CDFIs Making History Interview

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Mark Pinsky, President & CEO of OFN, conducted this interview on September 2, 2014.

Mark: What we're trying to do is capture thoughts and reflections, memories, of key events or key moments or key ideas. Or anything that you felt like shaped the industry. We're talking to folks who bring a whole different set of perspectives. We really welcome you to sort of talk about it from your perspective.

Was there something, or a few things, that really stand out to you?

Margaret: I would have to say that that one event really is the creation of a performance-based financing system. That by virtue of doing that, it really necessitated a commitment among CDFIs to hold themselves accountable for performance, and then just high access to capital to that performance.

As I think back on that, I think that was certainly part of what attracted me to the culture of the then National Association of Community Development Loan Funds, and attracted me to the Members with whom I had the privilege to work over the years.

I think it's how those organizations differentiated themselves from others, who were working in community development.

Mark: Yeah, and it's had a tremendous impact on things. But talk a little bit about when you came to then NACDLF, where was the organization in the process of really sort of establishing those centers? What was that like? What did you walk into, and how many times did you say, "Oh what have I gotten myself into?"

Margaret: Well you know, I think you may recall what we all walked into was one very much admired organization, with a track record of doing great work in its community, the New Hampshire Community Loan Fund, experiencing some real financial difficulties.

I think candidly, I think that many times...I'll just speak about me personally. My personal intervention there as sort of a very new staff
member, and not quite understanding what I was getting into. I don't think really was helpful in a lot of ways.

That, in fact, they kind of, with the help of their investors and their borrowers and really a very diligent, competent staff, put in the hours, and Board members too in their case, Put in the hours to work through the issues that were confronting them.

They emerged, I think ultimately, a stronger institution.

Mark: Yeah.

Margaret: But rather than using...I think and in a way a specific case study started the conversation about what kind of accountability are we looking to establish here? And what are the incentives that help organizations strive towards strong performance?

It was also at a time when we were, National Community Capital was introduced the peer review system, and all of that. I think the industry took the notion of peer accountability farther than many other industries have.

Mark: ... at that time we were still, as we still are in some ways as an organization, still trying to figure out that balance between accountability on impact and that accountability on finances, right? But at that point it was probably even rawer and newer, and you had fewer guideposts to go by, right?

Margaret: I think we had far fewer guideposts.

I think this notion of performance-based financing is just going to get more complex as the industry moves forward. Because I think part of what is going to happen is the way we talk about accountability will change. See how quickly I'm [crosstalk]...

Mark: How so? Say more about that...

Margaret: I think for one, I think social impact is going to be evaluated with greater precision and greater sophistication, maybe sophistication is a better word to talk about it. That it really isn't enough just to have good intentions as an institution, but you have to have some way to kind of measure your effectiveness. Not so much in the terms of being able to report outwards about it. But to manage your own organization...
If an organization wants to evolve and grow more effective, you have to have some way to determine what is working, what is not working.

Mark: Mm-hmm (affirmative).

Margaret: I think that's probably going to remain one of the more complex areas of evaluation? But I think also with the financing just has to be, "Look, investors have lots of places they could put their money. Why with this institution, and why now?"

Margaret: I think that's a good thing.

Margaret: I mean one of the things, I think that that sort of notion of committing to performance. And very early on, at least this is I'm thinking in the 1990s, we were talking about a performance-based financing system. That there was sort of the requirements around access to capital, and accountability going forward for use of that capital.

For example, it wasn't that an organization would be a AAA credit, if we were using that kind of vocabulary, but that it's clear they were aspiring toward greater organizational effectiveness, and had some clear path for how they were going to get there.

Mark: Mm-hmm (affirmative).

Margaret: So that what I hope was created were partnerships between investors, sometime that investor being National Community Capital, and other times being an outside investor. Around, you know, that the goals were aligned.

But I think that that commitment really increased CDFI credibility and effectiveness. And that in turn opened up other areas for capital acquisition. And opened up the opportunity for other partnerships. I mean I don't think if Citigroup didn't think they were dealing with credible partners, you know the industry would have never had the equity equivalent. Wouldn't have developed a product like that.

There wouldn't have been a CDFI Fund. I think advocacy without performance and backing it up is kind of just a lot of talking.

Mark: Right.

Margaret: I think one of the things that I've always been impressed with among CDFIs, especially the strongest of them, and within the organization,
the national organization representing those CDFIs, is that fundamentally you come back to performance. Fundamentally you come back to the communities and the individuals being served by these CDFIs.

If there is not a clear path between what an organization is doing and how those communities and individuals are benefiting, then that's something that everybody's attention is gradually or immediately directed there. Does that make sense?

Mark: Yeah. I want to ask you about if you remember the Citi Equity Grants Program? Remember the grants program that we did?

Margaret: Yes.

Mark: You were a part of that.

Margaret: You're not talking about the equity. Are you talking about the equity equivalent? Or the straight grant?

Mark: No, the equity grant. Do you remember the grants program?

Margaret: Oh yeah.

Mark: Okay. Talk to me a little bit about that, that experience of getting people to focus on equity. But then really doing grants on a performance basis, right? Wasn't that part of it?

Margaret: It was. I mean we sort of had...There were two programs that I was involved in, so I want to make sure we're talking about the same thing. One National Community Capital started creating that...Forgive me, I go back to the old name.

Mark: That's all right.

Margaret: What we called the Central Fund.

Mark: Yes.

Margaret: That was sort of the most rudimentary form of capital we provided, and that initially was exclusively in the form of loans, was the only we could do it. Because it was debt capital went out as such.

Mark: Right.
Margaret: Then, I think I thought it was the Mott Foundation then, that initially gave us a $2 million grant that at that time was huge, with which we were allowed to make equity grants.

Mark: In between those things, there was a... In 1992, Citi gave NACDLF at the time. It was like $1,110,000. [inaudible]

Margaret: It was an odd amount, yeah.

Mark: To make $1 million worth of equity grants to member CDFIs on a performance basis. Does that ring a bell at all?

Margaret: Absolutely. Because I think that it preceded, ultimately, what we did with what we called the equity equivalent.

Mark: Yeah.

Margaret: Which was that strange hybrid. And remember that CDF ... 

Mark: Yeah.

Margaret: You know, the ever rolling potentially 10-year investment?

Mark: Yes, which they're still [inaudible] these days.

Margaret: I think...I mean what that did was one, give the organization the most valuable capital with which to work.

Mark: Yeah, absolutely.

Margaret: For Members. I felt that it was an interesting... What was interesting about the time was that on the one hand you'd say well, how do we make these decisions? And we did make them on the basis of performance. So it was this issue of finding a balance between performance and need.

Mark: Right.

Margaret: You know what I mean? Because of course everybody would line up and say of course I need additional equity.

Mark: Right. I'm trying to really capture it, because you were right in the middle of this—no one more than you—but sort of what was that dynamic like with Members? Who do need ... I mean they needed
capital, they needed debt, they needed grants, they needed everything, right? They still do.

Margaret: Yeah.

Mark: But was there universal buy-in to this idea of doing it on a performance basis? Mixed buy-in? What was it like? Were there particular instances that were really, you know, had ah-ha moments for you?

Margaret: It's a very interesting question, and I come back to that. I actually think of a conversation I had with my husband, who reminded me of this the other day.

Margaret: This actually was in relation to a loan. It was a CDFI with whom we wanted to work. It was a CDFI that was a very visible organization. The ties were significant, and long-standing. But making the loan under certain circumstances would have meant violating the standards we had set up for the loans?

Mark: Mm-hmm (affirmative).

Margaret: Tom's point to me was, "You can't...The standards don't mean anything if now you're going to make an exception in this case." Like right out of the box, you're making an exception.

I agreed with him, and happily so did the Board. So did the organization.

I think certainly there were absolutely times when it was a little tense. Because it's a Membership organization, the committee of Members is making decisions about other members.

Mark: Yeah.

Margaret: I mean obviously we can, you know, have basic conflict of interest. But I think everybody behaved with a fair amount of...not a fair amount of, actually...everybody behaved with integrity.

There was a question that if we go for sort of short-term comfort, it's just easier to kind of give in here...pressure is being applied, and it was never applied in a particularly belligerent way, but ...

That we're losing sight of the long term.
Mark: Mm-hmm (affirmative).

Margaret: And really a big part of it was like look, this is an opportunity to expand our relationship with a major financial institution at the time. And we really have to do this right. Because we're under a microscope here. We have to do it right.

Which also meant sometimes pushing back with them. Because they were kind of... You know, they wanted to put the money with us. But some of it was, "Well, but we want to see it in New York, because we're doing business there."

Mark: Right.

Margaret: Why are you making a loan? Why are you doing anything in Florida? You know, in fact we didn't, but you know what I mean?

Mark: Yeah.

Margaret: There was pressure at all ends. It was kind of... And I think we just kept having to come back to say, "Look, this is sort of how we're going to do it." We've set up some guidelines ahead of time. I think the guidelines have to be set up on really, for want of a better description, on looking at the forest as deeply and carefully as you can. Not so much on individual trees. You know what I mean?

Mark: Mm-hmm (affirmative).

Margaret: Then applying those guidelines to individual cases, which is what we tried to do.

Mark: Right. And somehow it worked.

Margaret: It did. I think it did work. I think we got better at not wasting anyone's time. In that if it's a CDFI who really is in a place where they're not ready to make the most effective use of this capital. Not because they don't need it, but because you know, maybe not just ready to make the most effective use of it. The idea was that that capital was going to go, not so much to stabilize an organization, but to help build that organization.

Mark: Right.

Margaret: Does that answer your question?
Mark: Yeah, no it's great. You have a perspective, and there's no one else who can really bring this perspective that you bring. So it's an incredibly valuable contribution you're making. Is there anything else that you want? Is there anything I didn't cover? Is there anything you want to be able to put down on tape, as they say?

Margaret: I think this notion of a commitment to...Well, actually, let me finish in a slightly different way.

I think developing organizations, growing organizations, always are confronted with a gap between ambition and capacity. What really inspired me about OFN, under its other names, as I knew you. And the individual CDFIs with which the organization works, is that there is always a striving to bridge that gap.

That these organizations, given the missions they've embraced, realize their work is never going to be done. They have to keep sort of keep the fire going in the belly, and make sure there is in a way always that gap between ambition and capacity. But they are always striving to bridge it. You know, by improved performance.

Mark: Sure.

Margaret: By more creative thinking. By all the ways you can imagine.

Mark: Yeah. By innovation and markets and products and all that stuff.

Margaret: Yep.

Mark: Right? All right, well Margaret, thank you so so much.

Margaret: My pleasure. My pleasure.