

Entrepreneur eyes change to 'crowdfunding' restrictions

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As an entrepreneur who works with other entrepreneurs, Nicholas Tommarello has seen many great ideas in which he'd like to invest. The problem is that he doesn't have a lot of money to invest, so he can't legally do it at all.

He is among a growing number of people lobbying for changes to decades-old federal regulations that he says are outdated in the Internet Age.

"I've always thought it fundamentally strange that I can go to Vegas and bet \$100, but I can't give my friends \$100 to get some equity in their company," Tommarello said.

What he wants to do — and what federal law prohibits — is a form of "crowdfunding," in which several small investors pool their resources to buy equity in small companies. Currently, only large, accredited investors or close friends and family can do so. Websites such as Kickstarter allow people to donate to people with specific ideas, but the donors don't get an investment stake in the idea or company.

Tommarello recently set up a site that could be a platform for crowdfunding if the law is



Photo by Christopher Evans

changed. For now, he's using it to collect signatures on a petition calling for change and pledges from individuals willing to invest in small companies.

Tommarello was hopeful that he could get at least \$100,000 in pledges. Far exceeding his expectations, he hit that mark within an hour. The pledges topped \$1 million within four hours and are now over \$5.6 million

A bill has already passed in the House and received support from President Obama. U.S. Sen. Scott Brown (R-Mass.) is pushing the Senate to take up a similar bill he proposed late last year.

One big objection is that changing the law would open the door to fraud. Another is that investors could be exposed to bigger risks than they understand, given the failure rate for startups.

Those in favor of crowdfunding argue that the law could be written with adequate protections in place. It's also possible small lenders might not need as much protection as people think.

A recent study of a popular micro-lending site showed a counterintuitive pattern. Lenders on Prosper.com tended to follow the lead of other lenders and loan to companies that were attracting a lot of loans, especially if they had poor credit ratings, according to the Massachusetts Institute of Technology research. It seems that people assumed that if a company was getting loans from others despite having a poor credit rating, then they must be doing something right, said associate marketing professor Juanjuan Zhang.

The lenders were generally right. The companies that attracted loans despite a poor credit rating tended to do well.

Regardless of how small investors make their decisions, companies taking the investments would need to be careful. Having a lot of small investors could make it more difficult to attract large venture capitalists. It could also put them at greater risk of having an unhappy shareholder who could bring a lawsuit.

Those who need money say they'd be willing to take a chance. David Boynton said crowdfunding is his best chance to start a small brewery in New Hampshire the way he wants to. He envisions a small company that relies on local suppliers. This is something banks and larger investors won't support.

"The biggest thing from my perspective is that it's another way for folks to shift their investments to the local economy," he said.

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