



# WHAT MAKES A GOOD SECTION 184 INDIAN HOUSING LOAN GUARANTEE File



# Section 184 Lending Options

- Purchase existing house
- Rehabilitation
- Purchase and rehabilitation
- New construction
  - Manufactured
  - Modular/stick built
- Refinancing



# PROPERTY REQUIREMENTS

- Trust land or land within an Indian area
- Meet construction and safety codes
- Single family (1-4 units)
  - Examples include: house, duplex, tri-plex, four-plex, town home, manufactured home
- Manufactured Housing
  - Affixed to a permanent foundation
  - Manufactured after 6/15/76



# LOAN FEATURES

- 30 years or less
- Fixed interest rate determined by lender
- 1% guarantee fee
- Minimal downpayment requirement

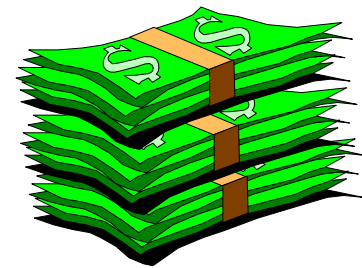


# LAND OWNERSHIP IN INDIAN COUNTRY

- Types of Land Ownership
  - Fee Simple
    - On reservation
    - Entire state (see map)
    - Specific counties determined by a Tribe
  - Allotted Trust
  - Tribal Trust

# LOAN AMOUNT

- Determined by (a) appraised value, (b) sales price + closing costs or (c) 150% FHA established mortgage limits
- Minimal down payment (1.25% to 2.25%)



# LOAN AMOUNT (cont.)

- Lowest of:
  - 150% of FHA Loan limits for county
  - LTV ratio:
    - 97.75 or 98.75% of appraised value
  - Acquisition cost (sales price + closing costs):
    - 97.75 or 98.75%

**LENDER MUST USE 184 MCAW**



# CLOSING COSTS

- Costs not to be charged to 184 borrower:
  - Tax service fee
  - Doc prep and closing fees unless paid to third party
  - Underwriting/process/admin fees —  
Note: 1% origination fee is for this purpose

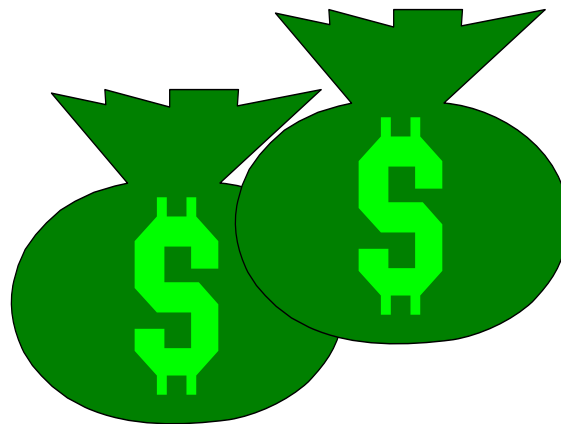
# OTHER COSTS

- Costs not included in closing costs when calculating mortgage basis (paid in cash):
  - Commitment fee
  - Prepays (hazard/taxes)
  - Discount points

**Note: 1% guarantee fee is not included in closing costs when calculating mortgage basis. It is added on at 100% after calculating the mortgage basis.**



# BORROWER'S ABILITY TO PAY





# INCOME HISTORY/STABILITY

- Stability:
  - No time requirement current job
  - 2-year inclusive history required

# ADEQUACY OF INCOME

- Types of income:
  - Wages/salary
  - Part-time
  - Dividend
  - Nontaxable
  - Tribal distributions
  - Self-employed



# LIABILITIES

- Recurring obligations
- Contingent liabilities
- Projected obligations

# CREDIT HISTORY

- Show borrower(s) payment pattern
- Show previous/existing debt
- Show court order judgments, collections and liens which may affect borrower's ability to obtain a loan

**Note: Lack of Credit is not basis for denial**

# CREDIT REVIEW

- Bankruptcy:
  - Chapter 7:
    - Discharge with credit reestablished
    - Two years
    - 12-23 months with documented unusual circumstances
  - Chapter 13:
    - One year payout with good performance
    - Court approval



# CREDIT REVIEW (cont.)

- Delinquent Federal debts:
  - Borrower not eligible unless account is current, paid or otherwise satisfied
- Credit Alert Interactive Voice Response System:
  - FHA system to verify if borrower is/has been delinquent on Federal debt



# DEBT-TO-INCOME RATIO

- 41% debt-to-income ratio (guide):
  - Determines if borrower(s) have the ability to repay the mortgage
  - Compensating factors must be disclosed in the underwriting file



# BORROWER'S INVESTMENT

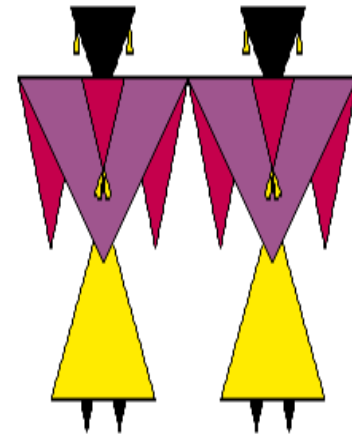
- Cash investment — difference between the mortgage loan and the cost to acquire the property
- Range of investment — 1.25% to 2.25% based on max mortgage amount

# DOWN PAYMENT SOURCES

- Savings
- Secured funds
- Gifts
- Cash
- Land equity
- Sale of personal property
- Sale proceeds
- 401K
- Investments

# TRIBE/TDHE ASSISTANCE

- Provide a gift or loan to borrower:
  - Gift letter
  - 2nd mortgage
  - Security agreement
- Tribal funds:
  - No restriction on use/amounts





# 184 LOAN PROCESS

- Borrower contacts lender
- Lender determines if borrower meets program eligibility
  - Native American
    - Must be an enrolled member of a Federally recognized tribe

Property located in an Indian Operating Area



# 184 LOAN PROCESS

- Lender pre-qualifies borrower:
  - Credit
  - Income
  - Down payment
  - Price/type of home



# 184 LOAN PROCESS (cont.)

- Land status verified with tribe and/or BIA:
  - Title Status Report to verify
    - individual allotment ownership
    - Tribal trust land

## Land Status and Jurisdiction Form

- Required for on reservation
- Required for lending in state that is not a “statewide approval”



# 184 LOAN PROCESS (cont.)

- Borrower works with Tribe/BIA to obtain 184 lease if tribal trust land
  - Lease is recorded with BIA and TSR issued
- Borrower works with Tribe/BIA to get environmental review completed



# 184 LOAN PROCESS

## Underwriting

- Underwrites loan using same underwriting standards as HUD, ONAP
  - Approval
    - Firm commitment issued by lender
    - Submitted to HUD via fax
  - Rejection
    - Denial letter sent by lender
  - Forward/review to HUD/ONAP



# 184 LOAN PROCESS RESOURCES

- ONAP Underwriters
- Section 184 Processing Manual dated February 2003
- CD with forms specific to 184 loan

# 184 LOAN CLOSING

- Lender closes loan
  - All commitment conditions met
  - All closing documents obtained specific to 184
  - 1% guarantee fee sent to lockbox
  - Lender sends Mortgage/DOT for recording to BIA and/or county/tribe and requests certified TSR or BIA endorsement



# 184 LOAN PROCESS (cont.)

- BIA Issues Certificate of Mortgage Approval (trust land)
- BIA Title Plant completes certified Title Status Report for lender (trust land)
- Direct Guarantee Package to HUD (DC) for review/approval/Guarantee Certificate



# SECTION 184 REFINANCES

- No statutory or regulatory authority to refund Loan Guarantee fee
- Loan Guarantee fee required
- Loan amounts must be within mortgage limits for area (150% of FHA limit)

# TYPES OF REFINANCES

- Streamline refinances (existing 184 loans)
  - With or without an appraisal
  - With or without credit qualification
- Cash out with an appraisal and credit qualifying
- No cash out with an appraisal and credit qualifying



# REFINANCES ON TRUST LAND

- Acceptable existing lease:
  - Sufficient term remaining
  - Current TSR with recorded lease
- New lease:
  - Old lease must be canceled
  - Current TSR with new lease recorded and old lease removed



# REFINANCES ON TRUST LAND (cont.)

- Responsibility of Lender after closing:
  - Satisfaction of existing mortgage is recorded on TSR
  - Satisfaction of existing mortgage recorded with county; when applicable
  - New mortgage and rider approved and recorded on TSR



# ALL STREAMLINE REFINANCES

- Limited to existing Section 184 loans
- Purpose:
  - Lower borrower's monthly payment; or
  - Reduce term
- Subordinate financing can remain in place if subordinated to new loan
- No repairs financed
- Cash back to borrower cannot exceed \$250



# ALL STREAMLINE REFINANCES (cont.)

- Social Security numbers/Indian ID verified
- Loan must be current prior to refinance
- Premium pricing allowed
- Evidence of cash to close not required



# CASHOUT REFINANCE

- Not limited to 184
- Credit qualifying, no DG
- Appraisal
- All subordinate liens paid off
- Mortgage payments on time
- Tribal approval when down payment assistance provided on original loan



# CREDIT QUALIFYING REFINANCE

- Used to refinance other type mortgage loan to 184
- No cash back