

# Native Community Development Financial Institutions

## *Building a Foundation for Strong Native Economies*

By Carolina Reid

A couple of years ago, the Community Affairs Department of the Federal Reserve Bank of San Francisco held a series of meetings with tribal leaders to discuss barriers to mortgage lending on Native lands. As an icebreaker, participants were asked which movie title best characterized their ability to access credit for homeownership. The resulting list of movies was long and varied, and included such titles as “Smoke Signals,” “Dream Catcher,” “Home Alone,” “The Road to Nowhere,” and “The Good, the Bad, and the Ugly.” The titles provided apt metaphors for the frustrations of tribal members and pointed to the continued lack of access to credit and capital in Native communities.

The Native American Lending Study, published in 2001 by the Community Development Financial Institutions Fund (CDFI Fund), documented for the first time the true scale of the problem, noting that the “lack of access to capital and financial services” was a significant factor limiting economic development on Native lands.<sup>1</sup> The study found an “investment gap” of \$44 billion, and revealed that more than 60 percent of respondents felt it was “difficult” or “impossible” to obtain a small business loan. The study also pointed to the lack of basic financial services on reservations—15 percent of those surveyed reported that they travel more than 100 miles to reach a bank or automatic teller machine. In its analysis of the problem, the study documented 17 barriers to providing credit in Native communities, including the use of trust land as collateral, uncertain tribal commercial laws, high levels of poverty, a lack of financial education, and cultural issues.<sup>2</sup>

For many mainstream financial institutions, overcoming these barriers has been difficult. In Native communities that have not yet adopted a standard set of commercial codes and lending guidelines, it can often take several years to garner tribal support and establish the legal infrastructure needed to facilitate private capital investment. In addition, the product needs of Native communities tend to be specialized, and in many cases loans require significant oversight and technical assistance in order to be successful. The costs associated with providing these types of small scale, time intensive loans often outweigh the returns that can be generated from lending on Native lands. Historical distrust

between banks and tribes can further impede the development of successful business relationships.<sup>3</sup>

This is where Native Community Development Financial Institutions (Native CDFIs) stand to make a difference.<sup>4</sup> Across the country, Native CDFIs are creatively addressing the financial services needs of Native communities by recasting tribal sovereignty and diversity as assets rather than liabilities. And, if recent numbers are any indication, there may soon be a reason for a more optimistic set of movie titles. In the last five years, the number of certified Native CDFIs has grown four-fold, from nine in 2001 to forty today. Another 60 or so Native financial institutions—including credit unions, commercial banks, and revolving loan funds—provide credit and services on Native lands. (Many of these are “emerging” CDFIs, which means that they are working towards certification.) A large number of these Native financial institutions are located within the Federal Reserve’s 12th District, including twelve out of the forty certified Native CDFIs.<sup>5</sup> (See Table 5.1)

### Certified Native CDFIs Located in the Federal Reserve’s 12th District

Table 5.1

Affiliated Tribes of Northwest Indians Economic Development Corporation
Alaska Growth Capital
Cook Inlet Lending Center
First Hawaiian Homes Federal Credit Union
Haa Yakaawu Financial Corporation
Hoopa Development Fund
Hopi Credit Association
Kulia Ohana Federal Credit Union
Lokahi Pacific
Molokai Community Federal Credit Union
Navajo Partnership for Housing, Inc.
Valley Credit Association

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The growth in Native CDFIs has been remarkable, and reflects a broader shift in thinking about how to promote economic development in Native communities. Often referred to as “nation building,” this approach focuses on building effective governing institutions and articulates a long-term development strategy that incorporates tribal values and ownership. This approach differs significantly from the “standard” model which relied on support from outside of the Tribe—usually in the form of government grants—to provide short-term solutions to the problems of poverty on the reservation. According to researchers at Harvard University, the “nation building” model promotes economic development from within, and creates an environment in which development projects are more likely to succeed and remain sustainable over the long term.<sup>6</sup> Elsie Meeks, the Executive Director of First Nations Oweesta Corporation<sup>7</sup> (Oweesta), has provided perhaps the most eloquent expression of this shift in thinking: “So many tribes have existed by selling poverty. We’ve gotten our federal support, and our grants and all that, by being poor. . . . We’re not selling poverty anymore. The message is about opportunity.”<sup>8</sup>

Native CDFIs mirror this new focus on opportunity and ownership, and build on Native strengths to develop and deliver financial services. Unlike most mainstream financial institutions, Native CDFIs are vested in the community and can tailor their products to the local market. In addition, Native CDFIs often provide a continuum of services associated with making and sustaining a successful loan, including financial education, credit counseling, small business training, and ongoing technical assistance and support. These “high-touch” services are particularly important in Native communities, since residents often have minimal business expertise, a lack of collateral, and poor or no credit histories. Native CDFIs can further target their training by developing culturally appropriate materials and providing business models that recognize the unique needs of reservation economies. For example, recognizing that curricula developed for small businesses in urban areas wouldn’t work for their community, Four Bands Community Fund in South Dakota created a comprehensive business development class that focuses on starting and growing a business in a remote, economically distressed reservation community.<sup>9</sup>

According to Bettina Schneider, a graduate student at UC Davis studying the emergence of Native Financial Institutions in the United States and Aboriginal Financial Institutions in Canada, Native CDFIs also lay a foundation for greater tribal sovereignty and self-determination.<sup>10</sup> “Many Native CDFIs are catalysts not only for economic development, but also for nation building,” she notes. “By incorporating tribal values into financial education curricula, aligning private capital with tribal goals, and establishing a rubric of ownership and self-determination, several Native CDFIs are making nation building a focal point of their work.”

### **Building a Strong Foundation for Native CDFIs**

The rapid growth in the number and capacity of Native CDFIs reflects a sustained effort on the part of the CDFI Fund, as well as a number of partner institutions, to provide the necessary funding and training to tribes interested in developing their own financial institutions.

Building on recommendations in the Native American Lending Study, the CDFI Fund has been working to promote the development of Native CDFIs by providing training administered through partnerships with other organizations as well as monetary awards (see below). The Native Communities Financing Initiative, a partnership between Oweesta and the Opportunity Finance Network (formerly known as National Community Capital Association), is a comprehensive training program that provides technical assistance to Native individuals and organizations interested in starting a CDFI.<sup>11</sup> Recognizing that starting a Native CDFI is rarely about simply capitalizing a loan fund, the program helps create the institutional foundation for a strong CDFI. For example, the program helps tribes develop strategies for educating their leaders and council about the role of CDFIs, developing Uniform Commercial Codes and procedures for resolving business disputes, creating independent judiciaries, and fostering stronger relationships with county and state governments.<sup>12</sup> The Native Communities Financing Initiative also provides opportunities for Native CDFIs to share best practices (and mistakes) with one another—something that wasn’t possible as recently as ten years ago.

Another key component of the Native Communities Financing Initiative is working with Native CDFIs to analyze market demand and create viable business plans. This is a critical step in the process, according to Stewart Sarkozy-Banoczy, Director of Training and Technical Assistance at Oweesta Corporation. “The focus on demand rather than need can really help the CDFI to define its product and service niche. The need in Native communities is great. But strong business plans are built on demand,” he said. Existing Native CDFIs have been able to identify areas where Native peoples are already accessing financial services but at a high cost—predatory lending and high cost auto loans are prevalent on many reservations. “By offering a lower cost alternative and coupling it with financial education and technical

assistance, the Native CDFI ensures that tribal members can access financial services at a fair price, while at the same time generating business for the CDFI and stimulating positive economic development on the reservation,” notes Sarkozy-Banoczy. “In many cases, the CDFI itself generates new jobs and economic growth for the tribe, so everyone benefits.”

In addition to its training programs, the CDFI Fund supports Native CDFIs through direct monetary awards. Technical assistance (TA) awards—limited to under \$150,000—are designed to help Native CDFIs develop or refine their strategic plans and cover key operating or start-up expenses such as computers, staff salaries, or training.<sup>13</sup> According to William Luecht of the CDFI Fund, the applications for TA awards reflect the diversity of approaches Native CDFIs are taking in meeting the financial service needs of their community: “In the grant applications, it becomes clear that Native CDFIs reflect local priorities and build on the strengths of organizations in the community, be it an individual, a tribal college, or the tribal council itself.”

Once certified, Native CDFIs can apply to the CDFI Fund for financial assistance awards. The CDFI Fund provides financial assistance through a combination of equity investments, grants, loans, deposits, and credit union shares. Since 2002, the CDFI Fund has made 129 awards totaling \$19.5 million through its various funding programs aimed at benefiting Native communities.<sup>14</sup> But available funds still fall well short of demand. This year, the CDFI Fund received 29 applications requesting over \$11 million in awards from Native institutions, yet it only has approximately \$3.5 million available to disburse.<sup>15</sup>


Native CDFIs can apply for additional funding from a range of sources to supplement and leverage these awards, and the majority of CDFIs are capitalized through a combination of funds from tribal governments, foundations, banks, and other support organizations such as Oweesta and First Nations Development Institute.<sup>16</sup> A few tribes have reinvested profits from Native-owned businesses into Native CDFIs, strengthening tribal ownership over financial resources and providing both a financial and social return on their investment dollars.<sup>17</sup>

Nevertheless, raising funds to capitalize their loan pools and to cover operating costs remains the biggest challenge for Native CDFIs. According to Sarah Dewees of First Nations Development Institute, there is a strategic opportunity for non-Native banks to fill this gap by supporting and funding Native CDFIs as part of their overall CRA strategy. “Financial institutions have struggled with how to lend and

invest in Native communities. Today’s Native CDFIs can serve as an intermediary, helping to remove these barriers and present banks with a viable investment that can provide the foundation for a longer-term business relationship,” she said. For example, small business loans provided by Native CDFIs often grow demand for depository services—down the road, the tribal enterprise may require a larger loan that is best offered by a commercial bank. Mamata Datta, Senior Associate at the Opportunity Finance Network, similarly notes that Native CDFIs can help provide a bridge between mainstream financial institutions and Native American borrowers: “CDFIs create the borrower. By providing the initial technical assistance and financial education that often impedes Native communities from accessing mainstream financial services, Native CDFIs provide a pipeline for new customers.”

## Conclusion

Datta believes more Native CDFIs will emerge in the next five to ten years. “It’s not going to happen overnight,” she said. “Many of the barriers to credit in Native communities are the result of a long history of exclusion from the economic mainstream, and building the institutional infrastructure to support private capital takes time. But we’re seeing new levels of capacity among Native CDFIs, and they’re making a positive economic impact on their communities.”

The Navajo Partnership for Housing (NPH) provides evidence that the Native CDFI model can effectively help to facilitate access to mortgage credit and homeownership in Native communities. Celebrating their 10th anniversary this year, NPH has provided over 350 grants and loans to Navajo families. “Becoming a CDFI has opened up doors to new funding, and has allowed us to be more creative in designing programs and products that meet demand for credit and financial services in our community,” says Lanalle Smith, the Executive Director of NPH. Since becoming a CDFI in January 2002, NPH has been able to arrange over \$27 million in financing, helping them to build a multi-faceted program that includes financial education, EITC outreach, free tax preparation, Individual Development Accounts, homeownership counseling, and mortgage loans. “We think holistically about the community and the families who live here,” notes Smith. “This integrated approach to asset building works to help Native families become homeowners, and can work to overcome the historical barriers to homeownership in Native communities.” 

### Addressing Community and Economic Development in Rural America: Trends, Challenges, and Opportunities

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- 15 *Federal Investment in Rural America Falls Behind* (2004). The William K Kellogg Foundation [www.wkkf.org/Pubs/Federal\\_Spending\\_for\\_Rural\\_00376\\_03977.pdf](http://www.wkkf.org/Pubs/Federal_Spending_for_Rural_00376_03977.pdf)
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- 7 Christopher Holden (2002) "Monograph Series-Migrant Health Issues: Housing." National Center for Migrant Health.
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- 9 Family Housing Fund, "A Report from the Kids Mobility Project" (1998) and "Children Pay the Price for Homelessness" (2005).
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- 12 U.S. Department of Labor (2005). "National Agricultural Workers Survey 2001-2002."
- 13 *Ibid.*
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- 15 Section 514 loans and Section 516 grants are provided to buy, build, improve, or repair housing for farm laborers, including persons whose income is earned in aquaculture and those engaged in on-farm processing. Funds can be used to purchase a site or a leasehold interest in a site; to construct or repair housing, day care facilities, or community rooms; to pay fees to purchase durable household furnishings; and to pay construction loan interest. Housing Assistance Council.
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Figures 1.1-1.5 Source: USDA Economic Research Service.

### Si Se Puede: Developing Farmworker Housing in the 12th District

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Page 11: Photo courtesy of Gloria Burton of Grupo Mexico Housing Committee

Page 12: Photo courtesy of Tom Byers of Cedar River Group

### Morphing Rural Community Development Models: The Nexus between the Past and the Future



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- 7 The Oweesta Corporation began as the Oweesta Program and Fund of First Nations Development Institute. In 1999, Oweesta became a separate corporation and is the only Native CDFI intermediary in the country.
- 8 Jerry Reynolds (2006). "Financial Development Movement Comes of Age," *Indian Country Today* (November 3, 2006).
- 9 The program is called CREATE (Cheyenne River Entrepreneurial Assistance Training and Education).
- 10 Bettina Schneider is also a consultant for Oweesta, First Nations Development Institute, and Opportunity Finance Network, and completed the Native Financial Institution Research Project for Oweesta in December 2005.
- 11 The CDFI Fund also provides for training in the area of Individual Development Accounts and Financial Education. See [www.cdfifund.gov](http://www.cdfifund.gov) for a full description of their programs.
- 12 Stephen Cornell and Joseph P. Kalt (2006). *Two Approaches to Economic Development on American Indian Reservations: One Works, the Other Doesn't*. (Harvard Project on American Indian Economic Development and the Native Nations Institute for Leadership, Management, and Policy on behalf of the Arizona Board of Regents.)
- 13 Technical assistance grants are awarded to certified Native CDFIs, as well as to entities that will become ("Emerging Native CDFIs") or will create ("Sponsoring Entities", such as a tribal council or tribal college) a Native CDFI.

### **Native Community Development Financial Institutions: Building a Foundation for Strong Native Economies**

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- 17 Stewart Sarkozy-Banoczy and Elsie Meeks (2004). "Investing in Ourselves through Native CDFIs," *Indian Country Today* (May 17, 2004).

### **Big Lessons from Small Rural Communities: Working to Reduce Poverty Long Term**

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- 2 "Focusing for Impact: The Northwest Area Foundation's Evolving Strategies for Optimal Benefit," prepared for NWAFF by Genie Dixon, March 2005.
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- 4 "Prevailing in the Long Run: New Leaders & New Structures Spur Action On Poverty". *The Impact of the Horizons Program*.
- 5 Study Circles Resource Center, [www.studycircles.org](http://www.studycircles.org)
- 6 Thriving Communities: [www.studycircles.org/en/Resource.85.aspx](http://www.studycircles.org/en/Resource.85.aspx)
- 7 Pew Partnership for Civic Change: [www.pew-partnership.org](http://www.pew-partnership.org)
- 8 BuRSST Partnership, [www.chs-wa.org/burstst.htm](http://www.chs-wa.org/burstst.htm)
- 9 Central Oregon Partnership, [www.copartnership.org](http://www.copartnership.org)
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