



Native Financial Education Coalition Policy Brief

April 2006

The diverse Native communities in the United States are generally among the nation's poorest communities. Many American Indians, Alaska Natives, and Native Hawaiian people experience severe poverty and the resultant dependence on public assistance. From reports in the national media, the average American might assume that Indian gaming has 'solved' the multi-generational challenges of poverty in Native communities. However, gaming has been a boon to only a small number of tribes and, like many communities of color, Native people regardless of income (even if their governments own profitable enterprises) are often 'asset poor' and lack the basic resources to protect their financial future.

This policy brief highlights the critical role that financial education plays in the future of Native America and the prosperity of the country as a whole. Through focusing on the following five policy priorities and related recommendations, the federal government can partner with Native communities to lay a lasting foundation for the future prosperity of rural communities across the United States.

POLICY PRIORITY 1: Funding and Access for Institutions to Deliver Financial Education Services

Most Native communities lack the nonprofit infrastructure that delivers the financial education services taken for granted in non-Native communities. The absence of mainstream financial services in our communities adds to the challenges associated with developing financial management skills. In spite of these barriers, Native Community Development Financial Institutions (NCDIFs), Indian housing authorities, tribal departments, and other organizations have begun to step into the breach and develop effective financial education programs.

Recommendations

- #1 Increase funding for the CDFI Fund at the U.S. Department of the Treasury and increase the Native set-aside to support the important role of NCDIFs in delivering basic financial services and financial education in Native communities.
- #2 Acknowledge the 'quasi-501(c)3' role played by Native nonprofits, housing authorities and tribal agencies by amending federal law and regulations to allow access to federal funds that are currently used by non-Native 501(c)3 organizations.

POLICY PRIORITY 2: Youth Financial Education

Native children face similar challenges associated with low rates of financial literacy that exist for young people as a whole, regardless of income, race, or other socioeconomic characteristics. Youth is also a rapidly growing segment of the Native population that is vulnerable to the challenges of poverty but offers a unique opportunity to invest in a financially secure future for Native America. Research has shown that investments in youth financial education are likely to carry through into adulthood and that mandatory financial literacy classes result in youth who are more knowledgeable and confident in their money management skills and demonstrate higher savings rates and net worth as a percentage of income.

Recommendations

- #1 Support vehicles, like Children's Savings Accounts, that encourage young people to develop financial skills and save for durable assets.
- #2 Provide adequate funding for schools and other programs to develop and implement youth financial education that is culturally appropriate and effective in imparting pertinent financial management lessons.



POLICY PRIORITY 3: Individual Development Accounts (IDAs)

Individual Development Accounts (IDAs) are matched savings vehicles that have already helped hundreds of Native people to gain financial management skills and save for and purchase assets, such as a home, small business, and post-secondary education. IDAs are a proven model that lacks adequate funding. Additionally, the only dedicated federal funding source, the Assets For Independence (AFI) program, explicitly denies access to tribal governments, unless tribes partner with nonprofits.

Recommendations

- #1 Amend federal law to allow and encourage both tribal government agencies and Native nonprofit organizations to apply directly for IDA funding, and directly deliver IDA programs to Native communities.
- #2 Follow the lead of other successful federal and state asset-building policies by creating a Native set-aside in AFI, or other appropriate federal program, to more effectively serve the needs of Native communities.



POLICY PRIORITY 4: Predatory Lending

The geographic remoteness and cultural uniqueness of many Native communities mean Native people are often unprepared to deal with predatory lending practices. Research by several Native and non-Native research centers has shown Native people to be among the most vulnerable populations when it comes to predatory mortgage lending, payday lending, and predatory tax preparers. Predatory lending in towns adjacent to Native communities raises jurisdictional issues that require strong federal legislation that still allows tribes to work with states in formulating locally appropriate regulations.

Recommendations

- #1 Enact strong anti-predatory lending legislation that protects all borrowers but allows tribal and state jurisdictions to regulate practices that specifically threaten their communities.
- #2 Support comprehensive financial education programs so Native people receive adequate information to avoid predatory lending practices.



POLICY PRIORITY 5: Earned Income Tax Credit (EITC) and Free Tax Preparation Programs

The EITC, a federal income tax credit that benefits low-income workers, can reduce the amount of tax an eligible individual owes and may be returned in the form of a refund. It has been an effective tool in assisting families out of poverty, paying debts, and seeding savings, by offering a 'teachable moment' for individuals to access financial education. Unfortunately, many Native families and individuals do not claim the EITC because they do not know about it. And, if they do claim it, they are more than twice as likely as the general population to use a paid, commercial tax preparation company. Many of these companies charge inflated fees and offer high-interest rapid refunds called Refund Anticipation Loans (RALs), resulting in a significant reduction in the amount of the refund received by the taxpayer.

Recommendations

- #1 Give funding priority to support Native EITC awareness campaigns and free tax preparation programs such as Volunteer Income Tax Assistance, Low-Income Tax Clinics, and Tax-Counseling for the Elderly.
- #2 Enact legislation to provide consumer protections against the practice of issuing high-cost RALs.



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