

STATE OF HAWAII

DEPARTMENT OF HAWAIIAN HOME LANDS

August 18, 2020

TO: Chairman and Members, Hawaiian Homes Commission
FROM: Rodney K. M. Lau, Administrative Services Officer
SUBJECT: For Information Only - Postponement of Mortgage
Payments - Impact on Loan Fund

Rodney Lau

RECOMMENDED MOTION/ACTION

For Information Only

DISCUSSION

The Hawaiian Homes Commission, at its regular meeting on March 24, 2020, (EXHIBIT A) approved the postponement of mortgage loan payments for all DHHL direct loans for a period of six (6) months effective with the April 2020 payments.

Lessees/borrowers that may need an additional six (6) months of postponement can request relief from the DHHL and will be evaluated on a case-by-case basis.

As such, DHHL has authorized postponing mortgage loan payments beginning with the April 2020 payment through the September 2020 payment. The billing of payments will then begin with the October 2020 payment, unless the postponement is continued for an additional six (6) months for just cause, which would then initiate payments again in April 2021. Interest will continue to accrue during the postponement period. However, no late fees would be assessed.

This submittal provides a report on the financial impact to the Hawaiian Home General Loan Fund.

I. Background

The primary sources of cash inflow for the Hawaiian Home General Loan Fund (HHGLF) are transfers from the Hawaiian Home Receipts Fund and loan principal repayments.

The primary cash outflow from the Hawaiian Home General Loan Fund (HHGLF) in FY 2020 was used to establish new loans for the NAHASDA loan program. The HHGLF is reimbursed when the NAHASDA loans are closed. Approximately \$2 million of NAHASDA loans were advanced and reimbursed to the HHGLF in FY 2020.

The balance of the cash inflows and cash outflows are due to refinancing of HHGLF loans, Section 209 transactions (i.e. re-award of surrendered/cancelled leases), and advance/buy back of guarantee loans. These transactions are offsetting in nature as they generally reflect a conversion of asset categories (e.g. cash to loans to cash; loans to improvement to cash; advance to loan to cash). These transactions are authorized by the HHCA and a part of conducting business in the loan program.

A recap of the last six months of cash receipts (Cash Inflow) from the HHGLF Subsidiary Ledger (EXHIBIT B) revealed that there is a moderate decline, as expected, between the January to March 2020 quarter and the April to June 2020 quarter.

In addition, a significant cash inflow via transfers from the Hawaiian Home Receipts fund was derived from investment returns for FY 2019 and 2020 totaling \$2.1 million.

Strengths:

- Direct loans - DHHL owns the asset base. Able to get immediate accounting of the loan portfolio to make timely necessary adjustments to take action.
- Loan management - able to communicate directly and immediate with affected homesteaders.
- DHHL's HHGLF has a strong asset base. Has no debt service. Contingently liable on guarantee loans.
- Homes are collateral. The postponement of mortgage payments creates a timing difference for the principal repayment. Interest still accrues on the loan.

Challenges:

- Inherent volatility with the COVID pandemic
- An extended economic downturn leading to further deterioration of revenue trends, budget imbalance, and narrowing of financial position.
- Utilization of additional non-recurring solutions to balance the budget

II. Summary

The current outlook on the DHHL loan portfolio is stable but needs to be on watch. DHHL is diligently working on tools to better detect issues in a timely manner as they arise during these challenging times.

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DEPARTMENT OF HAWAIIAN HOME LANDS

EXHIBIT "A"

March 24, 2020

TO: Chairman and Members, Hawaiian Homes Commission

FROM: Dean Oshiro, Acting Administrator,
Homestead Services Division

SUBJECT: Postponement of Mortgage Payments

RECOMMENDED MOTION/ACTION

To approve the postponement of mortgage loan payments for all Department of Hawaiian Home Lands ("DHHL") direct loans and loans assigned to DHHL for a period of six (6) months, effective with the April 2020 payment.

Lessees/borrowers that may need an additional six (6) months postponement can request relief from the department and will be evaluated on a case-by case basis. Requests for further postponements will be presented to the Hawaiian Homes Commission for consideration/action.

DISCUSSION

The Hawaiian Homes Act ("HHCA") Section 215 (2) reads....
"The payment of any installment due shall be postponed in whole or in part by the department for such reasons as it deems good and sufficient and until such later date as it deems advisable. Such postponed payments shall continue to bear interest on the unpaid principal at the rate established for the loan."

As COVID 19 continues to impact the health and the finances on a global scale, many of our lessees/borrowers have been or will also be affected. Individuals have been laid off, have had a reduction in income due to work hours being decreased, have taken time off (maybe without pay) to care for themselves or family members who have contracted the virus or are "quarantined" due to the virus, as well as other various reasons.

As such, DHHL is proposing to postpone mortgage loan payments beginning with the April 2020 payment through the September 2020

payment. The billing of payments will then begin with the October 2020 payment, unless the postponement is continued for an additional six (6) months for just cause, which would then initiate payments again in April of 2021. Interest will continue to occur during the postponement period however, no late fees shall be assessed.

Payments postponed shall be deferred to the maturity date of the loan. If the contract does not specify a maturity date, once the postponement period ends, the contracted loan payments shall continue until the loan is paid in full.

If a lessee/borrower decides to continue making payments or makes a payment during this period, DHHL will process the payment as in the normal course of business.

We humbly request approval of this item as submitted.

DEPARTMENT OF HAWAIIAN HOME LANDS

EXHIBIT B

ACTUAL PAYMENTS: LOANS RECEIVABLE SUBSIDIARY LEDGER

For the Period 1/1/2020 to 6/30/2020

CASH RECEIPTS - LOANS RECEIVABLE SUBSIDIARY LEDGER (1,100 Loans)

	HAWAIIAN HOME GENERAL LOANS			Qtrly Receipts
	PRINCIPAL	INTEREST	Total P&I Pmts	
	(1)	(2)	(3)	
1/31/2020	\$339,917	\$354,737	\$694,654	\$1,693,277
2/23/2020	\$203,850	\$362,213	\$566,062	
3/31/2020	\$172,334	\$260,227	\$432,561	
4/30/2020	\$184,331	\$295,035	\$479,366	\$1,237,806
5/31/2020	\$127,514	\$236,750	\$364,263	
6/30/2020	\$152,865	\$241,312	\$394,177	

4th Qtr , FY
2020Principal
Payment
4/2020 to
6/2020 =
\$465KInterest Payment
4/2020 to 6/2020 =
\$772KTotal Payment
4/2020 to 6/2020 =
\$ 1,237K

~ \$1.8M/Year

~ \$3.2M/Year

~ \$5M/Year