**Business Name**: HomeSlice

**Product/ Service Idea**:

Home equity marketplace.

Home ownership and real estate investing is difficult, especially depending on where you live/what you do. That said, HomeSlice creates a marketplace that’s friendly to small capital investors looking to diversify into real estate, but whom don’t have the funds to make a 20% down payment on a home. HomeSlice opens the door to purchase equity shares (otherwise known as Slices\*) of another persons’ home equity.

The home equity shares can appreciate or depreciate over time, so there is significant investment risk.

For the homeowner, this is an easy way to tap into cash quickly without the burden of monthly principle and interest payments.

**Special Benefits**:

HomeSlice is a first of it’s kind home equity marketplace connecting cash strapped homeowners to the general investing public. The platform is designed to be incredibly accessible and easy to use across all touch points (desktop, mobile, and other devices). Our product is two-fold. First, we provide a free and seamless opportunity for homeowners to explore the value of their home; providing them with the opportunity to unlock their home equity in exchange for much-needed cash. Second, as home equity slices are obtained by HomeSlice they are listed on the HomeSlice open marketplace where the general investing public can browse home slices and if willing to make an investment, enter into the world of real estate investing by way of purchasing a slice of another person’s home.

**Unique Features:**

Unlike traditional financial products, HomeSlice enables homeowners to get cash in days, not weeks or months. The way we make this possible is through our advanced data techniques where our algorithm risk adjusts home values in real time and presents qualified homeowner’s with a cash offer in exchange for a Slice (%) of their home equity in minutes.

If the homeowner decides to move forward with the process, HomeSlice will collect critical personal and credit information in order to ensure the homeowner is qualified to enter into the transaction. This includes, but is not limited to, a creditworthiness check, lien query, and confirmation of home ownership. (The transaction is iterated in greater detail in the sections below)

If deemed qualified, HomeSlice will provide cash to the homeowner on the spot, once the contract is signed. HomeSlice will then take care of the documentation, including but not limited to, paying for an appraisal on the property and listing the property on the HomeSlice investor marketplace.

Unique to Investors will be the ability to browse in real time opportunities to invest small dollar amounts in real estate. This is accomplished via an open marketplace where HomeSlice will list Slices (at a premium based on our risk adjustment calculations). Investors’ decisions will be informed by a dynamic dashboard inclusive of a data points to aide in the decision making process. HomeSlice’s advanced data techniques allow us to present investors will critical data points to help inform their decision making. Critical data points include, real-time estimates of the home’s value and other data collected by HomeSlice and provided by third parties such as school district rankings, transportation scores, historical price trends, crime data and more.

Investors are not required to meet high net worth or accredited investor thresholds to use the platform. Those willing to pay for a HomeSlice they believe will appreciate over time on the open HomeSlice marketplace will be able to transact. Our real-time portfolio tracking tools and seamless product delivery will set us apart from the competition. Investors and Homeowners alike will be informed about the risks of investing or transacting in real estate, while there is the opportunity to make money, it will also be made clear that unforeseen events can cause losses on investment.

The transactions will be contract-based and e-signature execution will be offered, this will allow for us to engage customers and investors quickly and easily.

**Limits and Liabilities**:

The investable portion of a home’s equity will never exceed 30% of the value of the home. Said differently, HomeSlice will never offer a homeowner cash equating to more than 30% of it’s value. Initially the 30% ceiling will be calculated by our risk adjustment algorithm using historical mean sales data for the relevant zip code, Zestimates, and collaborative filtering of similar-style home listings within the zip code; to be later confirmed by an independent appraisal service.

There is significant liability associated with any real estate investment, that is no different for investments on HomeSlice. HomeSlice will provide investors with a variety of datapoints in order to make informed investment decisions. Up-front disclaimers will also be made to investors iterating the risks involved in real estate investments, the typically long-term nature thereof, and the risk of material loss.

Contract law concerns, regulatory compliance issues, Bank dealings, and credit risks also present liability.

Homeowner Contract Considerations:

* Must include language asserting the homeowner will remain current on their mortgage (the contract will be signed and delivered to Lender). Any lapse or significant delinquencies will qualify as a breach of contract. Such a breach would allow HomeSlice to seek collection of the original investment plus any appreciation thereof. If the Slice decreased in value, HomeSlice is entitled to the initial cash investment. HomeSlice will use an independent appraisal service to determine the fair market value of the home.
* HomeSlice reserves the right to transfer the Slice in its entirety or a portion thereof to open market participants willing to pay the free market value for the home. The free market value of the home will be equal to the most recent appraised amount plus a HomeSlice premium deemed appropriate based on the risk adjustment algorithm’s prediction. The investor transactions will take place in an auction style format where investors willing to pay the highest amount will be awarded the Slice.
* The homeowner shall not have any liens against the home, other than those existing on behalf of the mortgage originator. (The bank/lender will hold a lien on the home until the mortgage P&I is paid in full, typically via a Deed of Trust)
* Upon liquidation of a property through foreclosure of similar forfeiture, HomeSlice is entitled to collect the original cash investment plus any appreciation based on the home’s fair market value. The home’s fair market value will be determined through an independent appraisal service. HomeSlice will not take priority on collections of debts through foreclosure as ultimately the Bank own’s that right. HomeSlice will seek alternative methods of collection through a collection service, either in-house or external.
* Short selling a home for less than fair market value will be considered a breach of contract. In this instance, HomeSlice will be entitled to return of the original cash investment plus any appreciation. Appreciation will be calculated as the fair market value less the original investment. The fair market value of the home will be derived from an independent appraisal service For HOMEOWNERS: Need to inform homeowners that short selling for less than market value would be a breach of contract and funds would need to be remitted to HomeSlice
* Need to market to Banks/Lenders’ interests as well, invite their comfort with our model, understanding our transaction will have no impact on their existing credit obligations (below snippet from sample Deed of Trust [MD]) – (Need to explain further that we will be second in line for collection of any debts upon foreclosure or default.
  + If all or any part of the Property or any Interest in the Property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender’s prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. (per CFPB example, section 18) - potential loop
  + Protect Lenders interest in the property
  + HomeSlice will need to draft language iterating that the priority of any collection of debts in the event of foreclosure or loss will reside with the Banks/Lenders; HomeSlice will not be first in line in these instances.
  + An independent appraisal will be conducted as a part of the contract’s execution

Investor Contract Conisderations:

* Inform investors up front of the risk of real estate investing.
* Language will need to be clear to investors that there are only 3 ways to liquidate an investment and exit: i) Through the owner’s sale of the property ii) Homeowner can buy back the Slice at it’s current market value (appraisal required) ii) If another investor is willing to pay market value (or more) for the existing equity Slice.

**Production and Delivery**:

Transaction flow = Homeowner 🡪 HomeSlice 🡪 Investors

HomeSlice will remit cash to the Homeowner in exchange for an agreed upon percentage of home equity (a ‘Slice’). HomeSlice will either hold on to the Slice as an asset on the books or list the home equity Slices, with the intent to sell to investors at a premium (This is how HomeSlice will make money). HomeSlice built in a risk adjustment premium which is applied to prospective home values to ensure we are investing in properties we (and the algorithm) believe will appreciate over time.

* Investors will be paying a premium for Slices of home equity they believe will appreciate over the long term
* The investor platform will be an auction-based model where the investor willing to pay the highest premium for a specific Slice, will ultimately obtain the Slice
* The transaction flow is as follows: Upon application submission and acceptance, i) HomeSlice remits cash to homeowner in exchange for a Slice of home equity ii) HomeSlice decides whether or not to list the property on investment platform, iii) Investors browse and select Slices they are interested in iv) Investors will enter into a long-term contract where they can only receive return on investment upon home sale OR purchase of the Slice by another Investor

Transfer of ownership will be executed via signed contract between homeowner and HomeSlice, for the predetermined cash value/home equity percentage. The contract agreement and the connection between homeowner and HomeSlice will all occur and exist on the HomeSlice platform.

HomeSlice will provide the initial cash to homeowners after an application is completed, and a credit and lien check is performed. Once the transaction is completed, HomeSlice will in either, list the Slice on the investment platform, opening the opportunity to the market or keep on the investment on the books.

Homeowners and Investors alike will create log in credentials and be able to track performance and investment values via a dashboard within the application.

**Intellectual Property Special Permits**:

We will need to credit Zillow for the API calls which retrieves the ‘base’ market value of the home (“Zestimate”). This service will become a paid service once the number of daily API calls is exceeded.

The HomeSlice risk algorithm is proprietary only using the Zestimate as the starting point. The risk adjustment of the home’s value is calculated using a variety of data points including historical home sales prices, crime data, and other macro data points relevant to the property’s zip code.

**Product/Service Description**:

Transaction structure:

Note: Create FlowChart to visualize the transaction where HomeSlice lists the property slices to back end investors, where a single 30% could be divided up amongst 1 or more investors. HomeSlice could also hold on to the investments/slices.

The transaction is not a Home Equity Line of Credit. There will be no principle and interest payments attached to the contract between the homeowner and HomeSlice.

Transaction Example:

Assumption: Homeowner owns 100% of the home outright, mortgage paid off.

Considerations: Using small dollar amounts to best illustrate the transaction.

Homeowner comes to the site and inputs the address of his/her home. The HomeSlice platform leverages the Zillow API (Zestimate) and our algorithm uses that figure as the basis of the ‘Risk Adjusted Home Value’ calculation, the result of which is then presented to the homeowner as the amount of cash they may be able to receive in exchange for up to 30% of their home’s value.

Upon entering the address, HomeSlice notes the home is worth $100 and our risk algorithm denotes a max cash value available today of $30. The homeowner agrees to move forward and completes a HomeSlice application which includes a variety of personal information including legal name, mailing address, SSN, mortgage information (origination date, principle amount, interest rate, term, etc.), and more. Using the information provided by the borrower, HomeSlice will perform a credit risk analysis to determine whether the homeowner is qualified to enter into this transaction. Generally speaking, a qualified homeowner will have significant equity in their home, be current on their mortgage, have no liens (outside of that of the original lender) against the property, and have an above average credit score.

If the homeowner is deemed qualified, HomeSlice will move forward with the transaction and within minutes of credit risk analysis completion, a final cash offer will be made to the homeowner. The final cash offer may differ from the original cash available amount depending on the result of the credit risk analysis. The Contract documents will then be drafted by HomeSlice and presented to the homeowner for e-signature.

For this example, we assume the agreement is reached for $1 in exchange for 1% of the home equity.

Upon signing, the homeowner’s transaction will be processed and funds remitted from HomeSlice to the homeowner. Once the initial transaction is completed, HomeSlice will utilize an independent appraisal service to assess the home’s value beyond our risk adjusted estimate and that provided by Zillow. The Day 1 value will be trued-up to the independent appraisal value.

At this point and assuming no material adjustment to the home’s value is needed as a result of the appraisal, HomeSlice retains ownership of the agreed upon 1% of home equity worth $1 on Day 1. Most commonly, HomeSlice will turn around and list the Home Equity share on the investment marketplace/platform at a small premium. The listing of the Slice on the home equity marketplace will not occur until the appraisal process has completed, but the homeowner would have the cash immediately. Built into the premium of the listed Slice, will be the cost for the appraisal.

Once listed, Investor ABC (“ABC”) finds the home listed on the platform for $1.50 ($1 cost basis, $0.50 premium), has $1.50 ready to invest and is willing to pay that amount in exchange for 1% of the home’s equity. HomeSlice accepts the offer and the transaction moves forward. HomeSlice turns a 50% profit ($0.50) and ABC now owns 1% of the home’s equity.

Fast forward 5yrs and the home’s value grows to $250 and ABC’s 1% ($1.50 cost basis) is now worth $2.50, a net unrealized gain of $1.00 or 67%. ABC can either hold this investment or sell the slice to another investor willing to pay market value ($2.50 for the 1% share). For this example, investor ABC elects to hold on to the investment.

The homeowner is now ready to sell the home, noting the home has appreciated significantly in recent years. With that, the home is listed and sold for $250. Upon sale and per the HomeSlice investment contract agreement, ABC is remitted the initial investment plus the $1.00 profit and the contract is fulfilled. The contract expires upon sale/liquidation.

Other Transaction Considerations:

Investor ABC has the right to sell their Slice at to another willing investor who sees an opportunity in the Slice. As mentioned previously, the investor in any Slice can only liquidate upon sale of the home or sale to another willing investor.

HomeSlice is designed for long term investors. If a transfer occurs between investors, the price will be determined again, in an auction like system where the price will be determined by the listing investor and the open market. With this model, appraisals are not needed at every transfer point.

**Target Market/Customer**:

An addressable market exists between those who live paycheck to paycheck (approximately [78% of Americans in 2019](https://www.forbes.com/sites/zackfriedman/2019/01/11/live-paycheck-to-paycheck-government-shutdown/#7e6775c44f10)) and those who own a home (approximately [65% of Americans in 2019](https://www.statista.com/statistics/184902/homeownership-rate-in-the-us-since-2003/)).

This swath of Americans represent HomeSlice’s target market.