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The Problem With Bringing Muni Bonds to the Masses.

The failure of startup Neighborly underscores the pitfalls of crowdsourcing state and city debt.

The $3.8 trillion municipal-bond market, which traces its roots back more than two centuries, easily swatted away a startup that sought to “disrupt” the way states and cities issue debt.

Bloomberg News’s Amanda Albright chronicled the brief rise and fall of Neighborly Corp., highlighting any number of reasons it failed in its pursuit to bring munis to the masses. For the most part, they were common pitfalls of Bay Area upstarts. Profligate spending? Neighborly embarked on a company trip to Hawaii after its first debt sale. Erratic behavior? It frequently shifted focus away from underwriting, annoying employees who were pulled off projects for new ones and sowing doubts among municipal finance officers. It even faced a lawsuit that accused it of a “racially and sexually hostile environment.” 1

In other words, it’s tricky to tell whether the company simply did itself in or if the business proposition just won’t work. Effectively, defenders of the traditional muni market want to know: Should they be on guard for another Neighborly in the future?

My hunch is that it’s certainly possible that other upstarts will try to break into munis, but I doubt they would be much more successful than Neighborly, especially if they tried the same approach.

Continue reading.

Bloomberg Opinion

By Brian Chappatta

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