JOINT VENTURE PROGRAM:

DISTRESSED MORTGAGE DEBT

Business Summary

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Joint Venture Summary

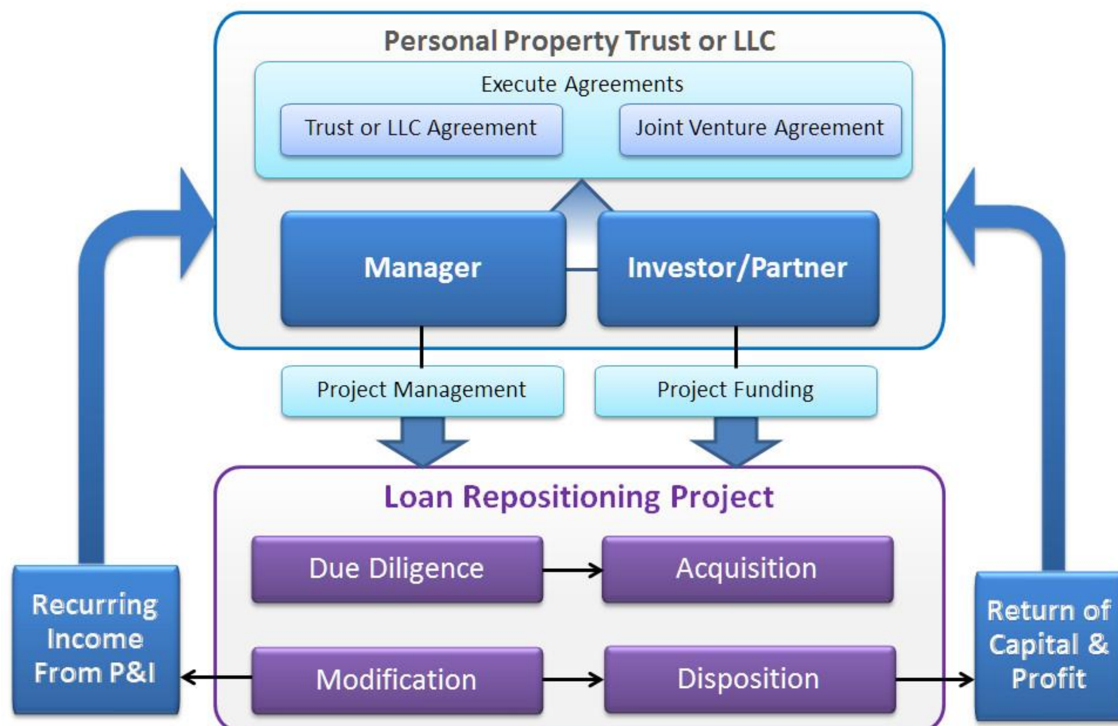
We operate to leverage the current disruption in the economic market cycle within the real estate sector through the acquisition of first position distressed mortgage notes that have potential produce positive cash flow and/or a substantial equity upside. The principals have successfully deployed and tested a scalable business model and now are directing the operations of this model to the benefit of the company and its investors with similar assets throughout the U.S.

We analyze, acquire and manage assets that generate current income while maintaining a healthy margin of safety, with typical timelines for investment projects range from six months to three years. We have created a joint venture ("JV") program to allow interested partners to capitalize on the opportunities from the results of the distressed residential mortgage collapse that began in 2007. *See Addendum B: Market Opportunity for more information.*

Earnings are realized from the acquisition and repositioning of non-performing real estate notes in key U.S. markets. The target asset is typically institutionally generated debt in senior position, secured by residential real estate. The objective for each JV project is to generate recurring income from borrower payments and achieve social betterment by providing viable solutions for borrowers at risk of foreclosure, then liquidate the note at performing value for return of capital and capital gain.

Venture Components

We have extensive experience in the acquisition and management of distressed real estate assets and mortgage notes. The company is vertically integrated, giving it the capability to manage all aspects of its investment, servicing, and asset management operations from acquisition to disposition.



Partnership Structure

The Joint Venture is essentially a partnership agreement between the Investor and the Manger. A Joint Venture agreement is written and executed which outlines the terms of the relationship between each party, including each party's duties, profit splits, distributions, accounting, reporting and liquidation. The asset will be acquired in an entity that has the JV partners as the members or beneficiaries, and is usually set up as a personal property trust which provides a low cost structure that allows for anonymity of the actual owners since it is not publically recorded. Funds are held in a reserve account managed by the Manager and expenses/income are tracked via a simple spreadsheet accessible by all parties via GoogleDocs.

Minimum Investment

The acquisition price target is 40% to 70% of the "as-is" asset value of the home, depending on the location and equity amount. The target asset values of the home will be between $70,000 to $150,000. The capital contribution by the Investor will range from $50,000 to $140,000, depending upon the final negotiated acquisition cost, which includes a reserve of approximately 15% for expenses including servicing fees, due diligence and foreclosure/liquidation fees, should the asset not re-perform.

Acquisition Criteria

The target asset class in which the JV will invest are distressed non performing residential mortgage notes in first position on single family homes in the U.S. We intend to acquire residential mortgages secured by one home.

With the overload of nonperforming residential mortgages weighing heavily on the balance sheets of our banks and federal regulations requiring substantial reserves, financial institutions have been unloading nonperforming mortgage notes in large volumes at steep discounts. We see an opportunity to purchase highly discounted notes on properties in key markets, then reposition them for cashflow income, or in the case of a vacant property, foreclose and sell the property at a substantial profit margin.

Due Diligence

Assets purchased for the venture will be acquired through various channels developed in our course of business. These channels are a result of relationships developed by us with resellers, brokers, asset managers and online note brokerage businesses. Our due diligence process creates a normalized mortgage file review platform whether the files are fully intact or have eroded in the secondary market over time and trading. See Addendum A for a list of the due diligence components and processes which we deploy.

Project Term

The typical term of a 1st position NPL repositioning project will range from 6 months to 3 years, and is predicated upon the outcome of the note. For those notes which we can restructure and keep the borrower in their homes for re-performance, a 6 month period is a good general time frame. For those notes for which we have to liquidate the underlying asset (the home) via Deed In Lieu ("DIL"), Short Sale or Foreclosure, a time frame of 9-12 months should be allocated for non-judicial states and upwards of 24 months for judicial foreclosure states. Our general strategy is to purchase assets in non-judicial states when feasible to keep the timelines as short as possible.

Exit Strategies

Our primary goal for exit on a note acquisition is to work with the borrower to restructure their loan and make it affordable for them to remain in their home. This is a win/win since the borrower can keep their house and the asset then generates long term cash flow. In the circumstance where the borrower cannot resume performance, we will take possession of the home via DIL or foreclosure and sell it on as a “bank owned” property, usually as-is to an investor looking to do a flip or a rental.

For loans where a restructure was successful and the loan is then performing, we can liquidate the performing loan at the current market value at the time of sale, usually at a price that will yield an annualized return of 8% to 12% to the buyer. Depending upon the final outcome, the Investor will have the opportunity to buy-out the manager based on the current asset value, should the investor want to keep collecting the cash flow on a performing note, or take ownership of the home for a rental or flip. The JV agreement will outline the valuation procedures and liquidation process for both parties.

Example / Case History

The following are examples of a NPL which were acquired with the borrower still occupying the home with whom a loan modification was completed. Please visit our website Portfolio page at http://note.ventures/note-portfolio/ for more examples.

Cincinnati, OH

Amount Owed	$135,626
As-Is Property Value	$65,000
Modified Interest Rate	7.00%
Acquisition Cost	$36,000.
Expenses	$960
Total Cost Basis	$36,960
Adjusted Cost Basis*	$26,960
Annual Income	$8686.20
Payments Remaining	333
Months Held	27
Annual Cash-on-Cash ROI	32.2%

5br/3ba home in suburban area, purchased as a non-performing loan. *Borrower paid $10,000 to the arrears which reduced our acquisition cost from $36,960 to $26,960

Current Status Borrower making current monthly payments

Management

Bob Malecki is the Manager of the Joint Venture. The Manager is responsible for the overall management of the Venture's affairs and has control over the day-to-day operations and activities of the Venture including all investment management responsibilities. Bob is a seasoned note investor with strong ties to the distressed mortgage note industry. Bob will participate in asset selection, acquisition, disposition and general operations, and will manage asset selection, due diligence, underwriting and financial oversight of investor funds placed into the venture.

Bob Malecki

Since 2006, Bob Malecki has been involved with the acquisition and management of distressed real estate assets including non performing notes and single/multi-family properties in key markets in the U.S. He has fund management experience via the creation and management of a current private equity fund, Resolution Capital Management LLC, which invests in distressed mortgage debt in key markets in the U.S. Bob is an avid investor in non-performing residential notes and his background in real estate investing and market analysis has provided him a unique set of skills to identify opportunities with distressed assets that provide substantial upside.

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Addendum A: Due Diligence Components

The following is a list of the various aspects of due diligence which are performed on a prospective asset under consideration for purchase. We deploy a mulit-phase “waterfall” analysis starting with the general value of the underlying asset which secures the note, the market dynamics in which the asset is located, occupancy status, the previous performance of the borrower (if available), and integrity of title and identification of subordinate liens. If the note and asset meet our initial criteria, we than proceed to evaluate in more detail and usually after an indicative offer has been accepted by the seller of the note.

Risk Assessment

Seller Vetting

Execution Risk Evaluation

Trade Payment and File Delivery Terms

Collateral File Review

Security Instrument Review

Promissory Note Review

Title Policy Verification

Assignment and Endorsement Chains

Servicing File Review

Servicing Correspondence and Log

Servicing Accounting Audit

Property Value Reconciliation

Broker Price Opinion Reports

Restoration Cost Analysis

Property Title Reconciliation

Owner and Encumbrance Reports

Title Defect Resolution

Regulatory Practices Reconciliation

SAFE Act Compliance

Qualified Mortgage Rule Compliance

Dodd-Frank Compliance

State Specific Compliance

Disposition Strategy Analysis

Disposition Analysis

Loss Mitigation Analysis

Disposition Recommendation

Underwriting

Underwriting Review

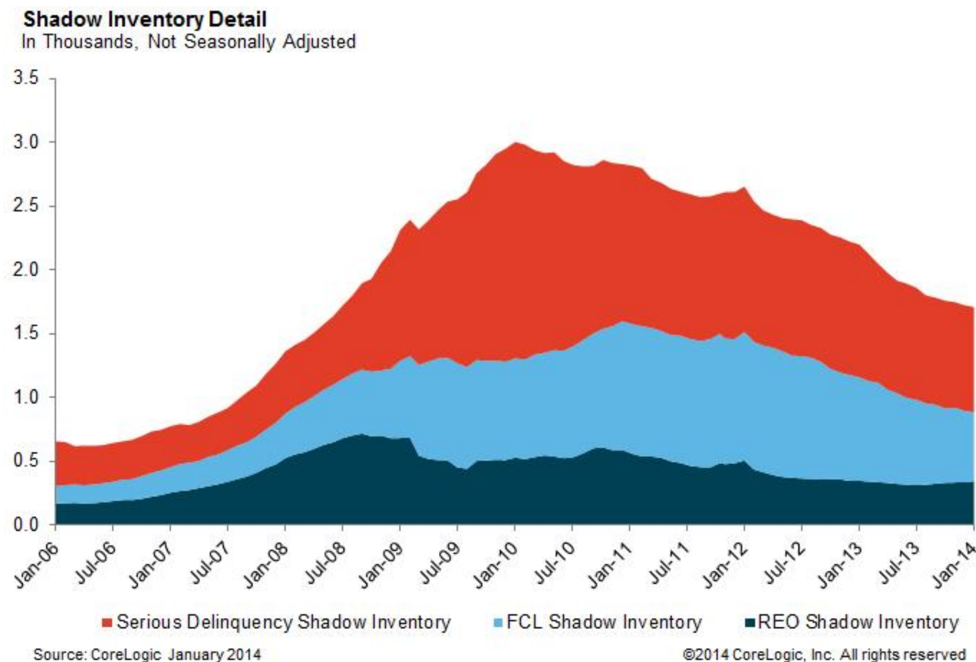
Workout analysis

Addendum B: Market Opportunity

During the formation of the "housing bubble" in 2007-2008, banks and mortgage lenders would originate home loans and quickly resell them to investors in the form of securities on the secondary market (Wall Street). This method, known as the “originate to distribute model,” allowed banks and lenders to pass the risk onto investors, and thereby loosen guidelines.

The result was casual underwriting, less oversight, and more aggressive financing, which ultimately led to a lot of loans made to underqualified borrowers. These loans were generally made as “stated income” loans which have become non-performing and have resulted in the current stockpile of “toxic assets” being held on the books of our financial institutions.

The volume of these non-performing real estate loans has picked up dramatically over the past 5 years as banks seek to shrink their balance sheets as their capital base falls. In both multifamily and residential real estate, there are now billions of dollars of outstanding, distressed debt. According to the Federal Reserve Bank of New York, as of Q4/2015 more than $310 billion of residential mortgage loans are “seriously delinquent” at more than 90-days late .



Whereas a few years ago, banks would have been more inclined to foreclose on a non-performing property, they are now choosing to sell the distressed debt. The primary reason is that for each dollar that a bank has on its books in loans, they are required by the federal government to keep anywhere from 6 to 10-times the amount in reserves. Now that the level of distressed debt is climbing into the billions, banks have little choice but to unload nonperforming/underperforming notes to recover their capital reserves. Various industry resources suggest that it will take up to 8 years for the financial institutions to liquidate these loans on the secondary market, and we believe that there is a window of 5-8 years to capitalize on this opportunity.