

Business Plan: Stewardship Capital

Stewardship Capital, founded 2013 by real estate investors Bill Syrios and Sándor Lau, specializes in the purchase and workout of nonperforming junior liens secured by residential real estate.



www.StewardshipCapital.com, 541-343-6000

Business Opportunity

During the US real estate boom of 2001-2007, a large number of junior bank loans and home equity lines of credit (HELOCs) were issued in the US, secured by single-family homes. In the recession immediately following the boom, many homeowners lost their sources of income as well as equity in their homes and stopped paying on those junior loans. Banks were and continue to be overwhelmed with the resulting nonperforming debt. Many of the loans originated during the bubble will reset to higher monthly payments in 2014 and beyond, ensuring a continued supply of opportunity.

As of 2013, US banks were holding about \$600 billion in junior residential loans. Approximately 1% of those loans—about \$6 billion in debt—are in junior position behind a first loan on which the borrowers are current on payments. Stewardship Capital purchases those junior loans at deep discounts and seeks win-win resolutions with borrowers.

Value Proposition

Banks are unable or unwilling to deal constructively with nonperforming notes. They are highly motivated to liquidate nonperforming debt and typically offer these nonperforming junior debt assets for a fraction of their face value. Banks are not positioned to create positive solutions for themselves or their borrowers, frequently insisting on either full payment or foreclosure.



By keeping current on their first mortgage payments, borrowers have clearly indicated two important facts: 1) They wish to keep the property and 2) They have sufficient income to pay the first mortgage.

We acquire these nonperforming bank assets at steep discounts and work with borrowers to create positive solutions.

Notes have multiple exit strategies:

- Create workout plan with borrower based on an affordable monthly payment amount. This plan also addresses arrearages and late fees. The US Treasury Department's Hardest Hit Fund may provide borrowers assistance in some states for their payments.
- Offer borrower a discounted payoff of the second lien for less than its face value. Because Stewardship Capital purchased the note at such a discount, we can afford to offer a discount for a cash payoff. Borrowers can use cash on hand, family loans or gifts, or qualified retirement accounts. The Hardest Hit Fund may also provide borrowers assistance to pay off or refinance. It is unlikely borrowers will be able to refinance with conventional bank loans because their credit is damaged by nonpayment of their loan.
- If borrower cannot afford to stay in the home or does not wish to, they can deed the property to Stewardship Capital. In cases of documented need, we can provide a small consideration for moving assistance. We then own the property subject to the first lien. Consideration money is a cheap insurance policy that borrowers will leave the home clean and in good condition.
- If the borrower cannot afford to stay in the home or does not wish to, they can also do a short sale. Stewardship Capital then negotiates with the first lien holder who must come to agreement with us on a payoff amount in order to close the sale.
- If the borrower is unwilling to communicate or work with us, we can also foreclose from second position, taking ownership of the property subject to the first lien. This is our last option and not our goal.
- Sell the note. Stewardship Capital may sell the note either to a friend or relative of the borrower, or to a third party through private contact or an exchange like FClexchange.com.
- Borrower bankruptcy is not nearly the risk it would appear. It guarantees we will be dealing with professional trustees and attorneys who are likely to act rationally rather than emotionally. In the case of chapter seven bankruptcy (liquidation), it also wipes out unsecured debt, giving the borrower more money to pay his or her home loan. In the case of chapter 13 bankruptcy (reorganization), any payments come through a trustee on a plan from three to five years. If borrower fails to make payments according to schedule, lender can foreclose according to the same process after the home has appreciated in value. Our lien position can be in jeopardy through bankruptcy but there are a number of risk mitigation factors.

Emotional Equity



The greatest opportunity for Stewardship Capital to add value is to purchase notes with partial or no equity above the first mortgage. Second liens behind performing firsts can be purchased in the range of 10-20% of face value through institutional sellers who buy in bulk from banks and sell to retail-level investors. Seconds with high equity can trade in the range of 30% of face value or more. Unpaid principal

balance (UPB) of a typical second in the sweet spot of this market niche is around \$50,000.

Purchasing these seconds is like acquiring virtual options. For a small investment, the owner of the second can gain a considerable deal of control over a property without owning it. Unlike first mortgages, which may require an investment approaching or exceeding \$100,000 and sell at smaller discounts, seconds allow diversification of investments at a much lower price point, spreading risk and creating the potential for greater returns.

Many property owners will agree to a loan modification because they are emotionally attached to their homes and they think of them as a place to live and raise their families rather than a purely financial investment. Not every note will work out profitably, but by buying notes for between \$3,000 and \$25,000, we diversify our risk pool.

Win-Win Solutions

Solving problems is the core of all business. Stewardship Capital solves the problem of banks that are incapable of dealing with their nonperforming debt and are obligated to retain seven times the amount of that debt in reserves as long as they keep it on their books. We solve the problems of borrowers by offering options and by working with them on the best one for their situation. Most banks treat delinquent borrowers like numbers. We treat them with dignity like human beings. Our financial future depends on having their goodwill. Theirs depends on having ours.

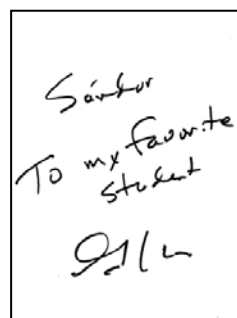


Stewardship Capital is the newest member the Stewardship Properties group of companies. The Stewardship brand has a 25-year history and strong relationships. As a steward of investors' capital since 1989, Stewardship has never missed a payment.

Mentoring



Stewardship Capital principals and team study under the tutelage of Gordon Moss, the nation's leading expert in nonperforming junior liens. Gordon is the author of the Amazon bestselling book, *Performance Anxiety*, distilling his experiences purchasing and working out hundreds of notes. www.realestateandnoteinvesting.com



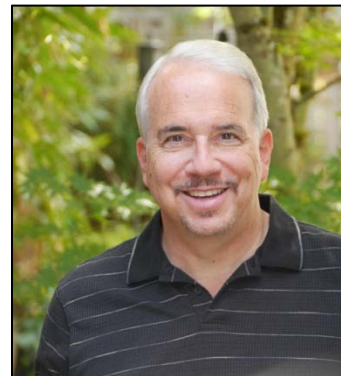
Stewardship Capital participates in Gordon's highly selective mentoring program and enjoys access to all his legal paperwork, contacts and relationships. He has already invented the wheel. Rather than reinventing it, we began by learning from his success and mistakes. We come to the business with the

benefit of his years of expertise mastering this niche in a time of unprecedented opportunity in this field. The Stewardship group of companies values mentorship and has provided mentoring to over a dozen early-stage investors.

Bill and Sándor attend and speak at events held by the Papersource, the leading provider of education on the notes business www.PaperSourceOnline.com. At the Papersource Note Symposium in Las Vegas, April 2014, participants rated Sándor as one of the top speakers.

Team

Bill Syrios is a veteran of real estate investing who began his career in rental properties in the early 1980s. Through the Stewardship group of companies which he founded in 1989, he owns hundreds of rental units from single-family houses to apartment complexes in and around Eugene and Corvallis, Oregon; Kansas City, Missouri and Dallas, Texas. He and his team handle every aspect of rental properties including acquisition, construction, tenant management, repairs, maintenance and disposition.



Bill now specializes in raising capital for his companies and delivering secure passive cash flow for his investors. He serves as Stewardship Capital's Chief Stewardship Officer.

Bill and his wife of over thirty years, Teresa, live in Eugene, Oregon. Previous to founding Stewardship Properties, he was a campus pastor at the University of Oregon and named his company Stewardship to remind himself that his purpose is to be a caretaker of what he has for future generations. Bill and Teresa have four grown sons, two of whom are partners in Stewardship Investments, Bill's Kansas City operation. Bill is also the author of several books on spirituality and relationships. He holds a Master's degree in divinity from Fuller Theological Seminary. www.StewardshipProperties.com



Sándor Lau is the only Chinese-Hungarian-American-New Zealander and the Eagle Scout and Fulbright Scholar your mother warned you about. He has been investing in residential rental real estate since 2009 and first brought Bill to Kansas City where they co-own rental properties. After searching for several years to invest in real estate without the risks of tenants, he discovered the notes business in 2013 and immediately sought the teachings of Gordon Moss. Sándor serves as Stewardship Capital's Chief Inspiration Officer, managing acquisitions and workouts of notes. He speaks fluent Spanish and French.

Previous to co-founding Stewardship Capital, Sándor served for six years as development director at an air quality nonprofit where he raised over \$43 million to reduce pollution and save petroleum. Sándor is also the writer, director and producer of award-winning documentary films *Sándor's New Zealand Trail* and *Squeegee Bandit*. He earned his Master's degree in film and TV production at the University of Auckland, New Zealand. www.SandorLau.com

Process



Acquisition: While banks are the original holders of nonperforming seconds, they primarily sell to institutions capable of buying note pools in the millions of dollars or more. Many of these institutional buyers are hedge funds who buy in bulk and sell one-by-one or in pools to smaller investors. It is possible to contact smaller banks and lenders directly but it is a time-consuming process like finding a needle in a

haystack. Our strategy is to buy from hedge funds and institutional brokers so we're getting haystacks made of needles. Some of the best sources are:

US Mortgage Resolution (PA): <http://www.usmresolution.com/>

Trinity Financial Services (CA) <http://trinityfs.com/>

Partners for Payment Relief (PA) <http://www.partnersforpaymentrelief.com/>

Gemini Capital (NY): <http://gemicapitalmanagers.com/>

Stewardship Capital began investing with Bill's and Sándor's own funds to establish proof of concept in summer 2013. Now, Stewardship manages a portfolio benefiting both its members and other investors who see the opportunity in this field and wish to benefit from passive investment with Stewardship Capital.

Stewardship Capital performs due diligence quickly with in-depth online research. Note pools must be bought with only a few days of time for due diligence.

It may take months from time of purchase until receipt of notes when buying the right pools that have not been worked over by other investors. The notes must then be recorded.

Wake Up and Workout: This is the phase where Stewardship Capital has the opportunity to add greatest value. Borrowers who have not paid their second mortgages for years are often in denial, angry, confused and unaware that the second lien holder can and will foreclose. We send them a wake up package with full documentation of the loan including chain of title and a copy of the original note they signed. We also send a private investigator to personally knock on the door of borrowers, and if possible, put them directly on the phone with us. We can communicate with borrowers in both English and Spanish.

Our goal is to create a cooperative and mutually beneficial resolution with the borrower. The threat of foreclosure is the primary motivating stick. We begin the foreclosure process if borrowers fail to respond and continue actively pursuing foreclosure unless borrowers demonstrate good faith efforts to resolve their debt. With the threat of foreclosure, we also offer the carrot of alternatives for the borrower to either keep their home or move on to housing that is affordable.

We do not push borrowers to any one of these foreclosure alternatives. Borrowers become actively engaged and emotionally invested in the process because it is their choice what option to take. We

develop a relationship of mutual trust and respect. Borrowers earn the right to foreclosure alternatives by keeping their promises and providing the information we request.

It is typical for borrowers to initially react with antagonism or simply ignore communications, then later contact the lender as they come to the realization that they will lose their home (that they are invested in—after all, they are paying the first mortgage) if they do not take some kind of action. They will often turn completely around and become very grateful and cooperative when they realize that their new lender listens compassionately to their situation, treats them with respect like human beings, and is prepared to work out a solution that fits their needs. This is unlike anything they have ever experienced before from their bank, who will typically either insist on full payment or foreclosure, or force them through a lengthy and excruciating process for a short sale or deed in lieu of foreclosure. Stewardship Capital can put most of our workouts into place within a few days of receiving the borrower's full financial information.

Stewardship Capital can profit through all of the available exit strategies below:

Payment Plan: We set up servicing of the loan with a loan servicing company specialized in collection of payments. There are many quality companies servicing notes for private investors. Some of those with the best reputations are:

- Allied Servicing (WA) <http://allservicing.com/>
- FCI Loan Servicing <http://www.trustfci.com/LoanServicing.html>
- Madison Management <http://madisonmanagement.net/>

Once Stewardship Capital has created an agreement with borrowers, our servicers collect payments, create monthly statements for our review and produce tax documents. Should any borrower fail to make their scheduled payments, management of that file will return to us to understand the problem and create a resolution.

Deed in Lieu of Foreclosure: Borrower signs property over to us and we own it subject to the first mortgage without the need to foreclose. Borrower's credit is spared a foreclosure.

Short Sale: The borrower can also sell the property short and we will negotiate with the first lender who cannot complete the sale without our agreement.

Note Sale: We can sell the note to a friend or relative of the borrower or to another note investor.

Foreclosure: For borrowers who refuse to communicate, we may need to foreclose. When we foreclose and take ownership of the property from a junior position, we own the property subject to senior liens which remain in the name of the original borrower. Depending on the condition and cash flow of the property, we can:

- 1) Sell at auction. Another investor may buy the property at foreclosure auction if they exceed our minimum bid.

- 2) Foreclose and keep the property as a rental if cash flow justifies it or predicted appreciation justifies it. We make payments on the first mortgage but the loan remains in the name of the original borrower.
- 3) Foreclose and keep the property as a rental without paying the first mortgage. We may be able to collect rent for years in some states without the first mortgage foreclosing on us, though when they do, it will not reflect on our credit as the property is not in our name.
- 4) Negotiate a short sale with the holder of the first mortgage, allowing us to keep a portion of the sale proceeds.

Wait for Appreciation

In some cases when there is no equity and borrower is genuinely incapable of paying or is unmotivated, we may also refrain from foreclosure until it is more advantageous. Our secured position is not altered as long as borrower continues to pay the first and the first does not foreclose.

Company Values

- 1) STEWARDSHIP. We are good stewards of what is entrusted to us. We are all passing through and cannot take any of it with us. We are here to care for our investors, borrowers, employees, and properties.
- 2) WIN-WIN SOLUTIONS. We deal with assets that traditional banks cannot, solving their problems. We work with borrowers to resolve their problems and move forward with their lives. We provide our investors excellent rates of return on secure investments.
- 3) HUMANITY. We deal with borrowers who have been treated only as numbers by their banks. We will look at each borrower's situation, and treat borrowers like human beings with dignity. We treat our lenders and team with the same dignity.
- 4) INTEGRITY. We keep our promises and do as we say. We develop relationships of trust and mutual respect with our borrowers, employees and investors.
- 5) ACTIVE GROWTH. Change is inevitable. Growth is optional. We seek out and embrace change, learning and personal growth in our business.

