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How to Achieve True Wealth

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How to Achieve True Wealth

This is Lee Arnold and today we'll be talking about how to Achieve True Passive Wealth, specifically from the lending side of the business. We'll also discuss how important it is for you, as a real estate investor, note investor, or professional entrepreneur to generate, identify, and procure your own lender relationships. You may struggle with this presentation because you may be thinking that I'm inadvertently

What is the CEO Fireside

The purpose of our CEO Fireside Chats is for me to address you as a peer, not as a student or a client or a customer. I believe that my role as CEO of this company is to help you be as successful of a CEO of your company as I possibly can. Meaning, my goal in these CEO Fireside Chats is to treat you as a peer and help elevate you to my level.

Now, that may sound really arrogant. That is not my intention. Twenty years ago, I was making $3.90 an hour as a grocery store bag boy. I didn't have two nickels to rub together and my credit was shot. That's really where I got started. My purpose in these CEO Fireside Chats is to make your journey shorter than 20 years. Knowing what I know now, I can take anyone and get you to this level within 24 months. It's a lot easier than you think when you can follow a proven path.

encouraging you to become my competitor? The answer to that is, "Yes, if you watch today's presentation, and you actually set up, operate, and grow a competing company, I would not be offended. In fact, I would probably put your beautiful mug on every webinar we do and make you a big deal because that's exactly what I want you to be doing." I don't want you to be beholden to Cogo for financing for the rest of your life. I don't think I would be doing anyone a service if I didn't teach you the methodologies towards investing and developing your own large successful businesses, if that is what you desire. My career progression was borrowing private money, lending my own private money, lending other people's private money and ultimately graduating to a private equity fund manager. I think that there is a natural progression, a natural growth cycle that as an entrepreneur running a business, you need to be advancing toward. We're going to talk more about this today.

If you want to hear more about our lender opportunities, Heather Dreves, our Director of Funding has lender webinars every other Wednesday where she talks about brand new opportunities in our pipeline and covers the details of the deal and borrower. If you're not on Heather's mailing list for the webinar, it's pretty easy to remedy. Just go to www.securedinvestmentcorp.com/lender, fill out the form, and you'll be registered for the next event.

Why Are You Here?

Number One: You're a private money lender who is tired of low rates of returns from your bank's CDs and/or bonds. You want to avoid the high volatility of the stock market, and/or you're interested in another financial strategy to diversify your funds.

Number Two: You're a real estate investor who wants to learn how to borrow money or borrow funds to buy and flip more properties to build up your portfolio and eventually have enough money to lend to others.

Number Three: You're a private money broker who needs to understand the players on each side of the transaction so you can broker more loans more often and make more fees on a consistent basis

If you're here for one of those reasons, you're basically operating within the Circle of Wealth. The Circle of Wealth often starts with the real estate acquisition, wholesaling, and/or fixing and flipping strategy.

I have never been a big proponent of the buy and hold strategy when you're first getting started in real estate. I think that it's slow money and is something you would do when you need the tax write-offs because you're making so much money. Prior to that, you need to be focused on things that are going to produce bulk revenue like wholesaling, where you can get $10,000 to $20,000 without doing much work. I have a wholesale closing this Friday that I bought at auction two weeks ago. I paid $60,000 for it, haven't touched a thing on it, and we're selling it for $72,500. That's a quick $12,500 two-week profit without doing any work. I'm now planning on taking the $12,500 back to the auction to buy more properties.

I'm always fascinated by the investors that write to me that they own 10 rental properties. My question to them is, “What's your average cash flow per property?” Often the answer ranges between net net net $150 to $200 per property. Basically they are managing 10 units and making $1,500 a month. Is that really the best use of time when they could be finding great deals, wholesaling them for $10,000 to $20,000 a pop, and making $20,000 to $50,000 a month? Or for those of you that are brokers, you can make great brokering fees by brokering private money loans without involvement in the tail, i.e. no ownership of the asset, no responsibilities of the management, the tenants, the toilets, the rent collection, the term, or the application process.

Now, I have been accused of being anti-rentals, which I'm not. I own rentals, but it's not my predominant lead-in strategy. My predominant lead in strategy for all investors is to get you to a point where you have at least $250,000 in liquid capital available to you at any given time, whether it be in the bank account or a self-directed IRA. This is your first benchmark to strive for. Only then should you buy and hold properties, however, don’t use your money to buy and hold. Buy these properties to hold with partner or investor cash. That is why you always need to have private money relationships. That way your personal funds are reserved only for wholesaling and flipping, quick turns in and out, to generate those big lump sum paychecks. Any rentals that you own, you do so with investors' cash, partner's cash, or seller financing. Don’t cul-de-sac your cash, meaning don’t put cash into an investment where there's no immediate, what I call “liquidity event” from a sale or a refinance.

Now, in all honesty, I have put up my own money to buy and hold properties where I clean and fix them up so I can eventually get a bank to refinance them. Which means my end-game is to still to use other people’s money. Right now you may not qualify for bank financing for various reasons. However, if you're going to be holding property long term, if you've got rentals and you're looking for 30-year financing, which is available now and you want rates at 3 and a half and 4 percent so you can maximize cash flow, you're going to have to utilize private money in tandem with conventional financing.

Ultimately, the goal is to get you to a place where you have at least $250,000 in liquid cash. Once you get there, you can start lending. I personally started private money lending after I made my first $100,000, which was pretty early in my career. Since $100,000 is not a lot, I focused on second mortgages. Someone buys an REO property from a bank and needs $80,000 to acquire the asset and $20,000 for rehab. I would be the rehab lender and take a subordinate second position. I was escrowing the funds, which means I was earning interest on the money that had not yet been distributed to the borrower. This also means I could be involved in five loans at any given time. I later discovered that I could actually sell that paper and keep a portion of the coupon. So if I wrote paper at 15, I could sell it at 10, which is what we do at Secured Investment Corp. We write the paper, sell it, clip the coupon, and keep a percentage of it.

What I was doing in that second lien position, was active lending which meant I was going to the local REA club meetings and seminars. Every time I saw a new guru coming into town on TV, I would go to those events because I knew it was going to be chock-full of investors that needed capital. I was very aggressive as a lender, even though I didn't have a lot of money. In the lending space, $100,000 is not a lot of money, but when you can take that hundred grand and have it double or triple itself annually in that second lien position, that's compelling. As we talk about generating income and obtaining true wealth, we're really talking about doing really smart things with money, your own money and other people's money. I will tell you this—it's a lot easier to get other people to trust you with their money when they see you being successful with your own money. A lot of you are struggling in that area because you have yet to successfully broker a loan, buy and fix and flip a house for profit, or fund your own deal with your own capital, or even originate a loan with somebody else's money to another borrower. These are things you need to be working toward to grow your business. The first benchmark is a hundred thousand dollars in a year. The next benchmark, in my opinion, is a quarter million, then a half a million, then a million.

Ultimately, we all want to get to a place where we can retire and live very comfortably because the income our money is producing is more than enough. When you think in terms of what you want your retirement to look like, you can get 3 to 5 percent returns without looking really hard. If you need a quarter of a million dollars a year to retire to feel comfortable, you've got to figure out how much cash you have to earn producing a 3 percent return to generate that magic number. Now, you can cut the magic number in half if you can get returns of 6 to 10 percent and you can cut that in half again if you can get returns of 10 to 20 percent. Passive income can be achieved with a lot less capital if you're investing it wisely in stuff that's producing pretty sizeable double digit rates of return.

Thomas J. Stanley, a Ph.D., once said, *"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."*

Pretty smart words from a Ph.D. What he said is the exact reason I have been advocating, attending, and speaking at family home office conventions around the country. I would encourage you to research and look for places and opportunities to insert yourself where you know you're going to meet people who have money. If you are really good at finding deals and identifying investment opportunities, then you need to get really good at finding the people who have money so that they're lending to you directly. My private equity funds write the paper and fund the deal, and then we take that loan and we immediately sell it. There's nothing stopping you from going direct to the lenders yourself except for knowledge. Knowledge and access. I'm going to give you both of those today.

Here's a financial pie chart as we see it. Although, truthfully, the way I see it, you can eliminate stocks, CDs and bonds. I am not a big fan of those because I can't control them. In my personal portfolio, I've have a little stock, but not a lot. Mostly I have self-directed IRAs that are all invested in either real estate or private notes. So my portfolio, for the most part, is private equity and private lending. I believe it's the safest rate of return for the highest yield, but again, that's my opinion.

What is Private Lending?

Private lending is capital lent by private citizens or companies throughout the United States. It usually has shorter terms and a clearly defined repayment schedule. The terms for these types of loans will vary from lender to lender and will depend upon the experience level of an investor, as well as the length of an investor's relationship with that particular lender. It generates a fixed interest rate per year and is collateralized by a physical asset—the actual property. It is secured by a private mortgage recorded at the county register and it's insured for the lender's protection. If you're a smart lender, your deal contains equity from the start.

The long and short of it is that people need outflows to put cash into to produce a return. As an investor that is skilled at finding deals, has testimonials, and proof that you can successfully buy, fix, and flip a property for profit, you become incredibly attractive very quickly to people who have money. Now, once you attract them, you need to be able to present a package that is clear and transparent.

Who Are the Players?

A private lender finds a note that is fundable or income producing, makes sure that the income is more than the loan payments and the expense of the asset or that the asset has more value than the loan. This can also be an aggregator. Now, in many respects, I am a private money loan aggregator because I have a pretty sizeable reach nationwide that brings us borrowers in droves, and then internally we underwrite the deal, we package the loan, we determine the viability of paying the investors back, we fund the loan, and then we make it available for resale. There's nothing I'm doing, that you can't or shouldn't be doing. That's why we have our Broker Certification Training Program and our Senior/Master Broker Training Programs. We want to give you a closer look inside the belly of the beast and see how this business works. Once you become a pretty successful broker and you're brokering your own stable of private lenders' funds, you can choose to go through all of the government regulations and SEC regs to possibly start your own private equity fund.

The other player is the real estate investor who is willing to pay the interest rate on the loan. The real estate investor finds a fundable deal that is either:

- An existing asset that has tenants who are making monthly payments and is producing income.
- A property that is dilapidated and in rough shape, or a seller who is incredibly motivated and needs to move quickly. This means an investor can come in, buy it for less than fair market value, force the appreciation through renovation and repair, and then sell the asset for a profit.

The real estate investor then has to find a lender, if they don't already have a relationship with a company like Cogo. The investor also makes sure that the income is larger than the loan payments and expenses of the asset or the asset has more value than the loan. So the real estate investor will learn real estate techniques -- short sale, wholesale, subject to REO, which is what we teach you at our Funding Tours or our Rehab to Riches trainings. Those classes teach you to be better real estate investors. A real estate investor will spend money on marketing, as well as the lists of out-of-state, free-and-clear owners. They will connect with sellers, realtors, and potential buyers on the wholesale side. They will rehab and sell and make money at the end of the transaction, or they will hold and make money on the rental income.

The real estate lender, on the other hand, learns the lender mastery secrets, bypasses all of the rest, and makes money at the beginning, middle, and end of the transaction. Now, as the lender, you get paid loan origination fees going in, you get paid interest rates through a monthly payment, and then you get paid off at the end of the loan.

Some lenders out there are doing what is called an equity kicker and I recommend that you don't get caught up in it. I talked to an investor the other day that didn't read the fine print and thought he was getting a great rate because he got money at 1 point and 9 percent interest. He thought, “This is way cheaper than Cogo!” So he didn't call and ask me what I thought about it and he went ahead with the deal. Once he got it sold, he realized that he owed $30,000 to the private money lender. The fine print of the loan docs said that the private money investor was entitled to 50 percent of the profit on an ‘equity kicker.’ We don't do equity kickers as a company simply because I don't want to participate in your profit. I want to be there to assist you in your success. I want to celebrate your success, and I want you to come back and borrow again. So I'm looking for long-term volume through the relationship, not a one-time quick payday.

One of the things that you all should be getting from this presentation is: If I had control of my own million dollars, what kind of a lender would I be? What kind of terms would I offer or demand? What kind of payment structure would I present to my investors? Or If I were suddenly at the helm of a $10 million private equity fund, how would I structure my loans, keeping in mind that there is a constant push and pull. The borrower wants to pay as little as they can, and the lender wants to get as much as they can. You have to figure out the happy medium.

If I had control of my own million dollars, what kind of a lender would I be? What kind of terms would I offer or demand? What kind of payment structure would I present to my investors?

Borrowers with Qualifying Challenges: Institutional Lenders are Very Picky about the Borrower and the Property.

Private lenders look at the appraised value, the borrower’s experience, not the borrower’s credit, the property, equity, and the exit strategy. These are the three things lenders really look at: What is it worth, what can you get it for, and then how are you going to pay me back? That's really all lenders want to know.

Institutional Lenders Normally Take 60 to 90 Days to Fund a Transaction. Private lenders review the property's merit, require less paperwork, and then they get the loan done in as little as 48 hours to two weeks. This is what pushed us back in 2012 to get into the lending business. We needed lenders to move quicker. As you may know, we do a lot of business with self-directed IRA advisors or custodians. This is not a quick process and can take two to three weeks. Sellers don't want to wait that long to get paid, so you've got to be able to move quicker, and that's why we established a private equity fund. We can fund the deal through the fund and then sell it to lenders who may need a little more time to liquidate their funds from their SDIRA.

Institutional Lenders Normally Lend a Capped Amount of Money on a Capped Amount of Loans. Private lenders can lend multiple loans on multiple properties. We just closed a loan last Friday. It was 10 different houses structured in four different loans. Most lenders would have said, "We don't do more than two loans." Even Lending Home, who we work with, won't do more than two loans for any particular borrower. Just be aware that every lender has their own rules. As a lender, you are going to need to establish your own rules are.

Institutional Lenders Look at the As-Is Nature of the Property and Borrower, and They Have no Imagination on Future Value. Private money lenders will lend based on the amount of the skin in the game. We like to see cash down. One of the safest loans you can write is where the borrower is bringing 20 to 40 percent of their own cash into the deal. The odds of default on a loan like that are quite low. Even if the loan does go into default, they're usually going to have enough equity that they can bring it current, pay off the arrears, and get it sold for a profit. Borrowers, you need understand that putting money down will get your loans closed faster. If you want lenders competing against themselves and literally beating each other up to get you the best rate, you need to put skin in the game.

This goes back to the goal of $250,000 in liquid available capital. We're not going to cul-de-sac it into rentals that we're holding for 2 to 10 years, rather we need to use it to put 20 percent down in order to get an 80 percent loan on a house we're going to fix and sell in six months for a profit. We're then going to take that 20 percent from the profit and do it again and again and again.

$250,000 is such a magic number. I can't tell you how your business changes dramatically once you get to that level. And the best part? The $250,000 does not necessarily have to be your money. It can be somebody else's money if they believe that you are a legitimate operator, that you know what you're doing, and that you can get them a return on their investment. Lenders will give you money like crazy if you have the reputational capital to back it up. I was living in Salt Lake City, Utah in the early 2000s. In Utah, you only have to have $5,000 bid at a foreclosure auction. After you have secured the property, you have to come up with the remaining funds within 24 hours. So if you have a relationship with a private money lender who can move that fast, all you need is 5 grand to bid. This to be the case in many states around the country. Dave Bianco up in New York for example or Rachel Gilmore in Maryland, you only need 10 percent down to bid in their markets and then you have 30 to 60 days to come up with the remaining funds with Cogo Capital or other private lenders.

When I started investing, I had some relationships with private money lenders where I would call and say, “Hey Jim, I got this deal.” He'd then pull the title, look at the comps, and do all of his due diligence. After a while and doing lots of deals with Jim, no questions were asked when I brought him a deal. We had built up a relationship and he knew I was good for the money. These are the kinds of relationships that you need to be working to build and acquire. That's why private lenders are so vital. They meet the demand for billions of dollars of loans each year that the commercial banks and conduit lenders will not or cannot provide.

Real Lender Profiles

Who is our avatar lender? Here's a profile of one of our lenders. They've been doing business with us since 2012 and they're what we call a diversified lender because they've got money in our first fund, our second fund, and they also continue to fund one-off notes directly. Since 2012, they have done 40 individual one-off loans, and they have done over $640,000 in loans, with $100,000 invested in our equity fund. They are averaging a 12.55 percent return. That means, if you have a million bucks and you can live on $122,000 a year without having to get out of bed or go to work, or spend a dime of your principal you’re doing pretty good! That's a retirement plan I can get behind.

They started investing in real estate by purchasing rentals. Most of the rentals they purchased were bought by assuming other people's loans or seller carried seconds. They had a real sensitivity to putting any of their own money down, which is how they built their wealth so rapidly. They have since sold all their rentals and are now investing passively, using their self-directed IRAs, in one off notes.

Here's another lender profile. They've done $240,000 in one-off loans, which really means they roll that amount in and out of one off notes. When you consider that most of our paper is six, twelve, or 18 months in duration, $240,000 over a period of 5, 10, 15 years can be rolled numerous times. This investor has rolled that $240,000 into 20 different loans. They also have over a half a million dollars invested in our first fund, and another quarter of a million dollars invested in our second fund. Between all of those investments, they're averaging about a 11.76 percent return. They don't do anything from a management standpoint. We service the loans, we do the tax reporting on their loans, we send them a W9 at the end of the year. So that’s a pretty good return.

They are active investors in our high-yield funds. They have IRA accounts that they use in their one-off notes, and they also leverage a line of credit to fund higher-yielding notes that we offer. I think this is a brilliant strategy. If you own a home that's free and clear and it’s worth $150,000 - $350,000, you can go to the bank and get a line of credit against your primary residence and pay rates of 3.5 or 4.5 percent interest. When you're earning a 12 percent on your investments, that means you're earning anywhere from 6.5 to 8 percent return on the equity in your home. You've now turned your primary residence, a liability, into a profit generating asset! If your home is not paying you a dividend every month, it's not an asset, it's a liability. How do you make your primary residence an asset? Go get a bank line of credit against it, use the funds to invest with, and produce returns higher than what you're paying the lender. Now your home is an asset, and that's what this investor is doing, and they are wise to do it.

Here's another lender profile. This particular lender is currently rolling a million with us in one off notes. He also has $50,000 in our second fund. He's relatively new to the fund environment, and is not so sure he likes it because it's too passive. He actually likes managing his portfolio of notes. When you fund a loan with us, you get a nice and organized lender binder that has the appraisal, title work, insurance documents, and servicing agreements. He likes looking over these packages and having them on his bookshelf where he can see dozens of these lender binders that he's managing. We think it's great because we need investors in our private equity fund and we need one off investors.

The Four Important Rules to Invest By

How did I get into the fund business? We've been doing private money loans since 2002. I simply took the relationships that I had with accredited investors that I was already moving money for and simply said, would you like to put it in this environment? It's another way to diversify and curb your risk because your money is now invested in a whole portfolio of notes, not just one. That's why it's imperative that you begin to build these lender relationships now because you might want to start a fund later.

People who have lots of money like high returns, but within a conservative low-risk environment. So how do we communicate these opportunities to them? We start with safety. We only lend in first lien position, second if you have a higher risk profile or appetite. We diversify into multiple portfolios of properties. We look at returns carefully, and we maintain control over the asset, which is why, I refuse to do crowd funding. When you're the sole owner of a note, if the borrower defaults, you decide to foreclose, extend, modify, or sell the loan. As the sole investor in that note, you make that decision. When you put your money into a crowd funding product, it is blended together against a single asset with 10, 20, 50 hundreds of other investors. So who decides when the deal goes sideways? How do you get your money out if you need out? When I'm the sole holder of a note and I need liquidity, I can turn around and sell that note to another one off investor. I believe giving up control is the worst thing you can do.

In full disclosure, I do have some money with Lending Club. These are unsecured consumer loans and the rates of return are 25 to 28 percent. However, after all the charge-offs and the defaults, it

Slow and Steady

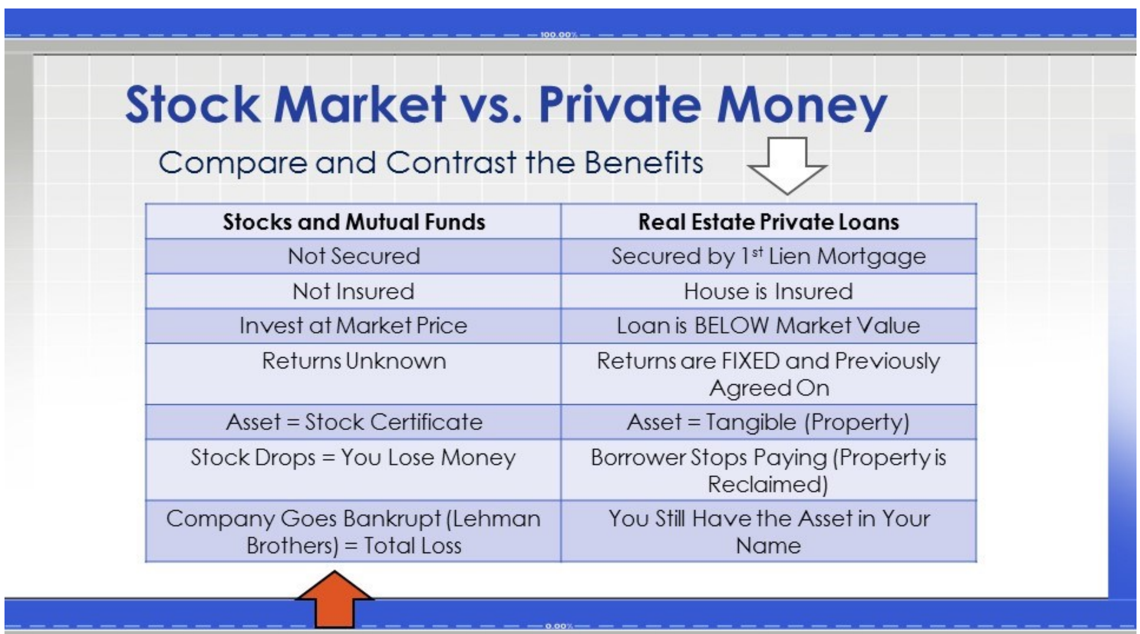
I don't believe in getting rich quick. I believe in get rich slowly, responsibly, safely, securely. One of the best things you can do for your business is to not lose money. When you're risky, when you're kind of shooting from the hip, when you don't really think things through, that's when you lose money, deals go sideways, questions that should have been asked weren't, and things go by the way side. So it's the tortoise and the hare argument. And I know for those of you that really need money like yesterday, this is the last thing you want to hear, but I'm just telling you the truth here. I've done it both ways and I can assure you that slow and steady does indeed win the race every time. It is a very attractive quality to lenders because they like to see that you're methodical in your approach to running their money. Investing their money is a big responsibility and you can't and shouldn't take it lightly. For a lot of people this is their retirement and their livelihood and therefore, it needs to be handled with complete respect and ends up netting about 15 to 18 percent. I don't have a lot of money in there, but I do it to understand the marketplace and because I think the process is fascinating.

Rule Number 1: Safety

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

I looked at my stock portfolio two nights ago, and I'm down about 20 percent. I'm not very happy about it, but there's nothing I can do. I can’t call the CEO and say, “Hey, you lost me 20 percent on my portfolio. Give me my money back.” In the private money space, I'm only lending 65 to 70 percent so if they don't pay me, I can foreclose. If the house burns down, the insurance company writes me a check because I'm the loss payee. It's really hard to lose money in this situation. This is a big selling feature when you’re encouraging investors to start lending you money.

Stock Market versus Private Money



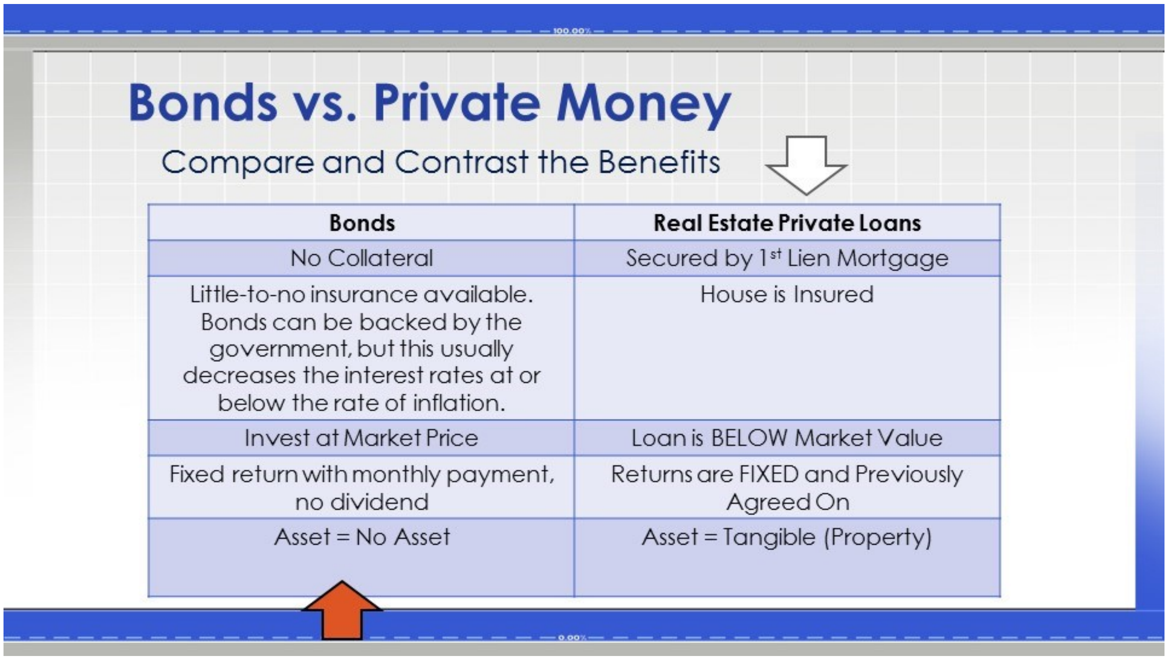
Stocks and Mutual Funds	Real Estate Private Loans
Not Secured	Secured by 1st Lien Mortgage
Not Insured	House is Insured
Invest at Market Price	Loan is BELOW Market Value
Returns Unknown	Returns are FIXED and Previously Agreed On
Asset = Stock Certificate	Asset = Tangible (Property)
Stock Drops = You Lose Money	Borrower Stops Paying (Property is Reclaimed)
Company Goes Bankrupt (Lehman Brothers) = Total Loss	You Still Have the Asset in Your Name

When you look at the pros and cons, why in the world would anybody put money in the stock market? The answer is pretty simple. They don't have an outlet, a vehicle, or a platform through which to get their money into private money notes, short of setting up their own marketing shop, creating their own pool of borrowers who need capital, putting together their own underwriting platform, and their own servicing platform. Essentially building what I've built. Now I need more of you to join me in this business because the opportunity is unbelievable, and the number of people doing it the right way is minimal. The thing I lose sleep over it is the number of people out there looking for a place to put their money that don't know us. For the investor that doesn't know what they're doing, they can really be taken advantage of. We offer a transparent and secure solution.

Stock market can give greater returns than fixed return assets, such as private real estate loans, but it can also take away from you too and most likely will again.

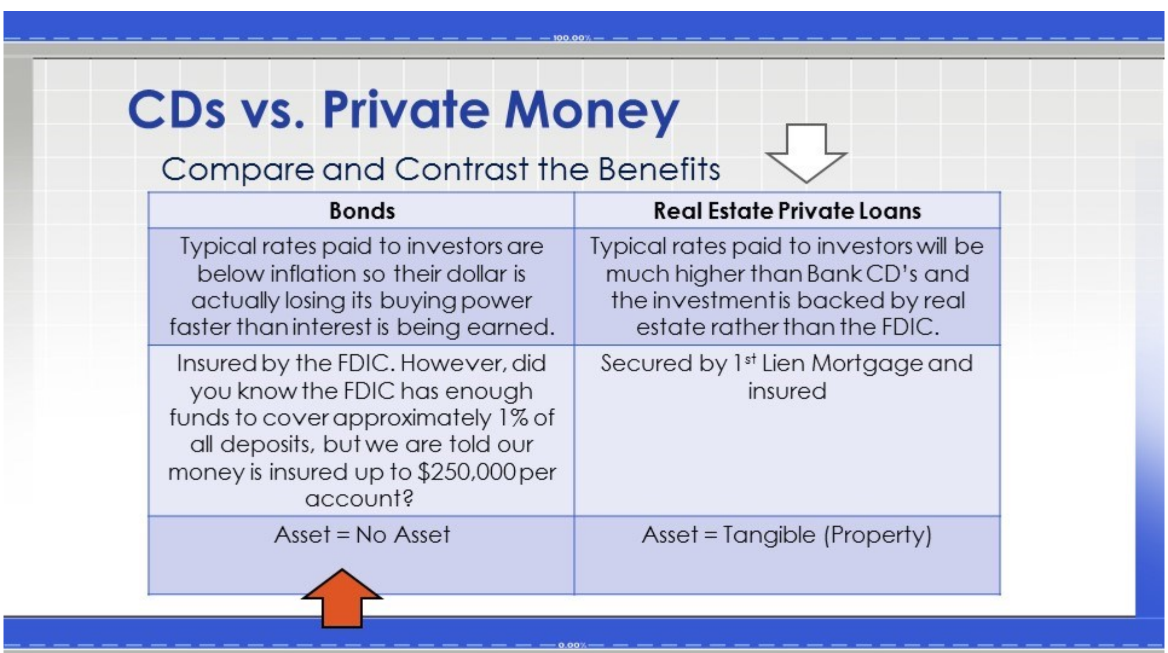
Helping you achieve your financial goals

Bond Market versus the Private Money Market



Bonds	Real Estate Private Loans
No Collateral	Secured by 1st Lien Mortgage
Little-to-no insurance available. Bonds can be backed by the government, but this usually decreases the interest rates at or below the rate of inflation.	House is Insured
Invest at Market Price	Loan is BELOW Market Value
Fixed return with monthly payment, no dividend	Returns are FIXED and Previously Agreed On
Asset = No Asset	Asset = Tangible (Property)

CDs versus Private Money



Bonds	Real Estate Private Loans
Typical rates paid to investors are below inflation so their dollar is actually losing its buying power faster than interest is being earned.	Typical rates paid to investors will be much higher than Bank CD's and the investment is backed by real estate rather than the FDIC.
Insured by the FDIC. However, did you know the FDIC has enough funds to cover approximately 1% of all deposits, but we are told our money is insured up to $250,000 per account?	Secured by 1st Lien Mortgage and insured
Asset = No Asset	Asset = Tangible (Property)

On top of offering a private money platform to borrowers and lenders, I am also an active real estate investor and I use private money relationships. I don't think that it would be ethical or moral for me to borrow money outside of Cogo, but it's absolutely ethical, legal, and moral for you to do it, even if you're a certified broker. You should be identifying your own financing, and finding your own lender, database, and funding direct. When I buy real estate, I usually buy it with my own cash, and then I refinance it through Cogo, and I let some other investor carry the asset. I use my cash to acquire the investment, and I use investors' cash to finance my inventory. Which means if you have $250,000, there's no limit, because Cogo has no limit. You can take your quarter of a million and go to the auction, buy the asset, refinance it with Cogo, and get your cash back and keep doing it again and again and again. You can literally be carrying millions of dollars of inventory in real estate by using private equity to carry your inventory, which again is why you need to have a stable of investors. That's the beauty of private money.

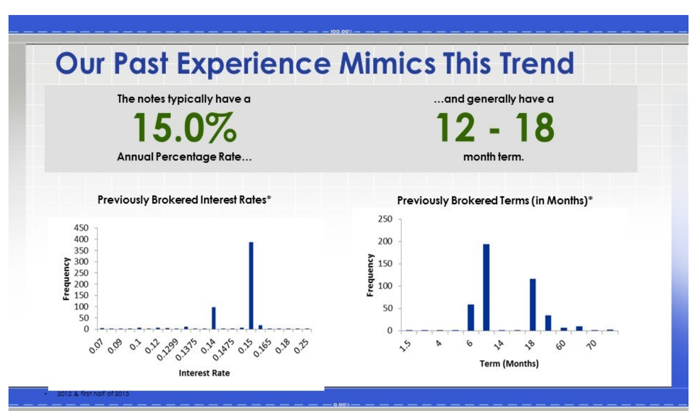
Lender Example #1: So this is a house we bought for 83,000. We put about a hundred thousand into this house, sold it for $230,000. None of my own cash was in this deal.

Rule Number 2: Returns

Investing in private first and second mortgage loans can consistently earn between 8 and 18 percent depending upon the lifetime, the time frame, the purpose of the loan, the LTV ratios, the exit strategy, the quality of the borrower's personal guarantees, and other factors. Borrowers are willing to pay higher premiums in exchange for flexibility and speed of private money mortgage loans.

When you are operating your own channels of private equity or money, you can dictate whatever terms you want. Velocity of capital will always produce a higher yield, which means the faster you can turn your money, the higher yield you'll make. For those of you who have been to one of our Funding Tours and gone through the Hedge Fund Round Table you learn this first hand. I basically give you a stack of files, “millions of dollars,” and 90 minutes to pool your money to fund deals that will get your “fund” higher yields. The best way to do this is to write shorter terms.

Investors can earn proven predictable rates without tying up their money for years or decades at a time. Our past experience mimics this trend. This is just a snapshot of our portfolio. Look at the number of 12-month loans, 18-month loans, and 6-month loans we're writing. We typically don't write loans less than 6 months, but we don't have a prepayment penalty. We've actually had borrowers pay off the entire loan off on the 25th of the first month. We don't discourage that. However, we don't write loans shorter than six months because the inevitable will happen. If it can go wrong, it will go wrong, and we don't want to have to amend the note and rerecord everything. So we write everything at



six months with no prepayment penalty. You can also see on the left-hand side, that we've written loans at 7 percent, 9 percent, 10 percent, but predominantly, we're in the 14 to 15 percent range. You can see it's not 5 and 15 every time or 3 and 12 every time. It's not 6 months or 18 months every time. If you've got a good deal and you need 60 months for some crazy reason, we will package it and present it to our investors. If they fund it, we'll write the loan to you at 12 percent. We'll sell it to an investor at 8, and we'll sit in the middle and keep 4.

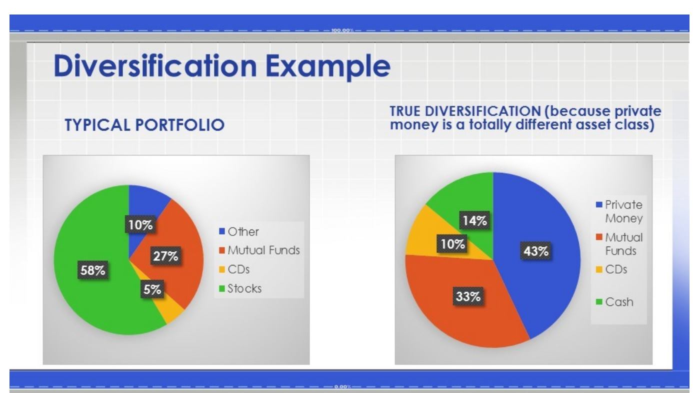
Lender Example #2: I bought this one at the auction with my own cash. I immediately refinanced it through Cogo, got my capital back, fixed it up, sold it for $155,000. We were in and out of that deal in 90 days.

What's my rate of return? Especially when you consider that my personal capital was involved in this deal for less than three days. I bought it, immediately financed it out, got all of my cash back, and then went down and bought another one.

Rule Number 3: 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. There is a joke in the industry, “When the market is hot, you're a lender. When the market is down, you're a landlord.” In 2008, I was a lender and everything was going great until September of that year when Lehman Brothers went under and the whole market imploded. I had lent money to a lot of people who had rehabbed houses and were just waiting to close. When the bigger banks started going under, all of those loans dried up and I had a lot of investors default on the loans that I had written to them. I ended up having to foreclose and take those assets back. Because the market was down, I couldn’t sell them for what I was into them, so I put renters in and I became a landlord. I generated income from the rents until the market rebounded, and I could sell and recover all the principal plus a sizeable return.

So, if clients come to you and say, “What happens if another 2008 occurs again?” Well, we're going to go from being a debt fund to being a real estate fund. We will just become a landlord and collect the rents for the investors instead of collecting the monthly mortgage payments. I'm not a big fan of tenants and toilets, but when your investors want to know what happens in the worst case scenario, that's the strategy. That's not such a bad thing versus losing 50 percent of your stock portfolio?



So on the left-hand side, this is what a typical portfolio. So if you go to a financial advisor or a wealth advisor, this is what they're going to hand you on the left-hand side. As a private equity financier, which you are about to be, you're going to hand them the portfolio on the right-hand side.

Rule Number 4: Control:

Unlike the investments that caused the meltdown, these are not loans that have been sold, resold, converted into other stocks, other investment insurance and then packaged in bulk to hide deficiencies. These are simple, direct, secured loans that have been individually evaluated to protect the lender.

I just got back from spring break in Kona, Hawaii. On the airplane ride down, I watched the movie *The Big Short*. If you can get past all the bad language, the information in it was actually quite compelling and they did a very good job explaining what caused the crash. They were taking and bundling garbage loans with a handful of decent loans, which is called credit default swaps. So if a loan goes bad, you can swap it out for a better one, or it can be bought back. However, when you have no liquidity, you can't uphold your end of the deal. Back then Lehman Brothers was financing all of this stuff and that's why they went down.

Lender Example #3: Here's the control that I like. This is a house I picked up at auction for $107,000. You can see we lopped off the top. I'm happy to say that this sold. We closed, and I got a wire on this deal today. Bought it for 107,000 with my own cash. Within a matter of days, I had one of my private investors put up $150,000 on this deal, which meant I got all of my money back, plus I did all of the rehab on his dollar. He got all of his money back today and he called my office and said, “Do you have anything else I could do.” So his money is moving into another house I bought a few weeks ago at auction, and we'll fix and renovate that house with his cash, because, again, he's passive, I'm active. I've proven that I'm a good operator and I can do quality work.

The Due Diligence Process

The Target Deal Profile

- First of all, investors are much more comfortable if they're in first lien position, unless they're a seasoned investor who understands the upside advantage of a second lien position. I personally do a lot of second mortgages through self-directed IRAs because I can get a much higher yield, and the upside is substantially higher if they default because I can take over the lien of the first, sell the asset, and have all the proceeds come to me as the second.
- Three- to 24-month terms are pretty common. Investors don't usually like to be in deals for longer than 24 months. However, some will do 60, but that's now getting into a more

conventional/institutional type deal.
- Interest only payments are required monthly on our one-offs and fund loans. It's not necessarily how you need to structure your fund or structure your individual deals
- Our minimum loan amount is $15,000. We've just found that anything lower than that has a diminishing return because the time investment is the same whether it's a $15,000 loan or it's a $15 million loan. If you want to do smaller, you're more than welcome to.

Cross Collateralization is Allowed. We just approved a file today that is secured against three properties for one loan.

Every Loan we do is Non-Owner Occupied. I would not encourage you to do anything in the owner occupied space. Way too much disclosure and liability there.

Property Types. Single family, duplex, triplex, four-plex, condo, townhouse, and manufactured homes. These properties are where we like to play simply because if we foreclose, we know that we can move these kinds of REO assets pretty quickly. We broker commercial deals because we don't want to have to own those assets should they foreclose. We only fund what we will ultimately want to own because sometimes that's the end game.

A Full Loan Package with Cogo. Below you'll see what we request to be our loan packages. You can choose to exclude certain items and it will certainly make your underwriting criteria simpler and faster, but it's going to make the value of your note significantly lower because it increases the risk profile to the buyer of the paper. For example, you fund a loan site unseen without any appraisal or title, you're never going to sell that loan unless you discount it to 20 cents on the dollar. For Cogo, we sell our paper at par, which means, if I write $100,000 loan, I sell that note for $100,000. How do we do that?
We get:
- Residential Loan Application
- Schedule of Real Estate Owned
- Capital Authorization to Release Information
- A signed Zero Tolerance/ Fraud Policy
- Valid Photo ID of Key Principals of Borrowing Entity and all Guarantors
- Business Entity Information for Borrowing Entity
- Articles Of Incorporation/Certificate of Formation/Articles of Formation
- Bylaws or Operating Agreement
- Federal EIN Verification
- Preliminary Title Report– Lender's Title Insurance with Cogo Capital as the Lender
- Previous Two Months of All Bank Statements /All Pages (Must Demonstrate 3 Mos. of Reserves)
- 401K / IRA Statements
- Insurance Company and Agent Contact Information (Company and Agent Name, Phone, Fax, Email)
- Property Valuation: 3rd Party Appraisal (Cogo Capital Will Order This)
- Current Lease Agreement(s) for Subject Property, if Applicable

- Complete and Executed Purchase and Sale Agreement, if Applicable
- Payoff Letter Stating Mortgage Balance Owed and/or Real Estate Tax Bills Substantiating any Back Taxes Owed
- Terms of Seller Carry-back Financing, if Applicable
- Contractor Bids, if Applicable

Do you see why we sell our notes for par? We've completely eliminated the risk to the buyer of that note because it's so well underwritten and packaged. Anything you want to know about the property, the borrower, the neighborhood, the location, or the exit strategy, is handed to the lender in a beautiful three-ring binder. When you want to get angry at Cogo for underwriting guidelines, know that our lenders love us, and if you're going to be in the business that I am in, you have to do things to protect your lenders. It really is a happy medium. You can't be so over the top on your underwriting that you never close loans because your borrowers won't do business with you. However, at the same time you can't be so loosey-goosey in your underwriting that no lender wants to fund your loan. Your responsibility is to find the happy medium between what your borrowers would like and what your lenders expect.

Closing. For us, we require:

- Secured Promissory not a Mortgage/ Deed of Trust Guaranty
- Loan Purpose and Use of Property Affidavit
- Escrow Loan Instruction
- Compliance Agreement / Errors and Omissions Borrower Agreement (summary of transaction and definition of documents)
- HUD

Post Closing. This is what we do after a closing takes place:

- Review and confirmation of appropriate signatures
- Follow up for signed original documents
- Follow up and review of final title policy to ensure appropriate vesting and valid first lien position
- Package and delivery of loan file to Lender

That's a lot of moving parts, right? **We make it easier.** We're offering you an in-depth book and DVD that will show you how to ***Achieve True Wealth***. You can grab yours here: www.securedinvestmentcorp.com/lender

This book and DVD training came about because of an epiphany I had, which probably has to do with me getting older and more mature. There is no way I can effectively and responsibly deploy all of the capital that's available. I cannot service all of the people that have money and need to get it invested into these types of investment products that we offer and that you can and should be offering too. So I put together this training. It's for those of you that have money and are looking to learn how to safely deploy it and for people who are looking to access private

Helping you achieve your financial goals

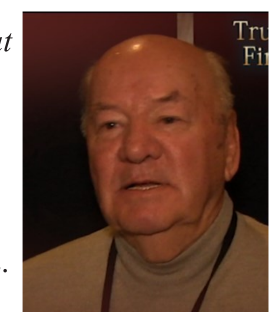
money. We show you what to look for, red flags in a file, things that you should fund and why, things that you should not fund and why, what your expectations of the borrower should be, and what your expectations of your servicing company should be so that you can self-direct responsibly, effectively, and safely for stronger rates of returns.

Like Sam Gerber who is one of our private lenders. She said, *"The return on my investment with Secured Investment Corp is 10%, which is a lot better than the stock portfolio that I have. As a divorced woman it is difficult for me to find a company that I can trust. I looked around for the longest time until I found Secured Investment Corp. I feel that everybody should invest in private money loans with Secured Investment Corp because it is secure."*

Now, let me give you guys another benchmark for your business. Write this down on the white board in your office, and pursue it with unbridled passion until it happens. Here's the goal. Within 12 months of right now, I want you to have a slide with a picture of one of your investors with their name and their return on investment. The way that you attract more money to you and your business is by unabashedly sharing the experience of existing lenders.

A book to read by Dan Kennedy is called Marketing to the Affluent. How do you get wealthy people to like and trust you? How do you market to them? The way that wealthy people make decisions about where to invest their money is 90 percent based on third-party endorsements, testimonials from their peer groups, friends, or other people that they have an affinity with.

Here is another one of our investors, a great guy named Buck Dietzel. He said *"I have done 40 loans over the course of four years. It averages out to just somewhat more than 12%. I would highly recommend it. I think Secured Investment Corp runs a very tight ship. You can be as passive or as active as you want to be, so it works out very well no matter where you are in life."*



There was a time that I thought the only way I could write more loans is to raise more money, but I was wrong. You don't need a whole bunch of money to do this. My private equity funds aren't hundreds of millions of dollars heavy, however they've originated that much in loan volume. A small amount of capital, with the right underwriting guidelines (the way we teach you), can turn again and again and again. I believe the 8th wonder of the world really is compounding interest done through subservicing!

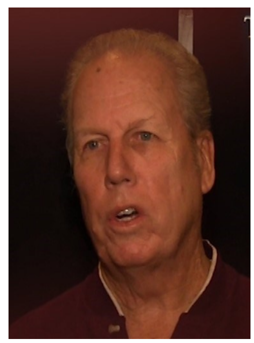
Rachel Gilmore said, *"My stock and mutual fund account last year earned 4%, my 401k with my employer last year earned 1.2%, and my investments with Secured Investment Corp, through my self-directed IRA, earned somewhere between 8% and 10%. Prior to getting involved, I wish I would have known that this 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."*

Helping you achieve your financial goals

Again, your goal needs to be having testimonials from lenders that have entrusted their money with you, with your company, with your platform. Once you start doing this in earnest, I can assure you that you will no longer have a goal of making just $100,000 a year. Your goals will suddenly look like $100,000 every six months, $100,000 a quarter, $100,000 a month, to $100,000 a week. If that is of interest to you, make sure you grab a copy of the book and DVD training, ***How to Achieve True Wealth*** at www.securedinvestmentcorp.com/lender.

Another one of our lenders, Ron Shoenberger said, *"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."*

Finally another one of our lenders, Jack Carrol, said *"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."*



When you're done with this book and DVD training, you'll be able to:

- Follow the four essential rules of lending and easily and quickly judge which yields are safe and which yields are sketchy
- Pick the deals that will yield the highest returns in the shortest period of time
- Understand how to diversify your investments and the best vehicles for long-term passive wealth generation
- Have absolute control over your earnings by understanding each part of the deal and only choosing the deal that fits your parameters.

I'm looking for people that I can help to build this business within their own backyard and become another lender resource for people to get their money into the market. I can't possibly service them all and I would like to have 25 different people that I can refer those relationships to when I don't have the loan volume or the underwriting guidelines they're looking for. If you're one of the 25, I can refer them to you, depending on your terms. If you're interested in setting up your own lending business, with your money or investor money, we will show you how in this book and DVD. Grab your copy here: www.securedinvestmentcorp.com/lender

If you couldn't tell, this is one of my favorite topics. I wish 20 years ago somebody would have given me this opportunity to go into an operational, already existing, already successful private equity lender to see how they do it. Make sure you grab a copy of this book and DVD (under $20.00) now. Get it here: www.securedinvestmentcorp.com/lender

Until me meet again, God bless you and happy investing.

The Circle of Wealth

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, Private Money Exchange, where real estate investors could go for unlimited funds for their non-owner occupied investments.

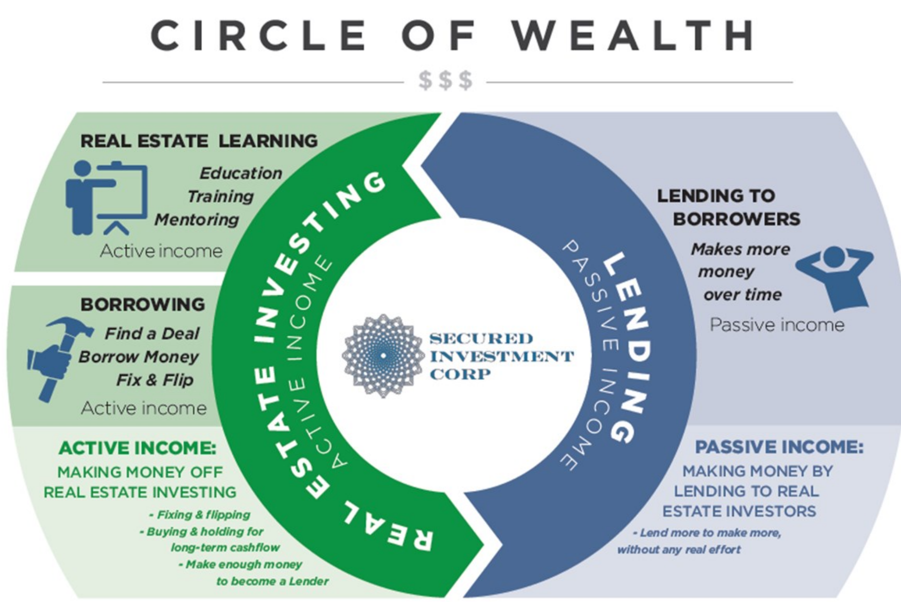
While the progression seemed natural, we were missing one, very large and essential piece of the pie. The marketplace was teeming with people who had the funds, who aspired to make higher returns on their invested dollar, but lacked the desire to get involved in real estate at the ground level.

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!

Who Is Lee Arnold?

Like most self-made millionaires, I began at the bottom of the financial food-chain. My humble beginnings started as a bag boy at a local grocery chain in Spokane, Washington working for $3.90 per hour. My first "aha moment" happened while I was aspiring to a management role at the store and was reading the life-changing book, "Rich Dad, Poor Dad" by Robert Kiyosaki. Suddenly my management aspirations looked very small, but my future possibilities became extremely big.

My second "aha moment" happened while I was sitting in a philosophy 101 course in college. My attention span was divided between the slow ticking of the clock and my professor's long winded discussion on the economy. While the minutes ticked by, he let it slip that he was making only $45k a year. That information and the knowledge I gained from Kiyosaki's book, made me realize I was on the wrong path to success and needed to make some very important changes fast. So, from those experiences and an influential nudge from an incredibly persuasive late-night infomercial, I went into real estate.

I began the way many people do—in the educational and training space. Like many, I went to real estate seminar after seminar and bought course after course. Through long years of trial and error, I built up a very profitable, million-dollar real estate business from the ground up. I'm proof-positive that the training system can and does work! Because of this, I decided to help others by teaching them how to translate workbook education and real estate theory into the real world of real estate investment.

SMARTER INVESTING: Experience & Discipline

It is because of investors like you, that we are able to promote ***The Circle of Wealth*** and help individuals, of any background, familial, or income status to receive the training, the funding, and the return on their invested capital that they need to be truly successful. It is our goal to make those who aren't, "Millionaires," and for those who are, "Philanthropists." We are grateful to provide a platform where investors not only earn the returns they seek, but also finish each day with the intense satisfaction that their investment allows someone else's dream to be manifested.

THE LEE ARNOLD SYSTEM OF REAL ESTATE INVESTING

Corporate Office

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