

# New Report Says Predatory Lenders Target Native American Communities



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**Press Release Summary:** Longmont, Colorado-Tax day is almost here, and to many people that means one thing: time to take out a Refund Anticipation Loan. This time of year, signs announcing "Tax Refund Loans" and other services are popping up on storefronts all over the country. Unfortunately, these Rapid Anticipation Loans often charge unnecessarily high fees for people to access their tax return. These types of loans, as well as payday loans, are often referred to as "predatory lending." Predatory loans charge inappropriately high interest rates, excessive fees, or have terms designed to unfairly trap the borrower.

Press Release Body:

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**New Report Says Predatory Lenders Target Native American Communities**

March 14, 2008

Longmont, Colorado-Tax day is almost here, and to many people that means one thing: time to take out a Refund Anticipation Loan. This time of year, signs announcing "Tax Refund Loans" and other services are popping up on storefronts all over the country. Unfortunately, these Rapid Anticipation Loans often charge unnecessarily high fees for people to access their tax return. These types of loans, as well as payday loans, are often referred to as "**predatory lending.**" Predatory loans charge inappropriately high interest rates, excessive fees, or have terms designed to unfairly trap the borrower.

Today **First Nations Development Institute (First Nations)** announced the release of "**Borrowing Trouble: Predatory Lending in Native American Communities,**" a report detailing the predatory practices of lenders that target **Native American communities**. This landmark report is the result of a research study conducted by **First Nations** under a grant funded by the **Anne E. Casey Foundation**. The report details the practices of lenders targeting 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 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.

Perhaps one of the most revealing findings of the research study is the significant degree of regional clustering of non-bank payday lenders.

"Payday" loans are small, short-term loans with APR interest rates as high as 300% for a one-week loan. A borrower may pay 20% of the 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%. Research data from the **First Nations Development Institute** study reveals a regional concentration of payday lenders near Native American communities. In fact, 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 valuable 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' decisions to make 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.

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](mailto:sdewees@firstnations.org); or visit First Nations Development Institute's website at [www.firstnations.org](http://www.firstnations.org) to download a copy of the paper.**

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