

PUBLIC AND INDIAN HOUSING
INDIAN HOUSING LOAN GUARANTEE FUND (SECTION 184)
2007 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>
2005 Appropriation	\$5,000	\$36,447	-\$33,040 ^a	\$8,407	\$4,274	\$2,250
2006 Appropriation/Request	4,000	4,402 ^b	-40	8,362	2,400	2,400
2007 Request	<u>5,940</u>	<u>5,962</u>	<u>...</u>	<u>11,902</u>	<u>5,500</u>	<u>6,500</u>
Program Improvements/Offsets	+1,940	+1,560	+40	+3,540	+3,100	+4,100

a/ Includes rescission of \$33 million of prior year balance and \$40 thousand for fiscal year 2005 across-the-board rescission.

b/ Includes permanent indefinite authority of \$269 thousand for upward re-estimates of loan guarantee.

Summary Statement

The fiscal year 2007 Budget proposes an appropriation of \$5.9 million of which \$5.69 million in credit subsidy is to support loan guarantee authority of \$251 million based on a subsidy rate of 2.35 percent. Included in this request is \$250 thousand for administrative expenses that will be transferred and merged with the Department's appropriation for Salaries and Expenses.

The Department requests an increase of \$1.9 million from the amount requested in fiscal year 2006. The Section 184 loan guarantee program addresses the special needs of Native Americans, thus making it possible to achieve homeownership with market-rate financing. As of August 19, 2005, a total of 2,470 loans had been guaranteed with guarantee loan authority of \$254 million. Over the past 22 months, 1,150 loan guarantees were issued with loan guarantee authority of \$127 million. As a percentage of the historical production of the program, the 22 month totals represent 47 percent of loan guarantee authority to date. This has occurred due in part to marketing and outreach efforts of the Section 184 Team, which is comprised of the Office of Loan Guarantee (OLG) and Field Office staff (to include cross marketing efforts with other housing and Indian based organizations), and on-site training and technical assistance. Currently, the office has focused on working with Indian housing entities and lenders to develop larger projects rather than individual loans.

Significant progress has been made in working with Ginnie Mae and the Federal Home Loan Banks of Chicago in opening their portfolios to purchase Section 184 loans. Secondary markets for these products are essential to getting more retail bank participation.

Initiatives

In fiscal year 2007, the Department is not proposing any new initiatives in this program.

Indian Housing Loan Guarantee Fund

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 Summary of Resources by Program
 (Dollars in Thousands)

<u>Budget Activity</u>	<u>2005 Budget Authority</u>	<u>2004 Carryover Into 2005</u>	<u>2005 Total Resources</u>	<u>2005 Obligations</u>	<u>2006 Budget Authority/ Request</u>	<u>2005 Carryover Into 2006</u>	<u>2006 Total Resources</u>	<u>2007 Request</u>
Loan Guarantee Credit								
Subsidy	-\$28,288	\$36,348	\$8,060	\$4,026	\$3,712	\$4,303	\$8,015	\$5,692
Administrative Expenses	248	...	248	248	248	...	248	248
Land Title Report								
Commission .....	...	99	99	...	...	99	99	...
Total	-28,040	36,447	8,407	4,274	3,960	4,402	8,362	5,940

<u>FTE</u>	<u>2005 Actual</u>	<u>2006 Estimate</u>	<u>2007 Estimate</u>
Headquarters	4	4	4
Field	20	20	19
Total	24	24	23

Indian Housing Loan Guarantee Fund

**PUBLIC AND INDIAN HOUSING
INDIAN HOUSING LOAN GUARANTEE FUND (SECTION 184)
Program Offsets
(Dollars in Thousands)**

Loan Guarantee Credit Subsidy	<u>Amount</u>
2005 Appropriation	-\$28,288
2006 Appropriation/Request	3,712
2007 Request	<u>5,692</u>
Program Improvements/Offsets	+1,980

Indian Housing Loan Guarantee - Summary of Loan Activity	<u>Actual</u> <u>2005</u>	<u>Estimate</u> <u>2006</u>	<u>Estimate</u> <u>2007</u>
	(Dollars in Thousands)		

Number of Loan Commitments	805	1,065	1,400
Number of Loans Endorsed	634	1,000	1,182
Average Loan Size of Endorsed Loans	\$118	\$120	\$135
Number of Loans in Delinquent Status at End of Fiscal Year	115	118	140
Number of Loans that Defaulted in Fiscal Year	4	4	10
Total Number of Loans in Default	20	21	35
Loan Guarantee Commitment Limitation	\$145,345	\$116,276	\$251,000
Subsidy Rate	2.58	2.42	2.35

Proposed Actions

This program is authorized by Section 184 of the Housing and Community Development Act of 1992, Public Law 102-550, enacted October 28, 1992, as amended. The fiscal year 2007 Budget proposes an appropriation of \$5.9 million, of which \$5.69 million in credit subsidy is to support loan guarantee authority of \$251 million, based on a subsidy rate of 2.35 percent. The loan guarantees made under this program shall guarantee repayment of 100 percent of the unpaid principal and interest due on the obligations guaranteed. Funding for this program provides loan guarantees for Native American families, Indian tribes, and tribally designated housing entities to purchase, construct, and/or rehabilitate single-family homes on trust or restricted land and in tribal areas of operation. The Section 184 loan guarantee has made possible private financing of home mortgages by private financial institutions based on individual borrower's qualifications, regardless of land status.

Private financing for the purchase of homes in Indian country and tribal areas of operation was almost non-existent before the implementation of this program in September 1994. There has been a substantial increase in utilization of this program from fiscal year 2003 to August 2005. Over the past 22 months, 1,150 loan guarantees were issued with loan guarantee authority of \$127 million. As a percentage of the historical production of the program, the 22 month totals represent 47 percent of loan guarantee authority to date. As of August 2005, the Section 184 Indian Housing Loan Guarantee Fund has guaranteed 2,470 home loans totaling \$254 million.

Indian Housing Loan Guarantee Fund

This program has made homeownership available to Native Americans living on Indian lands and has enabled lending institutions to serve a new client group. Due to the unique legal status of Indian trust or restricted lands, lenders were hesitant to assume the risk of providing home mortgage financing where legal title to the real property could not be used as collateral. In addition, many lenders were unwilling to take the risk of going into tribal courts in the event of default. As a direct result of this program, numerous banks are now lending in Indian country, and many tribes have established legal procedures for processing foreclosures and evictions.

This program also has served as the vehicle to leverage private funds with Federal dollars in Indian country and has created new housing opportunities where Federal subsidy programs historically provided 100 percent of the costs of new unit construction. Through this program, private financing is now used to cover construction costs while Federal dollars are used only to guarantee payment in the event of a default. The Section 184 program has become a vital financing vehicle for tribes who are transitioning members to homeownership through lease/purchase initiatives. The initial loans are made to the tribe and assumed by a qualified borrower at a later date. This form of leveraging makes it possible to address overcrowding by recycling rental housing while strengthening communities through homeownership.

This program provides opportunities for qualified families currently living in subsidized units to obtain a market-rate home mortgage, and thus frees up assisted housing units for use by lower-income families. A family with acceptable credit and sufficient income to afford a private-market home mortgage can use the guarantee to ensure that the lender will approve the mortgage even if the home is located on trust or restricted land.

In contrast to the Title VI Tribal Housing Activities Loan Guarantees program (funded as a set-aside in the Native American Housing Block Grant (NAHBG) program), any Indian family, tribe, or tribally designated housing entity can apply for a Section 184 mortgage loan and be qualified on the basis of their income and other mortgage credit guidelines. The Office of Loan Guarantee will continue to partner with State Housing Finance Agencies, HUD homeownership counseling centers, Federal Home Loan Banks, Fannie Mae, and other government sponsored enterprises to increase program use and promote Native American homeownership. The program is supported by a contract that will provide regional training to lenders and non-profits in Indian country.

In September 2004, HUD issued PIH Notice 2004-19, which makes it possible for tribes to expand their HUD Section 184 Service Area to include fee simple land outside the HUD Formula or the Bureau of Indian Affairs Service Areas. This new initiative makes it possible for tribal members of the 22 sponsoring tribes, and Native Americans from other Federally recognized tribes, to receive Section 184 mortgages throughout the 18 states that have been approved.

The Department initiated two changes in policy that took effect in fiscal year 2005 that will impact loan production in fiscal year 2006 and beyond. Through these initiatives, tribes can request and receive approval for an expanded service area for Section 184 loan guarantee activity. Since November 2004, 22 tribes have requested and received approval to offer Section 184 loan guarantee in expanded service areas in 18 different states. This initiative could add an additional \$20 million in loan activity in fiscal year 2006. The second initiative involves conveyances of 1937 Act Mutual Help (MH) homes. Through the Section 184 program, MH recipients can refinance to access equity and achieve homeownership. This initiative has the potential to create \$5 to \$10 million in new activity in fiscal year 2006. The Office of Loan Guarantee is working closely with the Bureau of Indian Affairs (BIA) and the Department of Agriculture (USDA) to streamline the Title Status Report (TSR) processing time. In September 2004, HUD, USDA, and the BIA entered into a Memorandum of Understanding (MOU) that, among other things, encourages the rapid production of TSRs, with the goal of accomplishing this within 30 days. The MOU workgroup is finalizing an expedited process that should reduce significantly the time it takes to obtain a TSR. Once perfected, this process will standardize the procedure for obtaining a TSR, which eliminates one of the major barriers to lending on trust lands.

Indian Housing Loan Guarantee Fund

PUBLIC AND INDIAN HOUSING
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Program Offsets
(Dollars in Thousands)

Administrative Expenses	<u>Amount</u>
2005 Appropriation	\$248
2006 Appropriation/Request	248
2007 Request	<u>248</u>
Program Improvements/Offsets .....	...

Proposed Actions

The Department proposes \$248 thousand for Administrative Expenses in fiscal year 2007 to carry out the guaranteed loan program. These funds will be transferred to and merged with the appropriation for Salaries and Expenses to be used only for the administrative costs of the Indian Housing Loan Guarantee Fund.

Indian Housing Loan Guarantee Fund

PUBLIC AND INDIAN HOUSING
INDIAN HOUSING LOAN GUARANTEE FUND
Program Offsets
(Dollars in Thousands)

Land Title Report Commission	<u>Amount</u>
2005 Appropriation
2006 Appropriation/Request
2007 Request	<u>...</u>
Program Improvements/Offsets

Proposed Actions

Funding for Land Title Report Commission is not requested in fiscal year 2007. In fiscal year 2003, Congress provided \$100 thousand for the necessary expenses of the Land Title Commission pursuant to Section 501(a) of Public Law 106-569.

Indian Housing Loan Guarantee Fund

**PUBLIC AND INDIAN HOUSING
INDIAN HOUSING LOAN GUARANTEE FUND (SECTION 184)
Performance Measurement Table**

Program Name: Indian Housing Loan Guarantee Fund (Section 184)						
Program Mission: This program is authorized by Section 184 of the Housing and Community Development Act of 1992, Public Law 102-550, enacted October 28, 1992, as amended. Funding for this program provides loan guarantees of up to 100 percent for Native American families, Indian tribes, and tribally designated housing entities to purchase, construct, and/or rehabilitate single family homes on trust or restricted land and in designated Indian areas. It has made possible the private financing of home mortgages by private financial institutions, which would otherwise not have been possible because of the unique legal status of Indian lands.						
Performance Indicators		Data Sources	Performance Report		Performance Plan	
			2005 Plan	2005 Actual	2006 Plan	2007 Plan
Section 184 mortgage financing of \$159.6 million is guaranteed for Native American homeowners during fiscal year 2007.		PIH ONAP administrative data	\$150 million	\$77 million	\$159.8 million	\$159.6 million

Explanation of Indicators

Homeownership rates on reservations are low and housing needs are great. The Indian Housing Loan Guarantee fund provides credit subsidies that support loan guarantees up to 100 percent to meet this need. The guaranteed loans can be used to purchase, construct, and/or rehabilitate single family homes on Indian trust or restricted land and in designated Indian areas. Because of the unique legal status of these lands, lenders previously had been hesitant to assume the risk of providing mortgage financing where legal title to the property could not be used as collateral. Other important constraints that limit the ability of Tribes to take advantage of guaranteed loans include weak local economies, a lack of infrastructure, high building costs in rural areas, and a shortage of service providers such as appraisers and realtors. The Office of Native American Programs (ONAP) tracks the annual number of homeownership loans for Native Americans guaranteed under Section 184.

The homeownership rate for Native Americans is 55 percent, 13 percent below the national rate, according to July 2002 census data. Homeownership rates on reservations are historically low because lenders have been hesitant to assume the risk of providing mortgage financing for tribal land that cannot be used as collateral. The Section 184 program provides alternative financing for Native Americans so that they can move from rental housing into their own homes. This program is directed toward meeting the President's goal of increasing minority homeownership.

In fiscal year 2005, the dollar volume increased to \$76.8 million from \$62.3 million in loan guarantees issued in fiscal year 2004. The fiscal year 2005 goals anticipated significant growth based on policy changes. The program failed to achieve the goal of \$150 million in loan volume. The marketing and expansion strategy to serve Indian families in off-reservation areas did not produce the increased level of loan guarantee activity that was expected.

Indian Housing Loan Guarantee Fund

The Department decentralized its marketing efforts to reach a broader client base in fiscal year 2005. Representatives from the six Area Offices of Native American Programs conducted training sessions and outreach on the Section 184 and Title VI loan guarantee programs to the tribes. The direct marketing generated 30 new tribal participants, and 45 additional lending partners for HUD's Section 184 program. There was a 65 percent growth in loan obligations during fiscal year 2005, with firm commitments increasing from \$60.9 million in fiscal year 2004 to \$102.5 million in 2005. This trend continued in the first quarter of fiscal year 2006, with the issuance of 315 firm commitments totaling \$44 million, and 224 loan guarantee certifications worth \$28.2 million. The Section 184 program is on track to meet the fiscal year 2006 goals.

Two program policy changes already implemented will make the fiscal years 2006 and 2007 goals feasible. In September 2005, the Interagency Memorandum of Understanding between HUD, the Department of Agriculture and the Bureau of Indian Affairs (BIA) produced a streamlined Title Status Report process that significantly reduces the processing time for HUD Section 184 transactions on trust land. The BIA policy change will make it easier for a real estate market to develop on tribal lands by improving the marketability of leasehold properties. The second component of the marketing strategy involves a collaborative effort to increase the participation of State Housing Finance Agencies (HFAs) in the HUD Section 184 program. The emphasis on HFA involvement in the Section 184 program will provide low-cost home financing to Native Americans while reducing the risks associated with Trust Land transactions for the HFAs.

Indian Housing Loan Guarantee Fund

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Justification of Proposed Changes in Appropriations Language**

The 2007 President's Budget includes proposed changes in the appropriations 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), [~~\$4,000,000~~] *\$5,940,000*, 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, as amended: Provided further, That these funds are available to subsidize total loan principal, any part of which is to be guaranteed, not to exceed [~~\$116,276,000~~] *\$251,000,000*, to *remain available until committed*.

In addition, for administrative expenses to carry out the guaranteed loan program, up to \$247,500 from amounts in the first paragraph which shall be transferred to and merged with the appropriation for ``Salaries and Expenses.``

Explanation of Changes

No change in the appropriation language is requested.

Indian Housing Loan Guarantee Fund

PUBLIC AND INDIAN HOUSING
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 Crosswalk of 2005 Availability
 (Dollars in Thousands)

<u>Budget Activity</u>	<u>2005 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2005 Resources</u>
Loan Guarantee Credit Subsidy	\$4,750	-\$33,038	...	...	\$36,348	\$8,060
Administrative Expenses	250	-2	...	...	...	248
Land Title Report Commission .....	...	...	...	...	99	99
Total	5,000	-33,040	...	...	36,447	8,407

Transfers to Other Accounts

For administrative expenses, \$248 thousand has been transferred to the Salaries and Expenses account to be used for the administrative cost of the Indian Housing Loan Guarantee Fund.

Indian Housing Loan Guarantee Fund

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 Crosswalk of 2006 Changes
 (Dollars in Thousands)

<u>Budget Activity</u>	<u>2006 President's Budget Request</u>	<u>Congressional Appropriations Action on 2006 Request</u>	<u>2006 Supplemental/ Rescission</u>	<u>Reprogrammings</u>	<u>Carryover</u>	<u>Total 2006 Resources</u>
Loan Guarantee Credit Subsidy	\$2,395	\$3,750	-\$38	...	\$4,303	\$8,015
Administrative Expenses	250	250	-2	...	...	248
Land Title Report Commission .....	...	...	...	...	99	99
Total	2,645	4,000	-40	...	4,402	8,362

Transfers to Other Accounts

For administrative expenses, \$248 thousand will be transferred to the Salaries and Expenses account to be used for the administrative cost of the Indian Housing Loan Guarantee Fund.