



## **Carolina Capital Reserve Fund I LLC**

Fund Description and Term Sheet

April 2019

**Company:** Carolina Capital Reserve Fund I LLC, a Delaware limited liability company (the "Fund" or the "Company").

**Manager:** Carolina Capital Management LLC, a Delaware limited liability company (the "Manager" or "CCM"). The members of the Manager are initially Brother Bill, LLC, a South Carolina limited liability company, whose principal is William ("Bill") Fairman, Little Sister, LLC, a South Carolina limited liability company, whose principal is Wendy Sweet, and Fairway America Fund VII LP, a Delaware limited partnership ("FA Fund VII").

**Originator:** Carolina Hard Money LLC ("CHM"), a South Carolina limited liability company. The principals of CHM are Wendy Sweet and Bill Fairman.

**Manager Track Record:** Wendy Sweet and Bill Fairman have a combined 45 years of mortgage lending experience in the Carolina's and surrounding states.

FA Fund VII is a newly created partnership that was formed to acquire a variety of real estate asset backed investments in various forms including security instruments in other 506 Regulation D funds, ownership of real property, and debt secured by real property, in target markets around the United States. The General Partner of FA Fund VII is Fairway America Management Group II LLC. Fairway America, LLC, one of the key principals of the General Partner, is an experienced and long- time fund manager, and has successfully procured and deployed several hundred million dollars in private money between its several proprietary funds as well as multiple smaller funds and individual whole loan investors. Over the past twenty years, Fairway has started, operated, and concluded multiple funds and has either funded, brokered, and/or serviced nearly 1,000 small balance commercial real estate loans, totaling in excess of \$400,000,000. Since late 2011, Fairway has leveraged its extensive experience and track record to become the nation's premier real estate asset based 506 Regulation D fund consulting, advisory, and investment firm specializing in the business planning, creation, capital raising strategy, and third party

administration of private money pooled mortgage and other real estate asset based funds around the United States.

- 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").
- Investor Offerings:** Investors shall have two investment options:
1. Membership Units of the Fund
  2. Secured notes ("Notes") to the Fund
- Target Member Returns:** The targeted return to Members will be between **7% and 9%**. The Preferred Return is **6%**. Please see section "Preferred Return and Target Overall Return" below for more details on returns to Members.
- Note Holder Returns:** Note Holders shall be paid (on a Pari Passu basis a specific rate of return as detailed on a periodic Note Schedule published by the Fund). The returns will vary based on, among other factors, the size of investment, the duration of the Note term, and market conditions at the time of issuance. As of the launch date of the Fund (estimated at X, 2014), **Note Rates are expected to be in the range from 5% to 7%, depending on investment size and Note duration.** See the current Note Schedule.
- Minimum Investment:** \$50,000 per unique Investor, which amount may be adjusted in the sole discretion of the Manager.
- Financial Statements and CPA Audit:** The Fund expects to use the accrual basis of accounting and shall prepare its financial statements in accordance with Generally Accepted Accounting Principles ("GAAP"). The Manager shall cause the Fund to have its financial statements audited on an annual basis by a qualified Certified Public Accountant once the Fund has reached \$10,000,000 in Assets Under Management ("AUM"), or as required by any particular state regulations. These statements and audits shall be made available to Investors.
- Management Fee:** The Manager will charge an annual Management Fee of 2% of the total AUM. The Management Fee shall be calculated, prorated, and paid at the end of each calendar month.
- Fund Strategy:** The strategy of the Fund will be to produce attractive risk adjusted returns investing in real estate based assets

("Assets" or "Fund Assets") primarily in the states of North Carolina and South Carolina, and occasionally in locations where the Manager feels confident and comfortable in its capacity to underwrite effectively. The Fund will focus on real estate loans (the "Mortgage Loans"), both whole and participation interests, secured in first lien position by non-owner occupied 1-4 unit residential, multifamily, and occasionally commercial properties and land for future development.

**Asset Description:**

The Fund, either directly or through special purpose vehicles, which will be subsidiary LLCs owned by the Fund (each a "SPV"), will originate or acquire Mortgage Loans, both whole and participation interests, that meet the following general criteria:

- Mortgage Loans made primarily to investors for the acquisition and rehabilitation of 1-4 unit residential properties ("fix and flips") and expected to be held for relatively short periods of time.
- Mortgage Loans made primarily to investors (either purchase or refinance of existing properties owned) secured by 1-4 unit residential, multifamily, and occasionally commercial properties and land for future development ("Bridge Loans"). The Fund may sell these loans at par or for a premium within a relatively short time frame, or it may hold them, in the sole discretion of the Manager.
- Closed Mortgage Loans acquired at either par or at a discount to existing face value with an expectation of gain over the life of the hold period.
- The Manager expects terms on the Mortgage Loans it originates or acquires to range from 1 month or less to 18 months, with loan sizes ranging from \$50,000 to \$1,000,000, however, these ranges will fluctuate throughout the life of the Fund. The composition of the portfolio and percentage of each type of Mortgage Loan shall be determined in the sole discretion of the Manager.
- The Manager will determine the value of the property for lending purposes through broker price opinions, online comparable sales, appraisals, prior experience with similar properties, or other internal means in the sole discretion of the Manager.
- Loan to value ("LTV") will typically not exceed 70% without significant compensating factors. For Mortgage Loans with a construction component, LTV will be based off the After Repair Value ("ARV"). All funds for construction will be monitored and disbursed by the Manager in its sole discretion.
- Borrowers will generally be required to demonstrate and document a clear ability to pay, meet certain

credit criteria established by the Manager, and have a clear and viable exit strategy for the loan, in the judgment of the Manager.

**Activities of Fund:** All identification of property, due diligence, and underwriting of Assets for the Fund and SPVs will be done by the Manager for the benefit of the Fund or SPVs. The Manager may subcontract some due diligence functions to third parties (e.g., appraisers, inspectors, subcontractors, real estate brokers, etc.) for the benefit of the Fund which shall be considered Fund Expenses.

**Fund Administration:** The Manager has initially engaged Redwood Real Estate Administration, LLC ("Redwood"), an affiliate of Fairway America, LLC, to provide the Fund with professional administration in the areas of financial statement preparation, investor subscriptions, and redemptions and other back office administration functions. Redwood has the relevant infrastructure, resources, and experience that are expected to significantly assist the Fund and Manager in the professional administration of the Fund. The cost of these services shall be a Fund expense.

**Note Holders/Notes:** The Fund will borrow money from time to time from Note Holders who will be issued Notes of varying maturities between 1 and 5 years. Note Holders will be lenders to the Fund on a Pari Passu basis and have a blanket secured interest in the Fund Assets. This secured interest will be in a senior position except in circumstances where individual Fund assets have been or are being pledged to any senior lender ("Credit Facility or "Facility").

The Fund intends to have multiple tiers of rates based on the amount of money lent from a Note Holder and the duration of the maturity. These tiers may change from time to time. The interest rate for each maturity date and dollar amount combination shall be set by the Manager in a Note Schedule to be published periodically. Notes may be purchased, with the consent of the Manager, at any time at the interest rate and terms defined for that period by the Manager. The Fund may prepay the outstanding principal and interest to any Note Holder at any time without penalty.

**Membership Units:** The Fund will sell Membership Units at a "Unit Price" that shall fluctuate quarterly based on the total collective "Stated Value" of the Fund Assets. The Stated Value of any individual Fund Asset shall be determined on the last day of each calendar quarter by the Manager in its sole discretion. The Manager, however, shall establish and follow a methodology for determining the Stated Value of the Fund Assets, which it may modify, alter, amend, or improve from time to time in its sole discretion. The initial Unit Price will be \$1,000.

Investors may execute subscription documents at any time, subject to acceptance by the Manager. However, an investment in the Membership Units will become effective as an equity investment **only** as of the first day of the quarter (the "Effective Date") following the date of acceptance of the subscription and associated deposit of an Investor's money into the Fund's subscription account (the "Deposit Date"), **and** upon the Fund's transfer of the money into its operating account. The Fund may use the Investor's money between the Deposit Date and the Effective Date, provided that any amounts drawn by the Fund from the subscription account into the operating account shall be treated as a loan to the Fund for which the Investor shall receive interest at 6% (annualized) during the period between the Deposit Date and the Effective Date, and for which the Investor will receive a 1099 Statement for passive interest income. The Investor shall become a Member of the Fund **only** after the Effective Date **and** upon acceptance of the subscription by the Manager, and only upon acceptance of the Investor as a Member will the investment, or portions drawn from the subscription account, be treated as an equity investment in the Fund.

**Preferred Return And  
Target Overall Return:**

**The Fund's objective is to produce an overall return to Members in the range of 7% to 9% annually.** Subject to performance of the Fund and after paying Fund Expenses as well as the Management Fee to the Manager, Members will receive a **preferred return of 6%** (the "Preferred Return") paid quarterly. Members will also divide with the Manager on a quarterly basis any Excess Distributable Cash ("EDC," see below) with 60% of the amount distributed to the Members and 40% distributed to the Manager.

The Preferred Return shall be "Noncumulative," meaning that any shortfall in a given quarter shall not carry forward (and as further defined in the PPM). However, the Manager's portion of the EDC shall be subject to a Clawback for up to two consecutive quarters after any shortfall of the Preferred Return (see "Manager EDC Clawback" below).

The Manager has done extensive financial modeling based on what it believes are reasonable assumptions and projections. Should the Fund meet its financial models and achieve its objectives, this would equate to an overall return to the Members in an expected range of **7% to 9%** annually. **However, an investment in the Fund is inherently speculative and no specific return on invested capital or even return of invested capital can be promised or guaranteed.**

**Excess Distributable Cash (EDC):**

This figure shall generally mean an amount that is equal to any remaining cash in the Fund after having paid out interest and principal payments on any Credit Facility, Fund Expenses, the 2% (annualized) Management Fee, Note Holder interest, repayment of maturing Notes, if any, eligible redemptions in the discretion of the Manager, the Preferred Return, and reserving sufficient capital for future activities of the Fund, as determined in the sole judgment of the Manager. The Fund typically expects to distribute all available EDC. At each quarter end, payment of any Preferred Return and/or EDC shall either be made or not made depending on Fund results at the discretion of the Manager.

Any EDC actually paid will be divided 60/40 between the Members and the Manager respectively on a quarterly basis. The Member's portion shall be considered a distribution and the Manager's portion shall be considered additional compensation and shall be treated from an accounting perspective as a Fund Expense.

**Manager EDC Clawback:**

The Manager's portion of any EDC in a given quarter shall be subject to forfeiture to the Members if the Fund had failed to pay the Members their Preferred Return in the prior quarter (the "Clawback"). The amount of any Manager EDC forfeiture shall not exceed the amount of the shortfall of the Preferred Return, or the full amount of the Manager's portion of the EDC for that quarter, whichever is less. Any Clawback amount owed by the Manager shall apply and carry forward for up to a maximum of two quarters immediately subsequent to the quarter in which the Preferred Return shortfall occurred.

**Fund Income:**

The Fund shall receive as Fund Income, 50% of any and all origination fees collected on Mortgage Loans, with the other 50% paid to the Manager and/or Originator, over and above the first 1%, which is paid 100% to the Manager and/or Originator, 100% of any and all extension fees collected on Mortgage Loans, 100% of any interest collected on Mortgage Loans, 100% of any rent collected on real estate Assets owned by the Fund, 100% of any interest collected on deposited funds or receivables owned by the Fund, 100% of any membership redemption fees collected, and 100% of the net sale proceeds in excess of basis on the disposition of any Fund Asset. See the PPM for further details.

**Manager and/or Originator Other Income:**

In addition to the 2% Management Fee and the appropriate split of any EDC, the Manager and/or Originator will receive as income the first 1% of any and all origination fees collected on Mortgage Loans and then 50% of any additional origination fees, with the other 50% paid to the Fund, and 100% of all late fees actually collected from Borrowers. The

Manager and/or Originator may also charge a reasonable, market-based processing and/or underwriting fee to help cover its expenses associated with processing and underwriting any Mortgage Loan it originates, acquires, or extends.

The Fund intends that the Manager and/or Originator will be contracted to perform loan servicing duties on the Mortgage Loans the Manager and/or Originator originates or acquires. In cases where the Manager and/or Originator is being contracted to also be the loan servicer, the Servicing Fee (expressed as an annual percentage of the unpaid principal balance) will be .50% of the unpaid principal balance of each Mortgage Loan. If the Manager chooses to retain the services of a third party loan servicer, the servicing fee may (or may not) exceed .50%, but shall at all times, be commercially reasonable.

**Fund Expenses:**

Fund Expenses (including SPV expenses) shall include, but not necessarily be limited to the following: Fund organizational costs, tax preparation, CPA fees, legal fees, loan servicing fees, fund administration fees, capital acquisition fees and costs (including payment to duly licensed third parties who are contracted by the Manager to raise capital for the Fund), loan origination and/or other fees associated with any Credit Facility, property improvement and rehabilitation costs not otherwise capitalized, sales commissions, taxes, insurance, utilities, and any other expense associated with the operation of the Fund and the management of its Assets.

The Fund may incur fees to eligible third parties for raising capital on its behalf in the discretion of the Manager. Any such fees shall be borne by the Fund as part of the Fund Expenses.

The Manager shall be reimbursed for all reasonable out of pocket expenses incurred on behalf of the Fund which shall be considered Fund Expenses.

**Minimum Offering:**

The Fund shall begin making its investments as summarized herein immediately upon receipt of investment capital, or as soon thereafter as is practicable in the judgment of the Manager. The relative size of the initial Fund Assets may be smaller than in the future depending on the amount of capital available to the Fund. However, the Fund expects to raise capital on an ongoing basis and thus shall begin making investments immediately.

**Maximum Offering:**

The Fund shall seek to raise the Maximum Offering of up to \$50,000,000 in equity capital (Member and Note Holder capital combined), which amount may be increased in the

sole discretion of the Manager. The Manager may or may not raise the full amount during the life of the Fund. The Manager shall be entitled to sell additional Membership Units and/or Notes at any time and on an ongoing basis so long as it does not exceed the Maximum Offering, which may be increased as described above. Upon reaching the Maximum Offering, if there are Redemption requests that are granted and/or Note Repayments that bring the Fund's AUM below the Maximum Offering, the Manager may again raise additional equity and/or issue additional Notes and may do so at any time during the life of the Fund up to the Maximum Offering.

**Term:**

The Fund is an open-ended "evergreen" fund with no set end date. 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. The Manager intends generally to utilize the return of capital from the disposition of Fund Assets to originate and acquire new Fund Assets rather than return the capital to Members. However, the Manager expects to manage the Fund's investments and capital structure in such a manner as to attempt to provide a reasonable level of capability for the Fund to accommodate Redemption requests given the relatively illiquid nature of real estate based investments in general.

If the Manager deems it appropriate based on evolving market conditions and dynamics, the Manager shall cease to originate and acquire new Fund Assets and shall distribute any return of capital from the disposition of Fund Assets back to the Members until all Fund Assets have been liquidated. The Manager may choose to return capital to the Members at any time during the life of the Fund.

**Use of Leverage/Credit Facilities:**

The Fund and/or any SPV(s) of the Fund may choose to borrow money from time to time from one or more senior lenders ("Credit Facilities" or "Facilities") and may pledge one or more Fund Assets as collateral for any such borrowing, subject to certain restrictions imposed in the Operating Agreement. The Operating Agreement grants the Manager significant latitude and discretion in its ability to use Credit Facilities in the operation of the Fund. However, the Operating Agreement also places specific limitations on the use of Credit Facilities by the Manager, namely:

- The Fund will not provide any Facility with a first lien position on any than existing Fund Assets already encumbered by Note Holder interests for the specific purpose of acquiring cash to accommodate Member Redemption Requests;



- The Fund will specifically not utilize any large Facility that would require it to pledge all or a majority of its assets using a borrowing base formula;
- The Fund will not utilize a Facility in an amount in excess of 50% of the Stated Value of any Fund Asset at the time of procurement of that debt.

Any Facility shall be nonrecourse to the Members. The Manager (and/or its principals) and the Fund may agree to provide its Guaranties for a given Facility but is not required to do so. Any Facility will likely have covenants that affect the Company, any SPVs, and the Manager.

**Debt to Equity Ratio:**

The Fund expects to maintain a Note Holder balance to total Member equity ratio in a range between 1:1 and 1.5:1. This ratio, which shall exclude debt associated with any Facility, will undoubtedly fluctuate from time to time and may be higher or lower than this range. The actual ratio maintained by the Fund at any given point in time shall be determined in the sole discretion of the Manager. However, if the ratio exceeds 2:1, the Manager shall be prohibited from investing in new Fund Assets unless and until the ratio has fallen below 2:1.

**Distributions and Reinvestments:**

Members shall have the option (prior to any liquidation of the Fund) to receive any Returns actually distributed either 1) paid to them via check or ACH or 2) to use these funds to automatically purchase additional Membership Units at the prevailing Unit Price, with the exception of the first quarterly distribution after a contribution is made. The first quarterly distribution shall be reinvested into additional Membership Units to ensure that there is not a return of capital invested. Members shall make such an election at the time of subscription and may change this election with 90 days' notice to the Manager and not more frequently than twice per year. The Manager may suspend or terminate the reinvestment option at any time in its sole discretion.

**Redemption and Lockup Period:**

Members will be required to hold their Units for a minimum of 24 months (the "Lockup Period") before they may request Redemption. Redemption requests for reasons of financial hardship or emergency during the Lockup Period may be considered on a case by case basis subject to a penalty (the "Redemption Fee") equal to the amount of 5% of the then current Unit Price. The Manager shall have no obligation to consider any hardship Redemption requests during the Lockup Period and shall be entitled to charge a higher or lower Redemption Fee. All Redemption Fees charged and collected will be considered income to the Fund.

After the Lockup Period, Redemption requests will be considered on a first come, first served basis. A Member

shall be required to provide the Manager a 60 day notice for any Redemption request and any Redemption actually provided shall be done only as of the first day of the calendar quarter immediately following the end of the 60 day notice period at the then current Unit Price as determined by the Manager. Any Units purchased by Members via the Reinvestment Option shall be considered, for purposes of any Redemption requests, to "tag along" with the original date of purchase of the Units for which the Reinvestment Units are associated.

The Manager shall have no obligation to grant any particular Redemption request and shall retain sole discretion as to whether or not to redeem any Unit. No Member will be given priority for Redemption over any other Member for any reason other than the date upon which the request was made. The Manager may redeem Membership Units Pari Passu at any time at the then current Unit Price in its sole discretion without penalty to the Manager or the Fund.

All of the above parameters notwithstanding, the Manager will endeavor to manage the Fund in such a manner as to be able to accommodate Redemption requests at any time after the Lockup Period as consistently as possible.

**Note Holder Early Repayment:**

A Note Holder may request an early repayment of the Note (a "Repayment") prior to its maturity date subject to a penalty equal to a downward interest rate adjustment to the appropriate Note term consistent with the Repayment date (if applicable) plus an Early Repayment Fee of 5% of the principal balance of the Note. The granting or not of the early Repayment request shall be subject to the sole discretion of the Manager.

**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 (c) of Regulation D, for an exempt offering under federal and state law. Each SPV will be organized as a Delaware limited liability company. The Fund and SPVs are expected to be treated as disregarded entities for federal income tax purposes. However, the Manager in its sole discretion may cause the Fund to participate in an SPV rather than owning all of the SPV interests.

**Eligible Investors:**

For U.S. Investors, Membership Units will be offered solely to Accredited Investors, as that term is defined by Rule 501 of the Securities Act of 1933, and who satisfy eligibility requirements set from time to time by the Fund and its Manager. In the sole discretion of the Manager, the Fund may establish a structure to secure investments in the Fund

from foreign Investors. The number of unique investors shall be limited to a total of no more than 500.

**Life Insurance:**

The Manager intends to be the beneficiary of a life insurance policy on the lives of Wendy Sweet and Bill Fairman in the minimum amount of \$1,000,000 each within 6 months of the Fund's initial investment. This amount is expected to be sufficient to provide the Manager ample time to identify and procure any necessary replacements without undue duress or financial pressure.

**Waterfall:**

The following outlines the priority ("Waterfall") for the distribution of cash from the Fund:

1. Interest and principal payments on any Facility (depending on what collateral is pledged to a particular facility);
2. Fund Expenses;
3. Manager annualized 2% Management Fee (paid monthly) on total AUM as of the last calendar day of each month, and any other fees due the Manager;
4. Note Holder interest, payable quarterly;
5. Repayment of maturing Notes, if any;
6. Preferred return to Members, payable quarterly;
7. Subject to the Clawback, any available EDC, as determined by the Manager, to be split 60/40 between the Members and the Manager respectively at the end of each quarter.

Distributions from the Fund upon liquidation will follow the Liquidation Waterfall as detailed in the PPM.

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