RESOLUTION FUND I

Business Summary

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Executive Summary

Resolution Capital Management LLC ("RCM") is a private equity real estate investment group which is established to place capital in distressed residential mortgage notes in select communities throughout the USA.

RCM was founded to leverage the current disruption in the economic market cycle within the real estate sector through the acquisition of value-added first position mortgage notes that have potential to produce positive cash flow and/or a substantial equity upside. The principals have successfully deployed and tested a scalable business model and now are directing the operations of this model to the benefit of the company and its investors with similar assets throughout the U.S.

We analyze, acquire and manage assets that generate current income while maintaining a healthy margin of safety. Typical timelines for investment projects range from six months to three years. We have created the Resolution Fund I to provide an opportunity for both accredited and sophisticated investors to capitalize on the opportunities from the results of the distressed residential mortgage collapse that began in 2007.

Our Methodology

We seek out niches within the real estate market that provide a value-play either in our ability to build equity through repositioning or generate cashflow from the acquisition and improvement of under-performing assets. Niches in the marketplace that are too small for larger, institutional investors but earn good returns through deployment of smaller amounts of capital and expertise are ideal for our business model. We locate opportunities to deploy our funds into these niches and leverage new opportunities as market conditions change.

The objective for the Resolution Fund I is to generate current income and achieve social betterment by providing viable solutions for borrowers at risk of foreclosure to stay in their homes as well as facilitate dispositions which return vacant abandoned homes to service. The Fund a return on member investments through the acquisition and repositioning of non-performing real estate notes in key U.S. markets held by hedge funds and institutional lenders. The company’s principals and consultants have decades of experience in real estate investing over a wide range of asset classes, and have been very successful in capitalizing on opportunities in the distressed mortgage market.

Market Opportunity

During the formation of the "housing bubble" in 2007-2008, banks and mortgage lenders would originate home loans and quickly resell them to investors in the form of securities on the secondary market (Wall Street). This method, known as the “originate to distribute model,” allowed banks and lenders to pass the risk onto investors, and thereby loosen guidelines.

The result was casual underwriting, less oversight, and more aggressive financing, which ultimately led to a lot of loans made to underqualified borrowers. These loans were generally made as “stated income” loans which have become non-performing and have resulted in the current stockpile of “toxic assets” being held on the books of our financial institutions.

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The volume of these non-performing real estate loans has picked up dramatically over the past 5 years as banks seek to shrink their balance sheets as their capital base falls. In both multifamily and residential real estate, there are now billions of dollars of outstanding, distressed debt. According to a 2015 Core Logic report, 3.5% of all residential mortgage loans are “seriously delinquent” at more than 90-days late. This equates to 1.3 million loans. See http://www.corelogic.com/about-us/news/corelogic-reports-41,000-completed-foreclosures-in-may-2015.aspx for details.

![Fannie Mae NPL Sales](image.png)

Source: RealtyTrac 2015

Whereas a few years ago, banks would have been more inclined to foreclose on a non-performing property, they are now choosing to sell the distressed debt. The primary reason is that for each dollar that a bank has on its books in loans, they are required by the federal government to keep anywhere from 6 to 10-times the amount in reserves. Now that the level of distressed debt is climbing into the billions, banks have little choice but to unload nonperforming/underperforming notes to recover their capital reserves. Also, both Fannie Mae and Freddie Mac have started to unload their delinquent loan inventory starting in 2015 as displayed in the graphic above.

The size of the non-performing and sub-performing residential mortgage loan market has grown considerably in the last few years. Various industry resources suggest that it will take up to 8 years for the financial institutions to liquidate these loans on the secondary market, and we believe that there is a window of 5-8 years to capitalize on this opportunity.

**Acquisition Criteria**

The primary asset classes in which the Fund will invest are non performing residential mortgage notes in first position on single family homes in the U.S. We intend to acquire pools of U.S. single-family residential mortgages (secured by one (1) to four (4) family homes) and, on occasion may directly

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acquire real estate owned by other lenders as well as U.S. multi-family mortgages (secured by more than four (4) family homes) and commercial loans, obtained on the secondary market.

With the overload of nonperforming residential mortgages weighing heavily on the balance sheets of our banks and federal regulations requiring substantial reserves, financial institutions have been unloading nonperforming mortgage notes in large volumes at steep discounts. We see an opportunity to purchase highly discounted notes on properties in key markets, then reposition them for cashflow income, or in the case of a vacant property, foreclose and sell the property at a substantial profit margin.

**Investment Objectives**

The Fund’s investment objectives are to generate current income for its investors and achieve social betterment by providing viable solutions for borrowers at risk of foreclosure to stay in their homes as well as facilitate dispositions that return vacant abandoned homes to service.

The Fund will invest indirectly in both non-performing and re-performing mortgage loans and the underlying real estate (in the event of foreclosures or other circumstances that result in possession of the underlying real estate). The Manager intends to deploy a mixture of both non-performing and performing notes in its asset portfolio. The intention is to balance the fund portfolio composition with 30% performing notes and 70% non-performing notes, so that the performing notes provide immediate cashflow while working with borrowers to modify their non-performing notes.

The return on investment for reperforming notes will have a minimal threshold of 15% annualized cash-on-cash ROI, and more typically an average of 25% or higher.

Acquisition and disposition strategies may include conventional as well as creative techniques to purchase residential mortgages. The process requires a great deal of due diligence and knowledge of title, insurance, servicing and foreclosure. The high volume of default notes available will allow us to select assets which meet in the yield requirements that we have set. Our exit strategy on properties will be based on an analysis of market trends showing new highs in rental revenues and lows in historical
vacancy rates, slowing of economic growth and/or population, and increases in the length of time or number of real estate transactions in the market.

**Fund Summary**

The Resolution Capital management team have extensive experience in the acquisition and management of distressed real estate assets and mortgage notes. The company is vertically integrated, giving it the capability to manage all aspects of its investment, servicing, and asset management operations from acquisition to disposition. Its managing members have over twenty years of combined experience in the areas of real estate investment, finance, asset management and development.

**Ownership of the Fund**

The Fund shall be owned by Investors purchasing equity interests or membership shares (“Membership Units” or “Units”) in the Fund, and who shall be called “Members.” Members shall own 100% of the Fund, each in a percentage equal to their outstanding Units divided by the total Units outstanding (the “Ownership Interest”).

**Minimum Investment**

$50,000 per unique Investor, which amount may be adjusted in the sole discretion of the Manager.

**Target Member Returns**

The Fund will pay an 8% preferred return, after operating expenses, and the Manager will distribute to all Members on a pro rata basis, 70% of the net profits (after expenses & preferred return) in year 1, 60% in year 2 and 50% thereafter. At the conclusion of the Fund term in year 5, all assets will be liquidated for return of capital and a net capital gain from the sale of the assets. The goal of the Manager will be to provide a minimum net annualized average of 15% ROI over the 5 year Fund term.

**Fund Term**

The Fund is a closed-ended fund with a set end date of 5 years from commencement. The Manager expects to originate and acquire Fund Assets on a frequent and ongoing basis and will continue to do so indefinitely until the Maximum Offering has been reached, or until the Manager believes market conditions do not justify doing so.

**Structure of Fund**

The Fund will be organized as a Delaware limited liability company. The Fund will use a Private Placement Memorandum (“PPM”) under Rule 506(b) of Regulation D, for an exempt offering under federal and state law.

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Fund Management

Resolution Capital Management LLC is the Manager of the Fund. The Manager is responsible for the overall management of the Fund’s affairs and has control over the day-to-day operations and activities of the Fund including all investment management responsibilities. The executive staff consists of managing members Bob Malecki and Ben Cote who are seasoned real estate investors with strong ties to the distressed mortgage note industry. Mr. Malecki will participate in asset selection, marketing, capital acquisition and third party vendor operations. Mr. Cote will manage asset selection, due diligence, underwriting, financial management and financial oversight of investor funds placed into the various asset acquisitions.

Bob Malecki

Since 2006, Bob Malecki has been involved with the acquisition and management of distressed real estate assets including non performing notes and single/multi-family properties in key markets in the U.S. He has fund management experience via the creation and management of a prior private equity fund, REI Capital Investments LLC, which invests in distressed real estate assets in western Washington state. Bob is an avid investor in non-performing residential notes and his background in real estate investing and market analysis has provided him a unique set of skills to identify opportunities with distressed assets that provide substantial upside.

Ben Cote

Ben began his career in the mortgage and real estate industry in 1991 before the advent of the FICO Scoring System. Since the beginning of his career, he’s been an avid student of the real estate and mortgage financing sectors and has worked in nearly all facets of the mortgage. Ben’s 20 plus years of experience provides him a unique perspective and he takes great pride in the fact that he has the ideal background to create profit in any real estate market. His background in mortgage underwriting provides an excellent resource for the underwriting and acquisition of distressed assets for the Fund. He truly believes that investing in mortgage notes will be the best opportunity to create long term wealth.

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