CDFIs Making History Interview

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Mark Pinsky, President & CEO of OFN, conducted this interview on September 2, 2014.

Mark: You’ve played, actually, multiple roles in multiple eras that have been really critical, and so I appreciate you taking time and the question we really want to ask is as you think back over the past 30 years, are there one or two moments or events, or ideas, that really stand out to you, that are really were formative or shaped something important about the industry?

Cliff: Well, what’s striking to me about the evolution of our field is how it’s now possible today to envision a career in development finance, and in fact there are many types of careers that can happen in community development finance.

When I was in graduate school and first reading about South Shore Bank that was my first exposure to this field. What’s happened over time is, I think, wonderful. Entrepreneurial-ism in our field that has spread from banking to all other forms of finance, microfinance, venture capital and other unregulated lending, and of course it’s spread well beyond business and housing lending and it’s spread to include the crucial role of development services.

My first answer to your question is there may not be a single moment that I’m describing, but more the blossoming of a family of ideas and the belief that there’s an important career that people can play, and constantly pushing the boundaries to make finance and entrepreneurial-ism accessible to the broadest group of people possible.

ShoreBank was one of many organizations that was experimenting with so many different ideas. It seemed as though almost every couple of months there was another entrepreneurial idea. I felt like it was almost a hot house of ideas that were constantly being proposed, attempted, cultivated. Some worked, some didn’t.

But there was a moment that I jotted down, that I wanted to tell you about, or remind you of, which was after I left ShoreBank, and I was working at the Treasury Department—and then briefly I worked for the
National Economic Council—and we were pulling together the ideas that became the New Markets [Tax Credit] initiative. Because it included both, it included tax incentives but also some SBA initiatives.

I remember President Clinton was visiting different sites around the country to make the case that there were investment opportunities everywhere in overlooked communities. Everywhere he went, he was visiting CDFIs.

It didn’t matter if he was going to Mississippi Delta, or to the South Side of LA, or to Chicago, or to the Bronx. Everywhere he visited he was promoting the work of CDFI. There was a moment on the South Side of Chicago when he and speaker Denny Hastert were visiting a high school on the South Side of Chicago. I think it was in Bronzeville, not too far from South Shore, and not too far from where the President now lives.

The purpose of this event was to bring together both Republicans and Democrats and say that this was a bi-partisan issue. Denny Hastert, Speaker Hastert, actually walked the neighborhood, with then President Clinton, and Hastert, who was from the southern part of Illinois, so this wasn’t his district but he clearly knew Chicago well. There was a moment when the two of them were walking and I thought, “This is actually going to happen. There’s going to be some New Markets legislation that’s going to take the CDFI field to its next level.” I thought that was one of the moments when there was going to be a quantum step forward in what was possible to do with the CDFI field.

Mark: Cliff, talk a little bit about that, because CDFIs to some extent, although not so much at the beginning, have had sort of a bi-partisan buzz about them. Talk a little bit about how people respond, in a political environment how people respond to things CDFI, whether it’s New Markets, or the Fund, or…

Cliff: Washington is a place of high political passions and it always will be. But there are moments when political passions subside and people focus on the very serious business of making the economy work, and that is something that both Republicans and Democrats agree on. I think when the partisanship is not taking all of the oxygen out of the room, people can see that making economic deals come together is just good sense.
In many ways, what CDFIs do by making those deals come together is just an absolutely crucial role, because many parts of commercial finance are fundamentally conservative. What I mean is conservative in the sense that they are cautious and in the sense that they are looking at historic performance as the best predictor of what will happen in the future.

And so left to its own devices, finance can sometimes be more inward focused than...What CDFIs do, is create that outward focus, is they push against that natural inclination of finance and say, “Why can’t we do it this way? Why can’t we experiment and try some new things?”

When we’re talking about making the markets work for people, that’s not a Democratic idea or a Republican idea. Making markets work for people is just something that every policy maker should be paying attention to.

Mark:
If you think forward, if you think, Okay, for this industry, in whatever form, whatever it’s doing, whatever influences you perceive on it, what’s critical going forward? What does the industry need to think about, what do you envision? Anything like that.

Cliff:
Well, the blinders that I often... or the lens through which I often look at these questions is through banking because that’s my experience and so that’s my limitation. Let me say that what CDFI banks, I think, they’re all struggling with is how to create an investor marketplace for bank equity. No CDFI bank, I think, has really yet created the model of what investors in a CDFI bank should expect by way of a financial return, and what portion of that financial return is a current dividend, and what portion of that financial return is capital appreciation over time when there’s eventually an opportunity to sell their shares.

I feel that those of us who work in CDFI banks simply have incredible potential but they also are not yet realizing their potential until this question is resolved.

Well I think the future, what I’m attracted to is maybe a way to deal with that issue is to create a stronger history of paying dividends, because I think many CDFIs can present an investment thesis that’s pretty similar to a corporate bond, which are the ones that pay a reliable, regular dividend. I think the loan funds have really shown the way forward on that. The CDFI loan funds have been very disciplined and very successful at showing that they can handle a long term, low interest rate, cost of funds. That same idea could be, I hope, transferred over to the bank equity side.
If banks were able to pay a sustained, reliable interest rate, or dividend rate—say somewhere between 2 and 4% a year reliably—I think they could attract a lot of investment capital, and be able to refinance investors when that’s occasionally necessary.

I think that’s a really exciting future possibility for banks. I think as they get stronger, after this recession, they’ll be in a better place to tackle that problem.