CDFIs Making History Interview

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Mark Pinsky, President & CEO of OFN, conducted this interview on August 15, 2014.

Mark: The question really is, "Are there a couple of things one, or two, or three things that really stand out to you as important over the last 20, 30 years?"

Carla: What came to mind first was that meeting and I can't remember when it was, but it was in the early 90s I think when...there was one of the early Conferences and there was an adamant and passionate debate about whether we were a movement or an industry.

I don't think the term CDFI even existed yet, but the loan funds had been getting bigger and there were more. There were some people who had come out of the movement part and Nancy Wasserman from Vermont was, I think, the lead spokesperson for that. It was clear at that time that there was a change, and that there was a sense that we were moving from being a movement to an industry.

With all of the peer review and looking at it to be sustainable for the long term, but what that makes me thing about, and I think that OFN has played a key role in this, and, frankly, I think you have played a key role in this, is that the fear is the time and I had that fear too is that the passion and the dedication to the social justice mission would get lost as it became an industry, and as we became sort of fascinated with the financial complications, and the deal making and all the things that come with becoming larger and more of an industry that the social justice mission would get lost.

That hasn't happened, I don't think. It's been because there's been a conscious effort, I think, at every stage to make sure that's front and center, and it's in the tag line of the agency of OFN, but I think that's been crucial to making this what a powerful industry it is now, but it's an industry with a soul and a purpose that I think could have easily been lost.

You look at high finance and hedge funds and all that kind of stuff, there's a seduction to the complications of finance and the things that you can do with it, and keeping the human soul, and the human focus,
and the social justice purpose behind it, integral to the growth of what's now a substantial industry, I think, has been ... it's what continues to define CDFIs, but it was stewarded. It had to be stewarded and has to continue to be stewarded I think to keep that as a central thread through the whole thing as we get larger and as scale continues to be a bigger and bigger factor, which you guys recognized long ago with grow, change, or die. Scale with that social justice focus and maintaining local connections even as you're getting the benefits of scale, that challenge is key to the industry, but it's what has made us so powerful up to this point I think.

Mark: But the reason we've been able to keep that is because of the work that every individual CDFI has done. Talk a little bit about how you made sure that in the things you pursue you made sure that you knew that at the end of the day, you're commitment to mission will be as strong, if not stronger than it was at the beginning of that?

Carla: I think partly by the people that we continued to include in the organization and on the board, and making sure that in addition to the technical expertise we added to the board, we had people who were connected to the community and to the needs of the community and who would keep us from steering too far away. Certainly, the staff that we've had here. Many of our staff had been here for more than 10 years because they believe in this, and they put their foot down when we start looking at deals that are more about the revenue certificate from the transactions than the purpose of them, when we get seduced by that kind of thing.

We had staff who'd say, "Hey, what are we here for? What are we using these resources for?" That's been the key. Because we have a small geography, our focus has been on maintaining connections with the organizations, the community groups, the municipalities, the other funders, the other folks in the nonprofit sector to try to figure out what their needs were, and to continue to serve those needs.

Our development of product has kind of come from the community and we've been responsive, which is not always sustainable in terms of an organizational longevity, but I think it has woven us into the fabric of the community that we have here, and then people come to perceive us as the go to entity to do something that there's not another source to do it, but somebody who's going to try to be creative around some sort of financial service or programmatic service related to that, but can meet a need that has come up.
Mark: Can you think of other deal you did, or deal you didn't do, where you had to internally go through that struggle of, "Does this service mission or not serve mission and what did that involve?"

Carla: I can think of two examples. One was in the early days when we started our bank pool. One of the first loans that we did a turnkey development for the housing authority, which had torn down some terrible housing, early public housing and had to replace it with scattered site units. It was being done on a turnkey basis, one developer and nobody wanted to fund it because the cost were far exceeded, what the value was going to be, so it was an ideal deal for the bank pool.

We got the bank pool on board and that took a long time because they couldn't understand the loan to value issue. Actually our board, at that point, started looking at the development we were doing, and it clearly was going to serve low-income people, but the site was really small and there was clearly no space. This was going to be a place that had children given the bedroom sizes of the units. There was no place for kids to play.

That prompted us to come up with a whole series, at the time, of sort of softer physical and social requirements for a development. Even if it was serving low-income families, what was the site like? What was the development like? It had to meet more than just minimum specifications, but had to have other physical, and aesthetic, and social, sort of, child friendly criteria.

We came up with a set of criteria, which overtime has started to be incorporated. There was a time when it was sort of like...We can't make this look nice, this is just affordable housing, and I think that kind of prejudice has gone away.

For a time, we needed to have our own sort of regulations to make sure that it wasn't just a box, but that it was a desirable to place to live.

Mark: The transaction drove an evaluation that led to changes in how looked what you did.

Carla: Exactly and coming up with our criteria that were beyond just the financial and the lending underwriting criteria to make sure it was a project we want to be part of.
That was ‘93 or ‘94. More recently during the economic downturn there was not a lot of development coming from the nonprofit community because the subsidies had all dried up.

There was a lot of foreclosed property all over the city and there started to be for-profit developers who were buying up those units and renovating them. We realized that to some degree, these were the units in the neighborhoods that we cared about and where we'd already invested, and these people were coming in to do development there. That was the market, and they were having trouble finding financing.

The question was, "Should we do this?" From a deal point of view, we needed to do transactions to stay alive. We had a lot of soul searching and a lot of resistance from some of the staff about, "Do we really want to lend to these for-profit developers who are coming in and buying these properties?"

What it led to was a set of criteria about who we wanted to work with and what kind of background they had to have and what we wanted to see in the properties that they had already developed and the quality of the housing that they did and their relationship with their existing tenants. We came up with a new program that had sort of a pre-qualification process to decide if this was the kind of developer we wanted to work with.

We determined that we then have the ability to help decent developers create units that are even better. We've got a guy that we work with a lot who buys properties and renovates them either for rental or sale. If there was a heating unit in the building that was good enough he's working on a pretty tight margin, he's not going to renovate it.

We can give him a $5,000 grant from tax credits that we got through a neighborhood assistance grant program to put in a new energy efficient furnace. The unit improved, it's better than what he would have done. He's already doing decent work, but we're making it possible for him to provide something that's a higher quality than he would ordinarily be able to do.

That was an area of trying to figure out how to deal with for-profit developers. Are we still meeting the mission or are we helping contribute to the demise of the neighborhoods and how do we make sure that we're not doing that?
Mark: I love it. I just want to be respectful of time and I'm going to ask you one last question. Just look into the future now, "How going forward do we make sure that we don't lose our mission focus?"

Carla: Well, we have to take the newer people who are coming into the industry and imbue them with the history and to understand where it came from, so that doesn't disappear. I think we have to keep it front and center at the national level, at the OFN level, and I guess it's a responsibility, especially as we're going to be at a point where they're all of us folks who have been doing this for a long time, sort of turning things over to the next generation. I think part of it is our obligation to make sure that the people who are following, understand where it came from...

I guess we have to just keep asking the question. I think we've got to keep raising the issue. I think that's got to be...[inaudible] CDFI Fund, I know that the accountability requirements, that's sort of one place where we kind of get out in an institutional way, I don't know if there have to be other ways, but that certainly got a continued to be a key part of evaluating CDFI certification.

I think that's the key issue for me, because scale is clearly the answer and it's happening in the banking world and it's happening in our world. I think that's the biggest danger is to lose the benefit of the local connection and the mission connection. We've just to keep it up for most in our minds as we move forward.