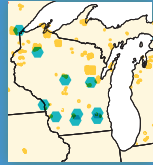




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October 2011

Community Dividend

Published by the Community Development Department of the **Federal Reserve Bank of Minneapolis**

Harvest Initiative and Hunkpati Investments:

Stirring up economic development on the Crow Creek reservation

By **Sandy Gerber**

Starting in 2008, residents of the Crow Creek Indian reservation and some apparently unlikely bedfellows—a prominent businessman, a church congregation, and two freshly minted attorneys—came to be deeply involved in improving the reservation's economic circumstances. Their partnership led to the establishment of Harvest Initiative and Hunkpati Investments, two community-based, locally controlled entities that are contributing to stirrings of economic development on Crow Creek. While the reservation is a small geographic area in a remote corner of America, the story of what happened there may provide lessons for other regions and actors in the realms of economic development, race relations, antipoverty strategies, and philanthropy.

A desire for microlending

Barry Griswell is the former CEO of the Principal Financial Group, a financial services corporation headquartered in Des Moines, Iowa, and current CEO of the Community Foundation of Greater Des Moines. He is also a member of Ashworth Road Baptist Church in Des Moines, which is affiliated with the Cooperative Baptist Fellowship (CBF). One Sunday in late 2007, two representatives of a CBF-sponsored antipoverty initiative spoke to the Ashworth Road congregation. They pointed out that one community in the region—the Crow Creek Indian



PHOTO COURTESY OF J. BARRY GRISWELL

Residents and friends of the Crow Creek Indian reservation, pictured at the local Boys & Girls Club. The club will soon move to a new, larger facility—one of many recent examples of community and economic development stirrings on the reservation.

reservation in central South Dakota—was among the poorest in the nation. Griswell gave the speakers a donation to help cover community needs on Crow Creek and was then asked

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Native American Credit Counseling initiative aims to bridge the credit gap in Indian Country

By **Jolene Bach** and **Sue Woodrow**

Native American communities have long ranked among the poorest in the United States. Two commonly cited barriers to their economic health are inadequate access to mainstream financial services and inadequate knowledge about banking and personal finance.¹ Native consumers and small business owners who face these barriers often end up seeking high-interest loans and other types of credit that strain their already stretched resources and deepen their debt.²



Multiple studies identify credit management and rehabilitation as a key policy strategy for eliminating barriers to homeownership and business development in Indian Country.³ But credit counseling services, which have served a critical role in helping people manage and rehabilitate their credit since the 1960s, are not always readily available in nonurban Native communities such

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Making the New Markets Tax Credit work in Native communities

By **Michou Kokodoko**

The New Markets Tax Credit (NMTC) Program provides tax credits to individuals or corporations that invest in job creation or material improvements in low-income communities, including Native American communities. A close look at Native communities' use of the NMTC

reveals that some have success in attracting NMTC investments, despite unique challenges involved in implementing the program in Indian Country.¹

Costs and complexities

The NMTC Program was enacted by Congress as part of the Community Renewal Tax Relief Act of 2000 and is

administered by the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund. Through a competitive application process, the CDFI Fund allocates NMTCs to intermediary vehicles called Community Development Entities, or CDEs. A CDE is a domestic, nonprofit or for-profit corporation or partnership with a primary mission of serving low- and moderate-income persons or communities. To qualify to receive NMTCs, investors must channel their investments into CDEs. The CDEs, in

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Community Dividend is published by the Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, P.O. Box 291, Minneapolis, MN 55480-0291; 612-204-5000. It covers topics relating to community development, reinvestment, and neighborhood lending. It reaches financial institutions, community-based and development organizations, and government units throughout the Ninth Federal Reserve District.

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Native American Credit Counseling initiative aims to bridge the credit gap in Indian Country

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as reservations. Fortunately, thanks in part to a counselor certification program developed in the Ninth Federal Reserve District, the situation may be changing. The Native American Credit Counseling (NACC) program is designed to encourage and support certification of Native counselors and thereby build credit counseling education and services in Indian Country.

Creating a supportive learning environment

The idea to create the NACC program grew out of a 2004 meeting of the Montana American Indian Housing Taskforce (MAIHT). Taskforce members convened to discuss repeated comments from their tribal partners about community members' difficulties in qualifying for housing financing due to poor credit. At the time, some limited financial counseling services were available in Native communities in Montana. Rural Dynamics/Consumer Credit Counseling Service of Montana (RDI), the state's largest financial counseling provider, was sending credit counselors to various reservation communities, such as Crow and Lame Deer, to teach personal finance classes and offer individual budgeting appointments. However, the number of counselors available for that purpose was limited, and RDI could not meet the demand for services.

Members of MAIHT approached RDI to explore the possibility of creating a program to promote certification of Native counselors and thus make credit counseling services more readily available in reservation communities. RDI delivered, and a pilot initiative—now called the NACC program—was launched in 2006. The program, which is supported by funding from First Interstate Bank, the Montana HomeOwnership Network, Fannie Mae, and Stockman Bank, provides a platform for participants to achieve the Accredited Financial Counselor certification from the Association for Financial Counseling Planning and Education (AFCPE). The AFCPE, one of several national entities through which financial counseling agencies pay memberships and dues and receive training, certification, and continuing education, offers several nationally recognized certifications for housing and financial counseling. Its Accredited Financial Counselor certification involves a self-study curriculum, two proctored examinations, and 1,000 hours of mentored practicum experience.



The Native American Credit Counseling (NACC) initiative's fall 2010 cohort members, pictured on an outing during their week of in-person training in Tulalip, Wash., in November 2010. The training drew prospective counselors from as far away as Alaska and North Carolina.

The NACC program achieves the standards set by the AFCPE but is distinct in creating a supportive, collaborative learning environment, dubbed a "learning cohort," that is made up of a cohesive group of practitioners with common goals for their educational outcomes. The learning-cohort environment enables participants to learn from one another through shared experiences and across geographical distances. The support it provides is particularly important for individuals who live in remote areas such as reservations and do not have ready access to certified credit counselors or mentors who can assist them through the certification process.

The NACC program uses a web-based delivery system for weekly classes that prepare participants for the two certification exams, and holds an in-person week-long class before each of the two tests. Throughout the program, participants work together on team assignments and in weekly exercises, are encouraged to study together and utilize online chat boards and phone calls, and share experiences through group discussions and online postings. After they complete the testing, participants receive mentoring throughout the practicum experience and beyond. Once certified, counselors must maintain the certification through continuing education.

Expansion and evolution

There have been two NACC learning cohorts to date, and additional ones are

planned for fall 2011 and spring 2012. The first cohort, the pilot program launched in 2006, included seven individuals from the Blackfeet, Crow, and Northern Cheyenne reservations and the Great Falls-based Little Shell Tribe of Chippewa. Five of the seven participants have completed the Accredited Financial Counselor certification. The in-person portions of the first learning cohort were all held in-state, at RDI's Great Falls headquarters and at affiliated locations in Browning and Billings. For the second cohort, launched in fall 2010, the NACC program expanded its reach to include participants outside Montana. Most of the members of the fall 2010 cohort work for housing organizations from across the Pacific Northwest. In collaboration with the U.S. Department of Housing and Urban Development's (HUD) Northwest Office of Native American Programs, RDI held one of the cohort's in-person classes in Tulalip, Washington, to accommodate the participants' needs. Training of the fall 2010 cohort is still in progress; participants plan to use the experience to expand their outreach to residents of homes financed through HUD's Section 184 Indian Home Loan Guarantee Program.⁴

Terry Payne, tenant services advocate for the Spokane Indian Housing Authority, explains why she joined the fall 2010 cohort.

"I'm going for my certification because in our small community, as in others, financial education has not been a priority. I want to help people live less stressed and happier lives. I work with low-income tenants and

homebuyers on a daily basis so they are able to meet their monthly expenses. I also have people coming in who are trying to qualify to purchase a home. I need more knowledge in the financial arena to be able to help guide people through this area of their lives. I'm very excited to integrate the counseling and coaching into a program that will offer knowledge and also allow the client ownership in the learning process."

In addition to expanding its reach beyond Montana over the last five years, the NACC program has refined its strategy and programming. For example, the program initially had a heavier emphasis on self-study, and there was only one weeklong training and testing period to cover both exams. Based on feedback from the first learning cohort, RDI added more group study to the fall 2010 cohort and divided the course into two segments, which allowed the addition of a second week of in-person training and testing before the second exam.


The program continues to evolve. Recognizing that there are varied needs for financial counseling in Indian Country, from basic household budgeting to estate planning, the AFCPE is working with RDI to establish specific levels of counseling certification for the NACC program. The fall 2011 and spring 2012 NACC learning cohorts will be offered in eight-week sessions providing two levels of certification, allowing participants to obtain the certification that best meets the needs of their communities. The first level of certification, Certified Credit Counselor, will focus on client service, budgeting, credit, debt, and strategic approaches to credit counsel-

"I'm going for my certification because in our small community, as in others, financial education has not been a priority. I want to help people live less stressed and happier lives."

—Terry Payne

ing. Upon completion, some participants may go on to the second level of certification, Certified Financial Planner, which will delve deeper into complete financial planning needs, including estates, insurance, taxes, and investing.

Creating the learning-cohort environment to meet the needs of individuals in remote areas continues to be an important aspect of the NACC program. To further enhance participants' learning experiences, the program has incorporated many lessons learned from the instructor training for *Building Native Communities*, a Native-focused financial education curriculum developed by First Nations Oweesta Corporation. RDI is partnering with experienced developers of nationally recognized Native financial education curricula to improve and refine methodologies to meet the learning and mentoring needs of Native

credit counselor trainees. Through their collaboration, RDI and its partners hope to assist in building strong, vibrant Native communities by supporting their citizens' journeys toward financial health. 

For information on applying for the NACC program, contact Tim Guardipee at timg@ruraldynamics.org or 406-454-5704. Classes are limited in size to create the learning-cohort environment, but are offered frequently in response to the demand.

Jolene Bach is the director of communications for RDI. Sue Woodrow is the community development advisor at the Minneapolis Fed's Helena, Mont., branch.

¹ See generally Jennifer Malkin, *Financial Education in Native Communities: A Briefing Paper*, published by First Nations Development Institute, the National Congress of American Indians, and CFED (Corporation for Enterprise Development) in 2003. Malkin's paper informed a May 2003 policy development forum on financial education in Native communities that was cosponsored by the three publishing organizations. See also the *Native American Lending Study*, published by the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund in 2001.

² Kyle Smith, *Predatory Lending in Native Communities*, Native Assets Research Center, First Nations Development Institute, citing an analysis by the National Community Reinvestment Coalition of quantitative Home Mortgage Disclosure Act data for the years 1998–2000. The analysis shows that Native Americans had a significantly higher share of loans from high-cost lenders than non-Natives had. For example, in 2000, Native Americans were 1.93 times more likely than whites to receive a conventional home mortgage loan from subprime or manufactured home lenders (pages 15–16).

³ Malkin, p. 7. At the May 2003 forum related to Malkin's work, attendees developed specific goals and objectives in five topic areas, one of which is "to expand credit management and rehabilitation services to Native American communities nationwide." See also CDFI Fund, p. 5 (citing lack of credit histories as one of five major economic barriers to capital access in Native communities) and p. 45 (the majority of the study's tribal respondents indicated that there are no programs available in their communities that provide consumer credit counseling or credit repair services, and that many Native Americans "lack an understanding of banking, credit reporting, and loan qualification processes and standards, and have difficulty obtaining credit because they have no credit or bad credit histories").

⁴ HUD's Section 184 program provides mortgage loans to American Indian and Alaska Native families, Alaska Villages, Tribes, or Tribally Designated Housing Entities. Loans can be used for home construction, rehabilitation, purchase, or refinance, on or off Indian lands.

BUILDING, REPAIRING, AND EDUCATING:

Other examples of Native credit counseling services

The NACC program is not the only initiative in the Ninth Federal Reserve District that is addressing the need for credit counseling and credit repair services in Native communities. For example, **Four Bands Community Fund** (www.fourbands.org), located on the Cheyenne River Reservation in South Dakota, has been offering a credit builder program since 2006. The program offers small loans, typically \$500, to people who want to build their credit or repair damaged credit histories. By making timely payments, borrowers can improve their credit scores and thus improve their chances of qualifying for business, consumer, or home loans in the future. As a prerequisite, clients must complete the *Credit When Credit Is Due* curriculum developed by Consumer Credit Counseling Service of the Black Hills. According to Tanya Fiddler, executive director of Four Bands Community Fund, clients who complete the course have seen their credit scores increase 18 to 100 points.

Across the plains, **LSS Financial Counseling Service** (www.lssmn.org/debt), a division of Lutheran Social Service of Minnesota, has begun collaborative work with one tribe to offer telephone-based credit counseling services for tribal members. The LSS program recognizes that in small, close-knit communities such as reservations, residents with personal financial troubles might prefer the privacy that telephone counseling ensures. LSS hopes to expand the program to other Native communities in the region and will rely on strategic partnerships with tribes to do so.

"Phone-based services allow the freedom to get individual help confidentially, which works well so long as the service gets to know, and be known by, the tribal membership," explains Darryl Dahlheimer, LSS program director. "Trust is the foundation, so we want to be involved with financial education for Indian youth, with helping warn members about debt settlement scams, and with offering legitimate credit repair to make sure Native business dreams have no barriers."



Page 1 and above: At the Tulalip Tribal Court center in Tulalip, Wash., members of the NACC fall 2010 cohort complete a practice test in preparation for the Accredited Financial Counselor certification exam.

Harvest Initiative and Hunkpati Investments:

Stirring up economic development on the Crow Creek reservation

Continued from page 1

to come to the reservation and take a look for himself. He agreed, and traveled there to meet with Crow Creek community leaders and tour the reservation's three towns—Fort Thompson, Crow Creek, and Big Bend.

“The living conditions and the poverty were shocking,” Griswell recalls. His comment is borne out by statistics. According to recent census figures, 53 percent of Crow Creek's approximately 2,200 residents were living below the poverty level, compared with 13.5 percent in both South Dakota and the United States. Median household income was \$23,558, compared to \$44,828 for South Dakota and \$51,425 for the United States.¹ In addition to facing high poverty rates, residents faced decaying institutions and infrastructure. To name just a few examples, the water system was disintegrating, the Head Start building was condemned due to black mold, and the ambulance service had been discontinued.

Reversing the decay through investment and job creation seemed out of reach because financing was an obstacle. “They couldn't start businesses, couldn't get financing. They were met with a lot of prejudice when trying to get loans,” Griswell says. In fact, there were only two private businesses on the reservation. During Griswell's visit, Crow Creek leaders noted that one of their greatest desires was to develop a microlending program to serve entrepreneurs, but they had no technical or financial capacity to even begin exploring the idea.

A substantive proposal

In January 2008, Griswell paid another visit to Crow Creek, bringing along two young attorneys he met through Ashworth Road Baptist Church. Jason Yates had interned at the Iowa office of USDA Rural Development, where he had become familiar with agricultural development programs and revolving loan programs. Dustin Miller, a law school buddy of Yates', had also interned at USDA Rural Development and had spent a summer in Kenya doing microlending.

After observing and discussing the conditions on Crow Creek, Yates and Miller asked Griswell if he'd entertain a proposal for substantive engagement on the reservation. Griswell agreed, and the two attorneys then wrote a development plan that had an ultimate goal of launching a Native community development financial institution (CDFI)² to do microlending on the reservation. The plan called for a sustained effort to build deep, ongoing involvement from Crow Creek community members. Yates and Miller proposed to move to the Crow Creek area with their families and stay for two years while integrating into the community, engaging with residents, getting input on the plan, and working to implement it. Griswell contributed the money to pay for Yates and Miller's services for two years, enabling them to dive into the work at hand rather than spend time fundraising.



“To create more jobs and economic development, find ways to support local businesses and provide a practical education for residents.”

—Barry Griswell



Crow Creek residents display the bounty at Crow Creek Community Gardens, a program of Harvest Initiative and Hunkpati Investments that provides fresh, free vegetables to community members. The “Buy Local, Shop Crow Creek” shirts and totes are part of a Harvest-Hunkpati initiative to promote local businesses.

Building credibility

To establish credibility in the Crow Creek community, Yates and Miller determined that they had to remain independent of the potentially messy entanglements of tribal politics. In the summer of 2008, they moved to Pierre—close to the reservation, but not on it—and established an independent nonprofit organization, Harvest Initiative (HI), to explore the potential for community and economic development projects on the reservation. HI was designed as “a bridging organization that could pave the way for the CDFI, while involving Des Moines church members committed to getting the ball rolling,” Yates says. Ashworth Road Baptist Church continued to provide support in the form of funding and service work. Additional financial support for HI came from the Citi Foundation, the South Dakota Governor's Office of Economic Development, and Barry Griswell.

HI was a means of engaging with community residents on projects that were important to them while building trust and relationships along the way. Acting as HI's representatives, Yates and Miller spoke one-on-one with community members and business owners.

“We took a bottom-up approach,” Yates says. “Our first step was asking people what they wanted to do.” Yates and Miller also engaged in a number of education and service projects around the reservation, such as teaching business planning and development at the tribal high school twice a week.

Sandra K. Isburg, whose family owns Shelby's Minimart, one of the only private businesses on the reservation at the time, recalls, “Jason and Dustin approached me and my sister and asked us about the challenges facing Native American businesses. We thought they were fly-by-night white guys who wanted information but would do nothing. So we gave them about ten minutes of our time. When they came back, they talked with us longer. Each time they came back, they gained more credibility, and we eventually told them the challenges our community faced.”

Creating Hunkpati CDFI

While building trust and relationships in the community through their work with HI, Yates and Miller began researching the feasibility of their ultimate goal: to establish a CDFI on the Crow Creek reservation. With Tribal Chairman Brandon Sazue's support, along with assistance from the Opportunity Finance Network (OFN, the national trade association for CDFIs), HI undertook a market analysis, interviewing present and former tribal government leaders, other community leaders, and current business owners. The analysis convinced Yates and Miller that there was enough money coming into the reservation to support the businesses a CDFI would help create.

“Money *does* come into the reservation, even though people are low-income,” Yates observes. “We looked at how much money leaves the reservation every month and

goes to Chamberlain or Pierre. Even looking at the minimum subsistence checks that people get, if they spend it on the reservation, it can support businesses there.”

Encouraged by the results of the market analysis, Yates, Miller, and Crow Creek community leaders moved ahead with forming a CDFI. They held an initial meeting in the winter of 2009, bringing in a consultant from OFN “who explained what a CDFI was, formed the first board, developed goals, discussed what kind of loans they could make, and developed a funding strategy,” Yates says. In May 2009, Hunkpati Investments, a Native CDFI, was born. The entity’s board of directors has a Native majority that includes several business-savvy reservation residents such as Sandra K. Isburg, who currently serves as board chair. Funding support comes from the U.S. Department of the Treasury, the U.S. Department of Agriculture, the South Dakota Community Foundation, the U.S. Department of Health and Human Services Administration for

Native Americans, Citi Foundation, First Nations Development Institute, and First Nations Oweesta Corporation. In addition to providing funding, First Nations Oweesta Corporation provides Hunkpati with ongoing technical assistance.



Clark Zephier, proprietor of Pop’s Coffee Shoppe, which has received a microloan and business development assistance from Hunkpati Investments.

A burst of new businesses

To date, HI and Hunkpati’s programs include a small business equity fund, a revolving loan fund, a free tax-preparation program, financial literacy classes, a credit builder loan program, a business development curriculum and training program, community gardens, and a health and fitness program to address high rates of diabetes. In addition, an IDA (individual development account) program is under consideration.

All told, HI and Hunkpati have provided educational, financial, or other services to approximately 500 people, more than one-fifth of the Crow Creek reservation’s

population. The equity fund, which was initially run by HI and is now administered by Hunkpati, has made eight equity grants totaling \$48,000. Since it began its lending operations in November 2010, Hunkpati has made seven microloans totaling more than \$23,000. HI and Hunkpati have contributed to the development of nearly 20 new businesses on the reservation, including Dion’s Guide Service and Bait & Tackle, Pop’s Coffee Shoppe, Ray’s Body Shop, Hawk Tire Service, Bad Nation Barber & Beauty Shop, Dawnee’s Home Repair, and MGF Roofing. In addition, HI has led the design, fundraising, and construction of a new community center that is being built in Fort Thompson, the reservation’s largest town.

Relationships bear fruit

Hunkpati has been able to facilitate some relationships between Native entrepreneurs and several banks located in border towns. For example, business owners who receive Hunkpati funds are required to open separate business accounts at banks. However, bank loans to reservation-based businesses have been few so far. One bank in Chamberlain has made loans on the reservation and is willing to do more. Another bank has provided volunteer hours to evaluate Hunkpati equity and loan financing and would be willing to consider a loan for an expanding business that might be “graduating” out of an equity loan. Yates comments, “It’s about building relationships; once they see that businesses can pay their loans back, they might be willing to make loans.”

Krystal Langholz, executive director of Hunkpati, says, “We’ve been able to finance a lot of projects internally, but we’re going to have to get hold of more financing as businesses expand, and Hunkpati will be in second position.” Langholz is hoping more banks will recognize that investing in a CDFI may help them earn a favorable rating under the Community Reinvestment Act (CRA).

Other connections established through HI and Hunkpati have led to some economic development breakthroughs. For example, in the fall of 2008, Yates and Miller read a *Community Dividend* article about a promising state-funded program in Montana that provides equity investments to Indian entrepreneurs.³ HI and Hunkpati leaders met with the program’s manager to learn more, then convinced the State of South Dakota to launch a pilot equity program modeled after Montana’s, if matching funds could be found. Citibank and the Citi Foundation came on board to provide the match. The State of South Dakota has recently agreed to support similar programs on other reservations.

Another emerging initiative involves agricultural development. The Crow Creek tribe has a lot of agricultural land that isn’t being used to its full capacity. “It’s their

biggest asset, and they’re only realizing approximately ten percent of its potential,” Yates comments. With that in mind, Miller built a relationship with Pioneer Hi-Bred, a DuPont Corporation subsidiary, that led to a multifaceted agricultural development agreement between the company and the Crow Creek tribe. The agreement involves identifying the best uses of Crow Creek’s agricultural lands and determining what types of value-added food processing could be done on the reservation.

Lessons to share

While the Crow Creek reservation is small, tucked away in the hinterland, and made up of a mostly Native American population, the emergence of private businesses there can be a reference point for low-income, disinvested communities of many sorts. The principals in the HI-Hunkpati story believe that portions of their approach are replicable, and they have several basic lessons to convey. Specifically:

- **It’s about building relationships and trust.** Gain the trust of the people you’re trying to help, so they know that you have their interest at heart. Listen to their stories, get their input on what they need, and act on the information you receive. —Barry Griswell, Sandra K. Isburg, Krystal Langholz, Jason Yates
- **Focus on economic development.** To create more jobs and economic development, find ways to support local businesses and provide a practical education for residents. —Barry Griswell
- **Keep it local.** Ensure that a committed local board is driving the work. If you don’t have that, it’s probably because your programs don’t fit the community. —Krystal Langholz
- **Be clear and consistent.** Have a clear strategic vision. Know what you want to accomplish, and don’t just chase money. Then, deliver on what you say you’re going to do. —Barry Griswell, Sandra K. Isburg, Krystal Langholz, Jason Yates
- **Cover your costs upfront.** Get direct financing for the work at hand and in a large enough amount, thus eliminating the need to fundraise for ongoing operations, and enabling a clear focus on the work. —Barry Griswell, Jason Yates



Krystal Langholz, executive director of Hunkpati Investments, presents a business development loan check to Don Paul Touche, owner of Dawnee’s Home Repair.

A wide wingspan

Yates, Miller, and Griswell’s formal, two-year commitment to Crow Creek ended in 2010, but their work in Native economic development continues. Yates, who now lives and works in Des Moines, serves as board chair of HI. Miller works for the U.S. Department of Agriculture’s Office of Tribal Relations in Washington, D.C. Griswell remains engaged with Crow Creek as a financial contributor, advisor, and frequent visitor.

Through their efforts, Yates, Miller, Griswell, Isburg, Langholz, and the many other individuals involved in the story of HI and Hunkpati have enabled Crow Creek to promote and support entrepreneurship, develop investment and consumer services, establish a potentially lucrative connection with a major corporation, and rebuild an important community institution. While community leaders recognize there is more work to be done, particularly in attracting bank loans for reservation-based businesses, they are confident that the stirrings of economic development that HI and Hunkpati have helped bring about in the last few years are just the beginning.

“There’s great promise in the community,” says Isburg. “We have a good group that’s going to make improvements—in the community, for individual members, and even in assisting other tribes. Our wingspan is going to be wide.” cd

For more information on Harvest Initiative and Hunkpati Investments, visit www.hunkpati.org.

Sandy Gerber is a senior project manager in the Minneapolis Fed’s Community Development Department.

¹U.S. Census Bureau 2005–2009 American Community Survey. For more information on South Dakota reservations during this period, see “Recent demographic data reveal economic slowdown in Indian Country,” *Community Dividend*, July 2011, available at www.minneapolisfed.org.

²CDFIs are specialized entities that provide lending, investments, and other financial services in economically distressed communities. To be designated a Native CDFI, an entity must direct at least 50 percent of its activities to Native Americans, Alaska Natives, and/or Native Hawaiians. For more information, visit www.cdfifund.gov.

³“Turning equity into opportunity: Montana fund helps Native entrepreneurs enter the financial mainstream,” *Community Dividend*, Federal Reserve Bank of Minneapolis, September 2008. Available at www.minneapolisfed.org.

Making the New Markets Tax Credit work in Native communities

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turn, are required to direct substantially all of the proceeds to Qualified Low-Income Community Investments, including investments in Qualified Active Low-Income Community Businesses (QALICBs). The investors then claim NMTCs over a seven-year period. The total credit for each investor equals 39 percent of the original investment.

The program is governed by a web of rules that can be costly and complex for any entity to navigate and that may deter some small, minority-owned CDEs, including Native CDEs, from applying for allocation authority. After spending substantial amounts of money to apply for and obtain allocations, CDEs need to set up an investment infrastructure and monitor program compliance. To facilitate the process, CDEs may need a great deal of consultation with accountants and attorneys, and the resulting fees, added to a reduction in the price that the investor pays for the right to claim the tax credit, can reduce the amount of capital left in the project after the seven-year period by 35 to 50 percent.²

Additional challenges in Indian Country

Parties involved in structuring an NMTC deal in Indian Country should understand that they might face additional challenges. One example is the difficulty of involving tribal corporations in NMTC transactions. The Internal Revenue Service has ruled that a tribal corporation owned by a Native American tribe shares the same tax status as its parent tribe and, as such, is not a separate entity.³ Consequently, some in the field conclude that tribally owned corporations may not be considered corporations for NMTC purposes and thus cannot be considered QALICBs.

Another challenge stems from the interpretation of a Treasury regulation that prohibits NMTC-funded properties from being used for gambling, among other purposes. Depending on how the regulation is interpreted, community development practitioners might conclude that if a tribe that owns and operates a casino leases office space in an NMTC-funded building, the arrangement might taint the NMTC transaction.

Then there are the long-standing barriers to lending that reservation residents face. For instance, the complexities of land ownership in Indian Country make it difficult to use reservation lands as mortgage collateral.⁴ Also, on many reservations, commercial codes governing business lend-

ing are absent or insufficient, leaving financial institutions with uncertain recourse in the event of a loan default.⁵

Small numbers, significant benefits

Despite the challenges, some applicants have succeeded in deploying NMTC investments in Indian Country. Since its first round of allocations in 2002, the NMTC Program

Markets LLC (www.travois.com), a Native economic development financing organization in Kansas City, used an NMTC allocation to help the Navajo Tribal Utility Authority build electrical substations in the towns of Shiprock and Cudeii, N.M. The project enabled the Navajo Nation to double its electrical capacity in the Shiprock and Cudeii areas to support economic development efforts. According to Phil Glynn, vice president of economic development at Travois, "This investment is a remarkable example of how the NMTC Program can be used to address infrastructure issues in Native communities."

Ninth District insights

Several CDEs in our own Federal Reserve District have attracted NMTC investments for Native-led projects and have insights to


CRF's vice president of development, the organization partnered with the Missoula Area Economic Development Corporation to close and fund the project.

"This was a good business strategy for us because it allowed the local organization to take advantage of the NMTC program without applying for an allocation. It also allowed them to bring their Indian Country economic development expertise to the table to smooth out any compliance-related issues," McLean says.

Another allocatee in our district, Midwest Minnesota Community Development Corporation (MMCDC, www.mmcdc.com) in Detroit Lakes, Minn., provided low-cost financing through the NMTC program for the White Earth tribe's Oshki Manidoo Center, a healing center for at-risk Native American youths. This \$8.2 million project involved the purchase and renovation of a 40-acre facility in Bemidji, Minn. Julia Nelmark, NMTC program director for MMCDC, credits the successful closing of the allocation to the relationship MMCDC and the White Earth tribe established.

"The federal tax laws are complex, but the parties involved in an NMTC transaction can understand and deal with them. What's really important is for tribal members to get comfortable with the practitioner. It boils down to trust and patience to successfully fund and close transactions such as this one in Native communities."

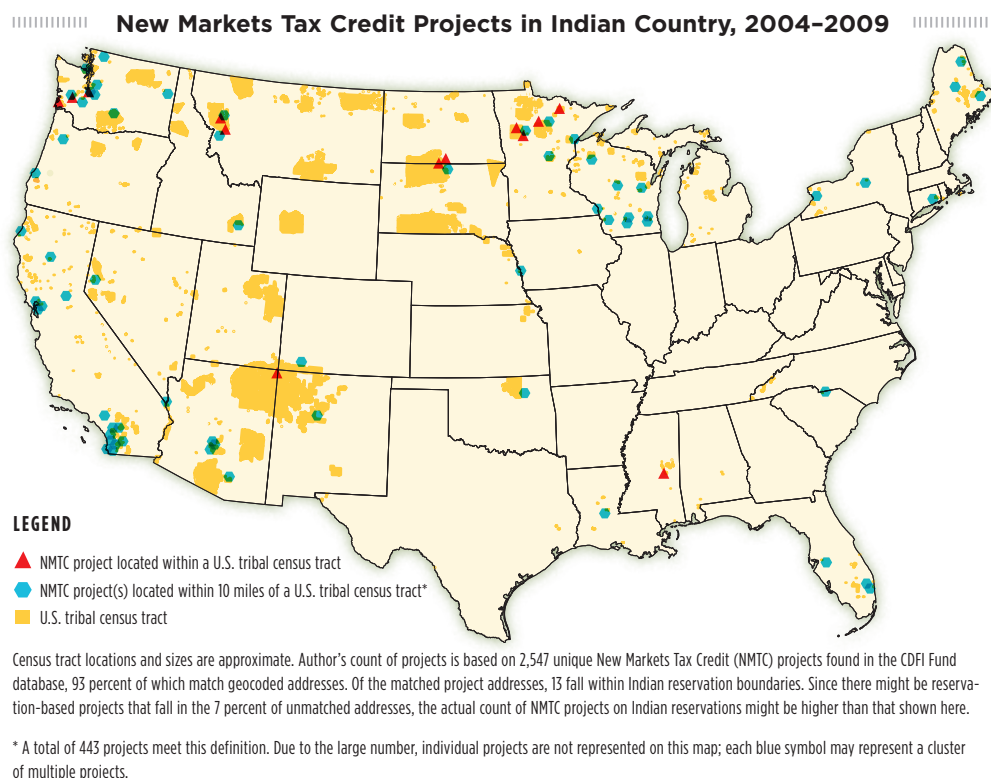
More to come?

In June 2011, the CDFI Fund announced the availability of \$3.5 billion for the 2011 tax credit allocation round of the NMTC Program. How much of that total will be invested in Indian Country remains to be seen. Thanks to a small but determined group of development organizations and tribes, including those mentioned here, entities that are interested in using the NMTC program to benefit Native communities have some good examples to follow. 

Michou Kokodoko is a senior project manager in the Minneapolis Fed's Community Development Department.

FOR MORE INFORMATION

Details about the New Markets Tax Credit Program are available at www.cdfifund.gov.



has made 594 awards totaling \$29.5 billion in allocation authority. Out of the 594, 18 awards totaling \$977 million in allocations have gone to organizations that plan to invest some or all of the funds in rural reservations or highly distressed urban communities with significant Native American populations. As of 2009, CDEs reported making about \$15.8 billion in NMTC investments to about 2,900 projects located in all 50 states. American Indian reservations received about \$62 million of these NMTC investments, or 0.39 percent of the total. (To view the distribution of NMTC qualified investments and projects on or near Indian reservations in the contiguous 48 states, see the map above. The map shows projects from the CDFI Fund's NMTC database that match geocoded addresses on or in close proximity to reservations.)

While the share of NMTC investments in Native communities is relatively small, the benefits of the much-needed funds can be significant. For example, Travois New

share about making the projects work. For example, Minneapolis-based Community Reinvestment Fund, USA (CRF, www.crfusa.com) used NMTC financing to fund a Native-owned pharmacy and retail store on the Flathead Reservation in Montana. The project created two jobs, bringing the pharmacy's total number of employees to ten, in a community where the unemployment rate at the time was 30 percent above the national average. According to Warren McLean,

¹ "Indian Country" refers to all self-governing tribal lands in the United States, including American Indian reservations, dependent Indian communities, and Indian allotments, whether restricted or held in trust by the federal government. See 18 U.S.C. §1151(a)-(c).

² *New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, But Could Be Simplified*, Government Accountability Office Report 10-334, January 2010, page 21.

³ See Revenue Ruling 94-16, March 21, 1994. Available at www.irs.gov.

⁴ There are multiple ways land ownership is structured in Indian Country, including tribal trust, tribal fee, allotted trust held by individual Indians, and fee held by non-Indians.

⁵ For more on this, see "A super model: New secured transaction code offers legal uniformity, economic promise for Indian Country," *Community Dividend*, Issue 1, 2006. Available at www.minneapolisfed.org.

Bank On gets its game on

By May Xiong

Since its launch in San Francisco in September 2006, the Bank On program has captured the attention of financial access advocates nationwide. Bank On provides a customizable, localized model for helping unbanked individuals join the financial mainstream. Most local Bank On programs commit participating banks and credit unions to offer unbanked individuals low- or no-cost accounts with no minimum balance requirement. In addition, participating banks and credit unions may be asked to accept alternative forms of government-issued identification, such as the Mexican Matricula Consular card; expand their marketing and outreach efforts to targeted low-income neighborhoods; and partner with community organizations to offer financial education. While the Bank On model is designed to benefit unbanked individuals, banks can benefit, too, by expanding their customer base and building goodwill and trust in low-income communities.

What began as a local initiative of San Francisco's elected officials, key community leaders, and financial institutions has now grown to more than 35 local Bank On programs in 20 states. So what attracts cities to the program? For starters, Bank On is low in cost to implement and requires few personnel. Also, according to Laura McComas Fischer of the National League of Cities

(NLC), a national nonprofit organization that has helped cities replicate the Bank On model, the program is "locally driven." Instead of following a one-size-fits-all concept, the Bank On model can be adapted to meet the needs of the community.

Implementing a Bank On program requires cross-sector expertise, making partnerships a key factor. Financial institutions play the role of providing access to products and services; local government generally plays a leadership role, which involves convening partners and calling them to action; and community-based organizations play the role of organizing, referring, and providing support services so that unbanked households are ready to access mainstream financial products.

The NLC has provided many hours of technical assistance to cities, states, and regions interested in launching their own Bank On programs. Based on its

experience, the NLC has developed best practices, answers to frequently asked questions, and other information for prospective Bank On partners. These resources are collected in a 112-page tool kit, *Bank On Cities: Connecting Residents to the Financial Mainstream*, released by the NLC in April 2011. Additional Bank On resources can be found at JoinBankOn.org, an interactive web site created by San Francisco's Office of Financial Empowerment.



The NLC's Bank On tool kit.



What are some program insights from the NLC? Fischer points out two of the biggest take-aways from the tool kit. First, each Bank On program needs a central champion, such as a city mayor, who is highly visible and can provide consistency for the program's messaging. Second, developing strategic partnerships early on is a key success factor. For example, involving federal regulators and other government agencies can help attract financial institution partners.

According to the NLC, as of July 2011, 35 cities, four states, and three regions have fully implemented Bank On programs. So far, informal estimates indicate that the programs have created nearly half a million new bank accounts and drawn participation from 261 community-based organizations and 422 banks. In the Ninth Federal Reserve District, one Bank On program is currently under discussion and one is in its infancy. The former is in the Minneapolis-St. Paul area, where a task force commissioned by the Minnesota legislature began meeting to explore the idea

in the spring of 2011. The latter is located in Rapid City, S.D., and is co-chaired by Rapid City's Community Development Division and Consumer Credit Counseling Service of the Black Hills. The Bank On Rapid City project group consists of only a few staff members, but it is strongly supported by local community-based organizations, banks, and credit unions. Bank On Rapid City was launched in 2010 as part of a one-year NLC technical assistance project supported by the Annie E. Casey Foundation and the Ford Foundation. The NLC is also working with CFED (Corporation for Enterprise Development), the New America Foundation, and San Francisco's Office of Financial Empowerment to help the U.S. Department of the Treasury develop plans for Bank On USA, a proposed program that, if funded in the 2012 federal budget, may provide cities with federal grants and other supports so they can develop or improve local Bank On efforts.

Fischer and other Bank On proponents hope that as more guidance, support, and dollars become available, more communities will join the effort to help their unbanked members access affordable, mainstream financial services. cd

For more information on the Bank On Program, including the NLC's Bank On tool kit, visit www.nlc.org/iyef or contact Laura McComas Fischer at 202-626-3056 or fischer@nlc.org.

May Xiong is the director of employment training programs for Project for Pride in Living, a Minneapolis-based nonprofit organization that works to help low-income families achieve greater self-sufficiency through housing, employment training, support services, and education.

"UNBANKED" DEFINED

The Federal Deposit Insurance Corporation's 2009 *National Survey of Unbanked and Underbanked Households* found that approximately 9 million households in the United States are *unbanked*, defined as not currently having or never having had a banking relationship. According to the Center for Financial Services Innovation, key reasons why individuals do not have banking relationships include being concerned about the costs associated with having an account, being worried about having an account denied because of past financial mistakes, having a mistrust of financial institutions, and not having a Social Security Number. With no access to mainstream financial services, unbanked households are much more likely than other households to turn to alternative services such as payday lenders and check cashers to meet their financial needs. These types of service providers often charge high interest rates and fees and do not provide a means to save and build assets.

News and Notes



PHOTO BY STAN WALDHAUSER

Dorothy Bridges

Bridges joins the Minneapolis Fed

Community Dividend welcomes Dorothy Bridges, who joined the Federal Reserve Bank of Minneapolis on July 29, 2011, as senior vice president over community development and outreach. In her new role, Bridges leads the Minneapolis Fed's efforts to facilitate interaction and partnerships among financial institutions, community organizations, and government units throughout the Ninth Federal Reserve District.

Bridges most recently served as president and CEO of City First Bank in Washington, D.C., and is well known to many in the Ninth District for serving as president and CEO of

Franklin National Bank in Minneapolis from 1999 to 2008. She has more than 30 years of banking experience, much of it centered on community lending and economic development initiatives. Bridges began her career with First Bank System in Missoula, Mont., in 1979. After leaving First Bank in 1993, she served as a senior consultant with Barefoot, Marrinan & Associates, an Ohio-based bank regulatory compliance firm. In 1995, she joined Minneapolis-based Community Reinvestment Fund, USA, a private nonprofit corporation that securitizes economic development loans for secondary market investments. She served as the organization's vice president and chief credit officer, responsible for business development and credit underwriting.

Bridges is well versed in the work of the Fed, having served on the board of directors of the Federal Reserve Bank of Minneapolis and as a member of the Consumer Advisory Council of the Board of Governors of the Federal Reserve System. She has also served as a member of the American Bankers Association board of directors and chair of its America's Community Bankers Council, and as a member of the Federal Deposit Insurance Corporation's community bankers advisory council. In addition, Bridges has served as a board member for several prominent foundations and nonprofit organizations, including the Minneapolis Foundation, the Greater Minneapolis Council of Churches, and Twin Cities LISC. Currently, she is chair of the board of directors of the Northwest Area Foundation and a board member of the National Endowment for Financial Education.

U.S. Treasury announces 2011 CDFI awards

The U.S. Department of the Treasury has awarded a total of \$142.3 million to 155 community development financial institutions (CDFIs) headquartered in 40 states and the District of Columbia. CDFIs are specialized entities that provide loans, investments, training, or other services in underserved or economically distressed areas. The Treasury's CDFI Fund, which certifies and provides support for CDFIs, allocated the awards through its fiscal year 2011 round of funding. The CDFI Fund conducted a competitive review to select the 155 recipients from a pool of 393 applicants.

Eighteen awards totaling more than \$17 million went to organizations headquartered in the Ninth Federal Reserve District. Eight of these awards were in the amount of \$1.5 million, which was the maximum award in the

2011 funding round. Ninth District recipients, grouped by state, are listed below.

Michigan: Northern Economic Initiatives Corporation.

Minnesota: Build Wealth, MN, Inc.; Greater Minnesota Housing Fund; Latino Economic Development Center; Metropolitan Consortium of Community Developers; Metropolitan Economic Development Association; Midwest Minnesota Community Development Corporation; Nonprofits Assistance Fund; Northeast Entrepreneur Fund, Inc.; Twin Cities Community Land Bank LLC.

Montana: Jobs Now, Inc.; Montana Community Development Corporation; Montana HomeOwnership Network.

North Dakota: CommunityWorks North Dakota.

South Dakota: First Nations Oweesta Corporation; Grow South Dakota; Rural Electric Economic Development, Inc.; South Dakota Rural Enterprise, Inc.

Calendar

Community Reinvestment Act Training Workshops

October 13, Pewaukee, Wis.

October 18, Minneapolis

Aimed at small banks, intermediate small banks, and thrifts, each of these workshops will provide an overview of Community Reinvestment Act (CRA) exam preparation; information for identifying qualified investments and community development loans and services; and suggestions for developing a CRA plan, assessing community needs, creating a bank's individual CRA performance context, and more. Sponsored by the Federal Reserve Banks of Minneapolis and Chicago, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (OCC), in cooperation with the Minnesota Bankers Association and Wisconsin Bankers Association. Additional information: visit www.fdic.gov/news/conferences.

2011 Opportunity Finance Network Conference

November 14-17, Minneapolis

The premier meeting place for the community development financial institution (CDFI) industry, this event offers three days of discussion, networking, and learning. Featuring more than 60 sessions covering new capitalization options for CDFIs, green finance, portfolio and risk management, partnerships and collaborations, and more. Sponsored by the Opportunity Finance Network and more than a dozen partner organizations. Additional information: visit www.opportunityfinance.net.

Coming Soon!

EconFest: Celebrating 50 Years of the Minnesota Council on Economic Education

October 20, 2011

Hosted by the Federal Reserve Bank of Minneapolis

Join us in celebrating the 50th anniversary of the Minnesota Council on Economic Education! EconFest 2011 will offer a reception featuring remarks from Federal Reserve Bank of Minneapolis President Narayana Kocherlakota, an awards program recognizing outstanding economic and personal finance educators, and mini seminars highlighting innovative economic and personal finance learning activities. Members of the education, business, and philanthropic communities are encouraged to attend. Visit www.mcee.umn.edu for more information.

