

Non-Bank Financial Regulation



- **Security and Exchange Commission (SEC) oversees public debt and equity markets**
 - Registration and issuance of securities
 - Oversight of publicly traded companies
 - Financial reporting on securities and publicly traded companies: Sarbanes Oxley
- **Commodity Futures Trading Commission oversees options and futures markets**
 - Regulates registration, trading, and clearing of options and futures contracts
- **New Consumer Finance Protection Bureau**
 - Regulation for federal consumer finance laws
- **State securities laws (“Blue Sky” laws)**
- **State insurance industry oversight**

Security and Exchange Commission (SEC) and Security Issuance



- **Requirement for sale of new securities:**
 - SEC filing & approval of registration statement
 - Broad disclosure of business operations, finances, risk, and security terms
 - On-going filing of quarterly and annual financial reports
- **Exemptions/Alternatives**
 - “Smaller reporting” and “emerging growth” companies: less extensive disclosure requirements and audited statements
 - Several private placement exemptions
 - ✦ Limit how securities are marketed and sold, the type and number of investors (“accredited investors”) and size of offering
 - ~ 11,228 offerings raising \$1 trillion in 2014

JOBs Act & Crowd Funding



- **New rule allows public solicitation and advertising of some securities without registration**
 - Sales limited to accredited investors
- **Section A+ “mini-IPO” rule: raise up to \$50 million raise from non-accredited investors without state registration**
- **Complex Crowd Funding exemption**
 - Raise up to \$1 million
 - Caps based on investor income/net worth
 - ✦ \$2,000 or 5% of income/net worth, if below \$100,000
 - ✦ \$10,000 or 10% of income/net worth, if above \$100,000
 - Sale via registered broker or intermediary that must verify compliance with disclosure rules and investment limits
 - Final rule adopted in October 2015 (685 pages); effective 5/16
 - 20+ states have passed “intrastate” laws and regulations

Michigan Crowdfunding Law (MILE)



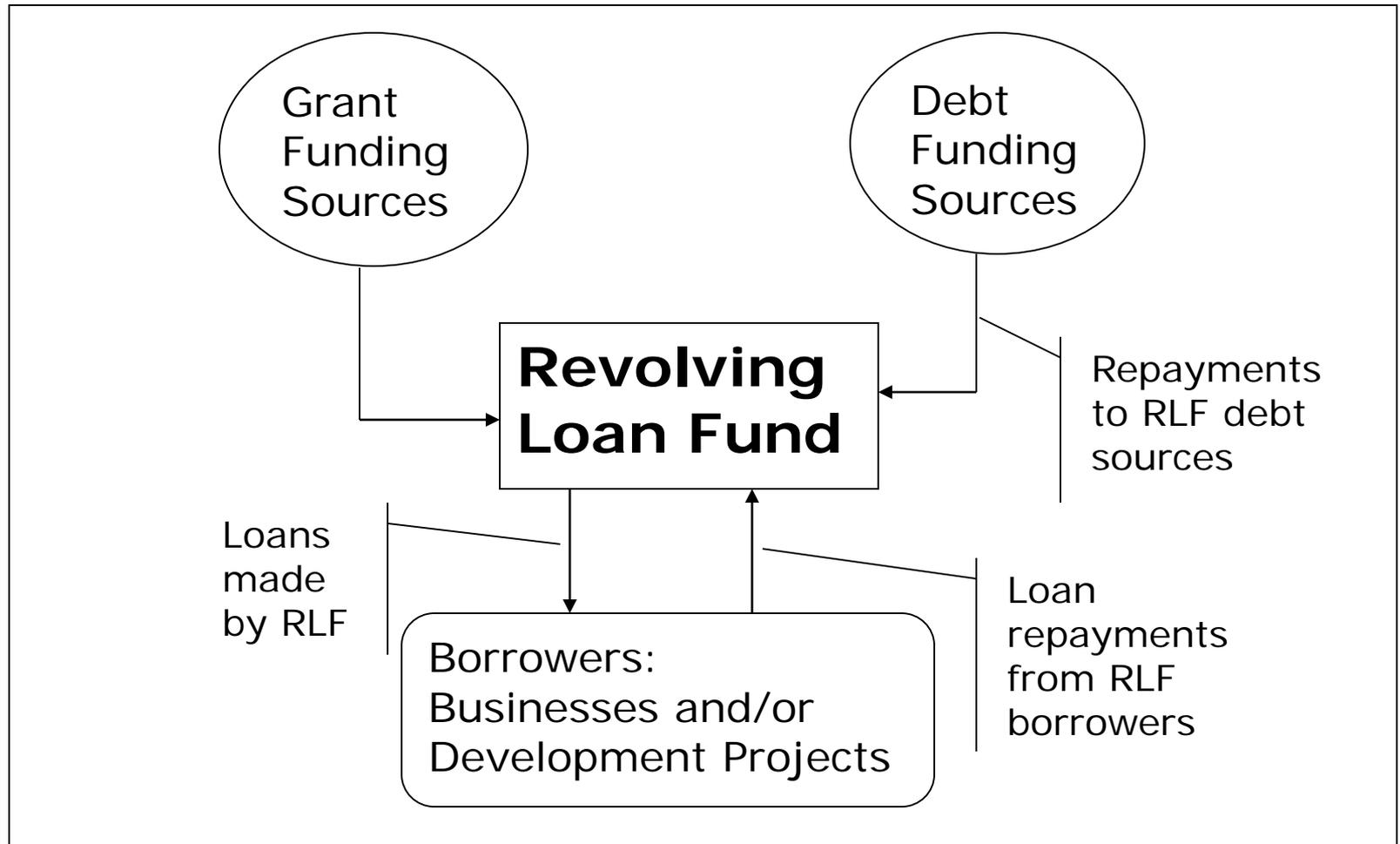
- Business must meet SEC exemptions for security registration; be incorporated in Michigan
- Maximum raise of \$1 mm (\$2 with financial audit)
- Maximum individual investment of \$10,000 (other than accredited investor)
- Quarterly reporting to investors
- 14 firms listed as issuing under MILE ; 3 in Detroit, several microbreweries
- 10 web site operators , 2 in Detroit

Michigan “Project Crowdfunding”



- **Public Spaces, Community Places Program**
- **Grants for projects that “focus on activation of public spaces and community places”**
 - Matches up to \$50,000 raised via crowd-funding
 - \$2.5 million MEDC grant pool; \$3 million in match raised
- **Partnership with Patronicity: Detroit-based private crowdfunding company ; vets projects, projects platform and assistance for local campaign**
- **Replicated in Massachusetts as Commonwealth Places run by MassDevelopment**

RLF Mechanics



RLF Example: Franklin County CDC

- Serves rural northern tier of Massachusetts
- \$3.5 million in capital from several federal and state grants (EDA, CDBG, USDA) in 6 funds
- Loans from \$5,000 to \$200,000 to start-ups and existing small businesses
- \$2.7 mm in 81 loans receivable in FYE 2015;
- 19 new loans for \$712,000 in FY2015
- \$9.7 million in loans to 280 businesses over 30 years with over 1,400 jobs created
 - 2013 total private non-farm employment: 19,917
- Linked to training, technical assistance services, business incubator & shared kitchen

RLF Levers and Policies

- Targeting policy- most critical RLF policy:
 - Eligible type of business/projects. Sets potential impact & scale
- Financial products and terms:
 - Critical value in supplying subordinate debt
 - Tradeoffs between development and financial goals
- Capital structure and funding sources:
 - Defines the level & type of lending: **“you are what you eat”**
 - Match targeting and financing strategy
- Underwriting criteria and risk standards
- Development services:
 - Core loan packaging, one-on-one advice and referral services
- Relationship building

Applying RLFs

- What is the value and advantages of the RLF model?
- What are limitations or disadvantages?
- What are applications/uses for a RLF?
- In what situations is it an appropriate financing model?
- Challenges to effective RLFs?



Industrial Site Loan Fund (ISLF)

- What are ISLF's goals and overall strategy?
- What are its key policies in each RLF design area:
 - Targeting? Financing policies? Capitalization? Development Services? Underwriting? Relationship Building?
- What are the strengths and weaknesses of its strategy?
- What challenges is ISLF facing? How might they be addressed?
- How well does ISLF appear to be managed?
- Are there best practices or lessons from ISLF for other development finance entities?
- What changes or improvements would you recommend?



DEGC Loan Funds

- What are the goals for DEGC loan funds?
- What types of projects and businesses is it targeting?
- From the limited information, any clues as to its
 - Financing polices?
 - Development services policies?
 - Capitalization?
- Similarities and differences vs. PDC?

Energy RLFs

- Apply a core development finance tool
- 128 state or utility RLFs in 2010
- Target residences, businesses and governments
- Some programs are large and have reached significant scale
- Success/impact factors
 - Complement/fill gaps in private financing
 - Expertise in EE/RE
 - Efficient decision-making
 - Integrated with contractors and incentives



Philadelphia Greenworks Fund

- Partnership between City and TRF CDFI to advance city greenhouse gas reduction goals
- Administered by Philadelphia Industrial Development Corporation (PIDC)
- Finances energy efficiency retrofits to commercial buildings
 - Minimum 25% energy savings
 - Third party technical verification
- \$39 million fund capitalized with federal grants and TRF matching funds in 2 rounds
- \$18.9 million in loans for 9 projects thru 2014

Clean Energy Works Portland

- Residential EE program with lending component
- Pilot program expanded statewide
- \$8 million in loan capital
 - \$6 in government grants; \$2 from CDFI
 - Loans administered by Craft3 CDFI
- Lending integrated into application, audit and contracting process
- 20 year loan repayment via utility bill
- Community Workforce Agreement: local hiring (80%); disadvantage contracting (20%) and hiring goals (30%)

EDA RLF Study: Key Findings

- RLFS can advance economic restructuring
 - Positive impacts for 42% of counties
 - Impact is greater for large RLFs in smaller counties
- More success at diversification than for higher paying jobs or transition to higher skilled economy
- Estimated cost per job of \$936 based on self-reported data and counting multiplier impacts
- Supplies small below-market rate debt
 - \$56,601 median loan size at 1.25% below prime
- Combined default/write-off rate of 8.6%
- Loan capital expands very modestly, about 1.1% per year, 4% over a decade after losses
- “effective program...achieves its objectives at low cost and very low rates of failure”

RLF Management Challenges

- Strategy Challenges
 - Define strategy to maximize impact with limited capital: complement other economic development activities and avoid capital substitution.
 - Manage trade-offs between economic development and financial objectives: lending risks and losses, repayment terms and revolving loan fund capital
- Operating Challenges
 - Professional origination, underwriting and approval process with limited staff and for high-risk borrowers
 - Provide sufficient technical assistance for clients
 - Building strong relationships with multiple partners
- Capitalization Challenges
 - Secure sufficient/appropriate capital to achieve a sustainable scale

Financial vs. Development Trade Offs

Scenario:	Assets and Cumulative Loans after 10 Years
\$ 2 million RLF	
Base Case: 7% rate, 5 year amortization 2% loss rate	Assets: \$1.82 million Loans: \$4.48 million
9% Interest rate	Assets: \$2.16 million Loans: \$5.2 million
3 Year Amortization	Assets: \$1.84 million Loans: \$6.4 million
4% Loss Rate	Assets: \$1.54 million Loans: \$4 million

RLF Resources

- CDFA RLF Resource Center:
<http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=rlfresourcecenter.html>
- DSIRE Database, loan program search:
<http://www.dsireusa.org/>

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