



**Patch of Land**  
*building wealth. growing communities.*

## Top 10 Crowdfunding Questions



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## Introduction:

Crowdfunding has become one of the most popular online trends over the last two years. However, many people are still confused as to how the phenomenon actually works, and more importantly how it can benefit them. As a real estate crowdfunding company we get asked numerous questions regarding how we operate our online portal, and what makes our platform different from the rest. Therefore, we've put together this document for our potential clients in order to address many of the commonly asked questions we receive on a regular basis. We believe by the time you're done reading this information you will have a much better understanding of the inner-workings of a real estate crowdfunding portal, and will feel empowered with the knowledge you've gained to begin exploring your options within this new lucrative method of investing. If you should still have any inquiries about the subject matter, feel free to visit our [website](#) and [blog](#) where we have a host of material pertaining to this subject matter. For now, please enjoy learning the answers to our Top 10 Crowdfunding Questions.



## Question 1: What are the different types of crowdfunding methods?

The four different types of crowdfunding methods include:

- *Debt-Based Crowdfunding*: In this method investors are essentially lending money under the premise that they will be receive a return on their investment over a certain time interval and at a certain interest rate.
- *Equity-Based Crowdfunding*: In this method investors receive a stake in the company. Similar to owning shares, you may receive dividends, or a distribution of the profits earned.
- *Reward-Based Crowdfunding*: In this method investors receive a tangible item or service in exchange for their funds. The reward is not in the form of monetary gain.
- *Donation-Based Crowdfunding*: In this method your contributions simply go towards a charitable cause you'd like to support with the only return being the positive vibes you get from doing a good deed.



## **Question 2: What exactly is peer-to-peer (P2P) lending?**

Peer-to-peer lending is a direct exchange between a borrower and a lender. Lenders, also called investors, are matched with borrowers, also called real estate operators. The exchange of funds happens through Patch of Land, but the investor is lending his/her money to the borrower, and is able to view the borrower, his/her real estate project, expected returns, etc. in order to determine whether this borrower is a fit for the investor's goals, portfolio, etc.



## **Question 3: Why do you feel investors should get involved in Real Estate Crowdfunding?**

An investor who is diversifying and looking for a new asset class for optimal allocation may choose to have some real estate equity deals with their longer-term holds and variable IRRs, while also having a good portion invested in our shorter term, fixed rate deals and higher cash flow. An investor could potentially ladder money into various opportunities on our site, and roll those over as they come due every few months into new deals, and ensure they have liquidity available for other investments. With our focus on debt, our opportunities fit within an overall investment portfolio of real estate.

#### **Question 4: What's the basic end-to-end process for getting a project financed via crowdfunding?**

Each crowdfunding portal is a little bit different. You should first decide what the best structure for your project is. Are you interested in sharing equity in the project in return for funding, or are you more interested in a crowdfunded, [peer 2 peer loan](#)? With an equity play you generally don't have to worry about monthly payments on your loan, but you have to split or share the upside on your project, which could be a significant amount of money. However, a crowdfunded loan typically requires you to make regular interest-only payments on the debt, while any resulting profit from the sale, or lease, is all yours. Another consideration is where the project will take place.

Once you decide which crowdfunding site is the best fit for you, each will have their own onboarding and application process. Some perform due diligence themselves and only work with projects that they believe show promise. Others will let you list almost anything and trust in "the wisdom of the crowd" to weed out anything that isn't a good opportunity. You should prepare a decent narrative on why your project will be a lucrative investment along with the associated due diligence documents such as appraisals, BPOs, cash flow statements, construction budget details, comps, and projections. Obviously this will change depending on what type of project you're looking at. Is it a fix and flip, a buy and hold, a value add lease-up? Each will need different supporting documents to show how you're going to turn that property into a successful project.

**Question 5: Why should I choose to use a crowdfunding portal over a traditional way of funding my real estate projects?**

Crowdfunding platforms can serve as a more reliable and faster means of borrowing than your local bank, which tends to be overregulated. Once we receive all of the items in the application, the developer is called to discuss details and answer any questions. If everything looks good, the loan is presented to our Executive team to determine the Interest Rate, Points & Structure of the loan. We will directly contact the developer to present the Engagement Contract and answer any questions they may have. Once the developer agrees to the Terms, an appraisal and legal work are ordered.

All of this usually takes about 24 hours and then the appraisal is ordered. The appraisal will usually take 4-5 days to be completed and returned to the Underwriter for review. Once everything is signed off by the Underwriter, it is scheduled to close. In total, a loan can close as quickly as 5 days with short term rates as low as 9.99% and two points in origination fees. As an online crowdfunding service with hundreds of investors, we have the ability to form creative capital structures that will work for your specific plans, covering both hard and soft costs.



### **Question 6: Who can invest on a crowdfunding platform?**

We currently can only accept accredited and institutional investors to the platform, but we also work with developers looking for funding towards their real estate projects as well. Within those groups, we are looking for people who want to invest in real estate; investors who want to earn high yields and want to add passive-income producing real estate debt to their portfolios. Anyone who has money sitting in a low-yielding bank account, or bond or Treasury note, should really come check us out because our returns are higher than any comparable short-term instrument while secured with 1st position title liens on real estate.

### **Question 7: If I want to borrow, what type of information do I need?**

Some of the items needed to underwrite a loan includes:

- Credit Report (we look at scores, but we're more interested in what the report says)
- Proof of Funds (down payment, closing cost, carrying costs, etc)
- Inspection Report of the property, if available
- List of Comparable sales (CMA, BPO, MLS listings, if available)
- Purchase Contract, if a purchase
- Construction Budget Estimate & Timeframe
- Contractor Information (License #, Insurance, Bond)
- Payoff Statement, if a Refinance
- Borrower's Attorney or Escrow Company information
- Articles of Incorporation
- Developer Biography (to be posted on the website)
- Property Description/Plans (to be posted on the website)
- General Liability Insurance (\$2 Million)
- Builder's Risk Policy
- Any other Insurance applicable (Flood, Wind, etc)



**Question 8: How does your crowdfunding portal keep my personal information secure?**

We ensure that all sensitive data is encrypted with bank-level encryption through industry-leading security provider, Symantec (formally VeriSign), the makers of Norton Antivirus and other Enterprise security products. We pay for not only a 256-bit SSL encryption certificate but also a daily malware scan.

In the specific case of an Investor's social security number, business tax ID or other highly sensitive information required to complete an investment, the information is passed only to our secure and rigorously controlled e-signature partner to be placed in the sealed virtual envelope containing the Investor's subscription agreement. The envelopes are only able to be opened by the Investor using their credentials through a verified matching email and a few select Executive Officers.

Investor information, even in partial form, is inaccessible to the public, protected by hardware firewalls, encrypted as needed and accessible only by company officers.

[Patch of Land](#) is dedicated to ensuring that your personal information stays secure. For more information, please read our [privacy policy](#).

**Question 9: What criteria does your crowdfunding portal look for when posting loans on its platform?**

Our projects are evaluated on a case by case basis. In addition to the criteria below, [Patch of Land](#) invests Executive team funds into each project ourselves. Accordingly, we will not list anything we don't find very promising ourselves after performing full due diligence and in partnership with 3rd parties.

Our guidelines for a debt purchase or refinance investments are:

- Minimum loan amount of \$100,000
- A LTV (Loan to Value) of less than 80%
- An ARV (After Renovated Value) of less than 60%
- Loan duration between 1-12 months
- We will finance 100% of construction costs
- No Pre-Payment Penalties

These guidelines are negotiable depending upon the strength of the project. If a property is able to be purchased significantly below its actual value or if there are additional security components offered by the Developer, we may consider a higher LTV or ARV.



### **Question 10: How long before I'll see a return on my investment?**

While each property and project may vary depending upon the investment plan, most [debt based investments](#) start to accrue interest immediately. That interest is generally paid back to our investors monthly or quarterly within a set time after your funds clear escrow, with a balloon payment of remaining principal and interest at the maturity date of the loan provided to the developer.

[Equity investments](#) show a return as the operating partner distributes profits either through existing cash flow or through an exit situation such as when the property is resold. Please refer to the investor documents for each project and contact us directly if you have any questions or concerns.



## Summary:

We hope we answered all your questions and you're now ready to participate and start investing in the world of real estate crowdfunding. There are many great crowdfunding platforms in this young market. However, if you're looking to invest in short-term high yield debt, then [Patch of Land](#) might be right for you. By utilizing our expertise we are able to source and bring the best debt-based opportunities to our platform in order to give you the highest returns on the market. We also work with developers who are looking for short-term loans to fix or flip a rehab property as well. So no matter if you're an investor or borrower, we will always provide an opportunity for you!

One of the things that makes our crowdfunding platform unique is that we pre-fund all of our projects. By giving the developer the funds they need to move ahead with their project, we create a dual benefit for our investors and borrowers. Because developers close their projects and start working on their project right away, investors are able to earn interest on the investment almost immediately (after funds clear escrow).

To learn more information about crowdfunding visit [Patch of Land](#) and watch our [2-minute explainer video](#). Also, our [blog](#) is a great source wealth of knowledge and can help educate investors and borrowers on the different type of options available that might work best for you.



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