CDFIs Making History Interview

Elyse Cherry
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*Mark Pinsky, President & CEO of OFN, conducted this interview on August 19, 2014.*

Elyse: When I look at it from Boston Community Capital’s perspective, one of the things I think about is that we actually have exactly the same mission today that we had when we started 30 years ago, which is really to help build healthy communities where low-income people live and work.

The reason I start with that, and the reason I think it’s important, is because we actually built a broad enough mission to cover all of the many different approaches that we’ve all taken now over 30 years to attempt to create healthy communities.

I think that that sense of breadth is actually deeply embedded in the CDFI industry. CDFIs—of course when we started we weren’t even known as CDFIs, the term didn’t exist—but we didn’t set out to say we have a single tool, and our mission is going to be about that tool. We set out to say there’s a set of challenges that we want to meet, and what we want to do is figure out all of the different ways to meet that.

That broad approach to things, I think, has really been an important underpinning to the work that’s gone on now for 30 years, because it has given us the flexibility to take in lots of different kinds of money, to create lots of different kinds of structures, to provide lots of different kinds of products, and really to measure what we’re doing by our ability to change and effectively serve the constituencies we’re looking to serve, as opposed to looking more inwardly at whether we succeeded with a particular tool. For me, it very much is a consistent worldview right from the very beginning.

I think the other thing that I would say, Mark, is also right from the very beginning we understood that we had to make responsible lending or investment decisions. That we were not grant funded in terms of the money we were putting out into the community, and that we had an absolute obligation to return that money.

I sometimes joke and say that we knew that we had a whole lot of the nuns' breakfast money early on, and none of us were willing to lose
those dollars. So it created a discipline. It wasn't simply money from really well-off folks, or really well-off banks or corporations that nobody minded if we lost. People minded if we lost it, and we needed to mind that.

We created a discipline in the industry that I think has also served us very well now for 30 years in the sense that you really had to underwrite. You really had to make good decisions, and you really had to figure out—consistent with mission—how to get repaid.

That sense of standing at the intersection between the low-income community populations and areas that we were attempting to serve, and our various sources of capital, I think, has meant that we have become an industry with a rigorous approach to community finance. And that that has served not only the industry and our investors, but it's actually also really served our low-income communities.

I think one of the great challenges in a low-income community is if a mistake is made—that is, if a project is not properly underwritten—if it can't be continued, if the owners go into bankruptcy, there aren't a whole lot of other folks around to step in and finish it. In fact, you can wind up with a half-finished project that sits there for a decade. It becomes its own form of blight.

So the need to be rigorous and the need to actually make sensible investment decisions helps, as I say, not just our sources of capital or the organizations that we lead. But really helps to assure that the projects that get done in communities contribute to the notion of a healthy community.

I mean you can look at a lot of different points along the way, right? I mean you can look at the start of the CDFI Fund, the increasing professionalization of the industry. You can look at the start of the New Markets Tax Credit, which certainly from our perspective has been an extraordinary source of equity that has allowed us to take additional risk, and to build out new business lines, and to finance our own start up undertakings.

I think all of those things are incredibly important. But I think the most important thing is this long tradition of a broad view and rigorous financial assessments.
Mark: When you have a broad view, the danger always is that you get a slippery slope. And we're smart people, and we can rationalize anything. How has this industry been able to keep mission focus?

Elyse: I think actually it's the interplay between a broader view and a rigorous financial approach. Right? I mean you can have the broadest view in the world, but if it is inconsistent with the rigor that we all require it doesn't really go anywhere.

I actually think, when I think about the various business lines we've set up, right? We have a loan fund. We've done community development venture capital. We have done foreclosure relief. We are focusing on alternative energy and solar in low-income communities. We're focusing on conservation, which really started in low-income communities in terms of our focus on it.

I mean one could say that that's a slippery slope. But as we look at it, because the mission is broad enough to cover it we think we're completely within mission.

So I think being true to mission and being rigorous is actually a great paired approach, because it keeps you in a line. You have to weigh whether the approach you're taking is consistent with mission, and then you need to weigh whether it's consistent with financial rigor.

Mark: There is some value also in the lesson of the nuns, right? Which is that, as you said, that you don't start with a lot of money from wealthy people. But there's something about the Sisters putting up their scarce resources that creates a kind of discipline of a different kind, right? I mean... [CROSSTALK].

Elyse: Yes, and I think there are two pieces to that. One is the resources were scarce, and you really knew they needed that money back. Two is they had an absolute commitment to serving the needs of the poor. So they were aligned on a mission basis as well.

It's a funny way to start an industry, in some ways, right? I mean often you go out now and try and find a big slug of money and make sure that you really have enough to run on. It was a different time then, and having funds from folks who could ill afford to lose them did turn out to create a discipline that has really served everyone.

I'm not sure any of us understood that at the time. We understood the discipline, we understood the need to repay it. I'm not sure we could
have looked forward and understood how much it would shape an industry. But looking back from 30 years out, it’s clear to me that it did.

Capital does speak with its own voice. And it can serve as a tool, or it can serve as a negative factor.

You know I gave a talk recently, I was the Susan M. Love Award recipient from Fenway Health.

Mark: Yeah, yeah, I saw that. That's great.

Elyse: You know, one of the things that I was talking about was the role of wealth in the women's community, and saying that it could be a source of power or a source of oppression.

Mark: Yeah.

Elyse: I think that's always true of capital. I think capital in many respects is not neutral. It can be a source of power, or it can be a source of oppression. And that part of what we have been able to do over the years as an industry is to insist that it be a source of power—at least as it passes through us with respect to the communities that we serve—as opposed to being a source of oppression.

And I think that thinking about capital in that way—as opposed to thinking of it simply as a value neutral tool—is important to what we do, because each time we need to assess whether the project we're financing, or the work that we're doing, or the business line that we're developing, whether in fact it actually serves or doesn't serve.

Mark: Mm-hmm (affirmative).

Elyse: Again, it's that interplay between rigorous commitment to mission, and rigorous commitment to responsible finance that I think has been the hallmark of the industry.

I tell you, the thing that is most in my mind these days, is the extraordinary number of ways in which equity is drained out of low-income communities. That if you are a low-income person, or the resident of a low-income community, you are, as a rule, paying far more for credit—whether it's mortgage credit or car loans, or all of the different kinds of credit—credit cards—than either you or I would pay.
And some of that is about insufficient income to cover it, but a lot of it is about perceptions of risk, and the cost of money that goes into low-income communities, and who is making money off it.

I actually think that what we are going to need to do as an industry, is to figure out a national approach that says we want to take a more holistic view of the actual credit return and risk in low-income communities, and create a set of products that serve people. Right? That don't require that people change all of the ways that they do business, but that serve them in a way that is more consistent with the true risk that's out there.

So, as an example, if you're a payday lender, and you're paying 15% for your money, you have to start there. Right? In terms of return, before you make a dime. And once you've added risk and return and profit and all that other stuff onto it, then the cost of the funds you're putting out—whether it comes in through interest or fee—is absolutely astronomical.

But if you were a nonprofit, and your cost of funds was more in the 4% range, and you had perhaps a more realistic view of the true risk that you were taking on—you weren't looking to get return back to your shareholders—then maybe the return that you need isn't 20-30%. Maybe it's a fifth of that, or a fourth of that.

So I think actually, that there is some work for us to do, with low-income populations, that is aimed at figuring out how to reduce the costs that people pay. When I think about low-income families, part of what I think about is there’s not a lot we can do on the income side. We can generate jobs and so forth, but income has basically been flat since 1997. Some would argue earlier than that.

And nothing that we have done has really moved the needle on that. So then I think about, well all right, what if you went to the other side of the equation, and said, "What if we reduce expenses?" Right? Because for every dollar of expense you reduce, it's equivalent to at least a dollar of increased income.

That's part of what we've been able to do with the SUN Initiative, our foreclosure relief undertaking. You know, when we drop people from $3,000 a month to $1,600 a month, it has a huge impact on family finance even though we haven't increased income at all.
I think that there is a fair amount of work to be done to bring a whole lot of those expenses that families pay today out of the family budget, so that there is more money available for other things.

So as the CDFI industry moves forward, I would imagine that—or at least what we’re thinking about is whether—there is a role for us to play in terms of the relationship of low-income communities to capital. So that instead of participating in a drain of capital out of the community, we in fact become—not that I’m saying we are today, but that we become—a force for helping people to hang on to as much of their capital as they possibly can.

Mark: And that, I mean as SUN does, I mean that implies in some ways, and again SUN is taking you there. It’s an evolution for most CDFIs to really think about individuals and the individuals’ balance sheets and their own cash flows, right?

Elyse: Right.

Mark: [CROSSTALK] …which goes back to your first point about allowing the flexibility to evolve as the market evolves, and the need for new solutions evolve.

Elyse: Right. It is really quite a different approach. And not only is it a different approach, but it requires a stronger balance sheet than perhaps as CDFIs we’ve been able to develop over the years. It requires new sources of equity for us, so that in fact we can continue the sort of financial [INAUDIBLE] that has helped us prosper all these years, and to be successful all these years.

That goes to the question of size of CDFI. Right? And whether there will be a network of CDFIs that can cover the country. And then another set of smaller CDFIs, or really the question of what happens in the industry now that we’re 30 years out? What do our own structures look like?