SECURED INVESTMENT CORP

How to Achieve True Wealth

The Why, Who, What and How of First Trust Deeds

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How to Achieve True Wealth

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Note from the CEO

Lee's desire to reach the heights of financial freedom has allowed him to develop unique investing methods and innovative strategies that he teaches to other real estate investors throughout the nation.

Through hard work, in-depth research, and years of full time investing, Lee truly has found the golden key to unlock the door to financial success.

Lee has generated millions of dollars in personal wealth and is known as one of the foremost experts in the foreclosure and short sale industry, as well as the private money market.

His goal is to help other investors discover the same success he has found and experience the joy of a truly rewarding career.

After years of teaching and mentoring around the nation, I found that education doesn't mean a lick if the person being taught doesn't have the capital to put their knowledge into genuine action.

So, I took the challenge and created a place, Cogo Capital, where real estate investors could go for unlimited funds for their non-owner occupied investments.

While the progression seemed natural, we were missing one, very large and essential piece of the pie. The marketplace was teeming with people who had the funds and aspired to make higher returns on their invested dollar, but lacked the desire to get involved in real estate at the ground level.

In light of this opportunity, we created Secured Investment Corp, which gave people a medium to lend on first trust deeds (real estate), and make higher returns than they were currently seeing in their stock market, bank CDs, or bond investments.

As we combined all these facets—training, funding, and the means to lend on real property—we began to notice a progressing trend of growth and success with the clients involved.

Through this model, what we call "The Circle of Wealth," we also noticed that people who entered in at the training level and borrowed funds for their real estate investments, eventually became lenders in their own right. They then helped others obtain the capital needed to grow their real estate portfolios.

This allowed everyone, on every side, to win!

It is our goal that everyone can enjoy some level of success in The Circle of Wealth, and inevitably lap it several times over!

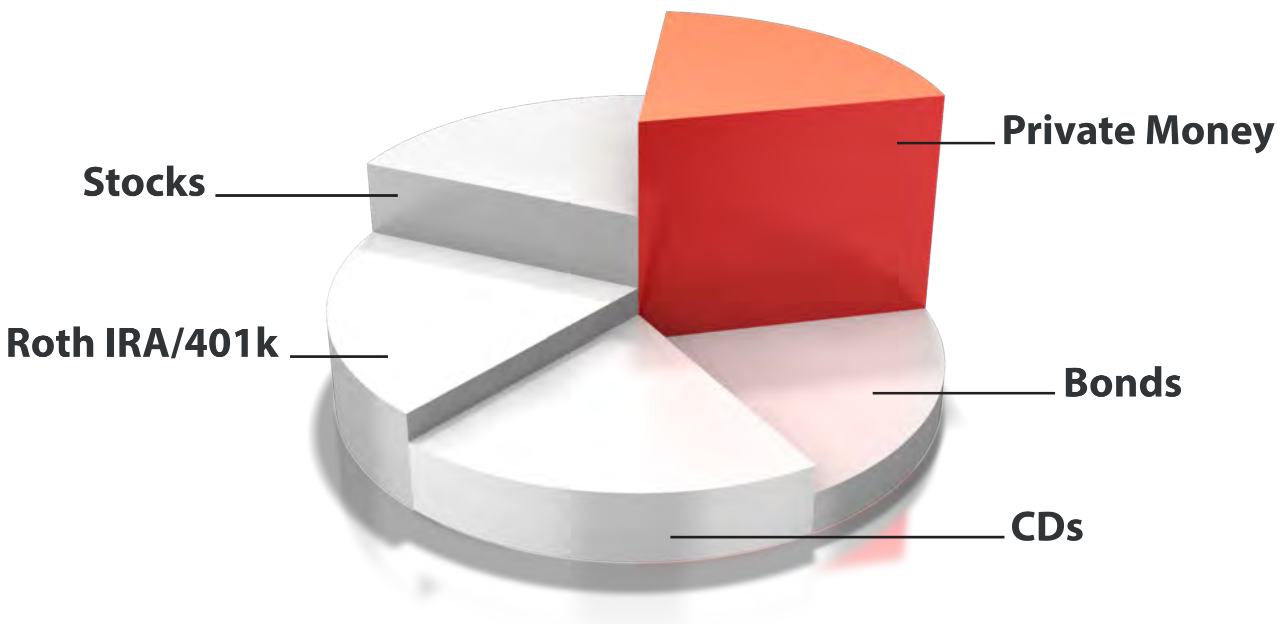
We hope you're one of them!

Lee Arnold

CEO Of Secured Investment Corp

Diversification and Control

True diversity includes controlling one's investments. No one can control the stock market, but you can, for example, control your own business, private investments, and the money you lend to private parties.



About Secured Investment Corp

Secured Investment Corp is one of the fastest growing companies in the private money marketplace throughout the United States. With over 125 years of combined specialized loan expertise, we have built a comprehensive peer-to-peer lending platform focused on non-owner occupied residential and commercial real estate.

Since inception we have helped hundreds of borrowers by funding millions of dollars in real-estate-backed private money loans. We continue to see the number of borrowers and lenders grow exponentially quarter over quarter.

Secured Investment Corp provides private lenders and real estate investors the ability to connect and build powerful and profitable strategic alliances. Lenders are able to grow their net returns on their invested capital and real estate investors are able to grow their investment portfolios.

The Team and Presenters

Meet the speakers and learn how their vast experience can help you earn stronger returns through private money lending.

Over the past several years, Secured Investment Corp's commitment to redefining lending on secured and real property has attracted a stellar team of innovators. Their experience runs the gamut from real estate education to financial services and technology. Because of this, our ability to serve both our borrowers and lenders with various loan products has grown over the years.

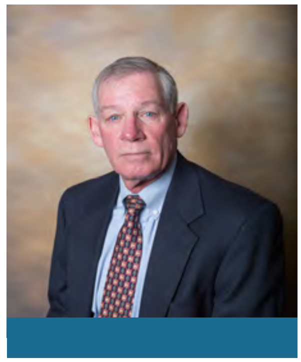
Lee Arnold
Chief Executive Officer

Lee Arnold is the chief executive officer of Secured Investment Corp, a multi-million dollar company that consists of money management, portfolio servicing, and capital deployment. As the chairman of private equity funds, he helps manage a nationwide, multi-million dollar portfolio of private money mortgages.

Lee is also a well-known published author and national speaker on the subject of private money mortgages and alternative investment vehicles.

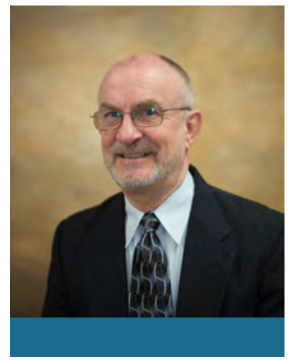
Heather Dreves
Director of Funding

Prior to joining Secured Investment Corp, Heather Dreves worked for a private money lender as the Director of Securities & Private Investor Relations. She sold over $17 million in private money loans, managed the loan processing administration, and originated $3,000,000 in revolving lines of credit. Since her tenure at Secured Investment Corp, Heather has been directly involved in the sale of over 75 million dollars in Trust Deed Mortgages. She also raises capital in two High Yield Equity Funds, assists in the underwriting and management of the Cogo team, and handles investor relations.



Doug Greybill
Director of Underwriting and Asset Recovery

Doug Greybill has worked in the mortgage business for over 40 years. He spent 10 years as a regional manager of an 8 office finance company; 10 years as the Chief Credit Officer of a billion dollar Savings and Loan; 10 years with a national life company overseeing the portfolio acquisitions, loan origination, and portfolio management of a billion dollar private money portfolio; and 8 years as an investor and portfolio manager of a private money investment group. At Secured Investment Corp, Doug assists in the management of the Cogo team, oversees our asset recovery company, and is the head underwriter for Cogo Capital.



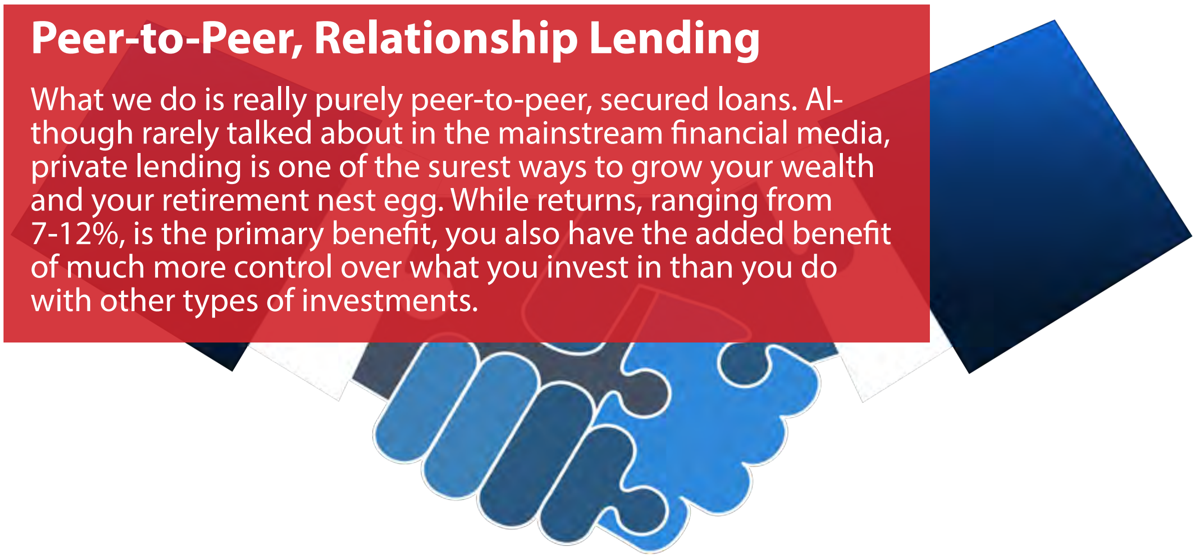
John Kane
Chief Operating Officer

John Kane has been in the real estate investing and education industry for 28 years. Prior to joining the Secured Investment Corp team in 2014, he served as president of the largest real estate investing education company in the US; founded and sold two separate software development companies; and headed up marketing, education, and speaker relations for Get Motivated. At Secured Investment Corp, in addition to operational oversight, John's role includes sales and marketing development, educational strategy, and the blending of technology with product development and delivery.

Let Us Help You Bolster Your Retirement

Peer-to-Peer, Relationship Lending

What we do is really purely peer-to-peer, secured loans. Although rarely talked about in the mainstream financial media, private lending is one of the surest ways to grow your wealth and your retirement nest egg. While returns, ranging from 7-12%, is the primary benefit, you also have the added benefit of much more control over what you invest in than you do with other types of investments.



A 25-year-old, just starting to save, would only need to put away about $160 each month to generate $1000 in monthly retirement income. If you start saving at age 35, you'll need to contribute almost $270 a month to generate the same income. A 45-year-old just beginning to save for retirement would have to put away nearly $500 every month. And a 55-year-old, just starting to build a nest egg, would have to make monthly contributions of $1,154 for every $1000 in monthly retirement income. That's double the amount of a 45-year-old, and more than seven times the sum of a 25-year-old. So if you're in that 25 to 35 age bracket, now is the time to get started. I started investing in real estate when I was 18 years old. I was fortunate and blessed in that way. As that grew, I sought investment opportunities through my self-directed IRA, whole life insurance policies, and stocks and bonds which has given me a nice blended portfolio. Now, if you are older, there's an increased level of urgency to plan and prepare. You need to start now.

SECURED INVESTMENT CORP

Our Websites:
www.securedinvestmentcorp.com
www.cogocapital.com
www.leearnoldsystem.com

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The Transcript of the Video Presentation

Good evening. My name is Robert Tavares and I'm the Director of Education with Secured Investment Corporation. I want to welcome you. Today we're going to talk about first trust deeds and how you can get involved in the private money market. I, myself, am an investor through the company, meaning I personally know the benefits of investing in first trust deeds. We're going to share some of those benefits with you and show you what first trust deed investing is all about and how you can get involved.

So without any further ado, I would like to introduce the man from whom I've learned everything I need to know about private money lending and real estate investing. Lee Arnold is one of the fund managers for both our high yield funds, as well as the CEO of the company itself. Please give a warm welcome to Mr. Lee Arnold.

Lee Arnold:

I want to say thanks for being here this evening. Tonight, we'll talk about first trust deed investing and why we think it's one of the greatest asset classes available. We will also teach you about the steps you can take to make private lending safer and more secure through the vetting and underwriting process. Finally, we'll show you what we do at Secured Investment Corp and our family of companies to mitigate risk and present the most profitable mortgage loan packages to our lenders.

I won't be the only one presenting on this information. Tonight we have our staff experts, Heather Dreves, Director of Funding, Doug Greybill, our underwriter, and John Kane, our COO. They will walk you through how we vet and bring deals into the company.

Before we get too much further into all of that, because of the nature of our discussion here today, regarding financing and investing money, I need to cover a few disclaimers with you.

1. **Disclaimer Number 1:** I make no earnings claims, nor do I guarantee income or success. The examples that you will see in this presentation do not represent an indication of future success or earnings, and where specific figures are used and attributed to an individual transaction, those figures are specific to those persons and transactions and should not be taken as a representation or a guarantee that you will replicate those results.

2. **Disclaimer Number 2:** Secured Investment Corp and its affiliates and employees are not registered advisors and as such do not hold themselves out to be. Secured Investment Corp does not render financial or legal advice. If you are seeking financial or legal advice, please consult a competent advisor. You should not make any decision about funding private money mortgages without first conducting your own independent due diligence on the specific private money mortgage you are interested in funding. If any of today's topics sound like advice, chalk it up to us having very strong opinions.

3. **Disclaimer Number 3:** Secured Investment Corp and its affiliates make available all pertinent and necessary information regarding private money mortgage loan opportunities to parties who have expressed an interest in funding private money mortgage loan opportunities. The educational training program we're providing to you today is not designed or intended to qualify you as a lender. It is intended solely for the avocation, personal enrichment, and the enjoyment of our clients. The decision to fund a private money mortgage loan transaction is a decision that is exclusively in the hands of the potential investor.

Why are you here? You are here because you are tired of the low rates of return you're getting from your bank CDs and/or bond yields. You're looking for a way to avoid the high volatility of the stock market and the fees from your broker or fund manager, and you're interested in another financial strategy to diversify your funds.

Thomas Stanley, a Ph.D., once said this. "One of the reasons that real millionaires are economically successful is that they think differently. Many a millionaire has told me that true diversity has much to do with controlling one's investments. No one can control the stock market, but you can, for example, control your own business, private investments, and money you lend to private parties."

We want to do that with the best investment class available. So let's talk about the financial pie chart (refer to page 4), at least as we see it. We believe in the power of diversification and not putting all your golden eggs into one financial basket. It's good to have money in stocks, Roth IRAs, 401Ks CDs, bonds, and of course private money loans. We are big proponents of the private money lending space for a couple of reasons which I will highlight here.

What is Private Lending?

Private money is capital lent by private citizens or companies throughout the United States. It's usually shorter term with clearly defined repayment schedules. The terms for these types of loans can vary from lender to lender and often depend heavily upon the experience of the real estate investor (the borrower), as well as the length of the real estate investor's relationship with the particular lender.

The reason we got involved in private lending was because the demand for it in the real estate space was so high. I have been involved in real estate investment education for over 20 years now. I started on the real estate investment circuit back in 2000, where I put on seminars and spoke at events regarding how to find, buy, fix, price, and flip real estate. Inevitably, at every real estate investment workshop I spoke at, there was one major challenge. Money. We were teaching people how to find these incredible deals, but they still didn't know how to access capital outside of the traditional systems of banks and credit unions.

At the same time I was noticing this demand, I also had people approaching me with a surplus of capital, but no personal desire to actually invest in real estate in a hands-on way. They liked and understood the strategy of real estate investing and they loved the returns, but they really didn't want to do any of the work. They wanted a more passive and continuous earning model in the real estate space.

So we had a roomful of people who needed money and a roomful of people who had money, yet they were not talking to each other and creating those strategic alliances to get the job done on their own.

We created the solution for them. We created a company that brings these two parties together. It's called peer-to-peer lending. We identify people who need money and have a good viable, fundable deal and we pair them up with people who have money, and we then streamline the process. Our strategic lenders lend real estate investors the funding they need to buy, fix, and flip houses.

This is a really a wonderful benefit for everyone involved. The person buying the house gets the funds they need to buy, fix, and flip a property, and depending on the deal, make anywhere in the neighborhood of $20,000 - $50,000 per transaction. The private lender gets a secured trust deed against real property where they are getting a monthly payment from the borrower. For those that don't want to be actively out there buying, fixing, and selling real estate, it becomes a nice annuity income for them. Everybody wins.

Peer-to-Peer Lending: Understand the Types

You may have seen the term "peer-to-peer lending" popping up all over the news lately. There are companies like Lending Club or Prosper, which have become extremely popular for both lenders and borrowers alike. Lending Club is an online, peer-to-peer platform where you can get unsecured lines of credit. The problem with this model is that the lender is placing their funds in unsecured loans.

What we do is purely peer-to-peer, secured loans. It's someone with money loaning money to someone who needs money on loans secured by real property. That means if anything should go awry with the loan, the lender has an asset to make the loan good again. We'll talk about that more in a bit.

Why Private Lending?

- It's fixed
- It's collateralized
- It's secured
- It's insured
- There is equity from the start

Say you buy a stock and it drops 10 percent and you lose $20,000, who do you call to cover the loss? Nobody. It's just gone, right? In the private money world, if a house burns down, for example, and you're the lender on the house, who do you call? The insurer. The insurance company writes you a check for 100 percent of what you lent on the house. Do you see how this is secure? Do you see that you're putting your money in a safer environment when you lend money on real property? I like private lending because, even in the worst-case scenario, assuming that the property has been underwritten properly, and you've funded the property for significantly less than the property's actually worth, there should be enough room in there that, should the loan go into default, the lender is going to be safe in the deal and they're not going to lose any money in the transaction.

Who Are the Players?

First, we have the private lenders. They find a note that is fundable or income producing and make sure that the income is more than the loan payments and expenses of the asset or that the asset has more value than the loan. Second, we have the real estate investor. The real estate investor needs to find a fundable deal, meaning that it is either producing income in the form of rents or leases with an option to buy or there's an upside, meaning they can buy, fix, sell, and profit from it.

The real estate investor has to learn real estate techniques like short sale, wholesale, subject to, REO, et cetera. They have to spend money on marketing, connect with sellers, Realtors, buyers, and eventually buy, rehab and sell the property. They make money at the end of the transaction or they hold and make money on the rental income overtime.

As a lender, the quality of borrower is really important. Let me say it this way, do you want to do one deal or do you want to do 10 with the same borrower? So if you've successfully lent money to a borrower and they made all of their payments on time and then, in 12 months, they give you all of your money back, do you want to lend money to them again, or do you want try out a new borrower that has no track or performance record? You want to conduct loans with the same tried and true borrower, right? In our business, we refer to this as reputational capital. This means that you have built a reputation with our company as being someone who performs on a regular basis. You borrow money, you buy properly, you make all of your payments, you pay us back on time, you make a profit, and we make a profit—that's reputational capital. That's the type of client we want to do repeat business with.

The first loan with any borrower is riskier than the second loan. Why? Because we don't know the borrower yet. In these types of lending environments, there are certain things we want to know from an underwriting standpoint, like:

- Who is the borrower or what is their experience?
- Are they putting any money down (skin in the game)?
- What does their credit score look like?
- Where is the asset?
- What is the upside?
- What is the exit strategy?
- How are they going to make it worth more money?
- How long is it going to take to sell?
- What does the market look like in that area?

These are all the things that lenders need to ask and consider about borrowers.

Now, what does the lender need above anything else? What does it take to be a lender? Money, right? That's obvious. It's pretty hard to lend money if you don't have cash.

Most of our lenders are professionals with full-time jobs. They either once ran companies or are currently running companies. They are doctors, lawyers, attorneys, et cetera. They are people who make a significant income, which often means that they work a lot. Imagine working 40 – 60 hours a week and having a couple hundred thousand dollars in a self-directed IRA, checking, or savings account. When do you find the time to find borrowers, vet them out, make sure they're compliant, and then service the loan to make sure that they're making all their payments on time? Then, in the worst case scenario, if they don't pay, when would you have the time to foreclose on the property, and eventually manage the asset once you get it back?

Do you think a doctor that's working 60 – 70 hours a week wants to do that? What about a business owner working 60 – 70 hours a week? Do you think they want to do that? Probably not. So what we do here at Secured Investment Corp is we streamline that entire process. We are constantly marketing and bringing in the borrowers. We have created a machine through which borrowers come to us and then, through our technology and our expertise, we vet out the loan and make them available to our lenders. The reason we're putting on this particular event today is we want our lenders to better understand our process, the flow, and the reason we do what we do so that they can feel more comfortable lending money through Secured Investment Corp and considering first trust deed investing as an asset class. Again, as a reminder, this is strictly educational.

Borrowers' Qualifying Challenges

Institutional lenders are very picky about the borrower and properties they lend to and on, therefore often take a longer time to approve a loan. I'm a private money lender and a real estate investor. I buy, fix, and I flip properties. If I have a seller that is motivated, perhaps they need to move across the country and their home clearly needs a lot of work, do you think they would be really motivated to sell their house to me if I said, "I'll pay you whatever you're asking. Just give me 12 months to get the money together?" Of course not.

The number one thing that a real estate investor borrower is looking for from a lender is speed and the ability to move quickly. Our borrowers need loans to close within 7 to 10 days, which is pretty fast. Do you think banks can do that? No.

There's a massive demand in the marketplace for private money lenders. You are providing the capital to investors to quickly buy these types of distressed properties, like bank-owned REOs, short sales, properties at foreclosure auction, tax lien, and probate.

The private lenders should be looking at the appraised value of the asset, not only as it sits, but also what it will be worth once the borrower finishes the project. They should also be concerned with the borrower's experience, and not the borrower's credit.

As a private lender, I'm really less concerned with a borrower's credit score and more interested in how many deals the borrower does on an annual basis. Let me give you an example: you have two prospective borrowers. One has an 800 credit score, has lived in the same house for the last 20 years, has been working a job in manufacturing for 20 years, is married with two children, and has never flipped a house before in his life. He looks stable on paper, but the void in his experience is vast. The other borrower has a 620 credit score, has been a self-employed entrepreneur for the last 10 years, and successfully flips and profits from 10 to 15 transactions annually. Who do I want to lend money to? The second borrower, of course. Why? Experience.

Yet, the conventional bank says that the first individual is the better risk, don't they? They only want to see that the "i's" are dotted and the "t's" are crossed. Not us. We want to know what the story and experience of the borrower is.

Now, not to leave anyone out, what if the borrower has never flipped a deal before, doesn't have a job, and doesn't have two nickels to rub together? Is he or she a worthy candidate? What do you, as a lender, want to see from this kind of borrower to feel comfortable lending him/her money? The answer is: a good deal.

If the deal had the potential to be worth more than the initial loan amount, then the deal makes sense. You can absorb the risk on a bad or unknown borrower if they have a good deal, correct? The deal has to be worth taking on in the event of a foreclosure and that only happens if the loan-to-value is low.

This means if you're a newbie and green to the business, there's hope. There are people out there, like us, who know the business and are willing to lend money to a new investor that has no experience, as long as they have a really good deal. That's why we work really hard, through our educational arm, The Lee Arnold System of Real Estate Investing, to educate borrowers on where to find these really good deals. John Kane, our COO, will talk more about that process a little later.

As a company, one of the ways we make sure the deal is a good deal is by requiring appraisals, a full title, and that the loan is in first trust deed position. Heather and Doug will also discuss these requirements and the underwriting criteria a little later.

Institutional lenders lend a capped amount of money on a capped amount loans. Do you know how many Fannie Mae, FHA, VA, or conventional loans I can have on my credit report at any given time? I can have only 10 conventional loans on my credit. More than that, I'm denied. It doesn't matter if I have great income and great assets, I'm denied. So if I have 10 conventional loans, and I'm a good investor, how do I buy house number 11, 12, or 13? Through a private money lender. I need someone who is willing to take me up beyond 10 if I'm going to have any luck in making more money, more often. As a real estate investor, I need wider investment parameters.

Institutional lenders look at the as-is nature of the property, and they have no imagination on the property's future value. We're going to show you some examples of the before and after on some houses today. When you see the after, you're going to think, "That's a beautiful home. What bank wouldn't lend on that?" Then you're going so to see the before, and understand why no banks would touch that house. A lot of our borrowers' exit strategies are to borrow private lenders' money, fix the property up, and then refinance the asset through conventional loans because now the property qualifies for conventional financing.

One question we ask any borrower looking for cash is "What's your exit strategy? Are you going to flip it, are you going to resell it, or are you going to refinance it?" If you're going to refinance it, what must you do to make the house worthy of conventional financing? I'm going to take a junky house, I'm going to use somebody else's money to buy it and fix it, and now I'm going to refinance it. What do I need to be able to refinance? These are all questions that we make sure the borrower knows the answers to if they plan on refinancing the loan.

Institutional Lenders are Looking for J.O.B's. Has anyone ever tried to make a million bucks while working a full-time job? It's very difficult, isn't it? So many of our borrowers, are not going to have employee income because they are self-employed.

These challenges presented by institutional lenders are why private lenders are so vital. That's why private lenders are meeting the demand for billions of dollars of loans, each year, which commercial banks and conduit lenders will not, or cannot, provide.

The Four Important Rules to Invest By

Whether you have the capacity to lend or not right now, you should leave here thinking, "You know what, the goal for my retirement is to lend. I get passive income and in the worst-case scenario, if the deal goes sideways, I have equity in the property and can wholesale it and carry new financing on it." This being the case, I want you to take notes as though you're going to be a lender even if you're not one yet.

1. Rule Number One: Safety

Unlike stocks, bonds, or mutual funds, private money mortgage investments offer the security of the actual property being funded. Private money mortgages are often based on just a percentage of the market value of the property being funded.

They are also written at significantly discounted loan to value ratio to potentially reduce your risk. One of the rules we live by is the 65 percent rule. In order for us to lend, the loan has to either be 65 percent of the purchase price or 65 percent of the after-repaired value. This depends on whether the borrower is a good risk, they have reputational capital with our company, and we can make more money lending them more money.

Let's say we're charging 2 points. Do we want to lend $100,000 at 2 points or do we want to lend $150,000 at 2 points? $150,000 will make us more money, right? I want to get my capital out in the market. So if I have a good borrower, who is a good risk, has reputational capital, and has already done several loans with us, we are more likely to lend them more cash. Another way to look at this is that I want to get more money in the hands of less, but more qualified people. It's not "more is better," rather it's "more of better is better."

The short-term nature of the transaction also makes it safer. I say this with a caveat though. When you're doing private money loans, you've got a couple of things to think about. Do you really want to do what we call short term in and out financing like 6-month, 12-month, or even 24 month loans? Let me ask it this way, do you know what the worst day in a lender's life is? It's the day a borrower pays off a loan. Why? Because suddenly your money is not making money anymore and you have to find a new investment vehicle for it.

The other day my assistant informed me that we had received a payoff on a loan I had down in Florida. My first reaction was, "SHOOT! Why did they have to go and do a thing like that!"

They were great paying borrowers for three years, so why is this such a bad thing? Because I have to start all over again. I have to find a new borrower with a great deal. I then have to vet them out and hope and pray that they will pay each and every month of the loan. The last thing I want is for a great borrower to pay me back in full.

Now, before we continue, let me cover, really quickly, some lending strategies. Do I want to lend for monthly income, something we call an annuity income, where it's a lower risk/ lower yielding (between 5 and 9 percent) loan, but I get a check every month? Or do I want a higher risk strategy where we do short-term 30-, 60-, 90-day loans, we lend all of the money for acquisition and rehab, and we control the spending by cutting checks to the rehabbers as they do all of the work, but we get term?

So if I loan $100,000 and I do 90-day loans, and I get 3 points going in and18 percent per annum interest for the 90 days that the borrower is in the loan, what is my annualized rate of return on this money, assuming that I can turn it four times per year? What is 18 plus 12? It's thirty. My yield is 30 percent. So if I have $100,000 to invest and I'm earning 30-percent annualized return, what am I earning annually in income? I am earning $30,000. Sound great, right? What's the problem with this strategy? Do you know what the fatal flaw is?

Although it sounds good on paper and who wouldn't want to earn 30 percent annualized return, in reality, you can't continue to go loan after loan after loan. You'll hit a stop gap along the way with someone not paying on time or not having the next borrower lined up on day 91 to get your money deployed again. At some point you're going to have what I call, "idle funds." Do you know what the most expensive use of capital is? Idle funds.

I was talking to a client today who has $400,000 in a bank account. When I asked her what it was earning, she said, "The last time I checked, it was about .0056." So what kind of return is that on 400 grand annually? It's around $2,000? Can you imagine having 400 grand in the bank and making only $2,000 a year on it? What would that be if we were making 10 percent? It would be $40,000, which is obviously much better.

As a lender, you have to pick and choose your spots. Do you want a consistent and constant turn of capital, or do you want money that comes in a pretty reliable and ongoing fashion, regardless of it being lower risk and lower yield? Just know that it will be much better than .0056!

SAFETY TOPIC #1: How does the stock market measure up to private money?

Obviously we all know that stocks and bonds are not secured or insured. You invest at the market price and there are no discounts. Your returns are unknown. The asset equals the stock certificate and if the stock drops, you lose money. There's nothing you can do about it. It's true that the stock market can give you greater returns than fixed return assets, such as private real estate loans, but it can also take away from you too.

On the real estate side, you are in a secured first trust lien position, the house is insured, the loan is below market value, returns are fixed and previously agreed on, the asset equals the tangible property, and if the borrower stops paying, you still have the asset.

Do you know what you call a lender who didn't underwrite properly? A Landlord. Now this is only the case if you don't do your due diligence properly. If you don't underwrite the loan properly, you could end up with the property back. Then what are your options? You can fix it up and sell it at top dollar. You can fix it up and rent it out. You could contract for deed, or, you can do one of my favorite strategies – find a wholesaler and just carry the financing for them. I find it fascinating that banks, when they recover an asset as an REO, won't provide financing to the new buyer. Can you imagine if banks offered financing on all of their REO properties? How much inventory do you think banks would be sitting on then? Zero because we'd all buy it all up, right? Instead, they want us to find our own private money lenders, which is the reason we're all here. So, I guess I should say, "Thank you banks!"

SAFETY TOPIC #2: How does the bond market measure up to private money?

Well, it's very similar to stocks. Bonds have no collateral, little to no insurance available, and you invest at market price.

Real estate, again, is secured by a first trust deed, the house is insured, the loan is below market value, and the asset is the tangible property.

SAFETY TOPIC #3: How do CDs measure up to private money?

Are CDs pretty safe? Yes. They're insured, but what's your return? It's horrible, right? So, in this case really low risk equals really, really low returns. Because of this I've heard CDs referred to as "certificates of death."

2. Rule Number Two: Returns

Investing in private first and second mortgage loans may consistently earn between 8 and 18 percent, depending on the type of loan and the type of borrower. Borrowers are willing to pay these higher premiums in exchange for flexibility and speed. Some of the highest yielding returns on private money loans are through ARV lending. This is where you're loaning money for the acquisition, as well as for the repair. This is also the highest risk kind of loan because what happens if the borrower walks away from the loan? Who now gets to play contractor manager to that deal? The lender does.

It really boils down to this. If you're willing to risk big for bigger rewards, you need to also be willing to be actively involved in the process. If you want something a little bit more passive and less risky, for the most part, lower rates will get you there.

Private Investors can earn proven, predictable rates of return without tying up their money for years or decades at a time. Our past experience mimics this trend. At Secured Investment Corp our typical note is going to be written somewhere between 2 and 12 to 5 and 15 percent interest, and most of them are going to be written at 12 to 18 months.

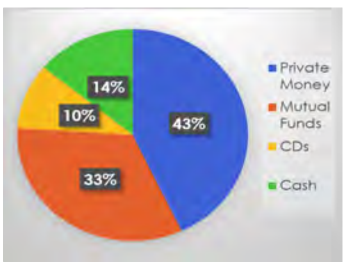
Do we have lenders who don't want their money back in 12 months? Yes. Do we have lenders who don't want their money back in 24 months? Yes. We tailor our loan offerings to your specifications. You can tell us what you're looking for and then we can sort through all of the different notes available to find it. So, if you wanted, you can park your money in a loan that is 6 months or one that is 48 months and earn a monthly payment on it. That's why I love private money. You can custom tailor the note to both the borrower's needs, as well as to the investor's needs.

3. Rule Number Three: Diversification

Private real estate lending offers true diversification for the investor. The rate of return is not affected by stock market whims, global politics, or even long-term real estate trends.

On the right, if you walk into any financial advisor, they're going to recommend that you diversify your portfolio like that. What's the greatest percentage of the investment in this class? It's in stocks. There is no control and you're paying someone else to handle your money.

We like to see the kind of portfolio on the right, when we're working with our clients. Again, I'm not a financial advisor and this is simply my opinion, but we like to see a high volume of private money mortgage notes in a lender's portfolio. I believe that private money morgages provide the greatest return and the lowest risk for the investor.



4. Rule Number Four: Control

Unlike the investments that caused the meltdown, these are not loans that have been sold, resold, or converted into stocks or other investment instruments and then packaged in bulk to hide deficiencies. Credit default swaps, which is what we saw before, mean anything to anybody? These are simple, direct, and secured loans that have been individually evaluated to protect the lender.

Collateralization allows control. The lender's investment funds are secured against freshly appraised real estate properties. Typically a maximum amount of 65 percent is loaned on the current value of the property.

Now that you kind of have a better understanding of how private money works and why you should consider private money as an asset class. I'm going to have Heather Dreves, our Director of Funding, talk to you about some of our lender profiles and some of the success stories of our clients. You'll be able to see what they have been able to do through this incredible platform. Before she comes up though, let me tell you a little bit about her.

Heather came to our company about three-and-a-half years ago and in that period of time, we've funded almost $75 million in private money loans and we've closed over 1300 individual transactions. Heather has been instrumental in the bulk of those. She has been an incredible addition to our team. She's been in the investment and private money mortgage space going on 20-plus years now and she really is one of the brightest in the industry.Please give a big round of applause for Heather Dreves.

Heather Dreves:

Well, that was a nice intro. I want to say that, honestly, I think I probably have the best job in the company getting to work with the lenders. It really, truly is a pleasure helping them deploy their capital.

A lot of people call me wanting to know about some of the experiences of our lenders who work with us. They want to know how these lenders got started, who they are, and what they do with their money. Because this is a very common request, I have included a few real examples of some lenders that we currently work with at our company.

Lender Profiles: Real Case Studies

Lender Profile One: This is a husband and wife team who currently have $640,000 in 33 one-off notes, which is pretty incredible considering I think our average loan size is about $80,000. They also have $100,000 deployed in what we call our high-yield funds. Right now they have an average return on their portfolio of about 12-and-a-half percent, which is a great return on their money.

Lender Profile #1 Husband and Wife Team

Current Portfolio:

- $640k – One Off Notes
- $100k – SIHYF II
- Return on Portfolio – 12.55%
- One Off Notes Funded 40 since 2012

History: Husband and wife started investing in real estate by purchasing rentals. Most of the rentals they purchased were bought by assuming others loans or seller carried seconds. They have since sold all rentals and are now investing passively in one-off notes, utilizing their Self Directed IRA's.

Real Loan Funded by Lender Profile 1

- **Loan Type:** Purchase
- **Loan Amount:** $155,350
- **Purchase Price:** $138,888.89
- **Appraised Value:** $239,000
- **LTV:** 65%
- **Loan Term:** 24
- **Rate of Return:** 11%

Real Loan Funded by Lender Profile 1

- **Loan Type:** Refinance
- **Loan Amount:** $47,500
- **Appraised Value:** $95,000
- **LTV:** 50%
- **Loan Term:** 24

I ran some numbers on the amount of notes that they've funded since 2012, and I think they were a little shocked by this too, but they had funded 40 loans since 2012. They typically call me when they know a payoff is coming up, because like Lee said, they know that the worst thing you can do is let your money sit idle and not put it to work.

Real Loan Funded by Lender Profile 1

- **Loan Type:** Purchase
- **Loan Amount:** $140,000
- **Appraised Value:** $340,000
- **Purchase Price:** $220,000
- **Down Payment:** $80,000
- **LTV:** 65%
- **Loan Term:** 12 mos.
- **Rate of Return:** 12% + 2pts

They started investing in real estate by purchasing rentals. That's a pretty common scenario for many of our lenders. A lot of them are looking into private money lending because they have been in the rental business or owned and flipped investment properties, and they are now looking to get out of it because they want to do something more passive. They want to travel with their spouse or family and owning rentals and fixing and flipping is a lot of time and work.

Many of our lenders have created their wealth in real estate by assuming mortgages or getting the sellers to carry a first or a second loan for them. They utilized the exact strategies to build wealth that we teach real estate investors here at our company. Now that they have amassed wealth in real estate, they want to use that money to invest passively in our one-off notes or high-yield funds.

These lenders, in particular, are actually very active in their self-directed IRAs, which is another strategy we encourage people to educate themselves about and utilize. You need to learn how to invest in private mortgage notes through your IRA or your 401k. There are a lot of custodians who offer free, educational webinars about how to use your IRAs and your 401Ks. We also provide education regarding this subject too. We teach lenders how to work with their IRA custodians. So if you'd like more information about that, we can get that for you, too.

Lender Profile Two: The second profile is also husband and wife team. They currently hold $240,000 in one-off notes. They have funded 20 one-off notes since 2012. Although this is less than the first profile, this couple typically funds higher-dollar-amount loans. They also have $554,000 in Fund I and $275,000 in Fund II. They are currently earning a return on their portfolio of about 11.6 percent, which is also a really great rate of return. When you invest in a fund, you're committing to a longer term investment of five years. They actually prefer this because they don't want to keep reinvesting their funds into new notes. They prefer keeping their money deployed and working long-term for them.

Lender Profile #2 Husband and Wife Team

Current Portfolio:

- $240k – One off Notes
- $554k – SIHYF I
- $275k – SIHYF II
- Return on Portfolio – 11.76%
- One Off Notes Funded 20 since 2012

History: Active investors in Secured Investment High Yield Funds. They also leverage IRA accounts to deploy into smaller one-off notes, as well as a line of credit into higher yielding notes.

Real Loan Funded by Lender Profile 2

- **Loan Type:** Refinance
- **Loan Amount of 2nd lien loan Needed:** $60,000
- **1st lien loan:** $200,000
- **After Repair Appraised Value:** $340,000
- **Loan Term:** 6 months
- **Rate of Return:** 12% + 1 pt.

That's one of the things to think about when looking to lend private money. If you don't want to be as hands-on or you don't want to have to look at loan packages and do the due diligence, a fund option may be a better way to go (if you're an accredited investor).

He has his own company and has opened both IRA and 401k accounts. They use some of their IRA funds to deploy money into the private money industry. He also leverages a line of credit on his home, a HELOC, and he gets a great interest rate on it. I think he pays no more than 1 and a half percent. He sometimes uses that money to fund higher yielding loans, usually around 13 or 14 percent. It's a little bit riskier and he knows that, but he can earn a little bit higher yield on that money through his line of credit.

Lender Profile Three: This gentleman currently has a little over a million dollars in one-off notes. He also has $50,000 in our fund, and his return on his portfolio right now is about 11.6 percent. Since 2012 he has funded around 44 notes with us. He's another lender who likes to keep his money fully deployed, but he prefers funding one-off notes because of their shorter terms. He's not as interested in tying up his capital for 5 or 10 years. His sweet spot is typically notes under $100,000.

Lender Profile #3

Current Portfolio:

- $1,063,650– One off Notes
- $50k – SIHYF II
- Return on Portfolio – 11.61%
- One Off Notes funded 44 since 2012

History: He prefers funding one-off loans, usually under $100,000, that have shorter terms.

Real Loan Funded by Lender Profile 3

- **Loan Type:** Refinance
- **Loan Amount:** $48,750
- **Appraised Value:** $75,000
- **LTV:** 65%
- **Loan Term:** 6 months
- **Rate of Return:** 12%

Real Loan Funded by Lender Profile 3

- **Loan Type:** Purchase
- **Loan Amount:** $130,000
- **After Repair Appraised Value:** $200,000
- **LTV:** 65%
- **Loan Term**: 12 mos.
- **Rate of return:** 10.50%

What Happens When a Loan Pays Off?

When you have your notes serviced with a servicing company, they typically will have you approve a payoff well before you actually get paid off. Once they are notified by the borrower, they give the lender a heads up so they can start looking for new notes to deploy their capital into. If you are going to do this on your own, make sure you're working with a servicing company that will have you approve payoffs so you can plan your next deployment of cash.

The Funds

As I mentioned before, we have two equity funds right now. We created these about two-and-a-half years ago. They are a passive way to deploy your income if you're looking for somewhere to park your money for a little bit longer term. If you are not as interested, like I said, in reviewing loan packages or doing due diligence, it's a great option for you.

High equity funds typically hold mortgages much like a mutual fund holds stocks or bonds. Each fund is unique based on a wide range of variables, including experience of the lenders, the type of loans held, and the level of risk the fund is willing to take. For example, Fund I has the ability to fund first lien position notes backed by residential properties. Fund II can also do some ARV lending, purchase properties at auction, and hold some properties.

Why People Invest in Funds

Like I said, they have a high annual return, typically from 10 to 12 percent. Investing in mortgages affords a wide range of yields based on many factors, including current market conditions, the price of competing financing options, the financial condition of the borrower, and the type of property being financed. The higher the risk, the higher the return.

Typically, when you're looking at investing in a fund, you want to look at whether the fund is going to diversify that risk. You want to make sure that they are not going to put all the funds into riskier notes. Instead there will be a few higher-yielding, riskier notes and some safer, lower-yielding notes which allow the fund to earn great rates, while diversifying the types of loans it will do.

One of the other reasons people invest in funds is for compound interest. One of the most powerful benefits of investing through a fund is the option of automatically reinvesting your monthly distributions to take advantage of compound interest. Combining a high-yield investment like mortgages with the powerful principle of compound interest through a fund, is something every investor should consider for their long-term growth portfolio. There are a lot of funds out there that will actually allow you, when you're getting paid your quarterly returns or annual returns, to quickly redeploy those moneys right back into the fund.

Another great benefit of investing in the fund is that there is minimal management and paperwork hassles. Typically, the fund managers – and I think some of our staff can attest to this – do the work for you. Mortgage investing on your own can be demanding from a paperwork standpoint. Investing through a fund eliminates the headaches that come with traditional mortgage investing.

Both of our funds make the decisions to what types of assets we will fund. It's the responsibility of the fund manager to do the accounting and have audited financials, which means that the lenders enjoy a very hands-off investing experience. Fund investors get quarterly statements and quarterly pay-outs, while the fund manager does all the work for them.

People also invest in funds because they have the ability to remain fully invested at all times. The advantage of a fund is that your funds allocated for mortgage investments can always be invested with no down time.

With one-off loans, there is always a little bit of a lag. It's not a perfect, seamless system where you can get paid off and then have another loan awaiting the redeployment of your cash. There is downtime, especially if you're using your IRA funds. The nice thing about a fund is that it's typically always invested. Of course it's great to earn 12 percent or more on a single mortgage, but if it takes 3 months or more to locate the next quality mortgage investment, your annualized yield erodes with each passing month.

People also invest in funds for diversification. When investing in a high-yield fund of trust deeds, your investment risk and return on investment is spread over multiple loans, with a variety of property types, loan amounts, interest rates, loan to value ratios, borrowers, and locations. Basically, you don't have all your eggs in one basket.

Diversification also protects your investment by diluting the effect of a possible non-performing note. When you have your money spread out over several loans and one of them is not paying, it's not quite as painful as it is if you have all of your money in one $100,000 loan that's non-performing. By diversifying geographically, it protects you against regional downturns in the market, and by diversifying in property types it protects you against downturns in a sector of the real estate market. Often when residential real estate development is slow, commercial development, rehab, and refinancing are strong and vice versa.

How to Be a Private Money Lender

What if you wanted to do this on your own? What if you wanted to be a private lender and find and fund your own deals with or without our company? I'm going to discuss, and Doug, who you'll hear from a little bit later will also talk about, some things you would need to look for as far as the files, underwriting, and due diligence is concerned.

Doug and I call it, "storybook lending" because what we're really interested in is the borrower's and the property's story. Let's discuss some of those elements of the "story" that we look at and that we encourage you to look at as you are doing your own due diligence.

Know the Target Deal or Profile. Typically look for first lien position loans. I'm not saying that you shouldn't ever look at or participate in second lien loans because there can be a lot of money made on seconds. However, they are riskier. So make sure all the due diligence has been done and you know what you're getting into when you a fund a second lien loan.

Typically a Target Deal is a 3- to 24-Month Term, especially on a fix and flip or a rehab project. It could be shorter or longer but it all depends on the exit strategy. Make sure their exit strategy is safe and sound.

Credit Used is Only a Compensating Factor. This is something that Doug and I talk about on a daily basis with our loan officers and our borrowers. We're not necessarily looking for a great credit score, but we do like to see great credit habits. Does the borrower pay their bills? Do they have properties in foreclosure? We just want to see an effort and good stewardship skills with finance and business.

Interest-Only Payments are Required on a Monthly Basis. I would highly encourage you to require that your borrowers make interest payments. It keeps them on track. We also require that there are no prepayment penalties. The reason we do this is because we want those borrowers to continue to come back. If you lend to a borrower, he makes his monthly payments, and he pays you off, then you're more likely to loan him money again, right? We want that. We don't feel it's necessary to penalize a borrower for finishing a project, selling it, and paying the loan off early, because we want him/her to come back and borrow again and again and again.

Minimum Loan Amount of $15,000. One of the things that we have found is that when you get to these lower loan amounts and you're lending at 65 percent loan-to-value, there's not as much wiggle room in the event that you have to foreclose.

We Allow Cross-Collateralization. If you have a borrower coming to you looking to borrow money against a property that they want to purchase that is not in great condition, and doesn't have a ton of value, there's nothing wrong with asking them if they have another property to collateralize with it. They may have another property in their portfolio that's owned free and clear that they're willing to pledge, and you can cross-collateralize those two properties to get you the loan-to-value that you're comfortable with.

Non-owner Occupied. This is going to release you of any concerns with any usury issues. I would definitely make sure it's non-owner occupied.

Property Types. We lend on single-family residences, duplexes, triplex, four-plex, condo, townhomes, and manufactured homes. One of the things you need to understand when dealing with condos or townhomes are the HOA fees, if they are currently up to date, and whether or not they are monthly fees—things of that nature.

The Full Loan Package (What We Expect)

Loan Application. This is basically a quick summary of the property, the borrower, and the borrower's anticipated exit strategy. I would encourage you to always get this so you can quickly gain an understanding of the property and the borrower's employment and income status.

Schedule of real estate. This is going to be everything that they own. We want to know if the borrower owns their current property, or any other residence, free and clear. If they do, they are a much more attractive risk.

Authorization to Release Information.
A Zero Tolerance Fraud Policy.

Valid Photo ID of Key Principals of the Borrowing Entity and All Guarantors. Anyone that's part of the LLC that's more than a 40 percent owner needs to personally guarantee the note.

Business Entity Information for the Borrowing Entity. We want to see that the LLC or the corporation is in good standing with the state. We also need to see the articles of incorporation, certificate of formation, and articles of formation. We need to know that the borrower has the authority to sign on behalf of the LLC. If you allow someone to take a loan out against a property and they didn't have the ability to sign on behalf of the LLC, you could have a really problematic loan on your hands.

You want to see their **Bylaws and Their Operating Agreement and their Federal EIN Verification**.

We require a **Preliminary Title Report and Title Insurance** to ensure our lien position, whether that's a first lien or a second lien. We want to see if there are any judgments or liens that pop up on title, any mortgages that haven't been paid, or any taxes that have been sold to foreclosure.

Last Two Months of all Bank Statements. This needs to be all pages. We want to see that page one to the end demonstrates three months of reserves. It is our financial requirement. We want to know, in the event that they have a hiccup, maybe a tenant moves out, maybe they didn't get it rehabbed as quickly as they thought, or it is sitting on the market longer than anticipated, that they at least have a 3-month reserve to tap into in order to make the loan payments.

We also want to make sure that they have **Hazard Insurance**. We require 12 months of hazard insurance to be paid, at the time of closing. Obviously, if it's a six-month loan, it would be a six-month policy, but if it's a 24-month note, we want at least 12 months of hazard insurance at closing. We want to make sure that the property is insured in the event that there's a loss, like a windstorm or fire.

Property Valuation. This is a big one. We require our borrowers to allow us to order a third-party appraisal from a nationwide company. We want an unbiased party to tell us what the property is worth.

We also want to see **Current Lease Agreements** if there is a tenant in the property. We want to see that someone has signed a lease and that they're depositing the rents into their bank account. If they tell me that their exit strategy is to refinance and they're taking cash and not claiming the rents, it's unlikely that in 12 months they will be able to refinance with their bank.

If it's a purchase transaction, we will not look at a package unless they have a **Complete and Executed Purchase and Sale Agreement.** A lot of our time and effort goes into these packages. We spend hours on these, from the loan processor to the loan officer, and it would be a shame if we spent two to three weeks on it only to find out that they didn't even have a valid purchase and sale agreement.

If it's a refinance, we want to see a **Payoff Letter from the Mortgage Lender** who owns the deed. We also want to see any real estate taxes that are owed. In a lot of these counties, we're finding that many times those real estate taxes can be sold to other investors, and we need to get a hold them to get a payoff quote. Anything that's on title we need to see an official payoff amount.

This leads me to a pretty common financing option that many of our borrowers use—seller carryback financing. We have a lot of borrowers that are savvy enough to strike a great deal where we do a loan at 65 percent loan to value maybe on the purchase, and then they convince the seller to carry back the second. It's a great strategy and we teach and encourage our real estate investor students to do it. When this is the case though, we need to see the terms of the second. We want to know when it has to be paid off and what the monthly payment is on the second. If we have a 12-month note and their second is only for 6 months, that's probably going to be a concern for us. We need to know they can handle both loans.

Finally, we want to see **Contractor's Bids.** We do a lot of rehab financing and we want to see licensed and bonded contractors' bids, not just the borrower's estimate of what it will take to finish the project. We want to know that an experienced expert has gone into the property and properly bid out the repairs.

I think that basically covers what kinds of people often lend on real estate, what target properties are the best, and what we look for when we look at a loan package.

Now I want to introduce someone I work very, very closely with. We were actually lucky enough to recruit him to come over to our company a little over a year ago. I've actually worked with Doug for about seven years, here at Secured Investment Corp, as well as my old company, and I've learned a ton from him. He probably has more experience in private money and asset management than all of us combined. He is the head underwriter and the manager of our asset recovery department and our servicing company. Please give a warm welcome to Doug Greybill.

Doug Greybill:

Well, this is a little bit unusual because I am the underwriter and I also oversee the servicing. They usually keep me in a dark room, shove files under the door, and say fix it or figure it out. I'm not used to speaking in front of an audience. Today I'm going to talk about the processes in both closing and servicing.

Underwriting and Closing

Once we underwrite the loans, we give them to a professional closer who we contract with. She's very good at what she does. We give her all the information, the escrow instructions, and she puts all the documentation together. She confirms that this is a non-owner occupied property and that we're lending on a commercial loan. We don't want to get involved with disclosures and usury rates, so we are very, very clear and have it documented numerous times in the closing that it is non-owner occupied.

We get compliance agreements. We also get a copy of the HUD, and before they actually go to closing, we review the HUD to make sure it's consistent with what we've approved, and, if we've already sold it to a lender, what the lender's expecting to get.

Once everything is closed, they send all the documents back to Coeur d'Alene and we have trained people specifically review all the documents. We don't just want or look at the note or deed. We make sure the note is signed and consistent with how the loan was approved. We want to make sure all the original documents are perfectly packaged.

Upon receipt of the final title policy we review to ensure the vesting is to our borrower, that we and/or our assigns are in a first lien position, and that the policy coverage is at least equal to the loan amount.

Once we get everything together, we put it into a complete package and send all of the original documents to our lenders, so they can control the deal. We will act as the servicing agent, but the lender controls all the documentation, which is done for their protection, as well as ours.

ARV Lending

We also provide ARV lending, which is big business, especially right now. I've been in the mortgage business for 40 years and in the private money industry for 22 years, and I can tell you that ARV lending is huge right now. A lot of people want to go out and buy properties on the cheap, so they can fix them up and sell them for a tidy profit. One of the things we teach is how to do that. We have a class called *Rehab for Riches* which teaches people how to find and purchase bargain properties and then how to find good contractors to fix and flip them for a profit.

In underwriting, we take all the information the borrower gives us, we review it, and then ask, "Does this make sense?" They may say they are putting in new cabinets for $800 but when we see the size of the kitchen, the types of cabinets, and the granite countertops, we know there is no way they can hit that price mark. What we're looking for is common sense in what they're planning to do. We make sure that they've got a proper scope of the work and a budget that will allow them to be successful.

The other thing we do is we take a contingency, anywhere from 10 to up to 50 percent, and we hold in reserve. We tell the borrower, "You'll get this once all the work is complete." So if the borrower has to come out of pocket to finish something, they will get the contingency back when it's finished and has received a certificate of occupancy or an inspector has given it a stamp of approval. It's just one of the ways we protect our lenders.

We set up draw schedules. We spend a lot of time talking to the borrower to make sure that the draw schedule makes sense. We don't want them putting in carpeting until they have all the sheetrock and painting done. Some people don't think through the logical way to do a rehab project. We've all done this ourselves, so we know the logical way to do it. We've made some of these mistakes, so we help our borrowers avoid them.

We also order inspections. We use a national firm called CIS, who hires retired inspectors from all over the country. We give them the scope of work and tell them what the property's current condition is, what the borrower is going to do to it, and what kind of budget they are working with. We then ask them to see what it's going to be worth when it's done and if the borrower has enough money in his/her budget to take it to that level? You'd be surprised how many people underestimate a job. They also make sure that the budget matches the local market.

We release the draws out of the underwriting department. When someone wants a draw, they call me up and say, "Okay, I finished phase one. I need more money." At this point, I usually ask to see pictures and receipts of the finished phase. I want to see that they are on schedule and that the work has been done. Depending on the size of the project, we will use the inspection company to go out and be our boots on the ground to confirm that the next draw can be released. Many times you can just do it with photos and receipts, especially when it's cosmetic. But the more complicated the project is, the more necessary it is to have someone look at it in person. We'll send them out as many times as is necessary.

This is also dependent on the borrower and how much reputational capital they have built up with us.

Here are some examples of loans we have recently funded. Please refer to page 27 to see pictures of these purchase and rehab houses. Example 1 is a recent property we lent purchase and rehab money on. They purchased it for $83,000, put $101,000 into it, and they sold it for $230,000. The borrower grossed about $31,000 on this project, and he netted about $25,000.

Example 2 is another property that was purchased for $62,000, they put $48,000 into it, and they sold it for $155,000. They had about $41,000 in gross profit, and about $35,000 in net. Both of these properties took about 90 days.

Finally Example 3 was bought for $107,000 and the borrower put $71,000 into it. They put dormers on the top floor to expand the square footage by quite a bit. They sold this one for $249,000 and their gross profit was $62,000, while their net profit was $50,000. It took them about 4 months to do this project. The quality of the rehab is highly dependent upon who the borrower has doing the work. You need someone who knows what they're doing. Not a builder necessarily, but someone that has actually done rehab work before.

Servicing

We created our own servicing department about three or four years ago. I've been servicing loans for about 40 years. My biggest portfolio was a billion dollars, and was mostly comprised of seller-financed notes. I prefer private lending servicing because it's much more interesting. The conventional market is very plain Jane and there's not a lot of fun to it.

Once the loan comes back to us, we set it up in our servicing system, which is specifically designed for these type of mortgages. We use it for all our collections, application of payments to our lenders, and for sending out the correct notifications at the end of the year to the borrowers and the lenders for everyone's tax reporting.

As far as collections are concerned, we start our collection calls at five days. We then do them again on the 10th and 15th and we periodically also mail out notices. We also e-mail the borrowers. Our goal is to stay in constant communication with borrower because we want to keep them in good payment standing. If I keep them paying every month, they will likely be able to hit their exit strategy.

Asset Recovery

If a borrower becomes delinquent, we immediately look for a resolution. Keeping them paying is our number one priority for our lenders. Most of our lenders are in the cash flow business—not the real estate business—so we will talk to our borrowers and find out what the issue is and what we can do to remediate it. We make sure it's not an adversarial type of relationship because we're in this together. They owe us money, we want to get it back, so what do we have to do to get it back?

I'm not averse to talking about payment plans, but I want to know why they need it. When they originally went in, they said they could meet this obligation. If they suddenly can't, I need to know why. In many cases, if the plan didn't go as they expected, and we can't see another way out, I'll talk to them about giving us a deed in lieu, which will save our lenders 6 to 12 months' worth of time and probably $5 to $7,000 worth of legal expenses. Essentially, a deed in lieu is them giving us the property back. If that happens, we'll help our lenders find a Realtor to sell it or we'll help our lenders find a handyman, if it needs to be fixed up, prior to selling it.

If I can't get any cooperation, I'm going to start the foreclosure process. We use a national company called National Default Service. We provide them with the original note and deed of trust and they file all the necessary paperwork to foreclose in that specific state. All we do is keep track of it. It varies state by state on how long it takes and how much the process will cost.

I must tell you that foreclosure is my least favorite method of remediation. If I can get them paying or if I can get a deed in lieu, I can save everyone time, money, and heartache and we can get back reinvesting again. Unfortunately, foreclosure does happen though.

Here's an example of the foreclosure process. One of our lenders who has probably lent on two or three loans with us, lent on a property in North Carolina. Unfortunately, this loan didn't go exactly as planned. Initially, the first few months were great. It was a great property in a great location, but suddenly the payments stopped and the borrower stopped communicating as well. So we had no other choice but to go to foreclosure. The lender didn't know the first thing about foreclosure, so we led him through the process.

We used National Default Service and started the foreclosure in October and the Sheriff's Sale was in November. So he purchased the loan at $100,000 for 13 percent and 24 months. He had $1,100 in legal fees.

What was unusual about this property is that it was on 6.75 acres. So once the lender got the property back, he had to find someone who wanted that much land. Turns out it wasn't a problem. He had four offers on the property fairly quickly after getting it back and fixing it up a little bit. So what was the bottom line? He ended up selling the property for $140,000. He took a sizeable down of $40,000, and seller-financed the second at $100,000, which means he still has the cashflow coming in. He received the bulk of his cash back and he now has a borrower with significant skin in the game, which is the most important thing when you're selling on seller financing. Not only do they

have a compelling financial reason to make all their payments, they also have horses on the property, which means they have an emotional incentive to stay current too.
He took the $40,000 and he and his wife bought their dream, a motor home. They now travel to see family members throughout the country.

The reason I tell you this story is so that you won't be afraid of the worst case scenario. The way we underwrite and vet the file and borrower is so that in case there is a foreclosure, the lender doesn't end up with a property that they owe more on than its worth. We make sure that they can offload it and still come out ahead.

So with that, I'll introduce our Chief Operating Officer John Kane. John's been with the company a little over a year. He's from North Carolina and kind of commutes back and forth from there to here. He spends most of his time here and goes back to see his wife and daughter occasionally. I don't know if that's his choice or theirs, but John does a great job for us and we're happy to have him! He does a lot of technical stuff for us besides operations. He can listen to what we need and then he figures out a way to make it happen.

John Kane:

What I'm going to try to do is tie all of this together so you understand our main focus and motivation as a company. What we do is bring people who have money together with people who need the money to invest in real estate. We call it *The Circle of Wealth*. We have four different companies that participate in this Circle of Wealth concept.

What we've talked about today is primarily how those people who have money can deploy it and make money one of two ways, the peer-to-peer strategy, which is a one-off method from lender to borrower or the fund strategy, which is to invest in a fund that relies on its experts to do the due diligence and determine whether or not the properties are worth investing in.
The only way a lender can find a qualified borrower is to advertise for them, however, through our family of companies, we make it a lot easier because we have an educational company whose primary purpose is to help borrowers find qualified and great properties. Now, I have a lot of experience in the real estate industry and can unequivocally say that many educational companies primarily educate with no end game in mind. Our goal is to educate with two end games in mind. One is to teach people, who are interested in investing in real estate, how to find great properties or to teach people, who have money, how to participate wisely and safely in the deployment of the capital through funds or one off deals.

We have four companies. **Secured Investment Corp** is the parent company. It's also the company that is responsible from the management of the Secured Investment High-Yield Funds I and II. Although Fund I is now closed and no longer accepting contributions, Fund II is still open to accredited investors who want to invest in borrowers and other mechanisms for growth and revenue.

The second company is **Cogo Capital**, which is our lending arm. It is basically a brokerage firm represented by in-house loan brokers, mortgage brokers, and also a network of people throughout the country that we have trained to broker private money loans either to us or other private money lenders.

Which leads me to our educational arm, **The Lee Arnold System of Real Estate Investing**. Our goal is to find one of two people, people who want to invest in real estate and need the money to do it or people who want to learn how to broker private money and earn a brokering fee. To do this, we offer three educational courses that our clients invest in to become knowledgeable in either field.

The first is called *The Funding Tour*, which teaches people how to find fundable properties that appeal to private money lenders. By doing this, we can have a steady stream of people who are finding the profitable properties that lenders want to invest in.

The second course we offer is called *Rehab for Riches*. This appeals to people who want to invest in properties that require rehab and therefore ARV funding (after repaired value funding). We created *Rehab for Riches* primarily to teach people how to properly fix and flip properties in a timely and profitable way. The CEO of our company, Lee Arnold, fixes and flips properties himself and teaches people, step-by-step how he does it and how he makes an incredible living at it. Basically he practices what he preaches.

Finally, our third way of bringing people in is through our *Broker Certification Program*. We teach people how to find people who need money, how to package the loans, and then how to properly present them to us or other private money companies. We're the only company in the country right now that's offering a certification program for private money brokers.

So, as you can see there is always an end-game to our training. We want people to make money, and we'd prefer that they make money with us. I think that's an important distinction.

We don't make money "from" people, we make money "with" people. We designed *The Circle of Wealth* to bring people in and educate them so they can become savvy borrowers. Once they become a sophisticated borrower, have made a sizeable income in real estate, and don't want to fix and flip anymore, they can become a lender with us. We've had many borrowers who have done this very thing. They have fixed and flipped properties and built up their real estate portfolio and now they are enjoying the benefits of helping other burgeoning investors get involved in the industry by providing them the cash to secure properties. These borrowers-turned-lenders often first start off investing in one-off loans and then ultimately get more and more passively involved by investing in the high-yield fund.

Our goal for every single person who comes into our educational system is to become an active borrower, then an active investor, and ultimately a passive investor (or even all of the above). That is what we call The Circle of Wealth.

Our fourth company is **Lake City Servicing**, which is our servicing arm. Their goal is to keep track of all the money that we have lent out for our lenders and for the funds. Any loan that is closed through Cogo, for our private lenders or for the fund, ends up being serviced by Lake City Servicing. Lake City Servicing collects the loan payments, but also, as Doug pointed out, mediates any borrower complications and works tirelessly to avoid loans going into foreclosure.

So in a nutshell, that's what we do—we bring people in, and we train them how to be successful investors, borrowers, and lenders.

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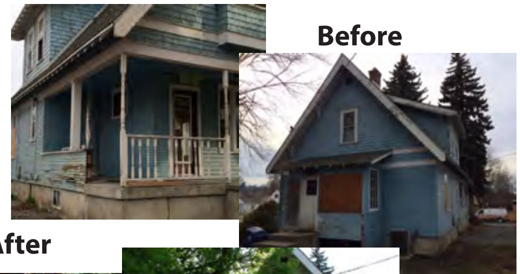
Please refer to the Video Portion to hear the question and answer portion of the event.

Houses Funded from the Secured Investment High Yield Fund II

Example 1

Purchase Price $83,000
Sold for $230,000

Before



After

Before

After

Example 2

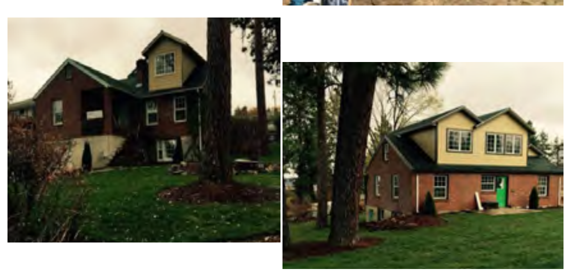
Purchase Price $62,000
Sold for $155,000

Example 3

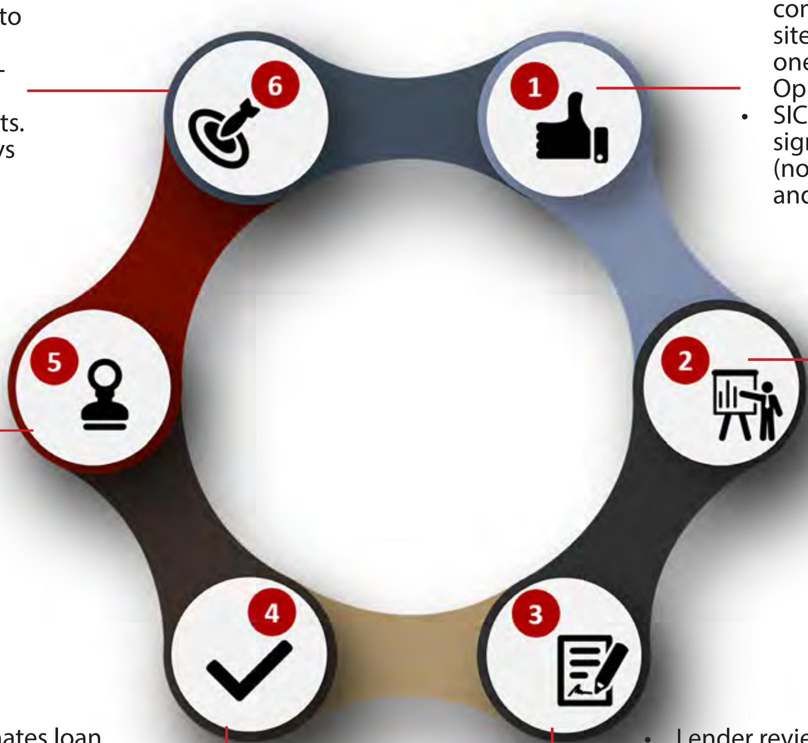
Purchase Price $107,000
Sold for $249,900

Before

After



The Lender Experience: 15 Steps to True Wealth



- Lender indicates interest in funding loans with SIC by coming in through the web-site, calling in, or attending one of SIC's Top 10 Funding Opportunities Webinars.
- SIC sends, and the Lender signs and returns, the NCND (non-compete/non disclosure) and the New Funder Form.

- Lender is sent full due diligence packet on borrower, guarantor, and property.
- Lender reviews due diligence packet and accepts or declines the opportunity to fund.
- Upon Lender's com-mitment, funding phase begins..

- Lender reviews, signs, and returns Lender docs.
- Lender initiates wire transfer to third-party escrow company upon notifica-tion by SIC.
- Upon receipt of funds, email notifica-tion is provided to Lender..

- SIC schedules and coordinates loan closing.
- Upon closing, signed, notarized docu-ments returned to Closing Depart-ment..

- Post-Closing Depart-ment sends closing documents to Lender.
- Account Is set up with Servicing Company to begin receiving interest payments.

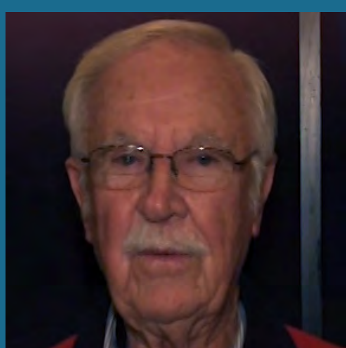
- Post-Closing Department sends closing documents to Lender.
- Account Is set up with Ser-vicing Company to begin receiving interest payments.
- Lender sits back and enjoys passive, monthly income.

SECURED INVESTMENT CORP

What Our Lenders Say

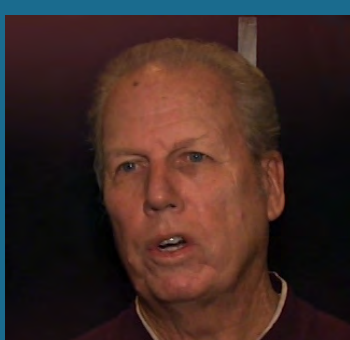
Rachel Gilmore

"My stock and mutual fund account last year earned 4%, my 401k with my employer last year earned 1.2%, and my investments with Secured Investment Corp, through my self-directed IRA, earned somewhere between 8% and 10%. Prior to getting involved, I wish I would have known that this opportunity was out there. I also wish that I would have known how easy, yet how secure it is to lend money through Secured Investment Corp."



Ron Shoenberger

"I have been with Secured Investment Corp probably 3 years and have done 44 loans. My return is about 12.5 to 13%. I have about a million dollars that makes about $125,000 to $135,000 a year. I would encourage people, if they have the resources and extra funds, to invest. I have been investing for the past 20 years in hard money loans and I've been very happy with this company. It's been a good relationship."



Jack Carol

"I've been with Secured Investment Corp for about 3½ years. I think my average return is around 11.5%. Real Estate loans have been wonderful for me and my family over the last 20 years. Just a little bit of common sense and it's really easy and you can make pretty good money at it."

How It Works From the Borrower to the Lender

A real estate investor identifies a great real estate deal in a good equity position.

The real estate investor puts the deal under contract and fills out an easy, one page private money application at www.cogocapital.com.

Cogo Capital reviews the application and contacts the real estate investor for additional information.

Cogo Capital researches, reviews, and assembles all the due diligence items, which includes title insurance and a 3rd party appraisal.

Secured Investment Corp provides the loan packet to its Select Lenders Network. One of the lenders likes the parameters and agrees to lend on the deal.

Secured Investment Corp works with the Select Lender to wire funds to an outside escrow agent and prepares closing documents, which are then sent to the closing agent.

Loan is closed and Secured Investment Corp sets up servicing payments. Borrower makes monthly interest payments to the servicing company, who then pays the lender. Borrower pays off the loan and the lender and borrower do it all over again!

How to Lend Out of a Self Directed IRA: 6 Steps

step 1.

Open a self-directed retirement account. There are numerous companies that specialize in enabling you to self-direct your investment into an area often referred to as alternative investments.

step 2.

Vest the note properly. In a traditional transaction, your note may be vested in your name, or your company's name. But in a self-directed IRA, the vested note will reference the custodian and the account number as well as the IRA holder: Custodian Company, FBO "Joe Investor IRA Account # 123456".

step 3.

Sign agreements which authorize the custodian to fund the note. The custodian will have pre-established procedures for you to follow, and most will have the form of agreement they need you to sign. We help you with this process. This agreement authorizes the custodian to release the funds. Most custodians will have a checklist you can use to make sure you cover each step as the loan is originated.

step 4.

Close the transaction. Many investors use an escrow, title company or attorney to close the transaction. We help you select a party that has worked with your particular self-directed custodian.

step 5.

Send copies of the security agreements to custodian. Once the note is funded, the IRA custodian will need to hold the actual promissory note and recorded security instrument (deed of trust, mortgage, etc.). This is similar to a conventional IRA brokerage house holding your stock certificate.

step 6.

Coordinate with the servicer to send payments to the custodian. The savviest investors use a 3rd party loan servicer to collect payments from the borrower. The servicer will have an authorization agreement which specifies to whom the payments are sent.

Self Directed IRA Case Studies

Case Study 1.

Lender name – F. Hatch
Loan Amount – $20,000
Points Paid to Lender –2%
Interest rate to Lender – 10%
Duration of loan – 18 months
Annualized return on investment – 12%

Case Study 2.

Lender name – K. Schwing
Loan Amount – $38,500
Points Paid to Lender – 2%
Interest rate to Lender – 11%
Duration of loan – 6 months
Annualized return on investment – 15%

Case Study 3.

Lender name – F. Hatch
Loan Amount – $20,000
Points Paid to Lender –2%
Interest rate to Lender – 10%
Duration of loan – 18 months
Annualized return on investment – 12%

Join Us for Our Monthly Lender Trainings

During the Top 10, Peer Lending Opportunities Event, See:

- **The week's secured real estate note packages and their typical high profit potential.**
- **The investing and borrowing experience of the borrowers. Our research is at your disposal.**
- **The specifics of each property — past, current & potential values — and how those values are determined.**
- **Appraisals, comparables, LTVs, and all the factors that make these notes high performers.**
- **How you can easily and immediately get involved and begin earning healthier returns!**

See When the Next One is and Grab Your Spot Here:
www.securedinvestmentcorp.com/lender

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