Department of Hawaiian Home Lands

January 29, 2019

Appraisal Methodology on DHHL Homesteads

Lending on DHHL Lands

Hawaiian Homes Commission Act, 1920, as amended

§208. Conditions of Lease (6)

Notwithstanding the provisions of paragraph (5) the lessee, with the consent and approval of the commission, may mortgage or pledge the lessee's interest in the tract or improvements thereon to a recognized lending institution authorized to do business as a lending institution in either the State or elsewhere in the United States; provided the loan secured by a mortgage on the lessee's leasehold interest is insured or guaranteed by the Federal Housing Administration, Department of Veteran's Affairs, or any other federal agency and their respective successors and assigns, which are authorized to insure or guarantee such loans, or any acceptable private mortgage insurance as approved by the commission.

Lending on DHHL Lands

Hawaiian Homes Commission Act, 1920, as amended (cont'd)

§208. Conditions of Lease (6)

The mortgagee's interest in any such mortgage shall be freely assignable. Such mortgages, to be effective, must be consented to and approved by the commission and recorded with the department.

Lending on DHHL Lands

Hawaiian Homes Commission Act, 1920, as amended (cont'd)

§215. Conditions of loans. (1)

At any one time, the outstanding amount of loans made to any lessee, or successor or successors in interest, for the repair maintenance, purchase, and erection of a dwelling and related permanent improvements shall not exceed fifty per cent of the maximum single residence loan amount allowed in Hawaii by the United States Department of Housing and Urban Development's Federal Housing Administration (FHA), …

Lending on DHHL Lands

DHHL has a variety of different lending programs

- DHHL Direct loans and advances
- DHHL Guaranteed loans
  - *US Dept. of Agriculture - Rural Development*
  - *US Veterans Affairs*
  - *Office of Hawaiian Affairs*
  - *City & County of Honolulu*
  - *Hawaii Habitat for Humanity*
  - *US Small Business Administration (disaster loans)*
  - *Others (FCUs, other non-profits, & local government)*
- Conventional Loans (ASB, BOH, HNB, & CPB)
- HUD's 184A guaranteed and FHA 247 insured loans

Total Portfolio: 4,700+ loans totaling ≈ $612 million

Lending on DHHL Lands

FHA 247 & HUD 184A Loans

- FHA 247 – created in 1987, under the United States Department of Housing and Urban Development (“HUD”)
- 184A – created in 2006 under HUD’s Office of Native American Programs (“ONAP”)

Lending on DHHL Lands

FHA 247 Insured Loans

Loan-to-Value ratios:

- Purchase – 96.5% (can exceed 100% with Mortgage Insurance Premium being financed)
- Cash out refinance – 75% (debt consolidation not allowed)
- Home Improvement refinance – 85% (all proceeds in excess of existing payoff amount must be used for home repairs/renovations)

Lending on DHHL Lands

HUD 184A Loans

Loan-to-Value ratios:

- Purchase – 97.75%
- Cash out refinance – 85% (debt consolidation allowed)

Appraisal Methodology

- Appraisal Methods
  - Market Approach
  - Cost Approach (using the Marshall & Swift handbook)
- With the creation of the FHA 247 loan program, FHA required appraisers to use the Marshall & Swift Cost Approach
- Loan Amounts Contingent Upon Appraised Values
- Appraisal values provide the Loan to Value ratios
- DHHL also uses Marshall & Swift method for cancelled and surrendered leases

Appraisal Methodology

The Issue With The Marshall And Swift Cost Basis Method:

- Lenders do not select appraisers
- Rotation basis to appraisers that are on a listing of appraisers approved by the FHA
- Different guide books; Marshall & Swift Residential Cost Handbook with a section for Hawaii and a separate Marshall & Swift Cost Manual specifically for the State of Hawaii

Next Steps

- Meetings with CoreLogic (creators of the Marshall and Swift method) and HUD were scheduled for the first week of February in Irvine and Santa Ana, California.
- However, due to the Federal Government shutdown, the meetings have been postponed and will be rescheduled for later this year.
- DHHL will need an understanding of why the Marshall & Swift Cost Manual for the State of Hawaii was created.
- With the information learned from CoreLogic, a discussion with HUD to standardize the appraisal method will need to occur, but until then inconsistencies in appraisal values could exist.

Next Steps

- Once other issues are satisfied, DHHL may consider procuring the services of a FHA approved appraiser (consultant) to review all appraisals whose loans exceed ½ of the FHA limit for each respective county.
- This will ensure consistency and acknowledge that the correct appraisal methods are being used and applied.
- As there is no current DHHL employee with in-depth appraisal knowledge, experience, or expertise, the consultant would be able to question parts of the appraisal to ensure consistency and its accuracy.


MAHALO!