

# SOVEREIGN LENDING: BRINGING HOUSING TO INDIAN COUNTRY

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The statistics are chilling. Nearly half of all homes located in Indian country are overcrowded and have serious physical deficiencies and almost a fifth lack complete plumbing. In addition, over 30,000 individuals and families are on waiting lists for rental housing. It is estimated that over 200,000 housing units are needed immediately to provide adequate housing in Indian country.

While it is difficult to generalize the demographic, economic and social characteristics of the country's more than 550 federally recognized tribes, it can certainly be concluded that housing remains elusive, if not unattainable. A lack of access to capital has prevented many tribes from being able to even dream about homeownership, making the original Americans, *the first nations*, the last people to own a home.

Compounding the housing crises are other alarming statistics. The poverty rate on Indian reservations is about 31% compared to the 19% national average according to 1990 U.S. Census estimates, and nearly half of the available workforce is unemployed. Without jobs, home loan programs are useless. Without housing opportunities, savings incentives and overall capital formation are also stifled.

Lack of homeownership has created a negative ripple effect in reservation economies, which extend well beyond housing. For instance, nearly a third

of all home-equity lines of credit in the U.S. are taken out for business purposes. Without home ownership, many people living on reservations don't have access to an affordable source of capital.

Even those fortunate enough to own real estate struggle to sell or refinance their properties in weak real estate markets on tribal lands. The complexities of the real estate market are compounded by a lack of competing mortgage lenders. Sadly, only a scant number of lenders offer the HUD 184 loan guarantee program, and many tribes have not adopted the HUD rules to allow their members access to the program. In the Pacific Northwest states of Washington, Oregon and Idaho, only 15 lenders offer these loan products, despite a 100% guarantee provision.

Without access to the traditional mortgage market, those who seek homeownership may end up with high loan interest rates and fees, normally much higher than those from a traditional mortgage lender, resulting in a disincentive to purchase a home on the reservation. Therefore, while the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) was designed to produce locally-valued outcomes and address the needs of low-income Native American populations, lack of access to capital stymies efforts to leverage NAHASDA funds for greater impact.



## SOVEREIGN LENDING INITIATIVE

Recognizing the dynamic correlation between access to credit, homeownership and net worth, the Federal Reserve Bank of San Francisco (FRBSF) embarked on an initiative in 1998 to increase access to credit in Indian Country. The initiative started with seven *Sovereign Lending* workshops to invite the greater tribal and banking community to share their views on the barriers and solutions to lending in Indian Country. *Sovereign Lending* task forces were formed out of these workshops to strategize and develop solutions. The task forces, which include representatives from different tribes, financial institutions, government agencies and community-based organizations, have held meetings at over 50 Indian reservations throughout the states of Washington, Oregon, Idaho and Utah. At these meetings, participants learn about each tribe's economic development plans, identify needed banking products and services, and collaborate on joint projects.

The task forces identified five primary barriers to lending in Indian Country, each of which has a significant impact on housing affordability and finance: (1) tribal lending laws; (2) remoteness; (3) land status; (4) communication; and, (5) borrower characteristics. This article explains each barrier and possible solutions, plus elaborates on what task force members are doing to resolve these barriers. And while some of these barriers share similarities to other LMI communities, the combination of them all is specific to most reservations.

## TRIBAL LENDING LAWS

Many Indian tribes do not have laws that provide guidance to lenders on how to conduct business on reservations. A lack of guidelines on reservations, such as procedures for evictions and foreclosures presents an unknown situation for lenders, which is seen as a risk. To resolve this barrier, a num-

ber of tribes on the task force have used their sovereignty to adopt laws to promote both real estate and commercial lending. Some have posted their laws on their web sites for easy access by lenders and title companies. The Oregon task force sponsored a tribal attorney symposium on tribal law resources with presentations by Fannie Mae, HUD and local law firms. The task force symposium and meetings have been most successful as a catalyst for ongoing meetings and customized solutions. A good illustration of this is when one lender's attorney met separately with the Shoshone-Bannock tribal attorney to review their tribe's laws and suggest recommendations for changes. This single meeting resulted in two large loans to the tribe.

## REMOTENESS

The remote location of many Indian reservations presents challenges for lenders in delivering banking products and services in a practical and cost-efficient manner. In general, branch offices require a volume of both deposits and loans substantial enough to justify their existence—more than would likely be possible on many Indian reservations. This prerequisite has prompted lenders and tribes to consider alternative delivery systems. As the largest employer on many reservations, several tribes now offer direct deposit service for their employees. This allows employees to begin accruing interest on their funds immediately, as well as access cash from ATMs or via point-of-sale service at local stores without leaving the reservation. ATMs may be located near the local post offices, medical facilities or tribal offices, where both access and security may be available up to 24 hours. In one case, Nevada Bank & Trust is in the process of establishing a full-service branch on the Duck Valley Reservation that would share space with a tribal micro-lending

organization, saving tribal members an 80-mile drive to the nearest bank branch.

## LAND STATUS

The issue of land ownership on many Indian reservations is complex, but not as daunting as some see it. While many reservations are made up of a mixture of fee simple, tribal trust and allotted land, there are lending products for all of these ownership structures. HUD's 184 loan guarantee program is designed to be used on trust land, while a bank's conventional lending products can work on fee simple land. Five task force lenders decided to offer the HUD 184 to help fulfill this need. In addition, several lenders have been working on special housing programs with individual tribes, and one task force is exploring how to improve access to state housing programs.

## COMMUNICATION

Bridging the limited opportunities for communication between many tribes and the finance community, which is the cornerstone of problem solving, is a primary goal of the task forces. The task force meetings host different speakers on available financing resources and help to build stronger relationships between tribes and other task force members. In one meeting, two tribes decided to collaborate and allow one of the tribes to open a credit union office on the other tribe's reservation. Several of the task forces have developed directories of bank and tribal personnel to contact on financing matters. Another task force established a loan referral center within an urban Indian walk-in medical clinic. In addition, the task force meetings continue to attract participation from community-based organizations that have not traditionally provided affordable housing technical assistance to tribes given the many housing-related barriers.

## BORROWER CHARACTERISTICS

Widespread unemployment, non-traditional forms of income, lack of assets and low education levels all contribute to a challenging lending environment in Indian country. To help address these issues, task force members launched financial literacy programs by partnering with several organizations including the State of Washington's Junior Achievement program, the Oregon Bankers Association's *Personal Economics Program* and the Idaho Financial Literacy Council, to offer their "bank-at-school" programs in tribal schools. In addition, banks began accepting alternative forms of income verification such as "fish tickets" and held first-time homebuyer seminars. Finally, two task forces are encouraging their respective state legislatures to adopt legislation to allow residents access to Individual Development Accounts (IDAs), a savings account designed to help people save for their first home, education or to start a new business.

## CONCLUSION

The lack of access to capital on Indian reservations has caused an overcrowding of existing households, an exodus of potential homeowners and a ripple effect on the tribal and neighboring economies. Statistics or even words cannot truly describe the immense personal hardship on generations of Native Americans as they wait for the opportunity to become homeowners.

We can make housing happen in Indian Country. Although the *Sovereign Lending* task forces have helped speed resolution of lending barriers on tribal lands, there is no better substitute than prompt action by financial institutions, tribes and others roused by the chilling statistics and motivated by the many opportunities to take action. **CI**

## A CHECKLIST FOR RESERVATION LENDING

- Give tribal members options for home financing such as both government-insured products and conventional products.
- Research the type of affordable housing organizations available off the reservation and encourage them to work with tribal members.
- Explore alternative retail delivery systems for banking services when branch offices are not feasible.
- Arrange a meeting between the tribal and bank attorneys to review and suggest changes where appropriate in the tribe's laws.
- Poll tribal members on needed banking products and services, and arrange a meeting between the bank CRA officer and an appropriate tribal representative to review the survey results.
- Consider developing a task force similar to the northwest task forces for area tribes in other geographies.
- Offer financial literacy programs for K-12 tribal children, and first time homebuyer and personal financial management seminars for other tribal members.
- Ensure that HUD's 184 Loan Guarantee Program is readily available and that all tribal members have access.



### ABOUT THE AUTHOR

CRAIG NOLTE is a Community Affairs Advisor with the Federal Reserve Bank of San Francisco. As part of the Community Affairs department, Mr. Nolte develops training and consults with financial institutions on community investment opportunities. Mr. Nolte is very active in Native American lending issues on both local and national levels. Currently he facilitates seven "Sovereign Lending" task forces in the four northwestern states of Washington, Oregon, Idaho and Utah.

Prior to joining the Federal Reserve, Mr. Nolte served as a Compliance Examiner with the Office of Thrift Supervision. In that role, Mr. Nolte evaluated thrift institutions' compliance with various consumer and compliance laws and regulations, including the Community Reinvestment Act. Mr. Nolte holds a master of business administration from City University in Seattle, and a bachelor of arts degree in finance from Seattle Pacific University.