

Special Commentary — November 4, 2024

Progress Underway in Narrowing Native American Income Gap

Commemorating Native American Heritage Month

Summary

- As we noted in previous reports in commemoration of Native American Heritage Month, the labor market attributes of the indigenous community are generally not as robust as those enjoyed by other Americans. Consequently, household income in the Native American community lags the national median.
- Although there may be numerous factors that depress household income of Native Americans, we focus on three causes in this report: geographical isolation, educational attainment and capital availability.
- Census Bureau data show that roughly 27% of the Native American population lives in non-urban areas whereas the comparable ratio for the overall U.S. population is 19%. Because average personal income in rural America is lower than in urban areas, the over-representation of Native Americans in rural areas pulls down income, everything else equal. Policies aimed at strengthening the labor market environment for all rural Americans would help to close the income gap between indigenous households and the national average.
- Graduation rates among Native American students from high school and college are lower than comparable rates for non-indigenous students. Relatively poor internet access and a shortage of qualified teachers can negatively affect the ability of indigenous students to receive a proper education.
- Scarcity of capital constrains business formation among Native-owned firms, which can be an important source of employment opportunities for indigenous people. Native American business owners tend to have lower credit scores than their non-indigenous counterparts, and the geographical isolation of many reservations means that there is a relative lack of financial institutions in Indian country. Additionally, most land on reservations is held in trust, depriving many Native-owned businesses of an important source of collateral.
- The federal government has recognized the problem that these issues pose for household income in the indigenous community, and it is taking steps to rectify them via more resources. The Inflation Reduction Act of 2022 provided loans and grants to promote clean energy development in rural America, and a number of programs have been established to help close the digital divide between Indian country and the rest of the nation. Efforts are underway in the public, private and philanthropic sectors to make capital more available to Native-owned businesses.
- These are all steps in the right direction. But policymakers will need to remain focused on the issue of below-average income in the Native American community and remain committed to reducing the income gap in years to come.

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Past Reports:

[Falling Unemployment in the Native American Community: Here to Stay?](#) (2022)

[Recent Economic Developments in the Native American Community](#) (2021)

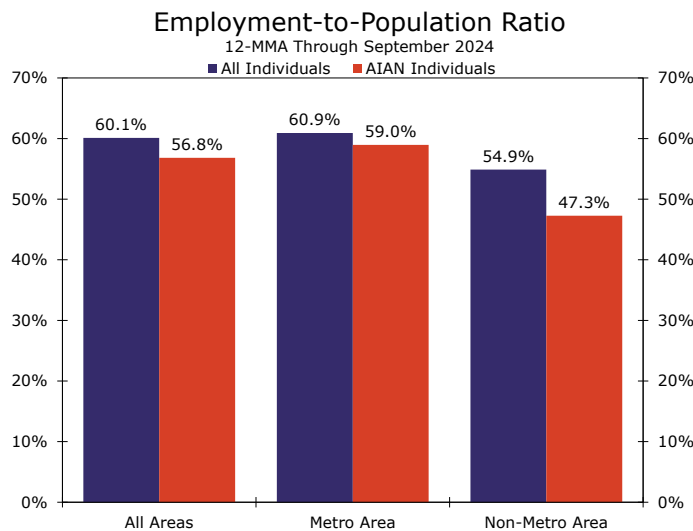
Income Shortfall in the Native American Community: Underlying Reasons

In commemoration of Native American Heritage Month, which is celebrated every November, we have previously published reports that explore some economic and financial issues faced by Native Americans. As we noted in our [inaugural report](#) in 2021, the 2020 decennial census showed that 3.7 million individuals (1.1% of the U.S. population) identified solely as "American Indian or Alaskan Native" (AIAN). Adding the 6.0 million individuals who identify as AIAN in combination with some other race or ethnicity brings the total number of people claiming Native American ancestry to 9.7 million (2.9% of the total U.S. population). Most individuals who claim Native American ancestry do not live on the 324 reservations and trust lands, legally known as "Indian country," that are recognized by the federal government.¹ According to the latest census, only 1.3 million individuals, roughly one-third of the people identifying solely as AIAN, live in Indian country.

As we outlined in our 2022 [report](#), the labor market attributes of the indigenous community are generally not as robust as those enjoyed by other Americans. For example, data from the Center for Indian Country Development (CICD) at the Federal Reserve Bank of Minneapolis show that a lower proportion of the indigenous population is employed relative to the national employment-to-population (EP) ratio ([Figure 1](#)). Specifically, roughly 57% of Native American individuals who are 16 years and older are employed whereas the nationwide EP ratio currently stands at 60%. Job prospects for Native Americans who live in "non-metro" areas are especially challenging, as the EP ratio for this cohort is roughly 47%. Not surprisingly, the unemployment rate in the indigenous community tends to be higher than the national jobless rate. Through the first nine months of 2024, the unemployment rate among Native Americans averaged 6.3% whereas the comparable national rate was only 4.1%.

Labor market attributes of the indigenous community are generally not as robust as those exhibited by other Americans.

Figure 1

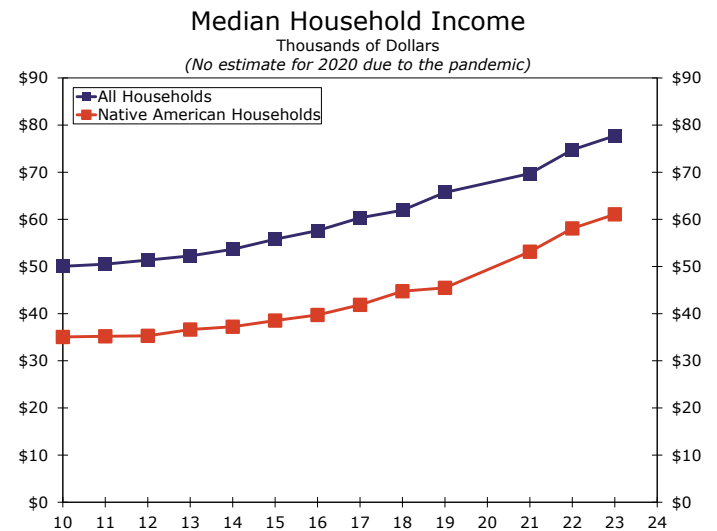


Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Economics

The generally weaker labor market conditions that are faced by many Native Americans contribute to the lower level of household income in the indigenous community relative to the non-indigenous population. Median household income in the Native American community stood at \$61.1K in 2023, which was about 79% of the national median ([Figure 2](#)). The income gap has narrowed over the past decade or so—median household income among Native Americans was only 70% of the national median in 2010—but nevertheless a wide gap still exists.

The shortfall of Native American household income is attributable to numerous causes, including the historical structural exclusion of the indigenous community from full engagement with the country's economic, political and educational institutions. That noted, a full discussion of these reasons is beyond the scope of this short report. Rather, we will focus on three factors that contribute to the income gap between Native Americans and the non-indigenous population: geographical isolation, educational attainment and capital availability. We will also highlight some steps that institutions, both public and private, are taking to rectify these issues.

Figure 2



Source: U.S. Department of Commerce and Wells Fargo Economics

There is an income gap between Native Americans households and the national median.

Income in Rural America Lags Metro Areas

As noted previously, 1.3 million indigenous people live on federally recognized reservations or trust lands, which largely are in rural areas. Outside these Indian country locations, Census data show that roughly 1.3 million more individuals who identify as AIAN, either solely or in combination with another race, reside in "non-urban" areas.² In total, the Census data show that 27% of the nation's 9.7 million individuals who claim Native American ancestry live in rural areas whereas the comparable ratio for the overall U.S. population is 19%. That said, the definition of a "rural" area is wide-ranging. For instance, the U.S. Department of Education found that 43% of AIAN middle schoolers were located in rural areas in 2022, compared to 20% of all middle schoolers.³

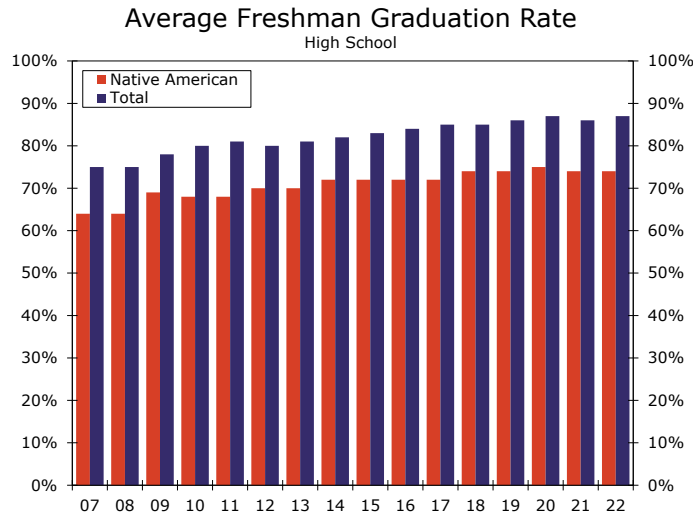
However measured, the over-representation of Native Americans in non-urban areas depresses average household income in the indigenous community. According to the CICD, the EP ratio among individuals, both indigenous and non-indigenous, who live in non-metro areas is only 55% at present. The comparable ratio for metro areas is around 61%. Consequently, personal income per capita in metro and non-metro areas was \$58K and \$52K, respectively, on average in 2022. Policies aimed at strengthening the labor market environment for all rural Americans would help to close the income gap between indigenous households and the national average. In that regard, the tax credits and loans provided by the Inflation Reduction Act of 2022 to promote clean energy development in rural America could potentially boost employment and thereby household income in non-urban areas.

Over-representation in non-urban areas depresses household income in the indigenous community.

Lower Levels of Educational Attainment Weigh on Income

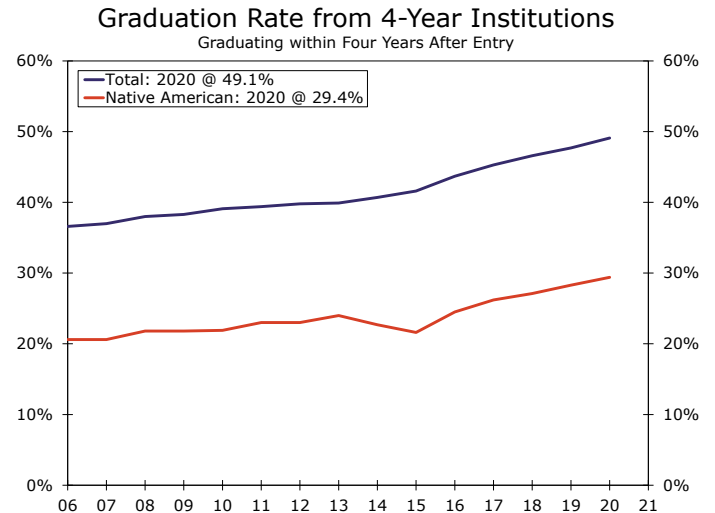
Beyond geographical differences, lower levels of educational attainment in the indigenous community also weigh on Native American household income relative to the national average. As shown in [Figure 3](#), the average freshman graduation rate (AFGR), which measures the percentage of students who receive their high school diploma four years after entering 9th grade, stood at only 74% for Native American students in 2022 (latest available data). The Native American high school graduation rate is up from 64% in 2007, but it presently falls well short of the national AFGR of 87%.

Figure 3



Source: U.S. Department of Education and Wells Fargo Economics

Figure 4



Source: U.S. Department of Education and Wells Fargo Economics

Similarly, a considerable gap exists in college graduation rates between Native American students and their non-indigenous counterparts. Less than 30% of Native American high school graduates who matriculated at a four-year institution in the autumn of 2016 had earned their bachelor's degree by 2020 (latest available data). The comparable ratio for all students was nearly 50% ([Figure 4](#)). Data from the American Community Survey show that only 25% of Native Americans between the ages 25 and 34 had a bachelor's degree in 2022. The ratio for the same cohort in the entire U.S. population was 40%.

Nationwide, household income tends to rise with educational attainment. In 2023, the median adult (age 25 and over) who had not earned a high school diploma or GED received only \$31.7K in income. Median income among people with a high school diploma or GED was \$39.4K, while the comparable

amount for individuals with a bachelor's degree was \$67.3K. In short, lower levels of educational attainment in the Native American community are a factor that depresses income among indigenous households.

The Problem of Poor Internet Access

Among other factors, lack of reliable internet access is one reason why Native Americans generally have lower levels of educational attainment than other Americans. A reliable internet connection is an essential utility, especially for school and work. The Federal Communications Commission (FCC) summarizes: "Broadband has gone from being a luxury to a necessity for full participation in our economy and society – for all Americans."⁴ If broadband internet is indeed an essential utility, then many Native American households face challenging circumstances. According to the American Community Survey, 73% of households nationwide had a broadband subscription in 2022. The rate among households in Indian country was only 60%. Furthermore, 15% of homes in Indian country had no internet subscription at all in 2022, above the national average of 9%.

Native Americans generally have relatively low levels of reliable internet access.

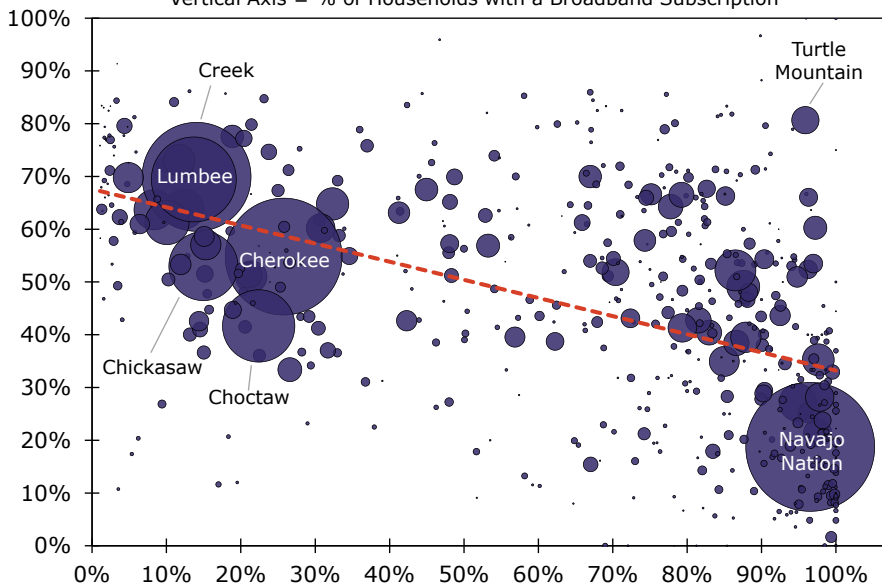
Although indigenous families with school-age children tend to have higher rates of internet access than their counterparts without children, they still lag the nationwide rate. The U.S. Department of Education reports that 84% of Native American middle schoolers had a computer and/or tablet with an internet connection at home, compared to 92% of all middle schoolers in 2022. Even with an internet connection, Native American students who live in Indian country are less likely to have a *broadband* subscription (i.e., a high-speed internet connection via cable, fiber optic or digital subscriber line) than the general population. Because broadband access can be relatively expensive, some Native American households have opted for a less expensive dial-up or satellite internet service, which offer slower download speeds and less stable connections.

Some individual tribes are especially challenged in terms of broadband access. [Figure 5](#) maps an inverse relationship between Native American representation and broadband connection in American Indian, Alaska Native and Native Hawaiian (AIANNH) areas.⁵ In other words, as indigenous peoples' representation in AIANNH areas increases, the share of households with a broadband subscription generally decreases. Only 19% of households on the Navajo Nation Reservation and Off-Reservation Trust Land had a broadband subscription in 2022, compared to 70% of households in the Muscogee (Creek) Oklahoma Statistical Tribal Area.

Figure 5

Broadband in AIANNH Areas in 2022

Horizontal Axis = % of Pop that is AIAN (Alone or in Combination)
 Vertical Axis = % of Households with a Broadband Subscription

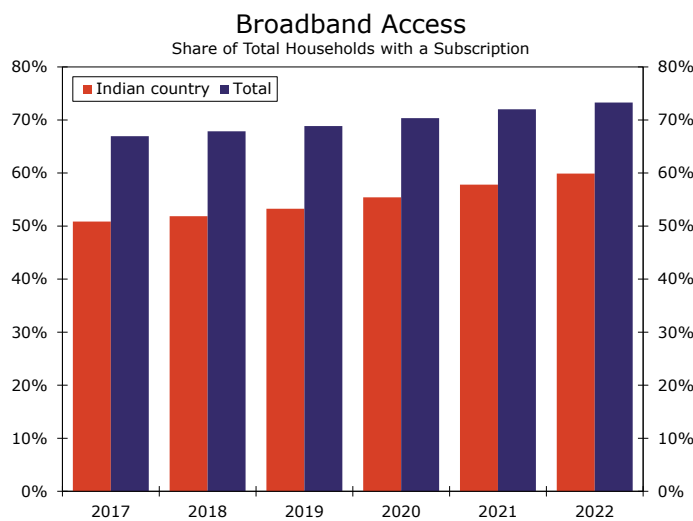


Source: U.S. Department of Commerce and Wells Fargo Economics

The pandemic highlighted the broadband disparities across Indian country and rural America. In response, the federal government expanded and created several support programs including the FCC's Affordable Connectivity Program (\$14.2 billion), the U.S. Department of Agriculture's ReConnect Program (\$1.9 billion) and the National Telecommunications and Information Administration's (NTIA) Tribal Broadband Connectivity Program (\$3 billion). All in, the Biden Administration has allocated roughly \$90 billion of federal funding for high-speed internet investments for all communities (of which \$65 billion was appropriated under the 2021 Bipartisan Infrastructure Law) that is still being distributed today. In May, the White House reported that the NTIA has awarded 148 Tribal Broadband Connectivity Program grants thus far, serving over 280 tribal governments, which will connect more than 65,000 tribal households, subsidizing thousands of devices and funding digital inclusion activities for tribal communities.⁶

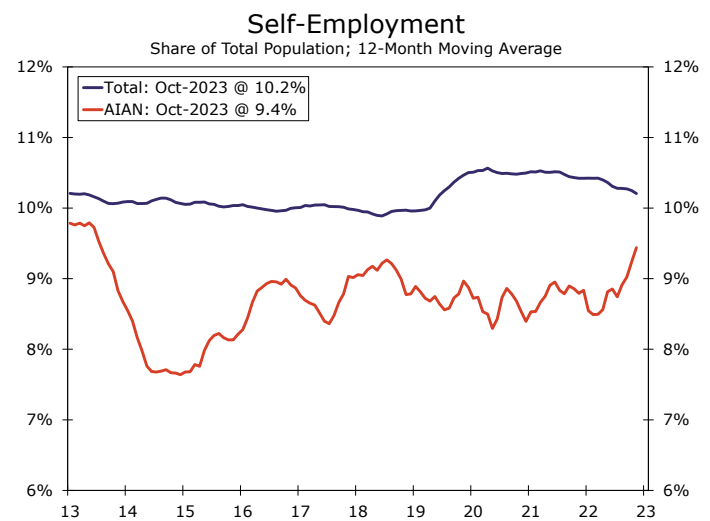
It is too early to get a clear read on the full effect of these programs in the period following the COVID pandemic, but the digital divide between Indian country and the nation has been shrinking. [Figure 6](#) shows the share of households with a broadband subscription across the United States and in AIANNH areas. There was a 16 percentage point digital divide between Indian country and the rest of the nation in 2017. Five years later, that gap had narrowed to 13 percentage points. A recent analysis from the CIDC showed that participation in the Affordable Connectivity Program, which sunset in June 2024, was much stronger in Indian country than in other parts of the country. The program's \$75 monthly subsidy directly addressed the broadband cost differential that many indigenous households face, and the authors conclude that subsidies could be an effective tool to reduce digital inequalities.⁷

Figure 6



Source: U.S. Department of Commerce and Wells Fargo Economics

Figure 7



Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Economics

Training Teachers in Indian Country

Another issue facing Native American schools and educational programs is the challenge they face recruiting and retaining qualified staff. Native American schools especially struggle to find staff with cultural and linguistic knowledge of the communities they are serving. To help increase the number of qualified educators in tribal communities, the U.S. Department of Health and Human Services increased investment in 2023 to the Tribal Colleges and Universities Head Start Partnership Program (TCU-HS) to a total of \$8 million per year. The initiative will not only result in over 700 tribal educators graduating with a degree in early childhood education by 2028, but it will also boost TCU's capacity to increase access to higher education programs, offer scholarships, support students pursuing early education degrees and promote indigenous culture and education.⁸ Additional investments have been allocated in the federal government's FY-2025 budget, including a \$77 million increase for education programs across Bureau of Indian Education schools.

Scarce Capital Availability Limits Business Formation

Native Americans have low rates of self-employment and entrepreneurship, which can be important sources of employment opportunities, relative to other Americans. Lower levels of educational attainment and geographical isolation undoubtedly play a role in depressing self-employment and entrepreneurship among Native Americans. The rate of self-employment among indigenous people has fluctuated over the years, but data from the CICD show that less than 9% of Native Americans have been self-employed over the past ten years, more than a full percentage point below the comparable rate for all individuals (Figure 7). Only 1.4% of indigenous people are entrepreneurs (i.e., a self-employed person with at least 10 employees) versus a rate of 2% for all individuals.

Scarcity of capital also constrains business formation among Native Americans. Using data from the Federal Reserve's Small Business Credit Survey, CICD researchers show that a higher proportion of Native-owned businesses report "credit availability" as a financial challenge than non-Native-owned ones.⁹ Native American business owners tend to have lower credit scores than their non-indigenous counterparts, and the geographical isolation of many reservations means there is a relative lack of financial institutions in Indian country. More than 20% of Native-owned businesses report being 11-to-50 miles away from their primary financial services provider. Long distances make it more difficult for businesses to form relationships with their financial services providers.

Conventions governing land ownership on reservations are another factor that constrains capital availability for Native-owned businesses. As noted previously, roughly one-third of the people identifying solely as AIAN live on the 324 reservations and trust lands that are recognized by the federal government. According to the [Cato Institute](#), most of the land on reservations is held in trust, which prevents the use of it for collateral (Figure 8). Insufficient amounts of capital make it difficult for entrepreneurs to obtain the financing that is needed for their businesses.

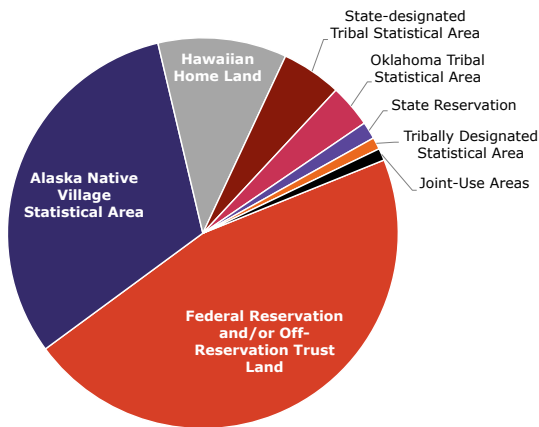
Most of the land on reservations is held in trust, which prevents the use of it for collateral.

The scarcity of capital can be illustrated by the relatively small size of the lending power of Native American financial institutions (FIs). Using data provided by the Minneapolis Fed, we estimate that the aggregate amount of loans provided by these 86 FIs, which are focused on lending to Native-owned businesses, is only \$5.8 billion, a trivial amount relative to the \$12 trillion worth of loans that have been extended by the nation's commercial banking system (Figure 9).¹⁰ Of course, Native-owned businesses can obtain financing from a broader range of FIs other than these 86. But non-Native FIs may not be as committed to lending to Native-owned businesses as Native FIs, and non-Native FIs may be separated by long distances from potential Native borrowers.

Figure 8

Distribution of AIANNH Areas

As of 2022

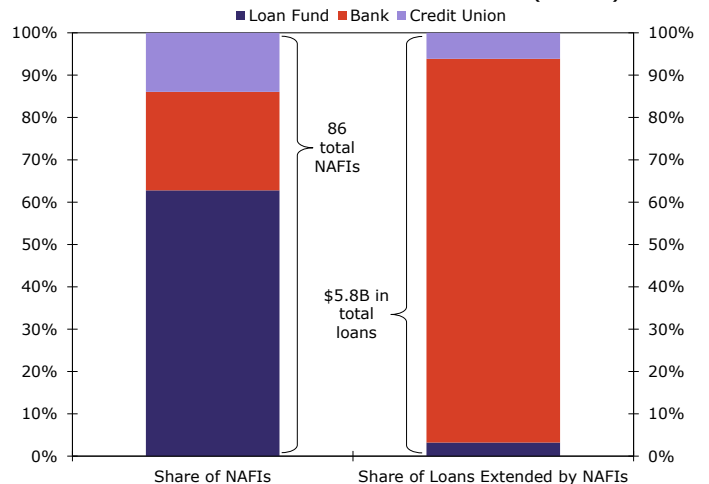


Source: Federal Reserve Bank of Minneapolis and Wells Fargo Economics

The federal government has recognized the problem that capital scarcity poses to Native-owned businesses, and it is starting to take steps to address the issue. President Biden signed an Executive Order in December 2023 that created an "Access to Capital Clearinghouse" to increase awareness and utilization of federal funding resources for Native-owned businesses. Additionally, the White

Figure 9

Native American Financial Institutions (NAFIs)



Source: Federal Reserve Bank of Minneapolis and Wells Fargo Economics

House organized a meeting in February 2024 between administration officials and leaders from the philanthropic and financial sectors to devise ways in which more capital can be directed to Indian country. Leveraging the State Small Business Credit Initiative, which was created in 2010 to strengthen state support of small business financing, leaders created the Indigenous Futures Fund, which provides \$2 million in grants and \$25 million in investment capital to Native American businesses. Attendees at the White House meeting also created the Tribal Community Vision Fund, which seeks to raise \$1.2 billion in private and philanthropic investments that can be directed to Native-owned businesses.

Conclusions

The chronic shortfall of household income in the Native American community relative to the national average reflects, at least in part, labor market conditions that tend to be less robust for many indigenous people than for other Americans. Although there are numerous reasons why some Native Americans struggle to find well-paying employment opportunities, we have focused on three causes in this rather short report: geographical isolation, lower levels of educational attainment and capital scarcity for Native-owned businesses.

Native Americans are over-represented in non-urban areas, which tend to have lower levels of household income relative to urban areas. Consequently, policies aimed at strengthening the labor market environment in rural America would help to close the income gap between indigenous households and the national average. Although there is no shortage of programs that could be devised to help close the rural-urban income gap, the tax credits and loans authorized in the Inflation Reduction Act of 2022 to promote clean energy development in rural America could be an important start.

Indigenous people also have lower levels of educational attainment relative to other Americans, which is another factor that depresses household income in Indian country. There are many reasons why Native Americans have lower levels of educational attainment, but relatively poor internet access, which the FCC considers to be a "necessity," can negatively affect the ability of indigenous students to receive a proper education. The pandemic highlighted the broadband disparity faced by Native Americans, and the federal government responded by establishing programs to help close the digital divide in Indian country. The government has also funded programs to adequately train teachers for schools that educate Native American students.

Third, scarcity of capital constrains business formation among Native Americans, thereby depressing employment opportunities in Indian country. Many Native-owned businesses are located in remote locations, which hampers their ability to form strong relationships with financial institutions. Additionally, most of the land on reservations is held in trust, which prevents Native-owned businesses from using it as collateral to obtain financing. The good news is that the federal government has recognized the problem that capital scarcity presents to Native-owned businesses. The government has committed funds to aid Native-owned businesses, and efforts are underway in the private and philanthropic sectors to raise monies as well.

In sum, a wide income gap exists between indigenous households and the national median. That noted, the gap has narrowed over the past decade or so, and there are reasons to believe it will shrink further in coming years. Graduation rates of Native American students from high school and college are rising, and the digital divide between Indian country and the rest of the nation is narrowing. Capital scarcity remains a challenge for many Native-owned businesses, but the federal government has recognized the problem and is taking steps to make capital more available to indigenous business owners. These are all steps in the right direction. But policymakers will need to remain focused on the issue of below-average income in the Native American community and remain committed to reducing the income gap in years to come.

Endnotes

1 – We follow the nomenclature of the Center for Indian Country Development (CICD) at the Minneapolis Fed. According to the CICD, "Indian Country" (capital "C") means "homeland" and is "anywhere that Native peoples have lived and continue to exist and thrive." "Indian country" (lowercase "c") is a specific legal meaning and "encompasses specific definitions of Native land areas including reservations, trust lands, restricted fee lands, and other land categories." ([Return](#))

2 – We follow the Census Bureau's [urban-rural classification](#). However, separate research has argued that the Census classification undercounts the number of AIAN people residing in rural areas. According to the First Nations Development Institute, roughly 54% of AIAN individuals lived in rural areas in 2016, much higher than the proportion suggested by Census data.

See Dewees, Sarah and Benjamin Marks. 2017. "[Twice Invisible: Understanding Rural Native America.](#)" Research Note #2. Longmont, CO: First Nations Development Institute. ([Return](#))

3 – Jamie Deaton. "[NAEP Data Shed Light on Achievement and Context for Learning Among American Indian and Alaska Native Students](#)" *U.S. Department of Education*, April 2024. ([Return](#))

4 – See the description of the Federal Communications Commission's [Connect America Fund](#) (CAF). ([Return](#))

5 – The Census Bureau provides data for both [legal](#) entities, which include (and are not limited to) federally recognized American Indian reservations, off-reservation trust land areas and Hawaiian home lands, as well [statistical](#) entities, which include Alaska Native villages and state designated tribal areas. The "AIANNH" classification covers both legal and statistical areas. See the Census Bureau's [Glossary](#) for more detail. ([Return](#))

6 – [FACT SHEET: Biden- Harris Administration Kicks Off Infrastructure Week by Highlighting Historic Results Spurred by President Biden's Investing in America Agenda](#). *The White House*, May 13, 2024. ([Return](#))

7 – Gregg, Matthew, and H Trostle. "[After the Affordable Connectivity Program, home Internet access on tribal lands ticks up.](#)" *Federal Reserve Bank of Minneapolis*, September 10, 2024. ([Return](#))

8 – "[Biden-Harris Administration Announces Increased Investment in Tribal Colleges and Universities-Head Start Partnership Program.](#)" Early Childhood Learning & Knowledge Center, October 27, 2023. ([Return](#))

9 – LaPlante, Ava, and Laurel Wheeler. "[Native entrepreneurs face credit-access challenges.](#)" *Federal Reserve Bank of Minneapolis*, February 21, 2024. ([Return](#))

10 – The Minneapolis Fed includes Native Community Development Institutions (CDFI), Native Minority Depository Institutions (MDI), Native credit unions and Native loan funds in its definition of Native American FIs. ([Return](#)).

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