

Freddie Mac Single-Family Home Starts Here Podcast Episode Transcript:

A Duty to Serve: Sustainable Native American Homeownership

Announcer [00:00:01] Welcome to the Freddie Mac's Single-Family *Home Starts Here* podcast. Your connection to all the latest industry trends, insights and points of view on the mortgage market. From Freddie Mac leaders and other industry experts.

Liz Mugavero [00:00:17] Welcome to the Freddie Mac's Single-Family Home Starts Here podcast. I'm your host, Liz Mugavero. And today, I'm here to talk about today's housing affordability crisis. And one particular topic that always stands out when we talk about affordability is the scope and complexity of the problem. There's no one size fits all solution. It really takes a deep understanding of each community. And there needs to get to where we need to be in terms of making home possible for more Americans. To delve deeper into these needs, with me today is Tawney Brunsch, the executive director of Lakota Funds, the first ever Native community development financial institution on a reservation. And James Cromartie, affordable lending manager here at Freddie Mac. Welcome.

James Cromartie [00:00:57] Thank you. Glad to be here.

Tawney Brunsch [00:00:58] Thank you, Liz.

Liz Mugavero [00:00:59] Excited to have you. I'd love to just jump right in and start with you, Tawney. Can you talk to us about the homeownership rate in Native American tribal communities? It's quite low, correct?

Tawney Brunsch [00:01:09] Right. I'm an Oglala Sioux tribal member. I'm from Pine Ridge. I'm from the Pine Ridge Reservation. I grew up near Wanbali, which is where I live currently. We're very low, we're kind of just starting to even think about homeownership. So just Indian country in general has a lot of challenges around homeownership. And we've typically relied on our tribal housing authorities for more rental housing through the tribe. And that has proven to be kind of a big exercise in patience, right? I know here on the Pine Ridge Reservation where Lakota Funds is located, there's at any given time a list of about 5000 people for housing authority rental unit. And so, we're just starting to embrace home ownership as another option. But there's lots of lots of barriers to homeownership here, we're actually, you know, unfortunately, Indian country is diverse, but the unfortunate similarities are around our economic conditions. A third of the communities in Indian country are living below the poverty rate. About 54 percent on Pine Ridge are living below poverty, high unemployment. We're up to 85 percent unemployment on the Pine Ridge Reservation. And then just I mean, it's that plus all the other barriers that we'll talk more about later. But that's the basic economic conditions that kind of make homeownership a challenge.

Liz Mugavero [00:02:33] So, talk about some of these barriers and specifically how the COVID-19 situation has exacerbated some of the challenges that you've been seeing.

Tawney Brunsch [00:02:41] So the longstanding barriers are, besides the economic conditions and stuff, and the challenges that presents, it's the barriers around our land status. So, on reservations, in Indian country, we've got a trust land status and that's where the land is held in trust for the benefit of us as Native Americans by the offices of trustees and the Bureau of Indian Affairs with the BIA. And so, because there's because we under tribal trust, you can't have individual ownership. That means that in order to secure a mortgage, you're going to have to be approved for a residential lease. And then then the banks were looking at having to do a [unclear] mortgage. And it's a very cumbersome, complicated process that honestly, most lenders aren't willing to even listen about. They close their ears. They tend to when they hear trust land honestly. And so individual allotted trust, though, honestly, is just like deeded land off the reservation. It's still held in trust by the BIA for us. But the truth is, we can secure mortgages on that. It does still just require approval from the BIA. A big barrier there, to summarize, is the education needed. Buyer lenders that so that they would be more comfortable with the process to secure a mortgage. The other thing is just the lack of lenders. Something like sixty five percent of native communities aren't served by a bank that's nationwide. I know on the Pine Ridge Reservation before Lakota funds took the lead eight years ago to bring Lakota Federal Credit Union here, there was no federally insured financial institutions serving all of the Pine Ridge Reservation.

Liz Mugavero [00:04:25] Do we know why that is? That's so interesting. Is it because there's a different process or educational level that a lender would have to abide by, and they just don't understand?

Tawney Brunsch [00:04:34] There's just very few that are willing to undertake the challenge, honestly. I think that it's because we're so low income, to be honest. And I come from a banking background. I come from Black Hills Federal Credit Union, I firmly believe in banking and the importance of having those financial services available to me, any population. Because banks at the end of the day are about having had to generate a certain level of profit. So, if you're serving the lowest income populations, what are the chances that they're going to have anything to deposit? What are the chances that they're going to have, you know, any ability to borrow money, which is where banks make their money? You know, and that's part of the reason that it took Lakota funds two and a half years to get our charter from the NCUA. But we didn't give up, we kept pressing the fact that there is a need here for those kinds of financial services. We had Lakota funds history showing that, there is a pool of borrowers here and they do have the ability to repay and they are repaying. So, it's the lack of lenders, the lack of the willingness or knowledge about trust land status. But the other products out there that are available for lenders to use to help them make lending, especially mortgage lending in Indian country less risky, there's the leasehold mortgage process. There's a HUD 184 loan guarantee program which provides a guarantee on those mortgage loans, on trust land. So, there are products out there, but it just feels like so far, we haven't had the banks who are interested in taking that risk. But beyond that, I mean, it's not just about the banks and the lack of loan products. It's about our families, a lot of the times our families aren't ready for homeownership. So, what we found at Lakota funds, there is such a huge need for housing on Pine Ridge that we decided to undertake a low-income tax credit financed housing project and created Eaglesmith housing. And so that's 30 units of low-income rental units that were always intended to be rent-to-own, right. Unfortunately, what we found is that no one understands ownership because we've been renting for generations and generations or having our housing provided for us by the tribe. There's no concept of ownership and therefore no desire to achieve it. And so, what we found once those are Eagle Nest housing units were removed from the LIHTC restrictions in 2016. We found that a lot of the work is not in having the loan products ready or the max savings accounts ready. It's helping our families understand that this is something worth pursuing. And it didn't matter how much you told them about assets or equity, it boiled down to making our families understand that, that it means security, not just for yourself, but to know that your kids and a lot of times your grandkids are going to have a place to live. That they're gonna have this home, that it's yours, that you don't have to worry about where you're going to live again. I think when we made that breakthrough, it changed everything honestly. The other ways our families aren't ready, is that a lot of times we're not credit-ready. You know, super low credit scores, 60 percent of the Pine Ridge Reservation is unbanked, you have no idea what a savings account is, let alone a consumer loan, let alone a mortgage loan. And so, you also probably don't have a savings account. And then it's just that the mortgage process for anybody is complicated. And so, the more we conform that relationship with those families and help walk them through step by step, all the things they're going to need to do to achieve homeownership. That's how we how we've made homeownership possible here.

Liz Mugavero [00:08:19] And it definitely sounds like education is key on both sides, so for the lenders for sure, but also on the community side, and that is definitely a big part of our mission-driven mark here at Freddie Mac. I'd love to turn to



James to talk a little bit about Freddie Mac's efforts to expand access to homeownership opportunities for different communities, including Native Americans through our Duty to Serve partnerships. So, James.

James Cromartie [00:08:42] Well, we are currently in our third year of our Duty to Serve efforts. And we started our relationship with the South Dakota Native Homeownership Coalition in 2018 as a response to the Duty to Serve regulation. And that regulation provides that Freddie Mac comes and provides leadership to facilitate a secondary market for mortgages on housing for families with low, very low and moderate income in historically underserved markets. And as a part of that, that regulation and in the part of the markets that that regulation describes is actually Indian country. And we're so happy that we were able to find a quality partner in Lakota Funds and the South Dakota Native Homeownership Coalition, because we know that we can make strides to our Duty to Serve regulations.

Liz Mugavero [00:09:31] So definitely rallying the ecosystem, it sounds like. James, can you talk a little bit about you know, we've talked on other podcasts here on *Home Starts Here* about data and how we use data within our business and Single-Family. I'm assuming the data is a big part of the way that you try to better understand segment needs as you're bringing all these partners together. Can you talk a bit about that?

James Cromartie [00:09:50] Oh, definitely. Definitely. What we have done through our partnership with the South Dakota Native Homeownership Coalition is we've done a variety of surveys. I know that they've consulted with different consulting groups to really understand exactly what is happening in terms of mortgage origination, what is happening, what kind of loans are they originating? What is the major impediment to being able to do a Freddie Mac conforming conventional loan? And some of the data that's come back was, the ability to save for a down payment is an issue. The they are closing loans on Native American land, but they just aren't loans that would fit the Freddie Mac bucket, if you will. That is why it's important for Freddie Mac to really understand what are the components of the loans that are getting done and to see if we can adjust our guidelines to make them applicable.

Liz Mugavero [00:10:40] Absolutely, and so how are you translating that into some of your upcoming plans or initiatives to try to get more homes into these communities or get more home ownership into these communities, I should say?

James Cromartie [00:10:50] Well, you know, as you heard earlier, it's going to be a long process. And I think what we've done since our partnership started with South Dakota Native Homeownership Coalition in 2018 was to understand a benchmark. So here here's where we are. What are some of the gaps that exist? We talked about the gap in saving for down payment. I talked about that, the ability to understand how to secure a mortgage when it's on leasehold land. So, what we've done between now and 2018 is really to mark what other products have been successful. We've created a home buyer education resource bank that that houses all kinds of content for not only home potential homebuyers to be trained, but for the homebuyer educators to understand how to get people up to speed so that they can be prepared for homeownership. But homeownership is not only what we're after. We're after getting people into homes and helping them to stay in the homes. And right now, there is some home ownership that exists on tribal land. But with the global pandemic, as it were and what Tawney just described as low income, high unemployment, there is going to be potential for foreclosures. So, we have to make sure that we have a support system in place for the entire community, whether they're doing a Freddie Mac loan or not. So, we've worked with the Coalition on Foreclosure Prevention Education. We talked about the basics of forbearance. What is loss mitigation? How can we help you overcome the delinquency so that you can stay in your home and what you need to do in terms of getting the loan modified? So, it's about creating a support system for the native community so that they can be prepared to get a mortgage loan when we have our model ready to go.

Liz Mugavero [00:12:39] It sounds like in addition to all the barriers that you both just talked about, it seems that the production and preservation of affordable homes is also a struggle, especially in tribal communities. So, can you both and I'll start with Tawney first. But can you both talk a bit about our partnership on progress in this area?

Tawney Brunsch [00:12:55] Yeah, I can lend a little bit about the need for renovation and repairs. So, a lot of the units like it for the earlier on Pine Ridge and I think everywhere in Indian country are rental units. Some of those units, however,



are set up as homeownership. And so, as those units are available for the families to purchase, you know, under 25 and 30 years or older, they're clearly going to need many improvements and renovation. And those families are in need now of a loan product, not only, to do the improvements, but to also acquire them, period. So, and there's a big need for that. And I feel like we're in a good position now with some of the more native CDFIs doing the home mortgages and home improvement loans and especially with the credit union here.

James Cromartie [00:13:46] And that's a great point. And just to piggyback on what Tawney is talking about, you know, as a part of the education process and in working with lenders and credit unions and CDFIs, we are going to make sure that they have access to our innovation product. That's called CHOICE Renovation. And it does exactly what Tawney was describing as a need it provides capital. The mortgage provides capital for homeowner to, first of all, acquire a property, purchase a property. But it also allows them the ability to finance the renovations even before they actually move in. So, they could they can purchase the property, they could renovate the property with one loan. And that's the loan that we are calling CHOICE Renovation as a part of our educational process, we are making sure that the CDFIs on the ground in native country. We are talking to our Freddie Mac, seller servicers and making sure that they understand about the vast opportunity that exists in Native countries so that they can work with some of these smaller mortgage originators to have access to the Freddie Mac products.

Liz Mugavero [00:14:51] That's great, James. I know CHOICE Renovations has made a difference in a lot of communities, so it's great to see how it's going to be able to help people in tribal communities as well. Thank you both, do you have any final thoughts for us?

Tawney Brunsch [00:15:02] could I just share the story-about Norman Rogers, the Native American veteran, that that we were privileged to be able to provide the first mortgage loan that Lakota federal credit union did. So, Norman Rogers and his wife Eunice have been renting one of the Eagle Nest housing units, you know, like for the last seven years. But Norman himself said that he's been a renter his whole life for like 55 years. He's been renting, he's never owned a home. And so finally decided to purchase the unit that he was living in Eagle Nest Housing. he and Eunice-started with our financial literacy class. Took the home buyer education. I think he took it twice, actually, because he waited so long and so ended up just realizing the first time through. Because this is so new to folks. You know what I mean? That it takes a minute to digest it. And so, he took home buyer education once and then the next year he took it again when he knew he was ready to move forward, he had more questions. So, he's taking those classes with financial literacy. But then also realized that he was needing to clean up his credit. So, I was thrilled to be helping Norman with this. But we went through his credit and kind of identified the negative items and he said, well, jeez, we can pay that off with pay that off from whatever they were small amounts. So, I actually helped him call those creditors individually and we got paid off right then and there. You know what I mean? So, it's that kind of stuff that the CDFIs are doing. But so, then when he was ready to actually go through the mortgage process, we have called a federal credit union right here. So, I was able to walk them downstairs and connecting with Sheina, the loan officer there, and helped him with the application process. He had opened his savings account and his checking account like the year prior. So already had his direct deposit coming in. He was utilizing two of Lakota funds, matched savings programs to start Eagle Nest housing, these were Neighbor Works products. So, we had two of those going that he was going to use for down payment assistance. And finally got the mortgage loan approved with the help of all those subsidies and working closely with Lakota funds and stuff. And then I got a kick out of it because last week he actually called and wanted to see if he could make his payment early. Those kinds of borrowers. And to describe a little bit how this is not risky. When you have those kinds of relationships that have walked these families through that process, sometimes, you know, a process that takes two years or more. You know what I mean? It's very low risk, so I am just thrilled and super happy that the credit union is NCUA insured. I want us to be doing conforming loans and I want us to be able to be utilizing some of these secondary markets.

James Cromartie [00:17:43] And I think you nailed it. It's not risky. It's different. It's different from what the conforming secondary market does at this time. But through the partnerships with you, the time we're really understanding all of that at this point, we understand that we need to have good, solid relationships with the tribes, need to have good, solid relationships with the BIA. And once we establish those partnerships and put processes in place, I am very confident that we will start seeing Freddie Mac loans and bringing Freddie Mac financing and capital to the Native American



homeownership efforts very, very soon. 2021 is the goal. So, I'm very excited about the partnership with you and all the introductions you've made. And I cannot wait to hear more success stories very similar to what you just described.

Tawney Brunsch [00:15:34] Perfect. Thank you, James. We want to be the first; we're just that way!

Liz Mugavero [00:18:37] That's terrific. And it really shows what a difference it makes to be working together towards a common goal. So, thanks to you both for all the work that you're doing to further this mission. For our listeners, if you'd like to learn more about work being done in rural markets, please be sure to register for Freddie Mac's upcoming Rural Research Symposium. In its second year, this event features researchers on rural mortgage markets to better understand who's being served, the effectiveness of mortgage products, services and financing, as well as the effects on consumers, households, communities and financial institutions. Registration is complimentary, and you can find the link and more information on the episode page for this podcast. Our Keynote speaker this year will be Professor Emily Warnell. She's discussing policy and research considerations for understanding rural communities. Emily is a research assistant professor in the in the Indiana Communities Institute at Ball State University. And she works closely with the Rural Policy Research Institute, Center for State Policy and the Center for Business and Economic Research. She's authored prominent research exploring inequality and population change in rural communities. And we're really excited to have her join this important conversation. So, we'd love to have all of you join us as well. And thank you for listening to today's podcast. share the link with your friends and subscribe. Thanks for tuning in.

Announcer [00:19:53] Thank you for listening to the Freddie Mac Single-Family Home Starts Here podcast. Stay tuned and subscribe to catch additional interviews with key industry leaders and experts. Home Starts Here, is available wherever you listen to your podcasts. We appreciate you rating, reviewing and sharing with your network.

