**ONAC Online Native Homebuyer Informational Guide 2:**

**Understanding and Successfully Navigating the Homebuying Process**

The information and material advice offered in this session is presented solely by ONAC and provides a general outline of topics related to the home buying process. It is meant to complement – not take the place of – other more in-depth financial education programs, services, and homebuyer counseling programs including, but not limited to: ONAC Financial Coaching Services; Building Native Communities Financial Skills trainings and Investor Skills trainings; PathWays Together; HUD Certified Homebuyer Counselors (offered in conjunction with a Tribal Housing Authority, or TDHE, or other HUD Approved Housing Counseling Agency); or other HUD approved homebuyer counseling programs, such as NeighborWorks and Fannie Mae.

ONAC appreciates and gratefully acknowledges related online information offered publicly by HUD, HUD ONAP, NAHASDA, NeighborWorks, Fannie Mae, and CFPB, etc. Online available homebuyer program guidance from various public and private organizations served as sources of information for this guide and is cited in the three guides when used.

**The “If/Then” premise of the information in this guide: If a homebuyer:**

* Works with, or has contacted, a qualified homebuyer counselor to evaluate whether or not he or she is financially ready to purchase a home, and gain knowledge about the home buying process, learning: his or her “front-end” and “back-end, or Debt-to-income” financial ratios [Debt-to-income ratio for mortgage | Definition and examples (themortgagereports.com)](https://themortgagereports.com/13777/debt-to-income-for-mortgages-explained-in-plain-english#definition); his or her credit score; how much savings is needed for a down payment and other related costs; the types of home loans available and the qualifying factors he/she must satisfy to acquire each type of home loan;
* Has saved or lined up the funds needed for required down payments and closing costs (and/or has researched down payment assistance programs and the related qualifications required for any assistance that might help cover these costs);
* Has selected a realtor or has access to the realty expertise needed to negotiate a home purchase;
* Has chosen, or is ready to choose, a property to purchase;
* Knows how to compare available home loan products on selected lenders’ loan terms.
* Has an active savings account, or has recently opened an account, specifically for the purpose of accumulating the funds necessary to cover typical home and major systems maintenance and repair costs after purchase;

**Then the next step for the homebuyer will be to learn the conditions and steps that most borrowers with the above qualifications must take when purchasing a home. See** [**From here to homeowner: A roadmap to help you plan (consumerfinance.gov)**](https://files.consumerfinance.gov/f/documents/201612_cfpb_HomebuyersMilestoneMap.pdf)

When seeking a home loan, the type of home loan a buyer qualifies for and chooses to obtain can make a significant difference in how successful a buyer will be in upholding a loan agreement long-term and avoiding potential default and/or foreclosure. It would be advantageous for a buyer to work with a homebuyer counselor to help them choose the type of loan that is the best fit for the buyer’s home ownership goals and current and potential financial situation. A homebuyer counselor will also take the time to discuss known default or foreclosure avoidance options attached to each type of loan (see Guide 3 for more detailed information on avoiding default and foreclosure).

**The topics in this guide include:**

* Overview of various loan types:
* Information on selected financial and other requirements, and features of each loan type;
* Considerations for choosing a lender/servicer and the importance of choosing a loan and lender that matches the buyer’s financial situation and qualifications;
* The importance of making timely payments on the home loan;
* Preparing ahead for avoidance of loan default or the initiation of a foreclosure process

**Loan Types, Requirements and Features**

Buyers benefit in several ways from knowing the type of loan they would best qualify for and would best suit their financial situation. Also, a home loan often originates in one financial or mortgage institution and then is sold to a secondary market entity such as a Government Sponsored Enterprise (GSE) like Fannie Mae or Freddie Mac. After purchasing a home, you can check as to whether or not your loan has been sold to a secondary market GSE at: Fannie Mae [www.knowyouroptions.com/loanlookup](http://www.knowyouroptions.com/loanlookup), or Freddie Mac [www.freddiemac.com/mymortgage](http://www.freddiemac.com/mymortgage).

There are several different types of home loans on the market, including:

1) **CONVENTIONAL**: Conventional home loan requirements vary by lender. But most conventional home loans must meet basic guidelines set by Fannie Mae and Freddie Mac:

* A minimum credit score of 620
* A [debt-to-income ratio](https://themortgagereports.com/13777/debt-to-income-for-mortgages-explained-in-plain-english) lower than 43% (can be higher, depending on qualifying factors)
* A down payment of at least a 3%, but 20% or more is required to get the best loan terms

 *Also generally required:*

* Private Mortgage Insurance (PMI) must be purchased unless 20% or more downpayment
* Interest rates are determined by the amount of down payment and other key factors

“Conforming” conventional loan limits are $647,200 in most areas, but higher in some high-cost areas. The limits are reevaluated by the Federal Housing Finance Agency (FHFA) every year. [Conventional Loan Requirements and Rates for 2022 (themortgagereports.com)](https://themortgagereports.com/21489/how-to-buy-a-home-conventional-loan-mortgage-rates-guidelines#qualify). Loans larger than the conforming amount are considered “non-conforming” loans, such as Jumbo Loans, [Jumbo Loans: What You Need to Know - NerdWallet](https://www.nerdwallet.com/article/mortgages/jumbo-loans-what-you-need-to-know), which have higher underwriting criteria (downpayment, credit score, cash on hand, interest rates, fees, etc.) because the large loans are riskier for lenders

2) **FHA** [Loans | HUD.gov / U.S. Department of Housing and Urban Development (HUD)](https://www.hud.gov/buying/loans),

3) **USDA** (available to homebuyers buying in approved rural areas), [Single Family Housing Programs | Rural Development (usda.gov)](https://www.rd.usda.gov/programs-services/single-family-housing-programs)

4) **VA** (available only to veterans), [Eligibility Requirements For VA Home Loan Programs | Veterans Affairs](https://www.va.gov/housing-assistance/home-loans/eligibility/)

5) **SUBPRIME** (mostly high-cost loans offered to people with poor credit and low savings – at interest rates much higher than the prime rate. However, FHA home loans are sometimes considered subprime loans), [What Is a Subprime Mortgage, and Who Should Get One? - SmartAsset](https://smartasset.com/mortgage/what-is-a-subprime-mortgage), and [What is a subprime mortgage? | Consumer Financial Protection Bureau (consumerfinance.gov)](https://www.consumerfinance.gov/ask-cfpb/what-is-a-subprime-mortgage-en-110/) and [How to Get a Mortgage With Bad Credit | Money](https://money.com/how-to-get-a-mortgage-with-bad-credit/#:~:text=How%20to%20Get%20a%20Mortgage%20with%20Bad%20Credit,Ask%20Somebody%20to%20Co-Sign%20on%20the%20Loan%20). Unregulated use of subprime loans was a major cause of the financial recession of 2008-2010.

6) **GSE** loans: You will never directly apply for or get a GSE mortgage. If you get [preapproved](https://www.supermoney.com/how-long-is-a-mortgage-preapproval-good-for/) for a conforming conventional loan by a bank or other lender; you then find the house you want to buy and get a [mortgage commitment letter](https://www.supermoney.com/what-is-a-mortgage-commitment-letter/) from your lender; you sign all the home-purchase paperwork, your mortgage loan finalizes, and you close escrow. Then, behind the scenes, and likely without your knowing about it, your lender sells the loan to Fannie Mae or Freddie Mac (typically in exchange for mortgage-backed securities). You now have a GSE mortgage. Fannie Mae or Freddie Mac either retains possession of the loan or bundles it with other loans into a mortgage-backed security (MBS) and sells the MBS to selected investors.

7) **ARMs** (Adjusted Rate Mortgages – interest rates and payments fluctuate so that payments are low at first but then rise or dip as market interest rates raise or lower, on a pre-set schedule). Loan requirements vary by lender, but generally include good credit. [Adjustable-Rate Mortgage (ARM) Definition (investopedia.com)](https://www.investopedia.com/terms/a/arm.asp) and [How to Get a Mortgage With Bad Credit | Money](https://money.com/how-to-get-a-mortgage-with-bad-credit/#:~:text=How%20to%20Get%20a%20Mortgage%20with%20Bad%20Credit,Ask%20Somebody%20to%20Co-Sign%20on%20the%20Loan%20)

**There are also mortgage products designed specifically for Native homebuyers, including:**

**1) USDA’s Rural Development’s guaranteed Section 502 loan (the RD or RHS 502)** [**Rural Home Loans (Direct Program) Factsheet (usda.gov)**](https://www.rd.usda.gov/sites/default/files/fact-sheet/508_RD_FS_RHS_SFH502Direct.pdf#:~:text=502%20Direct%20Loan%20Program%2C%20this%20program%20assists%20low-,demonstrate%20a%20willingness%20and%20ability%20to%20repay%20debt.)**;**

**2) the HUD-guaranteed Section 184 Indian Home Loan Guarantee Program loan** [**Section 184 Indian Home Loan Guarantee Program | HUD.gov / U.S. Department of Housing and Urban Development (HUD)**](https://www.hud.gov/program_offices/public_indian_housing/ih/homeownership/184)**;**

**3) the FHA-Insured Section 248 Home Loan** [**Is There An FHA Loan For Homes On Tribal Land? - FHA News and Views (fhanewsblog.com)**](https://www.fhanewsblog.com/is-there-an-fha-loan-for-homes-on-tribal-land/)**; and**

**4) the VA Native American Direct Loan (NADL) for Native veterans** [**Native American Direct Loan | Veterans Affairs (va.gov)**](https://www.va.gov/housing-assistance/home-loans/loan-types/native-american-direct-loan/)**.**

The online sites listed above will provide information on buyer qualifications for each type of loan. HUD 184 loans are underutilized by Native buyers. Often 184 loans are thought to be useful only for Native people who want to own property on trust land – but the loans also work well for Native peoples who are buying, building, rehabbing, or refinancing homes in urban areas of states or the specific counties of some states (on fee simple property), that are approved by HUD for 184 loans – offered through HUD approved 184 lenders. See approved locations [184 Map July 2019.pdf (hud.gov)](https://www.hud.gov/sites/dfiles/PIH/documents/184%20Map%20July%202019.pdf#:~:text=Section%20184%20State%20Approvals%20-%20July%202019%20Full,ND%2C%20OK%2C%20OR%2C%20SC%2C%20SD%2C%20UT%2C%20WA%2C%20WI). Fee simple land is different from trust land in that it is limited only by zoning laws, deed or subdivision restrictions, and covenants. Fee simple is by far the most common form of land ownership in the U.S. Most single-family homes in the country fall under fee simple ownership.

Loan requirements and features are an important part of choosing any type of loan, and some research into available loans can save the homebuyer tens of thousands of dollars over the life of the loan. They are also important because the features of Subprime, ARM, and even some Conventional home loans can be offered in a predatory or unscrupulous way, so that when payments determined by loan agreements can’t be made in a timely manner the result can be that the homebuyer has to modify the loan or give up the property (and possibly face bankruptcy). That’s why taking the time to research and select a reputable lender is key to the homebuying process. Buyers are free to consider any loan that is legally offered; however, some lenders target certain buyers (especially first-time home buyers) for high-cost loans with payment structures that look to be low-cost in the beginning, but often become problematic in a long-term repayment situation. Additionally, lenders generally know early on in the loan process when a buyer’s financial situation makes him/her likely to eventually default on certain loan types. **See pages five and six in Guide 3 for the types of loans that are most likely to be sold in a predatory way.**

Realtors should not be the ones to determine which lender is chosen but can be helpful to the buyer in several ways. Realtors can provide a list of highly rated lenders in your area and recommend appraisers and home inspectors (both tasks are expected of homebuyers). This also makes choosing a good realtor important, see [How To Find A Real Estate Agent – Forbes Advisor](https://www.forbes.com/advisor/mortgages/real-estate/how-to-find-a-real-estate-agent/). It is recommended that homebuyers request and compare at least three quotes on a home loan, from three different lenders. [How To Choose A Mortgage Lender – Forbes Advisor](https://www.forbes.com/advisor/mortgages/how-to-choose-a-mortgage-lender/). Homebuyer counselors can also inform you of what is included in a good loan offer.

**Additional information on Section 184 Loan Qualifications and Requirements:**

* [Section\_184\_Approved\_Lenders.pdf (hud.gov)](https://www.hud.gov/sites/dfiles/PIH/documents/Section_184_Approved_Lenders.pdf)
* [Borrowers Section 184 Loan Resources - HUD | HUD.gov / U.S. Department of Housing and Urban Development (HUD)](https://www.hud.gov/program_offices/public_indian_housing/ih/homeownership/184/borrowers)
* [Dear Lender Letter Cherokee Expansion - signed.pdf (hud.gov)](https://www.hud.gov/sites/dfiles/PIH/documents/Dear%20Lender%20Letter%20Cherokee%20Expansion%20-%20signed.pdf) **for Cherokee Home Buyers in Certain Counties in Arkansas**
* [Section 184A Program | HUD.gov / U.S. Department of Housing and Urban Development (HUD)](https://www.hud.gov/program_offices/public_indian_housing/ih/codetalk/onap/program184a) **Home ownership, property rehabilitation, and new construction opportunities for eligible Native Hawaiian individuals and families wanting to own a home on Hawaiian homelands.**
* [Section 184 Indian Home Loan Guarantee Program | HUD.gov / U.S. Department of Housing and Urban Development (HUD)](https://www.hud.gov/program_offices/public_indian_housing/ih/homeownership/184)
* [184\_Map\_States\_and\_Counties.pdf (hud.gov)](https://www.hud.gov/sites/dfiles/PIH/documents/184_Map_States_and_Counties.pdf)
* [2022\_184\_Loan\_Limits.pdf (hud.gov)](https://www.hud.gov/sites/dfiles/PIH/documents/2022_184_Loan_Limits.pdf) = **Section 184 loan amount limits by HUD 184 approved states and counties as of 2022**
* [The scoop on HUD 184 loans - Potawatomi.org](https://www.potawatomi.org/blog/2020/08/10/the-scoop-on-hud-184-loans/) – **Great for learning more about specific 184 qualifications.**
* **General 184 information (private retail site with good information, but doesn’t specifically address Native American Down Payment Programs:** [Native American Down Payment Assistance Programs, Explained (listwithclever.com)](https://listwithclever.com/real-estate-blog/native-american-down-payment-assistance-programs/#:~:text=Native%20Americans%20looking%20to%20buy%20their%20first%20home,Find%20out%20more%20about%20this%20exclusive%20mortgage%20program.)
* **If you don’t qualify for, or desire, a conventional bank loan – or can’t find a bank in your area that offers 184 loans, these links will lead you to Native CDFIs and Native owned banks across the country – many that offer 184 loans nationally.**  [Home - Native CDFI](https://nativecdfi.org/#:~:text=Members%20of%20the%20Native%20CDFI%20Network%201%20Chi,Services%20%28NCFS%29%203%20People%E2%80%99s%20Partners%20for%20Community%20Development) and [Native American-Owned Banks by State (investopedia.com)](https://www.investopedia.com/native-american-owned-banks-by-state-5085713#:~:text=Native%20American-owned%20banks%20make%20up%20the%20smallest%20category,by%20African%20Americans%2C%20Asian%20Americans%2C%20or%20Hispanic%20Americans.)
* **Check with your tribe: many tribes offer Down Payment Assistance Programs (DAPs), most often for first-time homebuyers (example:** [**Homebuyer Assistance Program | The Otoe-Missouria Tribe (omtribe.org)**](https://www.omtribe.org/what-we-do/housing/homebuyer-assistance-program/)
* **Although not a formal 184 requirement, basic knowledge of the age of home (or prospective home) systems and major appliances and upkeep requirements is essential – including establishing a savings plan for repairs and replacements.**

**Building Avoidance of Default and Foreclosure into Homebuying Plans**

When buying a home, buyers may think they are on top of the loan selection process and consider themselves lucky to be offered the first loan offer they receive – but months or years later find that the same loan conditions that seemed so attractive at closing have begun working against them. They suddenly face higher payments than originally predicted, and struggle to make such high payments in a timely fashion. Buyers also rarely think that the home loan offer they accepted is too good to be true and might someday result in future payments that are impossible to afford. However, that has been the case for a great number of buyers over the past fifteen or so years. If a buyer can’t make timely home loan payments (for whatever reason), per a legal agreement with the lender, loss of the home becomes an all too real possibility.

The topics of loan delinquency, default, and foreclosure are addressed more fully in Guide Three, but it is worth a mention here that your homebuying process can help reveal the likelihood of default and foreclosure down the road. Planning ahead by knowing what type of loan mitigation is available for different types of loans, for situations where you might not be able to make your house payment for two or more months in a row can save a homebuyer from losing the home, or the equity in the home/property.

Researching and considering your homeownership emergency options for temporary or long-term emergency financial situations may eventually save your home, besides increasing your homebuyer savvy and peace of mind. For more information on what to do after home purchase, see Guide 3.