CDFIs Making History Interview

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Mark Pinsky, President & CEO of OFN, conducted this interview on July 29, 2014.

Mark: Just to summarize really briefly: Because it’s our 30th anniversary and it’s a good reason to do this, we are trying to gather what I’m describing as micro-stories, recollections, ideas from people who have been key shapers of the field over the last 5, 10, 15, 20, 30 years, about things that matter in particular to them. Maybe it’s an event. Maybe it’s a moment. Maybe it’s an idea. Maybe it’s an achievement. But, it’s about these micro-moments that make up history that maybe people know about and maybe they don’t. You’ve been a major force in this industry in a lot of different ways. I’d love to hear it all. We’ll listen as long as you want to talk.

Frank: The one moment that stands out for me is when I got the call that the New Markets Tax Credit was moving in Congress after a number of years of working on this idea that we could get some way of bringing lots of capital from the capital markets into the CDFI system.

Then, perhaps, the exact moment is being at the White House in January of 2000 and witnessing President Clinton sign the bill. There’s no question that is one of the big moments in my life in this field in seeing something that we all worked very hard to bring to reality and actually see it happen.

Mark: Say more and I can guess reasons why because you’d been working for all those years to access capital markets to bring into community development finance. Talk a little bit about what that meant to you given how many years you’ve worked at that.

Frank: A couple of things, one of it… I don’t think that any of us in the room, and certainly I, understood the magnitude of the impact that the New Markets Tax Credit would have on low-income communities and on CDFIs who were able to access the credit and make it part of their product offerings.

I remember a meeting in advance when we were working with the Treasury Department as we were looking at implementing the bills. I
think it was just slightly after its passage, Michael Barr came in and went around the room and asked people how much they could use.

I think invariably people said maybe 10 million, maybe 25 million. He said, “Well you’re thinking too small.” He was right. For many organizations, a tax credit allowed us to really access the capital markets using a federal incentive that is market-driven in a way that brought the whole industry up to the next level.

Before the New Markets Tax Credit, with a few exceptions, groups were raising money from institutions, on a small scale from banks, from religious orders and others that they were leveraging, using to leverage their balance sheets. The New Markets Tax Credit allowed a whole new magnitude of capital to flow into the industry and to really jumpstart and help many CDFIs go from, I don’t want to say, “cottages industry,” but from small-scale operations to operations that could be more efficient and much more financially stable.

It’s been a huge transformative tool for our industry. I don’t know if any of us really understood that when we were sitting in the White House waiting for President Clinton, waiting way too long for President Clinton to come on the stage and sign the bill.

Mark: I remember I was there. I remember the waiting.

So what you’re describing is not so much...There was a moment in there but the realization of New Markets Tax Credit for the industry was not a moment. It was a period. It took a while.

Frank: Right, right.

Mark: What did that take? Describe for me, because you were right in the center of it. You were at the forefront of it. What was going on? What was it? At what point did it become, “Okay, now we’re going to get there or have we not gotten there yet? Now it’s going to really realize...

Frank: I look back at this and say, “This is an achievement that shows the power of numbers and people working together in a true coalition.” It shows the importance of policy in our field. It’s not just the intent of the individual organizations. This put together a framework that allowed many organizations to come together and work collaboratively to get this policy and credit off the ground.
I think we were all a little concerned that this was the last bill signed by President Clinton and how would the new administration coming in from a different party react to a bill that had been one of the centerpieces of the Clinton Administration. The good news is that we acted together, I would say, in a nonpartisan way or a bipartisan way as a coalition as well as members of Congress and others that wanted to see this credit succeed.

I think we had a number of people in the Treasury Department and the CDFI fund that really were listening with an unbiased ear about how this credit could be made successful even though, as we know, many statutes get passed that are much harder to implement than I think the writers of those statutes anticipated. This being a tax credit, having to be coordinated between the policy side of Treasury and the IRS and wending its way through all the IRS reviews that have to go on so that interpretations of this credit don’t foul up some other credit that’s some other place in the tax code.

All that was very, very difficult, detailed work. Lots of discussions with members of the CDFI fund, Treasury Department, senior Treasury officials, really focusing on how this credit was going to create impact because I think there was a strong interest on the part of the administration at the time that we don’t want to have a credit that just gets money out there. We want to see real demonstrable impact.

At some point during that process, which I think took almost two years, I think we realized that we had something that would work. When the first round of tax credit allocation NOA was complete and the applications were in I think everybody was shocked and excited about the fact that the credit was oversubscribed by more than ten times, because I think nobody knew anyone was going to sign up. When they signed up and we had that many applicants, we knew that we had something that was going to really work.

Mark: Has it really worked?

Frank: Sure, I think that ...

Mark: That’s a softball question. That’s a softball question.

Frank: [LAUGHS] I’m not going to give you statistics because I think everybody knows that tens and really hundreds of billions of dollars’ worth of investment have occurred as a result of the New Markets Credit both in terms of direct investments and indirect investments
and the multiplier effect that many of these investments have in low-income communities.

We know that the credit over time has increasingly been targeted to the most distressed areas in the country. We also know that it’s very competitive. [Community Reinvestment Fund] CRF has been fortunate in winning a number of rounds. We’ve also felt the sting of not being competitive in a round or two. That’s a good thing for the industry.

The better thing would be to have the credit be at five billion or larger and to have a permanent credit. Obviously, we’re all working towards that, because I think the credit has demonstrated itself. Now, we have to find the right vehicle in Congress to amplify the benefits that credit can have and really bring the credit, in terms of real dollars, back to the reach that it had in 2000 when the credit was first passed.

Mark: Let me go to the future a little bit, Frank. As you know, we are trying to think really hard about where our next generation of leaders are going to come from. We’re doing a lot of work around that. I’m sure you’re doing within your organization. I’m sure you’re seeing it. A lot of the purpose of this is to create a historical context for whoever those people are and wherever they decide to go and do with this to look at this.

I’m going to ask you to just think a little bit. As you think forward, what’s important for the industry? Again, it might be anything.

Frank: I think we’re moving as a society or an economy. There’s a zeitgeist right now that is moving in the future, which is bringing along a generation that was raised on computer technology, information technology and the internet. They bring a completely different perspective than, at least I will say, I could bring to my job having remembered the beginning of word processing on mainframe computers and the idea of having a handheld calculator that could have one unit of memory and could do square roots, which was a huge thing.

We’ve gone way beyond that. Young people today or the Gen X and the Millennials are bringing a facility and a comfort level with the internet and technology that I think is going to revolutionize how we do things. What do I mean by that? I mean that the old notion of whether you want to say it’s a corporation or a nonprofit organization or other, the old notion of the, let’s say, the corporate entity even though corporations now have human rights, but we won’t go there.
The old notion of the boundaries of a corporation and what is inside and what is outside, I’m using “corporation” in the sense of an organization. That’s all going away. That generation doesn’t care whether they’re getting the information or the resources from something that’s corporately owned or whether they’re going out and getting it on Amazon, because that’s the best place to get this, or they’re getting the information from Wikipedia or YouTube or wherever the information is and the resources are.

That whole idea of the boundary, what’s inside the organization versus outside is getting very blurry. I think that that is a great change point for how we as developers have to think because if you look at our industry as a large compilation of organizations that are all trying to do something similarly. We use technology. Suddenly that group of individual disparate organizations that are all trying to do the same thing can be transformed by access to information, common standards, common products that can be shared back and forth.

Much more collaboration I think is going to be part of the future. It’s already starting to happen. There are a number of collaborations going on right now whether it be the efforts that [INAUDIBLE] are doing in Detroit with a lot of support and leadership from OFN in that regard or others, the JP Morgan Chase collaborative funding effort that went out.

We’re seeing groups working together in ways differently than before. It’s not just the concept of collaboration. It’s the tools that are going to be available increasingly to our industry to do things faster, more efficiently, in a way that will allow more capital to get on the street to create the impact. Less capital will be trapped in the inefficiencies of building the wheel over and over again. I think that’s going to happen. There is some fear of change in that area, but I think it’s going to happen.

I also think you need to be aware that if our industry doesn’t embrace technology, it’s going to be embraced by others because there’s a huge amount of investment going into online lending platforms that can make decisions very fast and could very easily take away the customers that our industry are trying to serve and take them away in a way that might not be the best for the borrower.

We have a challenge. I think we have a tremendous opportunity in that whole area of collaboration, innovation, using technology platforms. I think we’re going to see that if we’re just going to move
into that as the generation that’s grown up with those platforms now starts to take the reins of CDFIs. I think that’s a big part of the future.

Mark: Boy, that was great. That was awesome, Frank. I got nothing else for you man. That was great. Is there anything else you want us to, other things that we should just hear from you or …?

Frank: The other …

Mark: You’ve been great.

Frank: The other big moment for me at CRF was issuing our first rated asset-backed securities. That was a huge breakthrough not only for CRF, but I think for the community development industry and being able to bring Wall Street along and bring the rating agencies along to say community development financial assets are a class that we need to be able to model and predict and so forth.

While we ran into the buzz saw of the meltdown, there’s no question that the ability to have our industry and the securities and the instruments that we’re issuing as CDFIs view as something that warranted that kind of investment by rating agencies and others I think was really big.

While we’re not easily going to get back into that marketplace with the same tools. We think that the opportunity in the future will be back to use structured products, whether it be the CDFI Bond Guarantee, which is another transformative idea that’s coming into the marketplace, or other products that can bring additional capital from the capital markets in through investment products and securities. Ultimately, we’d like to see some of those securities be suitable for… Let’s put it this way: I would like to see those securities be suitable for me to hold in my own IRA. I’m hoping to see that happen before I’m using the IRA. That’s the other big thing. I think it’s…

Mark: I understand that.

Frank: It’s exciting to see the kinds of innovations that are coming along with crowdfunding and other things that are the number of groups are working on. I think we’re going to have a huge opportunity down the road.