



**Interview of Mark Pinsky, CEO of Opportunity Finance Network
Interviewed by Steve Dubb, Senior Research Associate, The Democracy Collaborative
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Mark Pinsky is CEO of Opportunity Finance Network, a position he has held since 1995. Opportunity Finance Network (OFN) is the nation's leading trade association of community development financial institutions (CDFIs). Through 2007, OFN members have originated more than \$19.8 billion in financing in underserved urban, rural, and Native communities. The association reports that financing by its members to date has generated or maintained 191,381 jobs; supported 43,050 businesses and micro-enterprises; produced 577,736 housing units; and backed 9,552 community facility projects, with cumulative net charge-off rates that are less than 1.3 percent.

What is the status of the Opportunity Finance industry today? In what ways have community development financial institutions (CDFIs) been impacted by the global financial crisis?

The Opportunity Finance industry is healthy and sound, though we are certainly experiencing some level of stress from what's going around us in the marketplace. Balance sheets remain strong. We expect some CDFIs to be in trouble as the year goes on, although we haven't seen any yet.

Right now, every ecosystem we exist in—whether it is the economy, the policy arena, or our own ecology of development finance—are all in the midst of a once-in-a-lifetime transformational change. It's a volatile and turbulent time. It's a challenge to keep our feet on the ground.

Jim Collins, the author of *Good to Great*, spoke at our conference last December. Before the conference, he spent some time studying our industry and looking at the data. He's a mountain climber, so he used a mountain climbing analogy. He said, "If you're climbing Mount Everest and you're not fully prepared, but you're at base camp and a storm hits, you can probably survive, but if you're at 27,000 feet you're dead if you're not prepared." In some ways, he said to us, "You work at 27,000 feet – you have to be always prepared." We have these attributes by necessity.

If you look at airlines, Southwest has done well in a very difficult industry. The point Jim made was that the companies that are really successful are as disciplined in good times as in bad times. It means they are able to manage in bad times without missing a beat. That's why Southwest was able to make gains in market share after 9-11.

And that's part of the reason why community development finance has held up so well during the crisis. There is something true about this – our role is increasingly important – from a financial point of view, but also from a media or policy point of view. I get asked these days by the press, “How come you're able to be successful?” The answer is that we never stopped being responsible – it's not really more complicated than that.

Of course, we're not invulnerable to the economic turmoil. To the extent there are drags, it's the economy, which makes lending more difficult. There will be some loan funds that may not survive. But I think we will be all right. By and large the industry will be just fine.

You just had your annual conference this past December and a follow-up event on Rethinking Risk and Reward in February. Can you discuss some of action items or main themes that came out of those conferences?

A few themes came out of the conference. These are difficult times ahead. Policy is going to be really important. No surprise there. The really big one is the sense of dedication to being part of the solution in a way that we haven't been before – in a bigger picture way. In part, it is about seeking to bend the moral arc of the universe towards justice. We need to impact the way the financial system operates – Lord knows we do. At our conference this past December, I talked in my speech that we need to disprove Gresham's Law – that instead of having bad money chase out good money, we need to have a system that allows good money to drive out bad.

This is what our forum in February on Rethinking Risk & Reward was about. We need to engage our industry, the consumer advocacy industry, labor, community development folks, regulators, and others. What does that mean? It means we need to decide what we think about financial markets and how do we think about bending the moral universe. That was just the start of the conversation. We think we will be reinventing the financial industry for years and possibly decades. There are some fundamental things that we think have to be true. Reward has to be directly tied to risk. Protecting consumers needs to be a fundamental notion of prudence in financial markets and not a convenience or add-on. It is possible to pursue profit too hard. Profit in absence of regulation can take you to places that are catastrophic. The decision of a few people at rating agencies can have an incredibly leveraged effect. The forum on the 25th [of February] was very rewarding and I think it was a successful day. We have a lot to learn and we have a lot to teach. There is the mystification of what went on in the markets that only the smart people could figure out, but really the problems were pretty simple.

If the problems are, despite superficial complexity, at their heart pretty simple, without being simplistic, what do you think of as the solution or solutions?

I don't think there is *a solution*, but I think we can be part of the solution. We've created a financial system that is so clever that it has divorced risk from reward. People were taking risk without opportunity for reward and getting rewarded without taking risk. That's capitalism broken. If you take a lot of risk, you should get a lot of reward, but when those two things are dissociated, it tends to misalign every reasonable incentive that you would expect to find. It

makes it hard to things as basic things as price risk or even price an asset. We have lost confidence in our ability to know what an asset is worth. We've spent so much time deceiving ourselves to make one-plus-one equal four. We thought there were alchemists who could make this equation true. We deluded ourselves –we as a financial system—into thinking you can get gold from hay. We know that isn't so. We should've known better.

What can opportunity finance do right now? First of all, just continue to demonstrate that is possible to be prudent sound and safe and lend to low-income people, as we have been doing successfully for 30 years. It works. We were right then and we are right now. The answer is not to run from those markets, which is what has happened. If we don't have a financial distribution system that gives everybody the opportunity to access credit on fair terms, even if we are not going to replicate the problems of the past, we are certainly not going to have growth that is inclusive. The credit system is not doing the things the credit system is supposed to do.

In December at the Opportunity Finance Network conference, you asked some critical questions, such as “What must our global financial system do and be if we are working toward a sustainable and inclusive prosperity?” and “How does the nation align capital with social, economic, and political justice?” What do you see as key components of answers that begin to address those questions?

We need to take a seat for ourselves at the table of financial system reform. We are in the process of redefining financial markets. It happened in the 1930s and it happened in a way in the 1960s and it is happening now. This is comprehensive. If what we come out of this is with a system that is like the old one, we're in a lot of trouble. But we have an opportunity to think differently about the role of the credit system and the financial system.

The other piece is to take the importance that is now attached to the work that we do and figure out how to leverage that on Capitol Hill and across executive agencies and figure out how to leverage the credibility we have earned to strengthen our movement and our capacity. We need to become a core part of how the credit system works—whether at HUD (Housing & Urban Development), USDA (United States Department of Agriculture), or SBA (Small Business administration). We need to leverage the policy success we have had with the CDFI Fund and apply that success in other venues.

One of the ideas in the policy book we issued (see: <http://www.nextamericanopportunity.org>) is to create an investment bank to finance community development research and development. We need to do things like that.

That's what we need to do in the policy arena. In local communities, we simply need to go about being disciplined in good times as in bad times. We need to provide those anchor financing services – we need to build our capacity without losing a sense of mission and purpose. Not just policy. Maintain the discipline. Continue doing what you're doing. As you get bigger and more noticed, you can lose your sense of purpose. Part of my job is to keep people focused on the right things.

You've proposed a federal bond guarantee for CDFIs? How would it work and what would be its impact?

The notion of the bond fund is that it would free up a \$1 billion a year for 5-years to provide a pool of money, with repayment amortized over 40 years, to support further CDFI lending. What it would do is enable CDFIs to be part of the lending solution. It would give CDFIs the liquidity that has pretty much dried up and enable them to lend. It would give the federal government the authority to guarantee bonds for five years up to a total of \$1 billion a year, which it could do through as many as five issuers. That number could go up. But let's assume the number is \$1 billion and that Opportunity Finance Network would be one of those five bond issuers. Suppose we got a federal guarantee of \$200 million for a bond issue. We would take the bond issue revenues and place it in CDFIs. They would lend into communities, get paid back, and re-lend it (since the bond debt is for a 40-year term).

In our industry, there is a joke going around that in today's economy the market of low-income communities is growing rapidly. We think we could use more than \$1 billion, but we would be happy if the legislation passed and provided a billion.

You've talked about establishing an affirmative fiduciary responsibility of all financial institutions to invest at least one tenth of one percent of their assets in CDFIs. Again, how would it work and what would be its impact?

That's my big hairy audacious idea. The next stage of opportunity finance will be making it a credentialed asset class in capital markets. There was a time when we thought we're not like capital markets and should be separate. Well now we're doing better than a lot of asset classes. We need to get rid of the idea that CDFIs are an alternative when nothing else works. Something like this is going to have to be in place. It debunks the idea that this is an oddball kind of thing to do. It is simply not.

Are there any ideas from outside the United States in community finance that you would like to see implemented here?

We always watch microfinance internationally and the ability to scale that in the United States. Acción Texas is trying to bring that to scale. It's a good question. Honestly we have not spent a lot of time looking into that.

One of the sources of CDFI funding has been from the banking sector. Presumably that has taken in a nosedive. How has this impacted CDFIs?

There is no question that the economic crisis has had an impact on our lending. That's coming from a number of sources. Banks are not picking on CDFIs [by reducing their lending to CDFIs]; they are not lending to a lot of former borrowers.

We're also affected by the fact that most of the foundations that make program related investments have seen their endowments shrink. And almost all investors have less money to lend. It is a tough time for liquidity. That's why gaining access to the bond market is so important. That's also why we want CDFIs to have access to funds from TARP [Troubled Assets Relief Program] as well.

Has there been any tracking of the impact of the economic crisis on your membership to date?

This week we are going out with a survey. Within the next 3 or 4 weeks we'll have pretty substantial data of what's going on. That's within our industry. Some of the Fed banks are trying to get someone to write a paper to look at the effects of the change in liquidity on community development finance broadly defined – in other words, it would cover CDFIs, but not just CDFIs.

To step away from the current economic crisis, over the long haul, there has obviously been tremendous growth in CDFIs since OFN was founded in 1985. If you had to choose only three main accomplishments, what would you pick as the three most important changes brought about by the growth of CDFIs?

The first is just the proof of concept that this has worked. The second thing is demonstrating the potential or viability of what we call opportunity markets – markets outside the mainstream – markets of people of color or markets of communities of mixed income. There was this presumption that they don't behave or grow as economies the way more conventional markets do. We've been able to prove that was not the case. One of the consequences was that predators came in, but in the long run it is a positive change. The third thing was the growth in this industry coupled with the performance of the industry has the potential to change thinking about how the financial industry as a whole should function. We haven't fully realized this potential yet, but I think we are beginning to do so.

CDFIs grew in strength during the eight years of the Bush administration, a period of generally declining – or, at best, anemic— federal support for community development. How did this occur?

There are a series of stories one could tell about why this happened. One is that CDFIs were never a product of the federal government. The fund was designed to support what we do without taking the industry over. There is no other program that works the way it does. It invests in the balance sheets and invests in the ability of organizations to pursue their strategy. This is really different from most federal programs — so much financing is project based.

We understood, even though we weren't always so good from a political perspective, that CDFIs had a diverse base of support. There was a time when the Democrats didn't like us when the first [President] Bush liked us. And then when Clinton liked us, the Republicans didn't like us.

But the bottom line in Congress is that we provided the early-stage financing for that multi-family development or child-care center in your district. We were able to make the connection. Everyone knew these were special deals. Everybody was a little surprised. We had a very rich and broad and deep bipartisan base in Congress. That's critical. That's why we survived.

If you can find more than five people who say that in 2001 they would have told you that CDFI Fund would still be around in 2009, somebody is lying. People didn't think it was possible, but it was possible. We underestimated the depth of the support we enjoyed. That's the story.

One of the most important moments in our industry was in 2005 when the Bush White House led this effort that was going to be called the Strengthening America's Communities Initiative, which would have consolidated CDBG [Community Development Block Grants] and other community development programs and cut funding by one third. I am told it was known inside the White House as the Strangling America's Communities Initiative.

It was a lot of hot air. What I call "Popcorn policy." There was a kernel of truth in it, but it was surrounded by a lot of hot air. We found out that the emperor had no clothes. They couldn't win a fight on this. When we challenged them and they backed off, it was huge signal to people on the Hill that we had the political clout and know-how. It was then when we went from keeping CDFI funding at a minimal level to expanding it. We didn't have much of a lobbying presence, so it was definitely not K Street. It was grassroots. Our success is in the fact that we have so many people around the country willing to mobilize to support us and we have great compelling stories. We weren't going to roll over and die. We had real data and real results that showed that we're really important.

How do community development financial institutions coordinate with community development corporations (CDCs) and other community groups? What could be done to further improve coordination?

There was a time, maybe 15-20 years ago, when ties between CDFIs and community organizations were somewhat strained. CDFIs were at least in appearance—if not in fact—interjecting themselves between community organizations and their sources of capital. It took a while for them to understand that we could add value and leverage resources that they could not, because of our ability to manage capital and take on risk. Over time that's become a healthy relationship and it is different in every community. What's going on in Washington and a lot of banking places and funding places is that CDFIs, because of their solid balance sheets, are viewed as the wisest place in which to invest. That's great that we have resources, but if we don't have strong community partners, we can't place the money. Community development finance has to also be about charter school developers, multi-family housing developers—many of who are really struggling right now—or supporting small business. We can't succeed without all of those things going on. If we don't have a foundation of strong community-based organizations out there, there is very little we can do. Money alone doesn't solve a thing. The hard work gets done on the ground where you have a CDC developing rental housing or a community based organization developing a charter school. We can't do the development; we just do the financing.

A few years ago, OFN developed CARST[™]—the CDFI Assessment Rating System[™]. How would you assess the rating system’s effectiveness?

CDFI Assessment Rating System as a rating system for investors, but it is rooted in 20 or so years of work in financing and articulating and putting into play best practices in community development finance. Since we’re largely unregulated, we felt it was important to set up a system that would provide strong industry standards.

We use a CAMEL (Capital, Assets, Management, Equity, and Leverage) structure. We also look at impact performance and risk – no other rating system does this. We will soon be at 50-rated CDFIs and 30 subscribers or investors who are using the systems. Subscribers include mutual funds, banks, socially motivated investors, and foundations.

CARST[™] is really at the epicenter of our strategy, as performance has always been key. Having an effective rating system has been at the center of that effort. It is never more important than now. For investors to make a decision in this environment, they absolutely need a third-party investor tool that is beyond reproach. It is playing an increasingly important role. Banks, foundations, and others are losing staff. Part of losing staff means a greater reliance on third-party ratings. CDFIs are more important than ever for folks trying to do development finance of any kind. So there are fewer people to do it and greater need. CARST[™] is fundamental to our industry and development more broadly. We’ve been approached to make CARST[™] available for use for other kinds of investing opportunities beyond CDFIs. It hasn’t happened yet, but we think that will eventually happen.

What more do you see that needs to be done to expand the CARST[™] effort?

Our focus is increasing the efficiency. It has been an experiment. It is small scale. We’ve been working on restructuring how we staff it. That’s well on its way. It will be a year or two until we master that. It’s also important to appreciate that it is a market system – you need buyers and sellers. It’s been a little bit of a seesaw – as there are more subscribers, more CDFIs want to get rated. As more CDFIs get rated, more investors want to subscribe. Managing growth requires us to make this market. We’re getting there. It will put us in a position to increase the efficiency of capital flows to CDFIs and from CDFIs to communities, particularly as the economy starts to get better and more financing becomes available.

One area of considerable discussion for CDFIs over the past few years has been the issue of scale. Scale is seen as necessary for accessing greater amounts of capital, but can also mean larger organizations that may (or may not) become disconnected from the communities they serve. How have OFN members sought to build scale while retaining community responsiveness? Has the crisis at all put this discussion on hold?

The fundamental issue is that we weren’t providing a solution that was commensurate with the problems of wealth and inequality we are trying to address. A few years ago we sought to

investigate if there was any way to create a financing system that would get us closer. Little did we know how right that conversation was. But we wanted to start that conversation and we did.

One key question we would come back with our members is: What was core? What did they absolutely have to do themselves and what could they do through a partnership with others or through other sorts of systems? This was an important step to develop systems that were more productive or efficient in their use of resources.

I think we can safely say that this discussion has enabled us to increase the volume of our financing. When we started six years ago, we did \$1.3 billion in new financing. Last year we went to \$5 billion. So something is going right.

The demand for our financing is growing, so there is the need to pursue scale. The challenge is resources. This is why we have pushed for an innovation fund. To help people that have great ideas, but need some investment capital. The industry is ready and able to pursue it – we just need the resources to do it. I think the resources will be there. We just need a little bit of time.

How would this Innovation Fund work?

We've been kicking around an idea to create a fund that would allow for some grant money and some investment money for promising ideas. Money to support things that would allow a lot of CDFIs to take advantage of them if they worked: a bond fund is one of them. A lot of ideas wither on the vine. The Innovation would be working capital. Some ideas would require grant funds while others could be financed through loans. We haven't developed a formal proposal yet, but we are working on this.

What has been the impact of CDFIs on wealth building? How far back have those efforts been set by the crisis?

Obviously, pretty much everyone has been set back by the current crisis. I have certainly lost wealth in my own 401(k).

But I think we create wealth in a number of ways. For instance, more CDFIs are participating in programs that support IDAs (individual development accounts). Folks like the Opportunity Fund of San Jose, California, are trying to link IDAs to financing. We also create wealth through support of small businesses, by supporting community-based entrepreneurship that creates real wealth, as opposed to the phantom wealth on Wall Street. The greatest wealth building effect we have has come through our ability to create healthy economies in places that didn't have healthy economies.

Some Opportunity Finance Network members pursue a triple bottom line return (economic, equity, environmental). How successful have these members been? Do you see the practice spreading?

I do see the practice spreading. I think the leaders are probably Shorebank and Enterprise Cascadia, but there are a number of others: MACED (Mountain Association for Community Economic Development, SJF (Sustainable Jobs Fund), TRF (The Reinvestment Fund) in Philadelphia. It's gone past the experimental stage. How do we build a system that is going to build over time? I think it is a successful strategy. I think it is going to grow—not at a rapid pace, but a steady pace.

What are Opportunity Finance Network's priorities in green investing? What is Opportunity Finance's role in this area?

Green finance is how we would define it. It brings us back a little bit to that innovation fund. We're used to using pass-through grants where we provide flexible capital to our members: we've done this with lending for child-care facilities and small business finance back in the 1990s. We could provide some innovation capital, some working capital, with a fair amount of flexibility. That's the approach we are trying to take right now. We don't know what the best thing is. Part of the reason we do it this way is get a number of people to work on this and identify two or three areas that really work well, which we can then take to scale.

Opportunity Finance Network's strategic plan expires in 2010. While obviously the end result will depend on the members, do you have any thoughts about what might come out of the next round?

The next strategic planning round will be launched in Charlotte, North Carolina, at our conference this year and we expect to have a new strategic plan by the middle of 2010. I do a lot of thinking about that.

We are certainly in a period now of making sure that we are stable and secure and sound. We want to continue to pursue high-value financing, which we call scale, and credential what we do. Things like pursuing that idea of having an affirmative obligation of financial institutions to dedicate one tenth of one percent of their assets to opportunity finance will become more central. And of course making sure we are focused that we earn and keep the respect for what we do.

Is there anything else that you would like to add?

We are very invested in taking advantage of this policy moment both for good reasons and bad reasons. The current economic crisis brings us many opportunities such as the ability to get more federal funding for the CDFI Fund, but there are real threats to us in terms of financial system reform. Policy is critically important. It is what we have worked towards for a long time.

For more information, please see the Opportunity Finance Network's website at:
<http://www.opportunityfinance.net>.