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Oweesta

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Native CDFI
Capital Access Convening

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Evidence on Higher Cost of Home Loans for Native Americans

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The Question

Do Native Americans face a higher cost of financing than other populations?

These views are my own and do not necessarily reflect those of the Federal Reserve Bank of Minneapolis or those of the Federal Reserve System.
Our Method

• We answer this question with regards to home loans

• We will look at populations classified as American Indian, Alaska Native, and Native Hawaiian [Native Americans]

• We look at geography (reservation vs. nearby lands, Alaska, and Hawaii) and time

• We also explore factors associated with higher cost of financing (income, manufactured homes, and loan programs)
The Data

- Home Mortgage Disclosure Act (HMDA) data

- “High Cost Loan” = Interest rate 1.5 percentage points greater than a market average

- Cost Measures:
  1. “Risk Rate Spread” = Interest rate percentage points above 1.5 percentage points higher than the market average
  2. Proportion of loans that are high cost loans

- Offers a consistent measure of “risk rate spread” from 2009-2017
High level findings

• Interest rates are significantly higher for Native Americans

• A significant part of this is attributable to observable factors

• Some programs likely lowering the cost of home loans (e.g., HUD 184)
Native Americans Face Highest Cost of Home Loans

Notes: Figure shows average mean rate spread if loan has a spread greater or equal to 1.5
High Cost of Home Loans on Reservation Lands

Notes: Figure shows average mean rate spread if loan has a spread greater or equal to 1.5
Notes: Figure shows the proportion of total loans that have a mean rate spread greater than or equal to a value of 1.5.
Higher Cost Due to Manufactured Home Market Structure?

![Graph showing the ratio of loan for manufactured homes to total homes over years.](image)

**Notes:** Figure shows the ratio of loan for manufactured homes to total homes.
Can We “Explain” the Higher Cost of Home Loans?

Notes: Figure shows the adjusted difference between others on nearby tracts, AIAN on nearby tracts, AIAN on reservation tracts, and others on reservation tracts
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A Lower Probability of Having a “High Cost Loan”?

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Summary

• Native Americans on reservations face higher interest rates on home loans
  – almost 1.5 percentage points more for “high cost” loans

• Interest rates on reservations are not falling with the market

• Nearly 40 percent of the higher interest rate is attributable to manufactured homes (popular housing option)

• Native Americans outside reservations face slightly lower probability of having a high cost loan than other populations
Take Away

• Manufactured home market structure may be problematic

• Native American loans off reservation show lower probability of having a high interest loan

• More work to be done to implement change to foster wealth for Native Americans
The Price of “High Cost Loans” for Native Hawaiians

Notes: Figure shows the adjusted difference between others in Hawaii and Native Hawaiians.
Probability of Having a “High Cost Loan” for Native Hawaiians

Notes: Figure shows the adjusted difference between others in Hawaii and Native Hawaiians
The Price of “High Cost Loans” for Alaska Natives

Notes: Figure shows the adjusted difference between others in Alaska and Alaska Natives.
Probability of Having a “High Cost Loan” for Alaska Natives

Notes: Figure shows the adjusted difference between others in Alaska and Alaska Natives
Work of our Partners

• Examining the impact of Native CDFIs on individual credit scores

• Currently small “intent to treat”

• Generous data sharing by Four Bands will assist in learning more
Questions? Comments?