

**PUBLIC AND INDIAN HOUSING
INDIAN HOUSING LOAN GUARANTEE FUND (SECTION 184)
2011 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>
2009 Appropriation	\$9,000	\$5,395 ^a	...	\$14,395	\$13,039	\$10,279
2010 Appropriation/Request	7,000	1,356	...	8,356 ^b	7,850	7,341
2011 Request	<u>9,000</u>	<u>506</u>	<u>...</u>	<u>9,506</u>	<u>9,000</u>	<u>9,356</u>
Program Improvements/Offsets	+2,000	-850	...	+1,150	+1,150	+2,015

a/ Includes \$155 thousand in recaptures.

b/ Excludes permanent indefinite authority of \$1.2 million for upward re-estimates of loan authority.

Summary Statement

The fiscal year 2011 Budget proposes an appropriation of \$9 million, of which \$8.25 million in credit subsidy is to support loan guarantee authority of \$994 million, based on a subsidy rate of 0.83 percent. In fiscal year 2011, the Section 184 program will assist 3,300 families by building, acquiring, or rehabilitating homeownership units or assisting families in their purchase. The credit subsidy rate for fiscal year 2011 is modestly higher than the fiscal year 2010 subsidy rate. This rate increase is due to changing market conditions and loan exposure in communities with declining real estate values. This Budget request will allow HUD to meet projected demand for this program, which has grown significantly since 2002. In addition, \$750 thousand is requested for administrative contract expenses to carry out the loan guarantee program. These funds will support efficient management systems and analyses made necessary by the success of this program in reaching larger populations of borrowers and help the program to remain well run. Automating some manual functions will enable HUD to process more loan guarantees. When an underwriter can receive lending documents electronically from the lender, the process is greatly streamlined, benefiting the lender, the borrower, and the Government. The program will not be able to sustain its exemplary level of growth without upgrading to these automated processes.

Homeownership rates on reservations are low and housing needs are great. According to 2004 Census data, the homeownership rate for persons who self-identified as American Indian, Alaska Native alone, or in combination with another race, is 56.4 percent, 17.5 percent below the rate of white non-Hispanics. The Section 184 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, refinance, 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 Section 184 loan guarantee program addresses the special needs of Native Americans, thus making it possible to achieve homeownership with market-rate financing. This request is based on substantial increased use of commitment authority and loan guarantees in recent years. As of September 30, 2009, a total

Indian Housing Loan Guarantee Fund

of 9,034 (cumulative over the life of the program) loans have been guaranteed, with guarantee loan authority of \$1.33 billion. During fiscal year 2009, the program guaranteed \$395 million for 2,401 loans, exceeding the target of \$280.5 million by almost 40 percent. For information about the population this program serves, see the table at the end of this section entitled, Demographics on Office of Native American Programs (ONAP). The program maintained a foreclosure (claim rate) of less than 1 percent of the loans guaranteed, far below the target of 4 percent. HUD staff worked with counseling agencies affiliated with NeighborWorks America lenders to assist families with delinquent loans to avoid foreclosure by accessing Federal foreclosure prevention dollars.

In fiscal year 2011, HUD expects this growth trend to continue as key secondary market participants return to asset-based lending with an emphasis on government insured and guaranteed products. The Section 184 loan portfolio was not directly impacted by subprime lending. As quality lenders return to government lending, the number of mortgage companies underwriting Section 184 loans will increase. Significant progress has been made in working with Ginnie Mae and the Federal Home Loan Bank of Chicago in opening their portfolios to purchase Section 184 loans. HUD has expanded outreach and is working with Community Development 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.

Transforming Indian Housing Loan Guarantee Fund

Building on transformation efforts initiated in fiscal year 2010, HUD is devising new methods for producing and preserving affordable housing, greening the nation's housing stock, and promoting sustainable growth in metropolitan areas. This transformation will be based on rigorous research, program evaluations, and demonstrations measuring the effectiveness of new initiatives. For fiscal year 2011, the following activities and initiatives are essential to the efficient operation of ONAP. Most will require financial resources to implement.

Credit Subsidy Modeling Indian Housing Loan Guarantee Fund. The Section 184 Indian Housing Loan Guarantee Fund (Section 184) is a loan guarantee program that is subject to the Federal Credit Reform Act of 1990 (Credit Reform). Under Credit Reform, the Office of Management and Budget (OMB) is required to establish credit subsidy rates for the purpose of estimating future losses resulting from the administration of Federal programs and activities that place public funds at risk. The previous credit subsidy model used high default or proxy assumptions rates to project losses and did not incorporate program-specific data. The credit subsidy rate established for Section 184 in fiscal year 2011 reflects market conditions and the low historic rate of loss for the program.

The Office of Native American Programs (ONAP) proposes to add a module to the Computerized Homes Underwriting Management System (CHUMS) presently used by the Office of Single Family Housing. This is a system that is in common use by many government lenders.

The benefits will be further improvement to the credit subsidy modeling tool and will comply with credit reform quality standards and ONAP risk analysis. Integration to CHUMS will enhance data collection, which improves the modeling and profiling capabilities of the program.

ONAP requests funding of \$750,000 in the fiscal year 2011 Budget to improve the efficiency of the loan guarantee program by reducing the credit subsidy rate and enhancing the data collection and modeling capabilities of the program. ONAP will require ongoing contractor support to make the necessary adaptations to the CHUMS and the credit subsidy model. After the initial integration into CHUMS, ONAP will seek access to the FHA servicing platform to streamline the early intervention/loss mitigation measures, while increasing the transparency of the property disposition process.

Assessment of HUD's Native American Programs. Section 4 of the HUD Act of 1965, as amended, requires that all programs of the Department relating to American Indian and Alaska Native housing and community development be coordinated through ONAP. There are several programs that fall into this category that are not managed directly by the ONAP. For example, the Rural Housing and Economic Development program, which provides housing and economic

Indian Housing Loan Guarantee Fund

development services to Indians, is administered by the Deputy Assistant Secretary for Community Planning and Development. The FHA Section 247 program, Insured Mortgages on Hawaiian Home Lands, is similar to ONAP's Section 184A loan guarantee program, and FHA's Section 248 program, Insured Mortgages on Indian Land, is similar to ONAP's Section 184 program. The Assistant Secretary for Policy Development and Research administers the grant funds to help tribal, Alaska Native, and Native Hawaiian colleges and universities build, expand, renovate, and equip their facilities. The Department will improve coordination between ONAP and other offices within HUD that serve Native Americans. A necessary first step in this process is to establish regular, ongoing meetings among the various program offices responsible for these programs. Once established, better coordination and collaboration will result. The expected results include consolidation of efforts where feasible, the potential pooling of resources, and more efficient use of staff. Steps towards this goal can begin immediately.

Increased Interagency Collaboration on Serving American Indians and Alaska Natives. There are many programs outside of HUD that fund health, education, social services and economic development for Indians. Although short and/or long-term cost savings are impossible to project at this time, economies of scale should result from enhanced coordination and collaboration. Of the many Federal programs that are specifically targeted towards Native Americans, most often work in their own silos with limited interagency collaboration. Increased collaboration and coordination between and within agencies would help ensure that Native Americans are truly receiving the support they need from Federal programs.

ONAP can and should play a central role in increasing collaboration on programs that affect Native Americans. ONAP has extensive expertise on housing and community development matters, and also has partnerships with other Federal agencies to work on specific Native American related projects, such as the Infrastructure Task Force, an interagency group working on basic infrastructure projects in Indian Country.

Also, ONAP continues to collaborate with the Bureau of Indian Affairs (BIA) to streamline its Title Status Report (TSR) process. Lengthy delays in obtaining a TSR from BIA have hampered the Section 184 Loan Guarantee program, and a new system to efficiently and effectively issue TSRs would dramatically increase HUD's Section 184 activity on trust lands.

Other Federal agencies that play an essential part in providing funding and services within Indian Country are the Department of Agriculture, the Bureau of Indian Affairs of the Department of the Interior, the Department of Energy, the Indian Health Service of the Department of Health and Human Services, and the Environmental Protection Agency. HUD's Office of Native American Programs maintains regular contact with elements of most all these agencies, and it is time to take the next steps.

Increasing Economic Viability in Indian Country by Building Capacity. Housing and infrastructure needs in Indian Country are immense and far exceed the funding currently provided to tribes. Across the federal government, funding increases for Native American programs lag behind increases for other programs. Meanwhile, the poverty rate for American Indians is more than twice the average for all non-Indians. As the U.S. Commission on Civil Rights study, "A Quiet Crisis: Federal Funding and Unmet Needs in Indian Country" stated: "The Federal Government, through laws, treaties, and policies established over hundreds of years, is obligated to ensure that funding is adequate to meet these needs. Moreover, the government must work diligently to elevate the standard of living among Native Americans to that of other Americans by ensuring that Federal agencies create attainable resource-driven goals toward this end."

ONAP is uniquely positioned to play a critical role in increasing economic viability in Indian Country. ONAP has working relationships with tribes across the country and has staff on the ground working directly with tribes to meet housing needs. In addition, through the Loan Guarantee programs, ONAP has fostered relationships with lenders and increased services provided to tribes.

Indian Housing Loan Guarantee Fund

ONAP and other agencies will continue to focus on building the capacity of tribes to work as entrepreneurs. As the Department has found with Public Housing Authorities, an increase in development activity requires additional support from the Department, including training, technical assistance, and monitoring. These needs should be addressed at the same time as HUD works on the TSR process and will require additional resources. Investing in these proposals will reap long-term benefits, which will greatly outweigh the costs.

Indian Housing Loan Guarantee Fund

The Indian Housing Block Grant program helps American Indian (AI) and Alaska Native (AN) tribal governments administer housing programs for their low-income members. The Indian Housing Loan Guarantee (Section 184) program serves the same population except it is not limited to low-income persons. The table below depicts demographic information for this population.

Demographics on Office of Native American Programs (ONAP)			
<p>Regional Breakdown^{a/}</p> <p>Number of American Indians and Alaska Natives in IHBG Formula Areas by ONAP Area</p> <p>■ Alaska ■ Eastern/Woodlands ■ Northern Plains ■ Northwest ■ Southern Plains ■ Southwest</p> <p>Total: 1,437,936</p>	<p>Median Age (years)</p> <p>Both Sexes 29.7 Male 28.8 Female 30.7</p>	<p>States with Largest AI/AN Population</p> <p>California 15.0% Oklahoma 9.0% Arizona 7.0% New Mexico 4.0% Others 65.0%</p>	<p>Average Block Grant^{a/}</p> <p>\$1,022,779</p>
	<p>Disabled HoH</p> <p>24.3%</p>	<p>Income Status^{a/}</p> <p>Extremely Low Income (≤30% AMI)^{c/} 37% Very Low Income (≤50% AMI)^{c/} 27% Low Income (≤80% AMI)^{c/} 36%</p>	<p>Average Loan Amount^{b/}</p> <p>Title VI \$1.8 M Section 184 \$175,000</p>
	<p>Major Tribes</p> <p>Cherokee 17.7% Navajo 7.2% Latin AI 4.4% Choctaw 3.9% Sioux 3.7% Chippewa 3.6% Apache 2.4% Blackfeet 2.1% Others 55.0%</p>	<p>Poverty Rate</p> <p>American Indian/Alaska Native 25.3% Black 24.7% Hispanic origin 22.0% Asian 10.9% White 10.6% Others 6.5%</p>	<p>Average Rent</p> <p>N/A</p>
<p>Average Family Size^{a/}</p> <p>5.3</p>		<p>Average Gross Income</p> <p>N/A</p>	

Source: U.S. Census Bureau unless specified

a/ Source: IHBG Formula Database

b/ Source: ONAP/OLG Database

c/ AMI is Area Median Income

Indian Housing Loan Guarantee Fund

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

<u>Budget Activity</u>	<u>2009 Budget Authority</u>	<u>2008 Carryover Into 2009</u>	<u>2009 Total Resources</u>	<u>2009 Obligations</u>	<u>2010 Budget Authority/ Request</u>	<u>2009 Carryover Into 2010</u>	<u>2010 Total Resources</u>	<u>2011 Request</u>
Loan Guarantee Credit								
Subsidy	\$8,250	\$5,395	\$13,645	\$12,639	\$6,250	\$1,006	\$7,256	\$8,250
Loan Guarantee								
Contracts	<u>750</u>	<u>...</u>	<u>750</u>	<u>400</u>	<u>750</u>	<u>350</u>	<u>1,100</u>	<u>750</u>
Total	9,000	5,395	14,395	13,039	7,000	1,356	8,356	9,000

NOTE: Fiscal years 2008 and 2009 carryover includes \$99 thousand for Land Title Report Commission.

<u>FTE</u>	<u>2009 Actual</u>	<u>2010 Estimate</u>	<u>2011 Estimate</u>
Headquarters	6	6	6
Field	<u>22</u>	<u>22</u>	<u>22</u>
Total	28	28	28

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

Loan Guarantee Credit Subsidy	<u>Amount</u>
2009 Appropriation	\$8,250
2010 Appropriation/Request	6,250
2011 Request	<u>8,250</u>
Program Improvements/Offsets	+2,000

Indian Housing Loan Guarantee - Summary of Loan Activity	Actual <u>2009</u>	Estimate <u>2010</u>	Estimate <u>2011</u>
	(Dollars in Thousands)		
Number of Loan Commitments.....	3,028	3,700	4,450
Number of Loans Endorsed	2,401	2,800	3,300
Average Loan Size of Endorsed Loans	\$165	\$165	\$165
Number of Loans in Delinquent Status at End of Fiscal Year	432	451	451
Number of Loans that Defaulted in Fiscal Year	28	32	40
Total Number of Loans in Default	83	115	155
Loan Guarantee Commitment Limitation	\$501,539 a/	\$919,000	\$994,000
Subsidy Rate	2.52	0.68	0.83

a/ This is the amount of guaranteed loan commitments made; the fiscal year 2009 loan guarantee commitment limitation is \$420 million.

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 2011 Budget proposes an appropriation of \$9 million, of which \$8.25 million in credit subsidy is to support loan guarantee authority of \$994 million, based on a subsidy rate of 0.83 percent.

Indian Housing Loan Guarantee Fund

The loan guarantees made under this program shall guarantee repayment of 100 percent of the unpaid principal and interest due. Funding for this program provides loan guarantees for Native American families, Indian tribes, and Tribally Designated Housing Entities (TDHEs) to purchase, construct, refinance, 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. There is no income limit or minimum required to participate.

The term "Federally recognized tribe" means any Indian tribe, band, nation, or other organized group or community of Indians, including any Alaska Native village or regional or village corporation as defined in or established pursuant to the Alaska Native Claims Settlement Act, that is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians pursuant to the Indian Self-Determination and Education Assistance Act of 1975. Indian tribes themselves determine their membership criteria.

The trend toward greater utilization of the Section 184 Indian Housing Loan Guarantee can be traced to the Department's shift from a broad-based national outreach campaign to a more localized grassroots marketing approach. To achieve the desired result, HUD identified and targeted lenders, tribes, and markets that offered the greatest opportunity for immediate success. The Office of Loan Guarantee (OLG) effectively implemented the same type of approach wholesale mortgage lenders use to increase individual market share. The outreach campaigns established specific production goals for each ONAP Area Office.

In fiscal year 2011, HUD expects the growth trend to continue as mortgage lenders emphasize government insured and guaranteed products. Over the past 5 years (fiscal years 2005-2009), the dollar volume associated with new Section 184 loan applications has increased from \$140.5 million to \$501 million. The corresponding loan guarantee activity over the same period has increased from \$77 million to \$395 million. The chart illustrates the relationship between the issuance of a case number on a new application and the issuance of a loan guarantee certificate to the lender. The dollar volume of loan guarantees is generally within 95 percent of the case number issued totals from the prior fiscal year.

As of September 30, 2009, there were 1,090 Section 184 loan cases in process totaling \$177.3 million, and 1,272 loans with firm commitments totaling \$207.8 million outstanding. These totals project \$385 million of loans in process before the first new application was taken in fiscal year 2010. We expect loan guarantee activity to continue to grow and demonstrate stellar performance in the future.

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

Loan Guarantee Contracts	<u>Amount</u>
2009 Appropriation	\$750
2010 Appropriation/Request	750
2011 Request	<u>750</u>
Program Improvements/Offsets .....	...

Proposed Actions

The Department proposes \$750 thousand in fiscal year 2011 for Administrative Contract expenses, including management processes and systems necessary to carry out the guaranteed loan program. This funding will continue the transition to contractual services to meet the growing demands placed on the program by increased loan activity. The contractor will be responsible for servicing functions, which includes capturing pertinent payment information from lender data, producing timely reports, and tracking performance trends. Other duties will include efforts to increase the data elements collected during the mortgage process. This data will enhance the development of performance measures; create risk modeling for credit reform estimates; and forecast growth, payment performance, and default risk projections for the loan guarantee program.

The Program Office issued a task order under an existing FHA Contract in fiscal year 2009. The initial phase in this automation process involves the creation of a portal through FHA Connect and CHUMS that will enable Section 184 approved lenders to create an applicant file and order case numbers for Section 184 loans. The goal for fiscal year 2010 is to complete a screen-by-screen analysis of the data collected within FHA Connect and CHUMS to identify the existing fields that meet the data collection requirements of the program office. Once the universe of data to be captured is determined, the encoding will create the separate overlays that will enable the Program Office to automate the data collection process.

Indian Housing Loan Guarantee Fund

**PUBLIC AND INDIAN HOUSING
INDIAN HOUSING LOAN GUARANTEE FUND (SECTION 184)
Justification of Proposed Changes in Appropriations Language**

The fiscal year 2011 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), [~~\$7,000,000~~] *\$9,000,000*, 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 [~~\$919,000,000~~] *\$994,000,000*: Provide further, That up to \$750,000 shall be for administrative contract expenses including management processes and systems necessary to carry out the loan guarantee program.

Explanation of Changes

No change in language.

Indian Housing Loan Guarantee Fund

**PUBLIC AND INDIAN HOUSING
INDIAN HOUSING LOAN GUARANTEE FUND (SECTION 184)
Crosswalk of 2009 Availability
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2009 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2009 Resources</u>
Loan Guarantee Credit Subsidy	\$8,250	...	...	...	\$5,395	\$13,645
Loan Guarantee Contracts	<u>750</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>750</u>
Total	9,000	...	...	...	5,395	14,395

Indian Housing Loan Guarantee Fund

**PUBLIC AND INDIAN HOUSING
INDIAN HOUSING LOAN GUARANTEE FUND (SECTION 184)
Crosswalk of 2010 Changes
(Dollars in Thousands)**

<u>Budget Activity</u>	2010 President's Budget Request	Congressional Appropriations Action on 2010 Request	2010 Supplemental/ Rescission	Reprogrammings	Carryover	Total 2010 Resources
Loan Guarantee Credit Subsidy	\$6,250	\$6,250	...	...	\$1,006	\$7,256
Loan Guarantee Contracts	<u>750</u>	<u>750</u>	<u>...</u>	<u>...</u>	<u>350</u>	<u>1,100</u>
Total	7,000	7,000	...	...	1,356	8,356