Syndic8

A CONSUMER GUIDE TO SYNDICATE MORTGAGE INVESTING

ABOUT THE AUTHOR

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Paolo obtained his Bachelor of Business Administration degree from the Schulich School of Business. He has operated the Real Wealth Group since 2006. Real Wealth is a financial services brand representing independent investment, insurance, and mortgage brokerages in Ontario, Alberta and British Columbia. Financial advisors and mortgage professionals choose the Real Wealth brokerage platform to better serve their clients' needs. They respect and rely on the expertise of Real Wealth to deliver secure, transparent, and proprietary mortgage investment opportunities.

Paolo is integral in arranging, financing and developing residential and commercial real estate projects in the Greater Toronto Area. Earlier in his career, he was employed by The Great-West Life Assurance Company, the Canadian Imperial Bank of Commerce, and Canada Trust. Paolo recently obtained both his Canadian Professional Mortgage Agent (CPMA) and Accredited Mortgage Professional (AMP) designations. He is also a frequent speaker, panelist and case competition judge at the Schulich School of Business.

Social Entrepreneurship

Paolo serves as Chief Financial Officer for Courage Canada, a national charity and not-for-profit organization. The organization was founded by Mark DeMontis in 2008, after his dreams of becoming a professional hockey player were crushed by the diagnosis of a rare condition known as Leber's Optic Neuropathy, an optic disease that left him legally blind.

The organization's mission is to provide the opportunity for visually impaired youth to develop skills and enjoy the game of hockey. Courage Canada seeks to instil leadership characteristics in youth such as courage, confidence, and sportsmanship both on and off the ice in communities across Canada. The organization promotes healthy and active lifestyles among all youth, and creates opportunity for those with visual impairments to learn and love our nation's game. www.couragecanada.ca

Paolo has also been an active volunteer and supporter of Families for Children, Giant Steps, and the Canadian Cancer Society. He is a Member in good standing of Canada Company. Canada Company is a charitable, non-partisan organization that serves to build the bridge between business and community leaders and the Canadian Military.

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 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 poor design 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 to fund a single mortgage. The group is treated as one mortgage. Each investor within the group, 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 our product name for a syndicate mortgage investment. The word “syndicate” means a group or association of people working together toward a common cause. For example: Film, newspaper and television syndicates. The number 8 is the starting, 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 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 or property offered 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 by 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 the mortgage and their obligations to you. The ability to act as one, quickly, can help further safeguard your investment. The Mortgage Administrator will work 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 ILA 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 agreement 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 mortgage. Generally negative pledges work to prevent actions that would jeopardize the Borrower's ability to repay the loan. Including a negative pledge in a mortgage loan agreement increases the security of the mortgage.

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 this agreement must be registered 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?

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, review due diligence materials, discuss risks, 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 Real Wealth Mortgage 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 of the mortgage.

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 in 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 Real Wealth Mortgage. 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.

Real Wealth 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.aicanada.ca*

12. What is a 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 (SPA) and to obtain a building permit to begin construction. These costs are often referred to as soft costs.

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 in 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 forms 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 it 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 influenced or impacted by general economics and financial conditions both within Canada and globally.

19. What is liquidity risk?

Mortgage investments are generally illiquid, which means they cannot be sold quickly or easily. Investors must understand that they are to 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, you run the risk of making a decision based on your emotions rather than fundamentals and impartial review of the quality of the transaction. 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 and trust fees by the registered asset trustee. 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 cheque representing your interest payment.

B. If you invested using RRSP or other registered accounts, your monthly interest payment will be deposited directly into your 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 sets 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 part of, or the entire term of the mortgage. We, as the mortgage brokerage, make sure that this process is handled by an independent, third party Mortgage Administrator, who holds the interest reserved in trust. The Mortgage Administrator uses these funds to pay monthly interest to you.

25. How will the interest be paid?

Interest will be paid monthly . It will typically be paid as an electronic fund transfer to your bank account 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 by the terms of the contract in exchange for the interest you are paid and the security you receive. 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, and qualifies to be held inside your RRSP. 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 when the investment is made.

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 by Real Wealth Mortgage are Canadian and 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 Mortgage Agent Account Representative will be available to you at all times to answer any questions you may have. Real Wealth Mortgage will send periodic updates to you regarding your mortgage investment.

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. The Real Wealth Group, Real Wealth Mortgage, or any of its subsidiaries and agents, do not receive funds directly from investors.

38. Why is this product “Prospectus-Exempt”?

A mortgage instrument is a special type of security that does not require a prospectus to be issued. We do not pool clients’ money for distribution at a later date into undisclosed projects.

The terms of our projects are diclosed to clients 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:

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

The Real Wealth Group 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 Real Wealth Group as a whole may collect, conduct or make. There is no guarantee of any investment return whatsoever, nor is their 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.

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ABOUT US

REAL WEALTH GROUP OF COMPANIES is a fully integrated financial services company. We empower people to seize opportunities that enrich their lives. We are your trusted partner for innovative financial solutions. We create value by providing high quality investment opportunities and lending solutions.

REAL WEALTH INVESTMENTS offers mortgage investments secured by real estate for those who want to diversify their portfolio but do not have the time or expertise to do so. Our flagship product, Syndic8, is a smart way to invest. It is a secured, steady, stock market free and simple way to invest.

REAL WEALTH MORTGAGE offers optimized mortgage solutions from our extensive network of lenders that is in line with your financial plans. We partner with other financial professionals so you can achieve your goals whether it is paying down your mortgage, increasing your investments, improving your home or enjoying life. We believe your next mortgage should be not just about rates but about your Real Wealth.