RURAL RESEARCH SYMPOSIUM

Understanding the State of Native American Homeownership

Freddie Mac

Access to Credit is key piece to homeownership

- Many housing discrimination papers omit the American Indian/Alaska Native (Native) borrower experience (Munnell 1996, Bartlett et al., 2019, Bhutta and Hizmo, 2020).
  - Lots of anecdotal evidence that Native borrowers have unique challenges to build homeownership (Kunesh 2018)
- Geographic identification in federal data sources is too coarse to living on-/off- federally recognized reservations/AIA areas (see CPS, PSID, SCF,…).
- Tribes, tribal advocates, tribal practitioners refer to this as “invisible gaps” (NCAI 2019).
- New variables in post-2017 HMDA data allow for a richer understanding of homeownership barriers:
  - Credit score at the time of application
  - Property interest in where the home sits
  - Type of manufactured home loan (home-only vs. mortgage)
  - Full range of interest rates/rate spread

Research Question(s)

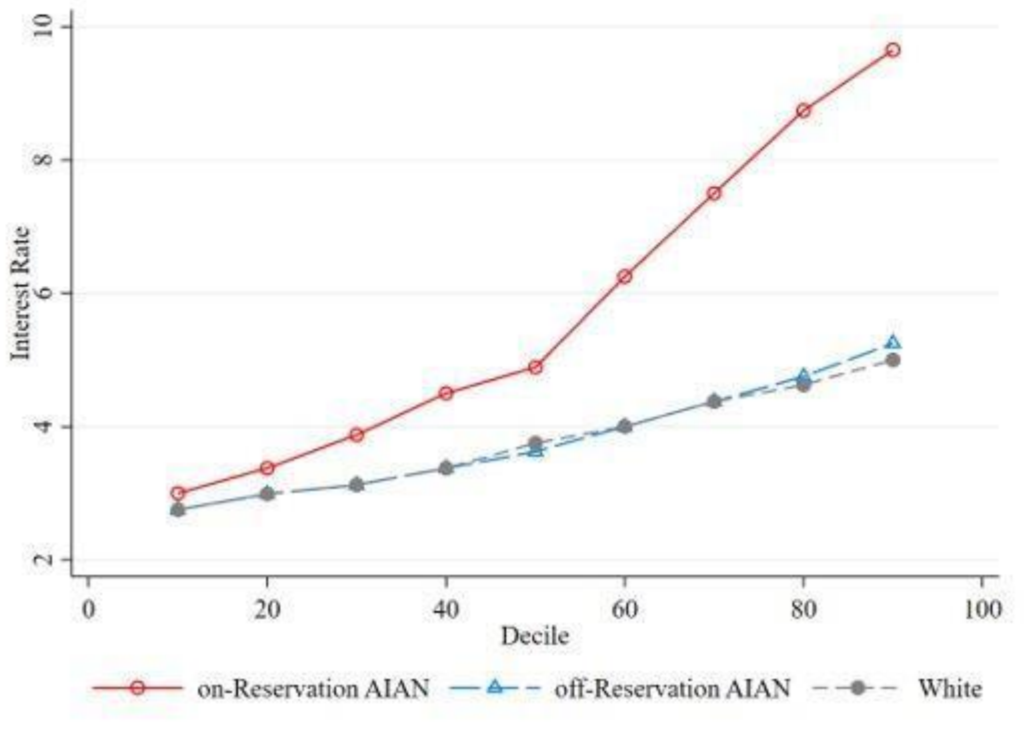
- Using loan-level HMDA data from 2018-2021, we ask:
  - What, if any, disparities exist in mortgage prices (interest rates and rate spread) between on-/off-reservation AIAN and White borrowers for newly originated loans.
  - If disparities exist, what factors best explain higher priced loans for homeownership.
  - To what extent can observed differences in home loan prices be attributed to differences in property right regimes?

- There are unique features of U.S. institutions that allows us to answer these questions:
  - The Community Reinvestment Act (CRA) and Dodd Frank Act
  - Due to policies from 1880s-1930s, reservations include fee simple parcels.

- Main contributions
  - The use of previously unavailable controls
  - One of the few empirical lending papers that focus on Native borrowers (Cattaneo and Feir 2021, Laderman and Reid 2010, Cyree et al. 2004).

Overview of Main Findings

- Clear disparity in interest rates b/w ‘On-Reservation’ AIAN borrowers & White borrowers – even when well-qualified
- Higher use of ‘home-only’ loans explains >90% of this on-reservation spread – but borrowers rarely go in wanting this kind of loan (see TX MH survey)
- Highly qualified borrowers not being serviced by the traditional system (for example, we find racial disparities in mortgage denial rates in HMDA)
- Property interest in the land the home sits on **cannot fully explain or predict this reliance on home-only loans.**



- 2018-2021 confidential Home Mortgage Disclosure Act (HMDA) loan-level data covering 88% of all home loan originations.
- Data leave out NCDFIs, tribally owned banks, pilot programs such as USDA Section 502 direct lending.
- Contains "reportable" HMDA loans -- mainly from major mortgage companies & manufactured home specialty lenders

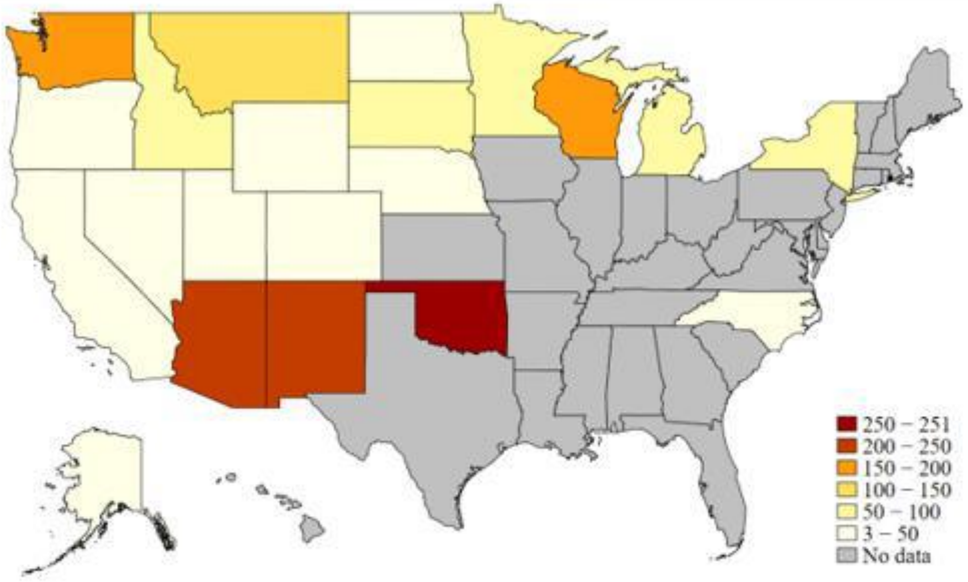


Figure A1: **Concentration of Approved Loans in Indian Country**

Notes: This figure maps the number of on-reservation AIAN approved loans by state. Data from the 2018–2021 confidential HMDA.

Summary Statistics (mean and standard deviation in parathesis)

	On-Reservation AIAN	Off-Reservation AIAN	White
Rate spread	2.572 (2.574)	0.793 (1.197)	0.529 (1.716)
Interest Rate	5.381 (2.410)	3.906 (1.281)	3.815 (0.984)
Credit score	688.630 (62.325)	713.406 (58.226)	737.360 (54.951)
Loan amount (in $000s)	160.563 (1378.255)	270.582 (177.513)	329.095 (273.800)
Debt-to-income (%)	35.673 (10.058)	38.026 (9.672)	37.263 (9.953)
Income (in $000s)	112.686 (1378.255)	118.292 (1718.010)	154.369 (3426.955)
Manufactured Home (share)	0.389 (0.235)	0.069 (0.254)	0.033 (0.180)
Home-only Loans (share)	0.377 (0.473)	0.032 (0.177)	0.010 (0.099)
Observations	1,675	69,546	4,544,490

Is their equitable lending in home loan markets?

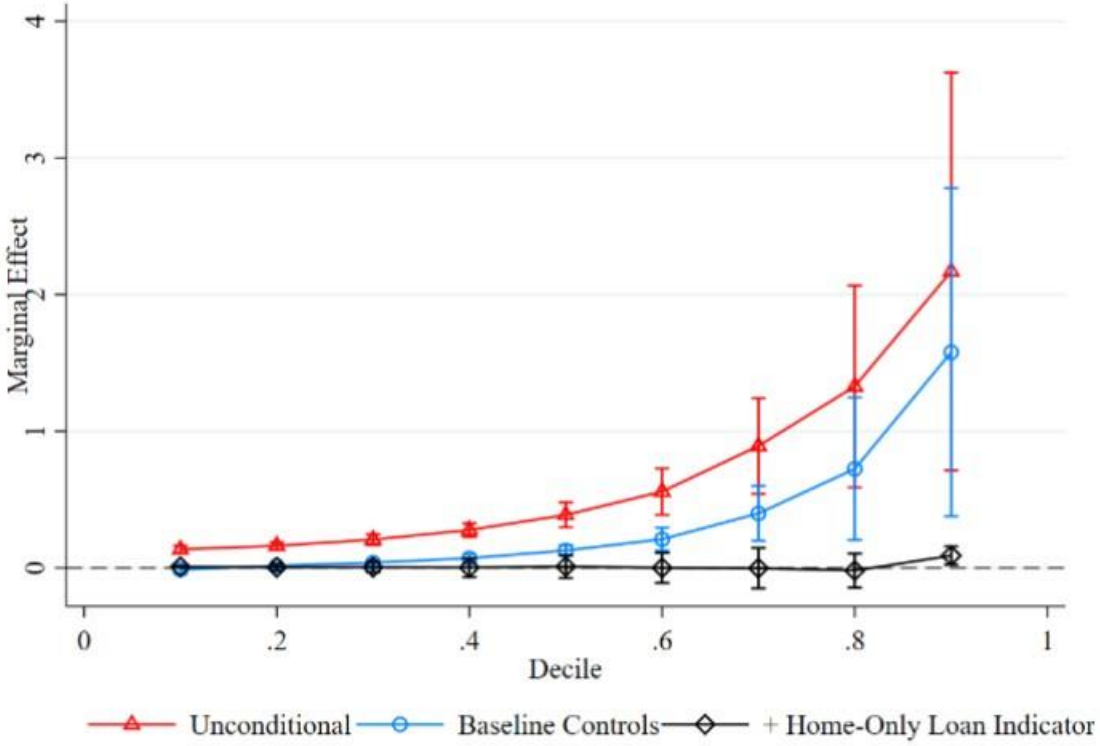
$$y_{ist} = \beta_1 \text{on-AIAN}_{ist} + \beta_2 \text{off-AIAN}_{ist} + \mathbf{x}_{ist}\psi + \alpha_s + \tau_t + \epsilon_{ist} \qquad (1)$$

- Equation used to address the following question: after accounting for observed differences in risk factors and loan characteristics, do (on/off-reservation) AIAN borrowers pay more for home loans than comparable Whites?
- Y = interest rate or rate spread for borrower I in state s in year t
- X = baseline controls (loan amount and its square, income and its square, property value and its square, age, gender, coborrower status, FHA/VA/USDA indicators, credit score bins)
  - Robustness checks: add DTI, credit score-LTV bins, etc..
- α = compare AIAN and White borrowers within the same state.
- τ = control for year-to-year national changes in home loan markets.
- β>0: racial disparity in loan prices

The Role of Home-Only Loans on Rate Spread Disparities

	(1)	(2)	(3)	(4)	(5)	(6)
On-reservation AIAN	1.967 (0.434)	1.681 (0.405)	0.183 (0.061)	0.152 (0.052)	0.402 (0.105)	0.341 (0.101)
Off-reservation AIAN	0.231 (0.042)	0.077 (0.036)	-0.005 (0.016)	-0.015 (0.014)	0.018 (0.023)	0.011 (0.021)
Home-only loan			4.041 (0.051)	5.077 (0.131)		
Property interest (1=owned, 0=leased)					-3.946 (0.067)	-3.305 (0.071)
Manufactured home (1=MH, 0=stick-built)						0.671 (0.037)
Observations	4462087	4462087	4462087	4462087	4462087	4462087
Baseline Controls	No	Yes	Yes	Yes	Yes	Yes
Home-only Interactions	No	No	No	Yes	No	No

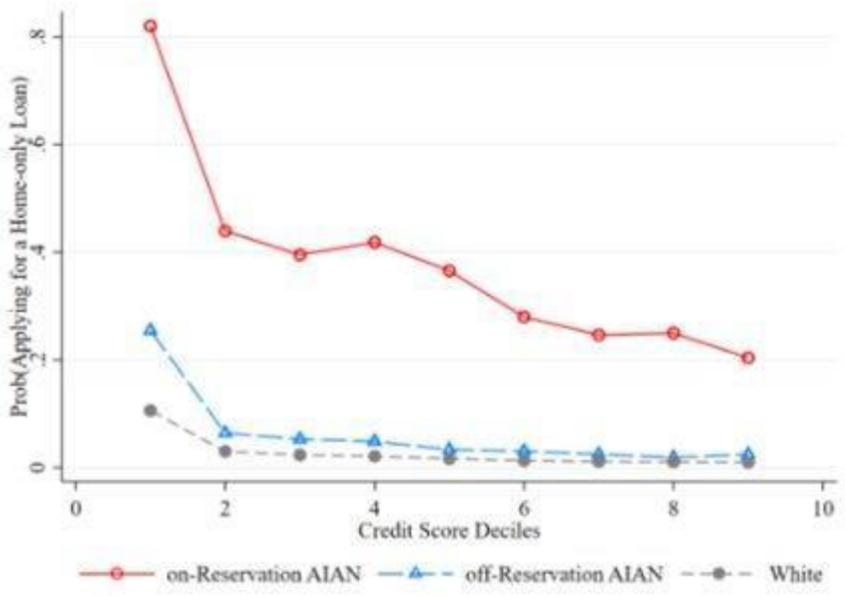
Quantile Regression Results



(a) Rate Spread Gaps for on-Reservation AIAN Borrowers

Why are Home-only Loans Relied on So Heavily?

- We find:
  - Loan application times diverge but not by an amount expected to price such an over-reliance
  - Distance to MH dealership, racial differences in “trust in banks” by state (Collaborative Multiracial Post-Election Survey of 2020, oversample of AIAN), bank density do not explain racial gap.
  - Consistent with earlier results, difference sin credit scores, property interest do not fully capture the over-reliance
  - Disparities in mortgage denial rates (AIAN are more likely to be denied, all else constant) yet no disparities in home-only denials.
- Other Factors Driving AIAN borrowers to home-only loans (what we cannot observe in the data):
  - Financial & housing market literacy (unobserved)
  - High construction costs on many reservations (unobserved)
  - Slow speeds to perfect mortgages on trust land (unobserved)
  - Other factors..



(a) All loan applications

Missing Pieces – The Need for More Data

- In sum, we find large disparities in home loan prices, especially among on-reservation AIAN borrowers.
  - Higher prices for on-reservation AIAN home loans largely driven by heavy reliance on home-only loans.
  - Standardized explanations for over-reliance on home-only loans appear elusive.

- <u>Recommendations:</u>
  - Replicate the Freddie Mac/UNC Texas manufactured home journey survey but for on-reservation MH borrowers
  - More data on bottlenecks in mortgaging on reservations:
    - BIA processing speeds
    - More data on construction costs, contracting shortages in Native communities,

For full report, go to Center of Indian Country Development’s website

https://www.minneapolisfed.org/indiacountry/working-papers


The Unequal Costs of Native American Homeownership

ONAC White Paper Overview

- The Oklahoma Native Assets Coalition, Inc. (ONAC) is a nationally-serving Native-led nonprofit with a twenty-two-year history of providing asset-building programs in Native communities.
- While keeping ONAC's name, ONAC serves in a national capacity.
- As part of its programming, ONAC has administered a down payment assistance (DPA) program since November 2021.
- In accordance with the Fair Housing Act, the ONAC DPA program serves Native and non-Native borrowers.
- Since November 2021, ONAC has provided DPA to 82 homebuyers.
- Of those 82 homebuyers, 69.5% are enrolled citizens of 13 Native Nations.
- 5 other homebuyers (not included in the 69.5%) noted they were either in the process of enrolling with their tribe or were American Indian but not enrolled members of a federally recognized tribe.

Purpose of ONAC Down Payment Assistance White Paper

- This paper addresses the state of the national Native asset-building field and the related realities faced by a snapshot of American Indian homebuyers, their lenders, and partners helping them with DPA.
- In this white paper, ONAC shares its non-identifying programmatic data.
- ONAC has found that this Native data is missing from the national conversations about urban and rural Native homebuyers, the loan products available to them, and which partners in the Native asset-building field are working with Native homebuyers during their home purchase experience.
- This data will inform policies related to the needs of Native homebuyers, the diverse array of lenders serving them, and the Native Nations and Native-led nonprofits working to increase Native homeownership in the U.S.

ONAC’s Integrated Asset-Building Programming

- National free financial coaching to any AIAN in the U.S., regardless of where they reside in the country (since June 2020, 808 registrants from 147 Native Nations and 40 states).
- Seed-funding for Children’s Savings Accounts, emergency savings accounts, cash assistance, incentives for Bank On accounts, homebuyer education and down payment assistance, Native-specific financial education.
- Builds capacity of tribes and other Native-led nonprofits: training and technical assistance, intermediary grant funding (85 grants to tribes and Native-led nonprofits since 2014).
- Administers two national Native networks: the only Native EITC/VITA Network and the national Native Bank On Coalition to promote banking access.
- Conducts national Native asset-building research.
- ONAC plans to launch a revolving loan fund.

ONAC's DPA Program

- February 2021, ONAC executed an agreement with the FHLB Topeka after ONAC was awarded $750,000 in Affordable Housing Program (AHP) subsidies by the FHLB Topeka.
- $5,000 in DPA per homebuyer.
- 80% or below AMI for the county in which they intend to purchase and FHLB special population criteria.
- To date, applications from 171 applicants.
- ONAC offered financial coaching to all the participants in the DPA program.
- Of the 82 participants, ONAC received subsidy reimbursements for 60 homebuyers by the FHLB. ONAC funded the other 22 homebuyers with DPA from other sources of funding ONAC secured.
- ONAC committed to provide at least 63 units of DPA in the FHLB Topeka footprint of Oklahoma, Kansas, Nebraska, and Colorado. Thus, to date, ONAC DPA has been funded in Oklahoma and Kansas.
- All of the ONAC DPA clients have purchased homes on fee simple land.

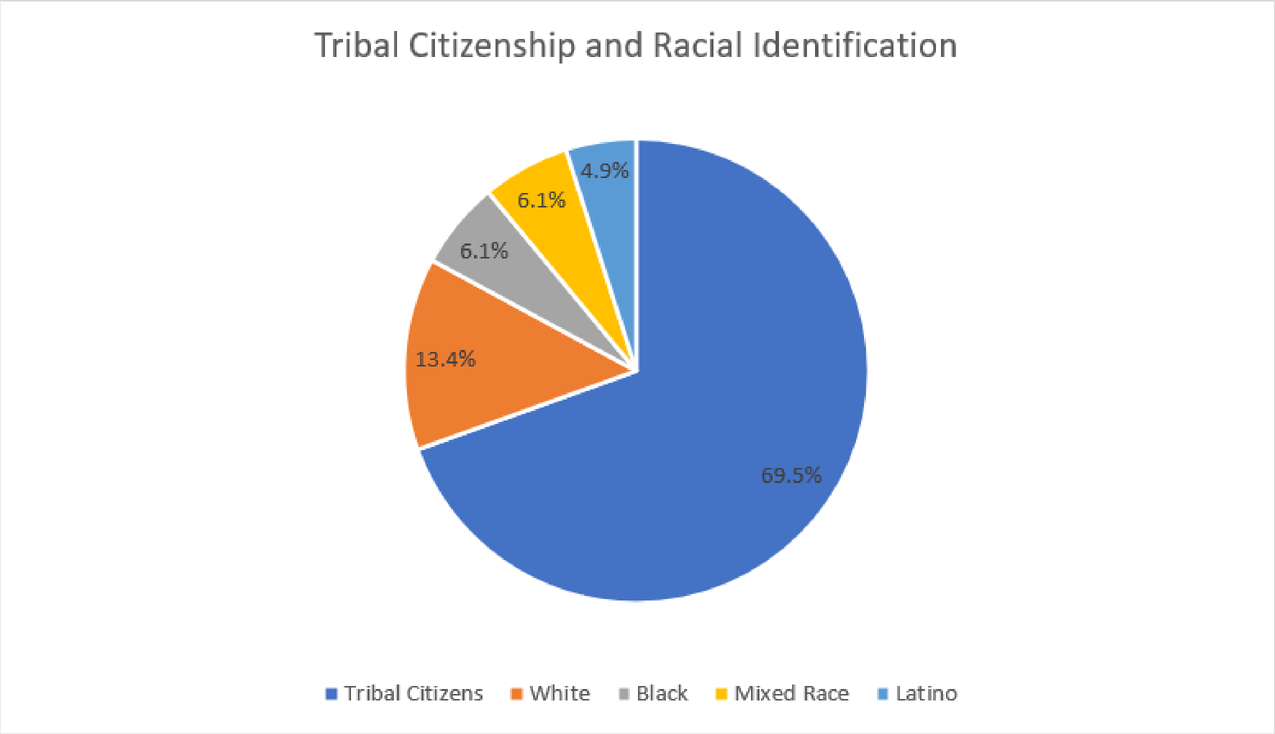
ONAC’s DPA Program

Of the 171 applicants,* here are reasons they did not all proceed:

- 22 were found to be over the FHLB income limits
- 12 did not fully complete the application process
- 53 found to be income eligible but did not move forward due to a variety of factors:
  - An appraisal coming in too low and the seller not willing to drop the purchase price or the client not having out-of-pocket money to close the deal
  - The costs of repairs being too high and the seller not willing to fix issues when an issue was found during the inspection process
  - An issue emerging during the underwriting process that led to a purchase denial by the lender (such as uncovering additional household income)
  - A TDHE, that is filing a 2nd mortgage, finding the debt-to-income ratio to be too high and pulling back their funding, which, in turn, led the lender to not proceed with the loan
  - The prospective buyer changing their mind about the home purchase
  - Early on, some applied to ONAC prior to having a contract on a home and then were unable to secure a contract. ONAC adjusted the program and then only accepted applications from those under contract.

*ONAC is determining income on two of the 171 applicants (they recently applied)

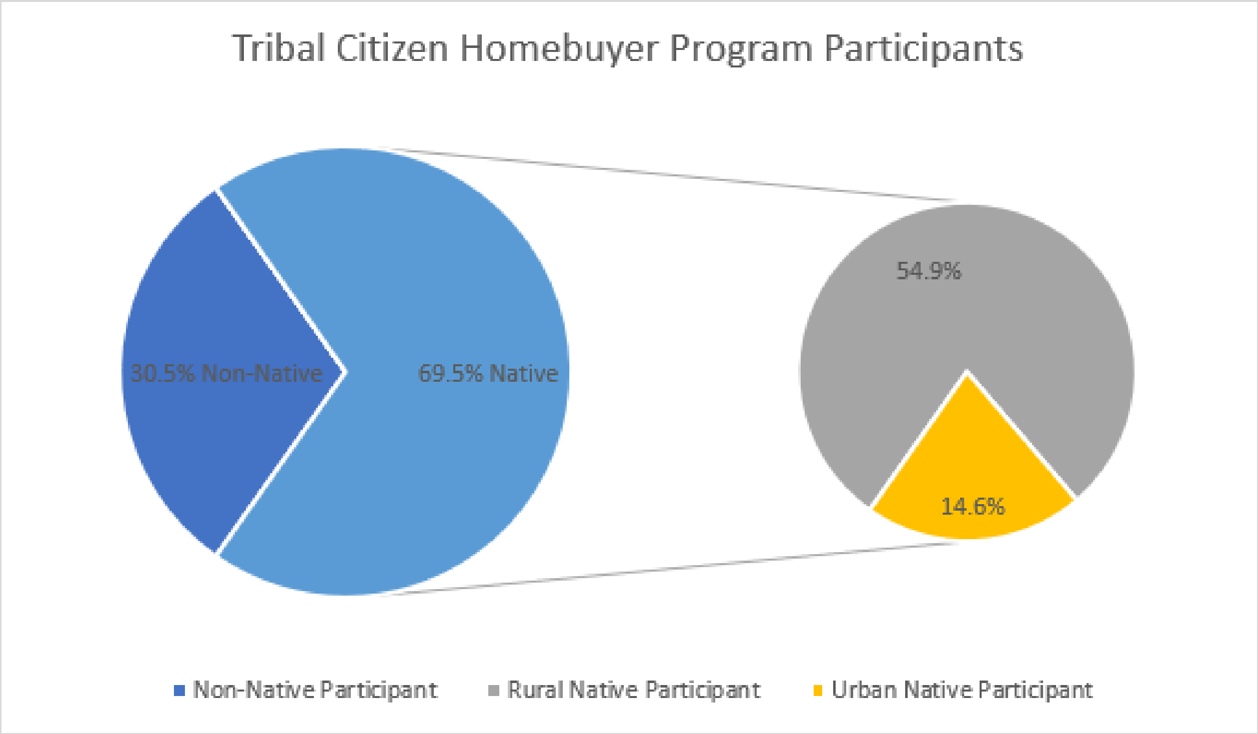
Tribal Citizenship and Racial Identification



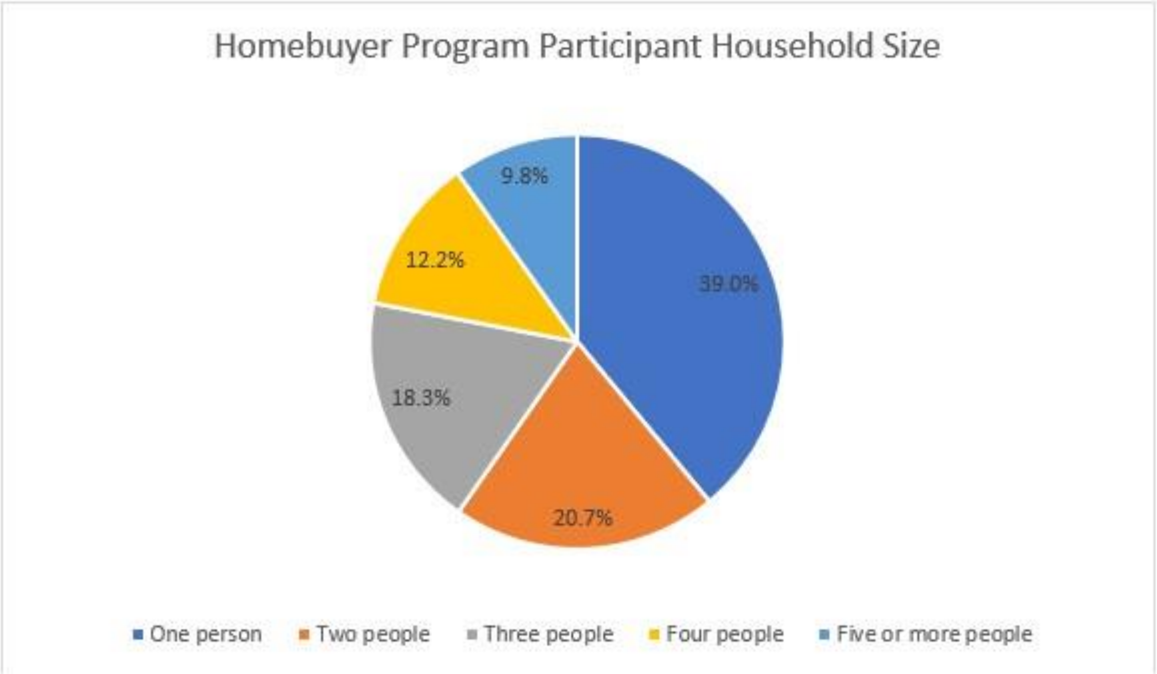
- 69.5% (57) enrolled tribal citizens (political identity)
- 13.4% (11) White
- 6.1% (5) Black
- 4.9% (4) Latino
- 6.1% (5) Mixed-race

Native Urban and Rural Participants

- Rural = 49,999 or less persons
- Urban = 50,000 or more persons

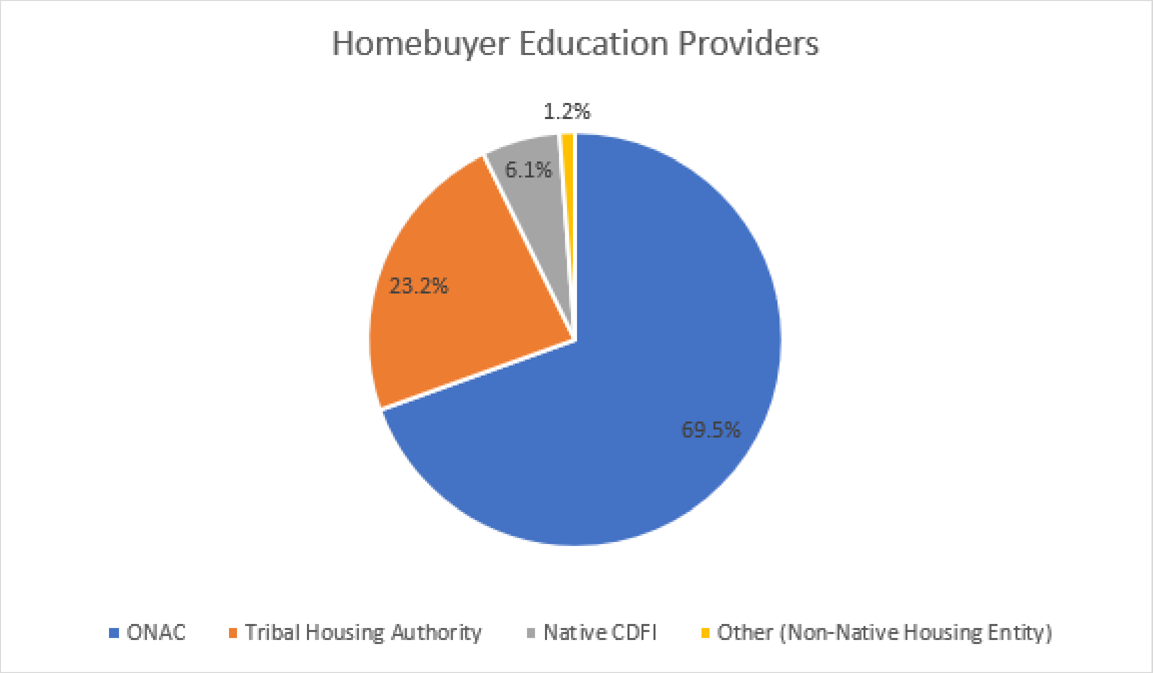


Household Size and Average Homebuyer Income

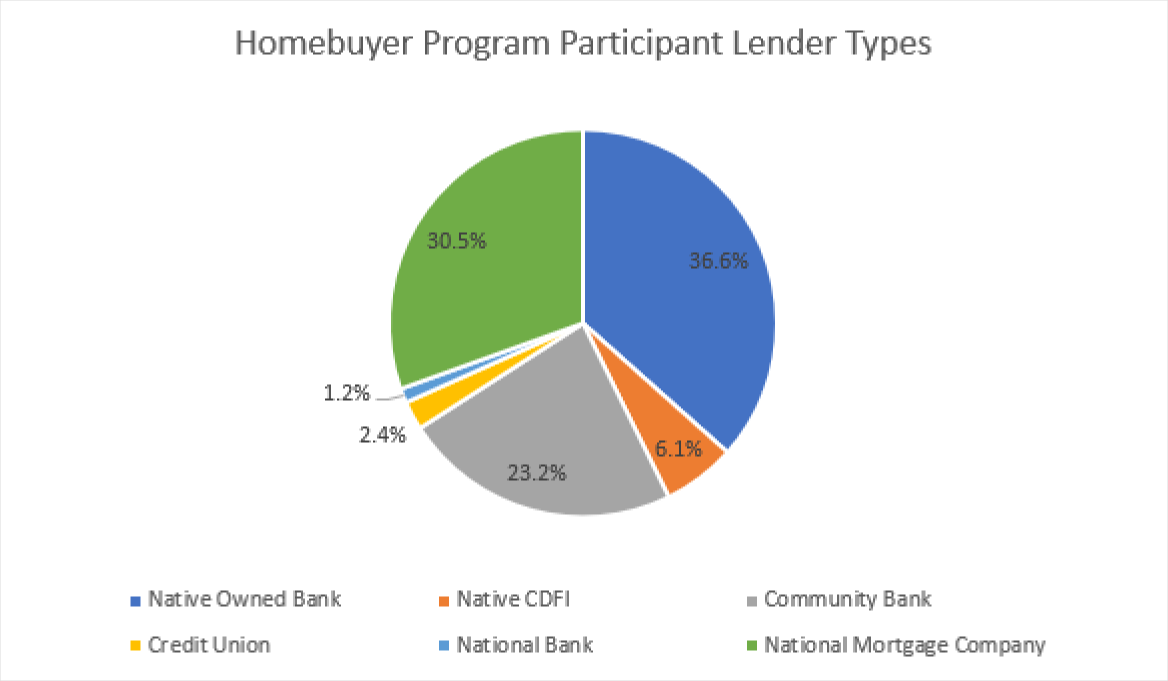


- Of 82 homebuyers, 39% were single individuals
- Likely, as those who were single were able to meet the FHLB income requirements more easily than a household with more individuals (as FHLB counts all household income for those ages 18 and older)
- Average homebuyer income = $47,148

- ONAC requires DPA participants complete homebuyer education.
- Of the 82 participants, ONAC worked with 69.5% to satisfy this requirement. ONAC also offered financial coaching and other wrap-around asset-building services.
- ONAC accepted completed homebuyer education offered by the following:
  - Tribally Designated Entities (housing authorities), 23.2%
  - One Native CDFI, 6.1%
  - Non-Native housing entity, 1.2%

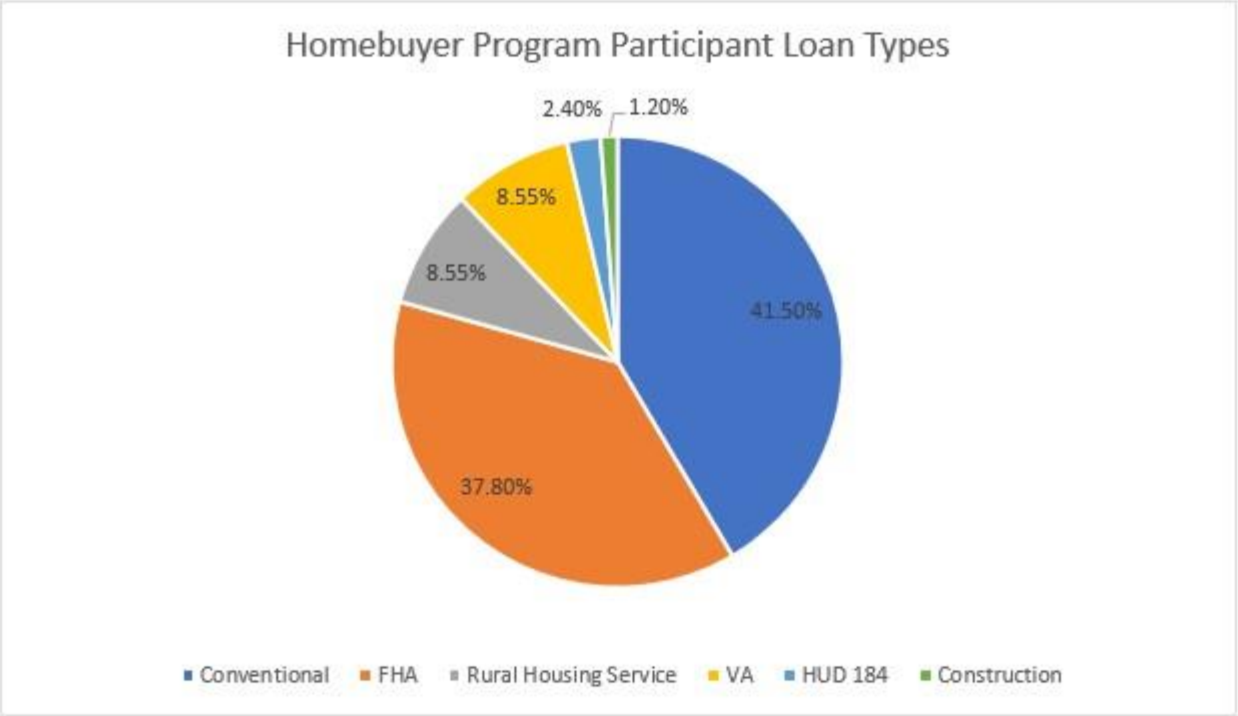


Lender Types



- To date, in the DPA program, ONAC has worked with 26 lenders.
- ONAC has no say in which lender the participants have selected. The 82 clients received loans from:
  - 2 tribally-owned banks (23 loans from one bank and 7 from another)
  - 10 national mortgage companies (25 loans)
  - 10 community banks (19 loans)
  - 1 Native CDFI (5 loans and 2 subordinate loans for clients with primary financing by other lenders)
  - 2 credit unions (2 loans)
  - 1 national bank (1 loan)

Loan Products



- ONAC was not involved in the selection of loan products per participant.
- Based upon the closing disclosures, 82 participants had the following loan products:
  - 34 had conventional loans (loans not guaranteed by the government and may be held in-house by the lender or sold on the secondary market) (41.5%)
  - 31 had Federal Housing Administration (FHA) loans (37.8%)
  - 7 had US Department of Agriculture Rural Housing Service (RHS) loans (8.55%)
  - 7 had Veteran's Administration (VA) loans (8.55%)
  - 2 had HUD Section 184 Indian Home Loan Guarantee Program loans (2.4%)
  - 1 had a construction loan (1.2%)

Why are Native participants in the ONAC DPA program not frequently receiving Native-specific loan products?

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Several Reasons Native DPA Clients Not Using Native-Specific Loan Products

- Some of the urban Native borrowers are not purchasing homes on federal trust lands or in tribal areas and thus do not quality for some of the Native loan products.
- Others have a lender that does not offer such Native-specific loans such as a HUD 184 loan.
- Others, given their income, credit score, the proposed interest rates on loan products, and the amount saved for a down payment, find conventional loan products to better meet their home purchase needs.
- Participants: 2 HUD 184 loans. To date, no USDA Rural Development Section 502 Direct Loan Program, Freddie Mac HeritageOne, or a Native American Direct Loan (NADL).
- Related to NADL, four of the 38 federally recognized tribes in OK have a NADL MOU with the VA that would allow tribal citizens of those four tribes to access a NADL loan on federal trust land (The Muscogee Nation, Osage Nation, Ponca Tribe of Indians of Oklahoma, and The Great Seminole Nation of Oklahoma). In KS, one tribe has a signed NADL MOU (Prairie Band Potawatomi Nation).
- ONAC promotes that clients are informed about various loan products available to them and work with their lender to choose a product that makes the most financial sense for them as they purchase a home.

ONAC DPA Client Average Sale Price: $138,400

Participant Average Interest Rate (Nov. 2021 to Oct. 2023): 5.587%

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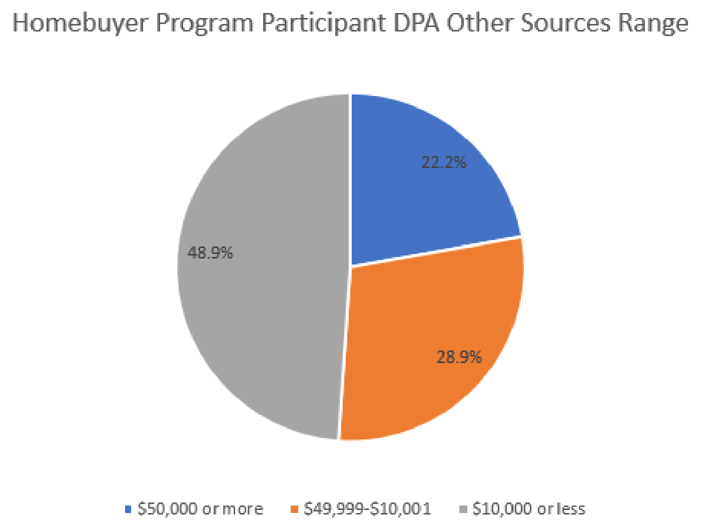
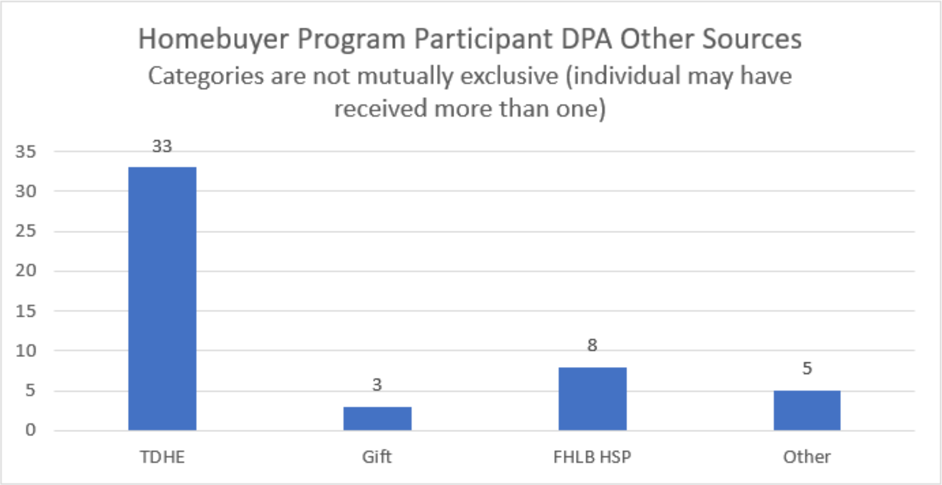
Layering DPA and Other Support Helps Low-Income Families Achieve Homeownership





Of the 82 participants to date, 45 participants received other funding that was layered with the ONAC DPA funding (some received assistance from more than one source). Their assistance included:

33 received DPA grants from one of six TDHEs or other tribal DPA programs ($1,705.99 to $50,000 per homebuyer)

3 received monetary gifts, including gifts of equity ($2,000-$32,762)

8 participants received from $6,000-$7,500 in forgivable grant funding from the FHLB Topeka Homeownership Set-aside Program (HSP)

2 received funding from a non-Native-led nonprofit in Tulsa ($10,000 each)

1 lender provided 1 participant with $3,000 in non-repayable housing grant funds

1 received assistance from the Oklahoma Housing Finance Agency ($7,875)

1 received assistance from their employer ($500)

- Regarding barriers, DPA applicants earning more than 80% AMI and not meeting FHLB income regulations are denied.
- Veterans who are still working and who receive disability payments are over income for program.
- Some applicants, given the increase in interest rates and home prices, are unable to secure a contract and purchase a home.
- Funder regulations about income, special populations, age of home, location of home outside of tribal areas, etc. can reduce the numbers of Native families served.
- Others experienced issues during inspection and underwriting that they did not overcome.
- Environmental reviews for TDHEs (using NAHASDA funding for DPA) can take up to four months to complete on raw land. Delays can lead to higher interest rates.

- Successes: Layering ONAC DPA with other sources of funding
- ONAC's raising of various sources of funding for DPA helps ONAC serve more Native families
- As title companies, lenders, housing programs, etc. work more frequently with ONAC, the program runs more efficiently
- ONAC's acceptance of homebuyer education (provided by partners) helps homebuyers to not duplicate education or slow their purchase process
- ONAC's relationships with financial institutions, title companies, tribal programs, housing authorities, other nonprofits, and CDFIs are instrumental to program outreach and participant success
- DPA clients have been offered ONAC integrated asset-building program opportunities: CSAs, ESAs, free tax preparation from partners, banking access resources and Bank On incentives, credit building resources, and continued financial coaching

- Success: Program policies about minimal to no cash back ensures DPA is used to help grow the net worth of homebuyers. Depending upon funding source, the DPA may be used for down payment and closing costs (including interest rate buydown) and principal reduction instead of cash back.

- Thus far, tribally-owned banks and national mortgage companies are the two types of lenders that ONAC DPA clients have most frequently chosen as their lenders. These two types of lenders have most effectively been helping Native families purchase homes. ONAC also appreciates the work of the other lenders assisting the program.

Suggestions for Support of Native Homeownership

Based on ONAC's DPA experience to date, ONAC recommends the following five suggestions for increased Native homeownership.

1. For funders supporting DPA, increase the income limits over 80% AMI per household to at least 120%. If increased tribal homeownership rates are a goal, and there is a desire to rectify the impacts of Native asset-stripping, consider no DPA income limits.

Suggestions for Support of Native Homeownership

2. Tribal citizens live in urban and rural areas throughout the U.S. Help them all to access loan products (Native-specific, conventional, etc.) that meet their financial needs and their ability to purchase homes wherever they wish to live, regardless if they are residing on trust lands, in a city, or in a state with fewer tribal citizens and no reservations. While still addressing barriers to homeownership for tribal citizens residing on trust and restricted land, with 87% of AIAN residing outside of tribal statistical areas (2020 Census), we must address the myth that Native homebuyers are only purchasing homes on reservations or trust lands.

Suggestions for Support of Native Homeownership

3. Suggest that philanthropic and federal partners all increase support of Native DPA programs. Provide flexible funding for DPA and support the DPA layering approach in the Native asset-building field. Help those in the field that are providing DPA to provide as much DPA as possible to assist with down payment and closing costs (including interest rate buydown) and principal reduction.

Suggestions for Support of Native Homeownership

4. Philanthropic and federal programs provide support to **all** the entities in the Native asset-building ecosystem (all the nonprofits that are not CDFIs, TDHEs, Native CDFIs, and tribal government programs) so they can all provide the wrap-around development services necessary to help prepare Native families for homeownership. To address the misnomer that the majority of Native DPA programs are administered by Native CDFIs, and that CDFIs, other lenders, and state housing finance agencies may be the only entities suggested to access federal funding to administer DPA funding, **there must also** be financial support for all the TDHEs, other tribal programs, and the nonprofits that are not CDFIs (such as ONAC and others) that are already providing DPA with an impressive track record of doing so.

Suggestions for Support of Native Homeownership

5. Acknowledge the more invisible lenders working in this space, such as tribally-owned banks and national mortgage companies and strive to include them in conversations about increasing Native homeownership.

White Paper Available

- ONAC authored this paper to contribute micro-level data to the national Native homeownership conversation.
- Working together, those in the Native asset-building ecosystem can continue to increase Native homeownership rates in the U.S.
- As of today, the white paper is available at: www.oknativeassets.org, under the Our Work section, ONAC publications.

Oklahoma Native Assets Coalition

ONAC

CREATING AND SHARING STRATEGIES FOR ASSET BUILDING IN NATIVE COMMUNITIES

RURAL RESEARCH SYMPOSIUM

Thank You

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