# Testimony of Gerald Sherman

## Vice Chairman, Native CDFI Network

## Red Lodge, MT

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Oversight Hearing on

*Economic Development: Encouraging Investment in Indian Country*

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***Written Statement***

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## Introduction

Chairman Tester, Vice Chairman Barrasso, and members of the Senate Committee on Indian Affairs – thank you for this opportunity to testify at this oversight hearing on *Economic Development: Encouraging Investment in Indian Country*. My name is Gerald Sherman. I am an Oglala Lakota, and I grew up on the Pine Ridge Indian Reservation in South Dakota. Today, my home is in Red Lodge, MT.

I have been working for over 20 years to encourage investment in Indian Country. I am the founding board chairman and first executive director of the Lakota Funds, a community development loan fund on the Pine Ridge Reservation and one of the first micro-enterprise loan funds in the U.S. My banking career also included working with Norwest Bank (now Wells Fargo Bank), where I worked in commercial lending and as manager of a bank on the Lower Brule Reservation in South Dakota. I also worked for the Federal Reserve Bank of Minneapolis and later for First Interstate BancSystem of Montana where my focus was on increasing banking services to Indian Nations and low-income communities, and managing the bank's Community Reinvestment Act efforts.

In 2005, I worked with the Indian Land Tenure Foundation to create the the Indian Land Capital Company (ILCC), a national financial institution that makes loans to tribal governments to purchase alienated lands and fractionated ownership interests in trust lands. As the President and CEO, I have helped to deploy over $9 million in loans. ILCC views and deals with tribes as sovereign nations. It works toward changing the way traditional lenders view lending to Indian nations, demonstrating that these are credit-worthy, sophisticated political and economic entities that represent good business opportunities. Whereas tribes are treated merely as corporate entities by some lenders, ILCC views them as sovereigns and, as such, lends to them in a way that respects their sovereign status.

I am here today on behalf of the Native CDFI Network (NCN), which is a coalition of Native CDFIs and partners. Our mission is to be a national voice and advocate that strengthens and promotes Native community development financial institutions, creating access to capital and resources for Native peoples. Formed in 2009, the organization unifies Native CDFIs serving American Indian, Alaska Native, and Native Hawaiian communities. Our purpose is to create opportunities to assess the relative successes and challenges of serving distressed markets, identify our collective priorities, and strengthen our industry.

The Native CDFI Network is led by a Board of Directors comprised of nine dedicated leaders and practitioners within the Native CDFI industry. Members of the Board inform the Network's organizational growth and development by directing committee initiatives designed to maximize our impact while engaging our membership base. In addition, the Native CDFI Network's Board includes two Ex Officio seats filled by representatives of long-established national community development organizations.

In my testimony today, I would like to cover three things: (1) the unmet demand for investments in Indian Country, (2) how Native community development financial institutions or CDFIs serve as conduits for investments in Indian Country, and (3) how policy makers can help to improve the environment in which Native CDFIs operate in order to strenghthen the role they play in stimulating Native economies.

**<u>The Unmet Demand for Investments in Indian Country</u>**

As you know, Native communities experience substantially higher rates of poverty and unemployment than mainstream America and face a unique set of challenges to economic growth. Lack of physical, legal, and telecommunications infrastructure; access to affordable financial products and services; and limited workforce development strategies are common challenges that Native entrepreneurs, homebuyers, and consumers face and must overcome in order to be successful in their local economy.

According to the U.S. Department of the Treasury's 2001 Native American Lending Study, 86 percent of Native communities lack access to a single financial institution (with a broad definition that includes a simple ATM), and 15 percent of tribal citizens need to travel over 100 miles to access a financial institution.[1] Financial institutions with American Indian, Alaska Native, and Native Hawaiian communities in their service areas clearly have not adequately met the needs of these communities. The geographic boundaries of Indian reservations, confusion about tribal sovereignty, and an historic lack of access to credit and financial services in Native communites have caused many financial institutions to overlook these potential market segments. This lack of financial services has had a severe economic impact in underserved Native communities across Indian Country.

[1] Department of the Treasury, (2001) *Native American Lending Study*, http://www.cdfifund.gov/docs/2001_nacta_lending_study.pdf.

A recent Federal Deposit Insurance Corporation (FDIC) study revealed that 41.3 percent of American Indian and Alaska Native households are underbanked, and 14.5 percent of American Indian and Alaska Native households are completely unbanked.[2] This limited access to basic financial services in Native communities highlights the work left to be done to connect Native people to the benefits of the American financial system. The Treasury Department estimates an unmet capital need in Native communities of $44 billion.[3]

**<u>How Native CDFIs Can Serve as a Conduit for Investments in Indian Country</u>**

CDFIs are private-sector, financial intermediaries with community development as their primary mission. While CDFIs share a common mission, they have a variety of structures and development lending goals. There are six basic types of CDFIs: community development banks, community development loan funds, community development credit unions, microenterprise funds, community development corporation-based lenders and investors, and community development venture capital funds. All are market-driven, locally-controlled, private-sector organizations. CDFIs measure success by focusing on the "double bottom line:" economic gains and the contributions they make to the local community.[4]

There are 831 certified CDFIs in existence across the United States. Of those, 68 are certified Native CDFIs, which means that they are entities that primarily serve a Native community, i.e., at least 50 percent of its activities are directed toward serving American Indians, Alaska Natives and/or Native Hawaiians. The 68 certified Native CDFIs are located in 21 states, including four in Montana. There are approximately 60 emerging Native CDFIs across Indian Country preparing for certification. The Native CDFI industry's rapid growth is a direct response to the lack of access to conventional financial services in Indian Country.

In the short term, Native CDFIs are filling the credit and capital gaps in Indian Country left by traditional lenders and investors. In the long term, they are grooming Native consumers, entrepreneurs, and potential homebuyers to access traditional lenders in the future. They have been working to create innovative solutions to overcome economic development barriers and are beginning to show impact:

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[2] 2011 FDIC National Survey of Unbanked and Underbanked Households (September 2012), accessed at http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf, p.15.
[3] Treasury,2001.
[4] http://www.cdfi.org/about-cdfis/what-are-cdfis/

**Developing Economies and Building Assets** Native CDFIs have proven themselves as vehicles towards developing healthy, vibrant Native economies and communities. They have entered markets normally considered "high-risk" and have been responsible for an astounding transformation – serving as the catalyst for developing local economies, building assets, and reducing persistent poverty.

Native CDFIs' programs and services are designed to help their clients, who are otherwise underserved, to build individual financial assets and savings skills so that they have access to mainstream economic opportunities such as homeownership, education, and small business creation, as well as cultural assets such as regalia for ceremonies, traditional foods and gardens, or items necessary for subsistence.

Here are some examples of the positive impact some Native CDFIs have had:

*Lakota Funds, Oglala Sioux Tribe, SD*

A 2009 study of the work of the Lakota Funds shows specific examples of economic impact. The Small Business Economics journal published a study by four university economists in April 2009 showing strong and consistent positive impact of the Lakota Funds on the quality of life on the Pine Ridge Indian Reservation. They concluded:

> The Lakota Funds succeeded in raising real per capita income of Shannon county residents consistently and significantly throughout the 1987–2006 study period…[thus showing how] a well-designed and highly successful micro-enterprise financing structure can confer large and significant private and social benefits … sustained growth in real incomes … net wealth and further personal, household, and community successes in socio-economic, health …, educational …, and other dimensions of progressive quality living.[5]

*Four Bands Community Fund, Cheyenne River Sioux Tribe, SD*

Four Bands Community Fund provides another example of the economic impact that a Native CDFI can have on its community. Four Bands is a non-profit, Native CDFI serving the Cheyenne River Indian Reservation, which is about the size of the State of Connecticut. Founded in 2000, Four Bands' mission is to create economic opportunity by helping people build strong and sustainable small businesses and increase their financial capability to

[5] Benson, D; Lies, A; Okunade, A; and Wunnava, P, "Economic impact of a private sector micro-financing scheme in South Dakota," (2009), accessed at http://www.lakotafunds.org/docs/SDmicrofinance.pdf.

create assets and wealth. Since it began providing services, this small CDFI has assisted nearly 5000 customers which is 60 percent of the reservation's population. This includes $4.2 million credit builder and small business loans, creating or retaining 440 jobs, helping 520 individuals complete financial literacy training, sponsoring 150 youth entreprenuer inters, and exposing 2,500 students to the concepts of financial literacy and entrepreneurship.

**Financial Capability and Inclusion** Financial education opportunities provided by Native CDFIs have helped clients – both adults and youth – to improve their access to conventional financial services such as consumer loans, mortgages, tax preparation services, and small business credit. They have also allowed them to enter the financial mainstream more competitively with better rates and fees, based on improved credit scores and history. They have provided a viable alternative to predatory lenders who prey on uneducated consumers and trap them into cycles of high-cost debt and other financial products.

*Native American Community Development Corporation, Blackfeet Indian Reservation, MT*

The Native American Community Development Corporaton started the Mini-Bank Program in 1996 in Browning, Montana at the Browning Middle School. Since its inception, the Blackfeet "Mini-Bank" has garnered interest from many schools and institutions around the State of Montana and the nation. Now serving six reservations in three states, the Mini-Bank program currently has more than 670 youth accounts with more than $40,000 in their savings accounts. This Native CDFI believes that young people should be taught early in life that financial literacy equals economic empowerment. Their program helps youth develop good saving habits and gives them the confidence and independence to make sound financial decisions. Builidng financial capability of youth is a key to building wealth and economic prosperity in Native communities.

## Policy Recommendations to Strenghthen the Role Native CDFIs Play in Stimulating Native Economies

In order to continue to build on the successful impact that Native CDFI's have had on their local economies, the Native CDFI Network respectfully presents the following general and specific recommendations to policy makers.

Generally, we encourage federal and state policy makers to recognize the unique land, legal, and jurisdictional issues in Indian Country when implementing their community and economic development programs. Native efforts may not fit into existing programs and may require flexibility, exceptions, or innovative pilot programs. In some cases, the need in

Indian Country may be so severe that competitive government programs should include extra points or designated set-asides specifically for efforts serving Native communities. The CDFI Fund's Native American CDFI Assistance (NACA) program is a perfect example of a Native-focused program designed by the Treasury Department to meet the capital and credit needs identified by its Native American Lending Study in 2001.[6]

Specifically, we would like to offer the following recommendations:

1. *Fund* ***FY 15 NACA Appropriations*** *at $15 million.*

We would like to recognize Senator Tom Udall from New Mexico for his strong support of the work of Native CDFIs. As Chairman of the Senate Appropriations Committee on Financial Services and General Government, he has championed the first increase in NACA appropriations under the Treasury's CDFI Fund since FY 2009. We appreciate his efforts as well as the support from you, Chairman Tester, Senator Tim Johnson from South Dakota, and the rest of your colleagues on the Senate Appropriations Committee.

We urge Congress to continue to fund the Native American CDFI Assistance Initiative program at the $15 million level in the FY 2015 Appropriations bill because (1) Native CDFIs can help to address the unmet financial services and capital need in Native communities, (2) the demand for NACA funds from certified and emerging CDFIs continues to sky rocket – over double the available funds in FY 13, and (3) the economic impact of Native CDFIs is significant.

2. *Make the* ***waiver for the non-federal match requirement permanent*** *for the NACA Financial Assistance program.*

The Native CDFI Network urges Congress to reinstate and make permanent the waiver for the non-federal match requirement for Treasury's CDFI Fund Native American CDFI Assistance Financial Assistance program. This recommendation is based on the unique status and characteristics of Indian Country and Native CDFIs.

The CDFI Fund acknowledged the challenges to raising non-federal match for Native CDFIs in its *Native Initiatives Strategic Plan for FY 2009 – 2014,* which identified as a key strategy to "Increase Opportunities for Native CDFIs to Access Available Capital:"

[6] Treasury, 2001.

> The Native American Lending Study identified the lack of lending capital as one of the greatest barriers to economic development in Native Communities, and securing capital remains one the most significant challenges Native CDFIs face. The NACA Program's Financial Assistance component requires . . . the CDFI to match the award amount dollar for dollar with non-Federal funds. **Meeting this non-Federal match requirement can be difficult for Native CDFIs because, for most Native communities, Federal agencies are the main source of funds. As a result, the requirement may undermine the ability of some Native CDFIs to secure capital through the NACA Program or may even discourage them from applying.** In 2009-2014, the CDFI Fund will explore ways to increase opportunities for Native CDFIs to access available capital.[7]

The following are key factors that make raising non-federal matching funds especially challenging for Native CDFIs.

*Economic Conditions*

**Indian Country continues to struggle through an economic downturn.** Congress waived non-federal match requirements for NACA from FY09 to FY13 during the recession. While there have been some signs of recovery in Indian Country, many tribal communities are in persistent poverty counties where ongoing investment and opportunities are necessary. The ability of Native CDFIs to access NACA without a non-federal match is a strategy that was working well to overcome significant economic barriers.

**Economic indicators in Indian Country have always lagged the mainstream U.S. economy.** For example, according to the Economic Policy Institute, "Although the Great Recession is technically over, when looking at the American Indian employment situation, there is little sign of recovery. Nationally, Native American unemployment continues to rise, and employment continues to decline."[8] Making the NACA match waiver permanent would ensure that Native CDFIs are using scarce dollars more efficiently to create jobs.

*Philanthropic Environment*

**Native CDFIs face bigger hurdles than their non-Native counterparts to accessing private sector funding from corporate and philanthropic sources, as well as**

[7] Department of the Treasury – CDFI Fund, (2009), *Native Initiatives Strategic Plan for Fiscal Years 2009-2014*, http://cdfifund.gov/docs/2009/naca/Native%20American%20Strategic%20Plan.pdf

[8] Algernon Austin, (2010), "Different Race, Different Recession: American Indian Unemployment in 2010." http://www.epi.org/page/-/pdf/ib289.pdf?nocdn=1

**individual donors.** This is evident historically and even more so in the wake of the recession. According to a report published by the Foundation Center and Native Americans in Philanthropy in 2011, U.S. foundation support explicitly targeting Native Americans declined as a share of total foundation giving from 2000 - 2009.[9] While mainstream CDFIs are able to raise their match through long-standing relationships with private sector partners, most Native communities do not have these sources because they are isolated and do not have local wealth available to their communities. Making the NACA match waiver permanent would allow Native CDFIs to build their capacity to establish these relationships going forward.

*Organizational Capacity*

**Many NCDFIs are small and emerging, and, as a result, may not have a fundraiser on staff or board members with fundraising experience to raise monies from non-federal sources.** To create a strong balance sheet, emerging CDFIs need equity (not debt) at early stage of development. Without access to NACA, many emerging and newly certified Native find it difficult to attract other capital. Non-federal resources are precious and often Native CDFIs are torn between using non-federal funding to attractive several different funding sources. This becomes an unproductive juggling act.

NACA is the most common source of equity for all Native CDFIs. This equity is being leveraged by more established Native CDFIs with the wherewithal to qualify for private sector debt.

3. *Launch a **pilot mortgage intermediary relending program** that allows Native CDFIs to access mortgage capital through the U.S. Department of Agriculture's Rural Development Section 502 Direct and Guaranteed Loan Program.*

The Single Family Housing Direct and Guaranteed Loan Program (502) is successfully bringing mortgage capital to rural communities across America. Unfortunately, its success on Native trust land has been limited. Native CDFIs are perfectly situated to partner with Rural Development personnel to improve the outreach and delivery of the program.

We urge USDA Rural Development to launch a pilot program in Indian Country to allow Native CDFIs to be guaranteed lenders under the 502 Guaranteed Loan Program and intermediary lenders under the 502 Direct Loan Program.

[9] Mukai, Reina and Lawrence, Steven (2011), "Foundation Funding for Native American Issues and Peoples," http://www.nativephilanthropy.org/

4. *Implement the **CDFI Fund Bond Guarantee Program** so that it is accessible to Native CDFIs.*

The Native CDFI Network, Opportunity Finance Network, Native American Finance Officers Association, and CDFIs across the country interested in making the CDFI Bond Guarantee Program successful have been working closely with the CDFI Fund to improve the viability of the program in Indian Country. Our talks have focused on common sense adaptations to the existing program structure to allow for broader CDFI participation. We are happy to report that we have made some progress with the CDFI Fund, but we are continuing to identify strategies to ensure full participation by Native CDFIs and Indian Country.

In particular, we urge the CDFI Fund to ensure that that alternate forms of collateral are eligible to secure lending under the Bond Program. This would assist Native CDFIs as they originate loans to small businesses and other entities. It would be helpful for the CDFI Fund to confirm that Leasehold Equity Mortgages are acceptable forms of collateral.

Additionally, there is ambiguity over the application of the Principle Loss Collateral Provision (PLCP). This provision enables third parties to provide a guarantee in instances where there is insufficient collateral. While the CDFI Fund will allow tribes to provide the PLCP for tribal applicants (so long as they are deemed sufficiently separate), entities which provide the PLCP must be publicly rated as investment grade. If an entity is not publicly rated (as is the case for many tribes), their credit worthiness is assessed by the Fund, which ultimately decides whether they are eligible to provide the PLCP. It would be helpful to have more information about this evaluation process. What methods are used? Are tribes evaluated like any other non-publicly rated entity?

Finally, there is uncertainty among the Eligible CDFIs and Qualified Issuers as to whether they can amend their capital distribution plans to accommodate tribal applicants. We encourage the CDFI Fund to provide greater clarity on the matter.

5. *Implement the **CDFI Fund New Markets Tax Credit Program** to maximize the flow of capital to Indian Country.*

The CDFI Fund New Markets Tax Credit (NMTC) Program has great potential to bring capital to Indian Country. To maximize its effectiveness, we recommend the following:

- The CDFI Fund should require that NMTC allocation application reviewers reading applications from Community Development Entities (CDEs) with the primary mission of serving Native communities have experience working in these communities. If that is not possible, then all such applications should be read by CDFI Fund Native Initiatives staff and not outside contractors.

- The NMTC allocation application allows applicants to commit to serve states that have received disproportionately low levels of NMTC investment ("underserved states"). American Indian, Alaska Native and Native Hawaiian communities should be considered equivalent to "underserved states" since they too have low levels of NMTC investments.

6. *Expand the **Community Reinvestment Act (CRA)** to encourage investments in Native communities and Native CDFIs that serve them*

The federal bank regulators should expand the CRA regulations to explicitly recognize lending, services, and investments in Indian Country. In particular, bank examiners should place a higher value on mortgage lending activity on tribal trust lands in order to provide incentive to lenders that have heretofore met their Native American goals by lending to tribal members living in urban areas or other non-trust lands.

**<u>Conclusion</u>**

I'd like to thank you, Mr. Chairman, for this opportunity to present the testimony of the Native CDFI Network. We look forward to working with you and the Committee to improve the economic conditions across Indian Country.