

**PUBLIC AND INDIAN HOUSING
NATIVE HAWAIIAN LOAN GUARANTEE FUND (SECTION 184A)
2017 Summary Statement and Initiatives
(Dollars in Thousands)**

NATIVE HAWAIIAN LOAN GUARANTEE	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2015 Appropriation	\$100	\$5,713	...	\$5,813	\$68	\$61 ^a
2016 Appropriation	5,746	...	5,746	71	71
2017 Request	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>39</u>	<u>39</u>
Program Improvements/Offsets	-5,746	...	-5,746	-32	-32

a/ This amount excludes permanent indefinite authority in the amount of \$1.4 million for the downward re-estimate.

1. What is this request?

The Department does not request an appropriation in fiscal year 2017 for the Native Hawaiian Loan Guarantee Fund (also known as the Section 184A program). Similarly, in fiscal year 2016 no funds were requested or enacted. Current, carryover balances are sufficient to administer this program and guarantee 55 loans in fiscal year 2016 and 55 loans in fiscal year 2017.

Key outcomes of the Native Hawaiian Loan Guarantee Fund are:

- An increase in access to private mortgage financing to native Hawaiian families for homes on the Hawaiian home lands;
- Availability of an affordable mortgage financing option for homes on the Hawaiian home lands; and
- Homeowners on the Hawaiian home lands who contribute to the economic sustainability of the community.

Legislative Proposals (please refer to Section 5 for more details):

- Indemnification by Native Hawaiian Housing Loan Guarantee Fund (Section 184A) Lenders; and
- Allow lenders to be terminated for unacceptable risk.

Native Hawaiian Loan Guarantee Fund (Section 184A)

2. What is this program?

The Section 184A program (12 U.S.C. 1715z-13b) was established by Section 514 of the American Homeownership and Economic Opportunity Act of 2000 (P.L. 106-569, approved December 27, 2000), which amended the Housing and Community Development Act of 1992. Regulations are at 24 CFR part 1007. The program is administered by HUD's Office of Native American Programs; one program specialist is assigned to the HUD office in Honolulu, Hawaii.

This program offers Native Hawaiians the opportunity to become homeowners by offering lenders a 100 percent guarantee in the event of a default. This guarantee makes possible the private financing of home mortgages by private financial institutions, which would otherwise not be feasible because of the unique legal status of Hawaiian home lands. Through this program, eligible borrowers can obtain a mortgage with a market rate of interest to purchase and rehabilitate, or build a single family home on Hawaiian home lands. The 100 percent guarantee provides the incentive for private lenders to market loans to this traditionally underserved population. Private financing is used to cover construction or acquisition costs, while federal dollars are used only to guarantee payment in the event of a default. Eligible borrowers include Native Hawaiian families who are eligible to reside on the Hawaiian home lands, the (State) Department of Hawaiian Home Lands (DHHL), the Office of Hawaiian Affairs, or private non-profit organizations experienced in the planning and development of affordable housing for Native Hawaiians.

3. Why is this program necessary and what will we get for the funds?

This program creates financially sustainable homeownership opportunities by making private financing accessible to a historically underserved population. It also helps stem the foreclosure crisis by educating consumers when they buy a home, and by servicing delinquent loans.

Historically, Native Hawaiians eligible to reside on the Hawaiian home lands had limited access to private mortgage capital, primarily because lenders were reluctant to do business on land that cannot be encumbered or alienated, such as the Hawaiian home lands, which are held in trust. In Hawaii, there is a great demand for affordable housing, and construction costs are extremely high. According to the U.S. Census 2011-2013 American Community Survey, the median value of an owner-occupied home in Hawaii was \$495,400, compared to a national median value of \$173,200. In June 2015, there were more than 27,000 families on the DHHL waiting list for a homestead lease on the Hawaiian home lands.

According to the Department of Hawaiian Home Lands, there are 8,876 Native Hawaiian families living on Hawaiian home lands; 27,341 applicants on the waiting list to reside on the home lands; and an estimated 32,460 potential Native Hawaiian applicants. Native Hawaiian families who are eligible to reside on the Hawaiian home lands, and who qualify for a loan if the home is located on Hawaiian home lands, will benefit from this program. Lenders also benefit, as the guarantee expands their traditional customer base.

Native Hawaiian Loan Guarantee Fund (Section 184A)

According to the U.S. Census, 2011-2013 American Community Survey:

- Approximately 360,595 Native Hawaiians live in Hawaii, which is about 25 percent of Hawaii's total population.
- Approximately 19 percent of Native Hawaiian (and other Pacific Islander) households in the State of Hawaii were overcrowded, compared to 8.9 percent of all households in Hawaii, and 3.3 percent of all households in the United States.

The Hawaiian home lands are located in various geographic areas of the islands, typically in rural areas, and some with terrain that is difficult and costly to develop. The term "Hawaiian home lands" means lands that have the status as Hawaiian home lands under section 204 of the Hawaiian Homes Commission Act, 1920 (42 Stat. 110); or are acquired pursuant to that Act. The term "Native Hawaiian" means any individual who is a citizen of the United States, and is a descendant of the aboriginal people, who, prior to 1778, occupied and exercised sovereignty in the area that currently constitutes the State of Hawaii, as evidenced by genealogical records; verification by kupuna (elders) or kama'aina (long-term community residents); or birth records of the State of Hawaii.

As a rule, communities on the Hawaiian home lands are not located in prime resort locations, and in fact, are often in less desirable areas, with steep terrain that is difficult to access and develop. The difficulties involved in developing this raw land add to the already high cost of providing housing. This loan guarantee program complements HUD's Native Hawaiian Housing Block Grant (NHHBG), which is provided to the (State) Department of Hawaiian Home Lands. The Block Grant funds are used in many cases to develop the raw land and install infrastructure, so that homes can be constructed and then purchased using a Section 184A guaranteed loan.

Presidential Initiatives and Interagency Partnerships: In October 2009, President Obama signed the Executive Order re-establishing the White House Initiative on Asian Americans and Pacific Islanders. The Initiative is co-chaired by the U.S. Departments of Education and Commerce. The Initiative works to improve the quality of life and opportunities for Asian Americans and Pacific Islanders by facilitating increased access to and participation in federal programs where they remain underserved. This historic Executive Order provides increased access to the federal government for Asian American and Pacific Islander communities, and affirms President Obama's commitment to these communities.

The Initiative requires the White House Office of Public Engagement and federal agencies to work collaboratively to increase Asian American and Pacific Islander participation in programs in education, commerce, business, health, human services, housing, environment, arts, agriculture, labor and employment, transportation, justice, veterans affairs, and economic and community development. The Initiative seeks to highlight both the tremendous unmet needs in the Asian American and Pacific Islander communities as well as the dynamic community assets that can be leveraged to meet many of those needs. The Initiative focuses on cross-cutting priority areas that may reach across all issue areas and agencies, including, for example, advancing research, data collection, analysis and dissemination for Asian Americans, Native Hawaiians and Pacific Islanders, and ensuring access, especially linguistic access and cultural competence, for Asian Americans and Pacific Islanders and encouraging Asian American and Pacific Islander involvement in public service and civic engagement opportunities.

Native Hawaiian Loan Guarantee Fund (Section 184A)

4. How do we know this program works?

The primary indicator of performance is the number of loans guaranteed under this program.

- In fiscal year 2013, 61 loans were guaranteed for more than \$15.1 million.
- In fiscal year 2014, 87 loans were guaranteed for almost \$20.3 million.
- In fiscal year 2015, 44 loans were guaranteed for more than \$10 million.

As of September 30, 2015, the Section 184A Loan Guarantee Program had guaranteed a total of 468 loans. The cumulative loan guarantee certificates issued through September 30, 2015, total \$114.95 million. The average loan in fiscal year 2014 was \$232,842; in 2015 it was \$227,882.

As a result of efficient underwriting, counseling, and prompt loan servicing, the foreclosure rate for the program has remained at less than 2 percent. As of September 30, 2015, only nine claims had been paid, out of 468 guaranteed loans.

DHHL continues to make progress in its development of master-planned communities throughout the State. This strategy of housing development will provide homeownership opportunities to Hawaiian home lands beneficiaries. Individual lots will be leased as improved lots, either for the lessee to construct a home, complete with a turnkey home, or arrange for the construction of a self-help home. In each instance, the lessee will seek financing to construct or purchase the home. The Section 184A Loan Guarantee program provides a perfect complement to the limited amount of financing options available for properties on Hawaiian home lands.

The table below shows estimated and actual activity based on loan guarantee activity.

Loan Guarantee Authority	FY 2017 Estimate	FY 2016 Estimate	FY 2015 Actual	FY 2014 Actual	FY 2013 Actual	FY 2012 Actual	FY 2011 Actual	FY 2010 Actual
Obligations (\$ in millions)	\$23.3	\$23.3	\$10.9	\$11.3	\$24.7	\$3.8	\$12.3	\$35.9
Expenditures (\$ in millions)	14.0	14.0	\$10.0	\$20.3	\$15.1	\$5.1	\$34.6	\$20.6

Native Hawaiian Loan Guarantee Fund (Section 184A)

Loan Guarantee Authority	FY 2017 Estimate	FY 2016 Estimate	FY 2015 Actual	FY 2014 Actual	FY 2013 Actual	FY 2012 Actual	FY 2011 Actual	FY 2010 Actual
Homes Financed	55	55	44	87	61	21	131	80

In fiscal year 2017 the Office of Loan Guarantee expects the loan demand to be 55 homes financed totaling \$14 million and total obligations of \$23.3 million. Demand for this program will remain at or near this level until more homes can be built on Hawaiian home lands. HUD and DHHL expect housing construction to accelerate once infrastructure projects, currently underway, are completed. HUD projects that the current program balance will be sufficient through fiscal year 2017 and is not requesting funding for this program in fiscal year 2017. HUD fully supports this program and anticipates additional funding requests when the program balance is spent down.

5. Proposals in the Budget

The Department proposes the following legislative provision to maximize Native Hawaiian housing resources in order to improve housing conditions on Hawaiian home lands.

- Indemnification by Native Hawaiian Housing Loan Guarantee Fund (Section 184A) Lenders. HUD is proposing in fiscal year 2017 language to allow HUD to be indemnified by Section 184A lenders in the direct guarantee program. Lenders participating in the Section 184A direct guarantee program are able to underwrite loans for closing without prior HUD review. With any direct underwriting program, there is a risk that lenders will approve loans that do not meet program requirements. When this occurs, currently, HUD’s only remedy is to refuse to guarantee the loan. Lenders may have already included loans in a Ginnie Mae mortgage pool prior to submission of the loan to HUD for review. When HUD refuses to guarantee a Section 184A loan, the lender is forced to pull the loan from the pool, which could incur a penalty. This penalty and disincentive to include Section 184A loans in a Ginnie Mae pool increases risks to lenders, discouraging them from issuing Section 184A loans, especially when Section 184A loans are such a small possible pool of loans (only loans on Hawaiian home lands are eligible for the program). In the FHA program, an alternative to refusing to insure the loan is for the lender to indemnify HUD for part of the loan amount. This protects HUD from losses incurred on these loans, but prevents the lender from incurring the penalty for pulling the loan from the Ginnie Mae pool. This proposal would give HUD this option for the Section 184A program. (Sec. 257)
- Allow lenders to be terminated from the program. HUD is proposing to allow lenders to be terminated from the program if it is determined that they pose an unacceptable risk to the program. (Sec. 257)

Native Hawaiian Loan Guarantee Fund (Section 184A)

**PUBLIC AND INDIAN HOUSING
NATIVE HAWAIIAN LOAN GUARANTEE FUND (SECTION 184A)
Summary of Resources by Program
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2015 Budget Authority</u>	<u>2014 Carryover Into 2015</u>	<u>2015 Total Resources</u>	<u>2015 Obligations</u>	<u>2016 Budget Authority</u>	<u>2015 Carryover Into 2016</u>	<u>2016 Total Resources</u>	<u>2017 Request</u>
Loan Guarantee Credit								
Subsidy	<u>\$100</u>	<u>\$5,713</u>	<u>\$5,813</u>	<u>\$68</u>	<u>...</u>	<u>\$5,746</u>	<u>\$5,746</u>	<u>...</u>
Total	100	5,713	5,813	68	...	5,746	5,746	...