and corporations formed to invest in affordable housing residential properties, without approval from the Division of Financial Institutions (DFI).

HBA is supportive of efforts to increase opportunities to invest in affordable housing projects. Banks, here and on the continent, have long provided services for low to moderate income communities (LMI). The Community Reinvestment Act (CRA) is the bulwark of such LMI support by banks and the Affordable Housing Tax Credit Coalition wrote in 2020 that 73% of housing credit investment comes from banks motivating CRA requirements.

HBA proposes that the current 10% limit in the law should be increased to 15% of capital and surplus. Under the current law, banks are permitted to invest up to 10% of its capital and surplus in low income housing tax credit projects, and must obtain approval from DFI if the bank's investments exceed 5% of capital and surplus. An increase to 15% will align Hawai'i with the main federal banking regulators (OCC and FRB) and most Western states which all have a 15% capital and surplus limit. The OCC and FRB supervise a vast majority of banks with the capacity to invest in affordable housing projects, and the OCC supervises financial institutions that conduct about 70% of banking activity.

For the three state banks (assets over \$7 billion), an increase to 15% will provide for a 50% increase in the capacity of Hawai'i banks to invest in low to moderate income projects for affordable housing, including affordable rentals, without compromising safety and soundness of financial institutions in Hawaii. The 15% limit will increase their capacity to a maximum of \$203 million, which is close to the 2018 legislative appropriation to the Hawaii Housing Finance Development (HHFDC), our state's

housing agency. This is larger than what the media reported that the House budget would include for affordable housing (\$150 million).

There are other reasons to keep the limit at 15%, including that the fact that banks can still make construction loans to developers to support affordable housing without affecting their investment limit. There are no limits on construction loans for banks, and there is precedent for going this route – here are a couple examples:

- Hunt Capital made an affordable housing project in 2022 and 2023, and got construction loans from 2 banks, and received low-income housing tax credits (LMHTC). The law that is at issue in this bill is about investments, not loans.
- Schwab bank, a \$358 billion asset bank, has a three year plan (2022-2024) for affordable housing no less than \$2.87 billion, but divides the fund between loans and investments on a 50% basis. The LIHTC portion would be 0.40% of assets.

A bank wishing to provide more in affordable housing projects is still able to make loans to such projects, as shown by these examples.

We believe that increasing the investment limit to 15% of capital and surplus would not only protect the safety and soundness of a bank, and the risk caused by the lack of diversity of investments, as well as help to ensure that the Division of Financial Institutions would still be able to receive its franchise tax revenue. The problem with the proposal of SB 764,SD1, is that it promotes dilution of capital because if Hawai'i banks used the 2% asset threshold, the investments for all the large state banks would be over 20% capital and surplus and two would be over 25%.

We would be remiss if we do not mention the viewpoint of banking regulators who become concerned about when a bank is overly concentrated in any particular area. A very prominent example of this is the failure of Silicon Valley Bank (SVB) last Friday, in addition to two other banks recently. SVB was closed by the regulators, and another bank was voluntarily closed. These three banks shared characteristics in that all three banks concentrated on a risky industry (SVB focused on hedge funds, startups, and venture capitalists, the other two were focused on crypto and the like.)

This is the reason that banking regulators are wary of concentration on certain loan categories (commercial real estate or construction loans are examples) but a focus may also be on non-loans. The OCC has a concentration handbook which says that 25% is the concentration threshold. The focus is on loans because the mission of banks is loans and deposits and not investments but because of SVB, there may be a greater focus on investments.

Investments can also cause wariness. Bloomberg News said that the closure of SVB was triggered by a \$1.8 billion loss in investments that would normally be viewed as safe – government securities – but not in a time of rising interest rates.

The impact of SVB was not contained to the bank itself but other companies including companies and payroll companies paying workers and they worried that they could not make payroll if the uninsured deposits in SVB were not available. Fortunately, on Sunday, the Treasury department said all deposits of SVB as well as Signature Bank, would be available, including uninsured deposits. 93% of SVB's deposits were uninsured.

The uninsured deposits will not be paid by taxpayers but by banks so ultimately, banks will bear the cost for paying for deposit lost by a bank that engaged in activity that caused the closure of the bank.

However, the law requires that uninsured deposits must pose a "systemic risk" to the financial system before the uninsured depositor can receive it. SVB had over \$200 billion in assets and Signature Bank had \$70 billion in assets and it is unknown if the failure of a smaller bank would constitute a systemic risk.

Our banking system is in better shape than ever, in part, to reforms under President Obama's administration. A part came from the Dodd-Frank Act but another came from stress tests on banks of a certain size. The main thrust of the stress test was to reassure all that in the case of an economic downfall, the bank had adequate capital to survive. Regulators know that capital is the heartbeat of a bank's well-being.

President Biden spoke on Monday, March 13, and one of his talking points was that he would push Congress and regulators to strengthen the rules for banks. In light of this desire, it makes more sense to have a threshold based on capital and surplus with a 15% limit that is consistent with the Federal Reserve Bank (the main supervisor of banks) and the OCC which supervises 70% of banking activity.

The problem with the proposal of SB 764,SD1, is that it promotes dilution of capital because if Hawai'i banks used the 2% asset threshold, the investments for all the large state banks would be over 20% capital and surplus and two of the three banks would be over 25%.

On the other hand, if the HBA proposal for a 50% increase in the limit on LIHTC investment, the limit would increase to 15%, and the proponent of the bill would find that their investments would be 1.08% of assets.

Thank you for the opportunity to submit our opposition and proposed amendment to this measure.

SB-764-SD-1

Submitted on: 3/14/2023 12:14:34 PM

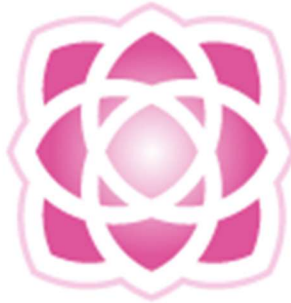
Testimony for HSG on 3/15/2023 9:00:00 AM



Submitted By	Organization	Testifier Position	Testify
Marlene DeCosta	Roman Catholic Church	Support	Written Testimony Only

Comments:

On behalf of the Roman Catholic Church in the State of Hawaii we are in support of SB764 SD1 as it is in line with our support of affordable housing by allowing banks to allocate up to 2% of total assets toward investing in providing loans for affordable housing for years to come.



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

LATE

**HEARING BEFORE THE HOUSE COMMITTEE ON
HOUSING
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 312
WEDNESDAY, MARCH 15, 2023 AT 9:00 A.M.**

To The Honorable Troy N. Hashimoto, Chair
The Honorable Micah P.K. Aiu, Vice Chair
Members of the committee on Housing

SUPPORT FOR SB764 RELATING TO AFFORDABLE HOUSING

The Maui Chamber of Commerce **supports SB764 SD1** which allows a bank to invest, in aggregate, up to two per cent of the bank's total assets in limited partnerships, limited liability partnerships, limited liability companies, and corporations formed to invest in affordable housing residential properties and requires approval from the commissioner of financial institutions to exceed this amount.

The Chamber can agree with this proposal because it will allow banks more flexibility in funding affordable housing projects.

For this reason we **support SB764 SD1**.

Sincerely,

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.



Testimony to the House Committee on Housing
Wednesday, March 15, 2023
Conference Room 312

LATE

Comments re: SB 764 SD1, Relating to Affordable Housing

To: The Honorable Troy Hashimoto, Chair
The Honorable Micah Aiu, Vice Chair
Members of the Committee

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 47 Hawaii credit unions, representing over 864,000 credit union members across the state.

HCUL offers the following comments in regards to SB 764 SD1, Relating to Affordable Housing. This bill allows a bank to invest, in aggregate, up to two per cent of the bank's total assets in limited partnerships, limited liability partnerships, limited liability companies, and corporations formed to invest in affordable housing residential properties.

While this bill on its face applies only to banks and not credit unions, we have concerns in light of the recent situation with Silicon Valley Bank, which unfortunately collapsed this week. Financial institutions in Hawaii have long been steady, even during times of economic crisis. Hawaii's credit unions depend on larger local banks, as many credit unions are bank customers in different ways. Thus, the safety and soundness of the financial system in Hawaii is of concern to even the smallest credit union.

Thank you for the opportunity to provide comments on this issue.

LATE

SB-764-SD-1

Submitted on: 3/14/2023 8:41:10 PM

Testimony for HSG on 3/15/2023 9:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Christine Camp	Avalon Groupe, LLC	Support	Written Testimony Only

Comments:

We submit this testimony in strong support of SB764. As a developer in Hawai'i, we are always in need of additional funding to help finance affordable housing. SB764 increases the capacity of private funding pool for developers.

Avalon is working on a 66 unit senior affordable housing project under development for those making 30-60 percent of AMI. We are also seeking to develop a total of 45 acres of land on Maui and Kauai to build hundreds of affordable rental units, subject to ensuring that there are available funding sources to fill the capital stack. This law would be a game changer that would allow Hawaii's banks to increase their capacity to fund the building of a significant number of additional affordable housing in Hawai'i.

This is a good idea and we ask for your support.

Christine Camp, President & CEO, Avalon Development Company LLC