Revised

FUNDRISE

Testimony to the Committee on Small Business Subcommittee on Investigations, Oversight, and Regulations
"Innovation and Micro Financing," June 6, 2013
Benjamin Miller, Co-Founder of Fundrise

Members of this esteemed House. I deeply appreciate the opportunity to share my experiences as a small business owner, a real estate entrepreneur, and a technology company executive. Let me spend a moment on my background so that you understand how I came to run Fundrise, one of the only companies in the country currently raising equity online from anybody and everybody in Washington DC and Virginia--from both accredited and unaccredited investors--prior to implementation of the JOBS Act. We are legally crowdfunding real investment today, through currently existing regulations, and have been for almost a year.

Prior to starting Fundrise, I ran a real estate company. In that capacity, I have lead the acquisition and development of more than 2 million square feet of real estate property. We built some of the more iconic projects in Washington DC, such as Gallery Place on 7th and H Streets NW -- a 750,000 square foot mixed-use development. As a real estate entrepreneur, I have partnered with some of the largest institutional investment companies in the country, such as Mass Mutual, Angelo Gordon, and the AFL-CIO. I understand what it means to raise debt and equity.

After the 2008 financial crisis, I began to focus on real estate in emerging neighborhoods. Neighborhoods filled with new energy and growth driven by the millennial generation, and a reinvigorated desire from people of all ages to move into cities. When I went to my traditional capital partners, they didn't understand the dynamics of these neighborhoods--areas such as Washington's H Street NE, Cincinnati's Mason District, Brooklyn NY, or the L.A. Arts District. It was striking to me how little they understood local neighborhoods, where new growth is, as compared to traditional core downtown markets.

I would speak to local people in the communities where I was building and they would get very excited about what we were doing. They understood why we were investing there. They cared deeply about the places we were changing. They wanted to participate in building their city too.

So one day we asked ourselves, "Why are we raising money from institutions that have no real relationship with the places in which we are investing? What if we raised money from the people who live there, who care, who get it?"

So that's what we're doing. Which is why I am sitting here. We have been raising real investment, in increments as affordable as $100 per share, from the local public who live near our real estate projects. Anyone and everyone locally can invest--even if they are not accredited investors, as defined by the SEC. Hundreds of people have been investing hundreds of thousands of dollars through Fundrise, purchasing shares of their neighborhoods through our web platform.

Since the JOBS Act did not exist when we started our endeavor, we had to work within the existing regulatory framework. Thanks to crackerjack attorneys--Marty Dunn and Bjorn Hall from O'Melveny Myers--we found a way, using Regulation A. Ultimately, our filings with the Securities and the Exchange Commission (SEC) totaled more than 350 pages, and eventually allowed us to sell equity online at $100 per share to the local public. Last year, I was one of only two or three people who have successfully cleared a filing under Regulation A.

It was a serious undertaking. The first offering took nine months to get qualified by the SEC and registered with the District of Columbia and Virginia regulators. It was novel, and there were new issues we had to work through. Yet, we were fortunate. The local regulators understood that we were working to build local places and create a new capital source for local job growth.

After doing multiple public offerings, raising millions of dollars online, and spending a lot of money, time, and effort to crowdfund equity online, here are my two big takeaways:

1) It's difficult to build trust with the local public to invest in your company online. I have interacted with thousands of potential investors. People were skeptical at first. There is a fear among critics of the JOBS Act that the Internet will make it too easy to raise money, but I found that the public were even tougher critics of our investments. Anyone who has read a movie or restaurant review online knows the truth of that.

There are a lot of experts out there. We have real estate analysts from the largest real estate companies in the city invested in our offerings. Even though they are not accredited investors, these men and women know their subject. And they are vocal. And put me through my paces. While it is absolutely prudent to create safeguards against potential investor fraud, my firsthand experience raising real investment online is that the public put us through just as much scrutiny as the SEC.

2) The regulatory institutions today are not designed to manage small business raising capital from the public. I was lucky because I found a real partner with the local regulators. I have now done multiple local public offerings working with the SEC, and District of Columbia and Virginia regulators. I say I was fortunate because I found that in some other states, the regulators were far more resistant and wary. Therein lies the problem. On the state level, in many ways, it was an *ad hoc* process. While DC and Virginia were terrific, other states gave the impression that they cared less about creating new opportunities for small businesses to raise capital and create job growth.

In terms of the Federal regulations, while I found the SEC extremely reasonable, it takes six to nine months to clear an offering for $300,000 under Regulation A. This waiting period creates high legal fees, an expense most small businesses cannot afford. The fact of the matter is the SEC is not funded to handle small offerings like mine. At times, I felt like no one in the SEC really owned my filing. The SEC is currently not built to manage and review small-scale issuances. Yet, we are about to see a sea change in the number of such issuances.

Based on my experience, I would recommend that Congress fund a group designed to take responsibility for the filings of small, agile, job-creating companies. A venture fund or private equity company can review an offering in a matter of weeks, if not days. Could a well-funded department, housed at the SEC or Small Business Administration, do the same and help thousands of small businesses like mine raise capital while substantially mitigating concerns over investor protection? I believe so.

Already, donation-based crowdfunding is approaching a $3 billion per year industry.[1] Once the SEC and FINRA implement the JOBS Act, we will almost certainly see even more tremendous flow of small-scale fundraising. As of today, however, there is no institutional body mandated with a special focus to manage and support this new industry. The Federal government has agencies to represent and engage with constituencies ranging from chicken farming to glacier research. The SEC's small business department is only a handful of people. Small business growth, innovation, and community development will be one of the greatest sources of jobs in our country in the next decade. Shouldn't we set up the type of institutional supports that crowdfunding deserves to help it succeed?

[1] http://www.forbes.com/sites/ryancaldbeck/2012/12/11/crowdfunding-predictions-for-2013/