CDFIs Making History Interview

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Mark Pinsky, President & CEO of OFN, conducted this interview on July 25, 2014.

Mark: I’m going to be somewhat open ended, but really ask you to start with. Is there a single event or perhaps two events or moments or accomplishments that really stand out to you as formative or key or transformative or points of inflexion broadly in the field of community development finance.

Andrea: If we look back, the creation of the CDFI Fund with the unique ability to invest equity in building institutions has been one of the signature events. And, I think what we’ve seen over time is that, depending on who was President when you started your CDFI, the relative availability, or lack thereof, of equity has had a huge implication on which of the CDFIs have been able to really grow and which haven’t. And has really helped us understand the power of equity in building these institutions to scale and sustainability, and then what the implications are of starting without it.

I think when we compare how so much of the international donors have funded international institutions, versus how U.S. funders have focused is that the broad split—obviously, there’s a thousand exceptions, particularly through the efforts of Clara Miller some of this is changed—but U.S. funders fund programs; international donors fund institutions. Therein lies all the difference.

I think that what was so significant about the CDFI Fund is that it understood—whether it did it intentionally or not who knows, it’s all the accidents of history—that you have to fund institutions. Then secondly, because we don’t have the capital markets that provide nonprofit entities with equity, that being able to provide that and do that on a consistent basis over time has been critical.

I don’t know, maybe when it was first designing the NEXT Awards, and I think this was part of it, whether MacArthur [John D. and Catherine T. MacArthur Foundation] did this analysis or whatever, that there was only five or 10, however many CDFIs that had gotten to a certain stage. You need to look up the time they started and when they had access to equity and it was just all right there.
Then, when Bush came in and the funding was cut so severely, what the consequences were for the field, because nobody, no one Foundation could make up for that.

Mark: Right, I always think that’s true, but some people took the equity and knew what to do with it and ran with it and some didn’t. There were other CDFIs that could have in that period of time.

Andrea: Right. So then the second piece of this. I was just in a meeting today around...there’s a big White House event around rural investments, which was fascinating unto itself, but it’s all about how, over the last 30 years, CDFIs have become, not all of them, relatively sophisticated players in the capital market.

In many ways, and this was raised today, which was fascinating, of how they become arbiters in a marketplace, right?, to ensure, if there’s anything that we’ve seen over the last 20 years is private capital can be the most destructive force on the planet. It doesn’t get us where we want to be.

How you have this intermediary quote unquote in the middle that structuring private capital, so it actually is used in the right way to support low-income communities and to support the kind of development that were looking for.

Mark: That notion of intermediation, which has been around forever, took on a particular significance in this period of how markets were operating, how federal government was working, right?

Andrea: Right, and now it's being reinvented once again because of what’s happened over the last five years. How whole parts of the market have stopped working, but yet there’s still an enormous amount of capital. Now we have this whole impact investing world, which is many different things to many different people.

But, what I do believe now, for the first time, is you do have people in the private sector who understand that their brand and their financial positioning is actually going to depend, to some degree, on how they address social issues. There is going to be an economic motivation to do this, not just a philanthropic.

How do we think about a much more expanded role as a broad based intermediary to navigate this?
The other piece, which I think is so important, and I’m trying to think of who’s been the most articulate voice—you know, we had so many meetings about this—is the role of CDFIs in making markets where markets didn’t exist before.

So much is about identifying what real risk is versus perceived risk. You can basically stand behind what’s the highest returning asset during the recession. It was the portfolios of CDFIs. I can stand behind who is actually saving the most of their percentage income. It’s the lowest income people, because that’s the price of hope. You provide them the structures and you provide them the incentives that middle and upper-class people have, and their savings rates are double.

It’s a phenomenal thing, data that we have. If, in fact, for the CDFI industry, the U.S. low-income people won’t pay their loan, what we do is low-income people won’t save. We unequivocally and universally keep disproving this.

Mark: You’ve proved it on the saving side; CDFIs proved it on the credit side. How do we get people over that hump that they…?

Andrea: I just think you continue to share the data in forms that are effective. Dan Letendre stood up at this White House event yesterday and said he’s lent $1.3 billion to CDFIs and never lost a penny.

I don’t know if you can make a more compelling statement than that.

Andrea: I remember, and this is five years ago when we had our first Children’s Savings conference in Brooklyn, and [Ford Foundation President] Luis Ubiñas was giving the keynote. He was just started, he might’ve been president for six months, and he hadn’t a clue what we were all talking about, not a clue.

They’d given him a good speech, but every time he got a question he would just refer to me, which was fine, until somebody stood up, this is five years ago now remember, stood up and said, how do we get the banks to play? They’re not going to want to offer these accounts.

He gave the most powerful McKinseyite speech about brand and basically saying the banks brand was in the toilet. Those were exact words, I mean, it was just fabulous. Then, talked about what they needed to do to improve their brand. The interesting point is how true that still is.
Mark: So, that’s an interesting thing, that also goes back to the brand of low-income people who is that they can’t save and they won’t pay you back in some ways.

Andrea: Here’s the other point, Mark, which has been transformative from our perspective, which is, and I don’t know what the corollary is in yours, which is basically when we issued the scorecard with the liquid asset poverty number that showed that 44% of American households did not have enough savings to exist at the poverty level alone for three months if their main source of income was disrupted.

That really changed the conversation that these issues of financial security and opportunity are not just about those poor people who are public benefits; it’s now half of the country. Obviously, in segments in which you are operating, like small business, there’s a lack of credit all the way up the spectrum.

To me that’s also changed this conversation significantly around the work we’re doing. What I’m interested in is from your perspective how that’s changed the framing for the markets that CDFIs are serving.

Mark: I think that’s an interesting question and obviously through the recession as banks have pulled back our market’s grown. Then, the small business space is really just opening up another whole area where what’s going on is just scary as hell I think. I think there is...

Andrea: I know, exactly.

Mark: Yeah, there’s a huge opportunity there to be relevant in a different way to a much broader swath of people. That’s extremely interesting.

So were going to turn to the future.

Andrea: Okay.

Mark: I particularly want you to talk about your idea of how the CDFI world, and the asset world work together, join together, whatever that is. You know, you’re doing amazing work and people are doing amazing work that you’re working with, CDFIs are doing great stuff, but they’re not connecting.

Andrea: There’s a couple of approaches here that I’ll just take you through. One approach is the extraordinary adoption of the whole notion of financial capability as a key driver of the outcomes we’re looking for.
One of the things we’ve seen is where there’s been effective policy advocacy to reduce payday lending and check-cashing then there’s been this huge void in the marketplace because who else is doing this? How can you do this? We need to create CDFIs that are investing in this area and we need to jumpstart that.

I see that as a real opportunity. The big issue here is that, in many ways, people who are looking for short-term credit are not matching sources and users of funds. They have a shortage of income in the household and they’re trying to finance that with credit, which means there’s not a repayment ability.

Mark: Right.

Andrea: At the same time, and I don’t know if you followed any of the financial diaries work...

Mark: I have. It’s unbelievable.

Andrea: ...that the CFSI [Center for Financial Services Innovation] is doing is that the key thing that’s coming out of there is that in many households it’s just not enough money comes in. In other households, it’s not a matter of the ultimate amount at the end of the year, it’s the volatility of that income throughout the year and that’s where short-term credit works.

That’s one area where I think there is a very interesting opportunity, and there are people actually ready to invest in it, which makes an opportunity something that's worth talking about, right? That’s one area.

The other huge area from us is that, the theme of our conference in September is Platforms for Prosperity, which is what are the institutions ...

Mark: Platforms for ...?

Andrea: Platforms for Prosperity, so what are all the platforms or institutions that are already serving low-income people? They’re already providing some kind of product or service, whether it’s housing; whether it’s social services; whether it’s education that is already bringing value into a low-income household’s world.
At the same time, they see that their effectiveness and impact is going to be severely compromised if they don’t address the fundamental financial insecurity of the household. I have, in my conference room today, five organizations that were picked—of RFPs—of 110, who are all creating innovative savings products.

I think two of them are CDFIs. One is a community action agency. You know we have a community development credit union. We have community action agency. We have the United Way that also has a CDFI, so there’s a range of things. That to me is the other opportunity in particular in the affordable housing arena.

Mark: That notion of Platforms for Prosperity is really powerful in that what you’re really saying is there are a number of touch points that can be platforms. We just have to figure out how to get the products through them.

Andrea: Right and you’re starting with huge advantages, which because people haven’t looked through this lens, so were working with SAFE. You know SAFE, right?

Mark: Yes, and Eileen is their [crosstalk 00:20:48].

Andrea: How fabulous is that? She hasn’t started. She starts on Monday, but she got two weeks. They already touched the financial lives of all their residents.

Mark: Absolutely.

Andrea: They already know, they should know who’s banked; they’ve actually never paid attention to who’s banked. They’ve never paid attention to what kind of financial product that we provide these folks. They’ve never paid attention, and I’m sure some of them have, but this is the conversation were having of how they could change.

You know, we’ve been working in another initiative with Neighborhood Housing Services in Cleveland to be able to analyze the payment patterns of all their residents and figure out how through better products and information we can improve the repayment. And by doing that actually generate savings through these households who may be using predatory services, because they have no concept of how to manage the flows in and out.
There's all these ways to create win-win propositions and with one of the people in the savings innovation cluster we have in the other room is how will you think about: “Well, if you got paid on time blah-blah-blah and X percent higher you’d have these higher revenues. If you take 10% of that and make some kind of prize that you give people for paying on time that goes into a savings account, which strengthens their financial security, which makes them the better tenant.”

There’s all of these win-win propositions that we can do, that we already have information if we only saw it that way. Because these households have stable housing it gives them the ability to do things that people who are not in a stable housing situation don’t have.

Mark: That’s amazing, that’s great.

Is there some other thought about past or future that is lingering that you want to make sure that we capture?

Andrea: I think the other issue is where is the future for CDFIs’ capital innovations? Obviously, I’m not deeply versed in the Bond fund [CDFI Bond Guarantee Program] and why that has failed to capture...why that doesn’t appear that it’s going to do what we hoped it would do. What are the lessons from that? What are other ways that we leverage Federal policy—and this could be even state policy—to provide, not just the lending capital, but related sources of funds that help CDFIs also build the kind of capacity they want to build or strengthen the neighborhood at the same time there providing credit?

I just got off the phone with Nancy Andrews, because we’re just getting funded to do a book on financial capability like she did with What Works.

Mark: That’s great.

Andrea: She told me the whole motivation, which was really her understanding that everybody was focused on bricks and mortar that was the sexy thing to do. In actuality, real change happened when you provided the human element. How did she make that case?

The flipside, then, is how do we pay for that right?

Mark: Right and Nancy’s a wizard at thinking about those things. That’s great.
Andrea: That to me is the next evolution. Then, what I don’t know at all is from a legal organizational structure, is there a next version of that for CDFIs that enables it to capture more capital of all types to do its work? I don’t know the answer to that, but given how much evolution there is just in the way we’re designing social ventures these days and other things that would be an interesting question.