

TESTIMONY
OF
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ASSISTANT SECRETARY - INDIAN AFFAIRS
ON
H.R. 3407, THE INDIAN FINANCING ACT AMENDMENTS OF 2002
BEFORE THE
COMMITTEE ON RESOURCES
U.S. HOUSE OF REPRESENTATIVES SENATE

JULY 17, 2002

Good afternoon, Mr. Chairman and Members of the Committee. It is a pleasure to appear before you today. As you know, I am a staunch advocate for economic opportunities for American Indians and Alaska Natives, and I want to thank the Committee for its support of needed change in the area of economic development for our people.

The Administration supports H.R.3407, the "Indian Financing Act Amendments of 2002," and would like to work with the bill's sponsor and the Committee to improve its provisions, including some technical Credit Reform issues.

THE INDIAN FINANCE ACT OF 1974 (IFA)

The Indian Financing Act of 1974 (*Public Law 93-262*), is the source of the authority for the Loan Guaranty, Insurance, and Interest Subsidy programs within the Bureau of Indian Affairs (BIA). The Congress envisioned two ways of encouraging commercial lenders to loan funds to Indian businesses that might otherwise be denied financing. The loan guaranty part of the program caught on with lenders, but the loan insurance aspect did not catch on in those early days. Times have changed however, and the BIA expects to reintroduce the insured loan features of the Act with the FY 2003 appropriations bills that are pending final congressional action. There are now numerous, modest Indian business loan proposals that would make insured loans viable.

BIA ECONOMIC DEVELOPMENT

The BIA has provided significant economic development assistance to Indian tribes, tribal enterprises, Indian-owned corporations, partnerships and proprietorships through the Indian Financing Act of 1974. The total active loan portfolio of direct loans and loan guarantees totals \$470 million and is assisting 757 business entities. The loan purposes include business, mobile home housing, new housing construction, land acquisition, relending to tribal members, agriculture, educational, livestock, refinance, fishing, housing repair, protective advances, expert assistance, aquaculture and investment.

In 2001, a \$3.5 million dollar loan was guaranteed by the BIA for the purchase of Dynamic homes, L.L.C., a business that has 118 employees. The Winnebago Tribe of Nebraska has controlling ownership of the business through its investment company, Ho-Chunk, Inc. The President of Ho-Chunk, Inc. is a member of the Tribe and a Harvard educated attorney, who is also one of the managers of Dynamic Homes, L.L.C.. The business manufactures modular homes which are sold through a dealer network. It manufactures preconstructed single-family and multifamily homes, and light commercial buildings. Auxiliary products include garages, wood basements, and retail sales of home building components. The Company markets its products within the States of Iowa, Minnesota, Nebraska, North Dakota, South Dakota, Wisconsin, and Wyoming principally through a network of approximately 65 independent factory authorized builders and dealers. The Company concentrates on high quality workmanship, unbeatable customer service, and a dealer and builder network that is provided the best information service, and training to match the right Dynamic Home product with the buyer. In 2001 the Company generated over \$13.6 million dollars in gross sales and paid \$156,420 in taxes. The Company was also given a 3A1 rating by Dunn and Bradstreet last year.

The BIA loan program has been instrumental in supporting the Nisqually Tribe's community development program over the past 15 years. The Tribe has utilized loan guarantees to leverage more than \$8 million dollars of private and federal funds, and to complete seven major community development projects on the reservation. These projects have provided tribal members with employment, increased revenues to the Tribe, and helped build the capacity of the tribal organization. A guaranteed loan in 1998 to a construction company on the Salish and Kootenai Reservation has allowed it to bid on 500 projects, earn gross revenues of \$4.7 million and generate a payroll of \$1.2 million.

OUTLOOK FOR ECONOMIC DEVELOPMENT FOR INDIAN TRIBES AND INDIVIDUAL INDIANS

At present, the BIA's Program lacks the critical mass needed to create an active secondary market. However, I believe that the IFA can be amended to make the program amenable to an organized secondary market. We believe additional provisions added to the IFA would more readily accommodate a secondary market.

The BIA has a concern with regard to some of the provisions of H.R. 3407. Under the existing Program, the BIA reviews claims for loss before making payment, so that it is in the best possible position to withhold payment in cases of fraud or lender noncompliance. H.R. 3407 would change that. Under the provisions of H.R. 3407 it appears that if a good faith purchaser of a secondary market interest in a guaranteed loan were to demand payment, the BIA would have no choice but to pay before the BIA would have a chance to fully examine any questionable element of the claim. This could require the BIA to sue to recover that.

Thank you for the opportunity to present the views of the Administration on this legislation. I will be happy to take your questions.