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WHEN THE LENDER EXTENDS A HELPING HAND: NATIVE CDFI CLIENT COUNSELING AND LOAN PERFORMANCE IN INDIAN COUNTRY

ABSTRACT

Native Community Development Financial Institutions (NCDFIs) fill credit supply gaps and promote financial inclusion in Native communities. To mitigate lending risks and aid clients, NCDFIs often rely on unconventional lending practices such as providing clients with free financial counseling. Drawing on uniquely detailed consumer loan-level data of one prominent NCDFI, we empirically model the hazard of a loan turning into bad debt. Our analysis shows that borrower exposure to NCDFI-provided financial counseling appreciably reduces the prospects of consumer loan failure when the borrower has had limited prior credit-market experience. Personalized coaching is more effective than the relatively less client-tailored, classroom-style training. Our results have implications for the lending practices of creditors serving Native communities and beyond. More broadly, our findings are indicative of the importance of the growing, but understudied, NCDFI industry for financial development of Indian Country.

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