

Patrick Clark reporting:

The crowdfunding movement has long flown a patchwork banner. There's the Kickstarter variety, in which funders give money to worthy projects, sometimes for rewards. Peer-to-peer lending is sometimes described as crowdfunding for loans, and some companies have already used crowdfunding to sell shares to accredited (aka wealthy) investors. Others await U.S. Securities and Exchange Commission rules to open equity crowdfunding to a broader pool of investors.

While entrepreneurs wait for federal rules, some states are hammering out their own regulations to enable crowdfunding within their borders. That includes Michigan, where Governor Rick Snyder recently signed a bill allowing companies in his state to use crowdfunding rules to sell equity stakes to Michigan residents, as well as Kansas, which has allowed in-state crowdfunding since 2011. (Investments made across state lines still require the SEC's blessing.) Georgia also allows in-state crowdfunding, and legislatures in Alabama and North Carolina will consider similar measures in coming months.

The timing of the trend is somewhat curious. When I reported on equity crowdfunding in Georgia and Kansas last June, several sources described the rules as an attempt to increase access to capital even as the federal rule-making process stalled. In October the SEC

proposed equity crowdfunding rules. That might have reduced the urgency for state legislators eyeing new laws. It hasn't.

There's always been a local logic to equity crowdfunding. If you want a better coffee shop in your neighborhood, you might be inclined to invest in an entrepreneur who plans to open one. States have generally diverged from the SEC in regulating crowdfunding, requiring less documentation than federal policymakers have proposed but capping investments at lower amounts. (State rules often limit investors to putting \$10,000 into a single offering, while the SEC proposed a sliding scale ranging up to \$100,000 for some investors.)

The more choices, the better, says Nick Bhargava, whose company Groundfloor has raised more than \$100,000 under Georgia crowdfunding rules for a loan to rehab an apartment complex in Atlanta. "I think intrastate [crowdfunding] will be a valuable tool for small businesses to raise capital in the form of crowdfunded small business loans," he says, while the federal rules might hold more appeal for tech startups looking for growth capital.

On the other hand, the legislative activity hasn't led to very much fundraising yet. Since 2011 about 20 companies have tried to use equity crowdfunding in Kansas and Georgia combined, according to one recent account. States may not be waiting for the SEC to pass crowdfunding rules, but they are waiting for entrepreneurs to sign up.

