



## THE HARVARD PROJECT ON AMERICAN INDIAN ECONOMIC DEVELOPMENT

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John F. Kennedy School of Government • Harvard University

### HONORING NATIONS: 2002 HONOREE

#### **Bringing Financial and Business Expertise to Tribes Borrego Springs Bank Viejas Band of Kumeyaay Indians (La Mesa, California)**

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*The first American Indian-owned bank in California, Borrego Springs Bank offers a full range of services to tribal governments, Native-owned businesses, and others in order to foster the economic self-sufficiency of American Indian nations and individuals, diversify the Viejas Tribe's economy, and improve Indian Country's access to financial services. With over \$83 million in assets and three full-service branches that serve Indian and non-Indian clientele, the Bank is an impressive financial institution that provides fruitful lessons for other tribes.*

For many Indians, obtaining even the most fundamental banking services is a difficult undertaking. A recent report by the US Department of the Treasury finds that Indians' lack of access to capital and financial services is a key barrier to economic advancement: 65 percent of Native survey respondents reported that conventional mortgages are difficult or impossible to obtain, and 66 percent stated that private equity is difficult or impossible to obtain for Native business owners. Trust-land issues, jurisdictional disputes, and cultural misunderstandings have long been identified as contributors to these problems. Yet without adequate access to capital and banking services, both Indian tribes and individuals have difficulty breaking cycles of poverty, fostering business activity, and achieving personal and community economic prosperity.

For the Viejas Band of Kumeyaay Indians, tribal gaming—introduced with the 1991 opening of the Viejas Casino and Turf Club—ushered in an era of economic hope for the Tribe's three hundred citizens. Located in the outskirts of San Diego, the Casino and Turf Club quickly became a major destination, and with its popularity came significant streams of revenue for the Tribe. The casino's success meant that Viejas leaders finally could address the longstanding problems of unemployment, substandard housing, and inadequate public services on the Tribe's 1,600-acre reservation. The Tribe built new homes, improved public works, built schools, invested in social services, and embarked on environmental enhancement projects. The Tribe also began to diversify its economy by building the multi-million dollar Viejas Outlet Center and the Alpine Recreational Vehicle Park. These efforts are paying off. Today, tribal unemployment is close to zero, and the Tribe's businesses employ well over two thousand people.

The Viejas Tribe's renaissance prompted tribal leaders to think strategically about the Tribe's economic future. They were convinced that achieving long-term economic prosperity required the Tribe not only to possess financial resources, but also to have the expertise to manage

those resources. Tribal leaders concluded that one means of obtaining this expertise was through bank ownership.

The opportunity arose in 1995 when the Viejas Tribe learned that a small community bank in Borrego Springs serving several under-served rural communities in the California desert was in distress. By obtaining majority interest in the bank and turning it into a profitable institution, the Tribe could expand and diversify its economy, provide services that Indians had difficulty obtaining, and develop financial expertise that would enhance the Tribe's ability to be self-governing. After candid discussions about the risks and benefits of bank ownership, it decided to move forward. The parties crafted a purchase agreement, and the bank filed an application with the state that would have led to the charter of the first tribally owned bank in California. However, opposition from the state's Attorney General delayed the deal, so the bank and the Tribe opted for an alternative strategy—a federal charter. In December 1996, the Viejas Tribe made a capital infusion of \$2.4 million and became the majority owner of Borrego Springs Bank, a federally chartered financial institution.

With the Viejas Tribe's assistance, Borrego Springs Bank has developed an impressive array of services. These include business loans, government guaranteed programs, full business deposit services, money market sweep accounts, on-line banking, and computer cash management. The Bank also offers a full range of services tailored specifically to meet the needs of tribal governments, including credit counseling, minors and elders' trust assistance, housing programs, full deposit services, funds management assistance, infrastructure loans, consumer and credit repair loans, tax deferral programs, and federal lending programs. Additionally, Borrego Springs Bank possesses an Indian Gaming Services division, which partners with other Indian-owned financial institutions to facilitate "Indian-to-Indian" commerce and offers tribal casinos a full range of cash access services such as ATMs, credit and cash advances, and check cashing.

Borrego Springs Bank has proved that Indian-owned financial institutions can compete in an extremely competitive and intensely regulated market. The Bank provides all banking services for the Viejas Tribe and is a recognized leader in banking product development and programs. It now has three full service branches – located in Borrego Springs, La Mesa, and in Alpine (where the reservation is located) – and has opened twelve loan production offices around the United States. Its award-winning small business lending program serves six states and is consistently ranked among the top fifty lenders in the nation. Borrego Springs Bank's assets have grown tremendously—from \$25 million in 1995 to more than \$83 million in 2002—and it has earned steady profits. In other words, the Viejas have realized a significant increase in the value of their initial investment and have generated ongoing income for the Tribe. In addition to its success as a financial institution, Borrego Springs Bank and its owner, the Viejas Tribe, have gained widespread admiration. By rescuing the Bank from certain closure, the Viejas were viewed as expressing interest in the needs of neighboring non-Indian communities as well as in their own community. Indeed, the Bank has enhanced the Tribe's credibility in both financial and political circles.

But the Borrego Springs Bank has proven to be much more than a good investment—it also has had a direct impact on the lives of Viejas citizens through improved financial literacy and better access to financial opportunities. Prior to the Bank's incorporation into the community, the majority of tribal citizens functioned in cash only. For example, tribal per capita distributions were made in cash and most Viejas citizens did not have bank accounts or ready access to credit. Today, 75 percent of Viejas citizens have bank accounts and receive their revenue distributions through direct deposits into checking accounts. For tribal youth, the Bank partnered with the Tribe's government to design and implement a financial literacy

course that is required of minors before they are allowed to access their tribal trust account. Borrego Springs Bank also assists tribal citizens with credit counseling and restructuring and works with individual entrepreneurs to develop and pursue business opportunities.

Additionally, the Bank is helping to develop a pool of financially savvy tribal leaders. Consistent with the Viejas' belief that self-governance requires leaders to possess financial resource management skills, four former Viejas tribal as well as the chairman of a neighboring tribe sit on the Bank's ten-member Board of Directors, which also includes business leaders and former bankers. As Board members, these tribal leaders are able to develop and refine their banking skills by gaining valuable experience in financial strategy and analysis, including program impact analysis, assessment of appropriate contingency reserves, and the balance between debt and equity financing. Not surprisingly, this has positively influenced all of the Tribe's government and business operations. A recent example is the formation of a four-tribe corporation to build and operate a hotel in Washington, DC which will be designed with a Native American theme and located only a few blocks from the Smithsonian Institution's new National Museum of the American Indian. This corporation once again demonstrates the Viejas Tribe's motivation and capacity to pursue opportunities that advance its economic independence.

Both Viejas leaders and Bank principals are committed to sharing the success of Borrego Springs Bank with other Indian nations. As noted, the Bank's tribal-specific programs, including credit counseling, tribal trust management, and programs offered by the Bank's Indian Gaming Services division, provide scores of tribes with services that are tailored to meet their needs. The Bank also has developed an innovative home loan program that allows rural California tribes to borrow against future income from gaming revenue-sharing (the most recent California tribal-state gaming compact guarantees such revenue sharing between gaming and non-gaming tribes). As a result, home construction efforts that would otherwise stretch over several years may be accomplished in a single season. Yet Borrego Springs Bank's investment in Indian Country extends well beyond its service offerings. Members of the Bank's Board of Directors educate other tribal governments by participating in conferences and seminars and providing pro bono advice about tribal financial resource management. The Bank is a leader in promoting Indian-to-Indian commerce. And finally, the Bank works with tribal governments, trade associations, lenders, legislators, and the federal government to revise rules, policies, and laws to improve access to financial services for Indians. In short, the Viejas are as concerned about helping others as they are about the Bank's bottom line.

The Viejas Tribe rightly considers its experience with the Borrego Springs Bank as establishing a pattern from which other tribes can and should learn. In July 2000, the Bank's president helped found the North American Native Bankers Association to further tribal participation in the commercial banking industry and hosted the Association's first conference to assist tribes that are considering establishing their own banks. For other Indian nations, the Viejas Tribe offers four lessons about what it takes to own and manage a commercial bank. First, banking requires a stable tribal government. The financial and political penalties for "not doing banking right" are severe, particularly given the regulations under which such enterprises operate. The second ingredient is a significant resource base. Both the purchase and on-going functioning of a bank require substantial investments, and while cumulative profits can be large, the margins are low. The third ingredient is a long-term outlook. It has taken Borrego Springs Bank seven years of unrelenting effort to achieve its present success. This type of venture is not well suited for tribes looking to make a quick profit. Finally, commercial banking requires highly skilled managers and staff who are able to work effectively in both the Indian and non-Indian worlds. Finding excellent staff who can work with

tribal governments, regulatory agencies, auditors, and the community is imperative for success.

Driven by the idea that sovereignty and economic self-reliance go hand-in-hand, the Viejas Band of Kumeyaay Indians took a bold and calculated step in purchasing the Borrego Springs Bank. The Bank has become an innovative financial institution that effectively serves important individual and community needs. As an agent for economic, political, and social change for the Viejas and other tribes, the Bank is truly outstanding: Its presence will benefit generations to come. As a recognized leader in pushing the frontiers of self-sufficiency, the Viejas Tribe is showing Indian Country and the rest of America how to do banking right.

Lessons:

- Bank ownership is one way for an Indian nation to provide difficult-to-obtain financial services, develop internal financial expertise, and diversify the tribal economy. Ingredients for success in this extremely competitive and highly regulated industry include large sums of initial and working capital, a long-term outlook, and a highly skilled staff.
- Providing financial literacy training to tribal citizens, youth, elected leadership, and public administrators (for example, in banking, credit, financial planning, investing, taxes, etc.) is a good investment for tribal governments. Such training allows individuals to make informed personal finance decisions and fortifies a tribe's ability to manage its resources effectively.
- Tribal success in economic development creates new demand for tribal-specific services (for example, cash services for tribal gaming enterprises). Indian tribes and individuals can develop businesses to fill emerging market niches and thereby facilitate Indian-to-Indian commerce.

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