CDFIs Making History Interview

John Taylor
President & CEO, National Community Reinvestment Coalition (NCRC)

Mark Pinsky, President & CEO of OFN, conducted this interview on September 5, 2014.

Mark: I want to throw out some open-ended questions to you and ask you to do something you do particularly well, which is share your thoughts and ideas. We’ll get to the questions: questions over the past 30 years, is there a moment or an event or an idea that really stands out to you as being really important, not just for CDFI and not just for CRA, but in how we bring capital to communities.

John: Right. I would first have to focus on standing on the White House lawn with the President [Clinton] and the Vice President [Gore] and the chair of our board, Irvin Henderson, on the stage with the President announcing two critical things, which both of which, I think, had immense value to under-served people, and that was the formation, creation, of a CDFI Fund to put resources into this industry, and then the modification of how CRA [Community Reinvestment Fund] is enforced from one based on process to one based on performance.

That was quite a day because I think everybody involved in CDFI work— CDC work, advocacy, organizing—the Clintons invited us all onto the south lawn. It was a beautiful day. I remember there being a lot of people wondering what did this all mean because it was all kind of not as common an understood concept, CDFIs CRA. To the folks on the lawn, we really got the impact, what it meant to have the President calling for creating an infrastructure that supports the work of CDFIs and at the same time insisting that banks be more accountable on where they make their loans, investments, and where they provide banking services.

Being an organization that was primarily focused on getting the private sector to put money out, we were really excited for two reasons, one being that CRA was going to be strengthened, but also that we knew that this fund was going to create capacity for all these micro-lenders or community development financial institution lenders to be able to access not just grants from the CDFI Fund, but investments and loans from the financial institutions because they would need them in order to perform under their CRA requirements.
Indeed, watching that unfold, I was very honored to be appointed to the first CDFI Fund Advisory Board, and even though at the time we weren't a CDFI, we weren't doing direct lending, but he appointed me to the board and I just was in awe at the amount of money that went in, and then the amount of CDFIs that existed that were able to use the resources and really generate a lot of valuable lending.

At the same time, watching as CRA got strengthened—you remember, Mark, there was a time when banks, basically, if you had a sign on the wall that referred to CRA and fair lending matters, if you had a folder in some desk somewhere that said "CRA folder" you were two-thirds of the way through your exam. They literally did not examine them for their actual lending, even though the law was about meeting the credit needs of the community they chartered to serve.

At the same time we're creating the Fund, here comes the administration and with the support of the Federal Reserve, the leadership of the Federal Reserve, recreating how banks are assessed under the Community Reinvestment Act and literally creating tests now. They'd be tested and 50% of their grade would be who they're lending to. Twenty-five percent is where their investments go, so investments in CDFIs certainly was an option and a need for the banks. Then 25% was banking services.

We could see, just looking at the numbers from year to year, a tremendous growth in money and economic opportunity occurring in low-wealth neighborhoods, and if it weren't for a recession and, really, for the sub-prime debacle that we all lived through, I think we'd be looking at a lot of more healthy neighborhoods as a result of the work of CDFIs and CDCs and others.

Mark: John, let me ask you this, sort of dig down on that, because one of the things that you were quick to point out—and I think the CDFI community, which was relatively new on the Washington scene at the time, shared your view—which was that these things, they could either multiply each other or they could collide and cancel each other out in some way.

There was some concern about whether this would be a net positive or a net negative, and I think we would agree it's been a net positive on both sides and how they've been able to work together. Talk to me a little bit about what that was like at the time because you were concerned, you know, you were straight up when you said, "Look here, I'm concerned."
John: I think that's a very good question because a lesson I think we need to relearn today, we're in this together. There were CDFIs who, as we began to advocate and talk about the needs of banks to do more and, people speak in different tongues when they make points, right? Some people are louder, some people are softer, gentler. Some people used kinder words, some people use harsher words, but essentially they're saying the same thing. We need the financial services sector, this capitalist society to make sure that it's fair and equitable.

Some CDFIs would say, "Gee, I'm not a radical. I'm just trying to get loans out and some of the so-called radicals or advocates will look at CDFIs and say, "You're not going to be able to solve the whole problem. You're too small. We need the main holders of capital to pay attention to low-wealth neighborhoods."

We got by that discussion, and the way we got by it, interestingly enough, was actually having the CDFI Fund and the CRA reform happen simultaneously where we could turn to each other and say, "Look, CDFI reform is good for you guys, you in the CDFI world, CRA reform for the advocates, the organizers, very good for us, and we think also good for you, but let's help each other."

I really watched community development organizations that didn't do lending. Many of them were primarily in housing, and at the time CDFIs that I was engaged in weren't engaged so much in housing, but they were engaged in small lending. Their focus was more on getting banks to invest in them, getting them to understand what was at stake here if the CDFI Fund passed, but also getting the CDFIs to understand, if we're successful on this side, how we are going to help each other.

I really saw this conglomeration of NCOC members, certainly at the time we had about 250 organizations, and reaching out to them and talking to them about the CDFI Fund, the first reaction for most, because they weren't CDFIs per se, was, "What?" We would have to explain the Fund, what the Fund might do and how things might occur and why it was important to support that. Getting the folks who were very active in the whole CDFI movement at the time to also support CRA reform...Neither was a heavy lift, but it was really, you had to do the ask, and people saw themselves playing very different roles, but that coming together of diverse interests, diverse social purpose interests, resulted in the creation of the CDFI Fund and of a much stronger CRA.
I think the sad thing is what ought to be happening today is we should be able to be measuring the results and celebrating neighborhoods that have turned around where there's not only healthy housing and jobs, but there's good schools and low crime rates and low unemployment rates, and that there's communities that at one time really struggled but for the attention of the collective efforts of social purpose organizations and government, and eventually industry and banking. Instead, and I think this is what's very unfortunate is the sub-prime predatory industry that was allowed to run wild, and particularly targeted traditionally under-served people and under-served communities, were able to really undo and in fact go well beyond the gains that we would be celebrating today and wiped out a tremendous amount of wealth and wiped out opportunity and work that had been done over the past 20, 30 years by CDFIs, by CDCs.

I'll stop with that.

Mark: We benefit a lot just hearing you sort of reflect back on that, and I think that message of what worked together, I think we all a little wary of it. I think President Clinton understood, perhaps better than all the rest of us, why these things needed to happen together, right?

John: Yeah, . President Clinton and Hillary Clinton, because at the time, Hillary Clinton was on Shore Bank, so she had her ear closer to the whole awareness of what community-based or community-related lending looked like and what its potential was. I think she very much was driving that.

Mark: Yeah, that's absolutely correct. You've been able to add a CDFI function to your organization, right?

John: Yes.

Mark: Talk about that and how that's changed or enhanced, really, what you're able to do as sort of the leading advocates.

John: You know, it was kind of crazy that we didn't do this long ago, Mark, because we run, out of the Department of Commerce, two rather large minority business associations where we help minority-owned businesses get contracts with government, with private sector, get financing, and we increasingly thought we needed to be able to have a fund or some sort of financial control over what occurred, because a lot of these businesses, when we'd send them to banks, a lot of them would get funded, but a lot of them wouldn't.
We began to understand that we could play a more direct role, and that's when we started going to the banks saying, "Look, just help us with funding so that we'll do the kinds of loans that are just too time-consuming or loans that you just don't have the time for, and we'll follow certain guidelines that give you your comfort level, but we think we need to be more active in this space," so we started doing all sorts of businesses, primarily in Washington, DC.

That's worked out very well. It's really something. We have, also, a women's business center that was started out of the SBA in the White House in Washington. It's amazing, Mark, to come in like last night, 7:00, in our building there'll be 40 women, all entrepreneurs, all either having started their own businesses or looking to start their business, getting trained by our technicians on what it means to start a business, what a good business plan looks like, what other kinds of things you need to plan for and do to be successful.

There's that, but most recently, our CDFI, we kind of got sick of just watching the Blackrocks of the world go into communities and basically freeze their potential for economic expansion by acquiring thousands of units of housing, not with the purpose of fixing up and reselling, but simply with the purpose of raising rents. As they did that, you see neighborhoods that, where normally you would have had a healthy balance and mixture of home ownership and rental properties, evolve into primarily rental housing neighborhoods.

Nothing against rental housing, but having a stable mix of home owners who, because they have a stake in their own home, they are more likely to report crime. They're more likely to keep up the property. They're not absentee landlords. Obviously renters can do this as well, but it's that healthy mixture that usually results in a balanced, economically viable neighborhood.

There's been many studies that talk about home ownership being the most stabilizing influence, but without getting into that debate, NCRC watched as companies out of Texas and elsewhere would be buying tens of thousands of units of these houses every month, and essentially freezing any type of progress that the housing stock might have made in contributing to the community, so we decided that we needed to get into this space. We built a fund for our CDFI that's $50 million to go out and be able to acquire properties to beat these folks to the punch and acquire the properties, renovate them and then resell them to LMI [low to moderate income] people, and if a family or whoever wasn't ready for home ownership right away because their
credit score might be impaired a bit or for whatever reason, we have a lease to own mechanism that takes a portion of their rental payment, their lease payment, and puts it towards a down payment, but also counseling, both pre- and post-purchase counseling to assist them in strengthening their credit score and moving towards the status of being a homeowner again.

That's something that we're most excited about now because we started that about six months ago, building the fund. We have about $30 million of the 50, and it looks like we're going to surpass the 50. We're just really looking forward to buying lots and lots of houses and making sure that they begin to re-contribute to those neighborhoods that were devastated by the foreclosure crisis.

Mark: I want to make sure I get a chance to ask you one last question which I know you'll have something to say about which is you talked a little bit about the lessons we need to relearn in some way. Walk me in the future a little bit in this broader field, so CDFI, CRA, community investment, under-served. What do you think about? What are sort of critical path issues? What are the things you think we all need to be focused on?

John: This may not surprise you, Mark, but I think that what's gotten weaker is our ability as social change agents to be effective advocates for change. The whole concept of advocacy and being willing to stand up, we've gotten weaker as a collective. One of the criticisms I always had for my brethren in the CDC world and also from my brethren in the CDFI world is to try to get them to rise above the naiveté of thinking that if only CDFIs and CDCs had enough money, it would solve our economic problems.

We live in a very powerful, rich capitalist world, which is not about to give the money away for social purpose things. We've got to have standards that ensure that there are livable wages, economic opportunity, fair lending, and that these laws and regulations are things that are really enforced.

We're heading in the wrong direction. Things like Ferguson, elsewhere. They're just canaries in the coal mine, signaling that people are not happy and that people are not going to stand for it, that the deepening of poverty for those who are at the bottom 20% the bottom piece of the middle class that continues daily to fall into poverty, many of them who don't even realize it, that's just a time bomb.
We either can come together as sensible, concerned leaders to work together to create tax laws that are fair, labor laws that ensure that people have livable wages and that jobs are not just shipped off to places where people are abused and there's no OSHA and no limits on child labor and so on. We're going to find a way to make sure that the wealth works for all people in this country who are willing to work and to play by the rules, or we'll be very broken.

That means we have got to include—all of us, whether we're a CDFI, a CDC or an environmental movement or in healthcare, anything and everything that people are doing as a contribution to try to make a better society, we have got to come together in a larger, broader advocacy commitment, holding hands, locking arms and saying we can't continue to have a disparate society in which wealth is being redistributed to the top and fewer and fewer people are able to have even a modicum of decent life.

Mark: Thank you.

John: Probably doesn't surprise you, Mark.

Mark: No, but I need to get it. We need to record it and people need to hear it.