CDFIs and JOBS Act Crowdfunding

A new capital source for CDFIs and the communities we serve

November 14th, 2013 | John Hamilton, President
Agenda:

1. City First Enterprises
2. What is Crowdfunding?
3. New Access to Capital through Crowdfunding
**City First Family**

**CFE Mission:**
*Develop and launch innovative community development solutions that expand opportunity for low-income families and strengthen underserved communities.*
*C Creatively deploy mission finance in ways that achieve transformative impact.*

- City First Enterprises 501(c)3 CDFI
- City First Bank CDFI Bank
- City First Homes
- City First Impact Fund
- Community Wealth Building Initiative

- Home to over 50 Employees
- Winner of White House Social Innovation Fund award (CFE)
- CFBank consistently ranked top 5 by NCIF for mission impact
- $250 Million in Assets
City First History
A Track Record of Community Impact

1993
CFE begins by challenging financial racial inequities in DC and leading a community response

1998
City First Bank opens with $10M in capital and a mission to support DC's underserved areas

2003
City First begins investing New Market Tax Credits in distressed neighborhoods - $350M in ten years

2008
City First Homes, a workforce housing and gentrification response program provides 100 permanently affordable homes in first 3 years

2011
CFE launches CFVentures, D.C. community investment fund

2013
CFE researches and develops the Community Wealth Building Initiative to launch employee-owned businesses servicing DC region's anchor institutions
City First Impact

- Loans Originated 1999 - 2011
  - Bank Office Location
  - Borrower Location (2011)
  - Borrower Location (before 2011)
  - CRA Assessment Area
  - Census Tract Income Classification
    - Low <= 50% Median Family Income
    - Moderate = 50%-79% Median Family Income
    - Middle = 80%-119% Median Family Income
    - Upper = >120% Median Family Income
    - Census Tracts Not Classified

- 5,000 affordable homes
- 7,000 charter school seats
- 3,400 jobs created or retained
- 80% of City First Bank loans are in low-to-moderate income communities
Crowdfunding

Noun and verb./kroud/-/fundlNG

Collective effort of individuals who network and pool funds online to support efforts initiated by other people or organizations

Raising small amounts of capital online from a large number of individuals to finance a new initiative
Types of Crowdfunding
Available Today

1. DONATION
   - DonorsChoose.org
   - Rally
   - GlobalGiving

2. REWARD & PRE-PURCHASE
   - Kickstarter
   - Indiegogo

3. PEER-TO-PEER (P2P) LENDING
   - Kiva
   - LendingClub

4. REGULATION D, DIRECT PUBLIC OFFERINGS, INTRASTATE, NONPROFIT
   - Fundrise
   - Mosaic
   - LendingClub
Crowdfunding – a Timeline

Pre-21st Century
Cooperatives, loan funds raise project-specific funds using fundraising from a crowd

2000
DonorsChoose launches

2005
Kiva makes first seven loans

2009
Kickstarter launches for art and design projects, goes on to see over $27M pledges in 2010

2012
Crowdfunding platforms raise over $2.7B through over 1 million campaigns
JOBS Act passed

2013
SEC releases proposed rules for crowdfunding
National Bipartisan Support

U.S. Jumpstart Our Business Startups (JOBS) Act was signed into law April 5, 2012 and included Title III, the Crowdfunding Act
Crowdfunding Proposed Rules
JOBS Act Title III

1) Capital Raise Limited to $1M over 12 Months

2) Single Investor Can Invest:

   - If income is below $100k:
     - $2,000
     - 5% of income

   - If income is above $100k:
     - 10% of income
     - Up to $100K

3) Must Use a Funding Portal or Broker-Dealer

Graphics Sourced From: https://www.hightable.com/infographic/42332
Investor Protection Concerns

Securities experts & investor protection advocates urge strong investor protection:

“A great deal is at stake with the crowdfunding rules, particularly the potential expansion of fraud in this area with accompanying harm to small investors. We urge the Commission to adopt strong investor-protective rules for crowdfunding offerings. To fall short of this standard creates the risks that crowdfunding will become a notorious debacle and that many small investors will be harmed.”

Secretary of Commonwealth of Massachusetts William F. Galvin

“The proposals could not only generate front-page scandals, but reduce the very thing they are being promoted to increase: job growth.”

Professor John Coates of Harvard Law School

“Nothing in the bill requires or even incentivizes issuers to use any capital that may be raised to expand their businesses or create jobs in the U.S.”

Commissioner Luis A. Aguilar of the Securities and Exchange Commission
Crowdfunding and CDFIs
Opportunity: Crowdfunding is Growing

Growth in Worldwide Funding Volume (millions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013 (Est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total 2012 Crowdfunding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Year-over-Year Growth: 61% 72% 81% 91%

In 2012 crowdfunding platforms funded more than 1 million campaigns.

Challenge:
Barriers to Mission Funding

Charitable Giving Sources
- Individuals: 79%
- Foundations: 15%
- Corporations: 6%
- Other sources: 6%

CDFI Capital Sources
- Individuals: 19%
- Banks: 38%
- Gov’t: 10%
- Internal Funds: 6%
- Corporations: 10%
- Philanthropy: 10%
- Other sources: 6%
Demand for Impact Investing

- Very Interested: 10%
- Interested, Want to Learn More: 38%
- Not Yet Sure: 39%
- Not at All Interested: 13%

*For U.S. population with over $80K HH income
136 CDFIs see capital demand shortfall of $880M in 2011

-Opportunity Finance Network Survey
Milken Institute Crowdfunding Roundtable

Summarizing topline consensus JOBS Act Crowdfunding 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
Next Steps:

1. Public Comment Period – Request for Comments
2. Working Group and Federal Reserve Event
3. Stay Involved – Leave Your Name and Email
Questions?

For more information, contact:

John Hamilton, President, CFE
john@CFEnterprises.org