FAQ – Borrower Payment Dependent Notes

What are the Borrower Payment Dependent Notes? The notes are debt obligations of Realty Mogul that are tied to the performance of real estate loans made by Realty Mogul. The notes will be issued in tranches, or “series and each series of notes will be tied to the performance of a corresponding borrower loan. Each investment opportunity is offered through our online website platform at www.realtymogul.com

What is the purpose of the notes? Use of the notes allows Realty Mogul to structure debt transactions more efficiently. By separating Realty Mogul’s loans from the payment obligations to investors, administrative expenses are significantly reduced.

Isn’t this structure unusual? Although innovative in the context of real estate transactions, similar structures have previously been used by several consumer lending companies. Other web-based online finance companies have also used such techniques.

How is this structure different from other forms of Realty Mogul investments? Realty Mogul’s obligations to make payments on the notes will be tied to the amounts that Realty Mogul receives from a corresponding borrower loan. As always, Realty Mogul’s loans to borrowers will be secured by a deed of trust, mortgage, security agreement, or legal title to real estate; but under the notes structure, investors will not themselves be part of a special entity that is directly secured by the borrower’s assets. Realty Mogul, however, will itself continue to hold such security, and as before, investors will depend on Realty Mogul to manage the loan. Because the security will now be held directly by Realty Mogul, the notes themselves will be unsecured obligations of Realty Mogul, payments on which are dependent on payments made by the borrower to Realty Mogul.

Doesn’t this put me in a worse position with respect to any borrower security? As before, investors rely on Realty Mogul to manage a borrower loan. Even in those cases where investors directly hold a piece of an investing entity, Realty Mogul (or one of its managing or servicing affiliates) still bears the management responsibilities for those loans.

Will this affect the tax information I receive from Realty Mogul? Another advantage of the notes structure is that tax reporting will be greatly simplified. Since investors will now hold notes from Realty Mogul instead of from various special investment entities, investors will now receive a single Form 1099 that summarizes all the interest income received from Realty Mogul, and will no longer have to deal with a separate Form K-1 for each investment made through a special entity. This only applies to loan investments, equity investments will still be structured as their own special entity with corresponding K-1s.

Where can I find more details about the notes? Realty Mogul has developed a comprehensive private placement memorandum discussing details of the notes and the relationship under this structure among investors, Realty Mogul, and borrowers. There is also supplemental information for each series of notes issued for a particular transaction, describing the applicable interest rate and other details relating to that particular investment opportunity.