



LENDING

How **Self-Help Credit Union** Turned
Small-Time Loans into Big-Time Change

POWER



Howard E. Covington Jr. Foreword by **Darren Walker**

Lending Power

LENDING POWER

How **Self-Help Credit Union** Turned
Small-Time Loans into Big-Time Change

Howard E. Covington Jr.

FOREWORD BY DARREN WALKER

Duke University Press • Durham and London • 2017

© 2017 Duke University Press

All rights reserved

Printed in the United States of America on acid-free paper ∞

Designed by Heather Hensley

Typeset in Minion Pro by Westchester Publishing Services

Library of Congress Cataloging-in-Publication Data

Names: Covington, Howard E., Jr., [date] author.

Title: Lending power [electronic resource] : how the Self-Help Credit Union turned small-time loans into big-time change / Howard E. Covington Jr.

Description: Durham : Duke University Press, 2017. | Includes bibliographical references and index. | Description based on print version record and CIP data provided by publisher; resource not viewed.

Identifiers: LCCN 2017010997 (print)

LCCN 2017014022 (ebook)

ISBN 9780822372776 (ebook)

ISBN 9780822369691 (hardcover : alk. paper)

Subjects: LCSH: Self-Help Credit Union. | Credit unions—North Carolina. |

Loans, Personal—North Carolina. | Eakes, Martin.

Classification: LCC HG2038.N8 (ebook) | LCC HG2038.N8 C68 2017 (print) |

DDC 334/.2209756563—dc23

LC record available at <https://lccn.loc.gov/2017010997>

Cover art: Top photo: The Workers' Owned Sewing Company in Windsor, NC.

Photo courtesy of Self-Help. Bottom photo: Walltown development in Durham, NC. Photo courtesy of the Duke Office of Durham and Regional Affairs.

Contents

Foreword • vii
DARREN WALKER

1
Self-Help Who? • 1

2
A First Step • 9

3
A Financial Institution • 23

4
Turning Point • 37

5
Innovation • 49

6
An “Aha” Moment • 63

7
“We Did Not Have to Be Geniuses” • 71

8
Cy Pres • 85

9

“Shit Disturbers” • 97

10

A Box of Rattlesnakes • 117

11

The Emperor’s Naked • 131

12

“We’re Here Forever” • 147

13

Self-Help Federal—A National Institution • 159

14

The Mission • 175

Final Notes • 191

Notes • 195

Index • 205

A gallery appears after page 96.

Foreword

•

Darren Walker
President, Ford Foundation

When I was working at the Abyssinian Development Corporation in Harlem, I learned a valuable lesson.

It was the early 1990s, during the height of the crack epidemic. Everywhere you looked, there were boarded-up buildings and broken crack vials under your feet. I had just moved from midtown Manhattan to 120th Street, leaving a career in investment banking for a calling in community development.

I met an incredible community of people up in Harlem. Unfortunately, I also saw how these people, despite their hard work, continued to be disenfranchised and discouraged by systems and structures. As a result, their experience of New York was very different from what mine had been living in Midtown. I saw—not for the first time, or the last—the lived experience of inequality.

Our mission at Abyssinian was to “rebuild Harlem, brick by brick, block by block.” As you can imagine, there were plenty of people from outside the neighborhood who thought they understood the best way to rebuild

Harlem—people who proposed projects and initiatives that they believed would work best. It’s an approach that, with the benefit of hindsight, feels misguided at best, and patronizing at worst.

At Abyssinian, we realized the people of Harlem understood their neighborhood’s challenges far more intimately than we ever could, and because of their experience, they also had tremendous insight into possible solutions. And after listening to the community in Harlem, my colleagues and I discovered that one of the things they wanted—and desperately needed—was something pretty basic: a supermarket.

You see, in those days, when you walked into a bodega in Harlem, the only food you could find was expired or junk. These people wanted a place close by, in their neighborhood, where they could buy essentials for their families without having to travel far or lug their groceries home on the subway. A supermarket would not only provide nutrition for families but also for the whole community in the form of new jobs. And bringing one business back to the community would encourage other businesses to do the same, restarting a cycle of economic growth for the neighborhood that many thought had been extinguished. The potential was profound. So, together we worked to build Harlem’s first full-service supermarket.

That supermarket was one of many contributors to what I’d like to think of as a New Harlem Renaissance (you can still see it up on 125th Street). And for me, it also proved the transformational power of listening to local communities and leveraging market tools.

Now, more than two decades later, I’ve tried to bring these same insights into my work as president of the Ford Foundation. As we strive to address inequality in all of its forms, these principles—listening to communities and building a more inclusive capitalism—inform the basis for what I like to call a New Gospel of Wealth.

At the Ford Foundation, we’re committed to putting these ideas into practice as we invest in new ideas, hardworking individuals, and institutions that serve as outposts on the front lines of social change. One such institution is an organization called Self-Help.

Long before I was working in Harlem, or at the Ford Foundation, Martin Eakes was in North Carolina, running Self-Help out of his Volkswagen Beetle. And long before we really talked about “impact investing,” Self-Help was finding ways to direct capital toward communities.

Martin and his colleagues understood that access to capital was necessary for communities to thrive, and for too many that access had been largely

denied, or was only given by people looking to exploit others, rather than extend opportunity. That's why they've been supporting entrepreneurs and homeowners, developing communities, and defending people from predatory lenders. That's why they've expanded their reach beyond North Carolina to include Chicago, California, and Florida. And through it all, their work has been successful because Self-Help directly engages with the individuals and communities they hope to serve, and enables hardworking people to help themselves and better their own communities.

Today, we see what looks like progress in many of our communities and cities across the country. New development. New residents. New businesses. New investment. But with this progress comes new challenges. Many are being left behind. Many feel like they are getting a raw deal. Too often what looks like progress is just the relocation of prosperity from one place to another. And, in many cases, inequality continues to persist.

Where Self-Help has never faltered is in its firm commitment to the individual—and his or her dignity—as the essential building block of the community and of shared prosperity. They understand that more often than not these individuals—when given an opportunity and the tools to succeed—will do their best to better themselves and those around them. The book you hold in your hand is an incredible testament to this fact.

I often find myself reflecting on the words of Dr. Martin Luther King Jr., who, shortly before his death, wrote: “Philanthropy is commendable, but it must not cause the philanthropist to overlook the circumstances of economic injustice which make philanthropy necessary.” Many forget that toward the end of his life Dr. King focused his efforts on economic justice. Knowing this, it seems fitting that another Martin has spent his career, as he has said, “taking the civil rights movement into the economic arena.”

Self-Help has found a way to combat the “circumstances of economic injustice” while empowering driven individuals and their ideas. Self-Help is not charity, or even philanthropy in any traditional sense. Rather than being a form of generosity, Self-Help uses inclusive lending as a weapon for justice.

Indeed, at a time when financial institutions have increasingly come under fire, and our very capitalist system has been called into question, Self-Help reminds us that financial services can be a force for good. In this way, the story of Self-Help provides a dynamic model for using economic tools in social justice work and a clarion call for all who aspire to change their communities.

I've had the privilege of working alongside Martin Eakes for many years now. As a member of the Ford Foundation's board of trustees, he has provided me with wisdom and counsel, and lived up to the "genius" grant he was given twenty years ago. I've always been impressed by his intelligence and empathy, and he and his colleagues at Self-Help give more credit than they take and deserve more credit for how much good they have done.

The progress of our communities depends on individual leaders like Martin, institutions like Self-Help, innovative ideas, and countless actions taken, big and small. It's a process of listening, of building, of accretion, and of shared steps forward. I learned that back in Harlem, fighting for that first grocery store; I've learned it at the Ford Foundation, and few documents preach it better than the book you're about to read.

I hope that as you read you draw as much inspiration from Martin and Self-Help as I do.

CHAPTER ONE

Self-Help Who?

A New York surrogate judge wrote in 1866: “No man’s life, liberty, or property are safe while the Legislature is in session.”¹ That’s especially true when the body is charging toward adjournment, as was the case with the North Carolina General Assembly in late spring of 1997. An innocuous bill, embarrassingly devoid of descriptive language, breezed through the senate and landed a comfortable berth in a house committee. There, it was stripped of everything but its title, and language was inserted to allow Blue Cross and Blue Shield of North Carolina to shed its nonprofit status and convert to a for-profit corporation. Similar conversions of Blue Cross and Blue Shield franchises in other states were complete or under way, and the personal fortunes banked by the company’s executives were breathtaking.

About the only person paying attention to these legislative shenanigans was a young, newly commissioned public advocate named Adam Searing. He had been on the staff of the nonprofit N.C. Justice Center for about three months when the bill, introduced by two of the state’s most powerful legislators, one a Republican and the other a Democrat, caught his eye.

The measure was well down the track to passage in the waning days of the session when Searing rose at a committee meeting, took exception to the bill, and declared the emperor had no clothes. The fix was in, he said, and the bill, which was described as a minor change for N.C. Blue, as the insurer was called, was, in fact, an early Christmas present for company executives. Searing still remembers the bill's senate sponsor, Democrat Tony Rand, growing red in the face and fulminating publicly over the audacity of this "pup." A man still in possession of his youthful appearance, Searing was often mistaken as a legislative intern in 1997. The rant by Rand, a party leader of considerable weight, left him convinced that he was "going to get run over like a bug."²

Sitting in on that meeting was Martin Daniel Eakes, the co-founder and chief executive officer of a nonprofit, the Center for Community Self-Help, or Self-Help for short. He had been roused from his office in nearby Durham by Mary Mountcastle, a senior staff member who had read a warning about the bill posted by Searing to his growing list of health care allies. Mountcastle told Eakes that he had to do something. That's when he hopped into his dusty old car (one breakdown away from the salvage yard) and drove the twenty-five miles to the Legislative Building in Raleigh.

At the time, Self-Help was a financial institution, albeit an unusual one. It was a credit union joined at the hip to a charity that was operating as a community development financial institution. It served North Carolina's under- and unbanked population—primarily people of modest means, especially African Americans, single mothers, and rural folks who needed a loan for their first homes or money to start small businesses. Underlying its work was the belief that the civil rights movement was not over until everyone enjoyed the economic benefits of society.

So why was Self-Help getting involved in a legislative fight with a provider of health insurance? In 1997, Self-Help was, and still is today, a nonprofit corporation, just like Blue Cross and Blue Shield of North Carolina. Eakes was outraged that executives at N.C. Blue would use legislative sleight of hand to cash in on six decades of public benefits as a nonprofit, leaving nothing in exchange for the tax-paying public. Such a move, he believed, threatened the integrity and public standing of every nonprofit in the state.

So the battle was on. All of Eakes's years of building coalitions and networking with like-minded people was brought to bear in what would become a tipping point for Self-Help as an institution, and for Eakes personally. Life would not be the same after he launched into this very public fight

and Self-Help enlarged its reputation as a public advocacy and civil rights organization that would later include national honors and recognition.

Eakes collared Searing after the meeting, gave him an injection of energy from his own boundless reservoir, and promised unlimited support. Soon, Searing and Eakes were working with a statewide coalition of volunteers encompassing a broad array of public interest and health care groups. Their allies included county health officers, senior citizens' groups, nonprofits of all sizes and descriptions (including board members of influential community foundations), religious and civil rights groups, a few political heavyweights, hospital administrators, and, cheering from the background, corporate clients dissatisfied with N.C. Blue's rates.

Eakes lined up pro bono legal services from one of the top law firms in the state, and, riding a bandwagon of righteousness, this coalition finally stopped N.C. Blue's plans for conversion. Out of it came a compromise that required N.C. Blue—should it ever convert to a for-profit corporation—to put all the assets accumulated since its inception as a nonprofit in the 1930s into an independent foundation. When that happened, if it happened, more than \$2 billion could become available to improve the health care of North Carolinians.

It was not a single-handed victory by any means, but it is doubtful if the public campaign and resulting tough, line-by-line negotiations that produced the conversion bill would have been as successful without Self-Help's resources and Eakes's organizing ability and determination not to leave the table until every item had been addressed. Of the forty critical items raised in the negotiations, N.C. Blue's opponents got what they wanted on thirty-nine of them, and Eakes fought to the end for number forty.

N.C. Blue's reputation was dinged and tarnished; Eakes and Self-Help emerged as dragon slayers.

The victory was a long way from the early 1980s, when the Self-Help Credit Union got its first deposit of \$77 from a legendary bake sale—most of it from the sale of a \$65 pound cake—and began soliciting members among a community of believers eager to organize worker-owned businesses. Eakes promoted this collective approach as the way to save lost jobs as owners closed textile plants and moved production out of the state of North Carolina. If workers controlled their own destiny, then they and their communities would benefit from such empowerment.

Its real muscle and sinew began to develop in the late 1980s after Self-Help began issuing home loans to people on the fringes of the economy

whom bankers considered beyond the boundaries of sound risk. Eakes turned such discrimination on its head and later would say that he simply applied old-fashioned banking principles where a borrower's character amounted for as much as a credit profile. His faith was not misplaced. In its first ten years of home lending, the credit union did not lose a single dollar on the mortgages it extended to 1,100 borrowers.

Eakes is a man of missionary zeal and unbending convictions. He is a fierce competitor without a partisan label who believes that democracy's very survival depends on a level playing field for all in the economic marketplace. He is lean and wiry, stands about five-nine, and has a head of gray hair that was once fiery red, a color that he jokes matched the temper of his youth. He has an infectious smile and punctuates his conversation with a mischievous chuckle. Newspaper feature writers have made much of the low-budget cars he drives, and his office is equipped with furniture you might find at a Habitat for Humanity ReStore outlet.

Eakes's range is impressive. His creativity and innovation earned him recognition in 1996 as a MacArthur Fellow, the so-called Genius Grant. In 2011, the Ford Foundation selected him as one of a dozen international "visionaries" for solving social problems and improving the lives of people. He later was elected to the foundation's board of trustees, a rarefied atmosphere, indeed, even for such an innovative social entrepreneur. As he found his footing at Ford, the foundation was shifting its focus to "disrupting the drivers of inequality," a goal Eakes could find easy to live with.

Over the years, Self-Help has attracted a constant stream of bright, young, and talented folk to its work. Most are graduates with impressive academic credentials from elite institutions who want to pursue a social justice agenda and add economic power to the legislative advances of the civil rights era. Some of these disciples stay on to build careers despite Self-Help's notoriously low pay. Others leave for positions in public service around the nation or move to the staffs of foundations and other socially responsible organizations. In time, state and federal agencies writing the rules and regulations under which financial institutions operate in the twenty-first century became populated with former Self-Helpers. One alum moved to the Deep South and created a version of Self-Help serving people in distressed areas of Mississippi, Louisiana, Arkansas, and Tennessee.

A year after the N.C. Blue fight in North Carolina, an issue that was closer to Self-Help's operational core—predatory lending practices in the home mortgage business—came up for review, and the Self-Help crowd was at the

table as a full-fledged partner in writing new law. Once again Eakes threw himself into a legislative fight, inspired by the experience of a borrower trapped in a mortgage that stripped the equity from his house while loading him down with thousands of dollars in fees and charges due to the mortgage company. North Carolina's predatory lending bill passed the General Assembly virtually unopposed and became a model for advocates in nearly three dozen other states.

In 2002, the Coalition for Responsible Lending that produced the North Carolina law morphed into the Center for Responsible Lending (CRL) and became Self-Help's national advocacy and policy arm. It moved a staff into a renovated office building that Self-Help bought in downtown Washington, D.C., sending a signal to opponents that it had come to stay. The CRL became the thorn in the side of financial institutions shading the rules and inventing deceptive and, in some cases, downright fraudulent lending practices.

All of a sudden, Eakes and Self-Help were the targets of a national campaign led by mortgage bankers, payday lenders, and the political Right, who were bound to discredit the organization and, according to Eakes, destroy him personally. He says that he was told that \$10 million was devoted to the effort to smear him and Self-Help. When Eakes was the victim of a mugging in 2008, some of his friends were convinced that his political opponents were responsible. Eakes and Self-Help were an existential threat to America, according to the writer of a 2013 book titled *Infiltrated*, which concluded that Eakes and company were personally responsible for the crash of the home mortgage industry and the onset of the Great Recession in 2008.³

Eakes takes such opposition as a mark of success and with a certain amount of pride. He was not worried about being the sworn enemy of an army of lenders with loan-shark rates using unscrupulous or fraudulent practices to sell home mortgages designed to fail. Most of the bluster over the CRL collapsed after 2008, in the wake of the most devastating economic crisis since the 1930s, when the CRL's early warnings about the approaching disaster in the housing market proved to be correct.

Self-Help's research showing the limits of unsustainable mortgage lending preceded the Great Recession by nearly two years. Eakes offered congressional testimony multiple times about the trouble ahead, but few were listening. As the nation began to dig itself out of the rubble, it was often the CRL research that reporters, columnists, policy makers, and legislators turned to as a balance to the excuses offered by the financial industry. Ultimately, former

Self-Help staff members helped write the home mortgage sections of the Dodd-Frank Wall Street Reform bill and the particulars establishing the Consumer Financial Protection Bureau. Key provisions in the 1999 North Carolina predatory lending bill were imported virtually intact.

Self-Help's balance sheet did not pass undisturbed through the financial storms. Yet, the credit union's loan portfolio of thirty-year, fixed-rate mortgages to low- and moderate-income borrowers, nearly half of them single mothers and people of color, proved to be as sound as institutions that made loans to borrowers with established credit. The success proved to be a re-affirmation of Self-Help's bedrock premise that a home buyer of marginal means was more likely to stand by and do what was necessary to protect an investment in a home, while wealthy borrowers bailed on their mortgages and walked away from their obligations.

When other institutions were contracting during the crisis, Self-Help regrouped and expanded with a new federally chartered credit union that salvaged ailing credit unions in California and later a troubled community bank in Chicago run by and for Latinos on the city's south side. A credit union founded by nuns and serving farm workers in central Florida became part of Self-Help Federal Credit Union in 2016.

Behind it all was Eakes and a belief that the civil rights movement is not over until everyone in society enjoys economic justice as well as the right to eat, travel, and live where they choose, without discrimination, or vote in elections. As long as segments of the society suffer from limited access to the economic benefits of the country, work remains to be done.

Eakes has been driven by that notion since he was arguing religious, ethical, and philosophical points of view with his mates more than four decades ago at Davidson College in North Carolina. It consumes him as much now as it did then: "We felt like the way you prevent violence and poverty is to make a more sensible economic system rather than trying to fix it after it has already broken somebody, broken a person."⁴ Somehow, he juggled the competing disciplines of physics and philosophy as a double major, which served him well later. He was able not only to identify a vexing public issue, with all its broad applications, but also to fashion a system to deal with it. It was something he says he learned from his mother, who told him that it was not sufficient to recognize a problem; one also had an obligation to solve it.

Self-Help's story is not simply about a civil rights advocacy organization. It is the story of a creative blending of conservative and liberal fundamen-

tals in business. Eakes is a fierce advocate for the financially marginalized of society, but Self-Help borrowers must repay their loans on time just like customers at any other financial institution. There are no giveaways. At the same time, Self-Help uses the same financial tools perfected by the financial houses on Wall Street to benefit poor people. Over the course of thirty years, a state-chartered credit union begun with embarrassingly modest resources became a financial laboratory that put its stamp on mortgage lending across the nation.

Little ideas expanded into big ones. To help cover expenses in the early days, Self-Help rented unused space in a former toy store Eakes and a few friends owned in downtown Durham to other low-budget nonprofits. Today, Self-Help has reclaimed vacant downtown buildings in a half dozen North Carolina cities and turned them into affordable office space for nonprofit organizations. It was a service that benefited Self-Help's image and coalition-building. It also was smart business. The CRL building in Washington, D.C., was purchased for \$23 million in 2003 and was worth more than \$30 million a decade later.

Yet, as Eakes himself readily admits, even with its astonishing growth and more than \$1.842 billion in assets in 2015, Self-Help is pretty small considering the challenges that remain. All of Self-Help's financial power is equal to what goes on daily in a handful of busy branches of a financial colossus like Bank of America.

No venture quite equaled Self-Help's partnership in 1998 with the Ford Foundation and the Federal National Mortgage Association (Fannie Mae) to create a home-lending program that over sixteen years grew to \$4.7 billion and helped 52,000 low- to moderate-income homeowners buy a place of their own. Forty-one percent of the loans went to female-headed households, and 40 percent went to minority households. The borrowers' median income was \$30,792, but the fund's cumulative loss rate was less than 3 percent, despite the collapse of the housing market in 2007 and resulting Great Recession.⁵

Self-Help's critics later misinterpreted this kind of risk-taking when everyone was looking for a scapegoat for the financial crisis. The Right jumped on the CRL's advocacy for liberalizing lending standards as the principal reason that America's bankers drove their own train off the cliff. The claim totally disregarded precrash testimony from Eakes and others who warned that it was the type of loan—poorly vetted mortgages with balloon payments and teaser rates that disappeared after two years—and

not the type of borrower—low- and moderate-income folk—that was at the heart of the problem.⁶

Indeed, the CRL used the bankers' own data on home lending to produce a report in 2006 warning that as many as 2.2 million home foreclosures lay ahead due to unfettered and dishonest mortgage brokers selling explosive home loans to feverish Wall Street institutions begging for more and more. That number proved to be low. In the end, more than 4.2 million borrowers became victims of unscrupulous practices and found themselves struggling to pay loans on houses worth half or less of their earlier value.⁷

Self-Help is an extraordinary organization, according to researchers who wrote *Forces for Good*.⁸ They identified exceptional nonprofits and examined them for the secrets of their success in much the same way that writer Jim Collins did in his book on corporate America, *Good to Great*. The resulting ranking placed Self-Help in a select group of twelve nonprofits in the nation that were singled out for examples of innovation, allegiance to mission, and operational practices.

Yet, even a “visionary” like Eakes could not have imagined what the Center for the Community Self-Help might grow into when, fresh out of Yale Law School, he and a small knot of college friends chartered it in 1980. At the time, he thought he was going to help create a worker democracy where employees would own and operate some of the textile mills and furniture plants that were closing in North Carolina. He jokes that he got his first foundation grant, a blushing modest one, because his benefactors were afraid he might starve to death.

Notes

CHAPTER ONE • *Self-Help Who?*

1. Gideon J. Tucker, *Final Accounting in the Estate of A.B.*, 1 Tucker 248 (N.Y. Surr. 1866)
2. Adam Searing, interview with author, May 21, 2013.
3. Jay Richards, *Infiltrated: How to Stop the Insiders and Activists Who Are Exploiting the Financial Crisis to Control Our Lives and Our Fortunes* (New York: McGraw-Hill Education, 2013).
4. Martin Eakes, interview with author, November 28, 2011.
5. Eric Stein, “Principles for GSE Reform,” Center for Responsible Lending, October 14, 2012.
6. Martin Eakes’s testimony before the U.S. Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., February 7, 2007.
7. Ellen Schloemer, Wei Li, Keith Ernst, and Kathleen Keest, “Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners,” Center for Responsible Lending, Washington, D.C., 2006.
8. Leslie R. Crutchfield and Health McLeod Grant, *Forces for Good: The Six Practices of High-Impact Nonprofits* (San Francisco: Jossey-Bass, 2008).

CHAPTER TWO • *A First Step*

1. Martin D. Eakes, interview with author, November 28, 2011.
2. “Employee-Ownership—Textiles Project,” proposal to the Z. Smith Reynolds Foundation by Center for Community Self-Help, March 1980.
3. Frank Adams, interview with author, January 13, 2012.
4. Wes Hare, interview with author, December 27, 2011, and Robert Schall, interview with author, January 31, 2012.
5. Martin Eakes, “Future for Development Banking,” speech delivered at the National Association of Community Development Funds, November 7, 1992.
6. Tim Bazemore, interview with author, April 28, 2012.
7. William Bondurant, interview with author, February 13, 2014.