



2017 Policy Brief

INTRODUCTION

The Native CDFI Network prepared this paper to educate policy makers on the vital work that Native community development financial institutions (CDFIs) are doing to empower Native communities by expanding access to capital and financial services and products.

American Indian, Alaska Native and Native Hawaiian communities, continue to experience substantially higher rates of poverty and unemployment than other communities in the United States and Native communities face a unique set of challenges that severely limit economic growth, workforce development, entrepreneurship, homeownership and other drivers of a healthy economy. Native communities have historically been unserved or underserved by conventional financial institutions leaving tribal citizens cut off from the economic mainstream.

In this policy paper, we provide background on CDFIs and Native CDFIs, describe the innovative work of Native CDFIs, and present a set of concrete policy recommendations for 2016 aimed at strengthening the work and expanding the reach of Native CDFIs across the country.

BACKGROUND ON COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFIS) AND NATIVE CDFIS

The Riegle Community Development and Regulatory Improvement Act of 1994 established the Community Development Financial Institutions Fund (the CDFI Fund) at the Treasury Department to promote economic revitalization and community development by investing in and supporting private, mission driven financial institutions known as community development financial institutions (CDFI).

CDFIs work to address the capital and servicing needs of communities overlooked or underserved by conventional financial institutions by providing the flexible, market-driven financing products and services that communities, consumers, and small business owners need to grow and thrive. All CDFIs certified by the Treasury Department work in a market or serve a target population that is economically distressed and underserved by traditional financial institutions.

The legislation that created the CDFI Fund in 1994 also mandated a study of lending and investment practices on Indian reservations and other lands held in trust. The Native American Lending Study, released by the CDFI Fund in 2001, concluded that one of the key reasons for the lack of economic opportunity in Native



communities was the lack of access to capital and financial services. The study found that eighty-six percent of the Native communities lack access to a financial institution or even an automatic teller machine (ATM) and fifteen percent of the tribal community members reported having to travel more than 100 miles to reach a bank or ATM. (*The Report of the Native American Lending Study*. US Department of the Treasury, CDFI Fund. November 2001. Washington, D.C.)

The Native American Lending Study exposed the staggering poverty and unemployment rates facing those living on Indian Lands and Hawaiian Homelands, identified structural barriers that limited the ability of Native communities to access capital or basic banking services, and these findings led to the launch of the CDFI Fund's Native Initiatives.

CURRENT STATE OF NATIVE CDFIS

When the CDFI Fund's Native American CDFI Assistance (NACA) program was launched in 2002 there were only 14 Native CDFIs meaning they serve primarily American Indian, Alaska Native, or Native Hawaiian communities. Today, some fourteen years later, there are 70 certified Native CDFIs and another 60 organizations going through the Native CDFI certification process.

In many areas, Native CDFIs provide the only affordable alternative to predatory financial service providers and the NACA program enables Native CDFIs to provide a wide range of loans, including microenterprise, small business, consumer, commercial, and affordable housing and homeownership loans. Native CDFIs are providing access to credit to encourage private sector development in Native communities and providing Native consumers, entrepreneurs, and potential homebuyers with needed information and training to improve their credit, establish businesses and purchase homes. Native CDFIs are also helping to improve the inadequate infrastructures so that Native communities are more supportive of business development and home ownership, two key ways that individuals and communities build wealth and financial stability.

The following examples highlight the work of two Native CDFIs:

Four Bands Community Fund, a Native CDFI located on the Cheyenne River Indian Reservation, was founded in 2000 to address a serious lack of access to capital on the reservation, where most of the reservation's residents operate on a cash-only basis and have little experience with banks, savings accounts or effective use of credit. Four Bands offers a broad range of financial products and services including small business loans and credit repair loans to support the development of Native businesses. The intensive and personalized support services that Four Bands provides to its budding entrepreneur borrowers sets them apart from other conventional lenders and contributes to their success rate with small business start-ups. Four Bands has supported the creation of over 100 businesses and a loan loss rate of only 2%. Four Bands also administers an Individual Development Account (IDA) program that promotes savings for homeownership, business development and post-secondary education and the amount saved by a client is matched dollar for dollar. Four Bands understands its community and works creatively to empower its clients by offering an IRS Volunteer Income Tax Assistance (VITA) program, providing extensive business and financial coaching, and offering a wide range of financial education



workshops that have successfully helped the tribal government and the local school system to build financial literacy of employees, students, and parents and teachers.

The Northwest Native Development Fund (NNDF), a Native CDFI located on the Colville Indian Reservation, provides access to capital, training and technical assistance to help Colville and Spokane Tribal members build a strong financial base. NNDF has developed loan products to address the needs of its target community, given the absence of banks due to the isolated geography and a prevalence of predatory lenders. NNDF is helping their clients get out of the destructive payday loan cycle by paying their payday loan debts and providing a one-time loan at a 15% interest rate. This helps clients escape the payday loan trap and provides them with a positive financial future. NNDF also offers business development assistance and business loans and financial coaching and financial literacy services.

POLICY RECOMMENDATIONS

- Provide at least \$16 million for the CDFI Fund's Native American CDFI Assistance (NACA) Program in the FY 2018 Financial Services and General Services Appropriation bill. With over 70 certified Native CDFIs and 60 more in the certification pipeline, demand for funding will grow as Native CDFIs work to serve more Native communities.
- Include language in the FY 2018 Financial Services and General Services Appropriation bill to waive the non-federal match requirement (Public Law 113) for Native CDFIs applying for NACA Program funds in FY 2018. Native CDFIs face significant institutional barriers to raise private funds. Native communities are unserved or underserved by the conventional financial institutions which are the most common source of CDFI match and private foundations, also a common source of CDFI match, have a limited presence in Native communities. These barriers to capital are constants in Indian country.
- Make the New Markets Tax Credit (NMTC) program permanent. The NMTC Program was enacted by Congress as part of the Community Renewal Tax Relief Act of 2000 and is administered by the CDFI Fund. It provides tax credits to individuals or corporations, which invest in job creation or material improvements in low-income communities, including Native American communities. Some Native CDFIs have succeeded in deploying NMTC investments. With permanence, NMTC investors and Native CDFIs will have more time to plan and invest in the infrastructure necessary to support the program and have an even greater impact in Indian Country.

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