

The Model Tribal Secured Transactions Act

*Building Foundations for Commerce
in Indian Country*

Minnesota Indian Business Conference
Sue Woodrow, Community Affairs
Federal Reserve Bank of Minneapolis, Helena (MT) Branch
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Agenda

- ❑ Barriers to Credit in Indian Country
- ❑ What Secured Transactions Laws Are
- ❑ Why Secured Transactions Laws are Important
- ❑ Secured Transactions Laws in the U.S.
- ❑ Current State of Secured Transactions Laws in Indian Country
- ❑ ULC Model Tribal Secured Transactions Act (MTA) Initiative
- ❑ Other Needs

Barriers to Credit in Indian Country

- Many contributing factors
- Differ from Tribe to Tribe and case-by-case
- Some commonly cited key contributors:
 - Shortage of lending institutions servicing Indian Country or willing to lend in Indian Country
 - Poor credit scores
 - Lack of banking experience
 - Mistrust of Tribal courts
 - **Inadequate Tribal laws to protect creditors (and debtors) OR lack of awareness about existing tribal laws**

What Secured Transactions Laws Are

- Two general types of secured lending
 - Real property (land or things attached to land) as collateral – **mortgage lending**
 - Personal property (everything other than real property) as collateral – **secured transactions lending**

What Secured Transactions Laws Are

- Personal property
 - “Movable” property (equipment, inventory, cut crops and timber, livestock, minerals/gas/oil removed from the ground, etc.)
 - Financial instruments or similar documents (cash, deposit accounts, investment securities, letters of credit, documents of title, etc.)
 - Other “intangibles” (licences, copyrights, patents, trademarks, etc.)
 - Fixtures – have attributes of both personal and real property



What Secured Transactions Laws Are

- What is a secured transactions law?
 - **Set of rules** that govern the lender-borrower (creditor-debtor) transactions
 - **Using personal property as collateral** to secure the loan or other extension of credit
 - **By agreement** between the parties (as opposed to liens arising as a matter of law or by judicial order)

What Secured Transactions Laws Are

- The rules determine:
 - When and how a creditor gets a security interest (lien) in the debtor's collateral
 - A creditor's rights in relation to third parties that may also have a legal interest in the same property (i.e., trustee in bankruptcy, other creditors)
 - Remedies available to the creditor if the debtor defaults
 - Protections for the debtor to ensure remedies are fair and fairly administered

Why Secured Transactions Laws are Important

- Most, if not all, free market economies around the world have secured transactions laws of some sort to facilitate the flow of credit
- Developing and emerging nations have made adoption of secured transactions laws a priority for economic development purposes

Secured Transactions Laws in the U.S.

- Uniform Commercial Code (UCC) Article 9 (supplemented by other laws, i.e., certificate of title laws, FAA registration requirements for aircraft)
- UCC was drafted by the Uniform Law Commission (ULC) during the 1940s and 1950s – has been adopted fairly uniformly by all 50 states and the U.S. territories
- Reason for this effort?
 - Non-uniformity among state commercial laws was impeding “cross-border” commerce, thus hampering economic development “post-WW II”
 - Fear by states of federal legislative intervention/preemption if states did not act to address the non-uniformity issue



Secured Transactions Laws in the U.S.

- Substantial uniformity among the states' laws, including those governing secured lending, permits ease of transactions across state lines, enabling efficient “cross border” commerce

Secured Transactions Laws in Indian Country Today

- ❑ Many Tribes have no secured transactions laws – state law is the default when a transaction occurs (boilerplate contract language)
- ❑ Some have comprehensive secured transactions laws
- ❑ Some have adopted the model UCC Article 9
- ❑ Some have adopted Article 9 as enacted by the state in which the Tribe is located
- ❑ Some have adopted by resolution either the model version or the state version for single transactions
- ❑ Some have only components, such as collection codes governing repossession, or pared-down versions
- ❑ Some have adopted “pre-revision” model tribal Article 9 (i.e., MT Model Tribal Code - 1997)

Uniform Law Commission

MTA Initiative

- ULC Committee on Liaison with American Indian Tribes and Nations
- Drafting committee comprised of more than a dozen commissioners, including several that worked on 1999 revisions to Article 9 (adopted by all states), representatives from ten Tribes, other advisors with experience in Indian Country legal/development issues
- Drafting effort took four years; completed in August 2005

Uniform Law Commission

MTA Initiative

- MTA is largely based on revised Article 9, with key components of Articles 1, 2 and 8 (where UCC Article 9 incorporates provisions from these Articles by reference)
- Purpose: to draft a “stand-alone” code that will, if other Articles are subsequently adopted, still harmonize (or blend) with those Articles



Uniform Law Commission

MTA Initiative

- MTA was drafted for ease of use by lenders and other creditors – familiarity with the rules
- Intended to help reduce “cross-border” transaction concerns

Uniform Law Commission

MTA Initiative

- Special considerations in the MTA:
 - No affect on sovereign immunity
 - “Fixtures” attached to trust land
 - Possible exemptions from covered property
 - Consumer protections – limitation on choice of law
 - Manufactured homes – interim financing
 - Coordination with other Tribal law
 - Tribal customs and traditions
 - Treatment of self-help remedies
 - Choice of law and venue issues
 - Implication of Tribal liens



Uniform Law Commission

MTA Initiative

□ Benefits

- Significant code development cost savings
- Revision benefit – can take advantage of ULC revision efforts
- Reduces “incorporation by reference” of other state law
- Implementation Guide
- Comprehensive Tribal judicial training



Uniform Law Commission

MTA Initiative

- Implementation Guide
 - Plain language commentary for all code provisions
 - Enactment guidance for Tribal legislative bodies
 - Optional provisions with explanations
 - UCC filing system options explained
 - Educational tool for Tribal attorneys and judges, economic and business development staff, lenders

Other Needs

- UCC Lien Filing System – Options:
 - Tribe develops and manages its own system
 - Tribal consortium filing system
 - State system – agency relationship
- Trusted “enforcement” of the law – independent court systems; trained judiciary
- Publication of laws and decisions



Other Needs

- Training for Tribal Judiciary, Legal Counsel
 - ULC has developed a comprehensive training curriculum for the MTA in partnership with the Tribal Judicial Institute, U of ND School of Law)
 - 1st regional training to be held in Denver on March 21-22
- Awareness Training for Lenders
 - FRB Mpls has developed a “local post-enactment workshop” for lenders in communities serving Tribes that have enacted

Where to Find the MTA and Related Materials

- www.nccusl.org
 - Go to “Final Acts and Legislation”
 - Click on “Model Tribal Secured Transactions Act *read more . . .*”
 - The Act, Implementation Guide, amendments, and the Montana–Crow Nation UCC Filing System Compact may be downloaded and printed



Contact Information

Sue Woodrow

Project Director

Community Affairs

Federal Reserve Bank of Minneapolis,
Helena (MT) Branch

Tel: 406.447.3806

susan.woodrow@mpls.frb.org