



MINNESOTA

CDFI COALITION

Investment Note Offering

Peer Research & Operating Overview

Shawn Wellnitz, Entrepreneur Fund CEO



Background

- EFund has created an investment note offering, made available to non-accredited investors, that would provide both a social and a financial return to note holders.
- **Benefits:**
 - Diversifies its capital & operating model.
 - Offers a low-barrier way for new and existing brand ambassadors to participate in EFund's mission.
 - Provides a proactive hedge against CRA regulatory changes.

Background continued

- Gateway to larger opportunities that would integrate into its model of revenue-based financing, individual giving, and stewardship cultivation.
- *“A notes program won’t save a struggling CDFI, but it can take a strong CDFI to the next level.”* NH Community Loan Fund
- EFund retained outside counsel for securities expertise and drafting of supporting documents.
- Conducted peer research on those CDFIs who have already adopted this financing model.

Offering Scope

- Initial offering in Minnesota, with an eye toward Wisconsin and snowbird states.
- Primary focus on Minnesota offering is practical, based on the operational learnings, regulatory landscape and market potential.
- Unanimous peer advice to start slowly.

Research Approach

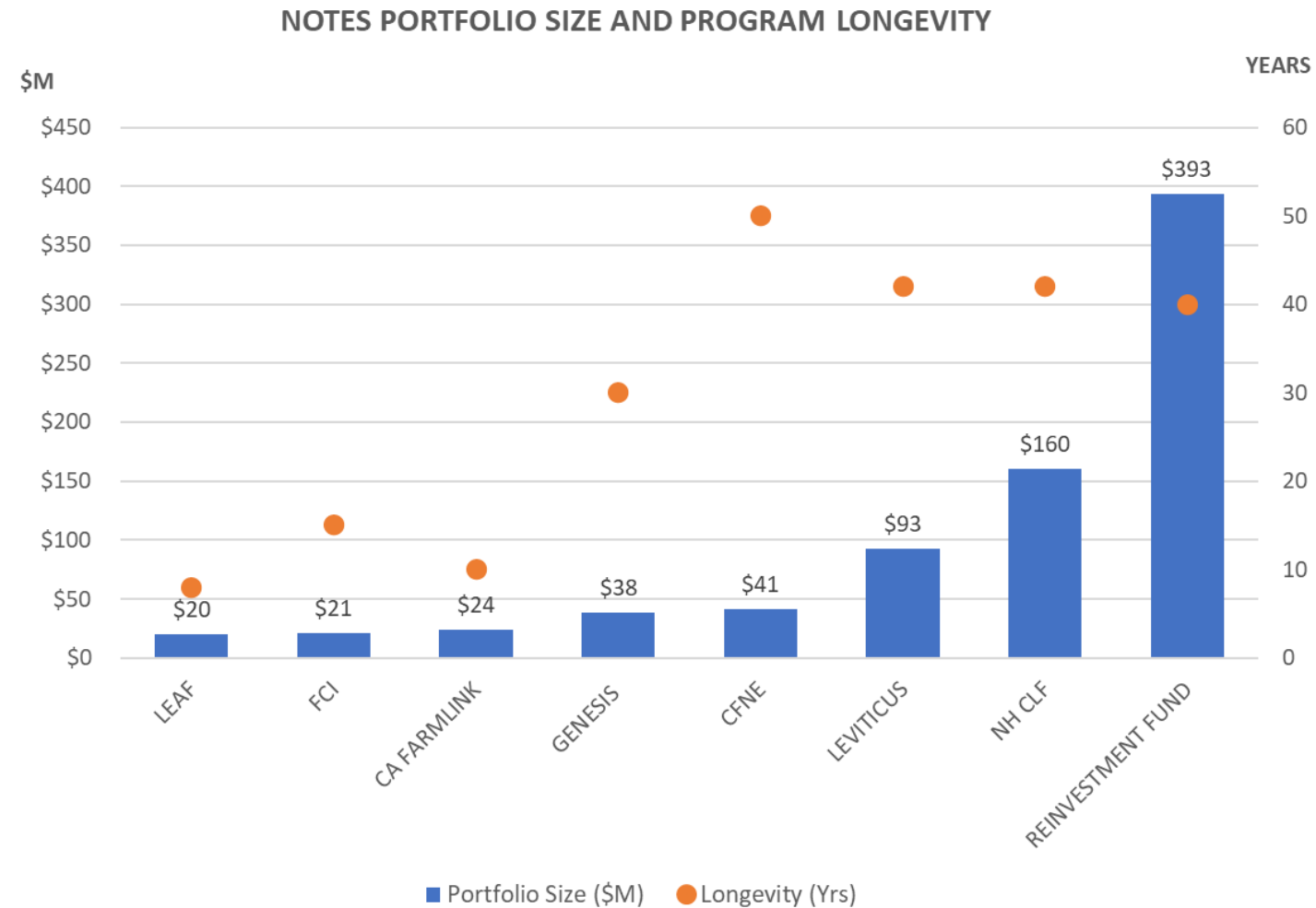
- 2021 Social Venture Circle (SVC) report, which identified 60 CDFI loan funds that accept investments from individuals.
- Thirteen had established, active, non-accredited investor note offerings.
- Key attributes of their offerings were gathered for analysis.

1. California Farmlink
2. Capital Impact Partners
3. Century Housing Corporation
4. Coop Fund of the Northeast
5. Enterprise Community Loan Fund
6. Forward Community Investments
7. Genesis Community Loan Fund
8. Homewise Community Investment Fund
9. Leviticus Fund
10. Local Enterprise Assistance Fund (LEAF)
11. New Hampshire Community Loan Fund
12. Reinvestment Fund
13. Vermont Community Loan Fund
- Relevant Peer Group

Research Findings



Longevity and Size



Portfolio Size at Maturity

- Function of time, up to a point.
- Determined by the size and scope of the CDFI's mission and the opportunities it has to deploy the funds.
 - Those CDFIs with a more niche focus or limited lending opportunities are somewhat range-bound in the size of their total asset and therefore the size of their notes portfolio.
 - Alternatively, CDFIs with broad missions on a national or multi-state level have greater opportunities for lending and overall asset and portfolio growth.
- Bottom line: Investor Notes Portfolio = $f(\text{Total Assets})$

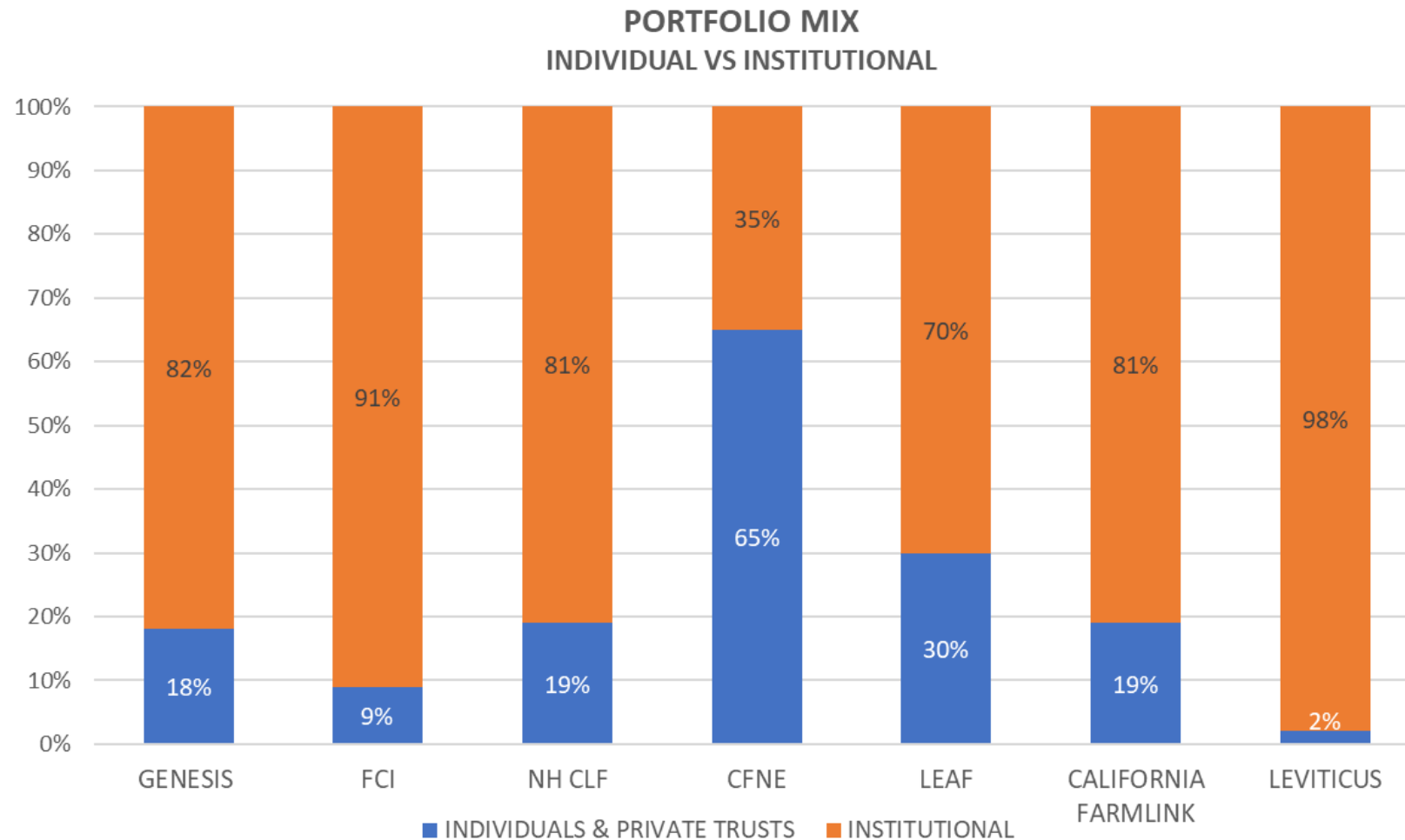
Portfolio Growth Rate

- **Scope / Reach of the Offering.** National (or more broadly offered) notes programs are naturally exposed to a greater pool of capital, and therefore have an opportunity for more rapid growth.
- **Market Characteristics.** CDFI's in close proximity of wealth and population centers, as well as those located in states that foster an environment impact investment, have growth rate advantages.
- **Rate Strategy.** Offering higher/more competitive rates on investment notes will generate more demand from the marketplace and spur growth in the program.
- **Ability to raise equity.** Biggest factor to dictate the pace at which the investor notes program can scale, is the ability to raise equity concurrently with the increase in new investments, so as to maintain the CDFI funding requirements.

Notes Portfolio Mix

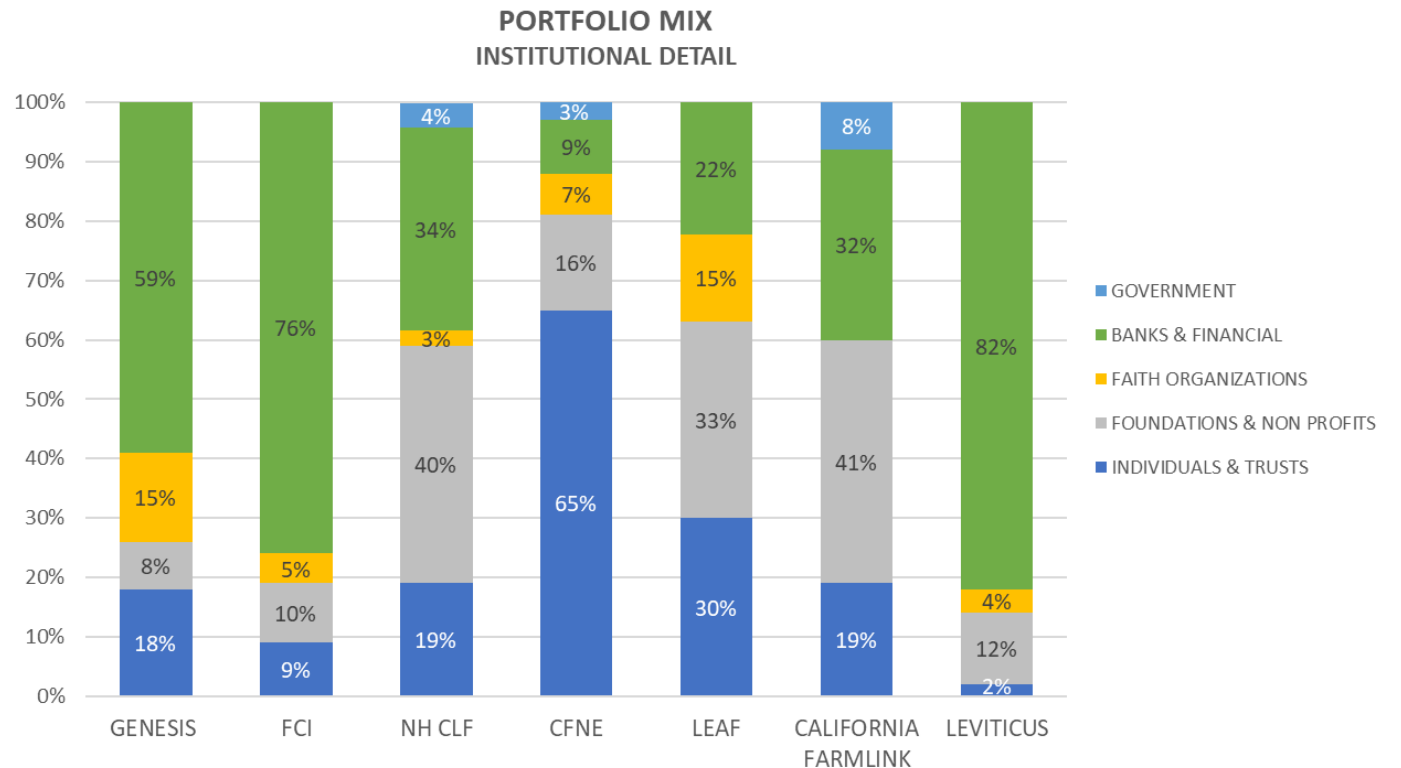


Portfolio Mix



Detailed Investor Mix

- Determining Factors:
 - Organization's mission
 - Proximity to wealth centers
 - Relationships the funders have cultivated
- Banks and Foundations most prevalent

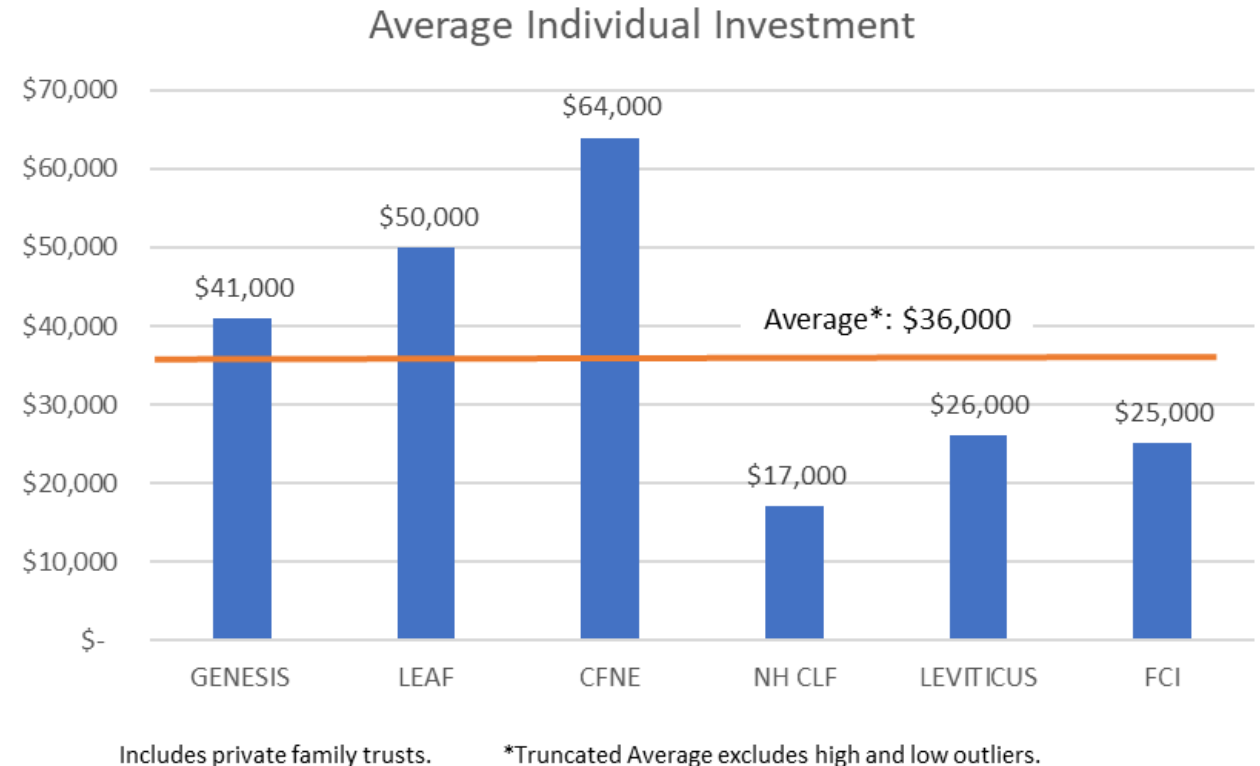


Investor Profiles



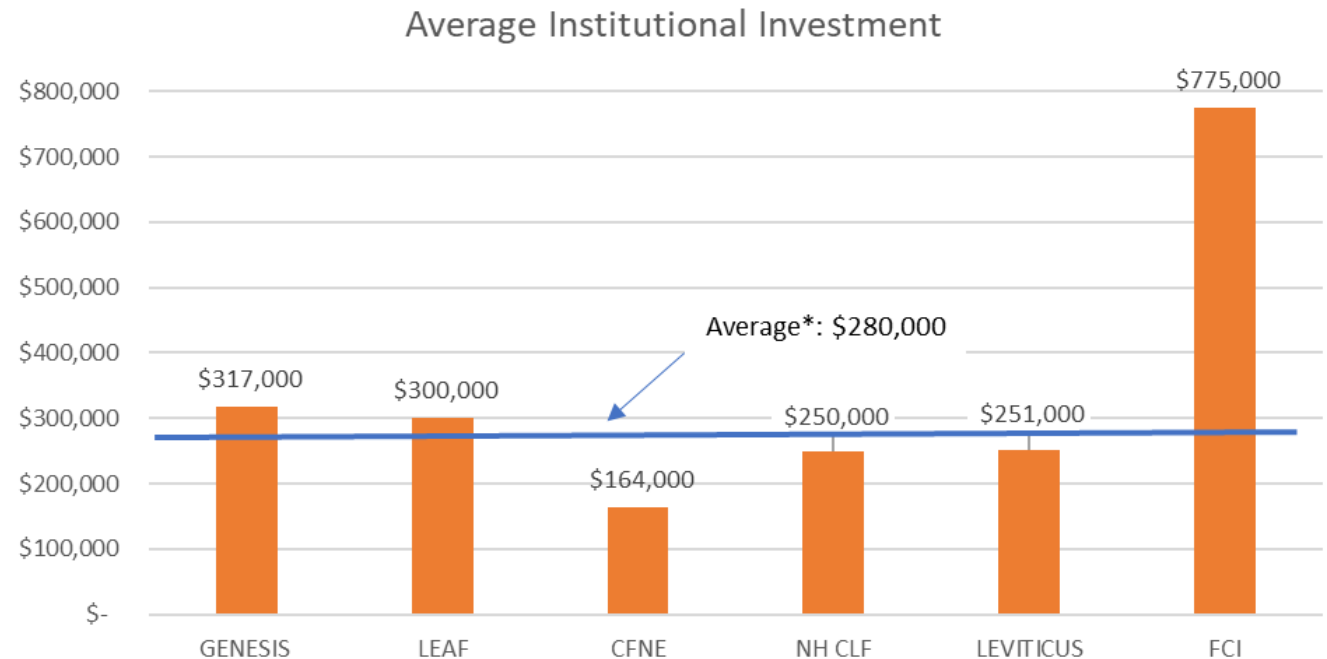
Individual Investor

- Includes grassroots participants, “Community Champions.”
- Higher net worth individuals and private family trusts.
- 80-90% of individual investors come thru their financial advisor.
- Average investment: \$36,000
- Average term: 3 years



Institutional Investors

- Relationships and the philanthropic landscape will determine the makeup of this category.
- Banks and Foundations play a material role.
- Community Reinvestment Act to attract bank capital.
- Average Investment: \$280,000
- Average term: 3 years.



* Truncated average excludes the high and low outliers.

Program Design



Note Terms

- Range of 1 to 15 Years
- Several have set a minimum term of 2 or 3 years
- Accounting and capital activation Issues to consider setting a minimum term > 1 year.
 - Maturity mismatch (investor notes vs lending durations)
 - Challenge of deploying shorter term (1 year) funds



Rates

- A 0% interest rate option is universally offered
- All but one program ladders their rates with the term of the note.
 - Broader peer group: Rates range from 1.0% - 4.75% for notes of 1 to 15 years
 - Smaller peer group: 1.0% - 3.5% for terms of 1 to 10+ years
- Some programs offer very fluid term and rate options and others are more structured

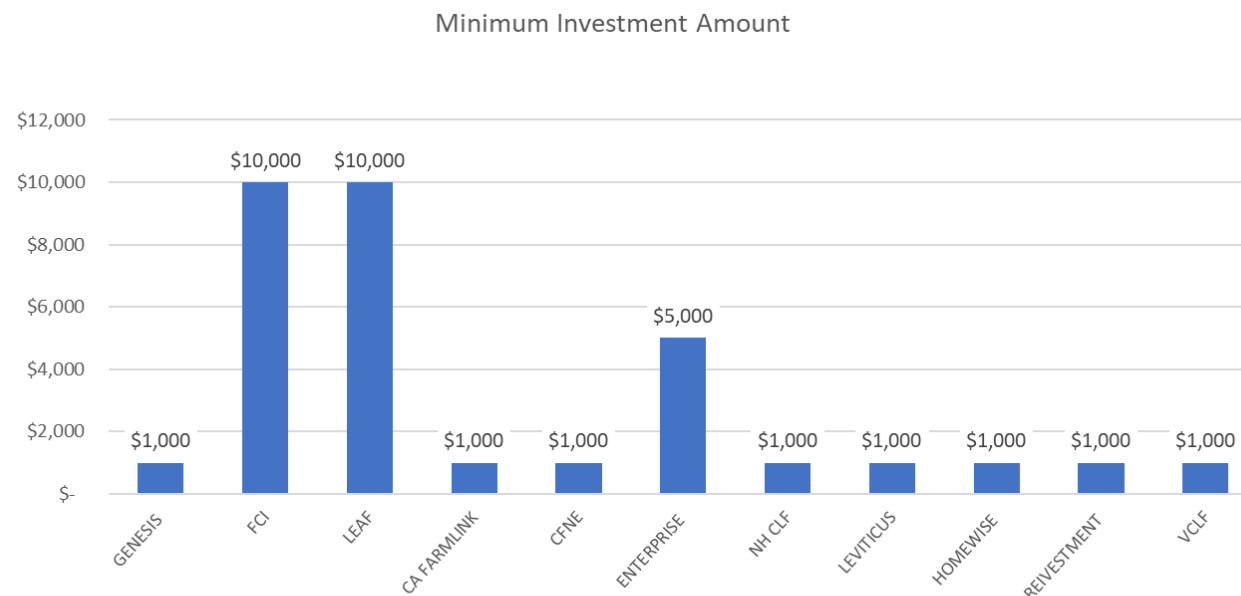
1 to 10+ years	1 or 2 years	3 or 4 years	5 or 6 years	7+ years
0%	Up to 1%	Up to 2.5%	Up to 3%	Up to 3.5%

Note: Rates for new investments or renewals are subject to change

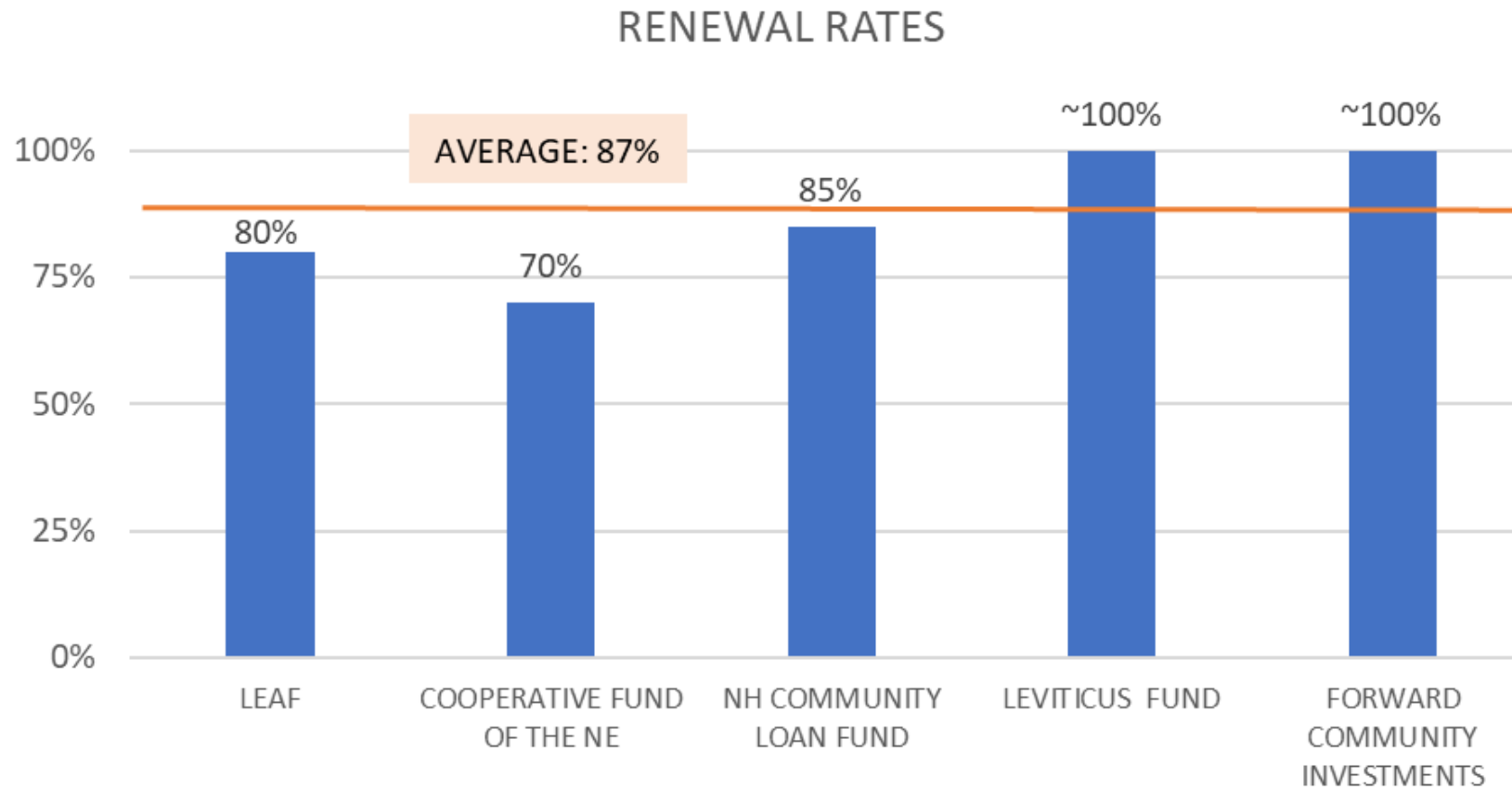
Term	Interest Rate
1 Year	1.0%
2 Years	1.5%
3 Years	2.0%
4 Years	2.5%
5 years	3.0%
10 Years	3.5%

Minimum Investment

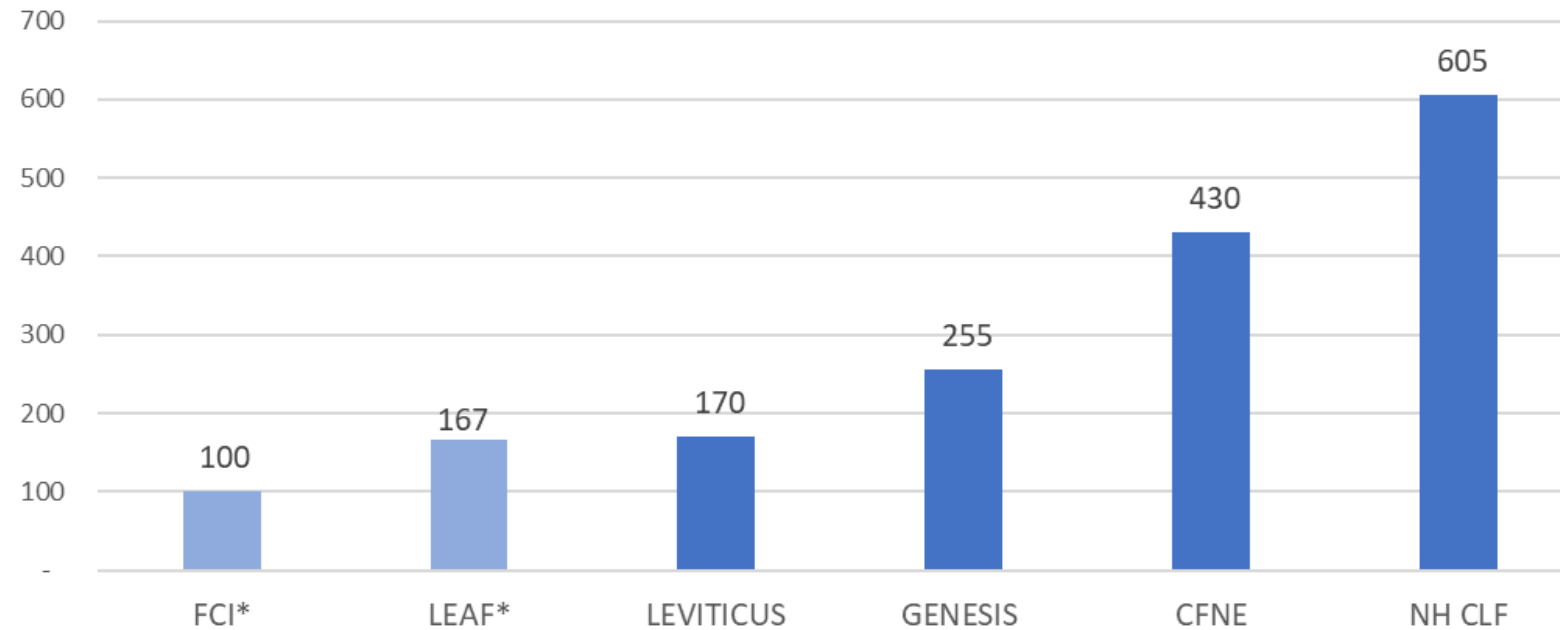
- Most programs offer a \$1,000 investment entry point.
- This has been motivated by strategic reasons versus profitability.
- Both LEAF and FCI set a \$10,000 minimum investment from a breakeven cost perspective



Renewal Rates



Number of Notes



*Derived from mix and investor profile information

Marketing & Outreach

- Standard marketing campaigns have not been successful.
- Targeted approach and “Speak to where the investor is at.”
 - Conferences
 - One-on-ones
 - Banking system tools to target banks with underperforming CRA ratings
- All about leveraging/cultivating relationships.
- Marketing materials/messaging would need to be developed.
- *“Even though the CEO is the fundraiser-in-chief, everyone needs to be selling – board members, staff, leadership.”* NH Community Loan Fund

Initial Launch Strategy

- Harness the initial enthusiasm in the organization and educate everyone on the offering so they can be advocates.
- Focus on the connections already in place with donors, banks, clients, etc.
- Do a “silent campaign” to secure higher-profile investors and capital prior to full launch (banks, foundations, high net worth individuals).
 - When you launch you can announce, “We already have \$XXM and are looking to add \$XXM.”
- Messaging should include EFund’s strong equity balance (protective shield) and “We connect the heroes in our markets.”

Program Administration

- Enrollment – Simple and cost-effective subscription model.
- Programs are managed in-house.
- Investment module within lending software is used to track notes, amortization, accrued interest, maturities.
- CRM software is utilized for account management, prospect status, investor communication.
- Records are retained digitally within the above software.

Staffing

- **A three-person team:** Dedicated IR role, along with the finance & executive leaders
- **Investor Relations / Investor Management:**
 - Coordinates all logistics with prospective investors
 - Manages the process and documentation for originating and renewing notes
 - Coordinates the underwriting process with institutions
 - Performs business development and investor recruitment (the level of this varies)
 - Initiates investor correspondence
 - Performs account maintenance
 - Tracks interest payments
 - Monitors the database for maturities
 - Maintains records
- **Time commitment:** .5 to 1 FTE
- **Job Level:** Depends on mix of responsibilities - Middle Manager / Director / VP

Initial Filing Requirements - Minnesota

- An EFund investment note offering would fall under the Minnesota Securities Act.
- EFund would be exempt from the formal registration requirements due to its tax exempt 501(c)(3) nonprofit status.
- Filing requirements:
 - A notice specifying the material terms of the proposed offering.
 - Copies of the prospectus and any other documents that will be used to advertise and solicit creditors.
 - Pay a \$50 filing fee.
 - The exemption will take effect if the Department of Commerce does not respond within 15 days of filing.

Ongoing Compliance

- Minimal. Unlikely to be administratively burdensome, particularly with an initial launch in Minnesota.
- **State:** If EFund were to materially change the offering, it would be required to file its revised prospectus with the Department of Commerce.
- **Individual Investors:** Other than the issuance of a 1099 each year, no proactive commitments are made on information sharing. “Our annual report is available upon request.”
- **Institutional Investors:** These investors (particularly banks) will often utilize their own loan agreements which may include covenants that would require more frequent communications and financial reporting to support the institution’s needs, or in the case of banks, the CRA requirements.

Draft Offering Terms

- Terms and Rate Ladder
- Interest Payments
 - Interval: Interest paid annually
 - Payment dates: Once per year on June 30th
 - Considering an option to accrue and compound interest
- Minimum Investment: \$1,000
- Annual extension policy – 60 days before anniversary
- Automatic renewal

Term (Yrs)	Rate
2	1.50%
3	2.50%
5	3.00%
7	3.50%
10	4.00%

EFund Primary Targets

- **Foundations (Small to Medium)** – Those without PRI capabilities who are targeting "impact investing" initiatives through their endowments or open to investing locally.
- **Banks (Small to Medium)** – Those who have CRA needs or work closely with EFund, but who do not have existing CDFI lending capability.
- **Individuals & Family Offices** – Values-based investors who seek to align their investing with EFund's mission and impacts.

Summary

- Investment Notes are a good tool to diversify capital partners & invite mission participation.
- Notes are attractive terms and "sticky" long-term, but are high-touch and high-cost on front end. Takes commitment over long-term for major benefits.
- Select CDFIs are well positioned to succeed with an investor notes offering & adding new investors to their capital stack.
 - Values & Mission-based investment offerings.
 - Scope of impact & balance-sheet strength will matter.
 - Marketing & Compliance aligned with CDFI strengths: Capital Stewards & Relational.
 - Favorable environment: Regulatory, impact investing, banking sector)
- An impact investment note program is a lot of work, but it has the potential to take a CDFI to the next level and achieve its strategic goals.

Collateral



Impact Investing

LOCAL INVESTMENT CREATES LOCAL IMPACT

Individuals and organizations can now invest in the Entrepreneur Fund's new investor note that will fuel small business lending throughout the region.



An investment in EFund blends financial and social returns into one accessible, risk-mitigated product, with 100 percent of the funds providing capital to local, small businesses.

- Investments can start at \$1,000
- 2-year minimum investment term
- Fixed rate of return
- **100% repayment** to investors since 1989

INDIVIDUALS

Minnesota investors can align their values with this investment.

ORGANIZATIONS

This investment will provide critical capital to help small businesses thrive throughout the region.

INTEREST

Our investor note delivers a fixed rate of return to investors paid annually. Investors can donate the interest or receive an annual payout.

IMPACT

This investment will provide critical capital to help small businesses thrive throughout the region.



INVESTING IN EFUND

Ready to Create Your Local Impact?

1 Choose an amount to invest.
(\$1,000 minimum)

2 Choose an investment length and interest rate.
(1 year minimum; up to 4% interest)

Length	2-10+	2 yrs	3 yrs	5 yrs	7 yrs	10 yrs
Interest Rate	0%	1.5%	2.5%	3.0%	3.5%	4.0%

3 Choose a payment.
(Check, ACH, Donation, Compound)

4 Fill out the paperwork at efund.org/invest



STAY INFORMED

To stay connected and learn more about how these dollars are fueling the communities we serve, follow our updates on social media and sign up for our monthly emails. We will update you annually on our activities, along with a summary of your investment. Our audit and other financial information is available upon your request.

Key Benefits



Earn a Financial Return

Receive a reliable return while supporting small business growth.



Drive Regional Economic Impact

Your investment provides flexible capital that helps businesses innovate, diversify, and create quality local jobs—especially in our rural communities.



Multiply Your Impact

Every dollar invested funds multiple projects over its term. As EFund borrowers repay loans, the funds become available to meet other needs, amplifying your contribution to sustainable economic development.



The Entrepreneur Fund is a certified Community Development Financial Institution (CDFI) dedicated to growing successful businesses and strengthening communities across Central and Northeast Minnesota and Northern Wisconsin. Since 1989, EFund has partnered with entrepreneurs in rural and underserved areas, providing accessible capital, expert advising, and business building programs to help them succeed and grow. Our vision: vibrant communities and a diverse regional economy powered by entrepreneurs.