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Introduction

This whitepaper has two purposes:

- to establish a baseline of understanding of the social media driven fundraising methodology called “crowdfunding.”
- to help CHC evaluate whether or not crowdfunding is a viable option for attracting additional capital to nonprofit affordable housing finance.

We will look at a number of possible crowdfunding models that could be used to attract new sources of capital to finance the development and preservation of affordable housing. CHC has a strategic ongoing need to raise significant amounts of equity that in turn leverages the debt capital it lends to affordable housing organizations.

The objective of this pilot is evaluation of:

- Whether crowdfunding, which is grassroots but typically more of an individual effort, can cross over to a larger concept like affordable housing on an national level
- The value of crowdfunding and social media in general in generating buzz around affordable housing, and how those lessons can be applied more broadly to the affordable housing industry, and more specifically to NeighborWorks® organizations, that may want to consider their own crowdfunding campaigns
- The market segmentation around giving habits as they relate to affordable housing, and whether there is a difference in the response from “regular people” who could give small contributions that could aggregate into something more meaningful
- The ability to engage the philanthropic world in this space
- Whether the value of the message that is conveyed through the crowdfunding initiative translates into broader opportunities for relationships, especially with major funders

Defining Crowdfunding

The challenge with any new terminology is finding an acceptable definition to help guide those new to the concept. According to Wikipedia,

Crowdfunding describes the collective cooperation, attention and trust by people who network and pool their money and other resources together, usually via the Internet, to support efforts initiated by other people or organizations. Crowdfunding occurs for any variety of purposes – funding start-ups, creative endeavors such as bands and films, inventions, community projects and charitable work.

The Opportunity for Fundraising

Fundraisers spend a great deal of time and resources trying to find better ways to engage new donors, build meaningful relationships, and measure the success rate of the communication channels they use to raise funds. In today’s hyper-wired world, can fundraisers rely on online channels to successfully support their financial targets and goals?
Crowdfunding—or raising funds online through the power of engaged online communities—enables you to find project, startup or emergency funds, or complete charitable fundraising appeals in a few weeks, even days.

With the right social media readiness, crowdfunding can revolutionize the way organizations interact and build relationships with funders. It can support stand-alone campaigns or be integrated into existing fundraising strategies. Crowdfunding also makes philanthropic efforts completely transparent, and can increase repeat donations and attract younger donors—all in real time. For donors, crowdfunding is a gateway to a world of community projects that speak to their interests and passions that can be easily funded with a few clicks of a mouse.

**The Power of Online Communications**

Online conversations are enabling powerful new forms of social communication, knowledge exchange and fund seeking and crowdfunding is one of those. As columnist Wayne Kurtzman writes in Media Bullseye: Getting to the Point of Social Communications blog: “Social media is about people having conversations and reactions. The web has become, in the minds of many, a place as real as any three dimensional place...to learn, act, react and transact.”

With the pervasiveness of social media, organizations and charities are grappling with how best to incorporate social communication platforms into the fundraising mix.

Via social networks, charities already have crowds of people, or fans that follow and talk about them and their activities. A 2011 survey published by Blackbaud, Common Knowledge, NTEN states that upwards of 92% of nonprofit organizations, regardless of their size, are using at least one social networking site like Facebook, Twitter or LinkedIn.

In the yearly Online Giving Report, published by Blackbaud, the growth of online giving did slow somewhat, but has continued its growth over the past ten years. In the report, Blackbaud also highlights that 43% of online donations were between $1,000 and $5,000. According to the ePhilanthropy Foundation, online giving grew from $250 million in 2000 to more than $4.5 billion in 2005 to more than $15 billion in 2008. While this is significant, it is important to keep in mind that online giving still represents only 2 to 3 percent of the more than $200 billion in individual charitable giving in the United States.

In the Cornerstone Group of Companies report, Fundraising Trends and Challenges in the Canadian Direct Marketing Sector indicates that since 2003, there has been significant growth in online channel use (up 425% and increasing daily) for revenue generation outside of direct mail. Online giving is now the most used fundraising channel after direct mail. The total number of donors using the Internet is up 295% from 2006 and revenue from web-based donations has increased more than 400%.

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4 Scott Case Blog Post, The Case Foundation: Online Giving Study. [http://www.casefoundation.org/spotlight/holiday/online_giving](http://www.casefoundation.org/spotlight/holiday/online_giving)

Altogether, these steep trends indicate that social media are enabling more meaningful interactions that are simply not possible with traditional broadcast media. For example, traditional communications media (like newspapers, magazines, TV or radio commercials) offer one-way message delivery. Social media enables two-way dialogue, which fosters stronger relationships with donors. Online interaction allows donors to converse and engage in real-time with members in your organization about what matters most to them.

Another key social media advantage is that fans, crowds or supporters (not organizations) communicate and validate the cause with their online peers. In effect, these fans become your loyal volunteer communicators and fundraisers.

Crowdfunding and its Growing Influence

In 2009, crowdfunding was barely a $500 million dollar global activity with little data on its size existing before that. In 2011, over $1.5 billion was raised on over 470 platforms worldwide. These figures are based on a 2011 study from Crowdsourcing, LLC and their estimates are that growth for 2012 will continue at over 60% per year. This $1.5 billion figure represents funds raised across the four basic models of crowdfunding.

How Crowdfunding Works

A crowdfunding site is accessed through an independent website, or via a technology platform that you can purchase to integrate into your website. Detailed descriptions of causes or projects to fund are listed on these sites. Visitors are invited to select, vote, or make a donation toward the donors’ preferred cause.

As donations are made, results are instantly aggregated. This means donors can immediately see exactly where their support is directed, and how much money is being raised. As donations are made, donors receive receipts directly from the project organizers. Once the funding term is complete, causes or projects receive funding. As well, the crowd validates the most popular projects, and fan bases are created around projects.

The Crowdfunding Process (how it works)

Why ask the crowd?

Behavioral research suggests that given the right circumstances, crowds or groups of inspired citizens will make wise and remarkably intelligent choices.7

Crowdfunding websites and platforms are transforming how and why people support causes. It has been the subject of intense study for some time. In fact, James Surowieki’s 2005 landmark book, The Wisdom of Crowds: Why the Many Are Smarter Than the Few, is widely credited as helping root the

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6 http://www.crowdsourcing.org
wisdom and impact of the crowd concept onto the business landscape. In its simplest terms, crowdfunding engages people in two-way conversations, and mobilizes the collective intelligence from an often diverse, independent and decentralized crowd. Surowieki’s insight into group dynamics and decision-making, together with online engagement technologies are changing the way organizations connect with their stakeholders. But tapping into your community’s needs and funding interests is only a part of the crowdfunding equation.

Through the power of social media and the wisdom of crowds you can expand your public outreach and funding potential by having your networks engage and inspire their network as well. Your network’s network (and so on) becomes your cost-free promotion agents and can become part of your donor base. This is where the real power—and opportunity—of crowdfunding resides.

**Today’s wired funder**

Current next generation donor research reveals significant changes in Western societal demographics and the explosion of mobile-based personal technologies to access social networks. Together, these trends are permitting greater intimacy and engagement with the public, donors, volunteers and stakeholders.

In the 2010 United States study, The Next Generation of American Giving: A study on the multichannel preferences and charitable habits of Generation Y, Generation X, Baby Boomers and Matures, multi-channel integration is quickly becoming part of a modern and lasting approach to connecting people and causes:

“At a minimum, social networks are a critically important word of mouth engine and are starting to play a far more prominent role for donors of all ages.”

The Fundraising Trends and Challenges in the Canadian Direct Marketing Sector report also shows that: “donors who make their first gift to an organization online as opposed to via direct mail have a much higher average gift ($73 vs. $30), making them important from a revenue generation standpoint. Equally as important, there are now more than 4 times the number of new donors, per organization, from online initiatives than five years ago ($9M to $40M).”

**Using Partnerships**

Partnerships play a key role in the success of a crowdfunding initiative based on having them provide support in 4 areas:

1. Developers promoting their participation and success to further extend the reach of the social media activity to increase the size of the crowd of supporters
2. Government incentives and tax breaks to support all parties involved enhancing the multiplier effect of the funding model
3. Suppliers and partners of stakeholders that are key beneficiaries of the added financing should be encouraged to support the initiative and benefits to the ecosystem

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4. Benefit of being part of an innovative program that is gaining traction and producing results will prompt partners to want to promote this success and further grow the crowd

Crowdfunding Models

There are four basic recognized models of crowdfunding. The table below outlines examples of each for reference purposes.

<table>
<thead>
<tr>
<th>Crowdfunding Model</th>
<th>Percentage of Market</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donation Based</td>
<td>49%</td>
<td>Fundchange, Crowdrise,</td>
</tr>
<tr>
<td>Equity Based</td>
<td>18%</td>
<td>Impact Trader, GrowVC, RockthePost, plus many others coming online</td>
</tr>
<tr>
<td>Lending Based</td>
<td>22%</td>
<td>Prosper</td>
</tr>
<tr>
<td>Rewards – Preorder based</td>
<td>11%</td>
<td>Greenunite, Kickstarter, Indiegogo</td>
</tr>
</tbody>
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Under these models are two models that focus on how the transaction is processed. This will have to be explored in further detail based on the model chosen for CHC, credit card regulations, etc. but the transaction types are:

1. **All or Nothing** – the funds that are pledged are only processed via credit card when the goal is reached. Once the goal is reached, the funds are transferred to the recipient.
2. **Time based** – the funds raised in a set period of time are accepted and used to make the project happen despite the shortfall. It is useful to set a minimum required. This model processes the payment right away.

Where is success happening?

Based on the study from Crowdsourcing, LLC, **Equity-Based Crowdfunding** produces the largest amount of funds raised on a per-project basis. Only 6% of the funds raised on equity-based crowdfunding platforms were raised for projects that drew less than $10,000 of funding in total. Meanwhile, 21% of the funds raised by equity-based platforms were raised for projects that drew $250,000 or more in funding.

Large sums can be raised via equity-based crowdfunding platforms; crowdfunding shows to be a viable alternative for raising capital to fund small businesses and start-ups.

**Donation-Based and Reward-Based Crowdfunding** generally attract less funding per project than equity-based or lending-based crowdfunding. Of the funds raised on donation-based and reward-based crowdfunding platforms, 63% are paid out to projects that draw less than $5,000 in funding. Only 10% are paid out to projects that draw more than $10,000 in funding. The remaining 27% of all funds raised by donation-based and reward-based crowdfunding platforms are paid out to projects that raised between $5,000 and $10,000.

The smaller amounts raised through donation based crowdfunding could partially be a reflection of the conservative nature of the not-for-profit sector and its ability to: a) pitch projects or initiatives that motivate action, b) mobilize a crowd to support its project through social media, and c)
slowness of the sector to focus on success based story telling which would be a high motivator for funders.

**Possible Models for CHC**

Depending on the type of initiative CHC wishes to launch and where you see your target market most willing to be motivated to participate, there are 4 options each with regulatory and tax implications.

1. Simple donation – tax receipt and do good feeling benefit
2. Impact Investment with low level return (dividend or interest)
3. Impact Investment with reasonable return (dividend or interest)
4. Investment with market return

This whitepaper has explored two models for crowdfunding that could be deployed by CHC where options above could be applied:

### Model #1 – Project Based

![Project Based Crowdfunding Diagram]

**Project Based Crowdfunding**

The Project Based model focuses on the entire project for funding. As an example, it could be a 100 unit affordable housing development. The crowd would help fund the project as a whole. Projects could be categorized by: Geography, Type, Partner, etc.
Unit Based Crowdfunding - For illustrative purposes only
The Unit Based model focuses on a single unit at a time that is crowdfunded. Searches could be categorized based on the unit type (condo, single family house, preservation), or beneficiary type (senior, first-time home buyer, formerly homeless individual, or workforce housing).

Each of these models has marketing and communications implications and would provide a valuable positive for the CHC brand and should be highlighted as strategic community investment and social corporate responsibility activity, as well as plain good business.

Marketing Considerations
Experience has shown that tactics such as video story telling are the most effective way to motivate donors to support worthy projects online. This is an easy to develop and low cost marketing tactic that provides context and personalizes the giving activity and services to bring in more donors and increase the average donation per donor. Equity-based crowdfunding (investments with financial returns) is regulated by recent legislation in the JOBS ACT, but in the case of donor-based crowdfunding, the regulations on the marketing side are focused on ensuring you don’t: promise a benefit that you can’t fulfill, promise any type of guaranteed return, and/or participate in the raising of funds under false pretenses.

Reinvested Capital
As interim or permanent loans, partially funded by crowdfunding are repaid, CHC will relend the money for additional projects that are consistent with CHC’s charitable purpose and its mission-based lending model, significantly increasing the affordable housing impact of the initial donation. This multiplier effect of the original capital has the potential for creating exponential community impact.

Key Gating Decisions for CHC to Consider Crowdfunding
In order for CHC to determine whether crowdfunding is in fact a viable tactic, there are a few gating decisions that should be addressed. Some of these have been discussed in this paper and knowing
the culture and foundation of CHC and its current investors, leadership, etc. should be explored in greater detail.

I. Open & Social or Closed

a. Is CHC comfortable launching an initiative that is inherently open and transparent? In order to build trust in your initiative, your crowd needs to feel confident and comfortable sharing with their own crowd to expand the reach of the total addressable market of potential funders.
b. Is marketing resourced to be able to focus effort on both the initiative, and the brand?

II. Fund Based vs. Bite Sized

Crowdfunding works when funders can understand and get their head around what their funding is for. Crowdfunding is motivated by either profit or being a part of something so in CHC’s case, CHC will need to evaluate what motivates their target market.

a. Can a message be tailored so that the prospect of funding a large fund that has activity tied to it (funding affordable loans) be enough of a motivator? Or
b. Will CHC need to create bite-sized units that harness the power of a person believing they can make a difference? This may make it easier to translate the passion and enthusiasm needed to not only get someone to fund a project – but also to promote and share the project with their crowd.

III. Funding Model

Depending on the type of initiative CHC wishes to launch and what will motivate its target to participate, there are 4 options, each with regulatory and tax implications.

a. Simple donation – tax receipt and do good feeling benefit
b. Impact Investment with low level return (dividend or interest)
c. Impact Investment with reasonable return (dividend or interest)
d. Investment with market return

In the simple donation model where there is no expectation of the repayment of the original capital, the reinvestment of capital that comes in as the loans or mortgages are paid off will need to be explained and linked to a tangible benefit to CHC and affordable housing.

IV. Regulations

If the donation model is preferred, we do not see any current regulatory inhibitors to implementing a crowdfunding initiative if the money is received by a registered US charity that can issue charitable contribution receipts. Other models that might involve dividends, interest, etc. will require more compliance investigation and most likely enhanced infrastructure once deployed.

V. Budget

An initiative such as this can be developed with a range of features and sophistication and launched with varying degrees of fanfare so understanding this is necessary to make “build vs. buy” decisions on the technology side, etc. Where is the budget going to come from and who will ultimately be
responsible for the costs of the initiative – and potential profits?

VI. Culture Within the Affordable Housing Community

CHC needs to consider whether there is a culture of innovation sufficient to support an individualized donor model.

Conclusion

This whitepaper set out to give an overview of the concept of crowdfunding and demonstrate the various models that have been deployed to fund activities in our economy and society as a whole.

As CHC looks forward to evaluate options to fund the grant-based equity required to continue its necessary work in providing resources to finance affordable housing, a necessary social agenda that is important to the strength of the US economy, crowdfunding should be carefully considered.

Given the interviews held so far, there does appear to be consensus that CHC is well positioned as a thought leader and innovative organization, positioning it well to develop a first of its kind initiative focused on crowdfunding the capital necessary to expand the development of affordable housing in the U.S. as a whole.
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