

There Is More To Crowdfunding Than the JOBS Act

by Bettina Eckerle

Until the SEC finalizes rules to implement the JOBS Act, private fundraising, i.e. of rounds of financing without registering securities with the SEC, is restricted to accredited investors with a net worth of \$1 million or \$200,000 in annual income. Interestingly enough, only four percent of dollars raised by companies in 2012 involved investments in exchange for equity in a company.

In recent years, other types of fundraising have been gaining enormous momentum. They are donation/pledge, rewards or lending based. According to a recent report by Massolution, contributors across the world pledged \$2.7 billion in more than a million campaigns in 2012, an 81 percent increase from 2011. Since Kickstarter's launch in 2009, more than 4 million people have pledged over \$609 million to projects ranging from an Oscar-nominated film to a bus stop in Georgia.

Here is a run-down of the most [common types of crowdfunding](#):

Donation/Pledge: As the name implies, investors who participate in donation-based fundraising do not expect to receive anything in return for their investment. Because the only reward is contributing to a worthy endeavor, these types of campaigns generally involve environmental, community, or religious causes. The donation fund created to help the victims of the Boston Marathon bombing is a recent example. [Razoo](#) is a well-known portal for non-profit organizations.

Reward: Investors who participate in rewards-based fundraising do not receive financial returns, but rather some form of tangible or intangible gift. Depending on the financed project, the reward may take the form of a t-shirt, CD, DVD, private screenings of a film or invitation to its premiere, etc. A friend of mine just financed her film through RocketHub, and one of the rewards for donating was a ticket to the premiere and being named executive producer. Kickstarter is the most talked about portal following this model. [Indiegogo](#) is a well-known international crowdfunding site.

Lending: Lending-based crowdfunding most closely resembles a typical banking relationship. Investors make financial contributions in exchange for the right to receive reimbursement plus interest in the future. Prosper is one of the most successful platform for lending, often referred to as "peer-to-peer (P2P)," crowdfunding.

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