

Start-Up Lets Graduates Raise Money in Exchange for a Share of Future Earnings

by Ben Pokross

A new company lets recent college graduates sell a share of their future earnings in exchange for cash to help them start entrepreneurial projects.

The company is called Upstart, and it was founded by a former Google executive, David J. Girouard. It works by having investors give money directly to individuals in return for a percentage of future income from their ventures. Mr. Girouard expects it to be of interest to students who want to pursue any field that is entrepreneurial and high-risk, such as screenwriting or starting a technology company.

Five universities are participating in a pilot program with Upstart: Arizona State University, Dartmouth College, the Rhode Island School of Design, the University of Michigan at Ann Arbor, and the University of Washington.

Compared with other crowd-sourcing platforms, such as Kickstarter, “ours is a much more fundamental notion in a person, in the potential of a person,” Mr. Girouard says. He raised \$1.75-million in seed money to create Upstart.

Potential entrepreneurs create a profile on the site, describing themselves and their plans. They have to apply to Upstart and be approved before investors can see their information. Upstart then calculates an amount of money, based on 1 percent of future income, that the student can receive, using a formula that considers, among other things, an individual’s background, university, major, and grades. The individual decides how much of future income, over a 10-year term, to pledge to backers, establishing a financing goal. Unless the entire amount is raised, the student does not receive any money.

The program is meant to accommodate “the entrepreneurial lifestyle,” Mr. Girouard says. If an individual makes less than \$30,000 in any year, the money due to backers does not have to be paid that year. Instead, another year is added to the 10-year payment term, which is capped at five extra years.

Mr. Girouard contends that the arrangement will encourage the backers to do more mentoring than in traditional financing models. “The backers are your advisers,” he says. “Their goal is to make you successful.”

According to Mr. Girouard, Upstart intentionally does not assure investors that they will get their money back. Because the individuals are taking on risk in their careers, he says, backers also have to take risk in how they invest their money.

If his pilot with the five universities goes well, Mr. Girouard hopes to expand nationwide.

Nathan A. Sharp, of the Class of 2012 at Dartmouth College’s Tuck School of Business, was one of the first people to get financing from Upstart. He received \$50,000 from individual backers, including Frank Moss, a professor at the Massachusetts Institute of Technology’s Media Lab, and has pledged to repay his investors at a rate of 2.5 percent of his income over the next 10 years.

Mr. Sharp used the money to pay off some of his student debt and to develop PayorPass, a shopping platform that provides consumers with the best prices for online purchases.

Without the Upstart money, he says, he would have had to find a side job or take out a loan from his parents to start his business. “I would have to start servicing my loans from Day 1,” he says, “and what Upstart allows me to do is focus on my business.”

The program also has the potential to help current college students think about their postgraduation plans, says Thomas H. Zurbuchen, associate dean for entrepreneurial programs at Michigan. He sees Upstart as playing a role in career advising. “The students see this as a way to pursue their dreams in a way that’s defensible to their parents,” Mr. Zurbuchen says.

“It’s another way of finding a job,” Mr. Zurbuchen says. “It’s making your own job.”

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