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Municipal Bonds For The Rest Of Us: A Startup Seeks To Democratize Public Finance.

In 2012, entrepreneur Jase Wilson and bond broker Patrick Hosty came up with a novel way to open up public finance to small investors: create an online marketplace allowing regular folks to invest smaller-than-usual amounts of money in municipal bonds backing specific civic projects of interest.

“If people had more ways to invest in these bonds they would,” says Rodrigo Davies, chief product officer of [Neighborly](#), the company Wilson and Hosty founded. “It just hasn’t been on their radar.”

But it was a tall order, requiring tackling a complex financing system with a fairly new technology. So Wilson and Hosty decided to get their feet wet by first launching a crowdfunding platform for financing community projects, like parks and bicycle lanes. In its first two years, the Kansas City, Mo.-based startup raised about \$3 million for over 60 projects. Wilson had started a company by the name of Luminopolis to build open-source software systems for cities, so he already had experience with tech entrepreneurship.

By 2014, they figured they were ready for prime-time—their well-planned pivot into the municipal bond market. When they were accepted into 500 Startups, the San Francisco accelerator, they moved their headquarters to the Bay Area. (Hosty stayed in Kansas City). Not long after, the company raised \$5.5 million in a seed round from Formation 8, Sound Ventures, which is actor Ashton Kutcher’s VC firm, and others.

The basic concept is to offer a platform through which unaccredited investors can buy portions of a municipal bond. Many moons ago, bonds were clear-cut instruments tied to defined projects, like building the Golden Gate bridge. (A framed 1930’s bond certificate from the Golden Gate Bridge and Highway District adorns a wall in Neighborly’s office and an appropriately breath-taking picture of the bridge is the first image that greets visitors to the company’s web site). Over time, they’ve become more complex and confusing, as multiple projects have been combined into one bond. These days, much of the \$3.8 billion municipal bond market—that figure is from the company—is held by wealthy individuals who want the tax break.

With Neighborly, investors answer a few questions online about their areas of interest, like education or the environment, and then the platform matches them with appropriate choices. The company will sell the financial instruments through its own registered broker-dealer.

Still in beta, the platform is now open to anyone who works in public finance, from underwriters to public agencies, that can sign up and start using the data on the site. It also includes a variety of tools providing such features as an easy way to do issuance comparisons. Next step is to allow individual investors to participate and to make investments well below the usual minimum level of \$5,000. In a recent survey by Neighborly, a majority of respondents said they’d like to invest about \$1,000.

Individuals also will be able to do research on investments, drilling down so they can see everything from the population living in a project’s area to disclosures. For now, the focus is on school districts

in California—the sector surveys revealed to be the most popular—but the plan is to expand to other sectors eventually.

Davies predicts the platform could boost civic engagement and citizen involvement in local communities. He also acknowledges that the company has a long way to go. "Our investors realize this is a 200-year-old market and there's a lot of work to do," he says. "But it's also a big opportunity."

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