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Hearing on Native American Housing

U.S. Senate Subcommittee on Housing, Transportation, and Community Development
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On behalf of the Native CDFI Network (NCN) and the 64 Treasury-certified Native community development financial institutions (CDFIs) and roughly two dozen emerging Native CDFIs we serve across 27 states, I welcome this opportunity to present to this Subcommittee our shared perspectives on the capital access challenges related to housing and in particular homeownership faced by American Indian, Alaska Native, and Native Hawaiian communities, the pivotal role Native CDFIs play in helping to address those challenges and the tremendous potential they possess to further cultivate economic growth in those communities, and what Congress can do to transform that potential into reality.

The Capital Access Challenges Facing Native Housing and Homeownership in Indian Country

Despite recent advancements and success stories forged by Native CDFIs, tribal governments, other key Native-run entities, and our partners across Indian Country, the challenges facing Native housing and homeownership remain severe and pervasive. As the Center for Indian Country Development with the Federal Reserve Bank of Minneapolis explains, “in 2016, just 52.9 percent of all Natives were homeowners, down from 55.5 percent in 2000. In tribal areas, there is a strong and as yet unmet demand for homeownership among Native households: 75 percent report a strong desire to own their home. Concerns about chronic housing shortages, quality, and over-crowdedness suggest additional demand for new investments in private homes in Indian Country.”¹ Historic and persisting redlining as well as chronic underinvestment in vital federal programs like the Native American CDFI Assistance (NACA) Program continue to plague Indian Country’s access to capital generally and financing for Native homeownership in particular. These factors and others contribute to a situation where, among other troubling statistics, Native people live in overcrowded households at a rate of nearly 700% higher than

¹ Center for Indian Country Development (Patrice Kunesh, ed.), *Tribal Leaders Handbook on Homeownership*, Federal Reserve Bank of Minneapolis, 2018, p. 4 (<https://www.minneapolisfed.org/-/media/files/community/indiancountry/resources-education/cicd-tribal-leaders-handbook-on-homeownership.pdf>).

the rest of the U.S. population², and the number of Native families facing severe housing costs grew by 55 percent over a recent 15-year period.³

Meanwhile, Indian Country's challenges when it comes to financial literacy, access to credit, and the prices Native people pay when they finally do get a home loan are equally severe. Just before the pandemic hit in 2019, the Federal Reserve found that Native Americans living on reservations who want to buy homes are significantly more likely to have high-priced mortgages, and those mortgage rates average nearly two percentage points higher than for non-Native people outside reservations.⁴ According to the Federal Reserve, this means a Native family purchasing a \$140,000 home on a reservation could pay \$100,000 more over the course of a 30-year loan than a non-Native purchasing a home outside a reservation would pay.

This state of affairs is simply unacceptable, but there is a proven solution for improving it – Native CDFIs.

The Vital Role Native CDFIs Play in Native Housing and Homeownership

As the CDFI Fund explains on its website, Native CDFIs' origins can be traced to the 1994 Congressional legislation authorizing the Fund's creation, which contained among its provisions the mandating of a study examining lending and investment practices in Native communities.⁵ Titled the *Native American Lending Study*, the study identified 17 major barriers to investment in Indian Country, and "affirmed the importance of developing Native CDFIs to play a key role in the broader effort to lead Native Communities into the nation's economic mainstream."⁶

In the two decades since the study's release, Native CDFIs have proven themselves vital engines for fueling the growth of healthy, vibrant Native economies and communities. In the CDFI Fund's own words, Native CDFIs are "an important part of the CDFI Fund's mission to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States," and they are making a "considerable impact" by "helping to transform their communities. They are creating businesses and jobs in places that desperately need them. They are providing personal financial education and

² Diane K. Levy et al., *Housing Needs of American Indians and Alaska Natives in Urban Areas: A Report from the Assessment of American Indian, Alaska Native, and Native Hawaiian Housing Needs*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, January 2017 (<https://www.huduser.gov/portal/sites/default/files/pdf/NAHSG-UrbanStudy.pdf>).

³ U.S. Commission on Civil Rights, *Broken Promises: Continuing Federal Funding Shortfall for Native Americans*, Briefing Report, December 2018, p. 137 (<https://www.usccr.gov/files/pubs/2018/12-20-Broken-Promises.pdf>).

⁴ Laura Cattaneo and Donna Feir, *The Higher Price of Mortgage Financing for Native Americans*, Working Paper Series No. 1906, Federal Reserve Bank of Minneapolis, September 17, 2019, p. 1 (<https://www.minneapolisfed.org/~media/assets/papers/cicdwp/2019/cicd-wp-201906.pdf>).

⁵ CDFI Fund, "Native Initiatives" webpage, U.S. Department of the Treasury (<https://www.cdfifund.gov/programs-training/programs/native-initiatives>).

⁶ CDFI Fund, *The CDFI Fund's Native Initiatives: Fostering Economic Self-Determination for Your Native Community*, Fact Sheet, U.S. Department of the Treasury, February 2020, p. 1 (https://www.cdfifund.gov/sites/cdfi/files/documents/cdfi7205_fs_ni_updatedfeb20.pdf).

business training to persons who have been excluded from our nation’s economic mainstream. They are helping to change the lives of the people they serve.”⁷ According to the Treasury Department, investments made in CDFIs produce an eight-fold return, with each \$1 creating \$8 in private sector investments.⁸

Nowhere is Native CDFIs’ impact more profound than with Native homeownership. A growing number of Native CDFIs across the country offer homeownership loans, down payment assistance, and homebuyer training to Native people who have been and continue to be purposefully ignored by mainstream lending institutions. Simply put, without Native CDFIs, these people would have no path to becoming homeowners and building a solid financial foundation and source of intergenerational wealth for their families. For example, in South Dakota over a recent 15-month period, 85 percent of the total home loans made to Native people across the state were financed by Native CDFIs.⁹

Native CDFIs exemplify and advance the mission of the CDFI Fund by enabling homeownership for Native people who have never owned a home through HUD opportunities such as Section 184 Loan Guarantees, HUD housing counseling, and other existing federal programs such as the USDA 502 Direct Loan program, the Veterans Affairs Native American Direct Home Loan program, and the Federal Home Loan Bank system. These various federal tools are helpful, but they are universally underfunded and need to be enhanced and expanded to address the immense scope of the homeownership challenges that Native communities continue to face.

It is worth noting that each Native CDFI crafts and implements its own innovative, customized solutions to these challenges based on its intimate understanding of the Native community or communities it serves. NCN works to uplift and enhance the ability of each Native CDFI to do so. Geographic location plays a significant role in shaping the challenges these institutions work to address. While some NCDFIs exclusively serve reservations, others cater to federally designated service counties. Some serve exclusively rural Native communities, and others serve both urban and rural Native communities. Some serve a single Native community in a concentrated geography, while others serve multiple communities across an expansive region. This diversity highlights the need for thoughtful, self-determined approaches and solutions tailored to the specific missions and service areas of each Native CDFI and the particular needs and cultures of the distinct Native community or communities they serve.

The challenges encountered by Native CDFIs are multifaceted, requiring a holistic approach to problem-solving. They include limited access to low-cost lending capital as well as financial

⁷ CDFI Fund, *Financing Native Leaders for Tomorrow: Native Initiatives Strategic Plan FY 2009-2014*, U.S. Department of the Treasury, 2009, p. 3 (<https://www.cdfifund.gov/sites/cdfi/files/documents/native-american-strategic-plan.pdf>).

⁸ Treasury Secretary Janet Yellen, *Native CDFIs: Stepping Up to Serve Indian Country Through the Pandemic and Beyond*, Native CDFI Network, July 2021, p. 1 (<https://nativecdfi.net/wp-content/uploads/2021/09/NCN-Pandemic-Report.pdf>).

⁹ South Dakota Native Homeownership Coalition, *Our Collective Path to Native Homeownership (January 2022-April 2023)*, Data Infographic, April 2023.

resources supporting organizational capacity building, overly rigid federal programs, non-Native predatory lenders, and low financial literacy among existing and potential Native CDFI clients. Addressing these challenges requires precise, localized solutions that can be likened to puzzle pieces that need to come together to form a complete picture. It also requires effective collaboration and coordination between Native CDFIs and various stakeholders, including Congress, federal agencies, and the Native CDFI Network.

By recognizing the distinctiveness of each Native CDFI and the range of obstacles they face, stakeholders can work together to support the development of comprehensive strategies. A holistic approach that combines increased funding, streamlined processes, and enhanced collaboration will empower Native CDFIs to overcome their unique challenges and fulfill their crucial role in addressing housing and homeownership needs across American Indian, Alaska Native, and Native Hawaiian communities.

Native CDFIs are uniquely positioned to understand the specific needs, cultural context, and financial circumstances of Native communities. They have a deep understanding of the challenges faced by individuals and families seeking homeownership and work tirelessly to develop solutions that meet their demonstrated and understood needs. Through tailored financial products, technical assistance, and community outreach, Native CDFIs have proven to be pivotal in increasing access to affordable housing and homeownership opportunities.

However, despite their significant progress, Native CDFIs need support from Congress to grow that progress to meet the moment. One critical step Congress can take is to provide increased funding for programs that support Native CDFIs. This includes allocating resources to strengthen the capacity of Native CDFIs, enabling them to expand their reach, develop new impactful programs, and meet the unique challenges faced by their communities. We ask Congress to recognize Native CDFIs as an irreplaceable tool to deploy affordable capital to Indian Country.

Requests of the U.S. Senate Subcommittee on Housing, Transportation, and Community Development and Congress as a Whole

NCN and the Native CDFIs we serve have collectively identified the following six key ways that Congress can strengthen Native homeownership across the country and specifically the vital role of Native CDFIs in that endeavor:

Support Native CDFIs' efforts to ensure Treasury's reforms to CDFI Certification strengthen – and not harm – Native CDFIs across the country: As you know, the Treasury Department and CDFI Fund are close to completing their process to reform the CDFI Certification Application and related regulations. Unfortunately, their proposed reforms threaten to hamper Native CDFIs' ability to sustain and grow economic progress and specifically homeownership in Indian Country by needlessly placing them in a no-win position: either (1) drastically change the way they operate and the types of needs-based programs and products they offer simply to conform to the CDFI Fund's proposed rigid certification requirements, or (2) forego attaining or retaining

certification, which will result in significantly reduced access to the capital and credit they need to serve their clients (see multiple comment letters attached for more details).

Particularly troubling among the CDFI Fund's proposed reforms are its prohibitions of interest-only mortgage loans, mortgage loans with balloon payments, and mortgage loans with terms longer than 30 years. Many Native CDFIs currently offer interest-only loans and loans with balloon payments to provide affordable homeownership opportunities to Native clients that otherwise would not have access to mortgage loans. For example, one Native CDFI offers a 30-year amortized mortgage loan product that features a five-year balloon payment. The CDFI works with borrowers to help ensure they can refinance their loans with the local credit union before the balloon payment is due. This prepares and incentivizes borrowers to enter the financial mainstream, as well as allowing the CDFI to turn over capital more quickly to serve a much larger number of home buyers. Other innovative interest-only and/or balloon loan products offered by Native CDFIs that help Native people access affordable and flexible capital to meet their needs include home equity lines of credit, construction loans, housing development loans, and down payment assistance loans. Many of these would no longer be allowed under the proposed new limitations. Some Native CDFIs also offer terms on mortgage loans longer than 30 years to make them affordable, including USDA loans they deploy featuring terms of 38 years. Although longer-term mortgage loans could lead to a slower accumulation of equity, they provide families with housing security through fixed housing payments – not to mention the pride of homeownership. Altogether, according to two recent NCN surveys, roughly 40 percent of Native CDFIs currently provide at least one of these types of loans to their clients.

NCN and the Native CDFIs we represent and serve call upon Congress and specifically this Subcommittee to help us elevate our concerns with Treasury and the CDFI Fund, and also support our recent request of Treasury and the CDFI Fund to hold a formal listening session with Native CDFIs regarding the proposed reforms to the CDFI Certification Application and related regulations before those reforms are finalized so Native CDFIs' concerns can be directly heard and addressed (see attached request letter).

Establish a Native Advisory Committee within Treasury and the CDFI Fund: The current CDFI Certification reform process has illustrated to Native CDFI leaders (yet again) the dire need for the voices of American Indian, Alaska Native, and Native Hawaiian community and economic development practitioners (including Native CDFI leaders) to directly and substantively inform the design and implementation of Treasury and CDFI Fund programs and policies – notably the NACA program – that impact Indian Country, the flow of capital to Native communities, and the ability of Native CDFIs to foster community development and asset building in those communities. Congress should mandate that Treasury establish this Committee, which should meet at least annually with the Secretary of the Treasury and the U.S. Treasurer, and more frequently with Treasury's newly established Office of Tribal and Native Affairs.

Increase the annual Congressional appropriation for the CDFI Fund's Native American CDFI Assistance (NACA) Program to \$50 million: As NCN indicated in our recent letter (co-signed by 65 other organizations, see attached) to the Senate and House Appropriations committees, a

sizeable increase in annual NACA program funding is desperately needed to address the significant unmet needs of Native CDFIs for lending capital, particularly when it comes to home construction and homeownership. For example, a 2022 NCN survey of 16 Native CDFIs (just one quarter of the country's 64 Treasury-certified Native CDFIs) found their projected three-year unmet loan capital needs collectively totaled \$166 million.¹⁰ Meanwhile, for FY 2022, funding requests made by applicant Native CDFIs for the NACA Base-Financial Assistance (FA) funding exceeded the amount awarded by the CDFI Fund by 49 percent, and their requests for NACA Technical Assistance (TA) funding exceeded the amount awarded by the CDFI Fund by 15 percent.¹¹

Strengthen the HUD Section 4 Program by increasing its annual appropriation to \$50 million and establishing a 10 percent set-aside for Native communities for FY 2024: The HUD Section 4 Capacity Building for Community Development and Affordable Housing Program is the *only* federal program explicitly designed to increase and enhance the capacity of community-based non-profit organizations to effectively serve the affordable housing and community development needs of low-income communities. In real dollars, Congressional funding for the Section 4 Program has decreased by more than 25 percent since 2004, despite the fact the low-income population served by Section 4 dollars has grown considerably. In addition, low-income families are disproportionately bearing the brunt of surging housing, transportation, and food costs related to rising inflation. A significant increase to \$50 million is justified for these reasons, but also because the Section 4 Program *works*. Over the past five years, Section 4 dollars have been deployed to construct and rehabilitate more than 40,000 affordable homes for low-income households. Critically, every \$1 in Section 4 funding leverages more than \$20 in additional public and private investments, which vastly exceeds the 3-to-1 match the law requires. Meanwhile, a 10 percent set-aside for Native communities is needed because Section 4 dollars have largely bypassed Indian Country since the program's inception, based on extensive anecdotal evidence provided by Native non-profit organizations dedicated to addressing the affordable housing and community development needs of tribal communities. A 10 percent set-aside for tribal communities (\$5 million total) will ensure that Section 4 funding *equitably* serves low-income communities across the country based on the relative breadth and severity of their documented needs for affordable housing and community development resources (see attached NCN's letter to Congress featuring these requests).

Pass the Rural Housing Service Reform Act of 2023: Title III of this legislation (S. 1389) makes the extraordinarily successful USDA Section 502 relending demonstration program permanent and extends it to all of Indian Country. S. 1389 authorizes the USDA Secretary to use \$50 million of the existing 502 Direct Loan appropriations for a national relending program specifically for Native communities. The demonstration project – implemented in 2018 – made two Native

¹⁰ NCN, *NCN Market Demand Study*, New England Market Research, Inc., October 2022.

¹¹ For the FY 2022 funding round of the NACA Program, the CDFI Fund received Base-FA applications from 29 organizations that requested \$25.5 million in Base-FA awards. It awarded \$17.1 million to 19 of those 29 organizations (https://www.cdfifund.gov/sites/cdfi/files/2023-02/2022_NACA_Award_Book.pdf). The CDFI Fund also received TA applications from 19 organizations requesting \$2.7 million in TA awards, and it awarded \$2.35 million (<https://www.cdfifund.gov/news/481>).

CDFIs eligible borrowers under the 502 Program and enabled them to relend to qualified families for the construction, acquisition, and rehabilitation of affordable housing on tribal trust land, and resulted in those CDFIs doubling *in one year* the number of home loans that USDA had provided on two Indian reservations in South Dakota during the previous decade. The project demonstrated that Native CDFIs are uniquely equipped to deploy mortgage capital efficiently and effectively in tribal communities, in part because of the supportive services they provide their clients, including homebuyer education, post-purchase and foreclosure prevention counseling, and other technical assistance. By collaborating with USDA, Native CDFIs can efficiently deploy mortgage capital to eligible Native families seeking to become homeowners. This legislation should be passed by the Senate with all due haste.

Pass the Native American Direct Loan (NADL) Improvement Act of 2023: S. 185 was part of a package of five veterans bills that went to the Senate floor on April 26, 2023. Unfortunately, the cloture vote failed, so the bill did not move forward. Among its many critical provisions in support of Native veterans, the legislation: (1) creates a \$5 million NADL relending program that would allow Native CDFIs, who intimately understand Native communities and the mortgage lending process on tribal trust land, to obtain a loan through the Native American Direct Loan program at a 1% interest rate and relend those funds to qualified Native veteran borrowers (the CDFI would repay the loan to the VA Department); (2) allow veterans to use NADL to refinance non-VA mortgages so that Native veterans have the same opportunity as non-Native veterans to use their VA loan benefit to refinance any existing mortgage loan; and (3) expand VA's NADL outreach program by partnering with tribes, tribally designated housing entities, Native CDFIs, and local nonprofits to conduct outreach, homebuyer education, housing counseling, post-purchase education, and other technical assistance as needed (see attached NCN letter to U.S. Senators for more details). Native veterans deserve access to these much-needed home loan benefits.

Conclusion

In closing, NCN and Native CDFIs urge Congress and this Subcommittee to build upon the focus of this hearing by continuing to collaborate with Native CDFIs and their leaders to devise and fund creative policy solutions that recognize and address the significant and uniquely complex capital access needs facing Indian Country, and the unique ability of Native CDFIs to deploy capital effectively for Native homeownership and other community development and asset building purposes that meet the distinct needs of each and every Native community. Native CDFIs stand ready to work with you to advance this goal.

Sincerely,



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