
Life is too short to do anything other than to shoot for really, really large impact

Mary Houghton

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Katrin Kaeufer: The first question concerns the symptoms. *How does the current economic crisis show up in your personal experience?*

Mary Houghton: Well, I would answer that in the sense of how shows up in the experience of ShoreBank.

KK: Yes.

Mary Houghton: So the answer would be that, to the extent to which the predatory lending practices in the United States targeted various kinds of markets, and one of the kinds of markets that it targeted were minority markets where the assumption had to be that the customers were less educated and more easily fooled, all the evidence shows that **the incidence of foreclosures is very high in minority neighborhoods**. It's high in some other markets, too, some more speculative markets, but there's a very unarguable additional effect here.

We are experiencing at the bank higher levels of delinquency and non-performing loans, not so much from the homeowners that we financed, although we have an uptick in delinquency there, but **we have more severe problems in the two relatively small parts of our portfolio where we were financing investors who were buying and rehabbing buildings for resale. They got caught**. They were in the middle of a project where the source of repayment was a sale; and because the market is very, very slow in our markets, they now have been unable to sell and therefore unable to repay. And more than that, the value of the property that they have rehabbed has gone down quite a bit. And they're just stuck.

And so one effect is higher foreclosures in the market, and the second effect is higher delinquency in some parts of our loan portfolio.

At the moment, we do not have a big problem with homeowners defaulting or being unable to repay, which is very interesting, because **every customer of ShoreBank would by definition be called a subprime customer**. Their credit scores are in the 600, high 500–600 range, so they are what the society thinks of as subprime. But the homeowners are not in severe trouble. Who is in severe trouble are the investors. I think this data could get worse, but for '08, our net chargeoffs on home mortgages were extremely low, only 8 basis points. So less than a tenth of a percent. Whereas the delinquency rate, the chargeoff rate in the loans to developers, investors who were working for resale, that chargeoff rate was well over 1 percent. So there was a big difference.

Now, the last comment I would make on this question is that **some of our lenders say that our neighborhoods are in worse condition today than they were before we started in 1973—which is a very significant comment, and could be true**. I can't verify it for you, but they're very knowledgeable people, and if they say that these neighborhoods are in worse shape than when we started, they could very well be right.

KK: But that doesn't say anything about what shape they would be in if you weren't there.

Mary Houghton: Oh, that's true, too. Even worse. Even worse.

KK: Is that frustrating?

Mary Houghton: Well, yeah, because if it's really true, **did we really just lose 30 years of positive change? Now, I tend to think it's more that so many other things have changed. Access to education. Access to better jobs.** We now operate in Cleveland and Detroit, as well as Chicago. And they're all different from each other. So if we just take Chicago, which is much stronger than Cleveland and Detroit, we'll see if it turns out that they are right, that it's not possible to recover from this.

KK: So that also points to systematic issues that are almost impossible to fight against, if not addressed.

Mary Houghton: Right.

KK: That leads me to the second question, the root causes. *What do you consider the most important root causes of the current crisis?*

Mary Houghton: Well, to the extent to which we have all been following it, our own understanding of the root cause has changed from what everybody was thinking six months ago, which was that the predatory lending practices in the middle of a real estate bubble were helped on by much more sophisticated computer capacity and unregulated broker and securitization incentives. On some level, we imagined that. Now, lately, it has been interesting to have people say, well, even before all that happened, **something that drove the securitization and product development was that there was such a surplus of savings in this country from China**—that there was so much cheap funding available that greedy people just started inventing products to take advantage of it. So that would be a second theory.

But in the end, you know, **if you wanted to just have a simple answer, then mine would be greed.**

KK: Do you see a blind spot in our current economic thinking? And what is it?

Mary Houghton: One blind spot is being so short-term in one's analysis. Another big one on a slightly different level is enormous prejudice about poor people and African Americans, and against the advantages of building a society which has got broader access. That blind spot is still extremely real, but I'm not so sure that it's in any way causal to this problem that we've got right now. It's not as if predatory lending in low-income markets really was the cause and that it was at some level tied to racism. I think that's a little too simple.

I don't know if you all have been watching this, but in the campaign, the right-wing started saying that the Community Reinvestment Act had caused the predatory mortgage meltdown, which had caused the global financial crisis.

There's complete proof that they were wrong, but that was about the most virulent popping up of racism that I have seen in a long time. And it persisted, it's still around, even though it was kind of laughable.

KK: So not rational thinking--

Mary Houghton: Right. No, it was just, it was some kind of ideological blaming.

Well, another one which we bump into all the time is, again, a little bit broader than the financial crisis. **There is a blind spot about whether businesses can be run for something other than to maximize profits.** And there's very little belief that there's a middle ground between the idea that, on the one hand, every business should be run to maximize profit and, on the other hand, not-for-profits are weak and pathetic tools that couldn't possibly make a difference. Anything which would attempt to operate in the gray area in between—both run a business and deploy subsidies smartly—people are very blind about. [They believe that] charity is charity and business means make as much money as you can, and anybody who attempts to do anything in the middle is going to fail.

The reality is, I think, that the institutions that are attempting to be a kind of a hybrid between using the discipline of business and banking and using softer money when needed are closer to having a very strong interventional capacity than anything. I think using banks to do very serious social change work is a huge, big idea. It's a difficult big idea, but we now have the success of the microfinance movement to shine a light on that.

KK And there are more and more corporations moving to this hybrid form.

Mary Houghton: Right, but it's become trendy for the large philanthropies in this country to do what they now call "mission-related investing," which they have identified as something which is different than program-related investing. Program-related investing is a way for them to meet

their distribution requirements by making either investments or below-market-rate loans. Mission-related investing is a way for them to use some of their investment corpus for something that meets their foundation purposes. But they're very clear that mission-related investing ought to be high-return. **So when we were raising capital last year, we essentially struck out with the large philanthropic foundations who wanted a mission-related investment, because we were not making enough money, a high enough return for them.**

So that's my proof that the blind spot is still there.

KK: And did you talk to them about this?

Mary Houghton: Oh, yeah, we did. Endlessly. But the president of the foundation has a vision, and then the work gets delegated to very conventional financial analysts and junior program officers, so there's not enough heft at the top of the foundation to make this happen. Or the people who do the work are very conventional.

KK: *What is your prediction for 2012 to 2014? What do you think we are heading for?*

Mary Houghton: The U.S. economy will bounce back. I mean, the mainline U.S. economy will come back. The conventional world economy will probably also come back. So I think the real question is, what will this experience do to change what the leaders want to do?

And, I don't know. I think that this event has been so frightening. And having Obama in the White House is a chance at a change in U.S. policy. But those are the only two things to count on. I guess maybe the third one is: **will enough individual people start acting differently, so that there's some sense that there's a growing number of individuals and institutions who believe in social investment or believe in sustainable economies? If they start voting with their pocketbooks, that has probably the largest chance for changing business behavior.** There would be some reason to be hopeful about that.

KK: *What transformation strategy could address these root issues that you outlined and bring us to a more sustainable and collectively creative pathway forward?*

Mary Houghton: I guess my larger point would be to think about what the international microfinance movement was able to achieve and the way in which it was able to shift standards, scale, funder attitudes, create international competition and support innovation. It really happened.

And the effect of very high performance in order to achieve scale in terms of outreach to poor people and to achieve sustainability—and insisting on transparency—they really changed the public. The movement changed the attitudes of a lot of people about what was possible in terms of poverty alleviation.

So maybe it was the demonstration of an emergent industry that hugely changed behaviors. Now, today, there are a lot of rotten, mediocre performers in the international microfinance field. So it's not like all 10,000 organizations are fabulous. But it was strongly led and it changed a lot.

So then the answer would be that something like that might be a good—something that we learned from that experience might be the elements of a strategy, a transformation strategy.

KK: And what do you think one can learn from this?

Mary Houghton: What they were attempting to teach was that the problems of poverty are so huge that only independent and sustainable serious institutions would have a chance of reaching the numbers of people or the scale that was necessary. **And that life was too short to do anything other than to shoot for really, really large impact.** And that being sustainable was a key to succeeding. **Because if you weren't sustainable, you were just a little charity dependent upon donors who were trendy and undependable.**

I think that that energy would be applied to how institutions should change their behaviors in order to not just serve the greedy and well-to-do.

The reason that's on my mind is that, in the U.S., the people who do this kind of work are still back in the '60s with a kind of entitlement attitude. They don't push for scale. They don't push to be as sustainable as they could be. So they sort of don't get it.

KK: So there's got to be some courage and some looking at the larger picture.

Mary Houghton: Right, and then understanding how powerful demonstration is.

KK: And changing the thinking about what poor people can do. That connects to what you said earlier about our perception in this society of poor people.

So, the next question concerns Barack. What would your advice for him be?

Mary Houghton: I think I skipped over this question when I looked at it earlier. I have so little hope that I would ever get the chance.

KK: He probably knows your work well?

Mary Houghton: Actually, he lived in our neighborhood. So he is fully aware.

I don't think he needs to be told about paying attention to microfinance internationally. **But here in the U.S., there are very few resources available for institutions like ShoreBank—federal or public resources.** We're lumped into the category called "community development financial institutions." And Clinton, who did pay attention to ShoreBank, created that at the U.S. Treasury and it gets about \$100 million a year. And there are probably 50 banks, 250 credit unions, 500 not-for-profits in the country that use it. If they got dramatically higher resources, they would

deploy them with great leverage and talent. **So investing in this field called community development financial institutions would be one action that I would recommend.**

I suppose the next action would be examining whether minority markets are going to be as hard hit as our people think and doing something about it. I don't know that there's any particular energy for that right now. **I mean, 90 percent of the effort so far has truly been Wall Street-focused.**

Maybe the third recommendation would concern the community banking sector in this country, even if it's not banks like ShoreBank, but just ordinary community banks. There are still 8,000 community banks in this country. And they are all serving local markets. There's very little focus on what a very broad swath of banks can do.

There are 50 banks in the country that have taken the trouble to get themselves certified to be a "community development financial institution" by the federal government. That's a Treasury Department label, and you get it if more than 60 percent of your market is low-income. **So we've made efforts over the years to say how many banks there are over and above those 50 that are really long-term investors in underserved markets. And we get a total of up to about 500.** Which, again, is still small compared to 8,000, but it could be that there is a segment of the banking system that could be further deployed.

KK: How did you identify them?

Mary Houghton: Well, one, the easy category are the ethnic banks—either African American or Latino or Asian—that are serving ethnic, relatively modest income ethnic markets. But with public data we have applied a screen of four or five different criteria to every bank in the country to see if we could identify the banks that are serving low-income markets, and doing a lot of lending in those markets and are reasonably profitable. And so we just came up with the universe.

And there's a website where you can find it. We run a little fund called the National Community Investment Fund. It's just now been made publicly available so that you can check any bank in the country on these criteria. It's called social metrics or something like that.

KK: Social metrics, okay. Oh, that's interesting. And are you planning to work with this group?

Mary Houghton: Well, at ShoreBank we were just trying to find more like-minded banks that might need investment or something.

But this little organization, National Community Investment Fund, is interested in seeing whether or not they can persuade large institutions to shift their deposits to these banks, by actually either helping them to find them or just giving them the public data. We're having some success with it. We got TIAA-CREF to buy the service and the Kellogg Foundation to buy the service, and it's getting a fair amount of attention in public forums.

That was really our original dream for ShoreBank, back in 1973. I can remember this, because I was there.

KK: You were there?

Mary Houghton: I was there. **We said, imagine, if we prove that this works, then the next step is that you say to the citizens in this country, move your money out of those other banks and move your money into banks that do this. We haven't gotten there yet, but maybe we are getting closer.**

KK: I was wondering whether one could analyze which banks with this intention are doing well during this crisis. Do you think the assumption is correct that these banks are less affected by the crisis?

Mary Houghton: Well, it will be possible to study that because, again, this little organization called the National Community Investment Fund has already looked at the December 31st financial reports of the 55 or 60 banks that are certified CDFIs, in order to see how they did financially during '08, which would be the beginning of the really rough time. So we will be able to track, but I don't think it's known yet **because some of these banks are in really rough markets where they actually will be hard hit by this concentration of predatory lending. So they might do better in terms of deposit growth, but they might do worse in terms of asset quality.** And that wouldn't be their fault, because it's a bank's fault if it's made bad loans, but it's not entirely its fault if it's also in a very, very weak economy.

KK: . . . and people are losing jobs.

Mary Houghton: I guess the other thing, if I didn't give you three actions, the other one would be pushing on the energy stuff, the environmental stuff.

KK: Would that affect your work, as well?

Mary Houghton: Yes, because since you've been here **we've added a huge environmental agenda to ShoreBank.** We were asked by an environmental group on the West Coast to help them create a banking strategy in rural coastal Oregon and Washington. And so we did that. And then three or four years later we started to bring that additional mission to the rest of ShoreBank.

And so we are quite interested in doing more lending. In the Midwest, it tends to be to improve energy efficiency more than anything else. On the West Coast, our people are doing probably as much in organic agriculture and alternative energy and new green building. In the Midwest we tend to be able to find a lot of customers who care about the energy efficiency issue, but they are not yet really totally socially sensitive. It's changing. It's changing all over this country, but it takes a while.

KK: That's probably because the whole global warming discussion is an example of a shift in the social field.

Mary Houghton: Exactly. If there ever was a time to change attitudes, it would be this, right now. And we're getting up our energy here to see if we can raise enormous resources to reinvest in these markets. I'll know in a month or two whether we're really going to work at that.

KK: What does it depend on?

Mary Houghton: Well, we're going to raise more capital. We already have people all around ShoreBank trying to tap stimulus money and philanthropic money. Our request to the philanthropies] is, whatever you were normally doing to raise resources, let's double it, because our markets really need somebody to be mobilizing resources now. Then we have to do it. We have to not only have the idea, but succeed.

KK: Do you think this money is out there?

Mary Houghton: Yeah, I think that could be a good pitch. I would think that it would give people something they could do. And sources of money might like that.

KK: *What would you suggest as questions for future research?*

Mary Houghton: I guess the thing that I wish there was more research on is figuring out some way to create more credibility for this gray area that I described earlier. Because it's really, it is a blind spot. And I don't know quite how to attack it. It's hard. Even right now, **there's this field in the U.S. called "social enterprise."** I mean, it's huge and growing. And it's social entrepreneurs who create social enterprises. They get social investment. I bet you 90 percent of all of the social enterprises are organized as not-for-profits. So they're ignoring most of the money that's available in the world, which is investment money. It's not loans. So that's just another indication that people are not very comfortable in this area in-between.

KK: Thank you!