Native Credit Unions: A Middle Path for Building Financial Access and Capability in Native Communities

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Executive Summary

Building access to capital and affordable financial services are among the most critical needs of Native communities throughout the nation. Native Americans are more likely to be unbanked or underbanked than other minority groups in the United States.[2] In 2013, 16.9% of Native Americans were unbanked, having neither a checking nor a savings account at an insured institution.[3] An additional 25.5% were underbanked, using alternative financial services outside of the banking system.[4] With lower levels of usage of checking and savings accounts, Native Americans have fewer options for obtaining affordable credit for both emergencies and for life's major purchases, such as purchasing a vehicle.

Moreover, without access to mainstream financial services, they face challenges in establishing credit histories and acquiring financial capability. Financial capability includes financial literacy

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[1] Nikki Pieratos is the former CEO of Northern Eagle Federal Credit Union, chartered in 2013 to serve the Bois Forte Chippewa community in northern Minnesota. The author thanks present and former Native credit union leadership and financial services industry experts for sharing their insight during interviews from March 2018 through December 2018.

[2] National studies used in this paper define Native Americans as American Indian and Alaskan Native. The data does not include Native Hawaiians. *See* Sarah Dewees and Gary Mottola (April 2017), "Race and Financial Capability in America: Understanding the Native American Experience," *FINRA Investor Education Foundation* (April 2017), p. 7 (hereafter "Race and Financial Capability").

[3] Federal Deposit Insurance Corporation, "FDIC National Survey of Unbanked and Underbanked Households," *Federal Deposit Insurance Corporation* (October 2014), p. 6. More recent Federal Deposit Insurance Corporation surveys do not report specific data for American Indian and Alaskan Native populations.

[4] Id. For purposes of this paper, "mainstream" refers to the following federally regulated or certified financial institutions: banks insured by the Federal Deposit Insurance Corporation (FDIC), credit unions insured by the National Credit Union Administration (NCUA), and community development loan funds certified by the U.S. Treasury. The term "alternative financial institution" will refer to other financial service providers, including pawnshops, payday lenders, check cashers, and other consumer lenders not insured and regulated by either the FDIC or NCUA.

(knowledge) and the opportunity to act (products and services). Some studies indicate that financial education alone is not enough to improve an individual's financial well-being.[5] Increasing access to affordable financial products—checking and savings accounts at a minimum—has great potential for improving financial outcomes for Native Americans. Matt Fellowes, former research fellow at the Brookings Institution emphasizes this relationship. "Bank accounts are essentially an on-ramp to economic mobility and wealth in this country."[6]

Native American-focused mainstream financial institutions—banks, community development loan funds, and credit unions—thus have an important role in meeting the financial needs of Native communities.[7] They can bridge the banking and credit gaps in critical ways, each with distinct characteristics. First Nations Development Institute, a national Native non-profit focused on strengthening Native economies, described the comparative advantage of Native institutions versus non-Native institutions as stemming from their being "…a locally controlled, community-responsive resource for credit and other financial services to support asset-based development in Native communities."[8]

Native financial institutions are increasingly providing more financial services to Native communities across the country, albeit in different ways. Among the three mainstream options, Native credit unions fill a financial services niche between Native-serving community development loan funds and Native-owned banks. Unlike community development loan funds, credit unions (like banks) conform to the federal regulations required to offer checking and savings accounts, a core mainstream financial service important for addressing financial access needs. Unlike banks, whose responsibilities to profit-seeking shareholders implicitly put a high priority on attracting and serving affluent customers, credit unions are owned and governed by their membership and operate under a service mission that includes low-income and underserved consumers. In addition, credit unions require fewer resources to establish and operate than banks, though more than loan funds. These characteristics position Native credit unions as the middle

[5] Margaret Sherrard Sherraden, "Financial Capability: What is it, and How Can It Be Created?" *University of Missouri-St. Louis Center for Social Development CSD Working Papers No. 10-17* (2010), p. 5.
[6] Wyatt Buchanan, "Bank accounts now in reach of poor, immigrants," *The San Francisco Chronicle* (December 2007).
[7] For purposes of this paper, "Native communities" encompass American Indian, Alaskan Native, and Native Hawaiian communities. *See e.g.,* Native Nations Institute "Access to Credit and Capital in Native Communities," *Native Nations Institute* (2016), p. 1, fn 2 (hereafter "Access to Credit and Capital").
[8] Rosenthal, "Democratizing Finance," p. 373

path for addressing the financial access needs of Native communities, between the more limited Native-serving loan funds and the more resource-intensive and profit-oriented Native-owned banks. However, to expand their capacity and services in Native communities, Native credit unions also require long-term investment and development support. Sponsorship and capacity building for existing and new Native credit unions come from a variety of sources: tribes, federal agencies, philanthropic organizations, and social investors. Both the public and the private sector are showing signs of becoming more responsive to the needs of community-centered financial institutions, like Native credit unions, with the goal of increasing access to financial services for the individuals and communities they serve.

Introduction and background

In 2001, the Community Development Financial Institutions Fund (the "CDFI Fund"), a government corporation within the U.S. Treasury, commissioned the *Native American Lending Study* to examine access and barriers to capital and financial services in Native communities.[9] The study found that 86% of Native communities lacked access to a mainstream financial institution.[10] The study also found that one of the most serious barriers to capital access was the lack of mainstream financial institutions physically present in those communities.[11] The absence of these institutions, typically banks, credit unions, and community loan funds, drives up borrowing costs to the extent that individuals turn to higher cost alternative financial services to meet their needs.[12] The study also identified that a lack of financial knowledge or experience is causing Native Americans and Native Hawaiians to experience difficulty obtaining credit, bank financing, and equity.[13] One of the study's top recommendations to address these challenges was to increase the number of new mainstream financial institutions on or near Native communities.[14]

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[9] U.S. Treasury Community Development Financial Institutions Fund, "The Report of the Native American Lending Study," *U.S. Treasury Community Development Financial Institutions Fund* (November 2001) (hereafter "Native American Lending Study"). This study focused on "Indian Lands and Hawaiian Home Lands," which generally encompass Native communities, *Supra* fn. 7.
[10] Id, p. 30.
[11] Id, p. 5.
[12] Id.
[13] Id, p. 6.
[14] Id, p. 9.

Since 2001, the total number of Native-owned or Native-serving mainstream financial institutions has grown considerably—from less than 40 to nearly 100. The most prolific growth of the new institutions has been Native CDFI loan funds ("NCDFI loan funds").[15] From 2001-2018, the number of NCDFI loan funds jumped from 16 to 65.[16] Growth in the number of new Native banks and credit unions, meanwhile, has been much lower; only one new Native bank (Turtle Mountain State Bank chartered in 2007) and four new Native credit unions (chartered in 2001, 2012, 2013, and 2015) opened their doors in the same period.

New Native American federal credit union charters since 2001

Credit Union	Charter	Location	Members
Lac Courte Orielles Federal Credit Union	2001	Hayward, Wisconsin	1,581
Lakota Federal Credit Union	2012	Kyle, South Dakota	2,404
Northern Eagle Federal Credit Union	2013	Nett Lake, Minnesota	664
Seneca Nation of Indians Federal Credit Union	2015	Irving, New York	1,521

NCDFI loan funds have burgeoned for two primary reasons. First, they have received more advocacy, training resources, as well as more financing from federal, philanthropic, and socially responsible investors, than Native banks and credit unions. Second, by not offering depository services, like checking and savings, NCDFI loan funds are not subject to the federal regulations required to protect deposits, which lowers both their startup and their operational costs.

In 2001, the CDFI Fund held workshops across the country in which participants identified the creation of community development financial institutions ("CDFIs") as the highest priority.[17] While the CDFI industry includes institutions like banks and credit unions, many in the industry

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[15] This paper uses the term "NCDFI loan funds" to describe Native community development loan funds certified as Native CDFIs from the U.S. Treasury Community Development Financial Institutions Fund. CDFIs can include other financial institutions that provide a range of financial products in markets not fully served by traditional financial institutions. *See* Michou Kokodoko, "Growth and Performance of the Native CDFI Loan Fund Sector 2001-2012," *Federal Reserve Bank of Minneapolis* (January 2015), p. 4, fn 5 (hereinafter "Growth and Performance of the Native CDFI Fund Loan Sector").
[16] Id., p. 3, fn 3.
[17] U.S. Treasury Community Development Financial Institutions Fund, "Native American Lending Study," p. 41.

initially adopted a more limited narrow understanding of CDFIs to mean a CDFI Fund-certified loan fund.[18] Based on the study's recommendations, the CDFI Fund launched several initiatives supporting extensive training for over 200 Native communities and organizations interested in establishing NCDFI loan funds.[19] Until fairly recently, banks and credit unions only received 10% of the CDFI Fund's awards.[20] It is important to note that the narrow focus on loan funds in was not the original intent of the CDFI Fund, but some industry analysts saw the CDFI Fund's program, procedures, and application structure as patterned after the practices of non-profit loan funds.[21]

Even with 60 new Native financial institutions, more than 40% of Native people still have limited or no access to mainstream financial services.[22] Native communities continue to regard having a nearby mainstream financial institution as important as having adequate housing and clean water.[23] Expanding the number of mainstream financial institutions remains an important strategy to bring capital access and financial capability in Native communities.[24] This paper provides background on each of the three types of mainstream Native financial institutions and highlights the unique market niche that Native credit unions ("Native CUs") fill in meeting the distinctive needs of low-income and underserved consumers.

The three different paths to meeting financial service needs in Native communities

Credit unions, banks, and loan funds each have institutional structures and service missions that dictate the types of financial services they can offer, and each comes with different startup and

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[18] Clifford Rosenthal, "Credit Unions, Community Development Finance, and The Great Recession," *Federal Reserve Bank of San Francisco Working Paper 2012-01* (February 2012), p. 10, 22 (hereafter "Credit Unions, Community Development Finance").

[19] Kokodoko, "Growth and Performance of the Native CDFI Loan Fund Sector," p. 10

[20] Rosenthal, "Credit Unions, Community Development Finance," p. 19.
In 2015-2018, banks and credit unions comprised less than 30% of all CDFI Fund grants, but their share of the awards continues to rise. *See* www.cdfifund.gov.

[21] CDFI Fund grant and certification applications favored loan funds who could file as 501 © 3 organizations to raise matching funds, serve as non-competing partners for commercial banks under the Community Reinvestment Act, and submit data conforming to the products and services offered by microenterprise loan funds. Clifford Rosenthal, Democratizing Finance: Origins of the Community Development Financial Institutions Movement Victoria, BC, Canada: FriesenPress (2018), pp. 352-353 (hereafter "Democratizing Finance").

[22] Jacqueline Johnson Pata, "Tribal Nations: Ready and Able to Fully Contribute to America's Prosperity," *Office of the Comptroller of the Currency: Community Development Investments* (August 2013).

[23] Native Nations Institute, "Access to Credit and Capital", p. 10.

[24] Id, p. 32

operational costs. Each plays a fundamental role in long-term strategies to address gaps in capital and improve financial conditions in Native communities, but in different ways. The following sections summarize the mission, structure, and industry profile for NCDFI loan funds, Native banks, and Native CUs. The Center for Indian Country Development at the Federal Reserve Bank of Minneapolis also provides an overview of the three industries, as well as each individual institution, through organizational and financial data on each individual Native financial institution (collectively "NAFIs") in a dynamic *Native American Financial Institutions Map*.[25]

NCDFI loan funds

Mission and service

NCDFI loan funds provide financial products and training in underserved areas that lack access to traditional lines of credit.[26] Reflecting this mission, the majority of loan funds are non-profit. Loan funds certified under the CDFI Fund that commit at least 50% of their activities towards serving Native Americans, Alaskan Natives, or Native Hawaiians are considered Native CDFIs or NCDFIs.[27] Most NCDFI loan funds provide Native entrepreneurs with affordable commercial or microbusiness loans. Other important loan products include mortgages and consumer loans. With an average loan of less than $16,000, Native loan funds do not appear to be making many large commercial loans.[28]

The primary difference between loan funds and other mainstream institutions is that they are not depository institutions – they do not offer checking or savings accounts. Lacking deposit accounts, loan funds rely heavily on low-interest rate loans and grants from governments and foundations. Loan funds also receive funding from community development investors, such as

[25] Center for Indian Country Development, Federal Reserve Bank of Minneapolis, Mapping Native American Financial Institutions, (2018).
[26] Community Development, Federal Reserve Bank of Minneapolis, CDFI Resources, (2018).
[27] CDFI Fund eligibility requirements for Native CDFI designation are available at: https://www.cdfifund.gov/programs-training/Programs/native-initiatives/Pages/default.aspx.
[28] First Nations Oweesta Corporation, "Native CDFI Industry Profile 2017," *First Nations Oweesta Corporation* (2017), p. 5.

mainstream banks seeking to meet their obligations under the Community Reinvestment Act (CRA).[29]

Structure

The lack of depository services also influences the organizational structure of NCDFI loan funds. By not offering checking and savings accounts, loan funds are not subject to federal regulatory oversight, which exists, in part, to ensure the safety of a bank or credit union's deposits. As unregulated entities, loan funds report directly to an appointed and voluntary Board of Directors.

Whereas banks and credit unions must submit extensive quarterly financial reports (known as "Call Reports") to their respective regulators, including a balance sheet, income statement, and loan performance data, loan funds are not required to provide public performance reports unless the CDFI Fund awards them a grant (note, however, that NCDFI loan funds are regular recipients of such grants). Loan funds awardees submit annual compliance and financial reports, but the CDFI Fund does not consider these reports as official validation of their financial condition or performance; the financial data are collected solely to evaluate awardees' compliance with their grant agreement. [30] Non-profit loan funds, however, do submit IRS 990 forms, which provide insights into their financial health.

Industry profile

NCDFI loan funds have proliferated in the past twenty years, from 16 in 2001 to 65 in 2018. Their growth in those years was significantly boosted by the CDFI Fund, which provided strong financial and technical assistance to NCDFIs on the grounds that they are a "crucial and underutilized resource." [31]

The 65 NCDFI loan funds represent diverse geographic locations and asset sizes. Non-profit loan funds have nearly $237 million in total assets, with Choctaw Home Finance Corporation

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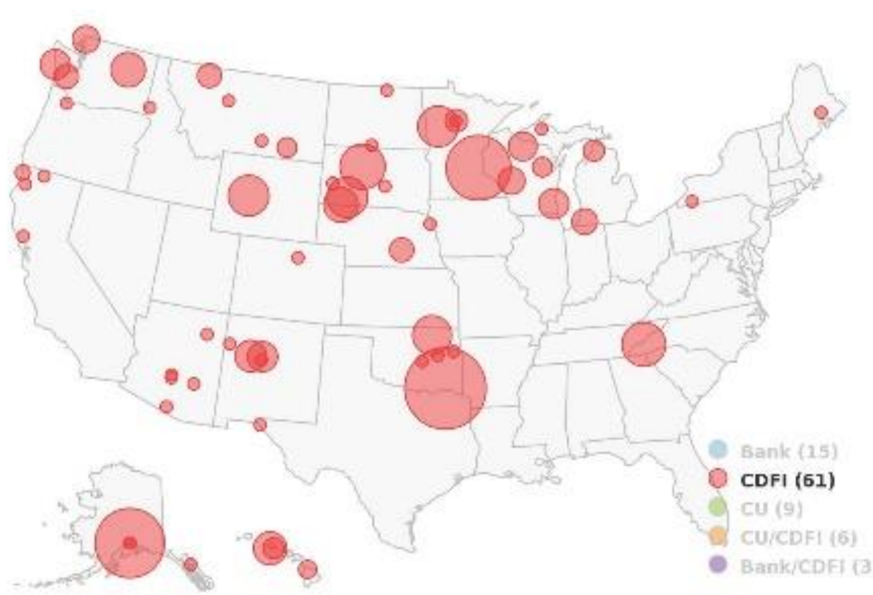
[29] The Community Reinvestment Act of 1977 encourages national banks and federal savings associations to help meet the credit needs of their communities, including low and moderate-income communities. *See* David Black, "Community Development Investments," *Office of the Comptroller of the Currency* (May 2018).
[30] U.S. Treasury Community Development Financial Institutions Fund, "Information About AMIS Compliance and Performance Reporting," *U.S. Treasury Community Development Financial Institutions Fund* (2018).
[31] *Supra* fn 8.

(Oklahoma) as the largest with $34.5 million in assets, and The Alliance CDFI (California) as the smallest with $59,000 in assets.[32] The five largest Native loan funds are doing the majority of the lending.[33] Almost two-thirds operate with under $5 million in assets.[34]

One measure of the financial health of loan funds is their self-sufficiency ratio—the ratio of operating revenue to operating expenses—which indicates their ability to cover losses and invest in growth. According to the CDFI Fund, this ratio should be at least 40%.[35] A recent study from the Federal Reserve Bank of Minneapolis finds that most Native loan funds fell short of that benchmark in all years but one from 2001-2012.[36]

Mapping NCDFI Loan Funds (size of circle represents asset size)



Source: Center for Indian Country Development's Mapping Native American Financial Institutions

[32] *Supra* fn 25. This figure does not include assets of for-profit loan funds, which are not publically reported.
[33] Kokodoko, "Growth and Performance of the Native CDFI Loan Fund Sector*,"* p.16.
[34] Michou Kokodoko, "Findings from the 2017 Native CDFI Survey: Industry Opportunities and Limitations," *Federal Reserve Bank of Minneapolis Working Paper 2017-04* (November 2017), p. 3 (hereafter "Findings from the 2017 Native CDFI Survey").
[35] Kokodoko, "Growth and Performance of the Native CDFI Loan Fund Sector," p. 10
[36] Id.

Native banks

Mission and service

Commercial banks are government-chartered financial institutions authorized to provide a range of depository and lending services that serve individual consumers, corporations, and governments. Of all the NAFIs, banks usually provide the greatest variety of consumer banking products and services, such as checking, savings, debit and credit cards, online banking, mobile banking, and ATMs. Many also offer a wide range of business and commercial loan service and specialized services for large depositors.

Many Native bank charters reflect a commitment to serve the Native people of their service/assessment area. They acknowledge that this responsibility is weighed against an obligation to generate revenue for shareholders and to realize returns on investment.[37] Reflecting their profit-oriented mission, Native banks have an incentive to focus their services on customers making large deposits or seeking large loans. As a result, their lending portfolios are often dominated by larger scale products like mortgage and real estate loans.[38] Some Native banks, such as Native American Bank, N.A., also offer large commercial loans. All Native banks offer smaller consumer loans, but most report consumer loans as making up less than 10% of all their overall lending activity.

Most Native banks have "Outstanding" ratings under the CRA, a 1977 Congressional mandate for banks to serve the credit needs of low- and moderate-income communities.[39] By comparison, fewer than 10% of all commercial banks score a rating of "Outstanding."[40]

Interestingly, while Native banks score high on measures of social responsibility, they generally do not operate in largely Native markets. Many Native banks are located in areas with low percentages of Native American residents, typically in markets with Native Americans making up just 1% of the population.[41] In a recent study on the ownership effect of Native banks, Joanie Buckley and Robert Kashian show that on average tribally-owned banks are operating in markets

[37] Joanie Buckley and Russell Kashian, "Ownership Effects among Native American Banks, 2001-2016" *Applied Economics* Volume (2019) 51:2, pp. 85-98 (hereinafter "Ownership Effects among Native American Banks").
[38] *Supra* fn 25.
[39] *Supra* fn 37, p. 108. Credit unions and loan funds are not evaluated under CRA.
[40] Id.
[41] Id., p. 76.

with only 3% Native Americans, and banks owned by individual tribal members are in areas with only 14% Native Americans.[42]

SIDEBAR: The stated mission of Bay Bank, owned by the Oneida Nation of Wisconsin, is to serve the Native communities in and around Green Bay. According to its president, Jeff Bowman, 95% of Bay Bank's consumer lending activity (auto loans, small-dollar loans, etc.) supports tribal members. However, consumer lending is only 10% of the bank's total lending, which includes mortgage and commercial lending. Bowman believes the bank could not be profitable serving only one demographic.[43]

Structure

The Federal Deposit Insurance Corporation (FDIC) defines Native banks as those with either 51% voting stock held by Native Americans or where the Board of Directors is majority Native American.[44] That is, banks are considered Native based on their ownership, not who they serve. Of the 18 Native banks, half are tribally-owned and half are owned by individual tribal members or by a group of tribal members as stockholders.[45]

Banks are supervised and regulated by a combination of state and federal authorities, including the FDIC, the Office of the Comptroller of the Currency, and the Federal Reserve System. The FDIC insures bank deposits up to statutory limits of $250,000.[46]

Industry profile

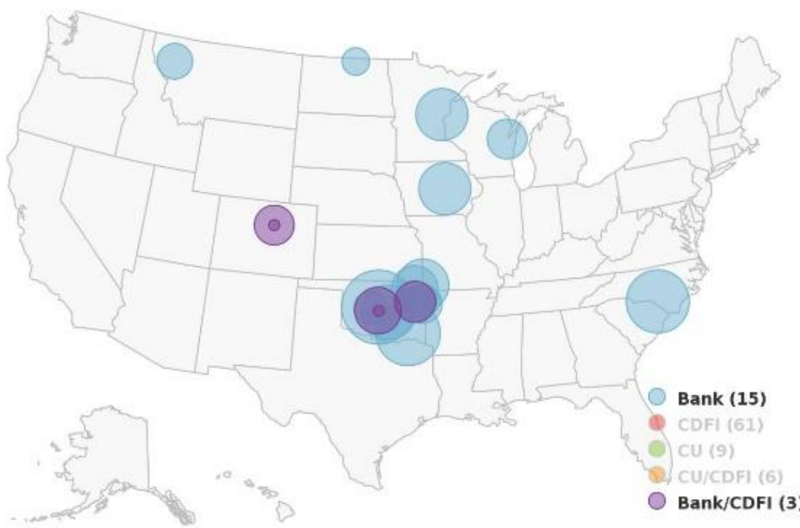
Ten of the 18 Native banks are located in Oklahoma. Combined, Native banks represent a nearly $3 billion industry, with the F&M Bank (Oklahoma) as the largest with assets of $450 million and Turtle Mountain State Bank (North Dakota) as the smallest with assets of $30 million.[47] The

[42] Id.
[43] Id., p. 31.
[44] Buckley and Kashian, "Ownership Effects among Native American Banks," p. 22.
[45] *Supra* fn 25.
[46] The standard deposit insurance amount is $250,000 per depositor, per FDIC-insured bank, per ownership category. *See* Federal Deposit Insurance Corporation, "Deposit Insurance FAQs," *Federal Deposit Insurance Corporation* (2018).
[47] *Supra* fn 25.

average size Native bank is $158 million in total assets.[48] Three Native banks are also certified NCDFIs: Native American Bank, N.A., Bank2, and Bank of Cherokee County.

One important indicator of a bank's financial health is its capital strength, measured by its tier 1 capital, which includes retained earnings. This financial ratio (equity capital and reserves to risk-weighted assets) measures a bank's ability to absorb losses and protect shareholders in the event of insolvency. A bank is considered well capitalized if it has a tier 1 capital of 8% or higher.[49] A recent report by the Federal Reserve Board of Governors' Partnership for Progress initiative finds that Native banks average well above 10% capital.[50] In addition, FDIC data show that all Native American banks were profitable over the last year and more than 80% had earnings gains.[51]

Mapping Native Banks (size of circle represents asset size)



Source: Center for Indian Country Development's Mapping Native American Financial Institutions

[48] Native bank industry profiles shared by Betty Rudolph, National Director Minority Depository Institutions (MDIs) and CDFIs, FDIC, at *A Convening of Native American Financial Institutions*, Polson, MT (August 27, 2018), Center for Indian Country Development at the Federal Reserve Bank of Minneapolis and Federal Reserve Board of Governors.
[49] Federal Deposit Insurance Corporation, "Risk Management Manual of Examination Policies: Capital," *Federal Deposit Insurance Corporation* (2015), p. 2.1-8.
[50] For a table of financial performance ratios for Native American banks, *see* Federal Reserve Board of Governors Partnership for Progress Peer Data as of December 31, 2016, *Federal Reserve Board of Governors* (2017).
[51] *Supra* fn 48.

Native CUs

Mission and service

The primary mission of Native CUs, like all credit unions, is to promote thrift and savings. The National Credit Union Administration (NCUA) incorporates serving the underserved as part of the mission of all federal credit unions and devotes resources to serving these communities.[52] Organized for this purpose, Native CUs tailor their products and services to low-income and underserved consumers. As an illustration, Native CU members have much lower savings balances—on average, $2,500—than members at all credit unions of a similar size--$5,500 per member according to March 2018 Call Report data.[53]

Native CUs provide savings accounts and some offer checking accounts, although not are able to provide the full range banking services. Of the newer NCDFI charters, only Lakota Federal Credit Union (FCU) offers checking accounts. Consumer loans, particularly auto loans, are the primary source of revenue for Native CUs. More than 60% of the loan portfolios for most Native CUs are auto loans.[54] Only three of the 14 Native CUs offer mortgage or real estate loans and only one makes commercial loans.

Structure

Native CUs are non-profit, government chartered financial institutions. Regulated and insured by the NCUA, Native CUs are defined as those serving at least a 50% Native membership.[55] Unlike banks and loan funds, credit unions limit service to a field of membership, defined by either a geographical community or a specific group (reservations and tribal affiliations are two examples). For example, the community charter of the Lakota FCU requires it to serve the entire Pine Ridge Reservation, including non-Native residents. The Northern Eagle FCU and Seneca Nation of Indians FCU are the only two Native CUs that serve all tribal members regardless of

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[52] NCUA Credit Union Resources and Expansion, "Serving the Underserved." *National Credit Union Administration* (November 2018).

[53] Analysis of National Credit Union Administration quarterly financial call report data for the 14 Native CUs (March 2018). For individual credit union call reports, *see* www.ncua.gov/ResearchCreditUnion.aspx. (hereafter "Analysis of NCUA March 2018 call reports").

[54] Id.

[55] National Credit Union Administration, "National Credit Union Administration Credit Union Profile Form 4501 A Instructions," *National Credit Union Administration* (September 2017), p. 19.

where they live. Northern Eagle generates about 15% of its loan activity from off-reservation tribal members.

Credit unions operate under cooperative ownership; all members serve as shareholders, each with equal voting rights and power in decisions relating to policy, lending, products, and member service. Each member has one voting share, regardless of his or her account balance or "shareholdings." A member with a $5 share balance has the same voting right as a member with a $100,000 share balance. Members use their vote to elect the Board of Directors at annual member meetings, where they also provide management with feedback and recommendations on operations and services.

Among financial institutions, this egalitarian structure and ownership model is unique to credit unions. It encourages community involvement and creates an incentive for credit union management to be responsive to the needs of their most typical members, who are often from households of modest means. Moreover, this mode of operation also creates an extra social incentive for member borrowers to repay their loans. Members tend to see themselves as not just borrowing funds from an institution but rather as borrowing from their family, friends, and neighbors.

Industry profile

According to March 2018 NCUA Call Reports, there are 14 Native CUs with a combined asset base of $301 million, with First American Credit Union (Arizona) as the largest at $84 million and Northern Eagle FCU (Minnesota) as the smallest at $995,000.[56] The average asset size of Native CUs is $21.5 million. *See* Appendix A for a summary of Native CUs, including their membership size, asset size, total loans, delinquency, and net worth. Six Native CUs are certified CDFI: Choctaw FCU, Hawaii First FCU, Lakota FCU, Molokai FCU, Northern Eagle FCU, and White Earth FCU.

In the last ten years, nearly all Native CUs grew in total assets.[57] However, not all grew in membership—some Native CUs saw an increase in new members, while others stagnated or lost

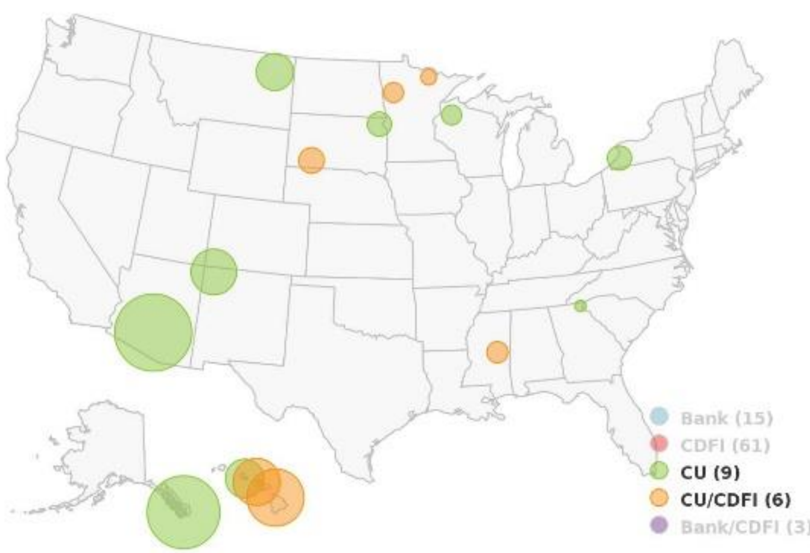
[56] *Supra* fn 53.
[57] Id.

members. As of 2018, Native CUs serve more than 57,000 members, primarily in low-income and underserved areas.[58]

Native CUs have above-average net worth, averaging 14.24% compared to an industry average of 10.96%.[59] Representing earnings from current and previous periods as a percentage of total assets, higher levels of net worth indicate greater ability survive difficult periods.

Only three new Native CU charters have been issued since 2001 (prior to that, the only new charter in nearly 30 years was Lac Courte Orielles FCU in 2001). The slow pace of growth is likely due to a combination of factors, including comparatively low levels of advocacy and support and industry challenges shared by other small, rural financial institutions.[60] Nevertheless, Native CUs fulfill a unique role and, with long-term investments and support from sponsoring entities and other funders, they could profilerate in the same manner as NCDFI loan funds.

Mapping Native Credit Unions (size of circle represents asset size)



Source: Center for Indian Country Development's Mapping Native American Financial Institutions

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[58] Id. All Native CUs, with the exception of Local 1186 FCU, have NCUA Low-Income Designation. Low-Income Designation applies to credit unions operating in service areas where a majority of its membership is below the area median household income. For more on Low-Income Designation, *see* NCUA "Maximizing the Low-Income Designation," *National Credit Union Administration* (February 2015).

[59] Id. The capital cushion appears high for newer Native CUs, but that is because they operate with additional capital from grants and or sponsor subsidies.

[60] Credit Union National Association (CUNA)'s Small Credit Union Committee listed four barriers to success for small credit unions: obtaining talented staff, adding members, lack of collaboration, and lack of a service niche. *See* Teri Robinson, "Inspiring Small Credit Unions: Serve Your Members First," *Credit Union Times* (February 2019).

Institutional Comparison:

Native CUs, Native banks, and NCDFI loan funds

	Credit Unions	Banks	NCDFI loan funds
Business model and ownership	Non-profit and tax-exempt institutions owned by their membership. Members are shareholders, each with one share of ownership.	For-profit institutions owned by shareholders. Pay federal taxes at the corporate rate and state taxes based on the local jurisdiction.	Both non-profit and for-profit institutions.
Criteria for Native status	At least 50% of membership is Native American.	*At least 51% of voting stock is held by Native Americans or the Board of Directors is majority Native American. A tribe or individual tribal members can own a Native bank.	At least 50% of lending and development services must serve Native Americans.
Field of Service	Serve their members within a defined territory, typically reservation boundaries, or through tribal affiliation.	Serve anyone in the general public.	Serve anyone in the general public.
Regulator	**Deposits federally insured and regulated by the National Credit Union Administration.	** Deposits federally insured by the FDIC and regulated by either the FDIC, Office of the Comptroller of the Currency, or the Federal Reserve System.	Report activities to the U.S. Treasury CDFI Fund but are not federally regulated. May be subject to state regulations.
Products and Services	Depository and lending services, with a high concentration of consumer loans. Most offer financial education and credit counseling.	Depository and lending services, with a high concentration in mortgages and real estate. Some may offer financial education and credit counseling.	Lending services, with a concentration in microenterprise loans. Most offer financial education, credit counseling, and technical assistance for businesses.
Governance	Members elect a Board of Directors from among their membership to represent their interests. Board members serve on a volunteer basis.	Paid Board of Directors that represent the owners' interests.	Board of Directors are appointed and serve on a volunteer basis; must demonstrate community representation on the Board of Directors.
Lending Capital	Member deposits, non-member deposits, grants, and low-interest loans.	Deposits and low-interest loans.	Grants and low-interest loans.
Profits	Profits are returned to members in the form of dividends or held as retained earnings to build capital. ***Profits are usually converted to higher dividend rates, lower interest loans, and reduced fees as compared to banks.	Profits are returned to stockholders in the form of dividends or held as retained earnings to build capital.	Profits are often returned to the community in form of low interest loans and expanded services or held as retained earnings to build capital.

*Half (9) are tribally-owned; half (9) are owned by individual tribal members.
**One Native bank and one Native credit union operate under state charters.
***As tax-exempt institutions, credit unions are able to return larger percentages of their earnings to their membership.

The next section demonstrates that Native CUs fill an important market niche among these three types of mainstream NAFIs.

Native CUs fill a unique financial niche in most Native communities

According to the 2016 Financial Industry Regulatory Authority (FINRA) study, "Race and Financial Capability in America: Understanding the Native American Experience," Native Americans report the lowest levels of financial capability among all consumers.[61] This includes less liquidity, fewer savings accounts and credit cards, and generally less experience with and knowledge of matters of personal finance. Native Americans also report comparatively high usage of expensive alternative financial services, mainly pawnshops and payday loans.; nearly 40% of Native Americans reported use of one or more types of high-cost borrowing within the last five years of the study.[62]

These findings, combined with the earlier stated high proportions of unbanked and underbanked Native people, demonstrate the continued need for greater access to affordable financial services in Native communities. Research cited in The Urban Institute's U.S. Partnership on Mobility from Poverty further finds that in areas where there are more banks or credit unions versus alternative financial service providers, low-income households have 30% more in financial assets (like a home).[63] The Partnership cites financial access through depository institutions as a major factor enabling consumers to save, buy a car or home, and start a business— all of which facilitate finding employment and accumulating wealth.

The community-focused model of credit unions uniquely situates Native CUs between Native banks and NCDFI loan funds in terms of the provision of products, services, and operations that efficiently target the financial needs of most Native communities.

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[61] Dewees and Mottola, "Race and Financial Capability in America," pp. 4, 6, 8, 9, 10.
[62] Id., p. 8
[63] William J. Bynum, Diana Elliot, and Edward Sivak, "Opening Mobility Pathways by Closing the Financial Services Gap," *The Urban Institute: U.S. Partnership on Mobility from Poverty* (February 2018), p. 7, fn 32 (hereafter William J. Bynum, et al., "Closing the Financial Services Gap").

<u>Products and Services</u>

Native CUs provide a tailored array of consumer financial services at low cost

All NAFIs are part of long-term solutions to the problems relating to low capital access and financial capability in Native communities. However, for meeting the immediate needs of low- and moderate-income consumers with limited financial experience and access, Native CUs offer an especially well-targeted combination of the best features of Native banks and NCDFI loan funds. In keeping with their mission to promote thrift and savings among the financially underserved, Native CUs generally provide more comprehensive products and services than NCDFI loan funds and offer them more inexpensively than Native banks.

The following table compares the types of products and services typically offered by most banks, credit unions, and loan funds—and indicates whether the products are primary or secondary business lines of the institution. For example, some CDFI loan funds offer small-dollar consumer loans, but these loans are only a small part of their overall business industry-wide. The table further shows that Native CUs and Native banks certified as NCDFIs through the CDFI Fund typically offer more products and services focused on building consumer financial capability.

Financial Services Typically Offered by Mainstream Financial Institutions

(P = Primary business line; S = Secondary business line; N = Not offered or limited availability)

	CU	Bank	CDFI loan fund	CDFI-CU	CDFI-Bank
Checking accounts	P	P	N	P	P
Savings accounts	P	P	N	P	P
Small-dollar consumer loans	P	S	S	P	S
Credit builder loans	P	N	S	P	S
Vehicle loans	P	S	S	P	S
Other consumer loans	P	S	S	P	S
Mortgage loans	S	P	S	S	P
Commercial loans	S	P	P	P	P
Microenterprise loans	S	S	P	P	P
Financial education	P	N	P	P	P
Credit counseling	P	N	P	P	P
Technical assistance for business-owners	N	N	P	S	P

The table demonstrates that credit unions, especially those certified as CDFIs, offer the broadest array of products and services focused on the individual needs of low-income and underserved consumers. Some Native banks and NCDFI loan funds do offer consumer-focused products—in fact, the 2017 Native CDFI Network survey reports that half of NCDFI loan funds offer "emergency" and small dollar loans, but they are not typically part of their primary business line.[64]

[64] Native CDFI Network, "Native CDFI Survey Results," *Native CDFI Network* (2017).

The table does not address the comparative costs of these specific product and services. As unregulated financial institutions, CDFI loan funds do not routinely provide publicly reported data on the interest rates and fees attached to their products. However, comparisons can be made between banks and credit unions. As non-profit financial institutions, credit unions are not subject to corporate income tax and typically return profits to members through lower rates and fees and higher rates of returns on savings accounts (including certificates of deposit). Since banks are taxed and return profits directly to shareholders, they typically charge higher interest and fees. For example, in March 2018 the NCUA estimated that the average cost of a new auto loan of $25,000 over four years was 2.89% at credit unions and 4.68% at banks.[65]

In studying the ownership effect of Native banks, Buckley and Kashian tested the hypothesis that tribally-owned Native banks can match Native CUs in the cost of their financial services—or at least can be less expensive than their non-Native counterparts. They reasoned that many Native banks state that the reason for their original charter was to serve their respective Native communities, suggesting a service mission that may align with lower interest and fees. However, the authors found that Native banks tend to charge interest rates and fees that are similar to those of non-Native commercial banks.[66]

Native CUs offer low or no cost checking and savings, while Native banks have account requirements and fee structures similar to those of other commercial banks. Native CUs generally have lower account balance requirements than Native banks. A look at the public websites of Native banks shows that most require a minimum checking account balance of $100, compared to $5 to $50 at Native CUs. Native banks also typically charge higher overdraft and insufficient funds fees than Native CUs. These fees have been shown to disproportionately affect low-income and underserved consumers, who are more likely to overspend their accounts than more financially secure consumers. Nationwide, 18% of financially vulnerable accountholders pay more than 90% of all overdraft and insufficient funds penalties.[67]

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[65] National Credit Union Administration, "Comparison of Average Savings, Deposits and Loan Rates at Credit Unions (CUs) and Banks," *National Credit Union Administration* (March 2018).
[66] Buckley and Kashian, "Ownership Effects among Native American Banks," p. 74.
[67] Pew Charitable Trusts, "Consumers Need Protection from Excessive Overdraft Costs," *Pew Charitable Trusts* (December 2016), fn 11.

Native CUs offer financial education and counseling in tandem with their products, thereby raising the financial capability of community members.[68] For example, in recent member surveys, more than 30% of members at both Northern Eagle FCU and Lakota FCU said they had used a new financial product or service for the first time. In addition, more than 66% of Northern Eagle FCU's members and over 30% of Lakota FCU's members said they had saved more money since the credit unions opened. While more data is needed to document the full impact of all Native CUs, these surveys help substantiate the potential of Native CUs for improving financial access and capability in Native communities.

With their community-aligned governance structure and service mission, Native CUs also have flexibility to employ creative underwriting practices to meet the distinct needs of Native communities, particularly underbanked consumers, while maintaining proper risk mitigation to meet federal compliance standards. For example, Tongass FCU has a branch on the island of the Metlakatla Indian Community in Alaska, which is accessible only by plane or ferry. They offer a "Fresh Start Program" that steps underbanked members into checking accounts and credit cards by starting with creation of savings to secure against potential losses. Since employment in Metlakatla is often seasonal and based on a fishing economy, the credit union also allows borrowers to submit fish tickets as alternative proof of income when applying for commercial loans to purchase fishing vessels.[69]

Northern Eagle FCU serves members with imperfect credit by fully securing small consumer loans through tribal per capita distributions that tribal members receive through treaty agreements.[70] Underbanked tribal members gain affordable access to emergency loans, and the credit union safeguards its assets from any potential loss of nonpayment. The credit union also works with the Bois Forte Tribal Government's payroll department to implement employee withholdings for loan repayments in order to reduce delinquency and default on its loans.

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[68] *Supra* fn 5.

[69] Phone interview with Helen Mickel CEO of Tongass Federal Credit Union. April 3, 2018

Fish tickets document the harvest of fish and shellfish sold, discarded, or retained by the fisherman for personal use. All licensed processors must fill out a fish ticket for each landing from a fishing permit holder. Fish tickets are a record of purchase between the processors (or buyers) and the fishermen.

[70] Per capita payments are disbursements some federally recognized tribal members receive and represent funds held in trust by both federal and state governments for treaty obligations, including extraction of natural resources or usage of land. A small number of tribes with gaming revenues have regular per capita distributions.

These examples illustrate the advantages Native CUs have over many other smaller financial institutions in filling a largely unmet market niche. The Credit Union National Association points out that cultivating this type of market niche is one of the key ingredients for success for small credit unions looking to become sustainable and grow their operations. Through flexible underwriting and tailored products, Native CUs can build a consumer base that can later support more advanced loan products, such as mortgages or commercial loans.

SIDEBAR: In the experience of David Fleming, former CEO of Lac Courte Orielles FCU, Native CU products and services stem the flight of savings and capital off the reservation seen in many Native communities. "Let's not overlook this simple, but impactful role."[71]

Native CUs offer consumers more options to high-cost alternative financial services

The most convenient financial services options available to many Native people are expensive non-mainstream products like check cashing services and payday loans, typically found off the reservation.[72] The FINRA study found that half of Native American adults under 35 had accessed some form of alternative financial services in 2015.[73] Most of these reported accessing pawnshops, though nearly 40% had used more than one form of alternative financial services in the last five years, including payday loans and check cashing services. The cost of these financial services can heavily burden low-income and underserved Native households who often turn to these more expensive alternatives because they lack access to mainstream financial institutions and the financial education to compare the cost benefits of different product options, or they believe they would not qualify for services elsewhere.[74] In addition to financial education, Native CUs offer affordable check cashing and credit options to low-income and credit-constrained consumers who would otherwise have few options.

The cost of alternative services can be substantial. Check cashing services vary in cost because states have different interest rate caps for non-regulated financial service providers, but the most

[71] Interview with David Fleming, former CEO of Lac Courte Orielles FCU (April 6, 2018).
[72] First Nations Development Institute, "Borrowing Trouble: Predatory Lending in Native American Communities," *First Nations Development Institute* (2008), p 4. This study has not been updated since 2008.
[73] Dewees and Mottola, "Race and Financial Capability in America," p. 13. The study included a nationally representative survey sample of 600 Native American respondents.
[74] Id., pp. 27-29.

expensive can charge up to 15%.[75] When used to cash paychecks, this fee can amount to thousands of dollars a year and impose a major financial hardship for income-insecure households. The average unbanked American spends 5% of his or her net income on these fees, which amounts to $40,000 over the course of his or her working years.[76]

Payday loans are short-term, small-dollar loans with repayment terms that often exceed 400% APR.[77] Borrowers who are unable to repay within the required timeframe find themselves in a vicious cycle of escalating costs and rigid penalties. A $500 loan under a scenario of 400% APR with a two-week term, renewed only once, would incur a borrowing cost of $150 for a four-week period.[78] Many borrowers rollover their loan multiple times. The same $500 loan would cost $1,000 over a three-month period.

To prevent borrowers from becoming trapped in a payday loan debt cycle, Native CUs with NCUA Low-Income Designation are eligible to offer payday alternative loans (PALS) through a 2010 rule by NCUA to help curb predatory lending in underserved communities.[79] With interest capped at 28% and six-month terms, the cost of a $500 PAL is only $25. Currently only four Native CUs offer PALS: Tongass FCU, Four Corners FCU, Northern Eagle FCU, and White Earth FCU. However, eight other Native CUs are eligible to begin offering them.

By offering low or no cost checking and savings accounts and financing small-dollar short-term loans, Native CUs are a proven approach to meeting the need in underserved communities for affordable services. They are addressing the credit needs of Native consumers with modest income, as well as those who are credit constrained and would otherwise rely on high-cost payday loans. Industry profiles demonstrate that Native banks and NCDFI loan funds either do not offer or do not focus on similar products. When available, the comparative services at Native banks are usually at higher cost than Native CUs.

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[75] Jean Ann Fox and Patrick Woodall, "Cashed Out: Consumers Pay Steep Premium to Bank at Check Cashing Outlets," *Consumer Federation of America* (November 2006), p. 7.
[76] William J. Bynum, et al., "Closing the Financial Services Gap," p. 3, fn 3.
[77] Marianne Bertrand and Adair Morse, "Information Disclosure, Cognitive Biases, and Payday Borrowing," *Journal of Finance* (December 2011), Volume 116:6, p. 2.
[78] Consumer Financial Protection Bureau, "What are the costs for a payday loan?" *Consumer Financial Protection Bureau* (June 2017).
[79] National Credit Union Administration, "NCUA Regulatory Alert NO-10-RA-13", *National Credit Union Administration* (October 2010). Eligible FCUs can offer loans short-term loans up to $1,000 with a payback period of 6 months, application fees not to exceed $20, and interest not to exceed 28%.

In summary, Native CUs are a well-targeted option for meeting the financial needs of many Native communities. We turn now to their capitalization requirements, operational costs, and profitability, comparing them to Native banks and NCDFI loan funds.

Operations

Regulation drives up startup and operations costs

The funding needed to start and sustain a credit union today tends to be higher than that for CDFI loan funds, but lower than that for banks. Ten years ago, the NCUA estimated startup costs for a basic service credit union charter as low as $50,000.[80] However, newer charters like Northern Eagle FCU, Lakota FCU, and Seneca Nation of Indians FCU report an average of $200,000 in startup capital. In contrast, because NCDFI loan funds do not have minimum capital requirements because they are not federally regulated, some are able to open with only $50,000.[81] Native banks have always had higher capital requirements and operational costs than Native CUs. The standard baseline for a bank charter before the financial crisis of 2008 was said to be $5-10 million and is significantly higher now.[82]

The cost of doing business has risen exponentially in the last 30 years for banks and credit unions, because of both technological advances and compliance.[83] Over the last ten years, these rising costs have contributed to a dramatic decrease in the number of regulated financial institutions—usually smaller institutions, including at least one Native CU.[84] Additionally, the

80 NCUA Office of Small Credit Union Initiatives, "Estimated Start-up and Operating Costs in Chartering a Credit Union," *National Credit Union Administration* (2009), p. 5.
81 First Nations Oweesta Corporation, "Establishing a Successful Native CDFI," *First Nations Oweesta Corporation* at the National Summit on Emerging Tribal Economies (2002).
Inquiries for updated data on capitalization costs from First Nations Oweesta Corporation, the CDFI Fund, and Opportunity Finance Network did not yield any results.
82 BankBeat, "FDIC offers guidance on capital, application process," Bank Beat (June 2017).
83 The federal regulatory response to the Great Recession of 2008 was a series of stringent financial regulations that greatly increase compliance costs and managerial time, burdening smaller financial institutions less able to bear these fixed costs. Robin Greenwood, Samuel G. Hanson, Jeremy C. Stein, and Adi Sunderam, "The Financial Regulatory Reform Agenda in 2017," *Harvard University* (February 2017), p. 3.
84 Id.
The former Chippewa Eagle Federal Credit Union, serving the Saginaw Chippewa Tribe in Michigan, merged with Isabella Federal Credit Union in 2013. *See* Mark Razenburger, "Chippewa Eagle, ICC to Merge May 31," Morning Sun News (May 2013).

Great Recession produced stringent financial regulations that increased the capital requirements needed to charter new financial institutions, particularly banks.[85]

Against the backdrop of rising costs of technology and compliance, Native CUs continue to be betweeen Native banks and NCDFI loan funds in their ability to raise startup capital and sustain operations. However, the funding landscape has changed significantly for Native CUs in recent years.

Thirty years ago, it was relatively simple and inexpensive to charter and operate small credit unions. There were no minimum net worth requirements and credit unions were able to sustain operations with savings account liabilities and small consumer loan liabilities. Even into the 1990s, smaller credit unions ran without computer systems, using paper account ledgers.[86] Since the Great Recession in 2008, however, operational costs skyrocketed with a slate of new regulations and demand for modern financial technology.

At the height of their growth in the 1970s, there were 13,000 federally chartered credit unions. Today, there are fewer than 3,300. In the last five years, there have been over 1,000 credit union mergers.[87] Nevertheless, the credit union industry continues to see gains in the percentage of market share in total members, assets, deposits, and loans.[88]

The rising cost of operations places particular strain on smaller credit unions, including Native CUs. Since the Great Recession, credit unions have added staff to meet new federal regulations—as much as 74% of additional costs of operating a credit union are in staffing to meet the new compliance standards.[89] The fixed costs of compliance disproportionately fall on small financial institutions that operate with smaller revenue margins to begin with.[90] Rising costs also presents a real challenge to new startup institutions, especially those operating in underserved areas, like Native CUs. According to Mark Cummins, CEO of Minnesota's credit

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[85] Id.

[86] "These little Native CUs are like bumblebees. Scientists say they can't fly, but yet they do. Some small credit unions are operating without IT systems, but they still work, because they are trusted in their communities." Interview with Brian Gately, former NCUA examiner and chartering specialist with the National Federation of Community Development Credit Unions (March 23, 2018).

[87] Maya Neuman, "Credit Union Mergers in 2017." *CreditUnions.com* (2017).

[88] CUNA Economics & Statistics, "U.S. Credit Union Profile," *Credit Union National Association* (September 2018).

[89] Credit Union National Association, "CUNA Regulatory Burden Financial Impact Study," Credit Union National Association (2017).

[90] Id.

union trade association, the revenues of a new credit union are largely spent on compliance, "What is left over can be used to build a business for the future."[91] Without a sponsor for long-term investment, regulations will significantly constrain their pace of growth.

Sustainability

Sustainability is a challenge for all financial institutions, but particularly for newer Native CUs and NCDFI loan funds that typically operate on thin margins for their first five to ten years of operation.[92] On the other hand, Native banks have larger returns on assets and do not require donated income or subsidies to fund their operations. The more financially mature Native CUs chartered before 2001 are now also in a position to operate unsubsidized.[93]

Lending is the primary means for all mainstream financial institutions to generate income, grow their operations, and achieve long-term sustainability. Therefore, obtaining funds to lend is critical to sustainability. NCDFI loan funds report that this is their leading challenge because they do not have deposits.[94] Unlike Native CUs and banks, many NCDFI loan funds rely primarily on the CDFI Fund for lending capital, and many are underleveraged, constraining their ability to generate income. Further, demand for CDFI Fund awards is far outpacing funding availability, jeopardizing the future growth and viability of NCDFI loan funds.[95]

Native CUs with NCUA Low-Income Designation have a sustainability advantage because they accept deposits beyond their membership, which provides additional funds to make loans and generate income.[96] With the ability to accept non-member deposits, Native CUs have been able to keep pace with the loan demand in their communities, while half of NCDFI loan funds report an inability to meet loan demand.[97]

Managerial expertise is another critical factor to the sustainability of all NAFIs, and here again Native CUs occupy the middle ground. Federal regulators perform extensive background checks

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[91] Interview with Mark Cummins, CEO of Minnesota Credit Union Network (April 22, 2018).
[92] In 2018, both Seneca Nation of Indians FCU and Lakota FCU have almost reached a break-even point – remarkable for any new credit union under five years old.
[93] *Supra* fn 53.
[94] Kokodoko, "Findings from the 2017 Native CDFI Survey," p. 2.
[95] Id.
[96] *Supra* fn 53. Due to constraints in income and financial capability, most Native CUs members are "borrowers, not savers," so additional deposits are needed to make loans in Native communities.
[97] Kokodoko, "Growth and Performance of the Native CDFI Loan Fund Sector," p. 16

on both bank and credit union executives, requiring impeccable credit standing and financial acumen. Native bank presidents typically have decades of banking experience and advanced degrees in business and accounting.[98] Native CU executives tend to come from a variety of fields, including education and social work. While similar credentials are beneficial for NCDFI loan fund officers, there is no regulatory oversight of their credentials to serve. Of course, building a pipeline of Native financial professionals is critical to the sustainability of all NAFIs because strong and capable leaders set the vision and strategy needed to meet operational challenges, and to direct future growth in the context of the unique needs and characteristics of Native communities.

Conclusion – The potential of Native CUs for meeting the financial needs of Native communities

The future for Native CUs is unknown, but they will is continue to plan an important role as a middle path in serving the financial needs of Native communities

Native CUs, occupying in several ways a middle path between Native banks and NCDFI loan funds in the implementation of financial services in Native communities, have expanded only modestly since 2001. However, their community-focused governance structure and mission positions them as an important option for improving financial outcomes in Native communities, especially those with higher proportions of low-income and underserved populations. There is a strong relationship between low access to financial services and lack of upward economic mobility. [99] By helping to close financial services gaps, Native CUs are increasing mobility, and facilitating greater levels of homeownership and small business development in Native communities.

New Native CUs report a high percentage of first-time accountholders, demonstrating their capacity to shrink the ranks of unbanked and underbanked Native Americans. Member surveys from Northern Eagle FCU and Lakota FCU, for example, indicate that more than 30% of their members opened a checking or savings account for the first time in their lives. The intensive

[98] Interview with Joanie Buckley, Internal Services Director of the Oneida Nation and co-author of "Ownership Effects among Native banks," (December 18, 2018).
[99] William J. Bynum, et al., "Closing the Financial Services Gap," p. 6.

credit building services and financial education offered by Native CUs also play a critical role in building the financial capability of Native consumers.

Native CUs currently serve more than 57,000 members in underserved, low-income, and remote areas, but they have significant potential to expand further and new resources to assist them in doing so. Native CUs now have access to support from the NCUA's recently launched Office of Credit Union Resources and Expansion (CURE). CURE opened in early 2018 with a mission to support credit unions in every aspect of development, including chartering. On August 27, 2018, CURE Director, Martha Ninichuk, publicly pledged support for expanding existing and new Native CUs at a gathering of Native financial institutions.[100]

While Native CUs currently represent less than 10% of all Native CDFIs, in 2018, former CDFI Fund Director Annie Donovan offered technical assistance for any Native CU seeking CDFI certification. Certification offers greater access to operating funds, secondary capital, and other resources to expand or add new products. In past years, the CDFI Fund trained more than 200 Native communities interested in developing NCDFI loan funds, as well as provided ongoing training and coaching for leaders and staff.[101] Other industry suggestions for the CDFI Fund include allowing grant awards to be used as a source of startup capital for Native CUs and providing advance financial commitments to credit unions operating in low-income communities, which are required in the NCUA's chartering process.[102]

The U.S. Partnership on Mobility from Poverty, with funding from the Bill & Melinda Gates Foundation, envisions a stronger role for philanthropy in supporting the expansion and capacity building of CDFIs in distressed areas, including Native communities. This group would include Native CUs certified through the CDFI Fund. In a 2018 proposal, the Partnership recommended a national foundation to pool $1 billion for CDFIs with successful operations, which was estimated to have a leveraged value of $10 billion.[103]

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[100] Martha Ninichuk, Director NCUA Credit Union Resources and Expansion, at *A Convening of Native American Financial Institutions*, Polson, MT (August 27, 2018), Center for Indian Country Development at the Federal Reserve Bank of Minneapolis and Federal Reserve Board of Governors.
[101] Kokodoko, "Growth and Performance of Native Loan Fund Sector," p. 8.
[102] Interview with Clifford Rosenthal, former CEO of the National Federation of Community Development Credit Unions (April 24, 2018).
[103] William J. Bynum, et al., "Closing the Financial Services Gap," p. 11.

The kind of resources and support described above will prove vital to the expansion and development of Native CUs—and with it, they may even experience a boom of their own. In the last five years, half of the new federal charters across the entire U.S. have been in Native communities: Lakota FCU – Pine Ridge Reservation, South Dakota; Northern Eagle FCU – Bois Forte Reservation, Minnesota; Seneca Nation of Indians FCU—Seneca Reservation, New York. This momentum is continuing in a new chartering effort in Lame Deer, Montana with the proposed MorningStar FCU to serve the Northern Cheyenne and Crow communities.[104]

Lastly, the hope is that tribes and other Native organizations interested in Native CUs as a community-centric model will support them through long-term investments until they reach self-sufficiency because they are an important part of a long-term strategy to build the financial well-being of Native communities.

[104] MorningStar is sponsored by People's Partner for Community Development, a Native CDFI with the mission to, "provide financial opportunities to stimulate economic development on the Northern Cheyenne Indian Reservation by promoting self-sufficiency, self-determination and an enhanced quality of life for the reservation communities." Interview with Brian Gately, former NCUA examiner and chartering specialist with the National Federation of Community Development Credit Unions (March 23, 2018).

Appendix 1: Summary Table of all Native Credit Unions

Credit Union	CHARTER	ASSETS (millions)	LOAN (millions)	SAVINGS (millions)	DELINQUENCY (peer average 0.78%)	NET WORTH (industry average 10.96%)	MEMBERS
Molokai Community – Kaunakakai, HI	1951	24.3	10	15.1	2.07%	9.81%	4,484
Hawaii First - Kamuela, HI	1956	46.9	26.8	21.2	2.54%	11.54%	8,125
Local Union 1186 – Honolulu, HI	1956	15.2	1.7	12.1	1.26%	11.44%	1117
Four Corners – Kirtland, NM	1965	23.2	9.3	5.9	0.42%	15.50%	5,504
First American – Casa Grande, AZ	1962	84.2	60.6	19.4	2.29%	7.90%	16,070
Wolf Point – Wolf Point, MT	1963	12.5	6.4	6.8	3.33%	18.41%	2,718
Tongass – Ketchikan, AK	1963	77	50.9	35.2	0.22%	8.34%	7809
White Earth – Mahnomen, MN	1966	1.8	0.87	1	0.10%	15.37%	1,328
Sisseton-Wahpeton – Agency Village, SD	1979	3.8	3	1.4	1.56%	18.70%	1,181
Lakota – Kyle, SD	2012	4.5	2.5	0.83	3.57%	13.05%	2,404
Choctaw – Choctaw, MS	1976	2.2	1.7	1.4	1.64%	26.70%	2,122
Lac Courte Oreilles – Hayward, WI	2001	1.6	1.5	0.75	6.69%	7.97%	1,581
Seneca Nation of Indians – Irving, NY	2015	3	1.6	0.86	0.00%	9.30%	1,521
Northern Eagle – Nett Lake, MN	2013	0.97	0.54	0.53	0.89%	17.80%	664
TOTAL/AVERAGE		**302**	**178**	**123**	**2.72%**	**14.24%**	**56,618**