UNION

CAPITAL MANAGEMENT

A CONSUMER GUIDE TO SYNDICATE MORTGAGE INVESTING

ABOUT THE AUTHOR

PAOLO ABATE, BBA, AMP, CPMA, RHU, PFP
CEO
UNION CAPITAL MANAGEMENT
MORTGAGE AGENT, FSCO MORTGAGE AGENT LICENCE NO. M08007277

Paolo graduated from the Schulich School of Business, York University with a Bachelor of Business Administration with a Finance Specialization. Since 2006, he has led Union Capital Management (formerly Real Wealth Group), a real estate finance and private mortgage investment brokerage, as its CEO. Exposed to the industry at a young age, he developed a passion for real estate. He's acquired, financed, and developing residential and commercial properties in Toronto/GTA under the Haven Developments banner as its CEO (havendevelopments.ca).

Paolo is an active member of both the Canadian Association of Accredited Mortgage Professionals and the Independent Mortgage Brokers Association of Ontario; obtaining both his Canadian Professional Mortgage Agent (CPMA) and Accredited Mortgage Professional (AMP) designations. Recently, Paolo was elected to sit on the Board of the Finch-West (York University Heights) Business Improvement Association (BIA). He is also a frequent speaker, panelist and case competition judge at the Schulich School of Business and a Member of the Schulich Real Property Association. Earlier in his career he was employed by, The Great-West Life Assurance Company, the Canadian Imperial Bank of Commerce, and TD Canada Trust.

Social Entrepreneurship & Charitable Work

In 2008, Paolo Co-Founded Courage Canada, a national charity and not-for-profit organization. The organizations mission is to provide the opportunity for blind and visually impaired youth to develop skills and enjoy the game of hockey. Courage Canada seeks to instill leadership characteristics in youth such as courage, confidence, and sportsmanship both on and off the ice in communities across Canada. (couragecanada.ca)

Paolo has supported Families for Children, Giant Steps, and the Canadian Cancer Society. He is a Member in good standing of Canada Company and has been a major donor to the Humber River Regional Hospital in support of Canada's newest and largest Hospital opening its doors in October 2015. He is a Campaign Cabinet Member of the Humber River Regional Hospital Foundation.

Paolo is an avid cyclist, enjoying both road and mountain biking. Paolo is a member of Team Revolution, a road cycling team raising money and awareness about new Humber River Regional Hospital.

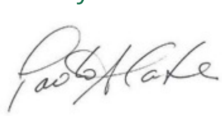
Introduction: Why I wrote this?

I wrote this e-book to share my knowledge and experience in mortgage brokering, private lending, development finance, and namely, in this document, investing in syndicate mortgages. It is my estimation that much of the Canadian investing public is new to mortgage investing despite it having been around for decades. The same can be said for many financial professionals now touting these opportunities in larger and larger numbers. Mortgage investments can be complex, poorly designed and difficult for the average common person to understand. Educational resources available publicly are scarce; and many have made grave mistakes in failing to truly understand the nature of each mortgage they are participating in. This reality is clearly evidenced by the Eron Mortgage Corporation debacle where, in the late 1990's, more than $180 million vanished from 3,350 Canadian investors in a mortgage fraud. In more recent memory, the implosion of Concrete Equities is another stark reminder to peel back the layers and look beyond just a term sheet.

The common theme among these, and many other failures, is the poor design of the transaction, over-valuation of property, combined with selective disclosure, and in some cases, fraudulent disclosure to investors. Not all mortgages are created equal; it is my intent to use this opportunity to start building your body of knowledge so that you can better determine which mortgage investment is right for you. Seek transparency, accountability and the hard proof that a claim being made is accurate and supported contractually.

Mortgage investing can be fun, profitable, and secure if done properly.

I wish you success.



1. What is a Syndicate Mortgage?

A syndicate mortgage is when two or more investors pool their money together into one mortgage. The group is treated as one mortgage. Each investor within the group, however is individually and proportionally registered and secured against the property by way of a Trustee and / or Mortgage Administrator. Each persons investment is registered according to the proportion of the overall mortgage they have invested in.

2. What is Syndic8

Syndic8 is a product name for a syndicate mortgage investment. The word “syndicate” actually means a group or association of people working together for a common cause. For example: Film, newspaper and television syndicates. The number 8 is the target rate of return for the syndicate mortgage investment. Putting them together as in Syndic8 means a group of people working together to provide an investor an 8% rate of return.

3. How is my investment secured?

Investor capital is secured with real property, actual physical and material property. All investments enjoy real estate security or real estate collateral by way of a lien registered at the Land Registry Office, administered by the Government of Ontario. It is one of the most recognized and transparent forms of security. The specific real property or real estate collateral securing your particular investment is identified in the legal documentation you will review, understand and sign prior to making your mortgage investment.

4. Are there other layers of protection for the investor?

Each transaction we identify, design and offer has the added security, over and above the collateral offered by the piece of property or real estate being financed and pledged, of a General Security Agreement (GSA). The use of a GSA is not standard in all mortgage transactions. You should confirm that it is being utilized in any mortgage investment you make. The GSA will ensure that the investors have a valid and enforceable charge against any other assets belonging to the project or purchased for the project such as heavy machinery, tools, equipment, etc. A similar GSA will also apply to any leases or sales that the project engages into over the life of the development.

Each investment is managed by a licensed Canadian Mortgage Administrator. A Trust Agreement and Mortgage Administration Agreement executed between you and the Administrator governs your relationship with the Borrower. The Administrator's function, aside from holding an interest reserve and remitting interest payments to investors, is to unify and create one voice for investors. Having a single independent representative for all investors is an efficient and effective method of making decisions as a group. This power is more crucial if a borrower defaults on its mortgage. The ability to act as one, quickly, can help further safeguard your investment in order to take over, sell or refinance the mortgage without delays that can be caused by conflicts of interest and the poor organization of the investor pool. This is vitally important especially in syndicated mortgages where dozens, or even hundreds of investors, have an interest in the same mortgage.

Each investment is arranged and closed with a mortgage agent and lawyer. You are also encouraged to have Independent Legal Advice (ILA) before investing. The issuer can have one arranged for you if you wish. Each investment is governed by the Financial Services Commission of Ontario. Legal agreements and clauses also serve as an effective means of further safeguarding in your investment. More specifically, here are a few examples with a description of their function that should be in all mortgage transactions.

A. Negative Pledge Agreement:

A negative pledge clause is another way for mortgage holders, lenders or investors to protect their investment. By including a negative pledge clause in a mortgage loan, lenders prevent borrowers from taking certain actions contrary to the investors' best interest such as paying bonuses or dividends before repaying the loan. Generally negative pledges work to prevent actions that would jeopardize the investor's or the lender's ability to repay the loan. Including a negative pledge in a mortgage loan agreement increases the security of the mortgage from the investors’ perspective as we are allowing the borrower or developer to secure funds at a slightly lower interest rate again providing greater security to investors.

B. General Security Agreements:

Often the lender in a mortgage will want some additional assurance, usually in the form of collateral, in case the borrower fails to repay the loan. To ensure collateral is collectible in the case of a default, the parties will often enter into another agreement - a general security agreement. A general security agreement sets out the rights of the lender with regard to the collateral. It establishes a claim for any assets or property acquired with the lenders capital. Please note that you must register this agreement in accordance with Provincial Legislation.

C. General Assignment of Rents and Leases:

More common in commercial real estate transactions, the borrower assigns to the lender the amount of all rents due from tenants in a property owned by the borrower. The assignment is given as security for a mortgage loan or other monies being advanced to the borrower by the lender until the mortgage loan is repaid.

Other agreements you should familiarize yourself with are below. These agreements should form part of the documentation of your mortgage investment transaction and provide additional security.

Certificate of Officer
Non-Merger Acknowledgement
Undertaking
Declaration of Possession
Assignment of Insurance Interest
Assignment of Book Debts

5. What does the mortgage agent or mortgage broker do?

Just like any mortgage instrument, a mortgage agent clearly outlines the terms and provisions of the contract. It is their responsibility to inform you of your benefits and rights as a lender, your safeguards as an investor, present due diligence materials and answer any other questions that the investor may have.

6. What is an Independent Legal Advice (ILA)?

Receiving ILA is an important step in your due diligence process. In a private and confidential meeting, a lawyer will explain your legal rights, the benefits and risks you may receive with the investment, as well as any other financial and transactional disclosures.

If you do not have a lawyer, one can be provided each time you participate in a UNION Capital Management Investment at no cost.

7. Who is the Financial Services Commission of Ontario (FSCO)?

The Financial Services Commission of Ontario is a regulatory agency of the Ministry of Finance that regulates insurance, pension plans, loan and trust companies, credit unions, caisses populaires, mortgage brokers, and co-operative corporations in Ontario.

8. What is the FSCO Disclosure Form?

The FSCO Disclosure Form details the general terms of the transaction, makes relevant disclosures to you, details any conflicts of interest, itemizes costs being funded such as fees to you, your referring agents, legal, and brokerage fees, along with the use of proceeds.

9. What are some of the factors that an investor should take a look at before investing?

A potential investor should take a look at the management team and track record of the mortgage brokerage arranging the investment, the quality, form and type of appraisal, the loan-to-value ratio, the purpose of the loan, the use of loan proceeds, the legal contracts forming the mortgage investment, and the exit strategy of the borrower. This listing is certainly not all inclusive, but will serve in better assessing the risk profile of the opportunity.

10. What constitutes an excellent appraisal?

An excellent appraisal is one completed by someone who is a member of good standing with the Appraisal Institute of Canada (AIC) and carries an Accredited Appraiser Canadian Institute (AACI) designation. Only these are acceptable for Syndicate Mortgages provided by UNION Capital Management. You can learn more about the AIC and the AACI Designation here: www.aicanada.ca. You should pay close attention to:

A. Extraordinary/Limiting Assumptions

At what moment in time is the appraisal being conducted?
What assumptions are being made (density, environmental status, zoning) and are they reasonable? Are they probable?

B. Valuation Methodologies

What methodology was used? Replacement value, income approach, or direct comparison are available for use in different situations. In a development transaction, only the direct comparison approach should be used. Replacement value and income approaches are more relevant for existing structures and also those that produce income.

UNION Capital Management does not endorse nor recognize any appraisal not prepared in accordance with AIC Guidelines such as a Valuation Letter or Letter of Opinion.

11. What is an AACI Designation?

See www.aircanada.ca

12. What is Loan-to-Value ratio (LTV)?

The LTV ratio is a ratio measuring the total mortgages or debt as a percentage of the total appraised value of the property. For example, if a property is appraised at $500,000 and has a mortgage of $400,000, the property has an 80% LTV. The equation is: debt divided (/) by appraised value multiplied (X) by 100. In this example, that would be $400,000 / $500,000 X 100.

13. What are common purposes or use of proceeds for the loan?

Common purposes or the use of proceeds for the loan include, but are not limited to: architectural drawings, planning consultants, environmental studies, development application fees, development charges levied by the city or municipality, finance charges, interest reserve, refinance existing debt, reports by various development consultants such as structural and mechanical engineers, green consultants, landscape consultants and project marketing. There are a multitude of professional consultants engaged to develop a property. A large proportion of the loan proceeds are used to pay for such services in preparation of a draft or site plan application and to obtain a building permit to begin construction.

14. What are common exit strategies of a borrower?

Mortgage investments allow for multiple exit strategies provided they are underwritten and structured by trustworthy and reputable professionals with a great deal of integrity. Here are some of those exit strategies:

A. The development/construction project is complete and all units have been sold or leased (in the case of a commercial development) at or near projected sale prices. The developer/ builder would be in receipt of the proceeds from selling or refinancing the property (in the case of a commercial) and be able to repay all mortgage investors.

B. The development/construction project is refinanced at or near the end of the mortgage term. Upon successful refinancing, the developer/builder would replace your mortgage investment with that of another mortgage or other form of investment by another group of investors. The ability to do this depends on several factors including the way the property was valued when the original investors participated and where the value may be today. In instances where Future Value appraisals or Valuation Opinions are used, instead of more reliable AACI appraisals (see point #11 above), the ability to refinance may be jeopardized.

C. The development/construction project is sold. A sale of a project, provided the sale price is higher than all the debt against it, is a viable solution in returning an investors money to them.

The ability to do this depends on several factors including the way the property was valued when the original investors participated and where the value may be today. In instances where Future Value appraisals or Valuation Opinions are used, instead of more reliable AACI appraisals (see point #10 above), the ability to refinance may be jeopardized.

15.What are the risks involved with investing with syndicated mortgage?

There are several risks to consider: sales risk, execution risk, market risk, interest risk, liquidity risk and emotional risk. The best protection a mortgage investor can have is being knowledgeable about mortgage investments in general, asking the right questions and working with reputable mortgage brokers. Here are some probing questions and items you should ask for before committing money to any type of mortgage investment:

A. What is the value of the property/project today? How was that value assessed? What is the Loan to Value (LTV) Ratio?

This will give you a clear sense that the Loan To Value (LTV) Ratio being communicated to you is accurate. If the property/project was not valued by an AACI Appraiser, ask why. There is no substitute for a professionally prepared appraisal in a mortgage investment. There are many reasons why a borrower, developer/builder or mortgage broker would like you to rely on something other than an AACI Appraisal. Those reasons, however benefit them and not you as the investor. Always ask for a copy of the appraisal to ensure it has been prepared in accordance with AACI guidelines and ensure it is addressed to you or the investor group so you can rely on it legally. Furthermore, be aware of what assumptions or limiting conditions the appraisal has been prepared under.

B. Review the proforma or cost consultants report.

Ask for a copy of the pro forma or cost consultants report. A professional with experience in preparing this financial data, should prepare this report. You want to ensure the project is going to be profitable, but more importantly, you want to ensure the projections are reasonable. The most important projections made are those that relate to the density (how much can be built on the site; 5 stories or 50?) of the proposed development and the sale/lease prices of the units. If there isn't a 50 storey building in sight in and around the proposed development and the pro forma calls for a building of that size, ensure the expectation to build a 50 storey building is in fact reasonable and that the developer/builder isn't inflating or exaggerating the numbers. The projections should be in line with the City or Municipalities Official Plan. Overstated or overzealous projections can be disastrous for a project and its investors. More importantly, if a pro forma report is being relied on, it should be signed by you and be part of the mortgage investment paperwork. If you are expecting an additional return depending on the degree of success of the project, it is crucial that the financial data form is part of the mortgage paperwork you sign. You want to ensure that when the project is complete, the borrower/builder/ developer will honour the bonus, if applicable to be paid, and that the potential bonus is based on the pro forma you signed and not some other set of numbers. If you don't sign the pro forma and it doesn't form part of the mortgage documentation, you can not rely on all being paid.

C. Request a copy of the Mortgage Investment paperwork beforehand and pay close attention to the Financial Services Commission of Ontario (FSCO) Disclosure materials.

Always review the mortgage investment paperwork before investing. While you may receive Independent Legal Advice, the lawyer doing so will only review what is on the paperwork and not advise on what might be missing or what might look wrong. Talk about postponements, use of proceeds and disclosure of costs.

16. What are the possible sales risks?

Sales risks affecting the development of the project include:

A. Length of time until the development is approved: delays in the approval process can result in a later than scheduled start to the project sales cycle and a delayed completion date of the project.

B. Systemic or general economic risk is a very real risk in all developments that could affect the length of time it takes for a development to sell through its residential or commercial inventory and lease commercial space. The term used to describe the rate at which properties or units in a development are sold is absorption. A question often asked is: What is the general absorption rate for units in this specific geographic area OR how long is it expected to take to sell-out the development project? Generally, a development project must sell or lease at least 65% of the project before construction can commence.

17. What is execution risk?

Execution risk is a term generally used to describe the general risks that can be encountered by a real estate developer or builder in reaching their end goal. There are thousands of 'steps' or 'activities' that must be taken throughout the life of a development project. The risk of these 'steps' taking longer than anticipated or not being executed properly is known as an execution risk.

18. What is market or systemic risk?

The risk of a property or project being financed and developed is affected by real estate market conditions such as general economics and financial conditions both within Canada as well as worldwide.

19. What is liquidity risk?

Mortgage investments are generally illiquid, which means they cannot be sold quickly or easily. Investors must understand that they must be committed to the full term of the mortgage. Similar to a mortgage granted to you for the purchase or refinance of your principal residence by your bank, you, like your bank, must honour the term negotiated and agreed to, as the lender.

20. What is emotional risk?

Emotions cloud decision-making. When you fail to conduct proper due diligence or place unfounded trust into an investment or the architects behind it, you run the risk of making a decision based on your emotions rather than a decision based on fundamentals and impartial review of the quality of the transactions. It is only by removing emotion that you can better assess the risk profile of each mortgage transaction.

21. Are there any fees involved?

There are no fees involved to the investor lender to participate in a syndicated mortgage investment. However, investors registered assets are subject to administration fees and trust fees by the registered asset administrator. Typical registered assets such as RSPs or TFSAs are administered by a trust company, like Olympia Trust.

22. Where do my interest payments go?

You receive your interest payments as follows:

A. If you invested with non-registered funds, you will receive a monthly or quarterly cheque representing your interest payment.
B. If you invested using RRSP or other registered funds, your monthly interest payment will be deposited directly into your respective account.

23. How am I taxed?

Payments are taxed as interest income for non registered funds. Please speak to your accountant or tax expert for advice about your specific situation.

24. Where is the interest paid coming from?

The project developer to set aside an interest reserve at the onset of the project. This reserve ensures that there will be sufficient funds to pay the interest due to all the investors for the entire term of the mortgage. We, as the mortgage brokerage, make sure that this process transpires.

25. How will the interest be paid?

Interest will be paid monthly or quarterly. It will typically be done as an electronic fund transfer to a bank account of choice or to the trust company for registered investments.

26. Can I take my money out before the term ends?

No, you cannot. As a lender you are contractually bound to the terms of the contract in exchange for the interest you are paid. Your investment, must stay in the syndicated mortgage for the entire duration of the term of the contract.

27. Who can invest in a syndicate mortgage investment?

All Canadians are eligible to invest in syndicate and other mortgage investments. Their suitability in your portfolio is subject to your individual risk profile and should be discussed with your financial advisor.

28. Are Syndicated Mortgage Investments RRSP, TFSA, LIRA, RRIF and RESP eligible?

Yes.

29. What institution is responsible for holding my registered assets?

We normally deal with Olympia Trust Company. As a trust company, they are responsible for ensuring that the mortgage investment is in good order. Their website: www.OlympiaTrust.Com

30. Are there fees involved for registered funds?

Just like any other self-directed registered accounts, there are fees involved. As of this writing, Olympia Trust charges a one-time mortgage set up fee of approximately $169.50, an annual registered trustee fee of $113.00 and a monthly administration fee per mortgage of $11.30.

31. Is there a minimum investment amount that must be purchased?

There is a minimum investment amount of $25,000.00.

32. Is there a target rate of return?

Yes. Investors will enjoy an annual return starting at 8% on their capital in the form of monthly interest payments. For investments in excess of $100,000, investors may also be able to increase returns through her receipt of additional lender fees from the borrower/mortgage brokerage. Lender fees typically start at 1% of the invested capital. These fees are disclosed and paid to the investor at closing.

33. When will my principal investment be returned?

Principal is returned at the end of the specific mortgage term specified in your documentation. Always review your mortgage investment paperwork to ensure the term is accurate. You may also want to pay specific attention to any contractual extensions to the term you have agreed to and that the borrower may utilize.

34. Are all mortgage investments made in Canada?

Yes. All private mortgage opportunities presented are Canadian and all generally restricted only to major Canadian cities. All of our investment opportunities to date have been in Toronto and the Greater Toronto Area (GTA).

35. Can this investment be held by a corporation?

Yes. It will require submission and completion of additional paperwork, including, but not limited to: Articles of Incorporation and a Shareholder Declaration or Resolution.

36. Should I have a question regarding my investment, whom can I contact directly?

As an investor, a dedicated account representative will be available to you at all times to answer any questions you may have, and will be in regular contact with you to make sure that all information regarding your investment is current.

37. Who do I make the funds payable to?

Funds are always made payable to a lawyer or mortgage administrator (whom we will disclose to the investor prior to advancing the certified cheque), IN TRUST. UNION Capital Management, or any of its subsidiaries and agents, do not receive funds directly from investors.

38. Why is this product "Prospectus-Exempt"?

This product is prospectus-exempt because that we do not pool clients' money for distribution at a later date into undisclosed projects. The terms of our projects are disclosed to client prior to their commitment to invest in the form of marketing materials, legal and loan documentation along with required Financial Services Commission of Ontario (FSCO) Disclosure Form(s), which includes, but is not limited to: discussion paper, pro forma, appraisal, planning report(s) and other relevant information such as, term, rate of return, lender fees, location, and the loan to value ratio, etc.

39. Can the product be held jointly?

Yes. In the case of joint ownership, the joint owners will also be required to sign the paperwork, as well as provide two pieces of identification in the presence of a lawyer/notary upon the closing of the investment documents.

DISCLAIMER

Please be advised:

This communication does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

UNION Capital Management, its Owners, Executive Team, Directors or its Employees, will not be held liable for any inaccuracies in the information presented, communicated or authored in or during a presentation, meeting, email or conversation with any individual.

The contents of any materials Union Capital Management publish, online, in print and in any other form, are for information purposes only. Under no circumstances should the contents of our communications be considered “advice” and relied upon as a substitute for consultation with a financial or tax advisor.

Past performance of any investment does not guarantee future results. Important information is contained in each investment’s legal documentation.

The UNION Capital Management is not responsible in any way for any damages (direct, indirect, special, incidental, economic, or consequential, exemplary or punitive) in respect of or in connection with the use or inability to use the information that may be published in any fashion. Any action or decision made by you or any one else in reliance on any information we may publish or discuss, or any unauthorized use or reproduction of this information, is done at your own risk and peril. You are advised to conduct your own due diligence on investment opportunities over and above what information, research and conclusions that a referring advisor, agent, financial professional, referral source or the Union Capital Management as a whole may collect, conduct or make. There is no guarantee of any investment return whatsoever, nor is there a guarantee that a capital investment into a specific mortgage investment will ever be returned. As an investor, there is the potential for you to lose all of your invested capital.

UNION Capital Management, its Owners, Executive Team, Directors or its Employees, will not be held liable, in any capacity and by any individual, for any losses incurred by or through the financial activities or operations, investment or otherwise, of UNION Capital Management, its Owners, Executive Team, Directors or its Employees.

ABOUT US

UNION Capital Management is a privately held financial services company involved in mortgage underwriting, lending and financing. The company focus is around matching investors with unique, mortgage lending opportunities to those seeking private capital for real estate purposes, and assisting clients in obtaining the mortgage that is right for them. Union Capital Management will offer the best solutions to our clients while adhering to our 5 core philosophies.

OUR PHILOSOPHY

SECURITY

Through our methodology we offer a higher level of investments

BRICKS & MORTAR

All of our investments are secured in real estate.

STOCK MARKET FREE

Real estate is less volatile then the stock market

FLEXIBILITY

We offer 1 - 10 year terms.

MATCHMAKING

We match people that have money with people that need money