PUBLIC AND INDIAN HOUSING
INDIAN HOUSING LOAN GUARANTEE FUND (SECTION 184)
2013 Summary Statement and Initiatives
(Dollars in Thousands)

INDIAN HOUSING LOAN GUARANTEE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2011 Appropriation	$7,000	$7,271	-$14	$14,257[a/]	$6,719	$6,781
2012 Appropriation/Request	6,000	7,538	...	13,538[b/]	6,220	6,442
2013 Request	7,000	7,318	...	14,318	7,263	6,838
Program Improvements/Offsets	+1,000	-220	...	+780	+1,043	+396

a/ Includes $407 thousand in recaptures and permanent indefinite authority of $1.5 million for upward re-estimates.

b/ Excludes permanent indefinite authority of $20 million for upward re-estimates from total resources and obligations.

1. What is this request?

The Department requests $7 million for fiscal year 2013 for the Loan Guarantees for Indian Housing program (also known as the Section 184 program), of which $6 million in credit subsidy is to support loan guarantee authority of $900 million (based on a subsidy rate of 0.83 percent). The amount of this request is the same as appropriations enacted in fiscal year 2011, and is an increase of $1 million from the fiscal year 2012 enacted. The requested amount is based on demonstrated demand from past performance. This loan guarantee program will maximize a relatively minimal Federal investment by serving a large number of families, and by expanding markets for lenders.

To sustain the rapid growth of the program, the Department requests $1 million of the request (an increase of $250,000 over fiscal year 2012) be set aside for administrative contract expenses to perform management processes, including outsourcing of monthly mortgage servicing data collection, credit subsidy modeling, offsite storage and conversion of archived data, and ongoing system upgrades as necessary to meet the growing demand. Increased data collection will enhance the development of performance measures; create risk modeling for credit reform estimates; and forecast growth, payment performance, and default risk projections. *Without this level of funding*, approximately 4,500 Native American families would be denied a home loan in fiscal year 2013. Not only would there be a negative impact on the operation of the program, but HUD's credibility with its approved lenders and tribal constituents would be compromised.

Along with the budget request, the Section 184 program typically carries over funds from prior years. The following provide explanations for carryover for individual line items:

Loan Guarantee Credit Subsidy - It is natural for the loan guarantee program to have carryover funds to ensure there is no break in the loan guarantee activity in the beginning of the new fiscal year. In anticipation of strong economic recovery, the program expects to utilize most of its carryovers and new funding for fiscal year 2013. The carryover $99 thousand is a set-aside for Land Title Report Commission.

Administrative Contract Expenses - This set-aside is to perform management processes, including outsourcing of monthly mortgage servicing data collection, credit subsidy modeling, offsite storage and conversion of archived data, and ongoing system upgrades as necessary to meet the growing demand. The carryovers along with the new funding in fiscal year 2013 are expected to be used for the intended purposes.

The Department intends to utilize all carryover funds available in fiscal year 2013 and all carryover and recaptures realized will be used for the purposes for which Congress intended.

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 Native Americans by making it possible to achieve homeownership with market-rate financing. Historically, American Indians and Alaska Natives had limited or no 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.

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 below one percent in difficult economic times. The number of mortgage companies underwriting Section 184 loans increased in 2010 and 2011. In 2011, more than 60 percent of the loans approved were underwritten by Section 184-approved lenders.

On-going 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.

In fiscal year 2010, HUD and its contractor completed a screen-by-screen analysis of the data collected within FHA Connect and the Computerized Homes Underwriting Management System (CHUMS) to identify the existing fields that meet data collection requirements. An encoding and logic model was completed, creating the separate overlays that will enable the program office to automate the data collection process. Initial beta testing of FHA Connect and CHUMS began in the fourth quarter of fiscal year 2011.

In 2012, HUD and its contractor will continue to address loan origination processing. The platform is accessed through FHA Connect and is a system that is in common use by many government lenders. Continuing development of this data collection tool will enable the program office to improve accuracy and gain efficiencies by standardizing origination of loans. HUD continues to collaborate with Ginnie Mae to receive servicing data for Section 184 mortgages in Ginnie Mae pools. The Office of Loan Guarantee (OLG) expects to continue development and testing and anticipates initial integration with lenders in late fiscal year 2012 or early fiscal year 2013.

Demand for this program has outpaced the current statutory framework. As the program has grown over the last 15 years, HUD has identified the need for refinements to the authorizing statute. Included within the appropriations language are two changes to the statute: 1) the authority to increase the upfront 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. The current budget request includes a minimum increase of 50 basis points (1/2 of 1 percent) to the upfront guarantee fee.

Subsequent to the appropriations act, HUD will also introduce to the Authorizing Committee additional statutory changes needed to ensure the program's long-term viability. Refinements to the authorizing statute will include: clarifying key definitions; increasing underwriting authority for mortgage lenders, with the inclusion of indemnifications; and mitigation of programmatic risks by authorizing loan modification options to borrowers, thus providing economically viable options for borrowers who fall behind on their mortgage.

Staffing

FTE	2011 Actual	2012 Estimate	2013 Estimate
Headquarters	11	11	11
Field	21	21	22
Total	32	32	33

Indian Housing Loan Guarantee Fund (Section 184)

Each Area Office of Native American Programs (field offices) conducts business and maintains relations with the tribes within a given geographic boundary. The field offices have personnel (184 Team) who support business development functions for the Office of Loan Guarantee (OLG). The 184 Team perform outreach activity with tribes and tribal communities to encourage the development of sustainable tribal economies. Their role is to facilitate and support mortgage lending initiative in tribal areas. Responsibilities include meeting with tribes and tribal leaders to make sure the legal infrastructure is in place for leasehold mortgage lending. In addition, the Team promotes credit counseling and homebuyer training to prepare American Indians and Alaska Natives for homeownership.

OLG Headquarters staff (HQ) which includes personnel in Washington, Denver and Atlanta are responsible for the day-to-day operation of the Indian Housing Loan Guarantee program (Section 184). As a loan guarantee, the Section 184 program is a public private partnership. HQ manages all aspects of the lender relationships. This includes, but is not limited to: formulation of national program policies and procedures, justify budget appropriations, tracking and analyzing national performance goals, managing administrative functions, and responding to inquiries from Congress and the Administration. In addition OLG conducts lender training and approval, quality control monitoring and re-certifications; loan underwriting, post closing technical reviews, and issuance of loan guarantee certificates; loss prevention/early intervention, loan workouts and modifications, short sales, claims processing; foreclosures, property preservation, real estate listings, sales; data collection, loan servicing monitoring, and risk management.

Key workload drivers are: applications for loans; monitoring requirements; consultation requirements; annual appropriations requirements, the need to provide technical assistance and training, and related operations.

Inadequate staffing has forced OLG to re-assign and distribute additional duties among the staff, drastically increasing staff workload. OLG staffs have had to re-prioritize their daily activities to meet the immediate needs of their clients. Staff efficiency has been reduced; some tasks are taking several days more days to complete because of the increased workload.

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

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 U.S. Census, American Community Survey for 2005-2009:

- There are 4,587,931 American Indian and Alaska Native population in the Nation (Race Alone or in Combination with One or More Other Races). This is 1.52 percent of the total, national population (in 2009) of 301,461,533. (2,423,294 reported AI/AN Alone, or "single-race.")
- Eight percent of American Indian/Alaska Native households are overcrowded; 1.1 percent of White households are overcrowded; 3 percent of national households are overcrowded.

Several studies on the extent of housing needs in Indian Country have been conducted in the past, 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."

In 2003, the U.S. Commission on Civil Rights stated, "Overcrowding and substandard dwellings are a growing problem even in the few communities that have benefited from economic upturns as a result of gaming or other economic development activities. Even in those communities where tribal economies are producing more jobs and better incomes for tribal members, housing conditions tend to improve at a slower rate. As indicated in a 2004 study by the National American Indian Housing Council, 'One of the reasons for this is the fact that while a new job might provide community members with newfound sources of income, it may also disqualify them from access to certain Federal housing initiatives. Yet, this new income is generally not enough to allow a tribal family to move out of their existing home. As a result, tribal families are forced to remain in their current difficult housing conditions, with no available alternatives." This program helps relieve overcrowding and substandard conditions by making market-rate financing available to Native Americans on trust land. Loans guaranteed by this program are used to construct new homes, acquire existing homes, and rehabilitate substandard homes.

<u>Assessment of Housing Needs of Native Americans – A Departmental Transformation Initiative</u>

In fiscal year 2011, HUD contracted with the Urban Institute to conduct a comprehensive study on the extent of housing needs in Indian Country (and the need for housing assistance for native Hawaiians in Hawaii). The study is expected to be completed in 2014.

This study was mandated by Congress under the Consolidated Appropriations Act, 2010. It is being conducted by HUD's Office of Policy Development and Research and the Urban Institute. The Department budgeted $4 million for the study. The study, which has been underway since fiscal year 2011, will examine Census data from the 2000 and 2010 Decennial Censuses, and from the American Community Survey. It will replicate include conducting interviews with tribal leaders, with staff at the tribally designated housing entities, and with other community leaders and stakeholders. Households will be surveyed at a sample of tribal areas. Another component of the study will be a separate report on native Hawaiian housing issues.

The HUD Office of Native American Programs held seven regional outreach meetings in fiscal year 2011, before the study got underway, to inform participants, obtain their support, and solicit their suggestions on the study's design. Subsequent consultation for tribal leaders occurred in Washington, DC, on July 28, 2011.

<u>Program Evaluation</u>

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."

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, 2011, a total of 15,006 (cumulative over the life of the program) loans had been guaranteed, with loan guarantee authority of more than $2.3 billion. HUD expects the program to grow more than 20 percent in fiscal years 2012 and 2013 as key secondary market participants return to asset-based lending with an emphasis on government-insured and guaranteed products.

In fiscal year 2011, the program guaranteed $495.4 million for 2,942 loans, which was lower than the annual performance goal of 3,600. This was an anomaly due to poor economic conditions and secondary market consolidation. Fiscal year 2011 represented the first time OLG had failed to reach its goal in the previous 8 years. The estimated average loan in fiscal year 2011 was approximately $168,000.

In fiscal year 2013, and with what we hope will be a stronger economic recovery, the Section 184 program should be able to assist approximately 4,500 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.

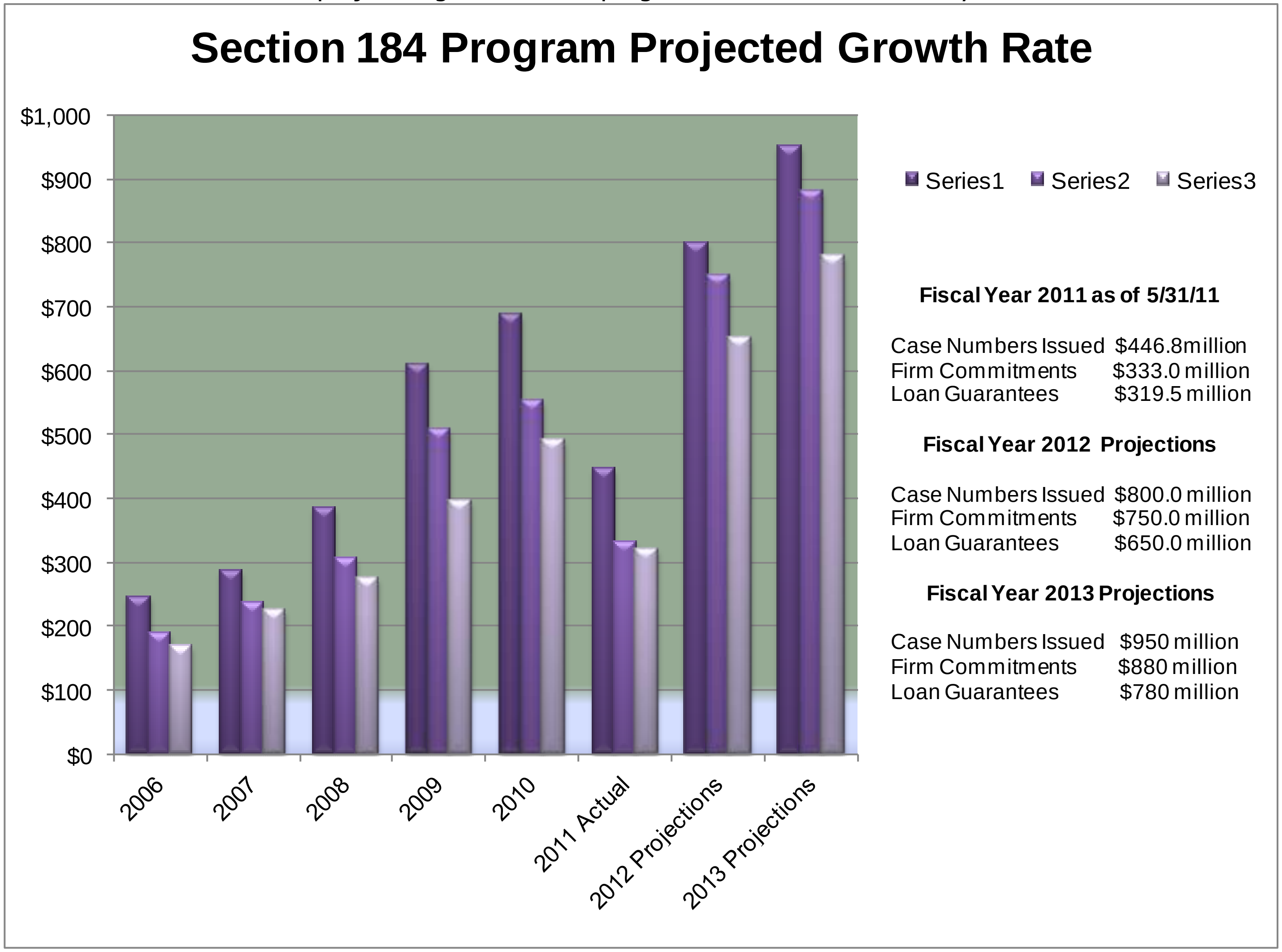
Indian Housing Loan Guarantee - Summary of Loan Activity	**Actual 2011**	**Estimate 2012**	**Estimate 2013**
	(Dollars in Thousands)		
Number of Loan Commitments..	3,292	4,200	5,300
Number of Loans Endorsed	2,942	3,700	4,500
Average Loan Size of Endorsed Loans	$168	$165	$165
Number of Loans in Delinquent Status at End of Fiscal Year………..	660	820	1,000
Number of Loans that Defaulted in Fiscal Year	78	100	130
Total Number of Loans in Default	201	301	431
Loan Guarantee Commitment Limitation	$520,888a/	$360,000	$900,000
Subsidy Rate	0.83	1.46	0.83

a/ This is the amount of guaranteed loan commitments made; the fiscal year 2011 loan guarantee commitment limitation is $919 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.

Indian Housing Loan Guarantee Fund (Section 184)

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



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Summary of Resources by Program
(Dollars in Thousands)

Budget Activity	2011 Budget Authority	2010 Carryover Into 2011	2011 Total Resources	2011 Obligations	2012 Budget Authority/ Request	2011 Carryover Into 2012	2012 Total Resources	2013 Request
Loan Guarantee Credit Subsidy	$6,238	$6,571	$12,809	$6,287	$5,250	$6,521	$11,771	$6,000
Loan Guarantee Contracts	748	700	1,448	432	750	1,017	1,767	1,000
Total	6,986	7,271	14,257	6,719	6,000	7,538	13,538	7,000

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Appropriations Language

The fiscal year 2013 President's Budget includes proposed changes in the appropriations language listed 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), [$6,000,000] <u>*$7,000,000*</u>, 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 [$360,000,000] <u>*$900,000,000*</u>, to remain available until expended: Provided further, That up to [$750,000] <u>*$1,000,000*</u> of this amount may be used for administrative contract expenses including management processes and systems to carry out the loan guarantee program.