

HUD Title VI Loan Guarantee Program

This fact sheet highlights the U.S. Department of Housing and Urban Development's (HUD) Title VI Tribal Housing Activities Loan Guarantee Program (Title VI Program), which was authorized by the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA). The program was created to facilitate financing for affordable housing in Native American communities.

What Is the Title VI Program?

One of the obstacles to lending in Indian Country has been the unique status of Indian lands, which generally are held in trust. Lenders interested in making development loans to Native American tribes are often uncertain about how to obtain real estate as collateral and how to reclaim the value of that collateral in the event of a default.

The Title VI loan guarantee is designed to assist Indian Housing Block Grant (IHBG)¹ recipients who want to obtain loans for buying or constructing affordable housing but are unable to secure financing, or are offered financing that is too expensive, without the assistance of a federal guarantee.

The borrower, a tribe or its tribally designated housing entity (TDHE),

¹ Authorized by NAHASDA, the IHBG program is a formula grant that provides a range of affordable housing activities on Indian reservations and Indian areas.

leverages IHBG funds to finance affordable housing activities by pledging future grant funds to HUD as security for repayment of the guarantee obligation. Typically, a private lender provides the financing and HUD provides the guarantee to the lender.

The borrower may use its IHBG funds to repay the obligation. If, however, a borrower fails to repay the debt and a default is declared, HUD will repay the obligation and seek reimbursement from the borrower's future IHBG grant funds.

The Title VI Program provides a 95 percent loan guarantee of outstanding principal and interest owed on each Title VI loan. The maximum loan amount is up to five times the annual need portion of the tribe or TDHE's annual IHBG.² There is no minimum loan size. A loan term can be up to 20 years and the interest rate may be fixed, adjustable, or floating.³

² The IHBG program formula has two components: need and formula current assisted stock. The need component considers population, income, and housing conditions. The formula current assisted stock component reflects housing developed under the United States Housing Act that is owned or operated by the IHBG recipient and provides funds for ongoing operation of the housing. For more information, see the [IHBG program's Web site](#) at HUD.gov.

³ ["Title VI Loan Guarantee Program Fact Sheet for Lenders."](#) HUD.gov Title VI Resource Library.

What Projects Are Eligible?

The project financed does not have to be on trust land, but the project must be located in the area that the tribe or TDHE currently serves, using its NAHASDA funding. The project also must be included in the tribe's Indian Housing Plan.⁴ Funds must be used for affordable housing activities under NAHASDA. These activities include

- purchasing land and housing.
- designing buildings and site plans.
- constructing and rehabilitating housing.
- constructing infrastructure (such as roads, sidewalks, or water, sewer, electric, or gas facilities).
- financing loan costs.
- financing other activities approved by the HUD's Area Office of Native American Programs.⁵

The loan has no real estate collateral. The HUD guarantee is the primary loss mitigant for the lender. The collateral for HUD's guarantee is the pledge by the tribe or TDHE of the need portion of the IHBG allocation. The tribe or TDHE may continue to use excess IHBG funds for other purposes unless there is a payment default. If the borrower has already pledged IHBG funds to HUD, a lender cannot use a second pledge of IHBG funds for loan collateral.⁶

⁴ ["Title VI Loan Guarantee Program Frequently Asked Questions."](#) HUD.gov Title VI Resource Library.

⁵ ["Title VI Loan Guarantee Program Fact Sheet for Lenders."](#)

⁶ ["Title VI Loan Guarantee Program Frequently Asked Questions."](#)

What Steps Are Required to Obtain a Title VI Loan Guarantee?

1. The tribe or TDHE submits an application for a preliminary review of acceptance from HUD. HUD reviews the proposed project's feasibility and the tribe or TDHE's capacity to implement the project. If acceptable, HUD issues a preliminary letter of acceptance that is valid for 180 days.
2. The tribe or TDHE selects a lender and applies for a loan from that lender.⁷
3. The lender requests a firm commitment from HUD so that a loan guarantee may be issued. When the request is approved, HUD issues a firm commitment to the lender specifying the terms that must be met for a guarantee to be issued. The lender and tribe or TDHE have 90 days to close the loan.
4. The lender and tribe or TDHE meet the conditions for the guarantee and close the loan. Once the loan is closed, HUD issues the guarantee to the lender.⁸

How Can Banks Participate in the Title VI Program?

Eligible lenders in the program include any lender supervised, approved, regulated, or insured by any agency of the United States; or any other lender approved by the HUD Secretary.⁹

The program is administered by the Office of Loan Guarantee within HUD's Office of Native American Programs.

⁷ ["Title VI Loan Guarantee Program Application Checklist,"](#) HUD.gov Title VI Application Process.

⁸ [Ibid.](#)

⁹ ["Title VI Loan Guarantee Program Fact Sheet for Lenders."](#)

For detailed information on the requirements and procedures of the approval process, contact HUD at (202) 402-4134 or by mail: Office of Native American Programs
Office of Loan Guarantee, Title VI
451 Seventh St. SW, Room 5156
Washington, DC 20410

What Are the Benefits for Banks?

There are several potential benefits to lenders from participating in this program, including.

- **Limited risk exposure:** By providing a 95 percent guarantee of outstanding principal and interest, the program allows lenders to extend loans to eligible Native American tribal entities with the confidence that the loan risk is mitigated in case of a default. Additional collateral may be negotiated between the tribe or TDHE and the lender. For example, lenders commonly request additional collateral for the 5 percent of the loan amount that is not covered by the guarantee. The guarantee does not cover any other costs or fees, including late fees or legal expenses.¹⁰
- **Reduced costs:** Having the HUD guarantee eliminates most of the costs that are typically associated with defaults on housing related loans. HUD does not charge a fee for the loan guarantee and the lender may use its own loan documents, which eliminates costs associated with adopting different documentation.
- **Improved marketing opportunities:** By establishing a financial relationship with the tribe, the lender will have opportunities to market other financial services to the tribe and its members.

¹⁰ [“Title VI Loan Guarantee Program Frequently Asked Questions.”](#)

- **Loan marketability:** The Title VI Guarantee is transferable to HUD-approved lenders/servicers. This permits the lender to balance its portfolio or increase liquidity if needed.
- **Community reinvestment goals:** Loans guaranteed by the Title VI Program may have the potential for Community Reinvestment Act (CRA) consideration.¹¹

Community Reinvestment Act

Banks may have the potential to receive consideration for loans, investments, and services related to a tribe or TDHE that utilizes the Title VI Program if the activities have a primary purpose of community development as defined in the CRA. Community development includes activities that support affordable housing for low- or moderate-income individuals. How activities are considered depends on the evaluation process, which is generally dictated by a bank’s asset size and charter. Because of these differences, banks should direct CRA questions about specific projects to their supervisory office.

What Risks and Fees Do Lenders Face?

Since the loans are guaranteed at 95 percent, the credit risk is mitigated. Once the guarantee is issued, it is in place regardless of what happens to the annual allocation for the program or tribal allocation. Lenders, however, should familiarize themselves with the program guidelines to avoid potential operational risks. No fees are assessed on lenders, although there may be costs associated with the HUD requirements.

¹¹ [“Title VI Loan Guarantee Program Benefits to Lenders.”](#) HUD.gov Title VI Resource Library.

Resources

- [HUD Title VI Loan Guarantee Program](#)
- [HUD Title VI Loan Guarantee Program Resource Library](#)
- [OCC Native American Banking Resource Directory](#)
- [OCC Community Reinvestment Act Resource Directory](#)

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