CDFIs Making History Interview

Jeremy Nowak

Mark Pinsky, President & CEO of OFN, conducted this interview on August 19, 2014.

Mark: The question, and I want to offer it to you as an open-ended question, is there one or several ideas, events, achievements, results in the CDFI field over the past 30 years that seems particularly significant to you as you think about the arc of what’s happened. You can talk as much as you want.

Jeremy: The one thing that always comes back to me is the long debate, and I’m sure this was 20 years ago now, that we had at a conference.

It was a really, really interesting debate where I think in retrospect both sides were right. The debate was: are we a movement or an industry? I remember being on the industry side because I thought at the time we were trying to deal with the whole issue of we’re unregulated. And if we can come up with standards, the standards would be a way to create transparency and track capital.

Then, on the movement side people’s perspective was, but if we become too much like an industry will we lose our soul; our sense of who we are; our sense of connectedness of where we come from; of the social movements that maybe we represented or we hope we represent.

I remember thinking about that, and I’ve reflected on it for many years. I remember thinking that the right answer was, we were both. It was really hard for any of us to have a language that would allow us to situate a practice in that way. That on the one hand we could think of industries like the banking industry or retail services; we could think about industries.

On the other hand, we could think about social movements, which often didn’t result in institutions, strong institutions, but may have been essential for social change, changing a policy, changing an election. I think we were grappling for something in our practice that could have one foot in both places.

I think, as I thought about it, that debate, which was a great debate to have, and I remembered thinking I was really sure I was right that we had to be an industry. As I reflected on it over the years, I think what’s really terrific about the CDFI movement is that that’s a fully
unresolved idea, a fully unresolved debate and that that gets resolved in the practices.

It always comes up in new ways. We create systems that are pretty sophisticated. At the same time, we do advocacy work and policy work that feels more like it’s part of the social movement. I think the remarkable thing about this CDFI world is that it never fully resolved that debate because I think it’s a debate that doesn’t have to be resolved, but has to be integrated in practice. For me, that was the most interesting moment I remember.

Mark: That’s interesting. It was 1991 in Atlanta.

Jeremy: Is that right?

Mark: I wasn’t there. I missed that. I was in ’90 and ’92 and I haven’t missed any since, but I was not there in Atlanta.

Jeremy: I was there, and I may have been chairing the meeting.

Mark: Yeah, probably you were.

Jeremy: I remember, and here’s what’s so interesting, I remember that we had visitors that year, including one I knew from South Africa, at the meeting. South Africa, who, of course, you know recently the apartheid had come down, people who had been on the fringe, many of them that were our visitors were involved in developing finance. Several of them had been obviously very active in the anti-apartheid movement were part of the ANC.

I remember in that same meeting, having conversations with people about the essential difference and the differences all of us have dealt with in our lives in different roles that we played. The essential difference between campaigning or being in opposition, particularly if you were—in the case of the South African ANC at the time—the illegal opposition; but the difference between that and then governing.

In some ways that reflected my conversation with them about that, and—given the recent transition in South Africa—was not all that dissimilar from the conversation we were having about being an industry or a movement. It was can you both campaign and govern at the same time. I just remember that, however long the conference was, those three or four days, I remember thinking about that issue and thinking how right I thought I was and how wrong I also clearly was because it was just one part of who we were and what we were trying to come to terms with.

Interestingly, the guys or gals from the ANC were talking about the difficulties in their minds of the transition, where all of a sudden they
were building institutions and had to govern and make decisions and make choices, which obviously when you’re in the opposition on the outside you never have to do. We’ve all seen that in everything we do. The differences between campaigning and governing, between managing and stirring the pot and it’s a very different world.

Mark: Yeah, a couple things about that. One is I always try and think of that as sort of the CDFI paradox. But maybe it’s like a Heisenberg uncertainty kind of thing.


Mark: You never quite know what it is, right? In fact, you know what’s really interesting in a lot of these discussions, Jeremy, is how often that Conference and that discussion of industry or movement has come up...

Jeremy: Is that right?

Mark: …and how many people have said I was on one side, and now I think we’re both.

Jeremy: Isn’t that interesting? Once again, I realize I’m not very different or very peculiar. [LAUGHS]

Mark: No, no, I think it’s....

Jeremy: [LAUGHS] No, I think that’s great. I think that’s great to hear that people see things that way. [CROSSTALK]

Mark: It’s really interesting. In some ways it was we were afraid to assume that we could be both and we had to grow into that some, you know? [CROSSTALK]

Jeremy: I do remember the fear that I had at the time was the fear of marginality.

Mark: Yeah.

Jeremy: That fear you could look at from either side. You could be afraid that you were always going to be marginal or you could be afraid that you weren’t going to be marginal, because once you're not marginal then some of your ideas and some of your practices and some of what you think is okay gets exposed to the light of day. I think there was a fear on both sides, a fear of marginality or not being marginal.

I think that’s always been one of the, kind of, running things within the CDFI world. These were very small, by the seat of the pants organizations and then they became, many of them have become very...
large organizations in terms of their access to capital and their ability
to deploy resources and their sophistication. I think everybody’s had
to manage those fears on either side of the marginality line.

Mark: Yeah, and that’s played out a lot in the tension that people wrestled
with then, even more than that now, but now in a different way,
between financial discipline and mission pursuit.

Jeremy: Yeah. It’s funny. I’m remembering if I was going to say what was a
second; there had been a long flowing conversation in the ’80s and
early ’90s up until the Clinton administration started pushing
community development finance—community development banks first
and then the idea of CDFI’s.

I remember there had been a long-standing sense that a lot of people
had, and they may have been more of the purists in the movement,
that it would be terrible to take or it might be a problem to take public
money. I didn’t, in many ways, share that and many others didn’t, but
I understood it. You can put yourself in, and still can, put yourself in a
compromised position, particularly if you viewed yourself as a social
movement.

I remember when the opportunity or the possibility for the CDFI world
to come about through the Clinton work. I remember that as an
absolutely transformative time because now there was recognition in
the White House and we all knew we wanted this to be through
Treasury and not HUD. Remember that?

Mark: Yeah.

Jeremy: I remember going to one of the early meetings in the Treasury
Department and I don’t remember who all was with me, but one of
them was your predecessor, Martin Trimble. We were in the meeting
and there we were. We were waiting for, I don’t believe it was Rubin,
I think it was the Under Secretary.

Mark: Frank Newman.

Jeremy: Was a Rubin or was it an Under Secretary to Rubin?

Mark: No, it was Newman. It was Frank Newman. He used to be with Bank
of America.

Jeremy: Exactly, from Bank of America.

Mark: I know the meeting you’re talking about.

Jeremy: Exactly, and we were sitting there and we were all very nervous, even
though we may have acted like we weren’t nervous because, I mean,
there we were in the Treasury Department. There was Martin, the scrapper, the community organizer and we were in a room and the woman said to us, “You know, this is where the G7 met,” and we were supposed to feel impressed.

I remember feeling pretty impressed. There were nice chairs. You could see Martin was ready to do battle, even though I wasn’t sure what the battle was at the time. [LAUGHS] I was just amazed we got there. Martin, if you remember his dad was the rector at the time of Christ’s Church in Philadelphia, one of the most famous churches in the country. It was one of the great churches of the Revolutionary War and has lots of famous people buried there.

I forget who the portrait was of, but the woman said, “Do you know who that was?” And it was I guess the first Secretary of Treasury, but maybe pre-Constitution, maybe during the Articles of Confederation maybe. I forget who it was. We all looked and I didn’t know. Martin said, “I know who it is. He’s buried in my Pop’s church.”

Mark: [LAUGHS]

Jeremy: I remember sitting there going, like, “Wow, oh my God.” Then, all of a sudden, Martin had this sense of, like, you know, “Yeah, I belong here! That guy’s buried in my Pop’s church.” I remember thinking there was this moment where I remember feeling like we kind of belonged there.

I remember that, personally, as a funny, a humorous, but transformative moment for the movement. As there we were negotiating with Newman, who had been the former number two or number three guy at Bank of America.

Mark: Number two, yeah.

Jeremy: Yeah, exactly.

Mark: Yeah, it was a crazy time because they didn’t know that we weren’t important.

Jeremy: I know, I know. It was classic community organizing and you remember you were such a big part of it where I remember the famous Barney commercial issue. They called your house and they thought they had gotten to the center of power of the CDFI movement. Your wife picked up the phone and Barney was on and one of your kids was screaming. They realized, this is it. [LAUGHS]

Mark: [LAUGHS] That’s how movements get built. That’s how movements become industries I guess.

Jeremy: Yeah, exactly.
Mark: Talk to me a little bit. There’s one thing I really want to ask you about because you were right in the middle of it, which was the debate, and it’s not unrelated to what you were just talking about in the movement and the industry stuff, around performance and the role that performance played in creating the industry as it is today, you know, late ’80s?

Jeremy: I think there was always this... That’s an interesting thing. It’s good to make a distinction between performance and standards because you can say I care about performance, but obviously here’s the standards I accept or the standards I don’t accept.

I thought that one of the wonderful things about the CDFI industry is that because you had investors and because you had borrowers, because you were intermediating capital that you had to have an understanding of performance and accountability for yourself, for your borrowers. Of course, your investors had to believe that you had that or they weren’t going to invest. It was going to be short term.

I thought there was in the movement, and remember the CDFI world as it emerged in the early to mid-80s, I mean TRF [The Reinvestment Fund] was ‘85. There were several organizations before us. It came on the heels of some things that happened particularly in the religious community in the ‘60s and ‘70s that were not stellar in terms of performance. They had a sense of social investment, of wanting to do the right thing, but they often didn’t have the kind of performance and the rigor that they needed in terms of the people who were making the loans and understood the markets.

The CDFI world was a proof of concept that actually was reacting against a history that was not great from the late ‘60s on up until the ‘80s. There were some exceptions obviously. ShoreBank I think was in the late ‘70s and it did well at that time, so there were exceptions. For the most part, I think people forget that that the CDFIs were in a kind of a show me situation where everybody wanted to know. Yeah, you’ve got the language. You’ve got the narrative. We understand the social justice part of what you’re trying to do.

Remember the early ‘80s was still the time of enormous amounts of enormously high interest rates. Where some of the impetus was can you just get cost of capital down from the late ‘70s up until the mid-80s. I remember getting my first home mortgage in the early ‘80s and I was lucky that I got a 12% mortgage. I felt really thankful you know? People were used to 17 and 18% mortgages.

The CDFI world was reacting to access and costs, but it was reacting to a world where this had been tried and didn’t do very well. There have been other examples within this CDFI movement where, for a variety of circumstances, some under the control of management, some not, where it hasn’t all gone that well.
I thought that the performance narrative was historically important because everybody at that time said to themselves we have to show something different. We have to show we’re true to our principles and our values and at the same time we have to show that we can get our money back and that we can build financial institutions or financial intermediaries.

I remember that always being a conversation even trying to understand what perform– and.... I do remember throughout the ’80s and into the early ’90s there was an exchange of ideas that those Conferences were important because many of the early institutions were learning by doing, building through action, learning to fly the plane when it was already off the ground, and they came together to exchange information and to try to get substance to this, to the meaning of performance.

They didn’t know what it meant. They didn’t have regulators until maybe some of the first large program-related investors came along and said here’s what your net worth ought to be. There was no covenant around capital ratios or leverage ratios or the like. There was wide disagreement and widely varying ways that people would expense loss reserves. People were grappling with it.

So it was exciting, I thought, because it was honest. The performance idea was critical, because everyone knew this would be a very short-lived movement if we couldn’t perform. The question was, what does performance mean in a mission-based organization that’s also a financial intermediary? What does it mean in different contexts for different types of portfolios, for different kinds of capital?

To some extent, you could say that that conversation, that dialogue, in the same way that the dialogue of are we a movement or an industry. That dialogue about what constitutes performance is the dialogue that I think has, sort of, stayed with the CDFI world ever since.

Mark: That’s great. Well let me, I’ve used up almost a half an hour of your time here, let me ask you to think forward a little bit. What are those things that we need to be thinking about or that could really shape what the industry or movement or both becomes as we go forward in the next three years, in the next 30 years?

Jeremy: You know, I’m not, as you know, I’m not involved in this work for the most part anymore. Occasionally I touch it with some consulting I’m doing, but I’ve been largely out of it for the last three years. I would say two things have puzzled me over the last couple of years when I’ve thought about it.

One is, that as resilient as the CDFI world has been—and it has been very, very resilient given changes in the economy and public policy—that the CDFI world hasn’t, for the most part, figured out how to do
what so many market-oriented industries do, which is to make more effective use of technology to cut costs and get access to markets.

I think that there’s a whole world there that hasn’t been... You know it’s happened around the edges. Some people have tried some forms of credit scoring. There’s some really good back-office service things that are been doing. Some people have more robust technology platforms than others. There’ve been some good innovations in my old organization in terms of the use of data to understand markets.

I think that where we’ve underperformed and where we have a great opportunity to catch up and to perform at a higher level is around the issue of technology and market access and efficiency. I don’t think we’ve been... either we haven’t had the right working capital or the right people or the right something, but there’s a gap there that’s waiting to be addressed I would think.

The second thing is, I found it really interesting. I found the whole impact investment world as it’s emerged—that conversation, that language, that narrative over the last several years—to be really fascinating. I was saying to somebody on the phone the other day that having come from the CDFI world I feel like I come from a world with great practice, but needs help with brand.

In the impact investment world, they have great brand, but very limited practice. In that sense we could learn from each other. We could help each other little bit more. I think the CDFI world technology on the one hand. I think the second thing is, there’s a brand issue and I think you did the right thing years ago when you said, let’s try to brand this in a particular way.

You said it’s not about something called CDFIs, it’s about a type of finance called an opportunity finance, which I think was a good choice. I think we’re nowhere near where we need to be on the brand issue. I think part of it is we’re still stuck too much in the old community development, public sector world. That’s important and will always be important to our history and to our present.

I think there’s a need to get out in front of that a little bit more and I’m not a branding expert; I’m not a communications expert, but I would say that’s a big deal. There's much more... We’re doing much more. We have much more opportunity. We have much more connections. We’re responsible for much greater potential in terms of social change in this country than people realize. I think a bit of it is a problem with marketing and communications and positioning. Okay?

Mark: Yeah, it’s terrific. Thank you.

Jeremy: Well, thanks, Mark.