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Welcoming Remarks

Remarks by

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Good morning. Let me start by welcoming everyone to the Federal Reserve. Today's topic of crowdfunding for community development finance is an important and topical one, and I want to thank you all for helping us think through the challenges and opportunities presented by this new technology as it relates to raising funds for local communities.

This gathering is particularly timely for two reasons. First, in many communities, traditional resources for community development are shrinking, and the field is actively seeking to identify new sources of funding. Second, the Securities and Exchange Commission recently released its proposed rule under the Jumpstart Our Business Startups--or JOBS--Act, which is likely to influence the environment for crowdfunding in general and for community development finance specifically.

To the extent that most people know about crowdfunding at all, they may associate it with tech startups or independent movie production, since the press coverage has often focused on examples in these areas. These stories typically describe the use, and often success, of crowdfunding, as aspiring inventors and artists are able to tap the Internet to raise the money that can help make their visions a reality. The question for today is whether this power of the crowd can be harnessed to support community development, a field that has not widely benefited from crowdfunding thus far. Indeed, when I say "power of the crowd," it is worth noting that while individual investment amounts may be small, the total amount of funds raised from this source can be large. Although we lack reliable data on the current size of crowdfunding, some sources indicate that it's a multibillion-dollar industry, with more than 1 million separate offerings each year, and that the field is growing rapidly.[1]

While crowdfunding may not be as well known in the community development context, there are, in fact, existing models of crowdfunding for community development that we can learn from. I understand that several of these existing models will be discussed on a panel later this morning. One local example is Fundrise, an investment platform for commercial real estate that gives individuals the opportunity to invest directly in neighborhood businesses. Fundrise started on the H Street corridor here in D.C., and has completed 18 real estate deals totaling more than $10 million. For example, this platform attracted 361 people to invest a total of $350,000 toward the redevelopment of 906 H Street, N.E. Currently a vacant building, this property, which is located on the quickly revitalizing H Street corridor, now has the funding necessary to renovate the property and transform it into a restaurant or retail space.

A second example is Calvert Foundation's Community Investment Note. This is an interesting one because Calvert Foundation was essentially doing something akin to crowdfunding for community development before Internet platforms became available. As you may know, Calvert Foundation is a certified Community Development Financial Institution (CDFI) that was established in 1988 as a 501(c)3 when Calvert Investments found strong interest among its clients to invest directly in underserved communities. Since 1995, 13,000 people have invested in these notes, which provide a financial return while economically empowering communities.[2] According to Calvert Foundation, these 13,000 individual investments have collectively helped to create 430,000 jobs for low-income individuals, built or rehabilitated 17,000 affordable homes, and financed close to

[1] Massolution, "2013CF: The Crowdfunding Industry Report," http://research.crowdsourcing.org/2013cf-crowdfunding-industry-report.
[2] Calvert Foundation, www.calvertfoundation.org/invest.

26,000 nonprofit facilities and social enterprises.[3] Both the Fundrise and Calvert Foundation examples hint at the potential of scaling up crowdfunding for community development.

Many of you may be wondering, "Why is the Fed interested in this topic?" First, at a fundamental level, it's important for us to keep our finger on the pulse of financial innovation and the changing dynamics of the financial services industry--even in those parts of the industry where we do not have a direct regulatory role. We know that financial innovation can offer both opportunities and pitfalls; by carefully and even-handedly studying each new product or service at an early stage in its lifecycle, we can hope to better understand both the potential benefits, as well as any risks for adverse impacts on households and communities. Also, through convenings like today's event and by sharing promising practices, the Federal Reserve System has a longstanding history of supporting local and regional community and economic development efforts that contribute to economic growth and employment. To the extent that crowdfunding has the potential to bring new capital into low- and moderate-income communities, we want to be involved in helping the learning process along.

As I mentioned earlier, many people associate crowdfunding with tech startups and art initiatives. However, there may be ways that this new form of fundraising can be adapted to community development investing. Given how wide open the issues are, today's event is a working meeting with discussion groups. We appreciate your willingness to share your time with us, and we look forward to benefiting from your insights.

Thank you.

[3] Calvert Foundation, www.calvertfoundation.org/storage/documents/ci-note-application.pdf.