CDFIs Making History Interview

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

Mark: Your role, you've been involved in this for a long time and have seen a lot happen, so I'm hoping that, if you're comfortable with this, I can just say, "So is there a moment or two or an event or two or an idea or two that really stands out for you?" and turn over the mic over to you and let you talk.

What do you think?

Michael: Okay. I appreciate that. I also appreciate the opportunity to be a part of this. It's a great moment for you. I'm really happy to participate.

Anyway, when I saw it and I thought about the last 30 years it seemed to me that a watershed moment was the passage of the Low-Income Housing Tax Credit [LIHTC] because that happened in, what, 1987, I believe.

Mark: Yeah.

Michael: I think that was a game-changer for the community development industry. It certainly allowed a lot of community-based organizations to get into much larger housing developments, bring real scale to their activities. It also developed an avenue of fees and revenue for a lot of them. Most importantly, it changed the whole scale of what was going on in the communities where those groups were located.

We were very boutique-y before that, I would say.

Mark: Yeah.

Michael: We were sort of doing nice projects, but they were not of much scale in most cases. LIHTC changed all that and enabled groups to do projects that were a 150 units. I remember we worked with groups in New York who 10 or 12 of them have done 1,500, 2,000 units, that sort of thing. That's not uncommon and that wasn't happening before. It also, from the CDFI industry's point of view, it opened up a lot of new lending opportunities...
Mark: Yeah.

Michael: ...both in those projects, but also I think those projects stimulated a lot of residual activity in the neighborhoods, and that opened up opportunities as well for all the things we're all doing now, charter schools and health clinics and who knows what.

Mark: Right.

Michael: I think that, if I look back, I'm sure there are others, but that, certainly for us and from where we sit, it made a big difference for LISC. It put us in...

Mark: Yeah.

Michael: ...a whole new activity and new category in terms of revenue and size and impact.

Mark: Yeah.

Michael: I think, for the industry as a whole, it was a watershed moment as well.

Mark: That's really, that's a great...I agree with you. I think it's great because I think most people who come into the industry after 2000 probably have no idea. It's just this thing that's out there that's been around and understanding what an impact it had.

Mark: One of the other things that I've always talked that LIHTC did was it brought people with a level of financial sophistication or structuring sophistication into this field. It sort of became a magnet for a lot of folks, because there was a time when the people who had more advanced financial structuring expertise came into do LIHTC because the other stuff wasn't, frankly, that challenging or that interesting or that hard or that appealing for some maybe.

Do you have any sense of that?

Michael: I think that's generally true because it really did bring a whole new level of production and volume. It was much more attractive I would say not just to those of us in the nonprofit world, but for the for-profit world as well. I think it did attract a lot of other people into the game.
I also think that its discipline that it provided, because the investors were all private companies, that rather than...You know, there's always the argument about, should we have direct subsidies from the government or do you go the tax credit route? I guess I agree with the notion that direct subsidies are more efficient in a way, but I think bringing the discipline of the private sector to it is also a big plus from the LIHTC side.

Mark: That's a really good point because I think, since then, maybe as a result of that, a lot of CDFIs can claim to sort of be intermediating that discipline of private investment. But at that time, not at all, right? It really wasn't. Not in any big way.

Michael: That's right. That's right. The banks, look, let's remember that, in 1987 the banks were not in the community development game in a big way yet.

Mark: Yeah. Not at all.

Michael: It really took...LIHTC, in a way, was the first investment of any scale that a lot of them had done. That kind of got them into the game, and so they could see that community development wasn't just a bottomless pit. When you had the more serious enforcement of the Community Reinvestment Act in the Clinton years, you combine those two things and, suddenly, the banks are in this in a big way and so are the insurance companies.

Mark: Yeah.

Michael: I think a lot of it... There are lots of impacts that LIHTC had.

Mark: I think that's right.

Michael: I think in the future...Your other question, I...[CROSSTALK]

Mark: Yeah, please.

Michael: I don't know, but I thought you were joking at the beginning about the CDFI Bond Guarantee [Program]. But, I really thought, if you'd asked me a year ago, I would have said that program is a game-changer. That program is going to change everything. If you're not participating in it, you're going to be outside the market. It hasn't exactly turned out that way. It may yet, but, so far, I don't know, I think the jury is still out on that one because it's so tightly structured, it makes it very,
very difficult. Who knew a year ago that that was the way it was going to come out.

Mark: Yeah.

Michael: I just thought having that kind of what looked to be a very flexible, low-cost, very long-term capital was a new thing. Right?

Mark: Yeah.

Michael: Not very many people have that. So suddenly, there was this huge, this billion dollars a year. That was enormous.

Mark: Yeah.

Michael: I don't know. Maybe it'll still come around. I have my doubts, but I'd like to see it emerge. It's going to be hard because some of those rules are going to have to be changed.

I've seen this stuff that you sent into Treasury, and we agree with all of that. They just...They really need to loosen up some of what they're doing.

Mark: Truthfully, I think they will over time. Whether they can do it soon enough to save the program, I think it's good. It's not great. They tried to make some changes this year, but ran out of time after we proposed that in terms of how you structure it and using a single-purpose entity or vehicle and it will change the cost structure.

I think that alone can make it better, but there's other things that have to happen.

How can we leverage that opportunity and turn it into something that does work much better, hopefully gets private capital involved rather than government capital? The truth is the original legislation we had developed or what became the bond program, the 40-page version versus the four page amendment that got offered had a lot of provisions that would have made it better we think. It's worth going back [CROSSTALK]...

Michael: We've talked to them a lot. We had a very lengthy meeting with them around this comment round, because we basically went back to the Fund and said, "Look, we can't participate. With the rules as they stand, given our lender covenants, we just can't do it."
We were pushing hard for a special-purpose entity. That alone I think would open up a lot of opportunities. I'm sure there are other tweaks you could do. But that one, that one would be enormous.

Mark: It will make it better for large CDFIs who want to use their balance sheets efficiently rather than inefficiently and, for us, and, perhaps, for you, those who want to lend to other CDFIs, we can be an intermediary if we can have a single-purpose intermediary, a single-purpose entity.

Michael: Right.

Mark: You may be able to do the same thing.

Michael: I assumed that's what you were going to do anyway. I mean, I thought the role of OFN was going to be sort of capturing the smaller CDFIs who really couldn't participate on their own or even with one or two other partners, but, a 100 groups that would basically be looking to you for their capital.

Mark: Yeah, I agree. We wanted to be an intermediary. In the current structure, for the same reasons that it became marginally affordable for you, if we did it as an intermediary, it would become un-affordable for our borrowing CDFIs.

Michael: Right. Right.

Mark: The SPE solved that at least in current market conditions, right? It can get a lot more expensive in a year. So that's our hope and our expectation for exactly that reason.

We went in with an application this year as a qualified issuer that has four sort of mid-sized CDFIs. We're pushing the limits here of what we can get done. I think it's great, but not nearly as broad as we can get it being an intermediary. We do hope to have a chance to do it.

I love the LIHTC stuff. I think that's a great, incredibly important point because it had certainly been transformative in our country.

Michael: Buzz used to say this all time: "What have we come to that the biggest production program of the federal government is in the Treasury Department?"

Mark: Yeah, right. Exactly.
Michael: Which is really true.

Mark: It is. It's true.

Michael: It's by far the biggest production program of affordable housing that's supported by the federal government and it's not even in HUD. [LAUGHS]

Mark: Yeah, really.