

**PUBLIC AND INDIAN HOUSING
NATIVE HAWAIIAN LOAN GUARANTEE FUND (SECTION 184A)
2015 Summary Statement and Initiatives
(Dollars in Thousands)**

NATIVE HAWAIIAN LOAN GUARANTEE	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2013 Appropriation	\$386	\$5,460	-\$20	\$5,826 ^a	\$154	\$109
2014 Appropriation/Request	100	5,672	...	5,772	80	1,000
2015 Request	<u>...</u>	<u>5,692</u>	<u>...</u>	<u>5,692</u>	<u>...</u>	<u>...</u>
Program Improvements/Offsets	-100	+20	...	-80	-80	-1,000
	<u>2013 Enacted</u>	<u>2014 Enacted</u>	<u>2015 Request</u>			
Loan Guarantee Commitment Limitation	41,504	18,868	...			

a/ This amount includes \$5.6 million in actual carryover and permanent indefinite authority of \$29 thousand for guaranteed loan upward re-estimate.

NOTE: Carryover credit subsidy and corresponding Loan Guarantee authority is sufficient to cover fiscal year 2015—no new credit subsidy budget authority is needed or requested.

1. What is this request?

The Department does not request an appropriation in fiscal year 2015 for the Native Hawaiian Loan Guarantee Fund (also known as the Section 184A program). Current carryover balances are sufficient to administer this program and guarantee 80 loans in fiscal year 2014 and 80 loans in fiscal year 2015.

Loan guarantees are provided to native Hawaiian individuals and families, the Department of Hawaiian Home Lands (DHHL), the Office of Hawaiian Affairs, and private and non-profit organizations experienced in planning and developing affordable housing for native Hawaiians.

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Effective administration of the Native Hawaiian Housing Loan Guarantee Fund is dependent on the operating resources requested in the Salaries and Expenses justification. For fiscal year 2015, \$165,000 is requested to operate this program account, which is the same amount as fiscal year 2014. The following is a breakout of Salaries and Expenses for the program:

- Personnel Services – \$0.16 million.
- Non-Personnel Services – \$0.01 million
- FTE – 1

PIH has 12 functional areas to which employees devote their time. The primary functions to which PIH employees report in support of the Native Hawaiian 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 Native Hawaiian Loan Guarantee Fund are:

- An increase in access to private mortgage financing to native Hawaiian families for homes on the Hawaiian home lands;
- Availability of an affordable mortgage financing option for homes on the Hawaiian home lands; and
- Homeowners on the Hawaiian home lands who contribute to the economic sustainability of the community.

2. What is this program?

The Section 184A program (12 U.S.C. 1715z-13b) was established by Section 514 of the American Homeownership and Economic Opportunity Act of 2000 (P.L. 106-569, approved December 27, 2000), which amended the Housing and Community Development Act of 1992. Regulations are at 24 CFR part 1007.

The program is administered by HUD's Office of Native American Programs; one program specialist is assigned to the HUD office in Honolulu, Hawaii. Historically, native Hawaiians eligible to reside on the Hawaiian home lands had limited access to private mortgage capital, primarily because lenders were reluctant to do business on land that cannot be encumbered or alienated, such as the Hawaiian home lands, which are held in trust. In Hawaii, there is a great demand for affordable housing, and construction costs are extremely high. According to the U.S. Census 2011 American Community Survey, the median value of a home in Hawaii was \$478,400, compared to a national median value of \$173,600. The high price of homes and the low number of resale transactions each year resulted in more than 26,000 families on the waiting list for housing on the Hawaiian home lands.

This program offers native Hawaiians the opportunity to become homeowners by offering lenders a 100 percent guarantee in the event of a default. This guarantee makes possible the private financing of home mortgages by private financial institutions, which would otherwise not be feasible because of the unique legal status of Hawaiian home lands. Through this program, eligible native Hawaiians can obtain a mortgage with a market rate of interest to purchase and rehabilitate, or build a single family home on Hawaiian home lands.

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The 100 percent guarantee provides the incentive for private lenders to market loans to this traditionally underserved population. Private financing is used to cover construction or acquisition costs, while federal dollars are used only to guarantee payment in the event of a default.

Eligible borrowers include native Hawaiian families who are eligible to reside on the Hawaiian home lands, the (State) Department of Hawaiian Home Lands (DHHL), the Office of Hawaiian Affairs, or private non-profit organizations experienced in the planning and development of affordable housing for native Hawaiians.

The Hawaiian home lands are located in various geographic areas of the islands, typically in rural areas, and some with terrain that is difficult and costly to develop. The term "Hawaiian home lands" means lands that have the status as Hawaiian home lands under section 204 of the Hawaiian Homes Commission Act, 1920 (42 Stat. 110); or are acquired pursuant to that Act. The term "native Hawaiian" means any individual who is a citizen of the United States, and is a descendant of the aboriginal people, who, prior to 1778, occupied and exercised sovereignty in the area that currently constitutes the State of Hawaii, as evidenced by genealogical records; verification by kupuna (elders) or kama'aina (long-term community residents); or birth records of the State of Hawaii.

As a rule, communities on the Hawaiian home lands are not located in prime resort locations, and in fact, are often in less desirable areas, with steep terrain that is difficult to access and develop. The difficulties involved in developing this raw land add to the already high cost of providing housing. This loan guarantee program complements HUD's Native Hawaiian Housing Block Grant (NHHBG), which is provided to the (State) Department of Hawaiian Home Lands. The Block Grant funds are used in many cases to develop the raw land and install infrastructure, so that homes can be constructed using a Section 184A guaranteed loan.

Presidential Initiatives and Interagency Partnerships

In June 2013, HUD staff participated in a meeting coordinated by the Federal Reserve Bank of San Francisco on strengthening Hawaii's housing market. Besides HUD staff, participants included HUD-approved housing counseling agencies, the Hawaiian State Department of Commerce and Consumer Affairs, and representatives of local financial institutions, the State Housing Finance Agency, USDA, Honolulu Board of Realtors, rental housing management agencies, and Wells Fargo Home Mortgage's regional office in California. The purpose of the meeting was to discuss foreclosure activity in Hawaii; the status of the National Foreclosure Settlement and how it is being implemented in Hawaii; trends observed by housing counselors; and effects on the rental housing market. The meeting also provided an opportunity for Wells Fargo, as one of the big five mortgage companies included in the National Foreclosure Settlement, to share information on its mortgage loan servicing process, and loss mitigation options available to Wells Fargo customers.

In October 2009, President Obama signed the Executive Order re-establishing the White House Initiative on Asian Americans and Pacific Islanders. The Initiative is co-chaired by the U.S. Departments of Education and Commerce. The Initiative works to improve the quality of life and opportunities for Asian Americans and Pacific Islanders by facilitating increased access to and participation in

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federal programs where they remain underserved. This historic Executive Order provides increased access to the federal government for Asian American and Pacific Islander communities, and affirms President Obama's commitment to these communities.

The Initiative requires the White House Office of Public Engagement and federal agencies to work collaboratively to increase Asian American and Pacific Islander participation in programs in education, commerce, business, health, human services, housing, environment, arts, agriculture, labor and employment, transportation, justice, veterans affairs, and economic and community development.

The Initiative seeks to highlight both the tremendous unmet needs in the Asian American and Pacific Islander communities as well as the dynamic community assets that can be leveraged to meet many of those needs. The Initiative focuses on cross-cutting priority areas that may reach across all issue areas and agencies, including, for example, advancing research, data collection, analysis and dissemination for Asian Americans, native Hawaiians and Pacific Islanders, and ensuring access, especially linguistic access and cultural competence, for Asian Americans and Pacific Islanders and encouraging Asian American and Pacific Islander involvement in public service and civic engagement opportunities.

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

This program creates financially sustainable homeownership opportunities by making private financing accessible to a historically underserved population. It also helps stem the foreclosure crisis by educating consumers when they buy a home, and by servicing delinquent loans.

According to the Department of Hawaiian Home Lands, there are 8,832 native Hawaiian families living on Hawaiian home lands; 26,546 applicants on the waiting list to reside on the home lands; and an estimated 32,460 potential native Hawaiian applicants. Native Hawaiian families who are eligible to reside on the Hawaiian home lands, and who would qualify for a loan if the home were not on trust land, will benefit from this program. Lenders also benefit, as the guarantee expands their traditional customer base.

According to the U.S. Census, 2011 American Community Survey:

- Approximately 339,751 native Hawaiians live in Hawaii, which is about 25 percent of Hawaii's total population.
- 28.3 percent of native Hawaiian (and other Pacific Islander) households in the State of Hawaii are overcrowded, compared to 9 percent of all households in Hawaii.
- 19.1 percent of native Hawaiians in Hawaii lived in poverty, compared to 10.2 percent of all people in Hawaii.

The average loan in fiscal year 2012 was \$242,859; in fiscal year 2013 it was \$247,927.

4. How do we know this program works?

The primary indicator of performance is the number of loans guaranteed under this program.

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In fiscal year 2011, 131 loans were guaranteed. In fiscal year 2012, 140 loans were expected to be guaranteed, based on the program's new authority to refinance loans; however, the implementation of the refinance authority was delayed, pending publication of the Public and Indian Housing Implementation Notice. In addition, the Department of Hawaiian Home Lands did not construct as many homes in fiscal year 2012 as it did in previous years. These factors severely impacted new originations of Section 184A loans, and the program was forced to reduce its annual target at mid-year. In fiscal year 2012, 21 loans were guaranteed for \$5.1 million.

In fiscal year 2013, as of September 30, 2013, the Section 184A Loan Guarantee program had guaranteed 61 loans for more than \$15.1 million.

In fiscal years 2014 and 2015, 80 loans are expected to be guaranteed each year.

As a result of efficient underwriting, counseling, and prompt loan servicing, the foreclosure rate for the program has remained at less than 2 percent. Only four claims have been paid, out of 310 guaranteed loans.

As of September 30, 2013, the Section 184A Loan Guarantee Program had guaranteed a total of 337 loans. The cumulative loan guarantee certificates issued through September 30, 2013, total \$84.6 million.

DHHL continues to make progress in its development of master-planned communities throughout the State. This strategy of housing development will provide homeownership opportunities to Hawaiian home lands beneficiaries. Individual lots will be leased as improved lots, either for the lessee to construct a home, complete with a turnkey home, or arrange for the construction of a self-help home. In each instance, the lessee will seek financing to construct or purchase the home. The Section 184A Loan Guarantee program provides a perfect complement to the limited amount of financing options available for properties on Hawaiian home lands.

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The table below shows estimated and actual activity based on loan guarantee activity.

Loan Guarantee Authority	FY 2015 Estimate	FY 2014 Estimate	FY 2013 Actual	FY 2012 Actual	FY 2011 Actual	FY 2010 Actual	FY 2009 Actual
Obligations in \$ Millions	\$23.3	\$23.3	\$25.0	\$5.1	\$12.3	\$37.2	\$14.9
Expenditures in \$ Millions	\$18.9	\$18.9	\$15.1	\$5.5	\$34.6	\$20.6	\$3.4
Homes Financed	80	80	103	21	131	80	16

In fiscal year 2015 the Office of Loan Guarantee expects the loan demand to be consistent with the fiscal year 2014 levels of 80 homes financed totaling \$18.9 million and total obligations of \$23.3 million.

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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	<u>\$366</u>	<u>\$5,460</u>	<u>\$5,826</u>	<u>\$154</u>	<u>\$100</u>	<u>\$5,672</u>	<u>\$5,772</u>	<u>...</u>
Total	366	5,460	5,826	154	100	5,672	5,772	...

NOTE:

"2012 Carryover Into 2013" includes guaranteed loan upward reestimate of \$29 thousand.

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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 184A of the Housing and Community Development Act of 1992 (12 U.S.C. 1715z-13b) and for such costs for loans used for refinancing, \$100,000, 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 \$18,868,000, to remain available until expended.**]** (*Department of Housing and Urban Development Appropriations Act, 2014.*)