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Energizing Native economies: Tribes build corporate governance to spur investment and development

By Paula Woessner

Various studies over the past two decades have found that good tribal governance—and specifically, the separation of tribal courts and enterprises from tribal politics—contributes to economic success for American Indian communities. To note one prominent example, a 2003 report published by the Harvard Project on American Indian Economic Development (Harvard Project) found that tribes whose dispute-resolution body is separate from the tribal council have lower unemployment rates than other tribes.[1]

PHOTOS COURTESY OF SAMUEL STRONG (LEFT), PATRICIA RIGGS

A thriving, tribally owned fishery (left) and a new administration center are symbols of the governance-building efforts undertaken by the Red Lake Band of Chippewa Indians and Ysleta Del Sur Pueblo, respectively.

It stands to reason that, on the flip side, tribes that lack effective, independent governance institutions may be missing out on economic development opportunities. That's a scenario witnessed multiple times by the staff of the U.S. Department of the Interior's Office of Indian Energy and Economic Development (IEED), who have seen energy- and mineral-related projects on tribal lands stall because the tribes didn't have the appropriate governance in place to attract outside investors.

Some tribes are overhauling their governance structures, particularly those pertaining to tribally owned businesses, in order to facilitate economic development. Their governance-building efforts, which are often undertaken with guidance and training from the Harvard Project or its sister organization, the Native Nations Institute,[2] are intended to enable not only energy- and mineral-related development on reservations, but also comprehensive development of tribal economies.

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Creating better choices for the underbanked: A conversation with Jennifer Tescher of the Center for Financial Services Innovation

By Michael Grover

A recent study by the Federal Deposit Insurance Corporation revealed that 30 million households in the United States—approximately one-quarter of all households in the country—were either *unbanked* or *underbanked*.[1] As defined in the study, "unbanked" refers to households with no current checking or savings account, while "underbanked" refers to households that have accounts but have also used nonbank money orders, nonbank check-cashing services, payday loans, rent-to-own agreements, or pawn shops at least once or twice a year or have used refund anticipation loans at least once

PHOTO COURTESY OF CFSI

Jennifer Tescher

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RESEARCH REVIEW: Child development findings support and inform personal financial education from an early age

By Richard M. Todd

Amidst a wave of foreclosures and household debt problems, support for teaching personal finance in American high schools is high. Eighty-five percent of American parents surveyed in spring 2011 said a course in personal finance should be a high school graduation requirement,[1] and a survey of 1,200 K-12 teachers found that 89 percent expressed moderate to strong agreement that either taking a course or passing a test in financial literacy should be required for high school graduation.[2]

The teachers' survey showed much weaker support for personal finance instruction in the elementary grades. By contrast, prominent advocates argue that personal financial education should begin early on,[3] and this view is reflected in many financial education standards, including those of some states in the Ninth Federal Reserve District. For example, the Jump$tart Coalition for Personal Financial Literacy recommends a detailed set of concepts that students should know by 4th grade, with further concepts to be learned by the 8th and 12th grades. Wisconsin's model standards follow this pattern, while Minnesota's 2011 draft social studies standards specify personal finance topics beginning in 3rd grade. North Dakota includes discussions of consumer con-

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COMMUNITY DEVELOPMENT STAFF

MINNEAPOLIS

Richard M. Todd
Vice President, 612-204-5864,
dick.todd@mpls.frb.org

Jacqueline G. King
Assistant Vice President and Community Affairs Officer, 612-204-5470,
jacqueline.king@mpls.frb.org

Michael Grover
Manager, 612-204-5172,
michael.grover@mpls.frb.org

Sandy Gerber
Senior Project Manager, 612-204-5166,
sandra.gerber@mpls.frb.org

Michou Kokodoko
Senior Project Manager, 612-204-5064,
michou.kokodoko@mpls.frb.org

Ela Rausch
Project Manager, 612-204-6785,
ela.rausch@mpls.frb.org

Jacob Wascalus
Project Manager, 612-204-6475,
jacob.wascalus@mpls.frb.org

Paula Woessner
Publications Editor, 612-204-5179,
paula.woessner@mpls.frb.org

HELENA, MONTANA

Sue Woodrow
Community Development Advisor,
406-447-3806,
susan.woodrow@mpls.frb.org

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

Executive Editor: **Jacqueline G. King**
Editor: **Paula Woessner**
Contributors: **Michael Grover, Ela Rausch, Richard M. Todd, Paula Woessner**
Graphic Designers: **Rick Cucci, Brian Donahue, Mark Shafer**

For address changes or additions, e-mail mpls.communitydevelopment@mpls.frb.org. *Community Dividend* is available online at www.minneapolisfed.org.

RESEARCH REVIEW: Child development findings support and inform personal financial education from an early age

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cepts such as wants and needs in its K-8 social studies standards.

Are elementary and middle school students truly ready to learn personal finance concepts? Research by child development experts suggests they are. As early as preschool, children are developing critical decision-making skills and grappling with the financial aspects of time, trading, and value. By grade school, according to University of Exeter psychologist Paul Webley, "it is possible to teach many economic concepts," and by age 12, "children's understanding of economic situations is broadly comparable to that of adults."[4] Webley's examples suggest the same is true of personal finance concepts.

However, it appears that K-8 financial education programs are not always designed with child development research in mind. In a recently released literature review, personal finance scholar Karen Holden and educational psychologists Laura Scheinholtz and Charles Kalish ask "whether financial literacy programs have been structured taking into account what is known about cognitive development and capabilities of the children."[5] They find many gaps and recommend that "specialists in cognitive development and financial literacy should together develop strategies for effective and timely education" in personal finance. Their literature review and one by Webley provide practical information for teachers and curriculum designers about the way a typical child's financial and economic understanding develops, such as:

- The ability to **delay gratification** is a critical decision-making skill that starts taking shape at very early ages but can be improved through instruction. Holden and her colleagues report that "younger children can be helped to make more efficient choices if they are guided through experiences that teach how to manage delayed gratification. For example, if they are taught to take their mind off of the desirable immediate choice … or the most desirable attribute of that choice … they have an easier time delaying gratification."

- In early grade school, children may struggle to **distinguish size from value**. Accordingly, they may find it difficult to understand that a dime is worth more than a nickel or that a small piece of cheese costs more than a large head of lettuce.

PHOTO: ©SEAN JUSTICE/CORBIS

- Ideas about savings mature significantly in grade school. By about 4th grade, most students **view savings as a financial decision**. In earlier grades, children may save for more social reasons, such as to please their parents.

- By the end of grade school, children begin to **understand interest rates on savings deposits**. The understanding that interest rates on loans are usually higher than rates on deposits, and that this is how banks make profits, tends to develop later.

These generalizations gloss over the many developmental differences among children and the effects of culture and personal experience. Nonetheless, educators can use child development research in at least two ways. They can work within their students' developmental limits in order to deepen existing understanding of personal finance concepts. Alternatively, they can deliberately stretch their students' limits in order to introduce new concepts. Either way, personal financial lessons based on an understanding of child development belong in elementary and middle school as well as high school. cd

This article is based on a Federal Reserve Bank of Minneapolis Community Development Research Report titled Early, Broadly, and Through Young Adulthood: A Child Development Perspective on Youth Personal Financial Education, *available via the Publications and Papers tab at www.minneapolisfed.org.*

1 *Practical Money Skills for Life: 2011 Father's Day Survey,* Visa, Inc., 2011. Available at www.practicalmoneyskills.com/resources/pdfs/Visa_FathersDaySurvey_2011.pdf.

2 Wendy L. Way and Karen Holden, *Teachers' Background and Capacity to Teach Personal Finance: Results of a National Study,* The Board of Regents of the University of Wisconsin System, March 2009. This study and related materials are available via the search feature at www.nefe.org.

3 Alejandro Lopez-Fernandini and Karen Murrell, *The Effectiveness of Youth Financial Education: Summary of a Convening Held July 15–16, 2008,* New America Foundation and Citi Foundation, December 2008. Available at http://newamerica.net/publications/policy/effectiveness_youth_financial_education_1.

4 Paul Webley, "Children's Understanding of Economics," in *Children's Understanding of Society,* edited by M.D. Barrett and E. Buchanan-Barrow, Psychology Press, 2005. Pages 43–67.

5 Karen Holden, Charles Kalish, and Laura Scheinholtz, "Cognitive Development and Children's Understanding of Personal Finance," in *Consumer Knowledge and Financial Decisions: Lifespan Perspectives,* edited by Douglas Lamdin, New York: Springer, October 2011.

Creating better choices for the underbanked: A conversation with Jennifer Tescher of the Center for Financial Services Innovation

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in the past five years. These nonmainstream financial service providers tend to charge high fees and generally do not provide a means of building savings or assets.

Why do many households use nonmainstream banking services? What are some innovative strategies for reaching these consumers—especially those with low or moderate incomes—and helping them enter the financial mainstream? And how can financial education help? To explore these and other questions, *Community Dividend* spoke with Jennifer Tescher, the founder, president, and CEO of the Center for Financial Services Innovation (CFSI) in Chicago. Tescher, a nationally known expert on financial access and asset building for unbanked and underbanked consumers, established CFSI in 2004 with the aim of opening the doors to financial stability and prosperity for all Americans. CFSI develops and distributes research and strategies that serve underbanked consumers. It also provides funding to promising financial service companies and facilitates cross-sector business collaborations.

Note: CFSI uses the term "underbanked" broadly, to refer to consumers with or without bank accounts. The conversation that follows uses CFSI's definition.

Community Dividend: When CFSI started its work, what barriers did you face, in terms of understanding underbanked consumers and developing strategies to help them prosper?
Jennifer Tescher: One of the biggest barriers when we got started was that we didn't know exactly who we were talking about. Early on, we did research to identify who the underbanked are. The research showed that the number of underbanked people who had a bank account was much larger than the number who did not, and that the people who had accounts continued to rely on an array of other financial service providers to meet their day-to-day banking needs. In other words, their relationship with their bank or credit union wasn't cutting it for them. So, the situation turned out to be more nuanced than people had thought.

CD: What were some of the reasons why their banking relationships weren't "cutting it"?

Page 1 and above: Jennifer Tescher speaks at the Center for Financial Services Innovation's sixth annual conference, held in New Orleans in June 2011.

PHOTO COURTESY OF CFSI

JT: Most people had thought the reasons were "I don't have enough money to make an account worthwhile," "I don't feel comfortable in a bank," or "I want to live anonymously." But when we took a more nuanced approach, we realized that the available products and services are not effective for people who are living at the margins. The products aren't designed or delivered in a way that truly meets the needs of those consumers. For instance, checking accounts—which tend to be the primary tool that banks use to get new customers—aren't useful for you if you don't have direct deposit and you need immediate liquidity. You're not going to be able to access the funds unless you have some kind of cushion or reserve in your account. If you deposit your check at a bank, that institution will put a hold on it, maybe just for a day, until the check clears. For people living paycheck to paycheck, that day is too long. Instead of dealing with that uncertainty or the possibility of paying an overdraft fee, consumers will pay up front, even if it is a little bit more, for the certainty of having immediate access to their money and knowing how much something is going to cost.

CD: A number of recent articles and studies discuss strategies that nonprofits, banks, and credit unions can use to help underbanked consumers prosper. If these organizations could do just *one* thing, because they may have limited resources or capacity, what should it be?
JT: I would encourage them to shift away from "pure" financial education and toward a financial capability approach. If financial education is what you *know,* financial capability is what you *do*. Until now, the primary tool for helping people make good decisions, manage their financial affairs, and plan for the future was financial education, which was usually classroom-based and relied on consumers to put what they learned into action. However, everything we now know about human behavior, especially from behavioral economics, suggests that's not the most effective way to encourage people to take action. In light of this, I would strongly encourage organizations to find ways to embed financial information and advice into the fabric of what they're already doing and into the financial services that they or their partners are offering directly to people.

CD: Can you provide an example of what you mean by "financial capability" in action?
JT: Sure. We're working with a consumer credit counseling agency that helps people reduce their debt through a debt management plan. The agency is trying two different but related financial capability strategies in order to reduce the number of families who leave their program prematurely. The first strategy is to have each family provide a list of five friends or family members who can be contacted in the event that they "fall off the wagon" of their debt management plan. If they do, members of their support group will get an e-mail, text message, or phone call that says, "Hey, your family member could use some support from you right now." Second, they've created a system for sending out text message alerts to proactively remind people of bill payments, provide encouragement, and deliver financial management tips. These are examples of providing real-time information and guidance, often aided by technology, that is focused on the behavior as opposed to the knowledge that people may or may not have.

CD: A lot of these initiatives are very new. Has there been any effort to see how effective they really are?
JT: When we started this work about two years ago, we looked around and asked, "What is going on in financial education and what appears to be working?" Our literature review suggested that there weren't many completed evaluations of programs. There were findings that showed a knowledge gain by participants but not much of an overall behavior change. Efforts that did appear to change behavior often included relevant, timely, actionable, and ongoing information delivery. We used those ideas, combined with other ideas from behavioral economics and technology, and put a call out for innovative ideas from nonprofits around the country. We received more than 250 proposals, and we selected 5 to receive additional support so we could evaluate their ideas. We're subjecting all of them to rigorous evaluation so we can see which ones work.

CD: On a slightly different topic, Bank On initiatives are often touted as a way to bring people into the financial mainstream.[2] How effective do you think these efforts have been, and what can we learn from them?
JT: I think Bank On has been most effective at raising awareness of banking issues at a local level and bringing together important

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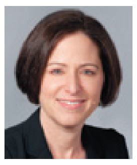

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groups of stakeholders to focus on how to make change. I think local governments have enormous bully pulpit power and reach and can bring the right people to the table. The jury is still out as to whether a Bank On checking account is positive for those who sign up. I don't think there has been nearly enough evaluation of the ultimate impact on consumers who have signed up for Bank On, and given the comments I made earlier on the limitations of checking accounts, I think that's an important question that needs to be considered.

CD: In 2010, the federal government initiated a number of changes to federal banking laws that will affect the number and amount of fees that customers pay for banking services. How will these changes affect efforts to aid the underbanked?

JT: I think Americans are incredibly frustrated with the financial services industry, especially around fees. Because of changes to overdraft and interchange regulations, banks lost a lot of revenue and are trying to find new ways to make it up. Many are now considering charging up-front fees in the form of checking account monthly fees and the like. From the perspective of the consumer, there is now greater transparency and clarity around the costs associated with accounts. That's good, because it allows people to make informed choices about which financial services will meet their needs. Now that a checking account is going to cost you something, you may decide—especially if it's really not doing much for you—that you don't want to use it anymore. Then the questions become, What is the alternative? If consumers can't afford or don't find value in what's being offered, what other choices do they have?

That, I think, will be a positive story, because there has been tremendous financial services innovation in the last decade and there are now more choices than there have ever been. For instance, prepaid cards are now a far more significant product than ever before, and they offer a true alternative to a bank account, since they originate from multiple providers.

CD: What are some issues around prepaid cards for the underbanked that need to be addressed, especially for low- and moderate-income (LMI) consumers?

JT: Prepaid cards have grown and developed tremendously in the last ten years and are now a real product with substantial volume: billions of dollars loaded every year and growing. They're sold in many convenient places, and they don't require a credit check. They provide immediate liquidity, so they have a lot of advantages for LMI consumers. However, they're not yet on a par with traditional bank accounts from a regulatory perspective. For example, they're not required to provide FDIC coverage or coverage for lost or stolen cards. Regulators are only now beginning to address these and other issues.

We also need to do more to make sure prepaid card fees are transparent and comparable from one card to another. The fees have come down dramatically over time, and there are now plenty of cards that you can get for a monthly fee of five dollars or less, which is going to compare quite favorably with some of the prices banks will charge for checking accounts. However, prepaid card providers tend to charge a broader array of fees. Card providers and regulators need to work to shrink that list and make it easier for consumers to compare across providers.

CD: When it comes to banking the underbanked, how should we define success?

JT: We need to reframe the problem, because "banking the underbanked" makes it seem like the primary problem is not having an account and the solution is having an account. Instead, we need to think about what success looks like for consumers. I think success means being able to meet one's day-to-day financial needs effectively. Success also means being able to plan and build for the future. I think there are a variety of ways to meet people's short-term and long-term financial needs. Many times that will involve a bank, and sometimes it will not. The real question is, What products, services, and practices will help people prosper financially? Given all of the technological changes we have seen and will continue to see in this country, I feel there will be no shortage of new products and ideas in that arena. cd

[1] To read the full results of the study, visit www.economicinclusion.gov.

[2] Bank On is a locally driven program that encourages banks to provide low- or no-cost accounts to underbanked individuals. For more on Bank On, see "Bank On gets its game on" in the October 2011 issue of *Community Dividend*, available via the Publications and Papers tab at www.minneapolisfed.org.

PHOTO COURTESY OF CFSI

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An entity, ideally

The IEED was created in 2007 through a reorganization that grouped the nonregulatory, technical assistance-oriented functions of the Department of the Interior's Bureau of Indian Affairs under one metaphorical roof. The office has four divisions that promote tribal economic development by providing consulting services or administering tribal loan guaranty and grant programs. Of the four, the Division of Energy and Mineral Development (DEMD) is best positioned to see how a lack of appropriate tribal governance can hinder investment and economic development.

The DEMD consists of about 30 geologists, engineers, and administrators who assist tribes and individual Indian landowners by studying the feasibility of pursuing renewable and conventional energy projects, sand and gravel mining, and mineral mining on Indian lands.

"We're essentially an office of free consultants that tribes can use," says Payton Batliner, an economic development specialist with the division.

Once a feasibility study is completed, DEMD staff members are happy to provide additional assistance to enable the tribe to pursue any identified opportunities. "We'll work with the loan guaranty program, we'll work with the lender, we'll work with private investors and development companies. We'll help the whole way of project development up until actually starting the business and operating it," Batliner says. However, a problem Batliner and his colleagues see over and over is that many potentially lucrative energy- and mineral-related projects never make it past the study phase because the tribe has no stable, independent entity that can shepherd the project through the development process.

"A lot of these projects just don't go anywhere because the designated project lead is part of a tribal government that's elected for maybe a two-year term. Then a new government is elected, and you have a new project lead who is basically at ground zero, as far as the project's development is concerned," Batliner says.

He notes that the problem isn't universal; some tribes are able to move projects along by keeping project leads in place for the duration, no matter which way the political winds blow. But ideally, "What we'd like to see is an *entity*," he says. "A business entity with some sort of legal framework that mirrors what potential investors would be looking for." He adds that the entity should operate independently from the tribal council, to shield it from potential political interference. And as a prerequisite, the tribe must have a corporate code and other appropriate business laws in place.[3]

"We're not talking about taking away any authority of the government, but just creating a structure within that government that's stable, in terms of business operations and the timeline that business runs on, which is sometimes longer than tribal council terms," Batliner explains.

For tribes that don't have a stable, independent entity in place to move energy and mining projects forward, the missed opportunities may be enormous. Tribal lands hold vast potential for renewable and conventional energy development and mining projects. The U.S. Department of the Interior reports that the royalties alone for extracting fuels such as coal, natural gas, and oil from tribal lands were nearly $408 million in fiscal year 2010.[4]

According to DEMD staff, some tribes have taken steps to build business entities and tribal government structures that can accommodate large-scale, long-term energy and mining projects. In doing so, they've paved the way for even broader economic development in their communities. They've also set examples that other tribes might benefit from as they consider their own development initiatives. Batliner and his colleagues point to two of the IEED's client tribes—one in far northern Minnesota, not far from the U.S.-Canada border, and one in far southwestern Texas, on the Rio Grande—as models of corporate governance building.

Creating an opportunity-based system

One of the DEMD's model tribes, the Red Lake Band of Chippewa Indians, is a community of some 10,400 members located on the Red Lake Indian Reservation in northern Minnesota. The tribe has undertaken a program of constitutional reform and nation rebuilding, following a best practices model designed by the Native Nations Institute. One major component of the reform and rebuilding has been a thorough restructuring of all tribally owned businesses.

For years, the Red Lake Band had been operating an assortment of enterprises, including a construction company, a convenience store, two supermarkets, and a propane distribution company, but none of them were flourishing.

"The companies weren't doing as well as they could have been because the proper structures and controls weren't in place," says Red Lake Economic Development Director Samuel Strong. As an example, Strong cites the fact that there was no system to track inventory and purchases at tribally owned retail stores, which hindered the tribe's ability to make appropriate, real-time business decisions.

Under a corporate restructuring that took effect in May 2011, all tribally owned businesses are now overseen by a business advisory board that is separate from the tribal council. The board's job is to maximize the efficiency of existing tribally owned businesses and identify new business opportunities. Board members include Strong and a mixture of corporate executives, tribal entrepreneurs, and community leaders who collectively have an array of business expertise.

The restructuring will enable Red Lake to further explore plans for tapping renewable energy sources on the reservation. An IEED representative recently conducted an assessment of Red Lake's wind, solar, and geothermal resources, and the tribe is now working with IEED on a proposal for a small-scale wind project that could get under way as early as this summer.

"That would allow us to fulfill our own energy needs on a smaller scale and then put together a possible large-scale energy development project where we could actually be selling energy back to the grid and making a profit off of it," Strong says.

Energy development is only one component of Red Lake's efforts. Another goal of the tribe's restructuring is to develop tribally owned enterprises that are certified as 8(a) firms, which means they could pursue a variety of government contracts.[5] Board members are also interested in assessing the potential for developing an ecotourism industry that would celebrate the culture and heritage of the tribe. At the heart of all the board's goals, from energy projects to tourism, is the idea of generating more income and opportunities for tribal members. "We'd like to really provide opportunities for the entire reservation," Strong says, "and create a system where people have not only jobs but careers."

When asked what lessons he's learned from Red Lake's experience with corporate restructuring, Strong stresses the importance of communication.

"Make sure everyone understands what your intentions are, and that you're not just trying to take things over," he says. "Make it clear that what you're doing is in the best interest of the entire tribe, and that this is how the business world works. You need an appropriate governance system that has the right kind of information and appoints the right kind of people to make good, sound business decisions."

Restructuring for a post-gaming economy

The second model tribe that DEMD members point to is situated more than 1,000 miles from the Red Lake reservation. The Ysleta Del Sur Pueblo is a 1,600-member community located in El Paso, Texas. The tribe was federally restored in 1987 and established gaming operations several years later—first bingo in 1993 and then a casino with slot machines in 1997. Once the casino was up and running, the tribe used some of the gaming proceeds to start other businesses, including a tobacco shop, a restaurant, a convenience store, and an oil distribution company. But the casino dominated the tribal economy. According to Patricia Riggs, Ysleta Del Sur's director of economic development, the pre-casino unemployment rate was around 50 percent. After the casino opened, unemployment dropped to 3 percent.

Several years after the casino began operating, the state sued Ysleta Del Sur on the grounds that the tribe's federal restoration act prohibited forms of gaming that are illegal in Texas. The courts sided with the state, and the casino was shuttered in 2002, leaving the tribe's gaming-dependent economy devastated. Riggs describes the atmosphere at the time as "stifling." Aside from the tobacco shop, which had taken off from the beginning, all of the tribally owned businesses were floundering. The tribe had been feeding the businesses with casino revenues, and now that the revenues were gone, it was clear the businesses were failing—but the tribe didn't want to admit it.

"I'd have to say that we were in denial," says Riggs. "Also, there were political ties to the businesses that made it difficult to change our business processes, so we just kept operating failing businesses."

Riggs and some concerned tribal leaders saw a need for a complete overhaul of Ysleta Del Sur's business and economic development activities. Prompted by a suggestion from the governor's office, Riggs contacted Jack Stevens, the acting director of the IEED, for assistance. The IEED then provided an education grant that enabled Ysleta Del Sur's tribal council and key directors to attend the Native Nations Institute's Nation Building training. The training spurred the tribe's leadership to undertake a series of governance-building steps. Riggs secured grants from other federal agencies, including the U.S. Department of Health and Human Services Administration for Native Americans, to support a tribal policy assessment and additional training. Within just a few years, the tribe established an economic development advisory committee, passed a corporate code, and established a development corporation called Tigua Inc. that is now 8(a)-certified and attracting federal contracts. And all of Ysleta Del Sur's tribally owned businesses are now in the black.

To shape its future activities, the tribe created a comprehensive economic development strategy that identifies ten goals, including workforce development, legal infrastructure development, asset building, and energy efficiency and renewable energy. On the renewable energy front, Ysleta Del Sur recently received a $170,000 grant from IEED to fund a feasibility study for a waste-to-energy project. The tribe is also interested in exploring opportunities related to solar and wind energy.

When reflecting on the tribe's journey, Riggs stresses the importance of honesty, consistency, and engagement. First, it was essential for the tribe to take an honest, unflinching look at its financial status and admit that its businesses were failing. Second, "You need to come up with a plan and stick to it, even if that means you find yourself saying the same things over and over," she says. Finally, "Community engagement is a big factor. You always need to find out who your key stakeholders are and keep them a part of the process."

PHOTO COURTESY OF SAMUEL STRONG

Studying and building simultaneously

The experiences of Red Lake and Ysleta Del Sur demonstrate that reinventing a tribe's corporate governance structure is doable and that help and guidance are available along the way. These tribes now have the structures in place to pursue renewable energy projects, mining, and other large-scale operations that have the potential to boost tribal revenues and self-sufficiency.

Batliner and his DEMD colleagues are hoping that more tribes will undertake similar corporate governance-building efforts in order to take full advantage of the energy resources on tribal lands. They recognize that theirs is not the only federal agency to see potentially lucrative development projects stalled by tribal corporate governance issues; numerous other agencies that have a role in energy or economic development in Indian Country are in a similar position. The DEMD is interested in initiating discussions between those agencies and the tribes, legal advisors, and Native development institutes that have experience in building tribal corporate governance systems. In particular, the DEMD wants to explore the idea of conducting feasibility studies and building corporate governance simultaneously. That way, once the study phase is completed, all the necessary governance components would be in place and projects could move ahead.

As Batliner puts it, "Let's find everybody out there who works on these issues and get them together to talk about how we can implement governance changes *while* we're doing the studies. If you've got a feasibility study that's going on for 18 months, let's try to get a business structure in place during those months. That'll help the tribe, not only with this project but with any other type of business operation they would potentially want to undertake." cd

To join the discussion, contact the IEED at 202-219-0740, the DEMD at 303-969-5270, or Payton Batliner at payton.batliner@bia.gov or 303-969-5270 x391.

[1] Miriam Jorgenson and Jonathan Taylor, *What Determines Indian Economic Success? Evidence from Tribal and Individual Indian Enterprises,* June 2003. The Harvard Project, an academic center housed in the John F. Kennedy School of Government at Harvard University, studies the characteristics of healthy tribal economies in order to determine what works and why. For more information, visit www.hpaied.org.

[2] The Native Nations Institute, an outgrowth of the Harvard Project, is housed in the Udall Center for Public Policy at the University of Arizona. It provides self-determination, self-governance, and development resources for Native nations. For more information, visit www.nni.arizona.edu.

[3] For more on the importance of tribal legal infrastructure in relation to economic development, see our Indian Country Currents web site at www.minneapolisfed.org/indiancountry.

[4] *Total Disbursement by Fund and Commodity, Fiscal Year 2010,* Office of Natural Resources Revenue. Available at www.onrr.gov/onrrwebstats.

[5] For more on the 8(a) Business Development Program, an initiative of the U.S. Small Business Administration, visit www.sba.gov/content/8a-business-development.

Fed Community Development offices launch community survey initiatives

By Ela Rausch

The state of the economy is a daily topic of discussion on the nightly news and at dinner tables across the country. Indicators such as gross domestic product and the net number of jobs added are often used to measure the economic health of our country and our states, but these numbers do not capture local nuances and they often obscure the economic realities that households and businesses in low- to moderate-income (LMI) communities face. To support a more comprehensive understanding of conditions in LMI communities, many of the 12 regional Federal Reserve Banks have started gathering information from community development and service organizations that can provide first-hand insight on what is happening in these communities.

Each of the participating Federal Reserve Banks uses its own survey methods to gather information. The information, in turn, is used to develop standardized economic and financial indicators that can capture changes in the level of economic stress that LMI communities are experiencing. These selected indicators measure economic opportunity at the community level but can also be used to provide some sense of how LMI households are faring. The Community Development Department at the Federal Reserve Bank of Minneapolis launched its first surveys of LMI economic conditions in the Ninth District during the second and fourth quarters of 2011 and plans to continue collecting this information on a semiannual basis. Indicators used by the Minneapolis Fed that relate directly to the well-being of LMI households include employment opportunities for disadvantaged and dislocated workers, the availability of affordable rental housing, and the level of demand for financial counseling.

The front-line information Reserve Banks gather can be used to monitor economic opportunities and assets at the community level that are not well measured through other data sources. By regularly collecting information from community organizations that serve households and businesses in LMI communities, the survey efforts can begin to fill some of the existing knowledge gaps. Pooling and comparing the survey results can provide a national perspective. Some key themes we heard from our second quarter 2011 survey respondents in the Ninth District that were also observed by other Federal Reserve Banks are:

- Access to credit for businesses that operate in LMI communities has decreased; community development financial institutions are being used to fill the resulting lending gaps.*

- Consumer debt and the use of alternative financial service providers among LMI households has risen.

- Changes to FHA (Federal Housing Administration) loan requirements have prevented some LMI buyers from purchasing lower-priced homes that are on the market.

- The demand for services, e.g., financial counseling, job training programs, and emergency assistance, has risen.

Front-line observations can help us better understand the context in which service organizations, businesses, and households are operating. Some comments captured through our first survey (conducted in the second quarter of 2011) appear in the sidebar at right. In addition, respondents' assessments of whether things are "getting better," "getting worse," or "staying the same" can serve as leading indicators of changes in conditions that are important for neighborhood stabilization and recovery. To date, information gathered through community surveys is helping Reserve Banks gauge whether government programs and regulations are having their intended impact, identify regulatory issues that deserve attention, and recognize emerging issues affecting LMI households. We hope that, over time, our community survey efforts will enable us to gather reliable, real-time information about LMI community conditions that is used and trusted by policymakers.

To learn more about the Minneapolis Fed's LMI community survey effort, *Ninth District Community Insight,* visit the Publications and Papers tab at www.minneapolisfed.org. cd

** Community development financial institutions, or CDFIs, are specialized entities that provide lending, investments, and other financial services in economically distressed communities. For more information, visit www.cdfifund.gov.*

VOICES FROM THE NINTH DISTRICT

The following are selected responses from* Ninth District Community Insight, *the Minneapolis Fed's LMI community survey.

"As a nontraditional lender, our loan volume has doubled because banks have reduced their small business lending. In 2010, we ran out of capital at the end of the first quarter … we hope to not run out of money again [this year]."
—RESPONDENT IN MIXED URBAN-RURAL MINNESOTA

"SBA [Small Business Administration] loan activity has decreased, which provides [one] indication that credit is tighter now than it was 12 months ago. We are also seeing a slight increase in liquidations and delinquencies."
—RESPONDENT IN MIXED URBAN-RURAL MONTANA

"The amount of consumer debt that households are carrying has created barriers to homeownership, quality rental housing, and lines of credit. In addition, a large portion of residents are using check-cashing institutions and payday loans to meet their needs because they lack trust in banks and [lack] knowledge about the banking system."
—RESPONDENT IN URBAN MINNESOTA

"Resources needed to conduct foreclosure counseling have decreased significantly. Funds for energy conservation programs and for basic-needs services are also expected to decrease. This is occurring at a time when economic recovery has not yet arrived and service [demand] is 30 percent higher than it was in 2008."
—RESPONDENT IN RURAL MINNESOTA

"Skill [requirements] seem to be higher for new hires. [Unemployment] rates in rural counties are still numbingly high and probably toughest on former manufacturing workers who are not yet ready for retirement."
—RESPONDENT IN RURAL UPPER MICHIGAN

News and Notes

Leech Lake Band and State of Minnesota sign lien-filing agreement

State-tribal arrangement will facilitate lending to reservation-based businesses

ON OCTOBER 21, in a ceremony held in the rotunda of the Minnesota State Capitol, the Leech Lake Band of Ojibwe and the State of Minnesota signed an agreement that will facilitate business lending and economic development on the Leech Lake reservation.

The Leech Lake–State of Minnesota Joint Powers Agreement assigns the Minnesota Secretary of State's Office to act as the filing administrator for liens made under Leech Lake tribal law on collateral that is located on the Leech Lake reservation. The agreement enables the Leech Lake Band to offer lenders a convenient and dependable lien-filing service that is fully interoperable with Article 9 of the Uniform Commercial Code, or UCC. Article 9, which has been adopted in all 50 states and U.S. territories, governs *secured transactions*, which are loans or other extensions of credit in which property other than real estate is used as collateral. Several crucial types of business loans, such as those used to cover start-up and inventory-purchase costs, fall into this category.

Article 9 requires a lender or other creditor involved in a secured transaction to file a UCC financing statement, or lien, on the borrower's collateral in order to establish legal priority in relation to other creditors or third parties that may have an interest in the same collateral. This filing, which is referred to as *perfection* of a secured interest, helps reduce the risks creditors face in the event of default. All 50 states have UCC filing systems in place for this purpose; typically, as in Minnesota, the systems are housed within the secretary of state's office. Modern UCC filing systems are set up as searchable, online databases, and they can be costly to implement and maintain.

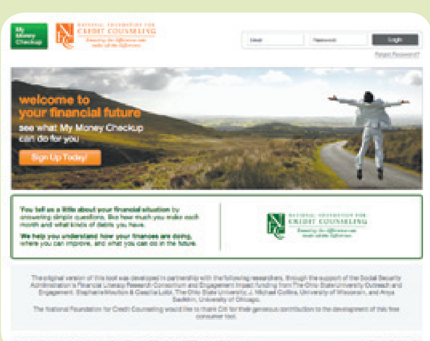
The Joint Powers Agreement designates the State of Minnesota's UCC filing system as the location for creditors to file financing statements to perfect liens under the Leech Lake Band's law. The state-tribal agreement is designed to provide security and convenience for lenders and other creditors while saving the Leech Lake Band the expense of developing and maintaining its own lien-filing system. By enabling creditors to file liens confidently and seamlessly under tribal law, the agreement has the potential to encourage more lending to businesses in the Leech Lake community. The agreement in no way infringes on tribal sovereignty or tribal jurisdiction over disputes that may arise under the tribe's law.

Leech Lake Tribal Chairman Arthur LaRose (left) and Minnesota Secretary of State Mark Ritchie sign the Leech Lake–State of Minnesota Joint Powers Agreement.

The agreement is the final step in the Leech Lake Band's enactment of the Model Tribal Secured Transactions Act (MTSTA), a model law drafted by a special committee of the Uniform Law Commission (ULC), with advisory services provided by ten Indian tribes and a Community Development representative from the Federal Reserve Bank of Minneapolis. (For more on the MTSTA, see "A super model: New secured transaction code offers legal uniformity, economic promise for Indian Country," in *Community Dividend* Issue 1, 2006, available via the Publications and Papers tab at www.minneapolisfed.org.) The Leech Lake Band joins two other tribes—the Crow Nation in Montana and the Oglala Sioux Tribe of the Pine Ridge Indian Reservation in South Dakota—that have enacted both the MTSTA and a state-tribal UCC filing agreement. One other Indian community, the Chippewa Cree Tribes of Rocky Boy's Reservation in Montana, has adopted the MTSTA but has not yet entered a UCC filing agreement. More than 20 additional tribes are currently considering or pursuing adoption of the MTSTA.

The October 21 signing ceremony featured remarks from officials who represent the key parties involved in the Leech Lake Band's adoption of the MTSTA, including Leech Lake Tribal Chairman Arthur LaRose, Minnesota Secretary of State Mark Ritchie, ULC member Frederick Miller, and Federal Reserve Bank of Minneapolis Senior Vice President Dorothy Bridges.

The signing ceremony at the Minnesota State Capitol opens with a traditional Ojibwe drum song (above) and the posting of colors by the Leech Lake Honor Guard (top).



MyMoneyCheckUp offers free, personalized assessments of consumers' finances

The **National Foundation for Credit Counseling** (NFCC), the nation's largest network of nonprofit credit counseling organizations, has launched a free, secure, online tool designed to help consumers assess their financial health. At www.MyMoneyCheckUp.org, a user first creates an account and answers a series of questions about his or her personal money management. The site then generates a customized assessment of the individual's financial health in four categories: budgeting and credit management, saving and investing, planning for retirement, and managing home equity. After receiving the initial assessment, members can use the site to track their progress in meeting financial goals. The NFCC's implementation of MyMoneyCheckUp was made possible by a contribution from Citi Community Development.

News and Notes

Minneapolis Fed launches *Ninth District Community Insight* report series

The Community Development Department of the Minneapolis Fed has launched *Ninth District Community Insight,* a series of semiannual reports designed to provide a front-line perspective on the economic health of low- to moderate-income communities. Each *Ninth District Community Insight* report is based on an online survey of various organizations that play a critical role in developing and stabilizing communities. Survey questions ask respondents to assess how their communities are faring in terms of employment, housing, financial, and business conditions. The survey's twice-yearly frequency is intended to enable analysis of trends in community conditions over time.

The first *Ninth District Community Insight Survey,* conducted in the second quarter of 2011, drew 335 respondents, including housing developers, Community Action Agencies, financial counselors, and small business technical assistance providers. Findings from the inaugural survey appear in the *Ninth District Community Insight: Second Quarter 2011* report, which was published in early November and is available via the Publications and Papers tab at www.minneapolisfed.org. The next *Ninth District Community Insight Survey* was conducted later in the fourth quarter of 2011; a report based on its findings is forthcoming.

For more on Ninth District Community Insight *and the Federal Reserve System's community polling efforts, see the article "Fed Community Development offices launch community survey initiatives" on page 6 of this issue.*

Native CDFI News

U.S. Treasury awards $11.85 million to Native CDFIs

The U.S. Department of the Treasury has awarded a total of $11.85 million to 35 certified or prospective Native community development financial institutions (CDFIs) and other organizations in 17 states. The awards were made through the 2011 round of the Treasury's Native American CDFI Assistance (NACA) Program, which encourages the creation and strengthening of CDFIs that primarily serve Native American, Alaska Native, and Native Hawaiian communities. A CDFI is a specialized entity that provides loans, investments, training, or other services in underserved or economically distressed areas. The Treasury's CDFI Fund, which certifies and provides support for CDFIs, allocates its awards through a competitive review process.

Ten of the NACA awards, totaling nearly $3.2 million, went to organizations headquartered in the Ninth Federal Reserve District. Ninth District recipients and award amounts are:

Minnesota: Dakota Ventures, Inc., Morton, $149,850; Indian Land Capital Company, Little Canada, $725,000; Leech Lake Band of Ojibwe, Cass Lake, $133,080; White Earth Investment Initiative, Ogema, $725,000.
South Dakota: Black Hills Community Loan Fund, Inc., Rapid City, $149,976; Four Bands Community Fund, Inc., Eagle Butte, $725,000; Lakota Federal Credit Union Steering Committee, Kyle, $149,560; Lakota Funds, Kyle, $146,485.
Wisconsin: LaPointe Financial, Inc., Odanah, $144,250; Wigamig Owners Loan Fund, Lac du Flambeau, $141,350.

Ninth District Native CDFIs receive Northwest Area Foundation Grants

The Northwest Area Foundation (NWAF) has awarded a total of $1.59 million in grants to six organizations that support business development and job creation on American Indian reservations. The grants marked the launch of NWAF's Native American Social Enterprise Initiative (NASEI), a two-year effort to increase the number and strength of reservation-based, Native-owned businesses. Three of the six grants went to Native CDFIs located in the Ninth Federal Reserve District. Ninth District NASEI grant recipients are:

- Four Bands Community Fund, Inc., Eagle Butte, S.D.; awarded up to $100,000 to create a green business development curriculum.
- Hunkpati Investments Inc., Fort Thompson, S.D.; will receive up to $200,000 for organizational capacity building.
- Lakota Funds, Kyle, S.D.; awarded up to $200,000 to support a pilot matched-savings program for children.

Additional grant recipients are Northwest Native Development Fund, Nespelan, Wash.; Taala Fund, Taholah, Wash.; and Confederated Tribes of the Umatilla Indian Reservation, Pendleton, Ore. The Oregon Native American Business and Entrepreneurial Network in Tigard, Ore., received a separate grant to provide training and assistance to the six NASEI awardees.

NWAF, headquartered in St. Paul, Minn., is dedicated to reducing poverty and achieving sustainable prosperity in an eight-state region in the northern and western U.S. (Idaho, Iowa, Minnesota, Montana, North Dakota, Oregon, South Dakota, and Washington). The foundation was established in 1934 by the family of railroad baron James J. Hill, whose Great Northern Railway once served the region.

Montana CDC project receives top honor

A business expansion project made possible by Montana Community Development Corporation (Montana CDC) recently received a top honor among all New Markets Tax Credit (NMTC)-financed projects nationwide. Novogradac Community Development Foundation, the charitable arm of Novogradac & Company (an accounting firm with expertise in the NMTC), named Montana CDC's $17 million expansion of Stinger Welding in Libby, Mont., the Operating Business of the Year among all NMTC projects. At the time of the award announcement in late 2011, the expansion had created 40 jobs and was projected to create many more. According to one projection, the expanded Stinger Welding facility will eventually employ 1 out of 10 people in Libby, a town that has experienced some of Montana's highest unemployment rates in recent years.

The NMTC Program, which is administered by the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund, provides tax credits to individuals or corporations that invest in job creation or material improvements in low-income communities. NMTC investors channel their investments through specialized organizations called Community Development Entities, which have a primary mission of serving low- to moderate-income populations. The CDFI Fund allocates NMTCs to CDEs through a competitive process, and investors receive the credits over a seven-year period. The credits equal 39 percent of the original investment. For the Stinger Welding project, Montana CDC serves as the CDE, and the Urban Investment Group of Goldman Sachs is the investor.

Calendar

26th Annual Reservation Economic Summit (RES 2012) and American Indian Business Trade Fair

February 27–March 1, Las Vegas

The largest national conference on American Indian economic and business development, featuring four days of learning and networking. Presented by the National Center for American Indian Enterprise Development. Additional information: visit http://res2012.biz.

2012 National Interagency Community Reinvestment Conference

March 25–28, Seattle

A training and networking event for community development professionals, including Community Reinvestment Act officers, community development lenders and investors, and representatives of community development financial institutions (CDFIs), foundations, and nonprofits. Sponsored by the Federal Deposit Insurance Corporation, the Federal Reserve Bank of San Francisco, the Office of the Comptroller of the Currency, and the U.S. Department of the Treasury's CDFI Fund. Additional information: visit www.frbsf.org/community/Seattle2012.

Reinventing Older Communities

May 9–11, Philadelphia

Save the date! The fifth biennial convening of the Reinventing Older Communities conference will explore building resilient cities, with a particular focus on smaller cities that were once manufacturing centers. Sponsored by the Federal Reserve Bank of Philadelphia, in collaboration with the Federal Reserve Banks of Boston, Chicago, Cleveland, and New York. Additional information: visit www.philadelphiafed.org/community-development/events.