



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-5974-N-01]

**Section 184 Indian Housing Loan Guarantee Program
Increase to Annual Premium**

AGENCY: Office of the Assistant Secretary for Public and Indian Housing, HUD.

ACTION: Notice.

SUMMARY: The Section 184 Indian Housing Loan Guarantee program (Section 184 program) is a home mortgage program specifically designed for American Indian and Alaska Native families, Alaska villages, tribes, or tribally designated housing entities. Over the last five years, the Section 184 program has doubled the number of loans and eligible families being assisted by the program. For HUD to continue to meet the increasing demand for participation in this program, HUD is exercising its authority to increase the annual premium to the borrower from 0.15 to 0.25 percent of the remaining loan balance. This annual premium will continue until the unpaid principal balance, excluding the upfront loan guarantee fee, reaches 78 percent of the lower of the initial sales price or appraised value based on the initial amortization schedule. Effective **[Insert date 30 days from the date of publication in the Federal Register]** the new annual premium of 0.25 percent of the remaining loan balance will apply to all new loan guarantees, including refinances.

DATES: Effective Date: **[Insert date 30 days from the date of publication in the Federal Register]**.

FOR FURTHER INFORMATION CONTACT: Heidi J. Frechette, Deputy Assistant Secretary for Native American Programs, Office of Public and Indian Housing, Department of Housing and Urban Development, 451 7th Street SW, Room 4126, Washington, DC 20410; telephone number 202-401-7914 (this is not a toll-free number). Persons with hearing or speech

disabilities may access this number through TTY by calling the toll-free Federal Relay Service at 800-877-8339.

SUPPLEMENTARY INFORMATION:

I. Background

Section 184 of the Housing and Community Development Act of 1992 (Public Law 102–550, approved October 28, 1992), as amended by the Native American Housing Assistance and Self-Determination Act of 1996 (Public Law 104-330, approved October 26, 1996) and 2013 Consolidated and Further Continuing Appropriations Act (Public Law 113-6, approved March 26, 2013), established the Section 184 program to provide access to sources of private mortgage financing to Indian families, Indian housing authorities, and Indian tribes. Congress established this program in 1992 to facilitate homeownership and increase access to capital in Native American Communities. The Section 184 program addresses obstacles to mortgage financing on trust land and in other Indian and Alaska Native areas by giving HUD the authority to guarantee loans to eligible persons and entities to construct, acquire, refinance, or rehabilitate one- to four-family dwellings in these areas.

The Section 184 Loan Guarantee Fund (the Fund) is used to fulfill obligations of the Secretary with respect to the loans guaranteed under this program. The Fund receives annual appropriations to cover the cost of the program, and amounts for claims, notes, mortgages, contracts, and property acquired by the Secretary under the Section 184 program, which reduces the amount of appropriations needed to support the program. In recent years, rapidly growing demand has required HUD to increase the guarantee premium and implement a new annual upfront fee to support new loan guarantees. HUD issued loan guarantee commitments for \$495.4 million in fiscal year (FY) 2011, \$670.8 million in FY 2012, \$672.3 million in FY 2013, \$595

million in FY 2014, \$738.1 million in FY 2015, and \$ 756.3 million in FY 2016¹. Additionally, expenses have increased for acquisitions, insurance, and other program costs, and HUD has seen higher losses now that the Fund has guaranteed over \$5.5 billion in current loans.

On October 7, 2014, HUD issued a notice exercising its new statutory authority to implement an annual premium to the borrower in the amount of 0.15 percent. (79 FR 60492). The notice also provided guidance on the cancellation of the annual premium when the loan reaches the 78 percent loan-to-value ratio. The new annual premium became effective on November 15, 2014 for all new loan guarantees, including refinances.

II. Increased Premium

To meet projected demand for participation in the Section 184 program for FY 2017, HUD is increasing the annual premium from 0.15 to 0.25 percent of the remaining loan balance until the unpaid principal balance, excluding the upfront loan guarantee fee, reaches 78 percent of the lower of the initial sales price or appraised value based on the initial amortization schedule on all new loans, including refinances. This increase will apply to all new program applicants as of the effective date of this notice. It will not apply to existing mortgages guaranteed by this program. Without an increase in the annual premium, HUD will not have sufficient funding to meet the anticipated demand for Section 184 mortgage loans in FY 2017. The decision to increase the annual loan guarantee premium provides a balanced approach that addresses the current demands for the program while focusing on the need to remain affordable.

By increasing the annual premium paid by borrowers, the credit subsidy rate² will go down, and HUD expects the program will be able to guarantee the volume of loans predicted for

¹ Year-to-date cumulative report totaling Section 184 loans guaranteed through end of July 2016.

² Credit Subsidy Rate as defined in the Federal Credit Reform Act (FCRA) of 1990, as amended by the Balanced Budget Act of 1997.

FY 2017. An annual premium of 0.25 percent would cost a borrower with a \$175,000 mortgage (the average loan size for the program) an extra \$36.18 a month in total monthly fees on the borrower's monthly payment or \$434.16 annually. Since the 0.25 percent annual premium is tied to the loan balance, the annual premium will decrease for the borrower every year as the loan balance declines and then disappear after the loan-to-value ratio reaches 78 percent of the lower of the initial sales price or appraised value based on the initial amortization schedule. Even with these additional costs to borrowers, the Section 184 program will still be one of the least expensive loan products available to Native borrowers. While paying an annual premium may be a hardship for some potential borrowers, HUD believes it will have a limited impact on the demand for the program, and the new annual premium will allow HUD to continue to meet the demand for mortgage lending transactions in fiscal year 2017 so that more Indian and Alaska Native families have the opportunity to become homeowners.

To reduce some of the impact accompanying the annual premium, the payment of the annual premium can be made through monthly payments, to spread out the cost for borrowers, or annual and lump sum payments, to keep a borrower's monthly payment lower.

This notice increases the Section 184 Program annual premium to 0.25 percent of the remaining loan balance for all new case numbers assigned on or after **[Insert date 30 days from the date of publication in the Federal Register]** until the unpaid principal balance, excluding the upfront loan guarantee fee, reaches 78 percent of the lower of the initial sales price or appraised value based on the initial amortization schedule.

This notice does not supersede HUD's guidance on the cancellation of the annual premium when the loan reaches the 78 percent loan-to-value ratio that was provided in the October 7, 2014 Notice (79 FR 60492).

IV. Tribal Consultation

HUD's policy is to consult with Indian tribes early in the process on matters that have tribal implications. Accordingly, on June 26, 2016, HUD sent letters to all tribal leaders participating in the Section 184 program, informing them of the nature of the forthcoming notice and soliciting comments. A summary of comments received and responses can be found on HUD's website at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/ih/homeownership/184.

V. Environmental Impact

This notice involves the establishment of a rate or cost determination that does not constitute a development decision affecting the physical condition of specific project areas or building sites. Accordingly, under 24 CFR 50.19(c)(6), this notice is categorically excluded from environmental review under the National Environmental Policy Act of 1969 (U.S.C. 4321).

Dated: October 24, 2016

Lourdes Castro Ramirez,
Principal Deputy Assistant Secretary for Public
and Indian Housing

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