

HCDCH Resources to Facilitate Affordable Housing Development

Development Tools

The objective of the Housing and Community Development Corporation of Hawaii's (HCDCH) Housing Development program is to increase and preserve affordable housing opportunities for low- and moderate income households and special need groups primarily by facilitating private sector development and rehabilitating or reconstructing public housing units.

The HCDCH may develop fee simple or leasehold property and construct residential units, as well as develop commercial, industrial, and other properties if the uses are an integral part of the residential development. HCDCH provides development tools and resources to facilitate the development of affordable housing including:

- Low cost interim construction financing
- Developable land
- Expedited processing of state and county land use and zoning approvals pursuant to Chapter 201G, HRS
- Exemption from state general excise taxes for eligible housing projects.

To ensure that affordable units developed pursuant to Chapter 201G, HRS are maintained as affordable housing, the properties are subject to a buy-back restriction. Under section 201G-127, HRS, the HCDCH currently imposes a three year buy-back on affordable units in which the HCDCH has the first option to purchase the property at a set formula (i.e., original cost plus the cost of capital improvements and 1% simple interest on the original cost and improvements.) Effective January 1, 2005, the buy-back period will revert to 10 years. As affordable units are generally sold at prices below market value, the HCDCH also shares in the net appreciation of the property when it is sold or is no longer the primary residence of the original owner.

Financing Tools

The HCDCH administers various financing programs that assist very low to moderate-income families in obtaining an affordable rental unit or to purchase a home. Rental housing programs generally provide financing to developers of rental projects, as well as provide a limited amount of project-based rental assistance subsidies.

1. Low-Income Housing Tax Credit Program (LIHTC)

The LIHTC program is a major financing tool for non-profit and for-profit developers to construct or rehabilitate affordable rental units. The HCDCH awards federal and state tax credits that may be used to obtain a dollar-for-dollar offset (tax credit) in income tax liability for 10 years or may be syndicated to generate substantial project equity. There are two types of federal tax credits: 9% competitive tax credits, which are applied against the State of Hawaii's annual LIHTC allocation and 4% non-competitive, which are awarded with tax-exempt bond financing. Approximately \$2.26 million in federal and \$678,000 in state tax credits may be awarded each year. As of June 30, 2004, the HCDCH awarded approximately \$341 million in tax credits for the development of 50 projects totaling 4,135 affordable rental units.

2. Rental Housing Trust Fund (RHTF)

The RHTF program provides equity gap low-interest loans or grants to qualified owners and developers constructing affordable rental projects. At least 10% of a project's units must be affordable to families earning no more than 30% of median family income. Generally, all other units are affordable to families earning 50-60% and below of the area median income. In addition, the RHTF program offers capacity building grants and pre-development loans to eligible non-profit organizations. As of June 30, 2004, the program has awarded over \$54 million to assist in the development of 2,270 rental units.

The RHTF annually receives 25% of the conveyance tax (\$2 million to \$3 million a year).

Cash balance as of 6/30/04: \$15.2 million
Outstanding commitments: 2.3 million
Available \$12.9 million

3. Rental Assistance Program

Originally, the Rental Assistance Program (RAP) provided qualified owners of rental housing projects with monthly rental assistance subsidies to assist eligible tenants. Rent subsidies range from \$175 to \$250 per month. The maximum term of the subsidy is 15 years for a for-profit entity and 25 years for a non-profit entity. Tenants pay a minimum of 30% of their income towards rent. There are 17 rental projects that receive RAP (1,438 of 1,836 units are subsidized.)

In 1992, the program was changed to provide for below market rate construction loans for affordable rental projects, as well as a limited amount of project-based rental assistance subsidies to qualified owners of rental projects. As of June 30, 2004, the program has provided approximately \$38.6 million to facilitate the development of 786 new rental units.

4. Rental Housing System (RHS)

The RHS was developed to alleviate the shortage of rental housing opportunities through the development and acquisition of affordable rental housing projects throughout the State. The RHS provides tax-exempt bond financing for HCDCH-owned affordable rental projects. Seven projects with 1,363 units (including 143 UH Manoa faculty units) are in the RHS.

5. Hula Mae Multi-Family Revenue Bond Program

HCDCH provides interim and permanent financing for eligible rental housing projects at below-market interest rates through the sale of tax-exempt revenue bonds. This program has strong developer interest due to the ability to secure 4% low income housing tax credits in conjunction with the Hula Mae multi-family financing. As of June 30, 2004, the HCDCH issued six series of bonds, including one refunding series, in an aggregate principal amount of \$74.7 million, to make loans to construct or

acquire/rehabilitate four projects totaling 620 units (417 units of which are set-aside for lower income households).

With the passage of Act 185, SLH 2004, the HCDCH is now authorized to float up to \$300 million in tax-exempt revenue bonds. The available balance is \$125,287,000.

6. HOME Investment Partnerships Program

The federal HOME program is intended to expand the supply of decent, affordable and sanitary housing. The HCDCH receives approximately \$3 million in HOME funds each year from the U.S. Department of Housing and Urban Development and passes the funds through to the counties of Hawaii, Kauai, and Maui. HOME funds may be used for a number of purposes but is primarily used to develop affordable rental housing.

Financing Assistance for First-Time Homebuyers

The HCDCH's single-family programs are consumer oriented, providing below-market rate mortgage financing, tax credits, and down payment loans to assist eligible first-time homebuyers.

1. Hula Mae Single Family Program

This popular program offers eligible first-time homebuyers with mortgage financing at below-market interest rates. In June 2000, the Hula Mae Program received an "AAA" bond rating by Moody's Investors Service, Standard and Poors Corporation and Fitch IBCA. An "AAA" rating is the highest rating a bond issue can receive. Since 1979, the Program issued over \$1.6 billion of Single Family Mortgage Purchase Revenue Bonds. Currently, there is over \$368 million of Single Family Mortgage Purchase Revenue Bonds outstanding. As of June 30, 2004, 9,860 first-time homebuyers were assisted under the program.

2. Mortgage Credit Certificate (MCC) Program

The MCC program provides eligible first-time homebuyers with a dollar-for-dollar offset of federal tax liability to assist them in qualifying for a conventional mortgage loan. The HCDCH offers this program through 12 mortgage lenders. As of June 30, 2004, 642 first-time homebuyers were assisted under the program.

3. Downpayment Loan Program

HCDCH may make second mortgage loans to help first-time homebuyers. Under the Downpayment Loan Program, the maximum loan amount is 30% of the purchase price or \$15,000, whichever is less. Loans are available at an interest rate of 3% for 15 years. As of June 30, 2004, 9 families were assisted under this program.

4. Section 8 Homeownership Option Program

This is a newly initiated program that allows qualified families on Oahu to use their Section 8 tenant-based voucher assistance to make mortgage payments. The maximum term of the Section 8 mortgage assistance is 15 years.