

**PUBLIC AND INDIAN HOUSING
INDIAN HOUSING LOAN GUARANTEE FUND (SECTION 184)
2015 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>
2013 Appropriation	\$12,200	\$9,232 ^a	-\$326	\$21,106	\$16,303	\$16,541
2014 Appropriation/Request	6,000	111,803 ^b	...	117,803	114,803	114,803
2015 Request	<u>8,000^c</u>	<u>3,000</u>	<u>...</u>	<u>11,000</u>	<u>11,000</u>	<u>8,184</u>
Program Improvements/Offsets	+2,000	-108,803	...	-106,803	-103,803	-106,619
	<u>2013 Enacted</u>	<u>2014 Enacted</u>	<u>2015 Request</u>			
Loan Guarantee Commitment Limitation	976,000	1,818,000	1,200,000			

a/ This amount includes \$49 thousand in recaptures realized in FY 2013 and permanent indefinite authority of \$7.1 million for guaranteed loan upward re-estimates.

b/ This amount includes \$4.8 million in carryover and permanent indefinite authority of \$107 million for guaranteed loan upward re-estimates.

c/ This number includes an estimated Transformation Initiative (TI) transfer that may be up to 0.5 percent or \$15 million of Budget Authority, whichever is less.

1. What is this request?

The Department requests \$8 million for fiscal year 2015 for the Indian Housing Loan Guarantee program (also known as the Section 184 program), \$2 million above the fiscal year 2014 enacted level. Of the requested amount:

- The Department plans to use \$7.25 million in credit subsidy to support the loan guarantee authority of \$1.2 billion (based on a subsidy rate of 0.84 percent); 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 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

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program to diversify the type of housing on native lands by developing housing for homeownership or as long-term rentals, without affordability restrictions.

Effective administration of the Indian Housing Loan Guarantee Fund is dependent on the operating resources requested in the Salaries and Expenses justification. For fiscal year 2015, \$4.6 million is requested to operate this program account, an increase of \$.4 million. The following is a breakout of Salaries and Expenses for the program:

- Personnel Services – \$4.5 million.
- Non-Personnel Services – \$0.1 million.
- FTE – 33

PIH has 12 functional areas to which employees devote their time. The primary functions to which PIH employees report in support of the Indian Housing Loan Guarantee program include but are not limited to Native American and Native Hawaiian Homeownership; Indian Housing Operations & Monitoring; Resource Formulation, Allocation and Financial Management.

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.

Legislative Proposal Summaries

- Authority to get indemnification from lenders participating in the direct guarantee program
- Authority to allow lenders to be terminated from the program
- Authority to require lenders to exhaust all possibility of collection before they proceed to foreclosure
- Redefine the term "Indian" to be consistent with the Native American Housing Assistance and Self Determination Act (NAHASDA)
- Redefine the term "Indian Tribe" to be consistent with the Native American Housing Assistance and Self Determination Act (NAHASDA)

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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 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. HUD is experiencing shorter processing times as a result of more direct guarantee lending. 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.

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. 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),

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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. The passage of the HEARTH Act has increased the role tribes can play in the approval process for leases and mortgages. Tribes' and federal agency partners' access to land records in BIA's Trust Asset Accounting Management System (TAAMS) will increase as more tribes exercise their self-governance rights. HUD and BIA will cooperate to make this 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. The Section 184 program is the primary vehicle to access mortgage capital in Indian communities. 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 professionals and 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 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

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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.

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 were 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 1 percent of the remaining guaranteed balance.

HUD has the authority to collect a 1.5 percent up-front fee, and expects to begin collecting it in fiscal year 2014. In fiscal year 2015 HUD is proposing a 0.15 percent annual premium payment in order to meet program demand without further increasing appropriations. 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; and
- is establishing an accountable and sustainable housing finance system.

As of September 30, 2013, a total of 22,801 (cumulative over the 20-year life of the program) loans had been guaranteed, with loan guarantee authority of more than \$3.66 billion. HUD expects the program to grow more than 15 percent in 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 2015, with positive economic indicators, the program should be able to assist approximately 5,000 families in each year 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

	<u>Actual</u> 2013^{a/}	<u>Estimate</u> 2014	<u>Estimate</u> 2015
	(Dollars in Thousands)		
Number of Loan Commitments.....	2,530	5,000	6,000
Number of Loans Endorsed.....	2,993	4,500	5,000
Average Loan Size of Endorsed Loans	\$175	\$175	\$175
Number of Loans in Delinquent Status at End of Fiscal Year.....	1200	1400	1,750
Number of Loans that Defaulted in Fiscal Year	150	400	500
Total Number of Loans in Default	425	825	1,325
Loan Guarantee Commitment Limitation	\$642,132	^{b/} \$900,000	\$1,200,000
Subsidy Rate	1.35	.83	0.84

a/ Actual data used as of 9/30/2013.

b/ This is the amount of guaranteed loan commitments made; the fiscal year 2013 loan guarantee commitment limitation is \$976 million.

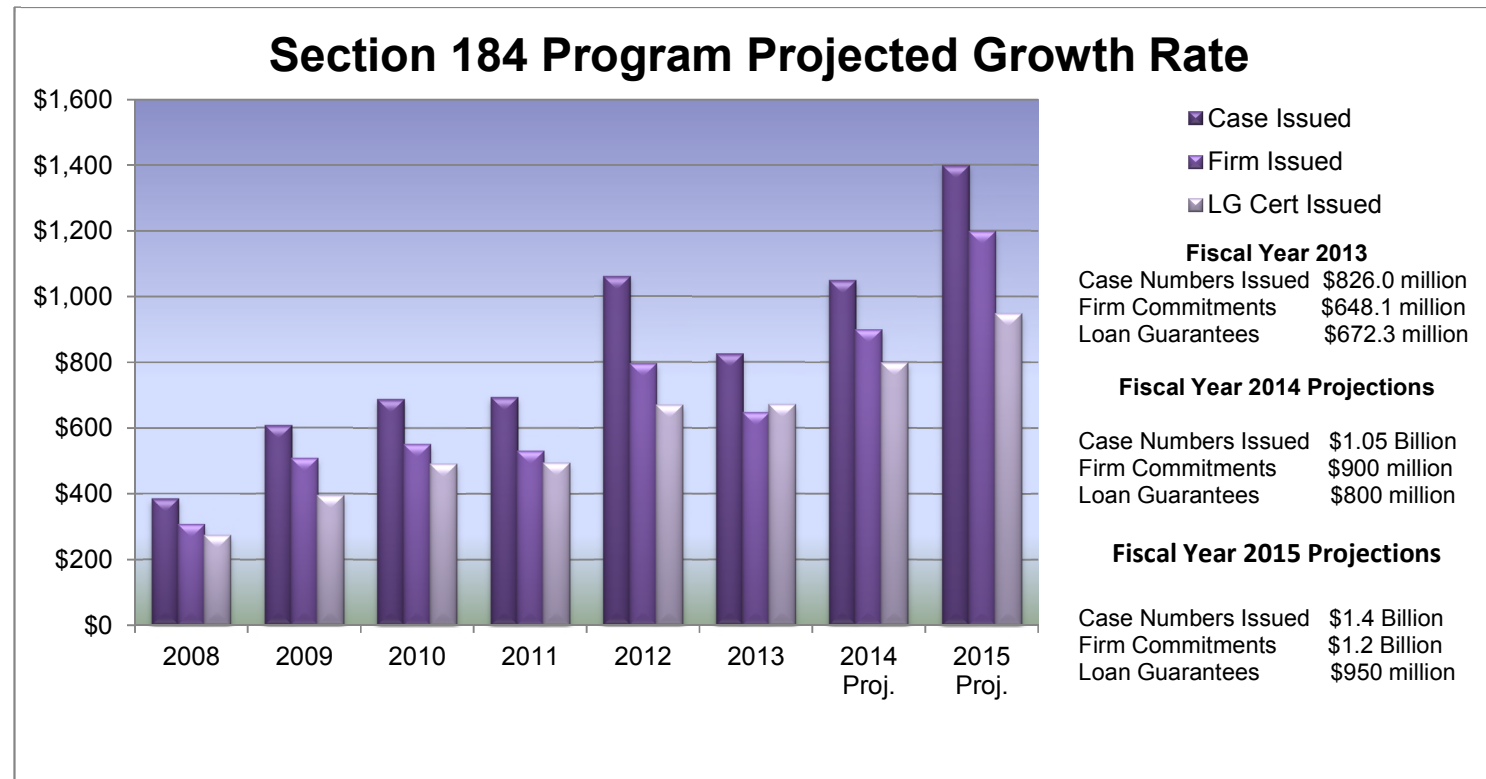
As it has each year since the program’s inception, HUD will provide training and technical assistance to tribes, lenders, and individuals who participate or seek to participate in the program.

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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 potential 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."

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



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5. Legislative/Regulatory Proposals

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

Proposals included in the 2015 Request

- Authority to allow lenders to participate in a direct guarantee process for approving loans. Lenders participating in the Section 184 direct guarantee program are able to underwrite loans for closing without prior HUD review. When lenders close loans that do not comply with the Section 184 requirements, this proposal would give HUD the option of requiring them to indemnify HUD for any losses suffered.
- Authority to allow lenders to be terminated from the program. This proposal would allow lenders to be terminated from the program if it is determined that they pose an unacceptable risk to the program
- Authority to require lenders to exhaust all possibilities of collection before they proceed to foreclosure. In order to ensure that all Section 184 borrowers who become delinquent are given a chance to remain in their homes and prevent the program from having to unnecessarily pay out money this proposal would amend the statute to require lenders to exhaust all reasonable possibilities of collection before they proceed to foreclosure.
- Redefine the term "Indian" 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 term "Indian" is outdated. This proposal simply makes the definition of Indian consistent with the Native American Housing Assistance and Self Determination Act (NAHASDA).
- Redefine the term "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 term "Indian Tribe" is outdated. This proposal simply makes the definition of Indian Tribe consistent with the Native American Housing Assistance and Self Determination Act (NAHASDA).

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

<u>Budget Activity</u>	<u>2013 Budget Authority</u>	<u>2012 Carryover Into 2013</u>	<u>2013 Total Resources</u>	<u>2013 Obligations</u>	<u>2014 Budget Authority/ Request</u>	<u>2013 Carryover Into 2014</u>	<u>2014 Total Resources</u>	<u>2015 Request</u>
Loan Guarantee Credit Subsidy	\$11,163	\$7,766	\$18,929	\$15,650	\$5,250	\$110,120	\$115,370	\$7,250
Transformation Initiative .....	...	...	...	...	...	...	...	...
Land Title Report Commission .....	...	99	99	...	...	99	99	...
Loan Guarantee Contracts	<u>711</u>	<u>1,367</u>	<u>2,078</u>	<u>653</u>	<u>750</u>	<u>1,584</u>	<u>2,334</u>	<u>750</u>
Total	11,874	9,232	21,106	16,303	6,000	111,803	117,803	8,000

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Appropriations Language**

The fiscal year 2015 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), [~~\$6,000,000~~] *\$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 [~~\$1,818,000,000~~] *\$1,200,000,000*, 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, 2014.*)