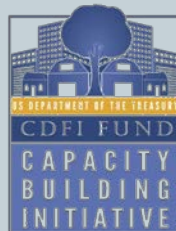


# Combating Predatory Lending



WEBINAR SPONSORED THROUGH THE CDFI FUND  
CAPACITY BUILDING INITIATIVE



# Delivered by:

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## **NeighborWorks® America**

NeighborWorks® America (NeighborWorks®) is a national nonprofit organization chartered by Congress in 1978. Its mission is to create opportunities for Americans to live in affordable homes, improve their lives, and strengthen their communities. NeighborWorks® has over 25 years of experience providing training and is recognized as the premier provider of training in the affordable housing and community development industry.

## **Seven Sisters Community Development Group, LLC**

Seven Sisters Community Development Group, LLC is a woman- and majority Native American-owned national consulting firm, which offers culturally relevant and innovative strategies, services, and products that create systemic change. Its team of community development experts works with low-wealth and diverse communities across the country, with a particular focus on Native Communities. The team brings a broad range of experience with tribal governments and communities as well as national and local nonprofits, foundations, corporate organizations, and governmental entities.



# Webinar Common Courtesies

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- Be present and engage
- Mute your phone line
- Use the **chat box** for comments and questions
- Use **hand** for asking questions and responding
- Have fun learning and sharing!

# Purpose of Webinar

4

- Discuss a range of strategies to combat predatory lending
- Share results of cohort survey
- Hear examples of what your peers are doing
- Learn about resources available for Native communities

# Introductions

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- **Name**
- **Organization**
- **Location**
- **Most egregious case of predatory lending you've encountered**

# Predatory Lending Survey of TLJ Cohort

6

- 14 questions in online survey
- 13 of 16 cohort member organizations responded
- One respondent from each organization

# What is predatory lending?

7

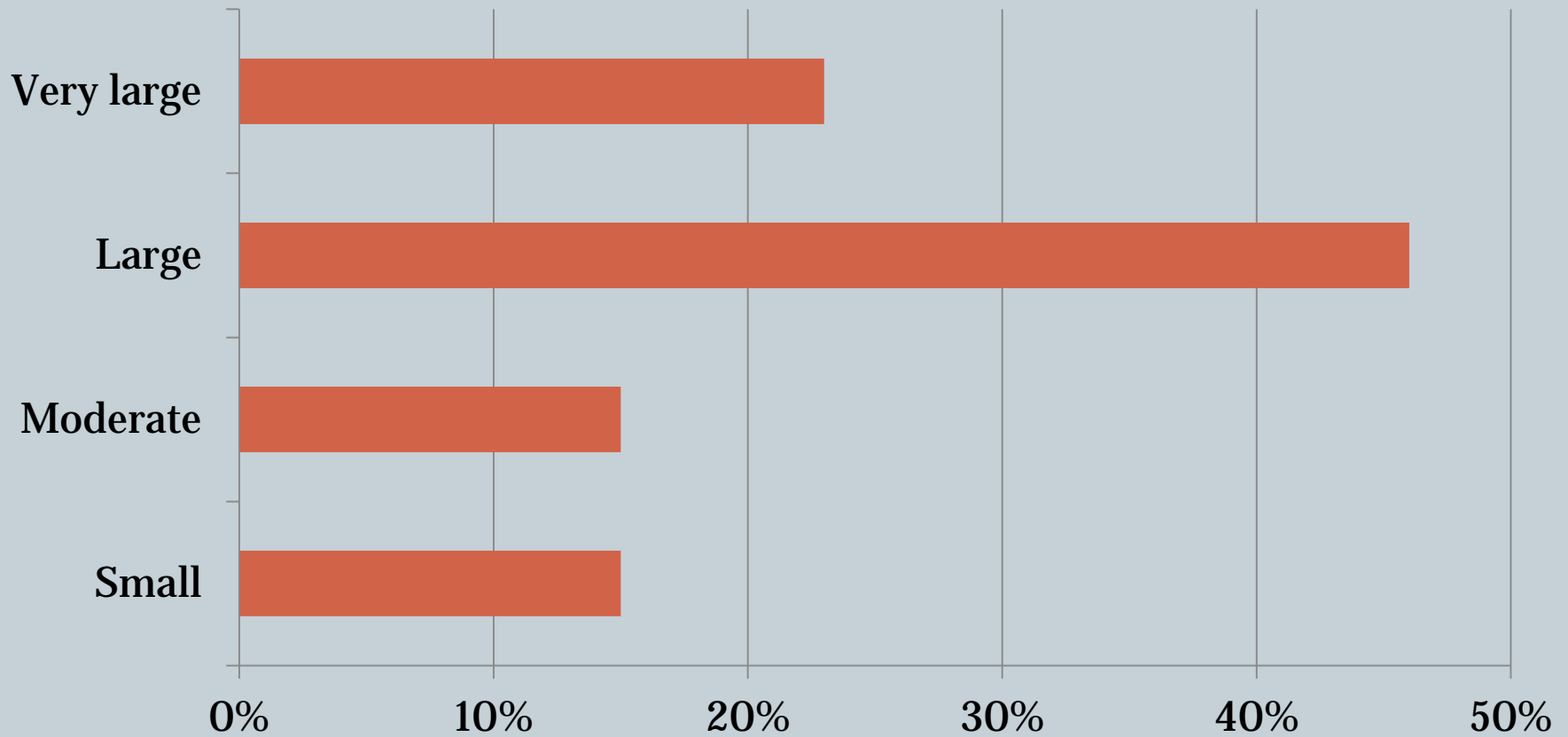
***It encompasses a number of abusive practices:***

- *Charging unreasonably high interest rates and hidden or excessive fees,*
- *Offering a loan knowing that a borrower lacks the ability to repay, and*
- *Fraudulent or deceptive sales tactics in loan transactions.*

# How big is the problem?

8

## Survey Results

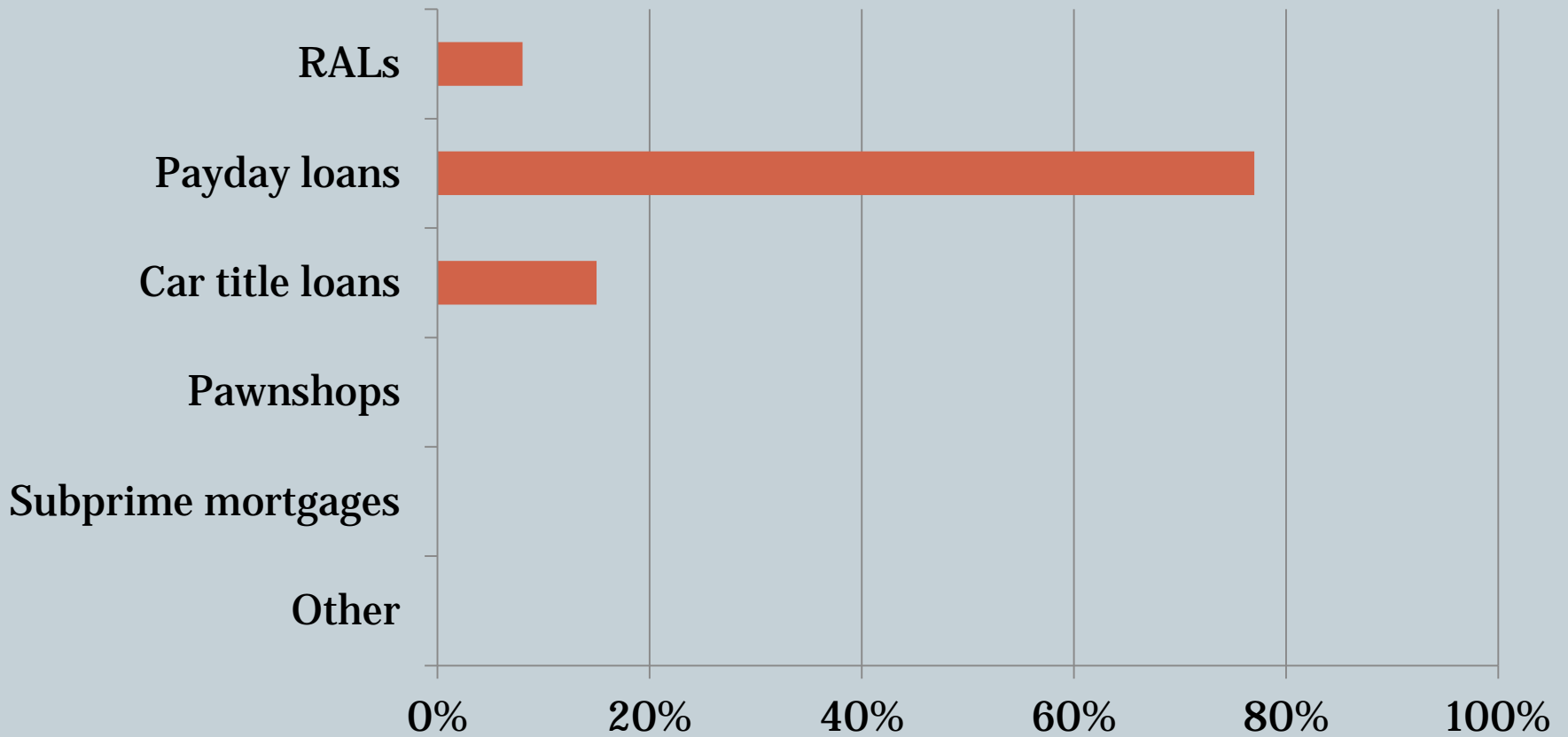




# Which predatory loans are most problematic?

9

## Survey Results



# Strategies to combat predatory lending

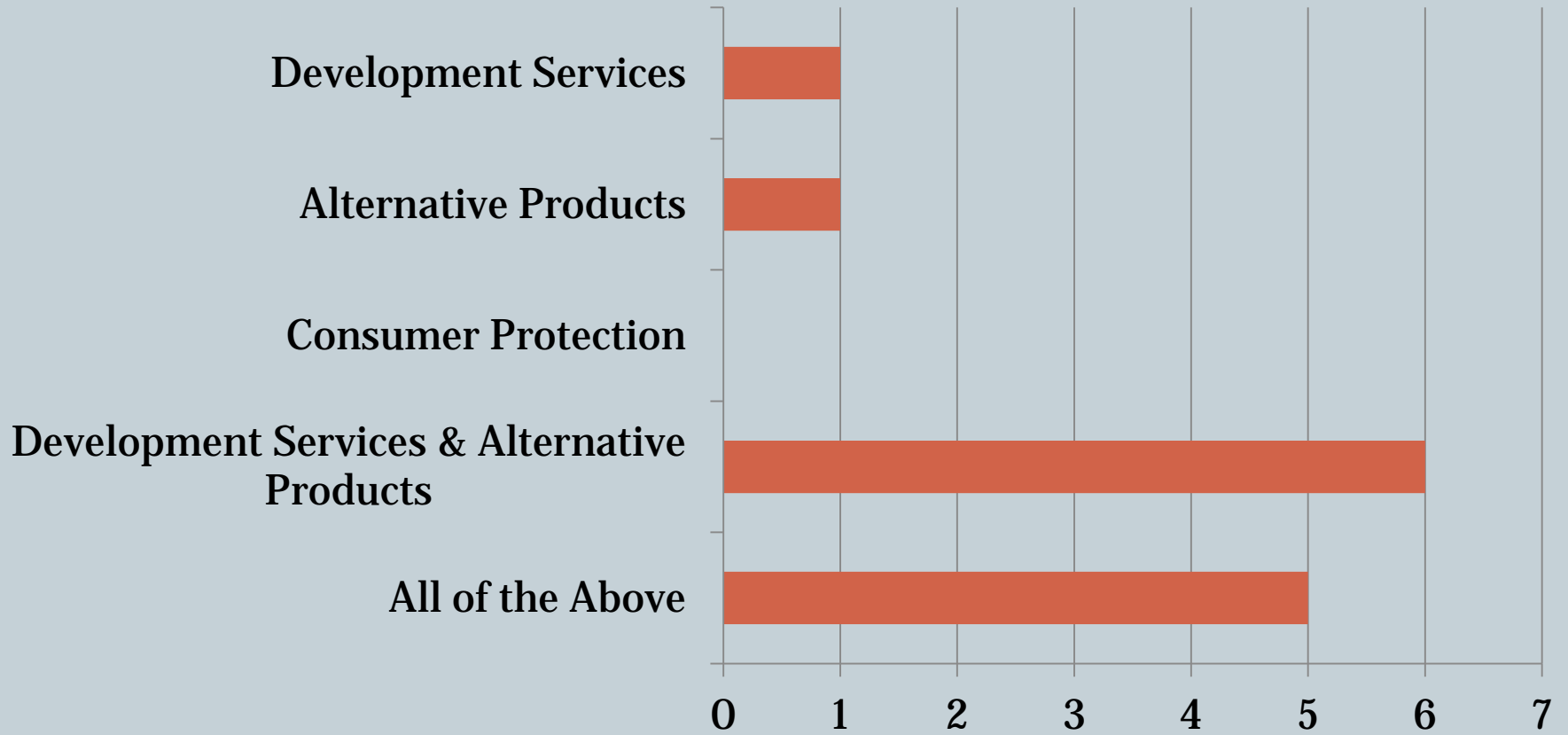
10

- Offering **alternative loan products and services**
- Providing **financial education** about the pitfalls of predatory loan products
- Advocating for **consumer protection policies** to restrict predatory lending practices

# Which strategies does your CDFI use?

11

## Survey Results



# Strategies to Combat Predatory Lending

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## **ALTERNATIVE PRODUCTS**

# Alternatives Loan Products of Cohort

13

- **Credit builder loans**
- **Anti-payday loans**
- **Payroll deduction loans**
- **Other loans**
  - Auto
  - Energy efficiency
  - Micro-business
  - Business
  - Mortgage

# Credit Builder Loans



# Hopi Credit Association Credit Builder Loan

15

<b>Description</b>	Small loans to rebuild credit
<b>Eligible borrower</b>	Enrolled members of the tribe
<b>Maximum loan amount</b>	\$500
<b>Loan term</b>	6 months
<b>Interest rate</b>	12%
<b>Source of capital</b>	Unrestricted funds
<b>Innovative features</b>	
<b>Loans made to date</b>	35 loans totaling \$17,500
<b>Alternative to</b>	Payday loans

# Four Bands Credit Builder Loan

16

<b>Description</b>	Loans to build credit
<b>Eligible borrower</b>	Any borrower
<b>Maximum loan amount</b>	\$3,000
<b>Loan term</b>	Two years
<b>Interest rate</b>	10-12%
<b>Source of capital</b>	Unrestricted funds
<b>Innovative features</b>	Can be used as alternative credit source for purchases
<b>Loans made to date</b>	130 loans
<b>Alternative to</b>	Payday loans



# Citizen Potawatomi CDC Credit Builder Loan

17

<b>Description</b>	Loans to build or reestablish credit
<b>Eligible borrower</b>	CPN tribal member or employee
<b>Maximum loan amount</b>	\$1,000
<b>Loan term</b>	12-18 months
<b>Interest rate</b>	10%
<b>Source of capital</b>	First Nations Oweesta Corporation
<b>Innovative features</b>	
<b>Loans made to date</b>	15 loans totaling \$8,195
<b>Alternative to</b>	Helps someone in predatory lending cycle build or reestablish credit

# Native Community Finance Credit Builder Loan

18

<b>Description</b>	Loans to build credit and signature loans with acceptable credit
<b>Eligible borrower</b>	Native Americans
<b>Maximum loan amount</b>	\$4,000
<b>Loan term</b>	Up to 3 years
<b>Interest rate</b>	9.5%
<b>Source of capital</b>	Unrestricted funds
<b>Innovative features</b>	Payroll deduction
<b>Loans made to date</b>	28 loans totaling \$84,921
<b>Alternative to</b>	Internet loans, car dealers, store front

# Lakota Funds Credit Builder Loan

19

<b>Description</b>	Loans to build credit and signature loans with acceptable credit
<b>Eligible borrower</b>	Enrolled tribal member, spouse/partner of enrolled tribal member or enrolled member of any other federally recognized tribe
<b>Maximum loan amount</b>	\$2,500
<b>Loan term</b>	24 months
<b>Interest rate</b>	15%
<b>Source of capital</b>	
<b>Innovative features</b>	
<b>Loans made to date</b>	26 loans totaling \$52,552.34
<b>Alternative to</b>	Payday and car title loans

# Anti Payday Loans



# Native Community Finance Consolidated Loan

21

<b>Description</b>	A loan to consolidate multiple predatory loans
<b>Eligible borrower</b>	Tribal members
<b>Maximum loan amount</b>	\$2,000
<b>Loan term</b>	Up to 2 years
<b>Interest rate</b>	9%
<b>Source of capital</b>	Unrestricted funds
<b>Innovative features</b>	Budgeting and financial education
<b>Loans made to date</b>	40 loans totaling \$47,855.15
<b>Alternative to</b>	30-day payday and internet loans

# Northwest Native Development Fund Anti-Payday Loan

22

<b>Description</b>	Helps clients get out of payday loan cycle
<b>Eligible borrower</b>	Anyone who has been employed for at least 12 months
<b>Maximum loan amount</b>	\$1,500
<b>Loan term</b>	12 months
<b>Interest rate</b>	15%
<b>Source of capital</b>	
<b>Innovative features</b>	
<b>Loans made to date</b>	20 loans
<b>Alternative to</b>	Payday loans

# Hawaii First Federal Credit Union Pot of Gold Loan

23

<b>Description</b>	Helps clients get out of payday loan cycle or cover emergencies such as high utilities
<b>Eligible borrower</b>	Resident of Hawaii Island
<b>Maximum loan amount</b>	\$1,000
<b>Loan term</b>	6 to 12 months
<b>Interest rate</b>	12.95%
<b>Source of capital</b>	Grants
<b>Innovative features</b>	Mandatory financial education workshop and required to open savings account with \$100 monthly and \$1000 annual drawings
<b>Loans made to date</b>	56 loans totaling \$50,000
<b>Alternative to</b>	Payday loans

# Hawaii First Federal Credit Union Payday Loan

24

<b>Description</b>	An alternative to payday loans
<b>Eligible borrower</b>	Employed resident of Hawaii Island
<b>Maximum loan amount</b>	\$500
<b>Loan term</b>	3 to 6 months
<b>Interest rate</b>	16%
<b>Source of capital</b>	Unrestricted income
<b>Innovative features</b>	
<b>Loans made to date</b>	About 20 loans per year totaling \$10,000
<b>Alternative to</b>	Payday loans



# Payroll Deduction Loans



# Karuk Community Loan Fund Emergency Loan Program

26

<b>Description</b>	Payroll deduction loan
<b>Eligible borrower</b>	Any person employed for one year with current employer
<b>Maximum loan amount</b>	\$1,000
<b>Loan term</b>	6 months
<b>Interest rate</b>	15%
<b>Source of capital</b>	CDFI Fund
<b>Innovative features</b>	Discuss credit report and how to improve score and budgeting. Report to two credit bureaus through Credit Builders Alliance.
<b>Loans made to date</b>	135 loans totaling \$117,000
<b>Alternative to</b>	Payday loan

# Citizen Potawatomi CDC Employee Loan

27

<b>Description</b>	A benefit to employees in good standing
<b>Eligible borrower</b>	Employee of Citizen Potawatomi Nation
<b>Maximum loan amount</b>	\$1,500
<b>Loan term</b>	12-18 months
<b>Interest rate</b>	16%
<b>Source of capital</b>	Citizen Potawatomi Nation
<b>Innovative features</b>	Payroll deduction
<b>Loans made to date</b>	2083 loans totaling \$2,265,467
<b>Alternative to</b>	Loan companies, payday loans

# Other Loans



# Citizen Potawatomi CDC Jumpstart Auto Program

29

<b>Description</b>	Auto loans to those who can not obtain bank financing
<b>Eligible borrower</b>	Employee of Citizen Potawatomi Nation
<b>Maximum loan amount</b>	\$14,000
<b>Loan term</b>	5 years
<b>Interest rate</b>	12%
<b>Source of capital</b>	Citizen Potawatomi Nation, First Nations Oweesta Corporation
<b>Innovative features</b>	Payroll deduction
<b>Loans made to date</b>	43 loans totaling \$441,173
<b>Alternative to</b>	Auto dealer loans

# Council for Native Hawaiian Advancement Energy Products

30

<b>Description</b>	Solar and photovoltaic (PV) products
<b>Eligible borrower</b>	Hawaiian Homes Commission Act beneficiaries
<b>Maximum loan amount</b>	\$6,500 for solar and \$15,000 for PV
<b>Loan term</b>	10 years
<b>Interest rate</b>	4.75 to 7.75% with buy-down option
<b>Source of capital</b>	First Nations Oweesta Corporation, Department of Hawaiian Home Lands, CDFI Fund
<b>Innovative features</b>	
<b>Loans made to date</b>	190
<b>Alternative to</b>	Lines of credit or home equity loans

# Northern Shores Loan Fund Micro-Business Loan

31

<b>Description</b>	Small business loans to start-ups and existing businesses
<b>Eligible borrower</b>	Native and non-Native business owners within service area
<b>Maximum loan amount</b>	\$5,000
<b>Loan term</b>	3 years
<b>Interest rate</b>	10%
<b>Source of capital</b>	Little Traverse Bay Band of Odawa Indians, CDFI Fund
<b>Innovative features</b>	
<b>Loans made to date</b>	1 loan for \$4,500
<b>Alternative to</b>	High interest payday or credit card advance loans

# Salt River Financial Services Institute Business Loan

32

<b>Description</b>	Business loans
<b>Eligible borrower</b>	Community members
<b>Maximum loan amount</b>	\$250,000
<b>Loan term</b>	Up to 15 years
<b>Interest rate</b>	Prime plus 2%
<b>Source of capital</b>	Tribe
<b>Innovative features</b>	Various terms – line of credit or fixed
<b>Loans made to date</b>	12 loans for \$200,000
<b>Alternative to</b>	Hard money loans



# Salt River Financial Services Institute Mortgage Loan

33

<b>Description</b>	Home mortgages
<b>Eligible borrower</b>	Community members
<b>Maximum loan amount</b>	150% of FHA limit
<b>Loan term</b>	15, 20, or 30 years
<b>Interest rate</b>	Prime
<b>Source of capital</b>	Tribe
<b>Innovative features</b>	Affordability ARM for lower income families
<b>Loans made to date</b>	70 loans for \$8.7 million
<b>Alternative to</b>	Subprime, high interest, interest only and ARM loans

# Strategies to Combat Predatory Lending

34

## **DEVELOPMENT SERVICES**

# Development Services of Cohort

35

Type of Service	No. of Responses	Percentage of Cohort
Adult financial education	13	100%
1:1 counseling/credit repair	12	92%
Tribal employee financial education	7	54%
Free tax prep	7	54%
Youth financial education	6	46%
Homebuyer education	6	46%
CDFI employee financial education	5	38%
High School fin education	5	38%
IDAs	4	31%

## Development Services Challenges

*Share examples of how  
you have overcome this  
challenge:*

*Write in chat box*

*Share over phone  
line*

- Reaching those who could benefit from knowledge but don't seek it or think they need it
- Attracting clients to participate
- Helping clients understand what is predatory

# What is behavioral economics?

37

*The study of psychology as it relates to the economic decision making processes of individuals.*

*Behavioral economics explores why people sometimes make irrational decisions, and why and how their behavior does not follow the predictions of economic models.*

## Behavioral Economics Challenges

*Share examples of how you have overcome this challenge:*

*Write in chat box*

*Share over phone line*

- Getting clients to change their ways, even with all the education we do
- Breaking the predatory lending cycle and dealing with repeat customers
- Changing clients' behavior to a more logical borrowing pattern
- Competing with the convenience of predatory lenders

# Strategies to Combat Predatory Lending

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## **CONSUMER PROTECTION POLICIES**

# Tribes with Consumer Protection Codes

40

- **Oglala Sioux Tribe**
- **Navajo Nation**
- **Rosebud Sioux Tribe**
- **Blackfeet Nation**
- **Grand Traverse Band of Ottawa and Chippewa Indians**
- **San Ildefonso Pueblo**
- **Eastern Band of Cherokee**

*Source: FNDI*



## Consumer Protection Challenges

*Share examples of how you have overcome this challenge:*

*Write in chat box*

*Share over phone line*

- **As leaders in your communities, how can Native CDFIs advocate for consumer protections?**

# Additional Resources

42

- “Applying Behavioral Research to Asset-Building Initiatives: Lessons from a Year of Experimentation,” by Mindy Hernandez, April 2011, [http://cfed.org/programs/innovation/mindy\\_hernandez/](http://cfed.org/programs/innovation/mindy_hernandez/)
- Model Tribal Consumer Protection Code, First Nations, Development Institute, <http://www.firstnations.org/program-combatingpredatorylending>

# Additional Resources

43

- “Building Trust: Consumer Protection in Native Communities,” First Nations Development Institute, January 2011, <http://www.firstnations.org/program-combatingpredatorylending>