

Section 184 Indian Home Loan Guarantee Program FOR HOMEBUYERS

Q&As About Purchasing a Home with a Section 184 Guaranteed Loan

1. WHAT IS THE PURPOSE OF THE 184 LOAN GUARANTEE PROGRAM?

A home is more than a financial asset - it's a place to live and raise families and plan for the future. Native Americans have worked hard to achieve success and now want to own a home of their own. Historically, Native Americans have experienced limited access to private mortgage capital.

In 1992, Congress created a federal loan guarantee program specifically designed to address the lack of mortgage capital in Indian Country. The Section 184 Indian Home Loan Guarantee Program is intended to increase access to private mortgage financing for property located on trust, restricted, or even fee land located within Indian operating areas.

2. WHAT ARE THE BENEFITS OF THE 184 LOAN GUARANTEE?

- Low Down payment of 1.25% or 2.25% based on the lower of the appraised value or cost to acquire the home
- Available on tribal trust, individual allotted trust or fee simple land in an Indian Operating Area
- Maximum loan amount up to 150% of FHA mortgage limits, subject to appraised value or acquisition costs; and down payment requirements
- One qualifying ratio of 41% debt to income
- 100% guarantee to the lender in the event of a foreclosure and claim
- Loans are assumable
- Loans are eligible for refinance

3. WHO ARE ELIGIBLE 184 BORROWERS?

- (a.) An Indian or Alaska Native who will occupy the property as a principal residence and who has met the credit and underwriting standards.
- (b.) An Indian tribe, Indian Housing Authority (IHA) or Tribally Designated Housing Entity (TDHE) may borrow funds to:
1. Develop homes that that are subsequently sold to eligible borrowers; or
 2. Create tribally owned rental housing.

4. ARE THERE ANY PROPERTY REQUIREMENTS?

There are various forms of land ownership in Indian country. Properties that are eligible for 184 loan guarantees are those located on trust, restricted or fee simple located within a designated Indian area. The Indian area is the geographic area within which an Indian tribe, IHA or TDHE is authorized to provide housing through its power as a governmental entity.

- Tribal Trust Lands: Trust land may not be encumbered by a mortgage lien, therefore, the borrower must establish a leasehold interest in the land where the home will be located. Lease documents are executed by the tribe and the borrower and approved by the Land Titles and Records Office at the Bureau of Indian Affairs prior to issuance of a firm commitment and lender approval.
- Allotted Trust Lands: Owners of an individual trust are permitted to mortgage properties with the approval of Bureau of Indian Affairs. The owner of the individual trust may choose to mortgage the land and consequently risk loss of land in the case of default and subsequent foreclosure.
- Fee Land: Mortgage liens are filed with the State or County recording system having jurisdiction over the property.

5. WHAT IS THE ROLE OF A 184 BORROWER?

Borrowers responsibilities are to make an application to a participating 184 lender and to provide information to the lender; and abiding by the terms of the loan agreement.

6. WHAT IS THE ROLE OF A 184 PARTICIPATING TRIBE?

Tribal responsibilities are to enact Legal and Administrative Framework policies and procedures for processing foreclosure and evictions of mortgages on properties located on trust or restricted lands in the event of a default. Therefore, the tribe is required to establish and implement a legal and administrative framework that address the following four areas:

- (1) Foreclosures
- (2) Evictions
- (3) Priority of lien procedures
- (4) Procedures for tribal trust land.

For fee lands, the tribe shall simply identify the applicable State or County court what will enforce these procedures in the case of default. Chapter 2 of the 184 Guidebook provides an explanation of Legal and Administrative Framework requirements. A copy of the guidebook may be obtained at the 184 website at: www.codetalk.fed.us/184loan.

7. HOW DO I CHOOSE A PARTICIPATING 184 LENDER?

A lender must have received approval to process a 184 loan guarantee. A listing of participating lenders is listed on the 184 website.

8. SHOULD I PREQUALIFY FOR A LOAN?

Pre-qualification is an informal way to see how much you maybe able to borrow. You can be 'pre-qualified' over the phone with no paperwork by telling a lender your income, your long-term debts, and how large a down payment you can afford. Without any obligation, this helps you arrive at a ballpark figure of the amount you may have available to spend on a house.

9. WHAT IS THE MAXIMUM LOAN AMOUNT?

The maximum loan amount is the **lowest** of:

- 150% of FHA loan limits for the applicable county
- or**
- Loan to Value (LTV) (Appraised value – excluding closing costs):
 - 98.75% of LTV if appraised value is \$50,000 or less
 - 97.75% of LTV if appraised value is more than \$50,000
- or**
- Acquisition Cost (sales price + closing costs)
 - 98.75% of acquisition cost if it is \$50,000 or less
 - 97.75% of acquisition cost if it is more than \$50,000

The difference between the cost of acquiring the property (sales price plus closing costs) and the maximum mortgage amount is the “buyer’s investment” or down payment. A tribe, IHA or TDHE may provide down payment assistance; however there may be some limitations on depending upon the source of funds. Contact your participating tribe for information regarding the availability of financial assistance.

10. HOW DO I SELECT A REAL ESTATE AGENT WHO IS FAMILIAR WITH THE 184 PROGRAM?

When interviewing real estate agents, ask if the agent is familiar with HUD’s Section 184 Indian Home Loan Guarantee Program. Additionally, look for an agent who listens well and understands your needs.

11. WHAT SHOULD I DO IF I'M FEELING EXCLUDED FROM CERTAIN NEIGHBORHOODS OR LENDER?

Immediately contact HUD if you ever feel excluded from a neighborhood, particular house, or if you believe you are being discriminated against on the basis of race, color, religion, sex, nationality, familial status, or disability. HUD's Office of Fair Housing has a hotline for reporting incidents of discrimination: 1-800-669-9777 (and 1-800-927-9275 for the hearing impaired).

12. WHAT SHOULD I DO TO DETERMINE MY HOUSING NEEDS BEFORE I BEGIN THE SEARCH?

Your home should fit the way you live. Take notes as you walk through each house. Make a list of your minimum requirements such as:

- Is there sufficient room for both the present and the future?
- Are there enough bedrooms and bathrooms?
- Is the house structurally sound?
- Do the mechanical systems and appliances work?
- Is the yard large enough?
- Do you like the floor plan?
- Will your furniture fit?
- Is there enough storage space? (Bring a tape measure)
- Does anything need to be repaired or replaced?

13. SHOULD I HAVE THE HOME INSPECTED?

An inspector checks the mechanical and structural soundness of the home as well as the safety issues and provides a written report. The inspection report will identify problems the seller should repair before you purchase the house. The inspection clause in the Earnest Money agreement gives you an 'out' if there are serious problems found, or it may provide you the ability to renegotiate the purchase price if repairs are needed. Be sure to hire a home inspector that is qualified and experienced. If possible, be present during the inspection as the home inspector will be able to answer questions about the report and any problem areas.

If the house you're considering was built before 1978 and you have children under the age of seven, you will want to have an inspection for lead-based paint. It's important to know that lead flakes from paint can be present in both the home and in the soil surrounding the house.

14. DO I REALLY NEED HOMEOWNER'S INSURANCE?

Yes. A paid homeowner's insurance policy (or a paid receipt for one) is required at closing, so arrangements will have to be made prior to that day. Plus, involving the insurance agent early in the home buying process can save you money. Insurance agents are a great resource for information on home safety and they can give tips on how to keep insurance premiums low.

15. WHAT OTHER ISSUES SHOULD I CONSIDER BEFORE I BUY MY HOME?

Be sure the house meets building codes. Also consider local zoning laws, which could affect remodeling or making an addition in the future. Your real estate agent should be able to help you with these questions. Always check to see if the house is in a low-lying area, in a high-risk area for natural disasters (like earthquakes, hurricanes, tornadoes, etc.), or in a hazardous materials area.

16. ARE MANUFACTURED HOMES ELIGIBLE FOR THE 184 LOAN GUARANTEE?

Yes, manufactured homes are eligible for a 184 loan guarantee. They are, however, subject to the specific requirements listed in Chapter 4 of the 184 Guidebook at Paragraph 4.15. Basically, the requirements are:

- Home must have been constructed after June 15, 1976 and have the RED TAG on the rear of the each section of the home.
- Must be permanently attached to the foundation
- Axles and tongue must be removed from the unit
- Must have skirting and insulation around the perimeter to prevent freezing and allow proper ventilation of the crawl space
- Must not have been installed or occupied previously at any other site or location

17. HOW DO I MAKE AN OFFER?

Your real estate agent will assist you in making an offer, which will include the following information:

- Complete legal description of the property
- Amount of earnest money
- Down payment and financing details
- Proposed move-in date
- Length of time the offer is valid
- Specific details of the deal
- Intentions to have the property inspected

18. HOW DO I DETERMINE THE INITIAL OFFER?

By the time you're ready to make an offer, you should have a good idea of what the home is worth and what you can afford. Be prepared for give-and-take negotiations with the seller to agree on a price. Your offer should consider several factors such as:

- What comparable homes sell for in the area
- The home's condition
- Length of time on the market
- Financing terms

19. WHAT IS EARNEST MONEY?

Earnest money is money put down to demonstrate your seriousness about buying a home. It must be substantial enough to demonstrate good faith and is usually between 1-5% of the purchase price (though the amount can vary with local customs and conditions). If your offer is accepted, the earnest money becomes part of your down payment or closing costs. If the offer is rejected, your money is returned to you. If you back out of a deal, you may forfeit the entire amount.

20. WHAT ARE "HOME WARRANTIES", AND SHOULD I CONSIDER THEM?

Home warranties offer you protection for a specific period of time (e.g., one year) against potentially costly problems, like unexpected repairs on appliances or home systems, which are not covered by homeowner's insurance. Warranties are becoming more popular because they offer protection during the time immediately following the purchase of a home, a time when many people find themselves cash-strapped.

21. WHAT IS A MORTGAGE?

A mortgage is a loan obtained to purchase real estate. The "mortgage" itself is a lien (a legal claim) on the home or property that secures the promise to pay the debt. All mortgages have two features in common: principal and interest.

22. CAN I PAY OFF MY LOAN AHEAD OF SCHEDULE?

Yes. By sending in extra money each month or making an extra payment at the end of the year, you can accelerate the process of paying off the loan. When you send extra money, be sure to indicate that the excess payment is to be applied to the principal. Most lenders allow loan prepayment, though you may have to pay a prepayment penalty to do so. Ask your lender for details.

23. HOW LARGE OF A DOWN PAYMENT DO I NEED?

The 184 Loan features a low down payment, which is based upon loan amount as follows:

- 1.25% if the loan amount is \$50,000 or less
- 2.25% if the loan amount is more than \$50,000

24. WHAT IS INCLUDED IN A MONTHLY MORTGAGE PAYMENT?

The monthly mortgage payment mainly amortizes principal and interest. However, most lenders include real estate taxes (where applicable) and homeowner's insurance into the monthly payment.

25. WHAT FACTORS AFFECT MORTGAGE PAYMENTS?

The amount of the down payment, the size of the mortgage loan, the interest rate, the length of the repayment term and payment schedule all are factors effecting the size of your mortgage payment.

26. HOW DOES THE INTEREST RATE FACTOR IN SECURING A MORTGAGE LOAN?

A lower interest rate allows you to borrow more money than a high rate with the same monthly payment. Interest rates can fluctuate as you shop for a loan, so ask-lenders if they offer a rate "lock-in" which guarantees a specific interest rate for a certain period of time.

27. WHAT HAPPENS IF INTEREST RATES DECREASE AND I HAVE A FIXED RATE LOAN?

Most experts agree that if you plan to be in your house for at least 18 months and you can get a rate 2% less than your current one, refinancing may be a smart option. So, if interest rates decrease, you can process a streamline refinance of your existing 184 loan to lower your monthly payment as a result of the interest rate decrease.

28. WHAT ARE DISCOUNT POINTS?

Discount points are prepaid interest. Each point equals 1% of the total loan amount. Discount points are smart if you plan to stay in a home for some time since they can lower the monthly mortgage payment. Points are tax deductible when you purchase a home and you may be able to negotiate for the seller to pay for some of them.

29. WHAT IS AN ESCROW ACCOUNT?

An escrow account is a place to set aside a portion of your monthly mortgage payment to cover annual charges for homeowner's insurance, mortgage insurance (if applicable), and property taxes. Escrow accounts are a good idea because they assure money will always be available for these payments.

30. HOW DO I APPLY FOR A LOAN?

The first step in securing a loan is to complete a loan application. To do so, you'll need the following information:

- Pay stubs for the past 2-3 months
- W-2 forms for the past 2 years
- Information on long-term debts
- Recent bank statements
- Tax returns for the past 2 years
- Proof of any other income
- Address and description of the property you wish to buy
- Sales contract

During the application process, the lender will order a report on your credit history and a professional appraisal of the property you want to purchase. The application process typically takes between 1-6 weeks.

31. HOW CAN I FIND OUT INFORMATION ABOUT MY CREDIT HISTORY?

There are three major credit reporting companies: Equifax, Experian, and Trans Union. Obtaining your credit report is as easy as calling and requesting a copy. Once you receive the report, it's important to verify its accuracy. It's also a good idea to get copies from all three companies to assure there are no mistakes. Generally, fees range from \$5-\$20 are usually charged to issue credit

reports. Contact the reporting companies at the numbers listed for more information.

| Company Name | Phone Number |
|---------------------|---------------------|
| Experian | 1-888-524-3666 |
| Equifax | 1-800-685-1111 |
| Trans Union | 1-800-916-8800 |

32. WHAT IF I FIND A MISTAKE IN MY CREDIT HISTORY?

Simple mistakes are easily corrected by writing to the reporting company, pointing out the error, and providing proof of the mistake. You can also request to have your own comments added to explain problems. For example, if you made a payment late due to illness, explain that for the record. Lenders are usually understanding about legitimate problems.

33. ARE THERE ANY FEES ASSOCIATED WITH THE LOAN GUARANTEE?

Yes. There is a loan guarantee fee of 1% of the principal obligation of the loan, which is due at closing. This amount is financeable and may be added to the maximum mortgage amount.

34. WHAT IS A GOOD FAITH ESTIMATE, AND HOW DOES IT HELP ME?

Lenders must comply with the provisions of the Real Estate Settlement Procedures Act (RESPA) and provide loan applicants with a Good Faith Estimate of settlement costs. The estimate must contain the settlement charges that the borrower will normally pay based upon the locality of the mortgaged property. It's an estimate that lists fees; closing costs, and escrow costs the borrower may encounter when purchasing a home. The lender must provide it to you within three days of your application. All closing costs charged must be for services that are actually performed and must bear a reasonable relationship to the service provided.

35. WHAT ARE CLOSING COSTS COMPRISED OF?

Closing costs are usually made up of the following:

- Attorney's or escrow fees (Yours and your lender's if applicable)
- Property taxes, if applicable
- Interest (paid from date of closing to 30 days before first monthly payment)
- Loan Origination fee to cover the lender's administrative cost
- Recording fees
- Survey fee
- Title Insurance, where applicable
- Loan discount points

- First payment to escrow account for future real estate taxes and insurance
- Paid receipt for homeowner's insurance policy (and fire and flood insurance if applicable)

36. MAY I ROLL CLOSING COSTS INTO MY 184 LOAN?

Yes. When calculating the acquisition cost. Lenders may add allowable closing costs to the sales price or contractor's price as stated in the written cost estimate. Eligible closing costs are limited to those to be paid by the borrower and must be typical, reasonable and customary for the area.

37. WHAT RESPONSIBILITIES DO I HAVE DURING THE LENDING PROCESS?

Be sure to follow all of these steps as you apply for a loan:

- Be sure to read and understand everything *before* you sign
- Refuse to sign any blank documents
- Do not buy property for someone else
- Do not overstate your income
- Do not overstate how long you have been employed
- Do not overstate your assets
- Accurately report your debts
- Do not change your income tax returns for any reason
- Tell the truth about gifts
- Be truthful about your credit problems, past and present

38. WHAT HAPPENS AFTER I'VE APPLIED FOR MY LOAN?

It usually takes a lender between 1-4 weeks to complete the evaluation of your application. Its not unusual for the lender to ask for more information once the application has been submitted. Once all the information has been verified the lender will call you to let you know the outcome of your application. If the loan is approved, a closing date is set up and the lender will review the closing with you. Soon after the closing, you'll be able to move into your new home.

39. WHAT CAN I EXPECT TO HAPPEN ON CLOSING DAY?

The closing agent will list the money that the borrower owes such as remainder of down payment, prepaid taxes, etc. Next, the closing agent will list the money that the seller may owe to the borrower such as unpaid taxes, if applicable. The seller will provide proofs of any inspection, warranties, etc., that were required to be completed by closing. Once understood, the borrower will sign the mortgage note, promising to repay the loan. The borrower will remit the remaining closing costs and he or she will provide you with a settlement statement of all the items for which you have paid. The deed and mortgage will then be recorded in the state Registry of Deeds, or the Bureau of Indian Affairs if the property is trust or restricted Inaidn land, and you will be a homeowner!

40. WHAT DO I GET AT CLOSING?

Settlement Statement, HUD-1 Form, itemizes services provided and the fees charged; it is filled out by the closing agent and must be given to the borrower at or before closing.

- Truth-in-Lending Statement
- Mortgage Note
- Mortgage or Deed of Trust
- Binding Sales Contract (prepared by the seller)
- Keys to your new home

41. ARE 184 LOANS ASSUMABLE?

Yes. A 184 loan may be assumed by a qualified borrower. The transaction is subject to HUD approval. Assuming a loan can be very beneficial since the process is streamlined and may be less expensive compared to that of a new loan. The application process consists of a credit check; no property appraisal is required. The new borrower must demonstrate sufficient income to support the mortgage loan. All Section 184 loan assumptions include a release of financial liability for the seller.

42. WHAT SHOULD I DO IF I CAN'T MAKE A PAYMENT ON LOAN?

Call or write to your lender as soon as possible. Clearly explain the situation and be prepared to provide him or her with financial information.

43. WHAT IS THE PURPOSE OF A LOAN GUARANTEE?

A loan guarantee is assurance that protects lenders against some or most of the losses that result from defaults on home mortgages. If a borrower can't repay an insured mortgage loan as agreed, the lender may foreclose on the property and file a claim with the guarantor for some or most of the total losses.

44. CAN I BOTH PURCHASE AND REHABILITATE A HOME WITH A SINGLE 184 MORTGAGE LOAN?

Yes. Repairs and improvements to existing housing as well as energy-related weatherization items may be added directly to the mortgage basis. Lenders may add the value of repairs or improvements that are required by the appraiser as essential for property eligibility and that will be paid by the borrower. To be eligible for inclusion in determining the mortgage amount, the sales contract to addendum to the sales contract must identify the borrower as responsible for performing the repairs or improvements.

45. HOW CAN I OBTAIN INFORMATION ON THE 184 LOAN GUARANTEE PROGRAM?

Visit the website at: www.codetalk.fed.us/184loan. Things you will find at the website include:

- Listing of participating Tribes
- Listing of participating Lenders
- Homebuyer counseling resources
- How to contact the 184 loan specialists in your area

Homebuyer education and counseling is a critical component for homeownership. Many Native American families are first time homebuyers and often need education about the processes of making a successful loan application. Homebuyer counseling and education programs can provide assistance about homeownership, its benefits, and requirements. To contact Personal Training Resources for Homebuyer Counseling Programs, visit the 184 website at: www.codetalk.fed.us/loan184 and click on “Homebuyer Counseling” to see a listing of counseling resources.