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**BEFORE THE**  
**UNITED STATES HOUSE OF REPRESENTATIVES**  
**COMMITTEE ON FINANCIAL SERVICES**  
**SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY**

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## **INTRODUCTION**

Mr. Chairman and Members of the Committee, thank you for inviting me to this hearing on “Improving Housing Opportunities for Native Americans.”

My name is Michael Liu, and I am the Assistant Secretary for Public and Indian Housing. I am responsible for the management, operation and oversight of HUD’s Native American programs. These programs are available to 562 federally-recognized Indian tribes. We serve these tribes directly, or through their tribally designated housing entities (TDHE), by providing grants and loan guarantees designed to support affordable housing, community and economic development activities.

It is a pleasure to again visit the Navajo Nation, and I would like to express my appreciation to Navajo Nation President Joe Shirley, Jr. for inviting us. I would also like to acknowledge the other tribal leaders who are here today, as well as the other witnesses and members of the public who’ve taken time from their busy schedules to talk about how we can work together to improve housing conditions for Native American families living in Indian Country.

Tribes are taking advantage of new opportunities and improving housing conditions for their Native American families. This momentum needs to be sustained as we continue to work together to create a better living environment in Indian Country.

## **OVERVIEW**

At the outset, let me reaffirm the Department of Housing and Urban Development’s support for the principle of government-to-government relations with federally-recognized Indian tribes. HUD is committed to honoring this fundamental precept in our work with Native Americans.

I’ll begin my presentation by briefly outlining our programs, going over the numbers in the President’s Fiscal Year 2005 budget request, and then I’d like to discuss an issue that I believe is of interest to the Committee: the large credit authority balances in our loan funds, and how we are aggressively working with tribes and lenders to get much-needed capital into Native American communities for homeownership.

### **Summary of ONAP’s Programs**

#### **Indian Housing Block Grant (IHBG) Program**

The IHBG Program, authorized by the Native American Housing Assistance and Self-Determination Act of 1996, as amended (NAHASDA), provides a formula grant based on the need for affordable housing within each Native American community and the number of dwelling units currently in management that were developed with funds allocated under the U.S. Housing Act of 1937. There are six eligible affordable housing activities, and they encompass: housing construction and acquisition; housing rehabilitation; operating subsidies; housing management services and administration of the housing entity; crime prevention and safety; and certain model activities as specifically approved by the Secretary.

NAHASDA is designed to provide Federal housing assistance for federally-recognized Indian tribes in a manner that recognizes the right of tribal self-governance. It reorganized the system of Federal housing assistance to Native Americans by eliminating several separate programs and replacing them with the single, formula-based IHBG Program.

### **Indian Housing Loan Guarantee Program (Section 184)**

The Section 184 Program provides a 100 percent guarantee for loans to income-eligible and credit-worthy Native American families, Indian tribes or their tribally designated housing entities to purchase, construct or acquire single family homes on Indian trust or restricted lands, land within the service area of an IHBG grant recipient, and in other designated Indian areas.

The reluctance of the private lending market to engage in mortgage lending on trust land prompted creation of the program in 1992. The program has made homeownership a reality for many Native American families. The 100 percent guarantee, combined with lower closing costs, is attractive to both lenders and borrowers. Tribes must have a functioning tribal court system (or enter into an agreement with another adjudicatory entity), and enact ordinances covering foreclosure, eviction, and related matters. A direct result of the program is that it provides an opportunity for lower- and moderate-income families living on reservations to move from subsidized housing units, thus freeing up that housing for use by low-income families. More details on how the program operates are contained in the section on loan initiatives that I will discuss in a few moments.

### **Federal Guarantees for Financing for Tribal Housing Activities (Title VI)**

The Title VI loan guarantee program is available to IHBG grant recipients in need of additional funds to engage in NAHASDA-eligible affordable housing activities. It provides a mechanism for tribes and tribally designated housing entities to leverage IHBG funds to secure financing. A private lender or investor provides the loan, and the government guarantee ensures repayment in the event of default. If there is a default, the government will seek repayment through the borrower's IHBG funds. A primary purpose of the program is to leverage IHBG funds with other funds, public and private, to gain greater economic benefit. I will also discuss this program in more detail in a subsequent section of my testimony.

### **Indian Community Development Block Grant (ICDBG)**

The Indian CDBG program is available to federally recognized Indian tribes, including federally-recognized Alaska Native groups, and to certain tribal organizations. The objective of the program is to assist eligible recipients to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for persons of low and moderate income. Eligible activities include housing, community facilities and economic development. Annual grants are competitive; the funds are suballocated regionally to each Area Office of Native American Programs, and potential grant recipients compete within each region for the available funds.

## **BUDGET SYNOPSIS**

For FY 2005, the President's budget proposes a total of \$724 million dollars, specifically for Native American housing in HUD. \$647 million would be appropriated under the Native American Housing Assistance and Self-Determination Act for HUD's Indian Housing Block Grant Program. Of that amount, approximately \$640 million is for direct, formula allocations. \$5.4 million would be available for training and technical assistance to support these programs. \$1.85 million in credit subsidy, which will leverage \$17.9 million in loan guarantee authority, is proposed for NAHASDA's Title VI Tribal Housing Activities Loan Guarantee Fund. \$71.575 million is for grants under the Indian Community Development Block Grant Program, and \$1 million in credit subsidy, which will provide \$29 million in loan guarantee authority, is for the Section 184 Indian Housing Loan Guarantee Fund.

Finally, the Department requested \$3 million to support Tribal Colleges and Universities.

### **INDIAN HOUSING BLOCK GRANT PROGRAM (IHBG)**

Adjustments within the IHBG program account have been made to allow more funds to be available for direct tribal use. As with last year's request, reducing set-asides results in an increase in IHBG grant dollars available to tribes. For example, last year there was \$2.72 million set aside for the Working Capital Fund. This year, we are requesting that only \$500,000 be put aside for this purpose.

### **HUD TRAINING AND TECHNICAL ASSISTANCE**

Training and technical assistance remains a critical component of the IHBG Program. The Training and Technical Assistance set-aside is \$5 million, which has provided the initial training and technical assistance to most grantees, enabling them to function effectively under NAHASDA.

### **NAIHC TRAINING AND TECHNICAL ASSISTANCE**

The President's Budget includes a \$2.485 million set-aside from the Community Development Fund to continue the support provided to the National American Indian Housing Council.

### **WORKING CAPITAL FUND**

The Department's request of \$500,000 for the Working Capital Fund will help provide information technology and data resources to support enhanced program assessments, performance measurements and accountability.

### **TITLE VI TRIBAL HOUSING ACTIVITIES LOAN GUARANTEE FUND**

The Title VI Tribal Housing Activities Loan Guarantee Fund (Title VI) is also a set-aside under the IHBG Program. The President's Budget requests \$2 million in credit subsidy to continue loan activities at previous levels.

The program's subscription rates have been lower than anticipated. The current funds available will provide over \$392 million in loan guarantee authority, which is more than the program could use.

Therefore, this budget proposes to cancel \$21 million of unused credit subsidy. However, the 2005 request will support \$17.9 million in loan guarantee authority, which will be sufficient to cover future program needs.

#### SECTION 184 INDIAN HOUSING LOAN GUARANTEE FUND

The President's budget request for this program is \$1 million. Each year, as required by the Credit Reform Act, the Section 184 Indian Housing Loan Guarantee Fund credit subsidy rate is recalculated. Subscription rates have been lower than anticipated here as well. The current funds available will support over \$811 million in loan guarantee authority, which is more than the program could use. Therefore, this budget proposes to cancel \$33 million of unused credit subsidy. The 2005 request of \$1 million in credit subsidy will support \$29 million in loan guarantee authority, which will be sufficient to cover future program needs.

#### INDIAN COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The President's FY 2005 request for the Indian Community Development Block Grant Program is \$71.575 million.

#### TRIBAL COLLEGES AND UNIVERSITIES

The President's budget request for HUD includes, under the Community Development Fund, \$3.0 million for competitive grants to tribal colleges and universities to provide resources to build, expand, renovate and equip their facilities.

#### LOAN GUARANTEE FUNDS, BALANCES AND INITIATIVES

Creating homeownership opportunities continues to rank at the top of this Administration's priorities for the American people, and nowhere is this more important than in the Native American community. The potential for HUD's Native American loan guarantee programs to generate large numbers of housing units is great, but tribes and their TDHEs are not taking advantage of this source of funding.

##### **Section 184**

The Section 184 Loan Guarantee program offers the lender a 100 percent guarantee of the outstanding principal and interest due, plus other allowable costs. The program has a minimal down payment requirement of 2.25 percent, no income limits, a low guarantee fee of only 1 percent, very flexible underwriting, and it can be used for loans on 1-to-4 family dwellings, including construction loans.

Applying for a loan is simple. Once the tribe has enacted the appropriate mortgage, lien priority and foreclosure and eviction ordinances, a borrower goes to one of over 150 approved lenders. Over 130 Tribes have enacted the mortgage ordinances that permit leasehold mortgages. A complete listing of all participating lenders and tribes may be found at the Office of Native American Programs website "CODETALK." The address is [www.codetalk.fed.us.loan184.html](http://www.codetalk.fed.us.loan184.html).

The site is updated monthly, and it also contains the 2004 Section 184 training schedule for 2004. Interested parties without Internet access should call the ONAP Office of Loan Guarantee in Denver at (800) 561-5913 to obtain copies of these materials.

Who is an eligible borrower? A tribe eligible to participate in NAHASDA's Indian Housing Block Grant program, or a member of such tribe, is qualified to participate so long as the property subject to the mortgage is located within the tribe's area of operation. It is important to note that all tribes are eligible—as are their members—to obtain Section 184-guaranteed mortgages. If the land is trust or restricted land, the appropriate leasehold interests must be obtained, and this aspect of the program's requirements has proven to be more challenging in many instances.

An individual Native American must occupy the property as a principal residence. Tribes and TDHEs may borrow to develop 1-to-4 family units for resale, or they can rehabilitate existing units, create rental housing for their members, or refinance existing indebtedness. A mortgage or Deed of Trust is the operative document.

As tribes and TDHEs have become more familiar with the program, the number of loans approved each year has increased. For example, there were 184 loans guaranteed in FY 2002, 271 loans in FY 2003, and, as of the end of March, 2004, 197 loans Section 184 loans had been approved.

The Department, in cooperation with Section 184 loan servicers, has kept defaults and subsequent claims to an absolute minimum. Lender claims have generally been processed and paid within 45 days of the time the required documentation was submitted to the Office of Loan Guarantee. To date, we have guaranteed over 1,500 loans, and less than a dozen claims have been made.

## **Title VI**

The Title VI Tribal Housing Activities Loan Guarantee Program has been a tool for developing and strengthening reservation economies.

The Office of Native American Programs is targeting its training and technical assistance activities in the upcoming year to help tribes and their tribally designated housing entities learn more about this program and take advantage of this valuable resource.

Although the program has been in existence since 1996, when NAHASDA became law, we continue to see it underused. Under the program, any NAHASDA-eligible tribe or TDHE with no significant audit findings can leverage Indian Housing Block Grants.

There are three steps in the Title VI process:

- The request for a Preliminary Letter of Approval (PLA) is generated by the borrower. This is to ensure that the planned activity is an eligible affordable housing activity under NAHASDA, that the borrower demonstrates administrative capacity and does not have any significant monitoring issues with its local ONAP, and that it has done preliminary work regarding the overall feasibility of the proposed project.

- The lender submits the Application for Firm Commitment to the ONAP Office of Loan Guarantee (OLG) after gathering underwriting documentation and issuing their loan approval. Their submission includes legal opinions, borrowing resolutions and sample legal documents, including the proposed rates, fees and other borrowing terms. The OLG's Firm Commitment triggers the establishment of the relevant record keeping requirements within the Department.
- The loan is closed, signed documents are given to the OLG for review, and the Loan Guarantee Certificate is issued to the lender. If there is a default, and a claim, we anticipate that the claim can be paid within 30 business days. To date, there have been no claims filed.

Foreclosure is not an issue in the Title VI program, as the promissory note and loan agreement defines default, and there are no real property or leasehold interests to be foreclosed upon. The security to the lender is a full faith guarantee of the Federal Government for 80 percent of any pro rata loss of principal and interest due.

Title VI guaranteed loans have been used by borrowers to construct or purchase rental and homeownership units, to provide infrastructure and to transport excess military housing and rehabilitate it for use by tribal members. Banks can lend for infrastructure and affordable housing for NAHASDA-eligible families. To date, our Title VI guarantees have supported \$77 million in loans to tribes or their housing entities, but again we have a significant amount of unused loan guarantee authority.

These loans have supported a broad array of affordable housing activities. For example, the Salish and Kootenai Housing Authority purchased and renovated a mobile home park and enhanced its housing management capability with hardware and software acquisition; the Chippewa Cree Tribe moved surplus military housing from an Air Force base, using Title VI funds for the transportation, rehabilitation and infrastructure development for the project. Several housing entities in Alaska developed additional rental and homeownership projects by leveraging their IHBG funds with a Title VI loan, and the White Mountain Apache Tribe in Arizona financed the construction of water and wastewater infrastructure for their 300-unit Apache Dawn project.

Let me focus for a moment on the cancellations in these loan programs. The Department proposes to cancel unused credit subsidy of approximately \$54 million, which has accumulated in the Section 184 and Title VI loan funds over the past four-to-five years. This enabled us to preserve full funding for FY 2005 at the FY 2004 request levels in all Native American programs. The cancellation will not occur until the end of FY 2005. Any unused credit subsidy that has been committed by that time will not be cancelled.

There has been a significant increase in Section 184 loan guarantee activity over the past fiscal year, proving that tribes and TDHEs are taking the necessary steps to participate in the program. This is important because moving families into their own homes frees-up subsidized housing units for lower-income families, and it creates economic opportunities for entire communities.

In fiscal year 2003 alone we increased the number of Section 184 loan guarantees by 271, the most since the program's inception. With over 1,500 Section 184 loans guaranteed for a total dollar volume of over \$151 million dollars, we anticipate more loans closed in FY 2004 than ever before.

I have directed the Office of Native American Programs to focus on increasing tribal interest in loan guarantee activity through outreach, training and technical assistance designed to make tribes aware of these programs, aid them in applying for assistance, and following through to ensure that proposed projects reach completion.

## **CONCLUSION**

HUD supports the progress being made by tribes in providing the housing needed in their communities and throughout Indian Country. This concludes my prepared remarks. I would be happy to answer any questions you may have.