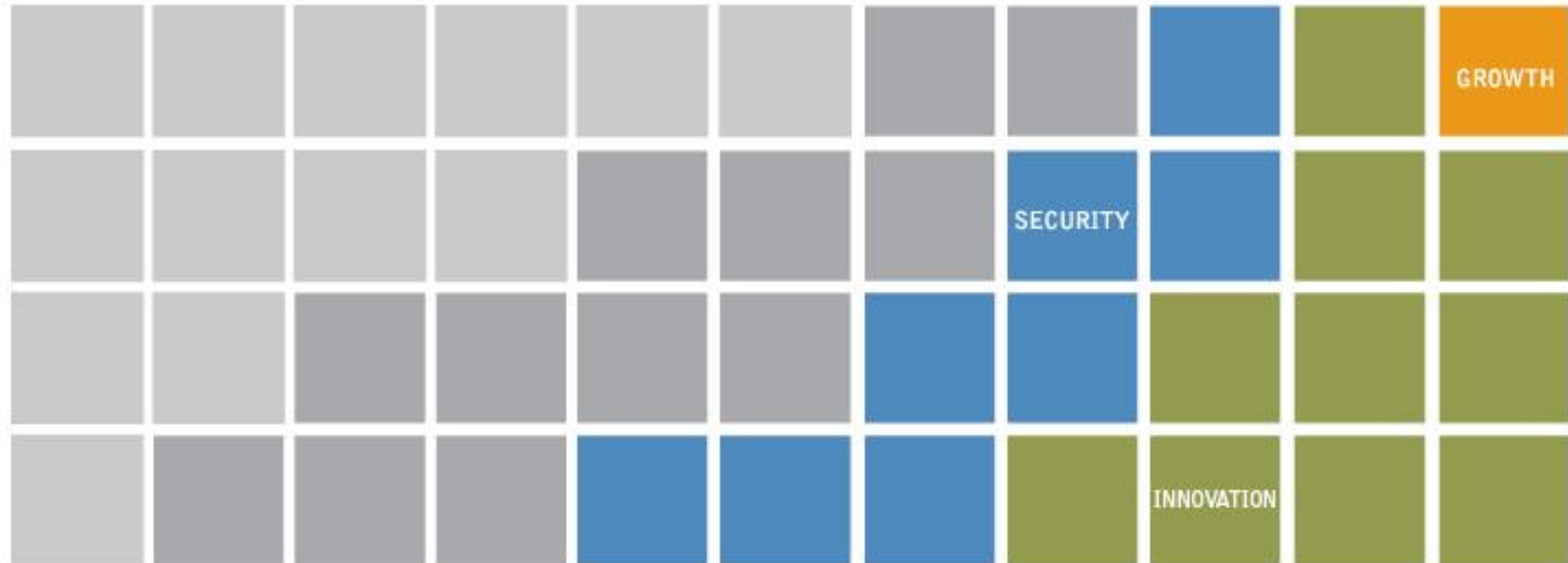




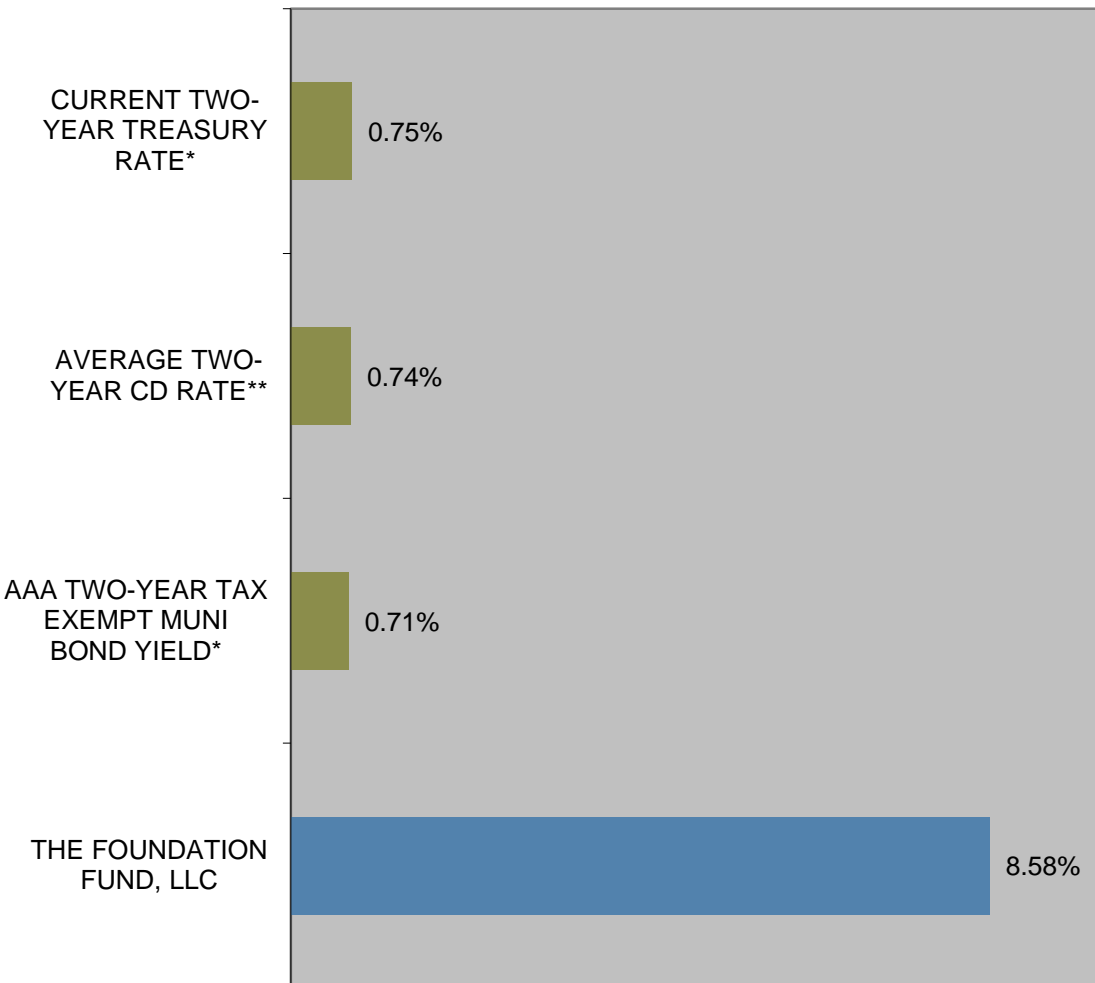
Trust Deed Investing with Sterling Pacific Financial

Fall, 2016



Introducing Sterling

EXPECTED INVESTOR RETURNS COMPARISON



- **Portfolio Assets Under Management: 110M**
- **Strategy Assets Under Management: 150M**
- **Average Fund Performance, YTD: 8.58%**
- **Average Performance Since Inception: 9.09%**



Executive Summary

- **Company Purpose:**

To bring together investors and borrowers to create a niche marketplace whereby time sensitive special needs financing is met with alternative investment opportunities for premium risk adjusted returns.

- **Key Metrics Profile:**

Average investment size: \$250,000.

Investor types, percentages:

Fractional note and deed participants (on average 6-7 investors to fund one loan)

- Retirees, live off of cash flow: 15%
- Near retirement, (dislike of stock market) cash supplements lifestyle: 30%
- Diversified general investor: 45%
- Other: 10%

Mortgage pool participants

- Near retirement, retirement dollars invested: 25%
- Diversified general investor: 65%
- Other: 10%



Executive Summary

Bankers:

Rabobank, NA

Santa Cruz County Bank

Auditors:

Armenino LLP

Legal Counsel:

Geraci Law Firm

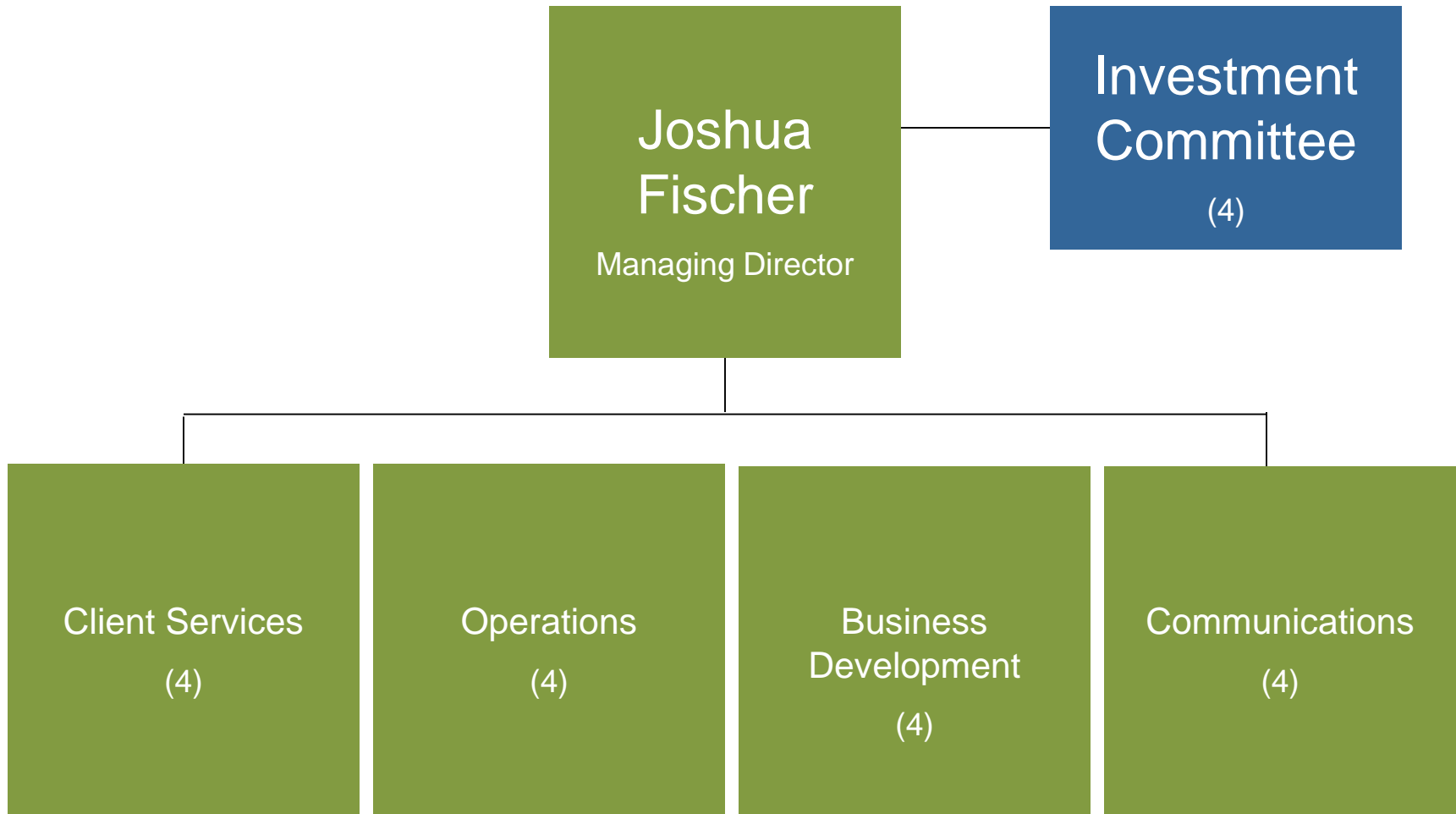


Alignment of Interests

- Management invests alongside investors
 - Sterling professionals contribute 20% of Assets Under Management (AUM), or \$24M
- Performance-based compensation:
 - Our portfolio management fee is 1% of AUM – assessed as a transaction cost to borrower, with no impact on investor yield
 - Our firm revenues depend on our investment success
- Average investment term: 12-36 months
- Minimum investment: \$25K
- Accrual-based accounting: most conservative approach for investors



Organizational Chart



Time for A Different Investment Option?

- In today's market, inflation and stock market instability pose a serious threat to portfolio values
- Traditionally, investors have increased their investments in stocks to protect long-term value
- However, weighting towards stocks adds risk – especially in today's market environment



What if Added Risk is Unacceptable?

- Sometimes, long-term commitment to stocks is impractical – and, if funds are needed short-term, risk of loss on stock investments is higher
- Bonds, money market/fixed income instruments are the traditional low-risk alternatives – but, erosion by inflation is almost certain
 - Among “traditional” investments, yields and capital security are generally at odds



Inflation and Taxes Make “Safe” Investments Unprofitable

- Taxes take a bite – 35% or more, depending on state and local impact
- Inflation is increasingly problematic – currently estimated at 5%
- Even at recent 3-3.5% levels, a yield of more than 5% is needed to avoid losing ground



Adjusted Annual Returns at 35% Tax Rate

At 3.5% inflation

Interest rate	Net Return
3.00%	-1.55%
4.00%	-0.90%
4.50%	-0.58%
5.00%	-0.25%
5.40%	0.01%
6.00%	0.40%
7.00%	1.05%
8.00%	1.70%

At 5% inflation

Interest rate	Net Return
3.00%	-3.05%
4.00%	-2.40%
4.50%	-2.08%
5.00%	-1.75%
6.00%	-1.10%
7.00%	-0.45%
7.70%	0.01%
8.00%	0.20%



Secured Loans Have Long Provided an Alternative – For Some

- Private money real estate loans can deliver substantial, predictable returns – with the security of collateral
- However, these opportunities have not been accessible to all investors
- Plus, usury laws limit the interest rate an individual lender can charge in some cases



Sterling Pacific Democratizes Private Lending

- As a licensed real estate broker and lender, Sterling Pacific can identify quality lending opportunities – and allow others to participate through trust deeds investing
- Virtually *anyone* or *any organization* can participate



Trust Deeds Earn Higher Returns

- Licensed trust deed investment companies (TDICs) like Sterling Pacific Financial can legally lend at rates determined by market demand
 - Sterling's current yields are 8-12.5% on average
- Investors in Sterling Pacific's trust deeds share in these substantial yields



Collateral + Experience = Lower Risk

- Sterling Pacific's experience in selecting properties minimizes default risk
 - investment committee has more than 40 years of combined real estate and lending experience
- All trust deed investments are secured by the mortgaged properties – so, in the unlikely event of default, foreclosure provides a means to return funds to investors



Credit Crunch = Opportunity

- Banks consider “credit-worthiness” above collateral in lending decisions
 - Today’s tighter standards mean fewer borrowers qualify
- As a collateral-based lender, Sterling Pacific can tap many attractive lending opportunities ineligible for bank loans



More Clear-cut Than Other Real Estate Based Investments ...

- A trust deed investment is not a REIT (Real Estate Investment Trust)
 - REITs are stocks representing portfolios of real estate properties that typically generate operating income from rents
 - REITs are traded as securities on the public markets – components of the trusts are not transparent



... And Profoundly Unlike Mortgage-Backed Securities (MBSs)

- MBSs are bundles of loans originally evaluated and funded by banks, then purchased, packaged and re-sold repeatedly
- Impossible for an investor – or even the financial institutions in the transaction chain – to evaluate underlying loans
- Trust deeds, by comparison, are fully transparent – each deed matches one property



A Match for Evolving Needs

Yesterday's Assumptions

- Stocks do best long-term
- Diversification = bonds
- Banks provide loans
- “Alternative investments” only for the ultra-rich

Today's Challenges

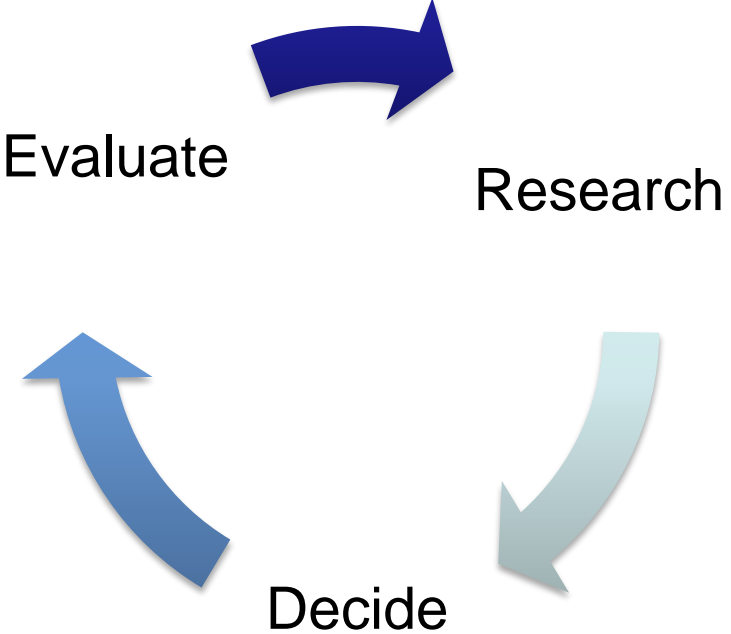
- Extraordinary stock volatility
- Bonds uncertain, too
- Bank lending stalled
- Retirement portfolios deteriorating
- Inflation returning and increasing
- Investors need stability plus income to recoup – especially for retirement

Trust Deeds Meet New Needs

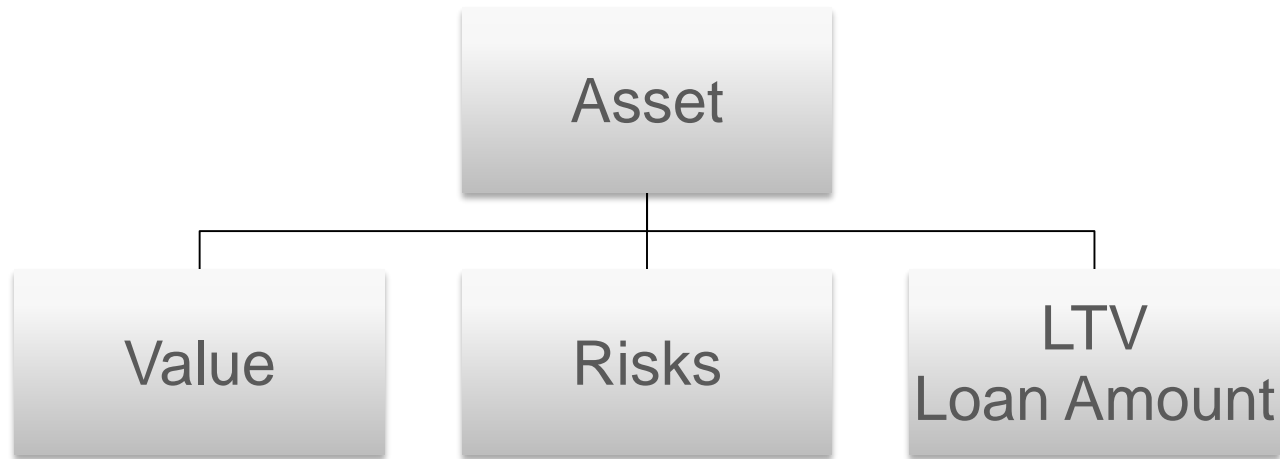
- Trust deeds can fill unmet lending needs, capitalize on credit crunch
- Principal protected by real estate collateral
- Returns are predictable – and outpace inflation
- Sterling's products deliver these advantages to many types of investors



Our Investment Process – Three Key Steps



Evaluate



- In this stage of the process we evaluate the property's value, determine what risks the project presents, and calculate an appropriate target loan-to-value (LTV) ratio and loan amount.
- Our analysis always includes a review of:
 - Reports from Sterling's appraisers as well as broker price opinions
 - Property title reports and other legal documentation related to the asset

Research

- During the research stage, Sterling presents the investment opportunity to the Investment Committee for research and review.
- A critical part of the due diligence process, the Investment Committee reviews every loan that Sterling Pacific underwrites. Their work protects the interests of investors and borrowers alike.
 - Members bring expertise in real estate, finance, investments and leasing, expanding the knowledge-base of the SPF team.
 - To ensure objectivity, a majority are “outside” members. Besides their deep experience, these external members bring a fresh perspective and objectivity to Sterling’s process.

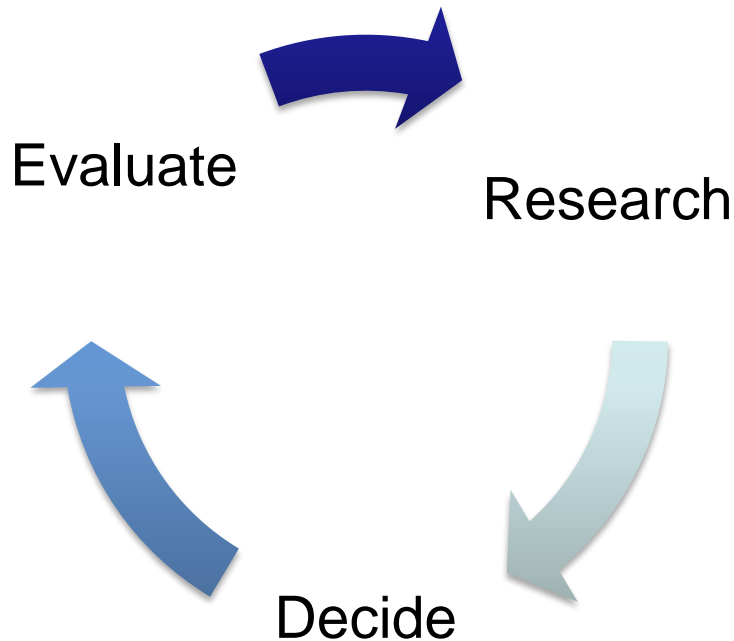


Decide

- Using their deep knowledge of real estate development, investment management, finance and leasing, the investment committee formulates a decision to present to senior management.
- Senior management then reviews the feedback and determines whether to fund the deal or not.
- Once a decision to fund has been reached, both the borrower and investor are contacted and the investment commences.



Our Investment Process - Simplified



1. Interview borrower
2. Establish asset value
3. Research title to asset
4. Verify any existing encumbrances
5. Investment committee approves loan
6. Underwrite loan
7. Complete loan – deed of trust and associated note
8. Assign deed of trust and note to investor(s)



Who Borrows?

- Borrowers (property owners) with needs that banks can't fill:
 - short-term loans, bridge loans, fast turnaround, mixed use
- Typical projects include shopping centers, medical office buildings, apartment buildings
- Borrowers' projects are located within geographic areas highly familiar to Sterling



Who Borrows?

- Many of Sterling's borrowers are repeat borrowers with a long track record of real estate development success
- For over a decade, Sterling has profitably lent funds for projects that are ineligible for bank loans, yet offer clear profit potential



Who Invests?

- Investors seeking diversification beyond stocks and bonds
- Investors who need high yields, but prefer not to lock up their money for more than a year or two
- Investors who need both current income and capital preservation



Who Invests?

- Investors who would like to invest in real estate without managing properties or dealing with tenants
- Investors who prefer investments without hidden management fees or “loads”
- Investors who prefer *uncomplicated, understandable investments*



Who Invests?

- Sterling Pacific investors include:
 - Individuals (including through tax-advantaged accounts like IRAs and other retirement accounts, Coverdell and other education accounts)
 - Organizations and trusts, such as non-profit endowments and pension plans
- All individual investors must meet net worth/income requirements



Leadership and Innovation

- Sterling Pacific Financial leads the trust deeds category in innovation and results
- Sterling offers trust deed investment products for different investment needs, including fractional trust deeds and mutual-fund-like mortgage pools
- Sterling employs an investment committee of recognized lending and real estate experts
- Sterling far exceeds industry standards for transparency and communication with investors



Leadership and Innovation

- Sterling management believes in its decisions and invests alongside investors
- Well-capitalized and highly-regarded, Sterling gets its pick of available deals
- Sterling's management skills embrace the lending lifecycle, through servicing and workouts (not just evaluating/funding)
- Sterling's track record of success is unblemished
 - 90%+ investor retention

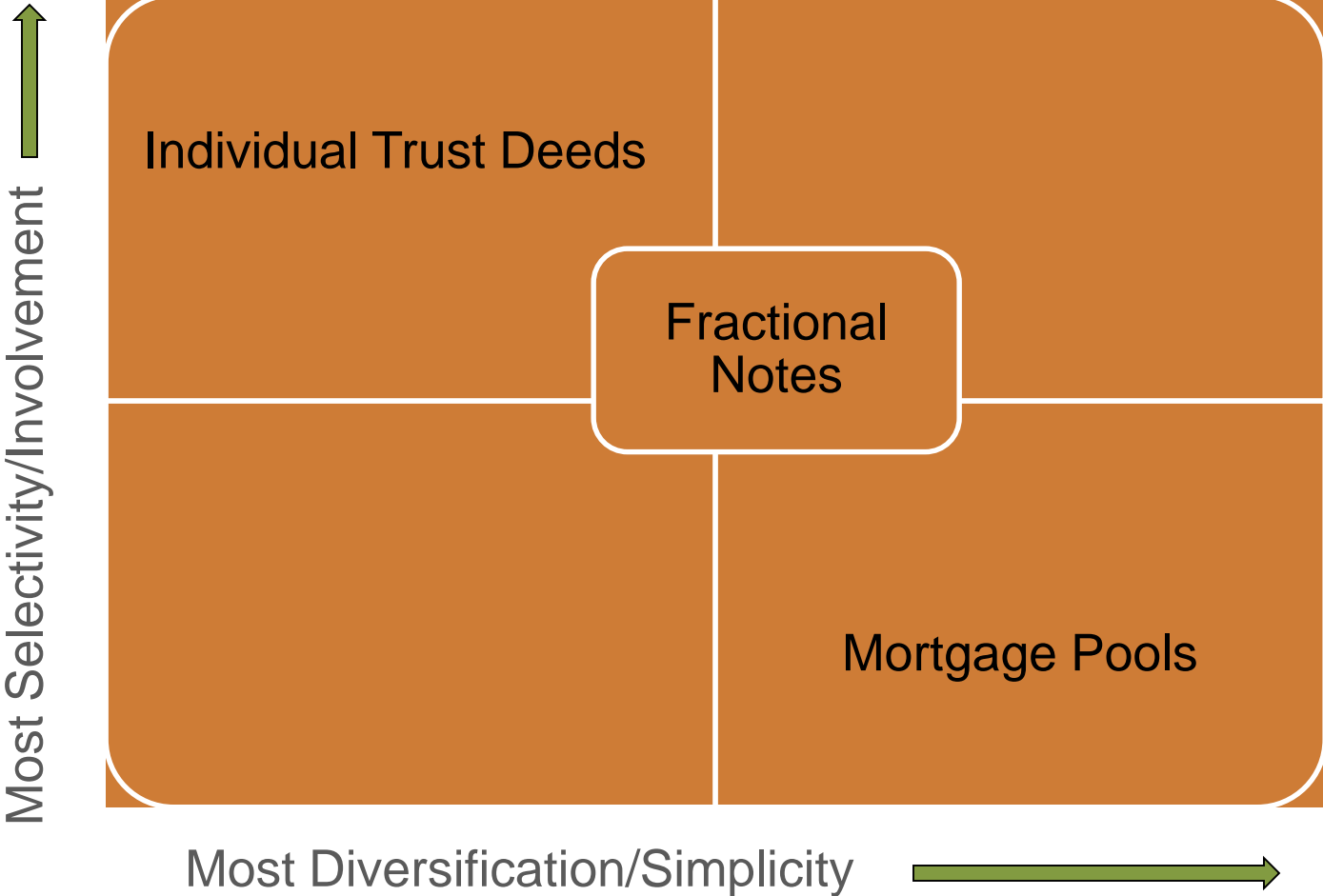


Investment Options

- Decide to invest in trust deeds with Sterling, and you will have several options:
 - 100% funding of a single trust deed (i.e., you are the “bank” for a real estate project)
 - Fractional funding of a trust deed (i.e., you and other investors jointly fund a loan)
 - Purchase shares in The Foundation Fund or The First Floor Fund, Sterling’s mortgage pools



Comparing Sterling Investment Options



Option 1: Funding a Single Trust Deed

- You choose which borrower/project best fits your investment preferences, including:
 - Interest rate
 - Loan term
 - Location, project type, borrower
 - First or second deed of trust
- You agree to invest your capital for the duration of the loan



Option 1: Funding a Single Trust Deed

- Sterling manages the entire process for you, paying your interest to you on a monthly basis
- At the end of the loan term (or in the event of prepayment), Sterling manages the return of your capital to you (or reinvestment into a new loan if you prefer)



Option 2: Investing in a Fractional Deed

- You choose the fractionalized opportunity that best fits your investment preferences
 - Interest rate
 - Percentage interest available
 - Loan term
 - Location, project type, borrower
 - First or second deed of trust



Option 2: Investing in a Fractional Deed

- You agree to invest your capital for the duration of the loan
- Sterling manages the entire process for you and the other fractional participants in the deed, paying your interest to you monthly
- At the end of the loan term (or in the event of prepayment), Sterling manages the return of your capital to you (or reinvestment if you prefer)



Option 3: Mortgage Pool

- Like mutual funds, Sterling Pacific's mortgage pools offer greater diversification through collective investment in a portfolio of many trust deeds
- The relatively low risk of trust deeds investing is reduced further by spreading investments across many loans



Option 3: Mortgage Pool

- Sterling manages the pools – continuously investing funds into quality real estate loans
- Investors are paid a monthly yield – which can also be automatically reinvested like a dividend
- Minimum investment of \$25,000 – must remain in the fund for at least a year
- The simplest of Sterling's investment options



No Hidden Fees

- Whichever Sterling option you choose, there are no hidden fees or loads
- Sterling receives a portion of the interest paid by borrowers – which has already been deducted from the rate you are quoted
- In other words, what you see is what you get: the rate quoted is your expected yield



Extending Tax Advantages

- Trust deed investments combine stability with regular, substantial yields – an excellent combination for many retirement or education portfolios
- Ideal solution when funds will be needed soon – so high risk is unattractive – yet growth cannot be sacrificed
- Income accumulates tax-free until withdrawal – taking full advantage of tax-deferral



Extending Tax Advantages

- You can invest funds from your IRA or other tax-advantaged accounts provided the account is self-directed
- Detailed instructions are included in the appendix of this packet



Ready to Get Started?

- Review the “Facts and Figures” (Appendix) for important details
- Contact us at (866) 896-3905 to get started, learn about specific available positions, or to ask any questions not covered by this document



Appendix: Facts and Figures

- In this section:
 - How Sterling evaluates Loan-to-Value to minimize investment risk
 - Typical loan terms
 - Risks of trust deed investing
 - Sterling's two mortgage pools – The Foundation Fund, LLC and the First Floor Fund, LLC – which is right for you?
 - Investment committee bios



Loan-to-Value

- Loan-to-Value (LTV) is a critical measure of the protective equity in a property – a lower LTV ratio means lower investor risk
- Sterling permits a *maximum* LTV of 75%
- Credit history is not unimportant, but well-analyzed LTV provides more investor security
- Sterling also researches property title and determines the impact of existing liens or other encumbrances – if any



Typical Sterling Loan Terms

- Loan-to-value ratio of no more than 75%
- 12-60 months term
- Interest only, with a balloon repayment of principal at the end of the term
 - At the end of the term, principal is returned to investor(s) (individual or fractional trust deed) or to the fund for reinvestment (mortgage pool)



Risks of Trust Deed Investing

- Secured by collateral, trust deeds have had relatively low risk historically – but, like all investments, trust deeds have risks, such as:
 - Borrower default
 - Property value decline or disparity with market
 - Real estate risks: tax and regulatory changes, neighborhood changes, interest rates, changing economic conditions



Sterling Pacific's Mortgage Pools

The Foundation Fund, LLC

- Open to CA residents only
- Loans for California properties only
- \$500K net worth (net of home) or \$250K net worth with \$65K annual income
- Open for investing through tax-advantaged accounts
- Target yield 8-9%

The First Floor Fund, LLC

- Open to all US citizens
- Properties in AZ, CA, NM, NV, OR, WA
- \$1MM net worth (minus home) or income of \$200K (individual)/\$300K (couple)
- Target yield 8-9%



Ready to Get Started?

- Contact our Investor Relations department at (866) 896-3605 for our offering documents, required forms – and to ask any questions unanswered by this presentation

