

EQUIDEBT
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Writing a new American Dream

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Diversifying Investor Risk Through Equity Sharing

An Alternative to Owning Rental Properties for the Residential Real Estate Investor

The HEFI:

The HEFI (Home Equity Fractional Interest) is a Real Estate finance innovation to augment debt-only residential financing. This patented process allows homeowners to offer fractional equity stakes in their homes while retaining all of the benefits of home ownership. A HEFI can be used as:

- *A workout tool for a loan modification that allows for principal reduction*
- *Facilitating down payment assistance for builders, REO holders and municipalities*
- *An investment alternative for residential investors*
- *A cash-out mechanism for homeowners with adequate equity*

****The HEFI is an equity instrument; it is NOT A DEBT INSTRUMENT (e.g. a note or a mortgage)!***

The HEFI conveys to its owner an “in-the-money call option” with two components:

- *A fixed, intrinsic value portion (the “HEFI Consideration”) equal to the down payment contribution (cash or equity infusion)*
- *A contingent, variable value portion (the “HEFI Percentage”) equal to a specific percentage* of future appreciation until the home is sold or the HEFI is redeemed*

Finding a solution to revitalize the investor appetite in the residential housing market while mitigating risk and maximizing returns requires a more innovative approach. The two key objectives here should be:

- 1) *Achieving the highest possible ROI with the least amount of exposure.*
- 2) *Accomplishing number one with the least amount of time and effort.*

* Percentage (or HEFI Percentage) can be a fixed number or customized as a waterfall over time. This percentage is the amount that would be converted into tenant-in-common (TIC) ownership in the event of a default.

So, how is this done?

Both of these issues can be addressed by allowing home financing to include a *minority, passive equity* partner.

With such a partner, the homeowner can reduce the capital investment to own a home by sharing the equity in their home, while maintaining all the benefits of homeownership. A third party investor could and would be that partner with the use of a properly standardized security instrument represented by the HEFI.

Opportunities for Investors:

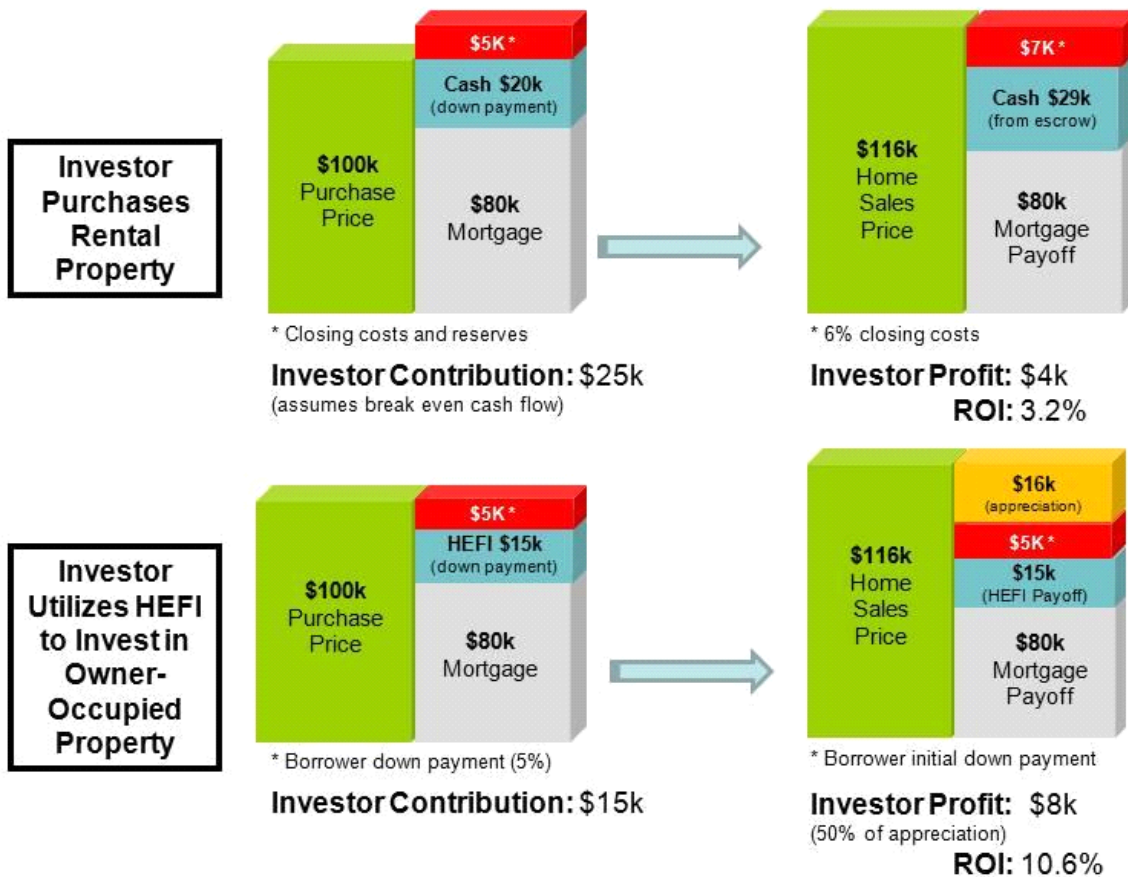
A Residential Real Estate Investor may look to cash flow for their return on investment, Home Price Appreciation or both. Many layers of risk come with direct residential real estate investment. That risk may come in the form of cash flow risk due to vacancy, depreciation of the home due to degradation of condition of the home, marketing and leasing costs, credit risk and liability as the borrower for the mortgage etc.

The HEFI presents an opportunity to mitigate or remove many of those risks. The investor would participate in the down payment on an owner occupied transaction, in the form of a HEFI. This allows the investor to become a passive equity partner with the homeowner, versus becoming their landlord. Because the property is owner occupied the homeowner is incentivized to maintain the property, assume all of the credit risk associated with the mortgage itself as the obligor on the mortgage, etc. The investor has no debt obligation, maintenance, upkeep, marketing or leasing costs.

Why the HEFI works for investors:

- 1) Mitigates Risks: debt obligation, insurance liability, tenant issues, etc.
- 2) Smaller cash investments per property means greater diversification by splitting investment across multiple properties
- 3) Investment in a HEFI qualifies under the 1031 exchange
- 4) Protects your investment long term by having a built-in loss mitigation tool:
 - a) The HEFI can exercise their Tenant In Common interest upon an uncured event of default under the HEFI
 - b) HEFI owner has the right of sale to avoid a distressed real estate transaction
 - c) Avoid the costs and elongated timeframes associated with foreclosure

Investing in a Rental Property vs. Investing in a HEFI



• Assumptions are based on house selling at the end of year 5 with 3% growth per year and a 50% HEFI appreciation share. Percentage of HEFI appreciation sharing is flexible and specific to each transaction.

Why is the HEFI unique?

- The HEFI represents a passive investor interest
 - Similar to corporate equity
 - Not tied to the mortgage
 - Homeowner retains full ownership rights and obligations
- HEFIs can be sold into the capital markets
- The HEFI is the only practical way to diversify residential investment
- The HEFI provides a much needed alternative to down payment assistance programs that can be utilized by investors and homeowners
- In an event of default, a costly and lengthy foreclosure process is avoided
- The HEFI introduces equity sharing to the residential real estate market, a concept that has been accepted and utilized by the commercial real estate market for over 100 years.

Capital markets interest in the HEFI:

The HEFI represents a passive investor interest in a home; just as a share of stock represents a passive investment in a company. The HEFI is analogous to a call option. Institutional investors such as pension and endowment funds would be interested in HEFIs to achieve diversification beyond stocks and bonds. The residential equity asset class is as large as the entire US stock market. To be properly diversified, institutional investors might want to hold about as much in the residential equity asset class as they do in stocks. Right now, though, there is no practical way for them to invest in residential equity; HEFIs and a HEFI trading market would create an attractive and practical way for them to invest in this asset class.

Q&A:

Q: Is HEFI the first equity sharing idea to come to market?

A: *No, equity sharing concepts have been utilized by affordable housing initiatives for over 30 years and on over 800,000 different homes: <http://www.nhi.org/pdf/SharedEquityHome.pdf>
The HEFI is a standardized delivery system for shared equity that makes it viable outside of the affordable/subsidized housing market.*

Q: How is the HEFI recorded on title since it is not a debt?

A: *The HEFI is recorded as a lien against the property in the form of "Memorandum of HEFI"*

Q: Why is the HEFI structured as an option instead of the HEFI owner taking direct title today?

A: *Being structured as an option is important in that it allows the homeowner to remain vested on title as 100% owner. It also allows the HEFI owner to remain silent and passive; unless an event of default under the HEFI occurs.*

Q: When would a HEFI owner exercise their option to take a Tenant-In-Common interest?

A: *The HEFI owner may only exercise their option if an event of default is uncured. Some of the events of default are: failure to keep payments current (mortgage, insurance, taxes, etc.), a non-permitted ownership transfer occurs, failure to maintain the property in good condition, false or misleading representations and warranties, etc.*

Q: Why would a HEFI owner exercise their option to become a Tenant-In-Common owner in the case of a default?

A: *Because, as a Tenant-In-Common owner, the HEFI owner can step into the homeowner's shoes, cure the issue of default under the HEFI and effect a sale of the property to protect their collateral and recover their investment, as opposed to how a second mortgage lien would be left to wait for the first mortgage to perform a foreclosure.*

Q: How would a HEFI owner know when an event of default occurs?

A: *HEFIs will be managed and serviced through a platform called HEX, Home Equity Xchange. HEX will monitor and track all HEFIs and their underlying collateral on a monthly, quarterly and yearly basis.*

Q: *When can a homeowner redeem/buy-back the HEFI?*

A: *The homeowner may redeem/buy-back the HEFI at any time* he/she wishes. A procedure is built into the system to assure the HEFI Owner that the buyback price is fair at the time the buyback is requested.*

** In most cases the redemption/buy-back is restricted to after the first 12 months*

Home Equity Xchange (HEX):

- HEX functions as the singular portal where Homeowners and HEFI owners can be interfaced with the highest concern for security and information management.
- HEX combines the services of a legal document preparation system, a security instrument tracking system (similar to MERS), a servicing platform and a singular repository of relevant data for proper analytics to be applied for secondary trading of HEFI's.

From origination to securitization, HEX will be the singular repository where all equity transactions can be processed and coordinate.

EquiDebt Solutions, LLC:

EquiDebt is a structuring and advisory agent in the residential real estate arena.

- EquiDebt Currently holds the *only* unrestricted license to represent the HEFI
- EquiDebt controls HEX, LLC (Home Equity Xchange), the platform that issues, services, tracks and manages the HEFI instruments
- The HEFI is licensed to EquiDebt by Home Equity Securities, the inventor and author of the patents solidifying the proprietary nature of the HEFI security

Focus and opportunity:

EquiDebt's primary focus today is on the implementation of the HEFI (Home Equity Fractional Interest) in both loss mitigation methodologies and as an alternative to debt only financing.