HAWAII NEWS

DHHL homebuyers in limbo with mortgage financing

By Andrew Gomes

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An expanding pipeline of Native Hawaiian homestead development has led to a bottleneck serving lower-income households trying to buy new homes using federally funded low-interest loans.

The state Department of Hawaiian Home Lands recently informed a state legislative committee that it is in a bind over a surge in demand for such loans that is outstripping its capacity to supply the special mortgages carrying a 1% interest rate.

Historically, such financing was used for a relatively small portion of home purchases under DHHL's homestead program in which agency beneficiaries receive lot leases for $1 a year but must pay for or build their own home. That was due in part to relatively little subdivision lot development over many decades and recent past years with low mortgage rates.

Now, DHHL has ramped up subdivision development using $600 million appropriated by the Legislature in 2022 amid relatively high mortgage rates, which mortgage buyer Freddie Mac said averaged 6.16% for a 30-year, fixed-rate loan last week compared with 3.22% at the same time in 2022.

As a result, DHHL has about $31 million in pending or approved loan applications from beneficiary households that qualify for the financing because they earn no more than 80% of a county's median income. Yet the agency can issue only a fraction of the loans in part due to a state constraint.

That constraint is a $7 million ceiling on a DHHL revolving fund used to make the loans with funding provided under the federal government's 1996 Native American Housing Assistance and Self Determination Act, also known as NAHASDA.

DHHL hit the ceiling in October for the current state fiscal year that runs to June 30.

Agency officials informed the state Senate Committee on Ways and Means during a Thursday briefing that they would like the Legislature to raise the ceiling for next fiscal year to $23 million. But even that wouldn't be enough to satisfy demand.

Lehua Kinilau-Cano, NAHASDA government relations program manager at DHHL, told committee members that agency officials were surprised by the high demand for such mortgage financing and decided to seek a new ceiling at $23 million in September based on demand at the time the Hawaiian Homes Commission was considering DHHL budget plans.

"We worked with the best information that we had when we prepared the budget," she said. "We didn't anticipate this (level of demand)."

CURRENTLY, DHHL has 52 pending NAHASDA loans totaling $31 million, or about $596,000 on average, that the agency would like to fund in the next fiscal year to help beneficiaries become homeowners, including mortgages for 51 homes being built and sold by Gentry Homes in a 115-lot DHHL subdivision in Kapolei called Ka'uluokaha'i.

The $7 million in NAHASDA loans issued this fiscal year were for 10 homes at a Maui project called Pu'uhona, where homes are being built and sold by development firm Dowling Co., and one home in Waimanalo.

Prices for homes at Pu‘uhona range from $411,000 for two-bedroom units up to $699,000 for homes with five bedrooms.

Kinilau-Cano said NAHASDA loans are a linchpin for lower-income DHHL beneficiaries to become homeowners, and that historically such households often were bypassed on a list of applicants for homesteads because they could not afford to buy a house on an available lot.

“That’s why the NAHASDA financing is super critical,” she told the committee.

DHHL has a waitlist of roughly 30,000 Hawaiian beneficiaries seeking homestead leases. The agency anticipates being able to develop 2,472 lots through 2031 using $511 million from the state’s $600 million appropriation. Another $52 million has gone toward buying land, and $36 million is being spent on beneficiary services that include some mortgage financing.

Annual income limits to qualify for the NAHASDA loans on Oahu equate to around $85,000 for a single person, $97,000 for a couple and $122,000 for a family of four. On Maui, the rough limits for comparable household sizes equate to $75,000, $86,000 and $108,000.

In addition to loans with 1% interest rates, DHHL also offers interest-free loans using NAHASDA funds for beneficiaries who help build their own homes under a Habitat for Humanity program.

RAISING THE ceiling for DHHL’s revolving fund containing NAHASDA mortgage finance capital isn’t a tough ask of the Legislature, given the change wouldn’t affect the state budget. At the same time, DHHL’s ability to spend NAHASDA funding is a dire issue.

“If federal funds are not spent timely we could see reductions in the future,” Sen. Donovan Dela Cruz, chair of the Ways and Means Committee, said in a text message after the briefing.

DHHL currently has $20 million in NAHASDA funding, which can be used for a variety of things that help beneficiaries. A request is pending in Congress to provide another $22.3 million for the current federal fiscal year that began Oct. 1, matching the amount received in recent years.

However, President Donald Trump has proposed eliminating such grant funding in part because DHHL accumulated unspent proceeds from prior years.

“The program has large balances and only one grantee, which would be more appropriately funded by the State of Hawaii,” Trump’s Office of Management and Budget said in a May 2 letter to the chair of the U.S. Senate Committee on Appropriations.

DHHL previously received no annual funding for the program during the Democratic administration of President Barack Obama in 2016 due to unspent funds that drew the ire of some state leaders and DHHL beneficiaries at the time. But DHHL appears to be demonstrating that it has a great need for the funding now.

The $31 million in pending loans includes $9.5 million for 18 beneficiary households who have pending agreements to buy homes, including homes slated to be finished this year, Kinilau--Cano told the Senate committee.

“These people already signed purchase and sale contracts,” she said.

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