



**Interview of Eric Weaver,
Executive Director, Lenders for Community Development of San Jose, CA
Interviewed by Steve Dubb, Senior Research Associate, The Democracy Collaborative
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Eric Weaver is the Founding Executive Director of Lenders for Community Development (which will be renamed "Opportunity Fund" in June 2008). The organization is based in San Jose, California, in the heart of the Silicon Valley.

Lenders for Community Development (LCD) began in 1993 as a for-profit, multi-bank community development corporation. It was certified as a Community Development Financial Institution (CDFI) by the US Department of Treasury in 1996. In 2000, LCD converted to a 501(c)(3) non-profit in order to facilitate partnerships with philanthropic investors. LCD operates programs in four areas: micro-lending, individual development accounts, affordable housing finance, and nonprofit community facilities finance. To date, LCD has made over 600 loans worth more than \$8 million to support local microenterprise, 74 percent of which are to minority-business, 57 percent of which are to women-owned businesses and 88 percent of which are to low-income-owned businesses. LCD has also directed over \$115 million in community investment into affordable housing and community facilities, and disbursed over \$5.6 million to over 2,300 savers in individual development account matched savings funds.

Could you explain briefly the origins of Lenders for Community Development?

It came out of the Community Reinvestment Act (CRA), when Bill Clinton was first elected to office and CRA was starting to be enforced more strongly than it had been. Local banks were looking for ways to invest in low-income communities. The local community foundation, which is now the Silicon Valley Community Foundation, convened the local banks to discuss whether they could do something collaboratively. They put together a loose group. I was hired just out of business school to put together a lending consortium.

We initially created a for-profit multi-bank CDC with a focus on loans to small business and affordable housing. The goal was for banks to be able to make some (CRA-qualifying) loans that they might not be able to make on their own.

So I guess that answers where you got your initial capital from.

Our loan capital came from banks. And most of the operating dollars initially came from banks. Then we started to get funding from other funders, mainly for the micro-lending. We really launched the programs in 1995 and five years later we converted the organization into to a nonprofit. We did this for a couple of reasons. We realized that micro-lending would require

continuing subsidy and the IDA program we launched in 1999 was entirely grant dependent. So we decided to convert it to a nonprofit.

What are some of the unique challenges of working in the Bay Area?

In many ways, we are very fortunate to be working in a place where there is a strong funding community and interest in the issues we work in. But there are challenges being in an area with such really high cost of living, especially housing, and pretty poor public transit. It is a difficult place to be poor. So it is a “good news, bad news” situation. We have a stronger employment base, but if you’re in low wage employment or not employed, it’s an extremely hard place to get by.

Another challenge is that it is a very multiethnic place with a lot of different cultures. You have to be pretty creative about who you partner with and be able to offer services in multiple languages. It can also be a challenge in terms of our cost structure. It’s a more expensive place to do business. You pay more for rent and salaries, so it’s hard to run as efficient an operation as you might in other parts of the country.

Your background as a community organizer with a Stanford MBA is a little unusual. Can you explain how this has background contributed to your work?

The background in community organizing turned out to be surprisingly helpful at the beginning of this process. We started out with 15 different banks that were all part of this effort who we were asking to cooperate with each other, even though they were all competing with each other in the market. My experience as a community organizer was as helpful if not more helpful than my MBA background. I had worked with low-income tenants and as a relief worker in El Salvador. This background was beneficial to help me figure out what partnerships made sense for us to bridge that gap between mainstream financial institutions and people who had not been comfortable with using those institutions.

You mentioned that you converted to a nonprofit to be able to accept grant money, but did this shift from for-profit to non-profit status bring any challenges?

Surprisingly few. There were a couple of reasons we started out as a for-profit. The main one was that the banks providing the capital understandably wanted to have a lot of control. They were really new at doing community investing. They weren’t sure what they were getting into. As a shareholder, you own it. You have a lot of control. At that time, there was less familiarity with the concept of social enterprise and hybrid organizations. If we started out as a nonprofit it was feared that we might be seen as not caring if these loans didn’t need to be repaid or that what we were doing wasn’t a real business.

When we got a handle on what this was and when we got an IDA (Individual Development Account) program, it made sense to convert. By then the bank investors had more comfort that if you were a nonprofit you could still run a business-like operation. The banks gave up a little control. We did set ourselves up so that the banks are the members of the nonprofit. Major decisions need their approval and they also elect the board. But they were very comfortable with

the transition. There was obviously an approval process with the Internal Revenue Service, but nothing that we weren't able to work out.

One of your organization's largest programs is your Individual Development Account (IDA) program. Am I correct that it is the nation's largest?

We have more enrollees and more graduates cumulatively than any other IDA program in the country. EARN in San Francisco has a similar number of active accounts and they are growing fast. We helped them get off the ground, and they are sort of a sister organization. We have the most historical information on savings patterns.

How has IDA program been funded?

It started out as a collaboration with the Center for Venture Philanthropy, which is part of the Silicon Valley Community Foundation. They did most of the fundraising for the first 1,000 accounts. They raised private money and county money. Catholic charities help us get funding from the Office of Refugee Resettlement. And there was money from the federal program, AFIA (Assets for Independence Act). Once the Center for Venture Philanthropy finished its engagement, which we had anticipated from the beginning, we took over the lead role in fundraising. We have had a large grant from the Knight Foundation. We get an AFIA award every couple of years. We are working with United Way Silicon Valley to fund IDAs for single moms. We've also been able to use our earned income through the New Markets Tax Credit to generate matching funds for the IDA program, which is pretty unusual for an IDA program. Once people understand this, they really get invested in it. For instance, we are working with a person who on her own organized a donor circle to help raise money for the IDA program in San Mateo County.

What do you see as the role of advocacy for IDAs? What is needed in terms of funding to meet the demand?

To meet the demand, a lot would be needed. We're not an advocacy organization ourselves but we work very closely with groups working for that like CFED, New America, and the Asset Policy Initiative of California. We view our role as generating the outcomes and data to show why this is good public policy. We're involved in advocacy, but I wouldn't say we're leading the charge. I would say what is going to be needed is expansion of AFIA (Asset For Independence Act), changes to the rules (experiment to broader uses of matching funds, not just the three traditional uses – children's education, retirement accounts. Allow people to save for a family emergency fund. There is going to be an ongoing role for some kind of on-line vehicle for smaller donors to match the savings of IDA savers. I think that has a lot of promise.

Are there broader challenges, beyond needing more money, that the IDA field faces?

There is definitely an infrastructure challenge. It's a relatively complex program to operate. With no disrespect, the average social service agency might find it pretty daunting. If you have 1,000 active accounts and hundreds more open every year, and many withdrawals for asset purchases, and having controls to verify the money is going to where it is supposed to, it's pretty

complicated. – CDFIs might have a bigger role to play as the field grows. Citibank is the only large bank playing a major role. There are others, but more need to jump in. As people in low-income communities have more access to technology, there can also be more use of technology in terms of getting statements, etc. I don't want to push the education to an on-line platform. That may be needed in some places, but I think face-to-face is more powerful.

At the end of the day, there is also an issue around trusting people to use the money wisely. This gets back to AFIA (Assets for Independence Act), where the money can only be used for three purposes (education, homeownership, or starting a small business). There are other things people need savings for – after receiving financial education and having saved dutifully for 2-3 years, we ought to trust them.

In Great Britain, their Child Savings Accounts have no restrictions on how you spend the money. We ought to look in that direction.

When Child Savings Accounts were proposed earlier this year in the presidential campaign, the concept developed a high level of opposition.

Part of this is due to a mistake in a speech by Senator Clinton where she overstated the cost of the program. But it's fascinating to see the kinds of things that emerge in opposition to this idea. Obviously, the cost is something we are concerned about. But the Federal government is subsidizing asset accumulation for 401k, preferential capital gains, mortgage deductions to the tune of hundreds of billions of dollars. AFIA is just a few million dollars. I find that argument hard to understand.

There was a bipartisan effort in California to introduce child savings accounts. What shot it down right out of the box was anti-immigration concern, that this would encourage people to come to California and have children. The Republican cosponsor backed off immediately. I thought this was crazy.

Your organization also operates a large micro-lending program. What do you see as the impact of these loans on community development?

We really look at that in a quite systematic way. We're using the Aspen Institute's "Microtest" methodology.

On an annual basis we do surveys of our customers. We look at what's happening at the business level and the individual level. We look at changes in revenue and net income, employment, whether or not health care is being provided, business retention, household income and wealth.

Do you target your lending for specific neighborhoods?

We have to feel it's a business that is not going to be eligible for conventional financing. We either lend to a family that is low or moderate income or to a business in a neighborhood that is low or moderate income that would provide services needed by that neighborhood. Sometimes, in partnership with a city or community-based effort we might target a certain neighborhood in

our marketing, for instance. This might happen, for example, if someone is putting up a loan loss reserve for loans made in a particularly low-income neighborhood.

You've been known to say that micro-lending in the United States requires subsidy. What is a reasonable level of subsidy that should be expected?

We're not aware of a mission-based micro-lender in the United States that is able to cover all of their costs through income in the program. There are many reasons why it's more difficult here than in the developing world. First, it is either impossible because of legal barriers or frowned upon to charge the kind of interest rates that international microfinance charges. Right out of the box you have less income. Also, if you're willing to pay those kinds of interest rates, there is credit available in this country. So if I'm charging 40-50 percent interest, there are other ways people can get the money without having to spend time getting technical assistance from us and answering all of the questions we have.

Also, it typically has not worked in this country to do peer lending. I think that is cultural. I think that peer lending works in villages where there is deep knowledge of your neighbors. Here people move around and keep to themselves more. When you can't use peer lending you have to do old-fashioned underwriting. That drives up your costs.

Another issue is concentration of borrowers. In a lot of developing countries, you have a higher percentage of people who are self-employed. You can quickly sign up borrowers. Here you have got to market. There is a lot of noise – a lot of other kinds of credit available. It's costly to get to the customers.

Doing business in this country is also more complicated and more regulated than in the developing world. So there is a higher need for technical assistance, which can also drive up costs.

So, it is more challenging economically to scale it and make it pay for itself. We see the same kinds of positive impacts on household wellbeing, wealth and income. The argument I make is that maybe it is not appropriate to measure U.S. micro-lenders by comparing them with international micro-lenders, but instead we should compare micro-lending to other things we do to help people improve their economic circumstances, such as job training, affordable housing, and community colleges. I'm not denigrating any of these things. I'm just saying maybe it's a better comparison point. What we run into all of the time is someone who knows international micro-lending and thinks it's so cool that it can make a profit and then declares that since micro-lending doesn't make a profit in the United States, U.S. micro-lending doesn't work. If profitability is the only criterion, then job training doesn't work, affordable housing doesn't work. All of these things require philanthropic or governmental subsidy to do what they do.

What amount of subsidy is required to make micro-lending in the United States work?

If you're lending in a high-cost area, you're going to need more subsidy than in a low-cost area. There are two measures that get used a lot. One is called the "cost" rate – the dollars you spend per dollar under management. So if you have a portfolio of \$1 million, how many dollars do you

spend in a year to manage that? Rates in this country range – ours is between 30 and 40 cents. You might have a small number that have a more efficient cost rate than us, such as Acción Texas and Acción New York. They focus less on technical assistance. But you need to look at a lot of variables such as where are you lending, how much add on service (or technical assistance) you are providing and, how much risk you're taking on.

The other measure is the self-sufficiency ratio—that is, what percentage do you generate through earned income? We're not aware of a program that is at 100 percent. Some would claim to be up in the 70s and 80s. You need to be careful and look under the hood and see what costs are being included. There isn't a magic number there.

Someday there may be an organization with franchisees that provide the exact same services throughout the country. Then you could compare apples to apples.

Your organization also operates an affordable housing and community facilities lending program and has used New Markets Tax Credit to support some of your larger projects. Could you explain briefly how you were able to access New Markets monies and how they have assisted with financing specific projects?

The New Market Tax Credit provides a tax credit to investors that provide funds for loans or equity investments in business that are working in low-income communities, it could be for-profit or nonprofit businesses. We've focused on nonprofit community facility projects. It's new. It's got a lot of regulations. It's pretty complex. The cost in terms of legal and accounting fees you need to pay to do a deal tend to drive practitioners to do larger projects. Because of the baseline fixed costs for lawyer and accountants, if you tried to do a \$500,000 project, you would eat up the subsidy in fees. It has also tended to be used more for real estate than working capital type loans. It's a place-based program. If you make a loan to a business, there is a concern that it could move. A building can't move, so that gives people more comfort. It's tended to be used mostly for commercial real estate, either for-profit or nonprofit.

It has certainly allowed us to do some larger projects that have had a transformative effect on neighborhoods.

Could you discuss an example, such as the National Hispanic University project?

The NHU was the first NM project in the Bay Area. We provided a loan to finance a new campus building for a nonprofit community based university whose mission is to educate low-income Latino students. It was operating out of an old elementary school and bursting at the seams. It was not able to provide a quality experience from a facilities point of view. They were able to fundraise quite a bit of grant money but not enough. But we were able to provide a low-interest loan over seven years. It gives them seven years to raise the rest of the money. Once they do refinance there will be money left over at the end. We will share some of that with the university in the form of a grant. So this will help them build the endowment and strengthen their financial bottom line.

More broadly, could you comment on how Lenders for Community Development seeks to coordinate its IDA, micro-lending, and community development finance activities so that they support each other?

We feel it all coheres from a mission standpoint – to improve the economic wellbeing of working people by giving them the means and the know-how to invest in their own future. So that really starts with affordable housing and other services that people might need to stabilize themselves economically. That’s why we do the real estate lending and community facilities such as child care. We provide access to financial education and a place to save. We work so that it doesn’t cost you money to save and through the IDA program give low-income people an incentive to save. Low-income people, since they pay little income tax, they don’t have much of an incentive to save. They don’t have the same incentive that upper income people have. We also provide access to appropriate credit – appropriate versus predatory credit – so they can use it productively.

How much do the programs work in tandem? We have had a good bit of overlap with IDA savers using IDA savings plus a loan to start a business. There are certainly been some neighborhoods such as in east San Jose where we provided all three types of service and feel we’ve had some impacts.

What are your priorities going forward?

We’re in the middle of that discussion. The big tension for us is achieving greater scale without sacrificing impact. And to what extent we want to place priority on one or other. We’re leaning on the side of impact. So if you have to choose between doubling the number of people we serve versus really having a transformational impact, we would go towards the latter. It’s hard to talk about an overall organizational goal, but by programs: with IDAs we want to expand the uses so it is something that brings the opportunity to save to a broader universe of people as well as broadening the universe of people who support it by donating through an online platform.

With micro-loans, there we are focused on scale. There are real efficiencies that can be gained by going to 500 loans a year versus the 200 we are at.

If you had to choose three accomplishments of your work that you are most proud of, what would be?

I would say being part of proving that low wage workers can save and use money responsibly, whether it is saved or borrowed, use money in a productive way. I would say pioneering a model that relies on private sector dollars to do microfinance in the US. The last one is having created a healthy high performing organization where people with high ideals can put them into action and have a satisfying career.

Shifting gears and thinking nationally, obviously there has been tremendous growth in CDFIs (Community Development Financial Institutions) since Lenders for Community Development was founded in 1993. What do you see as most important changes brought about by the growth CDFIs?

It's a whole new way to invest in working communities. Prior to the dawn of the CDFI you were going to have a purely private sector approach and start businesses and hopefully that would trickle down to everybody or government income supports. The CDFI is kind of a hybrid where you are providing financing but it is very much targeted at benefiting the low-income sector of the community. It's not waiting for the trickle-down. Using business principles. It opens up a lot more avenues – try to bring more economic opportunity and economic justice. It doesn't replace the traditional means. It's just another vehicle.

CDFIs have grown in strength even during this decade, in a period of generally declining federal support for community development. How? What impact has declining federal support had for your work?

Federal support is not the only driver. As the industry develops more capacity, you may have faster growth, independent. In our case, federal CDFI funds had a really transformational effect in terms of our confidence to invest in growth and our capacity to take on more growth. I think CDFIs can keep growing with or without, but they will grow a lot faster with it. I think it's a good investment in resources.

I think it should also be noted that CDFI funding hasn't declined as much as some areas. That reflects a bipartisan agreement that this is a good way to use federal dollars.

Another area, which involves not declining federal support, but rather federal financial deregulation, has led to the rise of a predatory lending industry that strips away the assets and wealth that community development groups try to build. How has Lenders for Community Development and the communities you serve been affected by the foreclosure crisis? At the level of policy, what do you think can be accomplished in this area?

Payday lending, the big thing is that they found a way to get around usury laws. They got all of their interest charges considered to be fees, which is unfortunate. The credit card industry is a great example. There is more and more creative financial wizardry. Now credit card companies can make money off of customers who don't pay all of their bills because they have assessed them so many fees that by the time the customer declares bankruptcy, the company has already made money off of them.

In terms of policy, I am not one who feels that credit is inherently a good thing. A lot of these predatory lenders hide behind you're giving people access to credit, but if it's a bad loan that they foreclose on, that's not a good deal.

Re-introducing usury laws and capping the fees payday lenders charge is definitely in order. We definitely need to extend safety and soundness regulations to non-bank mortgage lenders. The idea they could make loans without documenting whether people have the ability to repay is crazy.

I see no downside to dramatically regulating the credit industry. Not that it will happen. Banks are also getting into this with overdraft charges.

Are there specific areas where CDFIs need to focus their efforts to better develop capacity?

Mortgage lending. CDFIs are going to be less likely to go down the same road again, which the private sector, after a few years of caution, will. I'd love to see especially community development credit unions grow – they are the best suited to provide alternative credit loans and combat predatory consumer lending.

**What do you see as the most important challenges or opportunities facing CDFIs today?
Where should the CDFI movement be focusing its energies over the next 5-10 years?**

We're in the midst of what is going to be one of the biggest periods of stripping away of wealth from low- and moderate-income households in a long time. CDFIs need to rededicate themselves to programs and products that can begin to turn that around. That includes financial education so that people learn not to do that again. It's alternative products. It's advocacy. One of the soapboxes I'm on these days is that we really need to rethink and revisit our national obsession with home ownership. Certainly a lot of what has happened recently has to do with a lot of bad actors. I think what made it easy for these bad actors to take things as far as they did is this notion that home ownership is the Holy Grail and something everybody should have. I'd love for everyone to own a home if it was beneficial to them, but the reality is homeownership is quite risky even in the best of times. The real estate market is far more volatile than other markets. Given the effects that low-income people don't really enjoy the home mortgage interest deduction, it's not clear that this is best for them. CDFIs have been supporter of permanently affordable rental housing. It is much more efficient use of public dollars to provide safe and decent housing. Some of us have lost site of this. This whole asset building movement is too fixated on home ownership. That's the single most important asset building opportunity you can give somebody – housing is your biggest expense, then they can save enough to do homeownership responsibly. We need to be doing that debate.

What about shared equity such as land trusts or limited-equity cooperatives?

Land trusts are certainly worthwhile, but I am less supportive of limited equity cooperatives. I used to develop limited equity cooperatives. I never saw what the big deal was. I see it as all of the responsibilities of homeownership with none of the potential upside. Rental housing run by a mission driven nonprofit that is well organized and capitalized is actually a better opportunity for most people. With limited equity cooperatives, do people do better than having their money in a security deposit? I hear a lot of talk about it these days, but I want to see models that show they really provide significant economic benefit for people to justify the complexity.