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Banking in Indian Country: Challenges and Opportunities

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In recent years, Native Americans living on tribal lands have begun to see progress in the financial services available to them. Some might say this progress is long overdue. Native Americans have historically lacked the kind of access to financial institutions and credit that most Americans have long since come to take for granted. There are many reasons for the disparity, some of them deeply rooted in the troubled history of relations between the first Americans and those who came later.



Cover from the *First Nations/Fannie Mae Financial Literacy guide*.

Yet it is also true that today there are tribes, banks, nonprofit organizations, and government agencies that, individually and in collaboration, are tackling the complex issue of access to financial products and services in Indian country. In fact, Native American tribes and individuals currently own or control 11 banks, allowing them to interact directly with the national banking system and facilitating their efforts to fund economic development initiatives. This

issue of *Community Developments* focuses on some of the initiatives that these banks and other institutions are undertaking to address financial service needs on tribal lands.

Challenges

Native Americans constitute less than 1 percent of the total population of the United States, but face far more than their share of economic challenges. Data from the 2000 Census indicate that 26 percent of all Native Americans are impoverished — more than twice the national average. The National American Indian Housing Council estimates that 69 percent of Native Americans in tribal areas live in severely overcrowded and often substandard housing. More than 30,000 people are on waiting lists for rental housing in tribal areas, and for most Native Americans the dream of homeownership has never seemed even close to becoming a real possibility.

Banks seeking to reach out to Native American communities encounter geographic, educational, and legal barriers to providing traditional deposit and lending services in Indian country. For example, low population density and long travel distances between population centers on many reservations can make it costly for banks to place traditional brick-and-mortar branches there. However, alternative methods of providing financial services — such as locating branches in shared office space or incorporating greater electronic delivery of salaries and benefits — hold promise to increase access to

financial services on tribal lands. In addition, many Native Americans suffer from a lack of experience with and information about personal finance and credit. As a result, they are often reluctant to use banking services even when they are available. Finally, the sovereign immunity granted to tribes has been seen as a major impediment to establishing banking relationships, since banks cannot count on U.S. courts to resolve contractual disputes.

Home mortgage lending

But, along with challenges, come opportunities. The home mortgage market, for example, is virtually untapped. Current studies suggest that there are fewer than 2,000 home mortgage loans on tribal lands. The Department of Housing and Urban Development (HUD) has estimated that 38,000 families living on tribal areas have incomes sufficient to afford traditional home mortgages. Assuming a loan size of \$70,000 (the average loan size purchased in Freddie Mac's Native American Initiative), this estimate represents a potential \$2.7 billion market in home mortgages.

The home mortgage market is gradually developing, thanks in part to a range of tools now available. HUD's Section 184 Loan Guarantee Program, discussed in this issue, is making it easier to resolve the unique challenges of providing mortgage loans in communities where land cannot be used as collateral. The program has gained the attention of the secondary markets as well. For example, Fannie Mae invests in Section 184 loans originated on more than 100 eligible Indian reservations.

To reduce regulatory barriers to homeownership on tribal lands, HUD and the Treasury Department helped to develop the One Stop Mortgage Centers. These centers are managed by local nonprofit intermediaries which, in turn, provide products and services, such as affordable mortgage packages and counseling programs, to assist homeownership efforts. Another innovative partnership, the Navajo Partnership for Housing program, an offshoot of the Neighborhood Reinvestment Corporation, provides access to a consortium of lenders offering mortgages to members of the Navajo Nation.

A first step to making home mortgages work for lenders and borrowers alike is ensuring that borrowers understand financial products. Financial literacy campaigns, such as the one developed by First Nations Development Institute and described in this issue, are a must if homeownership efforts are to succeed in underserved areas.

To provide information on issues frequently encountered when making mortgage loans on tribal lands, the OCC published *A Guide to Mortgage Lending in Indian Country*. This publication provides background information on legal issues involving lending on tribal lands and highlights relevant loan guarantee and secondary market programs.

Commercial lending opportunities

Although the prospects for economic development on tribal lands have long appeared uncertain at best, that too is changing. The gaming industry has attracted a lion's share of media coverage, but it is not the only economic engine in Indian country. Some tribes possess significant natural resources, or have been able to take advantage of their location to generate revenue from ski resorts, hunting preserves, and other tourist attractions. Several tribes — in Alaska, Arizona, California, and New Mexico — have obtained assistance from the Treasury Department's Community Development Financial Institutions Fund, and are leveraging such funds to build and support small businesses, farms, and affordable housing. Other commercial lending strategies are outlined in this issue.

That there is ample room for banks to serve this emerging market is suggested by recent growth

in Native American-owned businesses. The Census Bureau reported in May 2001 that the number of Native American-owned businesses grew 84 percent from 1992 to 1997, compared with a 7 percent increase for all U.S. firms. Receipts for Native American-owned businesses rose 179 percent, to \$22 billion from 1992 to 1997, compared with a 40 percent increase for all U.S. firms over the same period.

Retail delivery of financial services

Although the low population density on tribal lands presents geographic barriers to traditional banking operations, some banks have discovered that by providing services in novel ways they can realize profits that they did not think could be achieved. Not every banking office needs to be a full-service branch. Some banks have located mini-branches in supermarkets or operate limited service branches elsewhere on reservations. To provide information on successful methods of increasing access to financial services, the OCC published *Providing Financial Services to Native Americans in Indian Country*.

Forming a bank can be a great catalyst for advancing economic development on tribal lands. While it takes a major investment of capital, energy, and expertise, the national bank charter can be an effective tool for increasing access to financial services and capital. To encourage the success of tribally owned banks, the OCC published *A Guide to Tribal Ownership of a National Bank*.

Keys to success

Several themes run through the success stories described in this newsletter. One is the need to sow the ground by supporting financial literacy initiatives. Another is the need for flexibility in designing and implementing efforts to spur economic development on tribal lands — and the importance of doing the homework so that no potential source of help is overlooked or misunderstood.

At the core of these themes is the need to take the time to thoroughly understand the challenges unique to lending in Indian country, and to listen — really *listen*, carefully and with respect — to what tribal leaders and individual tribal members want. Those institutions that are most successful in Indian country forge strong partnerships with tribes and together find creative solutions to lending challenges.

This last observation may be the most important point. Look closely at the success stories in these pages and you'll see that every one of them is the product of an active and ongoing collaboration among tribal leaders, lenders, government agencies and nonprofit organizations with a shared commitment to overcoming obstacles and creating opportunities where none had been thought to exist. The moral seems clear. Where the commitment is strong enough, the resources exist to do the job. The key ingredient is people who want to make things happen in Indian country. You'll find them in this issue of *Community Developments*.

4 Steps Bankers Can Take to Increase Business in Indian Country

- **Build relationships.** This process starts small, grows gradually, and requires patience and sensitivity. Some first steps are to contact an established tribal institution such as a tribal government office, housing office, housing counseling agency, or community development corporation.
- **Support financial education.** Improving financial literacy is a key component to developing a market for financial services in Indian country. Support and participate in financial education initiatives.
- **Learn about Native American-owned businesses.** Contact one of the U.S. Small Business Administration's Tribal Business Information Centers (TBICs), a tribal college business development program, or one of the Minority Business Development Administration's Native American Business Development Centers. (See OCC's Native American Banking Resource Guide for details www.occ.treas.gov/cdd/resource.htm).
- **Be prepared to provide innovative financial services.** Use the resources of HUD's One-Stop Mortgage Centers to guide your thinking on how to provide mortgage lending in Indian country. In addition, use the many resources identified in this newsletter to generate creative, resourceful, and rewarding business lending initiatives.