

## FOR INFORMATION

### I. REQUEST

Information on the Hawaii Housing Finance and Development Corporation Downpayment Assistance and Single-Family Mortgage Program

### II. FACTS

- A. In alignment with its mission to promote both affordable rental and homeownership opportunities for Hawaii's residents, the Hawaii Housing Finance and Development Corporation (HHFDC) administers several programs to support homeownership.
- B. Federal and state laws authorize housing finance agencies such as HHFDC to develop and administer down payment assistance and single-family mortgage programs.
  - 1. Authority is provided under Section 143 of the Internal Revenue Code (IRC), which governs the issuance of Mortgage Revenue Bonds (MRBs).
    - a. Provisions allow states to issue tax-exempt bonds to finance mortgage loans for qualified homebuyers.
    - b. Income and purchase price limits are defined by IRS annually.
  - 2. Hawaii Revised Statutes (HRS) §201H, particularly §201H-81 through §201H-91, authorizes HHFDC to develop financing programs and help facilitate affordable homeownership.
    - a. These provisions authorize HHFDC to originate or purchase eligible mortgage loans and offer downpayment assistance.
  - 3. Housing Finance Agency (HFA) mortgage programs typically offer below-market interest rates and substantial down payment assistance, helping to lower financial barriers and expand access to sustainable homeownership for eligible households statewide.
- C. HFA mortgage programs operate pursuant to Section 143 of the Internal Revenue Code (IRC) and utilize a portion of a state's federally allocated private activity bond volume cap, as authorized under Section 146 of the IRC.
- D. Bonds issued to support direct loan originations under the Hula Mae Single-Family Mortgage program were last issued in 2011.
  - 1. In 2013, HHFDC completed a pass-through issuance of mortgage revenue bonds, wherein the bond proceeds were used to finance a pool of qualified mortgage loans originated and held by a participating lender.
- E. Rising mortgage interest rates and Hawaii's steep cost of living have sharply narrowed the window of affordability for homeownership.

1. As of July 2025, the average 30-year fixed mortgage rate stands at approximately 6.95%, up from near 2.6% in early 2020.
  - a. This has directly affected the borrowing power of prospective homeowners, roughly doubling the monthly payments for homeownership during that period.
2. The cost-of-living index for Hawaii is consistently among the highest in the nation.
  - a. In 2024, the index was 186, indicating that the cost of living in Hawaii is 86% higher than the national average.
  - b. As of 2024, the cost of owning a median-priced single-family home in Hawaii consumes an estimated 73% of household income which is one of the highest cost burdens in the nation.
3. These conditions underscore the urgent need for the HHFDC to reestablish its single-family mortgage and down payment assistance programs.
  - a. Restarting these programs is essential to achieving the State's broader housing goals and supporting generational equity for Hawaii residents.

### **III. DISCUSSION**

- A. On November 7, 2024, the Governor gave preliminary approval to issue up to \$160 million in revenue bonds for HHFDC's single-family mortgage revenue program.
- B. On May 6, 2025, following a competitive procurement process conducted in coordination with the Department of Budget and Finance, Raymond James & Associates, Inc. was selected to serve as the Co-Senior Manager – Lead Bookrunner for the HHFDC single-family mortgage and downpayment assistance programs.
  1. Bank of America Securities, Inc. and Barclays Capital Inc. were also appointed as Co-Senior Managers.
- C. On June 6, 2025, HHFDC issued Requests for Proposals to procure a Master Servicer and a Program Administrator for the single-family mortgage and down payment assistance programs.
  1. On July 14, 2025, the following selections were made in accordance with applicable procurement rules and procedures.
    - a. The Money Source, Inc., was selected to serve as the Master Servicer.
    - b. HDS Companies was selected as Program Administrator.
- D. On June 17, 2025, HHFDC, in collaboration with the Department of Budget and Finance, bond counsel, and other key stakeholders, Raymond James & Associates, Inc. initiated weekly planning and status meetings to coordinate the development and implementation of the single-family mortgage and down payment assistance programs.

1. Hawkins Delafield & Wood, LLP has been appointed as the state's single-family program bond counsel.
- E. On July 8, 2025, U.S. Bank Trust Company, National Association was selected to serve as the Trustee for HHFDC's single-family mortgage and down payment assistance programs.
1. The selection was made in accordance with applicable procurement procedures and reflects U.S. Bank's qualifications and experience in administering trust and fiduciary services for housing finance agencies and tax-exempt bond programs.
- F. The program will be delivered through a network of approved participating lenders authorized to originate loans in accordance with HHFDC program guidelines.
1. Lenders must be approved by both HHFDC and the Master Servicer
- G. The program will be implemented as a coordinated initiative between HHFDC and its network of participating lenders, with active involvement from HHFDC staff to ensure effective oversight and program integrity, in accordance with applicable federal guidelines and state laws.

The following is the basic process of the down payment assistance and mortgage program:

1. Master Servicer recruits and approves participating lenders in accordance with HHFDC program standards.
2. HDS and the Master Servicer jointly conduct training sessions on program guidelines, loan origination procedures, and use of the lender portal.
3. Participating lenders originate first mortgage loans and assist eligible borrowers in applying for down payment assistance.
4. Lenders enter borrower data and upload required documentation to the HDS portal for review and approval.
5. HDS, as Program Administrator, performs initial eligibility and document compliance checks.
6. Master Servicer conducts secondary review of mortgage loan terms, DPA calculations, and closing documents to ensure alignment with program and bond requirements.
7. Upon approval, the Master Servicer coordinates funding of both the first mortgage and the HHFDC down payment assistance loan.
8. HDS generates closing compliance checklists and maintains audit-ready digital files for all program loans.
9. Master Servicer purchases closed loans from lenders and services the loans in accordance with program requirements.
10. HDS maintains borrower records, compliance reports, and supports HHFDC with ongoing program data and reporting.

- H. HDS and the Master Servicer provide HHFDC with regular reports on loan volume, borrower demographics, DPA usage, and compliance metrics.
  - 1. HHFDC and the Co-Managers monitor program performance and make policy adjustments as needed.
- I. To support program branding and emphasize that these are new offerings, the programs have been tentatively named the Hale Kamaaina Single Family Mortgage Program and the Hale Kamaaina Downpayment Assistance Program.
- J. Hale Kamaaina Single-Family Mortgage Program
  - 1. 30 year fixed-rate mortgages with or without down payment assistance.
  - 2. First-time homebuyer: The borrower must not have held an ownership interest in a principal residence within the past three (3) years, with limited exceptions
  - 3. Income and Purchase Price Limits as determined by the Internal Revenue Service.
  - 4. Interest rate is expected to be 50 basis points below market.
  - 5. Federal Housing Administration, Veteran Affairs, U.S. Department of Agriculture-Rural Development, Fannie-Mae, Freddie Mac loans.
    - a. Pooled into Ginnie Mae, Fannie Mae or Freddie Mac securities.
  - 6. Tentative structure; subject to change.
- K. Hale Kamaaina Downpayment Assistance Program
  - 1. Deferred, zero-interest recorded second mortgage.
  - 2. Up to 4.0% of first mortgage principal amount.
  - 3. Repayable upon sale, transfer, refinance or maturity of the first mortgage.
  - 4. Intended to reduce upfront costs and help income-qualified households overcome financial barriers to homeownership.
  - 5. Either stand-alone or may be paired with Hale Kamaaina mortgage.
  - 6. Tentative structure; subject to change.
- L. 2025 Income and Purchase Price Limits

2025 Family Income Limits		
County	1-2 persons	3 or more
Hawaii	\$123,000	\$141,450
Honolulu	\$152,000	\$174,800
Kalawao	\$133,080	\$155,260
Kauai	\$159,480	\$186,060
Maui	\$161,520	\$188,440

2025 Purchase Price Limits	
County	Price
Hawaii	\$593,000
Honolulu	\$809,000
Maui/Kalawao	\$1,141,000
Kauai	\$1,153,000

- M. HHFDC is working closely with all stakeholders for a successful program launch.
1. Based on current projections, HHFDC anticipates its program launch and first bond sale of \$30 million by November 2025.
  2. Staff and the program team are currently undertaking the following tasks:
    - a. Finalizing amendments to HHFDC's existing bond indenture to support program implementation.
    - b. Executing professional services agreements with the selected Master Servicer and Program Administrator.
    - c. Engaging participating lenders to solicit feedback and refine program structure.
    - d. Coordinating lender onboarding, training, and operational readiness activities.
    - e. Develop informational brochures, press releases, website updates, and lender toolkits.
    - f. Work with the Program Administrator to ensure borrower eligibility, recapture provisions, and post-closing compliance are documented and auditable.
    - g. Final system testing and launch of HDS platform for real-time intake, lender uploads, and monitoring.
    - h. Prepare Preliminary Official Statement, Official Statement, and Tax Certificate in advance of bond issuance.

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