

**PUBLIC AND INDIAN HOUSING
INDIAN HOUSING LOAN GUARANTEE FUND (SECTION 184)
2016 Summary Statement and Initiatives
(Dollars in Thousands)**

INDIAN HOUSING LOAN GUARANTEE FUND	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2014 Appropriation	\$6,000	\$111,594	...	\$117,594 ^a	\$111,710	\$114,086
2015 Appropriation	7,000	5,884	...	12,884	12,884	8,184
2016 Request	<u>8,000</u>	<u>...</u>	<u>...</u>	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>
Program Improvements/Offsets	+1,000	-5,884	...	-4,884	-4,884	-184

a/ Total resources, obligations and outlays include permanent indefinite authority of \$107 million for guaranteed loan upward re-estimates, and approximately \$75 thousand in recaptures realized in fiscal year 2014.

1. What is this request?

The Department requests \$8 million for fiscal year 2016 for the Indian Housing Loan Guarantee program (also known as the Section 184 program), which is a \$1 million increase from the 2015 enacted level. Of the requested amount:

- The Department plans to use \$7.25 million in credit subsidy to support \$1.15 billion in loan guarantee volume based on a subsidy rate of 0.63 percent. However, the Budget requests \$1.27 billion in commitment authority in case program demand necessitates the use of additional credit subsidy (up to the \$8 million request); and
- Up to \$750,000 is requested for administrative contract expenses in support of management processes.

The program makes it possible for Indian tribes, Indian housing authorities, and tribally designated housing entities to promote the development of sustainable reservation communities by making homeownership a realistic option for tribal members. It provides access to market-rate, private mortgage capital, and is not subject to income restrictions. The program allows Native Americans from across the income spectrum the opportunity to purchase quality housing in their native community. Tribes can also use the program to diversify the type of housing on native lands by developing housing for homeownership or as long-term rentals, without affordability restrictions.

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Key outcomes of the Indian Housing Loan Guarantee Fund are:

- Convenient access to market-rate lending for home mortgages in Indian Country;
- Mortgage lenders serving borrowers and community developers in Indian Country; and
- An adequate supply of housing in Indian Country for middle- and higher income residents, sufficient to relieve overcrowding.

Proposals in the Budget

- Authority to get indemnification from lenders participating in the direct guarantee program
- Authority to allow lenders to be terminated from the program for poor performance
- Redefine the term "Indian" and "Indian Tribe" to be consistent with the Native American Housing Assistance and Self-Determination Act (NAHASDA)

2. What is this program?

The Indian Housing Loan Guarantee program is authorized by Section 184 of the Housing and Community Development Act of 1992, P.L. 102-550, enacted October 28, 1992, as amended. Regulations are at 24 CFR part 1005. The program addresses the special needs of American Indians and Alaska Natives by making it possible to achieve homeownership with market-rate financing. Historically, American Indians and Alaska Natives have had limited retail banking opportunities and limited access to private mortgage capital, primarily because much of the land in Indian Country is held in trust by the federal government. Land held in trust for a tribe cannot be encumbered or alienated, and land held in trust for an individual Indian must receive federal approval through the Bureau of Indian Affairs (an agency within the Department of the Interior) before a lien can be placed on the property.

This loan guarantee program maximizes a relatively minimal federal investment by insuring almost 4,000 loans each year, and by expanding markets for lenders. The program provides an incentive for private lenders to market loans to this traditionally underserved population by guaranteeing 100 percent repayment of the unpaid principal and interest due in the event of default. Lenders get the guarantee by making mortgage loans to American Indian and Alaska Native families, Indian tribes, and tribally designated housing entities to purchase, construct, refinance, and/or rehabilitate single family homes on trust or restricted land, and in tribal areas of operation. There is no income limit or minimum required to participate, but borrowers must qualify for the loans.

In 2013, more than 80 percent of the approved loans were underwritten by program-approved lenders, an increase of 20 percent over fiscal year 2012. In fiscal year 2014, "direct guarantee lenders" underwrote 85 percent of the loans that were approved. In fiscal year 2013, 3,852 loans were guaranteed for almost \$672.3 million. The average loan in fiscal year 2013 was approximately \$174,529. In fiscal year 2014, 3,449 loans were guaranteed for more than \$595 million. The average loan in fiscal year 2014 was \$172,517.

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Ongoing collaboration with Ginnie Mae resulted in an increased percentage of Section 184 loans included in Ginnie Mae pools. HUD has expanded outreach and is working with financial institutions and credit unions that serve Native American communities to increase access to borrowers at the grassroots level. Expanding the secondary market will increase liquidity for these lenders. This growth is essential to the expansion of the program.

HUD intends to propose statutory changes to ensure the program's long-term viability. This includes clarification of key definitions; increased underwriting authority for mortgage lenders, with the inclusion of indemnifications; and loan modification options for those who fall behind on their mortgage. The program requires lenders to play an active role in servicing the loans. Early intervention and loss mitigation are vital tools for borrowers who are struggling to retain their homes in difficult economic times.

Presidential Initiatives and Interagency Partnerships: As part of the President's commitment to Indian Country, HUD and the Office of Native American Programs frequently collaborate with other federal agencies that serve Indian Country, especially the Bureau of Indian Affairs (BIA), the Indian Health Service (IHS), the Departments of Agriculture (USDA) and Energy (DOE), the Federal Emergency Management Agency (FEMA), and the Environmental Protection Agency (EPA).

HUD has collaborated extensively with the BIA to streamline the processes for obtaining Title Status Reports on trust land, which is necessary when tribes need to obtain leasehold interests on trust land properties. This effort will allow tribes to better manage their housing inventory, create better neighborhoods, and encourage economic growth. HUD also worked with BIA on the drafting of leasing regulations related to the Helping Expedite and Advance Responsible Tribal Homeownership HEARTH Act (2012), and will continue to work with BIA in the implementation of these regulations to make the leasing process more efficient for tribes and lenders.

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

HUD continues to be the largest single source of financing for housing in tribal communities. This program is the primary vehicle to access mortgage capital in Indian communities. It makes it possible for tribes to promote the development of sustainable reservation communities by making homeownership a realistic option for tribal members. It provides access to market-rate, private mortgage capital, and is not subject to income restrictions. The program gives Native Americans from across the income spectrum the choice of living in their native community.

Housing and infrastructure needs in Indian Country are severe and widespread, and far exceed the funding currently provided to tribes. Data published by the U.S. Census (2006-2010 American Community Survey) shows American Indians and Alaska Natives disproportionately suffer from severe housing needs. Of the American Indian and Alaska Native persons living on Indian lands, 11.6 percent live in overcrowded housing, compared to a rate of 3.2 percent for all persons in the United States. In selected American Indian counties in Arizona-New Mexico, there is a 16 percent overcrowding rate. In selected Alaska Native counties in

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Alaska, there is a 22 percent overcrowding rate. About 15.7 percent of the "AI/AN alone" (single-race) population in South Dakota was overcrowded, compared to only 2.1 percent of the total population in that state.

The U.S. Census defines overcrowding as 1.01 or more persons per livable room. Overcrowding is especially prevalent, and it is not uncommon in some Indian communities for two or three extended families to share the same home. Overcrowding has negative effects on a family's health, especially children's health, and tends to exacerbate domestic violence, substance abuse, truancy, and poor performance in school. Homes suffer more wear and tear when they are overcrowded, and the over-use of appliances coupled with poor ventilation can lead to conditions that promote mold growth.

According to the 2010 U.S. Census, 5.2 million Americans identified themselves as American Indian or Alaska Native (Race Alone or in Combination with One or More Other Races). This was 1.7 percent of the total national population of 308.7 million. (2.9 million reported they were "American Indian/Alaska Native Alone," or "single-race.")

Demand for this program has outpaced the current statutory framework. In 20 years of operation, the program has guaranteed 26,250 loans; 3,449 in fiscal year 2014. As the program has grown over the last 15 years, HUD identified, and included in its budget request for fiscal year 2013, refinements needed to the authorizing statute. These included: 1) the authority to increase the up-front guarantee fee from one percent to a maximum of 3 percent; and 2) the authority to establish and collect annual premium payments in an amount not exceeding one percent of the remaining guaranteed balance.

In fiscal year 2015 HUD implemented a 0.15 percent annual premium payment in order to meet program demand without further increasing appropriations. The annual fee is payable each month as a component of the monthly mortgage payment, and impacts all loan applications issued on or after November 15, 2014. This is consistent with the Administration's desire for government-sponsored mortgage programs to be self-sufficient. Collecting the annual premium will reduce reliance on federal appropriations to offset the risks associated with loan guarantees and insurance programs.

4. How do we know this program works?

The primary indicator of performance is the number of loans guaranteed under this program. This verifiable output measure is a good indicator of the overall performance and strength of the program. This program:

- helps stem the foreclosure crisis by educating and counseling consumers when they buy or refinance a home, and by servicing delinquent loans;
- creates financially sustainable homeownership opportunities by making private financing accessible to a historically underserved population; and
- is establishing an accountable and sustainable housing finance system.

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As of September 30, 2014, a total of 26,250 (cumulative over the 20-year life of the program) loans had been guaranteed, with loan guarantee authority of more than \$4.25 billion.

HUD expects the program to grow more than 15 percent in fiscal year 2015, as key secondary market participants return to asset-based lending, with an emphasis on government-insured and guaranteed products. In fiscal year 2016, with positive economic indicators and program growth trends, the program should be able to assist approximately 5,750 families with a guaranteed loan.

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Indian Housing Loan Guarantee - Summary of Loan Activity

	<u>Actual</u> 2014^{a/}	<u>Estimate</u> 2015	<u>Estimate</u> 2016
	(Dollars in Thousands)		
Number of Loan Commitments.....	4,110	4,863	5776
Number of Loans Endorsed.....	3,449	4,000	5750
Average Loan Size of Endorsed Loans	\$172	\$175	\$175
Number of Loans in Delinquent Status at End of Fiscal Year.....	1,400	1,750	1,750
Number of Loans that Defaulted in Fiscal Year	149	250	450
Total Number of Loans in Default	559	809	1,259
Loan Guarantee Commitment Limitation	\$708,799 ^{b/}	\$851,000	\$1,150,793
Subsidy Rate .....	.57	1.30	0.63

a/ Actual data as of 9/30/14.

b/ This is the amount of guaranteed loan commitments made; the fiscal year 2014 loan guarantee commitment limitation was \$1.818 million.

As it has each year since the program’s inception, HUD will provide training and technical assistance to tribes, lenders, and individuals who participate or seek to participate in the program.

Program Evaluation: A comprehensive, independent evaluation of the program was conducted in 2007. It was procured with HUD funds, at the request of the Office of Management and Budget. The evaluators (ACKCO and Abt Associates) concluded that the Indian Housing Loan Guarantee program is viewed as an important vehicle for expanding home ownership in tribal communities. The final evaluation report says, “Based on our discussions with tribes and lenders, most potential borrowers did not have access to

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mortgage lending before Section 184 became available. The borrowers we spoke to were satisfied with the support they received and with their homes and financing terms.”

5. Proposals in the Budget

The Department proposes the following general provisions to maximize Indian housing resources in order to improve housing conditions in Indian Country.

- Authority to allow lenders to indemnify HUD for losses on certain loans that were closed without HUD’s prior review. This proposal authorizes HUD to require lenders to indemnify HUD against losses when Section 184 loans are non-compliant with Section 184 program requirements. Similar authority is used in the Federal Housing Administration’s single family loan program, which is the federal mortgage product most similar to the Section 184 program. (Sec. 234)
- Authority to terminate lenders from the program. This proposal would allow HUD to terminate lenders from the program if they pose an unacceptable risk to the program. This proposal reduces the risk to HUD by removing high risk lenders. Similar authority exists for the Federal Housing Administration. (Sec. 234)
- Quality Control evaluation of lender portfolios has identified lenders whose portfolios had a number of technical errors. Although none of these reviews has produced enough errors to warrant enforcement action, HUD is concerned that future evaluations could identify a lender who is engaging in questionable practices. By strengthening HUD’s ability to terminate lenders from the program, HUD also will provide a deterrent against fraud and error by lenders.
- Redefine the terms “Indian” and “Indian Tribe” to be consistent with the Native American Housing Assistance and Self-Determination Act (NAHASDA). In the definition section of the current statute, the definition for the terms “Indian” and “Indian Tribe” are outdated. This proposal makes these definitions consistent with the Native American Housing Assistance and Self-Determination Act (NAHASDA). These are conforming changes with no significant impact on program operations or finances. (Sec. 235 and Sec. 236)

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Summary of Resources by Program
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2014 Budget Authority</u>	<u>2013 Carryover Into 2014</u>	<u>2014 Total Resources</u>	<u>2014 Obligations</u>	<u>2015 Budget Authority</u>	<u>2014 Carryover Into 2015</u>	<u>2015 Total Resources</u>	<u>2016 Request</u>
Loan Guarantee Credit								
Subsidy	\$5,250	\$109,892	\$115,142	\$110,763	\$6,250	\$4,396	\$10,646	\$7,250
Transformation								
Initiative .....	...	...	...	110,763	...	...	...	...
Land Title Report								
Commision .....	...	99	99	...	...	99	99	...
Loan Guarantee								
Contracts	<u>750</u>	<u>1,603</u>	<u>2,353</u>	<u>947</u>	<u>750</u>	<u>1,389</u>	<u>2,139</u>	<u>750</u>
Total	6,000	111,594	117,594	222,473	7,000	5,884	12,884	8,000

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Appropriations Language**

The fiscal year 2016 Budget includes proposed changes in the appropriation language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

For the cost of guaranteed loans, as authorized by section 184 of the Housing and Community Development Act of 1992 (12 U.S.C. 1715z-13a), [~~\$7,000,000~~] *\$8,000,000*, to remain available until expended: *Provided*, That such costs, including the costs of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974: *Provided further*, That these funds are available to subsidize total loan principal, any part of which is to be guaranteed, up to [~~\$744,047,000~~] *\$1,269,841,270*, to remain available until expended: *Provided further*, That up to \$750,000 of this amount may be for administrative contract expenses including management processes and systems to carry out the loan guarantee program. (*Department of Housing and Urban Development Appropriations Act, 2015.*)