Audit of the Department of Hawaiian Home Lands' Homestead Services Division

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Lack of commission guidance and lax loan management favor lessees over other beneficiaries

The Department of Hawaiian Home Lands administers about 200,000 acres of public lands set aside for agricultural and pastoral use to be leased to native Hawaiians, upon which they may live, farm, ranch, and engage in commercial or other activities. The department, led by a nine-member commission, must provide financial and technical assistance to native Hawaiians (those with at least 50 percent Hawaiian blood), which enables them to enhance their economic self-sufficiency and promote community-based development. According to the Hawaiian Homes Commission Act of 1920, by doing this, the traditions, culture, and quality of life of native Hawaiians will be self-sustaining.

As of June 30, 2011, there were 9,922 homestead leases statewide and 26,170 applicants waiting for homestead leases. In FY2011, the department issued 177 new homestead leases. That year, the department collected $61.1 million in revenues and accrued $70 million in expenses.

"Out of control."

- Loan specialist describing her loans

Commission fails to meet its fiduciary obligations

We found that the roles and responsibilities of the commission are not clearly defined and the commission lacks tools to aid it in prudent trust administration. For instance, according to the commission chair, the commission is more concerned with keeping lessees on the land than with collecting on delinquent loans, ignoring its broader responsibilities. In addition, the department does not provide sufficient monthly delinquent loan totals or other data to the commission and has not done any meaningful analysis of direct loan program profitability or other current and upcoming obligations. With little information on the department's more than $588 million in direct loans, loan guarantees, and insurance obligations, the commission is unaware of the potential impact of its loan award decision making and is unable to meet its fiduciary duty.

Department's lax management of loans undermines accountability to beneficiaries as a whole

We also found that the department has vague policies and few standards governing its direct loans (those it underwrites directly as well as insured and guaranteed loans that have been reassigned to the department for delinquent collection). For example, the department and commission have not reassessed loan interest rates since 1995. In addition, an estimate used to calculate household expenses for determining loan eligibility has not been updated in a decade, meaning the department may be underestimating the cost of living and miscalculating lessees' ability to pay off loans. As a result, the department may be making loans to borrowers who cannot afford to make their payments.

Agency response

The department agreed that much can be done to enhance its performance, and that its higher risk portfolio requires active loan monitoring and collection policy enforcement to control delinquent loans. It recognized our concern that lax management of lessee loans undermines its ability to serve all beneficiaries and says it will aggressively look at loan delinquency issues and that actions will be taken against the most chronic delinquent borrowers. It will also review best practices to improve internal controls and provide adequate staffing for its loan program.

The department disagreed that an external benchmark such as Hawai'i's subprime mortgage delinquency rates would help commissioners identify whether DHHL's delinquency trends diverge from the rest of the market, asserting it is unfair to judge DHHL's performance solely on standards established by commercial lenders. The department misunderstands our point that such a benchmark would provide perspective on performance trends of other loans provided to less creditworthy borrowers and whether DHHL's performance runs counter to the markets.

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