CDFIs Making History Interview

Ronald Grzywinski
Co-founder, ShoreBank

Mark Pinsky, President & CEO of OFN, conducted this interview on July 24, 2014.

Mark: So, let me step back—and I know you’re busy and you’ve been traveling—and just sort of walk you through what we’re trying to do now, and then ask you to think with us. It’s not so much quotes as what we think of it as micro stories, but at key moments.

Ronald: I’ve given a little thought to it. There are three things, which I think, based on what you’ve just said, perhaps only one of them is relevant. Why don’t I give you all three and then you tell me which of them—if any—you’re interested in. Okay?

Mark: Excellent.

Ronald: The first one is when we started working in Arkansas back in the mid ’80s and had frequent enough conversations with Governor Clinton about the use of private sector resources in order to build local economies and both his knowledge and his search for more knowledge, and that obviously led eventually to the CDFI legislation.

The second one—and this one, Mark, I talked to Mary and neither of us are really certain—but it’s when a group of people from the CDFI industry, or what became known as the CDFI industry, came to ShoreBank twice because Mary and I were opposed to the idea of non-banks being included in Clinton’s legislation. I can frame that in different ways but were you part of that group or not?

Mark: I was. I was just actually in Chicago last week and I was telling someone about that experience because I’d been to Chicago but not much, but it was the first time I had ever been to ShoreBank and it was like going to the White House. It was this big deal to be able to be in that room.

I was a toddler then—not really—but I was new to the world and... So yes, I was part of that, and I would love if you want to talk about that meeting. I think that was a really—
Ronald: Oh, I know. Yeah, I’d be glad to because you guys were right, and we were wrong [LAUGHS].

Mark: [LAUGHS]

Ronald: That’s... But I’ll say more about that. The third one that I thought about, but it’s really... I don’t think there’s enough to talk about, but it was the time when Clinton introduced the legislation and spoke in the Rose Garden and invited a couple of us to speak. That was, I thought, really significant, and it was just sort of amazing the way there was at the time, across the aisle, interest in supporting–

Mark: It was mind boggling, wasn’t it? Yeah.

Ronald: It was mind-boggling, right. Why don’t I start with the middle and I won’t even cover the third one unless you want me to and I’ll say a little bit–

Mark: That would be... Wherever you’re comfortable. Go. This is great stuff, Ron.

Ronald: What I most remember Mark was that after Clinton had proposed the idea—the idea of the legislation was strictly his idea, we did not have any part in it—we had been invited to go to Arkansas. We created what was then called a Southern Development Bank Corporation as a bank holding company with a bank and other non-bank subsidiaries to do rural economic development in south eastern Arkansas.

But, we were of the mind—that is, those of us at ShoreBank—that the advantage of a bank holding company was that a bank holding company could be totally self sustaining. That is, that it would not be dependent on government or foundations to fund loans and could raise deposits and—through the magic of FDIC insurance—convert to those market rate deposits into development credit.

We saw that as a closed loop that would really allow community development in this country to become mainstream. Those of you who were involved with a non-bank community lending, were really opposed to that, and you were all our friends and many of the organizations were depositors at ShoreBank even though we were not in your communities.

We were really torn about that because we had a very strong feeling about the need for self-sustaining, local development organizations. I
think what we failed to appreciate was the passion and the vigor and everything about people who were already doing that work in a non-bank environment in local communities.

There were these two discussions at ShoreBank in which you and others wanted us to support the non-bank model, and we refused to do that. At the end, I thought you were all much better lobbyists and much better people at acting in a political venue, which we actually had no interest in. So, I mean, we never politically opposed that. But, in hindsight, I’m really glad that you guys carried the day because, in my mind, what the best of the CDFIs represent—especially the non-bank CDFIs—is a passion and resourcefulness to work in communities.

I think the problem is still the dependency on large banks and probably other banks to make loans. I personally think that those loans ought to be at a lower interest rate than they are because I’m on the board of a couple of organizations that are the recipients of those loans. I think that other than being able to have a very broad base of funders that the industry has definitely shown what can be done.

It has grown—we can come back to that in a minute if you want to. But I’m just glad that you guys carried the day because you were absolutely right, and Mary and I agree that we were wrong. Congratulations.

Mark: [LAUGHS] Thank you.

Ronald: I should—

Mark: Thank you [CROSSTALK].

Ronald: Ok, go ahead.

Mark: Go ahead. I don’t want to cut you off. Go ahead.

Ronald: No. That’s all... I was just going to say if there’s anything more that you want to say or... feel free.

Mark: I think it’s so much of what others were doing was not only inspired by what you had done but informed by what you had done, because in fact, ShoreBank as an entity and Southern Development as an entity were bank holding company models, and I think, if I remember, they were a little bit different. But, you know, ShoreBank was doing so
much to support loan funds and others, not just as a bank that was providing services and other, right?

I mean that’s my sense. There was Good Faith Fund in Arkansas, and you had a fund—I don’t remember if it was open by then—in Cleveland, and I think you had a fund in Detroit. You were doing these other things as well, right? That was all part of a broader strategy. I get you wanted to be anchored in the bank for sustainability reasons. Am I right about that?

Ronald: Yeah. The funds that we had evolved over time but the original model was a regulated bank holding company that would own a bank and the bank would function as a self-sustaining local development credit organization.

In addition to that, there would be... We originally envisioned in Chicago, a not-for-profit affiliate to doing the other non-sustainable parts of community development: job training, remedial education, child care. I mean you name it; all the things that communities need. And then perhaps there would be some earnings from the bank that could be used to support that. Enterprise has probably become the best model—I’m still on those boards—where a for-profit vehicle is able to support a large not-for-profit.

We never quite got there, but our model was a self-sustaining bank as a development credit institution, a not-for-profit. But then we originally envisioned a MESBIC or an SBIC that could make equity investments in local businesses, job-creating entities, etcetera.

When we got to Arkansas—having had the experience with the Grameen Bank in Bangladesh—we added the Good Faith Fund as a microcredit organization. That was integral to Arkansas from the beginning. Then what evolved as far as ShoreBank is concerned is that the SBIC component never really quite worked but then, what did work were the loan funds like, what’s now, Craft3 or Northern Initiatives. Every place that we operated, we had one of those.

Mark: Yeah, and that was successful. Take me forward. There are two moments I wanted to ask you about... What were you feeling? What were your emotions when President Clinton signed this act into law? It was ... I mean, I know that then you may still not have thought that loan funds should have been part of it. I have no idea.
It was a remarkable affirmation—It seemed to me—of what you had started some years before and... What was it like?

Ronald:

Well I think... Somehow, Mark, we’ve never really—we meaning, not just me but Mary and Milton and Jim, all of us at ShoreBank—I don’t know that we ever sort of thought of those things in personal terms. I’m not trying to make any other kind of statement other than the factual statement. I think what we all liked was the idea that there was—at the highest level of the US government—that there was a President who understood the issues, who was willing to propose legislation that would create a permanent kind of industry.

That, in terms of just the country, was very important, okay? I think that’s the way we saw it. I think that we didn’t see it merely in personal terms. We believed in the work that we were doing. We’d been at it since, as a team since 1967, ‘68, something like that. It just kept evolving. But for somebody in the White House to become a leader was terrific.

When we started working in Arkansas, we didn’t have the foggiest notion that Bill Clinton would ever become President of the United States. We were interested in demonstrating that kind of a model of sustainable economic development could also work in a rural community and not just the South Side of Chicago. Anything that would advance the cause was terrific as far as we were concerned.

It was the same thing years earlier with CRA. That was an accident. But when that happened—and we had a role in that—it was terrific. So, is that good enough? I mean it’s—

Mark:

Yeah. That’s great. I love... I think it’s a testament to you that you didn’t view this as something personal. You viewed it as—in a sense—what was good for communities, what was good for the country and it wasn’t about you, and I appreciate that very much.

Now I’m almost embarrassed to ask the other question—but I said I was going to—which was: I came on late to this whole thing. I came on about the time that Candidate Clinton stood at 71st and Jeffrey on the campaign and said, “If I’m elected, I’m going to create 100 community development banks just like this one and a thousand micro lenders,” and whatever that was. I just wondered what that was like for you. I mean you obviously knew President Clinton from his days in Arkansas. But, was that a big deal or was that just like, there’s media outside our doors?
Ronald: Well Mark, I’ve got to tell you, until this moment if he really did that and stood at the corner of 71st and Jeffrey, I wasn’t there that day and never knew about it, okay? [LAUGHS] That’s the honest truth.

Mark: I love it.

Ron: I know that we did invite him to South Shore before he was a candidate, before he was an announced candidate, and maybe before anybody really thought he had much of a chance of doing anything, but it was for a different purpose.

There was an exhibit on the history of African Americans in Arkansas that had been developed as a kind of a presentation by the telephone company down there. We were able to get a traveling version of that and then had a big reception in our lobby, in which we tried to find all the people in Arkansas who had graduated from colleges in Arkansas.

We had about 300 people and Bill Clinton who, I think he knew he was going to be a candidate because he worked that room like the master politician he is, but we didn’t have an idea. That was the one time I remember Bill Clinton being there. If he was there other times, boy I’d sure like to know about it.

Mark: I love it.

Ronald: [CROSSTALK] So anyway, let’s go ahead.

Mark: That’s too funny. I just wanted to... I don’t want to take up too much of your time, but I wanted to see if there’s anything else? You know you talked about the other thing... Is there anything else that’s come up in the course of this conversation that you want to share with us, that you might want to share with others in the industry?

Ronald: Um, I’m sure that what I’m about to say is something that you and your colleagues have thought about far more often and deeply than I have.

But, I just believe that there is a need to try to figure out ways to develop the kind of managers and leaders and people who can build really strong CDFIs. I think it’s really got to become a real industry. But, I just think that somehow there has to be a more systematic way to identify—develop the leadership and management skills—people who know how to behave politically when they have to, become good managers, become good credit people, everything that you know
better than I do about what’s necessary to build the industry. That’s where I would really put the effort.

I do personally think that the big banks are not doing nearly enough in relationship to the resources and the earning power that they have, and the needs that exist in the country. I would continue to push in any way possible to increase the responsibilities and the obligations of regulated depositories—specifically banks—to make a much bigger investment in growing the CDFI industry. That’s my political message and my business message.

Mark: Ron, that was incredibly well said and incredibly on point, and you’ve given us so much. I’m grateful and hope to be able to continue the conversation with you. This is for a particular project but I think that one of the things that we talk about a lot in the industry is how do we capture the lessons we learn, good and bad, from the folks who’ve been ahead of us because we’re all, to borrow the phrase, we’re all standing on someone else’s shoulders. So that’s incredibly powerful, what you said.

Ronald: Okay. Alright. [CROSSTALK]

Mark: Thank you so much for sharing your stories and for your candor, and it’s great to talk to you. We will make sure you know about the conference. If we can find a way for you to join us, we would love for that to happen.

Ronald: Okay. It will be terrific. Okay, talk to you later.

Mark: All right.