CDFIs Making History Interview

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Mark Pinsky, President & CEO of OFN, conducted this interview on July 24, 2014.

Mark: The goal here on this call is really... I think we could talk for a lot longer than the time we’ve allotted, so I’m looking for the bubble things up. I have one favorite that I’m going to... I’m going to make you talk about your original proposal from ‘85, ‘86 whenever it was for the... I think it's called the “National Community Bank.” I think that's right.

But, I also want to invite you to talk about any other moments that really stand out to you as important. They might be events or they might be ideas or they may be achievements or they may be something else.

So, if you have any questions, let me know. Otherwise, I’m going to stop and just let you talk.

Clifford: Really, the pre-history that I’m going to be writing on, dates even earlier than the paper that we sometimes talk about. It goes back to about 1984 roughly—and I’ll be checking this from my files if I can—when I developed the legislative proposal to the New York State Assembly for a New York corporation for community banking.

This was a time when there was a wave of bank branch closings in New York City and elsewhere in low-income areas. There was a very market contraction of financial services in poor areas. Redlining had not been completely obliterated at that point. The banking industry generally was going through a lot of rapid evolution, particularly with the introduction of ATM machines. The traditional form of banking was this tyranny. This was a time when, for example, Citibank started to try to charge people for seeing a person, a teller.

With some foundation support, I put together that proposal. We introduced it. We got assembly sponsorship and so forth for a couple of years. But were not able to get anything further on that, and subsequently enlarged the notion of this to the national scale as well, and began to develop the notion of a fund at the national level that
could serve a similar purpose, namely capitalizing institutions that serve low-income people whether in neighbors, in the case of credit unions, or ultimately, as well, loan funds who might have been more sectoral in their approaches.

This was slightly before your entry into this field, Mark, at that time. It got very little traction initially. The traction that it did get met with some opposition around issues of CRAs. CRA advocates were quite suspicious of this because they thought that this would be a means to let banks off the hook.

Really, it was only in the early 1990s, when we got the Coalition active with NACDLF at the time, with ourselves, with Woodstock, with Self-Help, with Community Capital Bank and so forth, that we began to think about it much more systematically and develop the principles that we were able to use to basically explain what we were about to policymakers and, kind of, set tracks and guidance for what we were trying to do.

Mark: It was really a continuous flow of thinking and evolution and proposals and trying to solve a problem in a sense that was driving you and driving others as well to try and figure out a solution, right?

Clifford: Yeah. I think what we were trying to do was develop an affirmative policy that in terms of bringing financial services to poor communities and individuals. All that existed, really, was the stick rather than the carrot, namely CRA-type sanctions against institutions, which would be exercised through various challenges and so forth. There’s not that much in the way of incentive nor was there much in terms of federal engagement to promote the positive initiatives. I think that was some of the impetus for the approach that we took.

Mark: It was an evolution of ideas over time. What finally gave it traction, because you got traction at the federal level and then at the… Also, New York State was one of the first states to move. Was that a confluence of people, circumstances and ideas or was there something in particular that changed, that made this suddenly go from a good idea without any traction to a good idea with traction?

Clifford: What I recall—and you may remember this better—is that Riegle was working on a pilot project that would’ve been implemented through HUD. I think in the natural of $32 million or something like that. I think what made it effective was that we were working in parallel, really, with people on that side who were developing it.
Then, of course, as you remember, the interest of Clinton as a candidate in 1992, based on his experience in Arkansas with the Good Faith Fund, Hillary’s experience as well. For me, what was really the thing that gave it the big push goes back to the interview that we saw in Rolling Stone magazine—I think it was in September 1992—where he put forth quite publicly the notion of creating a network of de novo banks, 100 community development banks that would push this idea forward.

What was key this was obviously a time of great excitement for us and the opportunity to really merge our ideas and our advocacy with potentially a key supporter. What was important for us it seems to me was we were able to enlarge their notion of the kind of financial institutions that would deliver what he was looking for. Namely, that it would not be restricted to banks, but to credit unions, to loan funds, and later on, to others.

The state piece began to take off really only after the CDFI Fund itself got off the ground. That resulted from some testimony that I had given, kind of spontaneously, ad hoc, to New York State Assembly Banking Committee on this, talking about the emergence of the CDFI Fund and the need to have a non-federal match for this. Somewhat to our surprise, it was picked up by the newspapers. It became the focus point for our local strategy.

Mark: Yeah, let me shift gears a little bit because there were a lot of moments following that. All those years of, what’s that, a decade or so from ’84 to ’94 when the CDFI… you know, the legislation became law. There were moments in there. You mentioned Rolling Stone. There was the introduction of the legislation in ’93. There was the signing in ’94. There were the awards starting in ’96, I think.

Talk to me about what was that like. Were you incredulous? Were you satisfied, like, at last other people get it? What was that reaction like as this thing came into being?

Clifford: Looking back, the velocity through which this was translated from an idea that a small group of us had into public policy is actually rather staggering. You remember the earlier meetings that we had with the transition team, the Clinton transition team and so forth. In quite a short time, we were sitting in the Rose Garden with the President, with the Vice President, with the CDFI community, with actually I believe the President of Nations Bank at that time.
Mark: Yep, Hugh McColl.

Clifford: Hugh McColl. On that sunny afternoon, hearing the President talking as he so often does with great facility and great understanding of what we were about, hearing the testimony of a borrower from North Carolina. I think his name was Tim Bazemore that Martin Eakes had... [CROSSTALK]

Mark: You’re right.

Clifford: ...brought there.

Mark: Yeah.

Clifford: Yeah, yeah, the juxtaposition of the grassroots world that we were dealing with, with the highest level of policy in Washington and that joining of understanding was an absolutely, indelible moment—clearly one that any of us who were there could not forget.

So, there was that. Then were there a lot of details to be worked out afterwards, of course. That was just a quantum leap for all of us.

Mark: Yeah. That’s great, Cliff.

Let me ask you to focus a little bit on the future. You’ve had a chance to reflect. You’ve been able to focus a little bit after leaving the Federation. You’re able to focus, really, on something that you’ve always been passionate about, which is consumers, right, CFPB—for lack of a better term because it encapsulates so much—but financial education and fair treatment for consumers. How much is that the future of what community development finance needs to go on? How much is it about communities and how much is it about consumers?

Clifford: Yeah, I think that the CFPB has shifted the focus to consumers in a fairly, profound way. The depths and scope of the issues and the problems I think remain extremely, extremely broad and extremely deep at this point. It’s an historic job, taking on the full range of financial services to the marketplace on it.

I can’t say that it’s shifted... It really exists rather apart from both a focus on communities and also a focus on financial institution stability and impact. It is entirely about consumers. I don’t think that’s been readily understood by a lot of people and by a lot of institutions including credit unions.
That is the singular mission that it’s not about looking at balance sheets. It’s not about looking at net worth or portfolio distributions or any of that stuff. It’s simply about trying to create a safe space for consumers. I don’t want to say that’s it’s siloed, per se, but it really is a separate strain.

Mark: Yeah, I think that’s really interesting.

If you look forward... I want to ask you to be the visionary that you are about this broad field that we call “community development finance.” That’s inclusive of the whole industry, the CDFI industry, however you think of that. Is there something that you think about a lot, that you—as you muse on where we’ve been and where we could go—that stands out for you?

Clifford: Yeah. This is shaped somewhat by my experience over the last couple of years with the CFPB and internationally. The problem of financial inclusion of people is increasingly coming under focus around the world. In this country, the increase in numbers of people that are un-banked or under-banked, which is to say who use high-cost, non-mainstream providers, is growing and has grown in this country.

I was asked to comment for an international survey about what the financial inclusion policies of this government, what they are. In fact, there is nothing that represents a comprehensive policy, per se. My main dissatisfaction, if you will, or disappointment with the CDFI Fund over the years, and I think you know this, is that it has never adequately recognized the importance of basic financial services to consumers.

That’s not where the money has gone. That’s not where I think the Fund understands the issues to be. Now, I think that there is some prospect of change for this based on some changes in the credit union industry. What I tried to do with the Federation for many, many years, as you did as well, was try to elevate the CDFI brand to make it meaningful across federal programs, initiatives, and across thinking about addressing access to financial services and credit for individuals, for communities.

I think, finally, that message is beginning to permeate the credit union movement. Partly, it’s because we’ve seen additional values added. For example, the CFPB issued mortgage regulations that laid down standards for ability to repay. CDFIs were given an exception or a waiver from that. I think that’s very, very important. I think that’s the
kind of thing that’s going to actually drive credit unions to become much more engaged with the CDFI Fund and with the CDFI industry.

I think that there’s potential for really a tremendous enlargement of the movement and additional diversification. I suspect that there will be continuing consolidation. There certainly is among the credit union movement and I would imagine among micro-funds as well.

I think that there is a lot more to be done. I have not personally been engaged as much in the Bond program. I think, that is a new initiative that has some promise.

Generally speaking, I think that we are at a point after 20-some odd years of the Fund’s history and 30 years or more of our respective movements’ history that we enjoy a legitimacy and credibility that we’ve earned over the years and I think will allow us to be a continuing locus for innovation and expansion of federal engagement.

Mark: That’s awesome, Cliff. That was great.

I don’t have more questions given our time limit. You and I will be talking about this for years to come in rocking chairs someday. But, is there anything else you wanted to get out there while we’re doing this?

Clifford: Yeah, I think there is one thing. That is the CDFI [Community Development Capital Initiative].

Mark: Please!

Clifford: This was, in a sense, a culmination of strategies that I, and we, had developed at the Federation over the course of years, namely when we were able to develop a new financial instrument, secondary capital, over the course of that year basically getting the TARP program to invest in credit unions in this exotic instrument.

We were able to move something like, I believe, $70 million of secondary capital, which basically dwarfed all the efforts over the years that I and the Federation had been able to do in terms of raising secondary capital. It was really, huge for us both in terms of credibility for the movement and doing concrete good in helping these low-income institutions survive and recover from the Great Recession.
Mark: I think that’s right. Do you think that that experience with CDCI changed...? You talked earlier about how the credit unions have embraced the CDFI moniker as a way to make use of resources. Do you think that CDCI program and that... The experience with that maybe had something to do with that, sort of, triggered a recognition or acceptance or willingness or something?

Clifford: I think it definitely did. It wasn’t an unmitigated easy path or good in a sense that the requirements that were put on it were extremely onerous and very difficult for credit unions. The program was enormously underutilized compared to its potential. It certainly did put it on the map in a way that I think has great long-term consequences.

Mark: Yeah, I hadn’t really even thought about it until I’m listening to you talk about how that was an incredibly important program for banks as well as for credit unions.

Clifford: Yeah, yeah.

Mark: I hadn’t really thought about how that may have opened a door in some ways for some folks who just didn’t see door there and made it possible.

Clifford: Yeah, I think so, yeah.

Mark: That’s very fascinating. That’s very fascinating. Great!

Clifford: Great. Thanks a lot, Mark.

Mark: Thank you so much, Cliff. I appreciate it.

Clifford: No problem, take care.

Mark: All right, bye-bye.

Clifford: Bye.