

Borrowing Trouble: Predatory Lending in Native American Communities

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Summary of Findings and Policy Recommendations

First Nations Development Institute's (First Nations') report, "*Borrowing Trouble: Predatory Lending in Native American Communities*," is the result of a research study conducted by First Nations under a grant funded by the Annie E. Casey Foundation. The report details the practices of lenders targeting borrowers in Native American communities with loan products that are often designed to exploit vulnerable borrowers who generally cannot afford to repay the loans. As a result, borrowers often end up in foreclosure, bankruptcy, or having to endure other financial hardships.

While the recent difficulties in the subprime mortgage lending market have sparked national interest in predatory lending practices, as this report accurately reveals, predatory lending has long been a major concern for Native American communities. In fact, in a survey conducted by First Nations at a National American Indian Housing Council conference, an astounding 73% percent of respondents reported that predatory lending was a problem in their communities. The most common forms of predatory lending practiced in these communities included loans against tax refunds, payday loans, pawnshop transactions, mortgage loans, and car title loans.

Survey respondents noted that these loans charged unreasonably high interest rates and that loan products were specifically designed to prey on vulnerable, uninformed borrowers in their communities. "Payday" loans are small, short-term loans with APR interest rates of 300% or higher. A borrower may pay 20% of the original loan cost for a one week loan, and with additional fees this can amount to a cost of over 300% per year. For example, a recent study found that the average APR rate for a payday loan in Colorado was 388%.

Although further research is needed to confirm findings, data from the First Nations Development Institute study suggests a regional concentration of payday lenders near Native American communities. In fact, some American Indians living on or near tribal lands have nearly as many payday lending choices as bank branch choices. The study also notes the disparity that exists between American Indians and whites in the share of loans from lenders engaged in the subprime market – with Native Americans engaged in the high-cost subprime market at twice the rate of whites. Adding to the problem is the fact that those who receive these subprime loans have an increased vulnerability to predatory lending.

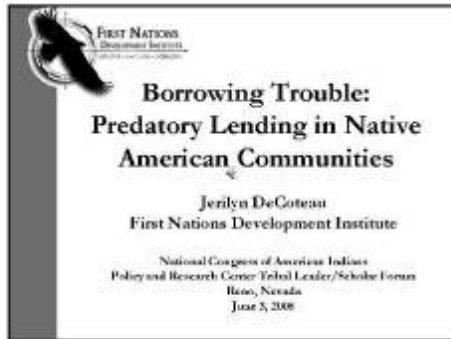
In order to gain important primary data, First Nations also conducted case studies of five tribal communities actively combating predatory lending. The five tribes selected were the Cherokee Nation, the Citizen Potawatomi Nation, the Confederated Tribes of the Umatilla Indian Reservation, the Lac Courte Oreilles Band of Lake Superior Chippewa, and the Winnebago Tribe of Nebraska. The communities each utilized innovative strategies to effectively combat predatory lending. The strategies included offering alternative low interest loan products; financial education; credit counseling; and other asset-building programs and strategies designed to intercede in tribal citizens' decision-making to avoid poor borrowing choices.

The Cherokee Nation developed one of the first, and longest running, individual development account (IDA, or matched-savings) programs in the country and one of the first youth IDA programs targeting tribal members – both of which are run through the Tribe's Commerce Department. Similarly, the Citizen Potawatomi Nation recently implemented an IDA program to assist people with debt repair and an employee loan program that provides short-term, low interest loans. The Winnebago Reservation is home to Rez Cars, a used car dealership owned and managed by Ho-Chunk, Inc., a tribally owned company. Rez Cars allows customers to buy reliable and affordable cars while at the same time gaining or repairing credit.

Through this extensive research study, which involved the review of national datasets, various surveys, and the five case studies, First Nations identified five primary themes: (1) predatory lending is having a substantial impact on Native Nations; (2) financial education is a key strategy for combating predatory lending; (3) alternative credit programs are essential; (4) legislative and regulatory approaches are not common; (5) and tribal anti-predatory lending efforts are replicable. The study concludes with four key recommendations for Native Nations: (1) develop credit programs and borrowing opportunities that reduce the demand for predatory lending; (2) develop consumer education programs that assist in financial planning and credit repair; (3) set interest rate caps; and (4) collaborate with states on efforts to eliminate predatory lending.

Through a three-pronged strategy of Educating Grassroots Practitioners, Advocating Systemic Change, and Capitalizing Indian Communities, First Nations is working to restore Native control and culturally-compatible stewardship of the assets they own - be they land, human potential, cultural heritage, or natural resources - and to establish new assets for ensuring the long-term vitality of Native communities.

For more information about this publication, contact Sarah Dewees, Director of Research for First Nations Development Institute, at 540-907-6247 / sdewees@firstnations.org; or visit First Nations Development Institute's website at www.firstnations.org to download a copy of the paper.

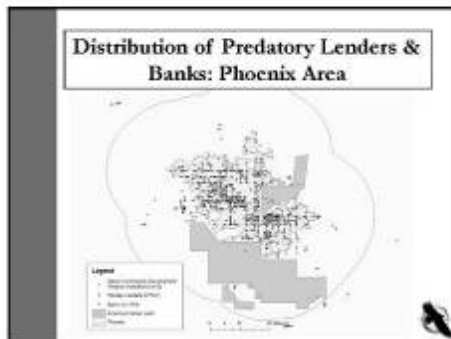


The Project

- Study goals:
 - To better understand the extent of predatory lending in Native communities
 - To identify policy strategies to combat predatory lending
- Study elements:
 - Case studies
 - Survey of NAIHC membership (May 2007)
 - GIS analysis of payday lenders and bank branch locations
 - VITA site analysis
- Funded by the Annie B. Casey Foundation

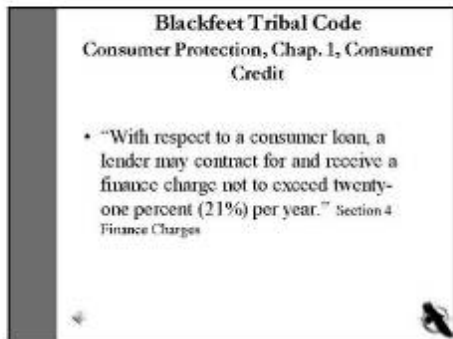
Is predatory lending a problem in your community?

- Over 72% of respondents to survey at NAIHC say that predatory lending is a problem in their community.
- What types of loans are occurring in community?
 - Loans against tax refunds (35.5% of respondents)
 - Payday loans (32.9% of respondents)
 - Payroll advances (30.3% of respondents)
 - Mortgage loans (21.3% of respondents)
 - Car title loans (20.7% of respondents)
- Biggest problems:
 - Loans with exceptionally high interest rates (78.9% of respondents)
 - Loans to people who don't understand the terms of the loans (77.6% of respondents)
 - Loans to people who aren't offered them (66.7% of respondents)
 - Loans with excessive prepayment penalties (57.4% of respondents)



Promising Practices

- Tribes are setting up programs to offer short-term, affordable credit to employees.
 - The Citizen Potawatomi Community Development Corporation offers small loans to tribal employees. The interest rate is relatively low and repayment is secured through payroll deductions. This provides competition for the predatory lenders.
- Tribes offer financial education.
 - In our case studies, nearly every group offered some form of financial education or credit counseling. Often, it was offered through housing authorities or financial institutions.



For more information

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