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Fannie Mae Committing \$350 Million to Boost Homeownership in Indian Country

by Walt Patton, *Senior Business Manager, Rural Housing and Native American Housing*



Ranae Ramos purchased a home on the Pine Ridge reservation which was financed through the Oglala Sioux's Tribal Partnership for Housing.

Turning the dream of homeownership into reality can be a particularly difficult challenge for Native American families. Native Americans have the lowest homeownership rate — 33 percent — of any racial or ethnic group, and are six times more likely to live in substandard or overcrowded housing. Stubbornly high levels of poverty and unemployment are barriers to conventional credit, as are the complexities of lending and investing on Native American lands. Despite these obstacles, however, progress is being made in ensuring that Native Americans, no matter where they live, have the opportunity to obtain mortgage financing.

As part of our \$2 trillion *American Dream Commitment*, Fannie Mae will invest at least \$350 million to help more than 4,600 Native Americans become homeowners on tribal lands in the course of this decade. We're working through our network of 50 partnership offices across the country to help link tribes and their members with banks and other mortgage originators. And we've taken steps to adapt our

own policies to the special circumstances of lending in Native American communities. For example —

- **Modifying free marketability:** Fannie Mae normally protects against losses from foreclosures by requiring that we have the right to resell foreclosed properties to anyone. However, many Native American tribes have trust lands set aside for them, and they control who lives on such lands. In response, we have modified our requirement to free marketability *within the tribe*.
- **Recognizing tribal sovereignty:** Federally recognized tribes generally have the right to form their own courts, subject to federal but not state or local law. This means that to do business on these tribal lands, lenders must be willing to accept the jurisdiction of tribal courts in foreclosures. Fannie Mae does so.
- **Respecting tribal differences:** We're aware that tribes have various traditions governing land use, and we're willing to negotiate riders to our standard mortgage documents to reflect such differences.

Working within this framework, Fannie Mae offers an array of mortgage products specifically

targeted to the needs of Indian country:

- **HUD Section 184 Native American Loan Guarantee Program single family home loans**, which can be used on more than 100 reservations in 21 states (see “Financing Homeownership in Indian Country: Using HUD’s 184 and Title VI Programs” in this edition). Our investment in HUD 184 loans to-date exceeds \$51 million.
- **Lease-purchase loans:** This product enables a tribe to purchase a home (becoming the borrower of record) and then lease the property to a tenant who may assume the loan after addressing any credit problems and accumulating the necessary funds for downpayment and closing costs. In connection with such loans, financial literacy and homebuyer education classes are typically offered by Indian Housing Authorities and other non-profits to families renting homes and working their way toward homeownership.
- **Native American Conventional Lending Initiative (NACLI):** Fannie Mae offers lenders a conventional loan alternative that allows a borrower on tribal trust lands to use the Fannie 97 and other low-downpayment products. The conventional loan alternative is important because, unlike Section 184, with this approach borrowers can refinance homes they already own with loans in Fannie Mae’s conventional product array.

Fannie Mae also offers products that allow Native American borrowers with weak credit to qualify for home loans. The Timely Payment Rewards product makes it possible for a purchaser with credit problems to borrow at a higher interest rate than is typically charged for qualifying loans. If the borrower makes consecutive payments over a 24-month period, the interest rate is lowered by one percentage point. The initial interest rate is still lower than would typically be charged for a loan to a borrower with past credit difficulties.

Conventional loans can be used on tribal trust lands where the tribe and the lender have agreed to Fannie Mae’s “tri-party agreement” ensuring that the tribe has the authority to enforce mortgage-related documents and to carry out foreclosures and evictions. To date, Fannie Mae has entered into tri-party agreements with six tribes: Saginaw and Chippewa Tribe, Michigan; Yerington Paiute Tribe, Nevada; Oneida Indian Nation, New York; Navajo Nation, New Mexico; Pine Ridge Reservation, South Dakota; and Bay Mills Reservation, Michigan.

Banks have much to offer

National banks, including smaller banks, are increasingly important participants in making the dream of homeownership a reality for Native Americans. McClain Bank, N.A., in Purcell, Oklahoma has participated in the HUD 184 program for four years, originating 75 loans totaling almost \$6 million. “This program is a natural for us,” says McClain Bank Vice President Tom Sherman. “Our home office is located in the Chickasaw Nation’s traditional tribal area. The section 184 loan guarantee program provides an excellent way for us to help Native Americans own their homes, and it also opens a door for us to provide other products and services to Native American customers.”

Fannie Mae has created a secondary market for Native American Housing Assistance and Self-Determination Act (NAHASDA) Title VI loans. First National Bank of Anchorage was the first bank in the nation to complete a Title VI loan — a \$1.7 million loan to the Asa’carsarmiut Tribal Council in Mountain Village, Alaska to fund the development of eight new detached rental homes for their community. Under Title VI, the federal government guarantees 95 percent of the principal and interest due in the case of a default.

“Thanks to the risk-minimization provided by Title VI, we’ve been able to provide housing in areas that had not seen new construction since the early ’80s,” says Dawn Lowrie, bank assistant vice president. “By using other loan products and housing programs available to us, we’ve provided families with a home of their own with monthly payments of around \$500 on a \$200,000 home. Both the bank and the tribes see this as a major opportunity to empower families in the communities. This has been the most rewarding program I’ve been involved with in my 13 years of banking.” The Federal Home Loan Bank of Seattle has recently begun purchasing NAHASDA loans in the secondary market as well.

Fannie Mae stands ready to work with national banks to increase homeownership opportunities throughout Indian country. For more information about any of our products, please contact Walt Patton, senior business manager for Rural Housing and Native American Housing at (202) 752-2529 or by e-mail at walter_patton@fanniemae.com or visit us at www.fanniemae.com.

Progress Through Partnerships

The Pine Ridge reservation in South Dakota is one of the nation’s poorest areas, with an average annual per capita income below \$8,000 and unemployment hovering at around 75 percent. Working with the Oglala Sioux Tribe Partnership for Housing (OSTPH) and The Lakota Fund, a tribally chartered non-profit community development financial institution (CDFI), Fannie Mae is investing \$3 million in a five-year commitment to improve housing and economic conditions on the reservation.

By supporting small businesses and entrepreneurs, The Lakota Fund has created more than 150 new jobs. Fannie Mae has enabled the Fund to triple its existing loan limit by structuring an interest-bearing, long-term note that also enables the Fund to count its investments as equity. This was the first investment of its kind ever made by Fannie Mae and the first of its kind in Indian country.

Fannie Mae has also partnered with The Enterprise Foundation to provide a \$500,000 pre-development loan enabling OSTPH to build 14 new single-family units, and has committed to purchase \$1.5 million in low-income housing tax credits for another 20-unit single-family housing development in Pine Ridge.

Ranae Ramos, a single mother with a young daughter, was able to purchase a house on the Pine Ridge reservation through OSTPH using the HUD 184 loan guarantee program. U.S. Navy Seabees, working through OSTPH’s *Volunteer Build* program, constructed the house, adding a ramp so that Ranae’s wheelchair-bound stepfather can visit. Grants from the Federal Home Loan Bank and USDA Rural Development were used for assistance with downpayment and closing costs.

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