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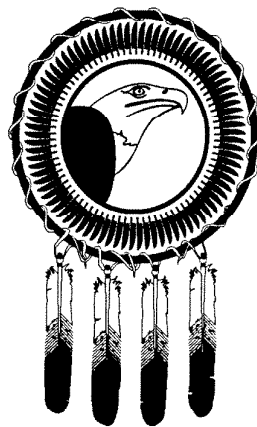
Evaluation of Reservation-Based Loan Programs

by

David H. Festa and James R. St. George

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John F. Kennedy School of Government
Harvard University

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Executive Summary

This study seeks to shed some light on the question of what can be done to create a successful, reservation-based loan program. Conventional (banking) wisdom has said that Native Americans are simply bad credit risks. Therefore, any loan fund catering to this community needs to expect high default rates. The premise of this study is that one can find factors other than ethnicity to explain why so many Native American loan funds fair poorly.

Using a questionnaire designed to elicit information on various operational and attitudinal aspects of existing reservation- or tribe-based loan program through telephone interviews, we found several factors strongly influenced the quality of the loan program.

First, the loan funds often failed to conceive of themselves as a business. Thus, they were (and in some cases are still) managed inefficiently. Successful programs recognized the importance of clearly defined policies for such things as loan servicing and collections. This recognition manifested itself not just in a business plan but also in the fund's daily operations.

Second, contrary to the conventional wisdom, American Indians are generally interested in making payments on their loans. The problem is not with a lack of moral fiber but with a lack of financial education.

Third, many of the loan programs were run as social welfare programs. In these cases both the creditor and the debtor operated under the assumption that borrowed money would never be paid back. Naturally, these attitudes severely depressed the performance of the loans.

Fourth, politics frequently interfered with sound financial decision-making. Politics is played on all levels -- by the tribes, by the states, by the banks, by the Bureau of Indian Affairs, and by everyone in between.

To help illustrate these points, the study presents case studies of three different loan programs. The first, of an Indian Credit Association in Oklahoma, presents an overview of one of the oldest and most successful of the loan funds. The other two look at credit unions, one successful, the other not. The salient difference between success and mere survival in this instance is the existence of trained and experienced personnel.

We address briefly the role of the Bureau of Indian Affairs in the success or failure of lending programs, inquiring into the organizational rules and procedures, role of the Area Credit Officer, and role of the local Credit Officer. To the extent that these rules and people emphasize collections and a business-like approach to the lending programs, they facilitate success. On the other hand, when staff is inexperienced or undertrained, or when programs are simply under staffed, even committed individuals will face serious problems.

Finally, we identify the primary weaknesses in our study: the lack of quantitative data (apparently available only through on-site visits) and our inability to establish a link between loan programs and successful economic development. With those constraints in mind, we make several recommendations for further study.

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INTRODUCTION

Among the most scandalous problems facing Americans today is the economic situation on nearly all American Indian reservations: scandalous because of both the duration and magnitude of the problem. With only rare exception reservations have been left out of a century of economic development. It is not uncommon to find communities or entire reservations with unemployment rates of 80-90%; often the only available jobs are government jobs providing services to other residents.

In spite of the obvious nature of the problem, solutions are much more problematic. Promoting economic development while remaining sensitive to cultural values -- and operating within the budget constraints of contemporary American politics -- often requires an emphasis not on massive government programs but rather on small scale, self-sustaining economic development. An important component of this "home grown economy" is the availability of small loans to new or fledgling businesses. Existing financial institutions are often -- or perhaps usually -- unwilling to extend credit onto reservations, whether due to the anticipation of higher risk, difficulty in collections, or simple bigotry.

There are programs currently available that attempt to meet the need for credit. One model is that of the credit union, a locally based financial institution with a Board of Directors elected from the community. Credit unions are presumably more receptive to the needs of the community than for profit institutions based in neighboring towns. One variation on that model is the community development credit union (CDCU). CDCUs differ from standard credit unions in that in addition to taking deposits from the authorized members, they can also take deposits from outside depositors. The additional resources are used to promote economic development in distressed areas. While the number of currently operating

American Indian Credit Unions is small -- apparently single digits -- and their resource base minimal, the potential for significant impact on reservation economies does exist.

A more typical method of bringing needed capital to the reservation is a Bureau of Indian Affairs (BIA) funded revolving loan fund (RLF). The notion is to make a loan available to a reservation or cluster of reservations; this money is to be re-loaned to stimulate economic activity. As the loans are repaid, the money is made available to new applicants. Most of these programs remain quite small (capitalized at less than \$1 million), and there is a broad range of relative success or failure rates.

Finally, a third model is the Indian Credit Association (ICA). ICAs exist autonomously from tribal structure, and in fact are chartered separately. Their separation from the tribal structure is the primary difference between an ICA and RLF. Like a credit union, they are controlled by a Board of Directors elected by the members but they do not take deposits; they do, however, sell shares of ownership which is essentially the same as a deposit. All borrowers are eligible to become members of the ICA. Like the RLFs, they are often originally funded (at least in part) by the BIA and generally receive technical support and assistance from the BIA.

In light of the First Nations Financial Project's work to establish a model for reservation based loan programs, this paper looks at a number of selected reservation based loan programs and American Indian credit unions in order to determine the conditions that lead to successful loan programs. We identify several factors that, if applied more widely in the field, could realistically increase the availability of credit, and thus economic activity, on reservations. We also identify a number of barriers to success, and evaluate the role of the Bureau of Indian Affairs (BIA) in promoting or impeding success. Finally, we explore in

depth three relatively typical programs (two credit unions, one ICA) to give a more complete picture of the actual conditions program staff face.

ORIGINAL HYPOTHESES

There are a number of factors that could account for the difference in performance between the various loan programs. High on the list are various operational procedures such as servicing and monitoring outstanding loans, handling delinquent loans, recovering defaulted loans, maintaining a loss reserve fund, and following consistent patterns in collecting loans. We expected that the absence of policies or inconsistency in following procedures would lead to higher rates of delinquency, default, and failure.

Another potentially important factor in the relative success or failure of a loan program is the tribal environment in which the program exists. To the extent that the tribal power structure is involved politically in managing or operating the loan fund, or even influences the way those decisions are made, we expected the fund to be less successful. We assumed that a loan fund must be based on sound business decisions, and that internal tribal politics interferes with these judgements.

A third important factor is likely to be staff training, expertise, and supervision. We reasoned that if loan funds are to be run like a business, they must be staffed by professionals. People involved with the operation must have both the interest and ability to manage the fund. We expected that if staffing decisions are based on patronage, or if the working conditions or salaries are too low to attract qualified staff, the programs will suffer.

Finally, we expected that the economic environment in which the loan program operates would be an important determinant of relative success or failure. A loan program operating in an area that experiences a dramatic drop in economic activity, or a credit union on a reservation with 80% unemployment, other things being equal, could not be expected to

have the same repayment rate as a program operating in a better economic environment. Irrespective of the expertise and care in developing a successful program, we expected that outside economic factors will have a substantial influence on the quality and impact of a loan program.

METHODOLOGY

•The Survey

We developed a survey to ensure that the questions asked were consistent throughout the process. The survey addressed the credit union's or loan fund's mission, organizational structure, operating procedures, lending activities, and other services (see Appendix A). While the original survey proved to be cumbersome and overly detailed, taking up to 90 minutes, the revised survey was a valuable tool. We used telephone interviews to gather the data.

•The Programs Surveyed

We selected 25 credit unions, ICAs, and RLFs operating in 13 states for our interviews (see Appendix B). We included in this list all of the Indian Credit Unions that exist (to the best of our knowledge), and selected ICAs and RLFs to reflect both geographic diversity and relative levels of success as determined previously by the BIA. One of the credit unions had liquidated before we made contact, and we were not successful in reaching another credit union. One of the RLFs we had identified has been without a local Credit Officer for some six months, and we were not able to contact the secretary who continues to operate the program. We succeeded in contacting the remaining institutions.

FINDINGS

1. Collection efforts dramatically improve delinquency rates

In the words of one of our interviewees, "How good would your credit card payment record be if the company never sent you a monthly statement?" Surprisingly, many loan funds operate with exceedingly lax loan servicing -- so lax that in some cases both lender and borrower operate under the assumption that no one will really try to collect the loan payments.

Most of the loan officers surveyed who made an effort to collect delinquent loans said that the problem was usually not insolvency. The problem most often is that the programs don't make an effort at collection. Instead they quickly assume that the borrower was a bad credit risk. In one case, a loan officer reportedly didn't keep regular office hours. Therefore, borrowers would come in to make a payment and, not finding the officer in, they would simply spend the money elsewhere. His replacement was able to cut delinquencies by 75% by establishing regular office hours and mailing delinquency notices promptly. In another instance, the program let loans go several *years* before an officer finally sent out delinquency notices.

2. Effective loan servicing includes providing financial counseling

Loan servicing goes deeper than simply contacting delinquent borrowers: it includes financial counseling as well. Loan officers in successful programs told us that they would often attempt to find out why a person was delinquent. Often it turned out that an individual or enterprise's problems stemmed from unfamiliarity with standard financial and/or

management techniques. In these cases, the loan officers would set up special sessions or suggest sources of technical assistance outside the program. In a few such cases where cash-flow problems were chronic, the loan officers would renegotiate the terms of the loan, usually spreading out payments over a longer time.

3. "Hard nosed" programs still retain good community relations

One area of concern was whether the shift to a more business-like approach to lending would produce a more acrimonious relationship between the lending institution and its clients. Apparently this problem does not materialize for several reasons. First, the borrowers want to establish good credit ratings. Often, establishment of credit is as big a priority for RLFs as access to capital -- the community needs to show outsiders that they can be good credit risks. One individual's bad loan can affect the credit rating of the entire tribe. Second, there is a "golden rule" effect: if the loan program deals in a business-like way with the borrowers, the borrowers tend to deal in a similar fashion with lenders.

The one real problem with such a shift seems to be when the organization changes approaches in mid-stream, without adequately familiarizing clients with the new *modus operandi*. In the case of loans to fishermen in Oregon, for example, there were a lot of hard feelings because they understood the program to be essentially a grant. Only under a new loan officer were collections attempted, and it was done without warning. While the new approach was undoubtedly necessary and appropriate, the antagonism caused by the abruptness may have been avoidable.

4. Credit unions don't make direct business loans

Despite the fact that credit union loan programs are often quite successful, because they do not provide business loans (as such) they are not meeting the needs of the communities for economic development. Part of the reason for this is that the managers have little background in either the theory or practice of micro-enterprise lending; thus they do little to promote such activity. Another part of the problem is that the credit unions are often closely allied with the BIA lending programs: in one case, a single individual administers both. Therefore, there is a tendency to segregate lending programs with the credit union doing personal loans and the relending program responsible for business loans. It should be noted, however, that the personal loans administered by credit unions might in practice be micro-business loans. Since the use of these personal loans is not documented, though, it is impossible to determine if they are in fact small business loans.

5. Experience, training, and established operating procedures are crucial

Differences in prior experience among Credit Officers is remarkable: some, like Bobbi LeVeen of the San Carlos Agency in Arizona or Tom Litzow of the Menominee Revolving Loan Fund in Wisconsin have had years of private banking experience before becoming a Credit Officer. The majority, however, have had no private sector experience and little experience in accounting or financial management. Paula Brady, of the Duck Valley Agency in Nevada, for instance, had no banking experience before being made Credit Officer; her training consisted of long-distance phone calls to Ms. LeVeen.

Because experience varies so greatly, training and established operating procedures are especially important. Taken together, training and formal procedures -- a kind of

"institutional memory" -- can help a dedicated but inexperienced worker develop the skills necessary to run a successful program. Problems arise, however, when more than one of these factors is lacking to a significant degree.

6. The source of lending capital is not a crucial factor

One of our theories was that loan funds capitalized locally would have a better track record than those capitalized by outside sources such as the BIA, foundations, or corporations. Interestingly, our investigation indicated that the *source* of the money need not be local for the program to be successful. For example, all of the RLFs get most or all of their capital from the BIA, yet success rates vary widely. The Muskogee ICAs get virtually all of their capital from the BIA, yet remain successful. On the other hand, programs similar in many respects except that their administrators are remote both in terms of geography and social interaction have delinquency rates of up to 98%.

7. A confused mission can sabotage the best efforts

Lack of focus of both loan funds and their administrators is a significant problem. One of the most common mistakes in defining the mission of a loan program is confusing credit with welfare. Credit officers are well aware of the serious economic problems on reservations, but they were nearly unanimous in asserting the need to have a hard head to go along with their soft hearts: they were trying to run a credit program, not solve all the problems of poverty. Attempts to mix the two invariably lead to problems in or even failure of the loan program, results which serve no one's interests.

Over the past several years the loan programs have begun to look more in depth at the

function of their lending and the limits of what can be accomplished by that lending. Administrators have begun to recognize that an organization with an ill-defined mission or overly broad set of goals will have a difficult time surviving in the long run.

Similarly, an over committed administrator will reduce the effectiveness of the loan program. The administrators themselves, however, remain in charge of programs ranging from credit to health services with many able to spend no more than perhaps 25% of their time on servicing loans. Keeping the loan program's mission clear and concise is one of the lynch pins of Juneau area director Dan Morgan's plan for revamping Alaska's Indian credit program. While provision of technical assistance is an important function of the credit officer, he recognizes that it may be necessary to sacrifice that activity if there are insufficient resources. Morgan's solution to this dilemma is to marshal available resources within the community (e.g., the Small Business Administration and the University of Alaska) to meet the technical assistance needs of the borrowers.

8. Local politics must be removed from the loan program

Attempts to use the loan program as tools in political struggles are probably more destructive than confusing the program with a welfare program. While patronage and "pork-barrel politics" are obviously not unique to American Indians, Credit Officers repeatedly cited these problems as among the most difficult to deal with. Most loan programs make strong efforts to assert their independence from the Tribal Council, although the Credit Committees of almost all the RLFs are appointed by the Tribal Council. (The Credit Committee for the Pima Tribal Relending Program in Arizona is actually a committee of the Tribal Council, with two Council members serving on the Committee; this appears to be an unusually close relationship.) Although none of the Credit Officers acknowledged current

problems with political manipulation of the loan program, most of them were aware of problems or allegations of problems in the past. They were essentially unanimous, however, in the need to protect against encroachment.

An additional issue regarding the conflicts of interest that arise from local approval of loans is the eligibility of Credit Committee members for loans. While most of the programs prohibit members from voting on their own request (or those of their family), a few such as the San Carlos Agency in Arizona and the Blackfeet Tribal Revolving Credit Program in Montana prohibit Credit Committee members from even applying for loans. While that requirement may keep some people from applying for the Committee, it probably does a better job of eliminating even the appearance of impropriety from the Committee.

9. Local administration of loan funds is essential to success

A key determinant of how well a loan fund operates is whether or not the loan fund administrators are active within the community. One example is the Muskogee Area Indian Credit Associations (ICAs) in Oklahoma. There are five ICAs serving the reservations in the eastern part of the state. The administrators are familiar with all the loan recipients. Furthermore, local members (current and former borrowers) make up each ICA's board. When the loan officer sends out delinquency letters they are signed not by the loan officer or other BIA official, but by the members of the board. The fact that the delinquent member receives a letter (albeit a form letter) from a member of his or her community brings greater pressure to bear on that individual. Loan officers in the Muskogee area say that this feature is one of the reasons for their low default rates.

Credit Officers at several RLFs also identified the importance of being visible in the

community. A major part of their job is to ensure prompt payment of delinquent loans; if borrowers only see the credit officer under such adverse conditions, it will be difficult to establish good working relations. Several credit officers with whom we spoke are members of the reservation on which they work; in such cases familiarity is usually not an issue. Those who are not natives of the area, however, often go out of their way to become involved in the community in order to promote positive community relations.

In addition to the community relations aspect, local administration helps in screening applicants. Clearly, people who are familiar with conditions and people on the reservation are better prepared to screen out bad risks than outsiders. When a Credit Officer is brought in from outside the reservation, it is especially important that the Credit Committee -- familiar with the people and conditions on the reservation -- take an active role in loan screening and approval.

10. Economic *stability* is more important than economic *status*

We don't mean to imply that existing economic conditions don't matter -- clearly the absence of economic resources limits the the number of good loan possibilities. The president of the Sisseton-Wahpeton Federal Credit Union, for instance, chooses not to increase the amount of non-member deposits because he does not believe he could make additional successful loans.

A bigger problem for loan programs, however, is economic change. Most loan programs tend to specialize in a particular type of loan, either housing, agriculture, small business, or personal loans. Additionally, many reservations rely on a single commodity or industry for their income: e.g., fishing among the Minnesota Ojibwe, logging among the

Wisconsin Menominee, and cattle among the Montana Blackfeet. Such concentrations make a tribe and its credit program unusually vulnerable to changing economic climate. Lucille McKay, Credit Officer for the Blackfeet Tribal Revolving Credit Program in Montana, points out that the recent drought has had a dramatic effect on the ability of ranchers to repay loans -- and since cattle loans make up nearly 2/3 of the loan portfolio, the drought places the whole program in some jeopardy.

11. Credit Officers don't think in terms of micro-businesses

Credit Officers tend to be oriented more towards making a small number of relatively large conventional business loans than a larger number of smaller loans. The Hopi ICA in Arizona, for instance, has only two outstanding business loans, but they are \$15,000 and \$25,000 loans made over 4 years ago. Similarly, the Blackfeet Tribal Revolving Loan Program supplies one or two small business loans per year, with an average loan of about \$30,000. It is at least arguable, though, that such large loans are not the most effective tool available to promote economic activity. It may be that high unemployment, for example, indicates a high level of activity in the informal sector of the economy. Such activity might be best assisted by small loans to the many people providing services and operating the smallest of businesses. Indian credit unions that provide a number of small "personal loans" may well be meeting the need for micro-business loans, but because they don't document the uses of these loans the effect is hard to measure.

12. A paucity of reliable quantitative data plagues the field

The loan programs we surveyed do not always practice sound financial management and accounting techniques. A previous Credit Officer at the Menominee Revolving Loan

Fund, for instance, rarely turned down loan requests, and usually required no equity in business loans. The St. Regis Mohawk Credit Union in New York was forced to liquidate in November, 1987 because of what the tribal administrator called "lousy record keeping." The biggest problem, she felt, was that the Board was not adequately trained and thus took the advise of the manager when they should have overruled him.

Compounding such problems with management and accounting, the data that does exist is difficult or impossible to track down over the phone. Local officials are understandably reluctant to divulge information to people whom they have never met and about whom they know nothing. BIA officials are reluctant to release copies of statements or audits. To do a thorough investigation would require on-site visits where it might be possible to inspect records in person.

CASE STUDIES

1. Adair County Indian Credit Association

The Adair County Indian Credit Association (ACICA) was founded in the late 1930's when 10 Indians drew up a charter and borrowed money from the BIA to set up a financial cooperative run much like a credit union. Over the years the administrative structure of ACICA and half dozen or so other credit associations in eastern Oklahoma has remained fairly consistent.

The BIA supports ACICA by providing lending capital, charging the treasury rate to ACICA. Additionally, the BIA funds personnel to administer the program. It has assigned a secretary-treasurer, two loan officers and an accounting technician to the Adair County Agency (the BIA department responsible for affairs in ACICA's area). While these people have other responsibilities, they estimate that 75% of their time is spent on ICACA matters. They are in charge of disseminating information, going over applications with borrowers, receiving payments, sending out notices, and other administrative details.

Decisions about which loans to make falls upon the Board of Directors. The board is elected by the ACICA members (present and past borrowers) to overlapping three year terms. The directors are a diverse lot: at the present time the five members are an owner of a car lot, a chicken farmer, a mechanic, a school principal, and a minister.

ACICA is the largest of the east Oklahoma ICAs. It serves 80,000 to 90,000 people and has about \$1.8 million in outstanding loans. They don't make consumer loans, just business loans and housing loans (25% and 75% of their lending activity, respectively). The

default rate is relatively low, about 5%-10%, and the agency funds a loss reserve at about 4% of its total loans.

Overall, the ACICA is considered a successful program. One of the main reasons for their success is the strength of the board. It might seem at first that the board would not be considered a strong point given its members' lack of banking experience. But what is important about the board is that they often know (or at least know about) the people who are filing for a loan. This personal knowledge gives them helpful information about a person's judgement, integrity, and dedication. Familiarity with the borrowers also adds an element of peer pressure on the borrower to pay back the loans.

Another factor which makes the board strong is the fact that it is made up of members of more than one tribe. While this is not part of the governing principles of the ACICA, the way the BIA agency lines are drawn in Oklahoma virtually assures that no one tribe will control all five board seats. As a multi-tribal entity, then, the board is less likely to be consumed by the political battles occurring in any given tribe. (Nevertheless, politics -- tribal, state and federal -- is still ranked by the loan officers as the top headache.)

Another strength of the board is the degree to which they run the ICA like a business. They have a great deal of freedom in their charter and they use it to set the interest rates the ICA will charge and how much they will pay their employees. They have their own lawyer and accountant which increases their independence from outside agencies. The members are also governed by a set of formal and informal rules of conduct -- for example, one of the formal rules is that they cannot be delinquent on a loan.

The long institutional history of the Oklahoma ICA's in general and the ACICA in

particular is another important factor in its success. The program has survived several financially troubled periods. The revisions made after those periods have helped to prevent the ICAs from repeating old mistakes. Equally important is the psychological effect of the ICA's fifty-plus years of successful operation .

2. Sisseton-Wahpeton Federal Credit Union and Oiciyapa Federal Credit Union

Though it is situated in an economically depressed area of South Dakota (unemployment on the reservation is around 75%), the Sisseton-Wapeton Federal Credit Union (SWFCU) is an example of how a small credit institution can sustain a successful loan program.

Launched in February of 1978, SWFCU had 10 members who each deposited \$5. Over the next two years, the tribe contributed \$20,000 and new members deposited an additional \$4,000 to \$5,000. For the next several years the credit union deposits remained at this plateau. In 1983, however, its administrator, Mr. Richard Stewart, discovered that the SWFCU could be designated a low-income credit union. This designation allowed the credit union to accept non-member deposits and sparked dramatic growth. Over the next two years deposits swelled to the million dollar mark. Currently, SWFCU has approximately \$50,000 in member deposits, \$700,000 in deposits linked in some way to an area tribe, and \$150,000 from sources outside the tribes. (The local bank, for instance, keeps \$50,000 deposited in the credit union.) Membership is now over 1,000 and the credit union delivers a wide range of financial and credit services. SWFCU still does not offer checking accounts but it anticipates doing so in the future.

At least five factors contribute to the SWFCU's success. First, credit unions in general have an advantage over other loan programs in that they must report to an outside regulatory agency, the National Credit Union Administration (NCUA). Since the NCUA is not linked to federal Indian programs, it is free from the bureaucratic problems that tend to plague such programs. Also, credit unions can get high-quality, low cost technical assistance from a number of national and regional credit union associations.

Second, the credit union has maintained the autonomy of its board and steered clear of tribal politics. Third, it offers competitive rates for its services. Fourth, the credit union had some of its overhead expenses subsidized by the BIA during its start-up years. (Now, however, SWFCU pays for 100% of its expenses from the revenues generated by its certificates of deposit and 484 outstanding loans. It has even fully computerized its operations with no outside financial assistance.)

Fifth and perhaps most crucial, Mr. Stewart is an experienced credit officer and devotes a substantial amount of time to the credit union. Naturally, his expertise leads to a more professional and efficient business. Moreover, it also means that new, creative ideas are likely to be generated and implemented. For example, Stewart found out that there was such a thing as a low-income credit union through his reading of professional publications.

Regrettably, the credit union formula is not a guarantee of success. The Oiciyapa Federal Credit Union (OFCU) in Rosebud, South Dakota shares many of the underlying economic conditions as SWFCU and, of course, is governed by the same organizational structure. OFCU, on the other hand, has stagnated and is caught in a debilitating circle: poorly capitalized, it can't attract high quality staff; lacking good staff, it can't attract capital.

The credit union was started in the late 1960s. It has 400 active members and an additional 300 inactive members. Its deposits, however, are a scant \$190,000. Of that sum, only \$90,000 is available for loans. (The rest is in a certificate of deposit which the depositor has said can't be used to make loans.) For at least the last six years, OFCU has operated with managers who lack training in any aspect of business, accounting, or economics. The low salary paid to the manager (roughly \$10,00 to \$11,000 annually) also creates high

turnover in that position. The last manager, for instance, stayed about a year before returning to his old job -- as a construction worker.

The lack of consistent and competent management has prevented the credit union from capitalizing on its low-income status. The frequent turn-over creates another problem -- it "shorts out" any institutional memory. One example: Before the last manager left, he tried to get OFCU designated a community development credit union, a move which would have opened up several important avenues for growth. "The effort failed," said the chairman of the Board of Directors, "but he never said what went wrong, so we have been in the dark ever since." The chairman's inability to track fundamental business decisions brings to light another weakness: the board has been unable to provide meaningful direction to OFCU. Not surprisingly then, the credit union has been unable to offer competitive rates or services. As a result, it recently lost a significant deposit from the Rosebud Housing Authority.

The tragedy is that the credit union is heavily used and desperately needed. Though loans are capped at \$500 and OFCU rarely has more the \$40,000 loaned out, it makes at least 400 loans per year. Even more important to both the community and the credit union is the "early payment" loan program. This program provides up to \$150 (used mostly to pay bills) which must be paid back by the following paycheck (two weeks). Since the borrower must be receiving a paycheck and must agree to have his or her wages garnished in the event of non-payment, the loans have a near-zero default rate. The credit union makes over 2,000 such loans per year and earns \$7 per transaction. This number of transactions is comparable to the transaction volume experienced at credit unions with deposits totalling \$2 million.

ROLE OF THE BIA

While the Bureau of Indian Affairs has become an anathema to many American Indians, the fact remains that it plays a crucial role in the direction of economic development on reservations. Although the role of the BIA in Indian Credit Unions is minimal, the BIA has provided the bulk of funding for the relending programs and nearly all of the local credit officers of the loan programs we surveyed are BIA employees. Moreover, the regulations and oversight that the Bureau establishes defines the context in which the funds operate: the emphasis on such things as regular audits, staff training, conflict of interest policies, and routine accounting procedures will largely determine the professionalism embodied in the loan fund. To a large degree, then, the BIA has the capacity to determine the fate of these programs.

There are primarily three ways that the BIA controls the operation of the loan program: through the local credit officer, the area credit officer, and the organizational rules and procedures. From the general rules and messages that come from Washington, through the area supervisors who coordinate and monitor activities, to the local Credit Officers who make the program work, decisions and actions all along the line can make or break a program.

•Organizational Rules and Procedures

The federal government considers the relending programs on reservations largely local matters. Significant amounts of the operations and procedures in these programs is left to the local Credit Officer. Still, there are federal guidelines that apply. According to one of the Area Credit Officers with whom we spoke, for instance, the federal government has recently begun to emphasize collection of loans as a top priority. He felt that until perhaps 1986 they

were unconcerned with delinquency rates or non-payment of loans. They have changed that attitude, although they have not provided additional resources or staff to accomplish the goal.

As a result of this new emphasis, local Credit Officers are required to submit monthly reports to the Area Credit Officer detailing their monthly activities, including delinquent loans and actions taken to service loans delinquent over 90 days. Additionally, the Area Credit Officer performs an annual review of each program as well as periodic visits when possible. The lack of adequate staff, however, often limits the effectiveness and regularity of these visits.

•Area Credit Officers

Because of the emphasis on local control in relending programs, there is a wide diversity in the roles various Area Credit Officers play. In general, their role is to monitor and oversee the relending programs in their region, but the way that is accomplished varies from region to region. One of the major constraints facing Area Credit Officers is the reduction in staff they have experienced in recent years. The Area Credit Officer's staff in the Phoenix region, for instance, has gone from about 12 or 14 just ten years ago to two today; in Billings, the Area Credit Officer's staff has gone from 4 or 5 a few years ago to just one -- Myron Pease, Area Credit Officer -- today. Accordingly, they are much less able to carefully observe the operation of all the relending programs, focusing instead on the programs with obvious problems.

A strong point for the Area Credit Officers is that they have almost all been local Credit Officers previously; thus, they know what it is like "in the trenches." They stated that they work well together, cooperating with each other when new problems or concerns arise. One

area of difficulty is that they do not hire the local Credit Officers. In some areas (e.g., Oklahoma) the Agency Supervisor, while retaining final hiring authority, generally accepts the recommendation of the Area Credit Officer. In regions such as Phoenix, however, the Area Credit Officer has no input into hiring: he or she simply works with whomever the Tribal Council hires. The Area Credit Officer's influence in the operation of the program is thus greatly diminished.

•Local Credit Officers

The local Credit Officer is on the front lines of the operation, working on a day-to-day with clients to adapt the general program to specific needs. He or she is the "face" of the program: the person identified in people's mind as the loan program. They usually live on the reservation, although they are not always members of that particular tribe.

Interpersonal skills are crucial in this position, since they must be able to turn applicants down without alienating them completely. They are responsible for monitoring outstanding loans, maintaining the loan records, and putting into action policies regarding delinquent loans. Ultimately, they are responsible for taking appropriate action when borrowers are unwilling or unable to repay the loan. Through all of this, the loan officer must maintain the respect of his or her clients.

They are generally both loan officers and lone officers: working largely independently, they are responsible for the complete array of services offered. Managing the loan program is usually not their only responsibility; they are often also responsible for various economic development activities and occasionally responsible for various largely unrelated activities.

We believe that training and commitment are crucial factors in the comparative effectiveness of the credit officer. Some credit officers come into the job well-prepared, having had significant experience in the private sector or in public sector finance and accounting. They understand the needs of a successful financial program, and can speak the language of bankers. Others, however, are much less prepared. The case of an Arizona credit officer who had no training or experience, and was trained by another local credit officer over the phone, is not unique.

It is obviously important that the local credit officer have an understanding of and respect for Indian culture; the BIA seems to accept that, as nearly all of the credit officers with whom we spoke were tribal members themselves (although not necessarily members of the tribe where they worked). Simply assigning sympathetic staff is not enough, though. The BIA too often assigns inadequately prepared staff to these positions. To the extent that poorly trained staff lead to high delinquency rates, beliefs that loans made to reservation residents will not be repaid -- beliefs often held by both lenders and potential borrowers -- are perpetuated. Accordingly, poor performance hurts not just the loan fund: the chance for additional credit and development is reduced as well.

RECOMMENDATIONS FOR FURTHER RESEARCH

This study suffers from two primary deficiencies: lack of data that can apparently be reviewed only through on-site visits, and an inability to establish a link between successful loan programs and economic development. Accordingly, we would recommend that further research address these issues as indicated below.

•Data available through on-site visit

- Review annual reports, audits, etc.
- Determine actual delinquency rates
- Identify use to which credit union personal loans are made
- Survey training procedures
- Document attempts to bring delinquent loans current
- Identify role of Tribal Council in determination of loan eligibility

•Establish link between loan programs and economic development

- Identify the potential for micro-business loans
- Test the willingness of local Credit Officers to authorize such loans
- Determine number of jobs created or maintained through loan fund
- Establish value of housing loans as economic development tool
- Consider potential for economic diversification through loan fund

CREDIT UNION & REVOLVING LOAN FUND QUESTIONNAIRE

Name and Title of Individual:
Name of Fund/Credit Union:
Address:
Telephone:

A. Background and Mission

1. When was the credit union/loan program started?
2. When did you join?
3. What was the mission or main purpose in first organizing the credit union/loan program? How has that changed?

B. Organizational Description

1. What is the relationship between the tribe and the credit union/loan program (e.g., organizational form, stock ownership, decision makers, sources of funds, administrative support)?

- a) Run directly by tribe
- b) Completely separate from tribe
- c) Affiliated with tribe -- please explain

d) Who serves on the Board? How are they elected?

e) What prior experience has staff had? How long have they worked with the institution?

5. Please describe the impact of your credit union/fund concerning the impact on individual well-being, reservation economic development, etc.

- a) Number of people served
- b) Number of new businesses started
- c) Number of existing businesses financed
- d) Are the loans to tribally owned, individually owned, or both?

C. Lending Activity

1. Profile of Loan Fund

a) Give an estimate of:

-Assets:

-Total Deposits (Credit Unions):

Source #1

Source #2

Source #3

Source #4

-Outstanding Loans:

b) Do you fund a loss reserve against your loans? What is the percent amount of the loss reserve and how has it changed over time?

2. What type of lending do you do?

a) Individual Consumer Loans:

Approx. number and total amount of loans per year:

Approx. number and total amount of loans outstanding:

Average loan size and maximum loan:

Loans typically made for:

Collateral requirements:

Default rate:

Delinquency rate:

Comments on your experience with this type of lending:

b) Small Business Loans:

Approx. number and total amount of loans per year:

Approx. number and total amount of loans outstanding:

Average loan size and maximum loan:

Loans typically made for:

Collateral requirements:

Default rate:

Delinquency rate:

Comments on your experience with this type of lending:

c) Housing Loans:

Approx. number and total amount of loans per year:

Approx. number and total amount of loans outstanding:

Average loan size and maximum loan:

Loans typically made for:

Collateral requirements:

Default rate:

Delinquency rate:

Comments on your experience with this type of lending:

d) **Ranching and Agricultural Loans:**

Approx. number and total amount of loans per year:

Approx. number and total amount of loans outstanding:

Average loan size and maximum loan:

Loans typically made for:

Collateral requirements:

Default rate:

Delinquency rate:

Comments on your experience with this type of lending:

3. (Credit Unions) What percentage of your deposits are

a) from the reservation?

b) from off the reservation?

D. Operating Procedures

1. What conflict of interest policies does the credit union/loan program have? What procedures exist for guiding loan approvals for staff or board members?

2. Are you aware of any conflict-of-interest problems that may have existed in the past .

3. Do you have annual audits performed? Could we receive copies of your audit and credit reports?

4. Has the tribe impeded collections?

E. Other Activities and Services

1. Does the credit union/loan fund provide :

*financial counseling

*technical assistance

*business planning

If not, is this needed?

Appendix A
Questionnaire

2. What organizations (if any) have provided assistance to your tribe on credit unions/loan programs? Which of these would you recommend? Is there any assistance you are looking for now?

3. In your judgement, what credit or banking needs are now underserved on the reservation?

F. Assessment

1. Please give the three main reasons for the success of your credit union/loan program.

a)

b)

c)

2. What are the three main obstacles you have encountered?

a)

b)

c)

3. What are the three most important needs of the credit union/loan program to meet its longer-term objectives?

a)

b)

c)

4. What areas are you looking at for the future of the credit union/loan program?

a) Expand its capital

b) Strengthen its operations and/or repayment experience

c) Move into new lending or technical assistance activities

d) Other (Please Explain)

Appendix A
Questionnaire

8. Would you be interested in information or the possibility of a working forum that would share information on the experiences of reservation-based credit programs, and new strategies that are being developed?

Appendix B
Name and telephone numbers of loan funds

Indian Credit Associations

Adair County Indian Credit Association
Harvey Williams, Credit Officer
(918) 456-6147

Chickasaw Indian Credit Association
Mildred English, Credit Officer
(405) 223-6767

Hopi Indian Credit Association
Steve Thayer, Credit Officer
P.O. Box 158
Keams Canyon, AZ 86034
(602) 738-2205

Muskogee Indian Credit Association
Carl Canterell, Credit Officer
(918) 756-8700

Seminole Indian Credit Associatio
Jerl Prince, Credit Officer
(405) 257-6257

Revolving Loan Funds

Blackfeet Tribal Revolving Credit Program
Lucilee McKay, Credit Officer
P.O. Box 850
Browning, MT 59417
(406) 338-7523

Duck Valley Tribal Relending Program
Paula Brady, Credit Officer
Eastern Nevada Agency
P.O. Box 28
Elko, NV 89801
(702) 738-5165

Menominee Revolving Loan Fund
Tom Litzow, Credit Officer
P.O. Box 397
Keshena, WI 54135
(715) 799-5141

Appendix B
Name and telephone numbers of loan funds

Pima Tribal Relending Program
Ray Fry, Credit Officer
P.O. Box 8
Sacaton, AZ 85247
(602) 562-3326

Red Lake Tribal Credit Program
Barbara Brun, Credit Officer
Red Lake Agency
Red Lake, MN 56671
(218) 679-3361

San Carlos Tribal Relending Program
Bobbi LeVeen, Credit Officer
San Carlos Agency
P.O. Box 751
San Carlos, AZ 85550
(602) 475-2321

White Mountain Tribal Relending Program
Dallas Massey, Credit Officer
P.O. Box 560
White River, AZ 85941
(602) 338-4364

Credit Unions

First American Credit Union
Robert Shipe, General Manager
(602) 871-4767

Choctaw Tribal Employees Credit Union
Douglas Weaver, President, Board of Trustees
Route 7, Box 21
Philadelphia, MS 39350
(601) 625-5251 extension #209

National American Indian Federal Credit Union
Florence Dunham
4753 North Broadway
Chicago, IL 60640
(312) 784-5505

Appendix B
Name and telephone numbers of loan funds

Oiciyapa Federal Credit Union
Iver Croweagal Jr., Chairman, Board of Trustees
P.O. Box 257
Rosebud, SD 57570
(605) 747-2537

Sisseton-Wahpeton Federal Credit Union
Richard Stewart, administrator
P.O. Box 627
Sisseton, SD 57262
(605) 698-3462

Area Credit Officers

Billings Area
Myron Pease, Area Credit Officer
316 N. 26th St.
Billings, MT 59101
(406) 657-6392

Juneau Area
Dan Morgan, Area Credit Officer
P.O. Box 3-8000
Juneau, AK 55402
(907) 586-7061

Minneapolis Area
John Herrera, Area Credit Officer
15 South 5th St.
10th Floor
Minneapolis, MN 55402
(612) 349-3597

Muskogee Area
Jim Hummingbird, Area Credit Officer
Federal Building
Muskogee, OK 74401
(918) 687-2377

Phoenix Area
Phil Miles, Area Credit Officer
One N. First St.
P.O. Box 10
Phoenix, AZ 85004
(602) 241-2259

Appendix B
Name and telephone numbers of loan funds

Washington D.C.
Reg Arnold
(202) 343-4798

Institutions Not Contacted

Cherokee Credit Union
Molly Blankenship, Treasurer
P.O. Box 241
Cherokee, NC 28719
(704) 497-9131

Colorado River Tribal Relending Program
Charlene Benali, Secretary
(602) 669-6121
(Credit Officer position vacant since January 1988)

St. Regis Mohawk Credit Union
St. Regis Reservation
Hogansburg, NY 133655
(518) 358-4808
(CU liquidated 10/87; discussed situation with Ms. Saka Penbleton, Tribal Administrator)