

**Summary of the  
Hawaii Housing Finance & Development Corporation  
Dwelling Unit Revolving Fund Equity Pilot Program (“DEP Program”)**

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\* This summary for use with HHFDC affordable program units.

The DEP Program was signed into law by Governor Josh Green as Act 92, 2023 SLH<sup>1</sup> on June 23, 2023. In October 2023, the Hawaii Housing Finance and Development Corporation’s (HHFDC) Board of Directors (Board) approved the proposed new Chapter 15-309, Hawaii Administrative Rules (Rules or HAR) to implement Act 92 and in January 2024, Governor Green adopted the Rules to facilitate the HHFDC Dwelling Unit Revolving Fund (DURF) Equity Pilot (DEP) Program.

The purpose of the Program is to address the high, unmet demand of for-sale units by Hawaii residents until June 20, 2028. HHFDC is authorized to utilize up to \$10 million of DURF to purchase equity in for-sale housing development projects, subject to the conditions set forth in Act 92. Chapter 15-309, HAR provides an outline of requirements for units to be offered and sold under the DEP Program, subject to HHFDC Board approval.

**A. DEVELOPER’S INITIAL REQUIREMENTS TO APPLY FOR THE PROGRAM**

1. Developers interested in participating in the DEP Program should submit a written request to HHFDC’s Executive Director with the following information:
  - a. Name of the ***housing development project***
  - b. An excel worksheet containing the following:
    - 1) Total number of units being considered for the program
    - 2) Type of units being considered for the program
    - 3) Proposed HHFDC allocation for each unit considered for the program, and
    - 4) Proposed total funds requested for the project
  - c. A brief description of the project including timeline, marketing and sales plan, if available
2. HHFDC will review developers’ proposal and respond within 10 business days. HHFDC will consider the following as ***starter units***:
  - a. Up to 2-bedroom, 1.5 baths
  - c. HHFDC purchased equity (buy down) amount not to exceed \$100,000 per unit
3. If approved, HHFDC will schedule the matter for Board review and approval. If approved by the Board, the developer shall work with the Real Estate Services Section on marketing and sales requirements, including new 30-day offering period to the target group (***Eligible Buyer***).

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<sup>1</sup> The program was initiated by the 2023 House of Representatives as House Bill No. 677 entitled “A Bill for an Act Relating to the Dwelling Unit Revolving Fund”, (Bill) The Bill passed through the respective House and Senate committees with final amendments as HB677 HD1 SC2 CD1 before submittal to Governor Josh Green for adoption on June 21, 2023, as Act 092, 2023 Session Laws of Hawaii (SLH).

**B. GENERAL PROVISIONS OF THE PROGRAM**

\*Refer to Chapter 15-309, HAR available on the HHFDC website for detailed information.

1. Initial 30-day offering to the target group is required. Unit offering may be made by lottery or on a first-come, first-served basis. Refer to Sections 15-309-09 and 15-309-12, HAR for Announcement and Unit Offering requirements.
2. Proposed purchasers are required to complete and submit an affidavit to the project developer or designated sales broker (Sales Team) for transmittal to the HHFDC. Refer to Section 15-309-10, HAR for Information and Verification requirements.
3. HHFDC will evaluate the affidavits for program compliance and buyer eligibility. Applicant will have 10 days to provide additional information, if requested by the HHFDC.
4. HHFDC's purchased equity will be made to the developer at close of the sale to the **qualified purchaser**.
5. Terms used in the program shall have meanings defined in Section 15-309-2. HAR, such as.

**Housing Development Project** means a plan, design, or undertaking by the corporation or an eligible developer for the development of units.

**Starter Unit** means a unit that is designed to meet the basic living capacity requirements of homebuyers with families of limited size by eliminating needless design and space amenities.

**Eligible Buyers** means an applicant who:

- 1) owns no other real property;
- 2) receives no gift funds for purchase of the unit;
- 3) works in a profession\* that is facing a shortage as determined by the corporation, including health care workers, educators, law enforcement officers, including staff at correctional facilities, or agricultural field workers; and, if applicable,
- 4) meets the eligibility requirements set forth in section 15-308-22, HAR (HHFDC affordable program requirements).

\*Profession refers to an occupation that requires specialized skill or training.

**Qualified Purchaser** means an eligible buyer who meets the criteria of the program for which an affidavit is submitted and has entered into a purchase contract and program agreement.

**Corporation's (HHFDC) Equity** means the difference between the original cost of the unit and the price of the unit paid by the qualified purchaser – *HHFDC purchased equity (buy down) amount*.

**Corporation's (HHFDC) Equity Percentage Share** means the percentage determined as: the corporation's equity divided by the value, excluding any options or upgrades, and established prior to closing the purchase of the units, rounded to the nearest 1%. – *HHFDC's fixed percentage share on the HHFDC purchased equity (buy down) amount*.

C. **TERMS OF REPAYMENT** Refer to Section 15-309-14 HAR.

1. Repayment, including accrued interest, if any shall be made upon the earliest of the following:
  - a. Any time after financial closing at will of the purchaser;
  - b. Sale, transfer, rent, or non-owner occupancy of the unit;
  - c. Prior to expiration of the 30-years from the date of sale/closing date;
  - d. When the purchaser refinances or obtains additional financing to pay the corporation's share of net appreciation. Payments will be applied in the following order of priority:
    - i. Equity interest
    - ii. Equity appreciation
    - iii. Equity principal
2. The rate of repayment will be included in the program agreement. Currently the interest rate on the HHFDC allocated amount is 1% and is subject to change. An appraisal will be required to determine the HHFDC percentage share on the HHFDC allocated amount.
3. If payment is not paid when due, interest of 10% per year will accrue until payment is made in full and the program is released. HHFDC will undertake options available under the program.
4. Determination of HHFDC equity share during the preclosing period (prior to closing of sale).

**For EXAMPLE, the following computations were made based on the hypothetical amounts below:**

- a. Developer Original Sales Price: \$550,000
- b. **Corporation's Equity:** \$50,000
- c. Qualified Purchaser Price: \$500,000
- d. Value of the Unit prior to close of Sale: \$625,000

**Computation of Corporation's Equity Percentage Share** (percentage share on the allocation):

(4b) Corporation's equity	DIVIDED BY	(4d) Value	=	<b>HHFDC Percent Share</b>
\$50,000	divided by	\$625,000	=	<b>8%</b>

5. **Determination of HHFDC equity and equity share, at time of sale, transfer, rent, refinance, additional financing, i.e. HELOC, non-owner occupancy, or any time after financial closing, using current fair market value by appraisal.**

<b>Computation of HHFDC Equity Interest</b>	<b>(4b) Corporation Equity</b>	<b>\$50,000</b>
	Multiplied by HHFDC Rate of Return – using 1% per year	\$500.00
	Paid at time of purchaser's sale or mortgage refinance in year 3	x 3
	<b>EQUALS = Corporation Equity Interest</b>	<b>1,500</b>
<b>Total Repayment of Equity with Interest:</b>		<b>\$51,500</b>

<b>Computation of HHFDC Net Appreciation</b>	Current Value or Purchaser's Resale Price	<b>Minus –</b> Original Value (4d) at Original Purchase	<b>Equals = Net</b> Appreciated Value	<b>Multiplied (x)</b> by HHFDC % Share	<b>Equals = HHFDC Net Appreciation on the Equity</b>
	<b>\$700,000</b>	<b>\$625,000</b>	<b>\$75,000</b>	<b>x 8%</b>	<b>\$6,000</b>

6. Cost to the buyer to purchase a unit using the DEP Program, after 3 years: **\$7,500**