CDFIs Making History Interview

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Mark Pinsky, President & CEO of OFN, conducted this interview on July 30, 2014.

Paul: Some of us find our way into this field kind of by happenstance. I was one of these people that as soon as I understood it existed I wanted to do it. I was walking down the corridor one day at my undergraduate school, La Salle College in Philadelphia, and I see this notice on the bulletin board for Master’s in City Planning, and I said, “What? You can do this?” And the minute I saw it, I knew I wanted to do it.

I applied for schools and went to city planning school and, really, from that moment of seeing that, I understood that this is what I wanted my profession to be. One thing led to another; it’s lots of different paths within that, but lightening struck pretty clearly at an early age for me.

Mark: That’s great.

Is there a particular—you may have told us already—event, moment, idea, accomplishment in the field of community development broadly? It doesn’t have to be about CDFIs necessarily, although that’s who we are. It certainly doesn't have to be about OFN. It doesn't have to be about anybody in particular, but it could be. One or two things that really are important to you, and they might be important because they were major moments for the industry. They may be important to you, like you just told, because wow, this is who I am; I can do this.

Paul: Well, let me tell you a CDFI story. As I thought about this question, it brought back a memory. This was 1988. I had been recruited by Jim Rouse to come to the Enterprise Foundation, now called Enterprise Community Partners, to become the president of what was at that point a very young organization. It had, at that point, maybe 50 people working for it. Enterprise is probably now 500 people.

I was honored to go to work with Jim, and his wife Patty, who had founded the organization. One of the programs that they had that I became responsible for was something called The Enterprise Loan Fund. The short for that was ELF. The program had a little elf, cartoon-like elf that was the logo for the program. Jim and Patty had raised
money from friends, businesses to...it was before the word CDFI was used...they were using money to provide loans to mostly housing development groups, nonprofit housing development groups, pretty much predevelopment loans for work going forward.

It was a tiny program and it had this little cartoon figure, which was the emblem of this program. A sidebar on this story is: maybe I’m two months on the job, and Jim says to me one day...Patty actually said to me one day, “What do you think of this logo?” I said, “Well, it looks a little too cartoony to me. I think we ought to do something a little more sophisticated,” only to learn that Patty had hand-drawn it and it was her logo. I realized I had put my foot in it.

More to the point, Jim and Patty had this instinct that you could find people, who would be willing to lend money without any guarantee other than Enterprise’s tiny balance sheet at that point and Jim’s reputation, who saw that it was valuable to use their money to do good things for low-income people and good things in neighborhoods. Obviously, that program grew, but look what’s happened to the whole CDFI industry.

You’ve got this wonderful network that you’ve created and are nurturing. We have an industry that’s part of the federal system at this point, and I just think back to that little cartoon and that little instinct that Jim and Patty had that the banks weren’t doing everything that they needed to do, that there was a place on the risk continuum that people were willing to be, and that you could spur a level of development of housing, rehab for housing for low income people, using people’s money, not on a grant basis but on a loan basis, and how much of that got started around the country and how much it’s now thrived, and the kind of industry we have.

Mark: The question really is what were your wildest dreams then about what might happen with it? I’m sure you did, because I know you like to think big thoughts and you’re ambitious about how to help people. Did you have some crazy ideas and did any of them come true?

Paul: I’d answer it in two ways. One, I certainly couldn’t imagine how it’s evolved. Maybe I had a clear image of that 10 years later when I left Enterprise and was working with ShoreBank where I really, at that point, began to see the potential for an industry. But back then at Enterprise I couldn’t.
We were learning as we went back then. I remember vividly another story. I was making a report to the Board on the default rate on the Enterprise Loan Fund, and was being prideful about the fact that the default rate was quite low. One of the Board members said, “You’re not taking enough risk. It shouldn’t be that low. Reach out. Don’t be so conservative in your lending.” It helped me understand that there was a need for a balance in this. Part of my learning at that point, when you asked the vision question, I couldn’t see the industry advancing.

I could see that what this needed to be, this whole ELF program in the field was something that was different from a bank and was some place different on the risk continuum than perhaps I had initially imagined it.

Mark: Was there anything else, was there an experience or a transaction that really captured for you while you were doing this, or maybe since you’ve been doing it, the things you looked at from a consulting role that you say, “That’s it. That captures it?”

Paul: I do think that if there was a moment, when I was working with ShoreBank Advisory Services at the time, when the Clinton Administration came in and endorsed the notion of—at that point they were thinking about a development bank, they were thinking about the ShoreBank model—that it led to the creation of the CDFI Fund and the CDFI industry.

That intersection that I was having at the time with ShoreBank was very important. I really did feel like I was working with a group of people who had clearly broken new ground and had proven the creditworthiness of a whole range of neighborhoods and people and so on, and it was really very exciting to be part of that whole movement.

Mark: Do you have—and you may not—do you have thoughts about the future and key things, maybe things that need to be, or things that you wish could be, or things that you see coming that people need to pay attention to that are important about the future of this work?

Paul: Yeah, I’d say two things. One, I view the industry as it now is as something that goes through cycles. Lots of good breakthroughs by way of lending—Charter Schools is a very good example of this—that then brings in the more traditional loans in capital in the field. Then the CDFIs have got to figure out where the next breakthrough is.
I think that cycle needs to continue. I think the CDFIs need to continue to be on the cutting edge, as hard as that is, but I think that’s the mission. Hopefully, there’s not a future in which the CDFI industry calcifies and settles back and keeps doing yesterday what it’s going to do tomorrow. One issue is just keeping fresh and moving that stuff forward.

The second is I’m working in places like Detroit and other neighborhoods and cities that are a mix of distress. I typically work in over industrial cities. The problem or the resource that we need that we haven’t solved yet that I’d love to figure out how to solve, how the industry can solve it, is for more patient, long-term capital.

I’m looking at a situation in Detroit right now where it’s clear that there’s a part of town where land values are going up, because I think that part of Detroit is bottomed out. I could be saying this about Milwaukee. I could be saying it about Baltimore. And we simply don’t have the ability to reach in to a source of capital to acquire the key parcels, get those key parcels in friendly hands so that rather than paying double or triple or quadruple for those properties later on after the market begins to see their value, you can acquire those earlier and direct the outcomes of what happens on those properties.

If this were another time, if this were 100 years ago, we’d have that kind of capital. I’m sure that kind of stuff’s happening in other parts of the world. We don’t have that capacity at this point and I understand why. I understand that we have shorter-term time spans in the way we calculate returns, at least the kind of seven year transactions and so on. But it plays out in TOD, it plays out in neighborhood recovery. Figuring out how we can tap into a source of capital that is ready to take a return, ready to take that return over a longer haul would be of great value to the kind of neighborhood recovery that I work on typically in older industrial cities.

Mark: You know, when I hear you say that, I completely agree with you. The latest and greatest hope is if somehow we can make the [CDFI] Bond [Guarantee] Program work, it will solve some of that problem.

But I also know when I first came into this world, the thing was if we could only get access to the federal home loan bank system and the FDA 7A program that all our problems would be solved. It’s a receding brass ring forever.
And long-term, low-cost capital was the meme then, it’s the meme now. Without a doubt, it’s the difference and it's, you know...

[CROSSTALK]

Paul: Well, let me go back to Jim Rouse. Jim Rouse developed Columbia. Jim had a relationship with Connecticut General; they were his banker. He had a 30-year trajectory on the build out of Columbia. He acquired all the land with Connecticut General money. They were comfortable as a partner to stay with him over that period of time. You know, that's the kind of capital we’re talking about.

Mark: Yeah, exactly, and that ability to think long-term and be patient, and have some reasonable assurance you’re not going to be refinancing yourself every so often, and vulnerable to all the vagaries of markets.

Paul: Yeah, and long-term doesn’t mean the return’s necessarily are unattractive. I think the returns can be quite attractive, but it’s just a different timeframe.

Mark: Yeah, if you’re willing to be patient, right.

Paul: Right, yeah.

Paul, thank you, anything else?

Paul: In some respects, my connection with CDFIs goes back to my youth. Let me tell you why I say that. Here I am at high school age living in Philadelphia with my parents in a row home. The neighborhood is called Hunting Park. I’m about to go to college, but we don’t have money to send me away to college. We don’t have money to pay the tuition. So I stay at home, I go to La Salle University, then La Salle College, which was the school at the time that took on lots and lots of first generation college students.

How do I pay the tuition? Well, I had a job delivering pizzas at my ma and pa pizza shop down the street, and I had a parish credit union. What I did every semester was, on my father’s signature, borrowed money from my credit union. With the income I had from the pizza shop, was able to pay back that loan each semester, so that by the time I came out of school, I was debt free, because that credit union lent me the money. I didn’t think about it at the time, but in some respects, [00:20:00], to use today’s language, that was my community development CDFI working in my neighborhood. It was a great neighborhood institution and it really helped me out.
Then, two years later, when I finished school, moved to Trenton, New Jersey, needed to buy my first car. These were before the days of automated credit checks. The finance guy says I need a credit reference. I said, “What’s a credit reference?” He said, “Somebody who is going to tell me that you will pay me back the money”. I said, “Well, you’ve got to call Joe the barber.” Joe the barber was the guy that cut my hair all my life, and he was the president of that credit union and he vouched for me, because he knew we paid the loans back.

Ever since then, I have a sense of what it means to have strong institutions at the neighborhood level, and a flow of capital to people who need capital in order to break through the barriers they have in their life. In many respects, CDFIs are not just a concept for me; they were important in my life as a kid growing up.