Crowdfunding isn't expected to crowd out conventional small business loans, or the use of credit cards to finance business expansion or growth. Indeed, debt or equity-based crowdfund investing may actually facilitate bank lending to America's small businesses and entrepreneurs.

The authors of the attached article, Jason Best and Sherwood Neiss, are two of the three men responsible for getting crowdfund investing legalized in the U.S. Both men offer a great deal of insider knowledge into what is occurring both nationally and globally with debt and equity based crowdfunding. They have unique access to new information coming out on a daily basis that small business owners and entrepreneurs will need to be aware of, from SEC updates that will impact when entrepreneurs and small business owners can start fundraising, to changes and new developments in the industry.

Crowdfunding: Will Main Street take new way of raising capital to the bank?

It's no secret that banks have been more wary of lending to small businesses in the past few years**.** The Small Business Administration recently reported small business lending fell from a high of more than $700 billion to just more than $600 billion in the first quarter of 2011. A 2010 survey by USA Today listing financing resources for companies placed bank loans at 43 percent in July 2010, down from 53 percent the prior year.

This is despite a 2011 commitment made by 13 of the nation's largest banks to increase small-business lending by $20 billion over the following three years.

Then, in April of 2012, President Obama signed the JOBS Act into law, legalizing equity and debt-based crowdfund investing (aka crowdfunding), aimed at helping small businesses raise the capital they need to launch or expand their operations. Crowdfunding will enable businesses to raise capital online from a large base of individual investors through SEC-approved portals.

This left many banking and financial institutions wondering how crowdfunding will affect bank lending to small businesses. Will crowdfunding crowd out traditional business lending by banks, home equity loans, and credit cards?

In reality, rather than replacing traditional means of obtaining capital for businesses, crowdfunding could actually *facilitate* the process of securing a business loan from banks.

Instead of a loan officer and bank manager evaluating a loan application and assessing risk, crowdfunding permits hundreds of eyes to scrutinize a company. The "crowd" vets the ideas, provides feedback on how to make the product and company better, and becomes a testing ground. In the very near future VCs and bankers may be sending clients to the crowds to get their idea validated by obtaining initial seed funding from crowdfunding—then once their business model is proven, they will fund them.

In crowdfunding, the 'crowd' makes the determination of whether a particular business, product or service will succeed by providing the ultimate vote of confidence – their investment dollars. This makes crowdfunding the ultimate market test of a new product or service. Banks will feel more secure lending to businesses that have successfully raised their first round of capital through crowdfunding, and as a consequence, more banks will be making more loans.

To qualify for raising capital via crowdfunding, businesses will still need to have a solid business plan, meet SEC regulations, and pass background checks. Therefore, businesses that have successfully raised capital through crowdfunding have been vetted by the portal, and, more importantly, vetted by the investor community.

Crowdfunding could also fill the gap between the capital a business needs and the actual amount a bank is willing to loan. For example, a company requiring $500,000 to purchase equipment might be able to combine $100,000 raised from crowdfunding with a $400,000 bank loan.

Home equity loans and credit cards will still be utilized for quick cash needs situations, simply because preparing for a crowdfund offering takes time. But using credit cards for long-term operation or expansion capital is costly and can get a small business in over their heads, leading to higher default rates and bankruptcies. The real estate collapse has dried up many home equity lines, and while those lucky enough to have equity may still use it for long-term investments, crowdfunding will offer another option.

Banks will always have an important role in the capital markets. Crowdfunding will make the biggest impact for those that do not currently fit into the traditional funding channels. If anything, crowdfunding will expand the market for bank products, giving bankers access to a pipeline of market-validated companies that have gotten over the hardest hurdles and now need capital for long-term expansion and growth.

About the authors: Jason Best and Sherwood Neiss led the U.S. fight to legalize debt and equity based crowdfunding in the U.S., sit on the boards of several U.S. and international Crowdfunding associations and speak throughout the world on entrepreneurship and crowdfunding, at high profile events such as the Globe Forum in Stockholm, the Global Innovation Summit, and the Brookings Institution. They contribute to a number of publications including VentureBeat, TechCrunch and co-authored Crowdfund Investing for Dummies. Their work with governments across the globe, investment industry professionals, funding portholes and others gives them a unique view of the marketplace. As the founders of Crowdfund Capital Advisors they provide strategy and technology services to those seeking to benefit from crowdfund investing.