Mortgage Lending on the Pine Ridge Indian Reservation

Paul B. Manchester
U.S. Department of Housing and Urban Development

A number of Indian tribes have achieved unprecedented levels of prosperity in recent years, which has freed tribal members from economic deprivation and dependence. As President Bill Clinton remarked in an August 1998 address, this new wealth has sparked a "cultural renaissance in parts of Indian country, as tribes build new community centers, museums, language schools, and elder care centers."[1] However, the majority of Indians have not participated in this prosperity, and many continue to suffer from high rates of unemployment and low incomes.

The economic circumstances facing many Indians, especially those on remote reservations, have led to serious housing problems. These include a low homeownership rate; overcrowded housing; physical problems related to plumbing, heating, and electrical service; and affordability issues.[2]

Homeownership often has been elusive on reservations, due in part to the economic circumstances of American Indians but also due to unique issues related to tribal land status, tribal sovereignty, and requirements to gain clear title from the U.S. Bureau of Indian Affairs (BIA). To increase the opportunities for homeownership on reservations, President Clinton directed the Secretaries of the Treasury and HUD, in partnership with local tribal governments and in cooperation with other Federal agencies, to help streamline the mortgage lending process to improve access to mortgage loans on Indian reservations.[3]

To comply with this Presidential directive, former HUD Secretary Andrew Cuomo and then-Treasury Secretary Robert Rubin created an interagency task force to assess market conditions, consult with Indian tribes and other Native American organizations, and report its recommendations. The task force also established the One-Stop Mortgage Center Initiative, which started pilot programs on the Navajo Nation in New Mexico, Arizona, and Utah and on the Oglala Lakota Sioux Pine Ridge Indian Reservation in South Dakota.

Mortgage Lending on Indian Reservations

Skepticism has been expressed about the feasibility of meeting the goal of increased mortgage lending on reservations in general and on the Pine Ridge Indian Reservation in particular. For example, an editorial in the July 26, 1999, issue of the *National Mortgage News* stated, "there has never been *any* mortgage lending on the Pine Ridge Indian Reservation." Similarly, in a February 1998 report, the U.S. General Accounting Office (GAO) reported that, during the 5-year period from 1992–96, lenders made only 91 conventional home purchase loans to Native Americans on trust lands, and none of these were identified as being for properties on the Pine Ridge Indian Reservation.[4] GAO reported that the eight lenders making these loans held all of them in portfolio; there was no secondary market for mortgages on trust lands.

Although the level of lending on the Pine Ridge Indian Reservation and on other tribal lands falls far short of the need for housing finance, the reports appear to understate the level of lending taking place.[5] Such misstatements, by painting an overly bleak picture, may discourage lenders from exploring and taking advantage of the opportunities that do exist for lending at Pine Ridge and on other reservations.

Home Mortgage Disclosure Act Data

The most common source of information on mortgage lending in various parts of the Nation is the data provided annually in accordance with the Home Mortgage Disclosure Act (HMDA). Lenders covered under HMDA maintain a register of all loan applications received and the disposition of the applications: loan originated, application approved but not accepted, application denied by the lender, application withdrawn by the applicant, or file closed for incompleteness. HMDA data on loan originations include geographical identifiers for the State, county, and tract in which the property is located, and information on loan type (conventional or government-backed); loan purpose (home purchase, refinance, or home improvement); loan amount; borrower race and ethnicity; and borrower income. HMDA data also indicate whether loans originated are sold to Fannie Mae, Freddie Mac, Ginnie Mae, Farmer Mac, a bank or savings institution, or retained in portfolio.[6]

Since HMDA data are coded by State, county, and tract, the data do not identify Indian reservations as distinct geographic entities and thus do not provide direct information regarding lending on reservations. In general, reservations make up parts of one or more counties; that is, reservation boundaries usually do not follow county or tract lines.[7] Thus county or tract data generally cannot be analyzed or aggregated to provide a picture of lending on reservations.

Shannon County, South Dakota, however, is completely contained within the Pine Ridge Indian Reservation according to the 1990 Census of Population and the U.S. Bureau of the Census Topologically Integrated Geographically Encoding and Referencing (TIGER) map of South Dakota. The Pine Ridge Indian Reservation also includes a portion of Jackson County, South Dakota, but 87 percent of the reservation's 11,385 inhabitants lived in Shannon County in 1990.[8]

Lending in Shannon County likely accounts for most of the lending on the Pine Ridge Indian Reservation. The analysis of lending in Shannon County given below paints a somewhat brighter picture of lending on the reservation than that presented by the *National Mortgage News* editorial and the 1998 GAO report.[9] As a benchmark, the analysis also provides information on lending in counties of comparable size adjacent to Shannon County that contain no reservations. The analysis includes a discussion of the role of the secondary mortgage market in lending on the reservation, based on HMDA data on loans sold and on loan purchase data submitted to HUD by Fannie Mae and Freddie Mac and released by HUD in its public use database that covers these government-sponsored enterprises (GSEs).

Primary Mortgage Market for Loans in Shannon County in 1999

Originations in Shannon and Adjoining Counties

HMDA data indicate that, with the exception of 1995 when no originations were reported, there has been steady growth in lending in Shannon County. Total originations rose from 14 loans in 1993 to 19 loans in 1994 and 1996, 28 loans in 1997, 32 loans in 1998, and 44 loans (totaling $1.89 million) in 1999. Lending volume in Shannon County, which had 9,902 residents in 1990, may be put in perspective by comparing it with 1999 loan originations in five adjoining nonmetropolitan counties in South Dakota and Nebraska that contain no Indian reservations:

- Bennett County, South Dakota (3,206 residents in 1990): 13 loans.
- Sheridan County, Nebraska (6,750 residents in 1990): 31 loans.
- Dawes County, Nebraska (9,021 residents in 1990): 98 loans.
- Custer County, South Dakota (6,179 residents in 1990): 147 loans.
- Fall River County, South Dakota (7,353 residents in 1990): 192 loans.

Loan Characteristics

Of the 44 loans originated in Shannon County in 1999, 12 were insured by the Federal Housing Administration (FHA), up from only 2 FHA loans in 1998. The remaining 32 were conventional mortgages. Forty-two loans were listed as mortgages on owner-occupied properties, and two as mortgages on rental properties. Loan purpose was listed as *home purchase* on 39 of the 44 loans (including all 12 FHA loans), as *home improvement* on 3 loans, and as *refinancing of an existing mortgage* on 2 loans.

With regard to loan amount, all three home improvement loans carried a principal balance of less than $15,000, as did four of the home purchase loans and one of the refinance loans. Of the 36 loans for amounts greater than $15,000, the distribution of principal balance was:

- Four loans between $16,000 and $30,000.
- Eleven loans between $31,000 and $45,000.
- Seven loans between $46,000 and $60,000.
- Twelve loans between $61,000 and $75,000.
- Two loans in excess of $75,000.

With regard to loan disposition, lenders retained 15 loans in portfolio, 5 of the FHA loans were sold to Ginnie Mae, 2 loans were sold directly to Freddie Mac, and *other type of purchaser* was listed for the remaining 22 loans.[10] No loans were listed as being sold directly to Fannie Mae in the HMDA data; however, the GSEs’ role is discussed in greater depth below.

Borrower Characteristics

Not surprisingly, 29 of the 44 loans were made to American Indians/Alaskan Natives. An additional 11 loans were made to Whites; race/ethnicity was missing or listed as *other* on 4 loans.

With regard to borrower income, the appropriate benchmark for classification of the Shannon County loans in 1999 is area median family income (AMFI) for the non-metropolitan portion of South Dakota, which HUD has estimated as $37,800. HUD's regulations for Fannie Mae and Freddie Mac classify borrowers as very low-income (income no greater than 60 percent of AMFI), low-income (income between 60 percent and 80 percent of AMFI), moderate-income (income between 80 percent and 100 percent of AMFI), or above-median-income. Using this classification, there was a bimodal distribution of borrower incomes in Shannon County in 1999:

- Eight very low-income borrowers.
- Fifteen low-income borrowers.
- Six moderate-income borrowers.
- Fifteen above-median-income borrowers.

A crude measure of loan affordability is the ratio of the loan amount to borrower income. An old rule of thumb states that a borrower can afford to take out a loan with a principal amount no greater than 2.5 times annual income.[11] By this rule, most loans in Shannon County in 1999 were affordable: the loan amount was less than borrower annual income for 18 mortgages, between 1.0 and 2.5 times borrower income for 19 mortgages, and greater than 2.5 for only 7 mortgages.[12]

Lenders

HMDA data identify the lender originating each loan. HUD classifies lenders as prime lenders, subprime lenders, and manufactured housing lenders.[13] The originators of the loans made in Shannon County in 1999 were:

- Conseco Finance Servicing Corporation (formerly Green Tree Financial), a manufactured housing lender in St. Paul, Minnesota, with 16 loans.
- Norwest Mortgage, Inc., a Federal Reserve-regulated mortgage company bank subsidiary in Des Moines, Iowa, with 14 loans.
- Greenpoint Credit Corporation, a manufactured housing lender in San Diego, California, with 7 loans.
- American State Bank, a Federal Reserve-regulated bank in Rapid City, South Dakota, with 2 loans.
- Chase Manhattan Bank, of Edison, New Jersey; Indy Mac Mortgage Holdings, of Pasadena, California; Mobile Consultants, Inc. (a manufactured housing lender) of Akron, Ohio; Norwest Bank South Dakota of Sioux Falls; and U.S. Bank National Association, of Fargo, North Dakota—each with 1 loan.

Manufactured housing lenders originated 24 of the loans; the other 20 loans were originated by mortgage companies and banks.

Secondary Mortgage Market for Loans in Shannon County in 1999

Primary market lenders indicate in their HMDA reports whether originated loans are sold to Fannie Mae, Freddie Mac, Ginnie Mae, Farmer Mac, a bank or a savings institution, or held in portfolio. Of the loans originated in Shannon County in 1999, lenders retained 15 loans in portfolio. Of the remaining loans, 5 FHA loans (originated by Norwest Mortgage) were sold to Ginnie Mae, 2 loans (also originated by Norwest Mortgage) were sold to Freddie Mac, and *other type of purchaser* was listed for 22 loans.

Conseco Finance is the Nation's largest source of financing for mortgages on manufactured housing, and it generally packages its loans into asset-backed securities (ABSs). Only two loans that originated in Shannon County were listed in the 1999 HMDA data as being sold directly to Freddie Mac, and no loans were listed as being sold directly to Fannie Mae. However, an alternative source of information on the GSEs' role in lending in Shannon County is provided by the loan-level data submitted by Fannie Mae and Freddie Mac to HUD on mortgage purchases. These data provide much more information about the GSEs' loan purchases than the HMDA data, although much of the information has been designated as proprietary by the GSEs. This makes the data of limited usefulness in reporting publicly on the GSEs' activities on the Pine Ridge Indian Reservation. However, HUD has released information not designated as proprietary by the GSEs in a Public Use Data Base (PUDB), and this provides some information on the GSEs' purchases of mortgages on properties located in Shannon County in 1999.[14]

Fannie Mae's loan-level data indicated that it acquired 17 mortgages on Shannon County properties in 1999, 2 of which were made to first-time homebuyers.[15] Freddie Mac's loan-level data indicated that it acquired 11 mortgages on properties in Shannon County in 1999. Thus the GSEs reported acquiring 28 Shannon County conventional mortgages in 1999, far surpassing the 2 mortgages listed in the HMDA data as being sold to the GSEs.

There are several possible explanations for the discrepancy between the PUDB data and the HMDA data regarding the level of involvement in Shannon County by the GSEs. First, not all lenders are subject to reporting in accordance with HMDA. Second, some mortgages may have been originated prior to 1999, but purchased by the GSEs in that year. Those sales would not be reported in the HMDA data either for 1999 or the year of origination. Third, if a loan is not sold to a HMDA-reporting institution, HMDA data report only the first sale of the mortgage. It may be, for example, that some of the loans on manufactured homes originated by Conseco Finance were subsequently acquired by the GSEs in their purchases of Conseco's ABSs.

Whatever the explanation, the HMDA data indicate that, to date, Fannie Mae and Freddie Mac appear to have been two steps removed from borrowers in Shannon County. Their primary direct role has been acquisitions of loans initially acquired by other lenders and securitized by other participants in the secondary market, rather than direct securitization or purchase of loans made by primary market originators. However, the GSEs have been involved in activities related to lending on the Pine Ridge Indian Reservation and other reservations in ways other than direct acquisitions of loans from originators, as discussed below.

GSEs' Activities in Indian Country: Annual Housing Activities Reports

In accordance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, Fannie Mae and Freddie Mac are required to submit Annual Housing Activities

Reports (AHARs) to the HUD Secretary. These AHARs contain a number of tabulations about the GSEs' mortgage purchases—as specified by the Secretary—and detailed narratives covering a wide variety of topics. All information, except that contained in four tables marked as proprietary by the GSEs, is released to the public.

Fannie Mae

In its March 2000 AHAR, Fannie Mae stated that in 1999 it made investments in 267 Native American households living on tribal land, and that its total investment in loans to Native Americans for homes on trust lands amounted to $93 million during the 1994–99 period. Fannie Mae also accomplished the following:

- Under its Native American Conventional Lending Initiative, introduced in 1996, it purchased 17 conventional loans (totaling $2 million) for housing on trust lands in 1999.
- In 1999 it participated in closing the first tax-exempt bond issued for housing development on Indian trust lands. Fannie Mae financed $11.8 million of the $25 million bond issued by the White Mountain Apache Housing Authority on the Fort Apache Indian Reservation in Arizona.
- It helped tribes create the legal infrastructure to attract lenders by developing, with the Bureau of Indian Affairs, model legal documents, which are provided free to interested tribes.
- It developed model documents on manufactured housing for use on tribal lands.
- It participated in the Clinton administration's One-Stop Mortgage Center Initiative to help overcome barriers to lending on trust lands, and has publicly committed itself to purchase Section 184 loans made as a result of this initiative.[16]

In addition, Fannie Mae has conducted training in South Dakota that has been attended by Oglala Lakota Sioux tribal leaders.

Freddie Mac

Freddie Mac's March 2000 AHAR focused primarily on its Native American Housing Initiative in Oklahoma, launched in 1998. This involves the Chickasaw Nation, the Choctaw Nation, the Citizen Potowatomi Nation, and the Cherokee Nation. The initiative includes low downpayments, nontraditional credit, purchase, rehabilitation, and new construction loan aid and financial assistance for tribal governments and is designed to help members of the four nations become homeowners. The Native American Housing Initiative was expanded to seven additional States in 1999. This initiative does not directly relate to lending on reservations, however, because these four Oklahoma tribes do not have reservations. The Indian Land Areas for these tribes are Tribal Jurisdiction Statistical Areas, rather than reservations. Freddie Mac also was involved in the Clinton administration's One-Stop Mortgage Center Initiative.

Improved Identification of Lending on Indian Reservations

In general, it is not possible to analyze mortgage lending on Indian reservations from HMDA data or from PUDB data because reservations usually comprise only parts of one or more counties or census tracts. For example, the Navajo Reservation is divided among six counties in Arizona, New Mexico, and Utah, but none of these counties is wholly contained within the reservation. In fact, reservation residents make up a majority of the population in only one of the six counties. Shannon County, South Dakota, is one of the few counties that is wholly contained within, and serves as an adequate proxy for, a reservation.[17]

HUD's Revised Definition of Underserved Areas

In its final rule on the GSEs' affordable housing goals for 2001–03, published in the *Federal Register* on October 31, 2000, the Department revised its definition of underserved areas to improve reporting of loans acquired by Fannie Mae and Freddie Mac on Native American reservations. Specifically, one of the affordable housing goals deals with lending in underserved areas (areas that have low mortgage origination rates and/or high mortgage denial rates). HUD's research has found that these areas typically have low incomes and/or high-minority population shares. For 1996–2000 a nonmetropolitan county was defined as an underserved area if county median family income was (a) no greater than 95 percent of the greater of State nonmetropolitan median family income or national nonmetropolitan median family income, or (b) no greater than 120 percent of State nonmetropolitan median income, if minorities comprised at least 30 percent of county population.

In some cases, a portion of a reservation lies within a county that is otherwise considered high-income and/or low-minority, and another portion lies within a county that is neither. In 1996–2000 some parts of these reservations were considered underserved areas and others were considered adequately served areas.[18] To remedy such anomalies, HUD is requiring that reservations and trust lands be considered as separate geographic entities for 2001–03 rather than as parts of the counties in which they are located. In a nonmetropolitan area, median income for the reservation (if minorities comprise at least 30 percent of the population) will be compared with 120 percent of the greater of State or national nonmetropolitan median family income in determining whether or not the reservation is an underserved area.[19]

This procedure represents a refinement and improvement in HUD's definition of underserved areas. It also provides a basis for identifying mortgage loans purchased by the GSEs on reservations. This procedure deals only with the secondary market loans; improved information on primary mortgage market activity on reservations might be obtained by adopting a similar approach for reporting HMDA data.

2000 Census

The Bureau of the Census has implemented a new procedure for reporting 2000 census information for Indian areas. A number of census tracts (in both metropolitan and nonmetropolitan areas) containing these areas have been subdivided into two (or more) tracts, with one (or more) of the resulting tracts corresponding to the portion of the current tract containing an Indian reservation. It may be possible for independent researchers to analyze various questions regarding such areas by aggregating information for the tracts that make up the areas. However, a firm date has not been set for the availability of such information.

Conclusion

There is an undeniable shortage of lending relative to the need for housing finance on the Pine Ridge Indian Reservation as well as on other tribal lands. But recent media articles and some government reports appear to understate the level of lending taking place. By painting an overly bleak picture, lenders may be discouraged from exploring and taking advantage of the opportunities that exist for lending on the Pine Ridge Indian Reservation and other reservations. The analysis presented in this article indicates that both the primary and secondary mortgage markets have shown somewhat more activity on the Pine Ridge Indian Reservation than generally recognized. Such activity may provide important information for a needed expansion of the mortgage market on the reservation.

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Author

Paul B. Manchester serves as an economist in the Financial Institutions Regulations Division of HUD's Office of Policy Development and Research, where his work has focused on a wide variety of topics related to the Department's regulation of Fannie Mae and Freddie Mac. He previously taught economics at Mary Washington College and The Catholic University of America. Manchester worked as a senior economist with the Joint Economic Committee of Congress and the Office of Thrift Supervision. He has a Ph.D. in economics from the University of Minnesota.

Notes

1. Remarks to the White House Conference on Building Economic Self-Determination in Indian Communities, August 6, 1998.

2. A detailed analysis of housing problems facing American Indians is contained in *Assessment of American Indian Housing Needs and Programs: Final Report,* prepared for HUD's Office of Policy Development and Research by The Urban Institute, May 1996.

3. Memorandum on Economic Development in American Indian and Alaska Native Communities, August 6, 1998.

4. GAO/RCED–98–49, *Native American Housing: Homeownership Opportunities on Trust Lands Are Limited*, February 1998.

5. With regard to the shortage of lending on tribal lands, the *National Mortgage News* reported in a May 10, 2000, editorial that one study estimated the pent-up demand for home loans in Indian country at 38,000 mortgages.

6. Since the HMDA database is organized by calendar year, a loan originated in one year but sold in a subsequent year is generally not reported as a sold loan in the HMDA data; thus the data understate the volume of secondary mortgage market activity.

7. Tract data may provide better information on lending on reservations after the U.S. Bureau of the Census' re-tracting for the 2000 Census is adopted for HMDA reporting.

8. In addition to the population on the reservation, the Pine Ridge Trust Lands contained 804 residents of Bennett County, South Dakota, and 26 residents of Sheridan County, Nebraska, in 1990.

9. Because Shannon County is a nonmetropolitan county, it is possible that some lending is not picked up by the HMDA data. Depositories that have assets less than a specific dollar threshold ($29 million in 1999) are exempt from HMDA reporting, as are independent mortgage companies that originate fewer than 100 loans in metropolitan areas and lenders that originate loans only in nonmetropolitan areas.

10. HMDA data do not generally track loans after the year of origination. Thus some of the 15 loans retained in portfolio in 1999 might have been sold in 2000.

11. From 1978 through 1990 HUD's regulations for Fannie Mae defined *low- and moderate-income mortgages* as those with an unpaid principal balance no greater than 2.5 times area median income. The defects of this measure were discussed in HUD's December 1992 reports to Congress on the GSEs.

12. A better measure of affordability is the ratio of monthly mortgage payments (principal, interest, taxes, and insurance) to monthly income. Because the HMDA data provide no information on the term or interest rate for these mortgages (or on property taxes and insurance), it is not possible to calculate a payment-to-income ratio from the HMDA data.

13. For more information on this scheme, see the list of 21 manufactured housing lenders and 200 subprime lenders in Randall M. Scheessele, *1998 HMDA Highlights*, Housing Finance Working Paper No. HF–009, Office of Policy Development and Research, U.S. Department of Housing and Urban Development, October 1999.

14. For more information on the PUDB, see "New Public Data on Fannie Mae and Freddie Mac," *U.S. Housing Market Conditions*, Office of Policy Development and Research, U.S. Department of Housing and Urban Development, May 1997. Loan-level data from the PUDB has been released for the years 1993–99.

15. In general the PUDB does not make it possible to distinguish between home purchase mortgages and refinance mortgages in the census tract file.

16. For more information on this initiative, see *One-Stop Mortgage Center Initiative in Indian Country, A Report to the President*, U.S. Department of Housing and Urban Development and U.S. Department of the Treasury, October 2000.

17. Four other counties in South Dakota are completely contained within Indian reservations: Corson County (Standing Rock Reservation), Dewey and Ziebach counties (Cheyenne River Reservation), and Todd County (Rosebud Reservation). Analyses similar to this report on Shannon County could be conducted for these other counties/reservations.

18. HUD has determined that 173 nonmetropolitan counties that contain Indian reservations or trust lands currently are classified as underserved areas, and 88 such counties are classified as served areas. Inclusion of qualifying Indian reservations and trust lands in these 88 counties in calculating the underserved areas goals for the GSEs would not be expected initially to have a major impact on lending in these areas, but it could heighten awareness and encourage future growth in mortgage lending to these areas.

19. For 1996–2000, county median income for nonmetropolitan counties has been compared only with State nonmetro median income, not the greater of State or national nonmetropolitan median income. As a result of this change, several counties previously classified as served areas now will be classified as underserved areas.