



Annie Donovan:

Hello, and welcome to the Community Wise podcast. I'm Annie Donovan, Chief Operating Officer of LISC, and today I'm very excited to bring to you a conversation with Dr. Gregory Fairchild. Dr. Fairchild is the Isidore Horween Research Professor of Business Administration, the Associate Dean for Washington, DC Area Initiatives, and Academic Director of Public Policy and Entrepreneurship at the University of Virginia's Darden School of Business. We are also very fortunate to have Dr. Fairchild as a member of the LISC board. Today I'm talking with Greg about his recently published book, *Emerging Domestic Markets, How Financial Entrepreneurs Reach Underserved Communities in the United States*. Dr. Fairchild, welcome to the Community Wise podcast, and congratulations on the publication of your book.

Gregory Fairchild:

Well, the book was a long time coming, Annie, and in so many ways I want to thank you for being a part of making the book happen. Also allowing me to share more of the book with people that might not have heard about it, so I appreciate this.

Annie:

Yes, and thank you for coming on. It was a fascinating read. Also, I want to say this isn't a typical business book. This is really a journey story, and I love the way you weave into the book your own story and the story of your family. Also, you cross boundaries of academic disciplines, from finance and economics to history and sociology and social psychology and behavioral economics. To me, that was just so energizing to see because I feel like that's the work I've been living for the past three decades, and the work of community finance is really to cross boundaries and to integrate across practice. Tell me a little bit more about why you chose that approach in writing this book.

Greg:

I went back and forth on whether I was going to really share any of myself in the book, and so many business books don't. We typically write about a phenomenon, we analyze it, we provide our data to show that we found something, and oftentimes these things are happening in societies that we're a part of, but we don't add anything that involves our own personal interaction with the phenomenon. So in this instance, when we think about finance and overlooked markets, I felt like not only do I live in a society where I've experienced some of that, but I also felt that there's a familial journey, one that happens over multiple generations, that has a bearing on the financial reality I'm in today, and I felt I'd weave those stories into the book.

Annie:

I also love the connection. Late in the book, you talk about how in particular, people of color, diverse perspectives, can integrate into fields and disciplines and marketplaces. You talk about people showing up as who they are and bringing their own stories into the work. I love that you modeled that in the way that you wrote the book.

Greg:

Wow. I hadn't even thought that I was modeling that, but you're right. I talk about the phenomenon, or the approach people take. This idea that if you're not in the dominant group in the workplace, you need to mold yourself to fit like the dominant group. I talk about it a couple of times, most notably in a chapter that deals with some commercial lenders for Wells Fargo that are doing lending in south central Los Angeles, in the Latino community.

Annie:

Fascinating chapter.

Greg:

And a fascinating set of interviews to do, by the way. Let me just say that you're right, I hadn't thought about it. I do include bringing my own self to this particular book, so you taught me something.

Annie:

Well, you and I first met, it was probably just about six years ago, and at the time I was a CDFI Fund director, and you had completed a study which you talk about in one of the chapters of the book. The CDFI Fund commissioned work from you, several pieces of work, but one of them was a study on how regulated CDFIs fared in the Great Recession. Can you talk a little bit about what you found there and why it's important?

Greg:

CDFI Fund is a great example of the types of financial entrepreneurship that I try to illustrate in the book. There's no probably better collaborator for me to have had. But you're right in that one of those collaborations involved an opportunity to study, in a very large-scale dataset, whether CDFIs or financial entities that were focused on operating in lower income markets or minority markets or underserved markets, whether they just tended to be more risky or less efficient than financial institutions that weren't doing that type of work.

Annie:

Which is kind of the operating assumption, Greg, right, that they would be?

Greg:

The operating assumption for many, including me, with some logic that I think you get embedded in places like business schools, is that doing work in these communities is going to lead to lots of failures, that is, loans that would go bad, and then number two, that doing work in these communities is just really costly because the size of the loans relative to the amount of work is lower, and it just takes more hand-holding. This is a commonly held set of assumptions.

I would love to tell you that I, in some way, figured out something that was entirely unique, but quite honestly, the accepted wisdom had just not been tested. So when it was, the big surprise was that across the recession, predating the recession, in fact across multiple economic downturns, the CDFIs were no more likely than comparable, again, non CDFIs to either fail, that is, to be told by the FDIC that they could no longer continue.

Secondly, we did another analysis, again, big multi-year dataset to show that, in terms of the efficiency in turning a set of inputs into outputs, largely lending outputs, that the CDFIs were no less efficient either. I'll just add I share in the book that we later replicated the study looking at minority depository institutions, many of which are also CDFIs, though not all. And in fact, we replicated and found a similar set of findings across a large set of institutions, across a large body of time. No significant differences, and in some cases, the CDFIs and the MDIs out-performed institutions that weren't mission driven in those ways.

Annie:

I was so happy to see that come out in the research, because that was consistent with my experience. It's such a great contribution to the field because we so often are still fighting, even after decades of performance, we still have to fight against this thing called perceived risk. The more data and evidence, and this is among scant data and evidence, and you call in your book for more research. I couldn't agree with that more, because we know that it's our experience that ... and CDFIs in particular have proven that the communities that we lend in, the people we lend to that have been underserved, perform. They are credit-worthy.

I have one other question for you that relates to my time at the CDFI Fund. I want to take you back to 2017, the fall of 2017. I was putting together a new advisory board, because we had a new administration, the Trump administration. I called you up and asked you if you would consider going through the process of being nominated and serving. This was not an easy time for the CDFI fund. Our budget was ... the administration was seeking to cut the budget to the bone. It was also a time when many business leaders were turning away from the Trump administration because of controversial things they were saying and doing. I'm so grateful that you said yes and that that came to be. Talk a little bit more about why you said yes.

Greg:

You're always waiting for that moment when the call comes that you thought about. That could be any number of calls that we have in our careers and our lives. Again, I'd long term collaborated with the Fund. The notion that, as an academic, you could be asked to be a part of a group advising on the very area that you study, this is an honor. It's the type of thing that we all want. Now, the timing of the call may not always be the timing that you anticipate. I always would have jumped at any point to have the opportunity, but the timing was fascinating.

You talked about some of the matters that had gone on in 2017. Point of fact, I live in Charlottesville, Virginia, and in living in Charlottesville, Virginia, my home is about a mile away from the place where Heather Heyer was killed, and where the Robert E. Lee statue is, and many of the events folks saw on CNN. As some of you know, many people left an administrative advisory role at that point. One of those people, Ken Frazier, was the CEO of Merck, and he left one of the posts that he had agreed to be on at that time, in direct response to the comments made by the President, of good people on both sides.

Now, I can share that I had my own thoughts about this particular question. As an African-American, I talk to many people that I know who are also African-American, and some said this is absolutely not the thing you should do. One of the people I talked to had worked in the federal government at various points, and actually had served under both Republican and Democratic presidents. She was advising me,

and she said, "The question you have to ask yourself is, is service about who's sitting in the chief executive's office, or is service about a body of work, a set of organization and a set of people that you have care about and you think you can add value? If the answer is that you do care, and if the answer is that you do think you can add value, then you should proceed."

I struggled with it, there's no doubt, yet when it finally came down to the decision, the decision for me rested on this idea that even as things had been said, things about a city and an area that I had personal connection with, I really ended up feeling that the ultimate question I had to ask was is the CDFI fund doing work that I think is important, needed, and frankly overlooked, and if the answer was yes and there was something I could do to help advise on the work itself and, in my role as an academic, to help elucidate and promote the work, then that would be a worthwhile thing.

Annie:

I want to move to the topic of the theme of segregation and integration runs thick, really, through the book. You say in one part, in one section, that geographic and social spaces are consequential. I wonder if you could talk about that a little bit more, because as you know from being a LISC board member, we are a place-based organization. We have offices in 35 locations, and a rural LISC network. Talk about the importance of place.

Greg:

I think one of the things that we sometimes miss is when we hear about a study, when we hear about even a collection of assets, we hear about those assets as if they're disconnected from the community in which they operate. You could be talking about any number of assets. What I try to bring out in the book are two interlocking phenomena. The first is the American journey around race and social justice is one that hinges on a lot of things, but sort of the continuing evidence of our progress or lack thereof is the high degree of segregation in the United States. I think that even in this period, I think most Americans are roughly unaware of just how highly racially segregated we are.

When we start thinking about the creation of new ventures and the financing of those ventures, we have to account for the idea that is we're going to serve a broader base of markets, either the people that are serving those markets will be relatively less experienced with integrated life, or the places that we will be serving won't be very integrated. So America turns out to be more pocketed. The stat that usually surprises people is New York City looms large for people as being a melting pot city, and that's because of the degree of diversity in New York City. But as I like to remind people, diversity is not inclusion and is not integration. New York City is one of the most segregated cities in the United States, even though it's incredibly ethnically, racially, religiously, all forms of diversity. It's just highly segregated.

And as well, New York City is a place of extreme inequality. Some of that inequality is driven by these pocketed ways we interact. Again, it's the workplace, but if someone happens to stumble into the wrong Starbucks and they're having coffee with a friend, but the Starbucks they're in, it doesn't seem to fit who they are, they might find that the police get called on them. Of course, I'm sure our listeners know what I'm referring to.

Annie:

I think about this in the context of financial institutions and the ways in which really racism has been built into the way that we analyze credit. I think one of the reasons that CDFIs exist is to write a different credit box, but we ourselves have trouble with that because we are of the market as well. So there's this challenge that we have as CDFIs of biting the hand that feeds us, because we get our resources from institutions that have underwriting criteria that has inequity built into it. What are your thoughts about the financial system, how it delivers capital to places, and what prescriptions you think CDFIs should be following in terms of trying to get to a better system?

Greg:

One of the things, that I think you've said so well, that I try to remind folks is that we have to, again, recognize that if we have our own narratives, our own narratives are being brought with us to the workplace. In some cases, we're molding ourselves to fit, but in other cases, it's still there. Let's say that I'm a person starting out in a business of lending. Well, one of the first things that happens to me when I arrive at my financial institution, be they a CDFI or non CDFI, is that I'm told by people who are more senior to me how we do this. Those messages are subtle, or they're sometimes explicit, but what I also have to realize is that the world I've been living in is influencing how I see the world that I'm disbursing funds into. So even if I intend to be thinking about underserved markets, but I really don't have much experience with them, and if I even feel a little uncomfortable in certain markets, those things are seeping into the investment and lending decisions that I make. So for us to disconnect the world and to assume that somehow the financial markets operate entirely differently than our daily lives and society, it's a wonderful thing for us to believe about ourself. It's just not something that I think bears out.

First, I think coming to terms with the fact that we do live in a segregated society, and that as a result, we don't likely know that much about what life is like in other pockets. And if we're doing business in those pockets, we have to have some humility when we enter. Next, I think we need to realize that the challenges we're trying to solve today are inter-generational. The field of finance is so much predicated on this idea of having assets. When you talk about things like underwriting, things like the amount of assets you already have, the number of years you've lived in a residence, the number of financial products you have and what percentage they are of the income that you make.

Well, if anyone's relatively knowledgeable about things like inter-generational wealth transfer, or relatively knowledgeable about the degree to which living in a segregated neighborhood means that over time you wouldn't have an asset, even if you owned it, that would have grown at the rate it would have had you not been in a segregated neighborhood. We have to account for things like the reality that many people have to move and do move frequently on the basis of various aspects of their lives. So some of the drivers we put into the systems are ones that we have to then struggle with how they don't really effectively capture the ultimate question we're trying to answer, the likelihood of someone returning capital from a debt product that they've taken out.

Annie:

I want to ask you about the interplay between public policy and markets. What's really the right balance? I think we know at this point that markets left alone don't allocate capital to certain places. But I've been wondering more and more about the rules that we set for markets, and the interplay of public policy I had previously thought as a remedy to correct markets. But the more we study public policy and how public policy had bias built into it, the more we see maybe public policy as being the problem. How do you think about this interplay between policy and markets?

Greg:

I talk in the book about two ways that public policy intersects with my family, in specific ways with financial markets in both instances. The first of these is in what we know as the Servicemen's Readjustment Act. The Servicemen's Readjustment Act, we all know as the G.I. Bill. Now, it turns out that my grandfather and grandmother had both served in various ways in the war. After the war, my family was able to buy a house in Tulsa, Oklahoma, using Servicemen's Readjustment Act funds. Now, by the way, in a segregated neighborhood of homes, but homes with African-American owners in Tulsa, Oklahoma. So the policy giveth and the policy taketh away. Many African-Americans who served in the war were not able to get their Servicemen's Readjustment Act loans. My family was. Because of that, my dad, only child, was able to grow up in a home where his parents had assets and had steady incomes and had a home that they owned, and his life was fundamentally different than it would have been had they not gotten that loan.

On the other hand, the house that my grandparents bought in the 1940s was in a neighborhood that had been, earlier, the Home Ownership Loan Corporation had decided that this was one of the neighborhoods that was a higher risk neighborhood, because of African American people living in it. This is what we know as redlining. So even though my grandparents owned a home and had owned it and bought it 80 years ago, what I also have to tell you is that that home, in terms of its value, never grew in comparison with homes on the other side of Tulsa that weren't in segregated North Tulsa. So in both these instances, federal policies influenced the financial lives that my family had.

For those of us that are hard line folks who somehow view that the markets, particularly the financial markets, have an invisible hand that operates separately from the societies, again, that we operate in, I think this is a fiction, and I think we need to recognize that whether we're talking about decisions to encourage the development of automobiles over trains, whether we're thinking about how we want to think about subsidies for corn relative to subsidies for other types of agricultural products, that we absolutely know that federal policies, state policies, local policies influence the quality of life we all have and the markets that we operate in. After getting over the fiction of this, then my argument would be we have to be thoughtful about the ways that policy is influencing things and has influenced things. Where does that put us right now? Then what types of policies could we use to rectify what we see?

A great, easy example that people sometimes think about is we know that school systems and the local taxes that are supporting school systems are a big influence on how people buy homes and where they buy homes, and recognizing that in any community in the United States and the way those decisions have influenced housing patterns can dramatically influence the lives people have on one side or the other side of a school district line. So thoughtful work on understanding how to rectify those in targeted ways would be the type of thing I'd love to see.

Annie:

Looking forward, what do you see on the horizon, and what would your prescriptions be for what we need to do in practice to better serve communities that have not been well served in the past?

Greg:

One of the first things is something you've already mentioned. I think we need more people to just actually study underserved markets and understand them better so that we can get over some fictions

we've all come to accept. Secondly, I wrote the book to encourage people who don't know about the field, to learn about it.

The third thing that I am excited about and want to see more of is a real reinvestment and reconsideration of what we think about when we think about equity. There has been a CDVC sub sector, and I don't cover it in the book, but I would say there's a larger, very significant equity investing world. Unfortunately, it also is racially and gender and a whole set of segregated structures that we could spend another hour on. But if that industry begins to change, what we should also expect to happen is to see a larger amount of the capital that fuels some of the biggest innovations we've had in the world, flowing to places that, and individuals that it doesn't find. I'd love to see that begin to happen as well.

Annie:

Well, Gregory Fairchild, thank you so much for the work that you've done to illuminate the work that I and many others have been toiling to do over the past decades. Thank you for your service. Thank you for saying yes to serve on the CDFI Fund Advisory Committee. Thank you for the contribution that you're making there, and also just a thanks to you and your family for your service to our country. I appreciate you being here today, and I look forward to seeing what you're going to do next.

Greg:

Well, Annie, thank you, and I suspect we'll continue to be working together, so you'll have firsthand accounts of the types of ideas and notions that I have, and hopefully working with people like yourself, we can begin to do some of the work that needs to be done.

Annie:

Well, I certainly hope so. Thank you so much, Greg.

Greg:

All right. Thank you.