

## APPENDIX C

### **Summary of Navajo Nation One-Stop Mortgage Center Pilot Site**

#### ***Introduction***

President Clinton selected the Navajo Nation as a pilot site for the One-Stop Mortgage Center Initiative for several reasons.

- First, the need on the Navajo reservation for housing is immense. The Navajo Housing Authority (NHA) estimates it needs 21,000 new housing units to satisfy the unmet needs of all Navajo families—including 12,000 new homeownership units.
- Second, the legal infrastructure to support mortgage financing was already in place in Navajo law. In 1996, Fannie Mae partnered with the Navajo Nation Department of Justice to draft a standard lease, mortgage and note for use with conventional and Federal lending programs. Third, the Navajo government had already created a nonprofit on the reservation to provide homebuyer counseling and assist Navajo families to obtain mortgage financing—called the Navajo Partnership for Housing, Inc. (NPH). Also, the Navajo Housing Authority had placed a high priority on promoting homeownership for its residents. NHA was exploring new products and programs to convert mutual help housing to homeownership.
- Finally, there was a strong commitment on the part of the Navajo government to promote homeownership opportunities. Both President Kelsey Begay and Navajo Nation Council Speaker Edward Begay were open to partnering with this national initiative to improve the housing situation on the Navajo Nation as well as to serve as a model for other tribal communities.

#### ***Profile of Navajo Nation***

The Navajo Nation is the largest Indian reservation in the United States and, with 219,000 people, represents approximately 12 percent of the total Indian population. The mostly rural reservation spans across three states—Arizona, New Mexico and Utah. Nearly 58 percent of people on the Navajo reservation are below the poverty level, and the unemployment rate is 54 percent.

According to the FY2000 Indian Housing Plan for the Navajo Nation prepared by the Navajo Housing Authority, many Navajo families live with extended families in overcrowded conditions. A majority of families are unable to qualify for mortgage loans due to lack of credit, credit problems or lack of finances to make down payments. As a result, many Navajo families' only option for housing is to purchase a

mobile home. In some cases, families may be able to qualify for mortgages, but they are unable to obtain a homesite site lease or locate a lender to offer the financing.

The 1990 Census indicates that the Navajo population is young and growing steadily. Education levels and employment opportunities are improving, increasing the numbers of potential homeowners seeking mortgage financing. For this reason, in the mid-90s the Navajo Nation government began exploring how to help these families.

***Navajo Partnership for Housing, Inc.***

In 1995, officials from the Navajo Nation's Division of Economic Development and Division of Community Development invited the Neighborhood Reinvestment Corporation (NRC) to the Navajo Nation to investigate the feasibility of establishing a nonprofit housing entity to promote homeownership through mortgage lending on the reservation. After a lengthy organizing process involving numerous individuals from the financial institutions on or near the Navajo Nation, the Neighborhood Reinvestment Corporation, Federal and tribal officials and many local Navajo residents, the corporation was formed in mid-1996 and began operations in late 1996.

The Navajo Nation Divisions of Economic Development and Community Development served as the corporate organizers and initial funders of NPH. NRC provided capital and technical assistance throughout the organization's creation and helped NPH to become certified as a NeighborWorks Organization. In addition, the Bureau of Indian Affairs and other tribal officials were involved in its organization.

As its programs have evolved, NPH created partnerships with public and private sector players. For example, NPH works with the U.S. Department of Agriculture's Rural Development division and the Housing Assistance Council to prepare borrowers for its loan guarantee and grant programs. NPH has established similar relationships with HUD, private lenders and Fannie Mae.

BudgetNPH began in 1996 with an operating budget of \$270,000 and \$25,000 in capital resources for its revolving loan fund and housing development. For FY1998, NPH had an operating budget of \$624,000 with approximately \$450,000 in revolving loan and grant assistance funds. For FY1999 it had an operating budget of \$610,000 with \$375,000 in revolving loan and grant assistance funds. And, for FY2000, its operating budget is \$889,000; with \$702,508 in revolving loan and grant assistance funds; and planned capital projects of \$2,535,000.

NPH receives a large portion of its funding through HUD's Indian Housing Development Block Grant program (NAHASDA). It also receives capital and operating grants from the Neighborhood Reinvestment Corporation. Other sources of funding include the Navajo Nation, Housing Assistance Council, private lenders and

foundations, the Federal Home Loan Bank, HUD counseling funds through the New Mexico Mortgage Finance Authority and HUD SHOP funds through NRC.

Board of Directors NPH is governed by a 21-member board made up of one at-large, eleven resident, four government and five private sector categories. The current board are: President—Chavez John, Division of Community Development; Vice President—Loretta Nez, Navajo Department of Justice; Secretary—Jennifer Hatthlie, Norwest Bank; Treasurer—Jerry Spurlin, Gallup Federal Savings Bank; Grant Benally, Navajo Nation Chinle Agency; David Clark, Zions Bank; Cathy Coleman, First National Bank of Farmington; Alfred Dehiya, Navajo Land Department; Dale Dedrick, First American Credit Union; Dave DeVore, Community Member; Jeff Howle, Citizens Bank; Benjamin Jones, Division of Community Development; Ronald Maldonado, Navajo Historic Preservation Department; Benjamin Price, Community Member; Clarence Rockwell, Navajo Utah Commission; William Bruce Scott, Navajo Housing Authority; Walt Taylor, USDA—Rural Development; Johnny Thompson, Navajo Election Administration; Denise Sosie, Salt River Project; Mark Vanderlinden, Fannie Mae NM Partnership Office; and Bessie Yellowhair, community member.

Executive Director and Staff Navajo tribal member Richard Kontz has been the executive director of NPH since 1998. After serving 17 years in a number of financial analyst positions throughout the Navajo Nation government, he joined NPH because he had a desire to work in housing development, mortgage financing and the nonprofit environment. He has overseen a substantial increase in NPH's budget, has almost tripled the staff and has developed a broad expansion of its services.

NPH has thirteen staff members. In addition to the executive director, NPH currently employs a financial manager, project development manager, program services director, loan packager, five homebuyer training specialists, two construction specialists and an administrative assistant.

Services of NPH The Navajo Partnership for Housing has successfully helped Navajo families navigate through this burdensome mortgage lending process. It has also been an active advocate for reforms on the local and national levels to help streamline the mortgage lending process in Indian country. Specifically, NPH has identified barriers to homeownership and garnered local and national support to help overcome those barriers. It was due partly to NPH's leadership that President Clinton launched the One-Stop Mortgage Center Initiative to reform mortgage lending in Indian country. Other services NPH provides include:

- *Homebuyer Education* NPH developed a homebuyer education curriculum customized for the Navajo Nation called "Sheltering Our People." The program includes both pre- and post-purchase counseling in an effort to prepare Navajo

families for the opportunities and responsibilities of homeownership and to assist them in maintaining and retaining the home after closing.

- *Loan Services* NPH is working with all loan products available on the Navajo Nation, including HUD 184, Fannie Mae Conventional, Rural Development 502 Direct and Guaranteed, and the Navajo Nation Credit Services mortgage. To make these loan products more accessible for Navajo families, NPH offers secondary financing in the form of downpayment and closing cost assistance as well as principal reduction. Also, NPH is developing an interim construction loan pool to provide construction financing for approved mortgage loans. NPH has a HAC-funded loan packager to assist in packaging Rural Development loans and has signed a Loan Origination Agreement with a lender allowing NPH to originate residential mortgages in the name of the lender within the States of New Mexico and Arizona on the Navajo Nation.
- *Construction Services* Since there is little existing housing stock available for resale on the Navajo Nation, most families are interested in new construction on an individual homesite lease on scattered sites or in a subdivision development. NPH's construction specialists assist families in identifying floor plans and in the development of bid specifications for construction contracts. They also assist the client to bid out the construction contract and then help during the contract negotiations and construction management periods. Similar services are provided for owner-occupied renovation projects. NPH also provides technical assistance to Navajo contractors who want to get licensed to qualify for the preferred contractor list with the Navajo government.
- *Real Estate Development Services* NPH will serve as a project manager for any Navajo Nation Chapter (local government) or nonprofit entity that is planning, designing and/or developing housing and related community or economic development projects on the Navajo reservation. Also, NPH will begin acting as a "real estate broker" on land and home sales within the Navajo Nation. Along these lines, NPH has been attempting to facilitate the buying and selling of houses or vacant lots in order to get the real estate market moving to provide housing for some of its clients.

### ***Navajo Housing Authority Mortgage Concept***

NHA recently began an initiative to replace its mutual help program. This homeownership program will include four new mortgage products to meet the needs of the Navajo people and to establish a bridge to conventional financing. NHA's goal is to educate their residents to help them understand that owning home is an investment that will build equity in their lives. Currently, many Navajo families place a higher value in owning a vehicle rather than a home, due to the vast distances they

must travel for employment and other reasons. However, NHA is promoting the benefits of homeownership—especially equity financing through which families will have access to start-up capital for private business or college tuition and the ability to take advantage of the tax deductible mortgage interest.

An important component of the mortgage program is an Memorandum of Agreement between NHA and NPH. This agreement established a partnership through which potential homebuyers using NHA mortgage products will be referred to NPH for homebuyer education and loan packaging.

Another key feature of the program is the new NHA subdivision masterlease. Currently, a Navajo family can only build a home on a site lease in its home Chapter within the family's grazing area. The new masterlease standardizes title conveyance, transfer and encumbrance and includes subleases with a 50-year term. Not only does this allow a Navajo family from one Chapter to purchase a home in an NHA subdivision in another Chapter, it streamlined the tribal review process of a masterlease from thirteen reviewers to one tribal committee review.

The four mortgage products that NHA will offer include:

- *NHA Direct Home Loan*—This product will be designed to reach homebuyers with credit, debt ratio, or income issues and will serve as a bridge to mortgage financing. It involves a guarantee from NHA and a mortgage buy down using NAHASDA funds. NHA will work with the family on debt restructuring and post-purchase counseling until the family can re-finance into a traditional mortgage product.
- *Navajo Nation Community Homeownership Program*—This product will be designed to reach homebuyers with debt ratio or income issues. It requires a 24-month satisfactory credit performance in addition to a good faith effort to clearing old outstanding credit items on the credit report. It also includes a NHA guarantee and NAHASDA buy down.
- *Navajo Housing Authority Guarantee Initiative (Fannie Mae)*—This initiative allows a lender to offer a conventional loan to borrowers whose credit or cash for closing are not adequate under Fannie Mae's standard products. It allows the borrower's cash contribution to be as low as one percent of the sales price, for those whose income is at or below the U.S. median. NHA will provide a guarantee to Fannie Mae through a reserve account funded out of closing proceeds.
- *Navajo Nation Conventional Lending Initiative (Fannie Mae)*—This initiative allows lenders to offer a conventional loan similar to Fannie Mae's Community Home Buyer Program. There are no income limits for this program.

The NHA Direct and Community Homeownership loan products include a mortgage buy down to make homeownership affordable to as many Navajos as possible. The buy down is a NAHASDA-funded grant and will be structured as a soft second mortgage that will be forgiven over 10 years. In year ten, the entire balance of the buy down will represent equity to the homebuyer.

### ***Other Homeownership Developments on the Navajo Reservation***

Fort Defiance Housing CorporationThe Fort Defiance Housing Corporation recently broke ground for a new, 15-unit subdivision in Fort Defiance, AZ. This development is funded through NAHASDA and will offer homeownership opportunities for residents through lease-purchase agreements.

Kayenta TownshipThe Kayenta Township is a unique form of local government on the Navajo Nation. Unlike the traditional Chapter government structure, the township is more similar to a municipality. It has withdrawn land from the tribe under a master lease and established a local sales tax to serve as a source of revenue for governmental purposes. The Harvard Project on American Indian Economic Development recognized the Township this year through its program called *Bringing Contributions in the Governance of American Indian Nations*.

The Township recently broke ground for the first phase of a \$40 million, 230-unit NAHASDA and USDA-funded housing project. Sixty homes are slated for completion in October 2000. Residents of Kayenta, AZ will submit applications for the homes through lease-purchase agreements with the Township. The Navajo Partnership for Housing will be conducting education programs for these residents. In addition, the Kayenta Township is developing a \$1.9 million women's shelter and \$778,000 day care center.

Kerrigan EstatesThe Navajo Nation's Division of Economic Development is developing a 230-unit homeownership subdivision in Michaels, AZ. In May 2000, they will begin installing infrastructure. This project is on fee simple land and will also include an 86-unit apartment building. It is targeted to tribal members who work for the tribe in Window Rock, AZ—the Nation's capital.

### ***One-Stop Working Group***

#### Getting Organized

HUD's Office of Native American Programs and the Department of the Treasury kicked off the One-Stop Mortgage Center Initiative by convening a meeting in Window Rock, Arizona on November 18, 1998. Navajo officials, lenders and

representatives from Federal agencies participated in workshops to identify the barriers to mortgage lending on Indian reservations, and to develop recommendations and solutions to eliminating those barriers. A listing of barriers was organized into similar issues. This led to the identification of four “national” issues and the need to address “local/Navajo Nation” issues. At this Window Rock meeting, HUD and Treasury asked for volunteers to join both the national and local working groups to ensure that the task force developed a comprehensive listing of barriers and specific recommendations for increasing mortgage lending in Indian country.

The Navajo working group is chaired by Richard Kozlowski, Executive Director of the Navajo Partnership for Housing, Inc. (NPH) and Chester Carl, Executive Director of the Navajo Housing Authority (NHA). The group is comprised of representatives from several departments of the Navajo Nation government including the Office of the President and the Office of the Speaker of the Navajo Nation Council, lenders, Bureau of Indian Affairs, U.S. Department of Agriculture, Fannie Mae, Indian Health Services, Navajo Tribal Utilities Authority, New Mexico Mortgage Finance Authority, nonprofit developers and local Navajo governmental entities. The working group is facilitated by the HUD Community Builder from the Southwest Office of Native American Programs.

The group began meeting monthly to identify barriers to mortgage financing and homeownership for Navajo families. They developed the following goals:

- To streamline Navajo Nation and Federal Government review and approval processes for homesite leases, master leases, and mortgage loan documents;
- To promote comprehensive land-use planning and infrastructure development;
- To develop a comprehensive consumer guide about the mortgage lending process;
- To clarify Federal and Navajo Nation requirements for environmental and archeological clearances;
- To explore ways to expedite the process of obtaining clear title to real property; and
- To support the growth of private markets on the Navajo reservation.

In April 1999, Jackie Johnson, HUD Deputy Assistant Secretary of the Office of Native American Programs, and Michael Barr, Treasury Deputy Assistant Secretary of Community Development Policy, met with Edward Begay, Speaker of the Navajo Nation Council and Vice President Taylor McKenzie, M.D. to formalize the partnership between HUD, Treasury and the Navajo Nation.

In June 1999, the working group briefed several standing committees of the Navajo Nation Council on their findings. The committees passed a resolution endorsing working group’s efforts and directed the group to present specific recommendations to the appropriate committees of the Council. During the HUD ONAP Summit at the

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