CDFIs Making History Interview

Robert Schall
President, Self-Help Ventures Fund 1985-Present

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

Mark: I’m going to start with an open-ended question, which is, are there one or two or even three events, memories, achievements, ideas, things, looking back over the last 30 years that are profound?

Robert: Just getting Emily’s email, I wake up thinking about, “What am I going to say?” [LAUGHS] I told her I wasn’t a person who sees my life in stories. But, a few things came up, and you can select from amongst these.

Mark: Please.

Robert: It wasn’t an event, but there was a conversation that took place over many years, and you were part of these conversations, Mark, where there was an argument or a discussion over whether we should term our group of organizations a “movement” or an “industry.” That distinction or that dichotomy seemed to be a binary sort of thing; you’re either one or the other and you couldn’t be both.

They were, particularly in the early years of CDFI, or before that term was made, they were pretty heated sometimes. Folks feeling that by growing, by enlarging the Membership of—whatever we called ourselves then, NACDLF probably—we were compromising our ideals and we would be less effective in pursuing our mission, our true mission to help with social justice and economic justice.

It’s pretty clear to me that over the years, those two terms as a dichotomy that is being binary, one versus the other, is false, that it’s more like yin and yang, that they come together, that you can be an industry that is a group of organizations that have some degree of focus on building the field of professionalism and a movement at the same time.

Indeed, I think our impact on our mission has been much greater as we have broadened in our field and brought in credit unions and different types of loan funds and accepted those compromises, what were viewed as compromises by the proponents of the movement faction.
Look what we can do now. Some of the larger of the CDFIs, for example, are probably even more active on policy or issues than ever before. Self-Help certainly has, TRF [The Reinvestment Fund] is, Nancy Andrews out at California. She’s done a lot of groundbreaking work through publications and other types of policy work. I think that we’ve proven that you’re not either a movement or an industry, but you can hold true to your ideals and grow. That was one thing that I thought about.

Mark: Can I ask you a question about that before you go on to the others?

Robert: Mm-hmm. [AFFIRMATIVE]

Mark: Was that always clear to you that we were both? Or was that something that emerged over time?

Robert: I think at the time when those conversations were going on I was confused. I did not have a clear idea of whether that was true or whether those are mutually exclusive terms or not. I don’t think I had a very clear opinion, but I think over time my opinion became clearer and clearer.

Mark: All right. Good. I just was curious about that.

Robert: Then there were a couple incidents that I experienced here at Self-Help that I thought were groundbreaking. The one is when we hosted the first CDFI Institute. Don’t ask me when it was because I’m very bad with dates. I thought that was a groundbreaking event when we brought the credit unions and the banks and the nonprofits together, and we had Gene Ludwig as a speaker.

I thought it was like a little lovefest, a little Woodstock of CDFIs. I think it was just as the CDFIs were, you would probably remember the history better than I do, Mark, but it’s probably just as we were calling ourselves CDFIs...

Mark: Yep.

Robert: ...and I think the Fund was being created around that time.

Mark: It was in January of ’94, so that’s right.

Robert: I thought that was a real pivotal moment when we all started seeing some similarities between the different groups that were doing somewhat similar work with different models. I think it really helped... I think as a whole group we started to see each other as peers. The other... [CROSSTALK] Go ahead.
Mark: I had a quick question on that, which is, from the Self-Help perspective, was it conscious you were doing that, or was it just a matter of pulling together the things? Because Self-Help was particularly interconnected in these worlds. Did you have the sense that if only you could get people together, they would see this?

Robert: We did recognize that we had a foot in both the regulated and non-regulated fields and that we were unique... not unique... but, somewhat unique in that role and recognized that there are so many more similarities than there were differences, that you can have the same mission and use different tools to achieve the mission.

I thought that a lot of the other organizations that were ideologically pro-bank or ideologically pro-nonprofit were a little bit harsh in that regard, maybe this is the same theme as the first one in that regard, and that the founding of the CDFI Fund, which finally in its last iteration did include nonprofits and banks and credit unions, gave us an opportunity to pull this all together.

We deliberately wanted to pull the whole field together, and get ShoreBank there, and some of the large credit unions. We worked hard to get them there. We weren’t exactly sure if we would get that sense of belonging, of joint belonging. We were hoping that, and I think we were happy with the result.

Mark: Well, you should be. [CROSSTALK]

Robert: The third item was just a Self-Help issue, which changed our world. This is when we began our secondary market program. We didn’t really conceive of it as a secondary market program at the time.

Our Self-Help credit union had been making single-family mortgages, and that was its main product, really, for most of its years. In 1993, we started realizing there’s a big opportunity here, and we’re not going to be able to put a loan officer on every street corner to make these loans. We need other people to make these loans for us, or make more of them, and so we’d have more impact if we had a larger army of originators than just our folks.

At the time, some of the banks were starting to create these CRA loans, these specialized loans that were higher loan-to-value and creeping a little bit lower on FICO scores. I’m not sure we even had FICO scores, but credit quality.

We went to talk to a local bank here, BB&T... No I’m sorry, Wachovia, about their product. That’s when Wachovia was in Winston-Salem before they merged with First Union. They were just a North Carolina bank that had...
think they were starting to move into Virginia a little bit because they were starting to exercise their abilities under the new regional merger rules of bank regulators.

We went to them and said, "Listen, we have this idea. We’d like to see if you, Wachovia, would join with us on providing a good product for low-income people to buy their homes. We’ve been doing this for a long time. We feel like it’s possible.” At that point, we had never experienced a loss on any of the mortgages we had made.

Of course, they didn’t believe us. We were regulated. That was a regulated entity, so we could prove it to them. At first they thought we were crazy, but 1994, they did agree to sell us about roughly $22 million of their mortgages. The problem we were trying to solve for the banks was that when they make these mortgages, they couldn’t sell them to anybody, so they would make a certain amount and just stop making them.

We didn’t want them to stop. We wanted them to continue, so we thought if we bought their loans, they’d make another $22 million. Wachovia said, “Yeah, we want to continue this program, so we’ll make another $22 million if you buy this $22 million.”

That was the beginning of our attempt to try to get other banks to make low-income housing mortgage products a regular part of their portfolio, of their offerings, instead of just something that would happen for six months and then it would go away and they’d bring it back six months later and go away, and so for the homebuyers it’s just impossible to know whether there’s going to be a product on the street or not for them.

We thought, let’s try with Wachovia. They were a good local bank. They said yes to it, but then we had to come back to them and say, “We’d like to buy this $22 million, but we don’t really have $22 million to give to you. We don’t have $22 million to buy them from you, so can you lend us some money so we can buy these loans from you?” [LAUGHS] Sure enough, they gave us a $17 million loan so we could buy their loans.

They were just flabbergasted that we had the gall to ask them for it, but they realized that the worse that would happen is we would do a bad job of this and they would get their mortgages back, which is no worse than they were before, and they had our $5 million. They said, “Okay, we’ll give this a shot.”

It worked. After a year, we watched the performance. The performance was good. We had guaranteed them that we would pay them back. Of course, we
were a much smaller organization then, but still, $20 million wasn’t outside our ability to pay back the loan.

We did another one with them, and then we started going around to some of the other banks in North Carolina, which was at that time First Union and First Citizens and Centura, which became RBC, which is now PNC, and Bank of America and BB&T and convinced many of them to do the same thing.

We had this nice little program going for North Carolina, but then the banks, because of these regional compacts, were starting to spread all through the region. North Carolina banks were aggressively buying mutual savings and loans and banks in all the southeastern states now by this time, everything from Washington to, to Texas, I think.

These banks became huge and they wanted this product. They recognized this was a good product. They loved it for their CRA compliance, and it took it off their books. They didn’t have to set aside any capital for it. They thought it was a win-win situation, so they asked us to expand this throughout the region.

We started expanding it throughout the region. At that point we were just buying them and holding on our balance sheets. We just couldn’t get enough sources of debt quickly enough to do that, and our balance sheet wasn’t big enough, and so that’s what led to, what everybody knows about, is now when we got the $50 million from the Ford Foundation and Fannie Mae joined us and we made that program national.

The story before we got to that point in 1998, with Ford Foundation and Fannie Mae, was really quite a bit of innovation, I think, on the part of us, and those banks who were willing to join us on doing this on a regional basis. That made a big difference at Self-Help. It put us on this track of making us a much more sophisticated organization in terms of how we managed our financial statements and our balance sheet, we had a secondary market that we could sell to if you’re Fannie Mae.

It really made a huge difference in building our organization, and it built the size of our organization and our balance sheet significantly, which allowed us to take more risks and more innovations in other areas outside of mortgages. That really made a huge difference in Self-Help’s growth, and I think in the industry as well because I think a lot of other organizations started thinking about secondary markets and securitization as a way of going after that.

Mark: I think it lifted everybody’s vision a little bit. Everybody said, “Whoa. We didn’t know we were allowed to do things like that.”
Robert: That’s right.

Mark: I think it had a profound effect. It changed how people think about what CDFIs are. It changed people within the industry and how they think about what CDFIs are.

Robert: It showed us that we could have an impact. We could do something that would be relevant to the banking industry, help them meet a need and help make a huge impact in the low-income communities, and of course the portfolio that we ultimately purchased became the best example of a low-income housing mortgage portfolio in the country and has been studied in and out now for I don’t know how many years.

Mark: It also—beyond just proving that—became the data source in your partnership with UNC was really important for what you could learn about what made mortgages... were... [CROSSTALK]

Robert: Right, and how they behaved independent of all the other noise about whether they caused the economic, the mortgage crisis in 2008 and whether they were considered... These were not below market interest rate loans, so they took away that consideration that some people said, “They’re subsidized loans. You can’t consider them the same as any other loans,” but these were not subsidized loans.

I remember that that was a real difficult point for some of these banks and some of our allies is that we were not making them subsidized because we realized that if we tried to subsidize this product that we couldn’t achieve any scale, that the requirement for subsidy would keep it to be a very small little pilot but we couldn’t grow it, but by making it pay for itself by essentially having its own internal PMI built into the interest rate, it was ultimately scalable. I think that’s another lesson that all of us in the field learned from.

Mark: One last thing about that that I think is worth noting is, it also made Self-Help a player in the mortgage business in a way that I think made it possible for what became the Center for Responsible Lending.

Robert: Definitely. It’s what launched... That and our on-the-ground experience with our own customers, our own mortgage customers who were being overtaken by subprime borrowers, the combination of those two factors got us into creating a permanent policy group to deal with subprime mortgage... [CROSSTALK]
Mark: It’s that thing that you and others, but you in particular have always talked about, which is that policy has got to be driven by practice and you have the credibility to do that.

Robert: I thought that was incredible. God knows we did not have anything in mind, we did not see this trajectory that it put us on. There’s no way that we saw that when we first went to Wachovia asking to buy their $20 million. We thought we could replicate it, but we didn’t think we could replicate it at the level that we had at the time.

Mark: That’s exactly the question I was going to ask you. Did you have any idea when you started that...

Robert: No. I think that a lot of the things that all of us do in the field... We’re really good at thinking about ideas and trying something out and then trying to replicate it and make it large. Sometimes it can work and sometimes it doesn’t work.

There’s just no way, quite frankly, of predicting which ones are going to be successful and which ones are not. We’ve had many more attempts of introducing an innovation that didn’t work out as we have successful ones, so you never know.

Mark: That’s great. I’m going to use that as a great point to end on, Bob. This is terrific. This is exactly the kind of-

Robert: I’m glad I helped you.

Mark: All right. Bye-bye.

Robert: Bye-bye now.