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NEWS RELEASE

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Initial Loan Procurements

Boise, Idaho... The Idaho Department of Finance today issued an advisory raising awareness concerning initial loan procurements. Companies using blockchain technology need to raise capital just like any other company. One way these companies accomplish that is through initial coin offerings (ICOs), which require the new company to create tokens that can be sold to investors and used for the development of new projects. An alternative fundraising method is catching the interest of investors. Initial loan procurements allow companies to raise capital without the added burden of creating tokens.

“Blockchain technology is a useful and important technology. It is also an emerging technology and companies using it need to attract the capital necessary to develop ideas and expand their businesses,” said Director Patti Perkins. “However, Idaho citizens are cautioned to closely evaluate these types of investments.”

What is an Initial Loan Procurement?

An initial loan procurement is a crowdfunding method that allows borrowers and creditors to enter into loan agreements through legally binding smart contracts stored on the blockchain. Instead of sending money to a smart contract and receiving tokens, as in an ICO, the investor becomes a creditor and lends money to the company. The loan is paid back at an agreed time and is purported to be legally binding. This allows the investor to lend money to a company or project, after entering into an agreement. Just like ICOs, initial loan procurements are marketed to investors worldwide.

How does it Work?

Potential investors input their identification by entering an address among other information on the blockchain. Once all the information is verified, the investor will digitally sign a loan agreement and send cryptocurrency to the company’s address. Once the cryptocurrency is received, and a smart contract signed, the investor is entitled to an annual interest payment.

With ICOs, in which a token is issued, the investors typically get nothing to prove a claim on the company’s assets. However, in an initial loan procurement, the investor receives a legally binding contract with the company that is public on the blockchain.

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Investors Use Caution

Be on the lookout for these red flags!

1. Initial loan procurements may appeal to investors who want to get into blockchain technology but are wary of the risks of ICOs.
2. Investors are given a false sense of security that their money will not be lost because the smart contract cannot be altered on the blockchain.
3. Investors may be falsely told that the investment is less volatile because the return is tied to the performance of the company and not to the value of the coin issued in an ICO.
4. Investors are falsely promised guaranteed returns.
5. Investors are falsely told that companies raising capital using initial loan procurements are vetted, making the investments secure.
6. Investors are told the gains are not taxable because they are debt, which may or may not be true.
7. Investors are told that initial loan procurements are not subject to the same regulatory scrutiny as other investments.

How do Investors Help Protect Themselves?

Don't invest money you can't afford to lose. Initial loan procurements are not the same as other asset classes, like traditional stocks and bonds. Investing in these offerings should be seen as entirely speculative.

Read the fine print. Don't assume all initial loan procurement offerings are the same or have the same terms.

Research independently. Research the individuals behind the company seeking capital. Ask questions and be skeptical.

Think with your head, not your heart. Scammers often use language intentionally designed to provoke some emotional reaction in their targets. Whatever the appeal, remember that investing is a business decision. Ask yourself, "Is this investment right for me?"

The Bottom Line

Fraudsters are willing and ready to exploit the hype around new technologies, including blockchain technology and initial loan procurements. Moreover, these investments are complex and require a lot of guidance. If you choose to invest in an initial loan procurement investment, be prepared to lose the entire amount of your investment. Before making any financial decisions, do your homework and contact the Idaho Department of Finance or visit our website at www.finance.idaho.gov

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*Department of Finance Press Releases and a list of **free** financial literacy events can be found on the Internet at <https://finance.idaho.gov> and may be obtained by contacting the Department at (208) 332-8000 or Idaho toll-free at 1-888-346-3378.*