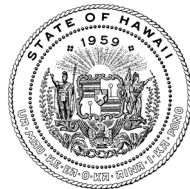


JOSH GREEN, M.D.
GOVERNOR



LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT

WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEES ON COMMERCE AND CONSUMER PROTECTION
AND HOUSING
ON
SENATE BILL NO. 863

February 10, 2023
9:30 a.m.
Room 229 and Videoconference

RELATING TO HOUSING

The Department of Budget and Finance (B&F) offers comments on this bill.

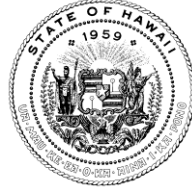
Senate Bill (S.B.) No. 863: 1) creates a new agency called the Hawai'i Residential Developers Loan Corporation (HRDLC), to be administratively attached to the Department of Business, Economic Development and Tourism; 2) creates the Hawai'i Residential Developers Loan Special Fund (HRDLSF) to be used as a reserve to guarantee and insure private loans to developers of residential housing for Hawai'i residents who will be owner-occupants and who do not own any other real property; 3) appropriates \$200,000,000 in general funds to seed the new special fund; and 4) amends Section 201H-202, HRS, to expand the allowable uses of the Hawai'i Housing Finance and Development Corporation's Rental Housing Revolving Fund (RHRF) to include the statutory functions of the HRDLC.

It is important to note that the State currently administers many programs that provide development and financing incentives for private developers of affordable for-sale housing, such as the 201H expedited development process, Dwelling Unit

Revolving Fund interim and permanent financing, and the Hawai'i Community Development Authority's Reserved Housing program. Therefore, establishment of the HRDLC appears to be duplicative of existing programs and could create further competition for scarce State resources to achieve the same goals. B&F also questions the public benefit from subsidizing development of risky for-sale housing projects that would not satisfy the underwriting criteria of private lenders. Rather than create a new State agency with a limited purpose, B&F recommends dedicating the funding proposed in this bill towards expansion of existing programs and incentives.

Further, as a matter of general policy, B&F does not support the creation of any special fund that does not meet the requirements of Section 37-52.3, HRS. Special funds should: 1) serve a need as demonstrated by the purpose, scope of work and an explanation why the program cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. There appears to be no nexus between loan guarantees for developers of for-sale housing and the RHRF and it is not clear that the HRDLSF would be self-sustaining.

Thank you for your consideration of our comments.



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DIRECTOR | KA LUNA HO'OKELE

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

Testimony of the Department of Commerce and Consumer Affairs

Before the
Senate Committee on Housing and
Commerce and Consumer Protection
Friday, February 10, 2023
9:30 a.m.
Conference Room 229

On the following measure:
S.B. 863, RELATING TO HOUSING

Chairs Chang and Keohokalole and Members of the Committees:

My name is Iris Ikeda and I am the Commissioner of Financial Institutions, Department of Commerce and Consumer Affairs ("Department"), Division of Financial Institutions (DFI). The Department offers comments on this bill.

The purpose of this bill is to establish the Hawaii Residential Developers Loan Corporation for the purpose of guaranteeing and insuring loans made by private financial institutions to developers of residential housing for Hawaii residents who will be owner-occupants and who own no other real property; establish a special fund to be used by the Corporation to guarantee and insure loans and appropriate funds.

The Department fully supports the intent of the bill to encourage financing of residential housing projects for Hawaii citizens. The Department submits comments as it relates to the guarantee fund and the mortgage origination activity. Mortgage origination and mortgage servicing activity is a regulated activity supervised by the DFI

to protect consumers. The current practice for consumers to get a residential home loan is to look to a financial institution directly or through a mortgage loan originator for the residential mortgage loan. The financial institution qualifies the consumer for the residential mortgage loan and either receives monthly payments directly from the borrower or through a mortgage servicer.

The proposal provides that consumers would seek a residential mortgage loan through the newly created Hawaii Residential Developers Loan Corporation (Corporation) for the consumer to qualify for the guarantee. Because the financial institution does not underwrite the residential mortgage loan, it may not accept the loan terms established by the Corporation, thus the Corporation would become the financial institution to fund the residential mortgage loan and mortgage servicer to collect the mortgage payments.

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

JOSH GREEN, M.D.
GOVERNOR



DENISE ISERI-MATSUBARA
EXECUTIVE DIRECTOR

LATE

STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

IN REPLY PLEASE REFER TO:

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Statement of
DENISE ISERI-MATSUBARA
Hawaii Housing Finance and Development Corporation
Before the

**SENATE COMMITTEE ON COMMERCE & CONSUMER PROTECTION
AND
SENATE COMMITTEE ON HOUSING**

February 10, 2023 at 9:30 a.m.
State Capitol, Room 229

In consideration of
S.B. 863
RELATING TO HOUSING.

HHFDC *offers comments* on S.B. 863, which establishes the Hawaii Residential Developers Loan Corporation (HRDLC) under the Department of Business, Economic Development, and Tourism (DBEDT) for the purpose of guaranteeing and insuring loans made by private financial institutions to developers of residential housing for Hawaii residents who will be owner occupants and who own no other real property.

Our comments are focused on Section 2 as it relates to the Rental Housing Revolving Fund (RHRF). The RHRF program was intended as a gap financing program to make rental housing projects feasible to build. Any redirection of RHRF funds will result in the reduction of affordable rental housing that serves families and seniors in the 30% to 100% AMI range – the most vulnerable population. The RHRF program is already oversubscribed and therefore we recommend the committee not deplete this resource on for-sale projects.

Thank you for this opportunity to provide testimony.

February 9, 2023

The Honorable Jarrett Keohokalole, Chair
The Honorable Carol Fukunaga, Vice Chair
and Members of the Senate Committee on Commerce and Consumer Protection

The Honorable Stanley Chang, Chair
The Honorable Dru Mamo Kanuha, Vice Chair
and Members of the Senate Committee on Housing

Re: Testimony - SB 863, Relating to Housing
Hearing: February 10, 2023 at 9:30 AM
Senate Conference Room 229 & Videoconference

Dear Chair Keohokalole, Chair Chang, Vice Chair Fukunaga, Vice Chair Kanuha, and Committee Members:

Stanford Carr Development (SCD) is writing to **oppose** SB 863, which proposes to establish the Hawaii Residential Developers Loan Corporation to guarantee and insure private institution loans to developers of residential housing required to be sold to Hawaii residents.

While the intent to promote homeownership is consistent with SCD efforts to assist residents to climb the housing ladder, we object in principle to increasing the size of government with a new agency, and especially object to a program with authority to divert monies away from the Rental Housing Revolving Fund (RHRF). The RHRF provides low-interest gap financing to qualified owners and developers for the development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units.

The 1993 Regular Session of the Seventeenth Legislature enacted Act 195 whereby section 5 amended HRS §247-7 to provide for the state conveyance tax to pay 25% into the rental housing trust fund. Each subsequent year, advocates for affordable rental housing have sustained efforts to protect, preserve and increase the annual set-aside for rental housing. Currently, HRS §247-7 provides for 50% or \$38 million of annual conveyance tax, whichever is less, to be paid into the rental housing revolving fund as established by section 201H-202. Based on the success of the RHRF to serve as a critical financing tool, we seek your consideration of deleting any reference to using funds from the RHRF to support the proposed program.

Construction material and labor costs are the primary driver of the cost of housing prices. Rather than chip away at the issue through a risk mitigation program for private financial institutions, efforts might be well spent reducing the cost of construction or eliminate school impact fees on new construction housing units. Thank you for the opportunity to offer comments on this measure.

Respectfully,



Stanford S. Carr