



OFFICE OF PUBLIC AND INDIAN HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

March 31, 2021

Dear Lender Letter 2021-03

To: All Section 184A-Approved Lenders and Servicers
FHA Approved Appraisers
Department of Hawaiian Home Lands

Subject Section 184A Financing of Homes Located on Agricultural and Pastoral Lots on Hawaiian Home Lands

Purpose This Dear Lender Letter (DLL) announces policy established by the Office of Native American Programs (ONAP) for the Section 184A Loan Guarantee Program regarding financing of homes located on agricultural and pastoral lots on Hawaiian home lands.

Effective Date This DLL is effective for all Section 184A case numbers assigned on or after the date of this DLL.

Background Pursuant to the Housing and Community Development Act of 1992 (12 U.S.C. 1715z-13b), HUD is authorized to guarantee Section 184A mortgage loans made by private Lenders to finance single family homes located on the Hawaiian home lands, lands that have the status of Hawaiian home lands under Section 204 of the Hawaiian Homes Commission Act (HHCA) of 1920, as amended.

Pursuant to Section 207(a) of the HHCA, the Department of Hawaiian Home Lands (DHHL) may issue a homestead lease to native Hawaiians on agricultural, pastoral and residential lots. A residence is allowed on agricultural and pastoral lots. DHHL allows one residence per lessee on Hawaiian home lands.

HUD establishes this policy to specify that a 184A loan may be used to finance a single-family home located on Hawaiian home lands regardless of whether the lot is considered residential, agricultural, or pastoral. Clarification on the use of appraisal values for purposes of the Section 184A loan is also provided.

**Section 184A
Eligible Loans**

The Section 184A loan may be used to construct, acquire, or rehabilitate a one-to-four-unit family dwelling that is considered standard housing.¹ Currently, HUD has limited authority to also guarantee Section 184A refinances. The dwelling must be located on a Hawaiian home land leasehold, which includes agricultural, pastoral, and residential lots.

**Section 184A
Appraisal Values**

The Section 184A principal loan amount is limited to 97.75% of the appraised value (when the value is greater than \$50,000). Except that a 184A cash out refinance is limited to 85% of the appraised value.

When conducting an appraisal for Section 184A program purposes, program participants shall follow Federal Housing Administration (FHA) Section 247 Program² appraisal policies, as provided in the FHA Single Family Handbook 4000.1.

Specifically, Lenders are required to obtain an appraisal for both existing homes and new construction with the cost approach to value developed. The sales comparison and income approaches to value may be excluded when the approaches are not necessary for credible results and the basis of the exclusion is explained. The following statement must be included in the Appraiser report: *“The value defined for this appraisal is not ‘Market Value’ as defined in the standard documents of form appraisal reports. This appraisal has been completed for Section 184A loan guarantee purposes, per HUD instructions for Department of Hawaiian Home Lands (DHHL) properties.”*

The Appraiser must develop the cost for both existing homes and new construction. When appropriate, the Appraiser must attempt to apply the income and sales comparison approaches. Appraisals must comport with Federal and State requirements including the Uniform Standards of Professional Appraisal Practices (USPAP) and DHHL requirements.

In addition to allowing a residence on agricultural and pastoral lots, DHHL also allows a workers’ quarters to be erected on the lot, provided certain conditions are satisfied. However, Section 184A financing is strictly limited to the borrower’s primary residence only. The appraised value of the home shall not include any value for an existing or proposed workers’ quarters and farm or ranch operating equipment. In addition, proceeds from a 184A cash out refinance shall not be used to construct any workers’ quarters without the approval of HUD and DHHL.

¹ 12 U.S.C. § 1715z-13b(c)(2)(A); *see also* 12 U.S.C. § 1715z-13b(k) and 24 CFR 1007.20 (addressing “standard housing” requirements including size, design, plumbing and electrical systems, etc.).

² Section 247 of the National Housing Act (12 U.S.C. § 1715z-12) (Single-Family Mortgage Insurance on Hawaiian home lands).

**Section 184A
Underwriting
Criteria**

Aside from the changes discussed in this DLL related to financing a home located on an agricultural or pastoral lot, the guidelines for Direct Guarantee underwriting of a 184A loan remains unchanged (e.g., determining income from self-employment and rent received for properties owned by the 184A loan applicant). As a reminder, rental income stability must be documented by a current lease agreement and on Schedule E of the most recent two years tax returns to be acceptable for loan qualification purposes. Projected rental income (from tenant-occupied workers quarters, as an example) may not be used to qualify for 184A financing.

**Revised Rider for
Section 184-A
Mortgage**

HUD revised the Rider for Section 184-A Mortgage (Leasehold), form HUD-50149A to add paragraph F, which provides language specific to agricultural and pastoral lots. The Rider specifies that the leasehold interest on agricultural and pastoral lots is not eligible for workers' quarters petitions while a Section 184A loan guarantee exists, without HUD written approval. In other words, the Lessee shall not request approval from DHHL to erect workers' quarters on the lot while a Section 184A guaranteed loan is in effect, without written approval from HUD. Lenders are required to utilize the enclosed Rider for Section 184-A Mortgage (Leasehold) for all 184A loans with a case number assigned on or after the date of this DLL.

Questions

Any question regarding this DLL may be directed to Claudine.C.Allen@hud.gov.

Signature



Dominique Blom, General Deputy Assistant Secretary
for Public and Indian Housing