FIRST NATIONS OWEESTA CORPORATION
A SUBSIDIARY OF FIRST NATIONS DEVELOPMENT INSTITUTE

Snapshot 2018: The Growing Native CDFI Movement

Northwest Area Foundation
Reducing Poverty. Building Prosperity.

Acknowledgements

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Oweesta would also like to thank all the Native CDFIs that participated in this research report. For many Native CDFIs, this meant completing the survey. For a smaller group, this meant participating in a Key Opinion Leader call, as well as completing the survey. We also want to thank our Native CDFI Advisory Committee, which provided feedback and guidance throughout the report's development. They include: Four Directions Development Corporation, NACDC Financial Services, Native360 Loan Fund, Taala Fund, Tigua CDC, and Wisconsin Native Loan Fund. We are very thankful that we have such thoughtful and committed Native CDFIs to work with and on behalf of our Native communities.

Many funders, investors, and thought leaders participated in calls for this research report. Their time was valued. Their participation is evidence of the range of people interested in the growth and success of Native CDFIs.

This report was written by First Nations Oweesta Corporation staff, including Krystal Langholz, Caleb Selby, Heather Rademacher Taylor, Lindsey Sexton, and Chrystel Cornelius. We believe in widely sharing best practices, key findings, and successful or promising models with practitioners in Indian Country, government entities (federal, state, local, and tribal), mainstream philanthropy, and the public at large. For more information, or to order additional copies of this report, please email info@oweesta.org.

About Oweesta

Oweesta, a subsidiary of First Nations Development Institute, is a national non-profit organization located in Longmont, Colorado. It is the only existing Native CDFI intermediary offering financial products and development services exclusively to Native CDFIs and Native communities. Specifically, Oweesta provides training, technical assistance, investments, and research to help Native communities develop an integrated range of asset-building products and services. To learn more about Oweesta, visit www.oweesta.org.

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Executive Summary

"In Native communities everything revolves around balance and the shape of a circle (medicine wheel, four directions, etc.). There is physical, emotional, spiritual, financial, and personal balance. When a citizen achieves any kind of balance it is very special. We (Chi Ishobak) try and build professional and personal capacity so that our citizens can begin to find their balance."

—Sean Winters, Executive Director of Chi Ishobak, Inc., a Native Community Development Financial Institution

This report provides a "snapshot" of the Native Community Development Financial Institution (CDFI) industry in 2018, focusing on capital needs. This report seeks to contextualize these capital needs within the history of the Native CDFI movement, and documents the growth of the industry. Methods of data gathering included surveys, interviews, and public sharing of data internal to Oweesta. Our analysis of this data concludes that the Native CDFI wrap-around service model is successful, with growing financial and operational sustainability. This report also documents Native CDFIs' increasing needs for lending and operational capital, and discusses the current barriers restricting this capital flow. Finally, this report makes recommendations for Native CDFIs and future partners for confronting these challenges and better supporting this impactful movement.

Introduction

"Let us put our minds together and see what life we can create for our children."

—Sitting Bull

Native communities have persisted for millennia, showing great resilience in the face of unspeakable atrocities and endurance despite unrelenting challenges. The Native CDFI movement is one powerful example of how Native communities today embody that same creativity, strength, and commitment to one another. Before contact, Native people thrived from the icy tundra to the scorching desert. While each community was unique, these Native communities shared an economic model committed to sustainability for their future generations. Likewise, though Native CDFIs within our growing movement vary in their application, they share a commitment to thriving local communities. This adaptable model, which provides capital and education to community members, is flourishing and opening a pathway to economic self-sufficiency for tribal members across the United States. In 2017 alone, our Native CDFI survey respondents closed 3,461 loans totaling over $55 million, with $28 million directed to individuals or businesses located on reservations.

In 2012, Oweesta produced "Snapshot 2012: Native CDFIs and the Capital Access Challenge," which provided a look inside the Native CDFI industry, and documented the expanding capital needs of Native CDFIs. Throughout this report, we will regularly reference data from this 2012 research. In comparing the results of these two reports, we find that the Native CDFI sector is growing increasingly sophisticated at navigating Western models of finance to bring resources into their communities, while philanthropy and mainstream financial institutions are

Impact of Native CDFI Loan Funds

3,461 Closed Loans = $55 million Total 2017

$28 million to Individuals/Businesses on Reservations

showing more interest in supporting these dynamic institutions. However, while there is now a richer array of resources to support Native CDFIs' work, there is also exponential growth in demand for capital. This is because, as Native CDFIs grow their local private sectors and build the financial capabilities of their borrowers, the capital needs in their communities have rapidly increased.

Although Native CDFIs can be loan funds, credit unions, banks, or other types of financial institutions, this report concentrates on Native CDFI loan funds, which operate very differently than regulated institutions, and are often much smaller in asset size. As a result, the inclusion of data from other types of financial institutions would make it more difficult to adequately represent trends among Native CDFI loan funds. Data on all Native CDFI types is available in other reports in this series, including a financial industry profile produced for Native CDFIs, as well as a report on Native CDFI credit unions, banks, and venture capital funds. We hope these reports provide the Native CDFI movement and its partners a deeper understanding of just where we are, where we intend to go, and what we need to get there.

Figure 1: Certified Native CDFI Locations

The History of the Native CDFI Movement

The first Native CDFI loan fund, The Lakota Funds, was established with the support of First Nations Development Institute in 1982 on the Pine Ridge Reservation. This model was quickly replicated in other places as Native CDFIs became part of the solution to challenges, such as high unemployment, isolation and remoteness, and limited credit access, facing rural reservation economies. However, it was not until the CDFI Fund completed the Native American Lending Study in 2001 and established the Native set-aside of funds (Native American CDFI Assistance - NACA) that this wave of "sovereign lenders" fully took flight[1]. There are currently 76 certified[2] Native CDFIs in the country, most of which are located in isolated, rural geographies (figure 1).

[1] This was made possible by the advocacy of many organizations, including First Nations Development Institute, to include Native specific language.

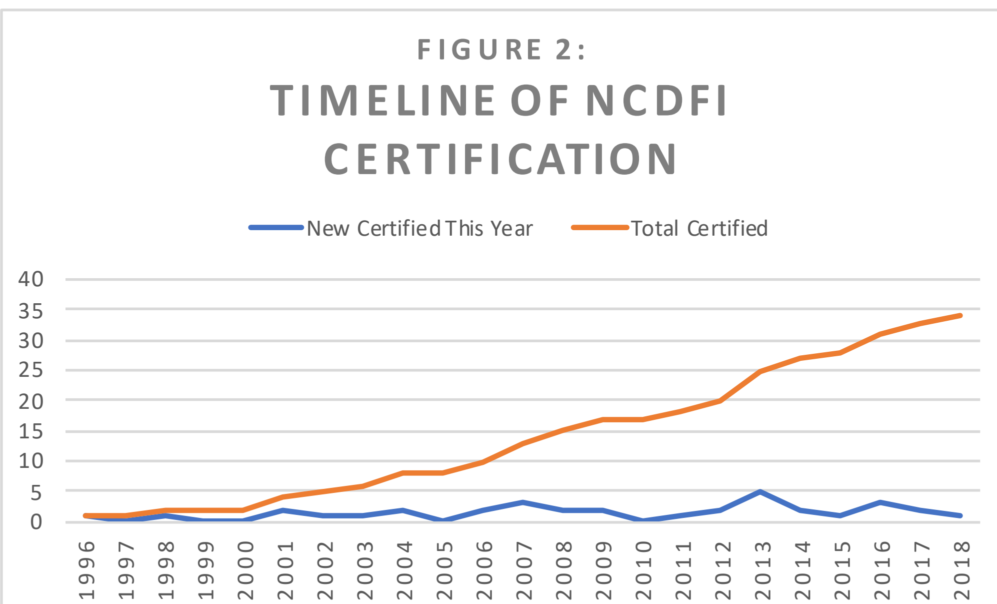
Methodology

Beginning in May 2018, Oweesta contacted all 56 certified loan fund[3] Native CDFIs and 11 emerging Native CDFIs[4] to participate in a capital access survey. Thirty-eight Native CDFIs participated, reflecting a 64% response rate among all certified Native CDFI loan funds. Oweesta offered several prizes for completing the survey, although the largest incentive for many Native CDFIs was the production of this document and its accompanying Native CDFI industry profile report. Our first method of contact was email, with follow-up contact by email and phone.

To further contextualize this report, Oweesta conducted 22 individual interviews. Oweesta spoke with four foundation representatives, six investors, five long-standing certified Native CDFIs, three young and emerging Native CDFIs, and four individuals who Oweesta classified as industry "thought leaders."

Information About Survey Respondents

Most of the participating Native CDFI loan funds were established Native CDFIs. Ninety-five percent (35) of the survey respondents were certified Native CDFIs with active loan programs, while 5% (3) were emerging. Since 1996, there has been steady annual growth in the total number of certified Native CDFI loan funds (see figure 2).

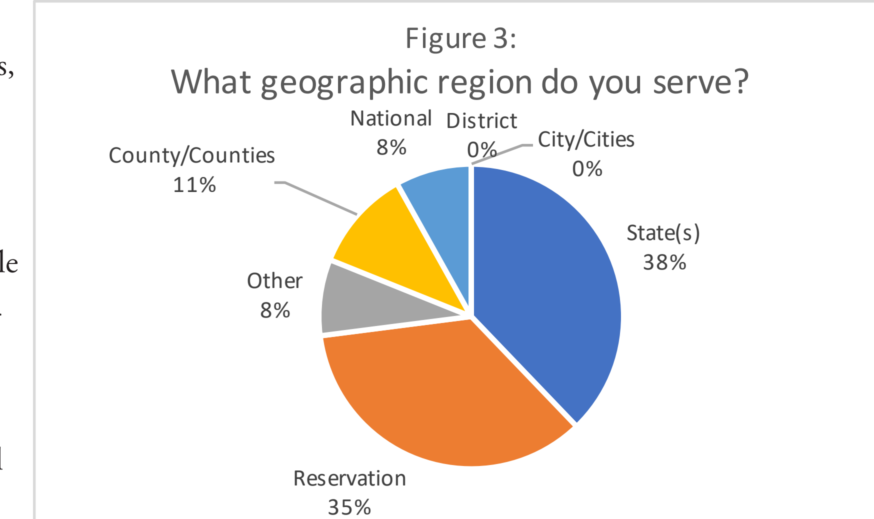


Native CDFIs are diverse and serve unique geographies. The Native CDFI survey respondents operate in 19 states that cover most of Indian Country. Native CDFIs span from East to West, from Maine to New York, and North Carolina to Alaska, Washington, and Oregon. They also traverse the Northern reaches of the United States to the Southern border, from Minnesota, Montana, Wisconsin, and Michigan, to Arizona, New Mexico, and Texas. They operate in urban and rural settings, and on-and-off-reservation, and multi-state or even national markets.

[2]CDFI Certification is the U.S. Department of the Treasury's recognition of specialized financial institutions serving low-income communities. Through certification, CDFIs are qualified to apply for technical assistance and financial assistance awards, as well as training provided by the CDFI Fund through their Capacity Building Initiative. A Native CDFI is a CDFI that focuses on serving a Native American, Alaska Native, or Native Hawaiian community.

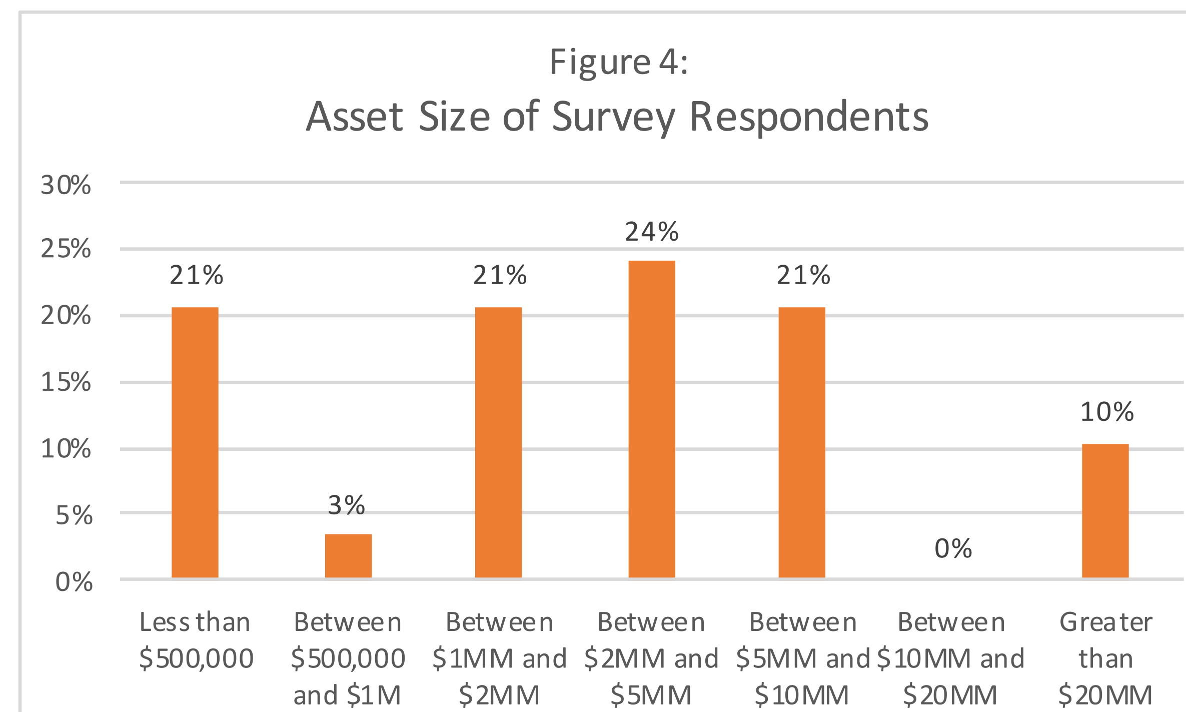
[3]A revolving loan fund is a non-regulated lending institution that most often serves markets where regulated financial institutions are difficult to access.

[4]An emerging Native CDFI is a CDFI that has yet to be certified by the CDFI Fund because it is still in the process of organizational development.



These Native CDFIs often serve multiple target markets, depending on their mission and location (figure 3). Eligibility to access a Native CDFI's products and services might be based on geographical boundaries; tribal enrollment; clients who self-report as Native American, Alaska Native, Native Hawaiian; tribal employees; or a combination. For example, a Native CDFI might lend to anyone who lives or works in their home reservation community (including non-Native community members), as well as any of their enrolled tribal citizens scattered throughout their state.

The Native CDFI loan funds also vary greatly in asset size. Nearly 70% have total assets between one and ten million dollars (figure 4), with an average asset size of $5.5 million.



They offer a variety of financial products, from auto loans to mortgages, though 80% of Native CDFI loan fund respondents focus on small business and microlending (figure 5). This is because many Native CDFIs were developed to deal with the economic challenges of their home community. Over 70% of respondents also offer credit builder or repair lending, often as a first step for borrowers before receiving a business or home loan.

Key Observations and Findings

Native CDFIs Have a Wrap-Around, Community-Based Service Delivery Model

"What I think is really special about Native CDFIs is that they bring all of us back to why the CDFI sector was created in the first place. It's about community-based access to capital."

—Megan Teare, Wells Fargo

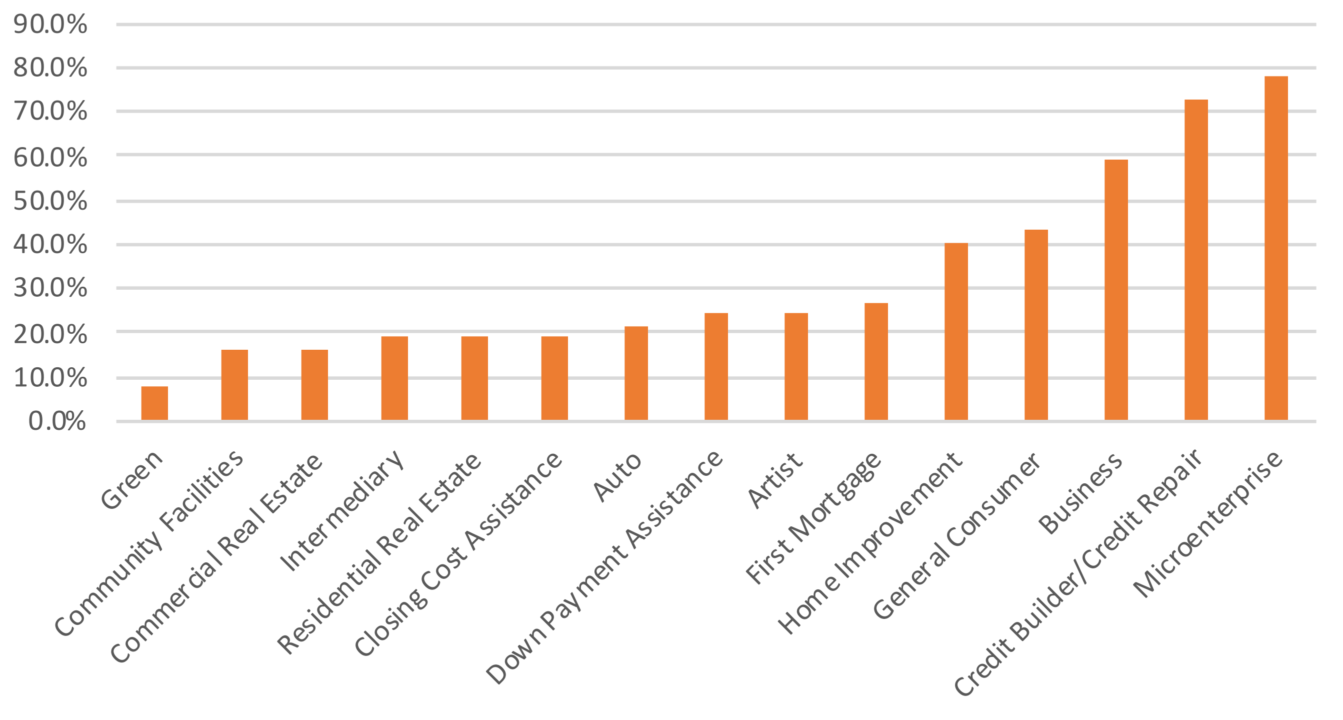


Figure 5: What financial products do you offer?

Native CDFIs provide a full suite of support services, known as development services, that are designed to empower borrowers. These services range from small business classes to one-on-one credit coaching. While other community-based lenders have been encouraged to trim these high-touch services in order to keep operating costs low, Native CDFIs continue to passionately priortize these services. They do so because education, training, and one-on-one assistance is essential to building the capacity of their borrowers and clients, and to strengthening the community overall. Enhancing financial capabilities puts borrowers in a strong position to succeed, repay their loans, and to act as foundational community resources.

However, this creates a burden for Native CDFIs, which must fundraise to support those services. The average Native CDFI loan fund respondent had 4.2 FTE employees, with a greater portion of that staff time going to development services in comparison with the broader CDFI industry[5] (figure 6).

The Growing Internal Capacity of Native CDFIs

The internal capacity of Native CDFIs has been growing dramatically in recent years. Currently, most Native CDFI loan funds (73%) are operating with a strategic plan. A strategic plan is the guiding document that holds an organization accountable to its mission, and is the cornerstone for developing business and annual operational plans; consequently, it is a valuable marker of the internal capacity of an organization. Additionally, there has been a dramatic increase in the percentage of Native CDFI loan funds hiring external auditors; currently, 81% of Native CDFI loan funds undergo an audit annually (figure 7). By contrast, in 2012[6], very few Native CDFIs received audits, the lack of which was a significant barrier to obtaining debt financing from mainstream institutions.

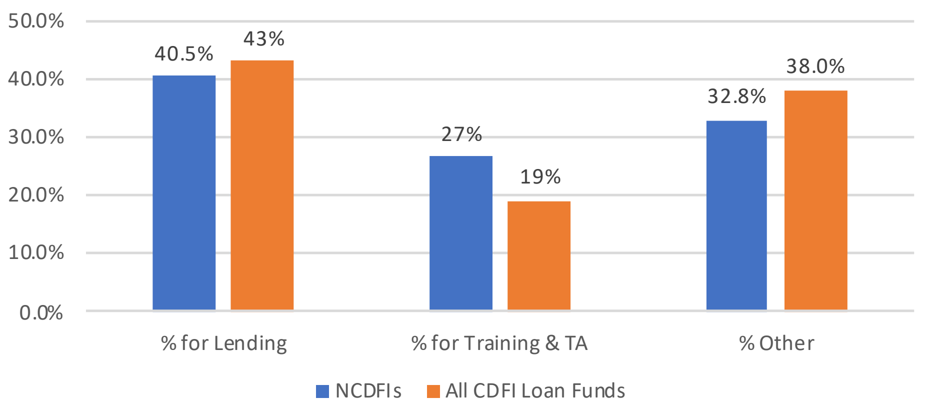


Figure 6: FTE Breakdown, NCDFIs vs. OFN Side by Side

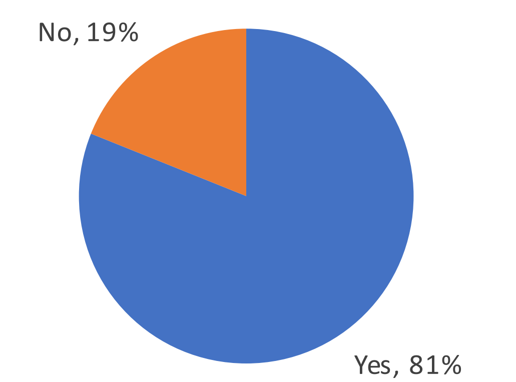


Figure 7: What percentage of organizations get an audit on an annual basis?

[5]OFN Side-by-Side, 2016.
[6]Oweesta. Snapshot 2012: Native CDFIs and the Capital Access Challenge.

Growing Operational Financial Sustainability

"Native CDFIs are strong because of our dedication to the dirt. Our history and anchor to "place" goes back a millennia and that gives us a stability you don't see in other places. While many other financing institutions look for "scale" we look at "place." The water is factored in to our ROI. The dirt is factored into our balance sheets. We perform for the long, really long, haul."

—Ted Piccolo, Executive Director, Northwest Native Development Fund

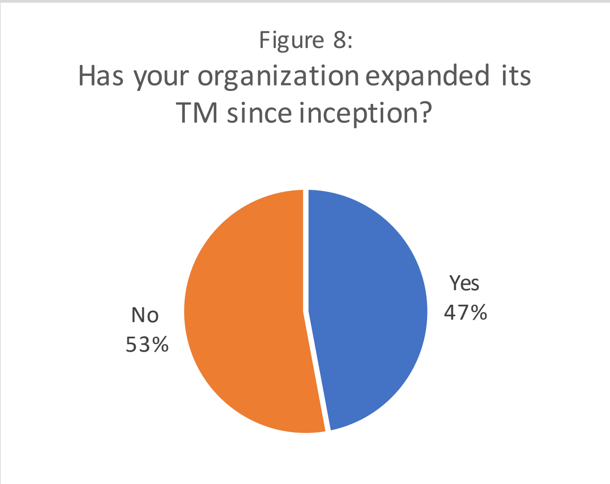


Figure 8:
Has your organization expanded its TM since inception?

Native CDFIs are showing strong financial growth. Seventy-eight percent of Native CDFI respondents had positive net income in 2017, meaning that the vast majority brought in more money than they spent. These financial gains were substantial; the average net income of survey respondents was over $250K. In an era where "bigger is better" (or at least considered more sustainable), Native CDFIs are proving that sustainability is possible at any size provided the organization remains rooted in its community.

At the same time, many Native CDFIs are growing. Forty-seven percent of respondents have expanded their target markets since inception, resulting in larger portfolios (figure 8). The most exciting result of this expansion is that more Native families have access to Native CDFI services, creating greater community impact.


Four Bands Community Fund

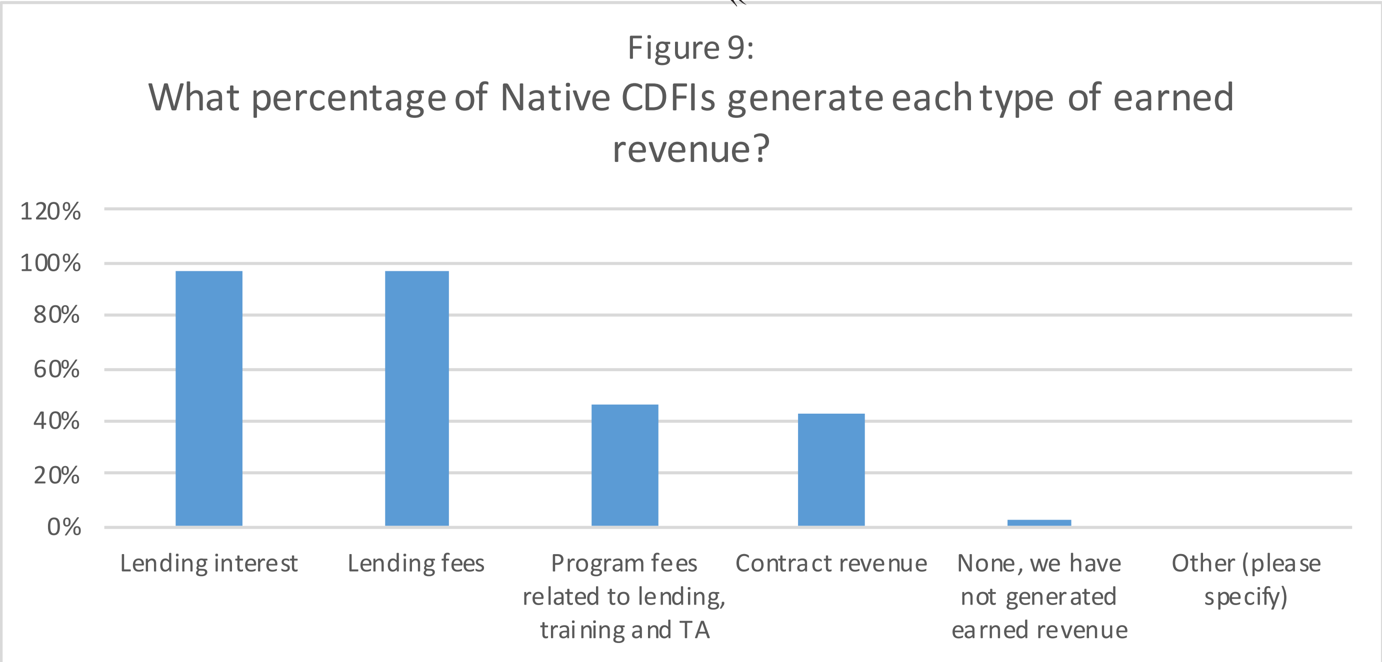


Figure 9:
What percentage of Native CDFIs generate each type of earned revenue?

This growth also leads to increases in organizational "self-sufficiency," i.e. the percentage of the operating budget a Native CDFI can support with its earned revenue (excluding grant funds). As their loan portfolios grow, Native CDFIs generate more lending income. As illustrated in figure 9, Native CDFIs are diversifying their revenue structures by increasingly utilizing other sources of earned revenue, including various types of contractual revenue, such as a contract with a tribal department to teach financial eduation. These gains in self-sufficiency and earned revenue are encouraging as they showcase the growing financial independence and operating efficiencies of Native CDFI loan funds.

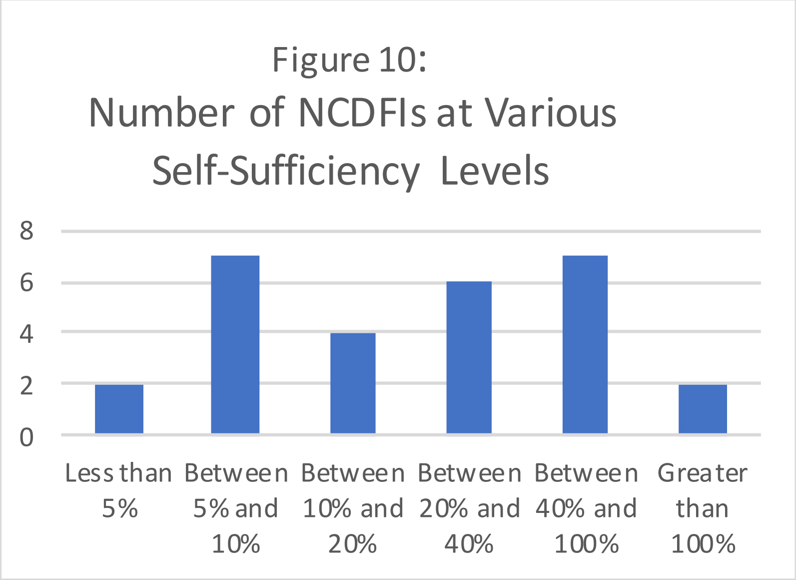


Figure 10:
Number of NCDFIs at Various Self-Sufficiency Levels

The average Native CDFI respondent's self-sufficiency rate is 44% (figure 10). Some of the oldest and healthiest Native CDFIs in the country operate with self-sufficiency rates below 20%. These organizations, some over 30 years old, have proven to be sustainable institutions. They serve target markets that demand high cost development services, as discussed above, and/or have a mission that limits geographic or target market expansion.

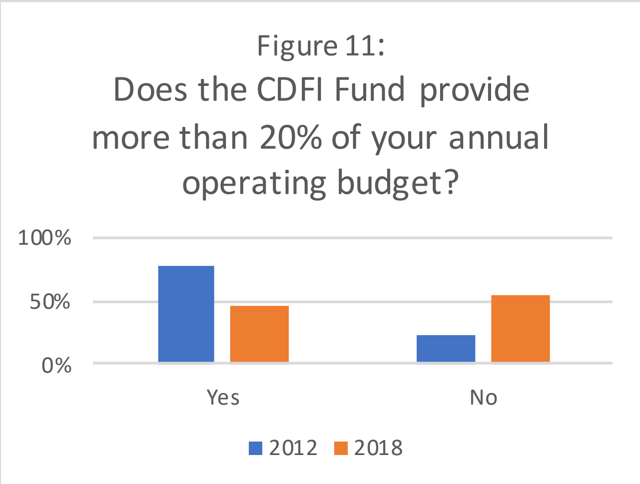
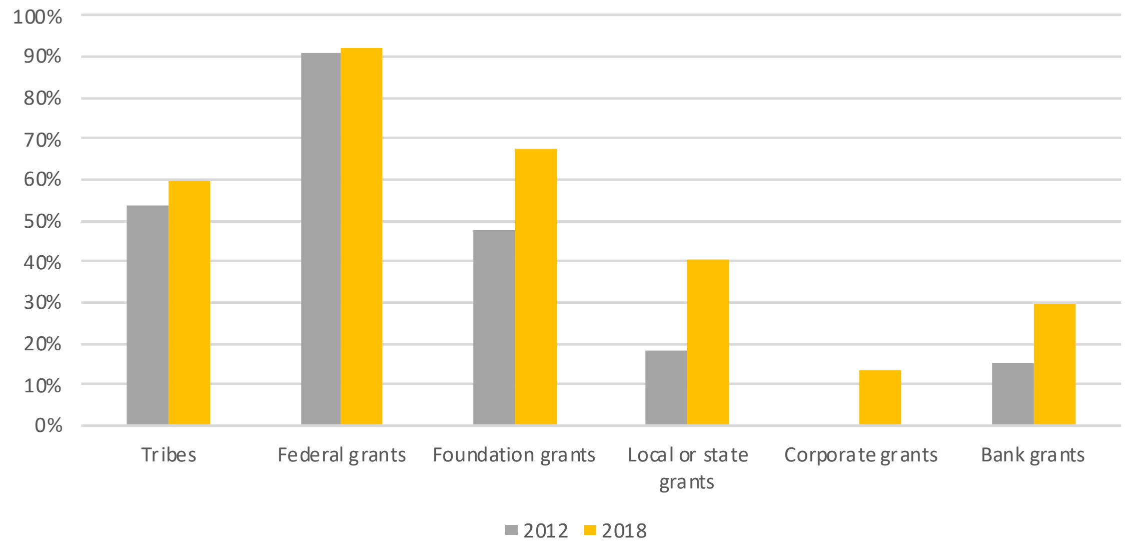


Figure 11:
Does the CDFI Fund provide more than 20% of your annual operating budget?

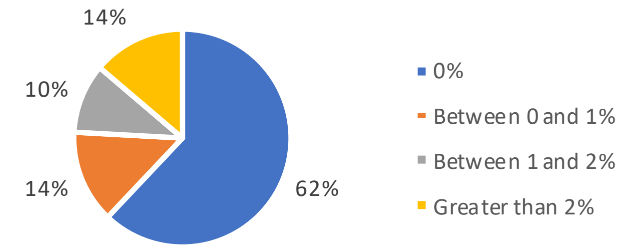
Figure 12:
What percentage of Native CDFIs generate operating revenue from each type of funding source?



These Native CDFIs demonstrate that organizations that stay uniquely adapted to their community needs and remain constant in pursuit of their mission are able to achieve sustainability, even with lower levels of self-sufficiency.

There are other encouraging signs of increased financial sustainability. Native CDFIs have been diversifying their sources of operating grants. Most notably, there has been a dramatic decrease in reliance on federal funds. In 2012, 77% of respondents relied on the CDFI Fund for more than 20% of their operating budget; in 2018, that number decreased to 46% (figure 11)[7].

Figure: 13
FY 2017 Charge off distribution by percentage (N=29)



Likewise, today's Native CDFIs are much more likely than before to tap a variety of sources of operating funds (figure 12). For example, in 2012, only 18% of Native CDFIs were utilizing local or state grants for operating funds[8]; by 2018, 41% had accessed these funds to support their operating budgets. In 2012, less than half of Native CDFI had received foundation support. In 2018, almost 70% of Native CDFIs have received operating support from foundations. This reflects a growing awareness of Native CDFIs among philanthropists and at various levels of government. While there is much to celebrate, there is still clearly underrepresentation in many philanthropic sectors.

[7]Oweesta. Snapshot 2012: Native CDFIs and the Capital Access Challenge.
[8]Ibid.

The Success of the Native CDFI Model

Native CDFIs are proving to be prudent lenders. One of the greatest barriers to obtaining financing from external sources for Native CDFIs is the perception that it is inherently riskier to lend in Native communities. However, a comparison of industry data shows that lending is not higher risk for Native CDFIs. Twenty-nine Native CDFI respondents provided financial and lending statements for analysis. A comparison to the broader field of CDFI lenders found out that, despite doing mission based-lending in some of the most economically distressed areas of the country, Native CDFIs are managing low delinquency and charge off rates (figure 13).

Figure 14: Industry Comparison Between Native CDFI Loan Fund and All Loan Funds[9]

	Consumer		Microenterprise		Housing	
	Native LFs (N=12)	All Consumer LFs (N=6)	Native LFs (N=12)	All Microenterprise LFs (N=27)	Native LFs (N=5)	All Housing[10] LFs (N=24)
Net Asset Ratio	83.18%	63%	76.19%	51%	76.46%	58%
90+ Delinquency Rate	3.79%	.5%	1.88%	2.2%	3.24%	3.5%
Charge off Rate	1.47%	1.6%	.75%	3.2%	.68%	.8%

Figure 14 compares the financial and portfolio statistics for the 29 Native CDFI respondents to the broader CDFI sector. We organized Native CDFIs into consumer, microenterprise/small business, and housing lenders based on the lending product composing the largest dollar amount of their portfolio at year end.

The average 90 day+ delinquency rate for the 29 Native CDFIs was 2.77%. While this is slightly higher than the 2% industry average, Native CDFIs report lower charge off rates (figure 14). Native Americans are more likely to experience economic distress and the least likely to have emergency funds of all American populations[11], therefore Native CDFI borrowers are not immune to hardships that generally cause loan deliquencies. However, Native CDFI borrowers remain committed to repayment. While there might be other contributing factors, Native CDFI leaders believe it is the quality of services and the strength of the borrower/Native CDFI relationship that is ensuring repayment. In other words, the unique business model of Native CDFIs, with their focus on development services and community-focused lending, plays an important role in their portfolio performance and long-term financial sustainability.

[9]OFN Side-by-Side, 2016.
[10]Housing to individuals was the peer group to whom we compared our housing lenders, rather than housing to organizations as the OFN Side-by-Side also does.
[11]Dewees, Sarah and Gary Mottola, First Nations and FINRA Investor Education Foundation, Race and Financial Capability: Understanding the Native American Experience, 2017.

Increasing Lending Capital Access and Debt Capital as Leverage

Native CDFIs are using debt capital to fund their loan activity in rising numbers. In 2012, 25.6% of respondents indicated they had obtained debt capital[12]. Now, almost two-thirds (65%) of our respondents indicate they have obtained debt capital (figure 15). Though this capital comes from a variety of sources, Oweesta has been and continues to be the most used (figure 16). Federal programs, specifically the low-cost borrowing programs of the US Departments of Agriculture and Treasury, have seen the largest percentage-based growth in access. The growth of bank participation in Native CDFI portfolios from 10% to 38% is noteworthy. Moreover, 21% of Native CDFIs reported accessing capital from intermediaries other than Oweesta, and 17% had received funding from individual investors. The source of debt capital with the greatest increase in usage among survey respondents was Oweesta, which saw an increase of 41% of respondents who had borrowed from Oweesta at some point. Federal programs were close behind with an increase of 39%. However, growth in other sources of debt capital lagged. For example, only 21% of Native CDFIs had accessed debt capital from a foundation, up from 13% in 2012.

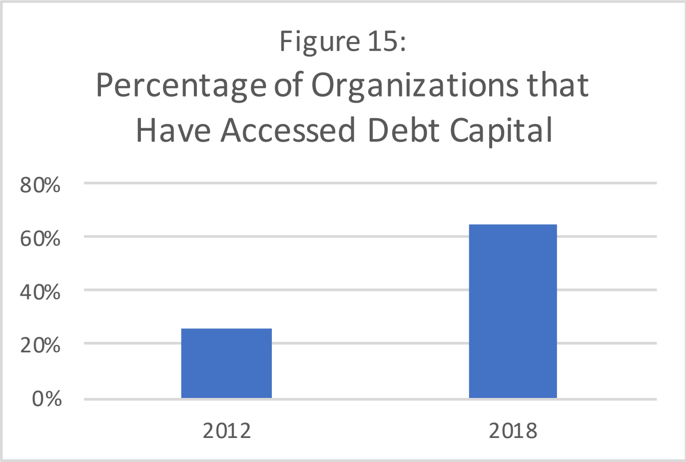


Figure 15: Percentage of Organizations that Have Accessed Debt Capital

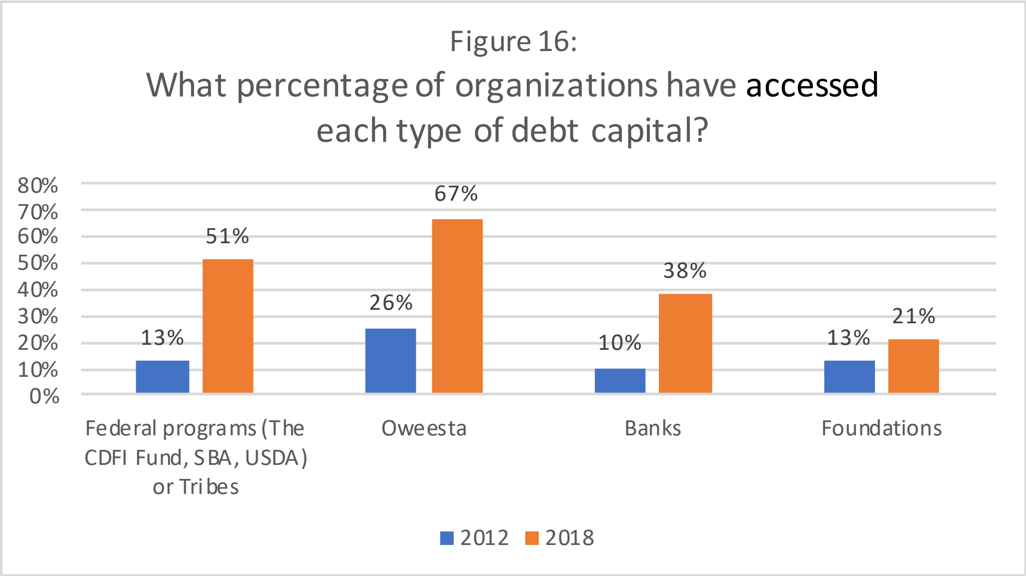


Figure 16: What percentage of organizations have accessed each type of debt capital?

Room to Grow and Unmet Capital Needs

While there have been encouraging signs of greater capital access for Native CDFIs, the growth in demand for capital has outstripped the increase in access by staggering amounts. Survey respondents would have to raise **$55,831,402** in lending dollars to meet their demand next year alone. Native CDFIs that are under-capitalized often must deny loans. Forty percent of Native CDFIs that denied loans in FY2017 did so because the loan request was too large to be financed.

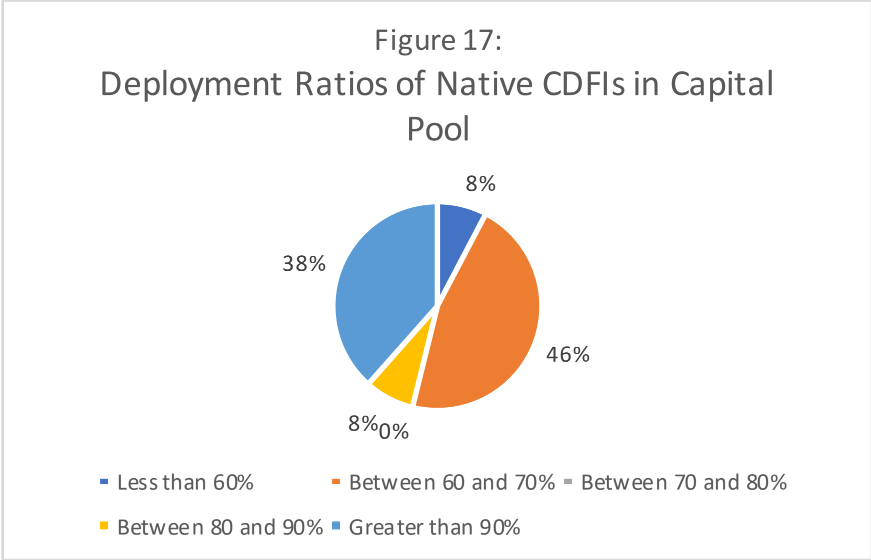


Figure 17: Deployment Ratios of Native CDFIs in Capital Pool

These conditions have been confirmed in multiple studies. In 2016, a report commissioned by the CDFI Fund found that stronger Native CDFI balance sheets combined with increases in the size, length, and number of loans in Native communities were driving extreme growth in Native CDFI capital needs[13]. Additionally, the Center for Indian Country Development found that the estimated additional amount needed to meet funding needs for Native CDFIs in 2017 alone was about $48 million[14].

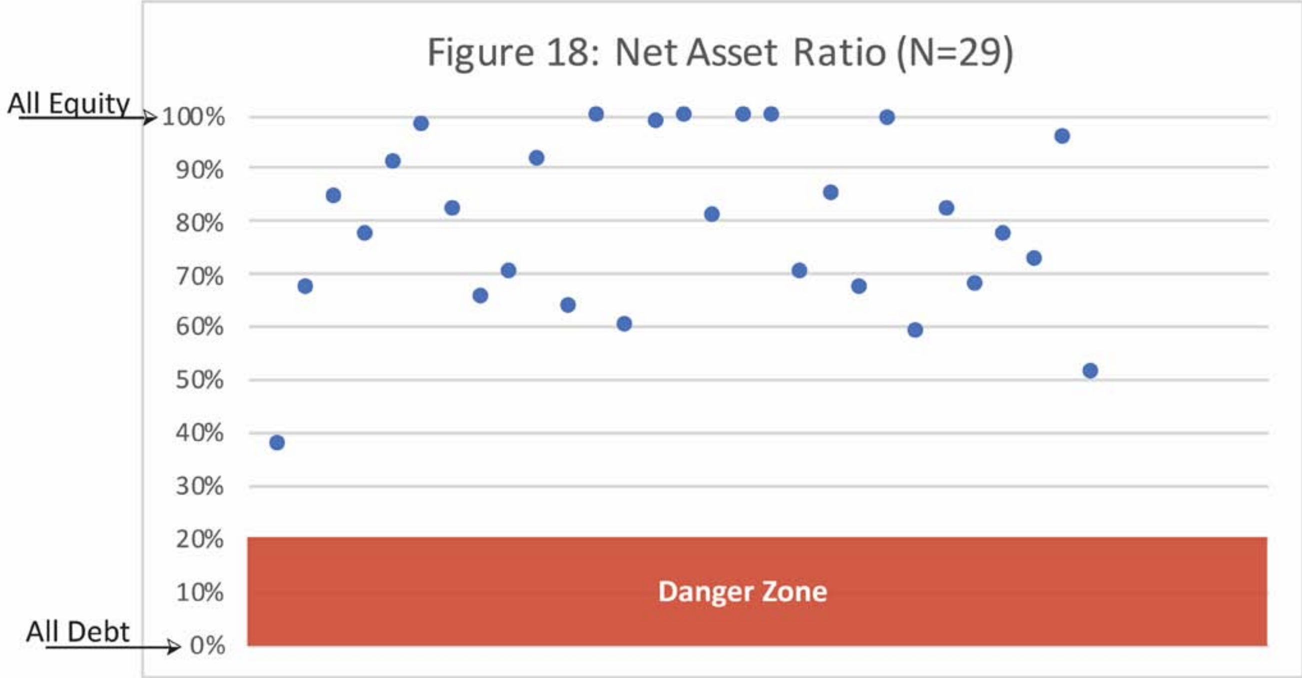


Figure 18: Net Asset Ratio (N=29)

[12] Oweesta. Snapshot 2012: Native CDFIs and the Capital Access Challenge.

[13] Jorgenson, Miriam. Access to Capital and Credit in Native Communities.

[14] Kokodoko, Michou. Findings from the 2017 Native CDFI Survey: Industry Opportunities and Limitations.

[15] OFN Side by-Side, 2016.

Native CDFIs are quickly lending these borrowed funds in their communities. In the CDFI industry, the percentage of total lending capital that is currently lent out is known as the deployment ratio. In a subset of 13 Native CDFIs represented in an Oweesta-led financing collaborative, known as the Native CDFI Capital Pool, for whom we have longitudinal data, we found the average deployment ratio was 78%. Figure 17 shows their distributions. The deployment ratio for all loan funds was 70%.[15]

Native CDFIs have the capacity to hold significantly more debt capital. Native CDFIs remain significantly underleveraged, which is to say they could take on more debt while remaining financially healthy. A CDFI's equity/total assets is known as its net asset ratio. According to CDFI industry standards, CDFIs should maintain, in most circumstances, a minimum net asset ratio of 20%. The average net asset ratio of our survey respondents was 79%, meaning that Native CDFI loan funds generally have substantial equity. In fact, over 90% of respondents net asset ratios are above 60%, and 52% had net asset ratios over 80% (figure 18).

Native CDFIs that take on debt usually do so in a prudent manner. Within the subset of the 13 Native CDFIs in the Native CDFI Capital Pool, those with borrowed funds took on additional debt slowly. On average, their net asset ratios decreased only slightly, from 77% to 74% over a 4-year period. These are some of the fastest growing Native CDFIs in the country, which implies that Native CDFIs are able to carefully add debt to their balance sheets.

Access to Debt Capital

If Native CDFIs are a safe, mission-driven vehicle for investment with the capacity and corresponding desire to take on additional debt, a lingering question remains: Why does the Native CDFI field remain undercapitalized? Oweesta's 2012 Snapshot identified several causes for this gap: (1) traditional debt capital sources have very limited Native CDFI investment; (2) investment parameters may limit Native CDFI participation; (3) investment parameters may deter Native CDFIs; and (4) Native CDFIs were unable to satisfy investors' underwriting requirements. Oweesta is pleased to report that many of the issues, such as not having audited financial statements, articulated in the 2012 report have disappeared as the field matures. However, some of these concerns still resonate today.

Traditional Debt Capital Involvement with Native CDFIs is Low

> *"When we do really well and we deploy lots of loans, which is a good thing, then you have to stop everything to do some fundraising. What are you going to do for more loan capital? Is it going to be a PRI with NWAF or a loan from Oweesta? We don't have that access to banks like the rest of the industry, and no secondary market to sell our loans."*
>
> **—Established Native CDFI**

While Native CDFI access to traditional forms of debt capital is growing (figure 16), Native CDFI engagement with traditional lending sources—particularly foundation investment (PRIs, MRIs, etc.) and bank investment—remains low. Only 21% of Native CDFIs surveyed had borrowed from a foundation. Investors in our one-on-one interviews named several reasons for low foundation participation. One was "a feeling that [Native CDFIs are] not trustworthy," even though many investors felt that was "a thing of the past."' Interviewees also felt that the specific program focus made it so that "they're [foundations are] either interested in Native CDFIs or they're not."

In general, it appears that mainstream philanthropy is not interested in Native communities. Giving from mainstream philanthropy is disproportionately low. Native Americans account for nearly 2% of the US population, but philanthropic funding for Native Americans remains less than 0.5% of annual foundation grant dollars[16]. Less than half of the top 1,000 foundations give to Native causes and organizations. Unfortunately, this is getting worse. Despite increases in overall foundation giving since 2006, there has been a $35 milion decline in annual grant support for Native American causes and organizations between 2006 and 2014[17].

On a more positive note, one of the fastest growing sources of investment for Native CDFIs is the banking sector. This demonstrates the growing financial viability of Native CDFIs, as banks are generally considered among the most risk-averse of investors. Numerous banking institutions new to Native CDFI investment, such as Wells Fargo and Deutsche Bank, have recently added Native CDFIs to their portfolio. That said, with only 40% of Native CDFIs accessing bank financing, there is still much opportunity for this investment type to grow. The rural location of most Native communities often means they fall outside most banks' Community Reinvestment Area (CRA) footprint,[18] however, the Native CDFI industry remains hopeful that revisions to CRA regulations will further support partnerships between banks and Native CDFIs.

There are many misconceptions about investing in CDFIs. Five out of the six investors interviewed agreed – along with all Native CDFI interviewees – that one reason conventional debt capital sources were hesitant to invest was because "there's a deep seated false belief that investing in Indian country is riskier."

Confusion around the use of trust lands as collateral, and the related extra perceived risk to the portfolio, remain a major hurdle for many investors. There is also additional uncertainty around Native CDFIs' relationships with their tribes. As one established Native CDFI leader said, "Many people think we're funded by the Tribe, but we are not funded by the Tribe, and we haven't been ever. They've never given us money and they don't make demands on us."

Due to the success of some gaming tribes, there can be the misconception that all tribes are wealthy and therefore should be capable of fully supporting their local Native CDFI. There are also concerns that, should a loan to a Na-

16 Native Americans in Philanthropy.
17 First Nations Development Institute. Growing Inequity: Large Foundation Giving to Native American Organizations and Causes.
18 CRA is a federal law enacted in 1977 that required depository institution to help meet the credit needs of their surrounding communities.

tive CDFI go poorly, tribes will exercise sovereign immunity and make collection impossible. Most Native CDFIs are independent from the tribes they serve, and would not be covered by sovereign immunity. However, this mistaken notion remains, and demonstrates the power of an unanswered question in deterring investment.

At the same time, there is an emerging understanding among the investors we interviewed. Traditional investors who had taken the time to further investigate or partner with Native CDFIs saw them as a proven model that would allow them to engage a long-standing desire to work in tribal communities. As one investor summed up, "the challenge that Native communities face is a structural lack of access to capital. The list of reasons why is long. The problem of larger institutions [not] understanding each different tribe, I think, is best mitigated with Native CDFIs. We've ever struggled with servicing, collecting, and making loans in Indian Country. A Native CDFI is better positioned to fix it effectively and efficiently to use our money to do the exact same thing. The structural issue can be mitigated by Native CDFIs, if those funders make loans or PRIs."

Native American Community Development Corporation Financial Services

Investor Parameters Limit Native CDFI Participation

> *"There's a tremendous amount of good that can be done through our programs to reach tribal land and potential homeowners, but the way the programs run, there's not the ability to do that. That's in part due to how the program is structured."*
>
> **—Investor**

While Native CDFIs are fitting within more investor parameters, and many investors are rethinking these parameters to make space for Native CDFIs, there remain gaps. Of the eight Native CDFI respondents who explained why they were denied loans, the most common reason was the size of their loan request or size of the organization in general. These Native CDFIs were told their assets needed to be at least $2 million to show capacity, the size of their

loan request was too small to bother with underwriting, or they needed to further build up an equity base before applying for a loan. In many cases, Native CDFIs were not informed about these investor requirements until after they had applied, making the many hours spent preparing their applications fruitless. Four of the six investors interviewed corroborated this experience.

For investors who have programs designed to work for small organizations or rural locations, the challenge can be adapting these programs to Native communities. This is especially true for federal programs that were designed without the flexibility that is sometimes required to be effective in Native communities.

Investor Parameters May Deter Native CDFIs

> *"There's a deeper barrier. It's a disenfranchisement… because we're reservation based, we're different."*
>
> **—Established Native CDFI**

For investors who are willing to invest in Native communities, the perceived risk of working in Indian Country or with smaller organizations can result in higher interest rates, making the cost of capital unappealing to Native CDFIs, who, on average pay higher interest rates than non-Native counterparts. The average interest rate for those that indicated they had debt capital at FYE 2017 was 2.598%, which is slightly more expensive than the 2.3% average interest rate paid by loan funds across the industry. Native CDFIs also struggle to match the terms of loans they wish to offer when the capital is available. For example, it is very difficult to find long-term capital to fund mortgage lending, a growing area of interest among Native CDFIs.

Native CDFIs Were Unable to Satisfy Underwriting Requirements

> *"The reason cited for our denial was primarily that we were too dependent upon government grants and that our self-sufficiency ratio was below credit standards."*
>
> **—Established Native CDFI**

The unique characteristics of Native CDFIs can make investors hesitant to enter this sector. Investors who regularly work with CDFIs are accustomed to higher self-sufficiency rates, longer track records, and a higher volume of transactions. Native CDFIs that have tried to creatively compensate for these perceived weaknesses, for example, with guarantees from partners, have sadly still been denied loans. While these conventional underwriting requirements are in place for a good reason—investors want to invest in stable, healthy organizations that will achieve maximum impact—some of these requirements demonstrate a lack of understanding the Native CDFI model. As discussed, a low self-sufficiency rate often is the by-product of a community-driven focus on development services; a higher use of federal funds often stems from a lack of access to private philanthropy; and fewer transactions often reflect the in-depth attention given to each borrower to make them successful. In short, these conventional financial markers, which can be perceived as capacity markers in underwriting, do not holistically capture a Native CDFI's capacity.

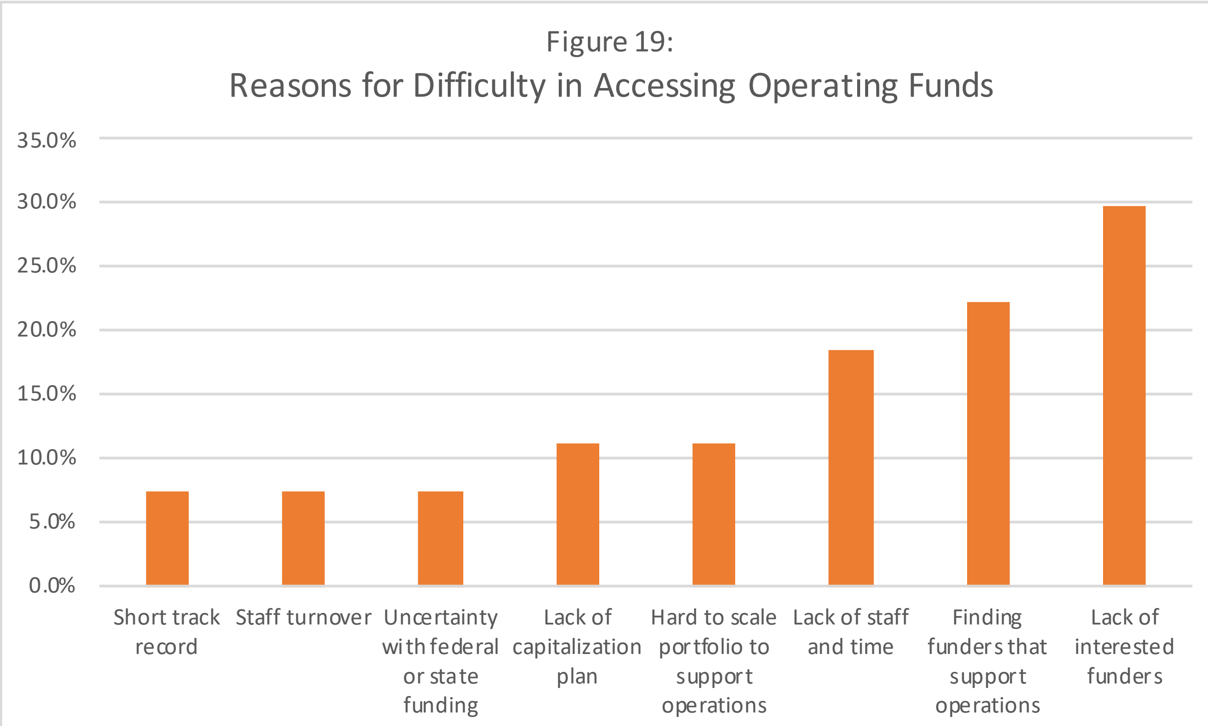


Figure 19:
Reasons for Difficulty in Accessing Operating Funds

Access to Operating Funds

In addition to difficulty raising lending capital, Native CDFIs can likewise be disenfranchised from non-federal sources of operating capital. Twenty-seven of our survey respondents provided one or more reasons for this difficulty in figure 19. The greatest difficulty cited was, by far, a lack of interested funders.

The positive long-term impact of broader access to operational support on Native CDFIs and their communities cannot be overstated. The Northwest Area Foundation (NWAF) is a regional foundation that works in eight states with high Native populations (IA, ID, MN, MT, OR, ND, SD, WA). Since 2014, NWAF has made grants and investments to Native CDFIs in excess of $6.6 million, comprising nearly $4 million in grants and more than $2.8 million in

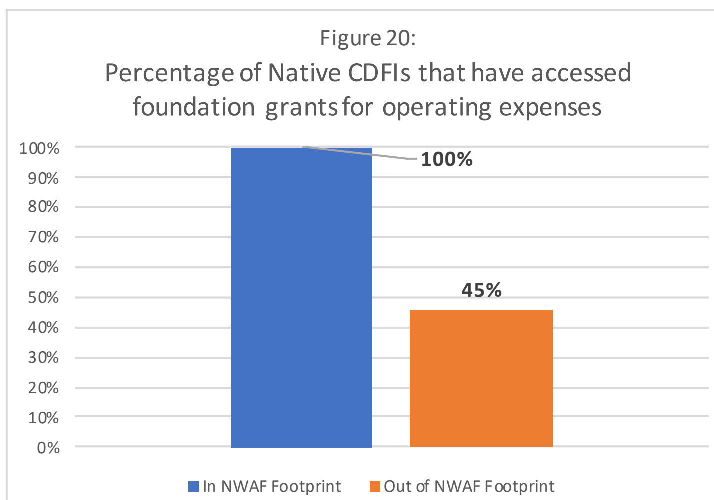


Figure 20:
Percentage of Native CDFIs that have accessed foundation grants for operating expenses

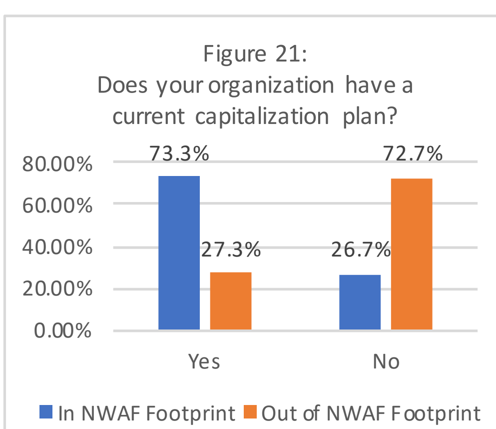


Figure 21:
Does your organization have a current capitalization plan?

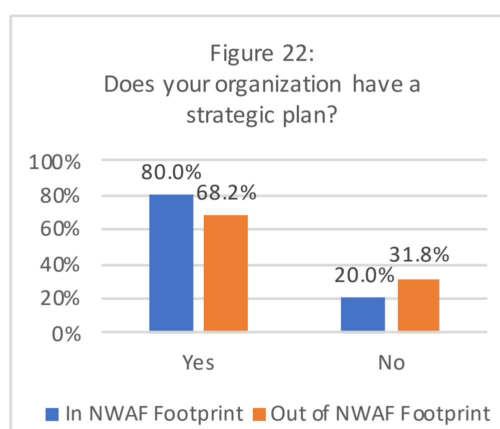


Figure 22:
Does your organization have a strategic plan?

program-related investments. In addition to directly investing in Native CDFIs, NWAF has also invested in various capacity building initiatives with Native CDFIs. This level of commitment to Native CDFIs is unique and is not experienced by Native CDFIs in any other geographical region (figure 20). To determine the impact of NWAF's long-term operational support on Native CDFIs, we compared the 17 Native CDFI survey respondents that are located in the foundation's footprint to those located outside.

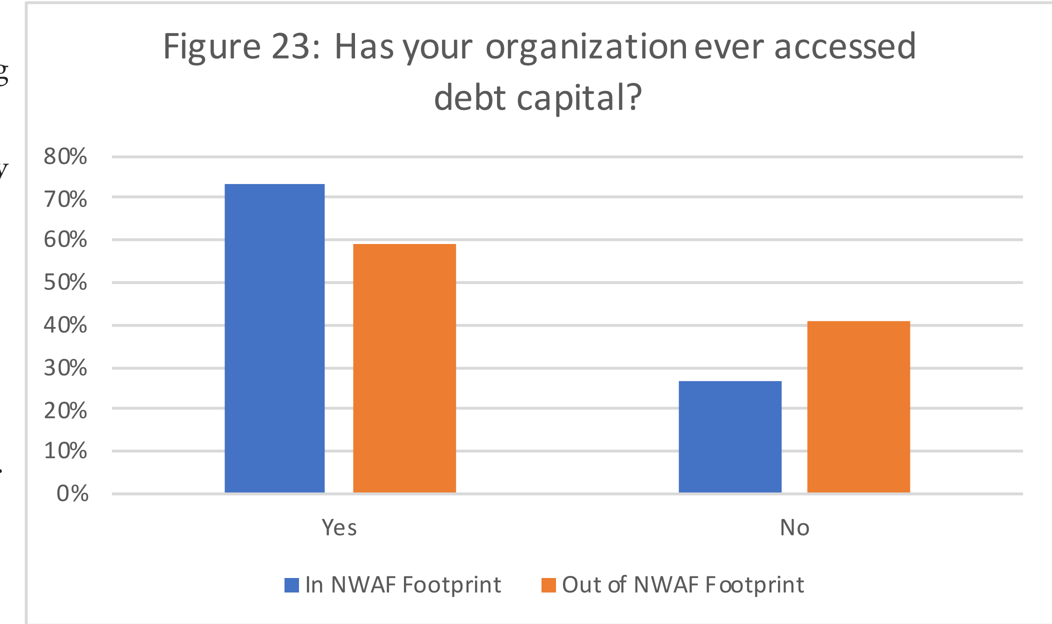


Figure 23: Has your organization ever accessed debt capital?

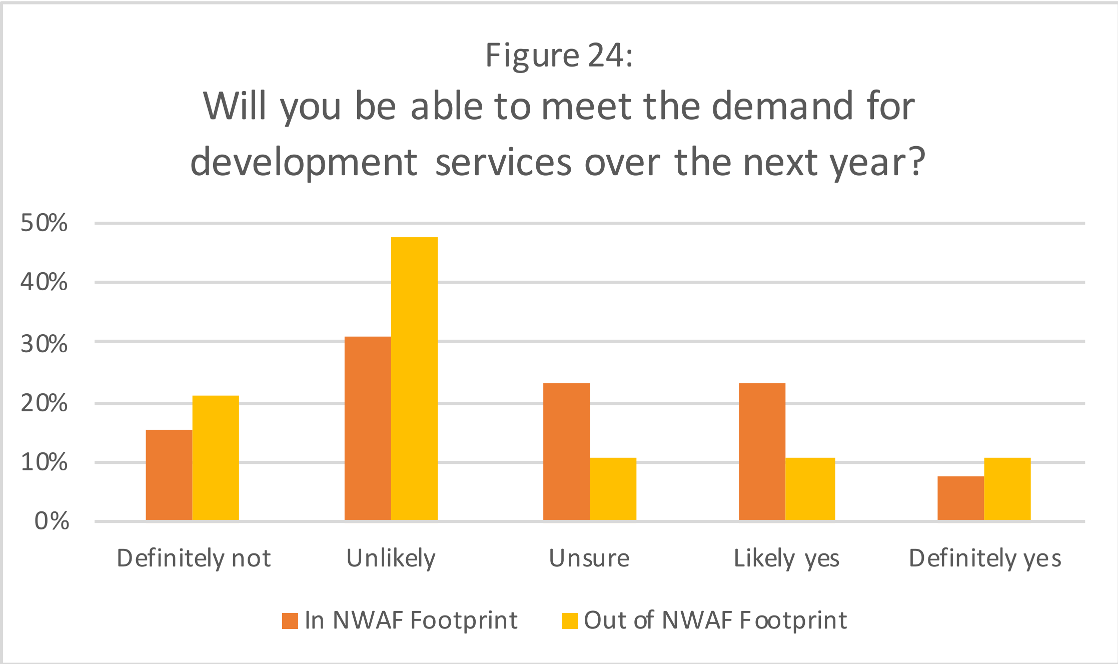
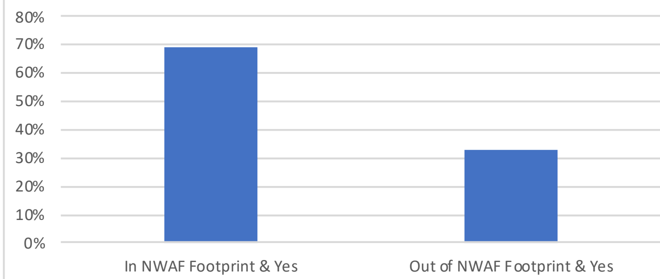


Figure 24:
Will you be able to meet the demand for development services over the next year?

On average, Native CDFIs in NWAF's footprint are considerably more likely to perform better among a variety of capacity building markers. For example, they are more than twice as likely to have a capitalization plan (figure 21). 80% of Native CDFIs in the NWAF footprint have strategic plans, compared to 68% of Native CDFIs outside the NWAF footprint (figure 22). This additional capacity—and no doubt the perceived security of having a committed private funding source, when examined by outside investors, translates to a higher percentage of Native CDFIs in the NWAF footprint being able to access debt capital (figure 23).

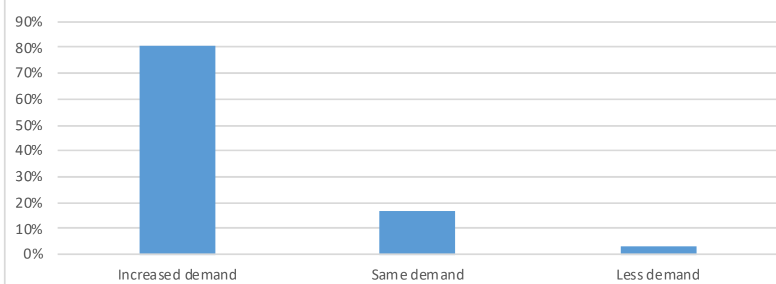
Moreover, Native CDFIs in the NWAF footprint were staffed with 4.6 FTE compared to 3.9 FTE outside the footprint. This additional staff play an important role in making it possible for a Native CDFI to meet the development service and operational demands in their community (figure 24). It has also enabled these Native CDFIs to expand their target markets; 69% of Native CDFIs within the NWAF footprint expanded their target marker since inception, while only 33% outside the footprint were able to do so (figure 25).

Figure 25:
Have you expanded your target market since inception?



NWAF resources have clearly contributed to Native CDFI growth in the region. These Native CDFIs are acting as good stewards, and using the operating capital to expand their target markets and provide much needed development services and loans to their communities.

Figure 26: How will the demand for your organization's lending change over the next year?



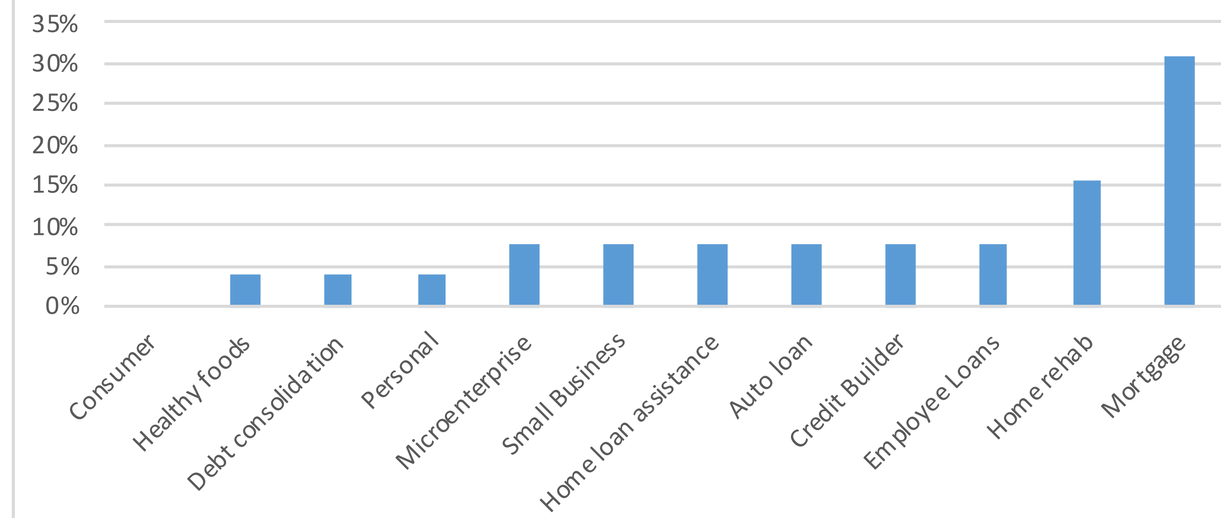
The Growing Native CDFI Movement

Growing Lending Portfolios

> *"Homeownership is a fundamental and essential need, helping ensure stable and thriving families, communities and economies. For many generations, Native people living on tribal land have not had the means to become homeowners because access to long-term, stable, affordable capital to purchase a home has not been available. Native CDFIs like Four Directions are helping to change that…but we need investors who understand the importance of this basic need and are willing to step up and invest in Native CDFIs and Indian Country."*
>
> **—Susan Hammond, Executive Director, Four Directions Development Corporation**

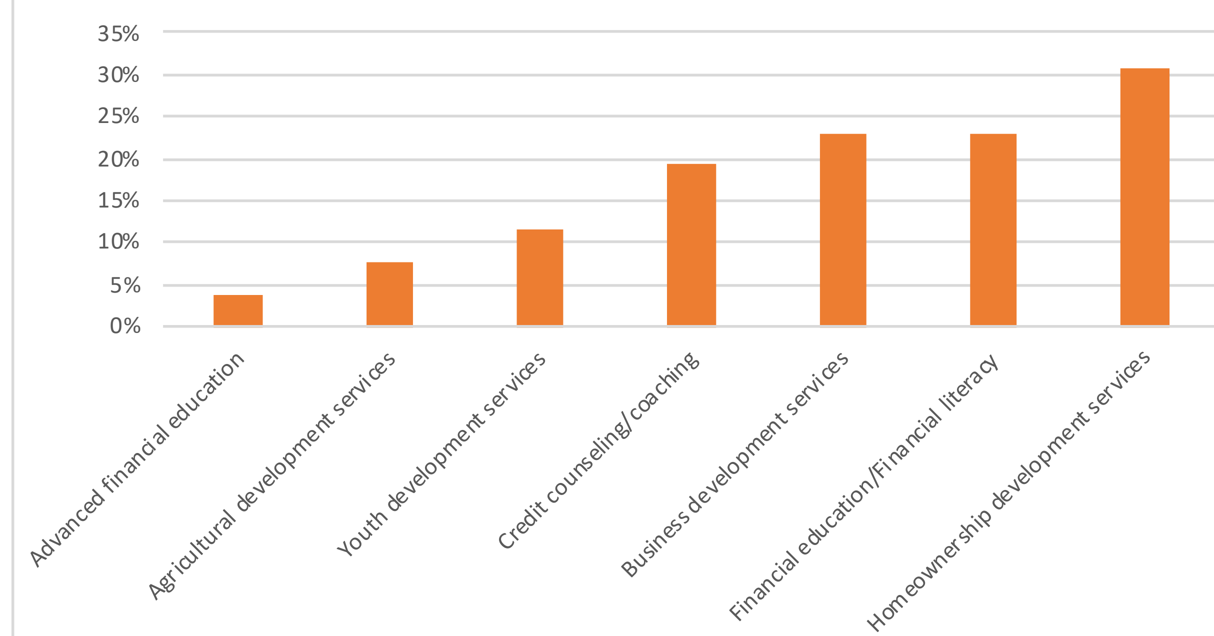
Native CDFI respondents almost unanimously anticipate increases in loan demand in the next year (figure 26). This expectation is grounded in experience; the annual growth in lending volume among Native CDFI Capital Pool members last year was 22.2%. In addition, they anticipate providing new loan products. Native CDFIs are especially eager to participate in first mortgage lending; 31% of surveyed Native CDFIs anticipate adding this product in the next year (figure 27). In addition, 15% expect to add a home rehabilitation loan product in the next year, and 40% say they would add a mortgage loan product if the appropriate funding were available. This interest in housing is is due to a variety of factors, but largely relates to the fact that many Native CDFIs started as as microbusiness lenders in response to the economic conditions in their community. In building the capacity of local borrowers, many

Figure 27:
What loan products do you plan to add over the next year?



households in Native CDFI communities have become better able to purchase homes, creating increased demand for mortgage lending. This is reflected in the many market studies conducted by Native CDFIs, which demonstrate a strong demand for home development in most tribal communities. With greater internal organizational strength, more Native CDFIs now have the capacity to offer a mortgage product.

Figure 28:
Which development service do you plan to add over the next year?

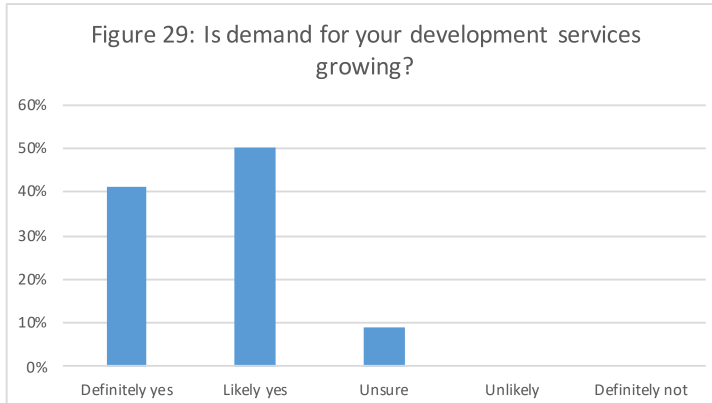


Growing Development Services

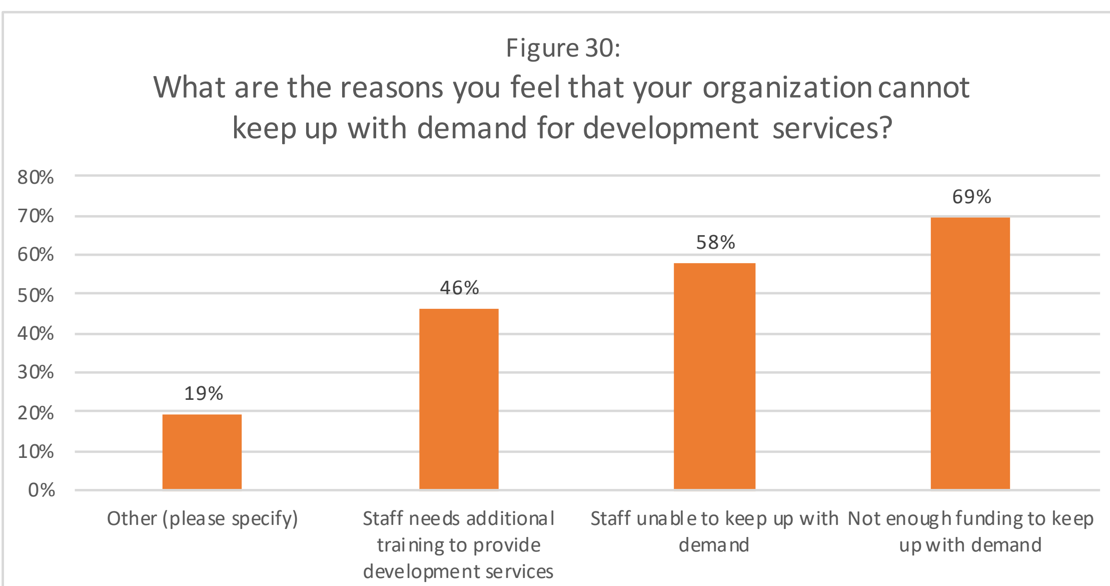
"In our 18 years of serving the community, we have learned change does not occur through financial transactions alone. We have learned our clients need a technical assistance model which is cyclical in nature and allows for feedback loops. Development services are critical to our theory of change because they involve trust, market research, and access to resources. Development services start with the clients' needs first and allows Four Bands to layer in the right mix of support and resources to achieve the benefit of scale without losing the local control."

—Lakota Vogel, Executive Director, Four Bands Community Fund

To accompany these new product lines, Native CDFIs are increasingly investing in and growing their development services. These services are grounded in Native culture and values, and use culturally-specific curricula adapted to the specific challenges in their community. In a time when many community-based lenders are cutting their development services for cost savings, many Native CDFIs are finding ways of going deeper into their community by adding new services such as homebuyer readiness services, required post-loan closing TA, and credit counseling (figure 28).



It is no wonder that 91% of Native CDFIs surveyed see demand for their development services growing (figure 29). Though some Native CDFIs are using partnerships or consultants to keep the cost of these services low, the rural location and relationship-based model of lending of many Native CDFIs can limit what is possible through partnerships.



The new development services require additional staffing; 60% of respondents do not think they will be able to meet the demand of development services without an additional staff member. As a result, 65% anticipate adding another staff member in the coming year. However, hiring is only part of the solution. New employees will need training, therefore additional funding is required to run effective programs (figure 30).

Recommendations

Recommendations for Native CDFIs

1. Build a Strong Foundation and Grow Strategically

The Native CDFI loan funds and their associated industry are growing quickly in terms of assets, capacity, and scope across the United States. Growth is exciting for organizations. Momentum can build easily after there is "brand recognition" among funders and clients. The first time a funding partner seeks out a Native CDFI with an opportunity, instead of the other way around, it feels too good to be true. When a client grabs a Native CDFI staff member at the grocery store saying "So, what's next? I'd love if you offered…," the organization knows the community has placed its trust in it. However, the Native CDFI sector is at a point where it is crucial to have a strong foundation and to grow strategically.

To do so, Native CDFIs should make sure they develop an engaged Board and trained staff. They must stay focused on their strategic plans. They must learn to walk the difficult balance of saying "no" as an organization to things that fall outside their strategic plan, while adapting to new opportunities and challenges. In communities with overwhelming needs, this can be much more difficult than it sounds. Native CDFIs must regularly revisit their policies and procedures, following them in a dedicated manner, so that their capacity will not be in question when investors perform due diligence. Internal operations must be well run, otherwise organizations will be perceived as too risky for additional growth opportunities.

As a Native CDFI movement, it is also time to grow more strategically. All Native CDFIs strive to make sure that Native families and communities are getting the products and services they need. For Native CDFIs seeking to expand to statewide coverage, and who are thinking about serving additional tribal communities, there are creative ways to have dialogue with other Native CDFIs to extend coverage. Regional networks would benefit from thinking five years out to identify cooperative strategies for reaching underserved Native communities. This will ensure that Native CDFIs are making the best use of the limited available resources.

2. Expand in Pursuit of Your Mission

There are many factors encouraging Native CDFIs to expand. First and foremost, as demonstrated in the survey results, there remains overwhelming need in Native communities. To reach all underserved Native American, Alaska Native, and Native Hawaiian communities, it will be critical for Native CDFIs to widen their reach. Regarding organizational financial sustainability, the earnings generated from a larger size loan fund are important for helping organizations become more financially resilient. Lastly, funders are eager to invest in growing organizations that innovate, as doing the same great work done last year rarely encourages excitement. These forces can be too much for even the most conservative Board of Directors to hold at bay in response. Native CDFIs must let their missions guide their decisions when they feel these pressures to expand, and recognize there are many ways to serve beyond expanding their target market. For instance, a Native CDFI could deepen its impact in their community with a new product, or through better service delivery.

Four Bands Community Fund

3. Keep "Telling your Story" and Building Relationships

As discussed, there are many misconceptions about the work of Native CDFIs that remain a hindrance to obtaining investment dollars. While it can feel exhausting, Native CDFIs must keep telling their stories: their borrowers are paying them back; their organizations might be small, but they are having a large impact; they know the needs in their community. These stories are supported by the data.

Native CDFIs are encouraged to participate in strategic alliances outside of their communities to identify venues in which to tell this story. This includes purposefully sitting on the boards of foundations, partnering with other non-profits outside of the community, and finding other novel mechanisms for bringing resources into their community. Through these relationships, Native CDFIs will be able to cultivate the trust that serves the foundation of meaningful partnerships.

Native CDFIs should keep telling the story of the broader Native CDFI movement. Native CDFIs must advocate

for themselves at the local, regional, and national levels by engaging with the Native CDFI Network, the CDFI Coalition, the Opportunity Finance Network (OFN), and other advocacy partners. The work Native CDFIs have been doing in this area is helping. As demonstrated by the changes in the sector between 2012 to 2018 documented herein, awareness of the Native CDFI industry among investors and partners has risen sharply. The greater awareness is translating into new resources for all.

4. Collaborate to Accelerate

Native CDFIs are already extraordinary collaborators. Strong partner networks of Native CDFIs, such as the Wisconsin Indian Business Alliance (WIBA), are engaging in peer learning, collaborative fundraising, and using one another for referrals. In a report titled "The Power of Partnerships: A Look at Organizational Partnerships in Native Communities and the Native CDFI Industry" written in 2016, Oweesta found that most Native organizations averaged between four to six partnerships, most considered good or very good. Native CDFIs have unique opportunities to further leverage these strong partnerships to attract new capital and create operating efficiencies through shared platforms.

Native CDFIs should use technology to create scale through shared back-office services. For example, approximately 20 Native CDFIs, with more joining every day, are using the same outcome tracking system. By participating in this network, they are reducing the overall cost of developing and implementing outcome tracking. Other Native CDFIs are relying on partners for loan servicing, allowing their organization to focus on their perceived strengths. These partnerships ultimately bolster Native CDFIs, since it can be a challenge to operate a strong back-office system with a small staff. Increased operating efficiencies will improve Native CDFI self-sufficiency and sustainability, helping to support organizational growth, and attract new sources of capital.

Native CDFIs are and should continue to fundraise collaboratively. As confirmed in our investor interviews, the small size of most individual Native CDFIs can be a deterrent to investment. It is simply not cost effective for large institutions to underwrite and manage a portfolio of numerous small organizations. Native CDFIs can break through this barrier through fundraising with other Native CDFIs. The Native CDFI Capital Pool, mentioned previously, attracted $10 million in investment, and showcases how productive this approach can be.

Recommendations for Future Native CDFI Partners

1. Keep Asking Questions

Although there are many misconceptions about Native communities and about how Native CDFIs work, there are also many resources, including the Native CDFI Network, Northwest Area Foundation, and Oweesta, to help prospective investors navigate the murky waters. These partners, as well as the Center for Indian Country Development and the CDFI Fund, produce publications with valuable insights into Native CDFIs. There are also numerous events every year where Native CDFIs gather, such as the Opportunity Finance Network conference or Oweesta's Native CDFI Capital Access Convening. These are great places to come and learn about the Native CDFI movement. Many Native CDFIs are excited to directly engage partners and share their stories. Future partners are encouraged to ask questions of these Native CDFIs and learn about this impactful work.

2. Cover Your Geography for the Long-haul

While partners are not expected to operate outside their footprints or geographies, they are encouraged to take the time to get to know their local Native CDFIs. For those that want to work with Native CDFIs, but don't wish to manage a portfolio of smaller Native CDFIs, consider investing in a collaborative of Native CDFIs. There is existing infrastructure in most regions to support this kind of funding model. As demonstrated by the impact of the NWAF in its region, there is a tremendous opportunity for regional foundations, banks, and other institutions to help transform Native communities in their geography through Native CDFIs. However, this kind of community transformation is only possible if funding partners stay committed for the long-haul. Future partners should consider multi-year operational grants and longer-term lending capital. If a partner is looking for a way to maximize their impact in very marginalized communities while managing risk, the Native CDFI model is a sustainable and proven model.

Native American Community Development Corporation Financial Services

3. Consider the Whole Picture

The Native CDFI business model—with its focus on development services and inclusive of very economically distressed borrowers—is working. It simply looks a bit different than many non-Native CDFIs. Partners should consider looking beyond the loan fund size or isolated ratios as the markers of success. The often rural and small target markets of Native CDFIs must contextualize all metrics. The growth of Native CDFIs over more than a decade is evidence that the industry self-sufficiency ratio and other standards are not necessarily indicative of a successful Native CDFI. The ratios must be understood in the context of the whole business model, which has demonstrated impact and durability.

Native CDFIs will not find the resources they need to fuel growth if they are viewed statically. Instead, when underwriting and evaluating a Native CDFI, it is more helpful to look at the trends in portfolio growth, self-sufficiency, and net assets, rather than at a single moment in time.

4. Pair Operating Funds and Lending Capital

As demonstrated by the results of the long-term investment of NWAF, combining operating and lending capital is by far the most effective approach to working with Native CDFIs. With adequate operating capital, Native CDFIs can focus on strategies for growth and capitalization. They also can provide the development services which are fundamental for building a quality portfolio. Because of the rural location of many Native CDFIs and the nuanced cultural approach to clients, there are limits to a Native CDFI's ability to rely on external partners for training and technical assistance. Providing access to lending capital, in turn, supports long-term organizational sustainability, as Native CDFIs can grow their loan funds and generate the associated returns in earned revenues. Investors are also encouraged, if possible, to provide equity of at least 10% with any debt investments to capitalize loan funds. This fuels future growth by contributing to a strong net asset base.

5. Be Transparent with Your Requirements

Potential partners are not expected to work with all Native CDFIs. Partners and investors most assuredly have their own priorities, policies, and processes to follow. However, partners are encouraged to be open about their requirements early in the process, whether it be geographic boundaries or underwriting requirements. When interviewed, many Native CDFIs shared stories of being denied credit, after undergoing substantial due diligence, because there was a fundamental flaw with their application, such as being too small or not in a targeted investment area, that could have been easily detected. Inversely, Native CDFI interviewees also spoke positively of times they have been denied loans when the evaluation criteria were transparently shared. Those Native CDFIs took the denials as a opportunity to learn what they could do differently in order to qualify in the future. The difference in experience was simply related to how transparent the partner was willing to be.

Conclusions

"Native CDFI success stories have generated a lot of curiosity from my non-Native peers in philanthropy. They wonder if we've discovered a secret to sparking economic opportunity in communities where the deck has been stacked against people's life chances for generations."

—Kevin Walker, President and CEO, Northwest Area Foundation

The impact of Native CDFI loan funds on Native communities is extraordinary. As noted, Native CDFI survey respondents closed 3,461 loans totaling $55 million in 2017. The majority of that lending took place on reservations and trust lands. This was accomplished with prudent lending and by delivering high quality development services. They are stewarding operating and lending capital with competence and purpose. Though growing quickly, no Native CDFI surveyed had defaulted on any debt to its creditors or had to renegotiate the terms of a loan to avoid default.

In short, Native CDFIs are financially sustainable institutions doing incredible work. The Native CDFI movement represents an exciting opportunity as a low-risk, high impact investment in tribal communities throughout the country.

Come and join the movement.

Four Bands Community Fund

Four Directions Community Development Corporation

CDFI Story

"From the moment that we walked into NACDC Financial Services and met with Patty Gobert, we were welcomed with an overview of all that NACDCFS has to offer and how we could qualify for each of them. One of those that were suggested was the 2018 Indian Equity Grant. Patty encouraged Carlson Designz to apply and pointed us in the direction of Matt Harrington. Matt was so very helpful in the directing of a business plan. We were forewarned that it was a highly competitive grant and first timers were rarely successful, but not to give up and keep trying the next year. To our surprise, we got a call from Phil Belangie with the news that we were selected for the grant and wanted to know what our plans were. My children and I were so excited and overwhelmed with the news, part of me wanted to cry and part of me wanted to cheer. I believe that without the help of Patty and Matt, we may not have been successful and would have had to reapply more than once. The staff at NACDCFS need to be highly commended for the support and services that they provide to the people in the surrounding area. I am beyond thankful and appreciative for what they did for us, my children will one day take over the business and have what they need to be successful in the business world."

—Marilyn Carlson, Carlsons Designz, Browning, Montana
www.facebook.com/Carlson-Designz

"The business has been in operation for nearly a year. So far, their main product has been jackets and a few other garments. Most of these garments are created for families during the summer powwow season or seeking to honor a loved one who has passed. Going forward with the second machine, larger bulk orders from tribal programs will be pursued. Heather, the daughter in the mother-daughter team that runs the business, has undergone specific training so that she can digitize designs and put them on garments. That means that a customer can come with a design and she can digitize it so that it can then be printed using a machine. This training is very technical and has taken time to perfect, but it is sure to be a competitive edge going forward.

Neither Marylin (mother) nor Heather (daughter) had ever written a business plan before, so writing one proved to be a challenge that forced them to think intensely about their business. Projecting costs was one of the hardest challenges because there are so many different materials that run out at different rates on their different product.

Heather is now working nearly full-time at Carlson Designz, primarily creating the garments. Marylin has a full-time job but manages much of the financial side in her spare time. Having a business locally that can do the digitization and screen printing now available through Carlson Designz is a major gain for the community. Service is much more personal and the owner's know their clients better, than if the business went off the reservation. In addition, the money generated by the business stays in the local economy, rather than leaving the reservation."

—Angie Main, Executive Director, NACDC Financial Services

Tomi Charley: The Loan Officer's Journey to Financial Health

"Prior to taking the Loan Officer position at Taala Fund, Tomi Charley was swimming in debt. Earlier in her life she was a single mother raising her three children. As the kids grew up, she started helping her grandchildren with clothes, food, and other expenses. Other family members needed help from time to time. Tomi's debt continued to climb.

Finally, with a credit score under 500 and the inability to incur more debt to sustain her daily living expenses, Tomi turned to Taala Fund for a credit builder loan.

When Tomi's debt was consolidated, she signed a "no new debt" clause as a part of her agreement with Taala Fund. She then started chipping away at her debt through an auto deduction out of her bi-weekly paycheck.

When the position of Loan Officer opened at Taala Fund Tomi was quick to apply. Although Tomi took the financial empowerment class, this new perspective as the Loan Officer quickly took hold and Tomi became fascinated with learning all she could to help her customers improve their financial condition.

Of course, as Tomi learned how to help her customers, she became determined more than ever to improve her own financial condition. Tomi held a tight rein on her spending and progressively paid off her debt.

Today Tomi had paid off her Taala Fund debt, is working on paying off any residual debt, and she can now proudly say that her credit score is 642 and improving. More importantly, Tomi is willing to share her story with her customers. In this way, she's able to help them to feel less ashamed of their financial situation and more inspired to follow in her footsteps. After all, she tells them, if she can do it, so can they.

"Through this journey I've learned how to curb my spending, keep my debt low, and strengthen my credit score," Tomi stated. "and I'm in a great position to help my customers do the same!"

"This is what it's all about," said Natalie Charley, Executive Director of Taala Fund. "When we can be real with our customers, they are more apt to open up and do the work needed to strengthen their financial position for them personally… and for their families' financial future!""

—Natalie Charley, Taala Fund

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