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Testimony of the Department of Commerce and Consumer Affairs

Before the
Senate Committees on Ways and Means
and
Judiciary
Wednesday, February 19, 2025
10:16 a.m.

State Capitol, Conference Room 211 and via videoconference

On the following measure:
S.B. 1601 S.D. 1, RELATING TO CONDOMINIUMS

WRITTEN TESTIMONY ONLY

Chair Dela Cruz, Chair Rhoads, and Members of the Committee:

My name is Jerry Bump, and I am the Acting Insurance Commissioner of the Department of Commerce and Consumer Affairs' (Department) Insurance Division. The Department supports this bill.

The purpose of this bill is to establish within the Hawai'i Green Infrastructure Authority the Condominium Loan Program to provide qualified condominium associations with low-cost financing or refinancing on previously obtained loans for maintenance or repair projects; establish the Condominium Loan Loss Reserves Program to incentivize community development financial institutions into providing loans at competitive rates and terms to condominium associations for the purpose of allowing condominium associations to make necessary maintenance or repairs; require annual

reports to the Legislature; and appropriate funds into and out of the Condominium Loan Revolving Fund.

The Department supports the bill's initiative which lays the groundwork for condominium associations to receive financial resources for maintenance or repair projects for their respective buildings. A building in disrepair can impede a condominium association's ability to secure adequate, affordable property insurance coverage. Therefore, having the financial opportunity to engage in timely maintenance and repair projects will benefit consumers by reinforcing the safety and insurability of their buildings.

Thank you for the opportunity to testify.



Testimony of
Gwen Yamamoto Lau
Executive Director
Hawai'i Green Infrastructure Authority
before the
SENATE COMMITTEE ON WAYS AND MEANS
and
SENATE COMMITTEE ON JUDICIARY
Wednesday, February 19, 2025, 10:16 AM
State Capitol, Conference Room 211
in consideration of
Senate Bill No. 1601, SD1
RELATING TO CONDOMINIUMS

Chairs Dela Cruz and Rhoads, Vice Chairs Moriwaki and Gabbard, and Members of the Committees:

Thank you for the opportunity to testify on SB 1601, SD1 relating to condominiums. The Hawai'i Green Infrastructure Authority (HGIA) **supports** this bill which establishes the Condominium Loan and Condominium Loan Loss Reserves Programs administered by HGIA.

With approximately 55% of all condo units in Hawaii built prior to 1980¹, there are a significant number of 40+-year old condominium projects requiring replacements, upgrades and retrofits, including re-piping, spalling, window and railing replacements, and fire alarms², etc., all of which are costly and complicated. Additionally, there are a number of condominium projects on the secondary market's "unavailable list" already negatively impacting over 30,000 units, due to inadequate insurance coverage and other issues, elevating the urgency of this situation.

Similar to secondary market lenders financing condo mortgages, commercial lenders³ typically require full insurance coverage before issuing loans for condo upgrades and retrofits. This bill will enable HGIA to provide much needed financing for condominium

¹ "Why Hawaii's Aging Condos Can't Afford to Defer Maintenance," First Insurance Company of Hawaii, January 5, 2004.

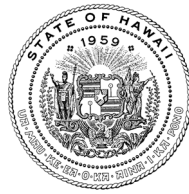
² "A Condominium Can Last Hundreds of Years, But Not Its Components," Hawaii Business Magazine, August 31, 2020.

³ Including C-PACE lenders.

associations to fund essential repairs and address deferred maintenance and structural issues to enhance its insurability, which in turn will enable buyers of individual units to access secondary mortgage financing.

Additionally, in collaboration with the community development financial institution industry, this bill would enable HGIA to provide credit enhancements to CDFI lenders, mitigating their risks and enabling them to provide loans at competitive rates and terms to condominium associations to make necessary repairs.

We support the measure so long as it does not adversely impact priorities identified in Executive Budget Request for FY2026. Thank you for this opportunity to provide comments and testify in support of SB 1601, SD1.



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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 WAYS AND MEANS AND JUDICIARY
ON
SENATE BILL NO. 1601, S.D. 1

**February 19, 2025
10:16 a.m.
Room 211 and Videoconference**

RELATING TO CONDOMINIUMS

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

Senate Bill (S.B.) No. 1601, S.D. 1: 1) establishes the Condominium Loan (CL) Program (CLP) within the Hawai'i Green Infrastructure Authority (HGIA) for the purpose of providing qualified condominium associations with low-cost financing, or refinancing of loans previously obtained, for maintenance or repair projects; 2) establishes the CL Revolving Fund (CLRF) to provide loans for the CLP; 3) requires the CLRF to be audited at least once annually by a certified public accountant and for HGIA to submit annual reports to the Legislature; and 4) establishes the CL Loss Reserves Program (CLLRP) within HGIA for the purpose of incentivizing community development financial institutions to provide loans to condominium associations to make necessary repairs and maintenance by covering potential losses arising from a loan default. This measure also appropriates an unspecified amount of general funds in FY 26 and FY 27 for deposit into the CLRF, and appropriates an unspecified amount of revolving fund ceiling for the CLRF in FY 26 and FY 27.

First, B&F notes that HGIA may not be the appropriate agency to administer the CLP and the CLLRP. HGIA's purpose is to provide low-cost financing for green infrastructure projects to accelerate the State's transition to clean energy. It is unclear how the repair and maintenance of condominiums relate to this mission.

Second, prior to the establishment of such a major loan program or loan loss reserve program, assessments and/or studies should be carried out to collect the data necessary to determine its feasibility and/or identify other solutions to address financing difficulties for condominium associations. Without knowing crucial information such as the total number of condominiums, facility ages, insurance statuses, previously completed capital improvement projects, etc., it is difficult to determine whether it would be feasible for the State to establish the CLP and the CLLRP, much less how much funding they would need to ameliorate the condominium insurance issue in Hawai'i. Furthermore, given that many projects will likely cost millions or even tens of millions of dollars each, any appropriated amount for the CLP or the CLLRP will likely only benefit a very limited number of condominium associations.

Third, B&F notes that Part I, Section 4, and Part II, Section 11, of the measure's proposed HRS chapter conflict regarding the use of the CLRF. Part II, Section 11, states that HGIA shall use moneys in the CLRF to make deposits into financial institution reserve accounts in line with the CLLRP; however, Part I, Section 4, which establishes the CLRF, only authorizes moneys in the CLRF to be expended for providing loans in accordance with Part I, which does not include the CLLRP.

Lastly, as a matter of general policy, B&F does not support the creation of any revolving fund, which does not meet the requirements of Section 37-52.4, HRS. Revolving 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. Regarding S.B. No. 1601, S.D. 1, it is difficult to determine whether the proposed CLRF would be self-sustaining.

Thank you for your consideration of our comments.



SanHi

GOVERNMENT STRATEGIES
A LIMITED LIABILITY LAW PARTNERSHIP

LATE

DATE: 2/18/2025

TO: Senator Donovan Dela Cruz
Chair, Committee on Ways and Means

Senator Karl Rhoads
Chair, Committee on Judiciary

FROM: Mihoko Ito / Tiffany Yajima

RE: **S.B. 1601 SD1 – Relating to Condominiums**
Hearing Date: Wednesday, February 19, 2025 at 10:16 a.m.
Conference Room: 211

Dear Chairs Dela Cruz and Rhoads and Members of the Joint Committees:

We submit this testimony on behalf of the Hawaii Bankers Association (HBA). HBA represents seven Hawai'i banks and one bank from the continent with branches in Hawai'i.

HBA **supports the intent of S.B. 1601 SD1**. This bill seeks to: 1) establish within the Hawai'i Green Infrastructure Authority the Condominium Loan Program to provide qualified condominium associations with low-cost financing or refinancing on previously obtained loans for maintenance or repair projects and 2) establish the Condominium Loan Loss Reserves Program to incentivize community development financial institutions into providing loans at competitive rates and terms to condominium associations for the purpose of allowing condominium associations to make necessary maintenance or repairs.

This program proposes to provide loans for repair and maintenance purposes to condominium associations that are unable to secure full replacement value insurance for their properties. The program has two components: 1) a direct state loan program, and 2) a credit enhancement program which involves a public/private partnership with community development financial institutions.

HBA believes that creating these new loan programs will help condominiums address some of the repair and maintenance issues that are related to insurability issues. This is important because the high cost of insurance premiums for condominiums has resulted in condominium boards electing to reduce the amount of insurance coverage of condominiums to less than one hundred percent (100%) replacement coverage. Unfortunately, this has had the

unintended consequence of impacting mortgage loans for condominium units, because federal guidelines on Fannie Mae and Freddie Mac prohibit these entities from purchasing mortgages on condominium units that are insured at less than full replacement coverage.

HBA met with the Green Infrastructure Authority to amend this overall loan program to be workable - that language is now reflected in the S.D.1 and includes, among other things: 1) loan eligibility criteria for the state loan program and 2) public private partnerships with community development financial institutions.

HBA respectfully requests that the Committee continue to use the language in S.B. 1601, S.D.1. This would provide an avenue for condominiums to address deferred maintenance issues that are contributing to condominium insurability issues.

We look forward to continuing to work with policymakers to develop solutions that serve both condominium owners and the broader financial ecosystem. Thank you for the opportunity to submit this testimony.

SB-1601-SD-1

Submitted on: 2/15/2025 2:53:17 PM

Testimony for WAM on 2/19/2025 10:16:00 AM

Submitted By	Organization	Testifier Position	Testify
lynne matusow	Individual	Support	Written Testimony Only

Comments:

I am a condo owner. I support all bills which will enable condominiums to survive in difficult times. That includes reining in the predatory practices of insurance companies and providing loans to entities for essential repairs and deferred maintenance. Problem with condos were exacerbated with the Surfside condo collapse in Florida, which brought to attention deferred maintenance and the start of major price hikes by insurance companies. This bill is an excellent example of what is needed.

SB-1601-SD-1

Submitted on: 2/15/2025 8:27:09 AM

Testimony for WAM on 2/19/2025 10:16:00 AM

Submitted By	Organization	Testifier Position	Testify
Frank Schultz	Individual	Support	Written Testimony Only

Comments:

I support this measure.