

OHA Loan Outcome Evaluation: Overview of Progress

DECEMBER 2014

This report summarizes the progress of a three-phase evaluation conducted by the Office of Hawaiian Affairs. To date, the evaluation has assessed key economic and well-being outcomes of Native Hawaiian Revolving Loan Program and Consumer Micro-Loan Program borrowers during FY2009-FY2012. Phase I confirmed that, on average, over the time period evaluated, borrower's household income increased a mean of \$5,627 and that well-being was enhanced 10%. Phase IIa confirmed, that on average, that NHRLF business borrowers experienced an increase of \$69,179 in business revenue and mean return on investment of 2.62 (FY2009-FY2012). To the extent financially possible, OHA expects to implement research based findings and lessons learned into Phase III, an ongoing outcome evaluation commencing in FY2016-FY2017.

Suggested Citation.

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INTRODUCTION

Native Hawaiian Revolving Loan Program (NHRLF) Spotlight

Mission of Mālama Loans: To enhance access for all persons of Native Hawaiian ancestry to credit, capital, and financial services and skills so as to create jobs, wealth and economic and social well-being for all the people of Hawai'i.

Funds Available

~\$23 Million (\$13M /ANA + \$10M/OHA)

FY2009-FY2012

- 1,414 loans provided
- Average of 350 loans a year
- Total Amount Funded: \$25,808,211
- Average loan size: \$18,291

Mālama Loan Types Offered

- Business (B)
- Debt Consolidation (D)
- Education (E)
- Home (H)

Details: Loans offered at First Hawaiian Bank offices throughout the state of Hawai'i; 6.25% interest (May change to 5.5% in Fall 2014), must prove Native Hawaiian ethnicity.

More:

<http://www.oha.org/malamaloan>

The Office of Hawaiian Affairs (OHA) is a public agency with a high-degree of autonomy that is governed by a Board of Trustees and administered by a Chief Executive Officer. OHA is focused on strategic priorities to improve the conditions of Native Hawaiians. The agency fulfills its vision to raise a beloved nation by providing resources; advocating for Native Hawaiians on a range of issues; and facilitating collaboration among key stakeholders. Loan programs are one way the agency fulfills its purpose. OHA also provides grants to non-profit agencies to directly provide services that align with strategic results to assist beneficiaries, provides research and advocacy.

Native Hawaiian Revolving Loan Fund (NHRLF). Origins of this fund date back to Nov. 29, 1987, when the U.S. Congress established funds in an Amendment to the Native American Program Act of 1974. This Amendment required the Administration for Native Americans (ANA) to award a five-year demonstration grant to establish the NHRLF. Pursuant to 45 Code of Federal Regulations (CFR) 1336.61, the purpose of the NHRLF is to provide funding, not available from other sources, 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;
- Assist Native Hawaiians in overcoming specific gaps in local capital markets and to encourage greater private-sector participation in local economic development activities; and
- Increase capital formation and private-sector jobs for Native Hawaiians.



OHA's NHRLF staff provides friendly service to applicants and diligently manages loan programs that meet strategic objectives. For more information, visit <http://www.oha.org>.

OHA has administered this fund since 1989. Between FY2008-FY2012, the NHRLF, which is locally referred to as the Mālama loan program, offered loans for three purposes with varying maximum loan amounts at a 4-5% interest rates: Education (E: ≤\$25,000); Home Improvement (H:≤\$100,000); and Business (B:≤\$100,000). In FY2011-12, Debt Consolidation loans (D: ≤\$25,000) were offered for the first time. Loan amounts ranged from a few thousand dollars to \$100,000. Since loans greater than \$25,000 required collateral; most loans ranged from \$20,000-\$24,999.

The Consumer Micro-Loan Program (CMLP) was previously authorized by OHA’s Board of Trustees as a revolving loan program that complements the NHRLF. Loans are offered for a maximum of \$7,500 to Native Hawaiians with emergency needs and/or who cannot get a loan elsewhere. CMLP provides loans for six purposes: Home Repair (H), Education or Career Development (E) Automobile Repair (A), Emergency Medical Expenses (M), Funeral Expenses (F) and Other (O), i.e. legal expenses

Purpose of Outcome Evaluations. Since OHA simultaneously manages both the NHRLF and CMLP loan programs, it was decided that all loan types would be evaluated in three phases by the OHA Research Division. Phase I and II were retrospective outcome evaluations conducted in FY2013-FY2015. The purpose and timeframe of each phase is outlined:

Phase I. Key measures of success across all loan types offered. Purpose: To assess the extent to which all type of loans offered by OHA between FY2009-FY2012 enhanced economic capacity and well-being of borrowers (Derrickson et. al, 2014). Time frame of execution: FY2013-FY2014.

Phase II. Loan Specific Evaluations. Purpose: To explore descriptive factors of FY2009-FY2012 borrowers, loan use and assess loan-specific outcome measures among: Business loan borrowers loan borrowers (Hostetter, 2014) and Debt consolidation Borrowers (Pending, 2015). The ultimate purpose of the business study was to determine the extent to which the NHRLF was meeting its legislative mandate to enhance economic self-sufficiency of borrowers, and if business loans did “meet gaps in capital” that enhanced economic enterprise among Native Hawaiian businesses. Time frame of execution: FY2014-FY2015.

Phase III. Ongoing outcome evaluation (FY2016-FY2017) Purpose: To provide ongoing evidence of enhanced economic self-sufficiency, well-being and loan-specific outcome measures which align with program goals and OHA’s strategic results.

Consumer Micro-Loan Program (CMLP)

History: CMLP was established by the OHA Board of Trustees in November 2003 to complement the NHRLF program.

Mission: To provide low-cost loans to Native Hawaiians who are experiencing temporary financial hardship (≤\$7,500).

FY2008-FY2013 Loans

- 243 loans: Average of 41 loans/year
- Total Value of loans: \$1,247,478: Average loan of \$5,133

Loan Types

- Home Repair (H)
- Education & Career Development (E)
- Automobile Repair (A)
- Funeral Expenses (F)
- Medical Expenses (M)
- Other (O)

More:

<http://www.oha.org/cmlp>

METHODS

Study Population. OHA embarked on a retrospective mixed-method outcome evaluation of a sample of 930 NHRLF borrowers (FY2009-FY2012), and all (n=204) CMLP loans from FY2008-FY2013 (Derrickson et al., 2014). The NHRLF study population consisted of all home, education and business loans, as well as all debt consolidation borrowers on Neighbor Islands, and a random sample of 57% of debt consolidation borrowers who lived on O’ahu. The CMLP time period was extended to one year earlier (FY2008) and ended one year later (FY2013) to maximize sample sizes.

Household Survey. A primary survey was mailed to borrowers in June 2013. Household and per-capita income measures, which were evaluated the year before the loan (Time 1, T1,) and again at 2012 (Time 2, T2), were analyzed over time, gender, loan type, loan program and total loan value. Well-being was assessed by asking respondents to scale their perception of satisfaction about their standard of living, health and life achievements (0-10 points each). Responses were summed to create a well-being index (WBI at T1 and T2). Borrowers qualitatively described their perceptions of loan benefits; 24 “Spotlight Interviews” were conducted to verify impact.

Business Survey. In addition to the household survey, borrowers also completed a survey which addressed loan-specific impacts. The business survey included questions about the business, loan use, revenue, perceived value of the loan and three qualitative questions about loan use, loan benefit and future needs (Hostetter, Derrickson and Patterson, 2014).

Table 1. Loan Combinations Evaluated FY2009-FY2012

Abbr.	Loan Combination	Loan Program		Sample	
		NHRLF	CMLP	No.	%
D	Debt consolidation loan	X		149	27.1%
H	Home repair/improvement	X	X	140	25.5%
E	Education loan	X	X	82	14.9%
B	Business loan	X		63	11.5%
A	Automobile repair loan		X	30	5.5%
HD+	Home and debt loans	X		19	3.5%
HH+	Two or three home loans	X	X	15	2.7%
M	Medical loan		X	14	2.5%
BX	Business loan & other loan(s)	X	X	13	2.4%
DX	Debt & other loan	X	X	10	1.8%
DD	Two debt consolidation loans	X		6	1.1%
F	Funeral expense loan		X	6	1.1%
O	Other CMLP loan		X	3	0.5%
Total				550	

Data Analysis. Table 1 summarizes the loan combinations received by 550 respondent households. Quantitative data was analyzed using the Repeated Measures Analysis of Variance (RM-ANOVA) within SPSS Statistical Program, Version 21. The alpha level was established at $\alpha=0.05$. Qualitative data was analyzed by a team of trained researchers using the “Constant Comparative” technique. Quantitative findings were triangulated with quantitative responses to enhance the trustworthiness of findings.

FINDINGS

Phase I. Key measures of impact for all loan combinations evaluated.

Findings are summarized in overall in Figures 1 and 2, and by loan combination for borrowers with improvements in Table 2.

- Average gain of \$5,627 in household income.** Of the 550 borrower households evaluated, the mean household income rose \$5,627, and the mean per-capita income increased \$1,182 over the time period evaluated. Comparatively, the overall Median Family Income for Native Hawaiian households in Hawai'i went from \$66,132 in 2009 to only \$66,976 in 2012, up only \$844 (U.S. Census Bureau, 2013). Findings confirm that that OHA loans did enhance borrower's economic capacity and assisted Native Hawaiian borrowers recover from the Recession of 2008.
- 10% average gain in well-being.** As documented in Figure 2, borrowers also reported statistically-significant gains in satisfaction with their standard of living, health and achievement over time. An average gain of 2.9 (from 20.2 to 23.1) suggested a 10% improvement in well-being across all borrowers over the time period evaluated. Medical loan borrowers reported twice as much improvement as other borrowers (6.6, from 15.3 to 21.9), in part due to lower well-being scores before the loan. Qualitative findings verified gains in the well-being over time among debt consolidation

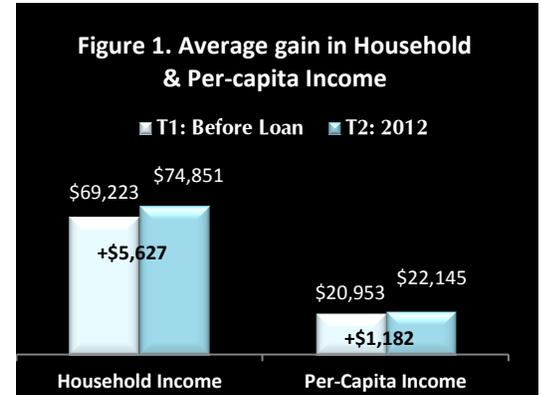


Table 2. Overall Quantitative OHA Loan Impact Summary (FY2009-FY2012)

Loan Combination	Household Income Gain Difference > 0			Well Being Index Gain Difference > 0			Loan Sample Size
	No.	%	Mean gain	No.	%	Mean gain	
Automobile Loan	15	50.0%	\$3,427	19	63.3%	2.9	30
Business Loan	33	52.4%	\$12,456	38	60.3%	2.3	63
Business + Another loan	10	76.9%	\$27,077	6	46.2%	1.3	13
Debt Consolidation	64	43.0%	\$1,997	109	73.2%	3.9	149
Debt + Another loan	2	12.5%	\$600	9	56.3%	0.9	16
Two Debt Consolidation	1	6.7%	-\$2,623	12	80.0%	4.5	15
Education Loan	39	47.6%	\$4,231	50	61.0%	2.5	82
Funeral Expense loan	3	50.0%	\$1,300	1	16.7%	-0.5	6
Home Improvement	61	43.6%	\$5,093	84	60.0%	2.3	140
Home and Debt loans	10	52.6%	\$4,914	13	68.4%	3.1	19
Multiple Home Loans	8	53.3%	\$8,857	12	80.0%	4.8	15
Medical loan	9	64.3%	\$264	12	85.7%	6.6	14
Other CMLP loan	1	33.3%	\$667	1	33.3%	0.3	3
Total/Sample Average	256	46.5%	\$5,145	354	64.4%	2.9	550

Table 2. This table summarizes the number, percent and mean gain of borrowers for each of the loan types who reported improvements (difference greater than 0) for either household income or well-being index over time, so they are best comparable with outcomes of future evaluations.

and home loan borrowers, particularly noting how better financial management led to stress reduction.

- **Borrowers, particularly debt consolidation borrowers, appreciated low interest rate OHA loans** that typically resulted in low loan payments, and therefore more disposable funds to spend on what the borrower needed most. Borrowers of all loan types reported that the low interest rates led to better money management, increased confidence, enhanced credit scores, and stress reduction, which all contributed to enhanced well-being. Qualitatively households that received a debt consolidation loan and one other type of loan (i.e. HD, DD) overcame notable financial hurdles, but typically did not increase their household income.

“Saved us from losing our home...Eased our monthly payment almost \$500...Took stress down a notch”

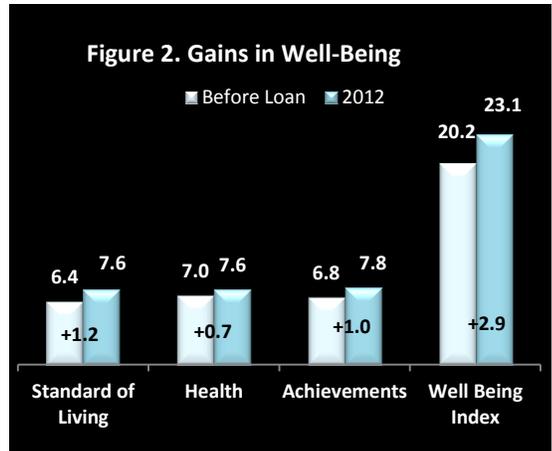
“Anonymous” Leeward O’ahu, \$41,185 (DD)

“Lowered my monthly payment, helped me avoid bankruptcy”

W.K. Haupu III, Waimanalo, \$10,700 (HD)

- **Education borrowers reported an impressive gain in household income** of \$4,231 over time even though, some CMLP borrowers received small loans less than \$7,500. Qualitative findings confirm that loans specifically used to complete professional training in the state of Hawai’i were associated with the greatest gains in income. In addition, 23% of CMLP Education loan borrowers noted how valuable it was to be able to secure an education loan quickly, particularly in the summer, when typical forms of educational assistance are not available.

- **Home loans improved the well-being of households**, typically by repair of key problems or by expansion that allowed multi-generational families to live together at reduced costs. One-third of home-loan recipients (n=58) reported the loan was used on a home residing on Department of Hawaiian Homelands leased land, typically when they



Debt Consolidation Loan Spotlight



“...We were overspending, despite making good money... The Mālama Loan helped us to lower our overall payment amount and stop paying interest rates far greater than the 4% Mālama Loan.

That will save us many thousands of dollars over my lifetime. Getting additional loans has definitely helped our overall credit score.

Thank you.”

Arsiga ‘Ohana,
Hilo, \$24,496 (D)

could not secure other sources of funding. Qualitative findings also confirmed that twenty borrowers used funds to install photovoltaic systems, which resulted in a \$200-\$450 a month saving on electric bills.

Additional Phase 1 findings, not specific to any loan type, but critical to either program or evaluation integrity include the following:

- **Overall, there was an equitable loan distribution.** When CMLP and NHRLF loans were compared together across counties the distribution was similar to the 2010 census, indicating that OHA served counties equitably when both loan programs are considered.
- **The sample was generalizable to actual population of borrowers.** Due to extensive sampling, 53.4% was the response rate across all loan types (42% CMLP; 56% NHRLF).
- **Twelve percent of borrowers received more than one loan.** This finding led to limitations discussed on page 9 and suggestions to create an integrated loan data management system.

Lessons Learned. As indicated in Table 3, some lessons learned warrant implementation directly in future evaluations, others because of cost and/or negative perception by borrowers, warrant consideration by key stakeholders prior to commencement of future outcome evaluations such as those planned for FY2016-2017.

Home Loan Spotlight



"My grandchildren mean everything to me. Without that OHA loan, I don't get the chance I have today, which is to create a more stable life for three of my granddaughters."

Yama Kaholoa'a
Molokai, \$7,500 (H)

Table 3. Key Lessons Learned

- **Overall.** Clarify expectations of time commitments and report writing a priori. Continue use of the well-being index, comparisons of key indicators among those who made improvements by loan combination (Table 2), and purposeful qualitative data analysis. Utilize high quality photography for interviews. Standardize evaluation time frame in future evaluations.
- **Better utilize borrowers' information at application.** Consider more detailed contact, income, debt, savings, housing status information, and ongoing collection of key variables at anniversary date of loan.
- **Debt consolidation loan borrowers.** Add credit score as a measure of impact and consider requiring ongoing financial counseling for all debt borrowers.
- **Education loan borrowers.** Improve education survey to verify use of funds, intended beneficiaries and tracking the success of beneficiaries separately.
- **Business loan borrowers.** Consider adding profit and loss and verification of income to business survey.
- Plan extra time to handle unexpected findings, changes in staffing and expectations.

Phase IIa. Key Business Study Findings (Hostetter et al., 2014)

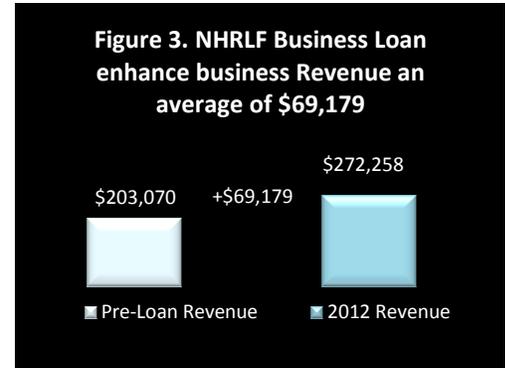
Business borrowers who received a mean loan value of \$26,000, including 44% who had been business less than two years confirmed:

- **Business revenue increased a mean of \$69,179 (34% change in revenue)** over the time period evaluated. Average Return on Investment was 2.62. (ROI=Difference in revenue over time – Loan amount/Loan amount). Both the percent change in revenue and ROI were greatest for borrowers who received less than \$20K and for new business. Findings also pointed out differences in revenue gains and ROI by type of industry: Overall, professional business services were more successful, and clothing and contracting industries were more vulnerable during the time period studied.
- **70% of business borrowers agreed the loan helped them either survive or succeed** in the tough economic times of 2008-2012. Nine out of 10 (92%) of NHRLF business borrowers were “still in business” in 2013. All six of those who were no longer in business were new businesses.
- **74% of NHRLF business borrowers reported they “contributed to the well-being of Hawaiians.”** While for many businesses economic support was either related to “hiring of Native Hawaiian contractors or employees” (n=16), or by “buying as many locally-made products as possible,” ten or 20% of those who described an inspirational impact that could have a multiplier effect throughout the Native Hawaiian business community:

I had a lot of praise and support when I mentioned I got a business loan through OHA. People know the way OHA supports Native Hawaiians and it gave my business a higher status.

Sachi Kitchenware, LLC, \$94,600 (B)

In Spring FY2015 OHA staff expect to complete a debt-consolidation loan-specific study (Phase IIb), and add to a market study evaluation by comparing data of loan recipients in FY2012-FY2015 with those whose applications were declined, to more holistically understand loan applicants.



Business Loan Spotlight

“We were turned down by every bank for a start-up business loan. OHA was the only one who wanted to help us. We are very blessed and grateful to OHA for helping us get started.

Our first loan was a start-up loan of \$20,000 used to secure equipment and build inventory of parts.

Our second loan for \$14,000 enabled us to hire more employees (now five, three of whom are Native Hawaiian) and continue to grow.”

**Ray Cirako, Owner
Precision Auto Repair Corporation,
Kona, \$34,000 (BB)**

Phase III. Ongoing OHA Loan Evaluation (FY2016-FY2017)

Once Phase II is completed in late spring FY2015 OHA expects to assess priorities and commit to an ongoing OHA loan evaluation system in FY2016-2017 which will address lessons learned and study limitations. Unlike the Lessons Learned depicted in Table 2, two study limitations, which researchers could not fully control for, merit acknowledgement and consideration prior to future loan evaluations.

1. The variable time frame of measurement, which typically averaged two years for all loan types except CMLP, but ranged from one-to-four years for NHRLF Loans, is the fundamental limitation to retrospective study results. Use of a prospective loan evaluation system that consistently incorporates Time1 data collection into the loan application process, and evaluates all loans at least at their one-year anniversary is recommended.
2. The existing loan database management prior to the study did not facilitate comparison of loans across loan types, loan programs or within a single household. Thus, the study was planned to evaluate the impact of a single loan, not complex loan combinations within a single economic household that occurred in 12% of households. The complex, time-intensive data verification process completed to assure accurate transformation from a single borrower to a household could have been prevented by an integrated loan data management system.

IMPLICATIONS

OHA is simultaneously charged with enhancing the well-being of Native Hawaiians and managing cost-effective programs. This means that OHA must constantly juggle between enhancing income and or profitability, and maximizing constituent benefit. To maximize benefit, NHRLF and OHA leaders are encouraged to continue to look beyond “the profit margin” typically used as a key goal of loan programs, subsidize loan programs with internal and external funding, and change policies to optimize impact. The following research-based implications for loan program success are encouraged for considering during FY2016-2017.

Keep interest rates economically feasible. This study occurred during a period of low interest rates (4-5%), which facilitated enhanced economic impact. Low interest rates make OHA loans marketable. For instance, in the winter of 2014, when interest rates were higher than local banks, the number of Hawaiians applying for Mālama loans dropped sharply. Fewer borrowers mean less interest earned, more money sitting in the bank instead of working for Native Hawaiians, and ultimately financial losses. Thus, to truly benefit Native Hawaiians through enhanced capital opportunities, OHA must

Medical Loan Spotlight



“OHA loan changed my life forever. I was overweight, and if I wasn’t able to get this loan, I probably wouldn’t be here to share my story, and would be dead at a very young age due to the many health problems resulting from being obese.

The medical loan was used to cover the costs of doing a vertical sleeve procedure on my stomach, reducing it from the size of a football to the size of an apple banana... within a month of doing the surgery, I had lost 100 pounds...

Quentin Kiili
Maui, \$7,500 (M)

balance the need for profit, perhaps by securing charitable funds to make up the shortfall in years when many loan charge-offs affect profitability.

Enhance technical assistance to all borrowers. Technical assistance (TA) is the term used to describe financial counseling, which is required only of new businesses and debt-consolidation borrowers, not all borrowers. Financial literacy programs for Native Hawaiians are also funded through OHAs grants program. A multi-tier approach based on specific loan needs, proactive debt management (including OHA Loans), and ongoing financial counseling is suggested

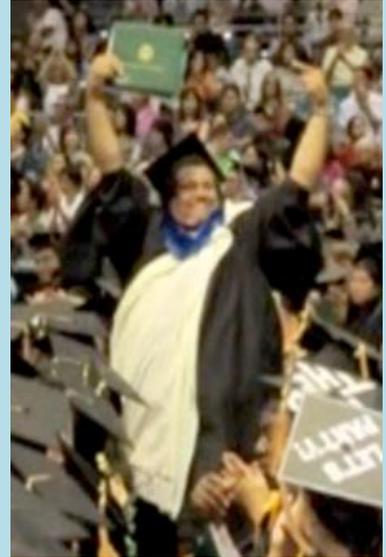
CONCLUSIONS

The Office of Hawaiian Affairs (OHA) administers two loan programs on behalf of Native Hawaiians: The Native Hawaiian Revolving Loan Program (NHRLF), which is overseen by the Administration for Native Americans; and the Consumer-Micro Loan Program (CMLP). Findings from the Phase I and II, retrospective studies, confirm that OHA's loan programs are needed, complementary and beneficial to enhancing economic self-sufficiency and the well-being of all borrowers. The programs are also credited with enhancing the business revenue of NHRLF Business borrowers. The scope and complexity of the outcome evaluations recently completed, along with the commitment to ongoing outcome evaluations, demonstrate that OHA has entered a new era of professionalism and managerial capability that warrant release from the oversight of the Administration for Native Americans.

REFERENCES

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Education Loan Spotlight



"Sometimes ignorance can hold a person back. By going back to school, and getting my graduate degree, it gave me the foundation that I needed, which I didn't have all through high school. It felt empowering knowing that I had accomplished this. My stress level shrank tremendously.

My degree helped me to get a better paying job for me and my family...After receiving my degree, I got promoted twice within the company. Currently, I am employed at Hawaii Behavioral Health as a therapist while working on getting my clinical hours done to become a Licensed Clinical Social Worker."

Warren Walker,
Hilo, \$12,500 (EEH)