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## **Financing Homeownership in Indian Country: Using HUD's 184 and Title VI Programs**

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*HUD's section 184 program insured the loan on this home which is located on tribal trust land on the Pueblo of Jemez in New Mexico.*

A recent study estimated that more than 38,000 Native Americans have the resources to purchase homes — that is, if they could obtain mortgages and, in many cases, assistance with downpayments. Homeownership is every bit as much a part of the American Dream for Native Americans as for others. But mortgage lending faces special challenges in Indian country.

Barriers include the unique status of trust and allotted lands as well as generally higher poverty rates, higher transaction and building costs, a lack of infrastructure, a scarcity of housing providers, and borrowers' unfamiliarity with the lending process. Private-sector lenders have an important role to play in overcoming these obstacles by actively seeking more opportunities to serve Native American households. One of the keys to success is understanding how to use the tools that are available to facilitate mortgage lending in Indian country.

### ***The HUD 184 loan guarantee program***

Much of the land in Indian country — some 55 million acres — is held in trust by the federal government for the benefit of tribes and individual Native Americans. Approval is required from the Bureau of Indian Affairs (BIA) before a lien may be placed on such property and, as a rule, the BIA withholds approval in situations where there is a risk of land being lost through foreclosure. Partly because of this restriction, Native Americans have had limited access to private mortgage capital.

To help address this problem, Congress in enacting the Housing and Community Development Act of 1992 established a Native American Housing Loan Guarantee Program — Section 184 of the act — administered by the Department of Housing and Urban Development (HUD) through its Office of Native American Programs (ONAP), Office of Loan Guarantee, based in Denver. As of September 30, 2001, the Office of Loan Guarantee had underwritten 864 loans valued at \$84.7 million.

The Section 184 program guarantees single-family (one- to four-family units) residential loans for homes located in an Indian or Alaska Native area where the land may be tribal trust, allotted individual trust or fee simple. HUD offers a 100 percent guarantee of the outstanding principal and interest and

payment of other necessary and allowable expenses. The flexible underwriting, low downpayment, higher loan limits, low guarantee fee, and absence of income limits make this the most affordable loan program available in tribal areas.

**Eligible lenders:** Through this program, HUD guarantees the mortgage loans made by approved lenders to eligible borrowers. The loan guarantee assures the lender that its investment will be repaid in case of foreclosure. Loans are originated and serviced by supervised lenders approved by ONAP.

**Secondary market:** A strong secondary market exists for Section 184 loans. Fannie Mae, Freddie Mac, and state housing finance agencies purchase Section 184 loans, and they can be securitized with other FHA-insured loans in Ginnie Mae mortgage-backed securities. Individual Federal Home Loan Banks are exploring the purchase of Section 184 loans through their Mortgage Partnership Finance Program (MPF). These loans, including the security given for the loan, may be sold or assigned by the supervised lender.

**Eligible borrowers:** The Section 184 program is available to any person recognized as Indian or Alaskan Native by an Indian tribe, the federal government, or any state. In addition, an Indian tribe, Indian Housing Authority (IHA), or Tribally Designated Housing Entity (TDHE) is eligible to borrow funds, under Section 184, for single-family homes that have been assumed from eligible borrowers.

**Eligible activities:** Section 184 loans can be used to finance the acquisition of existing housing, the rehabilitation of existing housing, and the construction of new homes, including manufactured housing. Refinancing of existing home mortgages will soon be included as an eligible activity.

**Tribal participation:** A key element of the Section 184 program is tribal participation, which requires demonstrating that a tribe has a legal and administrative framework sufficient to protect the interests of the borrower, the lender, and HUD. Participating tribes must enact foreclosure, eviction, and priority of lien procedures, and must have an approved lease for use on tribal trust land. Currently more than 105 tribes have adopted the required procedures (visit the HUD Web page for a list of participating tribes).

**Flexible underwriting:** All borrowers must meet the credit and underwriting standards of the program. The program has parameters for the maximum loan amount (150 percent of the FHA local limit) and the loan terms (30-year, fixed rate). Maximum mortgage amounts are based on an established loan-to-value ratio (98.75 to 97.75 percent) per property. Within these parameters, lenders have significant latitude to approve loans. The Office of Loan Guarantee encourages a flexible approach in a variety of situations while ensuring that prudent underwriting practices (industry standards) are followed. HUD's published underwriting guidelines, including credit history, source/adequacy of income and assets to close, offer greater flexibility than standard conventional guidelines. The Section 184 program uses one qualifying ratio: 41percent total debt-to-income ratio.

**Application process and loan closing:** Prospective borrowers apply for a loan through one of the 160 ONAP-approved lenders. The lender prepares the loan application and submits it to the Office of Loan Guarantee for approval. Only one closing is required for new construction or rehabilitation loans. At closing the amount allocated for construction or rehabilitation is placed in an escrow account and is drawn down as the work is satisfactorily completed and monitored by the lender. Monthly mortgage payments for newly constructed or rehabbed properties will begin at the same time as if the individual purchased an existing home. The loan amount can include an escrow of up to six monthly mortgage payments (the maximum construction period).

### ***The Title VI loan guarantee program***

Another opportunity for banks seeking to serve the housing needs of Indian country is the loan guarantee program created under Title VI of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA). Its objectives are to find innovative ways to develop affordable housing units and encourage the investment and participation of banks that do not customarily serve reservations and other Native American or Native Alaska areas. Eligible borrowers are federally recognized Indian tribes or TDHEs that are approved recipients for Indian Housing Block Grants (IHBGs) and cannot obtain financing without the guarantee. A bank provides the financing and HUD provides a 95 percent guarantee of the principal and interest due in the case of a default. Borrowers leverage their current and future IHBG funds by pledging them as collateral and pledge any income derived from the sale or rental of properties constructed with the Title VI guaranteed loan. Eligible lenders must meet the same criteria as for the Section 184 program. A secondary market exists for these loans through the Fannie Mae American Communities Fund and the Federal Home Loan Bank of Seattle.

For more information about these programs, contact Paul Jurkowski, HUD Office of Native American Programs, Office of Loan Guarantee, at (800) 561-5913 or by e-mail at [paul\\_s.\\_jurkowski@hud.gov](mailto:paul_s._jurkowski@hud.gov), or visit [www.codetalk.fed.us](http://www.codetalk.fed.us). And visit HUD's One Stop Mortgage Center — the first comprehensive Web site designed to provide homeownership and mortgage lending information to tribal leaders and members, tribally designated housing entities, lenders, and federal employees — at [www.codetalk.fed.us/ONE\\_STOPCTR\\_main.html](http://www.codetalk.fed.us/ONE_STOPCTR_main.html).