



Benefits of the 184 Loan Guarantee Program



Housing Opportunities for Native Americans & Alaska Natives

The Section 184 Indian Home Loan Guarantee program is a home loan product for federally recognized tribal members, tribes, and tribally designated housing entities. Eligible borrowers include American Indians, Alaska Natives, Tribes, Indian Housing Authorities and Regional or Village Corporations formed under the Alaska Native Claims Settlement Act

- The 184 Indian Home Loan product can be used to finance new construction, rehabilitation, purchase of an existing house and refinancing, including “cash out” refinancing. Purchases can occur off reservation throughout Washington, Idaho, and Oregon, as well as on reservation.
- One qualifying ratio: 41% total debt to gross income ratio, which can be exceeded with compensating factors. This means that your anticipated monthly mortgage payment, plus your debt (personal loans, auto loans, students, loans, credit cards, etc.) combined cannot exceed 41% of your gross monthly income. So, the more debt that you have, the less funds you have left over toward a mortgage payment.
- You will need a down payment of 2.25% that is based on the lower of the appraised value or the cost to acquire the home. Loans less than \$50,000 require a down payment of 1.25%.
- Rather than pay a monthly mortgage insurance premium on top of your monthly mortgage payment you will pay a one time 1% guarantee fee at closing. The loan guarantee fee can be financed with the mortgage loan. This is the lowest cost government guarantee or conventional mortgage insurance program available.
- Construction can be financed with a Single Close loan that provides permanent guaranteed financing before construction begins. Monthly mortgage payments begin after closing which can be financed during construction. At closing, the amount allocated for construction or rehabilitation plus a 10% contingency and up to 6 months mortgage payments are placed in an escrow account and are drawn down as the work is satisfactorily completed.

For Lenders:

- There are no limits on gifts to the borrower to assist with the down payment or other loan costs
- There are no income limits. However, the individual should have sufficient income to cover their monthly debts and mortgage payment.
- Loans may be assumed by an eligible creditworthy borrower
- 100% guarantee to the lender in the event of a foreclosure and claim.

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- Strong secondary market through Alaska Housing Finance Corporation, Fannie Mae, Freddie Mac, Federal Home Loan Bank, Ginnie Mae, etc.

Why Section 184 Home Loans?

The Section 184 Indian Home Loan Product is a mortgage program for members of a federally recognized tribe. Congress created the program to increase Native American homeownership by reducing loan costs and encouraging lending on tribal lands. The Section 184 program is often the best mortgage loan available to Native Americans because it requires a low down payment of 2.25% and the lowest mortgage loan guarantee cost available. The guarantee fee is a one-time cost of 1% of the loan. The guarantee fee can be financed and there is no monthly mortgage insurance. Section 184 loans also offers more flexibility regarding property and credit standards to make mortgage financing available to more Native Americans.

Why a Loan Guarantee?

Unless the borrower is making a down payment of 20% or more, the lender will require the borrower to have a loan guarantee, mortgage insurance or both. The Section 184 program offers the lowest cost loan guarantee fee available on the market today. The Section 184 guarantee fee is a one-time cost of 1% and there is no monthly mortgage insurance. The guarantee fee can be included in the mortgage loan. The low cost of the Section 184 guarantee and the low down payment requirement of 2.25% are the primary financial advantages of the program.

Uses for a Section 184 Program Loan:

Section 184 Program loans may be used to purchase, rehabilitate, construct and refinance housing of one to four units both on (some limitations) and off reservation throughout **Washington, Oregon, and Idaho.**

Information for Homebuyers:



Link to Section 184 Program website:

www.hud.gov/offices/pih/ih/homeownership/184



Link to homebuyer resources on the HUD website:

www.hud.gov/buying



Link to free workshops for homebuyers provided by HUD Approved Counseling Agencies: www.hud.gov/counseling

While homebuyer education seminars are not required to access 184 financing it is **strongly** recommended that you attend a seminar to educate yourself on the home buying process. Remember! This is the largest financial obligation many folks make in their lifetime. Learn what you can to make sure that you are making an educated and well-informed financial decision that benefits you and your family in the long run.

How to Qualify for a Section 184 Loan?

INCOME: The borrower must show they have sufficient income to pay back the loan. This is determined by the ratio of the borrower's debt to income. Under the Section 184 program, total monthly debts, including the costs for the planned mortgage loan, typically cannot exceed 41% of the gross monthly income.

DEBT: The more debt you have, the lower the mortgage amount you will qualify for. Debt included in your ratios includes: credit cards, student loans, auto loans, personal loans, child support, and any co-signed obligations. If you are carrying a lot of debt you may want to work on paying off as much debt as you can before applying for a loan. Be aware that once you purchase your home you will have additional costs related to: water and sewer, electricity, gas, propane, regular maintenance, and in some cases homeowner association dues. These costs add up and will put additional pressure on your budget if you are carrying a lot of debt.

CREDIT: The borrower must show they have a good history of meeting their financial obligations. This is based on the borrower's credit report. All liens, collections, and judgments must be paid off. The Borrower must have a current year of on-time payments.

PROPERTY: The property being purchased must meet loan standards. The lender will send an appraiser to verify the condition and value of the property to be purchased with the loan. Site control must also be established for the lot.

TRIBAL AFFILIATION: The borrower must provide documentation of membership in a U.S. federally recognized Indian tribe or corporation formed pursuant to the Alaska Native Claims Settlement Act. The tribe/corporation makes the determination of membership and how membership is documented. Typically the tribe/corporation issues a membership card to its members. A copy of the membership card is provided to the lender to verify eligibility as a Section 184 borrower.

TIPS For Borrowers:

- ✓ **Save money!** You will need cash for the loan to cover your down payment and closing costs. Savings also demonstrate your capacity to be a successful borrower.
- ✓ **Do not enter into new debt!** The more you owe, the less you can borrow to buy a house. Now is not the time to purchase a vehicle, furniture, or make any large purchases.
- ✓ **Stay current with existing payments!** Make sure you pay all your bills on time. Any late payments will show up on your credit report and may disqualify you as a borrower. If you can, pay extra on credit card payments to reduce your debt and interest expense.
- ✓ **Get a free copy of your credit report and clear up any issues!** The credit report shows your debt payment history and tells the lender if you are a good borrower. So review your credit report to see if it is accurate. If credit problems are reflected in

your credit report, contact the lender and try to resolve the problem so you have a clean record when you go to get your house loan. You can get a free copy of your credit report at www.annualcreditreport.com. If there are credit issues, work with a HUD Approved Counseling Agency to repair your credit. Visit www.hud.gov/counseling for a listing of counseling agencies.

- ✓ **Adjust your budget to reflect the additional costs of homeownership!** Even though you may qualify for a high loan amount think about the additional items you need to add to your budget: water, sewer, higher energy costs for electricity and gas, garbage, and maintenance costs. Once you pay these items do you have enough extra cash to cover your auto expenses, insurance, gas, cable, phone, cell phone, internet, child care expenses, medical co-pays, dental, clothing, sports activity fees, entertainment, and potential vacation plans? It's very important to reassess your budget and make sure that you have adequate income to cover your necessary expenses while still having funds left over for family activities and your emergency fund.

How to Get a Loan

You apply directly with a Section 184 approved lender for a Section 184 loan. The lender will obtain a copy of your credit report and coordinate with HUD and a property appraiser to prepare the loan package for processing. The interest rate for the loan is based on the current market rate.

Lenders must be approved for the Section 184 Program. A complete list of approved lenders is on the Section 184 Program website. A link to this website is provided below. Contact the Section 184 Program Coordinator for more information about lenders and loan originators that are active in the Section 184 Program in your area.

To apply for a loan you will be asked to complete the Uniform Residential Loan Application that discloses detailed information about income, expenses, debts, and assets of the borrowers

You will also be asked to provide the following documentation:





- W-2s for the past two years
- Current pay statement (30 day period)
- Last Federal Income Tax Return
- Current Bank Statements
- Membership verification of a federally recognized Indian tribe or ANCSA Corporation

What is the Interest Rate for a Section 184 Program Loan?

The lender determines the interest rate for a Section 184 loan based on the prevailing interest rate in the market. A lender may also offer special financing for qualified borrowers such as first time homebuyers. Only fixed interest rates are available under the Section 184 program. Fixed rate loans lock in debt service payments for the term of the loan regardless of changes in the market. This protects borrowers from unpredictable changes.

How Much Can I Borrow?

The maximum Section 184 Program loan is the *lowest* of the following:

-  Appraised value of the property less the down payment
-  Actual cost of the property less the down payment
-  The amount the borrower can afford to repay
-  150% of the old FHA limits

How Much Can I Afford to Borrow?

Under the Section 184 program total monthly debts, including the costs for the planned mortgage loan, typically do not exceed 41% of your gross monthly income. For example, Michelle has an annual gross income of \$35,000. She has monthly debt of \$350 which is \$250 a month for her car loan and \$100 a month for her credit cards. To estimate the monthly payment she qualifies for use the following formula:

| | | |
|---|---------------|----------|
| Step 1 - Determine Michelle's monthly gross income | \$35,000/12 = | \$2,917 |
| Step 2 - Multiply (monthly gross income by 41% or .41 | | \$1,196 |
| Step 3 - Determine current monthly debt payments and subtract [Michelle's debt = \$350] | - | \$350 |
| Step 4 - The remainder is the estimated monthly payment Michelle can afford for the mortgage loan after paying her debts | | \$846.00 |

Payments for the mortgage loan will include property insurance, property tax as well as the loan payment. The loan payment will include repayment of the amount borrowed at the interest rate and term of your loan. Loan calculators are available on the Internet that make it easy to determine how much you can borrow and the effect of various interest rates and loan terms.

If you do not have access to the Internet, use the following formula to estimate how much you can borrow at 6% interest for 30 years. Using Michelle as an example:

| | |
|--|-----------|
| Step A - Start with the amount from Step 4 above | \$846 |
| Step B - Estimate the monthly cost of property tax & property insurance [est. of \$50 a month for property insurance and \$1200 a year for property tax. | \$150 |
| Step C - Subtract to determine funds available to Pay the monthly debt service | \$696 |
| Step D - Divide \$696 by 6.00 | 116 |
| Step E - Multiply by 1000 to estimate the amount of the loan you can afford based on your current income and current debt | \$116,000 |

Please note that this is an estimate only. The lender will determine the actual loan amount.

If Michelle did not have a car loan or credit card payments, she could potentially get a mortgage in the amount of \$174,333 at 41% of her gross income. Michelle would have to decide if she wants to spend 41% of her gross income toward just her mortgage payment or if she would be more financially comfortable with a lower monthly mortgage payment.

Be a Proactive Borrower:

Follow up with your lender to make sure that they have received your loan documents and all supporting documentation. Be sure to ask if they require any more information from you. If your lender has a complete loan application, find out when you can expect to receive a firm commitment and follow up with them diligently.

If you don't understand the language or terms being used, ask your lender to explain them to you. If your lender asks you for documents respond promptly. If you cannot locate the documents ask your lender where you can request a copy. Good communication is key to moving through the loan process in a quick and efficient manner.