CDFIs Making History Interview

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Mark Pinsky, President & CEO of OFN, conducted this interview on July 24, 2014.

Mark Pinsky: The presented question to you is, is there a moment, a set of moments, a set of ideas or anything like that over the last...Your experience in this field and you have a lot of deep experience in this field...That really stands out to you as important? Maybe just to you, maybe to the whole field?

Mark Willis: I’m not sure there’s a specific event that I can point to. I think it’s useful here if I can put it in the context of being involved in community development from the banking side.

Before I started community development at Chase Manhattan Bank, I had worked for the city in their housing plan. I had, maybe this is the point, I’d seen the huge advantage of working with a loan fund, the Community Preservation Corporation, in working through all of the issues involved in the new initiatives that we were starting as a result of Mayor Koch’s ten year housing plan.

I was very thankful and realized then that I was negotiating with one partner instead of having to negotiate separately with a bunch of different banks. I was also impressed that this partner had developed enough trust and relationship with its bank members that it could independently work out what were the underwriting criteria that we need to be involved and saw the huge advantage of that.

Also, from the city’s perspective when I was at HPD, being able to work with an organization that was not for profit. There was a lot less concern by city employees that they had to be on guard. That somebody on the other side might have very different ambitions as what they want out of the deal.

To have a partner that we knew was really committed to making this work and that they were not there primarily to maximize their revenue or their income. I think also made it possible to work out and develop a relationship and a program that helped produce over 20,000 units of
rehabilitated vacant buildings in the City of New York throughout the city.

Mark Pinsky: Yeah.

Mark Willis: By the time I got to the bank, I understood why that really worked. I've always focused on how do we make sure that this third party loan fund has the flexibility that they need to work with us, with the city, with small business or whomever.

Where they can develop their own specialized expertise, where they can do smaller loans than the bank might be able to do economically, that we can fund them through our own lending programs so that they can do things that we all agree are important to do, but might be hard for one bank to do, and certainly would be more complicated if ten banks were trying to figure out how to do it, rather than this single entity that would be funded by those ten banks, or whatever number banks, and could be sensitive to their issues without having to get everybody's sign off on every detail.

When I think about it, that's the huge, and that revelation really for better or worse started if not came to me, but when I was on the government side.

Then when I got on the bank side, it just got additionally reinforced because I realized, again, how, what we now call CDFI can work with government, work with foundations, work with a whole bunch of partners there that would be more comfortable working with them than they might be with individual banks.

Certainly, as I said, centralizing or whatever, being able to work out the deal with one person versus, or one institution, CDFI, rather than having to deal with a lot of different banks that have a lot of different credit officers, etc.

I think also it's just a very efficient way to serve parts of the market that would otherwise not be so easy, they don't fit the standard bank set of criteria of the loans that they normally do.

Mark Pinsky: That's great. That is about the idea of a loan fund, right?

Mark Willis: Right.

Mark Pinsky: [inaudible] for you in different partnerships.
Let me ask you a question about that because you were very lucky when you were at CPD [U.S. Department of Housing and Urban Development, Office of Community Planning and Development] that you had CPC [Community Preservation Corporation]. Right?

Mark Willis: Yeah.

Mark Pinsky: Because you could've had a loan fund that wasn't so strong or wasn't so good.

Mark Willis: Right.

Mark Pinsky: Maybe you could talk a little bit about that. Whether it was at CPD or when you went to the bank. How you had to manage that. Especially the bank and CRA [Community Reinvestment Act] and all the pressures that are not necessarily rational market pressures, right? But how did you think about having...Anytime you're in business, you're better off if your partners are [inaudible], right? How did you think ...

Mark Willis: Right.

Mark Pinsky: ... about the bank perspective? I'm just curious. Because that was early on when the notion of loan funds were still kind of new when you were at the bank, right?

Mark Willis: Right. Part of the answer to that is that the city's program, this vacant building program in particular, took the Community Preservation Corporation, CPC, from a relatively small, but successful entity, that probably just barely broke even, like any CDFI, for years didn't, right? As it built up its loan portfolio, its ability to generate loans per year, etc.

We took them through a whole other or we gave them the opportunity to go to a whole other scale. I appreciated then how important that was that they have more capital and sufficient staffing and really to be able to handle what is a difficult underwriting challenge here, but one that can be done well with the proper staffing and, as I said, properly capitalized.

The losses were minuscule.

Mark Pinsky: Yeah.
Mark Willis: Until this latest recession and other issues.

Mark Pinsky: Right.

Mark Willis: Or other kinds of business that CPC got into, particularly in home ownership for sale properties. The core business has always performed well for them.

Mark Pinsky: Yeah. That was a really significant insight to understand what it was that it was going to take for this then small organization to be able to be a good partner and to be able to succeed, right?

Mark Willis: Right. You always worry when you take somebody...because I also come from a small business background. My father started a small printing company, which I ran for a couple of years...which made me very sensitive also to the issues of, whether it's a CDFI or whatever it is, a small institution growing too rapidly and can they do it, what's their capabilities. Obviously, watching that and making sure that we could be as supportive as possible, both when I was in the city and also obviously when I was at the bank, is an important part of the role that the entities that are working with CPC need to pay attention to.

Mark Pinsky: I just have one other question which is, if you remember around the time when President Clinton...was proposing creation of...

Mark Willis: A 100 community development banks, right?

Mark Pinsky: Yeah. A hundred community development banks, a thousand micro-lenders, and...

Mark Willis: Right.

Mark Pinsky: As I recall, you had a different vision for what it should be than what, at least what the industry was advocating for. It wasn't disrespectful or it wasn't hostile, it was just you had a different vision of that. Do you remember that?

Mark Willis: Creating a 100 South Shore Banks did not make sense to me and that's what he had in mind, right?

Mark Pinsky: Yeah.

Mark Willis: The idea of, since we're talking about loan funds, I don't ever remember having a negative about the ability of...
Mark Pinsky: No.

Mark Willis: ... of viability and the importance of loans funds with very specialized expertise that again could aggregate the capital from bank and foundations.

Mark Pinsky: Yeah. That's a good clarification and I agree with you about that. I think when the talk was still around banks, I think your point was, there are banks out there doing a lot of really important, good stuff here. Where do they fit in that?

Mark Pinsky: I didn't have other questions I wanted to ask you about. As I said, it's good to have a [inaudible] unrehearsed not too thought about. Is there anything else? Maybe a little looking forward toward the future.

Mark Willis: The future is difficult. I think watching what happened here, CPC, CIC in Chicago, the banks got in a lot of trouble here. They are facing a lot more regulation and unfortunately they're passing some of that along to the loan funds. I think that can greatly constrain the ability of the loan funds to realize their full potential.

If they have to go through all of the regulatory processes, be marking loans down and...

...for reasons that...I can give a great example in New York, the city's housing agency, wonderful though it is, often has a lot of trouble converting the loan from construction to a permanent. In a bank, you have to write that up every week basically.

Mark Pinsky: Yeah.

Mark Willis: Loan officers get really sick of doing that. If they pose that kind of control or that kind of regulatory procedures on CDFIs, they'll just, if not drive them out of business, they will just make it very difficult for them to perform the really important functions that they can.

We're also seeing banks want to underwrite every loan. That's a real problem. They need to give money to the institution, have trust that institution knows what it's doing based on its track record and the quality of the staff. Let it do it.

Mark Pinsky: Yeah.
Mark Willis: That's just as a continual fight I think probably in many banks and a continual threat to the long-term viability of loan funds.

Mark Pinsky: I've always, Mark, with a particularly timely and insightful comment...I called RICO regulation because it's really what regulations drives banks to have to do this changing. I think you're exactly right.

We used to worry about regulation of loan funds, which may in fact become a direct thing, but that passes through other partners and constricts flexibility, which is so important.

Mark Willis: Right.

Mark Pinsky: [crosstalk 00:16:33]

Mark Willis: That points out the other issue, the other tension that you have that you want the CDFIs to be recognized as quality lenders, but you don't want them to have to be banks. You don't want them to have to go through all of that regulatory oversight. When you want government to give them money and make loans and there's no existing regulatory system that they can rely on to judge quality...

Mark Pinsky: Yeah.

Mark Willis: ...then you've got to come up with some other...

Mark Pinsky: Yeah.

Mark Willis: ...way of giving government comfort that their lending only to the good guys and there aren't bad guys mixed in with that.

That's something I know you face all the time.

Mark Pinsky: Yeah.

Mark Willis: You're doing work, obviously, to try and create more credibility on the financials, etc.