



**PROFILES OF HUD  
SECTION 184 PROGRAM  
LOAN APPLICANTS**

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**NATIONAL  
AMERICAN INDIAN  
HOUSING COUNCIL**



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NAIHC, founded in 1974, is a nonprofit organization that assists tribes and tribal housing agencies in reaching their goals of providing culturally relevant, decent, safe, sanitary, and affordable housing for Native people in Indian communities and Alaskan native villages.

## **1. INTRODUCTION**

In 1994, the Department of Housing and Urban Development's Office of Public and Indian Housing initiated a new housing program, the Section 184 Indian Housing Loan Guarantee Program. Authorized under the Housing and Community Development Act of 1992<sup>1</sup>, the primary purpose of the program is "to provide access to sources of private financing to Indian families and Indian housing authorities, who otherwise could not acquire housing financing because of the unique legal status of Indian trust land."<sup>2</sup> The inability to mortgage property held in trust has long been perceived as an obstacle to acquiring private financing in tribal communities.<sup>3</sup> Authorized for five years, the Section 184 program is designed specifically to overcome this barrier, by providing compensation to the lender in the event that a borrower defaults on the loan.<sup>4</sup>

Unlike other federally-assisted Indian housing programs, the Indian Housing Loan Guarantee Program is specifically targeted to help moderate to high income Native Americans become homeowners in their communities. There are no housing subsidies, and participants must be able to financially support a mortgage. Through the creation of "privately-owned housing stock," the program seeks to assist in the development of a private housing market on Indian lands.<sup>5</sup>

The purpose of this research project is to develop a profile of the individuals who are currently participating in the Section 184 program. Understanding who the beneficiaries of the program are is important not only for identifying potential improvements in the program, but also for assessing the role such federally-assisted programs may play in meeting the housing needs of tribal communities.<sup>6</sup>

<sup>1</sup>Section 184 of Public Law 102-550 (Oct 28 1992). The program is commonly referred to as Section 184.

<sup>2</sup>24 CFR Part 955 Office of the Assistant Secretary for Public and Indian Housing: Loan Guarantees for Indian Housing, Final Rule March 6, 1996.

<sup>3</sup>US Department of Housing and Urban Development, Policy Development and Research, Assessment of American Indian Housing Needs and Programs: Final Report, May 1996.

<sup>4</sup>The Section 184 program was originally authorized for five years. HR 33 Indian Housing Loan Guarantee Extension Act of 1997, introduced on Jan 7 1997, permanently authorizes the program.

<sup>5</sup>US Department of Housing and Urban Development, Office of Native American Programs, Information about Loan Guarantees for Indian Housing Program, Info20.OIH 3/94.

Using data contained in the loan application files for the program, the regional, demographic, socio-economic, and housing status of the participants are described. One hundred and twenty-eight individual and nine Indian housing authority applications were examined.<sup>7</sup> In addition, data regarding the type of loan, the land status and other property characteristics were also extracted. The collection of this data provides a means of determining the effectiveness of the Section 184 program in assisting homeownership on tribal trust lands.

The structure of the report is as follows. Section two presents an overview of the Section 184 program and a description of the loan application process. Knowledge of the program requirements and the application process is important to better understand the findings of the project. The major issues addressed by the project are also presented. Section three presents the methodology used in the research, and describes how the data was collected.<sup>8</sup> Section four presents the results of a statistical analysis of the data. A profile of the Section 184 participants, the characteristics of the loans and property, and the elements of Indian housing authority development projects are described. The final section presents the overall conclusions of the report.

## **2. THE SECTION 184 INDIAN HOUSING LOAN GUARANTEE PROGRAM.**

### **2.1 Description of the Section 184 program<sup>9</sup>**

Under the Section 184 program, HUD guarantees up to 100% of the principal and interest on the loan. Borrowers are required to pay a down payment and a 1% guarantee fee. Loan terms, while flexible, are restricted to a maximum of thirty years at fixed interest rates. There are no maximum

<sup>6</sup>*The Assessment of American Indian Housing Needs and Programs* argues that there is a substantial market for private housing financing and that federal assistance can facilitate this process. (PDR, May 1996)

<sup>7</sup>This was 71% of the total loan applications pending at the time the data was collected, and 85% of the total number of loans guaranteed.

<sup>8</sup>The coding of the variables is provided in the Appendix.

<sup>9</sup>The major provisions of the Section 184 program are outlined in HUD's The Indian Housing Loan Guarantee Program informational brochure, HUD-1540-PIH, June 1995.

income limits for participation. Eligible borrowers for the guaranteed loans are individual Native Americans, Indian housing authorities, and tribal governments.<sup>10</sup> However, for an IHA or an individual tribal member to receive a loan on Indian lands, the tribe must pass mortgage lien, foreclosure and eviction ordinances.

Guaranteed loans can be used to purchase and rehabilitate existing housing<sup>11</sup>, or to construct new housing units. Properties eligible for the guarantee must be on trust or restricted lands, or within an area serviced by the Indian housing authority which allows for properties on fee-simple lands, such as in Alaska.

Although authorized in 1992, the program was first implemented in 1994. Exhibit one presents the funds appropriated by Congress to fund the program, the amount of guaranteed loan funds available and the loan guarantee funds expended in the program's first three years of operation.

<b>EXHIBIT I</b>			
<i><b>FY</b></i>	<i>Appropriated Funds (\$mill)</i>	<i>Amount of Loan Funds Available (\$mill)<sup>12</sup></i>	<i>Amount of Loan Funds Expended (\$mill)</i>
1994	\$1	\$22.5	\$1.6
1995	\$3	\$36.5	\$22.5
1996	\$3	\$21	\$10.6 <sup>13</sup>
1997(estimated)	\$3	\$37	

<sup>10</sup>Recent changes in the program, as authorized by the *Native American Housing Assistance and Self-Determination Act of 1996* (PL 104-330), have expanded eligible borrowers to include tribal governments.

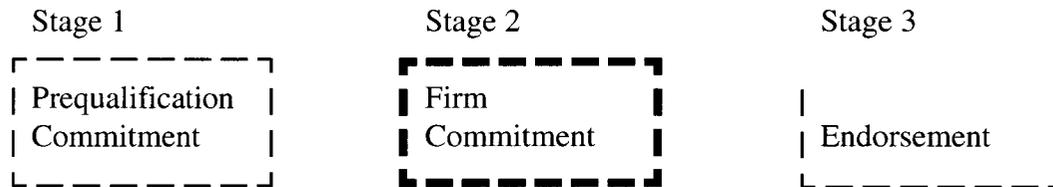
<sup>11</sup>This includes purchasing Mutual Help units from the Indian housing authority.

<sup>12</sup>Assumes an 8% credit subsidy rate.

<sup>13</sup>Funds expended as of June 1996.

## 2.2 The Section 184 Application Process

The approval process for Section 184 guaranteed loans occurs in three stages. The applicant must receive a prequalification commitment, a firm commitment and an endorsement on the loan.



To qualify for a guaranteed loan, the potential borrower must work through a government approved lender, who is responsible for underwriting and processing the loan application. As with conventional mortgage programs, the lender determines whether the applicant can financially support or afford a mortgage. Once the applicant has been prequalified by the lender, the loan documentation is submitted to the HUD processing center to reserve an amount of the guaranteed loan funds. The HUD processing center verifies the borrower's qualifications and processes the application. If approved, a prequalification commitment certificate is issued by the HUD Office of Native American Programs field office (FONAP). According to staff at the HUD processing center and HUD officials, the borrower at this stage has financially qualified for a loan, and there is a high probability that the loan application will proceed to endorsement. In most cases, subsequent failure to receive the loan guarantee occurs because the borrower decides not to take the loan, or because of an administrative problem, whereby the loan commitment expires. As of June 1996, there had been approximately 91 cancelled and rejected applications.<sup>14</sup>

After the prequalification commitment, the lender completes the underwriting for the loan and submits the final paperwork, including the title and appraisal for the property. The HUD processing center verifies the underwriting, and a firm commitment is issued by FONAP. The lender may then close the loan and, within thirty days, submit all the loan documentation for endorsement. The endorsement is also issued by FONAP. Depending upon the completeness of the loan application file,

<sup>14</sup>Information provided by the HUD processing center.

the processing of the loan application can take several months to complete. As of June 25 1996, approximately 442 loans had been processed. Of these loans, 262 were for Indian housing authorities, and 180 were for individual loans.<sup>15</sup>

### **2.3 The Project**

In developing a profile of the Section 184 participants, there were three major issues that the project sought to address. First, is the Section 184 program serving moderate to high income individuals, as intended? In part, the loan approval process ensures that this is the case. Since the applicants are qualified by the lender before the loan documentation reaches the HUD processing center, applicants who are unable to financially support a mortgage are likely to have been screened out. As a result, one can expect that the economic status of the Section 184 participants will be high. If this is the case, what might explain this? Looking at the education, employment and occupational profile may provide further information.

Second, what is the housing status of Section 184 participants? Are they, for instance, first-time home buyers? Part of the intention of the program is to increase homeownership among Native Americans living in tribal areas. If a high percentage of the borrowers are renters, then this suggests that the program is assisting in expanding homeownership opportunities. The data also provide a measure concerning the current housing expenditures of the participants. Do the housing expenses for participants rise dramatically with a mortgage, or are they basically spending the same?

Finally, is the program fulfilling its objective of providing access to financing for properties on trust and restricted lands? In addition to targeting higher income Native Americans, the loan funds are specifically targeted to areas where conventional mortgage financing is unavailable. If the guarantee loan funds are being used for properties on fee simple lands, the issue arises as to whether the program participants could have received conventional mortgages. An examination of the Section 184 loan applications provides an opportunity to begin to address these questions.

<sup>15</sup>Based on information provided by the Office of Native American Programs (ONAP).

In addition to these issues, the data in the files can also be used to look at a number of secondary questions concerning the Section 184 program. For instance, is the program assisting individuals with the opportunities to move and buy homes in their tribal communities? The lack of housing in tribal areas has been cited as a reason for many Native Americans' decision to live in off-reservation areas.<sup>16</sup> The greater risks associated with housing construction are also cited as a constraint to mortgage financing.<sup>17</sup> This raises the question as to whether loans, guaranteed under the program, are being used for the construction of new homes, or are they being used to purchase existing properties?

### **3. RESEARCH METHODOLOGY**

#### **3.1 The Loan Application Files**

All the data for the project were taken from the Section 184 loan documentation files, kept at the HUD processing center in Pasadena, California.<sup>18</sup> One hundred and twenty-eight individual loan files and 9 Indian housing authority project files were examined. These files reflected active mortgage activity as of June 25, 1996.<sup>19</sup> Under the guidelines of the program, a separate mortgage application

**EXHIBIT 2: Total Loan Application Files**

	<b>Individual</b>	<b>IHA</b>	<b>Total</b>
<b>Loan Files Processed</b>	180	11	191
<b>Total # of Loans</b>	180	262	438
<b>Loan Files Examined</b>	128	9	137
<b>Total # of Loans Examined</b>	128	246	373

<sup>16</sup>Department of Housing and Urban Development, Office of Policy Development and Research, May 1996.

<sup>17</sup>Although created in 1986, the FHA Section 248 Mortgage Insurance Program on Indian Reservations did not include construction loans until 1994.

<sup>18</sup>The collection of data took one week.

<sup>19</sup>NAIHC examined all of the files available for review. According to staff at the processing center, approximately 25 files were awaiting action. Loan applications that had been rejected or cancelled were not reviewed.

must be submitted for each housing unit an IHA builds. The nine Indian housing projects accounted for 246 loans.

The loan application packages were at various stages of the application process. Thirty loan applications had received an endorsement, 61 had a firm commitment and 37 had a prequalification commitment. Seven of the Indian housing authority projects had a prequalification commitment, 1 had a firm commitment, and 1 had been endorsed.

**EXHIBIT 3: Processing Stage**

	<i>Individual</i>	<i>IHA</i>
<b>Prequalification</b>	30	7
<b>Firm</b>	61	1
<b>Endorsement</b>	37	1
<b>Total</b>	128	9

Not surprisingly, the level of information contained in each loan application package depended upon the processing stage the file had reached. The appraisal, for instance, is completed only after the loan applicant has received the prequalification commitment. As a result, not all of data was available in each file.<sup>20</sup>

**3.2 Data Collection**

Data was collected from several documents in the loan application package.<sup>21</sup> The variables collected from each document are summarized in Exhibit 4.<sup>22</sup>

The Section 184 program uses conventional mortgage application forms. Information concerning the demographic, socio-economic, and housing characteristics of the Section 184 participants were

<sup>20</sup>Property information, for instance, was generally incomplete for files in the prequalification stage. In consequence, these applications were excluded from the analysis of these variables.

<sup>21</sup>All the data extracted from the files was placed in a standard database software program. The descriptive statistics were generated using a statistical software package.

<sup>22</sup>A description of the variables is included in the Appendix.

taken from the Uniform Residential Lease Application (URLA). These variables included the age, years of schooling, marital status, number of dependents, years employed, occupation, monthly income and housing expenses, income sources, and assets and liabilities of the borrower. Co-borrower information was also collected from the URLA.<sup>23</sup>

The Mortgage Credit Analysis Worksheet (MCAW) provided the amount of the mortgage, the terms of the loan, and the interest rate. The worksheet also indicated the participant's home buyer status.<sup>24</sup> The value of the property, the land status, the type of home, its age and number of bedrooms were extracted from the appraisal and its supporting documentation.

In general, the quality of the data was fairly high.<sup>25</sup> However, the smaller than expected sample size means that the degree to which the results can be generalized beyond this sample is limited.<sup>26</sup> In

**EXHIBIT 4: Data Collection**

Document	Variables Extracted
Uniform Residential Lease Application	State of Residence, age, gender, race, marital status, # of dependents, years of schooling, years employed, occupation, monthly income, monthly housing expenses, total assets and liabilities, homeownership, first-time home buyer, loan purpose
Mortgage Credit Analysis Worksheet	Loan amount, property value, interest rate, loan term, first-time home buyer, land status
Appraisal	Land status, price of home, structure type, year built, # of bedrooms
Other documents: Title Search Report, Land Status and Jurisdiction Form	

<sup>23</sup>Co-borrowers were listed on 67 loan applications.

<sup>24</sup>Information on the MCAW was verified against information on the loan commitment forms, if available.

<sup>25</sup>As a reliability check, the same variable was collected from two or more documents in order to determine its accuracy. Land status, for instance, was collected from both the MCAW and the appraisal. The variables agreed in all but three cases. Supporting documentation, such as the Title Search Reports, were also examined to verify information from the forms.

<sup>26</sup>When the project was initially planned, NAIHC understood that almost 800 loan applications had been processed. As a result, a more detailed statistical analysis was possible. However, as described, this was not the case.

particular, the cross-tabulations must be interpreted cautiously because of the small number of observations in each cell.

#### **4. STUDY FINDINGS**

This section presents the results of the statistical analysis of the data.<sup>27</sup> The purpose of the analysis is to gain an understanding of the Section 184 program participants, the types of loans being made, and the property characteristics. In developing a profile of the borrowers, an initial assessment can be made as to who is being served by the program, and who else may benefit from private sector financing. The section concludes with a brief description of the IHA projects.

##### **4.1 Profile of Section 184 applicants**

The profile of Section 184 borrowers is broken into several sections. The regional, demographic, socio-economic, and housing characteristics of the Section 184 program participants are presented.

###### **4.1.1 Regional Distribution**

Table 1 presents the regional distribution of the Section 184 participants. While there is some regional diversity, the participants tend to be concentrated into certain geographical locations. As the table shows, almost 60 percent of the participants lived in the Pacific Northwest and Alaska.

<sup>27</sup>After looking at the geographical distribution of the participants, a decision was made that a comparable group for the sample were American Indians and Alaska Natives living in tribal areas. Where possible, the characteristics of the participants are compared with those reported in the *Assessment of American Indian Housing Needs and Programs* (PDR, May 1996). This study provides one of the few sources of statistical data on American Indians and Alaskan Natives living in tribal areas.

- \* **Seven HUD ONAP regions were represented.** As Table 1 illustrates, there were no participants from the South-Central region (Texas, Louisiana, Missouri, Arkansas, Kansas), nor from the California-Nevada region.
- \* **Sixty-three percent of the borrowers resided in three states.** Alaska accounted for one-third of the sample.
- \* **Twenty-seven tribal affiliations were identified.**<sup>28</sup>
- \* A comparison of the State of residence of the participant and the location of the property suggests that **there was very little geographical movement across states.** In general, participants are seeking to buy or build homes in their local communities.

**Table 1. Regional Distribution**

		#	%
<b>Region I</b>	North Central (MI, MN, WI)	5	4
<b>Region II</b>	Eastern (States east of the Mississippi, and Iowa)	15	12
<b>Region III</b>	Oklahoma (OK)	8	6
<b>Region V</b>	Plains (CO, ND, NE, SD, UT, WY)	16	12
<b>Region VI</b>	Arizona-New Mexico	9	7
<b>Region VIII</b>	Pacific Northwest (ID, OR, WA)	33	26
<b>Region IX</b>	Alaska	42	33
<b>Total</b>		128	

#### 4.1.2 Demographic characteristics

<sup>28</sup>It was not possible to determine accurately the number of Alaskan villages represented.

Table 2A and 2B provide a breakdown of the demographic attributes of the Section 184 participants. Gender, race, age, marital status, and number of dependents are examined. In addition, selected characteristics of the co-borrowers is provided.

- \* **Seventy percent of the borrowers were men.** In contrast to the men, a much higher percentage of the women participants were unmarried, and were less likely to have a co-borrower. This suggests that women were more likely to take out loans independently.
- \* **Eighty-three percent of the borrowers identified themselves as American Indian or Alaskan Native.**<sup>29</sup> With one exception, the remaining applicants categorized themselves as white. In two cases where both the borrower and co-borrower's race was available, neither individual identified themselves as an American Indian or Alaskan Native.
- \* **Sixty-five percent of the borrowers were married and 35 percent were single.** No one identified themselves as separated.

<b>TABLE 2 A: DEMOGRAPHIC CHARACTERISTICS</b>				
		#	%	% married
<b>Gender</b>	<i>Men</i>	89	70	80
	<i>Women</i>	39	30	31
<b>Race</b>	<i>AI/AN</i>	106	83	
	<i>Other</i>	18	14	
<b>Marital Status</b>	<i>Married</i>	83	65	
	<i>Single</i>	45	35	
<b>Number reporting no Dependents</b>		31	24	
<b>Mean number of Dependents</b>		1.7		

- \* **The median age of the borrowers was 36 years old.** The age distribution of Section 184 participants is slightly younger than the national American Indian/Alaskan Native population.

<sup>29</sup>The race question is optional on the form - there were four missing responses.

Seventy-one percent of the sample fell between the ages of twenty-one and forty, compared to 58 percent found in the 1990 Census.<sup>30</sup> In addition, only 2 percent of Section 184 participants were above the age of sixty, compared to 14 percent for all American Indians and Alaskan Natives nationally.

**TABLE 2B: Demographic Characteristics**

<b>Age Distribution (%)</b>	<i>Section 184</i>	<i>1990 Census</i>
20-39	71	58
40-59	27	28
60+	2	14

- \* Of the 67 applications with co-borrower information, **90 percent of the households were married couples**. Only one pair was not a male-female household. The racial composition of the households was 51 percent American Indian and 49 percent racially mixed. American Indian/Alaskan Natives and whites accounted for 40 percent of the mixed race households, while American Indian/Alaskan Natives and other accounted for 8 percent.
- \* **Twenty-four percent of the households reported no dependents**. This number is significantly lower than national studies have found and may be reflective of the age distribution of the sample. The *Assessment* for instance, found that 41 percent of American Indians and Alaskan Natives living in tribal areas had no children. The mean number of dependents for the household was 1.66<sup>31</sup>

#### **4.1.3 Socio-economic characteristics of Section 184 Applicants**

The socio-economic characteristics of Section 184 participants are summarized in Table 3A and 3B. These attributes include education, income, and employment.

<sup>30</sup>1990 Census of Population, American Indian and Alaska Native Areas.

<sup>31</sup>This includes those reported for both borrowers and co-borrowers.

- \* **The mean years of education was 13.7 years.** Sixty-one percent of the sample had at least one or more years of post-secondary education. Twenty-six percent reported four or more years of college. These education levels are significantly higher than those found in national samples.<sup>32</sup>
- \* **The median yearly income for households was \$46,000.**<sup>33</sup> Twenty-three percent of the sample reported incomes above \$65,000. Not unexpectedly, the income levels of Section 184 participants are significantly higher than those reported for national samples.<sup>34</sup> The participant's income was positively related to both the educational level of the participant and the number of years employed, although there were not significant differences.

**TABLE 3A: Socio Economic Characteristics**

		<i>Section 184 (%)</i>	<i>1990 CENSUS (%)</i>
<b>Education</b>	<i>Less than high school</i>	3	42.7
	<i>High school Grad</i>	70	51.4
	<i>4 years College and beyond</i>	26	5.9
<i>Mean Education</i>	13.7		
<b>Income</b>	<i>Less than 15000</i>	2	47
	<i>15000-30000</i>	24	28
	<i>More than 30000</i>	73	25
<b>Median Income</b>	<b>\$46,000</b>		

The higher income and education levels which differentiate the Section 184 participants from other national samples, are not unexpected. Borrowers for the guaranteed loan program must be able to

<sup>32</sup>The *Assessment* found, for instance, that only 5.9 percent of American Indians and Alaska Natives living in tribal areas had a bachelors degree or above. For all American Indians and Alaskan Natives, the national figure is 9.3 percent.

<sup>33</sup>This includes both the borrower's and coborrower's income combined.

<sup>34</sup>The *Assessment* found that only 25 percent of American Indians and Alaskan Natives living in tribal areas earned more than \$30,000. The comparable figure for Section 184 households is 73 percent. The *Assessment* also reported that 47 percent of American Indians and Alaskan Natives households living in tribal areas earned less than \$15,000. This compares to only 2 percent in this sample.

financially support a mortgage. These results confirm, however, that the program is assisting moderate to high income Native Americans.

- \* **As expected, the majority of the borrowers were employed.** Four individuals were retired or on disability. In addition, all but one of the co-borrowers worked.
- \* **The mean number of years employed was 4.9 years.** Almost one-third (31%) of the sample had been employed for less than two years. The mean number of years employed was highest for both those who had some college, and for those who were between 31 and 40 years of age. However, these differences were not significant.
- \* **Forty-four percent of the sample indicated that they worked for a federal, state, local, or tribal government, or government agency.** Three percent of the participants were self-employed. The occupational profile resembles that found in other samples.<sup>35</sup>
- \* **The majority of borrowers (96%) reported that wages were the primary source of income,** with only three individuals reporting their sole income support as “other”. Twenty percent indicated that they received rental, dividend or bonus income.
- \* **Only 17 (13%) households reported any debt.**<sup>36</sup> The median ratio of debt to income for the participants with debt was 0.55.

**TABLE 3B: Socio Economic Characteristics**

<b>Employment</b>	<i>% Employed</i>	<i>Mean Years Employed</i>
	<b>96</b>	<b>4.9</b>
<b>Borrowers with Wages Primary Income Source:</b>		<b>123 (96%)</b>
	<i>% Government</i>	<i>% Services</i>   <i>% Other</i>
<b>Occupation Distribution</b>	<b>44</b>	<b>20</b>   <b>36</b>

<sup>35</sup>The *Assessment*, for instance, found that 35.3 percent of American Indians and Alaskan Natives living in tribal areas, were employed by some type of government institution. In addition, 5.8 percent were self-employed.

<sup>36</sup>A borrower is considered to have debt if total liabilities exceed total assets.

#### 4.1.4 Housing Status

Table 4 shows the housing status of the Section 184 participants, including the percentage of homeowners, first-time home buyers, and the amount of monthly housing expenses. One of the interesting findings revealed is the higher housing costs for those living in Alaska.

- \* **Sixty-five percent of the applicants were currently renters**, while the remaining 35 percent reported that they owned their current residence.<sup>37</sup> The rate was higher for those living in Alaska, where 85 percent were renters as compared to 44 percent for the rest of the sample.
- \* **Fifty percent reported that they were first-time home buyers**. Consistent with the higher number of renters, more Alaskans were first-time home buyers (62 percent compared to 44 percent for the rest of the borrowers).
- \* **The average monthly housing expense for the sample was \$330**. Thirty-seven reported a current monthly housing expense of zero. The higher housing costs in Alaska are evident from the higher average monthly housing expense (\$635 compared to \$181 for the rest of the sample). Not unexpectedly, the monthly housing expenses were higher for those individuals who rented than owned, although the difference was not significant.

**TABLE 4: Housing Characteristics**

	<i>Total</i>	<i>Alaska</i>	<i>Rest of Sample</i>
<b>% Owners</b>	35	15	44
<b>% First-time Homebuyers</b>	50	62	44
<b>Mean Monthly Housing Expense</b>	\$330	\$635	\$181
<b>Mean Monthly Estimated Housing Expense</b>	\$709	\$1106	\$515
<b>Mean Monthly Housing Expense/Income Ratio</b>	.08	.13	.06
<b>Mean Monthly Estimated Housing Expense/ Income Ratio</b>	.18	.21	.16

<sup>37</sup>This is lower than found in the *Assessment of American Indian Housing Needs and Programs*, which found that 68% of the sample reported owning their own homes.

- \* **The expected future housing expenses averaged \$709 per month.** As Table 4 shows, there is a large difference between Alaska and the rest of the sample.
  
- \* **The average housing expense to income ratio for participants was 0.08.**<sup>38</sup> The “rent to income” ratio is considerably lower than that found in comparable studies.<sup>39</sup> Excluding those who reported no housing expense, the average housing expense to income ratio rose to 0.12, with a range from 0.008 to 0.5. This finding suggests that many Section 184 participants are spending only a small portion of their income on housing. The ratio of future housing expense to household income rose to an average of 0.18.

While it is not possible to explain the low “rent to income” ratio from the data, it does suggest that the housing expenses of Section 184 participants may be subsidized in some way. This subsidy could take various forms, including the fact that borrowers are living with family members, residing in low-cost housing, or own their homes outright. Without further details of participants’ current housing status, however, no firm conclusions can be drawn.

#### **4.2 Property Characteristics**

One of the important questions concerning the Section 184 program is the degree to which the program facilitates lending on trust or restricted lands. The land status of the property was collected from the loan application packages, and a number of variables concerning the housing unit.<sup>40</sup>

<sup>38</sup>One measure of affordability is to divide the amount spent on housing by an individual’s income. A general standard is that the “rent to income” ratio should not equal more than 30 percent of household income (*Assessment*).

<sup>39</sup>The *Assessment* for instance found that affordability was a problem for 17 percent of American Indians and Alaskan Natives living in tribal areas compared to only 5 percent for Section 184 participants.

<sup>40</sup>Due to the poor quality of the data concerning the housing unit, only those files which had a firm commitment or endorsement were included in the analysis, creating a sample size of 91.

- \* **Fifty percent of the loans were made on fee simple, as opposed to trust or leasehold lands.** Loans made in Alaska accounted for two-thirds of the loans made on fee simple land.<sup>41</sup> For those loans made on leasehold property, one half were on tribal lands, held in either trust or fee status.
- \* **The majority of the housing units were single family detached.** At least nine loans were identified as mobile or manufactured homes which were being placed on the property.
- \* **Thirty-three percent of the housing units were built after 1991.** Only 11 percent of the housing units were built before 1960. The oldest unit dated to 1901.
- \* Bedroom size of the housing units ranged from 1 to 5, with an **average number of three.**
- \* **The mean property value reported was \$92,617.** The average property value in Alaska was \$130,549 compared to \$74,092 for the rest of the sample.

**TABLE 5: Property Characteristics**

Land Status		Mean Property Value	Mean # of Bedrooms
<i>% Fee Simple</i>	<i>% Tribal Trust</i>		
50	50	\$92,617	3

### 4.3 Loan Characteristics

One of the major advantages of the Section 184 program is the ability to obtain financing for construction of new units. In addition to information about the type of loan, the interest rate, loan terms and loan amounts were also collected.

<sup>41</sup>Since the majority of Alaskan Native lands are held as fee-simple, this finding is not unexpected.

- \* **19 of the loans made were for construction, an additional 2 were for refinancing of the unit, and the remainder were for the purchase of property.**<sup>42</sup> Four of the construction loans were in Alaska. Only four percent of the construction loans were for building on fee simple land.
- \* Loans were offered at fixed market interest rates. **Interest rates varied between 5.5 and 10.25 percent, with an average rate of 8.05.** The majority of loans were offered at 30 year terms. However, 15, 20, and 25 year terms were also offered.
- \* **The median loan amount was \$77,991.** The median loan amount for Alaskan residents was \$127, 486 compared to \$67,670 for the rest of the sample. The higher loan amounts in Alaska reflect higher property values.

**TABLE 6: Loan Characteristics**

		<b>TABLE 6: Loan Characteristics</b>			
<b>Median Loan Amount</b>					\$77,991
<b>Type of Loan</b>	<i>Construction (%)</i>	<i>Construction Loans Made on Fee (%)</i>	<i>Refinance (%)</i>		<i>Purchase (%)</i>
	19 (21)	5 (3.5)	2 (2)		70 (77)
<b>Loan Term</b>		<i>10-25 years</i>		<i>30 years and over</i>	
		10 (7.1%)			118 (92.9%)

#### **4.4 IHA projects**

Indian housing authorities are also eligible to receive guaranteed loans under the Section 184 program. Eleven IHAs and one tribal nonprofit organization had submitted loan applications at the time of the project. Unfortunately, the IHA loan application packages were not as complete as those for individual borrowers. In part, this was due to the fact that the majority of the projects are still in the early phase of their development. Only two IHA projects have received a firm commitment. The data available for these projects can be easily summarized.

<sup>42</sup>Due to the poor quality of the data concerning the type of loan and property for those applications in the prequalification stage, these files were excluded from the analysis, reducing the sample size to 91.

- \* **Over 50 percent of the IHA units are to be located on the Navajo reservation.**
- \* The largest housing development project is for 115 units, while the smallest is a 4 unit project. **Excluding the largest project, the average number of housing units for an IHA housing project is 15.**
- \* **All but five of the loans are for new construction.**
- \* **The average loan requested for a unit is \$83,605.**
- \* **The average property value for a unit is \$87,664.**

The Indian housing authorities are choosing to use the Section 184 loan guarantee program in a number of different ways.<sup>43</sup> In one example, the home buyer assumes the mortgage directly from the IHA. In another case, the IHA provides the home buyer with a grant for the cost of a home and uses the loan funds to supplement the grant amount. Indian housing authorities have also chosen to establish lease-purchase programs, whereby the home buyer leases the unit until the house is paid off.

## **CONCLUSION**

The profile of Section 184 participants that emerges from these findings confirms that the program is providing access to private sector financing for moderate to high income American Indians and Alaskan Natives living in tribal areas. The economic status of the borrowers is considerably higher than national samples have shown.<sup>44</sup> This finding is not unexpected. Participants in the Section 184 program have been qualified by a lender prior to receiving a loan commitment. However, the results do demonstrate that there is a segment of the population living in tribal areas that are able to benefit from such a federal loan guarantee program. Further socio-economic characteristics reveal that the borrowers are also highly educated and a large percentage are employed by a government agency.

<sup>43</sup>This information is based on project descriptions included with the loan documentation in the file.

<sup>44</sup>The *Assessment of Indian Housing Needs and Programs: the final report*.

The large number of participants who are currently renters further suggests that the program is assisting tribal residents in becoming homeowners. Half the sample are also first time homebuyers. One of the interesting findings that the data reveals is the small amount spent on housing by many Section 184 participants. Many borrowers are currently spending far less than 30 percent of their income on housing. This raises the question of whether the housing of these participants is, in some way, currently subsidized, either because they are living with family members, living in low-cost housing, or because they own their homes outright. Unfortunately, the data do not provide a means of exploring this issue.

Although designed to assist American Indians and Alaskan Natives to acquire private financing on trust or restricted property, the data show that a large percentage of the loans are made for properties located on fee-simple land. In part, this is explained by the large number of participants from Alaska, where the majority of lands are held in fee simple title. However, it does raise the question as to whether these participants might have been able to access conventional mortgage programs. Given the high income levels of the borrowers and the unrestricted land status, these individuals might have qualified for conventional loans. If this is the case, the issue of why they have not been served by the private sector becomes important and warrants further attention.

Finally, the findings highlight the unique housing situation confronting Alaskan Natives. The land situation, the high costs for housing, and the low number of construction loans, differentiate this region from the rest of the United States. The fact that one-third of the participants come from Alaska suggests that the Section 184 program may be meeting a specific need of this community.

This project represents one of the first attempts to look at the participants in a federal financing assistance program that is specifically targeted to the American Indian and Alaskan Native population. There are a number of similar programs available to this population, however, that also need to be examined before a definitive assessment on the role these initiatives may play in tribal communities can be made.

## **APPENDIX**

While the borrower characteristics were generally easy to extract, information regarding the type of property, and land status was less accessible. Few loan application packages included the Section 184 summary forms created for this purpose (in part this may have been due to the fact that many of these packages were put together prior to the issuance of the final processing guidelines). Looking for this information significantly increased the amount of time needed to examine each file. In addition, the lack of uniformity of documentation in the loan application files also lengthened the time needed to extract the data. The examination of a file took between five to twenty-five minutes.

The following provides a list of the variables extracted and the coding structure.

### **Variable Listing and Coding**

#### **1. Regional distribution:**

BSTATE: State of residence of the borrower

CBSTATE: State of residence of the co-borrower if applicable

PSTATE: State the property was located in

#### **2. Demographic Characteristics:**

The following demographic characteristics were collected regarding the borrower, and co-borrower if applicable:

SEX

RACE: this variable was based on self-identification

CBRACE: this variable is based on self-identification

MARITALS: individuals reported whether they were married, single, or separated

AGE

CBAGE

DEPENDENTS

#### **3. Socio-economic Characteristics**

SCHOOLYR: Years of schooling reported by the borrower

CBSCH: Years of schooling reported by the co-borrower

YRSEMP: Number of years employed. Individuals reported the number of years in their current jobs. If less than two years, they were required to report their previous employer. These observations were coded as one. If the individual was unemployed, the codes were zero.

CBYRSEMP: Number of years co-borrower has been employed.

OCCUPATION: individuals reported their job title, and employer. It was noted whether the individual worked for a level of government, or government agency.

YRLYHH

TOTAL ASSETS

TOTAL LIABILITIES

YRBUILT

#### 4. Housing Characteristics

BRENTOWN: Individuals reported whether they rented or owned their current residence. There was a high level of consistency between the responses of both borrowers and co-borrowers. If data was missing from the borrower's application, the co-borrower information was used.

STHB: First-time Home-buyer: applicants were asked to indicate whether they were first time home buyers. Information regarding the borrowers home buyer status was collected from two documents, and Monthly Housing Expenses: this included both current and estimated future monthly housing expenses

#### 5. Property Characteristics

Land Status: Two land status variables were collected. One variable permitted only distinguishing between fee simple, and leasehold, while the other used appraisal information to determine the type of restricted land. Overall, the consistency between the two was fairly high, although three cases could not be determined with certainty. The level of detail did not allow for the identification of different types of restricted land.

Property Value

Type of Structure: the type of housing unit was noted including whether the property was a mobile or manufactured home.

Year property built: the year the unit built was collected

Bedroom size

#### 6. Loan Characteristics

Amount of the loan

Purpose of the loan: this variable was coded as purchase, construction, or refinance

Interest rate

Term of the loan

#### 7. IHA Project Characteristics

Number of units

Amount of the loan

Value of the unit