

Case 56

Self-Help

Ford Foundation et al, 1984

Scott Kohler

Background. The original headquarters of the North Carolina-based Center for Community Self-Help consisted of a typewriter and some file boxes in the back of an old VW Beetle owned by Martin Eakes, Self-Help's founder. But though Eakes' offices were modest, his goals certainly were not. Eakes wanted to advance the civil and women's rights movements beyond the struggle for political and social equality toward a distant goal—economic equality. Eakes believed that low-income Americans were often unfairly denied opportunities to build wealth, and, along with Bonnie Wright (to whom he is now married), he set out in 1980 to assist disadvantaged families and entrepreneurs improve their prospects.

Strategy. With a grant from the Mary Reynolds Babcock Foundation, Eakes was able to hire a small staff in Durham, North Carolina, to assist him in offering technical assistance to low-income workers seeking to start their own businesses. The mixed record of his early efforts convinced Eakes that knowledge was not, in fact, the main barrier to success for the people he was trying to help. The main problem was access to capital.⁸⁴⁷

In 1984, with \$77 raised in a bake sale, Eakes started the Self-Help Credit Union, which would use deposits to finance community development loans, primarily to women and minority borrowers, for the purchase of a home or the capitalization of a small business. The credit union, which started out offering slightly below-market returns to its depositors,⁸⁴⁸ also worked with local banks to convince them to offer loans to low-income borrowers with poor credit or no credit, often by buying up those loans to show banks that they had overestimated the risk of lending to low-income clients. In the same year, the Self-Help Ventures Fund was started to receive program related investments from grant-making not-for-profits and market rate investments from banks. Because it was not subject to the same federal regulations as the Credit Union, the Self-Help Ventures Fund was able to assume a higher degree of risk, and to be more aggressive in supporting those whom conventional wisdom insisted were unworthy of credit.

In 1984, Self-Help received its first grant from the Ford Foundation: a grant for two years of general operating support. Ford continued its support over the next ten years, covering about half of Self-Help's operating expenses over that period of time. This flexible, continuing assistance enabled Self-Help to grow steadily.

Outcomes. By 1994, Self-Help had made loans totaling over \$40 million and had been called upon to testify before the Banking subcommittee of the House of Representatives as an acknowledged expert in community development banking.⁸⁴⁹ But there were hard times along the way. One year, for example, Self-Help used a \$90,000 capital grant from the Ford Foundation to invest in a number of small North Carolina businesses, all of which promptly failed. Mary Mountcastle, of Self-Help, credits Ford and other foundations for not giving up when Self-Help tried things that didn't work.⁸⁵⁰ In fact, Self-Help has benefited from consistent support from many funders, including the Ford and Babcock Foundations, as well also the Z. Smith Reynolds, Annie E. Casey, and John D. and Catherine T. MacArthur foundations. Self-Help has also received funds from socially responsible investors (in the Credit Union) and many churches. In 1996, Martin Eakes received a MacArthur Foundation fellowship. According to Catharine Stimpson, director of the program, MacArthur's "genius award" nominators "were impressed by the fact that Martin has made a difference in the lives of other people, and that he did it by giving a hand up instead of a handout."⁸⁵¹

In 1998, Self-Help partnered with the Ford Foundation and Fannie Mae in an effort to provide

affordable mortgages to 35,000 low-income families nationwide. The partnership was a major expansion of Self-Help's Home Loan Secondary Market Program, in which Self-Help convinces banks to make unusual loans to low-income clients by offering to buy the loans from the banks. The program reflects Self-Help's focus on changing behavior, rather than providing direct services.⁸⁵² Having assumed the risk of the loans, Self-Help shows the banks that low-income homebuyers are, in fact, worthy of capital. This, in turn, convinces the banks to offer more such loans.⁸⁵³

Under the terms of the new partnership, Ford gave Self-Help \$50 million over five years to serve as risk capital, allowing Self-Help to increase dramatically its loan-buying. Fannie Mae agreed to purchase the mortgages from Self-Help, which was then free to keep buying loans from banks.⁸⁵⁴ The "Self-Help Initiative," as the partnership was known, had an ambitious goal: to leverage \$2 billion worth of mortgages⁸⁵⁵ over its five-year lifespan.⁸⁵⁶ By the time its five years were up, the Initiative had exceeded that target by over \$200 million. Encouraged by this success, Fannie Mae committed in 2003 to buying an additional \$2.5 billion in loans from Self-Help over the next five years.⁸⁵⁷

Self-Help, an "H-electror" under the Internal Revenue Code (signaling its intent to lobby),⁸⁵⁸ has worked in policy advocacy as well. By the mid-1990s, Self-Help had become concerned that much of the good it was doing in promoting access to capital among low-income families and entrepreneurs was being undone by predatory lenders, who exploit their clients' need by offering them credit under outrageously unfair terms. To stop abusive lending from undermining its mission, Self-Help led "a coalition of private lenders and consumer groups" that successfully pushed for the enactment, in 1999 in North Carolina, of the nation's first bill outlawing predatory mortgage lending.⁸⁵⁹ In its first year, this law saved North Carolinians an estimated \$100 million.⁸⁶⁰ Self-Help has since consulted with groups in other states seeking to outlaw such practices. And in 2002, Self-Help created another supporting organization, the Center for Responsible Lending, which works "to stop these financial abuses through legislative and policy advocacy, coalition-building, litigation, and industry research."⁸⁶¹ The Center is funded by a consortium of donors, including the Ford, MacArthur, Sandler, and Casey Foundations, as well as the Open Society Institute.⁸⁶²

Impact. Since its creation, Self-Help has provided total financing of over \$3.6 billion to over 42,000 low-income borrowers. Its emphasis has been on extending access to women and minority-headed households, two groups that are chronically underserved by traditional financial markets. It provides direct assistance in North Carolina and leverages the resources of for-profit lenders around the nation. Self-Help's partnership with Ford and Fannie Mae has been a resounding success. Overall foreclosure rates for the borrowers have been less than 1 percent, significantly below projections. The Initiative has enabled even the poorest lenders—those who could not otherwise have qualified even for a housing subsidy from HUD—to develop significant personal assets. As Susan V. Berresford, the Ford Foundation's president, describes:

The median annual appreciation rate in the value of the homes financed in this demonstration whose mortgages are still outstanding is 5.3 percent, a rate which exceeds both the average annual increases in the Dow Jones Industrial Average and the average six month CD rate for the period between 1998 and 2002. Significantly, less than 1 percent of the homes decreased in value. This growth in the value of the homes means that household wealth—the single largest component of financial assets for low-income people—also has increased.⁸⁶³

And Self-Help now works to achieve policy change to protect low-income borrowers.

From almost the beginning, Self-Help has received significant support from many foundations, big and small. These foundations have provided it with the flexible support that has made it possible for Self-Help to continually try new things, discard what proves ineffective, and take to scale that which works. Self-Help has done its part by achieving results and always being willing to take a cold hard look at the financial viability of its plans. The foundations have done theirs by providing start-up funds for new ventures, general support for continuing progress, and major risk capital for the

achievement of big goals. It has been a fruitful collaboration—one that continues to achieve major impact on many levels of American society.

Notes

847. Keith Sinzinger, “North Carolina’s Self-Help Credit Union Seeks to be a ‘Resource for Change’; Community Development Innovations Gain Attention on Capitol Hill,” *Washington Post*, 4/25/1993.
848. The Credit Union now offers slightly above-market returns.
849. Ibid.
850. Mary Mountcastle, interview by the author, 12/14/2004. I have relied, for an overall picture of Self-Help, and for much detail, on Mary Mountcastle, whom I interviewed for this case study and who has been very helpful to me in researching Self-Help. Any errors are, of course, my own.
851. Gary M. Pomerantz, “Credit Union Founder’s Generosity Pays: People Deemed Loan Risks are Exactly Those Whose Business One New MacArthur Fellow Aims to Attract,” *Atlanta Journal-Constitution*, 7/19/1996.
852. Mountcastle, interview by the author.
853. Martin Eakes, interview by Lynn Adler and Jim Mayer, for the PBS special, “Faith, Hope and Capital.” March 2000.
854. Fannie Mae cannot purchase a mortgage directly from a bank unless a down payment of at least 20 percent has been paid by the homebuyer. Because these were loans to low-income buyers, the loans allowed for lower down payments; so Self-Help served as the necessary middleman between Fannie Mae and the banks, and the Ford Foundation’s risk capital enabled it to do so.
855. The original loans were to be made primarily by five national banks, through their extensive network of offices. They were: BankAmerica Corp., Chase Manhattan Corp., NationsBank Corp., Banc One Corp., and Norwest Corp. Judith Havemann, “A Hand Up, Via Homeownership: North Carolina Group Given \$50 Million to Aid Working Poor,” *Washington Post*, 7/24/1998.
856. Remarks by Susan V. Berresford, 10/28/2003, available from <http://www.fordfound.org>.
857. Press Release, “Self-Help, Ford Foundation, Bank of America, Chevy Chase Bank and Fannie Mae Announce Successful Completion of \$2 Billion Homeownership Initiative,” 10/28/2003, available from <http://www.fordfound.org>.
858. This means that it is allowed to spend up to 20 percent of its annual budget, to a maximum of \$1 million, on lobbying activities. This ceiling applies to the cumulative activities of entire Center for Community Self-Help, which functions as a holding company for the Credit Union, the Ventures Fund, and the Center for Responsible Lending.
859. Julie Kosterlitz, “Bleeding Heart Conservatives,” *National Journal*, 6/19/2004.
860. Available from <http://www.responsiblelending.org>.
861. Ibid.
862. Mountcastle, interview by the author.
863. From remarks by Susan V. Berresford at a Fannie Mae/Ford Foundation/Self-Help Event in Washington, D.C., 10/28/2003.