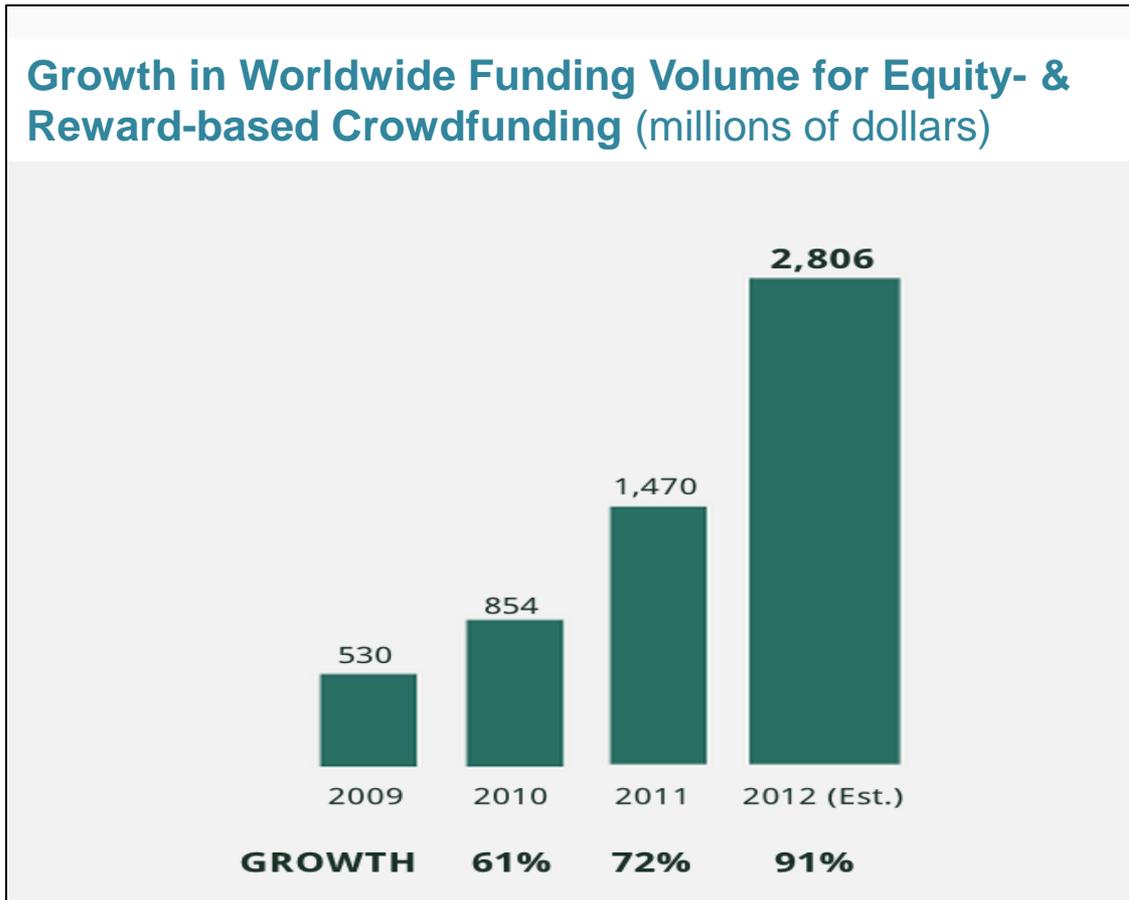




The CDFI Jobs Portal & Crowdfunding Regulations

Enhancing the job-creation impact
of the Crowdfunding Act
through CDFIs

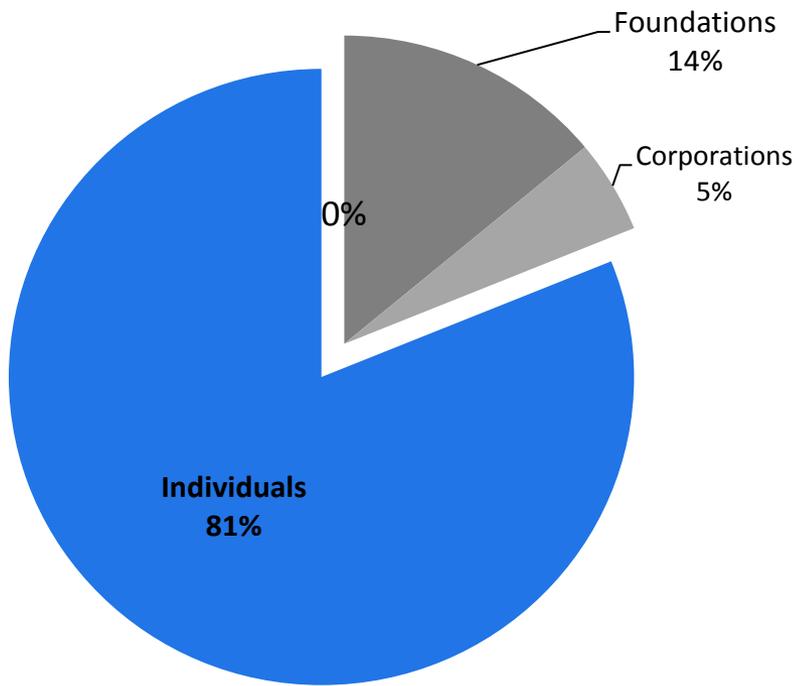
The Crowdfunding Market



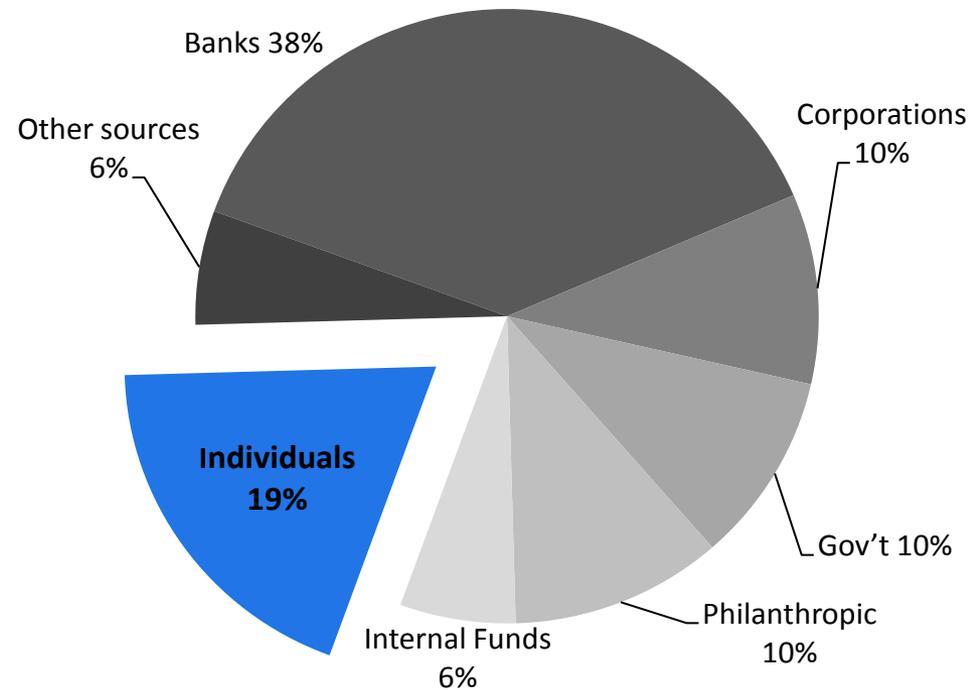
Source: Crowdfunding Industry Report, Massolution (Crowdsourcing.org), Kiva.org/stats, and Kickstarter.org/data

Sources of Mission 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: Extrapolation based on [The Financial Crisis and CDFIs: A Brief Look at 2007-2009 CDFIs Data](#), CDFI Fund.

Types of Crowdfunding

1. DONATION



2. REWARD & PRE-PURCHASE



3. PEER-TO-PEER LENDING



4. EXEMPTED SECURITIES

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.

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

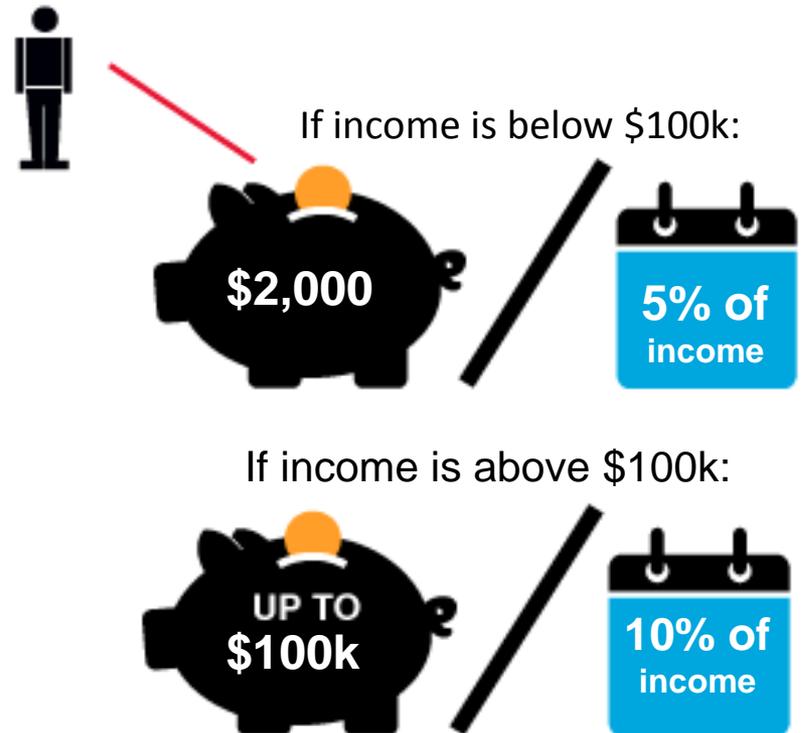


Title III: Crowdfunding Exemption

1 Limited to \$1MM/12-months



2 Single investor can invest:



Title III: Funding Portal Overview



SoMoLend
People Investing in People

LAUNCH

wefunder

localstake
our city. our investment. our growth.

40Billion



Rocket Hub

The Rulemaking Process



Goal of Legislation: Create Jobs

Crowdfunding to date is good at raising capital, so-so at creating jobs

Biggest crowdfunded projects:

- Overseas imports: iPhone Doc and Pebble/Nano watches
- Low job creating: video games / apps

 <p>TikTok+LunaTik Multi-Touch Watch Kits by Scott Wilson + MINIMAL</p> <p>Transform your iPod Nano into the world's coolest multi-touch watches with TikTok + LunaTik by Scott Wilson and MINIMAL.</p> <p>Chicago, IL</p> <p>SUCCESSFUL!</p> <table border="1"> <tr> <td>6,283% FUNDED</td> <td>\$942,578 PLEDGED</td> <td>FUNDED DEC 16, 2010</td> </tr> </table>	6,283% FUNDED	\$942,578 PLEDGED	FUNDED DEC 16, 2010	 <p>Wasteland 2 by inXile entertainment</p> <p>Wasteland 2 is a sequel to the amazingly popular 1988 RPG Wasteland and the post-apocalyptic predecessor to the</p> <p>Newport Beach, CA</p> <p>SUCCESSFUL!</p> <table border="1"> <tr> <td>325% FUNDED</td> <td>\$2,933,252 PLEDGED</td> <td>FUNDED APR 17, 2012</td> </tr> </table>	325% FUNDED	\$2,933,252 PLEDGED	FUNDED APR 17, 2012	 <p>OUYA: A New Kind of Video Game Console by OUYA</p> <p>Cracking open the last closed platform: the TV. A beautiful, affordable console -- built on Android, by the creator of Jambox.</p> <p>Los Angeles, CA</p> <p>SUCCESSFUL!</p> <table border="1"> <tr> <td>618% FUNDED</td> <td>\$5,879,791 PLEDGED</td> <td>8 DAYS TO GO</td> </tr> </table>	618% FUNDED	\$5,879,791 PLEDGED	8 DAYS TO GO	 <p>Elevation Dock: The Best Dock For iPhone by Casey Hopkins</p> <p>Undocking's a breeze and it works with cases. Built at a whole new level of quality with a beautifully minimal design.</p> <p>Portland, OR</p> <p>SUCCESSFUL!</p> <table border="1"> <tr> <td>1,952% FUNDED</td> <td>\$1,464,706 PLEDGED</td> <td>FUNDED FEB 11, 2012</td> </tr> </table>	1,952% FUNDED	\$1,464,706 PLEDGED	FUNDED FEB 11, 2012	 <p>Shadowrun Returns by Harebrained Schemes LLC</p> <p>Shadowrun Returns brings back one of our most original & cherished game settings as a 2D turn-based RPG for tablets & PC.</p> <p>Bellevue, WA</p> <p>SUCCESSFUL!</p> <table border="1"> <tr> <td>459% FUNDED</td> <td>\$1,836,447 PLEDGED</td> <td>FUNDED APR 29, 2012</td> </tr> </table>	459% FUNDED	\$1,836,447 PLEDGED	FUNDED APR 29, 2012
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Source: "Kickstarter Most Funded", www.kickstarter.com/discover/most-funded. Accessed 7/17/2012

CDFIs Create Jobs

- CDFIs would focus crowdfunded capital on the goal: US Job creation
- CDFIs have capacity & expertise to:
 - Find & fund *job creating* businesses
 - Focus on population groups with high levels of unemployment
 - Target more funding to underserved/under invested communities
- Over 1,000 CDFIs are active in communities nationwide

Challenges for CDFI Participation

Anticipated rules may prevent CDFIs & mission investors from meaningfully participating in crowdfunding for mission impact.

Investor Maximum Aggregate Lending

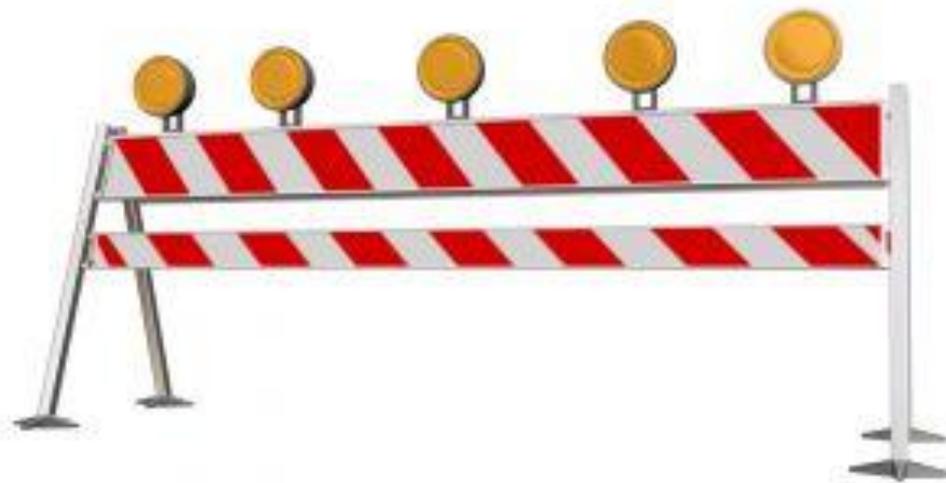


5% to 10%: compliance requires disclosure & tracking

Tax Returns

SSN

Investor Tests



Limit on Marketing



CDFIs may get lost in the crowd



Prohibition on Portals Raising Funds



Privacy Protection Requirements



Liability

Portals and Issuers are liable for:

Material Misstatements

&

Omissions



Feedback on Mission-Driven Exemptions

Reducing barriers to entry for mission investors would **drive substantially more job-creation** & mission impact

Broad exemptions w/o alternative controls create investor protection risks:

- Small dollar exemptions create exploitable loopholes
- Mission-focused exemptions hard for SEC to police

SEC may be open to creating a tightly defined **safe harbor** that will be:

- **Dependable, financially sound**, and have a proven track record
- Strong on **investor protections**, including **privacy protections**

Senate Co-Sponsor on CDFIs and Crowdfunding

“Suggestions include **ensuring crowdfunding can fill the financing gap for projects supported by federally-regulated, 501(c)3 CDFIs**, a clarification to **ensure that CDFIs and issuers can make sure investors understand the mission and charitable aspects of investments**, and **fast treatment from the SEC and FINRA related to registration and membership.**”

-Statement for the Record of Senator Jeff Merkley
Regarding Crowdfunding in Title III of H.R. 3606 July 26,
2012

Proposed Rules to Facilitate Mission Capital Formation

Key rulemaking areas:

Instead of a broad exemption, create a **targeted alternative set of strong investor protections** appropriate for mission investors through a new type of portal, a **“CDFI Jobs Portal”**

Reduce barriers to entry for mission-driven capital formation:

- **Loosen personal disclosure requirements** for aggregate tracking
- **Clarify marketing limitations**
- **Allow for faster registration**

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



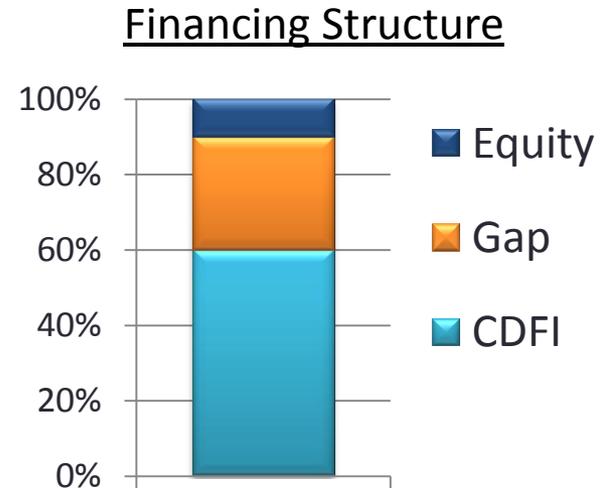
Appendix

CDFI Jobs Portal

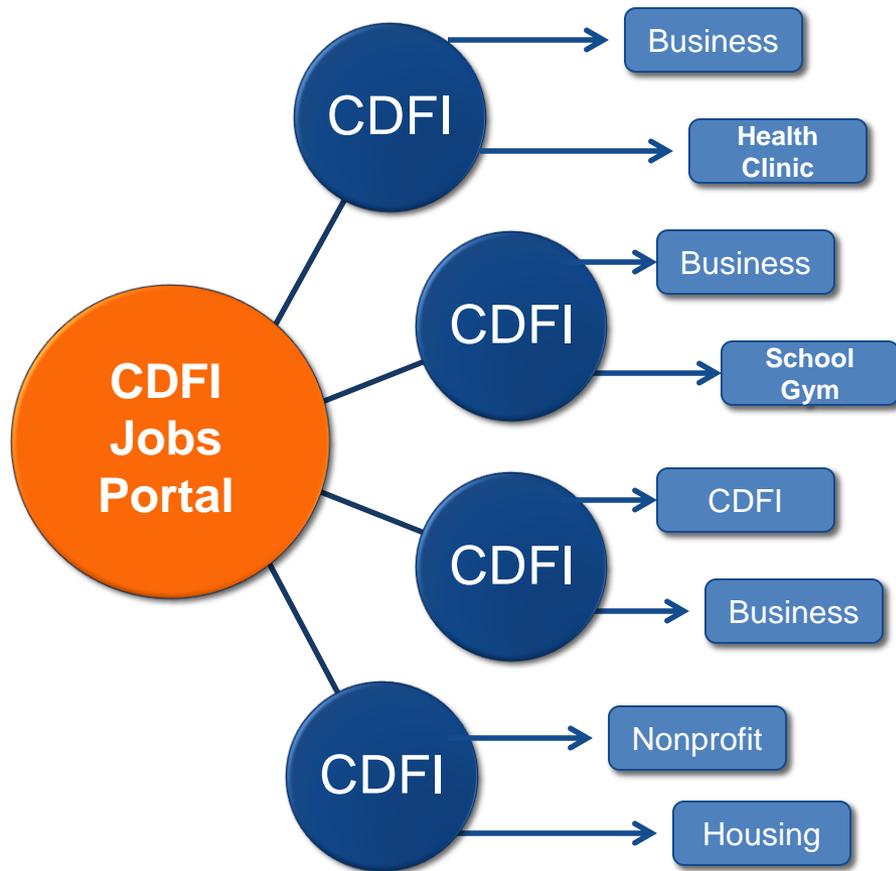
An alternative investor protection model for mission investors that:

- Requires “skin in the game” from issuer and a sophisticated CDFI investor
- Limits investors to small dollar, low yield debt
- Ensures safety and soundness of Participating CDFIs

Typically structured as ‘gap financing’



Proposed CDFI Jobs Portal: Ensuring Investor Protection & Mission Capital Formation



1. Jobs Portals must be operated by **federally regulated, 501c3, certified CDFIs**, ensuring privacy protection, fiscal responsibility, accountability, & mission focus
2. Every issuer must come through **approved Sponsor CDFIs** that meet **high performance standards**
3. Issuers must have **‘skin in the game’ & co-investment from a Sponsor CDFI**, ensuring soundness of investment
4. May limit to **small-dollar, low-yield** debt investments, avoiding any ‘get rich quick’ temptation

A simple, transparent interface

JOBS PORTAL

Business

Business

Nonprofit

Business

Business

Daycare
Center

CDFI

Nonprofit

Business

Nonprofit

Health
Clinic

Business

Investor Protections: Jobs Portal & Standard Portal

Investor Protections	Jobs Portal	Standard Portal
Issuer “skin in the game”	Yes	No
Can be restricted to low rate of return	Yes	No
Sophisticated co-investor “skin in the game”	Yes	No
Strict standards & ongoing quality control of co-investors	Yes	No
Subject to Gramm-Leach-Bliley privacy rules ensuring investor privacy protection	Yes	No
Proven financial strength overseen by Federal regulators	Yes	No
Investor personal data disclosure for maximum aggregate tracking	Yes after \$500	Yes

Investor Maximum Aggregate Tracking Requirement

Currently:

Portals responsible to ensure compliance with investor maximum aggregate investment limits

- \$2,000, or 5% - 10% of income/net worth (up to \$100K)

Challenge for CDFIs:

Aggregate tracking will likely require of personal data (tax returns; SSN)

Barrier to Participation:

Small-dollar mission investors won't have same tolerance for personal disclosure as will larger dollar, profit maximizing investors

Investor Maximum Aggregate Tracking Requirement

Proposed rule for CDFI Jobs Portals:

- Portal-Level Tracking Requirement for:
 - Debt instruments offering returns below 5%, and
 - Below \$500 total, with
 - Language indicating below market mission investment
- Aggregate tracking required above \$500

Rationale:

- Investor protection built in by structure:
 - *Small dollar amounts & low returns remove ‘get rich quick’ temptation*
 - *Federally regulated CDFI portal ensure quality of CDFI sponsors*
 - *CDFI sponsors verify legitimacy of issuers & have “skin in the game”*

Clarify Limits on Marketing

Currently:

- No advertising the terms of the offering, except for notices directing investors to portal

Proposed Rule for CDFIs:

- Permit advertising mission elements of the transaction
 - Jobs created, Green impact, Children educated
 - 135c parallel?

Rationale:

- *Mission elements are non-financial, draw interest that is not profit-seeking, and should not be subject to regulation*

SEC Authority within the Act

Portals

- Section 4A(a)(8): Authority to determine **method of tracking with respect to investor limits**
- Section 4A(a)(9): Authority to determine how to ensure **protection of investor privacy**
- Section 4A(a)(12): General authority to establish **rules for investor protection and the public interest**

Issuers

- Section 4A(b)(5): General authority to establish rules for investor protection and the public interest with respect to issuers, including **advertising**

Rulemaking

- Section 4A(c): Broad authority to establish rules for **investor protection**

Where We Are

- Published Merkley comments have defined an approach creating an opportunity for CDFIs
- Investor protection advocates support approach with regulated CDFIs, privacy protections, skin-in-the-game, low-return
- Federal Reserve Banks helping to drive attention
- Ongoing meetings with SEC
- Potentially excellent jobs story

Next Steps

- Secure formal CDFI Fund & Treasury support
- Express unified voice of support behind Merkley approach among:
 - CDFI community
 - Job creation/mission investment communities
 - Investor protection community & securities experts
- Meet with SEC, get feedback, and provide comments/recommendations

Potential Points of Support

- CDFIs have a track record of responsibly providing capital creating jobs and enhancing underserved communities
- Crowdfunding represents a meaningful new way for people to invest in their communities but there are barriers for mission investors
- CDFIs can responsibly channel capital to these communities
- CDFI sector supports the concepts introduced by Sen Merkley and supported by investor protection advocates and securities experts to provide an alternative set of investor protections that works for mission investors

CDFIs and the Crowdfunding Rules

“The SEC **should be receptive to concepts CDFIs may bring** that could aid in accomplishing the job-creating goals of the legislation, while protecting investors. It should consult with CDFI’s and the CDFI Fund at the Treasury Department on how best to **maximize the social and jobs potential for investing through crowdfunding and CDFIs**”

-Statement for the Record of Senator Jeff Merkley
Regarding Crowdfunding in Title III of H.R. 3606 July 26,
2012

On A Safe Harbor for CDFIs

“...because of the types of businesses CDFI’s work with, the types of low returns that might be derived, and the particular financing gaps that might be filled through crowdfunding...**mission-driven, CDFI-supported crowdfunding may yield better results for investors and positive job creation for communities if the rules reflect the particular work they do.**”

-Statement for the Record of Senator Jeff Merkley
Regarding Crowdfunding in Title III of H.R. 3606 July 26,
2012

On Creating Safe Harbors

“The SEC is ... fully empowered by the law to take actions to protect investors – and this is essential, especially at the early stages, when reputational risk to the crowdfunding market is very high. At the same time, I encourage it to **approach this marketplace with a spirit of smart, careful experimentation** and regular review and adjustment....

It was envisioned that the SEC might even adopt safe harbors for simple, investor-friendly structures.”

-Statement for the Record of Senator Jeff Merkley
Regarding Crowdfunding in Title III of H.R. 3606 July 26,
2012

On Tracking and Lowering Barriers to Entry

“...The SEC might [allow] ordinary investors that remain within an amount below the default aggregate, for example \$500, on any one platform [to be] presumed compliant across other unaffiliated platforms. This streamlining may be particularly useful for...those that want to engage in community-based crowdfunding, including those serving the CDFI community.”

-Statement for the Record of Senator Jeff Merkley
Regarding Crowdfunding in Title III of H.R. 3606 July 26,
2012

On CDFIs and Filling Financing Gap

“CDFIs are lenders and partners to businesses in underserved communities. They tend to obtain **low rates of return on mission-driven investments**, and frequently **encounter financing gaps that might be filled through mission-driven crowdfunding...**”

-Statement for the Record of Senator Jeff Merkley
Regarding Crowdfunding in Title III of H.R. 3606 July 26,
2012

Milken Institute Crowdfunding Roundtable

Summarizing topline consensus items from July 26th, 2012 event:

“Coupling securities crowdfunding with...community development financial institution financing could benefit all involved parties. This partnership would allow crowdfunded businesses to benefit from the expertise of sophisticated investors.”



“Crowdfunding: Promoting the Promise and Minimizing the Peril”,
summarizing July 26th, 2012 event. Posted August 2nd, 2012