

**U.S. DEPARTMENT OF THE TREASURY  
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND  
TESTIMONY BEFORE THE SENATE COMMITTEE ON INDIAN AFFAIRS  
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**Introduction**

Good morning. Chairman Dorgan, Vice Chairwoman Murkowski and members of the Senate Committee on Indian Affairs, I am delighted to be here today to testify on the issue of predatory lending in Indian Country. My name is Donna Gambrell and I am the Director of the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund.

To begin, I would like to share with you that just last Saturday I spent the morning at a financial education workshop for Native American interns at American University. The CDFI Fund sponsored this one-day workshop for approximately 100 young Native Americans participating in the Washington Internship for Native Students (WINS) and Udall Native American Congressional Internship programs. The students were instructed on the dangers of predatory lending and how to identify such practices so that they can be avoided. I hope that the students will use what they learned to make positive financial decisions in their life and to take the knowledge back to their Native communities.

Created in 1994, the CDFI Fund has an important mission: to expand the capacity of financial institutions to provide credit, capital and financial services to underserved populations and communities throughout the United States. To meet its mission, the CDFI Fund provides monetary awards to Community Development Financial Institutions –or CDFIs. Our awards serve as investments to help CDFIs build their capacity to serve low-income people and communities that otherwise lack access to credit, capital, financial products and services. Currently, there are over 800 certified CDFIs

CDFIs are specialized financial institutions operating in markets that have not been adequately served by traditional financial institutions. They comprise a variety of types of institutions, including loan funds, venture capital funds, and insured depository institutions, such as credit unions and banks. In addition to providing financial services and products, CDFIs provide services, such as financial literacy training, technical assistance, and credit counseling to help consumers use credit effectively.

**CDFI Fund Native Initiatives**

The CDFI Fund supports three types of applicants under the Native Initiatives: (1) certified Native CDFIs; (2) emerging Native CDFIs; and, (3) sponsoring entities. Currently, 47 Native CDFIs have been certified by the CDFI Fund and another 50 Native CDFIs are emerging or sponsoring entities. In FY 2007, 19 organizations received a total of \$3.6 million through the Native American CDFI Award (NACA) Program. To date,

148 grants for approximately \$23.5 million have been awarded to Native CDFIs serving 89 Native communities. In addition, the CDFI Fund has awarded over \$7.5 million in contracts to organizations that provide capacity-building and financial services training programs.

The CDFI Fund has a longstanding commitment to Native communities. The Fund's publication in 2001 of the congressionally mandated Native American Lending Study identified 17 barriers to credit and capital, including the lack of financial institutions on or near Indian lands. Since that time, the CDFI Fund has awarded \$23 million to Native communities.

The CDFI Fund's Native Initiatives are designed to increase the access to credit, capital and financial services through the creation and expansion of CDFIs that serve primarily Native communities. The CDFI Fund works to achieve these objectives through two principle strategies:

1. Native American CDFI Assistance Program - A monetary award program that provides support to Native CDFIs and entities proposing to become or create Native CDFIs and to build their capacity to better address the community development and capital access needs of Native communities. Through the NACA Program, the CDFI Fund provides financial assistance awards to certified Native CDFIs, and technical assistance grants to Native CDFIs and entities proposing to become or create Native CDFIs.
2. Expanding Native Opportunities - A training program that fosters the development of new Native CDFIs, strengthens the operational capacity of existing Native CDFIs, and guides Native communities in the creation of important financial education, asset building, and entrepreneurial programs.

### **Native CDFIs Respond to Predatory Lending**

With that background, I would like to focus on the important purpose of today's hearing. There is no clear-cut definition of a predatory loan, but many experts agree that it is the result of a company misleading, tricking and sometimes coercing someone into taking out a loan, typically at excessive costs and without regard to the consumer's ability to repay. What is clear is the devastating impact that predatory lending can have in Indian Country. Several studies, including one recently conducted by First Nations Development Institute (FDNI), in collaboration with the National American Indian Housing Council (NAIHC), highlight the extent of the problem and demonstrates the negative impacts of predatory lending in Indian Country.

Through the NACA Program, the CDFI Fund supports Native CDFIs to ensure that they are stable, independent financial institutions that offer loan products and development services to meet the needs and demands of their Native communities. As alternatives to predatory lending practices, Native CDFIs generally make lower interest consumer loans available to community members so as to increase the consumer's experience with low

cost lending products which, in turn, decreases the demand for short-term and unaffordable consumer credit. Native CDFIs also provide development services, such as credit counseling and financial education, offer personalized technical assistance to help borrowers avoid unsustainable credit practices, and provide credit repair and asset-building programs.

The CDFI Fund collects institutional data from CDFIs that receive its funding. Through our data collection system, known as the Community Investment Impact System (CIIS), we see evidence that CDFIs provide services as a preventive measure to predatory lending. For example, data from 2003 to 2006 demonstrates that 81 percent (76 of 94 responses) of the funding recipients serving Native communities offered financial education; 66 percent (62 of 94) offered credit counseling services. In total, 4,423 Native clients received either financial education or credit counseling services. This evidence clearly shows that Native CDFIs are offering services to prevent predatory lending in their communities.

Under our NACA Program, the CDFI Fund has a unique funding application consisting of a comprehensive business plan that requires detailed analysis of the market and business strategy for each applicant, including narratives of its financial products and services. Recent funding rounds of the NACA Program have demonstrated that many applicants seek funding to offer affordable financial products and services as an alternative to payday loan shops located in or near their communities that provide short-term consumer loans with high rates and fees. Many predatory loans have annual percentage rates of upwards to 400 percent, while Native CDFIs are developing short-term consumer products with rates between 15 percent and 18 percent.

Native CDFIs are also offering credit repair loan programs, payroll advance programs and low-cost credit programs. Recently, Native CDFIs have also started offering services in tax preparation and established Volunteer Income Tax Assistance (VITA) sites. VITA sites provide free tax preparation assistance to help low income consumers avoid costly Refund Anticipation Loans (RALs) and fees often associated with paid tax preparation services. The volunteer tax preparers also help qualified families capture the millions of unclaimed tax credits available under the Earned Income Tax Credit (EITC).

I would like to share with the Committee a few specific examples of how Native CDFIs are successfully developing innovative products and services that combat predatory lending and promote financial education.

1. Turtle Mountain CDFI, located in north central North Dakota, serves the Turtle Mountain Band of Chippewa. The community suffers from an unemployment rate of 65 percent among the 16,500 enrolled members living on or near the reservation. A diverse group of partners, including the Tribal Council, Pathways to Prosperity, the Tribal high school, and housing authority came together to create the Turtle Mountain CDFI in 21 short months. With only two full-time staff Turtle Mountain CDFI is providing financial counseling, homebuyer education, and loan packages to residents that otherwise could fall victim to

- predatory lenders. Turtle Mountain CDFI has received two NACA awards for a total of \$268,000.
2. Four Bands Community Fund is a 501(c)(3) nonprofit corporation serving the residents of the Cheyenne River Reservation in rural western South Dakota. The Cheyenne River Reservation has a land area approximately the size of Connecticut with some of the highest poverty figures in the nation. Four Bands offers micro-loans and small business loans; in addition, the organization has recently started a credit enhancement loan of up to \$2,500 to help a person repair his/her credit history. In addition, Four Bands offers several financial education courses every year, and offers an Individual Development Account program designed to help people learn the savings habit and build assets. Four Bands has received a significant amount of funding from the CDFI Fund – approximately \$1.3 million in multiple awards.
  3. The Northern Shores Loan Fund (NSLF) is an emerging Native CDFI located in Harbor Springs, Michigan. The NSLF serves Tribal members of the Little Traverse Bay Bands of Odawa Indians and provides loans in the three-county area surrounding the Tribal headquarters. NSLF offers a range of loan products and developmental services. NSLF provides three types of business loans: micro loans, small business loans, and Tribal corporation loans. Its target audience is Tribal members within the traditional service area, but it is also interested in lending money to other Tribes and other Native American individuals nationwide. NSLF plans to work with the Tribe's housing and education departments to offer financial education and to develop a partnership with the local community college. It also has a relationship with a local non-Native CDFI and plans to partner with it to offer some services. NSLF has received \$258,991 from the CDFI Fund – through the Little Traverse Bay Bands of Odawa Indians, its fiscal sponsor. It was awarded a NACA grant in 2005, and another in 2007.
  4. The Lac Courte Oreilles Federal Credit Union (LCOFCU) in Hayward, Wisconsin has developed the “GOOD” loan, which is an acronym for “Get Out Of Debt.” LCOFCU staff reported in a Fund-sponsored study (to be completed later this year) that the purpose of this product is to provide an alternative to payday loans, which charge very high annual interest rates. LCOFCU has received a single 2002 CDFI Fund technical assistance award which it used to hire a consultant to help develop loan policies and collection policies and in-house policies for working with low-income clients.

### **Expanding Native Opportunities**

“Expanding Native Opportunities” is a training initiative that focuses on increasing the number of Native CDFIs, strengthening the operational capacity of existing Native CDFIs, and guiding Native CDFIs in the creation of important financial education and asset-building programs for their communities. These programs are fully funded by the

CDFI Fund and administered by contractors that are selected through a competitive bidding process.

1. Native Communities Financing Initiative (NCFI): The CDFI Fund contracts for the provision of training and technical assistance to Tribes, Tribal programs, Native nonprofits and community development practitioners interested in developing Native CDFIs through the NCFI. NCFI is an intensive series of workshops and follow-up technical assistance conducted over a 12-month period to help Native Communities develop and expand Native CDFIs. Since 2003, nearly 235 Native Communities and organizations have participated in NCFI workshops. The CDFI Fund has expanded the training to provide technical assistance to existing Native CDFIs and launched a new Native Credit Union development program.
2. Native Financial Skills and Enterprise Initiatives (NFSEI): In 2007, the CDFI Fund awarded the NFSEI contract. The contractor provides training and technical assistance in two activity areas: financial education and entrepreneurship development. The financial education activity focuses the training of trainers in the Building Native Communities financial education curriculum and related tools such as the Earned Income Tax Credit, Individual Development Accounts, and integrated asset building programs. The entrepreneurship activity focuses on entrepreneurship development systems, curricula integration and program development at the local level.
3. Native Individual Development Account Initiative (NIDAI): Training and technical assistance is available to Native CDFIs and like organizations to create and administer Individual Development Account (IDA) programs. Preparation for IDA program practitioners is provided through three-day training sessions designed to help Native CDFIs, Tribes, or other Native organizations start, implement, and sustain IDA programs in their communities. During the training sessions, participants are guided toward developing plans customized to their communities; after participation in the training institute, they are offered technical assistance in local program start-up and implementation.

The Expanding Native Opportunities training series has seen a strong increase in demand within Native communities. Essentially, NCFI is a “nuts and bolts” development and implementation training on how to build a Native CDFI. The NFSEI effort also trains CDFIs on how to build a financial education program in a Native community. These training efforts offer technical assistance from professional community development practitioners with experience in Indian Country, which program evaluation has shown to be the most important aspect of the series. Since 2003, 75 different organizations have participated in the NCFI program and 30 have are emerging Native CDFIs. Twelve organizations have achieved the CDFI Fund’s certification status. The NFSEI program has had 254 participants from 112 organizations; 40 financial education programs in Native communities are up and running today.

## **FY 2008 Award Round**

Congress appropriated \$8 million for the CDFI Fund's Native activities in FY 2008. For the FY 2008 award round, the CDFI Fund received 45 applications requesting over \$17 million from certified Native CDFIs, emerging Native CDFIs, and Sponsoring Entities. Sponsoring Entities are organizations, typically Tribes or Tribal Housing Authorities, seeking to create a Native CDFI in their community. I am pleased to notify the Committee that we expect to announce the FY 2008 awardees by the end of the month.

The success of the NACA Program and training series makes our continued involvement critical to the institutional development and capacity building of Native CDFIs. The CDFI Fund plans to continue supporting the nationwide growth of Native CDFIs through its funding program and training series. While there has been much success in the CDFI Fund's Native Initiatives, we recognize that barriers to credit and capital still exist in Indian Country. As I mentioned earlier, the Native American Lending Study identified 17 barriers in 2001. We have made progress, but further efforts to address barriers still exist. The CDFI Fund is open to working with the Committee and Congress on what role, if any, we should play in helping Native communities overcome these barriers.

## **Conclusion**

Mr. Chairman, thank you for holding this important hearing and for allowing the Treasury Department to testify. I look forward to working with the Committee and its staff to further address the prevalence of predatory lending in Indian Country. Thank you.