

**PUBLIC AND INDIAN HOUSING
INDIAN HOUSING LOAN GUARANTEE FUND (SECTION 184)
2014 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>
2012 Appropriation	\$6,000	\$27,232 ^{a/}	...	\$33,232	\$31,190	\$28,327
2013 Annualized CR	6,037	9,182 ^{b/}	...	15,219	12,608	11,838
2014 Request	<u>6,000</u>	<u>2,611</u>	...	<u>8,611</u>	<u>5,611</u>	<u>6,036</u>
Program Improvements/Offsets	-37	-6,571	...	-6,608	-6,997	-5,802

a/ Includes \$72 thousand in recaptures and permanent indefinite authority of \$20 million for upward re-estimates.

b/ Includes permanent indefinite authority of \$7.1 million for upward re-estimates.

1. What is this request?

The Department requests \$6 million for fiscal year 2014 for the Loan Guarantees for Indian Housing program (also known as the Section 184 program, or the Indian Housing Loan Guarantee program), which is available to support \$1.818 billion in loan guarantee authority. The Department plans to use \$5.25 million in credit subsidy to support the loan guarantee authority of \$1.59 billion (based on a subsidy rate of 0.33 percent), and the remaining \$750,000 is requested as a set-aside for administrative contract expenses to perform management processes. This request is equal to the appropriation enacted in fiscal year 2012. The requested amount is based on demand demonstrated by past performance.

HUD continues to be the largest single source of financing for housing in tribal communities. The Section 184 program is the primary vehicle to access mortgage capital in Indian Country. The program 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. Section 184 gives professional and higher income Native Americans the choice of living in their native community.

In fiscal year 2014, the Department renews its request for the Transformation Initiative (TI), which provides the Secretary the flexibility to undertake an integrated and balanced effort to improve program performance and test innovative ideas. This program may transfer up to 0.5 percent or \$15 million, whichever is less, to the TI Fund for the operation of a second generation Transformation Initiative (TI2).

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The intended outcomes of the program are:

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

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 before a lien is placed on the property.

This loan guarantee program maximizes a relatively minimal federal investment by insuring approximately 3,600 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.

The program requires lenders to play an active role in the servicing of loans. Early intervention and loss mitigation have made it possible for the Section 184 program to maintain a claim rate at just 1.5 percent in difficult economic times. In 2012, more than 80 percent of the approved loans were underwritten by Section 184-approved lenders, an increase of 20 percent over fiscal year 2011. HUD is experiencing shorter processing times and more robust growth as a direct result of more direct guarantee lending.

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. Also, HUD continues to collaborate with Ginnie Mae to receive servicing data for Section 184 mortgages in Ginnie Mae pools.

HUD also intends to propose additional 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.

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Salaries and Expenses (S&E) and Full-Time Equivalent (FTE) Request

Effective administration of the Indian Housing Loan Guarantee Fund is dependent on the operating resources requested in the S&E Justification. For fiscal year 2014, \$4.40 million is requested to operate this program account. This is an increase of \$258 thousand from fiscal year 2012.

The Department requests funding for 34 FTEs, which equates to \$4.2 million for Indian Housing Loan Guarantee Fund Personnel Services. This is an increase in 2 FTEs from fiscal year 2012.

The Department requests \$173 thousand in Non-Personnel Services funding for travel, contracts, training, and other related operating expenses associated with the Indian Housing Loan Guarantee Fund program, an increase of \$43 thousand from fiscal year 2012.

Workload by Function

The largest workload functions to which dedicated Indian Housing Loan Guarantee Fund staff report are as follows:

- Program Administration (10 FTEs);
- Oversight and Monitoring (22 FTEs); and
- Program Support (2 FTE)

Each Area Office of Native American Programs conducts business and maintains relations with the tribes within a given geographic area, and these Area Offices have personnel (the "184 Team") who support business development functions for the Office of Loan Guarantee. These teams encourage development of sustainable tribal economies, and facilitate and support mortgage lending in tribal areas. Staff at Headquarters oversee the day-to-day operation of the program, a public-private partnership in which the Department manages all aspects of lender relationships. Inadequate staffing has and will force the Department to place additional demands on an already limited staff, reducing efficiency and compromising the program's overall effectiveness.

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).

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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.

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. The Section 184 program is the primary vehicle to access mortgage capital in Indian Country. The program 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. Section 184 gives professional and higher income Native Americans 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 shows American Indians and Alaska Natives disproportionately suffer from severe housing needs.

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.")

According to the U.S. Census, American Community Survey for 2007-2011, 9 percent of occupied homes on American Indian reservations and on off-reservation trust land are overcrowded, compared to 3.1 percent of national households. 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, 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.

Furthermore, to focus on two states where there is a relatively large American Indian/Alaska Native population—South Dakota and Alaska—the 2010 Census clearly showed the disparity between the AI/AN population and the general population: 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. Likewise, in Alaska, about 17.2 percent of the "AI/AN alone" population was overcrowded, while only 6.2 percent of the total population in Alaska was overcrowded.

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Over the last 10 years, several studies on the extent of housing needs in Indian Country have been conducted, and they all concluded that Indian communities are in critical need of improved housing conditions. A 2003 U.S. Commission on Civil Rights study, "A Quiet Crisis: Federal Funding and Unmet Needs in Indian Country," estimated nearly 200,000 housing units are immediately needed to provide adequate housing in tribal areas. The study states, "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."

Demand for this program has outpaced the current statutory framework. 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 include: 1) the authority to increase the up-front guarantee fee from 1 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 2014, the program office proposes to collect the 1.5 percent up-front fee requested in fiscal year 2013, as well as an annual fee in an amount not exceeding one percent on all fee simple transactions. The annual fee will be payable each month as a component of the monthly mortgage payment.

Both of the actions are consistent with the Administration's desire for government-sponsored mortgage programs to be self-sufficient. The actions 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.
- Is establishing an accountable and sustainable housing finance system.

As of September 30, 2012, a total of 18,946 (cumulative over the 18-year life of the program) loans had been guaranteed, with loan guarantee authority of more than \$2.99 billion. HUD expects the program to grow more than 25 percent in fiscal years 2013 and fiscal year 2014 as key secondary market participants return to asset-based lending, with an emphasis on government-insured and guaranteed products.

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In fiscal year 2012, the program guaranteed \$670.79 million in loan authority for 3,943 loans. The average loan in fiscal year 2012 was approximately \$170,121.

In fiscal year 2014, with positive economic indicators, the Section 184 program should be able to assist approximately 6,500 families with a guaranteed loan. The dollar volume of loan guarantees is generally within 95 percent of the case number issued totals from the prior fiscal year. HUD expects loan guarantee activity to continue to grow in the foreseeable future.

Indian Housing Loan Guarantee - Summary of Loan Activity	Actual 2012^{a/}	Estimate 2013	Estimate 2014
	(Dollars in Thousands)		
Number of Loan Commitments.....	4,488	5,200	6,500
Number of Loans Endorsed.....	3,943	3,600	3,600
Average Loan Size of Endorsed Loans	\$170	\$175	\$175
Number of Loans in Delinquent Status at End of Fiscal Year.....	900	1000	1,250
Number of Loans that Defaulted in Fiscal Year	87	130	150
Total Number of Loans in Default	288	431	581
Loan Guarantee Commitment Limitation	\$360,000 ^{b/}	\$900,000	\$1,818,000
Subsidy Rate	1.46	1.35	0.33

a/ Actual data used as of 9/30/2012.

b/ This is the amount of guaranteed loan commitments made; the fiscal year 2012 loan guarantee commitment limitation is \$799 million.

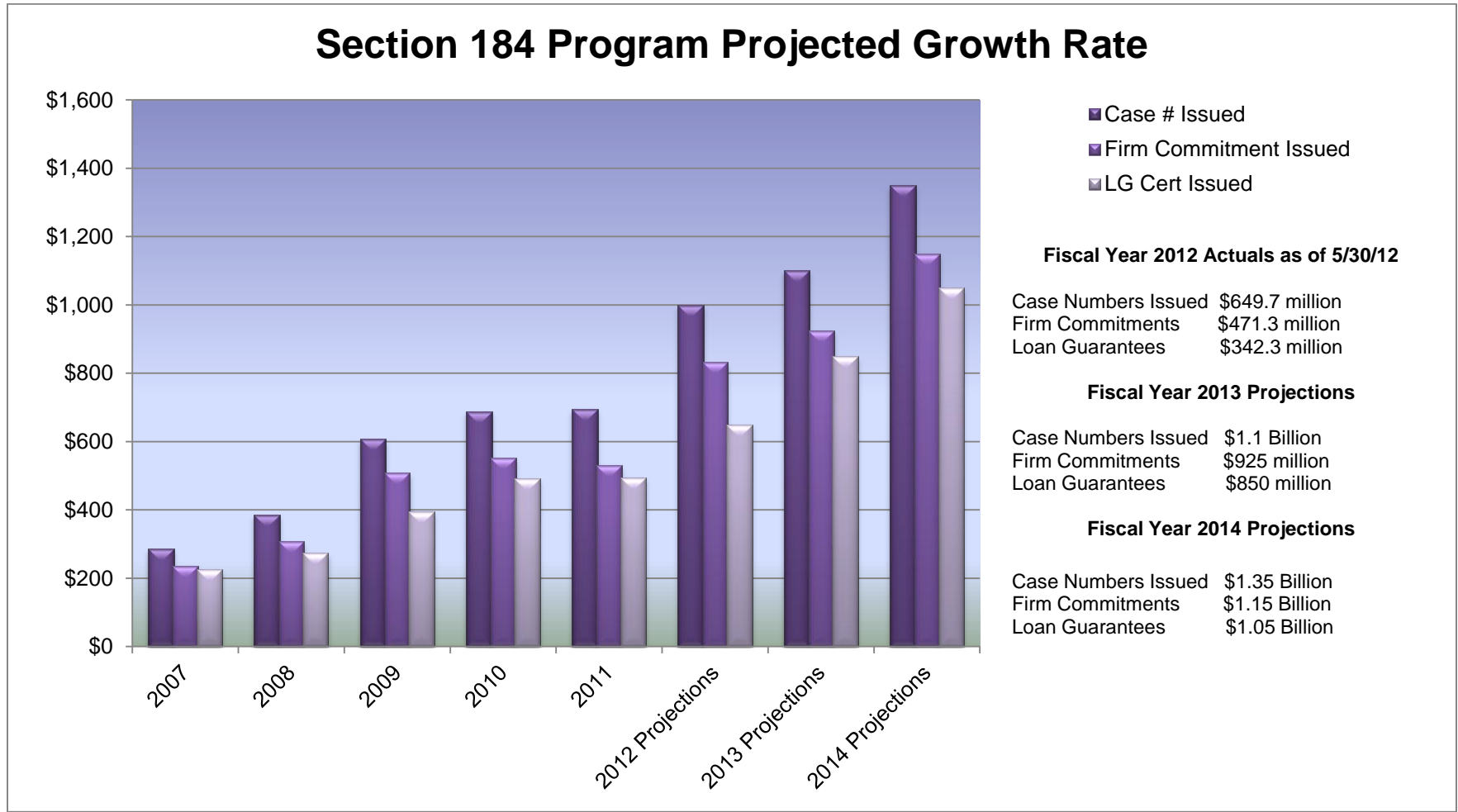
As it has each year since the program’s inception, HUD will provide training and technical assistance to tribes, lenders, and individuals who participate or seek to participate in the program.

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 Section 184 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 Section 184 borrowers did not have access to 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.”

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The chart below illustrates projected growth of the program over the next 2 fiscal years.



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**PUBLIC AND INDIAN HOUSING
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Summary of Resources by Program
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2012 Budget Authority</u>	<u>2011 Carryover Into 2012</u>	<u>2012 Total Resources</u>	<u>2012 Obligations</u>	<u>2013 Annualized CR</u>	<u>2012 Carryover Into 2013</u>	<u>2013 Total Resources</u>	<u>2014 Request</u>
Loan Guarantee Credit								
Subsidy	\$5,650	\$26,116	\$31,766	\$31,190	\$5,282	\$7,716	\$12,998	\$5,250
Transformation								
Initiative .....	...	...	...	...	...	...	...	...
Land Title Report								
Commision .....	...	99	99	...	...	99	99	...
Loan Guarantee								
Contracts	<u>350</u>	<u>1,017</u>	<u>1,367</u>	<u>...</u>	<u>755</u>	<u>1,367</u>	<u>2,122</u>	<u>750</u>
Total	6,000	27,232	33,232	31,190	6,037	9,182	15,219	6,000

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Appropriations Language**

Below is the italicized appropriations language for the Indian Housing Loan Guarantee Fund account.

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), \$6,000,000, 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 \$1,818,000,000, to remain available until expended: Provided further, That up to \$750,000 of this amount may be used for administrative contract expenses including management processes and systems to carry out the loan guarantee program..

Note.--A full-year 2013 appropriation for this account was not enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 112-175). The amounts included for 2013 reflect the annualized level provided by the continuing resolution.