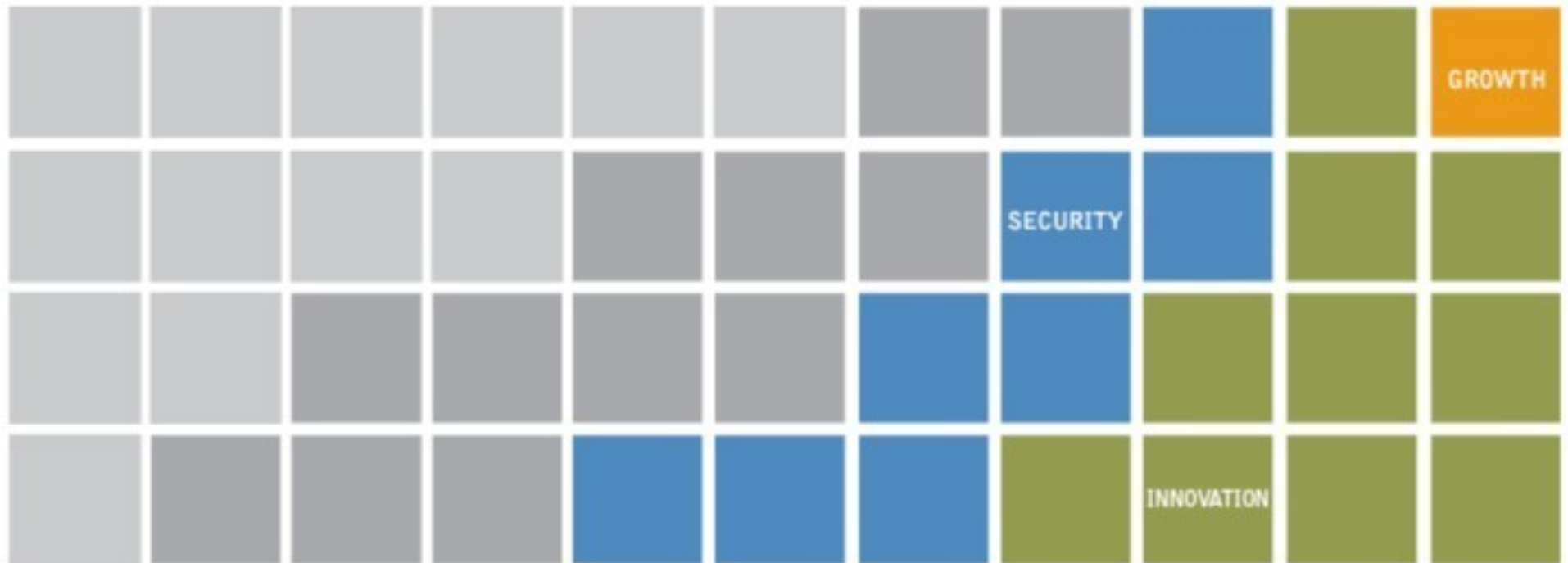


# Introduction to Mortgage Investing with Intercoastal

August 2011



# Part One: Mortgage Investments with Intercoastal – a Sensible Alternative

# An Investment Alternative Tailor-Made for a Challenging Market

- Today's stock market volatility has eroded portfolio values
- Stocks are assumed to do well if held over the long term, but this is not always practical
- With interest rates near 0% and inflation increasing, bonds, CDs, and other “safe” investments will lose value
- Investors are hungry to rebuild and avoid losing more ground
  - \* Our investments offer a means to rebuild and earn high yields now –without dramatically increasing risk

# Introducing Intercoastal and Mortgage investing

As a mortgage investment company, Intercoastal identifies high-quality real estate lending opportunities, enables investors to fund these secured loans, and manages the entire process from application through repayment.

Because our loans typically fund projects that require special handling, our investments deliver above-market returns –at relatively low risk.

# An Clear, Old-Fashioned Investment – Previously Available Only to a Few

- Private real estate loans have historically delivered substantial, predictable returns –with the security of collateral
- However, these opportunities were typically privately arranged, and not accessible to all investors
- Plus, usury laws limit the interest rate an individual lender can charge in some cases
- \* Intercoastal expands access to these sensible, comprehensible investments

# Intercoastal Democratizes Private Lending

Intercoastal can identify quality lending opportunities –and allow investors to participate

Over a decade of innovation and growth, we've simplified and organized the lending process –so that it's easy to understand and easy to invest

With minimum investment starting at \$25,000, virtually anyone or any organization can participate

## Part Two: Key Company Advantages

# A Match for Evolving Needs

## Yesterday's Assumptions

- Stocks do best long-term
- Diversification = bonds
- Banks provide loans
- “Alternative investments” only for the ultra-rich

## Today's Challenges

- Extraordinary stock volatility
- Bonds uncertain, too
- Bank lending stalled
- Retirement portfolios deteriorating
- Inflation returning and increasing
- Investors need stability plus income to recoup –especially for retirement

## Mortgages Meet New Needs

- Mortgages can fill unmet lending needs, capitalize on credit crunch
- Principal protected by real estate collateral
- Returns are predictable – and outpace inflation
- Intercoastal products deliver these advantages to many types of investors

## Collateral + Experience = Lower Risk

- Intercoastal's experience selecting properties minimizes default risk
  - Investment Committee has more than 20 years of combined real estate and lending experience and reviews all loan applications
- Experience also informs the loan-to-value (LTV) maximums that we set, which protect investor equity
  - In the unlikely event of foreclosure, the LTV we set pre-loan helps protect all invested principal

## Credit Crunch = Opportunity

- Banks consider “credit-worthiness” above collateral in lending decisions
  - Today’s tighter standards mean fewer borrowers qualify
  - Banks are reluctant to lend even to the best borrowers
- As a collateral-based lender, Intercoastal can tap many attractive lending opportunities ineligible for bank loans
- Well-capitalized and highly regarded, Intercoastal gets first pick of available investment opportunities

## More Clear-cut Than Other Real Estate Based Investments

- A mortgage investment is not a REIT (Real Estate Investment Trust)
  - REITs are stocks representing portfolios of real estate properties that typically generate operating income from rents
  - REITs are traded as securities on the public markets –components of mortgages are not transparent
  - Mortgages, by contrast, are transparent and easily understood and evaluated

## And Profoundly Unlike Mortgage-Backed Securities (MBSs)

- MBSs are bundles of loans originally evaluated and funded by banks, then purchased, packaged and re-sold repeatedly
- Impossible for an investor –or even the financial institutions in the transaction chain –to evaluate underlying loans
- Mortgages, by comparison, are fully transparent –each deed matches one property

# Leadership and Innovation

- Intercoastal offers mortgage investment products for different investment needs, including fractional trust deeds and mutual-fund-like mortgage pools
- Intercoastal employs an investment committee of recognized lending and real estate experts
- Intercoastal far exceeds industry standards for transparency and communication with investors

# Leadership and Innovation

- Intercoastal management believes in its decisions and invests alongside investors
- Well-capitalized and highly-regarded, Intercoastal gets its pick of available deals
- Intercoastal management skills embrace the lending lifecycle, through servicing and workouts (not just evaluating/funding)

## Part Three: Key Company Data

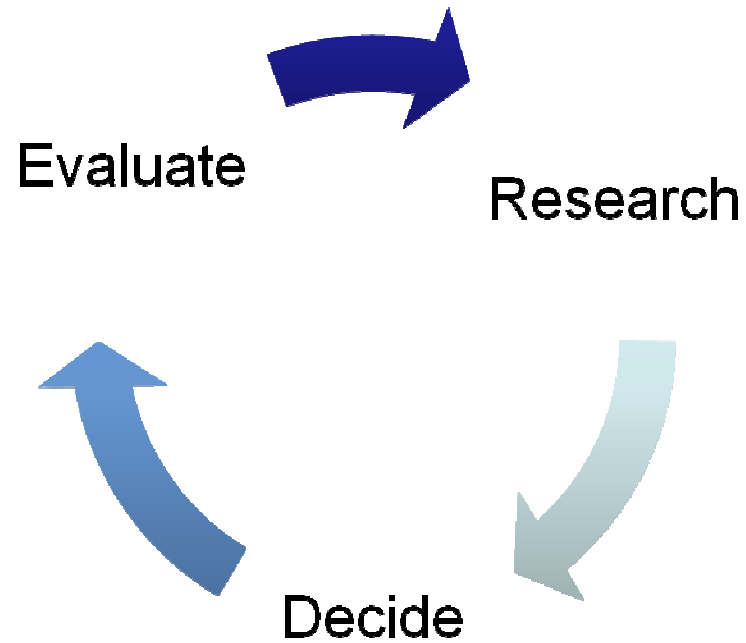
## Above Market Investor Return S

Intercoastal current yields are 10-12.5% on average .

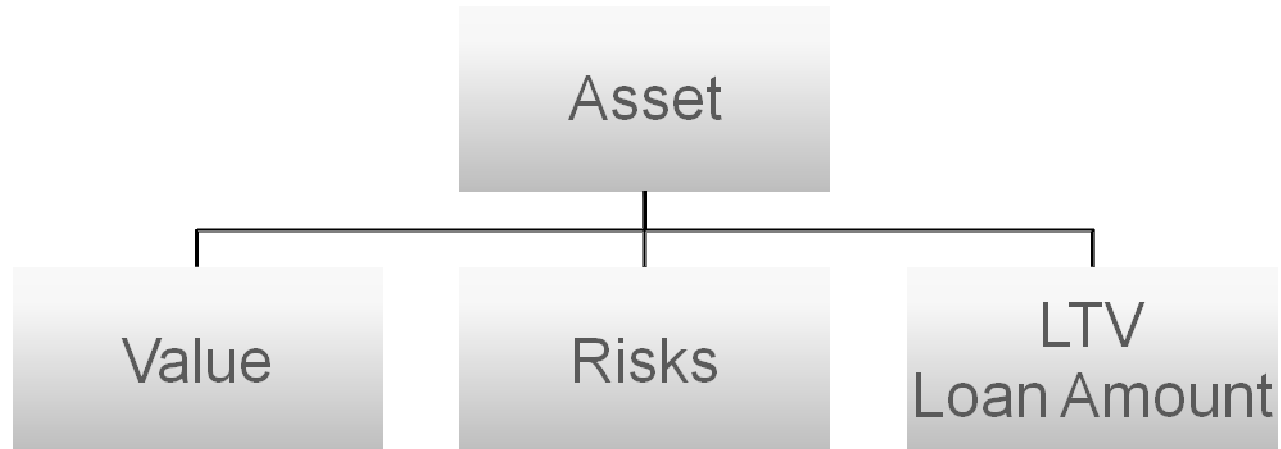
Investors in Intercoastal mortgages receive a 10% return before management earns any fee whatsoever.

## Part Four: Our Investment Process

# Our Investment Process –Three Key Steps



# Evaluate



- In this stage of the process we evaluate the property's value, determine what risks the project presents, and calculate an appropriate target loan-to-value (LTV) ratio and loan amount.
- Our analysis always includes a review of:
  - Reports from Intercoastal's appraisers as well as broker price opinions
  - Property title reports and other legal documentation related to the asset

# Research

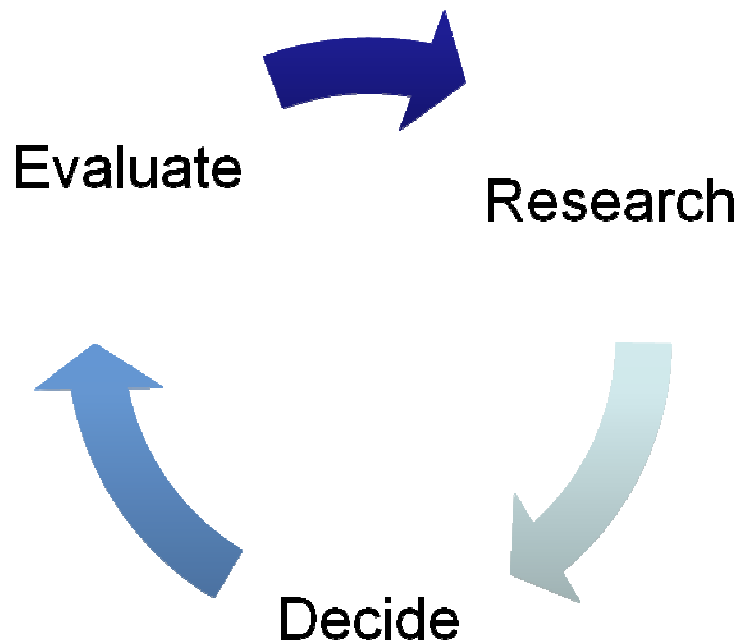
- During the research stage, Intercoastal presents the investment opportunity to the Investment Committee for research and review.
- A critical part of the due diligence process, the Investment Committee reviews every loan that Intercoastal underwrites. Their work protects the interests of investors and borrowers alike.
  - Members bring expertise in real estate, finance, investments and leasing, expanding the knowledge-base of the Intercoastal team.
  - To ensure objectivity, a majority are “outside” members. Besides their deep experience, these external members bring a fresh perspective and objectivity to Intercoastal's process.

# Decide

- Using their deep knowledge of real estate development, investment management, finance and leasing, the investment committee formulates a decision to present to senior management.
- Senior management then reviews the feedback and determines whether to fund the deal or not.
- Once a decision to fund has been reached, both the borrower and investor are contacted and the investment commences.



# Our Investment Process -Simplified



1. Interview borrower
2. Establish asset value
3. Research title to asset
4. Verify any existing encumbrances
5. Investment committee approves loan
6. Underwrite loan
7. Complete loan –mortgage and associated note

## Part Five: Our Borrowers and Investors

# Who Borrows?

- Borrowers (property owners) with needs that banks can't fill:
  - short-term loans, bridge loans, fast turnaround, mixed use
- Typical projects include shopping centers, medical office buildings, apartment buildings
- Borrowers' projects are located within geographic areas highly familiar to Intercoastal

# Who Borrows?

- Many of Intercoastal's borrowers are repeat borrowers with a long track record of real estate development success
- For over a decade, Intercoastal has profitably lent funds for projects that are ineligible for bank loans, yet offer clear profit potential

## Who Invests? Investors who:

- Seek diversification beyond stocks and bonds
- Need high yields, but prefer not to lock up their money for more than a year or two
- Want both current income and capital preservation
- Would like to invest in real estate without managing properties or dealing with tenants
- Prefer investments without hidden fees or “loads”
  - \* Investors who prefer uncomplicated, understandable investments

## Our Investors Include:

- Individuals (including through tax-advantaged accounts like IRAs and other retirement accounts, Coverdell and other education accounts)
  - All individual investors must meet net worth/income requirements
- Organizations and trusts, such as non-profit endowments and pension plans

## Part Six: Investment Products and Options

# Investment Options

- Decide to invest in mortgages with Intercoastal, and you will have several options:
  - 100% funding of a single mortgage (i.e., you are the “bank” for a real estate project)
  - Fractional funding of a mortgage (i.e., you and other investors jointly fund a loan)
  - Purchase shares in Intercoastal's mortgage pools

# Option 1: Funding a Single Mortgage

- You choose which borrower/project best fits your investment preferences, including:
  - Interest rate
  - Loan term
  - Location, project type, borrower
  - First or second mortgage
- You agree to invest your capital for the duration of the loan

# Option 1: Funding a Single Mortgage

- Intercoastal manages the entire process for you, paying your interest to you on a monthly basis
- At the end of the loan term (or in the event of prepayment), Intercoastal manages the return of your capital to you (or reinvestment into a new loan if you prefer)

## Option 2: Investing in a Fractional Mortgage

- You choose the fractionalized opportunity that best fits your investment preferences
  - Interest rate
  - Percentage interest available
  - Loan term
  - Location, project type, borrower
  - First or second mortgage

## Option 2: Investing in a Fractional Mortgage

- You agree to invest your capital for the duration of the loan
- Intercoastal manages the entire process for you and the other fractional participants in the mortgage, paying your interest to you monthly
- At the end of the loan term (or in the event of prepayment), Intercoastal manages the return of your capital to you (or reinvestment if you prefer)

## Option 3: Mortgage Pool

- Like mutual funds, Intercoastal's mortgage pools offer greater diversification through collective investment in a portfolio of many mortgages
- The relatively low risk of mortgage investing is reduced further by spreading investments across many loans

## Option 3: Mortgage Pool

- Intercoastal manages the pools –continuously investing funds into quality real estate loans
- Investors are paid a monthly yield –which can also be automatically reinvested like a dividend
- Minimum investment of \$25,000 –must remain in the fund for at least a year
  - Lower starting investment may be possible for certain retirement or education savings accounts
- The simplest of Intercoastal's investment options

## Part Seven: Ready to Invest? Other Facts You Should Know

# No Hidden Fees

- Whichever Intercoastal option you choose, there are no hidden fees or loads
- Intercoastal receives a portion of interest paid by borrowers, which has already been deducted from rate you are quoted; the 1st 10% of income is distributed to investors before management is paid.
- In other words, what you see is what you get: the rate quoted is your expected yield; 10% is always your rate of return

# Extending Tax Advantages

- Mortgage investments combine stability with regular, substantial yields –an excellent combination for many retirement or education portfolios
- Ideal solution when funds will be needed soon –so high risk is unattractive –yet growth cannot be sacrificed
- Income accumulates tax-free until withdrawal –taking full advantage of tax-deferral

# Extending Tax Advantages

- You can invest funds from your IRA, or other tax-advantaged accounts provided the account is self-directed
- Detailed instructions are included in the appendix of this packet

# Loan-to-Value

- Loan-to-Value (LTV) is a critical measure of the protective equity in a property –a lower LTV ratio means lower investor risk
- Intercoastal permits a maximum LTV of 65%
- Credit history is not unimportant, but well-analyzed LTV provides more investor security
- Intercoastal also researches property title and determines the impact of existing liens or other encumbrances –if any

# Typical Intercoastal Loan Terms

- Loan-to-value ratio of no more than 65%
- 12-60 months term
- Interest only, with a balloon repayment of principal at the end of the term
  - At the end of the term, principal is returned to investor(s) (individual or fractional mortgage) or to the fund for reinvestment (mortgage pool)

# Risks of Mortgage Investing

- Secured by collateral, mortgages have had relatively low risk historically –but, like all investments, mortgages have risks, such as:
  - Borrower default
  - Property value decline or disparity with market
  - Real estate risks: tax and regulatory changes, neighborhood changes, interest rates, changing economic conditions

## Ready to Get Started?

- Contact our Investor Relations department at (305) 491-2018 for our offering documents, required forms –and to ask any questions unanswered by this presentation
- Or, contact us by email at [info@intercoastalmortgage.com](mailto:info@intercoastalmortgage.com)