Using Section 184 Financing to Meet Your Housing Needs

November 8, 2018
OLG Director Update

Krisa Johnson, Director of the Office of Loan Guarantee

- Welcome
- Section 184 Regulations
- Upcoming Consultation session (NAIHC December 10-12, 2018)
Meet our Trainer

Deanna Lucero, Senior Loan Guarantee Specialist, Denver, CO
Section 184 Loan Background

#1 Federal loan guarantee program serving AI/AN in the country!
Section 184 is a Tool for Housing Development

Purpose of today’s presentation is to highlight how Tribes and Tribally Designated Housing Entities can use Section 184 financing to:

- Address the housing need
- Increase housing opportunities on and off reservation
- Develop tribal assets
- Rehab existing units
- Provide flexibility in types of housing available to members
What is Section 184?

A loan product for tribes, TDHEs, and Federally recognized tribal members

100% guarantee to lenders to lend in tribal communities

Financing can be for:

- New Construction
- Rehab
- Purchase of existing units
- Purchase & Rehab
- Refinance
Section 184 Advantages

Loans can be manually underwritten by approved lender

Interest rates are based on market rates

Low Down Payment
  ◦ 1.25% if $49,999 or less*
  ◦ 2.25% if $50,000 or more*

For individuals:
  ▪ 100% of down payment can be from a gift
  ▪ Can use non-traditional credit sources
Section 184 Advantages

Service area includes:
- 22 entire states
- Financing can be used on or off reservation for the following land types:
  - Fee simple land (on or off reservation)
  - Tribal trust with an executed lease
  - Individual allotment
    - Individual ownership
    - Fractionated ownership
Role of HUD and Lender

HUD Office of Loan Guarantee:
- Develops and implements policy and regulations
- Conducts training and technical assistance
- Provides underwriting guidance
- Issues the loan guarantee certificate

Lender:
- Initial contact with the applicant
- Liaison between HUD and applicant
- Originate, processes, underwrites, closes the loan
Role of Tribe and BIA

Tribes Role in order to use Section 184 Financing:
- Develop Housing Ordinances:
  - Foreclosure, Eviction, Lien and Leasing Procedures

Bureau of Indian Affairs:
- Issues Title Status Report
- Records Lease
- Records plats for subdivisions
THE TRIBE OR TDHE AS BORROWER
Define Your Housing Goals

- What do you want to do?
  - Construct new homes
  - Rehab existing units
  - Create workforce housing
  - Create new rental units
  - Create local jobs

Section 184 Financing Provides You with Lots of Options!
Who, Where, What?

Project considerations:

- Project Tenants: Elderly, low-income, moderate/over-income
- Housing Type: Site Built, Modular/Manufactured, or Rehab of units
- New Construction: Single unit or duplex, triplex, or 4-plex
- Project Location: On/off reservation; scattered site or subdivision
New Development
<table>
<thead>
<tr>
<th>CONCERNS</th>
<th>SCATTERED SITES</th>
<th>SUBDIVISIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure Costs</td>
<td>Costly due to distances and individual site costs</td>
<td>Less expensive – shared expense</td>
</tr>
<tr>
<td>Environmental and Archeological costs</td>
<td>Individual environmental and archeological clearances are required</td>
<td>Blanket environmental and archeological clearances possible</td>
</tr>
<tr>
<td>Contractor and construction financing</td>
<td>Choice of contractor; limited by job scope and higher costs</td>
<td>Choice of contractor; shared fees</td>
</tr>
<tr>
<td>Proximity</td>
<td>Remote areas of reservation; roadways, resources, infrastructure</td>
<td>Pre identified; shared infrastructure; existing</td>
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Construction Loan Options

2 options available to borrowers:

1. Lender or Bank carries interim construction loan
   • 184 loan used to payoff construction loan; not closed or guaranteed until after house is complete

2. 184 single close construction loan

The definition of Single Family = 1 – 4 units;
1 loan can produce 1 unit or a duplex, triplex, or 4-plex!!!
Rental Unit Considerations

- Rental to housing
- Rental to assisted housing
- Cost per home (initial vs. upkeep)
- Rental and maintenance plan
Tribe/TDHE Loans – Rental Units

- Construction/purchase of rental property, applicant must demonstrate:
  - Property management skills
    - Housing Stock
  - Rental and maintenance plan
  - Marketing plan that identifies who you will rent to and what rents you will charge; or, if selling – what are sales prices, etc.
  - Eligible/interested tenants
Options with 184 Financing

RENTAL OPTION 1

IHBG dollars used in the project:

▪ Rent to low-income Native American families

▪ Family pays 30% of income toward rent

▪ If their payment is less than mortgage payment, subsidize the rest of the payment with IHBG dollars.

RENTAL OPTION 2

NO IHBG dollars used:

▪ Rent to Native or non-Native (for workforce housing for tribal employees)

▪ Rent to over-income tenants

▪ Rent at market value

▪ Tribe is in property management business; uses rent to pay mortgage and maintenance costs
Tribe/TDHE Loans - Homeownership

Construction/purchase of homeownership property, applicant demonstrates:

- Financial ability to pay upfront costs
- Marketing plan
- Debt service
- Eligible/interested tribal members
- Eligible/interested tenants – conversion rent to own
  - Lease options to purchase vs. long term rental
  - Subsidized debt service
Options with 184 Financing

SALES OPTION 1

Construct a home (up to 20 loans)
- Have the family assume the loan at the same rate/terms (must qualify for loan)
- Family has no upfront costs other than assumption fee (minimal)
- Tribe’s loan is paid off; family now makes payments to lender

SALES OPTION 2

Multiple Sales Options
- Tribe sells home to borrower at appraised value
- Tribe sells home to borrower at reduced rate
  - Tribe no longer has mortgage; can build new units, OR
- Tribe leases home to tribal member
Assumption Benefits

▪ Tribe/TDHE pays up front costs
▪ Constructs home
▪ Loan can be assumed by a qualified borrower at same rate and term of the tribe’s loan
▪ Tribe is released from the loan
▪ Loan is now new borrower’s responsibility
▪ Tribe had minimal upfront investment of down payment and closing costs
▪ Tribal member has new home
Costs Involved

EXAMPLE:
184 LOAN TO CONSTRUCT A 3 BEDROOM HOME FOR $175,000
LOAN = $171,062
2.25% DOWN PAYMENT = $3,937

Also, closing costs and 10% contingency for construction loans
Section 184 is a Tool for Housing

- Helps you expand your housing stock for:
  - Tribal members
  - Over-income
  - Workforce housing for medical staff and teachers

- Helps you serve a wide range of tenants and incomes

- Minimal upfront investment

- Helps you save your IHBG $ for other projects

- Expands your assets!!!
ONAP Best Practice Webinar Series featuring: San Felipe Pueblo Housing Authority

December 5, 2018 Webinar 1:00PM - 3:00PM Eastern Time

Learn more about how San Felipe Pueblo used Section 184 financing to meet their housing needs – [http://ems8.intellor.com/login/809464](http://ems8.intellor.com/login/809464)

We’re Interested! Now What?

**HUD Contacts**

Deanna Lucero, Senior Loan Guarantee Specialist

[Deanna.V.Lucero@hud.gov](mailto:Deanna.V.Lucero@hud.gov)

(303) 675-1615

Office of Loan Guarantee, HUD (Washington, DC)

[Section184@hud.gov](mailto:Section184@hud.gov)

(800) 561-5913

Contact an approved Section 184 Lender

[www.hud.gov/section184participatinglenders](http://www.hud.gov/section184participatinglenders)
Helpful Links

Section 184 Homepage: www.hud.gov/Section184

Section 184 for tribes: www.hud.gov/section184tribes

10 steps for bringing homeownership to your community:

Checklist of items lenders will need from tribes:
Questions?