Investing in Community: Community Development Financial Institutions in Native Communities

April 2004

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Acknowledgements

This paper was written by Sarah Dewees. The author thanks Stewart Sarkozy-Banoczy, Rebecca Seib, Jackie Tiller, and Elsie Meeks for their assistance in collecting data for and providing feedback on this report and for their input on the work in progress. Their review of the report greatly improved the final product. Thanks are also due to Bettina Schneider, a graduate student in the Department of Native American Studies and the Community Development Graduate Group at University of California, Davis, for providing a great deal of assistance with the literature review and proofreading.

Suggested Citation: Dewees, Sarah. (2004). *Investing in Community: Community Development Financial Institutions in Native Communities*. Kyle, SD: First Nations Oweesta Corporation.

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I. Introduction

Native communities are the site of tremendous entrepreneurial activity, innovation, and enterprise. Yet at the same time, they suffer from some of the highest poverty rates in the nation. While the roots of current poverty are complex and far reaching, one of the many factors contributing to low levels of economic development in many Native communities is a lack of access to credit and capital for small business development and other economic activity.

The Native American Lending Study, published by the CDFI Fund in 2001, documented what many Native community residents already know: there are very few private sector financial institutions serving Native communities, and access to capital presents a challenge. Increasingly, tribal governments and Native community leaders are finding a solution to this challenge in Native controlled, locally operated financial institutions, whether they be credit unions, loan funds, or banks. Many of these financial institutions fall into the category of "community development financial institutions" or CDFIs, and serve a market niche that has long been neglected by mainstream financial institutions.

The goal of this paper is to provide primary data on the role that these CDFIs are playing in local communities, and to try to identify lessons learned and promising practices for the field. Although this field is still young, many lessons are emerging from our work with Native communities. In addition, the positive impact these organization are having in their communities is significant, and worth documenting. The paper will begin with an overview of the literature on CDFIs and then provide specific information about CDFIs in native communities. Data will be provided on a small sample of CDFIs, and early lessons learned will be shared from this sample of organizations in the start-up phase of development. Finally, an analysis of next steps for the field will be discussed.

II. Overview of Community Development Financial Institutions

Community Development Financial Institutions (CDFIs) are specialized financial institutions that serve as private sector financial intermediaries with community development as their primary mission. CDFIs work in markets that have not been adequately served by traditional financial institution and also develop new markets in underdeveloped areas. CDFIs provide a wide range of financial products and services, including mortgage financing for first-time homebuyers, financing for community facilities, commercial loans, and investments to start or expand small businesses, and loans to rehabilitate rental housing. In addition, they can provide financial services needed by low-income households, individuals and small businesses, affordable housing developers, and community facilities. These institutions also provide services that help ensure that credit is used effectively, such as financial literacy training, technical assistance to small businesses, and credit counseling to consumers. Through CDFIs, economically disadvantaged communities are provided access to financial resources as well as needed services.

CDFIs differ from mainstream financial institutions in a number of ways. Their specialized knowledge about the communities in which they do business and the meaningful relationships they form with their customers and community leaders translates into a willingness and commitment to individualized and specialized programs that are often too time-consuming or costly for mainstream financial institutions to implement.[1] Mainstream institutions tend to opt for fewer programs geared towards the broader market, which tends to exclude small businesses, low-income communities, and people who are marginalized from the mainstream economy. This in turn results in limited access to credit, therefore restricting the funding necessary to build houses, start new businesses, and continue the growth and sustainability in low-income communities. Despite these differences, CDFIs and conventional financial institutions often team up to jointly fund community projects, with the CDFI assuming the more risky subsidiary debt. For example, through the Community Reinvestment Act (CRA) credit and potential cash rewards under the CDFI Fund's Bank Enterprise Award Program, mainstream financial institutions are encouraged to invest their own capital directly in CDFIs. In addition to government incentives, CDFIs create a future market for mainstream financial institutions helping businesses and peoples to grow and prosper until they are ready to move on to borrowing larger amounts available from more conventional lending institutions.[2]

While CDFIs share a common mission, they have a variety of structures and development lending goals. There are eight main types of CDFIs according to the CDFI Fund: community development banks or bank holding companies, business loan funds, housing loan funds, housing/facilities loan funds, community development credit unions, microenterprise funds, community development venture funds, and CDFI intermediaries. All are market-driven, locally controlled, private-sector organizations that measure success by both economic gains and also the contributions they make to the local community.[3]

History

While the term "community development financial institutions" or "CDFI" is relatively new, the concept itself is part of a long history of self-help credit institutions that have emerged out of marginalized, low-income communities. The current CDFI industry began taking shape in the late 1960s and early 1970s. Community development corporations (CDCs) that were created during the Johnson Administration, under its "War on Poverty" campaign and through the Office of Economic Opportunity lay the foundation for today's CDFI industry. Some of the deepest roots, however, lie with efforts like the credit unions/cooperatives developed in the U.S. in the late 1800s and the small peer-based lending pools created in Asia such as the Gramine Bank.

In the 1970s, CDFIs expanded their funding sources by reaching out to private organizations, particularly religious institutions and individuals. Many business-development loan funds were launched with federal funds from the Department of Housing and Urban Development, the Economic Development Administration, and the U.S. Department of Agriculture. Many community development credit unions and banks were started in the 1970s, such as South Shore Bank in Chicago (1973) and the Santa Cruz Community Credit Union (1977). The Neighborhood

[1] CDFI Fund, 2001.
[2] CDFI Fund, 2001.
[3] CDFI Fund, 2001.

Reinvestment Corporation (NRC), a national intermediary that supports local Neighborhood Housing Services offices, was created in 1973 and began financing affordable housing in 1978.[4]

Throughout the 1970s and 1980s, the CDFI industry only grew slightly, despite the diversity of funding sources that was developing. It wasn't until the 1990s that the CDFI industry expanded dramatically. The creation of the CDFI Fund in 1994, a government agency that provides funding to individual CDFIs and their partners, was a major cause of expansion. The Fund was authorized by the Riegle Community Development and Regulatory Improvement Act of 1994, as a bipartisan initiative. By stimulating the creation and expansion of diverse CDFIs and by providing incentives to traditional banks and thrifts (depository financial institutions intended to encourage personal savings and home buying), the Fund's investments work toward building private markets, creating healthy local tax revenues, and empowering residents. The CDFI Fund pursues its mission primarily through three major programs: Funds for CDFIs, the Bank Enterprise Award Program, and the New Markets Tax Credit Program. Funds for CDFIs include the Native American CDFI development component,[5] the Financial Assistant (FA) Component, and the Technical Assistance (TA) Component and all work to provide loans, equity investments, and grants to CDFIs. The Bank Enterprise Award Program provides incentives to banks and thrifts to invest in CDFIs and support other community development finance work. The New Markets Tax Credit provides incentives to the private sector—which will enable more than $15 billion in equity investments in low-income communities.[6]

The Fund is the largest single source of funding for CDFIs. It plays an important role in attracting and securing private dollars for CDFIs by requiring them to match their award with non-federal funds. Since its first round of funding in 1995, the Fund has made more than $534 million in awards to community development organizations and financial institutions.[7] The Fund is housed in the U.S. Treasury Department and until February 2004, was run by Director Tony Brown, a Bush appointee. A 15-member advisory board is comprised of six government representatives: the Secretaries of Agriculture, Commerce, HUD, Interior, and Treasury as well as the SBA Administrator; and nine private citizens: two CDFI representatives, two representatives from insured depositories, two national public interest representatives, two community development specialists, and one Native American community development representative.

In addition to funding programs, The Fund administers a CDFI Certification Program. CDFI certification increases the credibility of community lending organizations in the eyes of potential and future investors and also provides a framework for startup organizations. An organization that is certified is often better able to attract private sector investment from local banks, corporations, foundations, and individuals.[8] Certification has also helped many CDFIs to expand through an inspired confidence in the industry, which has led to new sources of support and

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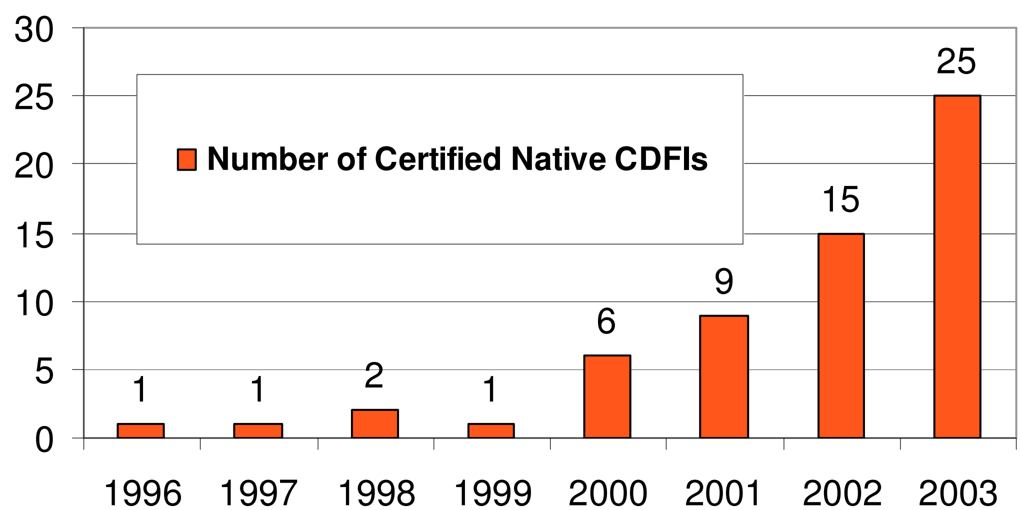
[4] CDFI Fund, 2001.
[5] Prior to 2003, the CDFI Fund Native American technical assistance component was titled the Native American CDFI Technical Assistance (NACTA) program. In 2003, this program was renamed and divided into two programs: the Native American CDFI Development (NACD) program and the Native American Technical Assistance (NATA) program. More recently, the CDFI Fund has developed the Native American CDFI Assistance (NACA) program.
[6] CDFI Data Project, 2001.
[7] CDFI Data Project, 2001.
[8] CDFI Fund, 2003.

funding. The revisions to the Community Reinvestment Act (CRA) regulations in 1995, which explicitly recognize loans and investments in CDFIs as a qualified CRA activity, were also reasons for expansion. At the time of these revisions, many financial institutions were also seeking permission to expand, merge, or otherwise change the scope of their charter; it was realized that an institution's community-investment record directly affected its plans for expansion, mergers, and/or changes in its charter. Consequently, many acquired a sudden enthusiasm for social investments.

Today the number of CDFIs continues to increase. As of November 25, 2003, there were 643 certified CDFIs in the country.[9] There are a number of other CDFIs throughout the country that have not yet achieved certification, but are nonetheless a presence in their communities. Through the provision of financial services, loans and investments, training and technical assistance services and development efforts, CDFIs enable both individuals and communities access to the credit and technical services needed to attain economic self-sufficiency and sustainability. Furthermore, CDFIs recognize that more than conventional loans are needed when working with individuals and communities that have access to limited or no credit, have been geographically isolated, discriminated against, and marginalized from the mainstream economy. As stated by the Coalition for Community Development Financial Institutions, "the flexibility to adapt lending guidelines to the needs of borrowers; to accept unconventional collateral for loans; and to provide education, training, and assistance to potential borrowers is one of the major services that CDFIs have to offer."[10]

The financial impact of CDFIs in local communities cannot be underestimated. A survey of 512 CDFIs revealed that they had $5.7 billion of financing outstanding at the end of 2001 and $2.2 billion in new loan and investment activity in FY 2001. CDFIs' net loan loss rates were less than 1% and they had sufficient reserves and equity bases to cover those losses. In addition to their

Figure 1: Native CDFI Growth by Year

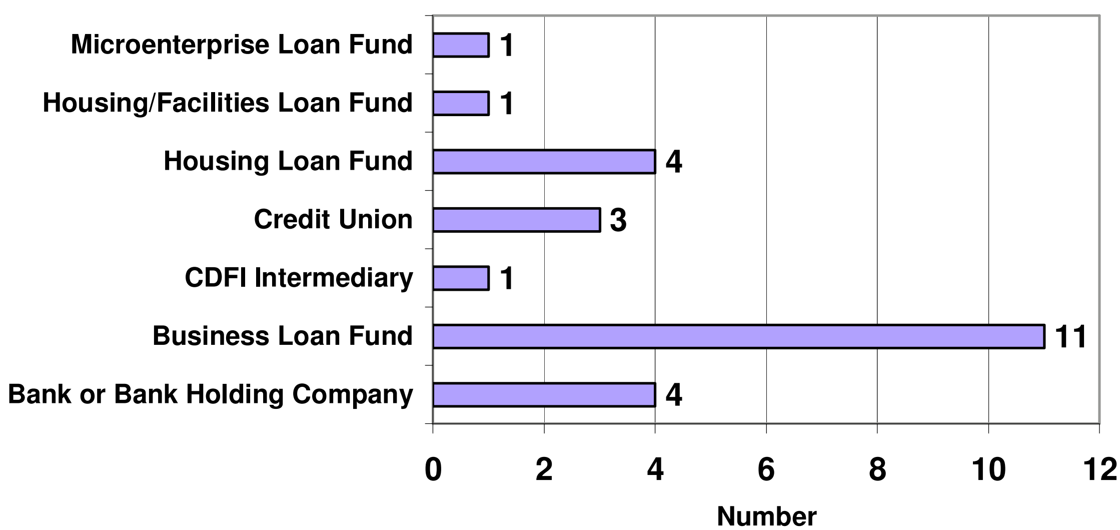


financial successes, CDFIs strive to achieve significant community impact by providing improved financial literacy or entrepreneurial skills, alternatives to predatory lending, and access to bank and credit union branches in markets not typically served by financial institutions. In 2001, the CDFIs surveyed reported that their customer base was 74% low-income individuals, 63% minorities, and 53% females. This sample of CDFIs financed 7,484 businesses and microenterprises that created or supported 52,798 jobs, provided asset-building savings and retail financial services to 2,143,217 people via credit unions and 487,148 people via retail banks, closed 7,139 mortgages to economically disadvantaged people, constructed or rehabilitated 43,428 homes for low-income families, and built or renovated 501 community facilities in economically disadvantaged communities.[11]

CDFIs in Native Communities

Recently, Native communities have been using the CDFI model to develop their own financial institutions in rural and reservation based communities. As has been documented in the Native American Lending Study,[12] Native communities suffer from a chronic lack of access to capital due to geographic isolation, historical discrimination, redlining by mainstream financial institutions, and a lack of locally owned and operated financial institutions.[13] The establishment of CDFIs within Native communities can help to develop Native-owned institutions (whether local or regional) and build the community's capacity to manage and direct their financial assets in a way that supports local asset-based development. In the last 30 years, tribes have moved toward great self-determination and self-governance after a century of outside domination and

Figure 2: Types of Native CDFIs



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[9] CDFI Fund, Certification, 2003.
[10] Coalition for CDFIs, 2003.
[11] CDFI Project, 2001
[12] CDFI Fund, 2001.
[13] Native communities are defined broadly to include land-based populations on formal or informal reservations, traditional Indian Lands, Indian allotments, Alaskan Native Villages or Hawaiian homelands.

control by the federal government. Economies that were once centrally planned and primarily controlled by the federal government sector are now moving toward a more mixed economy, with the development of private and nonprofit sectors. To support the development of these emerging economies, various types of capital financing are required. More and more reservation communities are developing local financial institutions guided by the CDFI model, and are working to find locally defined solutions to local problems.

As of October 2003, there were 25 certified Native-owned and managed CDFIs across the nation, up from two just six years ago (see Figure 1). Of these, 11 are business loan funds (see Figure 2). There are many more new and emerging organizations that have applied for funding from the U.S. Department of the Treasury's CDFI Fund over the past few years. There were 37 recipients of CDFI Fund Native American-targeted grants in 2002, signaling that there are many more Native controlled CDFIs approaching certification. Through the 2003 Native American CDFI Development (NACD) Program, the Fund provides TA grants to organizations that plan to create CDFIs to serve primarily Native American, Alaska Native, and/or Native Hawaiian communities. This 2003 program in part replaces the Native American CDFI Technical Assistance (NACTA) Program of prior years. Entities that were eligible under the 2002 NACTA Component will now be eligible to apply under the Native American Technical Assistance (NATA) component of the CDFI Program and the NACD Program. The TA award must be used for the benefit of the CDFI that the awardee plans to create. An applicant may request an amount of any size appropriate to its organizational capacity as well as a proposed CDFI Development Plan, although the maximum NACD award amount is expected to be up to $100,000.[14]

The Need for Local Financial Institutions in Native Communities

The Native American Lending Study in 2001 found that the majority of respondents identified one significant factor as the source of economic and social challenges being faced by Native communities: *lack of access to capital and financial services available to Native American and Native Hawaiian communities*.[15] According to the financial survey and supporting research, nearly two-thirds of Native American and Native Hawaiian respondents reported that conventional mortgages, business loans and private equity investment for Native business owners are 'difficult' to 'impossible' to achieve; home equity loans, and construction and property rehabilitation loans have also been reported to be in short supply on Indian Lands and Hawaiian Home Lands. The CDFI Fund's Equity and Research Report estimates that the investment gap between Native American and Native Hawaiian economies and the United States overall totals $44 billion.[16]

According to the Corporation for Enterprise Development, the number of Native-owned businesses has risen by 84% to 197,300 in 2002 and that their gross incomes have increased by 179% to $34.3 billion.[17] The *Native American Entrepreneurship Project Report*, written by First Nations Development Institute, estimates that 170,083 of these businesses are microenterprises—businesses that are owned and operated by one person or family, have fewer than five

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[14] Coalition of CDFIs, *The CDFI Fund*, 2003.
[15] CDFI Fund, 2001.
[16] CDFI Fund, 2001.
[17] Corporation for Enterprise Development, 2003.

employees, and are usually financed with loans of less than $35,000. As reported by the CDFI Fund, entrepreneurship in Native communities is a ‘domestic emerging market’ with the sales growth rates of Native-owned businesses double the U.S. average.[18]

Despite the incredible growth of Native-owned businesses that has taken place over the last six years, there are many challenges to Native entrepreneurship development that CDFIs can help to remedy. A report commission by First Nations Oweesta Corporation cited the main challenges to entrepreneurship within Native Communities as business development training and technical assistance, financial literacy education, and access to financing. In the *Native American Entrepreneurship Project Report*, entrepreneurship development programs that serve American Indians found that limited business expertise, specifically knowledge about marketing, business plan development and general business practices on Indian reservations is a significant barrier to development. Furthermore, Native entrepreneurship programs face critical sustainability issues with the high cost of providing training and technical services to clients unfamiliar with the business development process and personal and geographic barriers. A recent report on financial education in Native communities authored by First Nations Development Institute, the Corporation for Enterprise Development, and the National Congress of American Indians noted that the lack of financial expertise and financial education resources is particularly severe in Indian Country, as compared to the rest of the nation, for a number of reasons: low levels of interactions with mainstream financial institutions, inexperience in managing money among older generations and a resulting lack of role-modeling in the family, poor access to sources of information (television, libraries, the Internet), and inadequate educational resources.[19] According to the *Native American Lending Study*, consumer credit counseling and repair, basic financial literacy, and financial management resources were all ranked as highly insufficient on reservations. In terms of financing, a lack of access to mainstream financial institutions is a major barrier to economic development in Native communities. As reported in the *Native American Lending Study*, only 14% of American Indian land in the United States has a financial institution in the community and 15% of Native people must travel more than 100 miles to reach a bank or automated teller machine. Sixty-six percent of non-tribally affiliated institutions do not offer start-up business loans on or near Indian reservations, 74.3% do not offer micro business loans, 71.4% do not offer small business loans and 79.6% do not offer larger business loans. Native Americans respondents rated equity financing for business development as the most difficult financial products to obtain.[20]

Predatory Lending

Predatory lending is also a problem in many rural and reservation based communities. When members of Native communities can get access to credit, it is often at very high interest rates or a predatory pricing structure. The only sources of credit on many reservations are car dealerships, check cashing companies, or predatory lenders interested in stripping assets from Native people. A predatory loan has been defined by the National Community Reinvestment Coalition (NCRC) as, “An unsuitable loan designed to exploit vulnerable and unsophisticated borrowers.”[21]

[18] Corporation for Enterprise Development, 2003.
[19] Malkin, 2003.
[20] Malkin, 2003.
[21] Smith, 2003.

Excessive rates and fees, the sale of unaffordable loans, and fraud are practices that predators in the lending process utilize. Predatory lenders also often withhold information related to fees, charges, and terms of the loan, preventing borrowers from making informed decisions.

Predatory loans are a subset of sub-prime loans [22] and have one or more of the following features: 1) charge more in interest and fees than is required to cover the added risk of lending to borrowers with credit imperfections, 2) contain abusive terms and conditions that trap borrowers and lead to increased indebtedness, 3) do not take into account the borrower's ability to repay the loan, and 4) often violate fair lending laws by targeting women, minorities and communities of color.[23] The expansion of sub-prime markets has increased substantially over the last ten years.[24] While this expansion has provided a greater access to loans for those who may not have qualified in the past, it has also allowed sub-prime lenders greater access to vulnerable borrowers.

The differences between communities with well-developed financial infrastructures and those without have become much more evident with the expansion of sub-prime markets. A weak financial infrastructure in many Native communities makes it much easier for predators to take advantage. Native people fall victim to predatory lending more often than the general public due to geographic and cultural isolation, economic vulnerability, lack of financial education, racial targeting by predatory lenders, and poorly developed financial infrastructures.

The use of tribal legislation, regulatory codes, educational programs, and tribal financial institutions are all ways in which tribal communities can combat predatory lenders. For example, the implementation of tribal loan programs and community development financial institutions can help provide Native communities with a greater degree of economic sovereignty and education, so that borrowers are less vulnerable to predatory lenders.

What are the Contributions of Native CDFIs?

CDFIs in Native communities can contribute to community and economic development in many ways. Specifically, CDFIs help promote asset-based development whether it is through providing individuals with financial management skills or creating small businesses and increasing homeownership. Only when Native people control their assets will they reap the benefit of these assets, whether it is financial or other returns. The contribution of CDFIs include the following:

1. **Increasing asset control:** At the individual level, citizens who have money management skills are more likely to be able to control their financial assets. CDFIs offer financial education and other programs designed to help individuals control their assets, whether these assets be their personal money, their small business financing, or homeownership.

[22] Sub-prime lending is defined by NCRC as "a loan to a borrower with less than perfect credit." Sub-prime loans are extended by primarily non-deposit institutions such as finance companies.
[23] Smith, 2003.
[24] Smith, 2003. The number of sub-prime loans increased roughly tenfold from 80,000 in 1994 to nearly 790,000 in 1999, and the dollar volume of sub-prime loans increased roughly five fold from $35 billion in 1994 to nearly $160 billion in 1999.

2. **Increasing asset creation:** CDFIs offer programs on small business development and homeownership and then provide access to the credit that will allow individuals to grow their small businesses or purchase a home. CDFIs develop new markets in underdeveloped areas, and provide the supports to strengthen and grow these markets. This increases the creation of new assets in communities, the most important being the small businesses and other entrepreneurial activities that can create jobs.
3. **Contributing to asset leveraging:** CDFIs also help individuals leverage their existing assets, whether they be small businesses or homes, to use such resources as collateral for credit to expand small businesses or conduct home repairs.
4. **Increasing asset retention:** CDFIs provide and alternative to predatory lenders in a community, decreasing the rate of asset stripping, whether it be the loss of homes due to unscrupulous lenders or the loss of money due to loans with high interest rates or built-in fees.

First Nations Oweesta Corporation

In 1999, First Nations Development Institute created the First Nations Oweesta Corporation to address the lack of access to capital in Native communities. The mission of First Nations Oweesta Corporation is to enhance the capacity of Native tribes, communities and people to access, control, create, leverage, utilize and retain financial assets; and to provide access to appropriate financial capital for Native development efforts.

First Nations Oweesta Corporation delivers services and products through four major programs including:

1) **Assisting Financial Institutions & Nonprofit Organizations** in the development and/or expansion of reservation or Native community-based community development financial institutions, which may include micro and small business loan funds, housing development and financing loan funds, land consolidation and acquisition loan funds, and credit unions and credit associations. First Nations Oweesta Corporation also works with related Native nonprofit organizations by providing technical assistance to improve the ability of these organizations to fulfill their Native community mission.

2) **Investment/Lending** to provide qualified Native community development financial institutions with loan and investment capital to further their economic and community development goals.

3) **Financial Capacity Building** to enhance through training, technical assistance, and materials development the capacity of tribes, Native organizations and individuals to better manage their financial assets.

4) **Research/Policy/Advocacy** to promote the identification and mitigation of the underlying systemic causes and barriers to control of, and access to, financial assets in Native communities on and off the reservation.

First Nations Oweesta Corporation is also working with the National Community Capital Association (NCCA) to operate the CDFI Fund sponsored *Native Communities Financing*

Initiative, a comprehensive training program to assist Native organizations to form Native community development financial institutions that can bring financing and training to their communities.[25] Through this range of programs, First Nations Oweesta Corporation is working to enable Native communities to practice culturally consistent and financially sound asset management. For more information, visit the First Nations Oweesta Corporations website at www.oweesta.org.

[25] *Native Communities Financing Initiative*, 2003.

III. Investing in Community: The Impact of Native CDFIs

Although there is a great deal of information about the goals and mission of CDFIs in Native communities, there is little empirical data on their impact in such communities. This research project was undertaken to document the activities, impacts, and outcomes of existing CDFIs in Native communities, in order to better identify promising practices and lessons learned from the field. It is hoped that the data collected here will be useful to practitioners in the field and individuals conducting research on the topic. The information was collected as part of a grantmaking program provided by the First Nations Development Institute. Since June 2002, First Nations has funded over six Native CDFI organizations at differing levels of development through their Little Eagle Staff Fund. The goal of Little Eagle Staff Fund is to provide start up grant capital and complementary technical assistance to new and emerging Native CDFIs to help them progress toward self-sufficiency.

Throughout the grantmaking process, First Nations has collected a range of evaluation data from grantees in order to track change from a baseline of activity. First Nations collected data from required baseline reports, progress reports, and final reports completed by the grantee. First Nations also conducted phone interviews with grantees at the end of the grant period. The data collected includes information on organizational characteristics, loan portfolios, loan activities, and technical assistance and training activities. We also collected information on the communities being served, and the types of impacts the organizations are having in their communities. The data from this evaluation forms the basis for this research report. Data from six Native CDFIs were collected for analysis in this report. As can be seen in Table 1, these six organizations served six different Native communities in five states, providing information about CDFIs in a broad range of diverse Native communities.

Table 1: Communities Served by LESF-Funded Organizations

Organization	State	Community served	Type of Organization
American Indian Chamber of Commerce of Wisconsin	WI	The Native American population in the state of Wisconsin.	Statewide American Indian chamber of commerce
Four Bands Community Fund	SD	Residents of the Cheyenne River Reservation. The Cheyenne River Indian Reservation is home to four of the seven bands of the Tetonwan (Dwellers on the Prairie) Lakota Nation.	Community development loan fund
Four Directions Community Fund	ME	Native American population in Maine, including members of the Micmac, Maliseet, Passamaquoddy, and Penobscot tribes.	Community development loan fund
Lac Courte Oreilles Federal Credit Union	WI	Residents of the Lac Courte Oreilles reservation (including members of the Ojibwe tribe).	Community development credit union
Valley Credit Association	NV	Residents of the Duck Valley reservation (including members of the Duck Valley Shoshone-Paiute tribe).	Member owned credit association
Wind River Development Fund	WY	Residents of the Wind River Indian Reservation (including members of the Eastern Shoshone tribe).	Community development loan fund

Native CDFIs can apply for funding from a range of sources, including Native American specific funding programs of the CDFI Fund (NACD, NATA, or NACTA), the Native Communities Financing Initiative of the CDFI Fund, the Small and Emerging CDFI Assistance (SECA) program of the CDFI Fund, USDA, HUD Rural Housing and Economic Development, the Small Business Administration, the Bureau of Indian Affairs, Private Donors, Foundations, other Nonprofits. Many of the Native CDFIs we studied have raised funds from a range of sources, leveraging our initial grants to them. Table 2 provides a summary of which organizations have raised funds from the CDFI Fund, and provides a summary of total funds raised. It also provides information on which CDFIs have received certification from the CDFI Fund.

Table 2: CDFI Status of Grantees and Funds Raised Over the Past Two Years

Organization	Type of Organization	Certified by the CDFI Fund?	Received funding from CDFI Fund?	Total Funds Raised?
American Indian Chamber of Commerce	Statewide American Indian Chamber of Commerce	No.	NACTA $90,000	$382,675
Four Bands Community Fund	Nonprofit community development organization	Yes. Received CDFI certification February 2001.	SECA $300,000	$710,500
Four Directions Community Fund	Community development loan fund	Yes. Received CDFI certification March 2003.	SECA $57,000	$2,158,000
Lac Courte Oreilles Federal Credit Union	Community development credit union	Yes. Received CDFI certification April 2002.	NACTA $25,000	$40,000
Valley Credit Association	Member owned credit association	Applied for CDFI certification in 2002, but did not succeed.	No.	$100,000
Wind River Development Fund	Community development loan fund	No.	NACTA $65,558	$973,058
TOTAL FUNDS RAISED				**$4,364,233**

The biggest challenges reported by Little Eagle Staff Fund grantees are raising funds to capitalize their loan pool and support staff salaries. While many organizations have attracted capital to their respective loan pools, others find that local demand in the community outweighs the available capital in their organization. Organizations like American Indian Chamber of Commerce of Wisconsin, Wind River, and Four Directions have all raised a significant amount of re-lending funds from such sources as the State of Wisconsin, HUD, and USDA, but other organizations such as Valley Credit Association report that they are still not able to meet the demand for capital in their local community. Many grantees have been successful in raising funds, however, and a total of $4,364,233 has been raised for both operations and loan fund capitalization, which means First Nations' initial investment of $86,694 has leveraged $4,277,539. An additional $2,649,000 in funds has been applied for, and $89,800 amount of in-kind support has been raised.

While it is clear that the majority of the Native CDFI-like organizations funded by the Little Eagle Staff Fund have made progress toward self-sufficiency and have experienced organizational growth, it is also important to document the community impact of the organizations over the past 12 months of the grant term. The next section provides an overview of the impact of the grants, and the impacts each organization has had in its respective community.

The Impact of Native CDFIs in their Communities

As mentioned above, the Little Eagle Staff Fund grantees represent six CDFI-like organizations in five states. The Little Eagle Staff Fund grantees provide a range of products, including individual consumer loans, small business loans, microenterprise loans, ranching and agricultural loans, and other credit products such as gap financing (see Table 3).

Table 3: Loan Products Provided by Little Eagle Staff Fund Grantees

Organization	Individual consumer loans	Housing loans	Small business loans	Micro-enterprise loans	Ranching or agricultural loans	Other
American Indian Chamber of Commerce						Gap financing and leverage capital for small businesses
Four Bands Community Fund						
Four Directions Community Fund						
Lac Courte Oreilles Federal Credit Union						
Valley Credit Association						Education
Wind River Development Fund						Support community development projects

Little Eagle Staff Fund grantees have provided a total of 238 loans totaling $484,635 over the past 12 months, in many cases serving low-income, Native American clients who may not have been able to access credit elsewhere. Loans were provided for home purchases, individual consumer purchases, microenterprise start-up, and small business start-up (see Table 4).

Table 4: All Loans Provided by Little Eagle Staff Fund Grantees in Last Year

Organization	Number of Loans	Amount of Loans	What were loans used for?
American Indian Chamber of Commerce	2	$45,000	Motorcycle dealership, interior design company.
Four Bands Community Fund	24	$25,151	Microenterprises such as a gift stand, a welding/construction business, satellite TV repair, and a daycare center. A small mechanics shop just received a loan for $10,000.
Four Directions Development Corporation	13	$266,650	4 home improvement loans, 4 home equity loans, 1 land purchase loan, and 3 home purchases. One small business loan to a microenterprise that makes DEET-free bug repellant
Lac Courte Oreilles Federal Credit Union	189	$124,784	26 unsecured loans, 8 secured loans, 3 used auto loans, and 152 payroll loans.
Valley Credit Association	10	$23,050	All 10 were personal consumer loans.
Wind River Development Fund	0	0	No loans made.
TOTAL	**238**	**$484,635**	

Small Business and Microenterprise Loans

A total of 27 small business or microenterprise loans were granted by Little Eagle Staff Fund grantees over the last year, totaling $83,151. Small businesses such as a mechanics shop, a furnace cleaning business, and a satellite repair business have been supported, among others (see Table 5). Many other loan applications for small businesses are pending. In South Dakota, Four Bands Community Fund provided 24 loans in the last year (all but one were microloans), and these loans helped start 12 new businesses and created 30 new jobs. The American Indian Chamber of Commerce of Wisconsin provided two gap financing loans, which created 6 FTE (full time employment) jobs and preserved 8 existing jobs.

Table 5: Small Business/Micro Enterprise Loans Provided by Little Eagle Staff Fund Grantees in Last Year

Organization	Number of Small Business/Micro Enterprise Loans	Amount of Small Business/Micro Enterprise Loans	Examples of Businesses Supported
American Indian Chamber of Commerce	2	$45,000	Motorcycle dealership, interior design company.
Four Bands Community Fund	24	$25,151	Microenterprises such as a gift stand, a welding/construction business, satellite TV repair, and a daycare center. A small mechanics shop just received a loan for $10,000.
Four Directions Development Corporation	1	$13,000	One small business loan to a microenterprise that makes DEET-free bug repellant.
Lac Courte Oreilles Federal Credit Union	0	0	(only consumer loans made)
Valley Credit Association	0	0	(only consumer loans made)
Wind River Development Fund	0	0	No loans made yet.
TOTAL	**27**	**$83,151**	

Increased Homeownership

The Little Eagle Staff Fund grantees are also helping increase homeownership. In Maine, Four Directions Development Corporation has lent out over $253,650 in funds for three home purchases, four home improvement loans, four home equity loans, and one land purchase loan. In one case, a Penobscot woman's husband passed away and she couldn't afford her mobile home payment. She went to Four Directions for assistance. Four directions was able to offer her lower monthly payments by cutting the monthly payment in half and reduced the interest rate from 12% to 4%. She was on disability and a fixed income of $10,000; therefore she would not have qualified for a commercial loan.

Increasing Access to Personal Credit

Valley Credit and Lac Courte Oreilles Credit Union both provide a source of credit for personal and consumer loans that did not previously exist on the reservations. In the case of Valley Credit, because they do not have a lot of funds in their loan pool, they have only been providing small consumer loans. Although most of the consumer loans are small, Valley Credit believes that they have really helped "folks on the rez, especially single mothers." Valley Credit reports that these small personal loans have purchased automobiles, which people use to go to work, and provided funds for daycare services. In the case of Lac Courte Oreilles, the credit union has worked with the tribe to secure loans with payroll deduction so that individuals can get access to credit at reasonable rates. Lac Courte Oreilles credit union reports that the major competition for such credit is a place on the reservation called "Payday Loans" that charges 26% interest. Lac Courte Oreilles has helped many people access affordable credit to buy used cars to get to work. Lac

Courte Oreilles reported that there were several people working for the tribal government, one in particular, who were in desperate need of a car to get to work, and hated depending on others for a ride. As an employee at Lac Courte Oreilles Credit Union reported, “When we help people like that you see satisfaction on the faces. There is no greater feeling than knowing that you've helped - with payroll deduction it makes everything work well. This is why we are here, people helping people!”

Increasing Access to Capital

Many of the Little Eagle Staff Fund grantees provide access to credit to a population that could not access credit elsewhere or could only gain access to credit with high interest rates or fees. For example, as a local intermediary, Valley Credit has been able to lend to clients that cannot access traditional lending sources. Valley Credit provided ten personal loans over the last year for a total of $23,050 injected into the local economy. Of the people who received loans, three were single mothers, eight were first time borrowers, and eight had poor credit. Five had tried to obtain funding from another financial institution but were turned down because they had a poor credit history or had little or no collateral. Through the provision of these loans, more money is circulating within the community and the borrowers are able to address their personal financial concerns. As can be seen from Tables 6, 7, and 8, the Little Eagle Staff Fund grantees provide a largely Native American and low-income population with credit opportunities. In addition, many loan recipients are female. One hundred percent of all the individuals who received loans from the Little Eagle Staff Fund CDFIs over the last year were Native American, 63 percent were female, and 80 percent were low-income.

Table 6: Loans Provided by Little Eagle Staff Fund Grantees to Native American Clients

Organization	Number of loans made in last year	Number of loans made to Native American clients	Percent Native American clients
American Indian Chamber of Commerce	2	2	100%
Four Bands Community Fund	24	24	100%
Four Directions Development Corporation	13	13	100%
Lac Courte Oreilles Federal Credit Union	189	Don't know – majority (85%?)	85%
Valley Credit Association	10	10	100%
Wind River Development Fund	0	0	NA
TOTAL	**49 (excludes LCO)**	**49 (excludes LCO)**	**100% (excludes LCO)**

Table 7: Loans Provided by Little Eagle Staff Fund Grantees to Female Clients

Organization	Number of loans made in last year	Number of loans made to female clients	Percent female clients
American Indian Chamber of Commerce	2	0	0%
Four Bands Community Fund	24	13	54%
Four Directions Development Corporation	13	7	53%
Lac Courte Oreilles Federal Credit Union	189	123	65%
Valley Credit Association	10	8 (3 of whom were single mothers)	80%
Wind River Development Fund	0	0	NA
TOTAL	**238**	**151**	**63%**

Table 8: Loans Provided by Little Eagle Staff Fund Grantees to Low-Income Clients

Organization	Number of loans Made in last year	Number of loans made to low-income clients	Percent low-income clients
American Indian Chamber of Commerce	2	2	100%
Four Bands Community Fund	24	24	100%
Four Directions Development Corporation	13	7	53%
Lac Courte Oreilles Federal Credit Union	189	151	80%
Valley Credit Association	10	6	60%
Wind River Development Fund	0	0	NA
TOTAL	**238**	**190**	**79%**

Technical Assistance

Every Little Eagle Staff Fund grantee provides some form of technical assistance to their clients, such as business planning or financial literacy training. For example, Four Bands Community Fund conducts technical assistance for 3-4 individuals per week in all areas of personal/family finances, credit, business plans, marketing, and nonprofit start-up. Four Bands developed their own *Mazaska Ksapa Nitawa* (Your Money Wisdom) personal finance program. They also conduct a ten week certificate training for business plan development under their CREATE (Cheyenne River Entrepreneurship Assistance Training and Education) program. Four Bands' CREATE program is mandatory for all small business loan applicants. They average between 10 and 15 students per ten week CREATE session. Over the past few years, Four Bands has served over 200 people, with 130 people enrolled in their CREATE program. Over the past year, there have been 26 graduates from the program. The American Indian Chamber of Commerce provides comprehensive business training, including financial management and business plan development. They also provide workshops in government procurement, business evaluation, and networking. They have trained over 1,400 people in the last year.

In Wyoming, Wind River Development Fund helped put on a business expo (Native American Business Expo) in February 2003, and sponsored a business plan competition. This year was the third annual event on the reservation, and the winner received $350 to buy a small building/shed for repairing watches. He has since opened his doors for business. The second runner-up just opened her fencing business. Wind River scheduled their first entrepreneurship training course to start July 7th, 2003 for eight weeks and have made it a prerequisite for qualifying for a loan.

Lac Courte Oreilles Federal Credit Union worked with Lac Courte Oreilles Community College to do outreach and to get people signed up for an August 2003 financial literacy class. A Lac Courte Oreilles Federal Credit Union representative recently did presentations on savings and financial planning at the local high school and a handful of students ended up opening accounts with LCO and have begun a savings program. Financial literacy outreach is targeted reservation-wide for all ages and income levels, using the *Building Native Communities: Financial Skills for Families* financial literacy curriculum designed by First Nations Development Institute and Fannie Mae Foundation.

Some organizations contract out their training to other community organizations, including local community action programs (CAPs) and tribal/community colleges, as can be seen in Table 9. Four Directions Development Corporation contracts with a CAP program, and Valley Credit Association contracts with the local community college for training programs. The Lac Courte Oreilles Credit Union is working with the local community college to do outreach.

Table 9: Technical Assistance Provided by Grantees

(Highlighted box indicates TA provided directly)

Organization	Do you offer technical assistance or training directly?	What are the major training and technical assistance needs of clients?
American Indian Chamber of Commerce	Comprehensive business planning.	Business planning, financial management, marketing, and accessing commercial lending.
Four Bands Community Fund	Business planning, financial literacy. Conducts a business training course and have their own financial literacy curriculum.	Financial literacy, credit usage, business plans.
Four Directions Development Corporation	Contract with outside organization (Community Action Program (CAP) and Small Business Development Centers). Homebuyer's education, budget and credit counseling, business planning, small business technical assistance, and marketing.	Basic financial literacy education, coupled with a savings program like IDAs. A need for training in the specific terms and conditions of various financing options, and training in budgeting and cash flow management. Business people need training in business planning, marketing research, and planning.
Lac Courte Oreilles Federal Credit Union	Contract with outside organization. Offers one-on-one technical assistance and loan counseling at the time of loan application and loan disbursement.	Financial literacy, credit usage, business plans.
Valley Credit Association	Contract with outside organization (local community college and government agencies). Provide business planning and financial literacy.	Financial literacy, credit usage, business plans.
Wind River Development Fund	Business planning, entrepreneurship classes. Wind River has held business seminars and provided one-on-one mentoring and assistance with writing business plans.	Entrepreneurial training (writing a business plan and understanding what it takes to own a successful business) and training on bookkeeping.

Business Development and Job Creation

The impact of the services provided by the Little Eagle Staff Fund grantees, including credit for personal, homeownership, and small business needs, as well as technical assistance, have had a significant impact on local communities and community members. The credit provided by these Little Eagle Staff Fund grantees has helped individuals develop a credit rating, develop small businesses, and learn financial literacy skills. For example, in South Dakota, D&D Plumbing and Heating received a microloan ($1,000) from Four Bands Community Fund. The business owner had no credit at the time of the loan. He was very diligent in repayment and later needed another $3,000 microloan. He went to the bank in Eagle Butte (a small town on the reservation) and received a lower interest rate loan directly from the bank. He used Four Bands as a credit reference and had no problem in securing the commercial loan. In Maine, Four Directions Development Corporation helped a young woman scale up her business. Alison Lewey, a young Passamaquoddy woman, started Lewey's EcoBlend last year. Lewey's EcoBlend produces an insect repellant that has no DEET in it. EcoBlend is produced naturally, and is mainly oils and herbs. Last year she did door-to-door marketing. She was bottling the product by hand as orders were secured. This year because of the loan with Four Directions, she purchased a piece of equipment for bottling. Now she produces 500 bottles a day. She now works with a wholesale distributor, distributing the product throughout Maine, New Hampshire, Vermont and parts of Canada that border Maine. She recently received publicity when an article was written about her in the *New England Journal of Medicine*.

Another example can be found in South Dakota. Make Shift Innovations is a welding, repairing and towing company. The husband and wife owners are tribal members and have successfully borrowed twice from the Four Bands Community Fund microloan fund. They both are graduates of business training classes and developed a business plan concerning their business. They successfully paid on their microloans that they received from Four Bands and later submitted a business application for a small business loan with Four Bands. With the $10,000 small business loan they received, they purchased land and a rehab building to house their business along with additional equipment.

In Wisconsin, the first loan the American Indian Chamber of Commerce/First American Capital Corporation (AICCW/FACC)[26] secured was for a company that owned a motorcycle dealership. The motorcycle company had an opportunity to secure an additional dealership in a different location. The entire loan package was $375,000, for which FACC provided $20,000 in gap financing. The company has since increased their sales revenue by 20 percent. After securing the loan and acquiring the second dealership, sales have been remarkable. They increased their employee count by six full time employees. AICCW/FACC is currently approving a loan application for an interior design company. Last year this company generated $5 million revenue but only showed $6,000 profit. There were issues with a previous partnership on money management. They presented their financial information to commercial lenders and it was determined that they were high risk. One bank is providing a six-month contract loan for $100,000. Now they have an 8(a) (minority business) status and they are looking to increase their market to include government contracts. The total package this company received is $141,000 and AICCW/FACC is providing $25,000 in gap financing for five years. Without the commitment from AICCW/FACC the commercial lender would not have provided the loan. AICCW/FACC will provide technical assistance in money management and will take a third mortgage lien to secure the loan.

In Wyoming, a couple that Wind River has been working with for 1½ years recently started their business that sells outdoors sporting equipment such as custom fishing rods and specialty hunting equipment. They recently opened up a storefront and they bill themselves as "the largest manufacturer of sporting goods on the reservation."

[26] The American Indian Chamber of Commerce of Wisconsin formed the First American Capital Corporation (FACC) to manage their loan operations.

Community Impact of Grant – From the Grantee Perspective

In conducting the research on the Little Eagle Staff Fund grantees, we asked them to tell First Nations, in their own words, what they believed the impact of the grant was in their community. The responses varied greatly – some grantees saw the funding as key to getting their organization started, others described the way their organization has contributed to the local economy. A summary of their comments is provided below in Table 10. The responses received from these Little Eagle Staff Fund grantees indicates the importance of start-up and seed funding for many of these CDFIs.

Table 10: What Was the Community Impact of the Grant?

Organization	What was the community impact of the grant?
American Indian Chamber of Commerce	The $15K provided capital to get the revolving loan fund started. It was key funding to get the thing rolling.
Four Bands Community Fund	The grant assisted in the fundraising and networking for the organization. In addition, it paid the Executive Director's salary. The funding assisted the start-up and we are now working to stabilize the program. The funding was also beneficial in leveraging other money. When other organizations see that First Nations is investing in the program, they have more confidence in the capacity of the organization and therefore are more willing to invest themselves. CitiBank and USDA are examples of organizations that have now invested in Four Bands Community Fund.
Four Directions Development Corporation	Within 9-10 months, we have increased the home buying and selling activity on the reservation. Previously there were only 2-3 transactions within a 10-year period. But since the last 9-10 months there were 8 transactions alone. This is within the Penobscot Nation. In addition, about a half million dollars have gone back into the community through the generation of housing loans.
Lac Courte Oreilles Federal Credit Union	Changing financial habits. People are actually seeing the benefits of savings in creation of their own individual wealth, and by becoming more money conscious and understanding how money and credit work.
Valley Credit Association	As a local intermediary, Valley Credit has been able to lend to clients that cannot access traditional lending sources. Five of the ten loans generated in the last year had been rejected by other lenders. Through the provision of these loans, more money is circulating within the community and the borrowers are able to address their personal financial concerns.
Wind River Development Fund	It helped us develop sound policies with the help of First Nations' funding and technical assistance. It also is partly responsible for helping us get the initial capital to lend. Both in having it on our books and allowing devotion of time to do it. We've done a lot of education, several seminars, on SBA 8(a), Hub Zone, and other topics. Development is very grassroots. We don't want to just throw a bunch of money out there or burden someone with debt when they don't have the first step, understanding of what having debt means. We've been able, with help of the money, to do financial literacy training with First Nations curriculum. We have conducted one full session, and have four graduates and three have been banked.

Conceptual Framework for Understanding CDFI Development

Based on research and field work, First Nations Oweesta Corporation has identified five phases a Native CDFI must complete before it has achieved organizational self-sufficiency. Table 11 provides an illustration of this conceptual model of the steps a new and emerging CDFI must go through to become fully functional and self-sufficient. Most of the CDFIs we studied for this report were in phase I, II, or III of the process.

As can be seen in Table 11, in Phase I, the CDFI is in the "Start-Up" phase. Community members come together to get approval from the community (including in some cases the tribal government), conduct market research, and if they decide to move ahead, develop the articles of incorporation and bylaws. A mission statement should also be developed, start up funding should be secured, and key staff should be hired. Many of the organizations First Nations funded through the Little Eagle Staff Fund were at Phase I when we began funding them.

In Phase II, the organization is "Emerging" and works to gain 501(c)(3) status and begins to formulate its operating policies, including its personnel policies and its loan policies. At this phase training may be required for staff to help them develop the capacity to make loans effectively. The organization should also design and successfully implement a fundraising strategy, and begin to bring additional revenue to the organization to support staff salaries and capitalize the loan fund. In addition, the organization should begin to plan technical assistance activities, and may begin to develop an investment strategy for any revenue they may generate. Outreach into the community should be conducted to develop an interest and a market for the organization's financial products.

Phase III is a significant jump forward for the emerging CDFI. In the "Growth" phase, the organization staff has reached the point where they can make their first loan, and they begin to implement their technical assistance and training programs. At the same time, the organization needs to have funding secured, but also must continue to successfully implement the fundraising strategy to attract more funds to the organization. This phase is both a giant leap forward for the organization, but is also a learning phase. Additional training may be required for staff as they consider lending options. Usually an organization spends a long time at Phase III, and generates many lessons learned about fundraising, capitalization of the loan fund, and developing loan policies, among other things, at this point in its development.

Phase IV is achieved when the organization has reached a level of professionalism that can only come from years of experience and learning. An organization that has reached the "Established" phase usually has a few years of experience providing loans, and has reviewed their loan policy and technical assistance policies and made any necessary adjustments. An organization in Phase IV generally has a good revenue stream and has funds to capitalize their loan pool, but it is also looking into other revenue generation activities as well, including new loan products and other financial products. Typically, an organization in Phase IV is ready to apply for certification from the CDFI Fund at the U.S. Department of the Treasury. As mentioned above, while certification is not necessary to function as a CDFI, certification is an advantage because it allows these CDFIs to receive directed technical assistance and more funding from the CDFI Fund. While reaching Phase IV is an accomplishment for any organization, many organizations still need a great deal of support and technical assistance at this phase, and still benefit from both education and training.

Finally, Phase V is accomplished when the organization has reached “Maturity” and has developed additional revenue streams, has a sizeable and stable loan portfolio, and is generating enough revenue to be self-sufficient. An organization only reaches this point when it has been in operation for some time, has successfully analyzed its market and developed products to effectively serve that market, and is guided by an effective business strategy that supports adequate revenue generation. There may still be dependence upon grants and loans, but it is important for the CDFI to make the best use of these grants and loans to support its operation. The goal is for all Native CDFIs to reach this point. It is challenging for many Native CDFIs to reach this point, however, partially because of their location in low population density, rural locations, and partially because they service a niche market with a low profit margin. While this is the ultimate goal of the Native CDFI movement, it will require many years of capacity building to achieve (and may require the exploration of new, “scaled-up” models such as regional CDFIs).

Table 11: Phases of Native CDFI Development

Phase	Activities
Phase I Start-up	• Conduct a community needs assessment/market research. • Form an advisory committee with community members and key institutions represented. • Create a board of directors. • Develop articles of incorporation/charter. • Develop bylaws. • Develop mission statement. • Identify initial funding. • Hire staff.
Phase II Emerging	• Receive 501(c)(3) status. • Develop lending/financing policies. • Identify loan committee. • Provide training for board of directors, loan committee, (training on underwriting, how to process loans, investment, and financial literacy) and other committees. • Develop personnel policies and procedures. • Design initial technical assistance and training program. • Write a CDFI Fund TA grant (or something comparable). • Design and successfully implement fundraising strategy and receive initial funding. • Conduct outreach in community. • Conduct thorough market analysis.
Phase III Growth	• Complete nonprofit business plan. • Begin making loans. • Begin implementing technical assistance and training program. • Continue to successfully implement fundraising strategy and secure additional funding for operations and loan capitalization. • Put a loan/portfolio tracking system of some sophistication in place. • Provide additional training to staff as need arises (training on liens, for example).
Phase IV Established	• Get certified from CDFI Fund. • Review loan policy and make necessary adjustments (possibly offer new loan products). • Explore other financial products and services. • Review technical assistance and training plan and make necessary adjustments. • Review investment strategy and make any necessary adjustments. • Explore other revenue generation activities.
Phase V Maturity	• Fully developed additional revenue streams. • Lending pool has reached critical momentum. • Loan portfolio is stabilized and consistently monitored. • Generate enough financial resources to become financially self-sufficient.

IV. Lessons Learned from Little Eagle Staff Fund Grantees

A review of the Little Eagle Staff Fund grantee reports over the last year of operations has yielded several lessons learned that may be of use to other Native CDFI organizations in the field that are looking to start up or expand their operations.

The Importance of Tribal Legislation and Legal Codes

One interesting finding is that there is a range of tribal legislation and legal codes that can both help and hinder lending in reservation communities. As can be seen from Table 12, very few tribes have Uniform Commercial Codes (UCC) or mortgage and foreclosure codes. This can make it difficult to collect on loans, and in many cases the CDFIs have been working with the tribal governments to pass new codes to protect lenders. When Four Directions Development Corporation was established, the lack of specific tribal codes and regulations on commercial and mortgage lending on the four Maine reservations was a challenge. Four Directions set out to develop tribal housing codes addressing credit barriers posed by existing restraints on alienation of reservation and trust lands. The tribes, in consultation with Four Directions, developed the following documents in order to facilitate mortgage lending on trust lands: *Tribal Foreclosure Code; A Residential Lease of Tribal Land; An Approving Foreclosure Code for Four Directions Development Corporation; Mortgage Deed and Trust Agreement.* Because mortgage lending on reservation trust lands is so unique, tribal codes and regulations had to be put into place to secure the land in case of default. Four Directions has obtained agreements and/or resolutions for the four tribes and this has allowed them to move forward to provide mortgage lending to their communities. In the event of a default, on trust or reservation lands leased by individuals, the land would revert to the tribe, which would then sell the lease and improvements to another tribal member and use the proceeds to pay off the mortgage with Four Directions. Since the development of the tribal mortgage and leasing codes, the Maine State Housing Authority, the Veterans Administration, HUD, and USDA have developed, or are in the process of negotiating, similar MOUs and will be strong financing partners for real estate loans on trust and reservation lands in the future.

Collaboration with Tribal Government

Lac Courte Oreilles Federal Credit Union has also learned an important lesson about working with the local tribe. When Lac Courte Oreilles agreed to provide payday loans and other loans that were secured with a payroll deduction for tribal employees, they assumed the tribe would inform them when an employee lost his or her job and therefore could not pay on the loan. The tribal payroll department however was not doing a good job notifying Lac Courte Oreilles of the termination of employees with outstanding payroll loans. After Lac Courte Oreilles granted loans to two people who then lost their jobs, Lac Courte Oreilles staff members had to talk to the tribe about better communication between the tribe and the credit union. The tribe has since agreed to provide better information about the status of its workers to the credit union, including notification of termination.

Table 12: Tribal Codes to Facilitate Lending and Debt Collection

Organization	Does tribe have UCC code?	Mortgage and foreclosure codes?	Land use or zoning ordinances?	Tribal court?	Debt collection codes?
American Indian Chamber of Commerce	NA – statewide organization	NA – statewide organization	NA – statewide organization	NA – statewide organization	NA – statewide organization
Four Bands Community Fund					
Four Directions Development Corporation					
Lac Courte Oreilles Federal Credit Union					
Valley Credit Association					
Wind River Development Fund					

Predatory Lending

Little Eagle Staff Fund grantees uniformly reported problems with predatory lending in their communities. Table 13 provides a review of the responses we received from the Little Eagle Staff Fund grantees when we asked them about problems with predatory lending.

Table 13: Is Predatory Lending a Problem in Your Community?

Organization	**Problems with predatory lending?**
American Indian Chamber of Commerce	There are companies that are providing loans at high interest rates. AICC is lending at 8% base depending on the credit history of the borrower.
Four Bands Community Fund	With the personal finance trainings the organization addresses predatory lending by providing other choices to be considered. The clients review their own credit reports and determine the impact of predatory lending on their pocketbooks.
Four Directions Development Corporation	They are trying to help. Predatory lending is out there. Low-income Natives have no credit or poor credit and have to get loans at higher interest rates. People use credit cards for home improvement. Four Directions has assisted in providing home improvement and home equity loans so that they do have to use credit cards for this purpose.
Lac Courte Oreilles Federal Credit Union	Yes, mostly in the form of check cashing. There is a place on the reservation called Payday Loans that charges 26% interest. There are similar services located in Rice Lake and other surrounding communities. In-house loans from other financial entities on reservation charge astronomical rates of interest as compared to the Lac Courte Oreilles Federal Credit Union, so people are very surprised and happy to know that Lac Courte Oreilles' rates are much more reasonable. Now working on a tier basis, where more services are available with completion of classes, training, etc.
Valley Credit Association	It is a problem - because lots of folks live 100 miles from nearest urban center in Idaho - I have received calls from some of those car dealers that wanted us to fund the loans for the cars but the amount of sale was way out of line - too high. I usually follow-up with the client to tell them why Valley Credit Association would not provide the loan.
Wind River Development Fund	Predatory lending is a problem in our community. We are seen as an alternative. Our name has been building up and folks have been coming to see us even though we have no money to lend. They ask, "where can I get money?" Wind River educates about what people should be looking for and why they should not use certain loans (like payday loans that provide an advance on a payroll check for a high interest rate). We do lots of one-on-one educating. Part of our entrepreneurship training course will include a review of money sources that are available and which are appropriate.

Other Lessons Learned

First Nations asked Little Eagle Staff Fund grantees to provide an overview of the most important lesson learned over the past 12 months of their grant period. Table 14 provides a review of their responses. Some themes emerge from the grantees, including the following:

- **The importance of financial literacy and financial education.** Both Lac Courte Oreilles and Valley Credit have noted that people need to increase their financial literacy skills so that they can develop a credit rating and also develop a long-term perspective on savings, investment, and income.
- **The importance of business education**. Many CDFIs emphasize the importance of business education. Wind River has decided to make entrepreneurship training a requirement for receiving a business loan.
- **The importance of having a good record keeping and tracking system.** After Lac Courte Oreilles realized they could not answer our questions about the demographics of the clients served, they realized the importance of a good tracking system. Four Bands also stated that they think it is important to track all training and technical assistance activities so that they can report to funders.
- **The importance of an active, ongoing fundraising plan.** Many organizations struggle with fundraising. Many organizations report that there is a great deal of demand for credit products, but they do not have the resources to provide them.
- **The need to continually revisit the products and policies in place and make adjustments.** Lac Courte Oreilles Federal Credit Union examined their products and added payday loans and a check cashing service in order to increase their revenue stream and respond to demand. Other organizations implemented policies to collateralize loans at a higher rate.

Table 14: What Were Lessons Learned?

Organization	What were the most important lessons learned?
American Indian Chamber of Commerce	The development of the banking portion of the revolving loan fund was more difficult than anticipated. The underwriting is new and therefore they are seeking to outsource the back office component of the operation. Funding for operations remains a big issue. The demand is there but the funds for startup operations is minimal. Their hands are tied to provide small micro loans even though the demand for larger loans is there.
Four Bands Community Fund	Build your database early of all TA and training activities. There should be more strategizing upfront. Must be able to track all information on the clients. These are requirements by the investors and funders and it is hard to implement after the fact.
Four Directions Development Corporation	We didn't fully grasp the need for housing loans on the reservation. We feel that they have just hit the tip of the iceberg. The demand is tremendous. But many people still don't meet the needs of Four Directions because they do not have the financial skills or the assets to buy a home. Financial literacy is a crucial and important piece to offer to Native individuals to get them qualified for loans. The fundraising aspects especially for operations has been very challenging. Must have a strong fundraising plan to get through the first few years. Outreach is also very important in both the public and private sector. It is very important to have the private sector involved in the development of the program.
Lac Courte Oreilles Federal Credit Union	Our loan limit is too low to make large purchases that significantly affect a family's budget (car, house, etc.). The community need for more financial literacy. The mindset on the reservation is money-in-hand. They are happy to get a loan now, but don't care about paying back and saving for future. The ease of getting credit cards and simple loans is more widely understood than what it means to have credit, paying back obligations, and the role of savings in reaching short- and long-term goals.
Valley Credit Association	The need is definitely there - people need this community lending organization that is able to fund them. We don't give our dollars away, lots of folks use payroll deducts for tribal employees - other Native CDFIs need to be sure they have the loan capital before you set up. We were already established and then it became privatized and the loan pool wasn't enough. Now we have administration expense covered.
Wind River Development Fund	The importance of the education piece. We have decided that the entrepreneurship curriculum is a requirement for a loan. Making the commitment and going through the steps, finding out the reality of what it takes - it is going to turn some people off and away, but there are those who feel they will do it no matter what. Not everyone will have to take the course, and if they are a business in place two years it is not required. Having good policies in place is important both for the soundness of the organization and so the community knows there is equity. Thinking about board members, need to establish a mission statement and keeping the mission in the forefront of their thinking, other than just getting the money out the door. If earlier we had committed a full time executive director, it would have taken off sooner!

V. Conclusion

Community development financial institutions offer a locally controlled, community-responsive resource for credit and other financial services to support asset-based development in Native communities. The number of Native controlled CDFIs has increased significantly over the past six years. Although there are an increasing number of Native controlled CDFIs in communities across the nation, there is very little primary data on their activities, practices, and early lessons learned. This report provides information from an early evaluation of First Nations Development Institute's Little Eagle Staff Fund, a grantmaking program dedicated to supporting Native CDFI organizations at differing levels of development. The goal of Little Eagle Staff Fund is to provide start up grant capital and complementary technical assistance to new and emerging Native CDFIs to help them progress towards self-sufficiency.

This early evaluation revealed several things. The six financial institutions funded by First Nations' Little Eagle Staff Fund over the last year have grown as organizations and contributed to their local communities. Little Eagle Staff Fund grantees have achieved organizational growth by providing training for their board and staff, developing internal policies and procedures, and capitalizing their loan pool. Fundraising and capitalization remains a challenge, yet many organizations have raised funds over the past year and some have made their first loan.

Little Eagle Staff Fund grantees contributed significantly to the local communities in which they are located. Not only have 238 loans valued at $484,635 been provided in this small sample of six communities, but 27 of these loans, worth a total of $83,151, supported Native American owned businesses that in most cases were located in Native American communities. Hundreds of hours of technical assistance have been provided in these communities, a total of three new homes were purchased, and hundreds of people have accessed credit through affordable payday loans or microenterprise loans. The impact of these grants goes beyond economic development. Little Eagle Staff Fund grantees report that their customers are able to use their services to buy cars to get to work, conduct home repair, and increase their self-esteem by starting small businesses.

This study of six Native controlled CDFIs yielded several lessons learned. Interviewees stressed the importance of financial education for cultivating a market for their financial services, and discussed the importance of business education. In addition, several of the CDFIs studied mentioned the importance of having an active, ongoing fundraising plan, as demand often outpaced supply for many of the credit services offered by these institutions. These lessons learned, and others, may be useful to other Native CDFIs as they continue the process of organizational development and growth in their own communities.

While this report only provides data on a small sample of the Native CDFIs currently in existence across the nation, the contributions of these six organizations are significant and the lessons learned are important. The impacts of Native CDFIs are both economic and social, and can be measured in both quantitative and qualitative terms. While the economic development stimulated by the presence of these Native-owned and controlled credit institutions can be measured quantitatively, the other impacts are less tangible and better measured in the vocabulary of community development with such terms as "locally controlled financial institutions," "leadership development," and "increased opportunities and self-esteem." No matter how you measure it, however, it is clear that investment in new and emerging Native community development financial institutions are truly proving to be a good investment in community.

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