

Michigan and Intrastate Investment Crowdfunding:
*The potential of the Michigan Invests Locally Exemption (MILE) to rebuild robust
local economies*

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This report is for informational purposes only and should not be construed as providing legal or investment advice. Please consult legal and financial professionals when considering any investment.

ACKNOWLEDGEMENTS

First and foremost, we would like to thank Chris Miller, Economic Development and DDA Director for the City of Adrian, Michigan; and Professor Elisabeth Gerber at the University of Michigan's Ford School of Public Policy for giving us the opportunity to do this work and for their incredible support throughout the writing of this paper. We would also like to thank the 33 entrepreneurs, investors, public and community leaders, and economic development experts who we interviewed and whose incredible insights are woven throughout this paper. Last but not least, we would like to give special thanks to Angela Barbash, Amy Cortese, Kevin Hitchen, and David Morse for providing edits and feedback on the initial draft of this report.

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EXECUTIVE SUMMARY

The Michigan Invests Locally Exemption (MILE), P.A. 264, was signed into law on December 30, 2013, enabling Michigan businesses to raise capital through intrastate investment crowdfunding. The law expands existing investment opportunities, allowing all Michigan residents to support local businesses, gain returns on their investments, and ultimately shape their communities.

MILE has game-changing potential for Michigan's entrepreneurs, investors, and intermediaries (financial advisors, banks, economic development agencies, etc.). While some early adopters are taking advantage of MILE, many stakeholders are hesitant to adopt and implement it this tool given ambiguous federal SEC regulations, a general lack of public awareness about the law and local investing, and perceived risks associated with investment crowdfunding.

The devastating impact of the U.S. Great Recession on local economies has catalyzed communities across the nation to develop creative solutions to return much needed capital and development to their economies. As of March 2015, fifteen states have intrastate investment exemptions in place, and fifteen more states including the District of Columbia are considering similar legislation. Michigan's legislation is the least restrictive to entrepreneurs and investors, positioning the state to lead the nation in establishing successful, replicable implementation strategies.

This paper synthesizes three months of qualitative research and offers six recommendations to stakeholders interested in promoting intrastate investment crowdfunding in Michigan:

1. Identify investment crowdfunding champions across Michigan to build networks of like-minded investors, entrepreneurs and intermediaries;
2. Establish a one-stop shop for entrepreneurs planning to utilize investment crowdfunding;
3. Develop partnerships among philanthropic organizations and community foundations to offer matching funds to entrepreneurs;
4. Coordinate organizations with human and financial capital to lead a MI education campaign;
5. Educate and engage the Michigan Economic Development Corporation's Collaborative Development Councils and executive leadership; and
6. Organize a state coalition to transfer investing knowledge across communities and regions.

Ultimately, we believe these recommendations will further the implementation of MILE and investment crowdfunding, enabling entrepreneurs to access new forms of capital to jumpstart small business development; residents to grow their wealth and shape their communities; and the state of Michigan to compete in the evolving global economy.

METHODOLOGY

In fall 2014, Chris Miller, Director of the Downtown Development Authority and Economic Development for the City of Adrian, Michigan, commissioned a white paper to identify best practices for MILE implementation. A team of three graduate students from the University of Michigan's Gerald R. Ford School of Public Policy researched the local investment landscape to better understand the opportunities and challenges associated with implementing investment crowdfunding in Michigan.

In partnership with Chris Miller, we defined the following objectives for the term of this consultancy:

1. Identify best practices from community investment models to inform the work of investment crowdfunding stakeholders in Michigan.
2. Explore the opportunities that investment crowdfunding presents for Michigan's local communities in addition to the perceived and existing barriers to its implementation as identified by key stakeholders.
3. Provide recommendations to investors, entrepreneurs, intermediaries, local governments, and the state on how to advance the MILE legislation, and use investment crowdfunding to their benefit.

To accomplish these objectives, we completed an extensive literature review; conducted interviews with over 30 key stakeholders located in Michigan and across the country, as identified by individuals in the investment crowdfunding community; and identified and evaluated community investment models and best practices.

BACKGROUND

In 2008, the United States entered the worst financial crisis since the Great Depression, devastating individuals' savings and investment plans and deeply constricting capital markets. The recession reverberated throughout the country, and local economies and individual financial stability suffered tremendous losses. A 2012 DePaul University study found that despite private sector recovery and improved economic growth throughout the United States, small businesses were continuing to struggle in the face of tightened restrictions on capital lending – stifling their ability to scale or self-sustain.ⁱ

Since 2007, entrepreneurs have struggled to gain access to traditional capital markets. Banks are evermore risk-averse, and venture capitalists and angel investors are reluctant to invest in local startups.ⁱⁱ In 2012, Congress attempted to free up capital to spur small businesses by passing the Jumpstart Our Businesses (JOBS) Act, which enabled interstate investment crowdfunding. Before Americans can reap the benefits of the JOBS Act, the U.S. Securities and Exchange Commission (SEC) must develop guidelines for implementation. However, two years after President Obama signed the bill, the SEC has offered no indication as to when it will publish these guidelines. In the meantime, several states, including Michigan, have taken it upon themselves to implement this tool within states.

Michigan enables intrastate investment crowdfunding

The economic crisis was acutely felt in Michigan, a state whose economy is significantly reliant on small businesses. In 2009 alone, over 229,000 jobs were lost, about half of which were from the state's small business sector.ⁱⁱⁱ While small business formed the bedrock of thriving communities before the recession, they have struggled to rebound and grow since then, causing local economic stagnation.

In 2013, Michigan legislators, recognizing the opportunity the JOBS Act creates for local economies, passed P.A. 264, the Michigan Invests Locally Exemption (MILE). MILE allows all Michigan residents to invest their dollars directly into their community, improving access to much needed capital for entrepreneurs and small businesses.

THE POWER OF CROWDFUNDING

Crowdfunding refers to the practice of collecting money from a large number of people to raise capital. The internet has revolutionized this concept by facilitating quick and easy connection among participants. In the early 2000s, entrepreneurs began to develop online crowdfunding platforms which have rapidly expanded in number and size. Between 2011 and 2012, the global revenue generated through all forms of crowdfunding increased by 81% – from \$1.5 billion to \$2.67 billion.^{iv} The World Bank predicts that the crowdfunding market in the developing world alone could reach between \$90 and \$96 billion by the year 2025.^v

The most established crowdfunding model in the United States is reward-based, popularized by platforms such as Kickstarter and Indiegogo. These platforms have mobilized millions of people around the world to donate well over a billion dollars to a wide range of entrepreneurs, often in exchange for small rewards, with participation in crowdfunding steadily increasing. In 2014, 3.3 million people pledged \$529 million on Kickstarter and 22,252 projects were successfully funded^{1,vi}. Over 2 million of those who pledged money in 2014 were first-time backers.^{vii} This tool has galvanized a massive and growing number of people to pledge small amounts of money to see entrepreneurs and projects they believe in succeed.

Investment crowdfunding is another model gaining popularity in communities around the world. This model empowers people to have a direct impact on the health of their local economy and individual businesses they care about, while also receiving a return on their investment. In 2014, a prominent investment crowdfunding platform based in the United Kingdom, [Crowdcube](#), raised 35 million Euros, about 39 million dollars, more than a 246% increase from 2013, to fund 105 businesses.^{viii} Individuals throughout the world are using investment crowdfunding to direct millions of private dollars to entrepreneurs who are starting and expanding businesses. This model emerged in the United States in 2011 as states began to sanction *intrastate* investment crowdfunding. As of March 2015, research indicates that fifteen states have enacted legislation or amendments that exempt this method of raising capital from state security laws and at least fifteen more and the District of Columbia are considering legislation.^{ix} This state-led movement has largely been in response to the U.S. Securities and Exchange Commission's ongoing failure to implement the 2012 JOBS Act. The state laws allow *accredited* and *non-accredited* investors to support a new or existing business in their state in exchange for equity, debt, or revenue sharing. An investor qualifies as accredited under federal law if they earn over \$200,000 a year (\$300,000 for a married

¹ Indiegogo does not publicly release this data.

couple) or have a net worth of over \$1 million, excluding their home.^x Everyone who does not meet this threshold - about 93% of the US population - is considered a non-accredited investor.^{xi} Intrastate investment crowdfunding laws like MILE open the door to the 93%, exponentially expanding the pool of potential investors for small businesses.

WHY INTRASTATE INVESTMENT CROWDFUNDING IN MICHIGAN?

By opening the door for non-accredited investors, investment crowdfunding democratizes investing and capital-raising. It allows ordinary investors to participate in investment opportunities that they have been traditionally shut out of, and enables entrepreneurs to secure the capital they need to be successful.

Crowdfunding has proven to expand access to populations underserved by traditional forms of capital.^{xii} Women and minorities are grossly

“MILE opened up an entirely new frontier for small businesses in Michigan to access capital. Right now many states are looking to Michigan for leadership.”

Rob Fowler, President, MI Small Business

underrepresented in the world of both venture capital and angel investing, both as investors and recipients of capital.^{xiii} Women and minority-owned businesses are also less likely to receive bank loans and receive lower loan amounts when they are successful.^{xiv} Minority-owned businesses also pay higher than average interest rates on bank loans and are more likely to be denied credit.^{xv}

If well implemented, MILE has the ability to transform the investor and entrepreneur landscape in Michigan. It exponentially expands and diversifies the base of potential investors that an entrepreneur can appeal to, placing the power to determine where to direct capital in the hands of every individual who has the means to invest. With a significantly more diverse pool of investors, we can expect to see a similarly more significant diverse pool of successful entrepreneurs.

MILE has the potential to generate stronger local economies.

MILE harnesses the power of crowdfunding to spur local economic development, accumulate local wealth and create jobs. Healthy local economies generally require a strong small business community. Since the 1970's, small businesses—those that employ 500 or fewer workers—have provided 55% of all jobs and 66% of all job growth in the United States.^{xvi} In Michigan, small businesses employed 50%, or 1.7 million, of the private workforce in 2012.^{xvii} Accredited and non-accredited investors can now work together to expand the impact of this sector on Michigan's local and regional economies. Amy Cortese explains the potential power of this in her book *Locavesting*. In 2012, Americans had \$30 trillion in savings plans such as 401Ks and IRAs. If just 1% of this amount was redirected to local companies through investment crowdfunding, Cortese points out, it would equal about half the amount of all outstanding small-business loans in the country.^{xviii}

Local investing also spurs the multiplier effect² since dollars spent at local businesses are much more likely to be reinvested locally. According to a national study conducted by Civic Economics, an average 47.7% of revenues from independent retail businesses and 64.9% of revenues from independent restaurants are reinvested in local economies. Compare this to only 13.6% of revenues from national retail chains and 30.4% of revenues from national restaurant chains.^{xix}

MILE enhances Michigan's competitiveness.

Michigan is home to some of the top public universities in the country, but many students who attend these schools leave the state after graduation. In 2012, the net migration of college-educated individuals aged 22 to 34 was -2.2%.^{xx} In order to attract and retain this demographic, Michigan must work to expand and improve job prospects. By creating opportunities for innovative people to start and grow businesses, MILE can help accomplish this goal.

MILE has already successfully kept at least one young entrepreneur in the state. Kyle DeWitt of [Tecumseh Brewing Company](#), the first Michigan business to launch a successful investment crowdfunding campaign, moved back to Michigan from California to settle down with his family. He explained that he decided to return to the state because he “thought there was more opportunity out here for a young couple to start a business [and] buy a home.”^{xxi}

² Multiplier Effect: small businesses recirculate a much greater percentage of revenue locally compared to nationally or internationally-owned businesses.

IMPLEMENTATION CHALLENGES & COMMUNITY MODELS

There are a variety of unique challenges slowing the full implementation of MILE and intrastate investment crowdfunding in Michigan. In the following section, we identify these challenges and provide national best practices for investment community models to demonstrate how these challenges may be addressed in the state.

Challenge #1: Overcoming hesitancy from key stakeholders

Every new, innovative policy must overcome initial stakeholder hesitancy. Intrastate investment crowdfunding first appeared in the United States less than four years ago and, as of March 2015, only one business has successfully used this tool to raise capital in Michigan. As a result, there is little evidence about the impact of the model in the American context and a scarcity of local and national expertise in this arena. This uncertainty has led to inaction among Michigan stakeholders.

A key reason for this hesitancy is the concern that MILE will be vulnerable to fraud. One particularly potent fear is that entrepreneurs will take advantage of potential investors who lack financial services and savviness. It is first important to note that investor protections are written into the law. Entrepreneurs wishing to launch an intrastate investment crowdfunding campaign must register with the state and disclose specific information to investors.^{xxii} In addition to these protections, there has been little evidence of any fraud on crowdfunding platforms globally according to a 2013 World Bank report.^{xxiii} Neither the Australian Small Scale Offerings Board, founded in 2007 and one of the largest investment crowdfunding platforms in the world, nor Crowdcube, the largest investment crowdfunding portal in the United Kingdom, have reported a single case of fraud.^{xxiv} Both of these platforms serve accredited and non-accredited investors. While it is important for investors and entrepreneurs to take precautions against fraud, data shows that internet crowdfunding portals have been highly successful at preventing it.

Challenge #2: Raising awareness among a large, diverse set of stakeholders

In order for MILE to take hold in Michigan, investors, entrepreneurs, intermediaries, local public officials, and others need to know about investment crowdfunding and understand the opportunity it presents. Given Michigan's size and socioeconomic diversity, this is a significant challenge.

Michigan can look to [Slow Money](#) and [Hatch Innovation](#) for best practices on raising broad public awareness. Slow Money, a network of individuals committed to investing in local food businesses, started in 2010 and quickly spread throughout the U.S. and Europe. Local chapters conduct

outreach and host events to engage people in the movement, and the Slow Money Alliance hosts an annual gathering for stakeholders from around the world to share best practices.^{xxv}

Hatch Innovation is leading a grassroots, community-investment movement called [Hatch Oregon](#), one goal of which is to spread the word about Oregon's intrastate investment crowdfunding law. Recognizing that a robust infrastructure needs to be in place before Oregonians can take advantage of all the law has to offer, Hatch does significant on-the-ground outreach, training and capacity building throughout the state, including in remote areas. They host speakers, panel discussions, and workshops that bring investors, entrepreneurs, and intermediaries together, and identify community leaders to continue and expand this work at the local level. To facilitate access to resources, they maintain a [Community Capital Activity Map](#) on their website that informs stakeholders about events, local investment chapters and clubs, technical service providers, and investment opportunities.^{xxvi[i]} Both Slow Money and Hatch have successfully promoted local investing by appealing to people's desire to make an impact in their communities. They also provide physical and online spaces where stakeholders can develop a supportive community and grow the movement.

Challenge #3: Creating a robust infrastructure to support the use of MILE

In order for MILE to become standard practice in Michigan, infrastructure must be put in place to support the two stakeholder groups essential to its success: entrepreneurs and investors. Institutions that provide support to these two groups – such as small business development centers, financial advisors, and local governments – can develop resources to inform them about this tool. Additionally, investors and entrepreneurs themselves can create support networks that facilitate the use of MILE.

Two organizations that are successfully supporting entrepreneurs around intrastate investment crowdfunding are [Opportunity Hub](#) in Georgia and the aforementioned [Hatch Innovation](#) in Oregon. Both operate in states that have legislation similar to MILE, and both function as incubators for entrepreneurs looking to start or grow a business or nonprofit. Opportunity Hub is currently running its own investment crowdfunding campaign to expand the organization. They are using the campaign as an opportunity to educate themselves on how this tool works so that they can better serve their clients, and to target and educate first-time investors.^{xxvii} In addition to providing space, mentorship and workshops to its clients, Hatch also connects entrepreneurs and potential investors by hosting pitch nights and an online investment portal.^{xxviii}

Two organizations that have been very successful at providing support to and growing networks of local investors are [Fund Milwaukee](#) and the previously discussed [Slow Money](#). Both rely on a network model in which local investment groups serve as a contact point for local businesses in need of capital. Members share the responsibility of due diligence, but generally make investment decisions independently. As of December 2014, Slow Money had invested \$38 million in 350 small food enterprises in the United States and Europe.^{xxix} Similarly, Fund Milwaukee has organized a group of 120 accredited and non-accredited Milwaukee residents to invest \$1 million in local businesses with an average 5% return on investment.^{xxx} Both of these organizations are comprised of investors who have decided to proactively seek out and invest in entrepreneurs that they believe in.

MILE IN ACTION: TECUMSEH BREWING COMPANY

Kyle DeWitt and Tim Schmidt of [Tecumseh Brewing Company](#) (TBC) were the first entrepreneurs in Michigan to successfully employ investment crowdfunding.^{xxxi} After a year and half of unsuccessfully attempting to secure bank loans and other forms of capital, they learned about MILE and investment crowdfunding from Chris Miller, the Director of Economic Development for nearby Adrian, Michigan. In the spring of 2014, they set a goal to raise between \$150,000 and \$175,000 in 90 days on [Localstake](#), an online investment crowdfunding platform, and proceeded to raise the full amount in just half the time.

DeWitt and Schmidt worked with [Localstake](#) to determine an appropriate financial offering for investors and launch their crowdfunding campaign. The majority of TBC investors will receive a monthly revenue share, based on the size of their investment, with an ultimate planned return of 150%. TBC will distribute 7% of their monthly sales back to these investors; and they expect the payback to be complete

“Anyone looking to start a business in Michigan would be dumb not to look into it.”

Kyle Dewitt, TBC

within five years. In order to attract accredited investors, TBC additionally offered a 1% equity option to those who invested a minimum of \$10,000. These investors can initiate a three-year repayment period of their ownership after five years. As a result of their campaign’s success, TBC was additionally able to secure a \$200,000 loan from [OSB Community Bank](#), which had previously turned them down. They also received free counseling from the [Michigan Small Business Development Center](#) at Washtenaw Community College to help hone their business plan and pitch to investors and banks.

In addition to the previously mentioned benefits of their crowdfunding campaign, Dewitt and Schmidt established an enthusiastic and committed support system before even opening their doors. They began to build this base before the campaign launched by engaging in targeted marketing efforts and hosting several tasting events. These efforts helped them attract 17 investors with whom they had no previous relationship.

While their campaign was ultimately very successful, the two entrepreneurs faced several challenges along the way. Potential investors were unfamiliar with intrastate investment crowdfunding, often conflating it with reward-based crowdfunding. Dewitt and Schmidt had to convince people that this was a real investment opportunity. They also ran into challenges with the state’s [Department of Licensing and Regulatory Affairs](#) (LARA), which is still new to regulating this form of financing and requested documentation confirming all investors were Michigan residents.

STAKEHOLDERS: ENTREPRENEURS

Prior to 2013, Michigan entrepreneurs were limited to raising capital from traditional sources. This posed an often insurmountable challenge for local businesses looking to start or expand. Because venture capitalists and angel investors are generally interested in businesses with high growth potential, and banks are often too risk averse to lend to small businesses, small-scale entrepreneurs without personal wealth or a wealthy friend or relative, as well as those in areas without a strong VC or angel presence, were often left without viable options for raising needed capital.

MILE offers a solution. It allows entrepreneurs to raise capital from Michigan accredited and non-accredited investors in exchange for equity, debt, or revenue sharing. Businesses without audited financials may raise up to \$1 million, while businesses with audited financials may raise up to \$2 million.^{xxxii} To utilize this tool, the business or nonprofit must be incorporated in Michigan, hold at least 80% of assets and revenues in the state, and pledge to spend at least 80% of crowdfunded capital in the state. Additionally, investments can only be accepted from Michigan residents.^{xxxiii}

Entrepreneurs who want to use this tool must register with the state's [Department of Licensing and Regulatory Affairs](#) (LARA) and may need to provide proof that these requirements are met.[EG1] Six companies have already filed and are waiting to hear back from LARA.³

Like entrepreneurs seeking other forms of financing, those planning to use investment crowdfunding must first prepare a business plan and financial projections, determine the financial offering for investors, and develop a pitch for investors. Uniquely, they must also establish a plan for the campaign itself and be prepared to answer questions from potential investors with varying levels of familiarity with their product or service or investment process. It can be helpful for entrepreneurs to be internet and new media savvy as a crowdfunding campaign typically occurs on a licensed online platform such as [Localstake](#), which works with small businesses, and [Fundrise](#) and [Loquidity](#), which work with real estate deals.

Crowdfunding is not only a method of raising capital, it is also a powerful marketing tool, creating an opportunity to generate customers, confidence, and commitment before a business or project is launched. This tool can have a viral effect: motivated to see the business succeed, investors will get the word out to their networks. Additionally, as in the case of the Tecumseh Brewing Company, a successful crowdfunding campaign provides evidence of a business's viability, which can help secure traditional forms of capital.

³ FOIA request by ReConsider and ReValue.

Investment crowdfunding can be used by new or established businesses and nonprofits that can successfully capture the attention and confidence of the crowd, providing the necessary capital for a brewery to open its doors, for an ice cream parlor to purchase a display case, or for a neighborhood association to purchase a building.

STAKEHOLDERS: INVESTORS

MILE creates an opportunity for all Michigan residents to support their local economy through investment in small businesses. Traditionally, such investment has been relegated to accredited investors - individuals who earn over \$200,000 annually - whose investment strategy frequently requires assistance from a financial advisor. Most Americans, however, do not fit this description. Ninety-three percent of the population are non-accredited investors, legally ineligible to invest directly in a business where there is no previous personal or formal business relationship.^{xxxiv} In an economy where small businesses rely on increasingly inaccessible capital markets, MILE expands these markets by enabling non-accredited investors to invest up to \$10,000 in a business (accredited investors have no limit).

Investment crowdfunding takes three forms: equity-based, debt-based or revenue-based, described below. It is incumbent upon each entrepreneur and investor to determine which method best serves their interests.

- **Equity-Based:** Each investor owns a portion of the company, proportional to their investment.
- **Revenue Sharing:** Each investor receives their return on investment as an agreed-upon proportion of the business's profit.
- **Debt-Based:** Each investment is treated as a loan which will be paid back at an agreed-upon interest rate and time interval.

Mitigating Against Risky Investments

Investment in small business is risky. The U.S. Small Business Administration reports that on average, only 51% of these businesses survive for more than 5 years.^{xxxv} Fortunately, there are several best practices utilized by venture capitalists, angels and other experienced accredited investors to minimize their exposure to risk, including:

1. **Due Diligence:** By engaging in due diligence, that is conducting background research on the entrepreneur, concept, and business plan, investors greatly minimize their risk exposure. Intermediaries - including community banks, certified public accountants and business associations - provide educational workshops and resources to help an investor conduct due diligence on a potential investment. Because investment is locally-based, investors under MILE have a unique advantage in conducting due diligence in that they may know the community, entrepreneur and customer base.

2. **Moderated Investments:** As the old saying goes, “don’t bet the farm”. After conducting due diligence and gaining confidence in the business plan and entrepreneur, an investor should assess his/her current savings and wealth capacity and allocate a portion - not all - of the investable funds to potential investments.
3. **Diversification:** Venture capitalists and angel investors are successful not only because of their ability to efficiently conduct due diligence, but also because of their ability to diversify their investments in a variety of businesses. By spreading their risk among several investments, a loss on one investment can be recovered by a successful investment in another.
4. **Build an Investment Community:** Investors can best mitigate against risk by collaborating and sharing best practices for investments. Crowdfunding Meetup groups are a collection of local investment-minded investors, and financial and legal intermediaries who share updates, engage in investor education and support due diligence efforts. Similarly, local community investors should engage their neighbors and local business owners to identify the best use of investment crowdfunding for their community.

Michigan Investment Markets (MIMs)

A unique challenge of intrastate investment crowdfunding occurs when investors are ready to sell or trade their shares in a business. Compared with publicly traded companies, in which stock exchanges are available to facilitate buying and selling of investment shares, investors in small businesses have few options for selling their shares. To mitigate this challenge, Governor Snyder signed the Michigan Investment Markets (MIMs) bill, which establishes a mechanism to buy and sell shares from local small businesses, allowing for greater flexibility for small business investors. As of March 2015, there has been minimal effort from the state to set guidelines for implementation of these local exchanges.

STAKEHOLDERS: INTERMEDIARIES

Investment crowdfunding intermediaries bridge the gap between entrepreneurs and investors. They connect investors to businesses with high potential for success and advise them on how to make profitable investments. For entrepreneurs, intermediaries help them to realize the benefits of raising capital through investment crowdfunding and coach them through the launch of a successful campaign. Intermediaries include local economic development organizations, public officials, entrepreneurship programs, business associations, chambers of commerce, and professional service organizations, such as certified public accountants, attorneys, marketing firms, community banks, credit unions, financial advisors, and online platforms.

A Variety of Challenges for a Diverse Set of Stakeholders

Intermediaries are critical to the success of MILE's implementation, but they are largely underrepresented in Michigan's investment crowdfunding ecosystem. Many are unaware of MILE, while others remain hesitant to support its implementation for a variety of reasons, including:

- **Traditional financial institutions believe that investing in small businesses is too risky.** This is a result of the fact that startups have a greater rate of failure than larger corporations, which increases the likelihood of an investor losing their investment.^{xxxvi} Additionally small businesses are more susceptible to the consequences of economic downturns than larger corporations owing to fewer resources and staff to mitigate the impacts.^{xxxvii} These factors may prevent traditional financial advisors from discussing local investment opportunities with their clients.
- **Some community banks believe that investment crowdfunding competes for their clients.** Community banks were hit hard by the financial crisis of 2008. Fifty percent of community banks have failed or been acquired by larger banks since 2009 as a result of increased financial and regulatory burdens.^{xxxviii} Some community bank leaders believe that investment crowdfunding will only add to that stress, pulling entrepreneurs in search of funding away from their client base.^{xxxix}
- **Demand for professional services related to investment crowdfunding is low owing to a lack of awareness among investors and entrepreneurs about investment crowdfunding as a new tool.** Some intermediaries argue that once investors and entrepreneurs demand more of these services, more intermediaries will supply them. Until

then, shifting resources from other programs to support investment crowdfunding does not seem practical. In addition, some intermediaries are waiting for the SEC to publish rules for *interstate* investment crowdfunding under the JOBS Act.

- **Lack of statewide investment communities creates barriers to implementation.** The lack of these communities makes it difficult to identify potential investors. Business development organizations providing advice to entrepreneurs in search of funds are hesitant to suggest investment crowdfunding without being able to direct the entrepreneur to local investment communities.^{xi}

Growing the Investment Crowdfunding Infrastructure

A few Michigan intermediaries have taken on the challenges listed above by growing the investment crowdfunding infrastructure. They are seeking strategies for engaging organizations within their professional networks in the local investing movement. Below are some notable examples of intermediaries - individuals and organizations - who are working to catalyze the implementation of investment crowdfunding in the state.

Angela Barbash launched [Reconsider](#) and [Revalue](#) in Ypsilanti in 2012 in response to the hesitation of financial advisors in large firms to provide local investing advice to their clients.^{xii} Reconsider provides research, resources, and information to the public, while Revalue offers finance advice to those seeking to invest in small businesses within their community. These organizations represent a nascent grassroots response to requests for information and technical services from Michigan communities.

“The community told us very clearly that investors wanted the ability to invest locally. There were no investment advisory firms in MI that provide those unique services, so we launched ReValue.”

Angela Barbash, CEO & Founder, ReValue

In response to the hesitancy felt by some community banks regarding investment crowdfunding, **Karena Mills**, President and CEO of [OSB Community Bank](#) has started to educate other community bank presidents about investment crowdfunding and advocate for its integration into banks' business models.^{xiii} Mills emphasizes that a successful investment crowdfunding campaign provides a positive indication of future success and reduces the risk associated with lending to a small business owner. In effect, investment crowdfunding can help small businesses access initial capital and help banks acquire, rather than lose, new clients.^{xiiii}

“Local investment requires human interaction – it can’t all be done virtually on online platforms. We need more people and organizations doing the work on the ground helping entrepreneurs connect with their investment communities.”

Jeff Aronoff, Executive Director of D:hive

The [Michigan Municipal League \(MML\)](#) and [Small Business Association of Michigan \(SBA\)](#) are working to increase awareness about MILE as a tool for entrepreneurs and local investors.⁴ In 2014, MML partnered

with online investment crowdfunding platforms, LocalStake and Fundrise, to launch www.crowdfundingmi.com, a site where entrepreneurs and investors can learn more about investment crowdfunding and connect with platforms to launch or participate in a fundraising campaign. In addition, MML hosts investment crowdfunding forums around the state to educate local communities about this new tool.^{xliv} Similarly, SBA hosts educational “Crowdfunding 101” sessions for its members.^{xlv}

In response to the need for investment communities, [Reconsider](#), the [Washtenaw County of Community and Economic Development](#), and the [Interfaith Council for Peace and Justice](#) have partnered to develop the [venture LOCAL campaign](#). This coalition will engage all faith communities within the county and offer local investor training sessions. Faith communities and congregations serve as natural investor communities as they are mission-driven, well organized, and have members with a range of applicable professional expertise.^{xlvi}

Many other intermediaries have programs or partnerships in place that could easily be tailored to provide investment crowdfunding services. The **Traverse City Area Chamber of Commerce** currently works with the national non-profit organization [SCORE](#) to train retired entrepreneurs to provide free, one-on-one business counseling to entrepreneurs.^{xlvii} Counseling for investment crowdfunding can be integrated into this model. Chambers of Commerce, SCORE branch offices, small business development centers, and other intermediaries should explore the kinds of investment crowdfunding counseling, training and support services that could fit within their existing programs.

⁴ MML is a statewide advocacy organization for Michigan’s local governments.

RECOMMENDATIONS

Based on our interviews and review of existing literature, we offer the following six recommendations. These can be described broadly as efforts to enhance investment crowdfunding education, improve coordination, and establish leadership roles throughout the state.

- 1. Identify investment crowdfunding champions in communities across Michigan to connect like-minded investors, entrepreneurs, and intermediaries.** Recognizing the need to develop and coordinate investment crowdfunding communities across Michigan, a few individual leaders and organizations have stepped forward to help organize Meetups in their own communities. *Southeast Detroit Crowdfunding Meetup* was organized by Detroit real-estate investors and entrepreneurs. *Reconsider* organized **venture LOCAL** community gatherings in partnership with the Washtenaw County Office of Community and Economic Development throughout the county. More Meetup groups like these are needed across Michigan, and community leaders are uniquely suited to lead the effort.
- 2. Support the development of organizations that provide a one-stop shop for entrepreneurs and investors.** Now that Michigan's entrepreneurs and small businesses can launch investment crowdfunding campaigns and nonaccredited investors can make investments, demand for legal, financial, and marketing services is on the rise. However, one-stop shops for investment crowdfunding services are scarce. In Ypsilanti, Angela Barbash launched the aforementioned *Reconsider* and *Revalue*, offering professional services to investors and entrepreneurs interested in MILE. In Traverse City, attorney Kate Redman is one of a handful of attorneys offering legal advice to stakeholders interested in investment crowdfunding. In January 2015, Jeff Aronoff, former Executive Director of D-Hive, a nonprofit that provides a host of support services to entrepreneurs and small businesses, launched *Sidewalk Ventures* to provide the full array of crowdfunding services to businesses and entrepreneurs in Detroit. These individual champions and resources are important, but they cannot provide services for the entire state. Local governments, public officials, community foundations, meetup groups, and crowdfunding platforms should provide facilitative, financial and community support to qualified experts launching new one-stop shops that provide investment crowdfunding services.

- 3. Local governments should partner with philanthropic organizations and community foundations to offer matching funds to successful MILE entrepreneurs.** The state of Michigan already provides matching grants to support community placemaking projects through the MEDC's *Public Spaces, Community Places* initiative. This is a model that could be replicated within local governments to support promising local entrepreneurs and their local economies. Running a successful investment crowdfunding campaign requires dedication, significant investments of personal time and financial resources, and sustained community support. A crowdfunding campaign serves as a natural mechanism for vetting an entrepreneur's preparedness and ability to generate strong community support, suggesting later business success. Local governments and community foundations should take advantage of this and explore opportunities to create local matching funds for entrepreneurs who complete a campaign.
- 4. Coordinate mission-aligned organizations with the human and financial capital available to lead a statewide education campaign.**^{xlviii} An example might include a partnership among Reconsider and Revalue, the Michigan Municipal League (MML), and MIQuest, the Office of Small Business Development Centers (SBDC), the Small Business Association of Michigan (SBAM), or SCORE to provide a "train the trainer" program for intermediaries interested in providing professional services to support businesses and entrepreneurs using MILE. Through this partnership, each organization can focus its resources on the stakeholder group it knows best. MML can provide support to local governments and economic development organizations, MIQuest can support business associations and chambers, and *Reconsider* and *Revalue* can support financial and legal advisors.
- 5. Educate MEDC's Executive Team and Collaborative Development Councils about the value of investment crowdfunding as a local and regional economic development tool and develop regional outreach programs.** These councils were formed in 2011 to engage community and economic development organizations in the creation of regional strategies for economic growth. Investment crowdfunding is a tool that can spur economic growth, and should be incorporated into these regional strategies. Starting with the Region 9 Council, *Reconsider* and *Revalue* should present *venture LOCAL* as a pilot project for how councils can contribute to outreach programs. Other regional councils can then see the value of investing time and resources into investment crowdfunding which could spur its

uptake around the state. Detailed outcomes from this pilot project should also be shared with MEDC's Executive Team. Advocates must illustrate that investment crowdfunding adds value to MEDC's existing programs and produces real benefits for local and regional economies, and small business development. With this information, MEDC could consider working with the Michigan Municipal League (MML) to promote investment crowdfunding and crowdfundingmi.com.

- 6. Organize a state coalition for local investing to transfer knowledge across communities and regions and leverage political support.** By convening members from different organizations, government agencies, and local communities across the state, this coalition can create a space for identifying and sharing best practices, catalyzing innovative strategies for implementation, and coordinating resources regionally and statewide. While communities, organizations, and individuals around the state are pursuing new strategies for implementing MILE, there is not one central location for learning and sharing this knowledge. A state coalition or council will not only create this space, but it can also legitimize the presence of the local investing movement and leverage political support.

NEXT STEPS

The preceding list of recommendations provides long-term suggestions for the promulgation of investment crowdfunding. In the short-term, the following steps should be taken to support the full implementation of MILE:

- **Distribute this report to all individuals that participated in this study and encourage them to remain engaged in the movement.** Our team will share a copy of this report with every interviewee and encourage them to share our recommendations with others within their organization. We hope this will continue this important dialogue among all relevant stakeholders as well as encourage organizations mentioned within the report to consider and implement our recommendations.
- **Develop a virtual state map of active stakeholders and communities supporting investment crowdfunding and identify resource gaps.** Hatch Innovation maintains a virtual map to inform stakeholders of investment opportunities throughout Oregon. Michigan should go one step further by mapping investment opportunities, as well as active intermediaries and investment communities, leveraging the tool to identify gaps in local resources. By mapping stakeholders against investment opportunities, we can strategically deploy resources and build-out support infrastructure across the state.
- **Convene strategy meetings with faith and nonprofit organizations to develop investment communities with qualified professional volunteer advisors.** Faith and nonprofit organizations are an important, untapped source of investors, intermediaries and entrepreneurs. Through values-based action, these organizations can anchor an investment community, create entrepreneur and investor support infrastructure from among their membership, and share due diligence responsibilities. Groups like the Interfaith Coalition for Justice and Peace (ICJP) in Washtenaw County are beginning to partner with intermediaries working on investor and entrepreneur mobilization. Their best practices should be well documented and shared with other faith and nonprofit communities throughout the state.
- **Develop and administer surveys for entrepreneurs, investors, intermediaries and local governments regarding the opportunities and challenges of implementing MILE.** The authors conducted over 30 stakeholder interviews, informing the discussion of

opportunities and challenges outlined in this paper. However, this represents a small sample of each stakeholder group. Michigan should develop and administer statewide surveys for each stakeholder group to confirm, challenge and evaluate the strength of these findings.

- **Conduct a similar analysis of investment crowdfunding for the real-estate sector.** In states that have implemented investment crowdfunding, real estate companies have leveraged the tool to raise significant capital. The authors lacked the resources to probe into the sector but see great potential opportunity in utilizing investment crowdfunding for real estate.

CONCLUSION

Since its enactment in 2013, the Michigan Invests Locally Exemption (MILE) has catalyzed some action among entrepreneurs, investors and intermediaries seeking new capital markets. Although actors like the many stakeholders we have profiled throughout this report are critical to the viability of intrastate investment crowdfunding in Michigan, they cannot do this work on their own. For full implementation of MILE and to realize the promising benefits of investment crowdfunding and local investment, aligning education efforts and engaging all stakeholders to diffuse and coordinate resources is critical.

There are strong indications that this tool is already reaching broader audiences: in December 2014, Fundrise and Larsen Realty JV allocated a portion of the redevelopment of Tiger Stadium for intrastate investment crowdfunding, encouraging Detroit residents to support their community and benefit from this new development. Projects like the Tiger Stadium redevelopment and Tecumseh Brewing Company demonstrate the power of MILE and catalyze further implementation. Full implementation of MILE will enable entrepreneurs to access new forms of capital to jumpstart more small businesses, residents to grow their wealth and shape communities, and the state of Michigan to better compete in the evolving global economy.

APPENDIX 1: INTERVIEWS

Name	Title	Organization
Amy Cortese	Author; Journalist	<i>Locavesting</i> ; New York Times
Amy Klinke	Associate Director, Small Business Initiatives	University of Michigan Business Engagement Center
Angela Barbash	CEO & Founder	Revalue, Reconsider
Chris Miller	Director, Economic Development and Downtown Development Authority	City of Adrian, Michigan
Juli Kaufmann	Founder	Fund Milwaukee
Elisabeth Gerber	Professor	University of Michigan Gerald R. Ford School of Public Policy
Bryan Weinart		Interfaith Council for Peace and Justice (ICPJ)
Jane Pacheco	Program and Development Coordinator	Interfaith Council for Peace and Justice (ICPJ)
Paula Sorrell	Vice President, Entrepreneurship, Innovation & Venture Capital	Michigan Economic Development Corporation
Summer Minnick	Director, Policy Initiatives and Federal Affairs	Michigan Municipal League (MML)
Jason Townsend	CEO & Co-Founder	Resonant Venture Partners
Karena Mills	CEO	OSB Community Bank
Kate Redman	Attorney	
Katherine Czarnecki	Director, Community Development	Michigan Economic Development Corporation
Hilary Wilson	Director, Strategic Partnerships	Community Sourced Capital
Casey Dilloway	Co-Founder	Community Sourced Capital
Ken Kousky	President	Blue Water Angels
Kevin Hitchen	Partner	Localstake
Kyle Dewitt	Founder	Tecumseh Brewing Company
Mike Olsaver	Attorney	RCO Law
Patricia Glaza	Vice President & Managing Director	Invest Detroit
Sarika Gupta	Managing Director	Zell Lurie Institute for Entrepreneurial Studies
Rob Fowler	President	Small Business Association of Michigan
Jeff Aronoff	Founder	Sidewalk Ventures
Laura Galbarith	Senior VP, Finance & Administration	Traverse City Area Chamber of Commerce
Kyle Peppin	Grants Manager	Detroit Regional Chamber
Devon O'Reilly	Manager, Entrepreneurship and Detroit Engagement	Detroit Regional Chamber
Amy Pearl	Executive Director	Hatch Innovation / Springboard
Steve Arwood	CEO	Michigan Economic Development Corporation
Charles Penner	Regional Diector	Michigan Small Business Development Center
Michael Shuman	Author; Director, Community Portals for Mission Markets	<i>Local Dollars, Local Sense</i> ; Cutting Edge Capital
Barbara Kunkel	Department Specialist	Michigan Department of Licensing and Regulatory Affairs (LARA)
Linda Cena	Securities Director	Michigan Department of Licensing and Regulatory Affairs (LARA)

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