Spread the Wealth: What's Old is New

Credit Builders Alliance (CBA) will partner with Citizen Potawatomi Community Development Corporation (CPCDC) and Native Community Finance (NCF) for the FY 2016 CDFI Prize Competition. CBA's alliance with two Native CDFI organizations, who serve populations that are financially marginalized, aligns with CBA's mission of moving people from poverty to prosperity.

Our submission is the opposite of "The Next Best Thing." Instead we posit the alternative that "What's Old is New." This proposal is driven by the conviction and evidence that innovative lending solutions already exist in the marketplace. The challenge however is to share best practices among resource limited CDFIs. If successful and creative lending models exist but they remain confined to the lender who originated the product, they lose out on the potential to replicate and spread throughout the marketplace.

CBA's unique position as an alliance of almost 500 non-profits gives it the ability to gather data about the products and services of its lender members. Once collected, this data can be analyzed to determine which loan products are fulfilling which needs and to answer the question, "how many are doing it in a truly effective way."

The premise of this proposal is to have CBA function as a clearinghouse and Citizen Potawatomi Community Development Corporation and Native Community Finance as the distribution channel. This alignment between CBA's members and CBA as the intermediary entity, will ensure that the best products reach the borrowers in need.

The Problems Creating Barriers

There are many barriers to accessing capital among Native Americans. This list points out some of the most prevalent:

- Prohibitively high interest rates on loans
- A general unwillingness of Financial institutions to lend to reservation based applicants
- Inflexible bank rules and regulations
- Borrowers' poor credit histories
- The inadmissibility of trust land as collateral
- A lack of financial institutions on or near Native lands
- Native Americans' limited experience with the financial world
- Lenders' and investors' failure to understand tribal government or legal systems
- The historical absence of trust between tribes and banks
- Discrimination against and stereotyping of Native Community members

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To delve more deeply into a few of the barriers: first; because of lack of trust between financial institutions and tribes, Native American populations have had restricted access to loans. In turn, without a financial instrument that can help to build credit, the population's credit score is significantly lower than the national average. These resultant low credit scores have made financial institutions assume there is greater risk, and in turn, these financial institutions only offer high interest loans to this population. The end result is a lowered demand and decreased capacity to borrow capital.

Additionally, inflexible bank rules and regulations also contribute to the lack of capital access. One such example is how Native Americans' trust land cannot be permitted as collateral on loans. Finally, the overall discrimination and stereotype of Native Americans has created a culture which has limited the supply of capital to this population. Although Native Americans want and need capital to fund their communities' businesses and entrepreneurial ventures, they are not receiving it as prevalently as the general US population.

The Need for Investment Capital

The following list illustrates some of the major factors underlying the depth of need for investment capital. Native Americans living on reservations are:

- Extremely less likely to have a college degree
- Have less than half the per capita income
- Participate less in the labor force
- Have living spaces that are overcrowded
- Have MUCH HIGHER UNEMPLOYMENT
- Have MUCH HIGHER FAMILY POVERTY
- Almost a fifth of the on-reservation Native American population lived on reservations where per capita income shrank by more in the 2000s than it did for the US as a whole

The statistics confirm that Native Americans are economically suffering across the United States. This population receives less than half the per capita income of the US population, has higher levels of unemployment, and has extremely high levels of family poverty. On its current trajectory, it will take almost 38 years for the Native American population to reach the same average per capita income as the general US population. This is partly due to the fact that Native Americans own fewer businesses than their expected proportion, given their percent of the total US population.

The amount of capital investment Native Americans receive for businesses is not at the same levels as the US population. For example, 52% of Native Americans start businesses with less than $5,000 in capital, and overall they receive significantly less capital investment per business loan than their white counterparts. Essentially, Native American populations need capital to address these disparate economic realities. CBA's partner organizations, for this competition, deal with these barriers to capital and difficult economic situations on a daily basis.

Intermediary Partner

1. ***Credit Builders Alliance* (CBA)**

Credit Builders Alliance was founded for and by nonprofit lenders – including CDFI nonprofit loan funds - to fill a critical gap in the delivery of financial products – the ability to help consumers and entrepreneurs build a credit history. The credit report is an individual's financial resume. It is a collection of behavioral indicators widely recognized by the mainstream financial system (i.e. credit utilization rates, payment behavior, etc.), which are used to track and predict behavior and influence access to safe and affordable mainstream financial products. Credit scores, as aggregate measures of financial behavior, are used to define the cost and access to capital and other services (rental housing/space, insurance, wireless, merchant services, utilities, etc.).

Unfortunately, for many of the 64 million Americans with no or thin credit files, the ability to establish a good credit history is hampered by lack of access to affordable mainstream credit building financial products. A disproportionately large number of these individuals are low-income and many live in areas underserved by traditional financial institutions. They depend on predatory financial service providers who do not report their borrowers' on-time payments to the credit bureaus.

Thus, many of these low-income households find themselves trapped in a vicious credit cycle: the use of predatory financial products prevents them from building good credit and their impaired or nonexistent credit furthers their ongoing dependence on asset stripping alternative financial products. Quite simply, credit invisibility means fewer economic opportunities for these consumers, when, in fact, low- and moderate-income individuals – including entrepreneurs – and families need more financial options not less.

That is why CBA's one-of-a-kind arrangement with the three major credit bureaus is so important. It has created an opportunity for nonprofits and other mission-driven lenders to report their loan portfolios. Only through CBA can most small- and mid-sized nonprofit and municipal lenders report loan repayments to the major consumer credit bureaus, pull credit reports and purchase credit scores for financial coaching and client credit outcome tracking. Prior to CBA, most CDFI loan funds were not able to report directly to the credit bureaus because of threshold barriers (required portfolio size) and staff capacity concerns held by the bureaus.

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Since CBA's founding in 2006, CBA has transformed nonprofit and municipal lending practices and significantly built the capacity of hundreds of such lenders to report their clients' loan payment history to the bureaus. This has resulted in better loan payment behavior by and increased credit scores for consumers and entrepreneurs as well as improved loan portfolio quality for the lenders.

CBA provides technical assistance and capacity building to nonprofit CDFI nonprofit loan funds to enhance (1) data flow between CDFI nonprofit loan funds and the major credit bureaus, both to provide loan repayment data and also to access credit report data from the bureaus; (2) financial education strategies and tools around asset-based credit building for clients; and (3) understanding of the changing credit economy and the impact on the work of CDFI nonprofit loan funds to offer effective strategies for low- and very low-income individuals and entrepreneurs to achieve and sustain their financial and/or business goals. CBA's work adds significant value to the role of CDFI nonprofit loan funds helping underbanked entrepreneurs enter the economic mainstream.

Currently CBA enables 181 nonprofit lenders to report approximately 36,000 trade lines every month, totaling $1.12 billion in credit extended to their microenterprise, small business, and consumer loan borrowers' to the major credit bureaus: Experian, TransUnion, Equifax, Experian Business and Dun & Bradstreet.

Practitioner CDFI Partners

Both partner organizations serve areas with large Native American populations. Citizen Potawatomi is located in Potawatomi County, Oklahoma and Native Community Finance is located in Cibola County, New Mexico. Both counties are highly affected by lack of access to capital and they have limited economic opportunities. Additionally, both counties are considered areas of persistent poverty (where no less than 85% of the county is defined as having persistent poverty). Disturbingly, Cibola County has a poverty rate that is almost double that of the US average.

Each county has a lower labor force participation than the US average and has also had increasing unemployment, even when the US overall unemployment rate has seen a decrease. Median household incomes are much lower than the US average with Native Community Finance serving a population that only makes 68% of the US average. In addition, lack of access to capital has not allowed many Native Americans to go to college. This has resulted in both counties having between 1/3 and ½ the rate of college graduates compared to the US in general.

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2. ***Citizen Potawatomi Community Development Corporation* (CPCDC)**

Established in 2003, the Citizen Potawatomi Community Development Corporation (CPCDC) provides financial products and counseling services to the Citizen Potawatomi Nation members and employees nationwide as well as Native American owned-businesses throughout Oklahoma. They offer a wide variety of financial products and services to meet the needs of small business owners.

To date, CPCDC has made 251 commercial loans totaling nearly $36 million and 3151 short term consumer loans worth $ 4.5 million.

Citizen Potawatomi (CPCDC) offers the following programs:

- Business Development Services
- Financial Education and Credit Counseling
- Asset Builders Matched Savings Program
- Commercial Loan Program
- Tornado Shelter Loans
- Child Savings Accounts

3. ***Native Community Finance Native Community Finance* (NCF)**

Native Community Finance (NCF) is a new Native Community Development Financial Institution (CDFI) that is certified through the US Treasury Department's CDFI Fund.

NCF provides financial education, community oriented affordable loans, VITA/TCE tax site, IDA program, and mortgage assistance services. NCF is one of only three certified Native Community Development Financial Institutions in New Mexico.

NCF offers the following:

- A variety of loan products
- Budgeting classes
- Investor education seminars
- One-on-one financial counseling
- Gas access assistance program

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Innovative Idea

CBA believes that in addition to the financial inclusion field's focus on "new" financial products, there are many existing products that have a proven track record. These tried and true products have the potential to be replicated if an umbrella organization took the lead. Currently there has been limited information sharing between non-profit lenders and CBA feels it is perfectly positioned as an intermediary to assume this role.

Thanks to a 2016 grant from MetLife Foundation, Credit Builders Alliance (CBA) is in the midst of a survey to scan its membership and collect robust data about their products, services and their clients. One of the data points concerns the diversity of loan products being offered. Upon the survey's conclusion, CBA will be in possession of a comprehensive list of the specific types of loan products that comprise CBA members' loan portfolios.

Following the scan, CBA would identify up to five innovative product types that effectively meet consumer and small business owners' needs. Selection criteria would also be biased towards those products that demonstrate strong potential for broader replication. In order to encourage "best practices," those products that are successful (i.e. low default/loan loss rates, high impact, etc.) would be among those singled out for inclusion in the final list.

CBA will then work with CPCDC and NCF to select a product or products from the final list to add to their current portfolios. CBA will provide the technical assistance to support the integration, which would include everything from the identification of the appropriate product to the staff training, marketing plan and ultimate product launch.

The successful integration of a new product/s into their portfolios will rely not only on the technical assistance provided by CBA but also on the ability to have a stream of capital to lend in addition to loan loss reserve funding. The CDFI Fund prize competition would enable both important facets to be supported. In order to increase the impact, the CDFI partners would work with CBA to leverage CDFI Fund capital through the addition of private or public capital.

Throughout this process, CBA aims to facilitate greater information-sharing across its membership and promote the proliferation of best practices and products. The initial partnership with CPCDC and NCF would be studied in order to learn from the process about what worked and what didn't. The Native CDFI Network (NCN) is the natural next partner to recruit upon the successful pilot with CPCDC and NCF. The Executive Director of NCF serves on the NCN's Board and has an interest in extending this model throughout the NCN network. The intent for CBA is to continue in the role of intermediary with the proliferation of the best products that CBA's members have to offer.

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Strategy

The initiative will proceed along the three phases outlined below:

Initial Network Scan (Currently underway – August 2016)

- CBA is currently surveying its membership to catalog and collect information on the various types of loans being offered to its members (an initial list of known product types is included in the next section). This work is being conducted by CBA staff and is expected to conclude by the end of August 2016.

Data Analysis (September – December 2016)

- CBA will assess the data collected in the initial survey with the goal of identifying and better understanding products with high-potential for replication across the CBA network of non-profit lenders.
- Select products with the potential for replication.
- Conduct a deeper analysis of selected products:
  - Research alignment with consumer needs to assess demand and impact potential.
  - Conduct a broader market scan to identify similar products being offered outside of the CBA membership.
  - Conduct interviews with CBA members offering the products to identify best practices and challenges.
- Survey CBA membership to gauge interest in the approximately five (5) identified products with the goal of deciding which to replicate.

Toolkit and onboarding (January 2017 – December 2017)

- Develop a "toolkit" for each product that includes the strategy behind the product, best practices for distribution, recommended product features, an economic model, and a list of resources for further advice.
- Assist CPCDC and NCF in every phase of the implementation of the product/s.
- Analyze capital needs and work to increase CDFI investments to match the need.
- Gather data regarding product outcomes (i.e. launch date, number of borrowers served, default rates, etc.)
- Create an infographic/brief to share results of the analysis and highlight products selected for replication.
- Conduct webinar to share survey data and recruit additional members to roll-out selected products in 2017.

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Loan Type Examples

The preliminary results of CBA's data collection have uncovered lending products that have been created to serve very specific needs. This list illustrates some of these innovative loans:

1. Assistive Technology Loans
2. Coaching Loans (financing costs for financial coaching sessions)
3. Credit Builder Loans
4. Debt Consolidation Loans
5. Deferred Action for Childhood Arrival Loans
6. Domestic Violence Emergency Loans
7. Education Loans
8. Tornado Shelter Loans
9. Energy Efficiency Loans
10. Mortgage/ Housing Loans
    a. Down payment assistance loan
    b. Second mortgage
    c. Rent Security deposit loan
    d. Home improvement loan
11. Naturalization Loans
12. Payday Loan Alternative
13. Secured Credit Card Deposit Loans
14. Secured Loans
15. Small Business Loans
    a. SBA 7A loan
    b. SBA 504 loan
    c. Business line of credit
16. Social Loans (i.e. Lending Circles, Kiva Zip)
17. Vehicle Loans
18. Bail Loans

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Taking the Idea to Scale

The beauty of this proposed idea is that it can easily be replicated throughout CBA's network. The learnings from the process, starting with the selection of the product to the actual implementation, will be honed and revised based on the experience of the pilot program. Variables will be measured to determine the outcome of the integration of these loan products (i.e. default rates, late payment rates, client credit score changes, qualification for additional loans).

The very specific types of loans that have been created by CBA's members to address specific needs can be adopted by other CBA members whose clients have similar needs. For example, in parts of the country where high rental costs are resulting in people living in motels since they can't afford the first and last month rent deposit, the apartment down payment deposit loan would be very popular. In other areas where many people interact with the judicial system, bail loans would be very popular, that would allow people to stay out of jail instead of remaining incarcerated due to lack of bail money.

The role of CBA as the conduit for identifying and designing the implementation tools for the loan products allows it to help its members mix and match among the various products already in existence. Therefore, the trial and error method would be supplanted by tried and true products. Furthermore, the amount of unrecovered loan fund capital would be reduced through the offering of sustainable products.

Investors would be attracted to this model since it would be driven by a successful formula. Although **new** ideas are sexy, **old** ideas can also be very attractive if they have been proven to ensure strong returns on investment.

The ultimate goal is to replicate the integration of the most successful products throughout the CBA/ CDFI network. In essence, a movement to "spread the wealth" in more ways than one.