CDFIs Making History Interview

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Mark Pinsky, President & CEO of OFN, conducted this interview on August 5, 2014.

Mark: Let me ask you, here’s the question: is there a key moment or a key activity or a key achievement or a key idea or something that stands out for you?

Katharine: So you know, I couldn’t do just one.

Mark: I know. I don’t expect you to.

Katharine: I sort of settled on one. I’m not doing the first CDFI Conference in Durham, when actually we got more than 100 people to show up in a room. That one is blazed into my mind because I had just had a baby. And I’m not going to do the one, the retreat where we decided we really needed a [CDFI] Coalition.

I’m thinking the thought that popped into my mind was the CDFI Conference, where Bob Ruben spoke and where it felt like we had arrived at the field. And, where it led, I think, was clearly a jump up in terms of credibility and resources and so on.

Also, some tough judgment calls about how to engage with mainstream finance.

Mark: Talk to me about that.

Katharine: Well, let’s see. I just have a very vivid memory of, not really particularly what Bob said, but just the fact that he was there and it was a full, big ballroom. We were talking about the work that all of us do.

This was a moment, one of many moments, but when we were thinking this perennial debate about are we trying to create our own financial market that works for poor people or are we trying to nudge the real financial market to do things a bit differently?

For me, that was kind of an important moment. When I think of really the decade before that and the decade after that. There were lots of
opportunities that came with that kind of breakthrough and recognition and so on.

There have also been important tensions, which we’ve had to manage around the bed partners that we have and the choices about doing it ourselves versus working sometimes a whole lot harder in the short term to try to get someone else to do it. Choices about exiting from niches that now the market is more willing to do, but they were actually pretty important to our sustainability.

About putting our hard earned capital into some really risky but harder areas that needed more work than the market was willing to provide. That’s sort of the central idea in my mind. There was that event, but the idea of CDFIs as catalyst for change in the financial industry and all the dimensions and tensions and great fun of doing that work and trying to figure it out.

Mark: It was a little bit, a little moment at that event and soon after, as I recall, it was a little bit like the dog who caught the car, who’s been chasing the car. You catch the car, now what do we do?

Katharine: Yeah, very, very interesting point. We were kind of selling one idea, but we had so many different models at that point, really different missions. Trying to be a field with some discipline and consistency was challenging.

Mark: My question to you is that you were... In some ways you were the first one officially in the door to sort of say, ”Let’s create this thing called a CDFI Fund,” right?

Katharine: Almost, almost. I came in as a transition director. There was already a small team forming. Of course, Fe Morales Marks [Former Deputy Assistant Secretary for Financial Institutions Policy]—I don't know if you remember Fe, but...

Mark: I do. I hadn’t thought of her in a long time, but I do.

Katharine: Yes, our Godmother in so many ways at the Treasury Department. Fe had started to assemble a team. Here’s a funny story.

We were assigned this garret space up in the top of the Treasury building, I think the fifth floor—whatever was the highest floor. Literally, it was a space about the size of my office now that we had six of us in. Not real windows, not a real ceiling. To get into it, you
went through a little—actually, a very nice—library with a conference table in the middle of it and all of these economics books.

Of course, there’re six of us. We’re trying to get this thing up and running. We’re consulting madly across the industry. We need to do some planning. You know me, we had some flip charts. We had some diagrams. We probably even had some matrices. They were—respectfully, but nonetheless—taped up all over this library.

One morning I arrive and the door is locked. There’s a note saying, “This is Secretary Summer’s private library and you are not allowed to put anything on the walls.” That was certainly not the most difficult, but one of the more amusing battles to fight, was to regain custody of the only space we had really for planning from Larry Summers.

Mark: Did you get access to the space again?

Katharine: We did. Actually, what she hadn’t realized, she had locked our inner door. She didn’t realize that we had a key to the outer door, so we could lock the outer door. Somehow, I think there’s deep symbolism in this if I could ever really think it through in terms of the complex relationship between the Treasury Department and the CDFI Fund, or maybe between the CDFI Fund and the broader, the mainstream financial market thinking.

But anyway, we did come through that little battle and a whole lot more. It was really an exciting time. I said I would come up for three months and we were supposed to get everything done in that time. It took a little longer. I ended up staying for six months. But we wrote the regs and conceived, and I think you were there at the inception, conceived of the brilliant idea of the Bank Enterprise Act as a way to fend off an effort to siphon a bunch of funds from the CDFI Fund, for which they weren’t really intended.

It was all very exciting. Trying to think through where did micro enterprise finance fit? Where did the different types of CDFIs fit? What about finance on Native American reservations? What was the research part of this? So, pretty cool stuff.

Mark: It was very cool stuff. I agree, the BEA solution was like pulling a rabbit out of a hat because …

Katharine: Exactly. Definitely, the outcome was not the intent.
Mark: No, that was for sure, but it was great. The best thing about it was that Floyd Flake, he was happy with it. That was amazing.

Katharine: Exactly. I’m sitting here and I have taped on the wall in front of my desk a bicycle. Down at the bottom it says, “Lending methodology and Self-Help internal capacity.” One wheel of the bike is “long term sustainability and capital grant,” and the other wheel of the bike is “mission and impact while building Civil Rights, the North Carolina movement.”

I keep it there to kind of inspire me about what all of us were trying to do.

Mark: Yeah. No, I think that’s right. What you did at the Fund was foundational in ways we couldn’t imagine. Basically, the rules you wrote are still very much the rules that govern what’s happening. It’s been phenomenally successful.

Katharine: Yeah. It’s pretty exciting.

Mark: Who would have thought?

Katharine: Who would have thought indeed?

So I was thinking, we recently organized with the MasterCard Foundation, a symposium on customer centricity. Putting customers at the center. Not just saying it, but really trying to do it.

One of the most interesting conversations which has threaded, it’s like a red thread throughout the whole CDFI movement, but I think it’s still very relevant, is with all the technological changes, changes in the business model and strategic alliances and partnerships and channels, how services are delivered and so on.

This core question about what needs to be high touch and what can be low touch, especially to adequately serve people with lower levels of income and wealth and trust in the formal financial system. I think it remains a very important question and maybe all the more so going forward with the digitization of financial services.

Yet, the opportunity for very personalized and tailored financial services offerings. I think CDFIs have an important role to play in continuing to probe that question.
The other thing is just a topic that I’m working on now that I think is related to this is the digital footprint from our financial and our other data. I don’t think that any of the traditional models we have, informed consent and so on, is really adequate.

This is a very important topic in developing countries where the people we work with have almost no footprint, but are gaining one quickly. The potential for huge benefits, but also substantial redlining or mis-sale of financial services if it isn’t done with some care. Not to mention the data security risks.

So I think really thinking about the personal data, not just financial data. The ownership of it. How it can be treated with care while it is used to open up new horizons. That was just an idea that was occurring with me that may not have come up in your other conversations.