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BEYOND CONVENTIONAL MODELS: LENDING BY NATIVE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

ABSTRACT

Native Community Development Financial Institutions (Native CDFIs) have become an increasingly important source of credit and financial services in the areas on or near American Indian reservations in the United States. Guided by a conceptual framework developed on the basis of the related finance literature and drawing on loan-level data from eleven Native CDFI loan funds, we offer the first systematic quantitative analysis of lending in the Native CDFI industry. As hypothesized, Native CDFIs on average give out small loans but support borrowers in varied circumstances with diverse loan products. Important predictors of delinquency include both conventional, hard information-based, measures of client risk, and alternative, soft information-based, community-informed and character-based measures. Overall, these findings lend strong support to holistic approaches for assessing client creditworthiness for Native CDFI operations. More generally, our analysis contributes new insights into the operations of an industry that plays an instrumental role in removing barriers to socioeconomic development in Native communities.

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