



Native Financial Education Coalition Policy Recommendations

April 2008

The Native Financial Education Coalition (NFEC) is a group of local, regional, and national organizations and government agencies working together to achieve its common goal of promoting financial education in Native communities. To commemorate April as Financial Literacy Month, NFEC is pleased to present these policy recommendations to federal, tribal, and state officials.

Financial education and other asset building initiatives are important economic vehicles for moving Native communities away from a cycle of poverty and dependence, and toward economic well-being. By focusing on these policy priorities, federal and state governments can work with tribal governments to partner with Native communities to lay a lasting foundation for greater prosperity in diverse communities across the United States.

The NFEC has identified the following five areas where intervention is needed at the federal, state, and tribal governmental levels to promote and support financial education as the foundation for other asset-building initiatives in Native communities:

1. *Expanding Financial Education Opportunities*
2. *Combating Predatory Lending*
3. *Improving Institutional Infrastructure*
4. *Increasing Access to EITC*
5. *Promoting and Expanding IDA Utilization*

POLICY PRIORITY 1: Expanding Financial Education Opportunities

Native communities have unique needs and challenges building wealth. Increased financial education opportunities can help to move Native communities toward self-sufficiency and financial health. These communities often lack access to traditional banking services which makes both accessing and utilizing financial education opportunities even more difficult. This lack of access to mainstream financial institutions creates a particular vulnerability to predatory lenders.

Because national studies reveal low financial literacy levels of Native youth, financial education efforts targeting young consumers are especially critical. NFEC's analysis of the Jump\$tart Coalition for Personal Financial Literacy data from its bi-annual national survey of public high school seniors illustrates that while many high school seniors (regardless of race) lack strong financial skills, Native students are consistently at the back of the pack. Native youth score at or near the bottom on every national survey metric, indicating that they are less prepared to make informed financial decisions in comparison to their peers in other racial and ethnic groups. Lack of opportunities for personal financial skill building is likely the main cause for these distressing statistics.

More about Native Communities

- American Indian, Alaskan Native and Native Hawaiian people reside in communities that include rural, urban, reservation-based settings and tribal statistical areas.
- There are approximately 560 federally recognized tribes which operate as sovereign nations within the United States. There are also many tribes with state recognition.
- Of the 4.3 million Native people in the U.S., approximately 50 percent live in urban or suburban areas.
- Indian gaming has been a boon to only a modest number of tribes, leaving many Native people "asset poor" without basic resources to protect their financial futures.

Recommendations

- Congress should require that every child in grades K-12 be taught financial education and be tested on the results. Congress should appropriate the funds necessary to assist states in implementing this mandate.
- State and tribal governments should implement classroom and community-based youth financial education that is effective in imparting financial management lessons pertinent to social situations in diverse communities.
- Tribal governments should support local financial education coalitions to collaborate on strategies to expand financial education opportunities for tribal members. Coalitions may include housing and economic development departments, workforce development agencies, Temporary Assistance for Needy Families (TANF) offices, K-12 schools, tribal colleges and universities, Native Community Development Financial Institutions (CDFIs), youth programs and Urban Indian Centers.



- The federal government should provide guidance for allowing state and tribal agencies to coordinate services for the purpose of increasing financial education opportunities, such as approving participation in financial education courses as an approved TANF work activity.

POLICY PRIORITY 2: Combating Predatory Lending

Predatory lending in Native communities is a common and detrimental practice. Though it has only recently received national focus in relation to the subprime lending and credit crisis, combating subprime lending practices is a long-standing challenge for Native communities. Given the lack of banks, credit unions, and alternative lending institutions in and around Native lands, national research conducted by First Nations Development Institute on predatory lending demonstrates that Native communities are prime targets for the promotion of predatory lending vehicles such as high interest loans against tax refunds, payday loans, pawn shop transactions, car title loans, and mortgage loans with unreasonable fees or interest rates.



The research also revealed the negative financial and social impacts of predatory lending on Native individuals, families, and communities. Financial impacts include downward spirals into debt and credit issues through excessive use of predatory financial products; social impacts include stress on marriages and family life. This study suggests that many Native people rely on predatory lending sources because they have little access to, or experience with, reputable financial institutions, and lack the basic financial knowledge needed to make sound financial decisions.



Recommendations

- Congress should enact strong anti-predatory lending and consumer protection legislation that protects all borrowers while allowing tribal and state jurisdictions to regulate specific practices that threaten the financial and general well-being of their communities. These protections should include setting interest rate caps and limiting the number of short-term loans to individual customers over a specified period of time.
- Tribal and state governments should collaborate to establish policy agendas that combat all types of predatory lending, particularly those that affect Native communities, including Indian reservations and border communities.
- Native communities should create and support Native Community Development Financial Institutions or other organizations that offer credit counseling, credit repair, and debt reduction activities. These institutions provide financial education about alternatives to predatory businesses, which includes free tax preparation sites and affordable loan products.



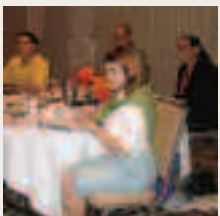
POLICY PRIORITY 3: Improving Institutional Infrastructure

Financial education combined with greater access to reputable lending alternatives is integral to the long-term prosperity of Native communities and future success of asset building initiatives. The absence of mainstream financial services in Native communities has created a strong need for locally developed and controlled Native financial institutions to combat the negative impacts of predatory lending and an overall financial knowledge gap. Native Community Development Financial Institutions (NCDFI) are a driving force with proven success in Native communities. Native CDFIs are places where Native people can obtain financial education services and gain access to reputable lending services. These types of Native owned and controlled initiatives stimulate communities and create an environment where individuals have access and opportunity to even greater asset building opportunities such as investments, home-ownership, entrepreneurship, and small business development.



Recommendations

- Congress should appropriate \$10 million for the U.S. Treasury Department's CDFI Fund Native Initiative to assist in developing institutions for Native communities that are economically appropriate – including loan funds, credit unions, banks, and venture capital funds.
- Congress should appropriate \$5 million specifically designated for rural and Native communities in Section 4 of the Housing and Urban Development (HUD) Demonstration Act of 1993, which is seed capital for nonprofit community development organizations to expand their capacity to provide financial education services.



POLICY PRIORITY 4: Increasing Access to EITC

The Earned Income Tax Credit (EITC) is the largest anti-poverty initiative in the nation. The receipt of the EITC can be an opportunity to teach financial education concepts and create opportunities for savings. A report by the Annie E. Casey Foundation suggests that the EITC moves over 2.5 million children above the poverty line each year, more than any other federal program. Many states also offer benefits programs similar to the federal EITC. Researchers suggest that for every additional dollar received by low and moderate income families through an EITC refund, there is a multiplier effect of between 1.5 to 2 times the amount of the dollars received—this positively impacts the community as a whole.

However, despite the potential impact of this important program, the IRS estimates that as much as \$8 billion is left unclaimed annually. Many families that do claim the EITC utilize commercial tax preparers which may charge high tax preparation fees and often urge families to purchase Refund Anticipation Loans (RALs) without fully explaining the high cost or other lower cost options. Native families face the risk of leaving EITC dollars unclaimed if they are unaware of the program. If they do know about the program and utilize it, they may be losing large portions of their benefits through high fees and interest rates charged by predatory preparers.

Free tax preparation programs such as Volunteer Income Tax Assistance (VITA), Low Income Tax Clinics (LITC), and Tax Counseling for the Elderly (TCE) provide alternatives to predatory commercial preparers which are so prevalent in or near Native communities. They also connect EITC recipients to financial education initiatives and reputable financial institutions.

Recommendations

- Congress should adequately fund the newly created VITA matching grant program administered by the Internal Revenue Service and ensure access by Native communities
- Congress and states should enact legislation that provides specific consumer protections against the commercial practice of encouraging and issuing high-cost RALs, which strip Native peoples of much-needed refunds.
- State governments should establish state EITC benefit programs that offer refundable credits and, like the state of Wisconsin, do not require declared income be tied to state income tax paid.
- Tribal governments and Native communities should create and support Volunteer Income Tax Assistance sites to assist Native people file their income taxes free of charge and avoid using high cost commercial preparers.

POLICY PRIORITY 5: Expanding IDA Utilization

Individual Development Accounts (IDA) are matched savings accounts that encourage financial education practices and establish saving and investment habits in low-income families, including Native families. Typically, these matched savings accounts are used for high development purposes such as homeownership, business development, higher education, and job training.

National IDA demonstration projects show that these accounts have many positive outcomes. However, IDA programs have been less prevalent in Native communities than other mainstream communities. Unfortunately, both federal and state IDA laws often exclude tribal governments from directly receiving IDA program funds and impose other program restrictions that essentially impede Native families and communities from taking advantage of this proven asset-building and financial education policy initiative.

Recommendations

- Congress should amend the Assets for Independence Act to (1) allow tribal governments and Native nonprofits to apply directly for IDA funding and (2) raise the income threshold for IDA participants.
- Federal and state governments should remove disincentives for saving by people receiving public benefits, such as TANF and food stamps. These disincentives include asset limits or tests imposed on public benefits programs.
- Tribal governments and Native communities should create matched savings programs, such as IDAs, children's savings, retirement, and college savings, adding tribal support to other resources available for funding these programs.

The Native Financial Education Coalition's recommendations include adaptations from the *Native American Economic Policy Report* (2007) developed by the Department of Interior and the National Congress of American Indians and *Borrowing Trouble: Predatory Lending in Native American Communities* (2008) published by First Nations Development Institute.

Native Financial Education Coalition

c/o Oweesta Corporation, 1010 Ninth Street, Suite 3, Rapid City, SD 57701
(605) 342-3770 • Fax (605) 342-3771 • www.nfec.info
