

**STATE OF HAWAII
HAWAII COMMUNITY DEVELOPMENT AUTHORITY
KAKAAKO BUSINESS MEETING**

Wednesday, August 5, 2020

MINUTES

I. CALL TO ORDER/ROLL CALL

A regular business meeting of the Kakaako Members, Hawaii Community Development Authority (“Authority” or “Board”), a body corporate and a public instrumentality of the State of Hawaii, met virtually (utilizing the state-supported Zoom platform) for a meeting on August 5, 2020.

Board Chairperson, John Whalen, called the meeting to order at 10:02 a.m. and conducted board attendance, as follows:

Members Present:

Kevin Sakoda
Chason Ishii
Jason Okuhama
David Rodriguez, DOT Ex-Officio
Phillip Hasha
Daniel Ito
John Whalen, Chair

Members Absent:

Kathy Sokugawa, DPP
Robert Yu, B&F Ex-Officio
Wei Fang

HCDA Staff Present:

Garett Kamemoto, Interim Executive Director
Lindsey Doi, Asset Manager
Francine Murray, Program Specialist
Garet Sasaki, Administrative Services Officer
Tommilyn Soares, Secretary to the Executive Director

Legal Counsel:

Lori Sunakoda, Deputy Attorney General
Kelly Suzuka, Deputy Attorney General

I. ACTION ITEMS

Shall the Authority Delegate to the Interim Executive Director the Authority to Take the Following Limited Actions Relating to the Administration of the HCDA's Reserved Housing Program as Described in the August 5, 2020 Staff Report-Approve Requests Relating to 1) Sale or Transfer After the Regulated Term, 2) Sale or Transfer During the Regulated Term, and 3) Owners' Refinancing Request and Subordination of Shared Equity Interest?

Ms. Doi presented the staff report. Hawaii Community Development Authority (HCDA) staff requests the continuation of its existing Reserved Housing policies governing sales of units during and after the regulated term, as well as refinancing. Without the approval of these blanket policies, each request from a Reserved Housing unit owner will require a separate action item at future Authority meetings.

At the September 7, 2016 General Meeting, the Authority approved several policies relating to the administration of the HCDA Reserved Housing Program for a term of four years. These policies will expire on September 7, 2020, requiring further action by the Authority to allow HCDA staff to continue processing Reserved Housing requests.

The HCDA oversees about a thousand Reserved Housing units governed by Hawaii Administrative Rules (HAR), with several hundred more under construction. These rules allow certain actions with approval by the Authority, such as refinancing or selling a unit during or after the regulated term.

At the September 7, 2016 meeting, the Authority enacted the following Reserved Housing policies until September 7, 2020:

1. **Sale or Transfer After the Regulated Term** – Accept the payment of Shared Equity and execute of the Release of Unilateral Declaration to allow the reserved housing unit owner to sell the unit at market after the regulated term has expired, provided the Shared Equity value is not calculated under the formulas listed in HAR §15-22-187(b)(2) of the 2005 Rules, HAR §15-218-41(b)(2) of the 2011 Rules, or HAR §15-216-41(b)(2) of the Kalaeloa Rules.

The HCDA does not have history of administering these calculations for Shared Equity, as to date, these formulas have always yielded lower results than the standard Shared Equity calculation of the Original Fair Market Value less the Original Sales Price. By rule, the Shared Equity due is the higher of the two formulas.

2. **Sale or Transfer During the Regulated Term** – Exercise the HCDA’s first option to “buy back” a reserved housing unit if the owner needs to sell during the regulated term, provided there are funds available in the Hawaii Community Development Revolving Fund, Reserved Housing subaccount.

The “buy back” price is determined and stipulated by HAR §15-22-186(c)(1) of the 2005 Rules, HAR §15-218-36 of the 2011 Rules, and HAR §15-216-36 of the Kalaeloa Rules. If there are inadequate funds in the Reserved Housing sub-account, and adequate funds elsewhere, staff may propose the buy-back using other funding sources.

3. **Owner’s Refinancing Request and Subordination of Shared Equity Interest** – Approve refinancing of owner’s primary mortgage up to the value of the original acquisition loan amount, provided it is not greater than 80% of the purchase price.

Unless previously subordinated by the HCDA, HCDA’s Shared Equity interest is second only to a primary mortgage on a Reserved Housing unit at the time of the original sale. To safeguard the value and collection of HCDA’s Shared Equity interest, the HCDA denies all requests subordinating the HCDA’s Shared Equity interest to a second mortgage (such as a Home Equity Line of Credit or similar financing tool) that would demote the HCDA’s “second position” on the property.

The above policies approved at the September 7, 2016 meeting were consistent with Authority action in previous years. If any request fell outside of the above parameters, or if the unit owner appealed the HCDA’s policy, the request would be brought back to the Authority for further action.

On August 2, 2017, the Authority approved a Memorandum of Agreement (MOA) with the Hawaii Housing Finance and Development Corporation (HHFDC) to allow HHFDC to serve as the HCDA’s designated “buy back” agent for Rycroft Terrace for any Reserved Housing units sold during the regulated term. This MOA allows HHFDC to repurchase such units on HCDA’s behalf, then resell them under HHFDC’s own affordable housing program to keep them affordable for longer. If HHFDC determines the repurchase is not feasible and declines to proceed, the HCDA releases the unit from the Reserved Housing Program once the owner pays the applicable Shared Equity due to the HCDA.

Two years later, on August 7, 2019, the Authority approved the expansion of this MOA to allow HHFDC to buy back any HCDA Reserved Housing unit sold during the regulated term and resell them as part of HHFDC’s own program. Unlike the aforementioned policies,

which expire on September 7, 2020, the HHFDC “Buy Back” MOA will remain in place until either the HCDA or HHFDC terminates the agreement.

Regarding **Sale or Transfer After the Regulated Term**, this is largely an administrative matter that requires documentation of the unit being released from the HCDA’s Reserved Housing Program and the payment of the Shared Equity due to the HCDA through escrow. HCDA staff recommends no changes and proposes a continuation of the existing policy that has been in effect since September 7, 2016.

Regarding **Sale or Transfer During the Regulated Term**, HCDA staff recommends continuing the existing policy of exercising HCDA’s first option to buy back all units offered for sale during the regulated term. This will be done in accordance with the existing MOA with HHFDC. If the HHFDC determines repurchasing the unit is not financially feasible, the HCDA will release the unit from the Reserved Housing Program after the unit owner pays the applicable Shared Equity to the HCDA.

Regarding **Refinancing Requests and Subordinations of HCDA’s Shared Equity Interest**, the recent historic low interest rates prompted many Reserved Housing unit owners and lenders to request higher refinancing limits than what was previously allowed. On June 3, 2020, the Authority temporarily increased the maximum allowable refinancing limit to 95% of the original purchase price for all Reserved Housing unit owners governed by the 2005 and 2011 Rules. Many owners and lenders were pleased with this decision and dozens submitted new requests to refinance under the temporary higher limit, which is also set to expire on September 7, 2020.

HCDA staff recognizes the original Reserved Housing policy that limited refinances to only 80% of the original purchase price or the original loan amount, whichever was lower, negatively impacts owners. This policy penalizes owners who put down large down payments (and therefore had small original loans), as they cannot access their own equity. This policy also penalizes owners who put down small down payments, as they cannot refinance their full original loan amount which may have been as high as 95% of the original purchase price.

Therefore, HCDA staff proposes making permanent the temporary policy approved on June 3, 2020, which increased the allowable refinancing maximum to 95% of the original purchase price for all Reserved Housing unit owners governed by the 2005 and 2011 Rules. This has proven to be very simple for HCDA staff to administer and has been met favorably by owners and lenders.

Authority members previously inquired about an alternative calculation by which the HCDA could guarantee the protection of its Shared Equity interest. Under this formula, the refinancing maximum would be calculated as the Current Fair Market Value, less the Shared Equity amount. This would place an additional burden on the unit owner by requiring them

to procure a certified appraisal for the purposes of calculating the maximum refinancing limit but would likely yield an even higher refinancing maximum.

For the purposes of comparing the above two formulas proposed for calculating the maximum refinancing limit, the following values are from a unit at Ke Kilohana that was recently appraised:

- The current fair market value is \$650,000.
- The original fair market value was \$571,000, and the original purchase price was \$474,289, so the Shared Equity due to the HCDA is \$96,711.
- 95% of the original purchase price is \$450,574.55.
- Current fair market value less the Shared Equity is \$553,289.

In this example, the Ke Kilohana unit owner could refinance \$102,714.45 more if the HCDA changed its policy to allow refinancing up to the value of the Current Fair Market Value, less the Shared Equity.

These results are even more drastic when the Shared Equity amount is low, such as in the case with Reserved Housing units at Pacifica Honolulu. The following are values from a recent Pacifica Honolulu appraisal:

- The current fair market value is \$665,000.
- The original fair market value was \$415,000, and the original purchase price was \$407,000, so the Shared Equity due to the HCDA is \$8,000.
- 95% of the original purchase price is \$386,650.
- Current fair market value less the Shared Equity is \$657,000.

In this example, the Pacifica Honolulu unit owner could refinance \$270,350 more if the HCDA utilized the current fair market value in calculating the maximum refinancing limit.

Although such calculations are very favorable for the unit owner, HCDA staff proposes keeping the current formula of allowing refinances up to 95% of the original purchase price. This adds a buffer of protection to HCDA's Shared Equity interest, is extremely simple to calculate, and is the current practice under the temporary policy.

HCDA staff receive at least half a dozen inquiries from Reserved Housing unit owners seeking to refinance or sell their unit each week. The number of requests for refinancing have increased in recent months due to favorable interest rates.

Reviewing each request at the monthly Authority meeting would be a time-consuming process and would also cause delays that might jeopardize a unit owner's ability to refinance or sell their unit. While HCDA staff acknowledge these decisions are significant, staff can rely on consistent application of rules and past practice to render fair decisions for future requests. Delegating this role to the Interim Executive Director and staff would expedite responses to Reserved Housing unit owners and would also streamline the agenda for future Authority meetings.

If blanket policies are approved, any actions taken in accordance with the policies will continue to be reported to the Authority in the monthly Executive Director's report. Any request that does not fall under the above policies or any appeal of the above policies will be brought to the Authority for further action.

Deputy Attorney General Sunakoda

There were no comments, questions, and no public testimony

MOTION:

Member Fang motioned for the Authority to delegate the Executive Director the following limited actions relating to the administration of the HCDA's Reserved Housing Program 1) Sale or Transfer After the Regulated Term, 2) Sale or transfer during the Regulated Term, and 3) Owners' Refinancing Request and Subordination of shared equity interest as detailed in the August 5, 2020 Staff Report, with the following correction added to the section of the staff report Regarding Refinancing Request and Subordinations of HCDA's Shared Equity Interest on page 4:

In regard to Reserved Housing units vested under the 2011 Reserved Housing rules, HCDA staff notes HAR Section 15-218-33 (c) states, "During the regulated term, the Executive Director shall approve any initial or subsequent mortgage placed on a reserved unit which does not exceed eighty per cent of the original purchase price of the unit" This rule does not prohibit the Authority from directing the executive director to approve any subsequent mortgage in accordance with this action item.

Member Okuhama seconded the motion.

Ms. Doi conducted the roll call vote. Motion passed with 7 votes and 2 excused.

Shall the Authority Authorize the Interim Executive Director to Amend the Existing Right of Entry Agreement with KUPU Executed on August 9, 2019 for the Use of a Portion of Oahu Tax Map Key 1-2-001-058: 135 at Kewalo Basin Harbor for the Purposes of Parking and Utility Storage (ROE 1-19) to Extend the Term for an Additional Two Years Until September 30, 2022?

Ms. Doi presented the staff report. Kupu has a continued need for additional storage space, parking, and a propane tank to support its activities at the Net Shed at Kewalo Basin Harbor. Kupu currently holds a one-year Right of Entry (ROE) to utilize a portion of the adjacent NOAA Lot, which is currently pending lease and development by the Howard Hughes Corporation (HHC). Kupu requests an additional two-year extension, as current market

conditions related to COVID-19 have delayed both Kupu's and Howard Hughes' plans for developing the lot.

Given the pending lease of the NOAA Lot to HHC, the HCDA cannot enter into any long-term encumbrances for that parcel. Kupu is aware that any ROE for the NOAA Lot will be terminated with at least 30 days written notice once the lease with HHC is executed.

Kupu has engaged in talks with HHC to potentially sublease the NOAA Lot premises from HHC. Both HHC and Kupu believe this could be a mutually beneficial agreement that would still enable HCDA to collect the rent due under the HHC master lease.

Kupu requests amending ROE 1-19 to include a two-year extension that would allow both parties time to reach a long-term agreement that satisfies both their needs. The draft proposed amendment is attached hereto as Exhibit B. Kupu agrees to continue paying \$1,232.50 in monthly rent to HCDA for the duration of the ROE extension period. Given the pending execution of a lease with HHC, the HCDA would otherwise be unable to rent the NOAA Lot site and collect any revenue.

There were no questions and no comments and no Public Testimony.

MOTION:

Member Okuhama motioned for the Authority to Authorize the Interim Executive Director to Amend the Existing Right of Entry Agreement with KUPU Executed on August 9, 2019 for the Use of a Portion of Oahu Tax Map Key 1-2-001-058: 135 at Kewalo Basin Harbor for the Purposes of Parking and Utility Storage (ROE 1-19) to Extend the Term for an Additional Two Years Until September 30, 2022?

Member Sakoda seconded the motion.

Ms. Doi conducted the roll call vote. Motion passed with 7 votes and 2 excused.

VI. ADJOURNMENT

Chair Whalen adjourned the regular meeting at 10:36 a.m.

Approved and Submitted by,

John Whalen, Chairperson

Date Approved by HCDA Board