

With new partnerships, CUs embracing role as the original crowdfunders

By

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Marlborough, Mass.-based Digital Federal Credit Union is the latest CU to enter into a partnership with [GrowthFountain](#), an equity crowdfunding platform launched earlier this year, and many observers are calling the partnership a natural fit, since credit unions are the original crowdfunding platform.

“Credit unions have been engaging in crowdfunding for decades, but not using the term,” said Kim Kaselionis, founder and managing partner of Breakaway Funding LLC, an equity crowdfunding and business lending firm based in Sausalito, Calif.. Crowdfunding, she added isn’t much different from the credit union model – “a large group of people combining their economic power to support a project, organization or company they believe in.”

Crowdfunding – in the modern sense of the phrase – received a huge boost from a 2012 “JOBS Act” (Jumpstart Our Business Startups), aimed at making it easier for small entities to receive funding by, among other things, relaxing certain securities laws.

According to Jon Jeffreys, managing partner at Callahan & Associates, the credit union research firm, the Securities and Exchange Commission delayed implementation of several key elements of the JOBS Act until early 2016.

“Because of this delay, few crowdfunding platforms were created, as the regulatory environment was unknown,” he explained. “Now that the rules have been finalized, [new crowdfunding] platforms are coming online.”

Indeed, crowdfunding websites like Kickstarter, GoFundMe and others have become very popular in recent years.

Credit unions have not yet taken advantage of crowdfunding to any great degree, but that could change – and soon.

“We are at the infancy stage of the [crowdfunding] industry,” said Jeffreys.

Breaking away

Digital is one of several CUs that have recently partnered with crowdfunding groups.

Aside from Digital FCU, GrowthFountain has also inked similar partnership deals with Rivermark Community Credit Union, an \$800 million institution based in Beaverton, Ore.; and the \$1.2 billion Jeanne D’Arc Credit Union of Lowell, Mass.

John Lahair, marketing manager at Digital FCU, said crowdfunding projects have been well received by many small businesses across the country, while the “collaborative nature” of such enterprises fits in ideally with traditional credit union philosophies of community-based endeavors.

Now, companies like GrowthFountain have seen the potential in partnering with credit unions.

"We started GrowthFountain to level the playing field for small businesses," said CEO Ken Staut. "Until now, small business finance options were cost-prohibitive and inefficient – and only a limited number of people met wealth or income thresholds that allowed them to invest."



Ken Staut, CEO of crowdfunding platform GrowthFountain

The JOBS Act, Staut noted, improved capital access and "we've made it simple. No longer will America's small businesses – which comprise roughly half of our economy – be considered the forgotten asset class."

In an interview with CU Journal, Staut called crowdfunding a “natural extension” of what credit unions have always done, adding that it dovetails perfectly with the “member-owner structure” of credit unions.

Staut noted, however, that for the moment credit unions are proceeding “cautiously” as they get accustomed to this new lending technology platform.

Redwood Credit Union, a \$3.3 billion-asset institution based in Santa Rosa, Calif., joined up with Breakaway Funding last year to provide a \$500,000 working capital and equipment loan to Dandelion Enterprises LLC, a family-owned horticultural firm, also based in Santa Rosa.

“Obtaining an SBA loan can be a financial minefield,” Dandelion founder Max Berreyesa said at the time. “However, Breakaway and Redwood worked diligently to ensure that that we were all on track.”

Working in conjunction with Dandelion, Breakaway prepared a loan request and identified Redwood CU as the “perfect fit” to provide additional financing to the business, said Breakaway’s Kaselionis.

She said the crowdfunding-credit union partnership is an ideal fit for all parties.

“Credit unions are able to create their own program to better serve their business membership,” she added.



Kim Kaselionis, founder and managing partner of Breakaway Funding LLC, an equity crowdfunding and business lending firm based in Sausalito, Calif.

GrowthFountain has also formed a strategic partnership with Callahan & Associates, the credit union research firm, to develop marketing materials and branded websites that can link credit unions with local businesses seeking funding.

Jeffreys of Callahan said that as “pillars of the community,” credit unions can help small businesses create jobs and improve communities by making such businesses aware of crowdfunding as a way to fuel growth.

“We also see some credit unions members that... want to invest in growing companies in their community,” he stated. “The credit unions’ role is to make different segments of the community aware of this new option.”

Crowdfunding the credit union?

CUs aren’t just using crowdfunding to help provide capital – in Pennsylvania, a group of businessmen are also hoping to use it as a way to speed up the process of obtaining a de novo charter.

A group in Harrisburg, Pa. is [seeking a federal charter](#) from the NCUA for a new [credit union](#) called the Tenants and Landlords Community Federal Credit Union which is intended to assist the city’s low-income population. To this end, members have sought to raise necessary funds through a crowdfunding initiative.

According to their website, the NCUA has yet to approve the charter. Moreover, it’s unclear how much has been raised in their crowdfunding efforts since a link from the credit union’s website to [a GoFundMe page](#) appears to be dead.