

Navajo Partnership for Housing, Inc.

By Alexander von Hoffman

In the Navajo Nation, the challenge for the Navajo Partnership for Housing is to develop a housing market where there is not one, and where land ownership runs counter to traditional practice and values.

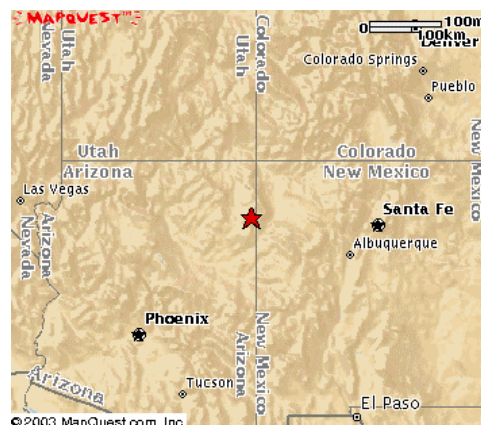
Introduction

Fostering homeownership among the citizens of Navajo Nation may be the most difficult assignment in the nonprofit housing field today. The large and far-flung Navajo Nation is a place where forms of land tenure and governance make the transfer of property extremely time-consuming and complex. Furthermore, the Navajo Nation's culture and recent experience is completely alien to the mechanisms of a real estate market as it is known in most of the United States, while unemployment and poverty prevail on the reservation.

Working to promote homeownership opportunities in the face of these challenges is a young organization -- the Navajo Partnership for Housing (NPH). Since 1996, despite the challenges, the Partnership has made small but noticeable progress with selling homes and creating homeownership on the reservation. As the agency embarks on a series of projects over the next five years, its staff and board hope to -- at long last -- create a private residential real estate market virtually from scratch.

Navajo Nation

As a housing service area, the Navajo Nation reservation presents a number of challenges. First, it is enormous. The Nation spreads across a 27,000 square mile territory—roughly the size of West Virginia—that extends into the states of Arizona, Utah, and New Mexico.



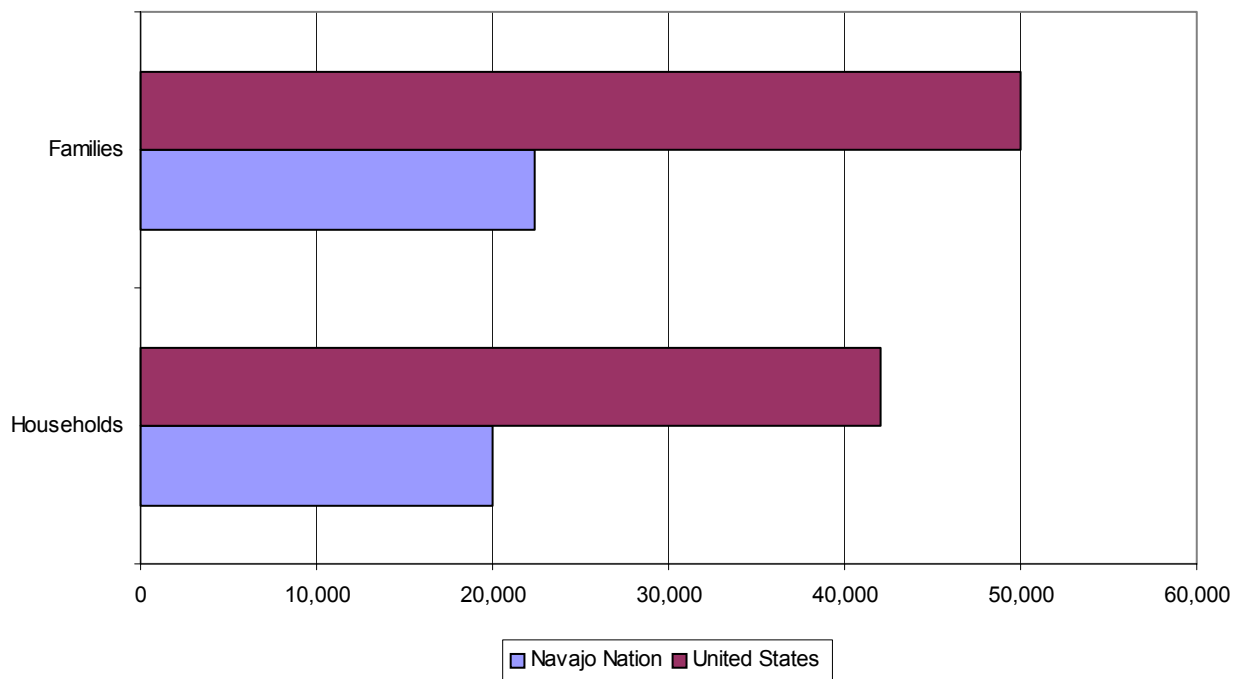
Neighborhood Reinvestment Minority Home Ownership Case Study

Changing the Face of Home Ownership: Tools and Strategies

The Navajo Nation is the largest Native American Reservation within the United States. Almost completely devastated in the nineteenth century, 180,000 Navajo people were scattered across the Navajo Nation as of 2000, a 19 percent increase since 1990.

Poverty, however, stalks the reservation. According to the 2000 U.S. Census, on the Navajo Nation Reservation and Off-Reservation Trust Land, 25 percent of the civilian labor force was unemployed. (43.6 percent unemployment on Reservation (according to the Navajo Nation Div. of Economic Development). Thirty percent of households earned less than \$10,000 a year, and 58 percent earned \$25,000 or less. The median household income was \$20,000. Two-fifths of families on the reservation lived below the poverty level. Even the Navajo families considered prosperous earn far less than their counterparts in other American communities.¹

Median Incomes in the Navajo Nation are Far Below National Levels (1999)



Poor Housing Conditions

A significant portion of the housing of the Navajo is in abysmal condition. Although the majority of U.S. dwellings have adequate plumbing and kitchens, in the Navajo Nation, as of 2000, 32 percent of the 69,154 housing units were deficient in plumbing and 28 percent lacked kitchen facilities. One-third of the homes in the Navajo Nation did not have bedrooms, and three-fifths were without telephones. As of the mid-1990s, almost half of the units lacked sewer, septic, or other means of disposing wastewater, and 15 percent had no regular source of water (although these figures may have improved since then).²

¹ U.S. Census Bureau, DP-1, Profile of General Demographic Characteristics: 2000, Census 2000 Summary File 1, Navajo Nation Reservation and Off-Reservation Trust Land, AZ--NM--UT; U.S. Census Bureau, DP-3, Profile of Selected Economic Characteristics: 2000, Census 2000 Summary File 3, Navajo Nation Reservation and Off-Reservation Trust Land, AZ--NM--UT (American FactFinder).

² U.S. Census Bureau, DP-4, Profile of Selected Housing Characteristics: 2000, Census 2000 Summary File 3, Navajo Nation Reservation and Off-Reservation Trust Land, AZ--NM--UT (American FactFinder); David Listokin, Elvin K. Wyly, Larry Keating,

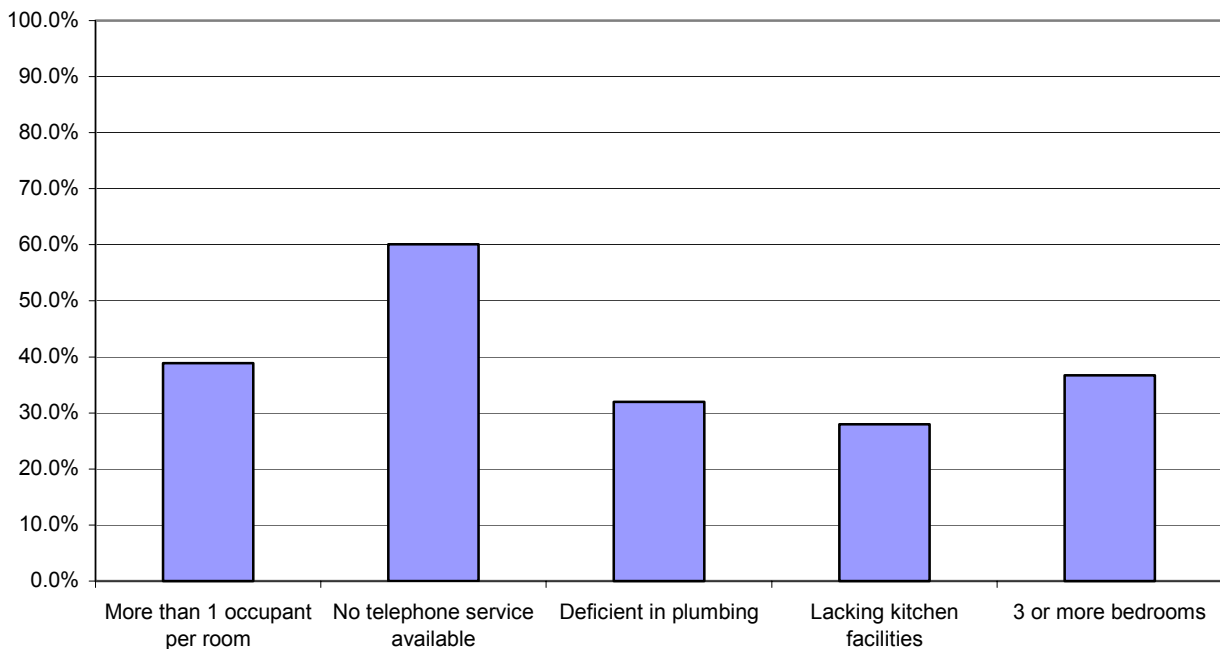
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Mobile homes constitute 19 percent of the housing stock; detached one-unit houses comprise almost all the rest. Of the 74,603 occupied units on the reservation, the census indicates, three-quarters were owner-occupied, but this figure is misleading as the land underneath most of these dwellings is leased for long terms, not owned outright.

Although the average household size is 3.77 people, homes are relatively small. Of all the dwellings on the reservation, 28 percent have only one room and 58 percent have three rooms or less.

Much of the housing in the Navajo Nation is in poor physical condition



Values of the houses were low: 67 percent of the dwellings were valued at less than \$50,000. Sixty-one percent of the homeowners paid less than 15 percent of their household income for housing costs. Nonetheless, 11 percent of the owners paid dearly for their shelter -- 35 percent or more.³

Kristopher M. Rengert, and Barbara Listokin, "Navajo Partnership for Housing," Making New Mortgage Markets: Case Studies of Institutions, Home Buyers, and Communities, Fannie Mae Foundation Research Report, 2000, 366.

³ U.S. Census Bureau, Profile of Selected Housing Characteristics: 2000.

Strong Demand for Housing

There is strong demand for good housing in the Navajo Nation. The U.S. Census reports that 69 percent of the Navajo live in owner-occupied houses, but these include leasing arrangements under the Mutual Help program in addition to substandard trailer homes. According to the Navajo Housing Authority, it would take 21,000 new housing units, including 12,000 new homeownership units, to satisfy the needs of all Navajo families.⁴ According to a survey conducted via personal interviews, an overwhelmingly majority of Navajo wishes to purchase a home, a central part of Navajo family life and culture. Because many Navajo prefer to live on their ancestral land, however, the sites they prefer are scattered at great distances from one another around the reservation.⁵

No Real Estate Market

Despite the great need and desire for housing, the Navajo Nation essentially has no functioning real estate business. The number of home sales is miniscule. During the last five years, less than two dozen conventional mortgages have been issued on the reservation. Yet these few sales represent great progress: Before 1994, not one conventional mortgage had ever been issued there.

Consequently, the Navajo Nation also lacks the kinds of professionals who facilitate real estate transactions in the rest of the United States. The realtors, title insurers, mortgage insurers, mortgage brokers, and closing attorneys are absent from the reservation. It goes without saying that the reservation has been tragically underserved for decades; most lenders are extremely reluctant to go into such an unpromising-looking area to invest.

Substantial Barriers to Home Ownership

The low volume of real estate business in the Navajo Nation simply reflects the unique and formidable obstacles that exist to home purchasing there. Nowhere else in the country, except perhaps on other reservations, are circumstances so hostile to the kind of lending, banking, and home purchasing practices that most Americans—even if they do not understand them—take for granted.

Tradition and History vs. Real Estate Practice

To begin with, the traditional religious culture of the Navajo is foreign to the American system of financing and purchasing homes. The Navajo concept of the earth is that of a deity whose bounty is held in common. In the traditional way of thinking, the idea of buying and selling pieces of Mother Earth is a sacrilegious act.

⁴ Steven Barbier, telephone interview with author, Denver, Colorado, July 25, 2003; Steve Barbier to Alexander von Hoffman, e-mail communication, July 30, 2003; U.S. Department of Housing and Urban Development (HUD), U.S. Department of the Treasury, *One-Stop Mortgage Center Initiative in Indian Country: A Real Estate Report to the President* (November 2000) Appendix C, A-9.

⁵ Listokin, et al., "Navajo Partnership for Housing," 367, 373.

Accordingly, the Navajo language has no words for the capitalist terms used in financing and purchasing land and houses. The Navajo tongue has no way of expressing concepts—such as debt-to-income ratio—that are the commonly used to conduct the business of home lending and purchasing. Yet in the interior of the Navajo Nation, many people mainly speak the traditional language.

Besides the old traditions, recent history discourages independent investment in housing by individuals. In recent decades, the federal government has provided homes and welfare to Native Americans. Although the government programs helped destitute peoples stave off disaster, they also conditioned many Navajo to be dependent upon the government for whatever they received. These attitudes of dependency directly conflict with the idea that individuals borrow and save for the future well-being or wealth of themselves and their families.

Land Tenure

The conditions of land in the Navajo Nation also inhibit a traditional real estate market. Although some trust land has been allotted to individual Navajos and a small amount of territory within the reservation is held as fee simple private property, the federal Bureau of Indian Affairs holds most of land in trust for the tribe. A mortgage can be issued when the tribe approves a lease which allows for the encumbrance of the leasehold improvements (i.e. Housing unit). Furthermore, the Navajo Nation, as a sovereign state, holds authority over any encumbrances or foreclosures; lenders are shy about going to tribal courts, with which they are unfamiliar.

The peculiar form of land tenure in the Navajo Nation greatly extends the process of acquiring a home site and makes it easy for the parties to become discouraged and pull out. In most other locations the time between a purchase-and-sales agreement and the closing transaction is short (generally a month or two at most), but on the reservation the process can stretch out for as long as ten months or longer. Often the real estate transaction on the reservation comes to a halt while the purchaser seeks approval from the Bureau of Indian Affairs and the tribe to acquire the land. In the meantime, the owner does not wish to transfer the keys to the property and banks become anxious that the credit arrangements are not up-to-date. This prolonged process thus endangers the whole home purchase transaction.

Absence of a Navajo Private Sector Building Industry

In addition, the Navajo lack a thriving private sector building industry. Most construction activity on the Navajo Nation is overseen by outside general contractors, while the Navajo play the roles of workers and subcontractors. As a result, much of the money generated by housing construction leaves the reservation.

Navajo Partnership for Housing

In 1996 the Neighborhood Reinvestment Corporation, at the behest of the Navajo Nation's divisions of economic development and community development, founded the Navajo Partnership for Housing (NPH). Its mission is to help Navajos build or buy homes. Since 1998 Richard Kontz, a Navajo who served the Navajo Nation government as a financial analyst for many years, serves as the executive director of NPH. As of 2003, it has 17 staff members and maintains an operations budget of over \$900,000.⁶

Between 1998 and March 31, 2003, NPH made or arranged housing finance deals -- including 147 first mortgages, second mortgages, construction loans, and grants -- worth \$4.7 million. Most of these transactions were government direct and guaranteed loans, however, and half of them were small rehab loans or grants issued under the Rural Housing Service section 504 program. NPH also helped arrange 21 conventional mortgages through lenders such as Suburban Mortgage of Albuquerque and American Financial Resources of Arizona. Indeed, NPH is involved in one way or another in most of the home financing that occurs in the Navajo Nation.⁷ About 600 families per year complete the Sheltering Our People Homebuyer Education Training.

The number of conventional first mortgages and other financial transactions seem small and inconsequential, but in the context of the reservation where conventional mortgages are a rarity, it represents an accomplishment. However, NPH clearly has a long way to go to bring homeownership to the Navajo. If ten people come to NPH's homeownership counseling, Executive Director Kontz explains, five will drop out the moment they hear that they will have to repay loans to buy a house. Three of the remaining five will be unable to purchase a home immediately because of a bad credit record. These will have to take NPH's financial fitness counseling and wait two to three years to straighten out their finances. Of the two remaining, one will tire of waiting to complete the drawn-out land transaction process. In the end, only one person out of the original ten may make it to the end and buy a house.⁸

NPH Strategy: Create a Buy-and-Sell Real Estate Market

One long-term goal of the NPH is to create a buy-and-sell real estate market on the Navajo reservation, especially one that benefits the Navajo people themselves. The success of this mission depends especially on achieving three other difficult objectives:

1. a reasonably efficient legal process for real estate transactions;
2. a mass of people who understand personal financial management and credit—enough at least to participate in the real estate market; and
3. the presence of real estate professionals who can service transactions and, presumably, make them easier to complete.

⁶ Neighborhood Reinvestment Corporation, Profile of Navajo Partnership for Housing, Inc., 2002; Kontz: U.S. Departments of HUD and Treasury, *One-Stop Mortgage Center*, App. C, A-11.

⁷ Mark Fogarty, "Tearing the Curtain-Navajo Partnership for Housing's Superb Accomplishment," *National Mortgage News*, May 12, 2003; Mark Fogarty, "Milestone Housing Financing for Navajo Nation," *Indian Country Today*, May 29, 2003.

⁸ Richard Kontz, telephone interview with author, St. Michaels, Arizona, July 31, 2003.

Although each step in part depends on moving forward with the others, a sufficient volume of real estate transactions would help bring about all three objectives. Hence, NPH focuses to increase the building and selling of houses in order to start a real estate market.

Pushing Real Estate Deals to Conclusion

NPH has taken direct steps to start a real estate market by purchasing seven homes for renovation and resale. It has sold all seven of these houses, as well as one vacant lot. The organization plans to have a full-scale acquisition and rehabilitation program within two years.

Whenever possible, NPH encourages other parties to make mortgage financial transactions. To Navajo buyers, the staff members are people who can help almost anyone get home financing. To lenders, they are people familiar with the bureaucratic process that impedes real estate transactions. Hence, lenders such as Wells Fargo Home Mortgage, Gallup Federal Savings, Citizens Bank, and Suburban Mortgage of Albuquerque turn to NPH to facilitate mortgage financings, while Suburban Mortgage has authorized NPH to originate mortgage loans on its behalf on the Navajo Nation.

At the same time, NPH holds Lenders Conferences to inform lenders and real estate professionals of what NPH is doing in Navajo Nation and to help them to overcome their apprehensions about doing business there. The conferences have received enthusiastic press attention. The effort has begun to pay off, as appraisers who had shunned the reservation now have begun to appear. One appraiser even went so far as to train a Navajo in the appraising business.

Gap Financing to Overcome Financing and Bureaucratic Obstacles

NPH offers financial assistance for down payment and closing costs, soft second mortgages to moderate to high-income homebuyers, and forgivable loans (grants) to low-income families. On the reservation, the assistance is valuable even to people who can afford market rate homes. For example, the Tribe is in the process of developing a subdivision on fee simple land known as the Karigan Estates. These homes range in price from \$130,000-\$186,000. Some buyers who found that although they were earning enough to afford one of these homes, they did not have enough savings. NPH has helped close eight loans at the Karigan development. The Navajo Housing Authority recently launched a mortgage program with the hope of replacing the HUD Mutual Help (lease purchase) Program. The program involves writing down principal so families are spending no more than 22 percent of their income towards their housing payment.

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It also provides short-term first mortgages, more like a lease-purchase agreement, to help overcome the obstacle of the long closing process for homes on Navajo lands. First, NPH buys the house from the seller who does not have to wait months to complete the transaction. Then the agency turns around and sells it to the buyer, who is waiting for clearance from the various bodies that control the land. Although this poses a risk that NPH will have to take the house if the buyer runs into trouble, demand is such that NPH could sell the unit if need be.

Finally, NPH offers interim construction loans, which will get taken out by a long-term mortgage, to facilitate building of new homes.

To Change a Culture

A crucial part of NPH's work is to educate citizens of the Navajo Nation about personal finance and real estate transactions as they are practiced in much of the United States. To do this requires getting people to adapt their current way of thinking, and in particular, expectations that the government will provide for them.

Each person who enrolls in the train workshops or other NPH programs is being educated to a different approach. Yet, like any new way of thinking, it does not necessarily take hold right away. Nonetheless, NPH staff reports that some who at first rejected the idea of borrowing to obtain a home and dropped out of the process return a few years later to try again. The process of persuading people about the benefits of private homeownership is slow and gradual.

For the longer term, the agency is reaching out to the young people of the reservation to teach them about personal finances and the economics of credit and home purchasing. NPH hopes to establish financial literacy training in the high schools within the next five years. The NPH Board and Staff hope that the next generation will be schooled in how to manage their money better and understand the value of private homeownership.

To Build an Economy

NPH has two long-term projects to help strengthen the economy of the Navajo Nation. The first is to create a subsidiary community development lending entity. This became possible when the U.S. Treasury recently certified NPH to become a community development financial institution. NPH hopes in the next three to five years to build a fund of \$10 to 20 million to make loans not only for housing, but also for community and economic development projects.

The second project, still on the drawing board, is to spin off a subsidiary that would develop and construct the homes. This subsidiary company would employ members of the tribe, training Navajos to get contracting licenses, and in general circulate some of the wealth created by housing construction within the Navajo Nation.

Thanks to the efforts of Richard Kontz and the NPH staff, home financing and purchasing have come a long way in the Navajo Nation, but they still have a long way to go. In its plans for projects to carry out over the next five years, NPH is making a great effort to give the reservation a true real estate market—complete with knowledgeable clients, builders, and professionals. The question remains, however, whether these strategies can overcome the formidable array of economic, bureaucratic, and cultural barriers to a workable system of financing and purchasing homes in the Navajo Nation.

Discussion Questions:

1. What are the challenges for NPH in creating a functioning market for Navajo home ownership?
2. What strategies and tools are working?
3. What new strategies and tools are needed?

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