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## Neighborly Raises $5.5M from Joe Lonsdale's Formation 8, Ashton Kutcher to Transform the Municipal Debt Market.

For American cities that need to raise millions or billions of dollars to finance projects from local parks to suspension bridges, the fractal-like complexity of global financial markets means that funding is becoming ever more opaque and distant from the real-world work it supports.

A startup called Neighborly is hoping to narrow that gap with a $5.5 million round of funding from Joe Lonsdale's Formation 8 and Ashton Kutcher's Sound Ventures. An earlier incarnation of the product was about crowdfunding civic projects, kind of like a Kickstarter for your neighborhood.

That was an important niche, but large-scale and impactful projects require on the order of hundreds of millions or billions of dollars. For instance, the city of San Francisco is asking voters to pass a $300 million affordable housing bond this November amid a major shortage, and the regional transit system, BART, has more than $9 billion in maintenance needs through the next decade.

So Neighborly is shifting back to its original idea, which was to create a platform for retail investors to invest in municipal debt that actually affects where they live. It's an enormous market with a size of roughly $3.7 trillion.

The company's founder Jase Wilson grew up in a broken home in a poverty-stricken factory and farm town in the Midwest. But he had access to decent parks and a strong-willed mother, which helped him escape tough situations at home. Later on in college, he studied both engineering and urban planning and ended up working in civic software for city governments for about a decade.

Several years into the job, Wilson started getting to know municipal bond traders, who were exchanging and issuing the debt that cities need to fund projects. A trader walked Wilson through underwriting and compliance, and then over to a fax machine with stacks of papers and contracts. The trader explained to Wilson that just by switching from corporate to municipal debt, he could double his income without doing any extra work. This was because public city governments ended up with extra layers of fees throughout all the steps of municipal debt issuance that corporate issuers were more rigorous about holding accountable.

"I thought — why isn't there an AngelList for this?" Wilson said, adding that 2.2 percent of a cities' total debt issuance goes toward the cost of borrowing on top of interest. On top of that, city governments can end up on the bad side of a deal that they are unable to evaluate as well as investment banks, which see deals day after day.

After the last financial crisis, Oakland got in a tussle with Goldman Sachs on an old interest-rate swaps deal that would have protected them if interest rates rose. Instead, interest rates fell after the housing market crashed, and the city ended up on the hook for $4 million in annual interest payments to the bank.

"There are a lot of inefficiencies that software can solve in the market as it operates today," he said. "The market fundamentally fails to connect people our age with the debt that goes toward funding

projects in their neighborhoods.”

On Neighborly, you can create a personal profile, listing out how much you want to invest and the kind of return and risk you’d want to assume. Then you can get notifications about upcoming sales and issuances. Neighborly can also use machine learning techniques to evaluate the risk of municipal bonds in addition to the analysts and rating agencies an investor would normally use. On the city side, government officials can store and manage all their documentation, cutting out legal and advisor work.

The hope is that if this behavior scales, Millennial retail investors buying municipal debt could drive down borrowing costs for projects in their own backyards. It could also crowd out the need for investment banks to package and distribute municipal debt to other investors — a process where they end up taking an estimated $60 billion cut off municipal issuance.

He added, “We are inheriting debt from the generation before us, and then we are going to be at the helm of this market that we have zero personal connection with.”

**TechCrunch**

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