

# 345:1 CD Leverage Loan Program

## \*\*\*Funding Highlights\*\*\*

**Entry point:** \$500,000 minimum, no maximum (entry points will be reviewed on a case-by-case basis, per program cycle and project funding requirement)

**Applicable instrument:** Cash Only

**Deposit Location:** Top U.S. Bank (funds do not move and are fully refundable and callable at any time)

**Depositor Benefit Summary:** The end result of this program is a fully funded project or projects, with no loan principle to repay and no debt service. In some cases there will also be discretionary proceeds that do not have to be used for the actual project.

### **Key Participants:**

- **Principal** – Seeks project funding
- **Facilitator(s)** – Refers and/or manages Principal/Program Manager introduction
- **Program Manager (PM)** – Coordinates transaction for participants; central deal-maker
- **Trust (hedge fund)** – Provides cash to purchase CDs; makes 1% at closing
- **Closing Bank** – Issues 10 year, non-callable CDs with 8% coupons; makes loan
- **Securities House** – Retains 25% of loan proceeds to repay Bank and make a profit

### **Procedural Overview:**

- Principal provides proof-of-funds (POF) to Facilitator, who screens and prepares Principal for introduction to PM via conference call.
- Principal executes Consultancy / JV Agreement(s) with Facilitator(s).
- Facilitator provides Principal with information on Program Manager and sanitized, sample Memorandum of Understanding (MOU).
- Principal performs due diligence on Program Manager; references made available.

- Program Manager reviews Project Executive Summary & POF; determines feasibility of funding.
- Program Manager accepts deal and Principal executes Program Manager Contract.
- Principal places refundable deposit with Program Manager and/or PM's escrow attorney.
- On the strength of Principal's deposit, Trust provides \$345 per \$1 deposited from Principal to show Bank proof-of-funds which is used to buy CDs.
- Program Manager places deal with five banks; first bank to accept deal gets it.
- Closing occurs in the Bank with the Principal; all details arranged in advance by Program Manager.
- Program Manager buys 10-year, 8% CD's for Principal from Closing Bank.
- Principal pledges CD's for 10 year loan at 2% spread to Closing Bank.
- Program Manager strips coupons at discount; proceeds are then paid to Trust.
- Trust receives balance owed, plus 1% profit from loan proceeds.
- Securities House receives 25% of loan to guarantee interest payments and make a profit.
- Balance of loan to issued Principal for project funding (discretionary portion of the proceeds also permitted).
- Securities House pays all interest and the CD retires the principal at 10 years.

**Notes:**

- \$1M minimum entry point preferred but also determined on a case-by-case basis. In some instances, as little as \$300K may be permitted for entry, and there is no cap on entry max.
- If no bank approves the loan within 90 days, Principal's funds are fully refunded.
- The exact program method is proprietary to the Program Manager based on 14 years of successful execution.
- New corporations, LLC's, individual entities, start-ups, offshore projects, foreign citizens, and bank turn-downs are all eligible to apply.

- Transaction is a loan, therefore cash proceeds are not income and not taxable.

### **Transaction Flow (\$5M deposit example):**

- Client deposits \$5M for 345X leverage
- Trust advances \$1.725B for POF Closing Bank
- Closing Bank issues \$1.725B non-callable CD, 10 year at 8%
- Closing Bank lends \$1.725B for 10 years at 10% simple interest
- Trust receives \$966M (56% of loan with \$759M remaining)
- Coupons stripped for \$776.25B (minimum 45% of the future value)
- Trust receives \$1.725B (total 101% repaid)
- Securities house receives \$431.25M (25% of loan with \$327.75B remaining)
- Program manager receives \$86.25M (5% of loan with \$241.5M remaining)
- Net liquidity to Principal: \$172.5M (10% of loan with 34.5X leverage)
- Securities house pays all interest and CD retires the principal at 10 years

**\*\*\*Important Note\*\*\*:** *The transaction flow and/or percentage of the Principal ROI is subject to change at Program Manager's discretion OR may differ, per a separate, exclusive agreement with JV Facilitator. These are examples only and may not be representative of any Principal's actual transaction or MOU details.*

### **Frequently Asked Questions:**

**Q. Does the client receive all funds at closing, or will there be a monitored draw-down schedule based on the needs of the project?**

A. Normally, a prudent client would rather not take funds before needed so that they don't incur the interest cost prematurely. However, under this structure, the interest obligation is assumed by a major securities house, so there is no disadvantage to receiving all the funds at once. In fact, the client can put the funds to work in an interest bearing account, private placement trading program, etc. until they are needed for the project. Moreover, since the loan principle is secured and retired by the CD and the interest is guaranteed and paid by the securities house, the Closing Bank has no need to incur the time and expense of project monitoring.

**Q. Are these loans recourse or non-recourse to the client?**

A. The answer is strictly, contractually, non-recourse. This is because the principal of the 10 year interest only loan is 100% guaranteed and paid by the Securities House. The contract between the Closing Bank and the securities house releases the Principal from all obligations to pay. For these reasons, no personal guarantees or liens on the project are required.

Example: For a \$1M down payment, the Securities House receives \$86.25M (25% of the \$345M loan). The \$86.25M is leveraged up to 10xs to control a portfolio of \$862.5M. The Securities House pays \$34.5M per year in interest ( $\$345M \times 10\% = \$34.5M$ ). Assuming a conservative return of 10% per year, the Securities House's annual gross revenue is \$86.25M, yielding a gross profit of \$51.75 M per year. For the guarantee, the Securities House keeps the \$86.25M and all returns beyond the debt service. The client has no payments or capital gains; a tax free wash.

**Q. *Since my deposit is refundable, is it held in escrow?***

A. The main reason the funds are not held in escrow is that they are immediately put to work for the 345:1 leverage from the Trust. This way the Program Manager is able to include an actual proof-of-funds (POF) on the Principal's behalf for at least \$345M with the loan request. The PM presents the loan request to at least five banks and the first bank that accepts the deal becomes the Closing Bank.

Experience shows that a bank is far more likely to respond quickly and favorably to a loan request that includes an actual POF for the amount of the cash offered to 100% collateralize and repay the loan principle.

A further problem was encountered in the past when using an escrow method (Escrow Company or Attorney IOLTA). When the funds were presented to the bank as being in escrow, the bank made complex escrow instructions a condition of the loan which caused unnecessary delays for negotiations between the banks, escrow services or lawyers and the Program Manager. The process is much simpler, smoother and more efficient when the funds can be shown to be immediately available.

The down payment will be refundable under the terms of the contract executed with the Program Manager. Client will be entitled to a full refund if no bank is found to issue the CD's and make the loan necessary to generate funding for the clients project within 90 days of the date the down payment is made.

**Q. *How do I know my funds are safe and will not disappear?***

A. The Program Manager completely understands and supports the Principal's reasonable concerns regarding the safety of their funds. Upon receipt of the executed *Authorization to Seek Funds and Master Consultancy Agreement* covering consultancy fees for the Facilitator(s) and Originator(s), PM will provide initial due diligence information, including Program Manager, company names, address, fax number and contact name. Principal will be able to verify the Program Manager entity is in good standing in its state of formation and state of operation, as well as contact the applicable state

attorneys general to verify it has a clean record. The Program Manager has a perfect record of performance since 1992 of obtaining the loan or refunding the deposit as promised.

The Program Manager also understands the importance to the Principal of dealing directly with the Program Manager himself, and the Principal is asked to understand that, based on experience since 1992, the Program Manager must receive documentary POF sufficient to cover the minimum required down payment prior to taking time to communicate directly with the Principal. Proof can be a bank statement, online printout, ATM receipt, etc., in the name of the Principal and dated within the last 30 days (Principal may sanitize the account number if desired). Upon receipt by Program Manager of POF adequate to cover the minimum down payment, Facilitator will introduce Principal to Program Manager and final due diligence can begin, as well as review of the Program Manager Contract. Program Manager will be available for consultation and will be pleased to provide references including satisfied previous clients. Principal is welcome to meet the Program Manager in person at his office, if desired. The Program Manager has successfully completed in excess of one hundred CD financing transactions.

**Q. *Can I use my current bank as the closing bank?***

A. Through a process of trial and error, the Program Manager has found that the most efficient transactions are completed with major international banks in Europe, and has nurtured a mutually trusting working relationship with a variety of these progressive institutions.

An interesting finding over the years is, despite the fact that the Principal and its project are not responsible for repayment of the principle or the interest on the loan, U.S. banks spend an inordinate amount of time, literally weeks, qualifying the credit signatory and the project itself. This includes endless requests for credit reports, personal financial statements and letters of explanation of any derogatory credit information on all principals in the client corporation or LLC, two years tax returns for principals and client entity, as well as a Dunn and Bradstreet credit report on the client entity, a full business plan on the project, including pro forma balance sheet, income statement and cash flow statement for 3- 5 years, copies of expensive appraisals, phase I environmental reports (and phase II in some cases), purchase and sale agreements on real estate projects or other acquisitions, and on and on, ad nauseum.

Progressive international banks focus on the availability of cash for the CD and the guaranteed interest payments from a major securities house with deep pockets. Everybody wins. European banks require a concise executive summary, evidence the client entity is in good standing and has authorized the transaction by proper corporate resolution, a copy of the passport of the signatory and finally, to sign in the closing bank. And yes, the client must travel to the closing bank for closing.

**\*\*\*IMPORTANT DISCLAIMER LANGUAGE\*\*\***

*Depositor ROI is NOT guaranteed, as is the case with most programs such as these. Program Manager will endeavor to produce the noted ROI amounts, and such amounts are quoted based solely on historical performance.*

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