Fighting for Equity in an Inequitable Society

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Address to the New York State Conference of Community Development Financial Institutions (CDFIs)
*Albany, New York * May 8, 2018*

I am delighted and honored to have the opportunity to speak with you today. For those who don't know me: for more than 30 years I was CEO of the National Federation of Community Development Credit Unions. In 1984, for the first time, I developed a concept paper and began lobbying for something we called the New York State Corporation for Community Banking, a prototype of a CDFI Fund. Several years later, I extended that concept and developed the first concept paper for what I called then the "National Neighborhood Banking Corporation." Over the next few years, my organization joined with what was then called the National Association of Community Development Loan Funds and today is OFN to form the national CDFI Coalition. And in 1995, after the passage of the federal CDFI law, Lyndon Comstock, who founded Community Capital Bank, Clara Miller (then of the Nonprofit Finance Fund) and I sat on my deck to formulate plans for a state CDFI Fund to provide non-federal matching funds for the federal CDFI program.

CDFI has come a long way. There are more than 1,000 federally certified CDFIs, with aggregate assets of more than $130 billion. CDFI is a big public policy success story, although, I would argue, with certain qualifications. Many New York CDFIs are living examples of that success. Many had the most modest beginnings. As we think about fighting for equity in an inequitable society, it is important to consider the ethical, social, and political imperatives that drove the creation of the early CDFI movement. What was the nature of the battles and campaigns that gave birth to CDFIs?

Chuck Matthei and the Community Development Loan Fund Movement

No single figure was more important to the creation of the loan fund movement than Chuck Matthei, who headed the Institute for Community Economics (ICE) in the 1980s. ICE described it origins this way: "Motivated by Gandhi's village development movement and the experience of the American Civil Rights Movement, ICE's founders recognized the basic connection between economic justice and political democracy." Matthei opposed the Vietnam War, refused induction into the military, and later went on an 11-day hunger strike against the Seabrook nuclear plant in New Hampshire. He was an evangelist for community land trusts (CLTs) as an approach to making housing permanently affordable—that is, by making the land a community-owned asset. ICE's early headquarters were in its austere communal house in Greenfield, Massachusetts, where essentially the staff took a vow of near poverty. It was ICE that incubated the National Association of Community Development Loan Funds (later, OFN),

Community development credit unions

I came to the community development credit union(CDCU) movement in 1980 and headed the National Federation of CDCUs for more than 30 years. These nonprofit, democratic institutions had their roots in the anti-poverty movement of the 1960s, the Community Reinvestment Act (CRA) movement of the 1970s, and, especially, the civil rights movement. In the South, especially, the fight for economic justice was intimately bound up with the civil rights movement. African Americans in Alabama and Mississippi who dared to register to vote were driven from their plantation-owned housing, denied bank loans for their small farms, and of course, much worse. In many communities, as a matter of economic self-defense, they formed credit unions.

Community Reinvestment Act. The passage of the CRA of 1977 (and of the Home Mortgage Disclosure Act, HMDA before it) owed a huge debt of gratitude to the community activists of Chicago, and especially Gail Cincotta, sometimes called the mother of CRA. Outraged at the denial of loans to their neighborhoods, they protested with local banks, got a city ordinance formed, and established National People's Action to carry the battle nationally.

The Changing Battlefield

Thus, many struggles fed what became the CDFI movement. Some of the early battles have been won; in others, the battle fields have shifted, and the terms of engagement have changed. Blatant redlining and discrimination are rare—but not extinct. What does the economic landscape look like today?

- Instead of redlining, we have seen subprime lending and foreclosure, which have disproportionately hurt minority communities.
- The wealth gap, and especially the racial wealth gap, have stubbornly persisted, aggravated by the Great Recession: Black families' median and mean net worth are less than 15 percent of those of white families, and the figures for Hispanic families are only slightly higher.[i] The Federal Reserve Board reported that "forty-four percent of adults say they either could not cover an emergency expense costing $400, or would cover it by selling something or borrowing money," while "twenty-six percent of all adults and 54 percent of non-Hispanic black adults are either unbanked or underbanked.[ii]
- We have seen the re-emergence of abusive practices such as rent-to-own or contract sales, which were widespread during the era when African Americans and other minorities could not get mortgages. Under this arrangement, people made regular payments in the expectation of someday owning their home. Instead, if they missed a single payment, they would lose everything they invested; they retained no equity from years of payment, and they lost their homes. Not only has this practice re-emerged--it has become a tool of national corporations instead of small local landlords.[iii]
- Twenty-five years ago, the perceived dangers were loan sharks and rent-a-centers. Both still exist, but here, too, there are new, "improved" versions: Payday lenders, through storefronts and on-line. They now constitute a multi-billion-dollar industry, charging 300% or more interest and through repeated refinancing, trapping people into a cycle that forces them to repay the original loan several times over.
- More than two decades ago, Treasury Secretary Robert Rubin expressed his concern about the deep and growing income inequality in the country and its potential threat to the social order. We heard a great deal about that in the last Administration – not the current one.

So where does this leave us? We, the CDFI field, have built and strengthened ***institutions***. That was the intent of the CDFI legislation that we fought successfully for, culminating in the passage of CDFI Fund legislation in 1994. CDFIs have built institutional platforms. How can we—how should we—use these platforms? What are the battles that we can and should fight?

1. Fighting abusive financial practices.

- First and most obviously, we can model and promote best financial practices.

- We should join the advocacy fights against federal and state legislation, regulations, and policies that would harm consumers in general, and low-income people and communities in particular.

  One crucial example is **defending the Consumer Financial Protection Bureau** against the current efforts to abolish it or otherwise reduce or eliminate its powers. For example, Lower East Side People's Federal Credit Union (FCU) went to court to challenge the presidential appointment of Mick Mulvaney, head of the Trump Administration's Office of Management and Budget (OMB), to head the CFPB. Mulvaney has long been an outspoken, derisive critic of the Bureau who called for its destruction. Moreover, as head of OMB, he called for the elimination of the CDFI Fund, alleging that it supported a "mature" industry that needed no federal investment and distorted the financial marketplace. In his brief few months at the helm, Mulvaney has already withdrawn or limited actions against predatory lenders and debt collectors and is now pressing for reversing the CFPB's regulations on payday loans (an industry, by the way, which gave him campaign contributions while he was in Congress).

  When the Lower East Side People's FCU went to court, it was on behalf of the low-income population that will be harmed by the curtailment of the enforcement and protective activities of the CFPB. This was an extremely unpopular position among the mainstream credit union industry, which went to court on the *opposite* side, filing papers defending Mulvaney's appointment. Apart from the court battle, there are and will be continuing efforts in Congress to restrict the agency, limit its scope, and deprive it of independence. This is *all* our fight.

- We should be prepared to defend the Community Reinvestment Act against potential efforts to weaken it. It was a basic tenet of our movement from the earliest days that we could not and would not be a substitute for CRA.

- There are, and will be, state battle grounds as well. Supporters of payday lending have already mobilized to push state legislatures to ease their rules on high-cost lenders.

2. CDFI and Mainstream Banks

The battle on another front may be an uncomfortable one for some CDFIs. Some of the largest banks have been guilty of abusive practices—and some of these have been major supporters of CDFIs.

As Jeremy Novak, cofounder of The Reinvestment Fund, wrote a couple of years ago, "The dilemma of being both partner and critic [of banks] reached its sharpest point during the run up to the Great Recession when many CDFI leaders criticized the practices of subprime lending, including the role of those banks that enabled it." Another longtime CDFI leader, worried: "are we becoming fig leaves for banks?"

CDFIs have the obligation to call out and challenge banks that have engaged in these practices, like Wells Fargo, which has paid huge fines because it defrauded millions of people through establishing phony accounts, selling unwanted add-on insurance products, and more. In addition, it is now being sued by Chicago and Philadelphia for predatory lending that victimizes black and Hispanic borrowers.

Bank partnerships are helpful, even essential, for the work that some CDFIs do. They need to ask themselves: What are the terms, constraints, and trade-offs of bank partnerships?

3. Addressing the Wealth Gap

Within the CDFI field, there is often a disconnect between place-based and person-based community development. The CDFI field has achieved some of its greatest successes in place-based physical development—for example, housing and community facilities. This is in the tradition of the community development corporations (CDCs) of prior eras. Antony Bugg-Levine of NFF (the Nonprofit Finance Fund) has reflected on this disconnect—the "idea that we define our success by physical places becoming better off rather than looking through the place to say, 'The people who were living there is the purpose of all this work.'"[iv] Frank DeGiovanni, who for decades ran the Ford Foundation's Program-Related Investment (PRI) and economic development units, questioned "whether CDFI [loan funds] really are focused on poverty alleviation or not. I see CDFIs as primarily about developing communities and not so much about reducing poverty."[v]

There are various ways to address the wealth gap. Building and financing affordable housing are one way. One of the most important innovative examples of this is the work of ROC (Resident Owned Communities) USA, which helps residents of manufactured home communities convert ownership of the land to cooperatives, a strategy that converges with and harkens back to community land trusts.

I submit that financial institutions—credit unions and banks—have a crucial role in helping to build household assets both by promoting savings and providing credit as reasonable cost, sparing the need for people to pillage their budgets by resorting to payday lending. Despite the CDFI Fund's substantial successes, it has done less than it might in expanding access to financial services for low-income people and minorities; over the decades, typically 20% or less of its annual funding has gone to CDFI banks and credit unions. However, there is evidence in the last funding round that this may be changing.

4. Economic Democracy and Black Lives Matter

The struggle for a more perfect democracy has both internal and external dimensions.

In recent years, there has been increasing concern expressed within the CDFI movement that minorities are under-represented in the leadership of CDFIs and that CDFIs do not reflect the communities they serve. Two CDFI leaders, Antony Bugg-Levine and Ellis Carr have called attention to the composition of the leadership of CDFIs themselves. “Let’s be blunt, our industry’s leadership is less racially diverse and gender balanced than we need to be…. [We need to focus] on not just the effects of the capital we provide but also who is empowered to provide it.”[vi]

In terms of access to capital, minority-led institutions have not benefited sufficiently from the CDFI Fund. This is particularly concerning because there has been a relentless decrease in the numbers of African American-owned and managed banks and credit unions.

There may not be an obvious relationship between community development finance and the Black Lives Matter movement, which has been galvanized across the country by the police killings of African Americans. But consider the response of the African American community of Minneapolis, Minnesota. After the killings of African Americans Jamar Clark (2015) and Philando Castile (2016) by the police in Minneapolis, the local Association of Black Economic Power (ABEP) and the nonprofit community organization, Blexit, decided to organize a black-led credit union in North Minneapolis. “We can’t keep using the bodies of youth as the only tool for resistance,” Me’Lea Connelly, executive director of the Association of Black Economic Power (ABEP) said, “we need something else.”[vii] The group now is in the processing of organizing a new credit union, the Village Trust Financial Cooperative. It has been a community effort; as Connelly has said, “a lot of participants who were from North Minneapolis believe [building a Black-led financial institution] is the most important work that we can do right now to change what is happening in our community.”

Although this effort was catalyzed by a police action, as the community explored ways to respond, they did not have to look far for the same economic symptoms that had motivated other community development finance initiatives. As Connelly put it, “you can’t throw a rock without hitting a payday lender or a check cashing place in North Minneapolis.” Moreover, studies by the University of Minnesota Law School’s Institution on Metropolitan Opportunity and the National Community Reinvestment Coalition documented that banks in Minneapolis and St. Paul were nearly four times more likely to give subprime loans to high-income Black residents than to low-income white residents.

Linking Economic and Political Struggle

Last month, the nation marked the fiftieth anniversary of the assassination of Dr. Martin Luther King Jr. For Dr. King, the economic struggle was intimately and indissolubly linked to the civil rights struggle. In his final days, he told a rally of sanitation workers in Memphis, Tennessee, “Our struggle is for genuine equality, which means economic equality.” As he put it, “We know now that it isn’t enough to integrate lunch counters. What does it profit a man to be able to eat at an integrated lunch counter if he doesn’t have enough money to buy a hamburger?”

Listen again to Dr. King’s final speech in Memphis, on April 3, 1968. Listen to his argument to exercise the collective economic power possessed even by those who are individually poor—as he put it, “the power of economic withdrawal.” We want, he said, a “bank-in movement in Memphis.” “We’ve got to strengthen black institutions,” he urged. Specifically, he called for withdrawing money from downtown, mainstream banks and bringing it instead to the African-American owned Tri-State Bank of Memphis.

Today, if you look on the CDFI Fund's website, you will find that Tri-State Bank is a certified community development financial institution.

The CDFI Field has come a long way. While poverty and inequality exist, we still have a long way to go. As Dr. King urged his supporters fifty years ago, don't stop now!

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[i] The Federal Reserve Bank's Survey of Consumer Finances for 2016 showed that "the long-standing and substantial wealth disparities between families of different racial and ethnic groups…have changed little in the past few years. …Black families' median and mean net worth is less than 15 percent that of white families. Source: Lisa J. Dettling, Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, and Jeffrey P. Thompson with assistance from Elizabeth Llanes, "Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances," *FEDS Notes,* September 27, 2017.

[ii] Board of Governors of the Federal Reserve System, *Report on the Economic Well-Being of U.S. Households in 2016. May 2017* (Washington, DC: 2017*), 2.*

[iii] Article by Matthew Goldstein and Alexandra Stevenson, "Operator of Rent-to-Own Homes Draws Scrutiny from Lawmakers," *New York Times*, Tuesday, March 14, 2017, p. B3

[iv] Bugg-Levine interview by author, New York City, July 23, 2015.

[v]Frank DeGiovanni, interview by author, New York City, June 25, 2015.

[vi] Antony Bugg-Levine and Ellis Carr, "Community development finance has shown we can invest in low-income communities and get repaid. It's time to do more," CEO @nff_news unlocking potential of mission-driven orgs w/investment, advice, ideas. #Impinv book http://amzn.to/tQji0s & Springsteen. @WEF #YGL. Oct 23, 2016.

[vii] Camille Erickson, "Black-led credit union in North Minneapolis is 'the most important work' to drive economic vitality," *Twin Cities Daily Planet,* July 31, 2017.