

**Executive Summary**  
**Pilot Program – SFHD Intermediary Housing Demonstration Program**  
**Native Community Development Financial Institutions – South Dakota**

**Purpose:** To expand RD’s reach into Native American lands in providing homeownership opportunities. This would be accomplished by reprogramming **\$1.6 million** in Section 502 Direct program funds that will be loaned to two Native Community Development Financial Institutions (NCDFIs). These institutions would relend the funds to eligible homebuyers to provide mortgages on South Dakota tribal trust lands, and would also service the homeownership loans after they are made. The NCDFIs have deep connections to the Native communities and it is anticipated they can reach potential homebuyers and then service the loans more effectively than RD could using its traditional methods of outreach, lending and servicing.

**Innovation:** In this pilot, RD will lend a lump sum (\$800,000) to each NCDFI. Each NCDFI will contribute 20% in matching funds to supplement the \$800,000 RD loan. The NCDFIs will in turn use these pooled funds to make individual homeownership loans.

The objective is to use the connections, reach, and servicing expertise that the NCDFIs have to expand the use of the 502 Direct Loan Program on Native American lands.

**Benefits to Native Homebuyers:** Individual loans will be made and serviced by local Native organizations with deep ties to the community. This should expand the amount of capital available for homeownership credit on Native American lands. Homebuyers must be eligible for the 502 Direct Program and will receive all benefits, including payment assistance and loss mitigation assistance, once the loan is made.

**Benefits to NCDFIs:** Low interest access to capital for relending for homeownership is provided.

**Benefits to RD:** Expansion of the use of 502 Direct Program funds on Native American lands. NCDFIs share in the risk of default through a 20% stake in each loan, which limits RHS loan-to-value exposure to 80%. RD will save time and money on individual loan packaging, loan review, and loan servicing since the NCDFI will conduct these activities.

**Success Measures:** This pilot program’s success will be measured by the number of loans made to homeowners on Native American lands, but more importantly how those loans perform in terms of staying current on payments and not defaulting. Assessments will be made at the 6-month, 1-year, 2-year, and 3-year marks to measure performance of the homeownership loans. The performance of the homeownership loans ultimately will dictate whether the pilot can be a model used elsewhere.

**Background:** The demonstration is authorized under the Housing Act of 1949, as amended. This proposal was developed in partnership with The South Dakota Native Homeownership Coalition to improve homeownership opportunities in Indian Country and is similar to the Intermediary Relending Program administered by RBS. The two non-profit NCDFIs are *Mazaska Owecaso Otipit Financial* and *Four Bands Community Funds*. Between the two

NCDFIs, a total of nine Native American tribes in South Dakota would have access to this demonstration.

**Overview:**

- The proposal was presented to USDA from the *South Dakota Native Homeownership Coalition* and is supported by South Dakota Senators – John Thune and Mike Rounds, and North Dakota Senators – Heidi Heitkamp and John Hoeven.
- The South Dakota State Office will provide oversight of the demonstration.
- The two borrowers are non-profit NCDFIs.
- Total amount of the demonstration is \$2 million, including both the RHS and NCDFI contributions.
  - \$800,000 loan from RHS to each NCDFI; 3 years to disburse funds (for homeownership loans) and begin repayment to RD; 1% interest rate
  - Combined loan amount \$1.6 million.
  - Each NCDFI will provide \$200,000 in matching funds (\$400,000 combined).
  - 3 years to disburse funds
  - NCDFIs will maintain a 6% reserve account
- Estimated number of loans in South Dakota resulting from demonstration: **20**
- Budget Authority (BA) is required and will reduce available funds for the general 502 Direct Loan Program.
- NCDFIs have “credit builder” and “homebuyer counseling” programs to help families prepare to be successful homeowners.
- NCDFIs will work with families on loss mitigation options.

**Ultimate Recipients:**

- Families and individuals that meet the eligibility requirements of the 502 Direct Loan Program.
- The 502 direct interest rate will apply.
- Payment subsidy will be available.
- Loans will be serviced by NCDFIs.