

August 2002

# NATIVE AMERICAN HOUSING

## VA Could Address Some Barriers to Participation in Direct Loan Program



GAO

Accountability \* Integrity \* Reliability

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**Abbreviations**

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| FHA | Federal Housing Administration              |
| HUD | Department of Housing and Urban Development |
| VA  | Department of Veterans Affairs              |



United States General Accounting Office  
Washington, DC 20548

August 23, 2002

The Honorable John D. Rockefeller IV  
Chairman, Committee on Veterans' Affairs  
United States Senate

The Honorable Daniel K. Akaka  
United States Senate

The homeownership rate among Native Americans<sup>1</sup> is one of the lowest in the United States. While over 67 percent of Americans own their homes, fewer than 33 percent of Native Americans own homes. For Native Americans living on trust lands—lands held by the federal government for the benefit of Native Americans—homeownership opportunities are more limited, because lenders typically require that buyers own the land on which their homes will be located.

Because private institutions have rarely supplied conventional home loans to Native Americans on trust lands, several federal programs have been developed to provide homeownership opportunities for Native Americans.<sup>2</sup> For example, in 1992, the Congress directed the Department of Veterans Affairs (VA) to create the Native American Veterans Direct Home Loan Program to assist veterans in purchasing, constructing, and improving homes. The program has a specific focus; it is intended to serve veterans living on trust or equivalent lands<sup>3</sup> on the mainland and in Hawaii and the Pacific. To obtain loans under this program, veterans must meet income,

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<sup>1</sup>As defined in P.L. 102-547, Native American means an Indian, a Native Hawaiian, an Alaska Native or a Pacific Islander. In this report, except when referring to the title of the program, we use the term Native American more narrowly to refer to Indians and Alaska Natives, as distinguished from Native Hawaiians and Pacific Islanders.

<sup>2</sup>See app. I for additional programs serving this purpose and *Native American Housing: Homeownership Opportunities on Trust Lands Are Limited*, GAO/RCED-98-49, (Washington, D.C.: Feb. 24, 1998) for a summary of the involvement of the private sector and federal government in housing programs for Native Americans on trust lands on the mainland.

<sup>3</sup>In this report, we use the term equivalent lands to refer to those included under P.L. 102-547 that are held by individual Indians, individual Alaska Natives, or Alaskan regional or village corporations and are subject to restrictions that may require the Secretary of the Interior's approval when ownership is transferred. Also included are the Hawaiian homelands and lands on Pacific islands that have been communally owned by cultural tradition.

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credit, and other requirements; and VA must have memorandums of understanding covering foreclosure and other issues with tribes or other entities that have jurisdiction over the lands involved. The Congress reauthorized the program in 1997 and 2001 and is considering making the program permanent when it is up for reauthorization again in 2005.

To inform the Congress as it considers making this program permanent, you requested that we analyze which veterans the program has served and assess VA's response to requirements specified in the program's authorizing legislation. Specifically, you asked us to determine

- if a disparity exists in participation in the program between Native American veterans and Native Hawaiian and Pacific Islander veterans and the reasons for any disparity; and
- what actions VA has taken to meet outreach, assessment, and reporting requirements specified in the direct loan program's authorizing legislation.

To determine if there was a disparity in participation, we analyzed data from VA, the Census Bureau, and the Bureau of Indian Affairs. We also interviewed VA program officials in Washington, D.C., and in the four VA offices responsible for about 96 percent of all loans made under this program. To determine the steps that VA took to meet program requirements, we reviewed VA's annual reports to the Congress; Census data and data obtained by VA, at our request, from its nine regional loan centers; and interviewed officials of selected federal agencies, Indian tribes, and interest groups.

In April 2002, we briefed your office on our key findings. As you requested at our briefing, we are also providing information on other federal programs that provide homeownership assistance to Native Americans. We did not analyze this information to determine if these other programs affected participation in VA's direct loan program. See appendix I for additional information.

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## Results in Brief

The Native American Veterans Direct Home Loan Program has been characterized by differences in the numbers served, with Native Hawaiians and Pacific Islanders together receiving almost five times as many loans as Native Americans since the program was enacted. Several factors that apply to Native Americans, but not to Native Hawaiians and Pacific Islanders, may explain this difference—some that VA cannot address and others that VA can address. The former involve long-standing barriers to lending on Native American trust lands, such as insufficient income and

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credit history and lack of meaningful interest in land among many Native Americans, as well as insufficient infrastructure on trust lands. Other factors that VA can address include program loan limits that may be lower than housing costs for some trust lands and potential applicants inexperience with the mortgage lending process. Although some barriers to lending will remain, we are recommending that VA seek to increase Native American participation in the program by addressing those barriers it can change.

VA has conducted outreach but has taken limited steps to meet the assessment and reporting requirements specified in the program's authorizing legislation. VA attends housing conferences, distributes promotional materials, and responds to inquiries about the program to meet outreach requirements specified in its authorizing legislation. The legislation also requires VA to assess its outreach efforts and identify the pool of veterans eligible for the program in annual reports to the Congress. VA has reported that it has made extensive outreach efforts but has not provided an assessment of the effectiveness of its outreach activities. VA has reported the number of Native American and Pacific Islander veterans who identified themselves as such in the 1990 census but has not identified how many of these individuals would be eligible for the program. VA plans to utilize the more detailed 2000 census data to develop a more accurate count of eligible veterans. We are recommending that VA comply with requirements to assess its outreach efforts.

VA's comments on a draft of this report are reprinted in appendix II. VA concurred with our recommendations; and also provided technical clarifications to the report, which we incorporated where appropriate.

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## Background

Financing homes on trust lands presents unique difficulties. Because individuals do not hold unrestricted title to these lands, they cannot convey the title to lenders to secure financing. To help overcome these difficulties and promote homeownership among Native American, Native Hawaiian, and Pacific Islander veterans, the Congress established the Native American Veterans Direct Home Loan Program in 1992.<sup>4</sup> Begun as a 5-year pilot, the program has been extended twice and is currently authorized through 2005.

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<sup>4</sup>P.L. 102-547.

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To support loans under the program, the Congress provided an appropriation of \$4.5 million in 1993 that continues to be available for the lifetime of the program. This amount is sufficient to allow VA to make more than \$58 million in home loans, and \$26 million had been obligated for loans through February 2002.<sup>5</sup> VA receives an additional \$0.5 million each year for administration and outreach activities, including travel to meet with tribes and individuals on the mainland and in the Pacific.

The program is intended to assist eligible veterans living on trust or equivalent lands to obtain loans at market rates to purchase, construct, or rehabilitate homes. On the mainland, most trust land is located on or near reservations, with about 55 million acres held in trust by the U.S. government for Indian tribes and individuals. In the Pacific, communally owned lands in American Samoa, Guam, and the Northern Marianas and 200,600 acres of Hawaiian homelands<sup>6</sup> are also covered by this program.

Under the program, individual loans are limited by law to the cost of the home or \$80,000, whichever is less. However, the law permits VA to make exceptions to the loan limit if VA determines that the costs in an area are significantly higher than average housing costs nationwide. Loans are available only for single-family homes that the owner occupies, not for multifamily dwellings, rentals, or investment properties.

To be eligible for a loan under this program, veterans must meet certain statutory requirements. Veterans must demonstrate that they are

- honorably released from active military duty or members of the Selected Reserve, including the National Guard, and have served the required length of time;
- creditworthy, that is, they are a satisfactory credit risk with stable and sufficient income to meet mortgage payments;
- holders of a meaningful interest in the trust or equivalent land on which their homes will be located that entitles them to use and occupy the land; and

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<sup>5</sup>The appropriation is for the subsidy cost of the loans, that is, the portion of the loans' value that the government does not expect to be repaid.

<sup>6</sup>The Hawaiian Homelands were created by P.L. 67-34 in 1921. Hawaii, upon statehood in 1959, assumed responsibility for managing the homelands through the Department of Hawaiian Homelands.

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- members of a federally recognized tribe or the equivalent<sup>7</sup> that has signed a memorandum of understanding with VA.

A meaningful interest in the land may take the form of a long-term lease, allotment or other interest conveyed by the tribe or entity with jurisdiction over the land. For example, this generally takes the form of 99-year leases on Hawaiian homelands. The meaningful interest serves as security for the loan and must be transferable in the event of foreclosure. The tribe or other responsible entity must enter into a memorandum of understanding with VA to cover standards and procedures for foreclosure and related issues before any loans can be made under this program to an eligible veteran of that tribe. Lands held in trust for tribes are generally leased and at foreclosure, cannot be taken out of trust status. Lands held in trust for individuals can be inherited and can lose their trust status at foreclosure.

VA administers the program through nine regional loan centers and its Honolulu Regional Office in Hawaii, shown on the map in figure 1 below. The five regional loan centers in the East, however, have a limited role in the program's operation, because many of the states they serve have few or no federally recognized tribes.<sup>8</sup> However, the regional loan centers in Denver and St. Paul each serve eight states with federally recognized tribes, and the center in Phoenix serves three states with some of the largest concentrations of Native Americans in the country. In addition, Denver oversees loan activities conducted out of VA's Anchorage office in Alaska. The Honolulu Regional Office administers the program in the South Pacific.

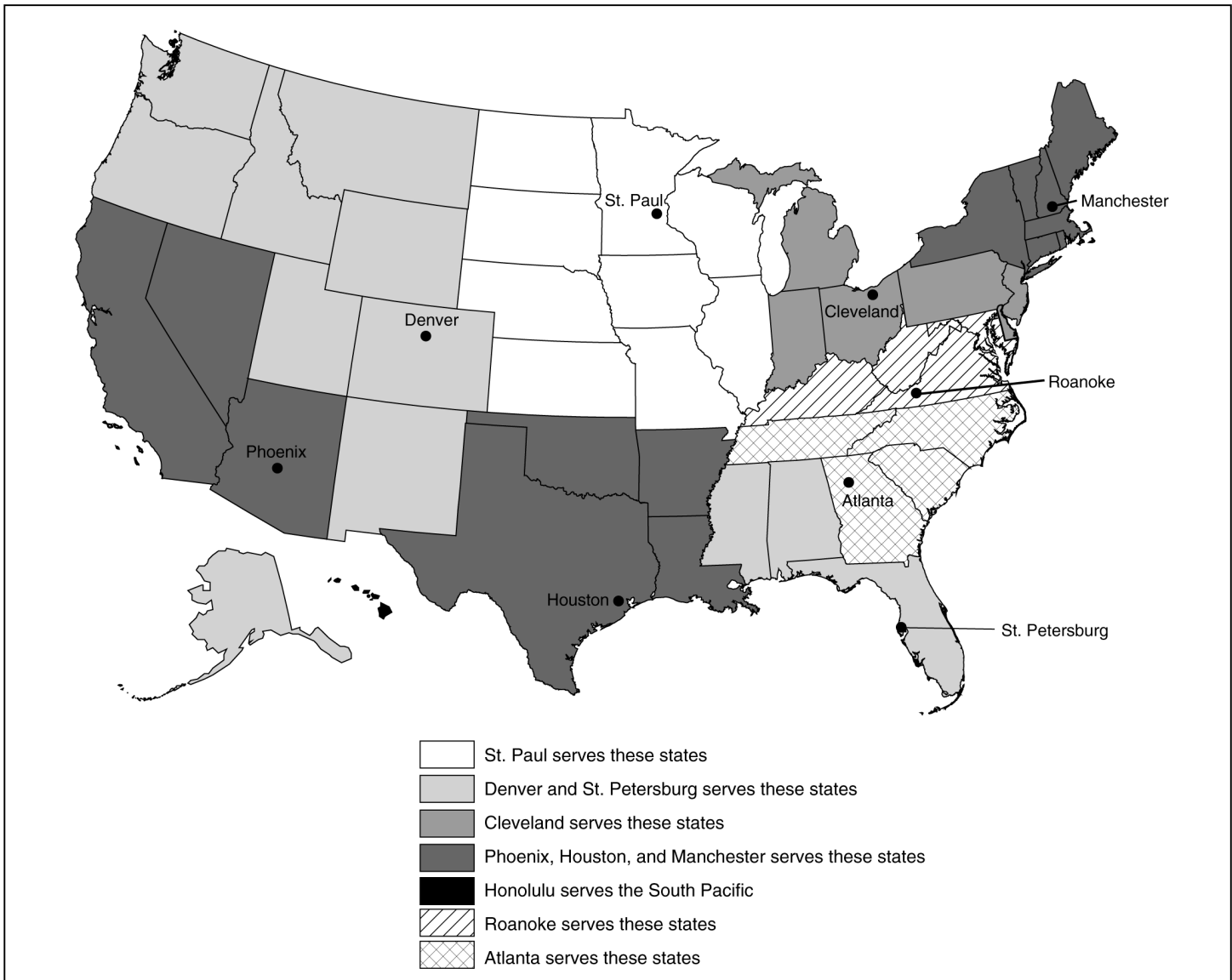
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<sup>7</sup>In the Pacific, veterans eligible for loans in Hawaii must be Native Hawaiians, and elsewhere they must be Pacific Islanders. The state or territorial governments are considered the equivalents of tribal organizations and must have signed memorandums of understanding with VA for the program to provide loans on lands in these locations.

<sup>8</sup>The states on the mainland without federally recognized tribes are Arkansas, Delaware, Georgia, Illinois, Indiana, Kentucky, Maryland, Missouri, New Hampshire, New Jersey, Ohio, Pennsylvania, Tennessee, Vermont, Virginia and West Virginia. The District of Columbia has no federally recognized tribes. Tribes with land in two or more states are considered to be located in the state with the greatest share of the tribes' membership in order to avoid double counting of tribes for the purposes of this report.



**Figure 1: VA's Nine Regional Loan Centers and the States They Serve**



Source: GAO map based on data provided by VA.

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## Several Factors May Explain Disparity in Number of Loans Made to Different Groups

Native Hawaiian and Pacific Islander veterans have received more loans than Native American veterans during the lifetime of the program, and several factors may explain this difference.<sup>9</sup> VA cannot address some of these factors, such as applicants' income levels and credit history, or their lack of a meaningful interest in the land; VA also cannot address the availability of infrastructure on trust lands. Other factors that VA can address are program-related, such as loan limits and assistance with the mortgage process.

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## Number of Loans to Native Hawaiian Veterans and Pacific Islander Veterans Is Almost Five Times That of Native American Veterans

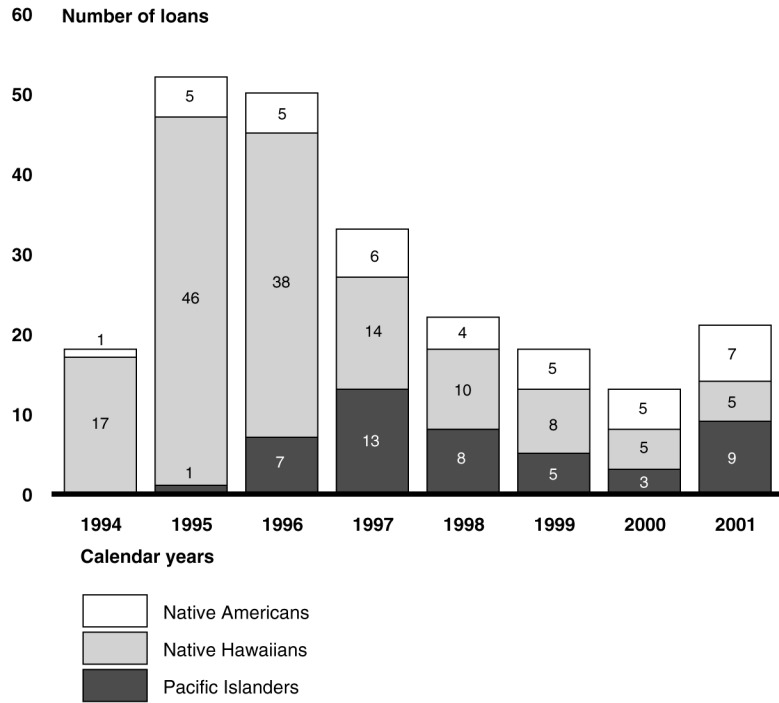
Four out of every five loans made under the program's auspices have been provided to Native Hawaiian or Pacific Islander veterans. Of 227 total loans, 143 have been made to Native Hawaiians and 46 to Pacific Islanders. Combined, the 189 loans made to these two groups greatly exceed the 38 loans made to Native American veterans.<sup>10</sup> The year-by-year analysis in figure 2 indicates that the number of loans made to Native Americans has been relatively constant. While the number of loans for Native Hawaiians and Pacific Islanders combined has varied, it has consistently exceeded the number of loans made to Native Americans, averaging twice as many loans since 1998.

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<sup>9</sup>Data was not available to determine how the distribution of borrowers among groups compares with the distribution of veterans among the groups.

<sup>10</sup>No loans under this program have been made to Alaska Natives. VA officials explained that Alaska Natives have not responded to their outreach efforts and are utilizing other loan programs.

**Figure 2: Number of Loans Made by VA through Its Native American Veterans Direct Home Loan Program to Native American, Native Hawaiian, and Pacific Islander Veterans (Calendar years 1994-2001)**



Source: GAO's analysis of VA loan data.

In the first 5 years of the program, Native Hawaiians received most of the loans. VA officials in the Honolulu office explained that the number of loans made to Native Hawaiians peaked in 1995 and 1996 because the officials were able to grant 60 loans to veterans purchasing homes in two housing subdivisions. VA officials said that loans to Pacific Islanders rose in 1996 and 1997 because they made a conscious decision to launch the program in stages—focusing initially on the nearest and easiest to serve areas of Hawaii and later moving on to promote the program in American Samoa, the Northern Marianas, and Guam.<sup>11</sup> Although the number of loans completed in Hawaii in recent years has declined, VA officials anticipate an increase in the future as other eligible veterans obtain leases on Hawaiian homelands.

<sup>11</sup>Of the loans completed in these Pacific Islands, 29 have been in American Samoa, 16 in the Northern Marianas, and 1 in Guam.

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## Factors That VA Cannot Address May Contribute to Lower Participation of Native American Veterans

Among the factors that VA cannot address that may contribute to lower participation of Native American veterans are low-income levels and unacceptable credit histories of potential applicants. To implement the statutory creditworthiness requirement, VA requires that an individual have sufficient income to qualify for a program loan. Based on 1990 census data, Native Americans had an average annual income of \$16,800 while the average annual income of Native Hawaiians was \$26,600. VA officials said that while they make every effort to assist applicants in qualifying for a loan, insufficient income and unacceptable credit history are still major barriers to loan approval for Native Americans who are found not to be creditworthy. Specifically, 23 of the 39 Native American loan applications in the St. Paul, Minnesota VA region were denied because of applicants' insufficient income and unacceptable credit history. The remaining 16 were denied because of problems with land ownership. Officials at the Denver, Colorado, VA regional office also said that insufficient income and unacceptable credit history were the reasons for denying three of seven Native American veterans' loan applications received in the region since the program's inception. VA's Honolulu field office stated that while insufficient income and unacceptable credit history have been a barrier for some veterans in American Samoa, other Native Hawaiian and Pacific Islanders have less difficulty meeting this eligibility requirement because of their higher income.

Problems with establishing a meaningful interest in trust lands have also precluded some Native American veterans from obtaining a mortgage loan under this program. To obtain a mortgage loan, VA requires that veterans have a meaningful interest in the trust land on which their homes will be located. However, ownership of some Native American trust land has become fractionated<sup>12</sup> as the ownership interests passed through several generations of multiple heirs, with an increasing number of people owning smaller shares of land over time. This land fractionation has increased at a rapid pace.<sup>13</sup> Under such circumstances, a loan applicant would need to obtain the approval of everyone with shares in the land in order to mortgage it. For example, one applicant for a VA mortgage loan in the St.

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<sup>12</sup>Lands held in trust for individuals are those most affected by fractionation, because these are the lands where ownership can be inherited and passed down through succeeding generations. About 10 million out of the total 55 million acres on the mainland are held in trust for individuals rather than tribes.

<sup>13</sup>*Indian Programs: Profile of Land Ownership at 12 Reservations* (GAO/RCED-92-96BR, Feb 10, 1992).

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Paul region was unable to obtain a loan because he owned a 192nd interest in the trust land where he wanted to locate his home. This veteran would have had to obtain the approval of other co-owners to mortgage the land. In addition, all four federally recognized tribes in Kansas informed VA that they were not interested in participating in the VA direct loan program because of the extent of fractionated land interests within their reservation boundaries. In VA's St. Paul region, 12 of the 39 loans, which have been denied since the program's inception, were denied because the applicant had a fractionated interest in the land. This unique land ownership problem does not exist on the Hawaiian homelands because the land is leased.

Another barrier for Native American veterans that VA cannot address is the lack of infrastructure that is needed for housing development on trust lands. The remoteness of some tribal lands has been an ongoing problem for housing development on Native American trust lands.<sup>14</sup> In contrast to metropolitan areas, where basic infrastructure systems (such as sewers, electricity, and water supply) are already in place, building in remote trust lands requires the tribe or homeowner to install infrastructure to support new housing, or self-contained housing must be built. For example, much of the housing constructed on Navajo and Sioux trust lands is scattered across remote sites. A builder on Navajo lands told us that the cost to provide infrastructure to remote home sites is often too expensive for the tribe or homeowners and can cost over \$20,000 per home. For Hawaiian veterans, infrastructure costs do not present such a barrier. The state of Hawaii, as part of its homeland development program, provides eligible Native Hawaiians (veterans and nonveterans) with infrastructure funding. For example, in a remote housing development containing homes purchased by Native Hawaiian veterans with VA loans, the Department of Hawaiian Homelands provided as much as \$50,000 per lot for sewer, water, and electrical services.

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### VA Can Address Some Factors That May Contribute to Lower Participation of Native American Veterans

One program-related factor that VA can address that may have affected participation of Native American veterans is the \$80,000 loan limit, established by the Congress when it created the program in 1992. VA has the authority to raise the loan limit for a geographic area if VA determines that the average housing cost in the area is significantly higher than the national average. Using this authority, VA officials said that the loan limit

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<sup>14</sup>[GAO/RCED-98-49](#).

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was raised to \$120,000 for Hawaii, the Pacific Islands, and the state of Washington—and to \$100,000 for one tribe in New Mexico, to more closely approximate the housing costs in those areas. However, VA has not attempted to determine if the maximum loan limit should be raised for other Native American tribes. VA reported that they have not initiated increases for other areas because neither the VA regional loan centers nor the tribes have requested a change. Officials at the Denver Regional Loan Center said that the \$80,000 loan limit may prevent some veterans from participating in this program. One tribal housing specialist with the nation's largest tribe, the Navajo, has directed veterans who wanted to purchase homes costing about \$100,000 to other loan programs because he was not aware that VA could make exceptions to the \$80,000 loan limit. In comparison, other federal programs that provide homeownership assistance to Native Americans on trust lands<sup>15</sup> have loan limits between \$144,000 and \$278,000 (depending on the geographic region) and during 2001, guaranteed loans averaging \$102,000.

Finally, recent reports<sup>16</sup> on mortgage lending concluded that Native Americans could benefit from homebuyer counseling and education. One report stated that Native Hawaiians could also benefit from homebuyer counseling and education. These two groups were found to have little experience with the mortgage lending process and the necessary steps required to obtain a mortgage loan. To overcome this barrier, the Director of VA's Honolulu field office said that local housing authorities and other organizations in Hawaii and the Pacific Islands provide mortgage counseling and homebuyer education that assist Native Hawaiians and Pacific Islanders to negotiate the homebuying and mortgage process. Officials at VA's Honolulu regional loan center said they help ensure that veterans receive the services and assistance of these organizations by actively communicating and partnering with them. VA's mainland regional loan centers have not established similar relationships with organizations to provide the same types of services for Native American veterans.

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<sup>15</sup>See appendix I for details on other Native American homeownership assistance programs and their loan limits.

<sup>16</sup>*One-Stop Mortgage Center Initiative in Indian Country*, the Department of Housing and Urban Development and the Department of the Treasury, October 2000; *The Report of the Native American Lending Study*, Community Development Financial Institutions Fund, the Department of the Treasury, November 2001.

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For example, VA regional loan centers have not partnered with other organizations that focus on mortgage lending on trust lands, such as the One-Stop Mortgage Centers<sup>17</sup> located on the Navajo reservation in New Mexico and Arizona, and the Oglala Sioux reservation in South Dakota. The centers are nonprofit organizations that specialize in mortgage lending and credit counseling, guiding potential Native American borrowers through the homebuying process, simplifying procedures, and educating potential borrowers about the types of home loans available on trust lands. We found that VA regional offices in Phoenix and St. Paul have had little contact with these centers and have not used them to identify, educate, and assist prospective borrowers. For example, a One-Stop Mortgage Center official in Arizona estimated that as many as 200 Navajo veterans who had visited the center and expressed an interest in homeownership did not receive complete information about the VA program because the One-Stop Mortgage Center's staff was not familiar with it.

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## VA Has Conducted Various Outreach Activities but Has Taken Limited Steps to Meet Assessment and Reporting Requirements

VA has conducted outreach but has taken limited steps to meet assessment and reporting requirements as specified in the program's authorizing legislation. Outreach requirements specified in the program's authorizing legislation state that VA, among other things, is to attend housing conferences, and provide information to veterans, tribal governments and organizations. VA has performed many of these activities. Other program requirements state that VA should annually assess and report to the Congress on the effectiveness of its outreach activities and annually report on the pool of eligible Native American, Native Hawaiian, and Pacific Islander veterans. VA has reported that it has undertaken extensive outreach activities but has not reported on how effective its outreach has been. VA's annual report has included information on how many Native American and Pacific Islander veterans identified themselves as such on the 1990 census but has not indicated the number of these individuals who would meet the program's eligibility requirements. However, VA said it will use new data available from the 2000 census to provide a more accurate count.

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<sup>17</sup>An Executive Memorandum established the One-Stop Mortgage Center Initiative in 1998. It directed HUD and the Department of Treasury to develop recommendations to streamline mortgage lending on trust lands.

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## VA Has Conducted Various Outreach Activities

The direct loan program's authorizing legislation states that VA must, among other things, attend housing conferences and conventions; and produce and disseminate information to tribal governments, tribal veterans service organizations, and tribal organizations regarding the availability of such benefits. VA's regional loan center staff have attended and made presentations at housing conferences sponsored by the Department of Housing and Urban Development's Office of Native American Programs, the Department of Hawaiian Homelands, other Native American housing organizations, and Native American veterans forums. For example, the Phoenix regional loan center made a presentation on the direct loan program at the National Native American Veterans Symposium in February 2001.

In addition, VA produced a video called "Coming Home: Native American Veteran Home Loans" that has been distributed to tribal officials and organizations. This video shows Native American veterans and tribal officials how the direct loan program may be used to help them achieve their homeownership goals. VA has also distributed information pamphlets and applications to interested veterans and organizations.

VA's regional loan center staff has also traveled to tribal trust lands to meet and talk with tribal representatives and veteran liaison representatives to solicit their assistance in reaching tribal members who are veterans. For example, the Phoenix and St. Paul regional loan centers sent representatives to talk to tribes in those areas about the program.

Furthermore, the Honolulu field office has expanded on these outreach activities to promote the program to Native Hawaiian veterans. Officials at the Honolulu office said they use local media, including radio, television, and newspaper to promote the program. In addition, officials said they use local housing organizations to inform veterans of the program.

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## VA Has Taken Limited Steps to Meet Assessment and Reporting Requirements

The program's authorizing legislation requires, among other things, that VA assess the effectiveness of outreach efforts it undertakes in connection with the direct loan program and report this assessment to the Congress annually. In its reports, VA states that the low level of program participation is not due to a lack of outreach on its part. However, program officials said that VA has not assessed the effectiveness of its outreach efforts. VA notified us that it plans to evaluate the Native American Veterans Direct Home Loan program as part of a larger study that it expects to complete in 2003, but an assessment of outreach effectiveness is not part of the planned work.



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The program's authorizing legislation directs VA to report annually on the pool of eligible veterans. To meet this requirement, VA reported that about 436,000 individuals had identified themselves as Native American and Pacific Islander veterans in the 1990 census. VA also acknowledged that the number of veterans obtained from census data did not wholly correlate to eligible veterans because the tally included veterans who were living in cities and who may not have been members of tribes—thus, included were some veterans not eligible for leases or ownership of trust lands. Also, VA officials stated that they could not definitively quantify the pool of veterans who might be eligible for the program because they are dependent on veterans volunteering to identify their race and ethnicity.

We analyzed the 1990 census data, however, and were able to distinguish Native American veterans who were living in tribal areas with trust lands from those living elsewhere. Our analysis revealed that there were approximately 18,000 veterans living on trust lands associated with about 50 federally recognized tribes. Although, it is likely that there are eligible veterans associated with the remaining federally recognized tribes, the data were not readily available.

Further identification of eligible veterans might be possible with an examination of 2000 census data. Population data for Native Hawaiians who live on their equivalent of trust lands—Hawaiian homelands—were not collected in the 1990 census but were collected in the 2000 census. The more recent census will also identify Native American veterans living on trust lands associated with nearly 90 federally recognized tribes. VA program officials said they have asked VA's Office of Policy and Planning to analyze the 2000 census data and will use the data to provide a more current, accurate count of veterans eligible for the program. This analysis could allow VA to report to the Congress a more accurate count of the eligible pool of program participants.

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## Conclusions

Although the program is designed to help Native American, Native Hawaiian, and Pacific Islander veterans living on trust lands achieve homeownership, our review suggests that certain elements of the program may be barriers to participation for Native Americans. Some of these barriers are difficult to overcome; for example, problems with establishing meaningful interest in trust lands. But, VA can address some of the other barriers. For example, the program loan limit of \$80,000 may be limiting the usefulness of the program to Native American veterans on some trust lands. By not partnering with other organizations, VA may be missing opportunities to get Native American veterans into the program and to

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guide them through the mortgage process to buy a home. Furthermore, by not assessing its outreach efforts, VA cannot be certain that it is effectively reaching the population that the program was designed to serve. While VA has not completely met requirements for reporting on the pool of eligible veterans, we are not making a recommendation because VA plans to use the 2000 census data to provide a more accurate count of eligible veterans. Changes to VA's loan program might improve the program's contribution to the federal effort to increase opportunities for Native American homeownership on trust lands.

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## Recommendations for Executive Action

To increase opportunities for participation for all Native American, Native Hawaiian, and Pacific Islander veterans, we recommend that the Secretary of Veterans Affairs:

- Direct regional loan centers to obtain local housing cost data for trust lands to determine the need for exceptions to the current loan limit. Additional exceptions should be granted if the data support such increases.
- Explore partnerships with local housing organizations, such as One-Stop Mortgage Centers, that assist and support Native Americans on trust lands with the mortgage lending process.
- Assess program outreach efforts to Native American, Native Hawaiian, and Pacific Islander veterans and report on this assessment to the Congress, as the program's authorizing legislation directs.

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## Agency Comments

We provided a draft of this report to VA for its review and comment. We received written comments on the draft report (see app. II). VA agreed that it could do more in delivering its benefits, and concurred with our recommendations. In addition, VA provided technical clarifications to the report, which we have incorporated into this report where appropriate.

As part of its comments, VA suggested that we use statistical data from its National Survey of Veterans 2000 on veteran homeownership and income, rather than the general population. VA did not provide a copy of this unpublished survey, and we were unable to verify these data to determine their validity. Therefore, we did not include them in this report.

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## Scope and Methodology

To address the issues discussed in this report, we reviewed the statute, regulations, annual reports, and informational materials on VA's Native American Veterans Direct Home Loan program as well as our other work and related studies of Native American trust land issues. We also interviewed numerous officials in Washington, D.C., and elsewhere with responsibilities for the program or knowledge of Indian housing issues. To gain a fuller perspective on Native American housing and trust land issues, we interviewed HUD officials, who administer block grant and home-loan programs for Native Americans. We also interviewed an official at the Bureau of Indian Affairs, who is familiar with Native American tribes and trust land issues. We gained some perspective on the views of Native American veterans by interviewing officials from the National Congress of American Indians, the National American Indian Housing Council, and the Center for Minority Veterans as well as representatives of the Navajo Tribe and the Oglala Sioux Tribe. We selected these tribes because they are among the largest in the nation, have completed memorandums of understanding with VA, and are served by the two VA regional loan centers we visited.

To determine if there was a disparity in program participation, we used VA data to calculate the number of loans made to Native Americans on the mainland by each regional loan center in every year since 1992 and compared the results with the number of loans made to Native Hawaiians and Pacific Islanders during the same period. To identify the factors contributing to the disparity, we interviewed program officials at VA headquarters in Washington D.C., and at four VA centers: Honolulu, Denver, St. Paul, and Phoenix. We selected these four centers because they are responsible for about 96 percent of all loans made under the program since its inception. During site visits to the St. Paul and Phoenix centers, we reviewed case files to determine the reasons that loan applications had been rejected and describe contacts with veterans and tribes. To see how income and other program requirements may affect eligibility for the program, we reviewed available census data on Native Americans' incomes, poverty levels, veteran status, and residency on or near reservations. We also interviewed an official at the One-Stop Mortgage Center in Window Rock, Arizona, to discuss the significance of providing assistance with the mortgage process.

To determine the steps VA has taken to meet outreach, assessment, and reporting requirements, we reviewed data provided at our request from all nine VA regional loan centers. This data provided information on VA program staffing, loan activity, and outreach efforts. We assessed the availability of information that VA could use to better identify the pool of

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eligible veterans by reviewing Census Bureau statistical reports and by interviewing officials concerning the availability of 2000 census data on Native Hawaiians and on Native Americans residing on trust lands. We conducted our work from November 2001 through May 2002 in accordance with generally accepted government auditing standards. We checked data that we obtained from federal agencies for internal consistency, but we did not independently verify the data.

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As arranged with your offices, we will also send copies of this report to the Secretary, Department of Veterans Affairs; the Ranking Minority Member of the Committee on Veterans' Affairs, U.S. Senate; and the Committee on Veterans' Affairs, U.S. House of Representatives. We will make copies available to others on request. In addition, this report is also available on GAO's Web site for no charge at <http://www.gao.gov>. If you or your staff have any questions about this report, please call me at (202) 512-2834. Key contacts and major contributors to this report are listed in appendix III.



Stanley J. Czerwinski  
Director, Physical Infrastructure Issues

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# Appendix I: Other Federal Homeownership Programs for Native Americans on Trust Lands

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In addition to VA's Native American Veterans Direct Home Loan program, four other federal programs provide homeownership assistance to Native American individuals or tribes on trust lands on the mainland. The Department of Housing and Urban Development (HUD) administers two programs,<sup>18</sup> and the Department of Agriculture administers two programs through its Rural Housing Service. Key aspects of each of these programs are shown in table 2.

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<sup>18</sup>HUD also provides housing assistance to Native Americans on the mainland through a block grant, enacted by the Native American Housing Assistance and Self-Determination Act of 1996. In fiscal year 2002, HUD provided about \$649 million in block grants to tribal entities to use for housing.

**Appendix I: Other Federal Homeownership Programs for Native Americans on Trust Lands**

**Table 1: Homeownership Assistance Programs for Native Americans on Trust Lands, in 2002**

| <b>Program feature</b>               | <b>Indian Home Loan Guarantee Program—Housing and Urban Development Dept. Sec. 184<sup>a</sup></b>  | <b>Mortgage Insurance Program—Federal Housing Administration Sec. 248<sup>b</sup></b>                  | <b>Rural Housing Guaranteed Loan Program—Rural Housing Service Sec. 502<sup>c</sup></b> | <b>Rural Housing Direct Loan Program—Rural Housing Service Sec. 502<sup>d</sup></b> |
|--------------------------------------|---|--|---|---|
| Year enacted                         | 1992  | 1983   | 1990  | 1949  |
| Number of loans made since inception | 354 on trust land out of 948 total  | 760 on trust land  | Five on trust lands out of 396 total to Native Americans in FY 2000 and 2001            | 153 on trust lands out of 1937 total to Native Americans since 1995                 |
| Value of loans made since inception  | \$28 million on trust land out of \$92.5 million total  | \$31 million on trust land   | \$29.3 million to Native Americans in FY 2000 and 2001                                  | \$78.4 million to Native Americans since 1995                                       |
| Type of funding available            | Home loan   | Home loan  | Home loan, with priority for first-time buyer   | Home loan with interest subsidy available   |
| Nature of program                    | Loan guaranty for private lenders   | FHA insured loan   | Loan guaranty for private lenders   | Direct home loan  |
| Loan purpose                         | Purchase, construct, or rehabilitate owner-occupied single-family homes with up to four dwelling units; tribes may construct rental homes | Purchase, construct, or rehabilitate owner-occupied single-family homes with up to four dwelling units | Purchase, construct, or rehabilitate owner-occupied single-family homes                 | Purchase, construct, or rehabilitate owner-occupied single-family homes             |
| Loan limits                          | Lesser of 150 percent of local FHA limits <sup>e</sup> or home value  | Lesser of FHA limits <sup>e</sup> or home value  | None, based upon appraisal and repayment ability  | HUD's 203b limit as of 9/30/98  |
| Lands covered by loans               | Trust lands held for individuals or tribes or fee simple land in Indian areas   | Trust lands held for individuals or tribes   | Trust lands held for individuals or tribes and other rural properties                   | Trust lands held for individuals or tribes and other rural properties               |
| Entities eligible for loans          | Families/individuals, tribes or Indian housing authorities  | Families/individuals or tribes   | Families/individuals with low or moderate incomes                                       | Families/individuals with low or very low incomes                                   |
| Agency requirements                  | Tribal resolutions and letters certifying procedures for foreclosures, evictions, and priority of liens                                   | Tribal ordinances and documentation certifying procedures for foreclosures and evictions               | Interagency memorandums of understanding developed for One-Stop Mortgage Initiative     | For tribal trust lands an approved lease is required                                |

<sup>a</sup>Section 184 of the Housing and Community Development Act of 1992; 12 U.S.C. 1715 z-13a.

<sup>b</sup>Section 248 of National Housing Act, as amended; 12 U.S.C. 1715 z-13.

<sup>c</sup>Section 502 of Housing Act of 1949, as amended; 42 U.S.C. 1472 (h).

<sup>d</sup>Section 502 of Housing Act of 1949, as amended; 42 U.S.C. 1472.

<sup>e</sup>The Federal Housing Administration (FHA) loan limits are \$144,000 -\$278,000 or \$262,000-\$503,000 in high cost areas.

Sources: GAO analysis of HUD and Rural Housing Service data.

# Appendix II: Comments from the Department of Veterans Affairs



THE SECRETARY OF VETERANS AFFAIRS

WASHINGTON

July 12, 2002

Mr. Stanley J. Czerwinski  
Director, Physical Infrastructure Issues  
U. S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Czerwinski:

This is in response to your draft report, ***NATIVE AMERICAN HOUSING: VA Could Address Some Barriers to Participation In Direct Loan Program*** (GAO-02-654). The Department of Veterans Affairs (VA) is strongly committed to providing its benefits to all eligible veterans including Native Americans. Given the focus of your report, VA believes it is more meaningful for the General Accounting Office (GAO) to use homeownership data for veterans rather than the American population in general. Homeownership rates for veterans are considerably higher than for the general population. According to National Survey of Veterans (NSV) 2000, 78 percent of veterans own their own home. Furthermore, 64 percent of Native American Veterans own their own homes. These statistics illustrate the success of VA's home loan program benefits.

VA agrees it can do more in delivering its benefits, and concurs with your recommendations. The Department will continue working to obtain local housing cost data for trust lands to determine the need for exceptions to the current loan limit. VA will also explore partnerships with local housing organizations and assess its program outreach efforts based upon new data from the 2000 census.

The enclosure provides action plans to implement GAO's recommendations.

Sincerely yours,

A handwritten signature in cursive script that reads "Anthony J. Principi".

Anthony J. Principi

Enclosure

Enclosure

DEPARTMENT OF VETERANS AFFAIRS COMMENTS TO  
GAO DRAFT REPORT, **NATIVE AMERICAN HOUSING:**  
**VA Could Address Some Barriers to Participation In Direct Loan Program**  
(GAO-02-654)

**To increase opportunities for participation for all Native American, Native Hawaiian, and Pacific Islander veterans, GAO recommends that I:**

- **Direct regional loan centers to obtain local housing cost data for trust lands to determine the need for exceptions to the current loan limit. Additional exceptions should be granted if the data support such increases.**

Concur - The authorizing statute (38 U.S.C. §3762(c)) established that the principal amount of any direct housing loan made to a Native American under this program may not exceed \$80,000. This statute also provided an exception to this limit. Pursuant to 38 U.S.C. §3762(c)(1)(B), the Secretary may make loans exceeding \$80,000 in a geographic area if the Secretary determines that housing costs in the area are significantly higher than average housing costs nationwide. There is no statutory cap on the amount of any increase the Secretary might determine is appropriate.

Since this program's inception, VA has increased the statutory limit for loans made under this program every time a request has been made. In addition, in at least three cases, increased loan limits were established when VA field office personnel determined that the existing loan limit was insufficient, without a request from a tribal government or individual. Shortly after the Native American Direct Housing Loan Program started, the Veterans Benefits Administration's (VBA) Loan Guaranty Service determined that requests would be granted when and wherever supportable by local data and for all land subject to a particular Memorandum of Understanding (MOU), instead of on a loan-by-loan basis. To date, loan limits have been increased under 11 MOUs, as follows:



Enclosure

DEPARTMENT OF VETERANS AFFAIRS COMMENTS TO  
 GAO DRAFT REPORT, **NATIVE AMERICAN HOUSING:**  
**VA Could Address Some Barriers to Participation In Direct Loan Program**  
 (GAO-02-654)  
 (Continued)

| Loan Limit | Tribal Government   | Loan Type                      |
|------------|---|--------------------------------|
| \$120,000  | American Samoa  | All                            |
|            | Guam *  | All                            |
|            | Hawaiian Homelands  | All                            |
|            | Northern Marianas   | All                            |
|            | All Federal Trust Land in Washington State (6 tribes currently participating from Washington State) * | Stick-built homes              |
| \$100,000  | Picuris Pueblo  | All                            |
|            |   |                                |
| \$ 90,000  | All Federal Trust Land in Washington State (6 tribes currently participating from Washington State) * | Double-wide manufactured homes |

\* Limits increased by VA based on its own findings of housing costs. The tribal governments submitted no requests.

VBA has been pro-active in implementing this program and in working with tribes to establish appropriate loan limits. At the same time, VA recognizes that other Federal loan programs available to Native Americans and Pacific Islanders have higher loan limits. VA will continue working to obtain local housing cost data for trust lands to determine the need for exceptions to the current loan limit. VA will also continue to grant exceptions if the data support such increases.

Enclosure

DEPARTMENT OF VETERANS AFFAIRS COMMENTS TO  
GAO DRAFT REPORT, **NATIVE AMERICAN HOUSING:  
VA Could Address Some Barriers to Participation In Direct Loan Program**  
(GAO-02-654)  
(Continued)

- **Explore partnerships with local housing organizations, such as One-Stop Mortgage Centers, that assist and support Native Americans on trust lands with the mortgage lending process.**

Concur - VA has and will continue to explore partnerships with local housing organizations, such as the One-Stop Mortgage Centers, that assist and support Native Americans on trust lands with the mortgage lending process.

- **Assess program outreach efforts to Native American, Native Hawaiian, and Pacific Islander veterans and report on this assessment to the Congress, as the program's authorizing legislation directs.**

Concur - VA's ability to assess program outreach has been subject to limitations on information regarding the location of potentially eligible veterans. The data available to VA in recent years has been dated and of limited use. As VBA officials discussed with GAO staff, VA plans to use the 2000 census data to provide a more accurate count of eligible veterans. This should help VBA assess program outreach in the future.

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# Appendix III: Contacts and Staff Acknowledgments

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## GAO Contacts

Carol Anderson-Guthrie, (214) 777-5600

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## Acknowledgments

Dwayne Curry, Shelia Drake, Patricia Elston, Colin Fallon, John McGrail, Michael Mgebhoff, and William Sparling made key contributions to this report.

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# Related GAO Products

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*Welfare Reform: Tribes Are Using TANF Flexibility To Establish Their Own Programs.* [GAO-02-768](#). Washington, D.C.: July 5, 2002.

*Economic Development: Federal Assistance Programs for American Indians and Alaska Natives.* [GAO-02-193](#). Washington, D.C.: December 21, 2001.

*Indian Issues: Improvements Needed in Tribal Recognition Process.* [GAO-02-49](#). Washington, D.C.: November 2, 2001.

*Rural Housing: Options for Optimizing the Federal Role in Rural Housing Development.* [GAO/RCED-00-241](#). Washington, D.C.: September 15, 2000.

*Native American Housing: Information on HUD's Funding of Indian Housing Programs.* [GAO/RCED-99-16](#). Washington, D.C.: November 30, 1998.

*Native American Housing: Homeownership Opportunities on Trust Lands Are Limited.* [GAO/RCED-98-49](#). Washington, D.C.: February 24, 1998.

*Hawaiian Homelands: Hawaii's Efforts to Address Land Use Issues.* [GAO/RCED-94-24](#). Washington, D.C.: May 26, 1994.

*Veterans' Benefits: Availability of Benefits in American Samoa.* [GAO/HRD-93-16](#). Washington, D.C.: November 18, 1992.

*Indian Programs: Profile of Land Ownership at 12 Reservations.* [GAO/RCED-92-96BR](#). Washington, D.C.: February 10, 1992.

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