CDFIs Making History Interview

Dan Nissenbaum
Managing Director, Goldman Sachs Urban Investment Group

Mark Pinsky, President & CEO of OFN, conducted this interview on July 28, 2014.

Mark: Let me ask that. Is there a single or one or two moments, incidences, facts, achievements that really stand out for you?

Dan: You asked me to reflect back over time. 30 years ago of course was 1984. The first thing I did was I Googled what happened in 1984, apropos of nothing. I was interested to note that the Mac was introduced.

Mark: Yeah, of course I had one then.

Dan: Yeah, as was Ronald Reagan. The Mac is still here, so that's not for nothing. I really started to think back over my own career in community development, which is now 24 years. Getting close to 30, God help me. I had two sets of thoughts we can pick one of them.

I have to say as I thought about it, there wasn't any particular moment or individual thing. It's been a super rich time, lots of different incidences and examples and transactions and that stuff, but what stood out for me were two things. One was the set of leaders that I watched and have watched through this time that frankly, I think for me, was a lot of the inspiration that I took, or I was inspired by them.

I think that has helped motivate me in terms of what I've done, how I've done it and how I've tried to incorporate CDFIs into the work that I've been doing in these different banks. Seeing those people's, those types of folks, and this is everybody from Fran Justa to Nancy [Andrews] to Jeremy [Nowak] to Martin [Paul Trimble] to Mary [Mathews] to Elyse [Cherry], this pantheon of incredible people who have been doing this a long time, and are just incredible activists and spokespeople for the work that they are doing in the organizations. That has probably had a huge effect on me in my career.

As I also tripped down memory lane, I found myself thinking about my own path of being in this parallel universe to CDFIs. And simply stated I started in banking in 1990 out of business school. I worked in a
commercial bank for a couple of years in commercial real estate, then segued over to community development.

I started to do this linear comparison, and I thought that's interesting. I started in 1990 and my first job in Chemical Bank, I'll never forget it, was calling up real estate developers with whom the bank had lines of credit, had them forever, they were all good customers, they only drove their line of credit on a Sunday. They drew, they repaid it, whatever. Banks were contracting a lot, and my first job was calling up those developers and saying, "I'm really sorry, we hope you keep your accounts here, but we're taking away your line of credit."

Throughout time I've worked in community development, but really alongside or even inside divisions that were doing commercial financing, commercial real estate financing, commercial economic development, that kind of stuff.

I have watched these incredible cycles of boom and bust that the financial industry has gone through for lo these many years. I've worked at five banks, some of which no longer exist, and I've watched as the banking industry's reputation has steadily gone downhill. Boom and bust, cycling in and out of markets, in and out of communities, branch closings, et cetera, in and out of products.

This was all at a time, which was again early 90's, where I was underwriting CDFIs. The word I came up with was constancy of the CDFIs. It's been a slow but steady evolution of the industry, much to your work in particular. I thought about the different deals I've done, and I've thought about the groups, how they built their financial strength, helped develop markets, added products, really have increased sophistication. Although, interesting to think about it, it's been on a pretty simplistic business model in some ways.

The industry's performance has been superlative. It has performed through all of these cycles. It has remained in these communities. It's had steady leadership at the helm, and that's pretty remarkable in and of itself. We're now at this point where there's this sudden—I don't know what the right word is, not influx—but this sudden, or relatively recent, sense of sophistication. There's [INAUDIBLE] there's government guaranteed origination, there's the CDFI Bond [Guarantee Program], there's New Markets Tax Credit. This industry can handle complexity, and loves to contort itself obviously.
Notwithstanding that sophistication—and you know this Mark as we're deep into this small business stuff together—we are still really dealing with these basic issues of fragmentation and inefficiency and lack of transparency, and the ability to self-sustain, which again is probably more acute in the small business world.

I found myself thinking, wow, all these banks probably were really buffeted and affected by the market and the capitalist system we're in. What is it about CDFIs that have denied the laws of nature in some ways? What is it about that? There's some that's good, and there's probably some that's not so great.

Mark: Cryogenics.

Dan: Yeah, right, exactly. We'll freeze somebody. We're going to need them pretty soon.

That's how I actually started to look back and think about these past number of years. By the way, hearkening back to the leadership stuff, it also feels like we're at this incredible point where it's sort of like the transfer of wealth, right? After the baby boom and the rise of the stock market, there's tons of wealth that's being passed on. You've talked about this obviously too, but I'm not sure I know who that next succession of leadership is. I'm not sure why that isn't a little bit more prominent, but I do think that's a big issue.

Fast forward to this moment, and this is where I struggled a little bit, honestly, trying to think about the next 30 years. It certainly feels like we're at this inflection point. It is really incredible. It feels like there's strength, it feels like we're poised for growth. I'm probably saying this because I heard you said it. Though there's been this evolution, I really haven't seen a revolution, and it's probably too harsh to say that constancy risks irrelevancy. That's way too harsh. There's a better way to say that. But, I worry about that.

In thinking about the next 30 years I came up with three or four things, and I think we could state it one of two ways. Either with a very major thesis sentence and three bullet points under it, or maybe three disparate things that get connected. By that I mean, I guess I decided the first way to approach this was to think about what's happening over the next 30 years. I think the topics before all of us that we read about in the paper and people think about and we used to do some long-term thinking are technology. That's the primary issue.
I think the second one is demography. I wrote down inequality, too. I guess if the simple question was what are the forces that will shape the industry, I think we're not immune from anything else, although again, maybe we are. It's interesting to think about at least technology, and it just feels like the biggest... just the issue that is transforming companies around us, people around us, this country, how everybody does business, either conducts their personal life or does business. That to me feels like the biggest disconnect from our industry.

Interestingly by comparison, demography, which again I think this is sneaking up on people, the rest of the country still seems to be not fully awake to the reality that we're in a majority minority, we're moving very quickly in that direction particularly in the areas in which we work. CDFIs are squarely there. They have served numerous communities, they have served minority populations, they could do more, but they've been doing it much more so than anybody else.

In some ways I think we're well positioned, but I don't see us taking advantage of that. There's something missing there. I don't see a political constituency. The biggest point is we aren't on the cover the New York Times. It's still hard to explain who these entities are and what they do. It's hard to explain to your mother what I do, what you do, and how we do it.

That was a little laundry list. The thing I ended up at was how ironic it is that impact investing seems to be the latest and the greatest. It's almost like it was discovered yesterday. Maybe that's unfair and too cynical, but it's unclear to me why CDFIs aren't a part of that. Why that wasn't the first turn. Why that isn't the central part of this. That conversation seems to be going on around us in some ways also might not be too fair.

I guess, and this is where I really again was thinking in too fragmented a way, but part of it is I think the leadership succession and how we bring in the new leaders and how we manage through that. That's a shorter-term issue, but I think that's a little guidance for the next 30 years.

I do think this technology issue is really important. It feels like in this world now there are a lot of alternatives to the conventional way of doing things in lots of different ways. CDFIs have always been an alternative to the convention. I don't think the answer is to be more
conventional, but whatever that new conventional is I think the industry should be well positioned for that.

At this point I'm probably going into incoherent, so apologizes for that.

Mark: Not at all.

Dan: That's just where I went with this.

Mark: I love it, that's great. I want to respond to one point and see if you have thoughts about it, which is that I think impact investing is the expression of a new generation.

There's a fork in the road, and part of it may be that the leaders are going to impact investing, or it may be that the leaders are there but the old leaders haven't gotten out of the way yet.

There's a second point I would say about impact investing that I think is part of it, which is impact investing unfortunately was built on—imperfect would be the kind word, or—a flawed intellectual hypothesis in some ways that no one in that world has yet been willing to test.

When I came into this world, which was late 80s, the folks who had come before me had brought a level of intellectual rigor in thinking about what it takes effectively to run counter to convention successfully and to balance of mission/impact and performance and how to do that in some way that didn't exist before.

Dan: Yeah, there is something in this generational concept. There were a lot of people who came out of the social justice movement, the 60s with that imprinted upon them and took it upon them to go make that their profession and bring their own technical skills to that.

I actually remember looking at Self Help for the first time thinking, okay, here's this little credit union in North Carolina and it will be fun to look at, and being blown away by the sophistication of their mortgage program where they were actually doing repo facilities with Wall Street banks. You can do a lot of things with 50 million from the Ford Foundation. All these guys down there are really smart and they're passionate and they've got this incredibly sophisticated thing and they're locally grounded with the credit union, but they have this national program. I remember being blown away by that.

Mark: Yeah.
Dan: No question.

There are those set of folks, and you would think that we would have built on that. But maybe it was just that as we went on, the 80s perhaps and the 90s, and the 2000s were a weird time and didn't have that same focus on justice. Somebody said, "Back then we knew where the goal posts were. We thought what we were trying to deal with was racial inequality and lot of inequity. Now we're not really sure what we're doing."

I think that's probably less true now, I think that's really clear what we're doing because the issue of inequality has become so pronounced. Maybe there is something in the way we've progressed through time. But it does feel like there's more rigor, there's more professionalism. There's this whole cadre of the young Turks who get it, buy into it, who want to do this, and are needed because of the complexity of a lot of these organizations.

Mark: Yeah. I think that's right.

Dan: One last random thought. The question is what yardstick do you measure CDFIs against? One of the tensions obviously, which we always see is CDFIs are place based, or local, they’re mission oriented, they’re a lot of different things and as we know scale is not always the answer. But, that's what people are defining as success, including us sometimes.

Mark: Yeah.

Dan: So I wonder about that tension and the question is, can you keep all that's good about being a CDFI and important about it and still scale, if that's the definition of success?

"We know scale is not always the answer. But, that's what people are defining as success, including us sometimes...So I wonder about that tension and the question is, can you keep all that's good about being a CDFI and important about it and still scale, if that's the definition of success?"