Interview of Ron Phillips, CEO of Coastal Enterprises, Inc (CEI) of Maine,
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1) *Obviously, there has been tremendous growth in CDCs and CDFIs since CEI was founded in 1977. 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 CDCs and CDFIs?*

CDCs have come a long way since their origin in the '60s as an outgrowth of the civil rights movement and the War on Poverty. Combined with community development banks, credit unions and loan fund entities – many of whom became CDFIs – community-based development and finance entities number over 4,000 today, managing billions in housing, real estate and small business assets and investments. If the goal of the CDC/CDFI industry has been to achieve some measure of *scale, permanence and impact*, today we could certainly say these have been its three main accomplishments.

First, by *scale* we mean the ability to take on increasingly significant development finance projects. For example, hundreds of thousands of affordable housing have been created by these institutions helping to change the economic prospects for millions of individuals, families and children. CDCs/CDFIs are also developing charter schools throughout the U.S. Many are involved in rural development, revitalizing and creating new enterprise natural resource ventures. To back up these organizations national intermediaries have sprung up like LISC, Enterprise or HAC aggregating capital and providing the technical and capital vital to urban and rural CDCs/CDFIs to pursue their mission.

Second, by *permanence* we mean entities that are financially sound, well managed and capable of functioning in a market-like economy. Certainly, CDCs/CDFIs are at different levels of capacity and self-sufficiency – a Self Sufficiency Index (SSI) or percentage of revenue from earning assets. The greatest challenged to the CDC/CDFI field has been the need for a steady flow of subsidized funding. Achieving a high SSI level is not without its challenges. Within that framework, however, CDC/sCDFIs have become increasingly self-sufficient, as development finance institutions generating needed capital for core operations and ongoing community development.

And finally is the question of *impact.* In the end, do CDCs/CDFIs make a difference? Studies are beginning to show that these grassroots institutions are essential in the community development process. They identify needs, manage and leverage capital to help fill the gap between those with resources and opportunities, and people and places left out of the economic mainstream. The record now speaks for itself. The CDFI Data Project among other national surveys and assessments are showing the impact these institutions are having in underserved neighborhoods and rural regions. Truly the CDC/CDFI field is an industry today, a permanent fixture of the community economic development landscape.

2) *CDCs and CDFIs have grown in strength in a period of generally declining federal support for community development. What impact has declining federal support had for your work?*

While it is true that federal funding has declined over the years, in another way this retrenchment has caused CDC/sCDFIs to branch out to alternative sources. Indeed, CDCs/CDFIs have gone through several cycles of federal government reductions from the '70s on, so recent experiences in budget cuts (e.g. the Strengthening American Communities Initiative, which in our view has been a White House bid to gouge many of the most vital resources for community development) are not new. Alternative funding needs has thus resulted in more discipline in managing assets, as well as striking out to identify other sources. These include state funding programs and mechanisms to capitalize the industry, foundations, individuals, religious institutions, banks and, in recent years, private socially-minded investors. With respect to the social investment market, the Social Investment Forum, a membership organization of money managers, is now reporting increased levels of community investment. The Calvert Foundation in Washington has been among the leading intermediaries to serve as a bridge between private, socially oriented capital and CDCs/CDFIs.

3) *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. Coastal, along with Self-Help and others, has been a leader in the anti-predatory lending movement. At the level of federal policy, what do you think can be accomplished in this area?*

Congress and the federal regulatory agencies have been slow to effectively eliminate predatory mortgage lending. The Office of Thrift Supervision and others have promulgated some regulations and restrictions on mortgage lending practices. Fannie Mae and Freddie Mac have raised the bar to a great extent in terms of acceptable secondary market purchases. Citigroup has also made considerable progress from its earlier history and abuses by, for example, capping fees at three percent. But much work lies ahead, and the burden of progressive legislation has fallen to the states. The Center for Responsible Lending in North Carolina has been among the leading advocates of state-based legislative strategy to eliminate predatory mortgage lending. In CEI's case the study we completed in February 2006 identified upward trends in Maine. Our goal is to pass legislation in Maine's upcoming legislative session that would effectively deal with primarily out-of-state, non-bank mortgage companies like Ameriquest - which was already the subject of a national class action settlement involving some 2000 Maine homeowners. By passing strong state laws we can send a signal to Congress that nationwide action is needed, action that builds on but does not reduce effective state law.

4) *Are there specific areas where CDCs and CDFIs need to focus their efforts to better develop capacity?*

There are four fundamental challenges to the future growth of the CDC/CDFI industry. These are : Access to a *flexible, subsidized capital* to sustain operations and provide the needed capital to initiate and develop high impact projects. These sources, as indicated above have traditionally come from the public sector, and from the private sector such as foundations. The second is *policies* that create a regulatory environment conducive to community development. CRA is the most dramatic example of regulation that provides incentives for banks to target some of their capital to underserved and under-banked people and places. Other potential regulatory issues and opportunities involve the environment. Communities are facing a wider threat of global warming. CDCs/CDFIs must engage in policy initiatives to ensure the resources necessary for "green" affordable housing, for example. The third challenge is *private sector leverage*. The government and charitable giving comprise essential legs to the stool of community development. But they are not the only legs. Private capital markets must increasingly flow to support the rising development capacity and impact these organizations are already demonstrating. Many CDCs/CDFIs are working at creating an "asset class" that can be more acceptable to Wall Street-like investors. There has been some success in this regard, and Opportunity Finance Network's CARS rating (CDFI Rating and Assessment System) is beginning to make in-roads among money-center banks and investment institutions. The fourth challenge is *impact*. CDCS/CDFIs must continue to show that there is indeed show both the social and financial return on investment, that they're making a difference at the community level, and that they're a necessity in the community development landscape.

5) *Your organization describes itself as both a community development corporation (CDC) and a community development financial institution (CDFI). This presumably simplifies coordination of development & finance in your case, but how well do these sectors coordinate more broadly? What could be done to improve coordination?*

These two approaches are not easy to balance. In a nutshell, CDCs, by definition, are rooted in the community. While endowed with local knowledge, they bear the costs of identifying and raising money for community development projects. CDFIs, while making much needed capital available, often are there only at the transactional stage of development. Both are required and many CDCs and CDFIs share qualities of each. However, the CDC tends to be in the more risk, subordinated position when it comes to investing; the CDFI is often in a more senior position, or at least better secured along with the bank. Furthermore, CDCs are running programs involving much deep subsidy and grant funds, such as technical assistance, counseling and training programs. Coordination between the two becomes and internal management challenge to maintain solid asset liability policies and guard against draining much needed capital for reserves, while at the same time benefiting from the reinforcement programs provide asset managers. For example a loan to a business owner is enhanced if s/he can benefit from technical assistance in planning, marketing, or pricing of a product. So too the stability of revenue from a family if housing or job counseling is available.

6) *This year, after 35 years, the National Congress of Community Economic Development shut its doors. What impact does the demise of this trade association have for the CDC movement? Is there a need to create a new trade association or will existing groups fill in the gap?*

The demise of NCCED was truly a sorry moment. The official act of dissolution came in the summer of 2002, without much notice except for the few who felt its symbolic significance. Was it the end of the civil rights dream embodied in NCCED that for so many years carried the banner of social justice? Or was it time for the organization to step aside as others had evolved and matured to go the next step? The reasons for its unraveling as the place where the many could come together to form a greater whole are still not evident; little has been written about it. While certain organizations are assuming responsibility for the legacy of NCCED, it certainly has found not steward of its rich history and special purpose in advocating for community-based economic development. A case could be made that since NCCED closed its doors a vacuum has been noted in the CDC/CDFI field. Perhaps, if this vacuum becomes more pronounced and felt across the board by past and future leaders, a meeting will be called to indeed to evaluate and perhaps to rebuild from its ashes a new NCCED-like organization that can stand on the shoulders of other national groups and represent the challenges that lie ahead for the field. And perhaps these challenges, in addition to dealing with continued racism, widening gaps between the rich and poor, can also turn to the international stage and serve as a place to bring our brothers and sisters together in a global environment to reach across borders, race, ethnicity and religion, and work on the world stage for peace and justice.

I do believe there is a gap, a hole, left by them. Other intermediaries can only fill a piece of it. There is a place for organization that gathers in all of the best of the trade associations and is one big tent.

7) *One area of considerable discussion, particularly for CDFIs, 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. As the CEO of a statewide community development organization, how has CEI managed to build scale while retaining community responsiveness?*

This is an excellent question, somewhat addressed above as one of the three goals CDCs/CDFIs have been pursuing as their industry has grown. With respect to the potential disconnect between scale and community, it's not clear to me you can have scale in a "small pond" (though you can have impact). What strikes me is the confusion between scale and impact. National intermediaries project significant "scale" numbers, but a closer look leaves much to be desired. For example, LISC describes the important role it plays in fostering childcare. But many other organizations are involved in childcare facility development, and they're not national. CEI is one; Self Help is another. And we each have done a considerable job in our respective regions. You don't necessarily have to be national to achieve scale because it's a question relative to your market. Nevertheless even if a community group achieves some kind of impact in their area, it's difficult to achieve any kind of scale, and the natural tendency is to broaden the range of targeting community. Often local groups must stay in their communities and do not have the capability nor desire to go further. So the answer to this question of achieving scale while not losing contact with the community is a tension that will probably persist. At CEI we've tried to have it both ways, broadening our market reach while, in fact, concentrating more in some of the communities in Maine. Groups like LISC, which support local CDCs, and CEI, which is now affiliating with other CDFIs in rural New England, are perhaps the best models of maintaining connections with the grassroots, while trying to achieve some measure of scale in their product lines. CEI also works closely with trade associations, such as in the fisheries, or welfare groups, or women's groups, to align our financing products better to these communities of common interest. Another question is also raised regarding the nature of community. Certainly, place is of paramount importance, as are the people in it. Geographic "impact area" as the original CDC concept described it, is still relevant to focus resources, and most federal and many private funding sources are looking to have deeper "impact" on place. But another way to look at community is a group with a *shared interest*. Thus, a farmer, fishermen, people who work in the woods, elderly, people with disabilities, all represent a community. Geography is another way to help define how that community will further its interests. In community development, another form of community has been economic sectors and how to improve their aspirations.

8) *Your organization, like many CDFIs, was founded in part through capital from religious/social justice organizations. Today, again like many of your counterparts, your main sources of capital are foundation and government-based. Beyond bringing in more resources, how has the shift in your sources of funding affected both CEI and the CDFI industry?*

First of all many foundations have limits to their funding. CEI has experienced this with the Ford Foundation, for example, which was a prime support of CEI for many years (and is still invested with us, and to some extent, supports our latest venture into triple bottom line investing). The major sources of capital for CEI now are bank investors and, through the NMTC [New Market Tax Credit] non-traditional investors like GE Capital, or Plum Creek Timber. We're now reaching out to individual social investors, and hope to open up significant resources for both grants and investment dollars. That said, we've not let go of the government, and will continue to advocate for community development programs from HUD, HHS, USDA, SBA and others. Further, we do continue to approach foundations – especially those who have not given in rural America, where foundation funding is notably slack – and among those who are contemplating PRIs [Program-Related Investments]. PRIs have not expanded as as source of "giving" among foundations, and we believe there's promise is new wealth, family foundations, and intergenerational wealth transfers occur.

9) *CEI has raised over $25 million for community development equity investments. Thinking less in terms of job creation numbers and more in terms of qualitative impacts, in what cases is community development venture capital most helpful as a wealth-building tool? Where are its limitations?*

CEI is among a very few CDCs/CDFIs that operate venture capital subsidiaries. We're managing some $35 million now, less than 10 percent of our total capital under management (about $370mm when counting the $249mm NMTC). There are several important reasons why we believe engagement in the venture capital area is worthwhile. First, there's a market for smaller scale venture capital, particularly in rural areas. While there may not be substantial deal flow initially, over time, and with changing economic of rural regions (e.g. baby boomer retirement and 2nd careers), there're new opportunities. Next, venture capital creates jobs. It's difficult to start or expand promising companies without that kind of capital. Banks turn to us for the resource, and its availability nurtures new relationships in the market we otherwise might not have. Third, venture capital opens up new investor connections and ones that cross-fertilize with other CEI financing programs. For example TDBanknorth is an equity investor, but also, a major NMTC investor. This familiarity with CEI across product lines (we don't just do micro-loans, for example, but can engage in much larger and more sophisticated financing deals) expands our investor base. Fourth, in addition to social benefits of job creation, equity investments can generate much-needed earnings to support core operations.

10) *Part of CEI's philosophy is to pursue triple bottom line returns (economic, equity, environmental). How stringent (or how flexible) are you regarding these criteria? Can you provide a couple of examples of how you've negotiated trade-offs that arise between, say, equity and environmental returns?*

We're not purists by any means, so we will invest in companies that might not be stellar environmental performers. But we try to offer information on ways to, for example, to cut energy costs. The real question is whether trade offs in the short run may mean much more dire consequences in the long run. We've seen fisheries investment for short term gain result in depletion of fish stocks and loss of 50 percent of fishing capacity. Sustainable development takes the long view.

10a) *Can you provide some examples of the tensions in such investing?*

Investing in fisheries and stock depletion. The tendency is to advocate for less stringent rules for management if one doesn't have an investment. With timberland too, if you are investing in the activity, the tendency would be not to look at the long term sustainability of the resource. I think there is a tension. We try to walk the middle ground: developing the concept of "working forests," for instance. We talk about having fishermen participate themselves in the data collection, in the science. You try to balance those efforts. It's a little complicated, but that gives you some idea. If you invest in a paper and pulp mill, we have some indirect investment. There are a lot of good paying jobs in that sector in Maine. The paper mill has a negative environmental impact to some degree. The Native American community has been very concerned.

What is the middle ground? I think there are answers. It takes a big shift to support environmental investing. There is much more gain in the long term even if we have to provide deep subsidies to provide incentives for business to accommodate that shift.

The environment is a worldwide problem. Globalization often carries less stringent rules than some countries might have, even in the United States. Look at China. I think they are very concerned themselves about environmental degradation, but they are also trying to address their future energy needs.

We've made a lot of investments in the fishing industry, paper and pulp, and timber. We've made investment in Maine ventures in the fishing and forestry that raise the question of the tension between jobs and protecting the environment.