



Native Hawaiian Revolving Loan Fund Outcome Study: Phase IIa. Business Loans Executive Summary

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ABSTRACT

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This report highlights the findings from a 2014 study of the Office of Hawaiian Affairs’ Native Hawaiian Revolving Loan Fund (NHRLF) Business Loan Program. The study consisted of a retrospective outcome evaluation assessing the impact of NHRLF business loans awarded between 2009 and 2012. Findings, from a sample size of 72 businesses, indicate that Native Hawaiian business owners who received NHRLF loans increased their annual household income an average of \$19,660, while NHRLF businesses increased their annual revenue an average of \$69,188. This increase in annual revenue indicates that for every NHRLF dollar invested, businesses return \$2.62 on average. The findings presented in the report demonstrate the NHRLF business loan program’s effectiveness in increasing Native Hawaiian ownership of, employment in, and income from local economic enterprises.

INTRODUCTION

The Native Hawaiian Revolving Loan Fund (NHRLF) was created as a self-sustaining program, with repayments used to generate new loans for Native Hawaiians. The purpose of NHRLF is to provide alternative funding to borrowers commonly denied traditional loan products and to provide these loans at rates and terms not available from other sources. The goals of the program include:

- To promote economic activities that result in expanded opportunities for Native Hawaiians to increase their ownership of, employment in, or income from local economic enterprise;
- To assist Native Hawaiians in overcoming specific barriers to local capital markets and to encourage greater private-sector participation in local economic development activities; and
- To increase the ability of Native Hawaiians to access capital and create private-sector jobs.

NHRLF was established in 1987 by the U.S. Congress through an amendment to the Native American Program Act. The Amendment



Introduction (continued)

required the Administration for Native Americans (ANA) to award a five-year demonstration grant to a Hawaiian agency to create and administer NHRLF. On January 24, 1989, the Office of Hawaiian Affairs (OHA) was selected as the official NHRLF Loan administrator.

As a lending program, NHRLF's objectives are directly aligned with OHA's purpose of providing resources to help improve the conditions of Native Hawaiians. This fund addresses OHA's Strategic Priority of "Ho'okahua Waiwai: *Economic Self-Sufficiency*." Specifically, this program targets OHA's Strategic Result of increasing Native Hawaiian median family income to be equal to, or greater than, 92% of statewide median family income by 2018.

When OHA first implemented NHRLF, the sole focus was the provision of loans to Native Hawaiian owned businesses at a 2% interest rate. In November 2007, OHA's NHRLF program was renamed the Mālama Loans program and expanded to provide individuals with loans for home improvement or to continue their education. The interest rate was also increased to 5%. At this time, First Hawaiian Bank was contracted as OHA's strategic lending partner to oversee the processing of the NHRLF loans. In 2011, the program added loans for debt consolidation which carried a 4% interest rate. In February of 2014, the interest rate for all loans was raised to 6.25%. The total funds available to NHRLF have remained constant since 2002 at \$22,929,000: \$12,937,000 representing ANA's funding and \$9,992,000 as OHA's contribution.

Currently, to be eligible for NHRLF loans, businesses must be 100% Native Hawaiian owned, owners must have a minimum credit score of 600, and a maximum debt-to-income ratio of 45%. Additionally, draft business plans are required for start-up business loans. During fiscal year 2014, OHA distributed 28 NHRLF business loans (25% of all NHRLF loans) for a total of \$672,730 dispersed (31% of funds). The NHRLF Strategic Plan of June 2014 outlined procedures to disperse an additional \$1,125,000 in business loans during fiscal year 2015, increasing business loan funding by 67% in one year. For this reason, it has become imperative to determine the effectiveness of NHRLF business loans to improve conditions in Hawaiian communities as well as their role in helping OHA reach strategic goals.



NHRLF OUTCOME STUDY

In 2013, OHA implemented a NHRLF Retrospective Outcome Evaluation in order to provide valuable information to guide future program priorities and policies. This study was divided into three distinct phases. The first phase focused on the data collection and comparative analysis required to verify key measures of success across all loan typesⁱ. The second phase of the study was designed to provide more in-depth analysis of the impact of two NHRLF loan types (business and debt consolidation). This report addresses Phase IIa which exclusively evaluated the impact of the business loans. The final phase of this evaluation will focus on implementing an ongoing outcome evaluation for OHA's lending programs, which will integrate recommendations generated from Phase I and Phase II evaluations.

Purpose of NHRLF Business Loan Study

In 2009, the U.S. Government Accountability Office cited recommendations to small business loan programs to “develop additional performance metrics to measure the program’s achievement in assisting micro-loan borrowers in establishing and maintaining successful small businesses.” It was noted that outcome performance measurement is essential to ensure loan programs are meeting policy goalsⁱⁱ. Thus, in accordance with recommended best practices, OHA developed and implemented an evaluation of outcome measures specific to the NHRLF Business Loan Program in order to assess program success. The purpose of this evaluation was to achieve three goals:

- To provide an accurate and valid description of those Native Hawaiian businesses that have received NHRLF loans, to ensure the equitable distribution of funds across businesses, and to detect any business or borrower characteristics that may be under-represented;
- To determine the impact and/or effectiveness of the business loan program in fulfilling its mission to create jobs, wealth and economic and social well-being for people of Native Hawaiian ancestry; and
- To identify which types of businesses were most successful with the assistance of an OHA business loan to inform NHRLF program decision-making.



METHODOLOGY

In the summer of 2013, a retroactive mixed-methods outcome evaluation was completed with a sample of NHRLF business borrowers who were awarded loans between FY2009 and FY2012. Survey instruments were mailed to study participants and responses were received by mail, phone, or email. Because some survey participants had received multiple OHA loans, as well as some households through different members of the household, the standard unit of evaluation was defined as the household or business, rather than a single loan. Of the 222 NHRLF business loans distributed within the study period, 164 had contact information available. Seventy-six business surveys (43%) were returned, which represented 72 businesses. Of these 72 businesses, two received two business loans and 9 received a business loan and some other type of OHA loan, for a total of 15.3% of responding businesses having received multiple OHA loans.

Data was collected on outcome measures, including borrower income, business revenue, number of employees, and impact within Hawaiian communities. These data were collected for two points in time; before the loan and in 2012. Three forms of data analysis were utilized in Phase II of the study to create triangulation of data for enhanced credibility: Quantitative data, qualitative data, and “Spotlight Interviews.” Analysis of quantitative measures included descriptive, correlation analysis of variables, paired-sample T-tests, and Repeated Measures Analysis of Variance (RM-ANOVA) of change over time. The alpha level was set as $\alpha=0.05$, equivalent to 95% confidence that the difference did not occur due to chance.

Qualitative data analysis of three open-ended questions was completed through a grounded experience of the data in which a team of researchers and program staff assessed responses independently and as a group to compare findings iteratively until consensus on key themes and their meaning was reached.

KEY FINDINGS

Key findings from this study are presented in five categories. First, descriptive characteristics of business loan borrowers, businesses, and business loans are presented to define the distribution of NHRLF business loans. Next, the impact of these loans are reported, including factors that may have contributed to the degree of the impact. Finally, Native Hawaiian business owners’ projected barriers to economic success are outlined.



Characteristics of NHRLF business loan borrowers

1. Thirty-one percent of NHRLF business loan borrowers were female, which appropriately reflected the 31% of female owned businesses across Hawai'i.

Although the percentage of female borrowers who received business loans (31%) was lower than all other NHRLF loan types (45%), it was representative of the number of female business owners in Hawai'i. The most recent data from the U.S. Bureau of the Census: Survey of Business Owners states that 31% of businesses across the state are women-ownedⁱⁱⁱ. Therefore, OHA's NHRLF business loan program appears to equitably serve Native Hawaiian women who are business owners.

2. Business owners in the City and County of Honolulu accessed OHA's NHRLF business loans to a disproportionately greater degree than businesses in other counties across Hawai'i.

When compared to the Native Hawaiian county populations, business loans to the City and County of Honolulu residents were slightly overrepresented; 68.1% of NHRLF business loans were awarded to this county, but only 62.8% of the Native Hawaiian population in the State of Hawaii reside there, a difference of 5.3%. When compared with the distribution of Native Hawaiian owned businesses across Hawai'i counties, this overrepresentation was confirmed. In 2012, only 57.3% of Native Hawaiian owned businesses were located in City and County of Honolulu, but 68.1% of the business loans were distributed to this county.

Characteristics of Native Hawaiian NHRLF businesses

3. Fifty-percent of NHRLF business owners classified their business within the professional service industry, including Construction/Contract Services, Medical Services, Financial Services and Others.

NHRLF businesses represented a broad diversity of industries from musicians to Medicare brokers to accounting firms and fishing companies. Industry categories included Community Development, Culture, Food Production, Clothing Production, and Retail/Sales/Marketing. The field of Professional Services: Other included businesses providing transportation, tattooing, security, travel services, photography, auto-repair and pilates instruction.

4. Forty-three percent of NHRLF businesses were in operation for less than two years, although the average age of NHRLF businesses was 6 years and 1 month.

Many of the NHRLF business loans were awarded to businesses that were either start-ups or



in very early stages of growth. Only 19.4% of all borrowers were in business for more than 10 years.

Characteristics of NHRLF business loans

5. The average loan amount received by NHRLF business borrowers was \$28,061 or 12.2% of the businesses' average annual revenue prior to the loan.

There was a great diversity of loan amounts awarded, with 39% of NHRLF businesses receiving loans less than \$20,000, 39% receiving between \$20,000 and \$24,999, and 22% receiving more than \$25,000. Business loan amounts ranged from \$3,000 to \$100,000. Statistical tests indicated that the loan amount was not dependent on the county of the borrower's gender, the business's industry, or the business' age.

Impact of NHRLF business loans

6. The majority of NHRLF business loan borrowers (70%) indicated that without the NHRLF loan their business may have failed or been much less successful.

Primary quantitative analysis determined that NHRLF business loans were used to support business survival. Of the participants in the study, 92% of the businesses were still in operation in 2013. In order to confirm the NHRLF business survival rate, additional data is needed from all 222 businesses.

Forty-two percent of NHRLF business borrowers indicated that the loan was used to open or start a new business, explaining that the funding "*Turned my dreams into reality*" (NHRLF Business Borrower). The remaining businesses used the loan during one of three specific phases of development. Twenty-four percent of NHRLF businesses needed resources in order to maintain their current operations, while an additional 19% were looking to expand. One business in this stage of growth explained "*I took out the loan in order to expand [my business] to the mainland and neighbor islands*" (NHRLF Business Borrower). Some businesses (11%) needed a cash infusion in order to "*survive the economic downturn*" (NHRLF Business Borrower).

7. Prior to receiving a loan, the median household income of NHRLF business loan borrowers was \$60,000, \$6,376 lower than the statewide median in 2010^{iv}. Over the course of the loan period, borrower's median income increased to \$80,000, which was \$13,741 higher than the statewide median income in 2012 of \$66,259. Statistical tests of the mean increase in borrower income verified that the change was significant ($p < 0.005$).



As referenced in the introduction, Median Family Income of Native Hawaiians in relationship to the statewide Hawai'i Median Family Income is a key measure of success for the NHRLF program. This measure reflects progress towards OHA's Strategic Priority of Ho'okahua Waiwai: *Economic Self-Sufficiency* as the NHRLF business borrowers surpassed OHA's Strategic Result target of the Native Hawaiian Median Family Income will be equal to, or greater than 92% of the Median Family Income (see Figure 1).

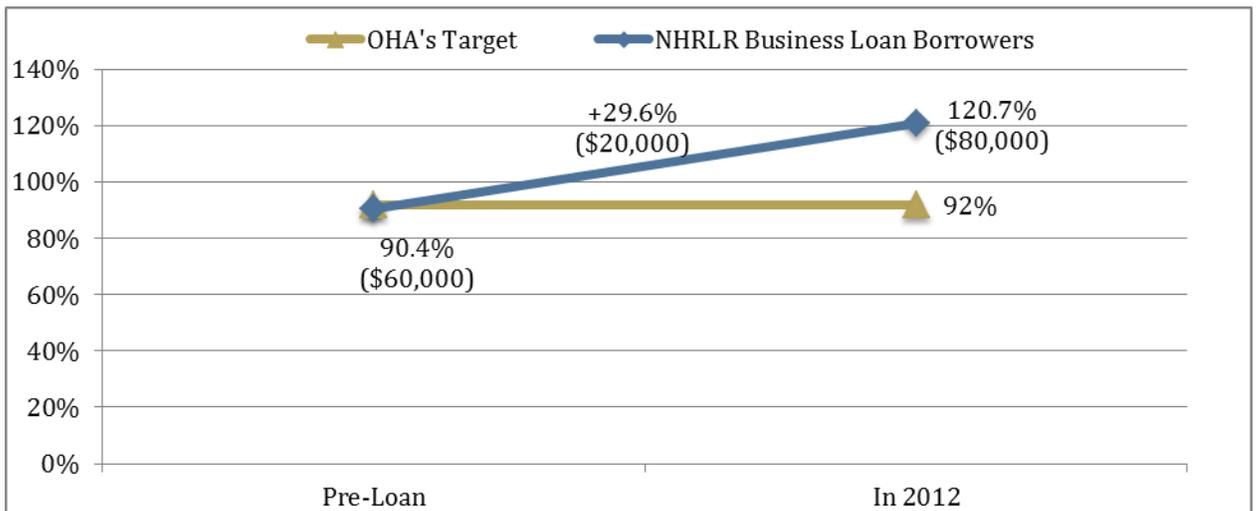


Figure 1. NHRLF household median income as a percentage of Hawai'i statewide family median income. OHA's target is Native Hawaiian median income will be equal to, or greater than 92% of the statewide median income. Source: U.S. Bureau of the Census, 2010 and 2012 American Community Survey, 1-Year Estimates, Updated every year. <http://factfinder2.census.gov>

8. NHRLF business revenue increased significantly over the period of the loan a mean of \$69,188, from \$203,070 before the loan to \$272,258 in 2012 (p < 0.005). This increase represented a percent change of 34% and a 2.62 average return on investment.

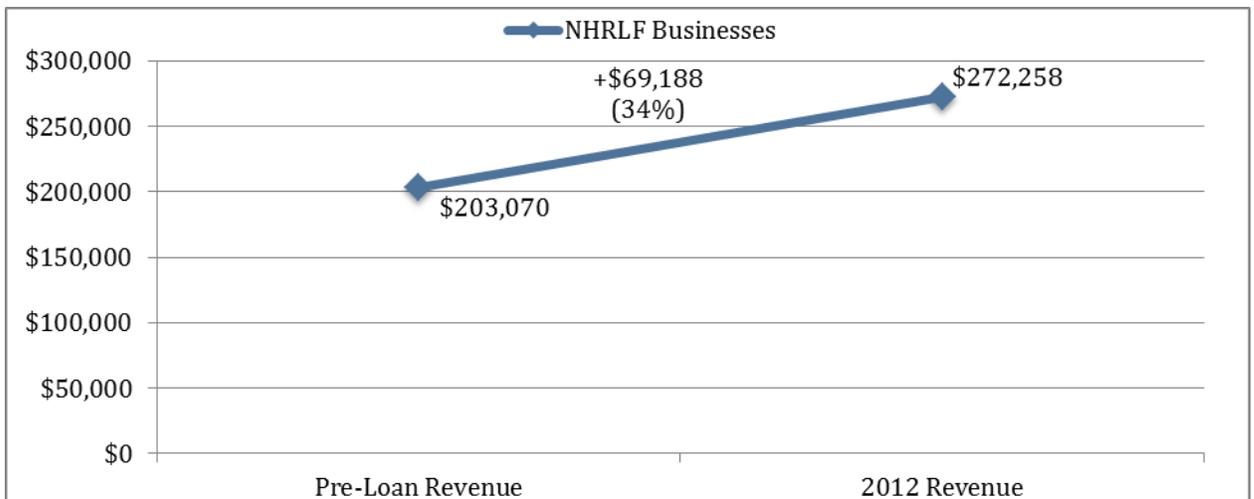


Figure 2. NHRLF business' mean revenue change over time



Statistical testing (RM-ANOVA) determined that mean revenue was significantly different over time (see Figure 2). These results verify that Native Hawaiian NHRLF businesses evaluated were remarkably successful and suggests that barriers to their economic growth were reduced.

- 9. The degree of success of NHRLF business was affected by such factors as the amount of the loan, the age of the business, and the industry (see Table 1).

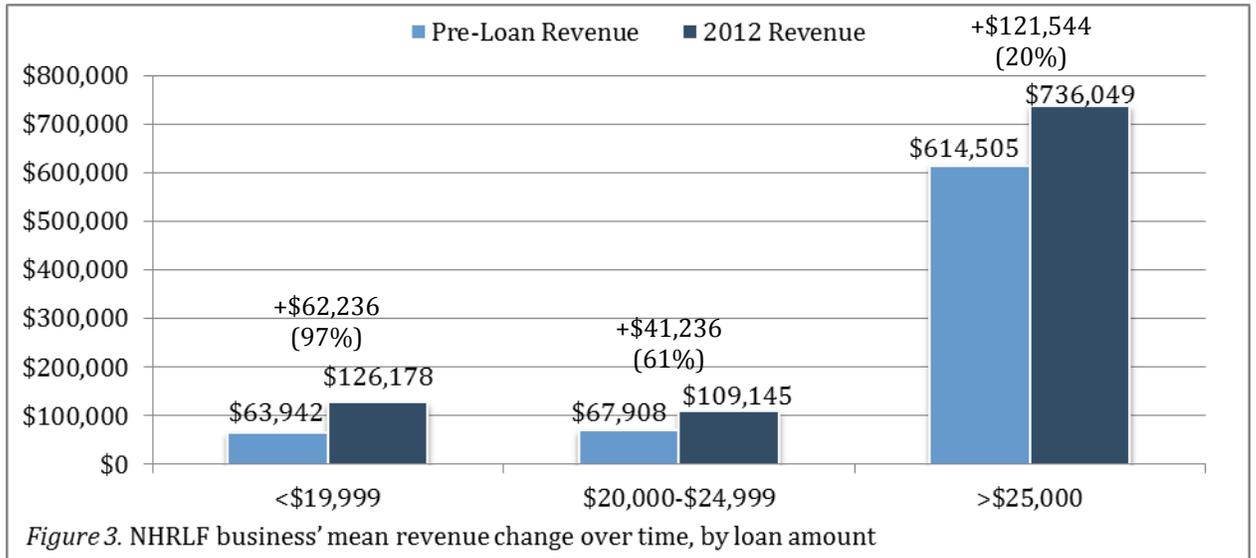
Table 1
Revenue Outcome Table by Loan Amount, Age of Business, and Industry

Characteristic	Change in Revenue		ROI
	mean	%	
Total	\$69,188	34.1%	2.62
Loan Amount			
<\$19,999	\$62,236	97.3%	5.61
\$20,000-\$24,999	\$41,236	60.7%	0.73
>25,000	\$121,544	19.8%	0.96
Age of Business			
<2 Year	\$117,649	217.7%	5.08
2-10 Years	\$40,800	19.0%	0.24
>11 Years	\$19,291	3.7%	2.02
Industry			
Construction/ Contract	\$66,443	8.7%	.50
Financial Services	\$53,333	62.7%	1.16
Medical Services	\$144,375	42.8%	2.85
Other	\$27,459	81.7%	1.57
Producer of Clothing	\$25,864	60.2%	-.13
Producer of Food	\$96,438	87.2%	1.99
Professional Service: Other	\$106,340	106.9%	8.36
Retail/Sales/Marketing	\$36,333	23.6%	2.98

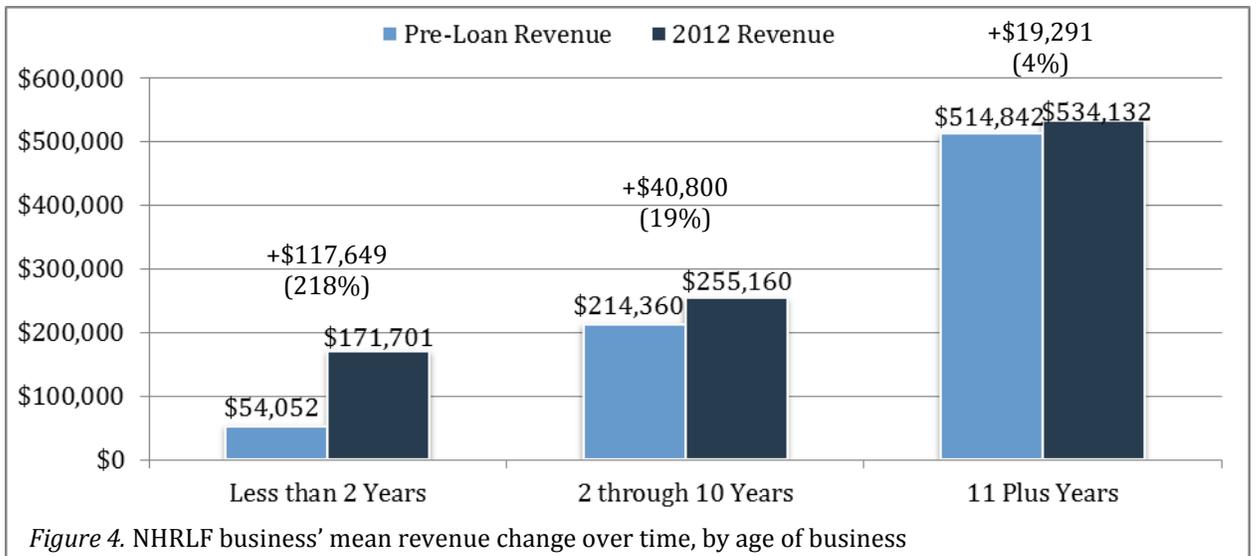
Note. Other category includes: Community Development, Preservation/Conservation, Culture.

ROI (Return on Investment) is calculated by ((Revenue Change-Total Loan Amount)/ Total Loan Amount).

As indicated in Figure 3, NHRLF businesses that received loans of \$25,000 or more demonstrated greater increases in actual dollar amount of annual revenue over time (mean increase of \$121,544). However, businesses that received loans smaller than \$19,999 reported a greater percent change in annual revenue (97.3%). Additionally, businesses that received smaller loans had higher returns on investment (5.61) than businesses that received larger loans (0.73 and 0.96, respectively).

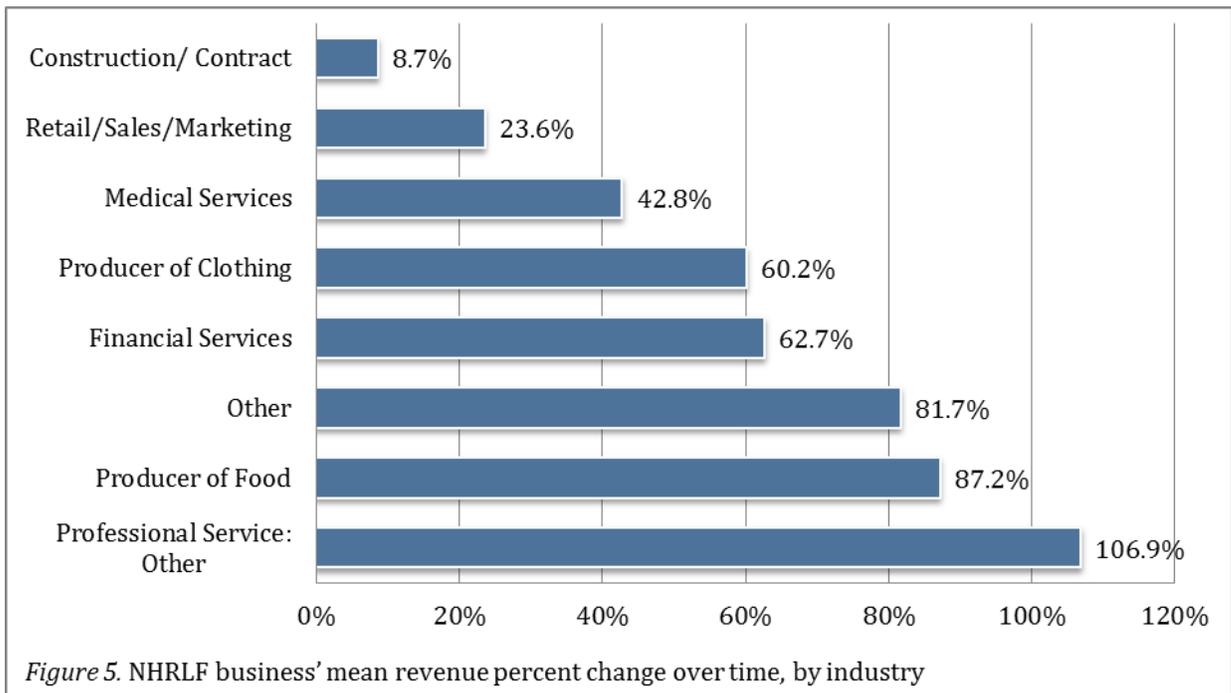


As indicated in Figure 4, increases in NHRLF business revenue varied over time with the age of the business. Businesses that have been operating for less than two years, demonstrated a mean increase in revenue of \$117,649, which is a higher figure than more established businesses. Newer businesses also demonstrated greater revenue increases over time by all other measures, including the percent change (218%) and return on investment (5.08).





As shown in Figure 5, variations in revenue change were also noted between business industries. NHRLF businesses in the Professional Service: Other category demonstrated the greatest revenue percent change over time at 107%, while the Construction/Contract industry reported the lowest at 9%. The Professional Service: Other category of businesses also had the highest mean return on investment rate of 8.36, while Clothing Production businesses had the lowest at -0.13.

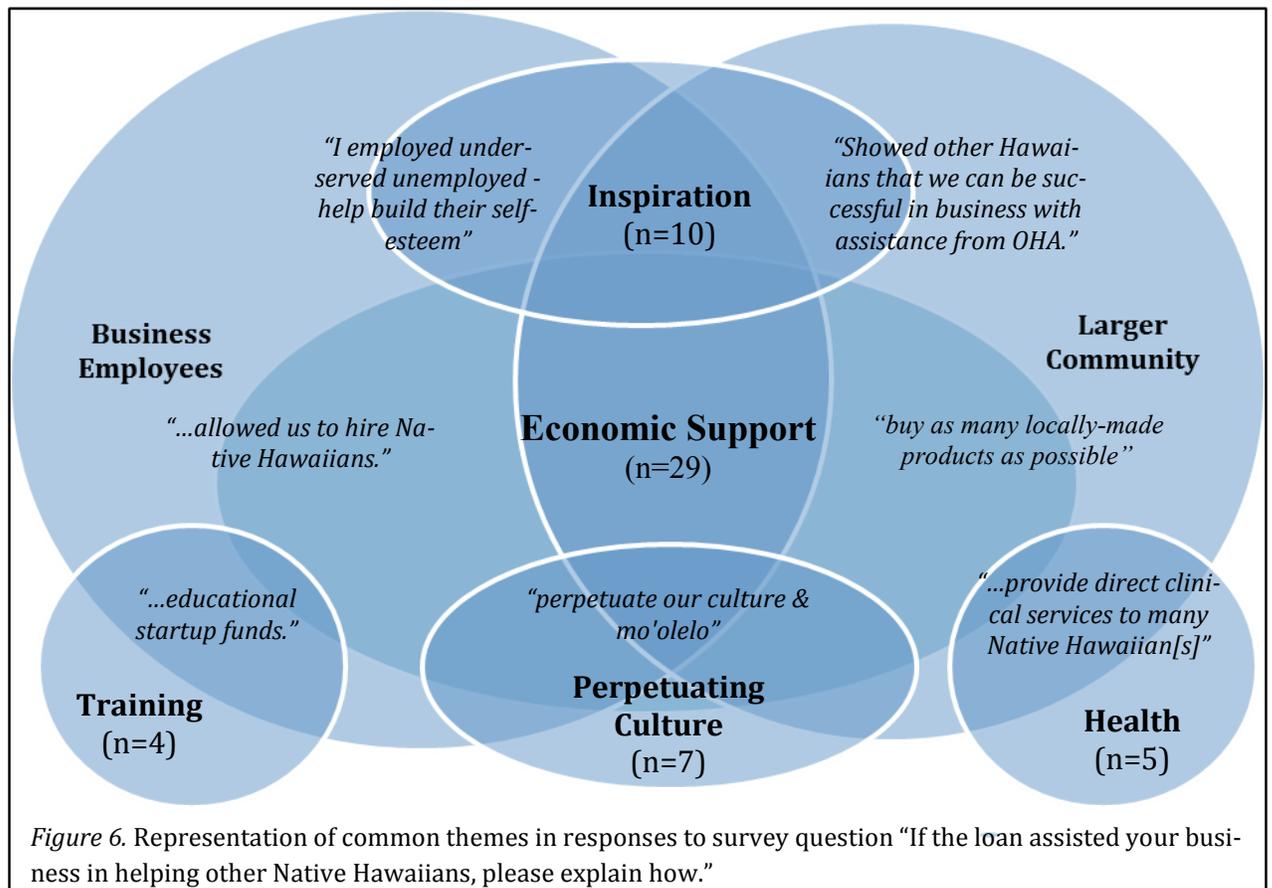


Additionally, analysis revealed that NHRLF businesses in the Medical Service industry had the greatest mean revenue increase of \$144,375 while the Clothing Production industry had the smallest revenue increase at \$25,864.



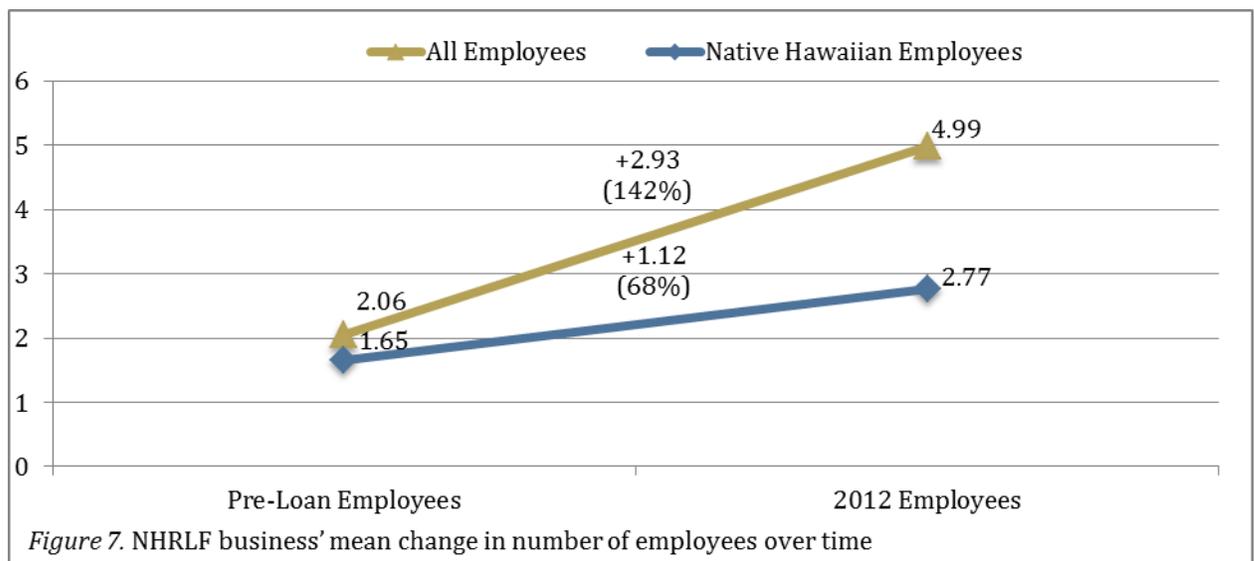
10. NHRLF business loans positively impacted the Native Hawaiian community at large, primarily through the provision of both financial support and inspiration for employees and their communities.

The majority (76%) of participants in the study either agreed or strongly agreed with the statement that the loan helped them contribute to the well-being of other Hawaiians, Hawaiian culture, or land. Qualitative data also supported this finding and revealed several key themes. The most prominent theme was that of economic support, either through hiring Native Hawaiians or through providing financial resources for the local economy. Notably, NHRLF business borrowers reported that they had provided an inspiration for other Native Hawaiians, either by increasing employee self-confidence and mentoring or by becoming a role-model that exemplified Native Hawaiian achievement.





As apparent in the qualitative analysis, quantitative data also suggested that NHRLF businesses increased their number of employees over the course of the loan period (see Figure 7). The mean increase was 2.93 total employees representing 142% change and 1.12 Native Hawaiian employees representing a 68% change. These changes were not statistically -significant ($p>0.05$). However, findings may have been skewed by the inconsistent inclusion of the Native Hawaiian business owner in the count of employees.



Projected barriers to economic success of Native Hawaiian businesses

- NHRLF business borrowers expressed the largest hurdles to their success in the next three years were related to their current and predicted stage of business development. Their anticipated needs included surviving the economic downturn, the need for additional capital, overcoming government-related obstacles and increasing their knowledge of business and marketing.

Twelve-percent of NHRLF businesses responded that their major barrier would be to survive the current economic conditions or, as one borrower stated, *“Surviving the economic slump that started in 2008. I see signs of a slow recovery...I am working twice as hard just to do the same numbers as last year”* (NHRLF Business Borrower).



Forty-four percent of businesses anticipated their future needs to maintain the business as either financial or business literacy related, including improved marketing, navigating government policies, or “*Understanding business! 1) cash flow; 2) daily expenses; 3) cost analysis*” (Producer of Food- NHRLF Loan amount of \$7,000). The remaining 44% of NHRLF businesses foresaw the need to expand in the next three years, emphasizing the need to hire additional staff and increase equipment or working capital.

CONCLUSION

Analysis of Native Hawaiian businesses served by the NHRLF program revealed equitable distribution of loans across male and female business owners, but an inequitable distribution across counties. Businesses in Hawai‘i, Kaua‘i, and Maui counties were underrepresented. This finding points to the need for additional research on marketing, need, and accessibility in all counties.

An assessment of the impact of the NHRLF program establishes businesses’ statistically-significant increases in the household income of business owners and business revenue over the course of the loan, demonstrating the program’s effectiveness in addressing the original economic mission of the revolving loan fund and OHA’s economic self-sufficiency strategic indicator.

Factors that may impact success of businesses, as measured by increase in revenue, include loan amount and age of business. Businesses with larger loans increased revenues by a larger dollar amount, but businesses with smaller loan amounts increased revenues by a larger percent and had a higher return on investment. Dependent on the specific objective of the NHRLF program to either support increased revenue amounts overall or to support the largest impact within businesses, loan amounts could be adjusted in future NHRLF policies. By all measures, however, start-up businesses demonstrated significantly greater success than existing businesses.

In summary, these findings indicate that OHA’s NHRLF business loan program is appropriately addressing the original federal regulatory purpose of the funding. The program has promoted expanded opportunities for Native Hawaiians, including increased ownership of, employment in, and income from local economic enterprises. Specific gaps in local capital markets were overcome and private-sector participation in local economic development activities was increased. Additionally, OHA has increased capital formation and private-sector jobs for Native Hawaiians through the NHRLF business loan program.



REFERENCES

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- ⁱⁱ U.S. Small Business Administration, Office of the Inspector General, SBA's Administration of the Microloan Program under the Recovery Act, December 28, 2009, p. 7, at <http://www.sba.gov/sites/default/files/om10-10.pdf>.
- ⁱⁱⁱ U.S. Bureau of the Census (2007) Economic Census: Survey of Business Owners US Census Bureau. Updated every 5 years. <http://www.census.gov/econ/sbo/>
- ^{iv} Data from the 2010 census was used as a comparison to pre-loan data, as the majority of the loans surveyed were awarded in 2010. U.S. Bureau of the Census, 2010 and 2012 American Community Survey, 1-Year Estimates, Updated every year. <http://factfinder2.census.gov>
- ^v Office of Hawaiian Affairs Strategic Plan: Economic Self-Sufficiency Indicator, 2010-2018. <http://www.oha.org/strategicplan>

SUGGESTED CITATION

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