



CDFIs and the U.S. Crowdfunding Act

New sources of community
Development capital created
by the Crowdfunding Act

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Brewhaha: The Story of How A Case Became A Hearing

In an attempt to buy the Pabst Blue Ribbon brewery, marketing executives Michael Migliozi II and Brian Flatow created a site, BuyABeerCompany.com, to solicit pledges from the public.



They promised investors a stake in the company and beer valued at the amount equal to how much was invested.



Their goal was to get:



How much was pledged after just 7 months?



By nearly
5 MILLION
fans.

On June 2011, the Securities and Exchange Commission ordered Migliozi II and Flatow to cease and desist for failing to register their offering.



Inspired by the case, Rep. Patrick McHenry introduced legislation to allow private companies to use crowdfunding.

Increased interest by socially motivated individual investors has expanded the pool of investment capital for community development. [They] have been drawn by the appeal of supporting low- and moderate-income communities while earning relatively good rates of return....[E]merging peer-to-peer lending platforms also hold promise.

- Ben Bernanke

Types of Crowdfunding

1. DONATION



2. REWARD & PRE-PURCHASE



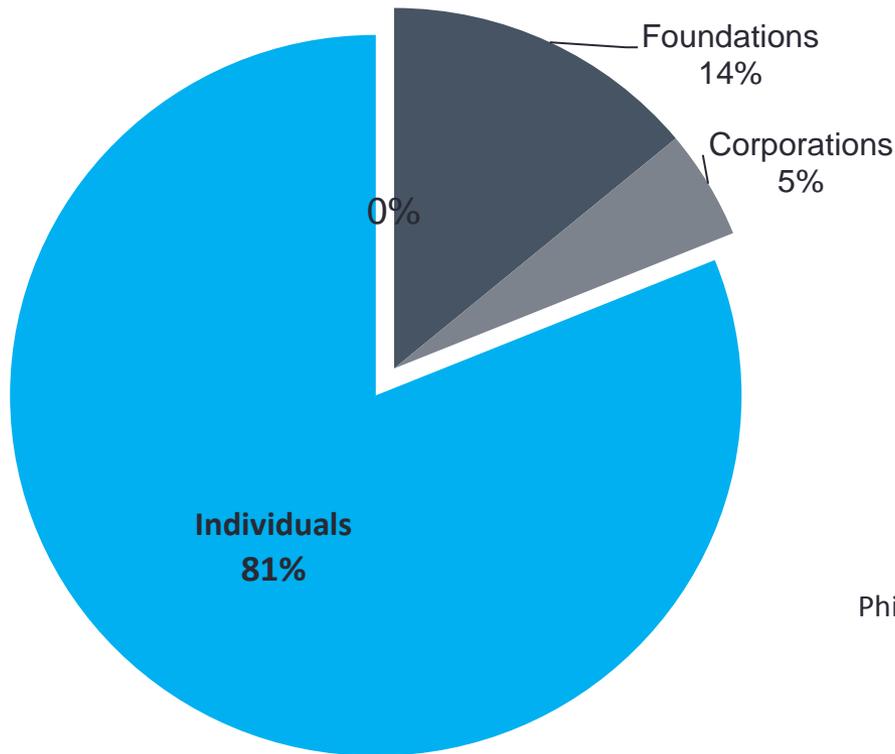
3. PEER-TO-PEER LENDING



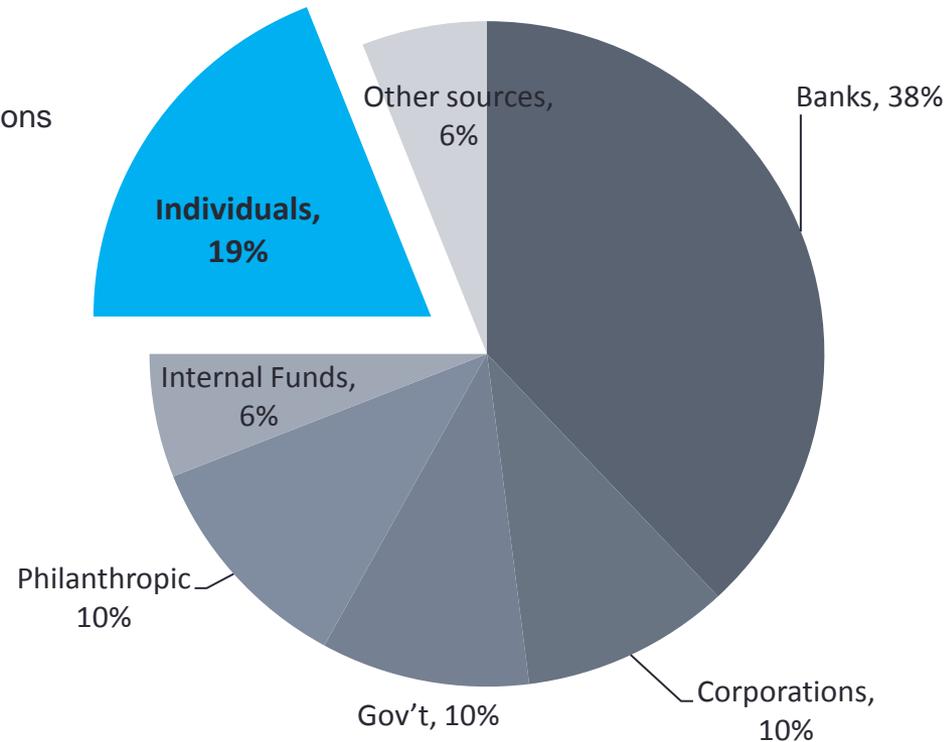
4. EXEMPTED SECURITIES

Sources of Funding

Charitable Giving Sources



CDFI Capital Sources



Source: First Chart: [2012 Giving USA: The Year in Philanthropy](#), Accessed July 17, 2012, Executive Summary. (2012). Second chart: [The Financial Crisis and CDFIs: A Brief Look at 2007-2009 CDFIs Data](#), CDFI Fund.

What could CrowdCapital mean for CDFIs?

For CDFIs:

- Source of Equity
- Source of Debt
- Source of Liquidity

For customers:

- Access to credit (P2P model)
- Early stage finance
- Gap Funding, Credit enhancement
- Complementary projects

Title III of the JOBS Act

US Jumpstart Our Businesses Act was signed into law April 5, 2012 and included Title III, the Crowdfunding Act

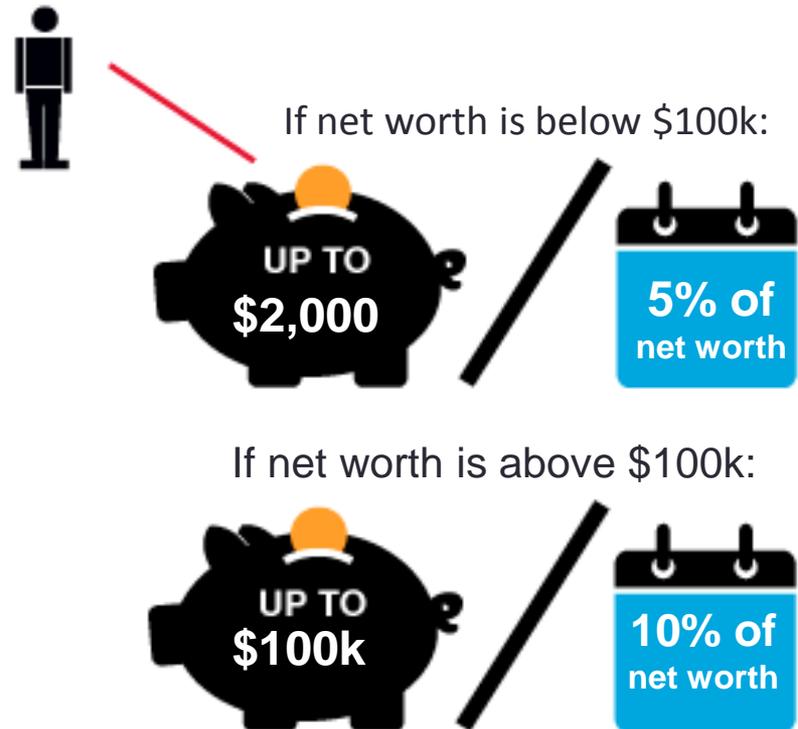


Title III: Crowdfunding Exemption

Limited to \$1MM/12-months



Single investor can invest:



Graphics Sourced From: <https://www.hightable.com/infographic/42332>

Title III: Funding Portal



SoMoLend
People Investing in People

LAUNCHT

wefunder

localstake
our city. our investment. our growth.

40Billion



Rocket Hub

Title III: Requirements of Intermediaries

Funding Portal cannot:

- Offer investment advice or recommendations
- Solicit sales to buy the securities it displays
- Offer compensation based on sales
- Hold, manage, possess, or otherwise handle investor funds or securities

Funding Portal must offer:

- Investor education materials and disclosures
- Background checks on the issuer
- 21-day review period before any crowdfunded securities are sold
- Assurance that no investor surpasses investment limit

Title III: Issuer Requirements

Must file with the SEC, the intermediaries, and all potential investors a disclosure including, among others:

- Financial disclosures – most likely will need to be reviewed by a CPA
- Share price and methodology for price
- Description of business and issuer
- Description of ownership and capital structure of the issuer
- Other requirements as determined by the SEC

The Rulemaking Process

- While the Act is authored and signed into law, the implementing rules remain must be finalized
- SEC has 270 days to author the rules
- SEC and FINRA currently accepting general comments and will accept specific comments once they have published a draft of the rules
- FINRA must also release rules and is currently accepting comments

Crowdfunded Successes



Pebble: E-Paper Watch for iPhone and Android

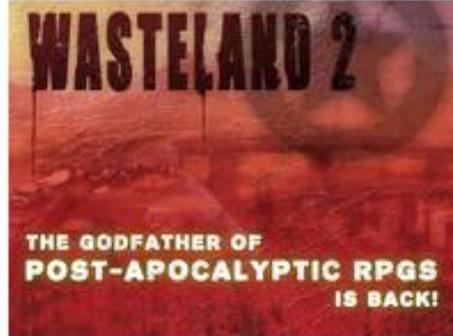
by Pebble Technology

Pebble is a customizable watch. Download new watchfaces, use sports and fitness apps, get notifications from your phone.

📍 Palo Alto, CA

SUCCESSFUL!

10,266%	\$10,266,845	FUNDED
FUNDED	PLEDGED	MAY 18, 2012



Wasteland 2

by inXile entertainment

Wasteland 2 is a sequel to the amazingly popular 1988 RPG Wasteland and the post-apocalyptic predecessor to the

📍 Newport Beach, CA

SUCCESSFUL!

325%	\$2,933,252	FUNDED
FUNDED	PLEDGED	APR 17, 2012



TikTok+LunaTik Multi-Touch Watch Kits

by Scott Wilson + MINIMAL

Transform your iPod Nano into the world's coolest multi-touch watches with TikTok + LunaTik by Scott Wilson and MINIMAL.

📍 Chicago, IL

SUCCESSFUL!

6,283%	\$942,578	FUNDED
FUNDED	PLEDGED	DEC 16, 2010

Source: "Kickstarter Most Funded", www.kickstarter.com/discover/most-funded, Accessed 7/17/2012

Challenges

Barriers to entry for mission investors

- Tracking requirement (due to max aggregate)
- Investor tests

Challenges for CDFIs & Issuers

- Maximum raise by issuers
- Limits on marketing
- Liability
- Cost of raising funds

Investor Maximum Aggregate Lending

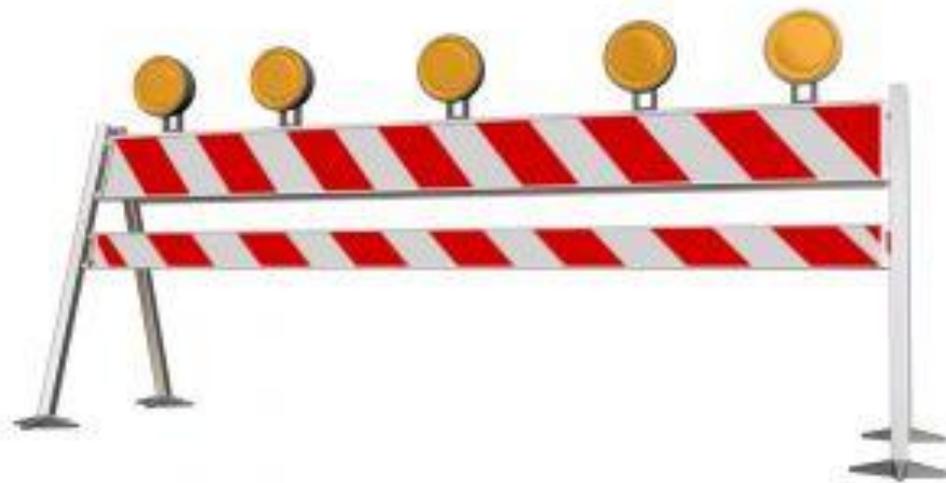


5% to 10%: compliance requires disclosure & tracking

Tax Returns

SSN

Investor Tests



Maximum Amount Issuer Can Raise

Low Ceiling:

- \$1MM



- 12-month period
- Inclusive of all securities sold to investors



Limit on Marketing



Cost of Raising Funds



Liability

Issuers and Portals are liable for:

Material Misstatements

&

Omissions



Bright Future but Uncertain Present

Despite challenges new law has promise

Donation sites are best bets for now:



CDFI Peer-to-Peer site soon to become active:

CapNEXUS

