



4th Annual

Native CDFI Capital Access Convening

June 25–27, 2019 • Lihue, Hawaii

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An Office of the Administration for Children & Families



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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)

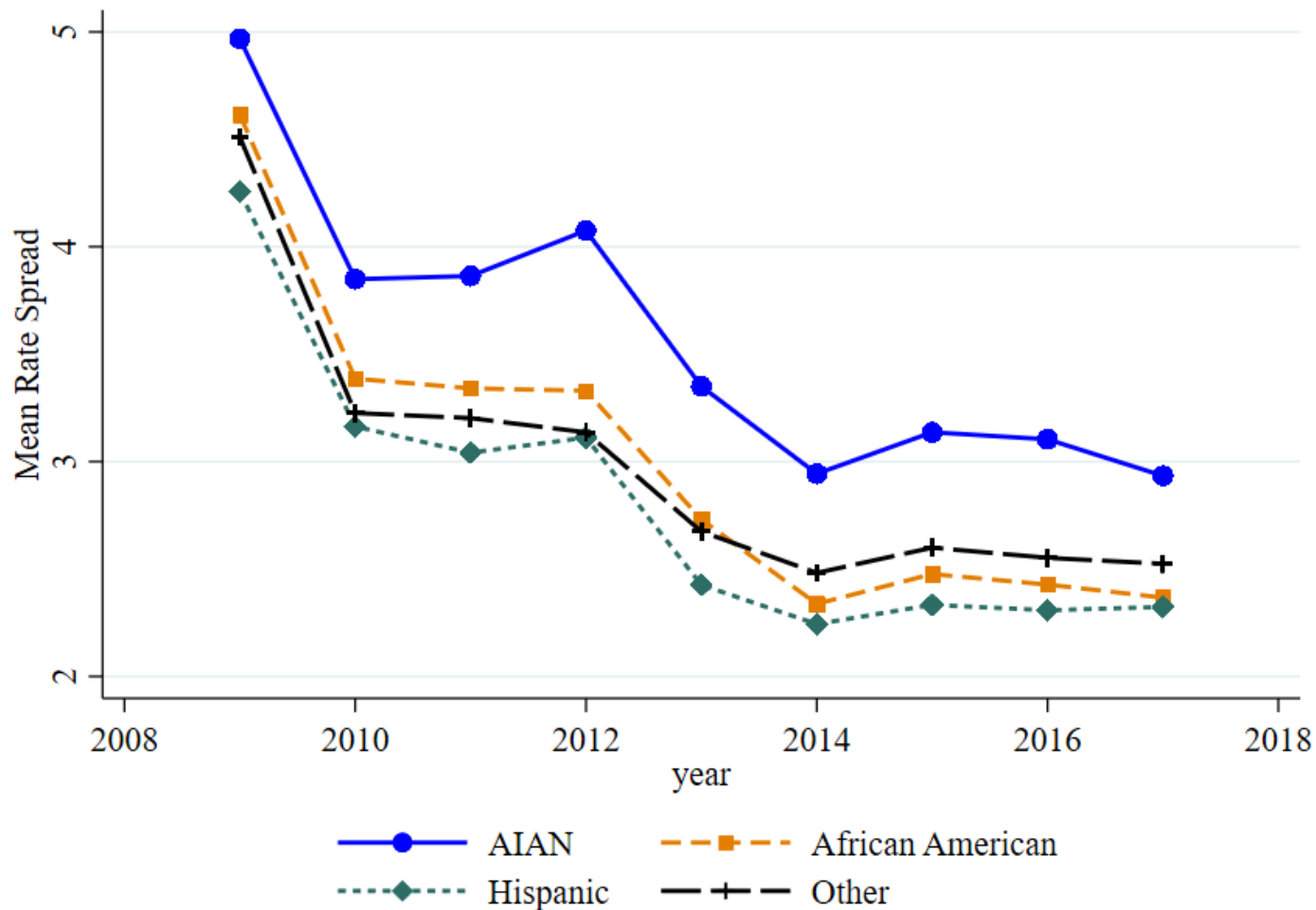
The Data

- 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

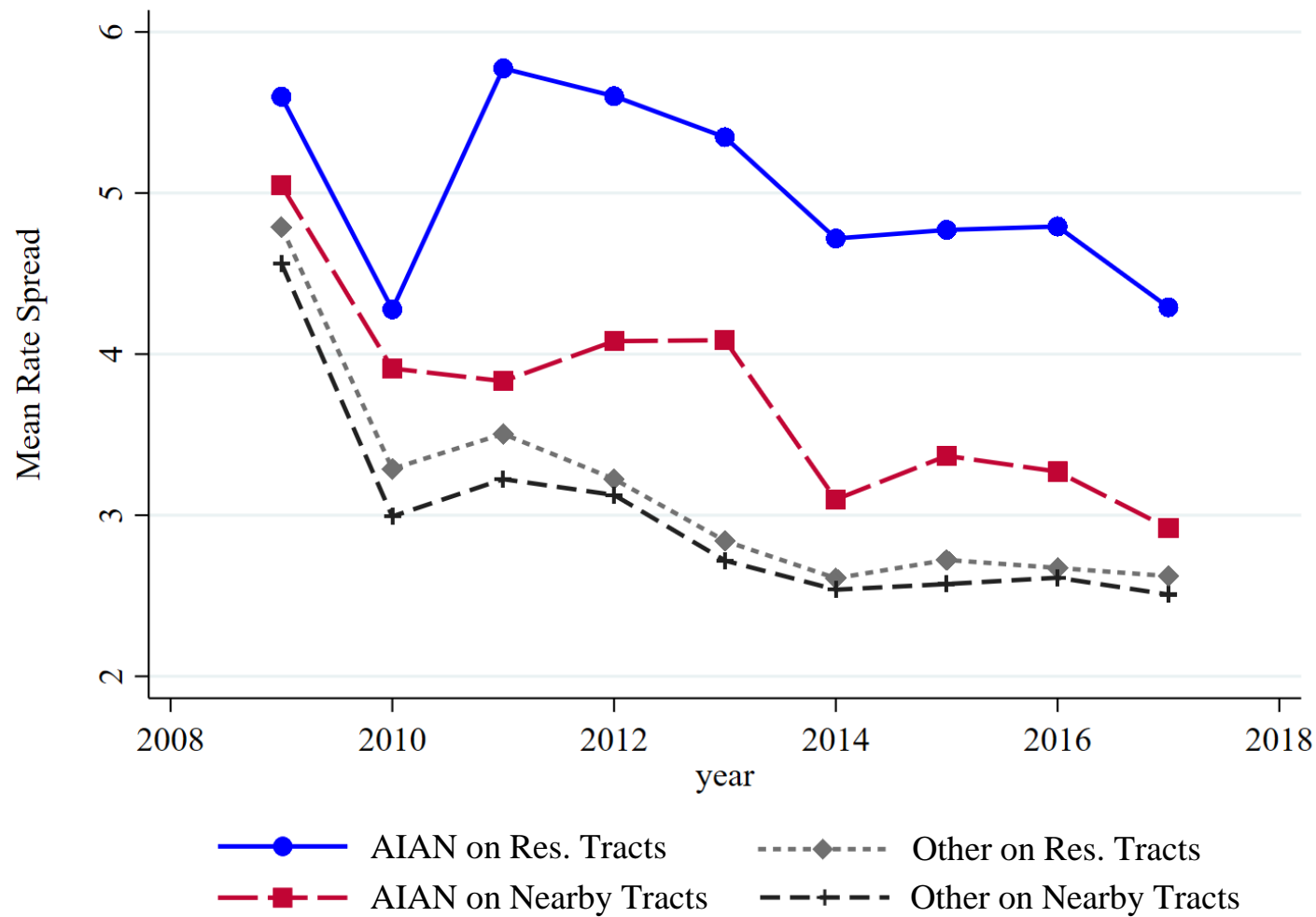
- Interest rates are significantly higher for Native Americans
- A significant part of this is attributable to observable factors
- Some programs likely lowering the cost of home loans (e.g., HUD 184)

Native Americans Face Highest Cost of Home Loans



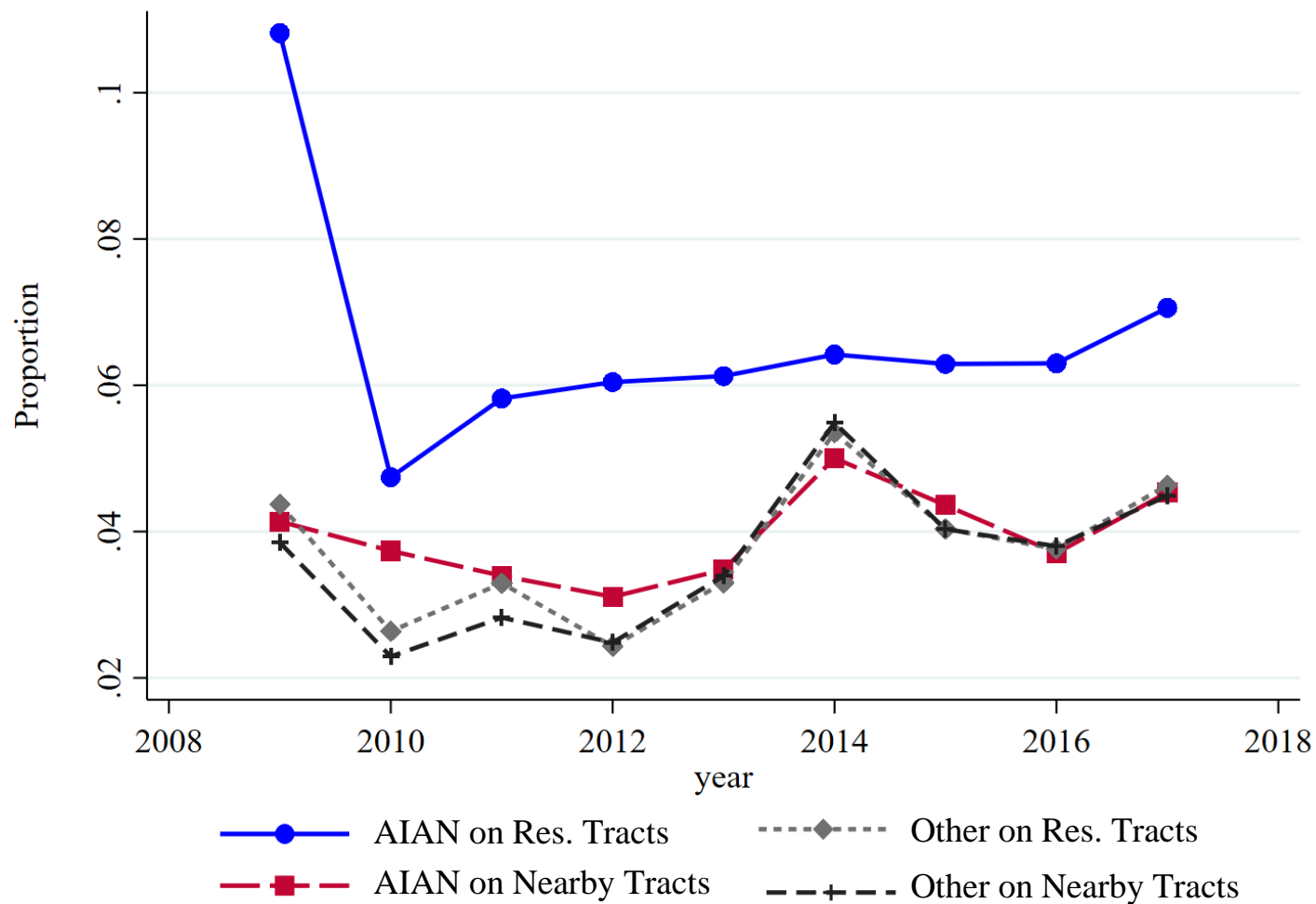
Notes: Figure shows average mean rate spread if loan has a spread greater or equal to 1.5

High Cost of Home Loans on Reservation Lands



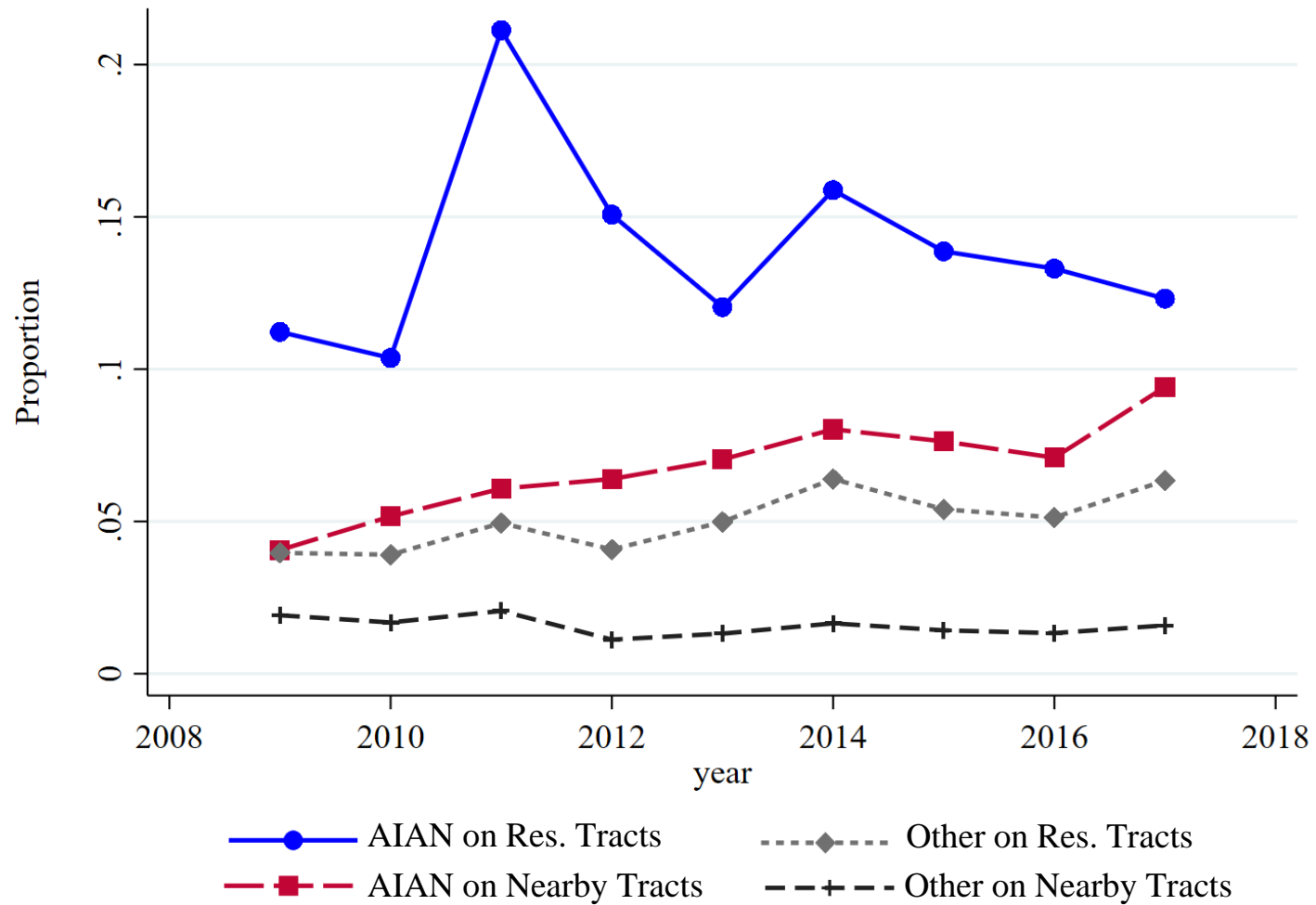
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Higher Cost Burden of Home Financing: Proportion with a High Risk Rate Spread



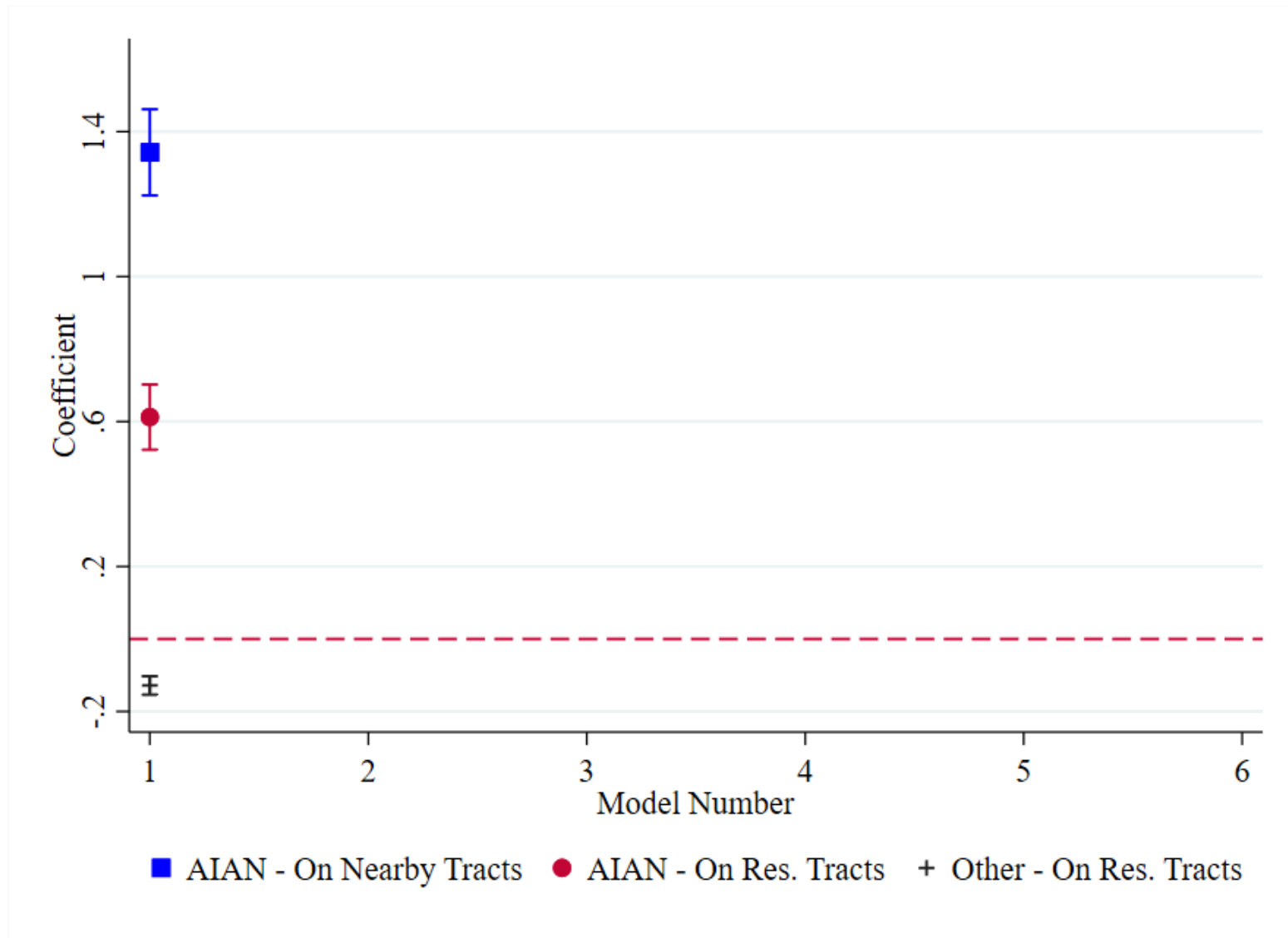
Notes: Figure shows the proportion of total loans that have a mean rate spread greater than or equal to a value of 1.5.

Higher Cost Due to Manufactured Home Market Structure?



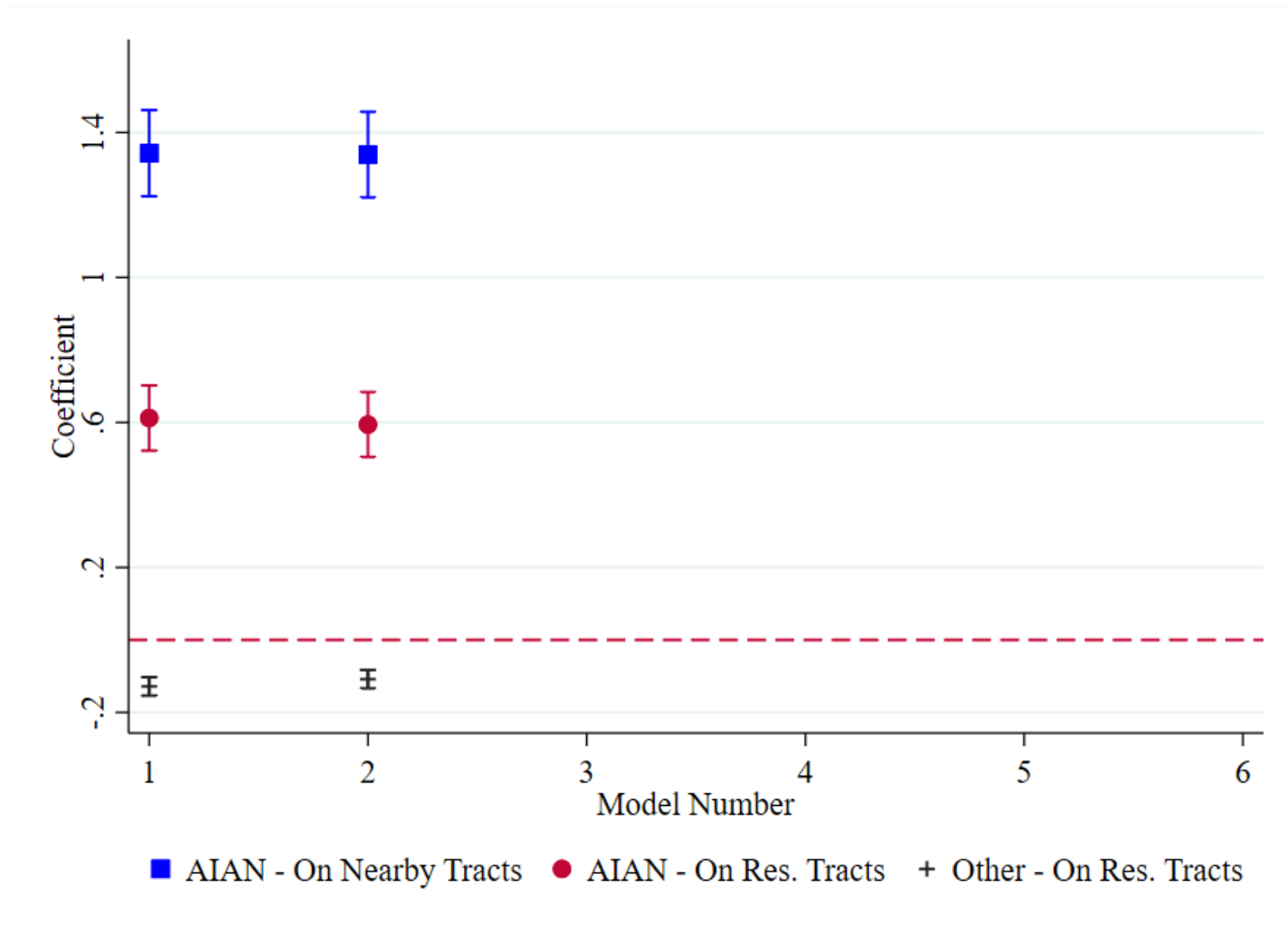
Notes: Figure shows the ratio of loan for manufactured homes to total homes

Can We “Explain” the Higher Cost of Home Loans?



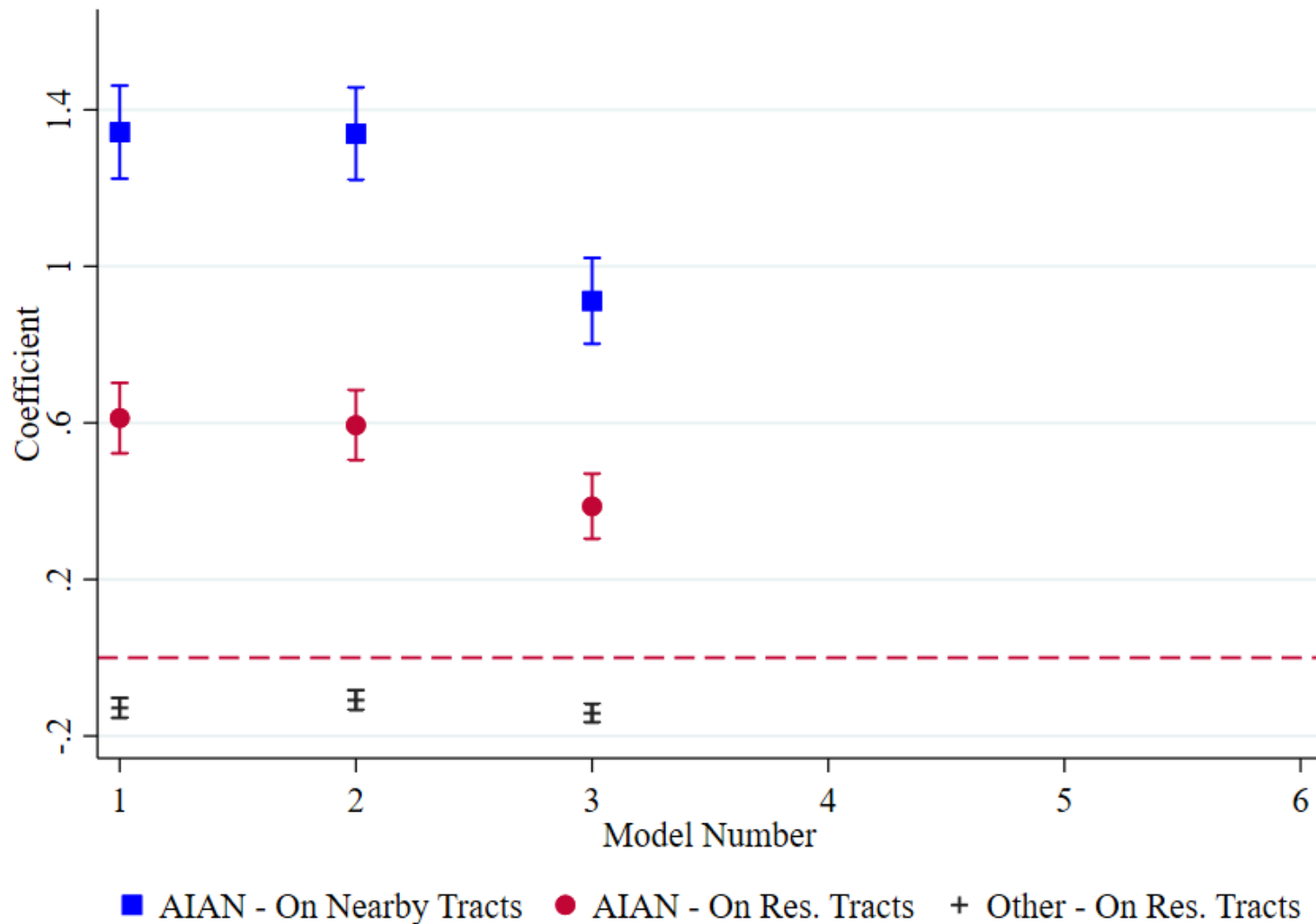
Notes: Figure shows the adjusted difference between others on nearby tracts, AIAN on nearby tracts, AIAN on reservation tracts, and others on reservation tracts

Can We “Explain” the Higher Cost of Home Loans?



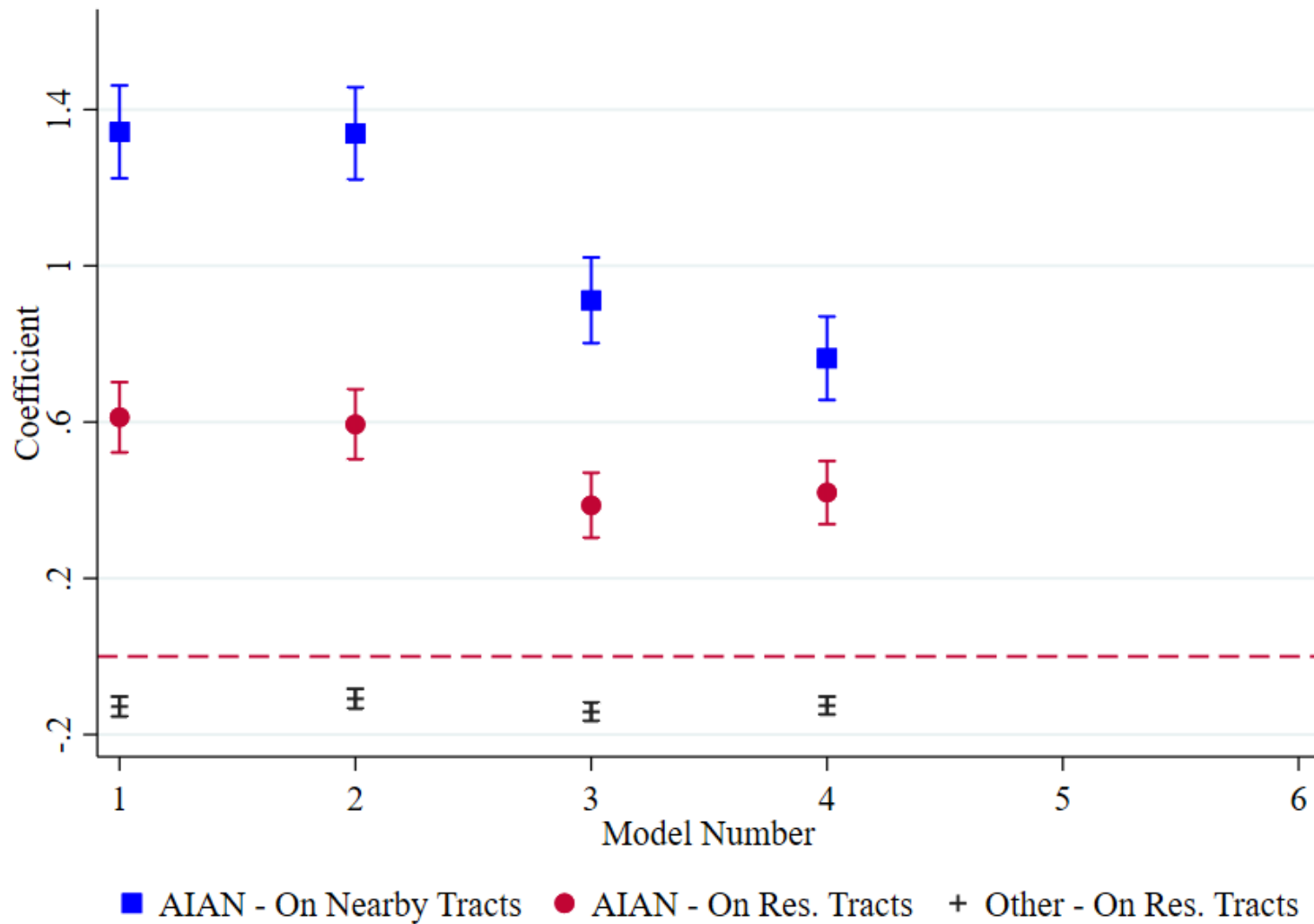
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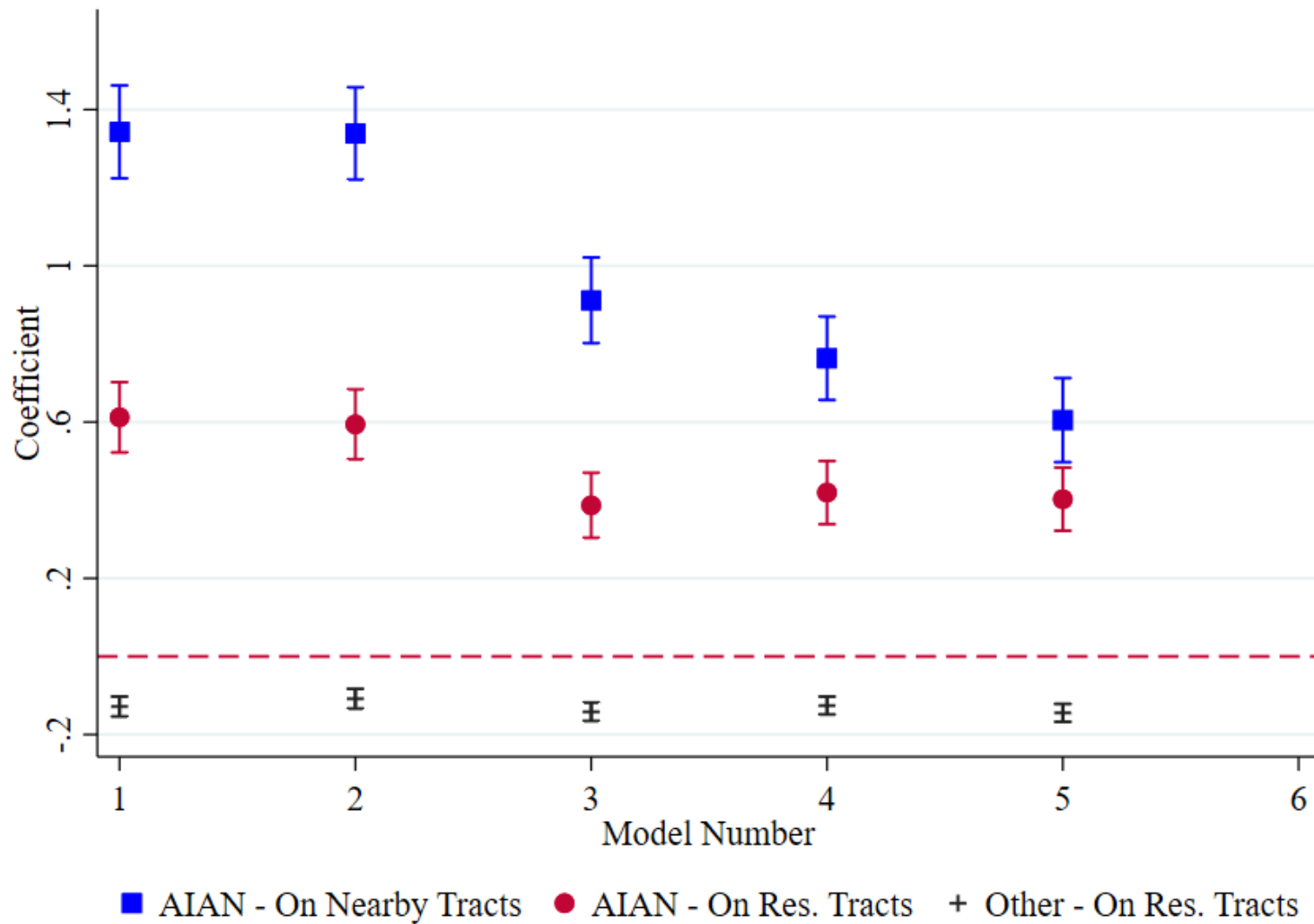
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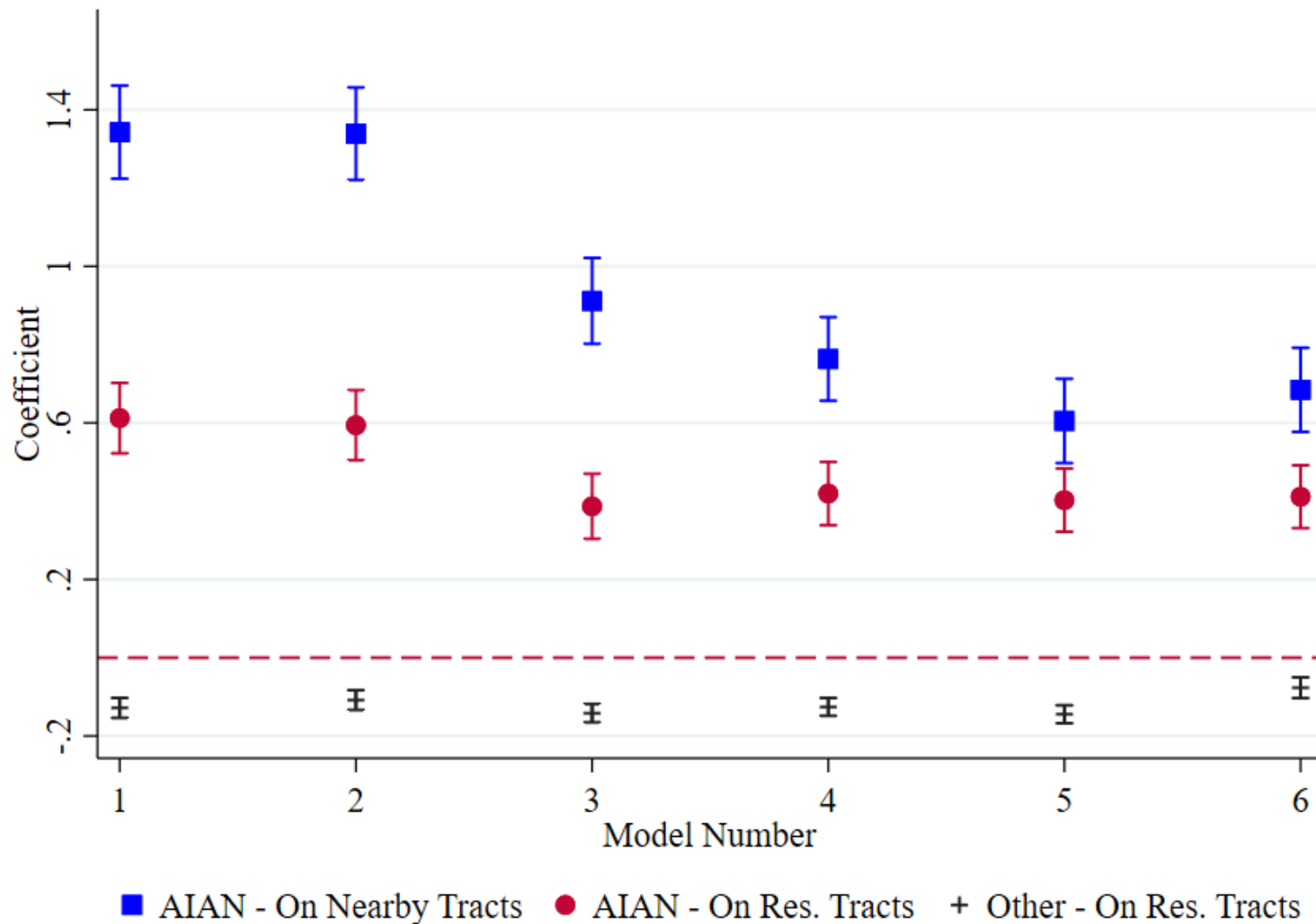
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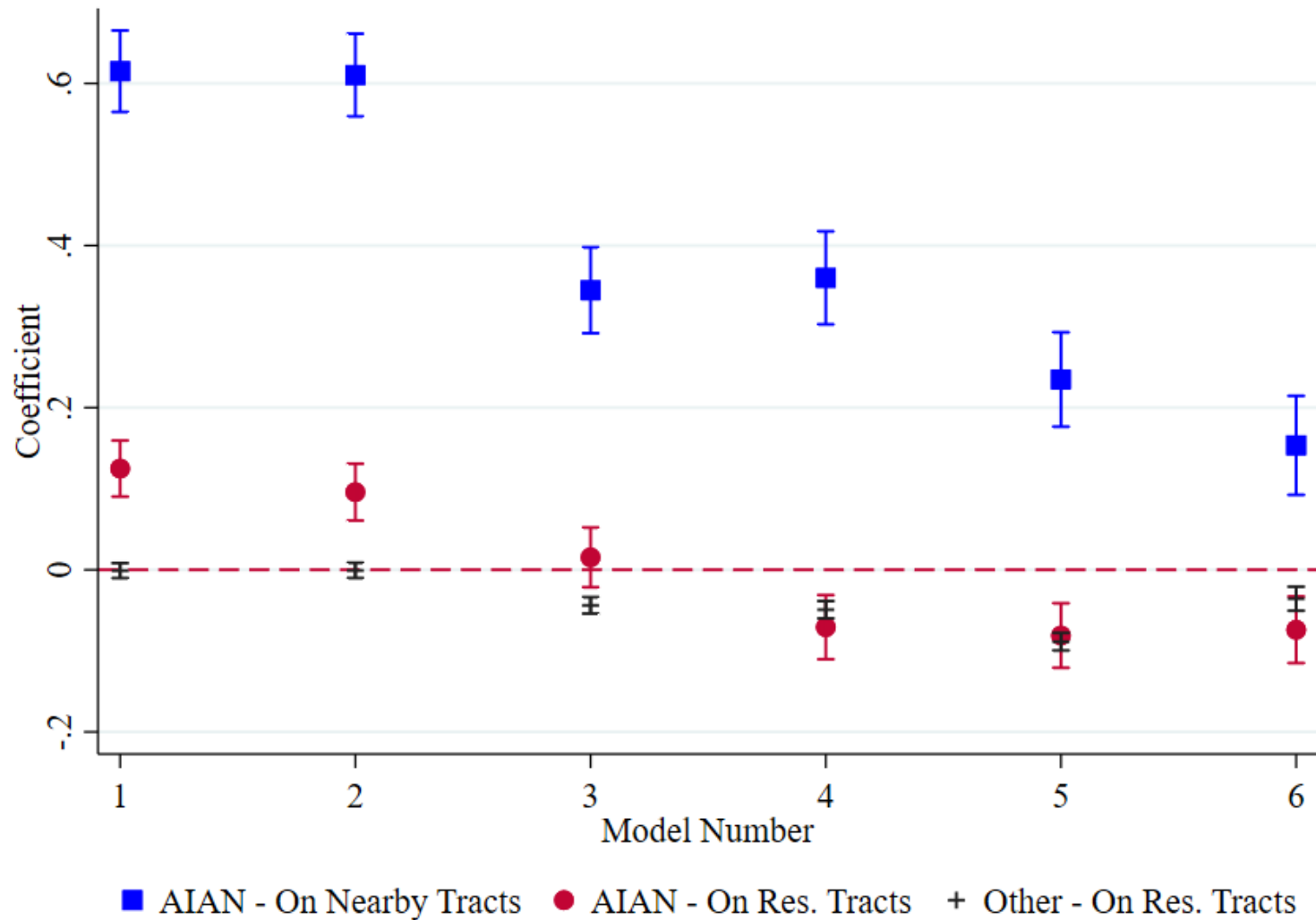
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Can We “Explain” the Higher Cost of Home Loans?



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A Lower Probability of Having a “High Cost Loan”?



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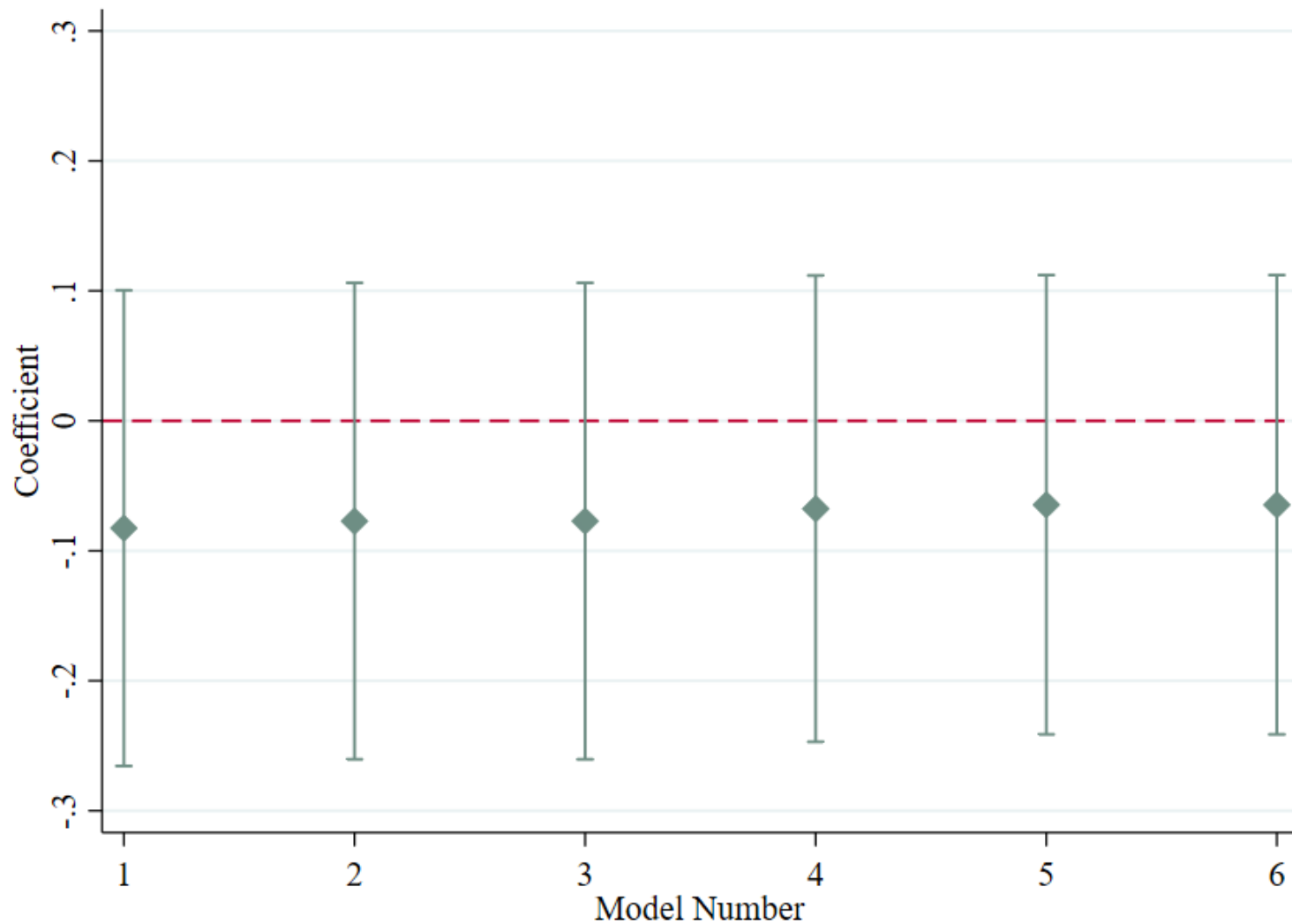
Summary

- 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

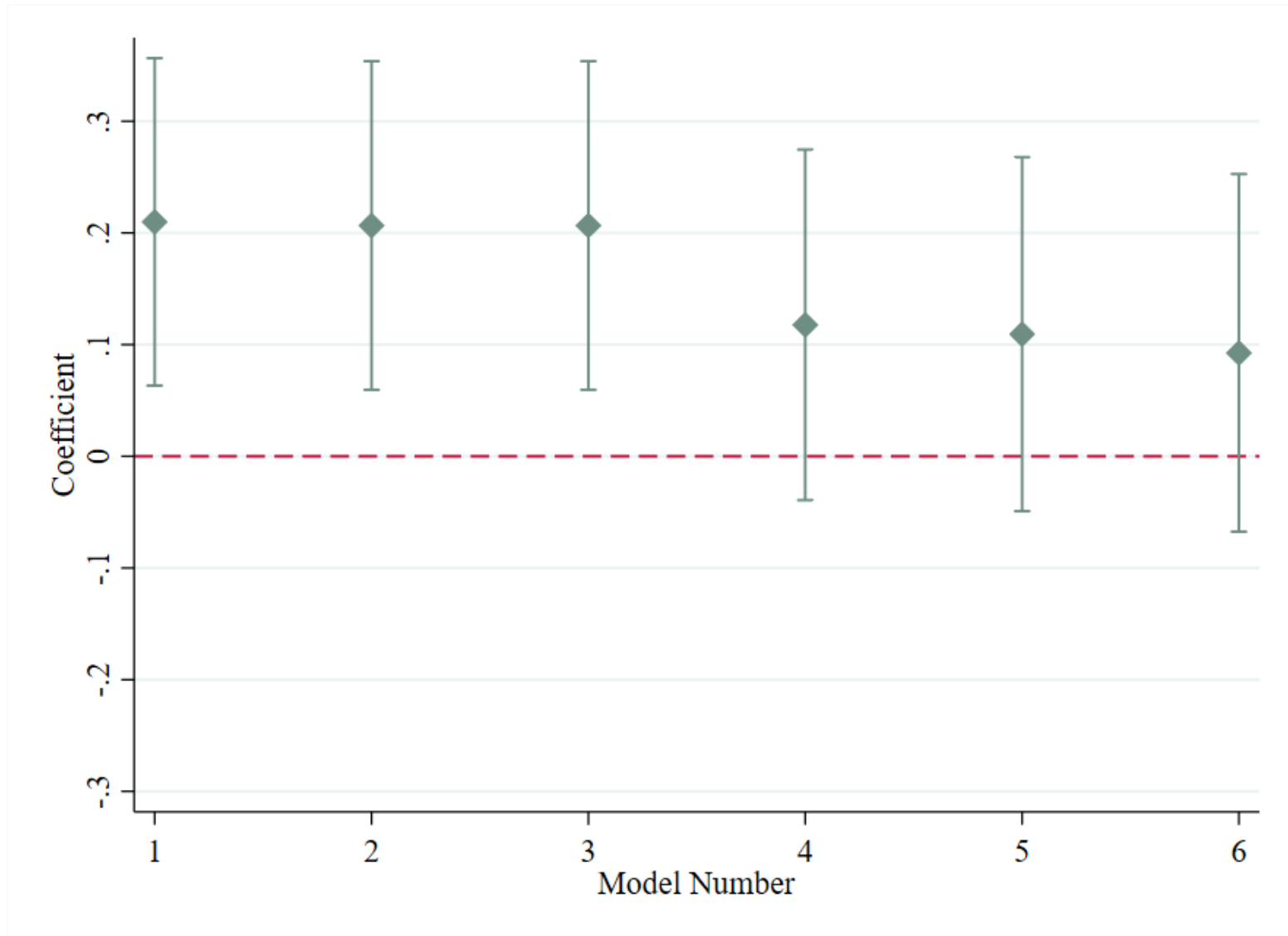
- Manufactured home market structure may be problematic
- Native American loans off reservation show lower probability of having a high interest loan
- More work to be done to implement change to foster wealth for Native Americans

The Price of “High Cost Loans” for Native Hawaiians



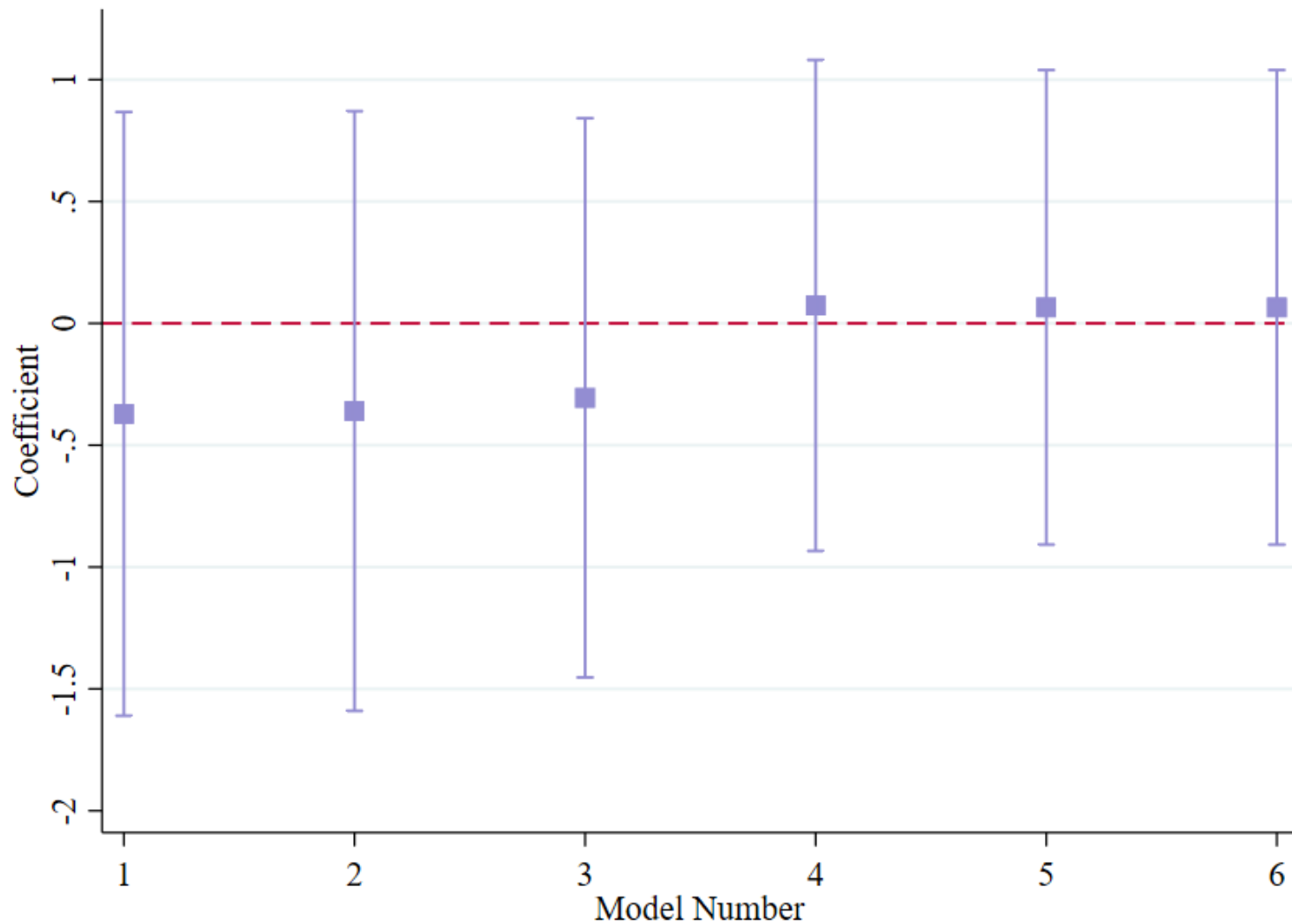
Notes: Figure shows the adjusted difference between others in Hawaii and Native Hawaiians

Probability of Having a “High Cost Loan” for Native Hawaiians



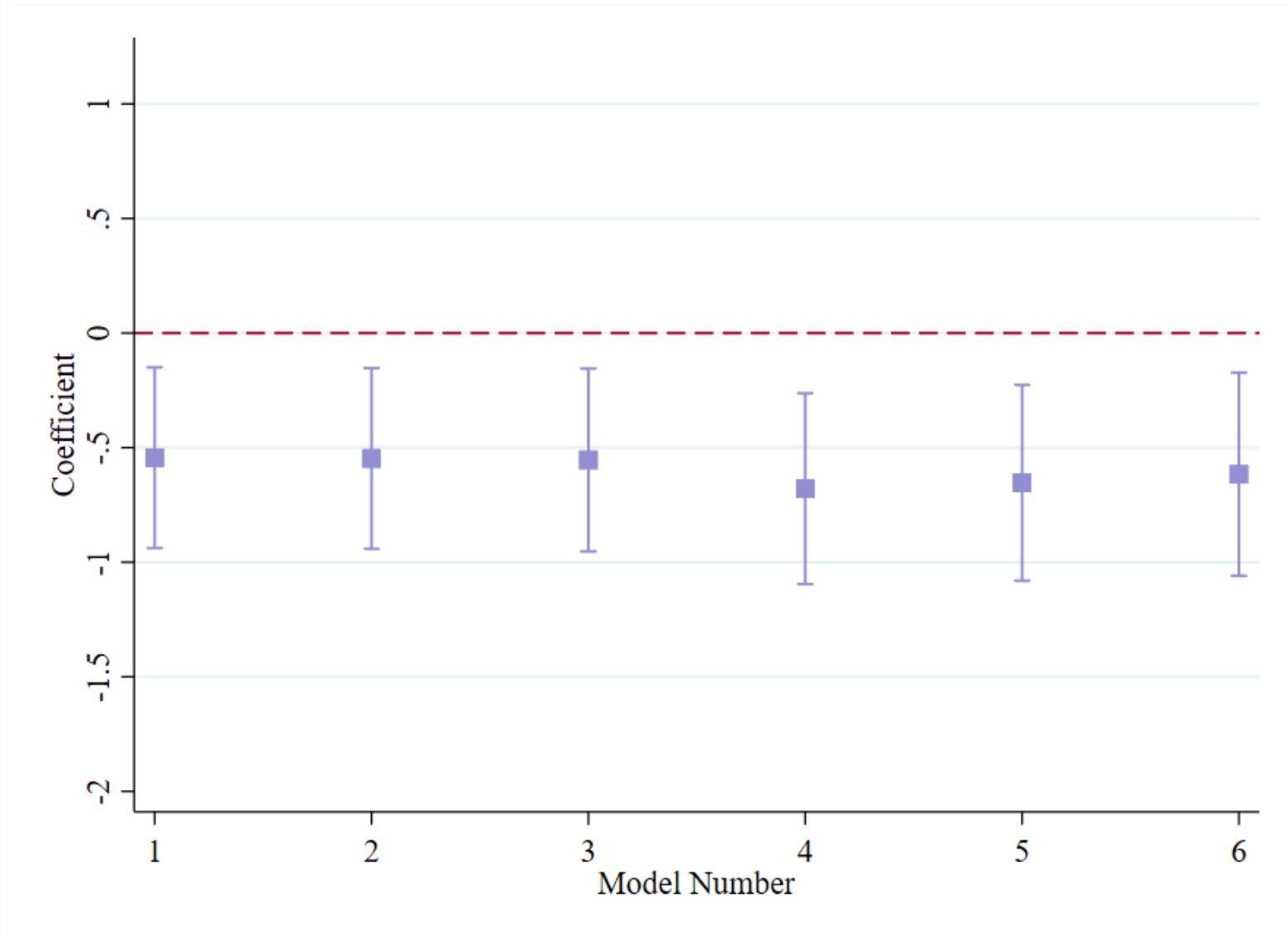
Notes: Figure shows the adjusted difference between others in Hawaii and Native Hawaiians

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?



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