

**STATE OF HAWAII
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION**

**AMENDMENT NO. 2 TO THE
NEIGHBORHOOD STABILIZATION PROGRAM
AMENDMENT**

This submittal represents an amendment to the State of Hawaii's Neighborhood Stabilization Program (NSP) Substantial Amendment and application, approved on March 19, 2009.

This Amendment No. 2 reallocates funds from the County of Kauai to the County of Maui and makes an administrative correction to the plan to reflect current NSP rules.

THE NSP SUBSTANTIAL AMENDMENT

Jurisdiction(s): State of Hawaii <i>(identify lead entity in case of joint agreements)</i>	NSP Contact Person: Karen Seddon Address: 677 Queen Street, Suite 300 Honolulu, Hawaii 96813 Telephone: (808) 587-0641 Fax: (808) 587-0600 Email: Karen.s.seddon@hawaii.gov
Jurisdiction Web Address: <ul style="list-style-type: none"><i>(URL where NSP Substantial Amendment materials are posted)</i> http://hawaii.gov/dbedt/hhfdc	

This Amendment No. 2 to the NSP Substantial Amendment revises the following sections of the State of Hawaii's Substantial Amendment.

B. DISTRIBUTION AND USES OF FUNDS

Provide a narrative describing how the distribution and uses of the grantee's NSP funds will meet the requirements of Section 2301(c)(2) of HERA that funds be distributed to the areas of greatest need, including those with the greatest percentage of home foreclosures, with the highest percentage of homes financed by a subprime mortgage related loan, and identified by the grantee as likely to face a significant rise in the rate of home foreclosures. *Note: The grantee's narrative must address these three stipulated need categories in the NSP statute, but the grantee may also consider other need categories.*

Response:

Of the four county jurisdictions in the State, the City and County of Honolulu has the highest population. However, every county jurisdiction has been impacted by foreclosures, regardless of population size. Based on the State of Hawaii's needs assessment, the state selected projects that were serving communities in areas of greatest need, regardless of jurisdiction.

As such, NSP funds will be distributed to the areas of greatest need identified in Section A of this NSP Substantial Amendment.

The HHFDC worked closely with the City and County of Honolulu and the Counties of Hawaii, Kaua'i, and Maui to identify eligible uses of the NSP funds. In identifying activities to be funded under NSP, HHFDC also considered the capability of an entity to effectively administer the NSP and the ability of the NSP funds to be used for a particular activity within the required 18-month time period.

City and County of Honolulu

NSP funds will be used for the development of affordable rental housing in the Waianae Kai and East Kapolei-Ewa Villages “hot spots”, which were determined to be areas of greatest need based on relatively high percentages of loans that are seriously delinquent, concentrations of subprime loans, and variable interest rate loans that reset in 2008. Funding for both projects will help to meet the need for permanent rental housing opportunities, particularly for homeless individuals and low- and moderate-income households, on the Leeward side of Oahu.

County of Hawaii

NSP funds will be used for the development of eight affordable rental housing units in Kaloko, located in census tract 215.01. This census tract has a higher HUD score for foreclosure and abandonment risk, as well as a concentration of subprime loans. The County of Hawaii has placed a priority on the development of the Kaloko Housing Program due to the impending closure of the only homeless facility in West Hawaii in June 2009.

County of Kaua'i

NSP funds will be used to finance two activities on Kaua'i. The first activity is the redevelopment of three residential lots, which are owned by the County and have been vacant for over 15 years. Two lots are located in Eleele-Kalaheo (census tract 407), which is a “hot spot” due to the high percentage of seriously delinquent loans and high concentrations of subprime loans. One lot is located in Kekaha-Waimea (census tract 409), which (according to Cyberhomes) has experienced a decline in property values of over 23 percent.

The second activity involves the acquisition, rehabilitation or redevelopment, and resale of residential property in which a mortgage or tax foreclosure is complete. The County of Kaua'i will place priority on the acquisition of properties in areas with higher foreclosure rates including Kapaa, Koloa, Kalaheo, Lihue and Princeville.

County of Maui

NSP funds will be used for the acquisition, rehabilitation, and resale of foreclosed homes under a community land trust model. Priority will be placed on acquiring homes in the higher risk foreclosure areas of North Kihei (census tract 307.02), Kahului (census tracts 311.01, 311.02, 311.03, and 312), Lahaina (census tracts 314.01 and 314.02), and Wailuku (census tracts 309.02 and 309.03). These areas have HUD foreclosure risk scores ranging from 3 to 5, and are located in areas with relatively high percentages of seriously delinquent loans or concentrations of subprime loans. The median value of homes in these areas has significantly declined since 2007. According to Cyberhomes, Kihei property values have decreased by about 15%; approximately 19% in Wailuku, and nearly 26% in Lahaina.

The distribution and uses of NSP funds are summarized in the table below.

PROJECT DESCRIPTION	NSP USE*	HONOLULU	HAWAII	KAUAI	MAUI	HHFDC	TOTALS
Purchase/Rehab/Sell	B	\$0	\$0	\$2,196,949.32	\$3,146,728.90	\$0	\$5,343,678.22
Ewa Villages Apts.	E	\$2,000,000	\$0	\$0	\$0	\$0	\$2,000,000.00
Seawind Apartments	E	\$4,900,000	\$0	\$0	\$0	\$0	\$4,900,000.00
Kaloko	E	\$0	\$4,887,800	\$0	\$0	\$0	\$4,887,800.00
Waimea/Eleele LELP	E	\$0	\$0	\$854,000.00	\$0	\$0	\$854,000.00
Administration	Admin	\$0	\$486,400	\$351,201.57	\$0	\$776,920.21	\$1,614,521.78
TOTALS		\$6,900,000	\$5,374,200	\$3,402,150.89	\$3,146,728.90	\$776,920.21	\$19,600,000.00

* Key for NSP Uses:

- (A) Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-second, loan loss reserves, and shared-equity loans for low- and moderate-income buyers;
- (B) Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties;
- (C) Establish land banks for homes that have been foreclosed upon;
- (D) Demolish blighted structures; and
- (E) Redevelop demolished or vacant properties.”

G. ***NSP INFORMATION BY ACTIVITY (COMPLETE FOR EACH ACTIVITY)***

(1) **Activity Name:** Kaua'i - Purchase, rehabilitate, and sell foreclosed real estate.

(2) **Activity Type:** (include NSP eligible use & CDBG eligible activity)

NSP Eligible Use: 2301(c)(3)(B) – Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, or transferred in lieu of foreclosure, in order to sell, rent or redevelop such homes and properties.

CDBG Eligible Activity: Acquisition; Disposition; Direct homeownership assistance; rehabilitation and preservation activities for homes and other residential properties.

(3) **National Objective:** (Must be a national objective benefiting low, moderate and middle income persons, as defined in the NSP Notice—i.e., ≤ 120% of area median income).

Provide housing that will be occupied by a household whose income does not exceed 120% AMI.

(4) **Activity Description:**

Include a narrative describing the area of greatest need that the activity addresses; the expected benefit to income-qualified persons; and whether funds used for this activity will be used to meet the low income housing requirement for those below 50% of area median income.

Information obtained from realtytrac.com revealed that foreclosures during the period of March/April 2008 to present were scattered throughout the county of Kaua'i. Foreclosure activity was high in the Kapaa, Koloa, Kalaheo, Lihue, and Princeville areas.

On October 9, 2008, foreclosureconnections.com showed 10 foreclosure properties located mainly in Kapaa (5) with others in Princeville, Koloa and Kilauea. The Fifth Judicial Circuit Court records provided the following information on judicial foreclosures:

January 2007 – December 2007:	35 foreclosures (filings)
January 2008 – September 26, 2008:	49 foreclosures (filings)

On October 8, 2008, the Court's records noted 11 foreclosures filings during the period of August 25, 2008 to September 29, 2008. Reference properties were scattered around the County of Kaua'i.

The Kaua'i County Real Property Tax Collection Office reported that the County's non-judicial foreclosures were as follows:

- 2006 2 foreclosures (both in the Kawaihau district which includes Kapaa, Wailua and Moloaa);
- 2007 3 foreclosures (two in Lihue and one in Hanalei)
- 2008 Auction scheduled for November 2008. To date, listing includes 1 property in Hanalei.

Additionally, the same office reported that it has recorded liens on 150+ condominiums at the Kaua'i Beach Resort in Wailua.

The activity will provide six permanent housing structures, all of which will be occupied by households whose incomes do not exceed 120% AMI. The benefit to income-qualified persons is that LMMI households will be able to purchase homes to serve as their primary residence.

The County will buy approximately six or more housing units from bank owned (foreclosed) real estate. The housing units to be purchased shall not have been built before 1978. Foreclosed properties will include property for which the mortgage or tax foreclosure is complete - - i.e., after the title for the property has been transferred from the former homeowner under some type of foreclosure proceeding or transfer in lieu of foreclosure, in accordance with state or local law. Depending on the area and circumstance, the County will purchase units at a minimum discount of 1% from the current market-appraised value of the home. Such discounts will ensure that buyers are paying below-market value for the home. The current market-appraised value will be determined through an appraisal completed within 60 days prior to an offer to purchase. NSP administrative funds will be required to obtain these appraisals.

If necessary, the County will rehabilitate the unit pursuant to Chapter 12, Building Code of the County Code, which was recently amended by Ordinance No. 857. The Ordinance adopted the 2003 Edition of the International Building Code and International Residential Code for One- and Two-Family Dwellings of the International Code Council, Incorporated. The units will also meet HUD's housing quality standards for habitability. The property will then be sold to an eligible household as a primary residence. The sales price shall be equal to or less than the cost to acquire and rehabilitate the home up to a decent, safe and habitable condition.

The sales price may include sales and closing costs. All sales will be through the County of Kaua'i's LELP, which provides an inventory of permanently affordable housing units. The County of Kaua'i will retain fee ownership of all properties and sells the leasehold interest to buyers under 99-year leases. There will be a separate document which will mandate a minimum NSP affordability period of 15 years for the units.

Every buyer will be required to receive and complete eight hours of counseling provided by a HUD-approved counseling agency retained by the County of Kaua'i. Curriculum

will include such topics as budgeting, understanding credit, mortgage loan basics, home selection criteria, money management, and avoiding default and foreclosure.

The HHFDC will allow the County of Kaua'i to retain and utilize program income generated from NSP activities. Program income will be used for the purchase and rehabilitation of additional foreclosed homes in subsequent phases until all funds are utilized or the program time limit is reached, at which time any remaining NSP funds will be returned.

(5) Location Description: (Description may include specific addresses, blocks or neighborhoods to the extent known.)

This activity will take place island-wide as foreclosed properties become available. However, the County of Kaua'i will place priority on the acquisition of properties in areas with higher foreclosure rates including Kapaa, Koloa, Kalaheo, Lihue and Princeville.

(6) Performance Measures (e.g., units of housing to be acquired, rehabilitated, or demolished for the income levels of households that are 50 percent of area median income and below, 51-80 percent, and 81-120 percent).

Approximately six or more foreclosed units will be purchased, rehabilitated or reconstructed if necessary to meet HUD's housing quality standards, and then sold to households who are at or below 120% AMI.

(7) Total Budget: (Include public and private components)

Estimated budget for the purchase, rehabilitation, and resale of foreclosed real estate is \$2,196,949.32 (approximately \$366,158 x 6 units).

(8) Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)

Kaua'i County Housing Agency
Piikoi Building, Suite #330
444 Rice Street
Lihue, Hawaii 96766

NSP Contact: Jo Ann Shimamoto
Ph: (808) 241-4428
Fax: (808) 241-5118
E-mail: jshimamoto@kauai.gov

(9) Projected Start Date:

Upon receipt of NSP funds (Est. February 2009)

(10) Projected End Date:

16 months after receipt of funds (Est. May 2010)

(11) Specific Activity Requirements:

For acquisition activities, include:

- discount rate

Depending on the area and circumstance, units will be purchased at a minimum discount of 1% from the current market-appraised value of the home (as determined through an appraisal completed within 60 days prior to an offer to purchase).

For financing activities, include:

- range of interest rates

For housing related activities, include:

- duration or term of assistance;

The minimum NSP affordability of 15 years will apply to the units.

- tenure of beneficiaries--rental or homeownership;
Homeownership

- a description of how the design of the activity will ensure continued affordability

The County of Kaua'i will retain fee ownership of all properties and sell the leasehold interest to buyers under 99-year leases. Non-compliance with the affordability period would trigger a recapture / repayment of the entire amount of NSP funds utilized for the project. There will be a separate document mandating a minimum NSP affordability period of 15 years for the units. Buyers must be income-qualified as required by the NSP program. There will be a separate document mandating a minimum NSP affordability period of 15 years for the units.

Throughout the affordability period, the NSP units will serve households with incomes that meet NSP requirements. As required under the County of Kaua'i's LELP, households wishing to sell their leasehold interest in an NSP-assisted unit may only sell to the County of Kaua'i; the County of Kaua'i will ensure that the leasehold interest is then sold to other NSP-eligible, income-qualified applicant households.

The resale of the NSP-assisted property will follow the County of Kaua'i's LELP program. The County of Kaua'i will permit the leasehold estate to be transferred to a qualified family member, or the leasehold estate may be re-issued to a qualified family member with a revised term to facilitate the

refinancing of the property. However, if there are conflicts between the County of Kaua'i's LELP and the resale / recapture provisions under the HOME Investment Partnership Program, provisions under the HOME Investment Partnership Program shall prevail.

The County of Kaua'i will maintain project and participant records evidencing compliance with NSP regulations and other applicable federal, state and county laws. The County of Kaua'i will be required to submit compliance reports to the HHFDC.

The HHFDC will conduct compliance monitoring reviews to ensure compliance with the NSP program.

G. ***NSP INFORMATION BY ACTIVITY (COMPLETE FOR EACH ACTIVITY)***

(1) **Activity Name:** Maui - Affordable Workforce Housing

(2) **Activity Type:** (include NSP eligible use & CDBG eligible activity)

NSP Eligible Use: HERA Section 2301(c)(3)(B) - Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties.

CDBG Eligible Activity: - 24 CFR 570.201(a) Acquisition; (b) Disposition; (i) relocation; and (n) Direct homeownership assistance;

and

- 24 CFR 570.202 Eligible rehabilitation and preservation activities for homes and other residential properties

(3) **National Objective:** (Must be a national objective benefiting low, moderate and middle income persons, as defined in the NSP Notice—i.e., **≤ 120% of area median income**).

LMMH: Provides or improves permanent residential structures that will be occupied by a household whose income is at or below 120 percent of area median income.

(4) **Activity Description:**

Include a narrative describing the area of greatest need that the activity addresses; the expected benefit to income-qualified persons; and whether funds used for this activity will be used to meet the low income housing requirement for those below 50% of area median income.

The State of Hawai'i and the County of Maui are experiencing a sharp increase in the foreclosure rate in 2008. On July 17, 2008, there were 524 active foreclosures in the state. Less than 2 months later, on September 3, 2008, the active foreclosures had jumped to 899, an increase of 72%. The number of foreclosures in the County of Maui has also increased as compared to the state as a whole. Year-to-date, the County of Maui had 16% of the total foreclosure activity; on September 3, 2008, Maui had 21% of the active foreclosures.

The affordability of the abandoned and foreclosed homes will be preserved by converting them to community land trust homes that remain affordable. Na Hale O Maui (NHOM) will provide long-term stewardship of the rehabilitated affordable homes by holding title to the underlying land in trust and providing the homeowner with a renewable 99-year ground lease that contains an equity-sharing resale formula that preserves affordability

for future qualified buyers. Housing units to be purchased by NHOM shall not have been built before 1978.

NHOM is a 501(c)(3) nonprofit organization. It is prepared to track, analyze, inspect, acquire, rehabilitate, and resell foreclosed homes in the County of Maui suitable for workforce housing, and negotiate discounted acquisitions from lenders who have REOs that have already completed the foreclosure process or deed in lieu process. Funds generated by resale of the foreclosed homes will be used of the purchase and rehabilitation of additional foreclosed homes until all funds are utilized or until the program expiration date, at which time any remaining funds will be returned.

NHOM has an established project affordability criteria that requires land trust homes to be at least 25% below market value for a comparable fee simple home, which will guide their resale pricing for the benefit of low-, moderate-, and middle-income buyers. The resale price will not exceed the cost to acquire, rehabilitate, and dispose of the home.

In addition to compliance with rehabilitation standards previously described, NHOM will utilize the rehabilitation standards set forth in the HUD *Nationally Applicable Recommended Rehabilitation Provisions* (NARRP) 1997 and the *Uniform Building Code 1997 Edition* as amended by the County of Maui.

Every NSP-assisted homebuyer will be required to receive and complete at least 8 hours of homebuyer counseling from Hale Mahaolu, a Maui-based, HUD-approved housing counseling agency before obtaining a mortgage loan.

During the first year of operation, NHOM anticipates acquiring and rehabilitating approximately 13 homes using NSP funds. All of the homes will be sold to households with incomes that do not exceed 120% AMI, as required by the NSP program.

The HHFDC will allow NHOM to retain program income generated from NSP activities. Funds generated by resale of the rehabilitated foreclosed homes will be used for the purchase and rehabilitation of additional foreclosed homes in subsequent phases until all funds are utilized or the program time limit is reached, at which time any remaining NSP funds will be returned.

(5) Location Description: (Description may include specific addresses, blocks or neighborhoods to the extent known.)

Abandoned and foreclosed homes will be targeted in the high risk foreclosure areas of Kihei, Kahului, Lahaina and Wailuku. Specifically, activity will be focused in the following census tracts:

Census Tract 307.02 (North Kihei);
Census Tracts 311.01, 311.02 311.03 and 312 (Dream City-Maui Lani, Kahului);
Census Tracts 314.01 and 314.02 (Lahaina); and
Census Tracts 309.02 and 309.03 (North Wailuku/Waiehu).

(6) Performance Measures (e.g., units of housing to be acquired, rehabilitated, or demolished for the income levels of households that are 50 percent of area median income and below, 51-80 percent, and 81-120 percent).

Purchase, rehabilitate and sell an estimated 13 homes during the first year in the County of Maui to eligible households with incomes that do not exceed 120% AMI.

(7) Total Budget: (Include public and private components)

Total NSP Budget: \$3,146,728,90	Estimated total of 13 units during the first year of operation.
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(8) Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)

Na Hale O Maui
P. O. Box 1829
Wailuku, Hawaii 96793
Contact Person: John Anderson
Ph: (808) 244-6110
Fax: (808) 244-6115
E-mail: info@nahaleomaui.org

(9) Projected Start Date:
February 1, 2009

(10) Projected End Date:
May 31, 2010

(11) Specific Activity Requirements:

For acquisition activities, include:

- discount rate
NHOM has an established project affordability criteria that requires land trust homes to be at least 25% below market value for a comparable fee simple home, which will guide their resale pricing for the benefit of low-, moderate-, and middle-income buyers. The resale price will not exceed the cost to acquire, rehabilitate, and dispose of the home.

For financing activities, include:

- range of interest rates

For housing related activities, include:

- duration or term of assistance;

The minimum HOME affordability period will apply to the NSP units. However, NHOM intends to exceed the affordability period utilizing a 99-year ground lease.

- tenure of beneficiaries--rental or homeownership;
Homeownership
- a description of how the design of the activity will ensure continued affordability

The affordability of the abandoned and foreclosed homes will be preserved by converting them to community land trust homes that remain affordable. NHOM will provide long-term stewardship of the rehabilitated affordable homes by holding title to the underlying land in trust and providing the homeowner with a renewable 99-year ground lease that contains an equity-sharing resale formula that preserves affordability for future qualified buyers. Non-compliance with the affordability period would trigger a recapture / repayment of the entire amount of NSP funds utilized for the project. Buyers must be income-qualified as required by the NSP program.

Additionally, continued affordability will be assured through a recorded use restriction on the property; the use restriction will mandate a minimum affordability period based on the minimum HOME affordability period standards. Throughout the affordability period, the NSP units will serve households with incomes that meet NSP requirements.

The resale of the NSP-assisted property will follow NHOM's Proposal to Redevelop Foreclosed Homes, dated October 17, 2008 (NHOM's Proposal). However, if there are conflicts between NHOM's Proposal and the resale / recapture provisions under the HOME Investment Partnership Program, provisions under the HOME Investment Partnership Program shall prevail.

NHOM will maintain project and participant records evidencing compliance with NSP regulations and other applicable federal, state and county laws. NHOM will be required to submit compliance reports to the HHFDC.

The HHFDC will conduct compliance monitoring reviews to ensure compliance with the NSP program.