



# When the Lender Extends a Helping Hand: Native CDFI Client Counseling and Loan Performance in Indian Country

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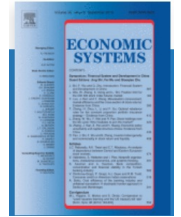
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# Background: our path to NCDFIs

## Consumer Credit on American Indian Reservations

- Many consumers with no or very limited credit experience
- Key predictor of credit outcomes: racial composition, not location vis-à-vis a reservation



## Neighborhood Characteristics and Bankcard Credit in Indian Country: Evidence from Individual-Level Credit Bureau Records

- Bankcard credit limits lower in areas with a high share of AI residents
  - Evidence consistent with redlining



## Community Development Financial Institutions and Individuals' Credit Risk in Indian Country

- NCDFI, not NNCDFI, presence boosts residents' credit scores
  - Importance of cultural fit



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# Ongoing research on NCDFIs

- [Beyond Conventional Models: Lending by Native Community Development Financial Institutions](#) (CICD working paper, under review)
  - Quantitative study of 11 NCDFIs
  - Key findings:
    - NCDFIs provide a variety of products across loan categories
    - NCDFIs support borrowers in varied circumstances
    - NCDFIs productively combine hard info (e.g., credit scores) with soft info (e.g., character score, client engagement)



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# Two more projects in progress

- In-depth interviews with 45 NCDFIs
  - Qualitative research
    - NCDFIs and cultural fit?
    - Policy obstacles and opportunities?
- Business loans data from one NCDFI
  - Quantitative study
    - Lending approaches and use of information?



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# This paper: When the Lender Extends a Helping Hand

- Forthcoming in the *Journal of Economics, Race, and Policy*



- Observational study, quantitative analysis, causal inference



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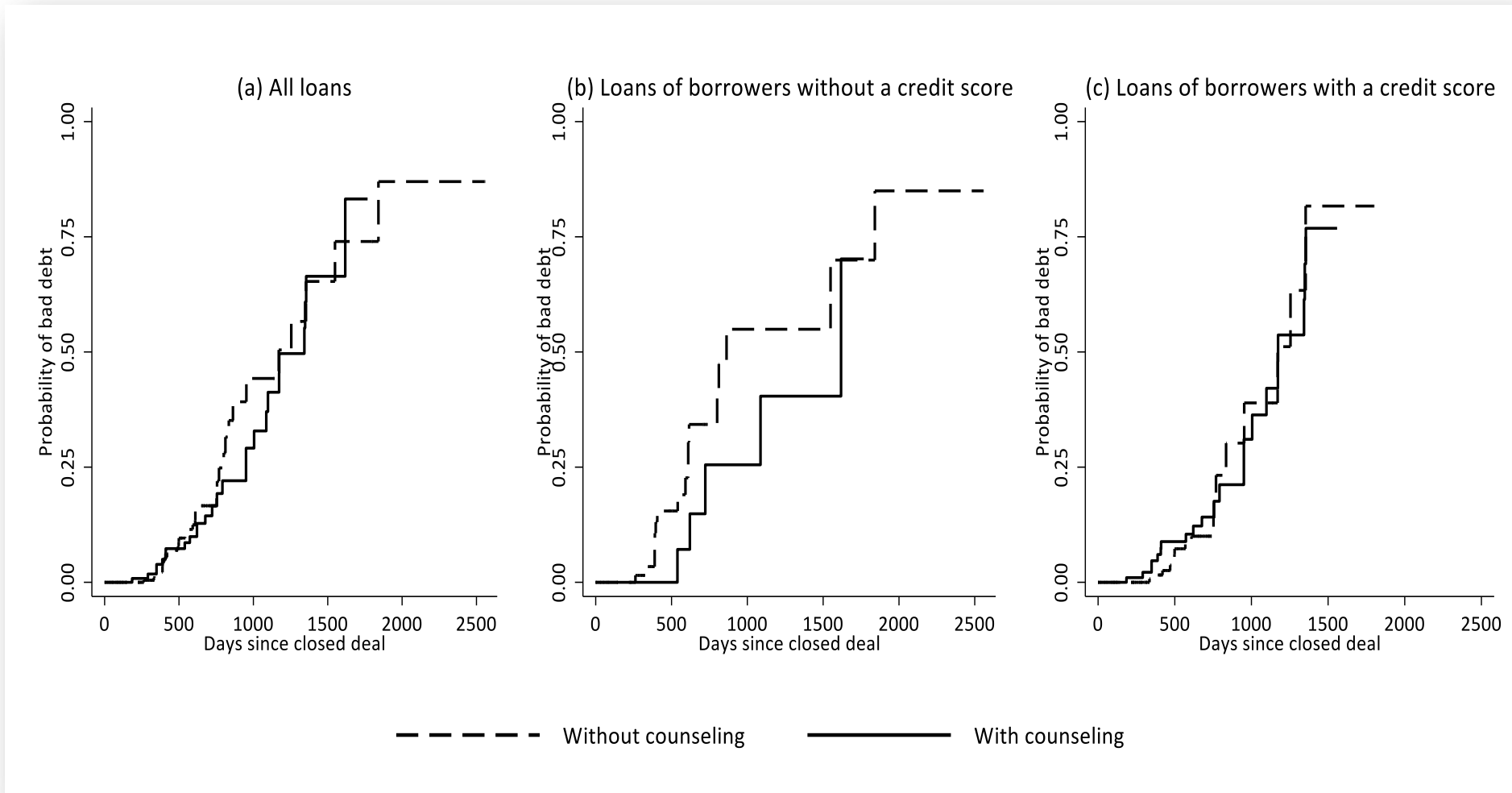
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# This paper: When the Lender Extends a Helping Hand

- Motivation
  - Many challenges of providing credit in Indian Country
  - NCDFIs provide free financial counseling to their clients
    - Impact on loan performance?
- Data
  - Detailed consumer loan-level data from one prominent NCDFI
- Key finding
  - Client counseling reduces risk of loan failure, esp. for consumers with limited credit histories



# Key result visually



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## Other results from this paper

- Effectiveness of counseling  $\approx$  possessing a credit score
- Intensity of borrower exposure to counseling important
- Personalized coaching more effective than group training



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## Some broader takeaways from this paper

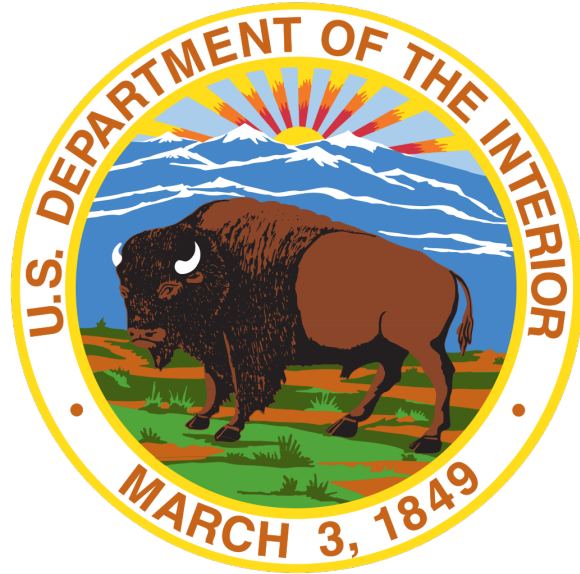
- One NCDFI, consumer loans only...
  - But clear evidence that NCDFI practices work
- NCDFIs embody a private-sector, market-based approach to enhancing financial inclusion and self-determination, thereby promoting economic prosperity within Native nations



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