

FIELD

Microenterprise Fund For Innovation,
Effectiveness, Learning and Dissemination



**Raising Capital with an
Individual Investor Strategy:
the Ins and Outs**

July 2010

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Special thanks to the
**Bank of America
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<http://fieldus.org/OnlineLearning.html>

Webinar Goal

To gain a deeper understanding of an individual investor strategy to raise capital.



- What are the costs and benefits of the strategy?
- What are important elements to consider in getting started?





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Sally S. Hatch

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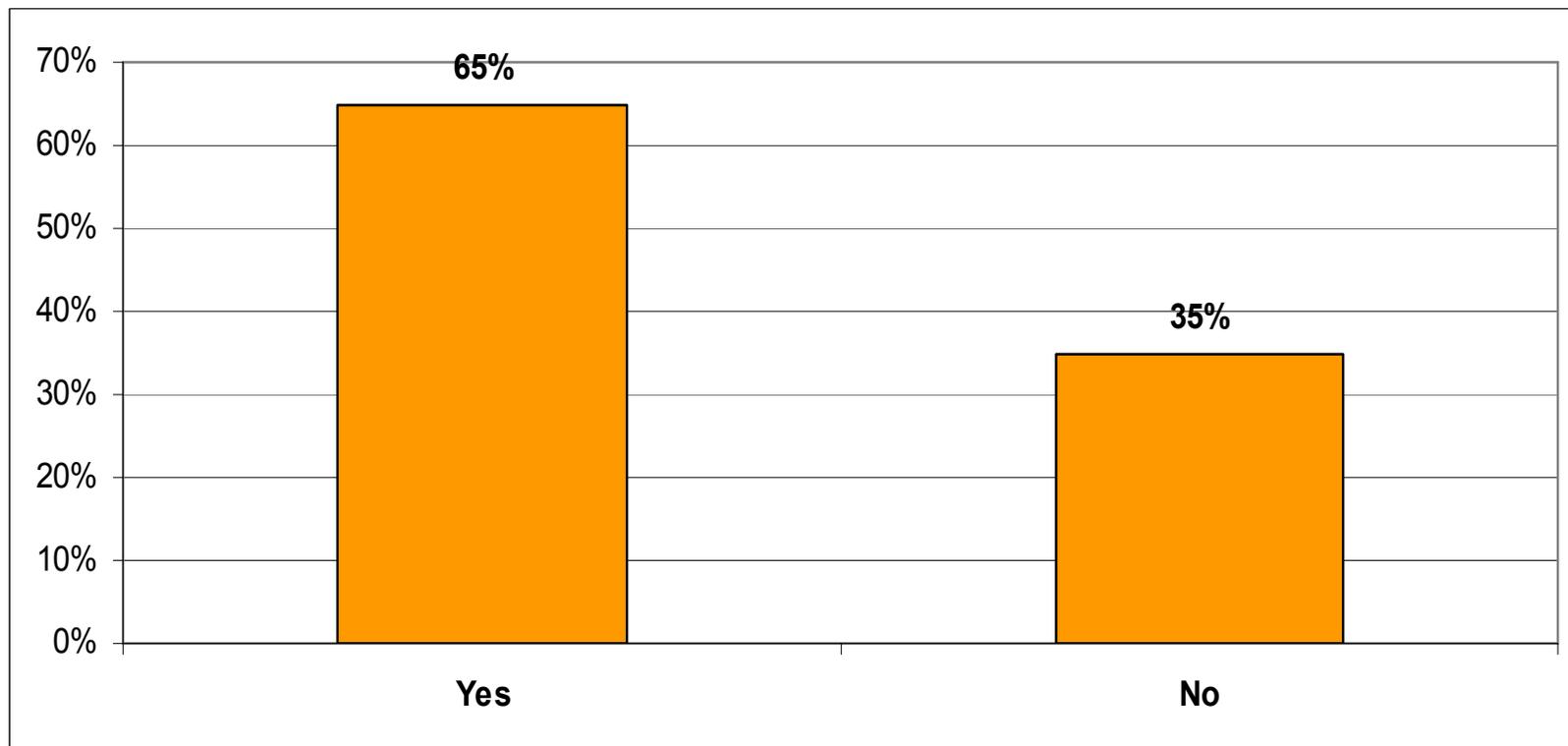
New Hampshire Community
Loan Fund

shatch@communityloanfund.org



Capital Needs

Organization currently seeking additional capital?



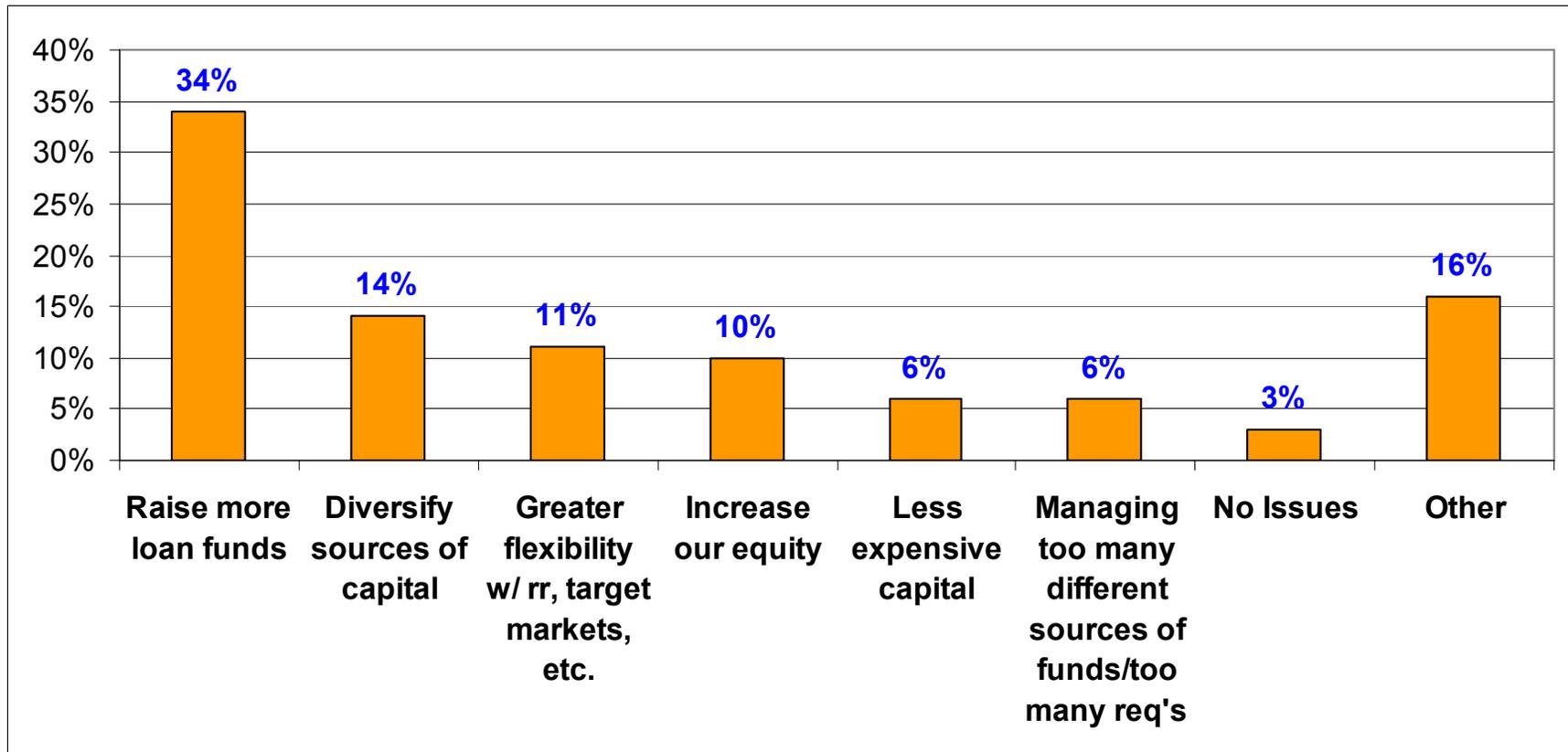
n=81 as of 6/10/10

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Capitalization Needs

What is your **most pressing** capitalization issue?



n=64 as of 6/10/10



Individual Investor Strategy Interest

- Do individuals need to be accredited?
- Do SEC regulations govern this strategy?
- What type of debt is this?
- How will rising interest rates affect this strategy?



A Sense of the Room





Overview

- New Hampshire Community Loan Fund founded in 1983.
- Broad purposes – housing, economic opportunity, community facilities.
- \$66+ million loan pool. 95% deployed.



Individual Investors

- 330 individual investors: 73% of our investor relationships
- 18% of the lending pool dollars – trending up!
- 95% renewal rate
- Average loan size: \$21,000
- Median loan size: \$7,500

Summary of Terms

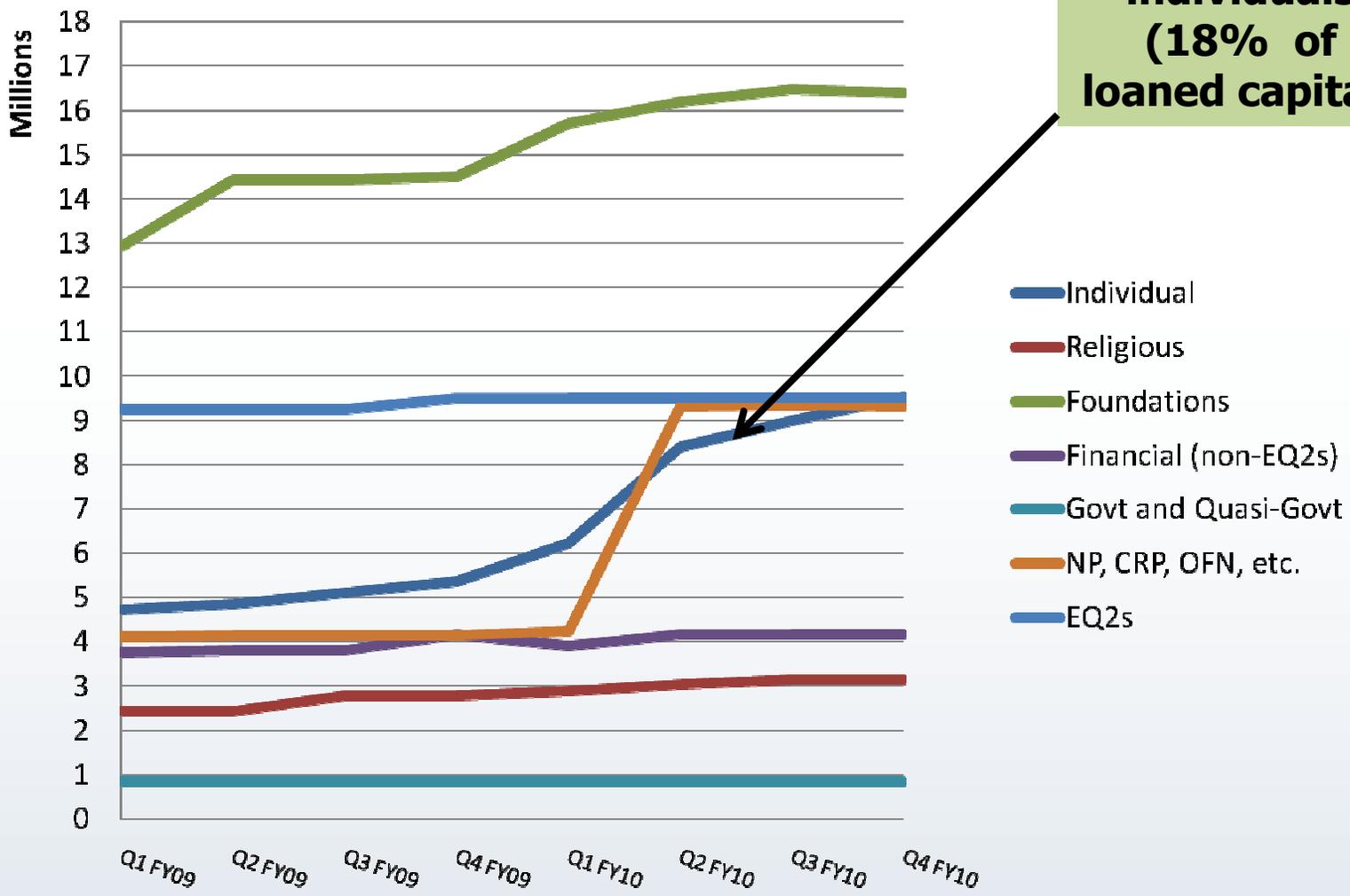
Minimum amount \$1,000
Minimum maturity 1 year

Rates

1 year	up to 2%
2- 3 years	up to 3%
4 -9 years	up to 4%
10 years +	up to 5%



Total Investor Dollars



\$9.5M from individuals (18% of loaned capital)



How Funds are Invested

- Lending Pool – *pari passu* (shared risk)
- No investment tied to single project
- Projects spread across all program areas
 - Affordable Housing
 - Community Facilities
 - Economic Opportunity



Structured as a loan – though we refer to “our investors”

- A loan with fixed interest and maturity
- Not a stock – no equity, no ownership
- Non-recourse, unsecured debt
- Not a registered security
- Investors don't need to be accredited
- Loan Agreement and Promissory Note



LOAN AGREEMENT

This is a LOAN AGREEMENT by and between the "Lender" indicated below and the New Hampshire Community Loan Fund, Inc., a nonprofit voluntary corporation organized under the laws of the State of New Hampshire ("Borrower"), whose address is 7 Wall Street, Concord, New Hampshire 03301, made and entered into this «Original_Loan_Date».

Lender: «LegalPNoteName»
Lender's SSN/EIN: «FormatTaxID»
Lender's Address: «CompanyName»
«Address1» «Address2»
«City», «State» «ZIP»

WHEREAS, the Borrower is organized for these purposes:

1. "To provide access to housing and productive resources for lower income households and other disadvantaged people;
2. To conduct public discussion groups, forums, panels, lectures, and other similar programs designed to educate the public about the benefits of housing and employee cooperatives and other such programs directed at the financing needs of such cooperatives;
3. To support the development of a stable and productive economic base in and for local communities and thereby relieve the burdens of government;
4. To create alternative models of financing for community economic development which encourage investment by local community organizations, churches, and individual residents, and promote greater responsiveness to community and low income needs on the part of conventional lending institutions through:
 - A. Direct lending to community based development projects;
 - B. Loan referral, packaging, and management assistance for potential lenders and borrowers;
 - C. Technical assistance to community based not-for-profit and cooperative organizations in developing their own management capabilities; and
5. To conserve and enhance the quality and productivity of land and natural resources, while ensuring that low and moderate income people share in the use and enjoyment thereof."



PROMISSORY NOTE

US \$«Amount»	Concord, New Hampshire
NHCLF «LoanNumber»	

Date: **«Original_Loan_Date»**

Lender: **«LegalPNoteName»**
 Lender's Address: **«CompanyName»«Address1» «Address2»
 «City», «State» «ZIP»**

Borrower: **New Hampshire Community Loan Fund, Inc.**
 Borrower's Address: **7 Wall Street
 Concord, New Hampshire 03301**

Principal Amount: _____ **Thousand Dollars (\$«Amount»)**

Interest Rate: _____ **Percent («RateFormat») per annum**

Repayment Schedule: **Interest payments:«InterestPayMethod» «InterestPaySchedule»
 «PayDay1»«PayDay2»«PayDay3»«PayDay4», beginning on MONTH
 XX, 20XX until principal is repaid.
 Principal: «MaturityDateFormat»**

For value received, the undersigned Borrower hereby promises to pay to the Lender, or order, at the Lender's Address or such other place as the Lender may designate, interest only on the Principal Amount at the Interest Rate, according to the Repayment Schedule of this Note until payment in full of the Principal Amount and all unpaid and accrued interest thereon on or before the maturity date specified in this Note and the Loan Agreement of this same date, as may be hereafter amended. Borrower may prepay the principal amount in whole or in part at any time without penalty. This Note shall be binding upon the Borrower and its successors and assigns.

Any notice to Borrower provided for in this Note shall be given by mailing such notice by certified mail, return receipt requested, to Borrower at Borrower's Address as specified above or to such other address as Borrower may designate by written notice to the Lender at the Lender's Address as specified above, or at such other address as may have been designated by written notice

Questions from Participants

Please raise your hand
or send us a question
via the chat feature.





Market Environment

- State of New Hampshire very supportive
- Repayment assured by past performance and solid financials
- Our modest rates now looking very good
- People see their money at work
- “The Other Wall Street”



What lessons have you learned that would be helpful to others?

What are the advantages or challenges of this strategy?





Advantages

- Huge growth potential
- Loyalty (95% renewal)
- Virtually no reporting
- Lenders become donors and vice versa
- A community of investors/stakeholders



Example One: Arline

1994: Became an investor

2002: Converted her loan to a Charitable Gift Annuity

2005: Created a second Charitable Gift Annuity

2008: Died, left a significant bequest

2009: Her daughter created a loan of her own and made two charitable gifts.

**Loaned
Capital**

Equity

**Operating
gifts**



Example Two: The Mayer Family

Mother, Dale, is a board member. Her children live in NH, Vermont, Massachusetts, and Seattle.

- All five are annual donors.
- Four are lenders.
- The fifth has created a bequest for the Community Loan Fund.



Challenges

- No federal or state tax advantages
- Matching duration of loans in and loans out
- How to spread the word?
- How to create easy access to \$\$ in IRA accounts (custody)
- Managing the investor/donor conversation



Individual or Institutional Investor

- No real difference. All the same process.
- Currently spending 1.5% to 5% for capital acquisition (\$250,000 annually to raise \$5m. to \$15m. total new capital).
- Acquisition costs higher for individuals; reporting costs much *less* expensive.



Costs

Staffing (both individual and institutional):

- Business Development (1.75 FTE)
- Accounting (.25 FTE)

System design and management



How we attract individual investors

- Currently, favorable market conditions
- Word of mouth
- Working with investment advisors
- Inroads into IRA money
- Advertising, bus tours, small and large social events



How to start

- Evaluate: is this right for you?
- Keep it simple – one-page form
- Keep minimum investment low (\$1,000)
- Variety of fixed rates and maturities
- Stress double-bottom-line
- Keep investors informed of how \$ are working – show results

Questions from Participants

Please raise your hand
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via the chat feature.



Resources

Recorded webinars:

Trends in Demand, Risk and Funding: Market Conditions for
Microlending

Innovative Capitalization Strategies: What is Scalable?

Publications:

Dollars for Dreams (2010)

Capital Structure - Getting It Right to Increase Sustainability (2008)

The Organizational Foundations of Sustainability (2009)

<http://fieldus.org/Webinars/TopicCapital.html>



To access the FIELD
publications and Webinars:

FIELD

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