

## **Restrictions on Accredited Investors – Bruce E. Methven**

One thing to consider when planning an offering is what investor qualifications you can live with. In making this decision it's important to keep in mind that the definition of "accredited investor" is now more limited than it used to be.

For individuals, an accredited investor is a person with net worth of at least \$1 million or at least \$200,000 in annual income individually or at least \$300,000 annually including the spouse's income.

It used to be that an investor could include any equity in his or her principal residence in calculating the \$1 million net worth. That is no longer true.

When the Dodd–Frank Wall Street Reform and Consumer Protection Act took effect, it specifically stated that the calculation of net worth could NOT include the investor's principal residence. (Equity in other residences such as vacation homes can be included.) Because many investors have substantial equity in their principal residences, this has shrunk the pool of accredited investors.

The way it works currently is that if an investor is underwater on his principal residence (the loans on it are more than the value of the property), the amount of debt in excess of value counts against net worth – but equity in the principal residence cannot count toward net worth.

The recent JOBS Act allows public advertising of Rule 506 offerings, but only if all investors are accredited. To have a class of non-accredited but sophisticated investors, a company making an offering must not use public advertising but make the offering a private placement.

The prohibition on counting equity in the personal residence for accredited investors should be kept in mind when deciding what approach to take to the offering.

--Bruce E. Methven

For more information on securities laws, head to Background on the Securities Laws: [http://thecaliforniasecuritiesattorneys.com/?page\\_id=41](http://thecaliforniasecuritiesattorneys.com/?page_id=41)

To join the email list, go to <http://thecaliforniasecuritiesattorneys.com/> and complete the eNews signup box.

Forward To a Friend: <http://tinyurl.com/forward-to-friend>

**The foregoing constitutes general information only and should not be relied upon as legal advice.**

You are welcome to copy and distribute this document for non-commercial purposes, but it may not be edited and the prior warning and the following must be left on it:

Bruce E. Methven, 2232 Sixth Street Berkeley, CA 94710

Phone: (510) 649-4019; Fax: (510) 649-4024

[www.TheCaliforniaSecuritiesAttorneys.com](http://www.TheCaliforniaSecuritiesAttorneys.com)

[CaliforniaSecuritiesAttorneys@gmail.com](mailto:CaliforniaSecuritiesAttorneys@gmail.com)

Copyright 2012 Bruce E. Methven, All Rights Reserved.