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

Grant Funding Sources → Revolving Loan Fund

Debt Funding Sources

Loans made by RLF → Borrowers: Businesses and/or Development Projects

Loan repayments from RLF borrowers → Repayments to RLF debt sources
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:
- What are the strengths and weaknesses of its strategy?
- What challenges is ISLF facing? How might they be addressed?
- How well does ISLF appeared 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

<table>
<thead>
<tr>
<th>Scenario:</th>
<th>Assets and Cumulative Loans after 10 Years</th>
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</thead>
<tbody>
<tr>
<td>$ 2 million RLF</td>
<td></td>
</tr>
<tr>
<td>Base Case: 7% rate, 5 year amortization 2% loss rate</td>
<td>Assets: $1.82 million Loans: $4.48 million</td>
</tr>
<tr>
<td>9% Interest rate</td>
<td>Assets: $2.16 million Loans: $5.2 million</td>
</tr>
<tr>
<td>3 Year Amortization</td>
<td>Assets: $1.84 million Loans: $6.4 million</td>
</tr>
<tr>
<td>4% Loss Rate</td>
<td>Assets: $1.54 million Loans: $4 million</td>
</tr>
</tbody>
</table>
RLF Resources


- DSIRE Database, loan program search: [http://www.dsireusa.org/](http://www.dsireusa.org/)