Opportunities and Challenges for Native CDFI Housing Lenders

Innovative Mortgage Lending Solutions in Native Communities

ACKNOWLEDGEMENTS

Oweesta would like to thank Freddie Mac for funding this research report. Freddie Mac makes home ownership possible for millions of families and individuals by providing mortgage capital to lenders. Since their creation by Congress in 1970, Freddie Mac has made housing more accessible and affordable for homebuyers and renters in communities nationwide.

Oweesta would also like to thank all the Native CDFIs that participated in this research report. For many Native CDFIs, this meant completing the survey. For a smaller group of Native CDFIs, this meant participating in a Key Informant Interviews as well as completing the survey. We are also grateful for the work of a Native CDFI Housing Advisory Board that provided additional context and inspiration for this study in 2020. This Housing Advisory Board included: Tawney Brunsch, Jeff Tickle, Angie Main, Colleen Steele, Dave Castillo, Lahela Williams, Lakota Vogel, Rollin Wood, Susan Hammond, and Sheila Herrera. We are very thankful we have such thoughtful and committed Native CDFIs to work with and on behalf of.

Oweesta is also grateful to the many partners, such as Lisa Wagner and Joanna Donohoe, who provided immeasurable feedback on this research report. Their time was valued.

This research was conducted by Sweet Grass Consulting, LLC. Sweet Grass was established in 2014 and provides professional consulting services around impact, research, and strategy that promote and support asset-based initiatives in economically burdened communities.

This report was written by the Oweesta Corporation. We believe in widely sharing best practices, key findings and successful or promising models with practitioners in Indian Country, government entities (federal, state, local and tribal), mainstream philanthropy, and the public at large. For more information, or to order additional copies of this report, please email info@oweesta.org.

Native communities have long-standing, well-documented capital access challenges. Native Community Development Financial Institutions (CDFIs) stand as a viable strategy for addressing these capital inequities, and Native CDFIs are growing both in capacity and desire to confront housing challenges in their communities. Through quantitative and qualitative methods, we determined that Native CDFIs have a growing interest and increased capability in serving the housing needs of their customers.

This paper outlines the barriers to capital access faced by Native CDFI housing lenders that hamper their ability to serve their communities and recommends strategies to improve it through Native CDFI housing lenders and partners and the secondary market.

INTRODUCTION

Throughout the United States, the impact of the Native Community Development Financial Institution (CDFI) movement on Native American, Native Hawaiian, and Alaska Native communities continues to grow exponentially. There are currently 69 Native CDFIs certified by the U.S. Department of Treasury, consisting of 5 banks and/or holding companies, 7 credit unions, and 57 loan funds. To become certified, these institutions must not only provide lending products specifically designed to serve their communities, but also must provide training and one-on-one technical assistance to their

Native family celebrating their new home.
Photo courtesy of South Dakota Homeownership Coalition.

Case Study

Brokering and Servicing

Though most of our survey and interview respondents are not actively participating in the secondary market, two CDFIs, Four Directions Development Corporation and Cook Inlet Lending Center, have both been brokering loans for the HUD 184 program through First Tribal Lending and Chickasaw Community Bank (formerly Bank2), respectively. The broker relationships mean that the CDFI lends on behalf of their partners and earns an origination fee, while First Tribal Lending and Chickasaw Community Bank service the loans.

Both also utilize an outside provider to service their loans. This agreement takes a lot of time and pressure off staff to underwrite, close, and service loans and allows time for staff to focus on new opportunities and relationship building with the client. Both CDFIs have agreements with their servicing partners for a percentage return on the servicing, so they are not missing out entirely on the interest income from these loans.

borrowers. Native CDFIs offer a diversity of much-needed products to their respective communities, including small business, consumer, and housing loan products.

Native CDFIs are uniquely adapted to address the challenges facing Native communities throughout the United States. The challenges are varied, but generally include less access to capital markets and much higher poverty and unemployment rates than their non-Native counterparts. Homeownership is one of the areas of great disparity, as Native communities face housing shortages, challenges in accessing mortgage capital, and other barriers to safe, affordable housing. For example, 34% of Native homes having physical problems such as a lack of heating, overcrowding, and no indoor plumbing, compared to only 7% of US households[1]. Additionally, per capita mortgage utilization in reservation communities is only 59% of the utilization rate in nearby off-reservation geographies[2]. The ultimate consequence of these challenges is that

[1] HUD 2017
[2] NNI 2016

while 71% of white households own homes, only 53% of Native Americans are homeowners[3]. Despite these challenges, the market for mortgage loans for Native American families is growing. Improving credit scores and increases in median household income on reservations have put homeownership within grasp for many Native American households[4]. The combined force of this compelling need and strong demand has fueled the development and growth of Native CDFI housing lending programs. In 2018, 40% of Native CDFIs said they would like to add a mortgage lending product over the next year and by 2020, this number climbed to 64%[5].

While many Native CDFIs have the goal of either starting or expanding their homeownership efforts, there are barriers such as access to capital, lack of homebuyer ready clients, lack of housing stock and infrastructure, and a need for increased staff capacity which are hindering their ability to meet their goals quickly. This paper, utilizing data and stories from Native CDFIs themselves, introduces five recommendations for both Native CDFIs and their partners to improve the housing market for Native communities.

While many Native CDFIs have the goal of either starting or expanding their homeownership efforts, there are barriers such as access to capital, lack of homebuyer ready clients, lack of housing stock and infrastructure, and a need for increased staff capacity which are hindering their ability to meet their goals quickly.

Home financed by Tiwa Lending Services. Photo courtesy of Tiwa Lending Services.

[3] https://prosperitynow.org/blog/securing-homeownership-native-americans#:~:text=Today%2C%2053%20percent%20of%20Native,of%20Whites%20who%20own%20homes.
[4] Center for Indian Country Development, Tribal Leaders Guide to Homeownership
[5] Snapshot 2018

RESEARCH METHODOLOGY

This study relied upon a mixed methodology. First and foremost, Sweet Grass Consulting and Oweesta Corporation developed an interview guide and conducted Key Informant Interviews with 14 Native CDFI leaders from March to May 2020 to better understand each organization's current efforts around housing, what their assets and barriers are, and what support they need from partners and the industry.

With the results of the interviews Sweet Grass Consulting and Oweesta Corporation then developed and distributed a survey to all known certified and emerging Native CDFIs in July 2020. This survey was distributed by personal email from Oweesta. Ultimately 30 Native CDFIs participated in this survey, representing 13 Native CDFIs who wished to provide housing lending in the future and 17 currently providing housing products.

In addition to the interviews and survey, Oweesta met with a Housing Advisory Board composed of nine Native CDFI leaders once a month from December 2019 to November 2020. Topics discussed at these meetings varied, but included: capital needs, loan guarantee programs, homebuyer readiness challenges, accessing the secondary market, and underwriting criteria currently being used in mortgage lending.

Home financed by Tiwa Lending Services. Photo courtesy of Tiwa Lending Services.

DEMOGRAPHICS OF THE PARTICIPANTS

The Native CDFIs who participated in the surveys and interviews are located in 17 different states across the country. Of the 30 survey respondents, 17 currently offer home lending products, 25 offer business lending products, and 23 offer consumer lending products. The map below depicts the location of interview and survey respondents. Figure 1 indicates the number of loan funds by total portfolio size.

CURRENT NATIVE CDFI HOUSING ACTIVITIES

Native CDFI housing lenders are dramatically scaling up their efforts to support homeownership in their communities. In 2019, Native CDFI lenders deployed a combined $17,071,829 in housing lending. While impressive, only midway through 2020, these same lenders reported a combined $22,649,313 in housing lending. At the current

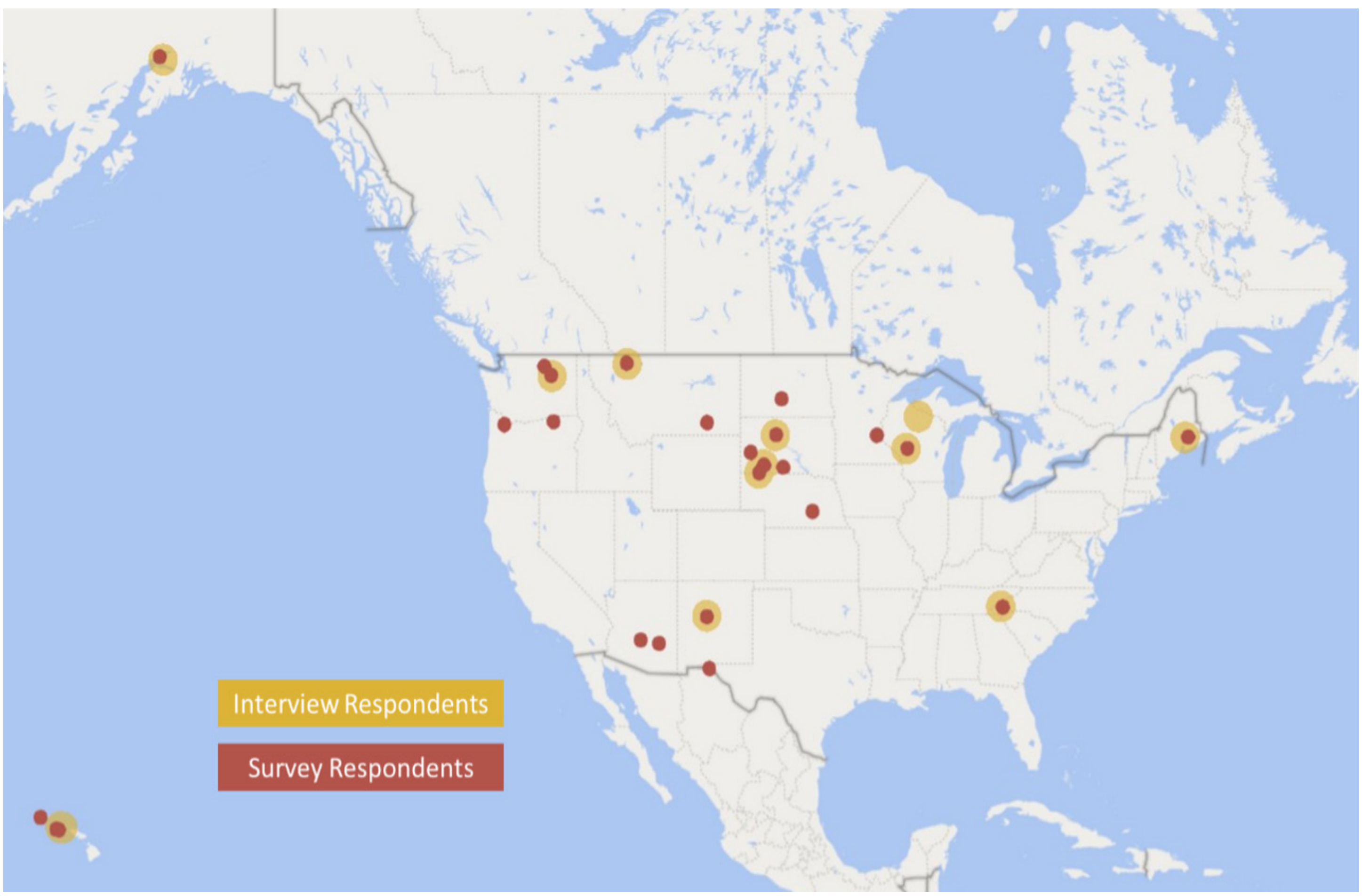
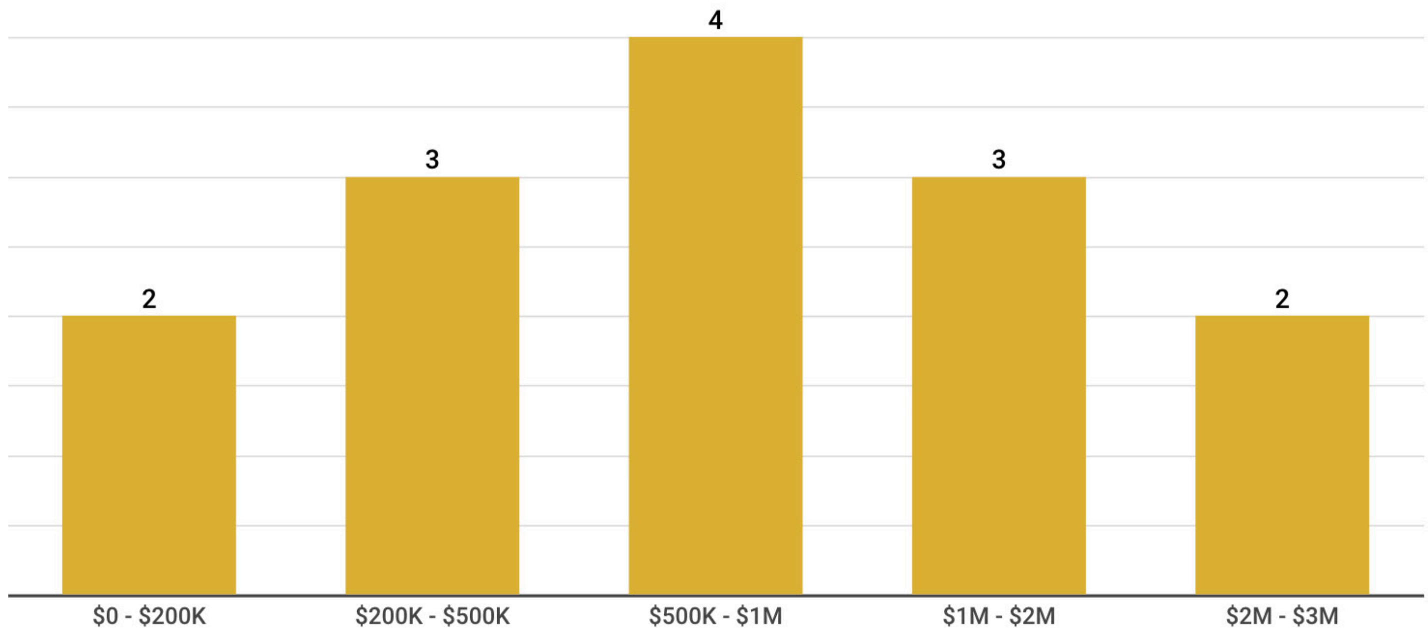


Figure 1

Number of Loan Funds by Total Portfolio Size



projected pace in 2020, Native CDFI housing lenders will see a combined $40 million dollars in housing lending, representing a lending volume increase of 134% from 2019 to 2020.

These Native CDFIs offer a variety of loan products from business to consumer to housing. As seen in Figure 2, the housing loan products each Native CDFI offers vary considerably as well. Over 67% offer a first mortgage product to support home purchase or construction. According to respondents, this product is most often—in 89% of cases—a niche portfolio loan, specifically adapted to serve the unique needs of borrowers in their communities. Nine Native CDFIs also provide brokering or packaging services, as reflected in Figure 3, for a variety of different mortgage loan products. These many mortgage products demonstrate Native CDFI dedication to helping their borrowers find the best and most affordable mortgage product through provision of a variety of different mortgage loan options. In addition, many of these Native CDFIs offer other wraparound support services, such as matched savings programs, to help homeowners save for a down payment.

Figure 2

Housing Loan Products Currently Offered by Home Lenders

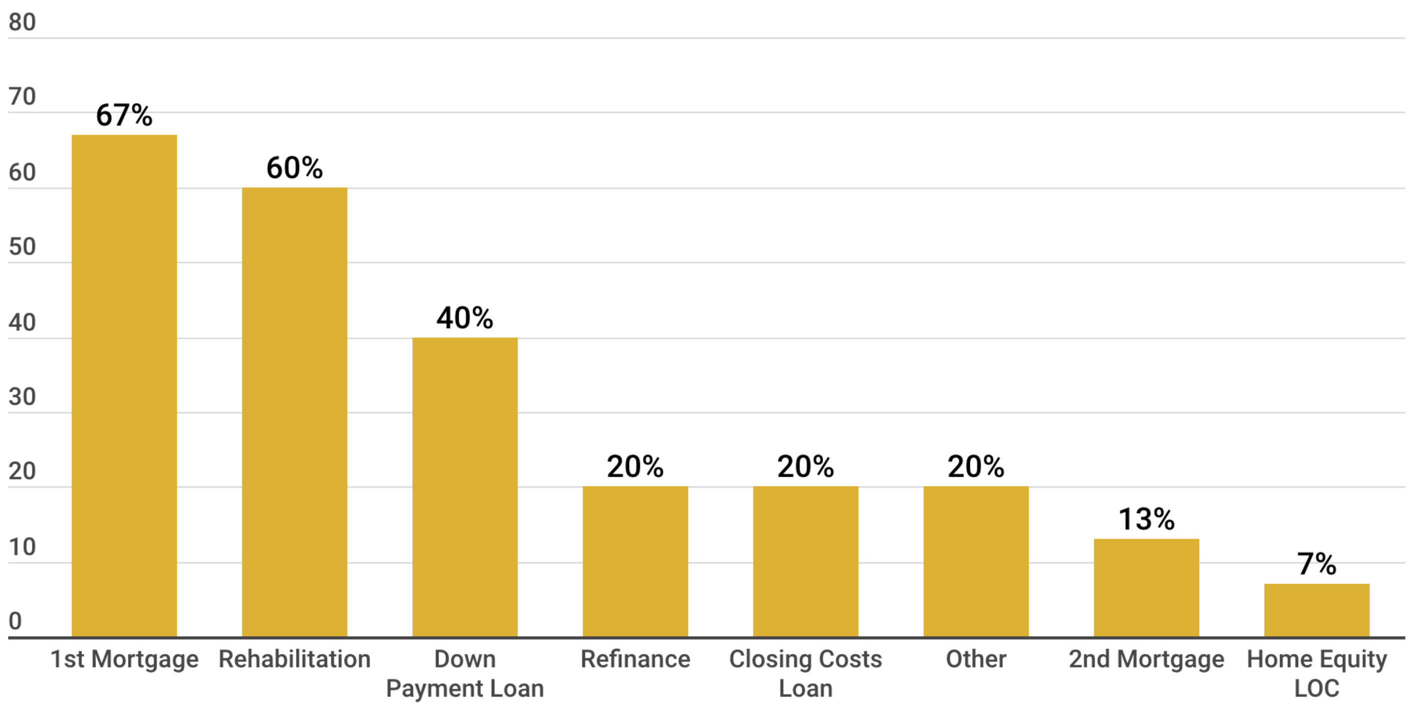
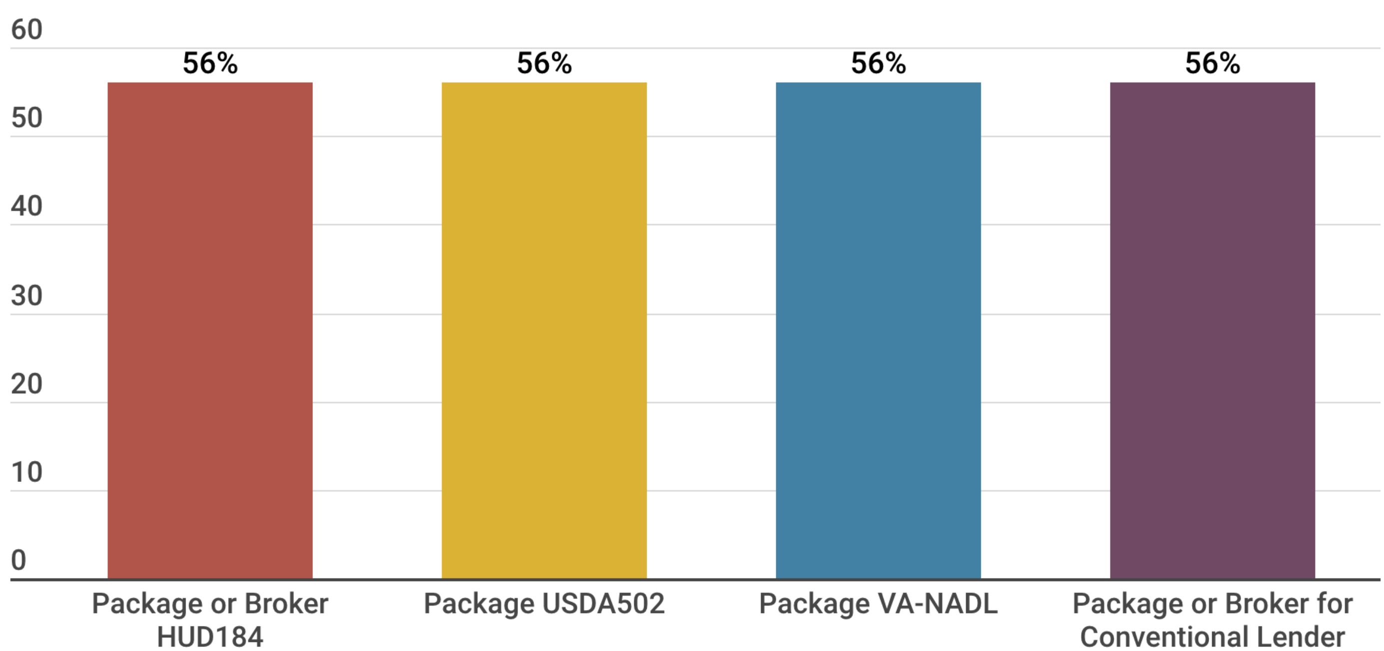


Figure 3

Mortgage Services Offered by Home Lenders



UNIQUELY ADAPTED TO NATIVE COMMUNITIES

Of the roughly $22 million in housing lending reported in 2020 by Native CDFI survey respondents, 79% occurred on tribal trust lands. This stands in stark contrast to the traditional lending market, where the various perceived and real challenges associated with mortgage lending on tribal trust lands decrease lender participation. For example, the HUD 184 guarantee program—the government-sponsored mortgage program specifically designed to increase mortgage lending to Native American families—has seen only 10% of mortgage lending done on tribal trust lands between 1994-2015.[6]

When asking Native CDFIs what makes them so successful at reaching and supporting these otherwise marginalized borrowers, one Native CDFI succinctly shared, "We can identify the needs of our clients and community. We can relate [financial concepts] to the culture, and we work with them on an individual level."

[6] Mortgage Lending on Tribal Land: A Report From the Assessment of American Indian, Alaska Native, and Native Hawaiian Housing Needs, HUD 2017

Native family standing on the porch of their new home. Photo courtesy of South Dakota Homeownership Coalition.

These strengths not only uniquely position Native CDFIs to serve a critical role in the growing mortgage market, but also are the reasons for the strong portfolio performance of Native CDFIs serving these markets. The strength of Native CDFIs' portfolio performance is well documented; in 2018, Native CDFIs saw annual charge off rates of 0.68% and a 90+ day delinquency rate of 3.24%. This is not only lower than non-Native CDFIs nationally, but was also lower than the general 2018 national mortgage delinquency rates[7].

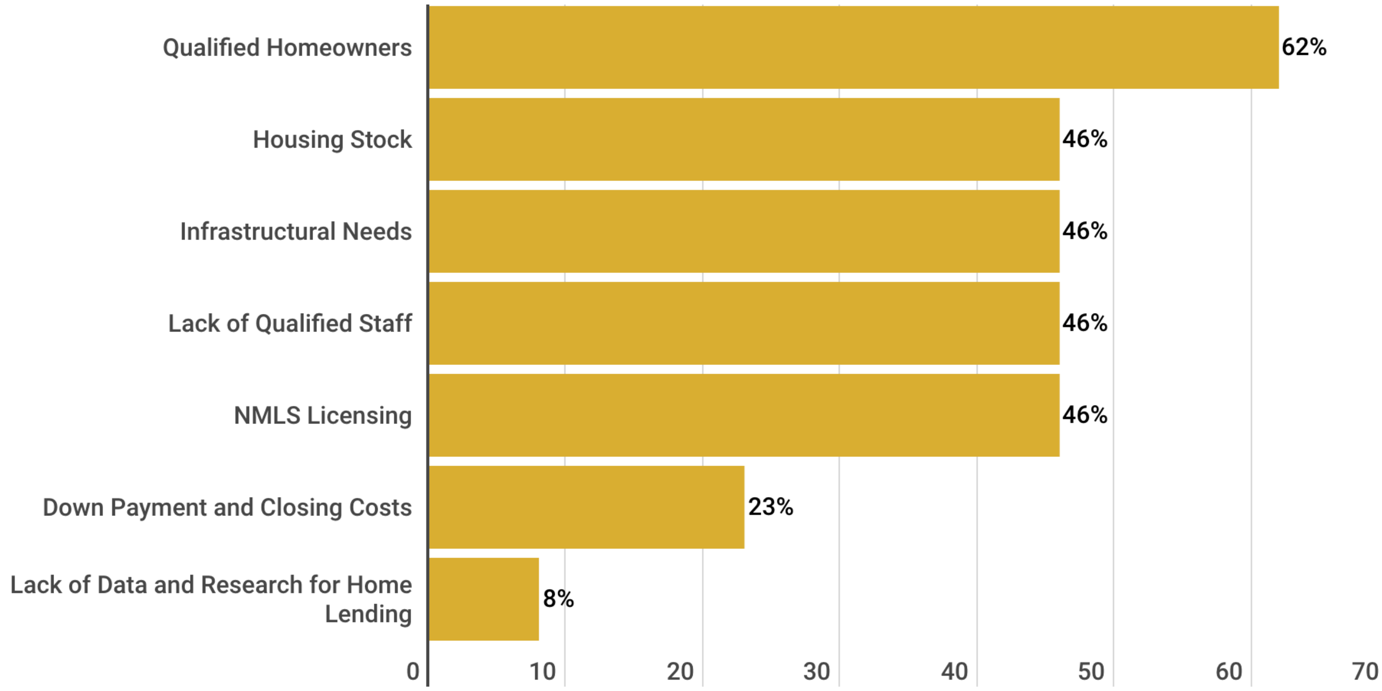
The potential for Native CDFIs to serve in a leadership role by advancing mortgage lending in Native communities was recently highlighted by Patrice Kunesh, then Director of the Center for Indian Country Development with the Federal Reserve Bank of Minneapolis at a 2019 committee meeting with the United States Senate Committee on Indian Affairs, when she remarked, "As conventional lenders retreat, Native CDFIs are emerging as critical sources of capital. With local presences and professionals experienced in Indian Country, Native CDFIs are well-positioned to service private mortgages, federal direct loans, and federal mortgage guarantees. Native CDFIs also can be started with a much lower barrier to entry than banks and even credit unions, and so are easier to access as vehicles for credit on reservations while also providing essential services like small business loans and, in some cases, depository accounts."

[7] 2018 study

"As conventional lenders retreat, Native CDFIs are emerging as critical sources of capital. With local presences and professionals experienced in Indian Country, Native CDFIs are well-positioned to service private mortgages, federal direct loans, and federal mortgage guarantees. Native CDFIs also can be started with a much lower barrier to entry than banks and even credit unions, and so are easier to access as vehicles for credit on reservations while also providing essential services like small business loans and, in some cases, depository accounts."

- **Patrice Kunesh**, former Director of the Center for Indian Country Development with the Federal Reserve Bank of Minneapolis

Figure 4
Barriers Needed to be Addressed to Achieve One-Year Goal(s)



INSTITUTIONAL CHALLENGES

Confronting the systemic barriers to homeownership in Native communities is inherently challenging. As one Native CDFI Executive Director shared, “Capital naturally flows like water, downhill, where it is easy. It is our job to redirect the flow of capital into our communities, like the rest of America enjoys.” Many of these barriers to homeownership are now decades, if not centuries, old. When Native CDFIs were asked about their largest barriers to achieving their one-year goal, it is those broader community challenges which Native CDFIs report (Figure 4). First and foremost, the predominate barrier Native CDFI clients face to their goals is homebuyer readiness, as low credit scores can deter applicants from both applying and from ultimately being approved for a mortgage loan. In communities where homeownership rates are low, Native CDFIs face not only the challenge of helping their borrowers qualify for mortgage products, but also building a culture of homeownership. To help borrowers become mortgage ready, all Native CDFIs offer strong development services to support their homeownership programs, including credit coaching, homebuyer counseling,

Case Study

Lake Superior, Jack of All Trades

Lake Superior Community Development Corporation, like many CDFIs, started getting their feet wet with programs to assist families with repair loans. They then started buying up existing stock in order to improve the available units within the community. They then created a mortgage product and sold those homes to community members. This effort contributed to the economic development of the Tribe because they bought the homes at a discount and they utilized their Tribal construction company. These activities spurred more activity and resulted in a regular process of improving homes and keeping economic development and homeownership opportunities within the community.

and/or financial education. Not surprisingly, 90% of respondents reported providing homeownership education.

Native CDFI respondents reported the cost and availability of the infrastructure that supports homeownership in rural reservation communities stand as a significant barrier to homeownership. The lack of affordable housing stock is especially challenging. As the South Dakota Native Homeownership Coalition shares, "In many tribal communities in South Dakota, even when a family qualifies for a mortgage, there are no homes to purchase. In explaining the shortage of housing stock, contractors have shared that residential building efforts are hampered by a shortage of workforce-ready employees ("there's no one to hire"), appraisers working on trust land, and inspectors to inspect construction in progress."

These barriers force Native CDFIs to think holistically about how to advance the cause of homeownership in their communities, working to build the culture of homeownership in a variety of ways. In some case, this requires them to take on many more roles in the process than a traditional mortgage lender would. For example, some Native CDFIs engage in construction financing, in some cases even owning construc-

> *In many tribal communities in South Dakota, even when a family qualifies for a mortgage, there are no homes to purchase.*"
>
> \- South Dakota Native Homeownership Coalition

Ted Piccolo, Executive Director of NNDF, helps in the construction of their first affordable home. Photo courtesy of Northwest Native Development Fund.

tion companies or doing workforce training for appraisers or builders. In a growing number of cases, Native CDFIs are also doing housing development and advocacy with their tribes on housing-related issues. They may also play an active role in helping borrowers to identify and contract with residential real estate professionals such as inspectors, appraisers, and contractors. In places where the housing market is especially undeveloped, Native CDFIs are providing small business technical assistance to their latent housing industry, helping contractor and appraisers receive training. As one Native CDFI leader explains, “In a rural area if you don’t have a good construction the cost goes to the borrower. They have to work hand in hand, working together. It’s a hard strategy to have one without the other. The contracting industry has not been asked to perform in that space and they haven’t had to due to no mortgages. It’s a learning process and growing pains that we hope will get better.”

CAPITAL ACCESS AND THE SECONDARY MARKET

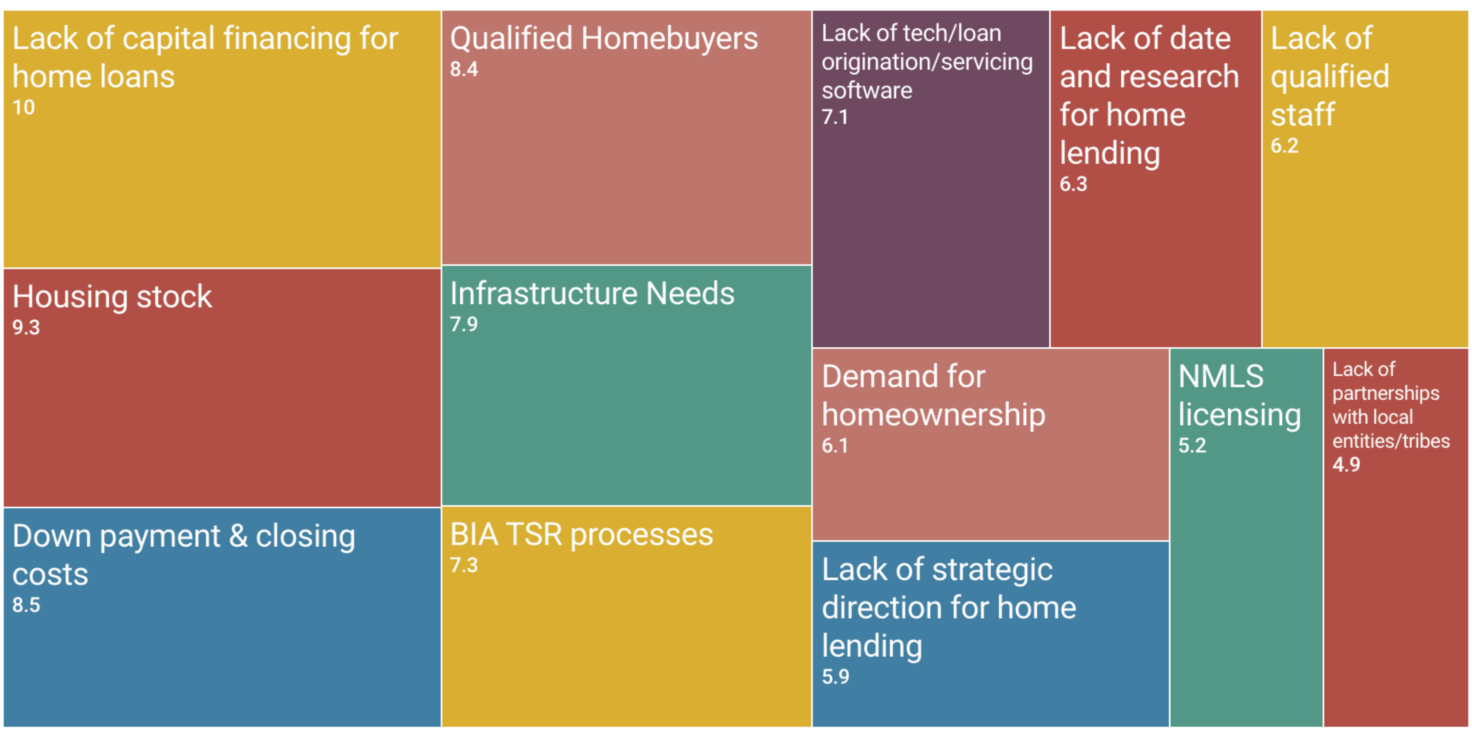
When asked what the biggest challenge Native CDFIs are facing in housing lending is, survey respondents almost uniformly agreed that the largest challenge is lack of appropriate capital (Figure 5). Native CDFIs experienced a capital deficit of $55M in just 2018 alone, and this number grows only each year as capital demand increases in Native communities[8]. These capital challenges are fed by many sources, such as the ineffectiveness of existing Community Reinvestment Act (CRA) regulations, the short-term nature of most CDFI investment capital, and philanthropic disengagement in Native issues[9]. For Native CDFI mortgage lenders, this capital deficit is made even worse by the low-cost and longer-term nature of the capital needed for Native CDFI portfolio lenders.

[8] Snapshot 2018
[9] Snapshot 2018

Figure 5

Average Ranking for Biggest Challenges to Native CDFIs for Housing and Homeownership

(1=least relevant, 13=most relevant)



When evaluating the deprivation of capital in Native CDFI housing markets, it is the clear disconnection of Native CDFIs with the secondary market that stands in stark contrast to more traditional capital markets. The secondary market is where investors purchase mortgage loans from lenders, recapitalizing the lender who originally financed the mortgage. Mortgages sold to the secondary market are packaged into mortgage-backed securities and sold to investors, such as hedge funds or insurance companies. The Government Sponsored Enterprises (GSEs) were created by Congress to support the flow of capital; they purchase loans in the secondary market to ensure liquidity for lenders. For most mortgage lenders, interacting in the secondary market as a correspondent lender, or directly selling mortgages to the Government Sponsored Entities (GSEs), is how capital ultimately flows to housing lenders.

The disconnection of Native CDFIs to this market is driven by many factors and is well documented. For example, in 2018, the Duty to Serve initiative launched, requiring GSEs to facilitate secondary mortgage access in underserved markets, including Native communities. From Key Informant Interviews, it was clear that various factors

Couple signing for their first home. Photo courtesy of Tiwa Lending Services.

drove this disconnection at local CDFI levels, such as the smaller scale at which most Native CDFIs operate and limited knowledge on how this market works to direct capital. For example, as Figure 6 shows, only 20% of Native CDFI housing lenders are comfortable with the secondary market and understand how it generally operates. Most salient for Native CDFIs, however, was the concern that products offered on the secondary market were too tightly regulated and inaccessible for local community members. However, as the demand in the Native mortgage market continues to expand, Native CDFIs grow increasingly more interested in learning how they can participate to access more capital for their communities, with 67% of Native CDFIs interested in participating in some way in the secondary market (Figure 7).

> *"We want to learn more about the secondary market. A concern is that our clients want to stay with us [for servicing]. We would have to notify them of the selling [of the loan]. Do we want to let go of the relationship? If we engage [the secondary market, it] must be on our terms and support our sovereignty."*
>
> - Native CDFI leader on the secondary market

There are various reasons Native CDFI respondents and the Housing Advisory Board reported being disinterested in the secondary market, including concerns about capacity and mission drift, compliance with regulations, and other financial considerations. From the mission-based perspective of a Native CDFI, the long-term relationship with a borrower that is strengthened and maintained through being involved in servicing is critical. One Native CDFI leader shared their concerns about the secondary market saying, "We want to learn more about the secondary market. A concern is that our clients want to stay with us [for servicing]. We would have to notify them of the selling [of the loan]. Do we want to let go of the relationship? If we engage [the secondary market, it] must be on our terms and support our sovereignty."

Financially, CDFIs generate revenue by holding mortgages in their portfolio; first and foremost, from interest revenue supporting increased organizational sustainability and, secondly, from funders such as the CDFI Fund eager to incentivize this portfolio growth through their grant evaluation criteria. However, given the lack of long-term, affordable housing capital to support portfolio lending, two-thirds of Native CDFIs working in the housing space are interested in engaging the secondary market in some manner, demonstrating a clear desire to learn more about market participation.

Figure 6

Level of Comfort with Secondary Market

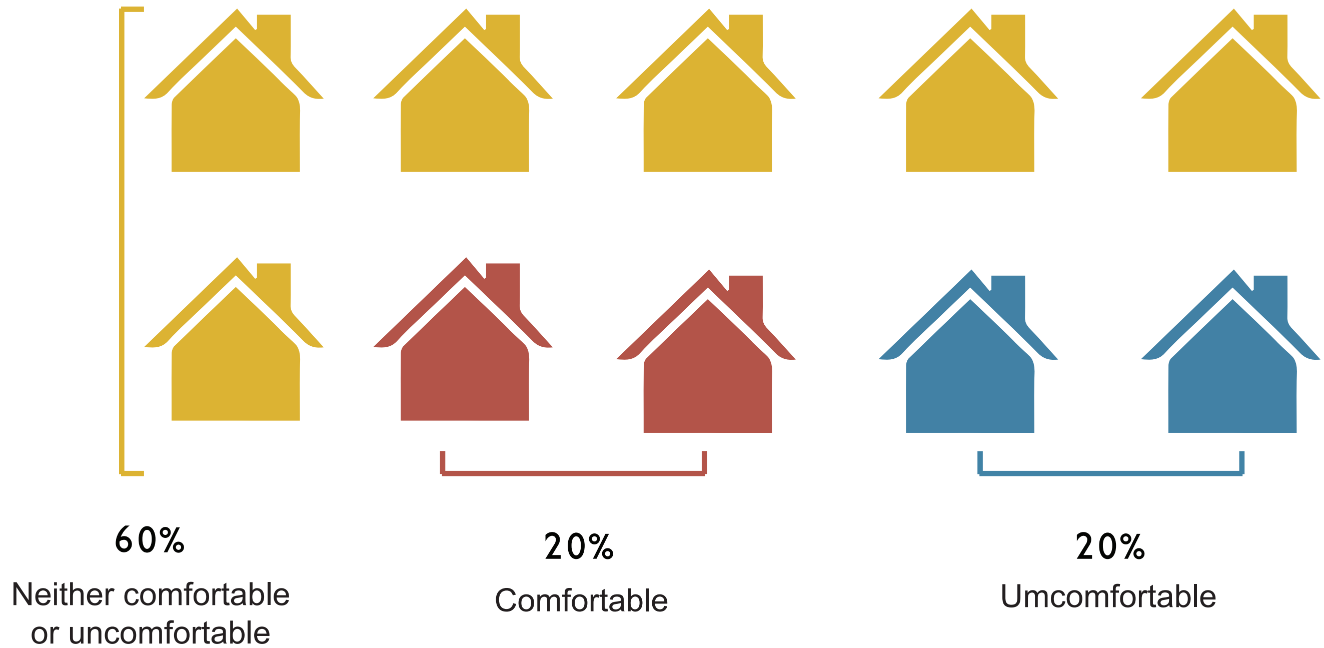


Figure 7

Level of Interest in Participating in Secondary Market

LEADING THE CHARGE

Many Native CDFIs understand they are uniquely positioned to lead the charge for homeownership in their communities. Led by both a desire to see their communities have the same homeownership opportunities as the rest of the country and a desire to become more self-sufficient through additional earned revenue for their organizations, Native CDFIs are flocking to the housing market. These Native CDFIs, however, are eager to engage this market on their own terms—passionately led by community needs and their commitment to tribal sovereignty. As one Native CDFI Executive Director said "[Housing] is a great space for CDFIs to step into… Good to step into it but need to do it in our own way. Let's get tribal leadership on board."

Of the thirteen Native CDFI respondents that were seeking to start homeownership programs, 67% were planning on mobilizing quickly to implement their program within the next six months (Figure 8). According to respondents, over 83% of these Native CDFIs said that they will need to extensively grow their staff capacity to accomplish their lending goals, while 67% identified that they would need additional capital (Figure 9).

Existing Native CDFI housing lenders are eager to further diversify their product offerings and find additional ways to partner and engage with the mortgage market. As Figure 10 demonstrates, Native CDFI housing lenders see themselves growing to offer more brokering services over the next year for products. The most desired non-portfolio mortgage products Native CDFIs would like to begin offering are those that conform with the HUD 184 guarantee program, or the USDA 502 direct lending program.

It is important to note that while most Native CDFIs wish to diversify their products through offering additional mortgage products that might allow them to interact with the secondary market, Native CDFI respondents and Housing Advisory Board members remain committed and passionate about offering the non-conforming portfolio products that were designed to uniquely support their communities. For most Native CDFIs offering mortgage portfolio products, they anticipate continuing to offer these products for those borrowers who do not meet more stringent underwriting criteria needed for loan guarantee and secondary market requirements.

Figure 8

When do you plan to implement your home program?

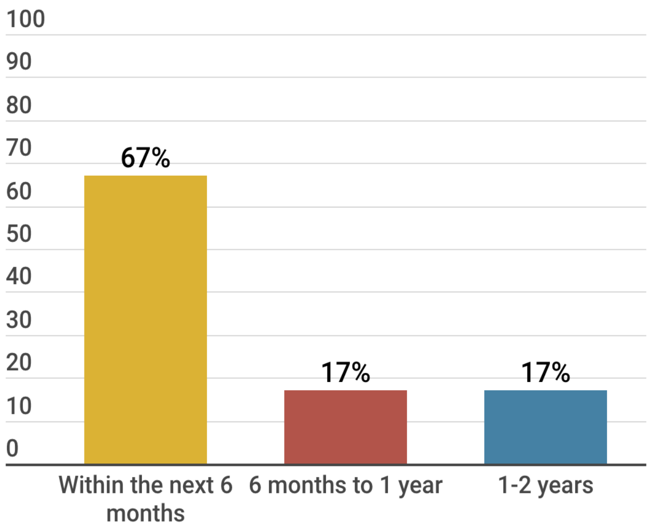
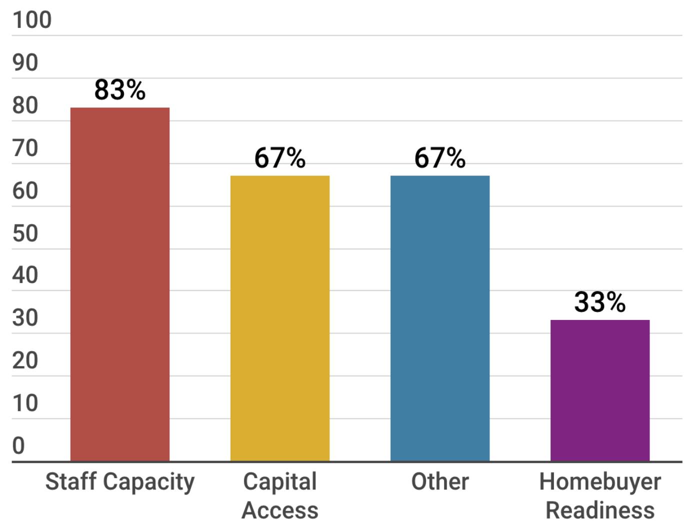


Figure 9

What are needs to reaching home lending goals?

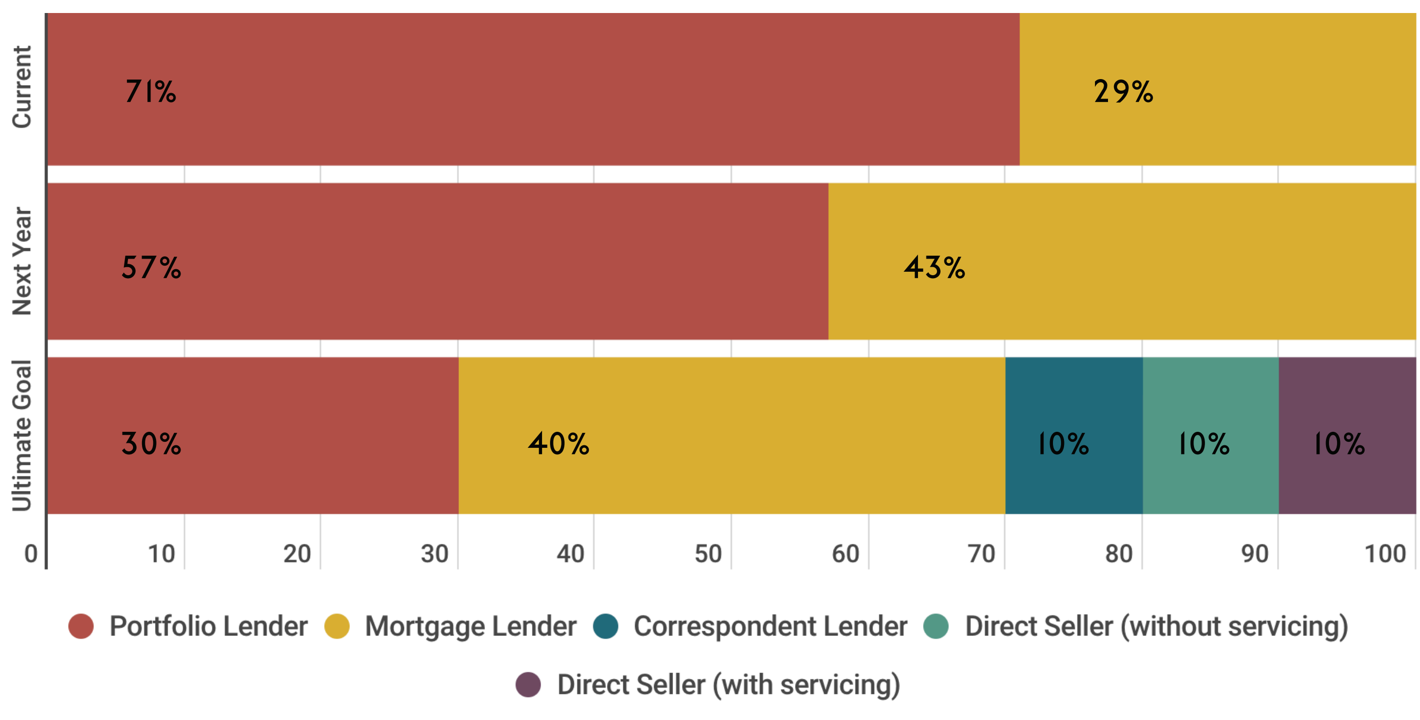


Of the thirteen Native CDFI respondents that were seeking to start homeownership programs, **67% were planning on mobilizing quickly to implement their program within the next six months (Figure 8).** According to respondents, over 83% of these Native CDFIs said that they will need to extensively grow their staff capacity to accomplish their lending goals, **while 67% identified that they would need additional capital (Figure 8).**

Native CDFI respondents and Housing Advisory Board members remain committed and passionate about **offering the non-conforming portfolio products** that were designed to uniquely support their communities.

Figure 10

Current Structure and Goals



Case Study

South Dakota Native Homeownership Coalition

Started in 2013, the South Dakota Native Homeownership Coalition is a collaborative group of key organizations dedicated to increasing homeownership opportunities for Native Americans in the State of South Dakota. Their mission is to increase homeownership opportunities for South Dakota's Native people to build strong and healthy communities.

Their growing group of stakeholders include approximately 75 representatives of South Dakota's tribes, federal and state agencies, tribally designated housing entities (TDHEs), nonprofit organizations, housing developers, residential construction professionals, lenders, and community development financial institutions. From the outset, Coalition members recognized that addressing the challenges to Native homeownership would mean a collaborative, cross-sector effort that includes Native and non-Native partners.

As a coalition, their partners have had an impressive collaborative impact. From January 2016 to December 2019, in total the Coalition members have worked to secure:

- 162 home loans for Native families totaling $8,500,000
- $800,503 in home loan subsidies averaging $7,100 per loan
- 114 new homeowners and 65 new homes on reservations
- 10,000 hours of technical assistance including one-one-one counseling, coaching, technical assistance, and education assistance to families
- 170 trainings offered to 5,600 people including financial management and homebuyer education courses

Moving forward, the South Dakota Native Homeownership Coalition will strive towards our vision of strong, thriving, and sustainable communities in South Dakota where Native people have the opportunity to achieve their dream of homeownership.

RECOMMENDATIONS

For Native CDFIs

1. Confront Institutional Barriers, Together

For those who have been in this work for many years, the persistent and long-term nature of the structural and institutional barriers to homeownership in Native communities can be disheartening. It is not uncommon to hear voices prefacing their comments with, "as we said twenty-five years ago" in conversations around the lack of housing stock or the BIA land recording process. However, to tackle these challenges that are so much larger than any one community, it will take partnerships, sharing best practices, and a combined fundraising infrastructure led by Native CDFIs working together. Coalitions broader than Native CDFIs, but led by Native CDFI voices, stand to serve as vehicles to finally challenge some of these long-term, institutional barriers for Native communities. Local-level or regional coalitions have been shown to be especially effective at pushing for structural change from the bottom up. In addition, national coalitions such as the National Native Homeownership Coalition have been helpful not only for sharing best practices, but also for increasing dialogue around process improvements with government agencies, such as the Bureau of Indian Affairs.

2. Consider Secondary Market Access

Many Native CDFIs are justifiably cautious of calls to conformity. The same core traits that have made them successful at serving the unique needs of their target markets, such as their deep commitment to relationship-based lending and to meeting clients where they are at, lead them to having very real concerns about the viability of integrating conforming mortgage products. However, in review of the current Native CDFIs' portfolio products compared to the market of conforming products (Appendix 1), it is clear that—for many Native CDFIs—the criteria for many of the federal mortgage programs are not so far off the underwriting criteria for many of these portfolio loans.

For Native CDFIs interested in the flexibility of having a mortgage product that conforms to the secondary market, a review of their current portfolio and associated existing underwriting criteria can help discern which conforming product would most closely align with their community needs. If demand is strong enough, full business planning on their mortgage lending programs can help determine if—and in what role—it makes sense to offer one or more of these conforming products from both a financial and client-impact perspective. With conventional products, Native CDFI willing to creatively restructure their products through offering a conforming first mortgage that is accompanied by a more flexible portfolio product acting as a second mortgage might help the Native CDFI access the secondary market without adding any additional cost to the borrower for Private Mortgage Insurance (PMI). These conforming products, offered in concert with continuing their portfolio lending programs for clients who do not conform to these products, might ultimately lead not only to more capital liquidity, but as potentially more affordable housing products, for local community members. If Native CDFIs do not currently want to bear the expense of becoming a direct seller or servicer with GSEs but do wish to provide access to these conforming products, Native CDFIs can either broker these products or work with other mission-driven lenders serving as aggregators.

Montana couple standing in front of their home with Patty Gobert, Loan Administrator at NACDCFS. Photo courtesy of NACDC Financial Services, Inc.

Case Study

502 Relending Pilot

Mazaska Owetipi Financial on the Pine Ridge Indian Reservation and Four Bands Community Fund on the Cheyenne River Indian Reservation both participated in USDA's 502 Relending Pilot Project. This project, instead of the typical USDA 502 process where a CDFI might package a loan and then send the client to the USDA to close and service the loan, this relending pilot project invested $1 million directly to each CDFI ($800K invested by USDA with a $200K match from the CDFI) which the CDFI lent and now services those loans.

Both Four Bands and Mazaska spent out the 502 relending funds quickly and efficiently with no defaults on those loans. The loans are easily used with low-income requirements and few restrictions on land or type of home. Four Bands was able to partner these funds with a program from the South Dakota Housing Authority's Housing Opportunity Fund that covers half the cost of construction, as Four Bands utilized the 502 relending funds on a new housing development in Cheyenne River.

For Partners

In general, there are many ways for partners to support the Native CDFI housing movement, such as simply supporting the advocacy efforts that affect structural solutions or providing funding and training opportunities.

1. Create More Flexible, Long-term Capital Sources for Native CDFI Portfolio Products

While the secondary market can play a role in supporting the growth of capital sources for Native CDFI housing lenders, it is also clear the niche portfolio products Native CDFIs offer are accomplishing what no other housing products are—reaching Native people on trust lands. In order to support growth in this critical, non-conforming market segment, Native CDFIs and their flexible and innovative housing programs need increased access to low-cost, long-term lending capital. To date, few funders have been willing to extend loan capital terms beyond 3-5 years. To ensure Native CDFIs offering non-conforming mortgage loan products can keep payments affordable for low-income borrowers as well as maintain appropriate asset-liability management practices, they must increase equity capital and average maturities on their debt capital. Partners can support these needs by offering low-cost, longer-term capital sources for Native CDFIs, including 10-, 15-, and 20-year investments and/or increased opportunity for equity capital. Longer-term rolling, subordinated investments, such the EQ2 investments that were once popular with banks, could most certainly help fill this capital gap for the unique portfolio products that make housing lending possible in some of the most marginalized regions of the county.

2. Support Native CDFI Capacity Building

Given the large interest of Native CDFIs in housing lending and their unique ability to serve Native communities, it only makes sense to continue support for the long-term capacity building of the Native CDFI sector. When asked about their capacity building needs, Native CDFIs were especially eager for best practices, cohort-learning based models, and support working with the BIA to streamline on-trust land lending (Figure 11). Other regularly mentioned capacity building needs included training programs (such as train-the-trainer program on post-purchase education), research, technical assistance on creating a development arm, and business planning support.

When asked what kind of training programs would be the most useful, training on capitalization for mortgage lending was identified as the highest priority. In addition,

Figure 11

Capacity Building Needs

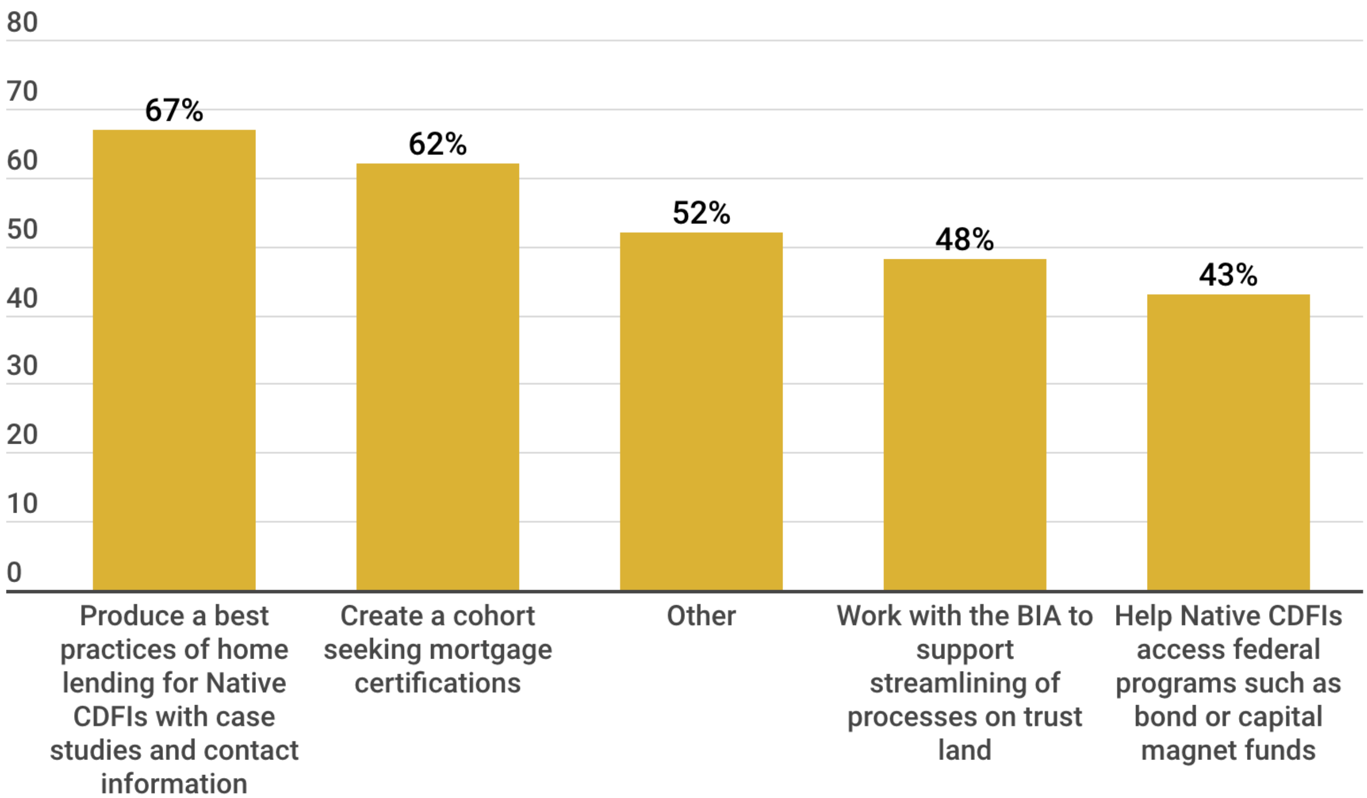
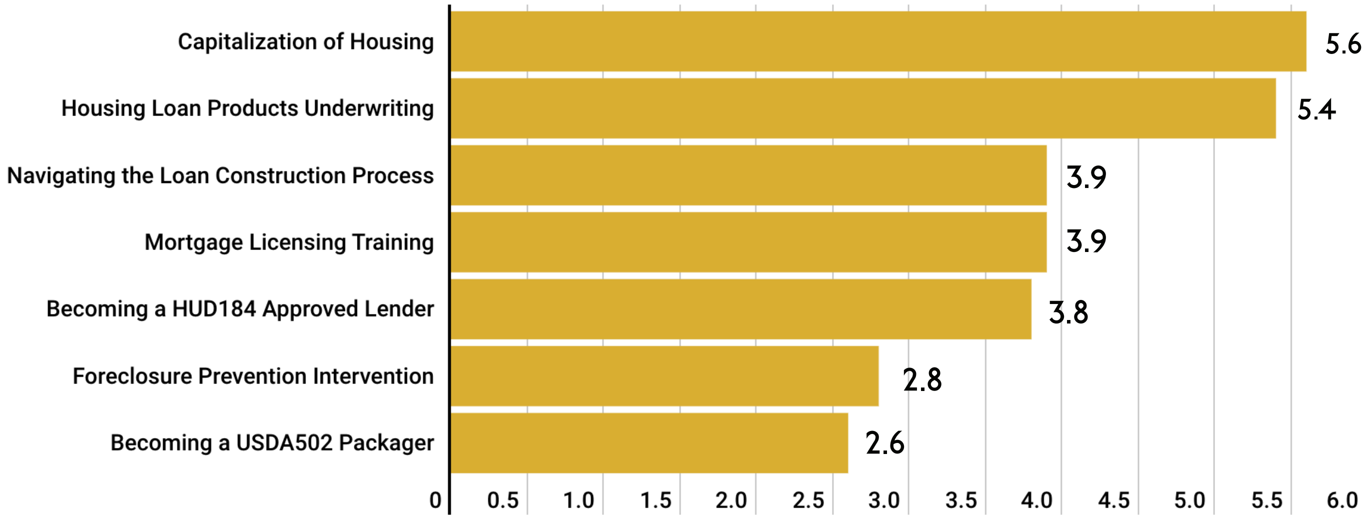


Figure 12

Average Rating for Most Useful Additional Housing Related Trainings

(1=least useful, 7=most useful)



training on housing underwriting, navigating the construction loan process, and mortgage licensing training were also of high interest to Native CDFIs (Figure 12). Native CDFIs appear strongly interested in both the HUD 184 and USDA 502 direct loan programs, but both in survey and in interviews, Native CDFIs appear to have slightly more interest in the HUD 184 program. This difference was attributed to the more expansive geographic and income eligibility requirements of the HUD 184, as well as the potential for Native CDFIs to become direct originators themselves under the HUD 184 program. However, many Native CDFIs expressed interest in partnering with the USDA should there be further expansion of the USDA 502 relending pilot program; this program was piloted successfully with two Native CDFIs in South Dakota in 2019.

3. Advocate for and Participate in Structural Solutions

As discussed in our recommendations for Native CDFIs, national and regional coalitions have shown themselves to be particularly effective at supporting mobilization and advocacy efforts. However, participation from all relevant partners is required for these coalition to be most effective in addressing the structural solutions necessary. This solidarity might come in many different formats ranging from financial support to joining in advocacy efforts. In Key Informant Interviews, however, it was clear that strong partnerships maintained the three following fundamental characteristics: (1) a respect of Native leadership; (2) a willingness to engage in partnership long-term; and (3) the ability to adapt. The most discussed partnerships Native CDFIs were seeking nationally were with investors, the GSEs, and the BIA. At the local level, Native CDFIs longed for deeper partnerships with their local tribal housing authorities, and—non-surprisingly—with their local construction market.

4. Create Avenues for Secondary Market Access

Native CDFIs need genuine on-ramps to the secondary market, ones that are driven by an understanding of the context of Native communities. If partners are truly earnest about serving Native communities, some adaptation of existing practices will be necessary. For lenders wishing to partner with Native CDFIs for brokering or referrals, this might include tailoring mortgage products to better align with the needs of Native communities (as identified by the partnering Native CDFI), creating pricing structures that account for the higher cost of homebuyer readiness in Native communities, or understanding that many Native CDFIs will want to be involved in loan servicing to help ensure their borrowers' success.

For GSEs, this includes creating variances or allowing some flexibility of existing product regulations that allow for Native CDFI participation. From extensive conversations with our Native CDFI Housing Advisory Board, the most regularly suggested required variances includes being comfortable with Native CDFIs participating in some way in the loan servicing process.

National and regional coalitions have shown themselves to be particularly effective at supporting mobilization and advocacy efforts. However, **participation from all relevant partners is required for these coalition to be most effective** in addressing the structural solutions necessary. This solidarity might come in many different formats ranging from financial support to joining in advocacy efforts.

In addition, all GSE affordable-housing products should be available to individuals of any income level on tribal trust lands; currently, the income limits on these products sit at <80% Area Median Income (AMI). In general, in all high poverty, rural communities (such as those in which most Native American Reservations reside), AMI limits are flawed markers of a family's financial well-being. In Native communities with few on-ramps to homeownership and capital access challenges, any opportunity to eliminate unnecessary barriers in providing families affordable mortgage products on tribal trust lands must be seized. Lastly, the creation of a CDFI-preferred product that more clearly aligned with the underwriting requirements of Native CDFI portfolio lenders (Appendix 1), would additionally be very helpful.

CONCLUSION

In the face of a growing demand for housing loans among Native families, the Native CDFI movement is uniquely positioned to lead housing lending efforts for Native communities. Native CDFIs' ability to meet the needs of their clients while offering diverse loan products with short-term and variable capital is admirable. Not only are they currently meeting needs, but they are also looking to start and expand their homeownership programs and products to address the lack of homeownership in Indian Country. The barriers which hinder Native CDFIs in meeting their housing goals include access to capital, lack of homebuyer ready clients, lack of housing stock and infrastructure, and a need for increased staff capacity.

To effectively support a Native housing market and address common barriers, Native CDFIs need committed partners who can be responsive to the unique conditions that exist in Native communities. Partners must be willing to consider structural changes to their existing investment and/or housing products, support Native CDFI capacity building, and stand in solidarity with structural solutions. Native CDFIs themselves must continue to confront institutional barriers and devise a plan to engage with the secondary market that offers suitable loan products for Native CDFIs' target markets while supporting capital diversification. Regardless of experience, we can all learn from each other and partner to strengthen the sustainability of these community-responsive institutions that play a critical role in shaping local Native economies. In the end, their work enables families to live in their community, near family, and ultimately to have a place to call home.

Home financed by Tiwa Lending Services. Photo courtesy of Tiwa Lending Services.

Oweesta Corporation
2432 Main Street • Longmont, CO 80501
303.774.8838 • www.oweesta.org

APPENDIX 1

		Loan Features					
		Income Limits	**Maximum Loan Amount**	**Downpayment Assistance Requirement**	**Maximum Loan to Value (LTV)**	**Maximum LTV for Refinance**	**Cash Out with Refinance**
CDFI	**HUD Section 184**	None	Based on county limits	1.25% (<$50k) 2.25% (>$50k)	98.75% (<$50k) 97.75% (>$50k)	97.75% (or 85% for cash out)	Yes
	USDA 502 Guarantee	< 115% AMI	None	None	100%	100%	Yes
	USDA 502 Direct	< 80% of AMI	Based on county limits	None	100%	100%, no cash back	Yes
	VA Native American Direct Loan	No	Based on county limits	None	100%	99.5%, can only refinance NADL	Yes
	Fannie Mae HomeReady	< 80% of AMI	$510,400	3%	97%	97% (or 80% for cash out)	Yes
	Freddie Mac HomePossible	< 80% AMI	$510,400	3%	97%	97%	Yes
	First Mortgage (6 CDFIs)	None, 125% NAHASDA AMI	150K-225K	none-1%, $5K	90%-100%	95%-100%, 1 does not offer	4 Yes, 2 No

APPENDIX 1, cont'd

		Loan Features					
		Manufactured Housing Terms	Debt-to-Income Ratios (front/back end)	Origination Fee	Credit Score Requirements	Able to Finance Closing Costs	Title Insurance Required
CDFI	HUD Section 184	New / Existing on permanent foundation	41	1.5%, 0.25% annual premium	Good Credit (alternative credit sources allowable)	Yes	No
	USDA 502 Guarantee	New with permanent foundation	29/41	1%, 0.35% annual premium	Good Credit >640 (alternative credit sources allowable)	Yes	No
	USDA 502 Direct	New with permanent foundation; Approved Dealer- Contractor	Very Low Income 29/41; Low Income 33/41	None	Good Credit (alternative credit sources allowable)	Yes	No
	VA Native American Direct Loan	New with permanent foundation; Approved Dealer- Contractor	41	1.25%	Good Credit	Yes	No
	Fannie Mae HomeReady	Guidelines tighter, 95% max CLTV	Up to 50 DTI in DU	Cancellable mortgage insurance	620	Yes	No
	Freddie Mac HomePossible	Yes	45	Cancellable mortgage insurance	660	Yes	?
	First Mortgage (6 CDFIs)	5 Yes, 1 No	28-29 / 38-43, use HUD, case by case	1-2% of loan	600, HUD, none (no collections / no delinquencies)	Yes	4 Yes, 2 No