VENTURE CAPITAL

Bolstr Lets Founders Crowdfund New Investment--Without Giving Up Equity

A startup is offering crowdfunded loans in small businesses with solid financials as it appeals to first-time investors.

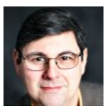

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IMAGE: Getty Images

Fans of the CNBC show The Profit know how CampingWorld CEO Marcus Lemonis helps struggling small businesses by writing a check in exchange for a big chunk (often half) of a company. But solid fundamentals don't necessarily preclude investment. Many small companies seek capital to fuel growth via new equipment or a new location.

It's not the kind of opportunity that would necessarily excite a venture capitalist, but it entails lower risk as well. Indeed, it could be the kind of opportunity that would attract a relatively new investor seeking to gain some experience and a better return than the typical rewards-based fundraising campaign might yield.

If that is a match made in heaven, then the matchmaker is Bolstr, a site that lies somewhere between lending sites such as LendingClub and equity-based crowdfunding. Describing its offering as a new asset class, Bolstr looks to tap into what it extimates to be the 8 million+ potential accredited investors in the U.S. who haven't actually made investments because they are intimidated or too risk-averse. Accredited investors must self-verify.

The company, which makes its money via listing and service fees, seeks to mitigate risks by meticulously screening small businesses to which to drive capital. Recent businesses covered on its site include a lobster roll restaurant in Chicago that paid back its first loan of $70,000 in seven months and a Seattle brewery that paid back 1.3x on its $115,000 goal According to Bolstr, most investments made by members on its site are $20,000 to $25,000. Investors get no equity in the company.

While Bolstr expects that defaults will eventually occur as it grows (most of its deals have been based in the Chicago area at this time), it says it has had no defaults to date and that's no accident. The companies do a meticulous analysis of metrics ranging from traditional metrics such as liquidity ratios and credit scores to things such as eBay or Yelp ratings. The company says it wants to understand small business credit risk better than anyone.

For companies that pass its muster, it could be a way to tap into an emerging class of investors looking for higher returns than managed funds but who don't have the experience or patience to place bets on the next Silicon Valley rocket ride.

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