Native Hawaiian Revolving Loan Fund Program Outcome Evaluation 2020

Executive Summary

The Office of Hawaiian Affairs (OHA) conducted an outcome evaluation of the Native Hawaiian Revolving Loan Fund (NHRLF) program. The mission of this program is to support and enhance the economic self-sufficiency of Native Hawaiians while ensuring the availability of resources for future generations. Data was collected via a survey of all Native Hawaiian borrowers with loans active as of November 2020.

This evaluation and resulting report focused on the impact of OHA loans on Native Hawaiian financial stability and Native Hawaiian-owned business prosperity. Survey responses were received from 157 borrowers, representing a response rate of 64.3%. Due to the devastating effects of the COVID-19 pandemic on Hawai'i's economy in 2020, data was collected from three points in time:

- Before the loan was disbursed, representing the baseline;
- 2019, representing the most recent year of complete financial data; and
- As of November 2020, representing any changes as a result of the COVID-19 pandemic.

OHA STRATEGIC ALIGNMENT

Economic Stability

OHA LOANS

PERSONAL LOANS

OHA offers various personal loans for consumers including education, home improvement, and debt consolidations.

BUSINESS LOANS

OHA Mālama and Hua Kanu loan programs offer low-cost loans to existing and start-up businesses.

Outcome Overview

The NHRLF Program Outcome Evaluation assessed five areas of overall financial stability through multiple outcome indicators. Table 1 shows change in financial stability outcomes of borrowers over the loan period.

TABLE 1. Financial Stability Outcome Matrix

	BEFORE OHA LOAN	2019	CHANGE OVER LOAN PERIOD
ECONOMIC WELLBEING			
Positive Financial Management	59%	72%	14%
Economic Fragility	66%	53%	-13%
PRECONDITIONS TO FINANCIAL STABILITY			
Median Debt to Income Ratio	54%	46%	-8%
Credit Score Above 650	66%	76%	10%
INCOME			
Monthly Mean Individual Income	$5,271	$5,682	11%
Annual Mean Household Income	$100,271	$108,605	8%
HOUSING			
Housing Conditions (own/rent)	83%	88%	4%
Satisfied with Housing Quality	83%	83%	-1%
Affordable Housing Cost	49%	47%	-2%
WEALTH			
Average Financial Assets	$74,985	$83.492	11%
Average Non-financial Assets	$240,122	$294,676	23%
Average Total Assets	$312,776	$375,307	20%
Average Debt	$201,817	$249,735	24%
Average Net Worth	$149,496	$165,594	11%

Note. Denominator reflects the total respondents who provided an answer for each outcome based on responses to before the loan and in 2019. Green font indicates an improvement of 5% or more and red indicates worsening condition of 5% or more. Discrepancies in calculation are due to rounding.

Key Findings

1. OHA borrowers improved their overall economic wellbeing during the loan period.

Overall economic wellbeing was measured through indicators of financial management status and economic fragility. Results demonstrated that 58.6% of borrowers reported positive financial management before the loan, which increased to 72.4% in 2019. Additionally, OHA borrower economic fragility decreased from 66.4% to 53.3% of borrowers by 2019. By both measures, borrowers of education and debt consolidation loans experienced lower levels of overall economic wellbeing prior to the loan, than home improvement and business loan borrowers, but made more substantial improvements over time.

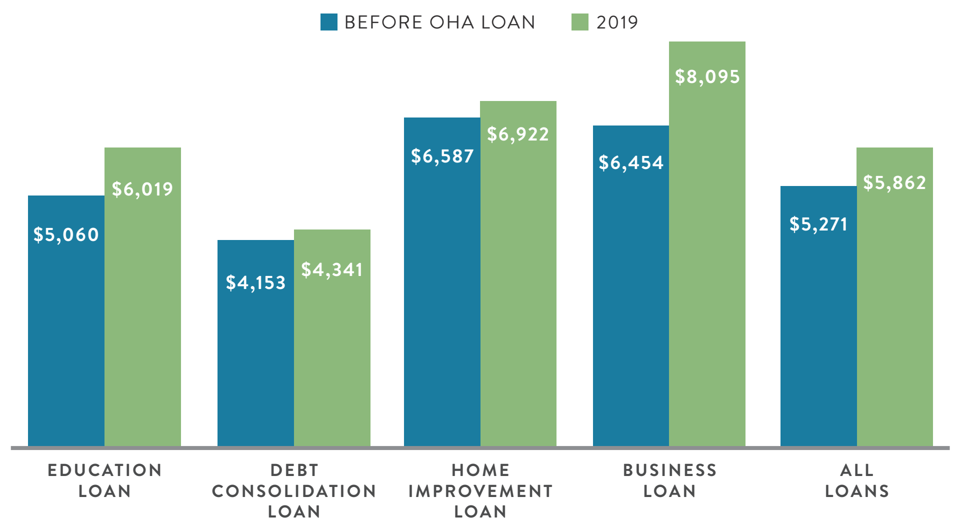
2. OHA borrowers experienced improved preconditions to financial stability, after receiving an OHA loan.

OHA borrowers' median debt-to-income ratio (DTI) decreased from 53.5% to 46.0% and increased rates of good-excellent credit scores by 11.1 percentage points. Business borrowers showed the greatest improvement, decreasing the average DTI by 14.1%, while debt consolidation borrowers increased the median DTI by 3.7% over the period of the loan. The largest improvement in credit scores was noted among education borrowers (23 percentage point increase), the smallest percent of whom had good-excellent credit scores prior to the loans. The smallest changes in credit scores were among home improvement borrowers, who had the largest percent of good credit good-excellent credit scores before receiving the OHA loan.

3. Education and business loan borrowers were able to substantially increase their income, over the period of the OHA loan.

Although only minimal changes were noted in OHA borrower employment status over the course of the loan, mean individual monthly income increased by 11.2% ($594), and mean household annual income increased by 8.3% ($8,334). The largest gains within both measures were among education and business borrowers, as these loan types are specifically tailored to increase the earning potential of the borrower.

FIGURE 1. Average individual monthly income.



NOTE. Denominators reflect the total respondents who provided an answer for both time periods (n=105).

4. Minimal gains were seen within the long-term outcomes of improved housing conditions.

Housing conditions can also be used as a measure of economic stability. Over the course of the loan period, however, only minimal gains were seen in OHA borrower housing tenure, quality, and affordability. Although changes in housing conditions may be seen as a longer-term outcome of improved economic wellbeing, no positive changes in housing quality were detected for home improvement loan borrowers either.

5. The value of OHA borrowers' financial and non-financial assets increased over time, with smaller gains resulting from home improvement loans.

OHA borrower mean total asset value increased by 20.0% (from $312,776 to $375,307) during the loan period. Total assets include financial or liquid funds, and non-financial, such as property, business equity, or vehicles. Education and business borrowers experienced the largest improvement in financial assets, by percentage change and dollar value, respectively. While debt consolidation borrowers and business borrowers showed the largest increases in mean non-financial asset value by percentage change and dollar value, respectively. Although home improvement borrowers started with higher asset values, during the period of the loan they saw decreases in financial assets (-$4,875 or 3.0%) and smaller increases in non-financial assets (7.0% or $32,900).

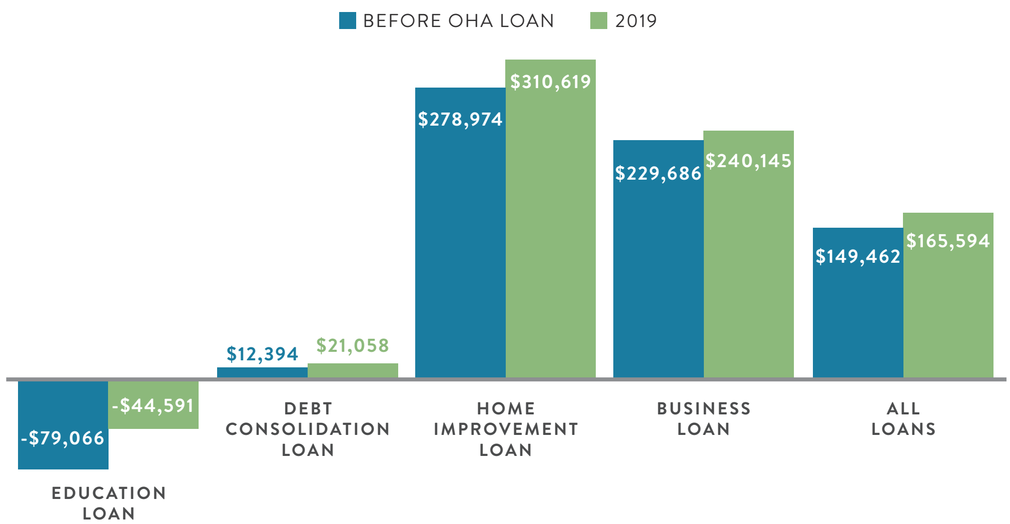
6. OHA borrowers' total debt owed increased from the time they received the loan to 2019.

The total debt of OHA borrowers increased by 23.7% or $47,918 (from $201,817 to $249,735). Some increase was anticipated as borrower debt also included the balance remaining of the OHA loan. The changes, however, differed between loan types with education borrowers decreasing their average debt by 11.2%. While business borrowers demonstrated the largest increase in debt of 79.2%, perhaps reflecting greater investment in their business. Surprisingly, given the purpose of the loan, debt consolidation borrowers also increased their average debt during the loan period by 25.6% or $32,571. Some of these increases reflect the fact that two debt consolidation borrowers purchased homes during this time. If these two borrowers are removed from the calculation, as home purchase can be viewed as a positive debt, there remains an average increase of $3,225 in negative debt. Again, removing homebuyers, 30.0% of debt consolidation borrowers increased their total debt (n=12) and 25.0% maintained a consistent debt amount (n= 10) through the loan period. In fact, 52.7% of debt consolidation borrowers opened a new credit card or increased credit card limits during the loan period (n=19).

7. As a result of increased asset value, the average net worth of OHA borrowers grew over the loan period.

Over the period of the OHA loan, borrowers experienced a 10.8% increase in average net worth, representing a change of $16,133. These changes were determined to be a result of a positive increase in financial and non-financial assets rather than a decrease in debt. Although both education and debt consolidation borrowers had substantially lower net worth prior to receiving the OHA loan, they also made the most improvement during the loan period, resulting in an increase of $34,769 (46.6%) and $8,665 (69.9%), respectively.

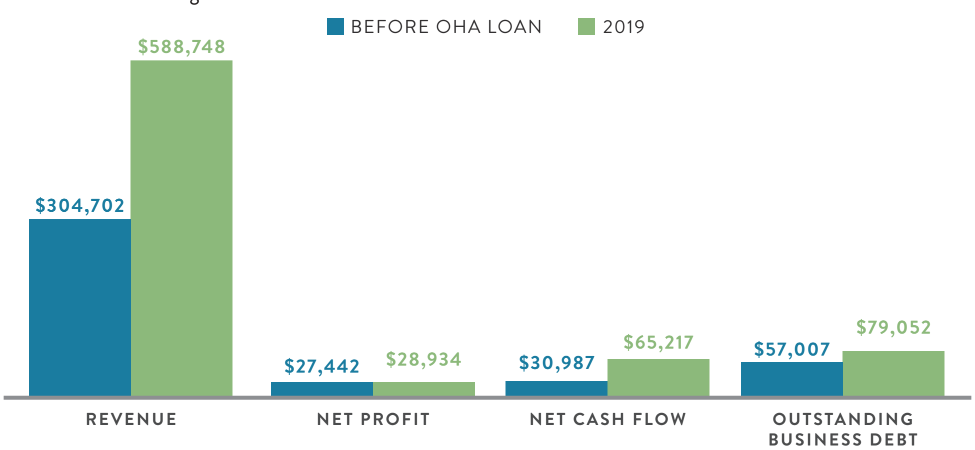
FIGURE 2. Average net worth.



NOTE. Denominators reflect the total respondents who provided an answer for both time periods (n=89).

8. Native Hawaiian-owned business with OHA loans improved their financial performance from before the loan was received to 2019.

FIGURE 3. Average business financials.



NOTE. Denominators reflect the total respondents who provided an answer to these items (n=20).

OHA business borrowers saw improvements in their businesses' annual financials, through the course of the loans. Mean business revenue increased by 93.2% ($284,046); mean net profit increased slightly by 5.4% ($1,492); and mean net cash flow increased by 110.5% ($34,230). There was also an increase of 38.7% in average business debt ($22,046).

9. The devasting impact of the COVID-19 pandemic on Hawai'i's economy derailed the positive outcomes OHA borrowers had experienced over the loan period in the areas of economic wellbeing, preconditions to financial stability, and income.

The percentage of OHA borrowers reporting positive financial management decreased from 72.2% in 2019 to 45.8% as of November 2020. OHA borrowers' median DTI during the COVID-19 crisis increased from 46.0% to 55.6%. Average individual monthly incomes decreased by 13.7% to $5,919 and average household annual income decreased by 15.1% to $92,389. All data points as of November 2020 demonstrated a level of financial stability lower than the pre-loan figures.

10. Longer-term measures of OHA borrower financial stability, such as housing conditions, asset wealth, total debt, and net worth appeared less impacted by the COVID-19 pandemic.

During the period of the COVID-19 pandemic, OHA borrowers continued to see small increases in homeownership rates and consistency in housing quality and affordability. Increases in the average total asset value and overall net worth also continued throughout the COVID-19 period.

Discussion and Recommendations

Increase lending to Native Hawaiians with low financial stability:
Education and debt consolidation borrowers had lower levels of financial stability, by measure of overall economic wellbeing and total net worth, but also made the greatest improvement over time. This finding may indicate that if the OHA loan program targets borrowers with less financial stability, greater improvement over time may be achieved.

Continue current lending practices:
Because the OHA loan program was found to be effective in supporting Native Hawaiians to achieve immediate or shorter-term outcomes, such as income and preconditions to financial stability, and was successful at increasing Native Hawaiian asset wealth and net worth, current methods of lending should be continued.

Collect long-term data:
As some measures of financial stability, such as housing conditions and employment, are longer-term outcomes, OHA may consider collecting borrower data 10 to 15 years after loan distribution. Additionally, the true economic impact of the COVID-19 pandemic on long-term Native Hawaiian financial outcomes may not be detected until several years after the crisis has subsided.

Offer additional support to decrease Native Hawaiian reliance on debt:
Current OHA loan evaluation data does not reflect reduction in Native Hawaiian debt over the loan period, including the debt consolidation loan product. In order for the loan program to be more effective, additional financial counseling or coaching could be provided to borrowers throughout the life of the loan.

Continue to build upon current business loan products:
As Native Hawaiian businesses appear to benefit greatly from the OHA loan program, and Native Hawaiian business owners demonstrated the highest levels of improvement among most outcomes evaluated, the loan program may explore additional means of providing access to capital and credit to these borrowers.

Recommended Citation. Anderson, Kristin (2021). Office of Hawaiian Affairs Native Hawaiian Revolving Loan Fund Program Outcome Evaluation 2020. Honolulu, HI: Office of Hawaiian Affairs, Office of Strategy Management