Financial Education in Native Communities:
A Briefing Paper

June 2003

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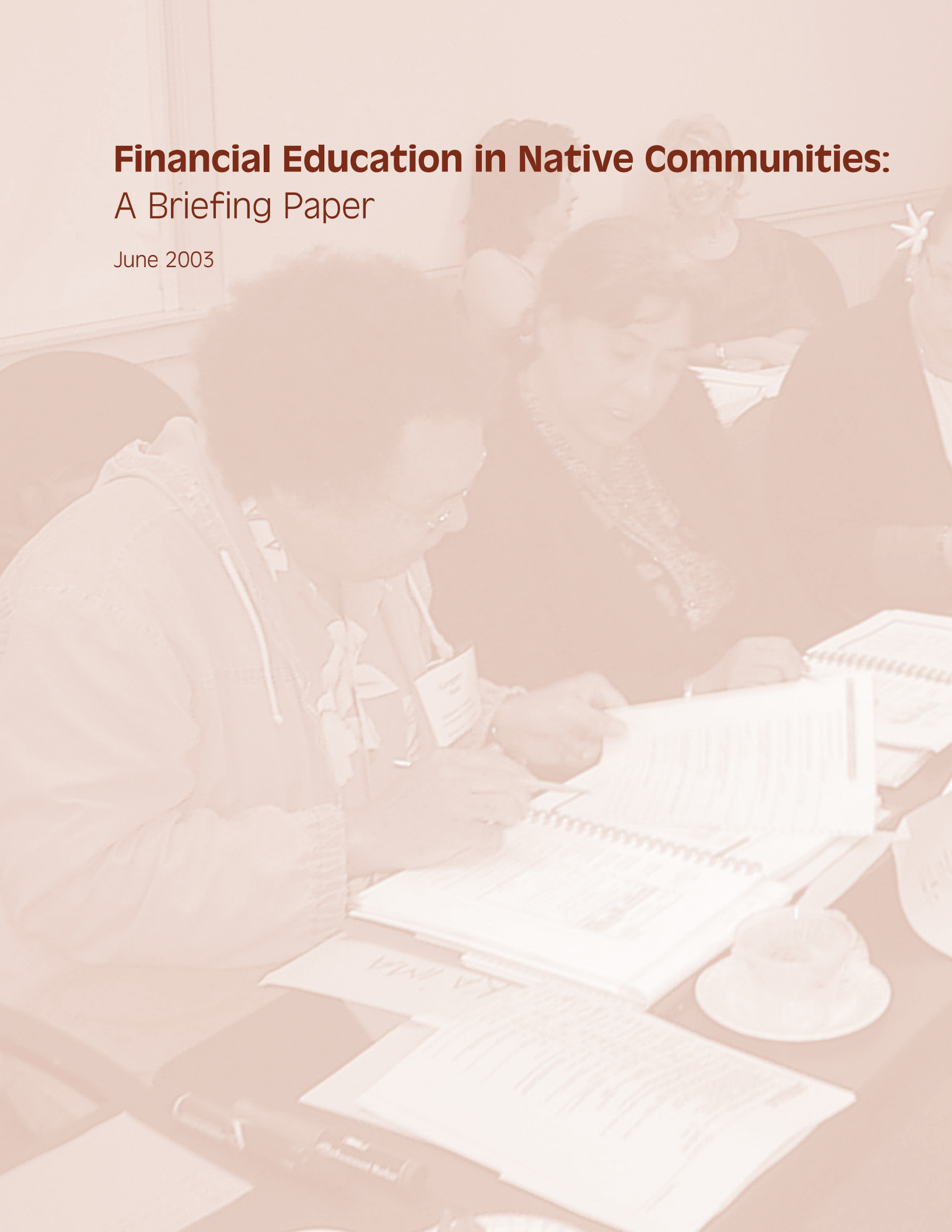

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Executive Summary

This briefing paper serves as a resource for tribes, policymakers, researchers, advocates, and community practitioners. It was also designed as a working document for discussion at the Native American Financial Literacy Coalition national policy development forum on *Financial Education in Native Communities* held on May 28-29, 2003, in Denver, Colorado.

Industry leaders in the economic development field agree that the changes in global financial systems and the fragile position of today's consumer means that higher levels of financial competence are needed to protect the financial health of families, facilitate economic investment into low-income communities, and build the capacity of future leaders to engage in and benefit from the capital markets.

This paper aims to:

- Assess the effectiveness of financial education as one strategy to increase access to affordable financial services in Native communities.
- Examine the actions being initiated by tribes or other organizations to promote financial education in Native communities.
- Present topic areas, goals, and objectives to increase access to financial education in Native communities.

Findings from this paper reveal that limited financial expertise and inadequate financial education resources to meet the demand in Native communities have significantly hindered the economic health of these communities. They are both a cause and result of the lack of access to capital and financial services available to Native borrowers. The paper also found that the number one reason Native consumers enter into predatory lending relationships is a lack of information about banking, personal finance and credit. Findings note that financial education is one of the most important strategies for improving access to affordable capital and financial services in Native communities and highlight the efficacy of financial education through a summary of recent articles and reports.

Findings from this paper reveal that limited financial expertise and inadequate financial education resources to meet the demand in Native communities have significantly hindered the economic health of these communities.

Efforts to promote financial skills in Native communities are growing. However, research reveals a disparity in the availability of financial education services on Native land as compared to non-Native communities. Only recently have Native communities begun to benefit from the increased attention to and investments in financial education enjoyed by other communities. With this in mind, the briefing paper offers the following five topic areas linked to specific goals and objectives for further action. These items were developed by the attendees of the May 2003 policy forum on *Financial Education in Native Communities*:

Youth Financial Education

GOAL: More Native youth able to demonstrate strong financial management skills.

- Integrate financial education into K-12 education.
- Develop new and strengthen existing community-based programs providing financial education to Native youth.

Adult Basic Financial Education

GOAL: More Native adults able to demonstrate strong financial management skills.

- Integrate financial management skills training into higher education.
- Develop new and strengthen existing community-based programs providing financial education to Native people.
- Support new and strengthen existing relationships with financial institutions in Native communities.
- Develop financial education programs for use by government agencies serving Native populations.
- Expand credit management and rehabilitation services to Native communities nationwide.

Consumer Protection

GOAL: More knowledgeable and informed borrowers throughout Native communities.

- Implement widespread consumer education programs designed to ensure that Native borrowers understand their rights, know their options, and pursue alternative sources of financing for the full range of financial products (consumer, business, mortgage, etc.).
- Educate non-Native anti-predatory lending initiatives about predatory lending practices in Native communities.
- Support new and strengthen existing Native anti-predatory lending initiatives.

Housing Counseling

GOAL: More Native people able to obtain affordable housing.

- Expand homebuyer education courses to include pre- and post-purchase financial management skills.
- Develop educational tools to inform Native people about how to use land and related resources as assets.
- Develop new and strengthen existing housing counseling programs in Native communities.

Entrepreneurship Development

GOAL: More Native entrepreneurs able to develop and sustain successful individual enterprises.

- Integrate entrepreneurship development opportunities into youth-related service delivery systems.
- Develop new and strengthen existing training and technical support services for Native entrepreneurs.
- Promote federal, state, and tribal policies that support Native entrepreneurship.

Introduction

Financial education is increasingly being used as a tool to alleviate poverty and promote economic development in low-income communities across the United States.[1] At a recent economic development conference, Federal Reserve Board Chairman Alan Greenspan underscored the critical role of financial education programs in promoting homeownership, small business development, household savings, education, and long-term financial health for individuals, families, and communities. He emphasized that financial education not only increases access to capital and financial services for traditionally underserved markets, but also empowers these consumers to better understand the risks and benefits of financial products and services, enabling them to make better decisions about their financial future. He notes,

> "[Financial] education and training programs may be the most critical service offered by community-based organizations to enhance the ability of lower-income households to accumulate assets. Indeed analysts have shown that a comprehensive understanding of basic principles of budgeting and saving, at the start, increases household wealth in later years. Community-based organizations have an integral role in disseminating information that can assist lower-income families in exploiting financial opportunity. Because of their local focus, these organizations can develop educational and training programs tailored to the markets they serve."[2]

The purpose of this briefing paper is to:

- **Assess the effectiveness of financial education as one strategy to increase access to affordable financial services in Native communities.**
- **Examine the actions being initiated by tribes or other organizations to promote financial education in Native communities.**
- **Present topic areas, goals, and objectives to increase access to financial education in Native communities.**[3]

Financial education is increasingly being used as a tool to alleviate poverty and promote economic development in low-income communities across the United States.

This paper informed a policy development forum on financial education in Native communities which was co-sponsored by First Nations Development Institute (FNDI), National Congress of American Indians (NCAI), the Corporation for Enterprise Development (CFED), and the Federal Reserve System on May 28-29, 2003, in Denver, Colorado. It is a working document-designed to be a starting point for the desired outcome of the policy development conference: of an action plan for policymakers, researchers, advocates, and community practitioners.

This briefing paper will cover four main topics:

- **Access to capital and financial services.**
- **Need for financial education.**
- **Efforts to promote financial skills in Native communities.**
- **Goals, and objectives for further exploration and action.**

The briefing paper is illustrated by personal commentaries and anecdotes, which were gathered through interviews with members of the Oglala Sioux Tribe living on the Pine Ridge Indian reservation in southwest South Dakota and reflect the everyday financial challenges facing Native people today.[4]

The author selected documents for the briefing paper that she considered to be most relevant to the topic. She reviewed 47 articles and publications and conducted supplementary interviews with industry leaders in the financial services and Native economic development fields.

Access to Capital and Financial Services

A recent literature review titled *Access to Financial Services and Community Development Finance in Indian Country*, written by the Corporation for Enterprise Development (CFED) and First Nations Oweesta Corporation (FNOC), identifies a severe lack of access to private capital, credit, and other financial services in Native communities and notes significant differences in the amount and types of financial services available to Native people as compared to the rest of the U.S. population.

The literature review found that much of the available information on access to capital and financial services emphasizes the inadequate record to date of commercial banks and external investors in providing capital and financial services to Native communities. For example, the Community Development Financial Institutions (CDFI) Fund recently conducted an in-depth study of access to capital in Native communities titled *Native American Lending Study*. The study found that only 14% of Native land located in the United States has a financial institution in the community and 15% of Native people must travel more than 100 miles to reach a bank or ATM. It also found that tribal respondents to the study rated the majority of mainstream financial services as difficult or impossible to attain.[5]

In addition, anecdotal evidence gathered through interviews revealed that many Native communities and individuals historically have encountered negative experiences when attempting to work with mainstream institutions. This has discouraged existing and future efforts to access capital and financial services.

As a whole, the literature identified the largest gaps in financial services in three primary areas:

The Pine Ridge Experience...

A 1999 study on access to formal bank credit on the Pine Ridge Indian Reservation documented significant unmet consumer credit needs and a severe gap in bank credit available for business purposes.

Specifically:

- Households on the reservation have little access to formal credit sources. Seventy-five percent of households surveyed reported having a credit need unmet by traditional banks.
- Small businesses on the reservation are not able to access credit in the amounts necessary for their growing businesses. Eighty percent of small businesses surveyed reported having an unmet credit need.
- Few reservation residents maintain savings accounts or use banks for services other than cashing checks.

Source: Pickering, K. & Mushinski, D. (1999). Access to Credit on the Pine Ridge Indian Reservation.

- **Debt/equity products for housing and real estate:** The most frequently expressed financing need among tribal members included financing for home mortgages, housing development and construction, and home improvement. The lack of mortgage financing is linked to land tenure issues. Although trust status has successfully protected Indian land from leaving Native control, it has complicated the process for Native people to use their land as collateral for debt financing.

- **Debt/equity products for small business development:** Access to debt and equity financing for business development remains elusive for the majority of Native entrepreneurs. According to FNDI's *Native American Entrepreneurship Report*, there are numerous reasons for insufficient business financing including: inadequate business expertise, lack of collateral, insufficient legal infrastructure, poor or no credit histories, geographical isolation, discrimination from mainstream financial institutions, and a dearth of alternative sources of capital.[6]

- **Financial education:** The majority of tribal respondents to the *Native American Lending Study* stated that there are *no* programs that provide financial education in their respective communities.[7] This includes programs providing basic financial skills training, consumer credit counseling or credit repair services, information on banking and lending practices, basic small business training and technical assistance services, training on accounting and bookkeeping, or information on federal laws and regulations. Unanimously, respondents stated that, "training, counseling, and technical assistance are not being offered in sufficient quantity to meet the needs of the community."[8]

In many Native communities, residents are unable to access available capital sources because that capital or financial service is priced unreasonably and is inappropriate for the needs and financial position of the borrower. These unsuitable loans, considered "predatory" by many, have become a serious problem in Native communities.[9] According to the Housing Assistance Council (HAC), a national nonprofit rural housing support organization, examples of predatory lending tactics include "the assignment of excessively high fees and interest rates, the origination of repeated refinancing within a short period of time, the long-term financing of lump sum credit insurance premiums, the extension of a loan without regard for a borrowers ability to pay, and in some cases, fraud."[10]

The Pine Ridge Experience...

Residents of Pine Ridge indicate that predatory lending is rampant on their reservation. This is particularly true with regard to consumer car loans. Transportation is crucial for families living on rural Pine Ridge, as one mother noted, "because we are isolated here on the reservation, we rely on our vehicles something fierce. The dealers in Rapid City and border towns know this and they take advantage of Indians."

A client of the Lakota Fund, a community nonprofit financial institution, described a 'common' situation in which her car loan was refinanced to her disadvantage. After she had purchased a car at a reasonable debt rate, she was contacted by the dealer and told that her payments would be reduced if she signed some additional paperwork. "I found out afterward that the dealership had sold my loan to another company and had changed the terms of my loan to five years. Now I'll be paying over $8000.00 above the price of the car in interest and can't prepay without being penalized....there's nothing I can do now, I just have to learn to live with it." Nearly every individual interviewed had a similar experience or knew a family member or friend who did.

The National Community Reinvestment Coalition (NCRC), a national coalition dedicated to increasing access to affordable capital in low-income communities, found that nationally, Native people fall victim to predatory lenders more often than the general population and in 2000 were nearly twice as likely to receive "sub-prime" loans than whites.[11] Additionally, a survey of 10% of tribes across the country conducted by the National American Indian Housing Council (NAIHC), a national network of Indian housing authorities, found that:

- 65% of Native respondents reported being victimized by lenders who charged them as much as 25% interest on mortgages and 18 to 24% on home improvement and mobile home loans.
- Native respondents reported fees of between 10 and 15% of the loan amount and high prepayment penalties.[12]

Need for Financial Education

Preventing predatory lending and increasing access to capital and financial education resources in Native communities requires education of borrowers, lenders, community practitioners, and tribal decision-makers. The literature reviewed for this paper identified the importance of lender and investor education and awareness of Native market opportunities and financing strategies as particularly crucial to increasing access to capital in Native communities. Additionally, interviews and feedback from industry leaders identified the importance of working with tribal decision-makers to better understand the opportunities and potential for providing financial education resources in their respective communities. This paper, however, concentrates primarily on the need for and availability of financial education opportunities for Native individuals and does not examine lender, investor, or tribal leader education.

Why are Native people so susceptible to predatory lending? There are many reasons identified in the literature including stereotyping and discrimination, poor or no credit histories, and lack of mainstream or alternative financial institutions.

However, according to research from the Federal Reserve System, the Department of Treasury, and consumer protection and advocacy organizations, the *number one reason* consumers enter into abusive lending relationships is a lack of positive experience with and information about banking, personal finance, and credit. According to Sherry Salway Black, vice president of FNDI, limited financial expertise and inadequate financial education resources "has played a key role, *both as a cause and as an effect*, in the lack of access to [affordable] capital and financial services in Native communities."[13]

While the need for financial education is not unique to Native people, research shows that the lack of financial education resources is particularly severe in Native communities as compared to the rest of the nation.

According to the literature and testimony from industry leaders, Native clients lack financial skills for a variety of reasons including:

- Lack of positive interaction with mainstream financial institutions.
- Inexperience in managing credit among older generations and a resulting lack of role modeling in the family.
- Limited access to sources of information (financial education programs, television, libraries, the Internet).

According to research from the Federal Reserve System, the Department of Treasury, and consumer protection and advocacy organizations, the number one reason consumers enter into abusive lending relationships is a lack of positive experience with and information about banking, personal finance, and credit.

The Pine Ridge Experience...

A local entrepreneur explains, "There's a lot of people on this reservation who are 50 years old and have never borrowed money from a bank...we never learned to manage money in our families, because there was never any excess money to manage."

Another Pine Ridge resident and financial literacy trainer noted, "People are not aware of their choices and safe financial services are not available, so people get used to non-traditional sources of financing. Those outlets and experiences become the norm. They don't know any other way and they don't think that banks are supposed to work for them." Credit problems on the reservation appear to be reaching epidemic proportions, yet access to credit counseling, management, and/or repair services are nearly non-existent.

An elderly public housing resident emphasized, "Residents must understand the impact of poor credit management-what a credit card can do to a person and their credit history. This education is particularly important for the elderly who don't know very much about the financial world. I know a lady who was sent a lot of credit card applications. She kept filling them out and by the end, she owed $20,000.00. The thing is she didn't realize that she had to pay it back."

Findings from the *Native American Lending Study* revealed unequivocally that financial education resources including consumer credit counseling and repair, basic financial skills training, and financial management assistance are highly insufficient in Native communities. Physical, social, and economic isolation, lack of familiarity and experience with financial systems, and limited access to financial education resources hinder Native people's ability to successfully navigate their way through the financial world and improve their financial quality of life.

All of the national research reviewed for this briefing paper underscores the need for and critical importance of financial education to the economic viability of Native communities and ranked the provision of financial education as one of the, if not *the most important strategy* for improving access to affordable capital in Native communities. Additionally, studies on the efficacy of financial skills programs have recently emerged and present some encouraging findings on the impact of financial education on Native people and the general population at large.

Specifically,

- A study conducted by the Native American Working Group of the Office of the Comptroller of the Currency found that *the most important factor* in raising access to affordable financial services and curbing predatory lending is financial education.[14]
- John D. Hawke, Jr., Comptroller of the Currency, Administrator of National Banks recommended that banks support and participate in financial education initiatives, noting that, "improving financial literacy is a key component to developing a market for financial services in Indian Country."[15]
- The *Native American Lending Study* found that tribal members that have access to counseling, training, and/or technical assistance resources are more likely to rate financial products and services as easier to access.[16]
- A recent study by Freddie Mac, one of the nation's largest purchasers of home mortgages, found that pre-purchase homeownership education and counseling can significantly reduce the delinquency rates of borrowers. Borrowers who received individual counseling had a 34% reduction in 90-day delinquency rates.[17]

- Another study by Freddie Mac on the relationship between financial behavior and financial outcomes revealed that comprehension of the general principles of sound financial behavior, such as budgeting and saving, is more beneficial in producing successful financial results over time than specific and detailed information on financial transactions.[18]
- An evaluation conducted by the National Endowment for Financial Education (NEFE) on its high school-based programs found that participation in financial-planning programs improved students' knowledge, behavior, and confidence with respect to personal finance, with nearly half of the participants beginning to save more as a result of the program.[19]

Industry leaders in the financial education field agree that the changes in global financial systems and the fragile financial position (specifically high debt and low savings rates) of today's consumer means that higher levels of financial competence are needed to protect the financial health of families, facilitate economic investment into low-income communities, and build the capacity of future leaders to engage in and benefit from the capital markets.[20] In recent testimony delivered to the U.S. Senate, Alan Greenspan commented that increased levels of personal finance skills are particularly important for low-income or disadvantaged populations who are more vulnerable due to their lack of experience navigating the financial markets.[21]

One other important factor that emerged in interviews and at the policy development forum in Denver is the need to be sensitive to the differences between Native and non-Native perceptions of wealth. Many Native cultures view individual wealth accumulation in a negative light and prefer, instead, to focus on increasing the assets of the community. Some place a higher value on what an individual shares with the community rather than what the individual acquires personally. Examples of these beliefs are found in traditional Native ceremonies, such as the *potlatch* in the Pacific Northwest, in which a family achieves its status in society by generously bestowing gifts to the community. Providers of financial education must take these Native values into consideration when designing educational materials.

Similarly, financial education providers should strive to recognize and incorporate the pivotal role that Native elders and community leaders play in influencing the priorities of Native communities.

The Pine Ridge Experience...

The president of the Pine Ridge Area Chamber of Commerce, illustrates the growing relevance of financial literacy education for Native American people, "Most folks here have no family history of participation in capital institutions...[and have]...never owned an investment or have any understanding of retirement planning. With few assets in a subsistence and survival economy, those skills and knowledge were not necessary, but life here is changing. More and more Lakota people are working, an increasing number making substantial incomes. With access to college education, more and more Lakota people will make a reasonable living. We are very much trying to prepare a future generation of financially wise adults who understand the importance of developing a local private sector economy. We are very much trying to create a generation of children who understand the place of business in tribal society and who may want that as a career."

Efforts to Promote Financial Education in Native Communities

Financial education efforts and programs have grown dramatically over the last decade in all United States sectors as an increasing number of public and private sector organizations have recognized the importance of helping Americans enhance their financial management skills.[22] Only recently, however, have Native communities begun to benefit from increased investments in financial education programs that are only now beginning to take root in Native communities nationwide.

While this paper does not provide a comprehensive assessment of all national and local financial education initiatives operating in Native communities, it does represent a first attempt to identify a cross-section of efforts to promote financial management skills in Native communities and identify barriers that prevent these efforts from fully meeting the needs of Native communities in the areas of youth education, basic adult financial education, consumer protection, housing counseling, and entrepreneurship development.[23]

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Youth Financial Education

Although there has been no national assessment of financial awareness and financial skills among Native youth, numerous national studies conclude that the majority of American youth and teenagers lack even the most basic understanding of finances and credit. Anecdotal evidence has revealed that this phenomenon is especially prevalent in Native communities, yet very few financial education programs currently provide services to youth and young adults in Native communities. Despite this gap, a few efforts are underway or recently emerging:

- **Since the early 1990's, the Blackfeet Reservation Development Fund has worked to promote financial education and entrepreneurship among Native youth in Montana and nationally.** They have assisted in the development of a model youth financial education curriculum for the Blackfeet Reservation public school system in Browning, Montana, and pioneered a "Mini-Bank" program designed to encourage youth savings through the use of traditional financial institutions. The "Mini-Bank" program has garnered interest from many schools and institutions across Montana and the nation and is currently operating at the elementary, middle school, and high school level on the Blackfeet and other reservations.[24]

- **American Indian Business Leaders offer financial education workshops to high school teachers and college professors of different Native communities nationwide** and assist them in implementing culturally relevant curricula into their classrooms.[25]

- **The Little River Band of Pomo Indians at Redwood Valley Rancheria has implemented the first tribal youth Individual Development Account (IDA) program designed to build the financial management capacity of young tribal members and assist them in saving money to fund higher education.**[26] Currently, there are two other youth IDA programs that serve Natives in a rural setting. One serves members of the Cherokee Nation in Tahlequah, OK, and the other is a newly developed youth IDA program in Fort Hall, ID, which serves members of the Shoshone-Bannock tribes.[27]

Although these youth financial education initiatives are promising and important, industry leaders and program managers interviewed for this paper consistently expressed that these efforts barely "scratch the surface" of the need for financial education among Native youth and efforts to integrate financial management skills into school curricula have only recently begun. In October 2002, the Department of the Treasury released a white paper entitled, "Integrating Financial Education into School Curricula: Giving America's Youth the Educational Foundation for Making Effective Financial Decisions Throughout Their Lives by Teaching Financial Concepts as Part of Math and Reading Curricula in Elementary, Middle, and High Schools." This resource provides information about how financial education can be integrated into core math and reading curricula.[28]

Given the low rates of graduation of Native youth, building their financial management capacity will require significant commitment from tribal, state, and national leaders and may also require promoting financial education in community-based youth programs, outside of formal education institutions.

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Adult Basic Financial Education

For economic, educational, and cultural reasons, most Native people do not have a history of saving regularly and have very little experience in saving for wealth accumulation. The majority of Native communities still do not have any financial education programs available for adult tribal members, and until 2000, there was not one national financial management skills curriculum specifically designed for Native people. To address this gap:

- **In 2000, FNDI and the Fannie Mae Foundation collaborated to develop a financial curriculum for Native families titled, *Building Native Communities: Financial Skills for Families*.** The curriculum is designed to help Native people build on their own knowledge and develop personal financial skills that embrace traditional resource management. In addition to the development of the curriculum, in 2001, FNDI and Fannie Mae

Foundation began "Train the Trainer Workshops" designed to create a cadre of financial skills trainers throughout Native communities. First Nations, Fannie Mae Foundation, and other partners train regional instructors who in turn deliver "train the trainer" workshops to local trainers who are generally staff from community organizations and tribal government. These local trainers then return to their communities and deliver the course to tribal members. Since 2001, approximately 500 trainers have been trained to teach the FNDI/Fannie Mae Foundation curriculum in their respective communities. Training has been delivered in over 30 tribal communities, and nearly 18,000 curriculum workbooks have been distributed.[29]

- **In November 2002, FNDI partnered with Fannie Mae Foundation and Washington Mutual Bank to offer "Super Training" sessions to provide additional training to advanced instructors with the goal of increasing the number of qualified trainers that can offer both train-the-trainer sessions and local financial education courses as well as to create a peer-learning network among the trainers.** Along these lines, FNDI developed an "Instructor Resource Guide," which features tips for organizing and conducting successful training session in Native communities. FNDI also created a "Community of Interest" on the Fannie Mae Foundation's Knowledgeplex website, which serves as a clearinghouse for financial education issues and an interactive virtual forum for dialogue among trainers and other stakeholders.

- **To improve saving habits and encourage personal asset development in Native communities, tribes have recently begun implementing IDA programs.** To date there are only 11 Native IDA programs operating in seven states including Oregon, California, Montana, Hawaii, Oklahoma, Minnesota, and South Dakota. These programs have reached over 475 Native people in their local communities.[30] For example, Hawaiian Community Assets (HCA), a nonprofit working with the IDA participants in Hawaii, offers its financial education program called *Kahua Waiwai*, which was based on the *Building Native Communities* curriculum, but incorporates traditional Hawaiian values and practices related to resource management. HCA also offers its training to a residential drug treatment program for abused women. In addition, it has organized instructor training for six organizations on the island of Moloka'i, including a children's center, University of Hawaii Agricultural Extension Services, a youth leadership development program, a small business assistance center, and USDA Rural Development.

The majority of Native communities still do not have any financial education programs available for adult tribal members, and until 2000, there was not one national financial management skills curriculum specifically designed for Native people.

- **In Alaska, there is an emerging awareness of the need for financial education in the rural and Native population.** Although many Native communities in Alaska are located in remote rural areas with limited access to mainstream financial institutions, there are many ongoing financial education initiatives, including a variety of trainings sponsored by HUD, First Nations Development Institute, Tanana Chiefs Conference, Federal Reserve Bank of San Francisco, and the Alaska Finance Corporation. "Tools" such as the Alaska Native Claims Settlement Act, Indian Self-Determination and Education Assistance Act, and Native American Housing Assistance and Self Determination Act, along with others, have enabled organizations to provide services to rural and Native families throughout the state. Organizations, such as Regional and Village Corporations, Regional Non-Profits, and Economic Development Corporations have expanded their financial education services. For example, in Fairbanks the Tanana Chiefs Conference

(a regional non-profit) has combined private donations and federal grant funds from HUD's Rural Housing and Economic Development program to bring to their remote villages the *Building Native Communities* curriculum with emphasis on housing, healthcare, employment and local business development.

- **The Federal Reserve Banks of Chicago, Kansas City, Minneapolis, and San Francisco have embarked on initiatives to provide financial education services to Native people**, heighten the visibility of economic financial institution education programs in Native communities, and support community organizations in their work to provide financial skills training.[31]

Increasingly, financial institutions are providing financial education, counseling, or technical assistance to tribal members. Research has shown that banks that provide financial education or facilitate training often benefit from stronger relationships with individual tribes and Native people. Both Wells Fargo and Washington Mutual have invested significantly in promoting financial education for tribes nationwide, particularly through homebuyer education and basic financial management outreach.[32]

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- **Some tribal college Extension programs with support from USDA Extension Services have incorporated community financial education into their family development/family resource management programs.** Additionally, some 1862 Land Grant Institutions (non-Native) provide financial education to community members through their Extension Indian Reservation Programs. Specific colleges involved in financial education through their Extension programs include: Fort Peck Community College (Montana), Little Big Horn College (Montana), Chief Dull Knife College (Montana), Lac Courte Oreilles Ojibwa Community College (Wisconsin), Leech Lake Community College (Minnesota), the United Tribes Technical College (North Dakota), Southwestern Indian Polytechnic Institute (New Mexico), and Sitting Bull College (North Dakota).[33]

- **The Federal Reserve Bank of Minneapolis initiated a partnership with Fond du Lac Tribal and Community College (FDLTCC) and local bankers that resulted in FDLTCC developing a three-credit personal financial management course for tribal college students that is replicable to tribal colleges nationwide.**[35] This is one of only a handful of tribal colleges engaged in promoting financial management skills among tribal college students, according to estimates by the American Indian Higher Education Consortium (AIHEC).[34]

- **The American Indian College Fund, in partnership with the NEFE, has developed a four-part guide to financial management for college students,** which has been circulated to an estimated 25,000 tribal college students nationwide.

- **At the national level, there appears to be no targeted effort to provide credit repair and credit counseling services in Native communities and often Consumer Credit Counseling agencies are not located on or near Indian reservations.** What is not clear, however, is the extent to which efforts are underway to provide these services at the local level in partnership with local Consumer Credit Counseling agencies or other local nonprofits with expertise in credit counseling.

It's worth noting here the important role that CDFIs and other community nonprofit organizations play in promoting increased access to [affordable] capital and financial education.[36] Currently, a comprehensive analysis of CDFIs serving Native communities does not exist. Of the approximately 562 Native tribes, current research by CFED and FNOC has identified less than 70 Native CDFIs as of May 2003. The vast majority of these institutions are "emerging" and have yet to close their first loans.[37] According to multiple reports and feedback from industry leaders, increasing the number of these institutions and building the capacity of existing ones is critical to increasing access to capital, preventing predatory lending, and increasing financial education across Native communities.[38]

Despite the progress in the provision of basic adult financial education through tribal colleges, CDFIs, community organizations, and local banks, there are still many barriers that affect the impact of these efforts in meeting the basic adult financial education needs of Native communities.

Despite the progress in the provision of basic adult financial education through tribal colleges, CDFIs, community organizations, and local banks, there are still many barriers that affect the impact of these efforts in meeting the basic adult financial education needs of Native communities. Efforts to promote financial management skills in tribal college curriculum are nascent and local programs lack the capacity to deliver financial education. The number one issue identified by individuals who have received training on the FNDI/Fannie Mae Foundation curriculum has been the lack of capacity to institutionalize a financial education program in their respective communities. Many potential trainers lack the time, resources, and facilities to provide ongoing training. Outreach and attendance, particularly in rural areas, are also cited as barriers to implementation.[39]

With regard to asset development programs, research has shown that low-income participants in Native IDA programs can accomplish their saving goals. However, research has also demonstrated that there is still a great need for more IDA programs in Native communities. Currently, tribal governments sponsor the majority of IDA programs with assistance from private funds. The majority of existing Native IDA programs report problems finding match funds and lack capacity necessary for effective program administration.[40] There is also a need to disseminate research findings and lessons learned so that others interested in starting IDA programs can benefit from the experience of existing programs.

With regard to credit counseling, financial service organizations who responded to the *Native American Lending Study* rated poor credit histories, and lack of collateral among potential Native borrowers, as the *primary* barrier to capital access for Native people. In addition, tribes ranked consumer credit counseling and credit repair as *the most insufficient* technical assistance service.[41] This finding underscores not only the need for financial education to help Native people avoid credit problems, but also the need for services to help with credit management and repair.

Consumer Protection Education

NAIHC and NCRC have identified predatory lending as a serious threat to the financial security of Native people. In June 2002, the two organizations announced a partnership designed to prevent predatory lending in Native communities. The initiative is in its very early stages and plans to:

- Promote anti-predatory lending initiatives to 400 tribal housing authorities.
- Introduce model anti-predatory lending bills to tribal councils.
- Provide training on fair lending/housing to tribal housing staff at national and regional NAIHC conferences.
- Establish a Consumer Rescue Fund for Native and non-Native homebuyers nationwide and incorporate awareness of the Consumer Rescue Fund in NAIHC communications to housing authority members.

While these initiatives are crucial, they are in their very early stages of development. Additionally, the partnership is specifically designed to assist Native people with predatory home mortgage lending and works directly through the Indian housing authorities. Predatory lending, however, infiltrates all aspects of lending in Native communities including personal, consumer, mobile home, and small business financing.

According to a recent national report on homeownership in Native communities, homebuyer counseling programs and trained personnel are not readily available in tribal communities.

Housing Counseling

In Native communities, the housing authorities have historically been the primary institutional vehicle providing housing counseling services. These services, however, were generally geared toward ensuring that tribal members qualified for publicly subsidized rental and rent-to-own housing, and did not focus on teaching residents the financial skills needed to qualify for and maintain a privately financed mortgage. Since the Native American Housing Assistance and Self Determination Act of 1996 (NAHASDA), tribes are increasingly assisting tribal members in obtaining privately financed mortgages. As a result, the need for homebuyer education has grown significantly in recent years. However, according to a recent national report on homeownership in Native communities, homebuyer counseling programs and trained personnel are not readily available in tribal communities.[42] A recent curriculum survey by NCAI also found that few of the existing homeownership education curricula fully meet the homebuyer education needs of Native communities.[43]

To address this gap:

- **A coalition of national organizations, spearheaded by NCAI, is developing a national Native home buyer education curriculum and trainers manual to be developed in 2003.** The coalition is also planning to provide "train the trainer" workshops nationwide for tribes, housing authorities, and tribal nonprofits.
- **NAIHC and a handful of tribes, banks, and nonprofit community organizations operating across Native communities currently provide homeownership education to tribal members.**[44]

According to industry leaders, although progress is being made, a lack of funding has constrained the development of a national Native housing counseling curriculum development and training initiative. Additionally a lack of training and technical assistance resources designed to support existing local homeownership counseling organizations and to create new organizations has constrained the availability of housing counseling in Native communities.

Entrepreneurship Development

Within the last decade, individually owned small businesses have become an increasingly important economic base in Native communities, yet access to entrepreneurship training and technical assistance remains elusive for the majority of Native entrepreneurs. The most recent analysis on business development programs in Native communities is the *Native American Entrepreneurship Report*, which surveyed 29 business support programs. The report found that limited business expertise is a significant barrier for Native entrepreneurs and that training and technical assistance must be provided throughout the [business development] process to meet the business development needs of would be entrepreneurs.[45] Tribal programs and institutions that currently provide entrepreneurship development training and technical assistance include:

- Tribal colleges and universities.
- Tribal Business Information Centers (TBICs).
- Native American Business Development Centers (NABDCs).
- Tribal economic development departments.
- Community Development Financial Institutions (CDFIs).
- Community/economic development nonprofit organizations.

Within the last decade, individually owned small businesses have become an increasingly important economic base in Native communities, yet access to entrepreneurship training and technical assistance remains elusive for the majority of Native entrepreneurs.

Although there is no comprehensive national assessment of the extent and capacity of entrepreneurship development programs operating on Native lands, available research reveals that the majority are in the very early stages of development and are constrained by the high costs of delivering training and technical assistance services. Currently, research is underway by CFED and the Northwest Area Foundation to assess the state of Native entrepreneurship development efforts in the areas of entrepreneurship education, training and technical assistance, financing, networks/mentoring, policies, culture, and social entrepreneurship. The research focuses on the Northwest Area Foundation's eight state region of Minnesota, Iowa, North Dakota, South Dakota, Montana, Idaho, Washington, and Oregon, as well as model national, regional, and local initiatives.

Conclusion

In a recent speech to banks and tribal leaders, Federal Reserve Board Governor Mark W. Olson highlighted the vital role that information sharing and dissemination plays in effective economic development. He stated, "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 Financial Literacy Coalition (NAFLC), facilitated by FNDI, is a coalition of local, regional, and national organizations and federal government agencies working together to promote financial education in Native communities. Originally formed in 2000 through the U.S. Department of the Treasury, the now independent Coalition's mission is to:

- Increase awareness in Native communities of the need for adequate personal finance skills.
- Build the capacity of tribes and tribal organizations to provide financial skills training.
- Support each other's efforts to promote financial management skills through information sharing and collaboration.

The Native American Financial Literacy Coalition, facilitated by FNDI, is a coalition of local, regional, and national organizations and federal government agencies working together to promote financial education in Native communities.

Since its creation, the NAFLC has succeeded in improving awareness, building capacity, and increasing resources to promote financial education in tribal communities. Specifically, members of the Coalition have organized over 40 train-the-trainers sessions across the country using the *Building Native Communities* curriculum. These sessions have been offered in conjunction with various efforts including homebuyer education programs, tribal colleges, and community education initiatives.

Additionally, members of the Coalition have conducted outreach about financial education at various venues throughout Native communities. Representatives from FNDI spoke at national meetings of the National Congress of American Indians, the Federal Reserve, and the Office of the Comptroller of the Currency.

While members of the Coalition and numerous other organizations are engaged in Native financial education research and program development, until now there has been no unified approach or agreed upon financial education agenda for Native communities. With this in mind, the recent policy development forum sought to lay

the building blocks for open communication, mutual understanding, learning, and creative partnerships, from which powerful actions to promote Native financial education will emerge. To this end, participants in the forum agreed on the following topics, goals and objectives described below as a basis for an action plan. As policy makers implement these and other objectives into specific programmatic strategies, developing an appropriate evaluation structure that can assess the effectiveness of each action item over the long term will also be crucial.

The Native American Financial Literacy Coalition will oversee the development and implementation of the action plan based on the following topics, goals and objectives. For more information or to get involved with the Coalition, interested parties should contact First Nations Development Institute at 540.371.5615 or info@firstnations.org.

Goals and Objectives for Action Plan

Youth Financial Education

GOAL: More Native youth able to demonstrate strong financial management skills.

- Integrate financial education into K-12 education.
- Develop new and strengthen existing community-based programs providing financial education to Native youth.

Adult Basic Financial Education

GOAL: More Native adults able to demonstrate strong financial management skills.

- Integrate financial management skills training into higher education.
- Develop new and strengthen existing community-based programs providing financial education to Native people.
- Support new and strengthen existing relationships with financial institutions in Native communities.
- Develop financial education programs for use by government agencies serving Native populations.
- Expand credit management and rehabilitation services to Native communities nationwide.

Consumer Protection

GOAL: More knowledgeable and informed borrowers throughout Native communities.

- Implement widespread consumer education programs designed to ensure that Native borrowers understand their rights, know their options, and pursue alternative sources of financing for the full range of financial products (consumer, business, mortgage, etc.).
- Educate non-Native anti-predatory lending initiatives about predatory lending practices in Native communities.
- Support new and strengthen existing Native anti-predatory lending initiatives.

Housing Counseling

GOAL: More Native people able to obtain affordable housing.

- Expand homebuyer education courses to include pre- and post-purchase financial management skills.
- Develop educational tools to inform Native people about how to use land and related resources as assets.
- Develop new and strengthen existing housing counseling programs in Native communities.

Entrepreneurship Development

GOAL: More Native entrepreneurs able to develop and sustain successful individual enterprises.

- Integrate entrepreneurship development opportunities into youth-related service delivery systems.
- Develop new and strengthen existing training and technical support services for Native entrepreneurs.
- Promote federal, state, and tribal policies that support Native entrepreneurship.

The Native American Financial Literacy Coalition will oversee the development and implementation of the action plan. For more information or to get involved with the Coalition, interested parties should contact First Nations Development Institute at 540.371.5615 or info@firstnations.org. For additional copies of this paper, visit www.ncai.org, www.firstnations.org, or www.cfed.org.

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Interviews with Residents on Pine Ridge Reservation

Endnotes

[1] For the purposes of this paper:

Financial management skills are defined as, "the ability to read, analyze, manage, and communicate about the personal financial conditions that affect one's material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy (Vitt, 2000)."

Financial education is defined as education that "helps people develop the skills required to make informed choices and to take action that informs their financial well-being (Vitt, 2001)."

[2] Federal Reserve Board. (2002, January 12). Remarks by Chairman Alan Greenspan at the Ninth Annual Economic Development Summit, The Greenlining Institute, Oakland, CA

[3] For the purposes of this study, Native communities/Indian Country/Native Land are defined to include land-based populations, whether on formal or informal reservations, traditional Indian lands, Indian allotments, Alaskan Native villages, or Hawaiian homelands, whether restricted or held in trust by the U.S. and the State of Hawaii.

[4] For more information, see Malkin, Jennifer, *Pine Ridge Indian Reservation Case Study on Need for Financial Literacy Education*.

[5] CDFI Fund. (2000). *Native American Lending Study*.

[6] First Nations Development Institute. (2002). *Native American Entrepreneurship Report*.

[7] With the exception of housing counseling. Tribal respon dents noted that more often than not, there is one housing counseling service on their respective reservation, although the service is not sufficient to meet the needs of their communities.

[8] CDFI Fund. (2000). *Native American Lending Study*.

[9] Predatory lending refers to abusive lending practices involving fraud, deception, or unfairness. According to the Federal Reserve Board, the practices include one or more of the following: 1. Making unaffordable loans based on the borrower's collateral without regard to the borrower's ability to repay the obligation; 2. Inducing a borrower to refinance a loan repeatedly, even though the refinancing may not be in the borrower's interest, and charging high points and fees each time the loan is refinanced, which decreases the consumer's equity; and 3. Engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

[10] Housing Assistance Council. (2002 Spring). Predatory Lending. *Rural Voices*.

[11] Smith, Kyle. (2002). *Predatory Lending in Native American Communities*. First Nations Development Institute. For the purposes of this paper, sub-prime lending is defined as a loan to a borrower with less than perfect credit. In order to compensate for the added risk associated with lending to this customer, lending institutions charge higher interest rates than the prevailing market price for "prime" loans. These higher interest rate loans are referred to as "sub-prime."

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[22] Vitt, Louis (2000). *Personal Finance and the Rush to Competence: Financial Literacy in the U.S.*

[23] The paper focuses on national financial literacy efforts targeted to Native American communities or local financial literacy efforts pursuing national replication. There may be other efforts to promote native financial literacy in Indian Country that have not been identified in this paper. If readers are aware of other initiatives, please contact Jennifer Malkin at jmalkin@cfed.org or 202.408.9788 ext 150.

[24] Eloise Cobell, Executive Director, Native American Bank Community Development Corporation.

[25] Michele Henderson, Director, American Indian Business Leaders, University of Montana.

[26] IDAs are special savings accounts that are designed to help people build assets for increased self-sufficiency and long-term economic security. IDA programs allow individuals to deposit a specific amount of money on a monthly basis into a financial institution and receive matching funds for their deposit from public or private sources. IDAs can begin as early as birth and funding for IDAs can come from public, nonprofit, and private sources.

[27] Sarah Dewees, Director of Research, First Nations Development Institute.

[28] This report can be found at http://www.treas.gov/press/releases/docs/white.pdf

[29] Elsie Meeks, Executive Director, First Nations Oweesta Corporation.

[30] Larson, A. (2002). *Individual Development Account Handbook and Tribal IDA Program Profiles*. Confirmed by Sarah Dewees, Director of Research, First Nations Development Institute.

[31] Bedelia Calhoun, Community Affairs Analyst, Federal Reserve Board.

[32] Mary Gabler, Vice President, Wells Fargo, and Beth Castro, Vice President, Washington Mutual.

[33] Joan Gill, National Program Coordinator, USDA Extension Services. To date, there is no comprehensive assessment of the extent of financial literacy efforts by Tribal College Extension Programs or Land Grant Universities.

[34] Dianne Cullo, Director of Development, Communications, and Program Initiative, American Indian Higher Education Consortium.

[35] Margaret Tyndall, Senior Project Director, Community Affairs, Federal Reserve Bank of Minneapolis.

[36] CDFIs are defined as institutions that have community development as their primary mission and offer affordable financial products and development services in distressed communities. Examples include community development banks, community development credit unions, revolving loan funds, community development venture capital funds, and microenterprise development loan funds.

[37] "Emerging stage" is defined as having formalized the plan ning and development process, and the institution has some operating and loan capital in hand or applications pending for identified sources of capital. The emerging institution has dedicated staff and a business plan, but has yet to "close" its first loan.

[38] Interview with Elsie Meeks, Executive Director, First Nations Oweesta Corporation. Reports include recent publications such as: CDFI Fund (2001), *Report on the Native American Lending Study*, and Fogarty, Mark (1999, April), *Homegrown economics: User-friendly and structured for local control, tribal credit unions are catching on,* American Indian Report.

[39] Vickie Oldman, national trainer of trainers and Natasha Shulman, developer of curriculum, provided feedback on the status of training efforts.

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[44] For a description of two comprehensive homeownership agencies in Native communities see a description of the One-Stop Mortgage Center on Pine Ridge Indian Reservation, South Dakota, and the Navajo Indian Reservation, Arizona, highlighted in One Stop Mortgage Initiative Report.

[45] First Nations Development Institute. (2002). *Native American Entrepreneurship Report*.

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First Nations Development Institute was founded in 1980 with the mission to assist Native communities in controlling their assets and in building capacity to direct their economic future. Its programs and strategies focus on assisting tribes and Native communities so they control, create, leverage, utilize and retain their assets. First Nations programs and departments include: grants and technical assistance, loans and technical assistance, policy and research, international programs, Native philanthropy, publications and resources, and conferences and workshops.

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CFED is a nonprofit organization that creates economic opportunity by helping the poor save, invest, succeed as entrepreneurs, and participate as contributors to and beneficiaries of the economy. CFED identifies and researches promising ideas; collaborates with the public and private sectors to test them; and helps drive the application and adoption of proven concepts. Established in 1979, the Corporation for Enterprise Development works nationally and internationally through its offices in Washington, DC, Durham, North Carolina and San Francisco, California.

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The National Congress of American Indians was founded in 1944 and is the oldest and largest tribal government organization in the United States. NCAI serves as a forum for consensus-based policy development among its membership of over 250 tribal governments from every region of the country. NCAI's mission is to inform the public and the federal government on tribal self-government, treaty rights, and a broad range of federal policy issues affecting tribal governments. NCAI is also a leader in a variety of coalitions with other national and regional Indian organizations, business interests, environmental, civil rights, legal, and other professional entities.

For more information or to get involved with the Native American Financial Literacy Coalition, contact First Nations Development Institute at 540.371.5615 or info@firstnations.org.

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