Lights go out for Native American hopes
By Matt Kennard in Washington
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The Delaware Nation has a simple idea for creating jobs for the 60 per cent of its members who are unemployed – it wants to manufacture lighting. However, no one will lend this Native American community the money to get started.

"Banks won't take any risk whatsoever with us. Unless you have twice as much in assets than what you are loaning, they are not interested," says Kerry Holton, the tribe’s president. The 1,500-strong community is one of many Native American victims of the freeze in credit markets, which has hit tribes – seen as a risky investment as they tend to rely on a single revenue stream – more intensely than any other group. And it is about to get worse.

President Barack Obama’s administration is cutting dramatically the Indian loan guarantee programme, which backs tribal loans for up to 90 per cent of the risk. For fiscal year 2012, the programme will be slashed by nearly two-thirds to $3m, down from the $8m allocated in 2010. According to the White House office of management and budget, this $3m will only guarantee $25m in loans, down from $90m under current levels. "The budget realities that we're in right now require some reductions," said Larry Echo Hawk, assistant secretary of the interior for Indian affairs, when the budget was proposed in March. Mr Obama had originally increased the amount available in the stimulus package but because banks were not lending even with these guarantees it was taken as a sign that tribal communities were not interested in attracting investment.

"The irony is that banks are now starting to make loans again but the damage has been done and the Obama administration has decimated the loan guarantee programme," says Gavin Clarkson, a professor at University of Houston and the country's leading scholar on tribal finance. "Indian country was given a test but the test was rigged."

The Delaware Nation recently went ahead with a leveraged buyout of a company to take a majority stake, becoming one of the leading semiconductor lighting distribution networks in the US. Everything is in place to move into manufacturing, the tribe says.

"We just need capital to get inventory and contracts," says Mr Holton. "But that has been difficult. Even if we have contracts, we go to any financial institution and can't get lending based on that contract."

Banking practices and tribal economies came into focus in April after the Securities and Exchange Commission found that Wachovia bank had overpriced a tranche of collateralised debt obligations and sold them to the Zuni Indian tribe in New Mexico. The bank paid $11m in penalties to the SEC, which caused the media to take note. But for those with knowledge of Indian economies it was nothing new.

"The large retail banks were happy to make oodles of money on the backs of tribes when they were financing casinos," says Mr Holton. "But when it came to financing business or industry, things required for a functioning economy, it was always a challenge."

Mr Obama's stimulus package included $2bn in tax exempt bond allocations for tribes. But the markets were so bad and the lending criteria so onerous that even though tribes had these allocations they were still shut out. "They were created for us, but you can't do anything with them," said Mr Holton.

"They have been nothing more than paper."

The loan guarantee programme primarily served tribes that did not have access to capital markets. That is now nearly gone.

Bank of America-Merrill Lynch, meanwhile, estimates that more than $17bn of tribal securities have been issued over the past decade as well as $25bn of capital raised by tribal markets. But those statistics can be misleading as the bulk of this financing has gone to the select successful and thus creditworthy tribes.

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