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## **Remarks by Governor Mark W. Olson**

**At the System's Sovereign Lending Conference: Banking Opportunities in Indian Country, Scottsdale, Arizona  
November 18, 2002**

### **Overcoming Challenges and Seizing Opportunities in Indian Country**

Thank you for inviting me to participate in this event. It is a privilege to be associated with this landmark conference, and the Federal Reserve System is honored to host it. It is gratifying to see the wide representation of leaders from Native American communities, banking and financial institutions, government agencies, academic institutions, and nonprofit organizations who have convened to discuss strategies and seek partners for creating new opportunities in Indian Country.

The importance of seeking banking opportunities to foster economic development in Indian Country is underscored by the extreme need of Native Americans living on reservations. This need touches many aspects of life--health, education, housing, employment, and income. As we are all too aware, much of Indian Country is characterized by unacceptable levels of poverty, unemployment, home ownership, and educational attainment. Government statistics reveal that during the period 1999-2001, 25 percent of Native people were living in poverty. Unemployment among some tribes has been as high as 75 percent, and home ownership for Native Americans in 2001 was 12 percentage points below the national rate. In addition, Native Americans are six times more likely than any other ethnic group to live in substandard or crowded housing. Clearly, these statistics convey the scope of issues that persistently challenge the Native American community.

However, there are also statistics that illustrate the progress of Native Americans and the promise of increased economic viability in Indian Country. For example, according to the U.S. Census Bureau's Economic Census, the number of businesses owned by American Indians and Alaskan Natives increased 84 percent between 1992 and 1997, compared with a 7 percent overall increase over that period. In addition, the receipts of Native-owned enterprises amounted to \$22 billion in 1997, a 179 percent increase from 1992 compared with a 40 percent overall increase over that five-year period. Home mortgage lending to American Indians and Alaskan Natives also shows an increase over time. A review of Home Mortgage Disclosure Act (HMDA) data reveals a 39 percent increase in housing loans to American Indians and Alaskan Natives between 1997 and 2001.

There are also positive trends in education for American Indians and Alaskan Natives. Data compiled by the U.S. Department of Education show an 82 percent increase in enrollment in institutions of higher education by this population between 1976 and 1997, while enrollment in the general population rose 31 percent over the same period. In addition, tribal colleges are attracting more Native students, with the American Indian Higher Education Consortium reporting that enrollment of American Indian students in these institutions increased 62 percent between 1990 and 1996.

These gains are dramatic and are due in part to the fact that the base numbers are much smaller and increases have a larger effect on the percentages. Nonetheless, the gains represent important, hard-won advancements in improving the socioeconomic status of Native Americans and Alaskan Natives. They also demonstrate the perseverance of a community that is working to achieve economic viability while maintaining its cultural identity. It is through its self-determination and concerted effort that the Native American community has made strides in improving the quality of life for its citizens.

The challenges confronting Native Americans in creating sustainable economies on tribal lands are not insignificant, but they are surmountable. Several tribes have successfully engaged in significant economic development activities without compromising their sovereignty or cultural identity. While casino and gaming operations are the most widely known Native American-owned enterprises, other prosperous economic development efforts in Indian Country include forestry, tourism and recreation, construction, manufacturing, and retail services. Such development activities have been the life-blood of sustainable economies for some tribes, providing tribal governments with funding streams for community services and creating businesses that provide citizens with jobs that enable them to remain on their home land.

There are several issues that can complicate economic development in Indian Country. As you begin your meeting, I would like to offer my perspective on the challenges to development in Indian Country and the various roles that financial institutions can play in supporting efforts to identify new opportunities.

### **Challenges to Investment in Indian Country**

From the perspective of a former banker and a Federal Reserve Board member, the overall economic condition of Indian Country is, unfortunately, the result of the worst outcomes of both public policies and private-sector practices. The combination of a troubled historical relationship with the federal government and the lack of understanding of tribal cultures and governance structures by the private sector has deterred investment and the development of the fundamental infrastructures vital to supporting market-based economies. These infrastructure systems are governmental, physical, educational, and financial in nature, and they are the underpinnings of economic development.

### ***Governmental Infrastructure***

With respect to governmental infrastructure, I have personal experience, as a former banker in Minnesota, with the complexities of lending in Indian Country. Native American tribes are sovereign nations with the right to self-govern, and this status is critical to honoring and preserving individual tribal heritages. However, because of the variety of tribal legal systems that exist, standard laws often do not apply to business and lending transactions, resulting in ambiguity in enforcing and securing contracts. In the face of such uncertainty, markets do not respond to development opportunities.

Throughout Indian Country, various strategies for addressing this issue have been implemented. For example, in the 1970s the Choctaw Indians in Mississippi entirely restructured their governmental system to operate in a more businesslike manner in order to attract private investment. As a result of these efforts, the tribe now owns and operates a diversified portfolio of manufacturing, service, retail and tourism enterprises and has been able to reinvest more than \$210 million in economic development projects in Mississippi. Other tribes have resolved the governmental infrastructure issue by adopting legal codes,

modeled after the Uniform Commercial Code that governs commercial transactions to provide a degree of standardization for secured commercial dealings in Indian Country. The Indian Law Clinic at the University of Montana drafted the Model Tribal Secured Transaction Code to offer tribal courts a mechanism for establishing a legal code that offers lenders and investors assurance that their interests are protected.

Individual financial institutions and tribal governments have worked together to devise other mutually agreeable arrangements to overcome obstacles that hinder lending. In Utah, Zions First National Bank and the Ute Indian tribe have crafted a tribal homeownership agreement that addresses tribal lending restrictions and provides for homebuyer counseling and underwriting considerations.

### ***Physical Infrastructure***

Physical infrastructure deficiencies have also limited development and financing opportunities in Indian Country. Many tribal lands are remote and do not have the infrastructures fundamental to development, such as water and sanitation, utilities, telecommunications, and transportation. Without these basic systems in place, it is difficult to attract private residential and commercial development.

Inadequate physical infrastructure requires additional investment by developers and increases project costs. Developers and investors tend to seek areas where existing systems are sufficient to support their enterprises. Consequently, tribes that can address physical infrastructure issues are better positioned to attract private investment. While direct funding of roads and water and sewer systems is not generally the business of banks, they can support such development through their investment activities. For example, U.S. Bank in California purchased a \$500,000 bond issued by the Umatilla Confederate Tribes to fund water and sewer facilities and the construction of a tribal government building.

These basic infrastructure needs also adversely impact the availability of residential mortgage loans. The Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA) loan insurance and guarantees typically require these basic services.

### ***Educational Infrastructure***

In addition to physical infrastructure, sufficient human capital to create and sustain an educated labor force is critical to fostering development opportunities. Businesses need skilled workers, and they seek areas with educational facilities that can host training programs that provide employees with the technical skills necessary to support a productive and profitable enterprise.

As I mentioned earlier, important progress has been made in the area of education among native populations. Tribal colleges play an important role in economic development in Indian Country, providing a wide variety of services including continuing education and GED courses, job-skills training programs, and assistance to entrepreneurs. They can also serve as a focal point for leadership and coordination of local development initiatives. As educational-delivery vehicles, tribal colleges empower communities by providing the knowledge and skills that improve the economic prospects of their people. Financial education is one facet of such training. Because many tribal economies are cash-based, many residents do not have a context for fundamental financial skills, such as budgeting, saving, and obtaining and managing credit and are not familiar with banking products. To

help address this situation, First Nations Development Institute and the Fannie Mae Foundation, with cooperation from the Federal Reserve Bank of Minneapolis and others, developed a financial education curriculum that is widely used by tribal educators. By providing information in a culturally aware manner, such training can help students gain the tools they need to become economically self-reliant. Financial institutions using this tool have the opportunity to serve as important providers of financial literacy training, applying their expertise and experience in delivering training to Native American communities as they do in other banking markets.

### ***Financial Infrastructures***

Discussion of the role that banks can play in helping to meet the financial literacy needs in Indian Country leads to the issue of inadequate financial infrastructures. Certainly, a strong and active banking community is a tremendous asset in creating economic opportunity. In addition to providing financial support, bankers can offer a valuable perspective on market and business operations in support of development. In communities in which financial institutions are present, institution staff often provides technical assistance to small businesses, training to prospective homeowners, and financial education to residents. However, the complex history in Indian Country-- a history that includes cultural and legal misunderstandings, lack of trust, and stereotyping--has resulted in many tribal communities being underserved by financial institutions. Indeed, a study by the Community Development Financial Institutions Fund involving regional workshops, national roundtables, and national surveys identified seventeen major barriers to capital access, including the lack of presence of financial institutions on or near Indian Lands. The absence of financial institutions in these communities results in a void in the flow of capital and credit, denies opportunities for tribal residents to learn about the banking system and hinders the development of positive financial behaviors.

Many banks have made progress in serving the Native American community. Some have installed ATMs to help meet financial services needs on reservations; and others have established branches in Indian Country. In addition, some tribes have established their own financial institutions to provide services and credit. Currently, there are more than 20 Native-owned institutions, including banks, credit unions, and Native Community Development Financial Institutions. In addition, many tribes have developed loan pools to fund development and have devised other creative strategies to capitalize development activities.

### **Overcoming Challenges to Development**

Overcoming challenges to development requires leadership, commitment, creativity, and flexibility. In each example I have cited, the vision of tribal leaders and the involvement of partners have helped to bring the new ideas, as well as the capital and technical assistance, necessary to create viable economies in Indian Country. The foundation of such partnerships is mutual trust and understanding. Once the foundation is established, collaborative efforts to identify appropriate roles and profitable opportunities can move forward. A multitude of resources, ranging from funding to in-kind services, are available from governments--both tribal and federal; private-sector organizations, nonprofit groups, and foundations. When the organizational objectives of each partner are understood, creative business strategies can be devised that are responsive to each partner's mission. Inherent to this process is the development of creative financing tactics to leverage funding, diminish risk, and maximize return. Financial institutions can play a critical role in this process, with lenders bringing important perspectives on community and economic development, capital, and technical

assistance to development initiatives.

The various initiatives that have been created to address the critical need for safe, decent, and affordable housing in Indian Country provide a rich source for creative approaches to providing new opportunities. At the federal level, funding programs to help facilitate affordable housing, such as the Department of Housing and Urban Development's Indian Housing Loan Guarantee program (Section 184) and the Tribal Housing Activities Loan Guarantee Program (Title VI), serve as mechanisms for reducing risk to lenders. In addition, Fannie Mae's Native American Conventional Lending Initiative provides a secondary market for mortgage loans made on tribal lands and to American Indians. Nonprofit housing organizations, such as the Neighborhood Reinvestment Corporation (NRC) have also worked to establish local groups to support homeownership opportunities. The Navajo Partnership for Housing is an affiliate of NRC that provides homebuyer counseling and helps to address legal hurdles in mortgage lending.

### **Seizing Opportunities**

Clearly, creating sustainable economies in Indian Country is challenging work, as it is for *any* sovereign nation. It requires extensive financial and human capital. And it demands the committed participation of tribal leaders, financial institutions, government agencies, educational organizations, and nonprofit organizations. Through active collaboration among these groups, creative solutions that meet both the economic and cultural needs of a tribe can be developed to address infrastructure deficiencies--be they governmental, physical, educational, or financial services in nature.

Finally, I would like to discuss the vital role that information-sharing and dissemination play in developing tribal lands. The availability of reliable and timely information is essential to market operations, and an effective information infrastructure is critical to establishing viable economies in Indian Country. The presence of information channels facilitates widespread communication about opportunities and the appropriate partners to engage in development activities--information that is fundamental to devising effective development strategies. In addition, the dissemination of best practices and lessons learned provides valuable insight into approaches that are worthy of replicating and those that are not.

The Native American community has developed many resources to facilitate information sharing and promote unity. One example of such a resource is First Nations Development Institute, a national organization that has provided financial and asset management assistance to Native American communities and tribes for more than twenty years. Serving as a leadership institute, an information clearinghouse, and a funding source, First Nations is a valuable resource to all the partners involved in supporting development in Indian Country. Another important provider of information is the National Congress for American Indians, whose mission is to promote and communicate issues related to tribal sovereignty and federal policies. The National American Indian Housing Council offers training, technical assistance, and research for member organizations to promote affordable-housing opportunities for Native Americans. Another information-infrastructure development to support Native-owned small businesses is the National Native American Chamber of Commerce, which was established this year to foster economic development opportunities nationally and to support the work of its member state organizations. In addition, the National North American Bankers Association serves as a mechanism for bringing together the interests of and opportunities for Native American financial institutions. These are just a few of the many organizations that are dedicated to furthering socioeconomic advancement

in Indian Country by serving as a coalescing force for Native Americans and providing valuable resources and information to tribes.

The Federal Reserve is another information resource. The Federal Reserve's macroeconomic objective of creating conditions that promote economic viability is relevant to local economies, and the Community Affairs Office (CAO) seeks to assist community leaders in identifying ways to support local development and low- and moderate-income populations. From its impartial vantage point, the CAO can facilitate the collaborative process by bringing together relevant partners. Today's meeting is one example of this service. Another, more-focused example is the Sovereign Lending Workshops sponsored on an ongoing basis by the Federal Reserve Banks of Minneapolis and San Francisco. These workshops are more local in nature and provide a forum for tribes, banks, and other interested parties to discuss specific issues and needs. Technical assistance and research can provide partners with insight into the various challenges and opportunities of working in Indian Country.

In closing, I would like to encourage you to use this conference as a springboard for creativity in considering your role in increasing opportunities in Indian Country. Draw on the vast knowledge and talent that is gathered here to identify ways that your organizations can contribute to the viability of tribal communities. Seek new partners and leverage resources--information, funding, and human--to formulate strategies for overcoming challenges and seizing opportunities in Indian Country. As is the case when any new market is being established, trepidation is replaced with confidence as mutually beneficial relationships yield financial and social rewards.

Thank you for inviting me to participate in your conference. I look forward to learning of the new endeavors that will surely result from these sessions.

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