

U.S. Department of the Interior Office of Indian Energy and Economic Development's Indian Loan Guaranty Program

In an effort to assist Native American tribes and individuals to establish or expand Native American-owned businesses, and to move toward self-sufficiency, Congress passed the Indian Financing Act of 1974. The Act was established to provide reservation businesses with access to investment capital equal to that available to businesses in non-reservation areas. The Indian Loan Guaranty, Insurance and Interest Subsidy Program (ILGP) was established under 25 CFR 103 to execute this authority. The Division of Capital Investment, under the Office of Indian Energy and Economic Development (IEED) at the Department of Interior manages the ILGP.

What Is the Indian Loan Guaranty Program?

The ILGP helps lenders reduce risks on the loans they make to eligible Native American-owned businesses, primarily by providing a guaranty up to 90 percent of the unpaid principal and interest. The program is open to federally recognized American Indian tribes or Alaska Native groups, individually enrolled members of such tribes or groups, or a business organization with no less than 51 percent ownership by American Indians or Alaska Natives. The borrower's project must be located on or near a federally recognized

Indian reservation, or recognized service area, and the project must contribute to the economy of the reservation or service area. Nearly any type of business, and any size of business, can benefit from the ILGP, and its authority allows great flexibility to provide loan guarantees in varied amounts and to any business structure. A typical program transaction involves the establishment or expansion of a small business on a reservation.

To ensure that the program meets the goals of the Indian Financing Act, IEED requires that:

- The borrower entity must be at least 51% native-owned.
- The project must benefit the economy of a reservation or tribal service area.
- The lender would be unable to underwrite the loan without the guaranty.
- Loans cannot be made for relending purposes.
- Loans cannot be made for gaming projects.

The maximum loan that can be guaranteed for individuals is \$500,000; however, the program can guarantee loans of greater amounts for tribes, tribal enterprises, or business entities, subject to program and policy limitations.

Any lending institution (including Community Development Financial Institutions) may obtain a guaranty if the institution is regularly engaged in making business loans, and has a capacity for evaluating and servicing loans that is satisfactory to the program.

The maturity of a loan is determined by the lender based upon the use of the loan proceeds and the repayment capacity of the borrower; however, the loan term cannot exceed 30 years.

The loans are serviced by the lender and their interest rates are also determined by the lender but are subject to reasonable limitations established by policy.

Why Banks Should be Interested in the ILGP?

National banks and federal savings associations (collectively, banks) may be interested in the ILGP for the following reasons:

- **Low risk:** The ILGP allows banks to consider, at reduced risk, new business opportunities with tribes and Indian-owned businesses that are otherwise unable to secure loans at reasonable terms. Although there is no formal secondary market for loans guaranteed

by the ILGP, they can be bought and sold either in whole or in part.

- **Community Reinvestment Act (CRA) consideration:** Lenders may receive CRA consideration for loans originated under the ILGP program if they also benefit the bank's assessment area(s) or the broader statewide or regional area that includes the bank's assessment area(s). Loans in amounts less than \$1 million that meet the definition of a small business loan are considered under the lending test. Loans in amounts greater than \$1 million that have a primary purpose of community development may receive consideration as community development loans. Intermediate small banks may choose to have small business loans in amounts less than \$1 million evaluated as community development loans if they also have a community development purpose. Banks evaluated under the lending, investment and service tests may receive consideration for innovative or flexible lending practices if their ILGP loans address the credit needs of low- to moderate-income individuals or geographies.
- **Business development opportunities:** Many banks view lending in Indian Country as risky because these areas are sovereign nations and do not always maintain uniform commercial codes governing business transactions. By reducing the risk potential of doing business in Indian Country, the ILGP opens the doors to further business opportunities, especially after banks become familiar with the laws and culture of Indian Tribes.

What Risks and Fees do Lenders Face?

The type of loan for which a bank would seek a federal guaranty is one that does not meet traditional underwriting criteria and, therefore, may have higher default rates than conventional loans. The risk nonetheless is reduced because the IEED will guarantee up to 90% of the unpaid principal and interest.

To ensure loans are originated in a sound manner and to reduce the risk of defaults, IEED expects lenders to follow these program requirements:

- The borrower must have 20 percent tangible equity in the project being financed.
- Lending institution must state why it is unwilling to make the loan without a guaranty and specify the minimum percentage guaranty it will accept.
- Lender must have some risk in the project.
- Lender must not charge excessive interest or fees.

The lender must pay the IEED a one-time premium of 2 percent of the guaranteed portion of the loan within 30 days of the loan's closing; however, lender may charge the premium to the borrower as a one-time fee, or add it to the loan amount.

How does the Program Work?

Tribes or individuals must apply for a loan through any lender that regularly engages in making business loans. The lender should only apply for a loan guaranty when it would not otherwise approve a borrower's loan application.

The lender should submit a request to the program regional office where the project is located, along with the appropriate documentation.

For More Information

- [About the ILGP, and for contact information](#) for your nearest ILGP Credit Office Service Center
- On [guidance](#) for individual borrowers
- On [guidance](#) for tribes, tribal enterprises, or Indian-owned business as borrower
- On [guidance](#) for lenders
- To download the [Division of Capital Investment's brochure](#) on the loan guaranty program

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