



NatEquity Knowledge Base

Enterprise Risk Management Policies and Practices

1 BACKGROUND

NatEquity is a California residential real estate investment company who lends to senior homeowners and shares in the future appreciated value of their homes. Our goal is to allow senior homeowners to age in place with the assurance of continued income while leaving up to one half of their home's future value to heirs.

NatEquity accrued interest with shared appreciation senior home equity access products are a stable asset class that offer predictable high cash-on-cash yields. In the simplest form, NatEquity agrees to buy one half of each home based upon the current appraised value. At time of future sale NatEquity receives one half of the home's sales price, plus recoups loan principal advanced and accrued interest. In exchange NatEquity pays the home owner a stream of monthly payments as long as they live in the home, may advance an agreed upon "fresh start" payment to clean up small debts, replace a roof, modernize a kitchen, pay off a reset HELOC and pays the balance of the home's appraised origination value to the homeowner in a lump sum at time of sale. Homes are inspected annually. Provided a home is maintain the homeowner receives a 2% annual cost of living increase in their monthly payments, without any change to their equity and appreciation sharing ratios.

NatEquity's solution to enterprise risk management is to form "p" partnerships with each of our borrowers and their family. Because NatEquity or our investors participate in the growth value of each home, we actively continue in the maintenance of each home as part of our value-added proposition. Based upon NatEquity's thirty years of experience serving seniors in the home equity access business we have learned from our successes and the missteps of others. Encouraging each homeowner to continue to actively manage their property means we learn about problems when they arise, not after the fact. NatEquity believes this philosophy pays dividends and gives family members piece of mind during the active loan period and at time of resale.

NatEquity is involved in the life cycle of each home from before they enter our portfolios until the final escrow at time of future resale. Based upon regional and local economic and trend analysis, supported by extensive local market knowledge, NatEquity's analysis gives us the edge in targeting selected markets. Much of this target market selection goes back to the 1960s and the development of the suburbs surrounding economic growth and educational centers in coastal California. In the 1960s, California graduated more credentialed teachers and the next six states combined. These teachers put down roots in modest homes in coastal suburbs to teach the children of the new technology, biotech and aerospace industry professionals. This influx required an equal number of city and county professionals to support this rapid growth.

These modest \$25-\$50,000 homes are now valued at \$1,250,000 or more. The consistent growth of new companies in these coastal job centers has supported 6% average compound annual home price appreciation for thirty years – a phenomena not seen anywhere else in America. These once young professionals either have or are retiring. A CalPERS retiree who is now 75 years of age, retired ten years ago with \$900 of monthly benefits. At 2% per year cost of living adjustment, that is now \$1,300 per month. The reality is that it is hard to live on \$1,300 per month at a time when interest rates on savings are near zero.

Home equity access, aka Reverse Mortgage, loan underwriting and servicing for much of the last thirty years has been guided by FHA's lax policy applied to the HUD Home Equity Conversion Reverse Mortgage (HECM) program. Because of the Government guaranty backstop on these loans sold to investors, both loan underwriting and servicing costs were held to a minimum. This led to epic abuse at taxpayer expense. The exception was Transamerica HomeFirst who introduced the first share appreciation equity access product in 1992 and who retained ownership of all contracts in an internally managed portfolio. This portfolio was sold in 1999 to a Wall Street investment bank who broke the portfolio up into Aaa rated SASCO-RM bonds. The last of these bonds matured in 2017. All were successful in meeting bond indenture conditions for investor payout.

Four principle factors drive a senior homeowner to access the equity they have built up in their home:

1. Low interest rates on savings,
2. The need for extra monthly cash flow to support the staggeringly high payments on that once cheap Home Equity Line of Credit (HELOC) that has now reset as an amortized 10-year loan,
3. The final trigger is deferred home maintenance that cannot be put off (think leaky roof), and lastly,
4. The desire to modernize your home to make it a more comfortable and enjoyable place to live.

2 HOLISTIC RISK MANAGEMENT

NatEquity's life cycle risk management solution begins with deep knowledge of the communities and homeowners we serve. The steps that follow seem logical but are seldom been practiced by others in the home equity access service community:

1. Property inspection at the time of loan origination tailored to identify and correct problems that, if left unaddressed, would not allow the home to grow in value similar to the surrounding community.
2. Homeowner credit analysis and financial planning to support California's mandatory requirement of housing counseling before a senior my enter into a "reverse mortgage".
3. Repair or replace infrastructure items to ensure the home is a save place to live and function.
4. Calendar items likely needing repair or replacement in the future.
5. Work with homeowners to satisfy their desire for a modernized kitchen and bathrooms to better enjoy their home while they live in and manage this growth asset.
6. Maintain quarterly contact with each homeowner to better assess their needs when they arise.
7. Annually assess the renewal of each home's replacement value homeowner's insurance policy.

8. Conduct a thorough annual home inspection to identify and correct items not called to our attention by the homeowner. Provided the home is well maintained, each homeowner receives a 2% annual cost of living adjustment to their monthly payments.
9. Supporting our portfolio requirements imposed by mark-to-fair-value reporting, NatEquity uses proprietary algorithms and outside data bases to revalue each portfolio home quarterly. This GAAP compliant level-3 valuation methodology assures NatEquity's portfolio investors the highest value for their investment.
10. At time of contract maturity and senior moveout, NatEquity actively participates in the steps required to prepare each home for sale through the final escrow:
 - a. Clean and prepare home for staging,
 - b. Stage home for sale,
 - c. When required, act as the listing real estate agent, and
 - d. Participate and follow each home through final escrow.
11. To enhance portfolio resale each home in portfolio is uniformly underwritten and continuing assessment and valuation data is similarly recorded.
12. NatEquity's private cloud-based software platform is anchored by Microsoft Dynamics Enterprise Resource Planning securely linked to key outside vendors with real time backup and disaster recovery in Microsoft's Toronto Data Center. Documents, objects, photos and other materials are in SQL data bases and MS SharePoint attached to the CRM and GP data core. MS Active Directory assigns user access based upon a rule set created by management. Under HIPAA, HITECH and Graham Leach rules, key customer identifies are encrypted.
13. NatEquity follows a strict protocol for business continuity and data disaster recovery.

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