

Summary: Guaranteed Loan to Lower Brule Ignored Risk Factors

Report Date: March 28, 2017

We investigated a complaint from members of the Lower Brule Sioux Tribe (Tribe), who questioned a loan guarantee issued by the Office of Indian Energy and Economic Development (IEED), a component of Indian Affairs at the Department of the Interior. The Tribe received a 90-percent guarantee from IEED's Division of Capital Investment (DCI) on a loan of more than \$22 million to purchase a New York City-based financial services company.

We found that DCI ignored multiple negative indicators that suggested the loan might be too risky for DCI to approve. First, the tribal subsidiary involved in the transaction was a new lender without extensive experience. Second, the borrower included intangible assets as part of its portfolio, which are considered less reliable than tangible assets. Finally, the company's business plan relied on an expectation of a favorable tax ruling from the Internal Revenue Service, which it did not receive.

The Tribe ultimately sold the guaranteed loan on the secondary market, using most of the funds to reduce shareholder debt. Soon after the sale, the Tribe defaulted on the loan. The purchaser of the loan filed a claim for loss to DCI, which is currently in litigation.

We found no criminal violation, but we did find that DCI exposed itself to significant financial risk because it failed to adhere to its own guidelines and heed negative indicators. While we did not find the Tribe suffered a significant financial loss from the transaction, the absence of transparency exacerbated long-standing distrust between tribal members and the tribal council.

This is a summary of a report of investigation that was issued to the Assistant Secretary - Indian Affairs.

