



Native Financial Education Coalition Policy Brief

Financial Literacy Month – April 2005

There are more than 562 diverse tribes in the United States, including the country's oldest sovereign governments. Unfortunately, American Indians, Alaska Natives and Native Hawaiian people, living in the wealthiest and most powerful nation in the world, continue to have some of the poorest communities in the United States. Record unemployment rates, severe poverty levels, and the resultant dependence on public assistance have levied a heavy toll on many American Indian, Alaska Native and Native Hawaiian communities.

One of the major challenges to building assets in Native communities in order to alleviate this poverty is lack of access to appropriate capital and financial services, compounded by the lack of interaction with mainstream financial institutions. As a result, many Native peoples have few or no opportunities to save, establish reasonable credit, and enter into the economic mainstream.

Financial education is one tool that is being effectively used to promote economic development in low-income and under-served communities across the United States. Although the need for financial education is not unique to Native people, the lack of financial education resources is particularly severe in Native communities. Additionally, the prevalence of unscrupulous financial practices in Indian Country requires education of borrowers, lenders, community practitioners, and tribal decision makers.

Tribal, state, and federal policymakers each play a significant role in addressing Native financial education issues. This policy brief recognizes the need to take advantage of these synergies and includes policy recommendations at each level of government where appropriate.

BASIC FINANCIAL EDUCATION

The community development industry in Native communities is quite new, and often does not include the strong network of nonprofit financial education service providers who work in off-reservation communities. A lack of mainstream financial services has resulted in limited opportunities to sharpen financial management skills and has contributed to the prevalence of predatory lending practices in Native communities.

However, several local institutions are developing financial education programs in Native communities. Examples of organizers who have effectively leveraged resources and facilitated local partnerships include: tribal colleges and universities, Indian housing authorities, housing and economic development nonprofits, tribal departments, TANF offices, Native community development financial institutions (NCDFIs), and youth and elder centers.

Federal, State, and Tribal Recommendations:

- Support direct financial assistance for culturally relevant Native financial education program development and implementation at the local level.
- Continue and increase adequate funding for training and technical assistance services offered by national intermediaries who serve Native communities.
- Enact anti-predatory lending laws that will provide adequate protections against abusive lending practices targeting Native consumers.

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YOUTH FINANCIAL EDUCATION

While youth financial literacy rates are low regardless of income, race, or other socioeconomic characteristics, Native children ranked second to last in the latest Jump\$tart Youth Financial Literacy Survey. Comprehensive financial education should be encouraged in Native communities through a variety of settings with widespread youth involvement, such as schools, summer camps, or clubs.

Research on the short- and long-term effects of youth financial education demonstrates that positive impacts will likely carry through into adulthood. National Endowment for Financial Education (NEFE) examined the impacts of a high school financial literacy curriculum and found that youth are much more knowledgeable and confident in their money management skills after taking the course.

Federal and State Recommendations:

- Provide adequate funding for schools and other programs that conduct youth financial education in an “active” rather than “passive” manner, with children applying lessons directly in activities such as opening a bank account and keeping up with transactions. Children’s Savings Accounts, minor trusts, or other savings vehicles could serve a useful role, with children tracking their investments and setting savings goals.

State and Tribal Recommendations:

- Encourage or require schools to incorporate financial education and to institute the testing of basic financial concepts as a requirement for high school graduation.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

There are significant differences in the amount and types of financial services available to Native people as compared to the rest of the U.S. population. Fifteen percent of Native Americans must travel more than 100 miles to reach a bank or automated teller machine and only 14 percent of Native land located in the U.S. has a financial institution in the community.¹ The largest gaps in financial services are:

- debt/equity products for housing and real estate sensitive to land trust issues;
- debt/equity products for small business development; and
- financial education including basic financial skills training, consumer credit counseling, and credit repair services.

Community Development Financial Institutions are financial institutions that have community development as their primary mission and that develop a range of strategies to address that mission. Native CDFIs are playing a growing role in creating economic strength among Native communities and their numbers have grown significantly over the last five years to fill the credit gap left by mainstream institutions. The CDFI Fund, administered through the U.S. Department of Treasury, certified only one Native CDFI in 1996. By the end of 2004, the number had mushroomed to 30, with another 30 in start-up development.

Federal Recommendations:

- Continue and increase funding for Native American initiatives through the U.S. Department of the Treasury’s CDFI Fund and remove restrictions on the use of technical assistance monies for operations.

State Recommendations

- Provide tax incentives at the state level for Native CDFIs that provide housing and small business opportunities and encourage investment and partnering in Native CDFIs through statewide programs and other CDFIs.

Tribal Recommendations:

- Invest in Native CDFIs to support access to affordable financial services and self-sustaining community economic development for tribal members.

¹ First Nations Oweesta Corp., *Investing in Community CDFIs in Native Communities, 2004*

INDIVIDUAL DEVELOPMENT ACCOUNTS

Individual Development Accounts (IDAs) are matched savings accounts for low- to moderate-income individuals and families dedicated to achieving asset-building goals such as homes, small businesses, and higher education. IDA deposits are matched by private and/or public funding sources, and financial education is offered as an essential part of an IDA program.

Research shows that state and federal governments rarely solicit input from Native communities or tribes when developing IDA laws.² Many state and federal IDA laws exclude tribal governments as qualifying entities to directly receive public funding to deliver IDA programs (including the Assets for Independence Act IDA Program – the largest governmental source of IDA funding). IDA legislation also is seldom designed in ways that enable Native families to effectively benefit from these savings and investment initiatives.

Federal and State Recommendations

- Create or amend policies to allow and encourage tribal government agencies and Native non-profit organizations to apply directly for IDA funding, and directly deliver IDA programs to Native communities.
- Eliminate the "household income" qualifier for Native families, as more than one family may live in one household.
- Expand the uses of IDAs to include home repair, automobiles for employment purposes, and job training.
- Increase the maximum income level for Native IDA participants, since many of these families, who earn slightly more than the typical maximum income allowed, may begin with negative assets – having been long-time victims of persistent poverty and predatory lending practices.

Tribal Recommendations:

- Work with state and federal governments to ensure inclusion of Native issues in IDA policy development and implementation, and amend IDA policies and practices that do not effectively serve Native families.
- Encourage tribal schools to offer IDAs to students, with an increased match if the IDA is used at tribal colleges.

HOMEOWNERSHIP

Mortgage-based homeownership for Native people living on Indian reservations, or any land held in trust, is difficult to attain. Barriers include the trust status of the land; lack of physical infrastructure; incomplete tribal laws, ordinances and mortgage codes; and specific mandates for the Bureau of Indian Affairs (BIA) to issue title reports and review all mortgage-related documents.

Most Native borrowers are either first-time, or first-generation homebuyers and may have creditworthiness issues to overcome. Homebuyer education programs have begun to open an array of mortgage financing opportunities. However, implementation of programs at the local level is difficult due to limited resources and a lack of funds. Homeownership on Indian reservations will help to improve the self-sufficiency of Native people by promoting asset building through home equity, leading to small business and job creation and stronger tribal economies.

Federal and State Recommendations:

- Amend Federal law to allow Tribes and Tribally Designated Housing Entities (TDHEs) to directly access HOME and housing counseling funds available under HUD.
- Streamline the mortgage approval process by the BIA Realty Division.
- Allow Tribes to manage and/or privatize their own title plants to accommodate today's mortgage marketplace.
- Provide resources to mortgage lenders to educate them about lending opportunities in Native communities.

Tribal Recommendations:

- Encourage the development of strong Native CDFIs dedicated to housing lending in Native communities.
- Develop new rules and regulations that better facilitate the process for tribal members to acquire, build, or renovate homes.
- Promote TDHEs and credit programs to provide mandatory financial education classes for Native borrowers.
- Expand home mortgage financing opportunities for tribal members living on trust and fee land by facilitating HUD Section 184 Lender Approval for Native banks, credit unions, CDFIs, and other financial intermediaries; and requesting an expanded service area approval from HUD's Office of Native American Programs.

² King, J., Hicks, S., Edwards, K., & Larson, A., (2003). *American Indian tribal communities and Individual Development Account (IDA) Policy* (Policy Report), St. Louis: Washington University, Center for Social Development



ENTREPRENEURSHIP

There is more to the tribal economy than the gaming industry. Today, more Native entrepreneurs are starting and growing businesses than ever before. In 2004, gaming enterprises generated \$18.5 billion while in 1997 individual private Native businesses generated nearly double that amount – \$34.3 billion in revenue – and employed almost 300,000 people.³ Entrepreneurship can be a ladder out of poverty and into economic stability for some low-income families. Despite a recent increase in the numbers of Native businesses both on and off the reservation, Native entrepreneurs face exceptional resource barriers that inhibit business success, including a lack of entrepreneurship education in the K-16 system and a severe lack of access to reasonable debt and equity financing.

Federal Recommendations:

- Place Native entrepreneurship on the federal policy agenda by promoting federal agency partnerships and information clearing-houses with an explicit focus on entrepreneurship development for Native communities.
- Support increased funding to federal programs that specifically support Native American entrepreneurship efforts such as the CDFI Fund Native American Programs, the Small Business Administration's Office of Native American Affairs, and BIA's business development loan and grant programs.

State Recommendations:

- Expand outreach by state business development and loan programs to Native entrepreneurs living both on and off reservation.
- Partner with tribes and Native communities on promoting tourism and marketing Native businesses statewide, nationally, and internationally.
- Promote entrepreneurship education and provide adequate funding for implementation in the K-16 statewide public school systems.
- Invest in Native-owned CDFIs and equity initiatives to increase access to equity investments and appropriate debt financing in Native American businesses.

Tribal Recommendations:

- Support knowledge sharing across tribal communities, targeting tribal policymakers and economic development officials, around creating effective entrepreneurship development systems in Native communities.
- Support entrepreneurship opportunities and education in tribal K-16 schools.
- Support and expand efforts to develop tribal commercial codes.
- Streamline business permitting and licensing processes.
- Develop "Buy Native" programs to reinvigorate historical inter-tribal trade routes and economic exchange as a means to promote both private businesses and tribal enterprises.

EARNED INCOME TAX CREDITS

The Earned Income Tax Credit (EITC) is a federal income tax credit for low-income workers. The credit can reduce the amount of tax an eligible individual owes and may be returned in the form of a refund. The EITC has been an effective tool in assisting families out of poverty, paying debts, and seeding savings. Its impact to Native communities is even more significant because it returns money to the pockets of Native individuals and serves as a capital infusion to developing tribal economies. It can also encourage setting financial goals such as purchasing a home or creating a small business.

Unfortunately, many eligible Native families and individuals do not claim the EITC because they do not know about it. And, if they do claim it, they are more than twice as likely as the general population to use a paid, commercial tax preparation company, according to a Brookings Institution analysis. Many of these companies charge inflated fees and offer high-interest rapid refunds called Refund Anticipation Loans, or RALs, resulting in a significant reduction in the amount of the eligible tax refund.

Federal Recommendations

- Give funding priority to support Native EITC awareness campaigns and free tax preparation programs such as Volunteer Income Tax Assistance (VITA) sites.
- Support policies that provide consumer protections against the practice of issuing high-cost RALs as rapid refunds.

State and Tribal Recommendations

- Support efforts to launch and fund Native EITC outreach campaigns and free tax preparation sites on or near reservations.

These policy recommendations reflect the views of the NFEC, but may not reflect the official positions of all of its members.

³ National Indian Gaming Association, Tribal Government Gaming: An Analysis of the Economic Impact of Gaming in 2004 and CFED Native Entrepreneurship: Challenges and Opportunities for Native Communities. (2004)