

Four Kinds of Crowdfunding: Loans, Donations, Exchanges, and Equity



Person-to-Person

Loan Crowdfunding is generally person-to-person lending. It is not highly regulated, as long as you are not in the business of lending. If you are, then state requirements and consumer protection laws apply. But if your activity is limited, there is no regulation.

If you are raising money with Loan Crowdfunding: You are personally responsible for paying it back. To get the money, you usually have to disclose your personal financial information.

If you are lending: It is not regulated and is risky. You should limit the number and size of these loans and make sure you are getting a return that is worth the risk.

Donation Crowdfunding is usually for causes, but also can be to launch a business. If you have an inspirational story, you can raise funds through this channel.

If you are raising money with Donation Crowdfunding: You don't have to pay it back. However, you need to have a great story for people to give you money with no payback.

If you are providing money through Donation Crowdfunding: You will not get a financial payback – but you will be helping someone.



Exchange Crowdfunding is where you ask for money for your business and in return, once you develop a product or meet some threshold, **you give the person your product** (usually equal or above their initial funds). Exchange Crowdfunding is not regulated.

If you are raising money with Exchange Crowdfunding: You don't have to pay it back – but you do have to provide your backers with the product when it is completed. You may be responsible for sales tax.



If you are providing funds for Exchange Crowdfunding: If the product doesn't work or the business model fails, you may never receive anything for your money.

Equity Crowdfunding is where you sell a share in your business – i.e. stock. Equity Crowdfunding is NOT currently legal, but the rules to allow it are being finalized now. This is an area with major regulations, fines, and jail-time – so you need to work with an attorney.



If you are raising money with Equity Crowdfunding: You don't have to pay it back, but you do have to share some of your profits with your equity funders for as long as your business is in operation.

If you are providing funds for Equity Crowdfunding: There will be limits on how much you can invest each year. If the business model fails, you will lose all your money, but if it succeeds, you will own part of a successful business.