

JUNE 2020

CDFI AND PREDATORY LENDING REPORT

Community Development
Financial Institutions vs.
Predatory Lending in Buffalo, NY

Westminster
Economic
Development
Initiative



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BREAKDOWN OF CDFIS BY TYPE AND LOCATION

According to the U.S. Department of the Treasury, Community Development Financial Institutions, or CDFIs, "provide financial services in low-income communities and to people who lack access to financing" (1).

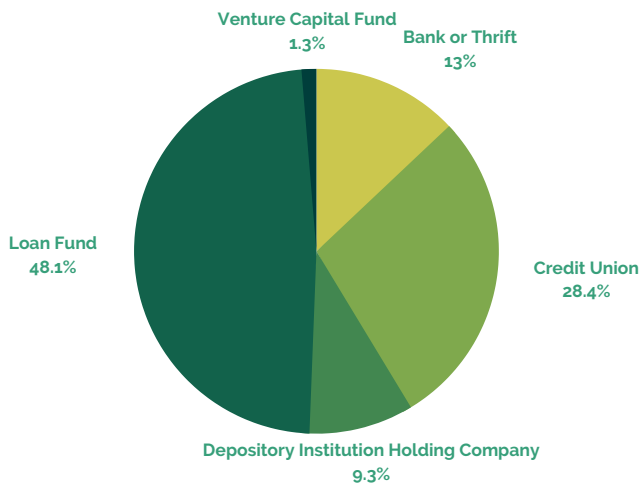
There are 5 types of CDFIs: Banks or Thrifts, Credit Unions, Depository Institution Holding Companies, Loan Funds, and Venture Capital Funds. Graph 1 below shows the numbers of certified CDFIs by type; Graph 2 shows the number of CDFIs in each city in New York for which data is available. 17 small towns, each with only 1 CDFI, were omitted for the sake of conciseness.

CDFI ECOSYSTEM DATA (1)

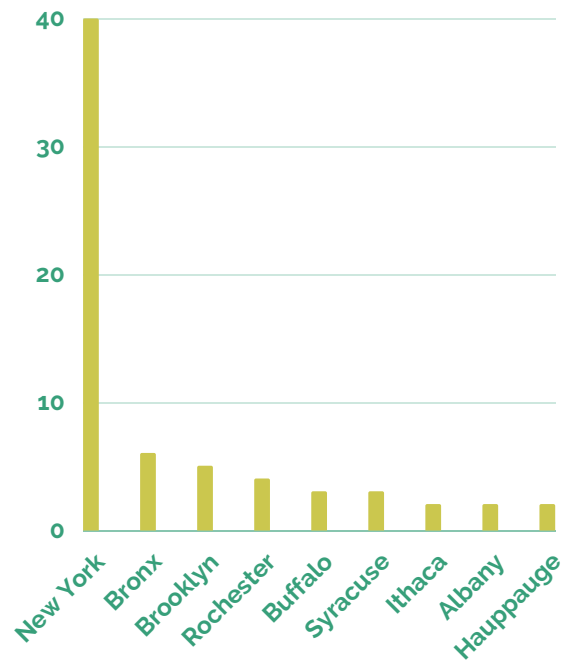
- 1,142 certified CDFIs nationwide
- 84 CDFIs in New York State, ALL of which are members of the New York State CDFI Coalition
- **Only 3 certified CDFIs in Buffalo**
 - Westminster Economic Development Initiative (Loan Fund)
 - Buffalo Cooperative Federal Credit Union (Credit Union)
 - Launch NY (Venture Capital Fund)

Analyzing the populations of several cities compared to their CDFI presence indicates that dense urban areas tend to have more CDFIs. For example, small towns like Albion (population 5,831) and Lakewood (population 2,779) have 1 CDFI each (1). However, there are exceptions; Long Island City also has only 1 CDFI despite a population of almost forty eight thousand people (1). Their higher average household income (2) compared to Albion (3) or Lakewood (4) indicate that income may also be correlated with CDFI presence.

GRAPH 1: CDFIS BY TYPE



GRAPH 2: GEOGRAPHIC BREAKDOWN OF NY CDFIS



(1) <https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx>
 (2) <https://www.pointzhomes.com/US/Neighborhood/NY/Queens/Long-Island-City-Demographics.html>
 (3) <https://worldpopulationreview.com/us-cities/albion-ny-population/>
 (4) <https://worldpopulationreview.com/us-cities/lakewood-ny-population/>

ANALYSIS OF BUFFALO:

Both WEDI (5) and the Buffalo Cooperative Credit Union (6) operate in Buffalo's West Side, a traditionally immigrant community and recent hub for the refugee population. Buffalo's 3rd CDFI, Launch NY, is a regional initiative that operates in the 27 westernmost counties of Upstate NY (7).

CDFIs serving Buffalo's West Side is not an accidental decision; years of systemic discrimination ensured that this region was underfunded and had access to fewer resources than wealthier areas in Buffalo. Figure 1 below is a redlining map indicating that one Buffalo bank avoided areas with > 50% African American populations, while Figure 2 shows that same bank still avoiding opening branches in predominantly black neighborhoods (8).

Years of redlining, banks' decisions on where to open branches, and other systemic factors all contribute to a **lack of access to traditional forms of capital** in these communities of color. CDFIs thus target these regions as a way to lead economic growth in these under-served areas.

FIGURE 1

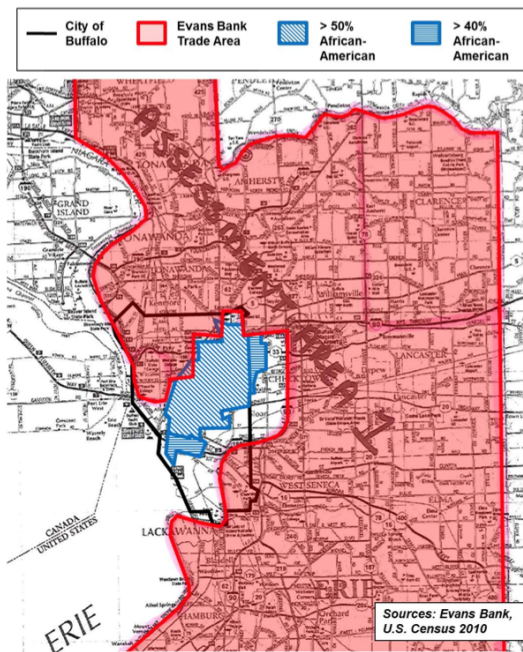
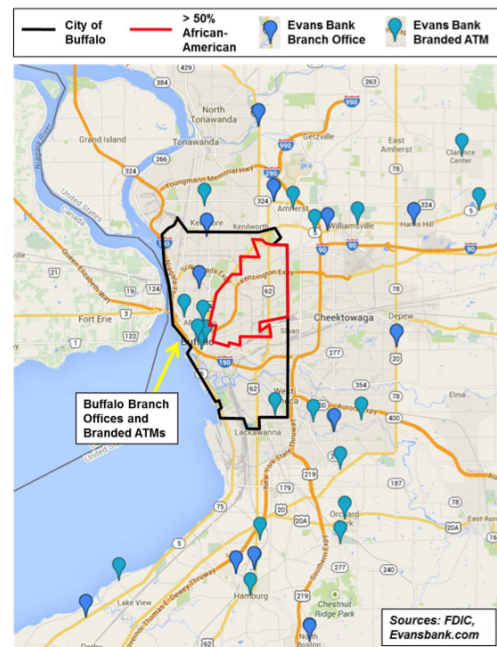


FIGURE 2



(5) <https://www.wedibuffalo.org/copy-of-about>
 (6) <https://www.coopcreditunion.com/about-us/>
 (7) <https://launchny.org/who-we-are/>
 (8) <https://www.housingwire.com/articles/31241-state-of-new-york-accuses-evans-bank-of-redlining/>

WHAT IS PREDATORY LENDING?

...any lending practice that imposes unfair or abusive terms on a borrower," including using "deceptive, coercive, or unscrupulous actions for a loan that a borrower doesn't need, want, or can't afford" (9)

WHO ARE THE MAIN PREDATORY LENDERS?

The Consumer Bureau's database shows that more than half of complaints about payday loans are concentrated to 15 companies, ALL of whom responded by offering little to no relief for the complaints (10). The companies with the top 5 highest number of complains are:

1. **Enova International Inc.**
2. **Delbert Services**
3. **CNG Financial Corporation**
4. **CashCall Inc.**
5. **ACE Cash Express Inc.**

WEDI has also identified OnDeck and Kabbege as lenders targeting those in the Buffalo community.

PREDATORY LENDING

PREDATORY LENDING DATA:

- Approximately 12 million borrowers take out payday loans every year as a **short-term way to get fast cash, even with bad credit** (11)
- The Center for Responsible Lending estimates that payday lenders drain more than **\$4 billion a year** from consumers in states where this type of lending is allowed (12)

WHICH COMMUNITIES ARE TARGETED?

- Predatory lending targets **poor people, minorities, the elderly, and people with little to no formal education**; it is also geared toward desperate people who need **quick cash for emergencies** (13)
 - borrowers may be jobless, have bad credit, or have been recently laid off, making them more in need of fast cash with easy approval
- **Women and people of color are more likely to take out payday loans** (14)
 - **52% of payday loan borrowers are women**
 - African Americans are more than **twice as likely** to take out a loan relative to other demographic groups
- Borrowers can get stuck in a vicious cycle where they need to take out more loans to cover the payment of the original



(9) <https://www.debt.org/credit/predatory-lending/#:~:text=Predatory%20lending%20is%20any%20lending,want%20or%20can't%20afford.>

(10) <https://uspirg.org/sites/pirg/files/cpn/USN-012618-A6-REPORT/PredatoryLoans-5.html>

(11) <https://www.americanprogress.org/issues/economy/reports/2016/10/06/145629/how-predatory-debt-traps-threaten-vulnerable-families/>

(12) <https://uspirg.org/sites/pirg/files/cpn/USN-012618-A6-REPORT/PredatoryLoans-5.html>

(13) <https://www.thestreet.com/personal-finance/mortgages/what-is-predatory-lending-14953861>

(14) <https://www.americanprogress.org/issues/economy/reports/2016/10/06/145629/how-predatory-debt-traps-threaten-vulnerable-families/>