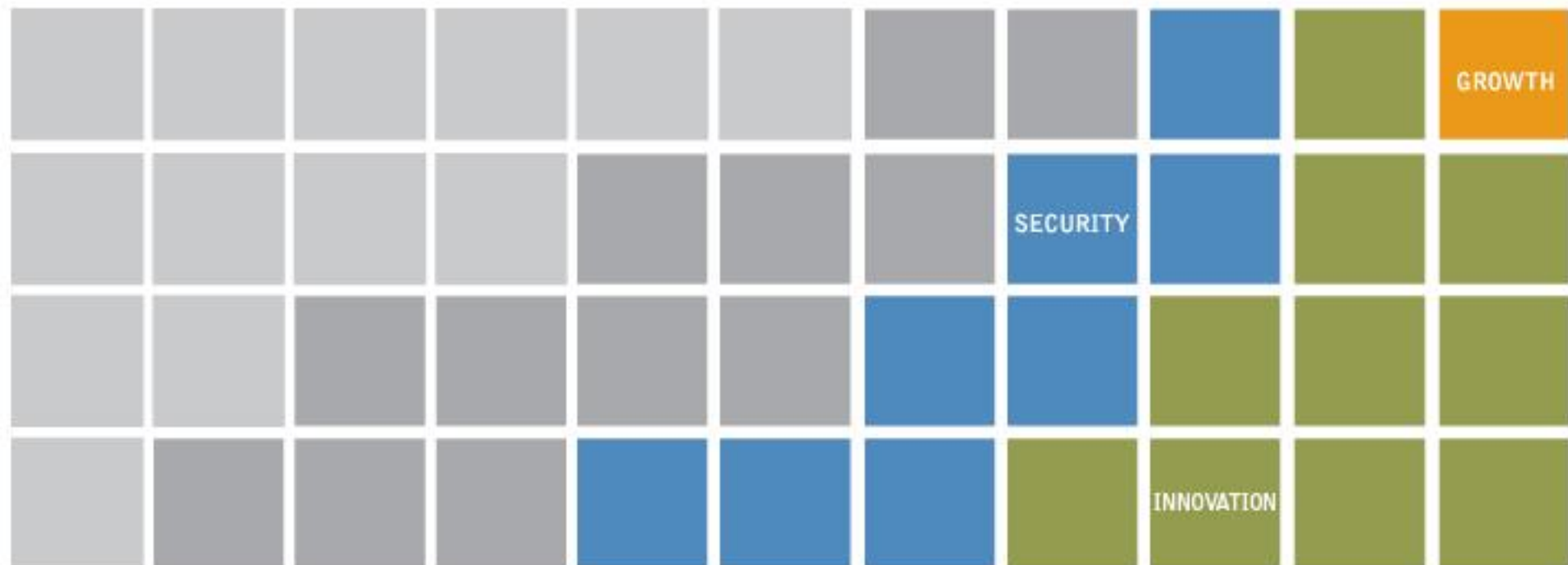




Introduction to Trust Deed Investing with Sterling Pacific Financial

Fall, 2016



Part One: Trust Deed Investments with Sterling Pacific – a Sensible Alternative



An Investment Alternative Tailor-Made for a Challenging Market

- Today's stock market volatility has eroded portfolio values
- Stocks are assumed to do well if held over the long term, but this is not always practical
- With interest rates near 0% and inflation increasing, bonds, CDs, and other “safe” investments will lose value
- Investors are hungry to rebuild and avoid losing more ground
 - * *Our investments offer a means to rebuild and earn high yields now – without dramatically increasing risk*



Introducing Sterling Pacific Financial and Trust Deed Investing

- As a trust deed investment company, Sterling Pacific identifies high-quality real estate lending opportunities, enables investors to fund these secured loans, and manages the entire process from application through repayment.

Because our loans typically fund projects that require special handling, our investments deliver above-market returns – at relatively low risk.



An Clear, Old-Fashioned Investment – Previously Available Only to a Few

- Private real estate loans have historically delivered substantial, predictable returns – with the security of collateral
- However, these opportunities were typically privately arranged, and not accessible to all investors
- Plus, usury laws limit the interest rate an individual lender can charge in some cases

* *Sterling expands access to these sensible, comprehensible investments*



Sterling Pacific Democratizes Private Lending

- As a licensed real estate broker and California Finance Lender, Sterling Pacific can identify quality lending opportunities – and allow investors to participate
- Over a decade of innovation and growth, we've simplified and organized the lending process – so that it's easy to understand and easy to invest
- As a licensed lender, we can charge market rates – without violating usury laws – allowing our investors to earn premium returns

** With minimum investment starting at \$25,000, virtually anyone or any organization can participate*



Part Two: Key Company Advantages



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



Collateral + Experience = Lower Risk

- Sterling Pacific's experience selecting properties minimizes default risk
 - Investment Committee has more than 40 years of combined real estate and lending experience and reviews all loan applications
- Experience also informs the loan-to-value (LTV) maximums that we set, which protect investor equity
 - In the unlikely event of foreclosure, the LTV we set pre-loan helps protect all invested principal



Credit Crunch = Opportunity

- Banks consider “credit-worthiness” above collateral in lending decisions
 - Today’s tighter standards mean fewer borrowers qualify
 - Banks are reluctant to lend even to the best borrowers
- As a collateral-based lender, Sterling Pacific can tap many attractive lending opportunities ineligible for bank loans
- Well-capitalized and highly regarded, Sterling gets first pick of available investment opportunities



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
 - Trust deeds, by contrast, are transparent and easily understood and evaluated



... 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



Leadership and Innovation

- 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



Part Three: Key Company Data

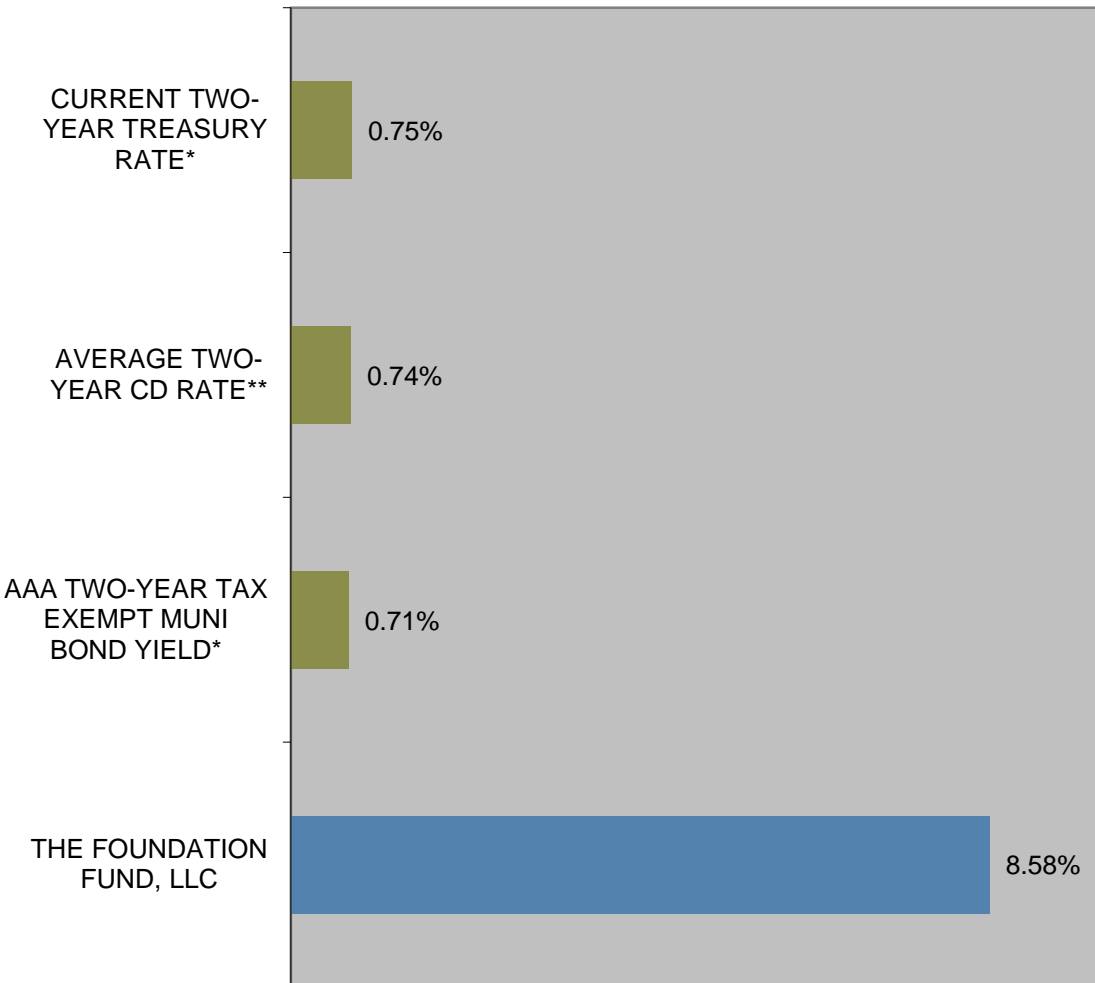
Above Market Investor Returns

- Unlike individuals, 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



A Decade of Performance for Investors

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

- Key Metrics Profile:

Average investment size: \$250,000.

Average investment term: 12-36 months.

Minimum initial investment: \$25,000

Investor types, percentages:

Fractional note and deed investors (on average six-seven investors per loan)

- Retirees living off of cash flow: 15%
- Near retirement, averse to stock market, cash supplements lifestyle: 30%
- Diversified general investor: 45%
- Other: 10%

Mortgage pool investors

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



Executive Summary

Bankers:

Rabobank, NA

Santa Cruz County Bank

Auditors:

Armanino LLP

Legal Counsel:

Geraci Law Firm

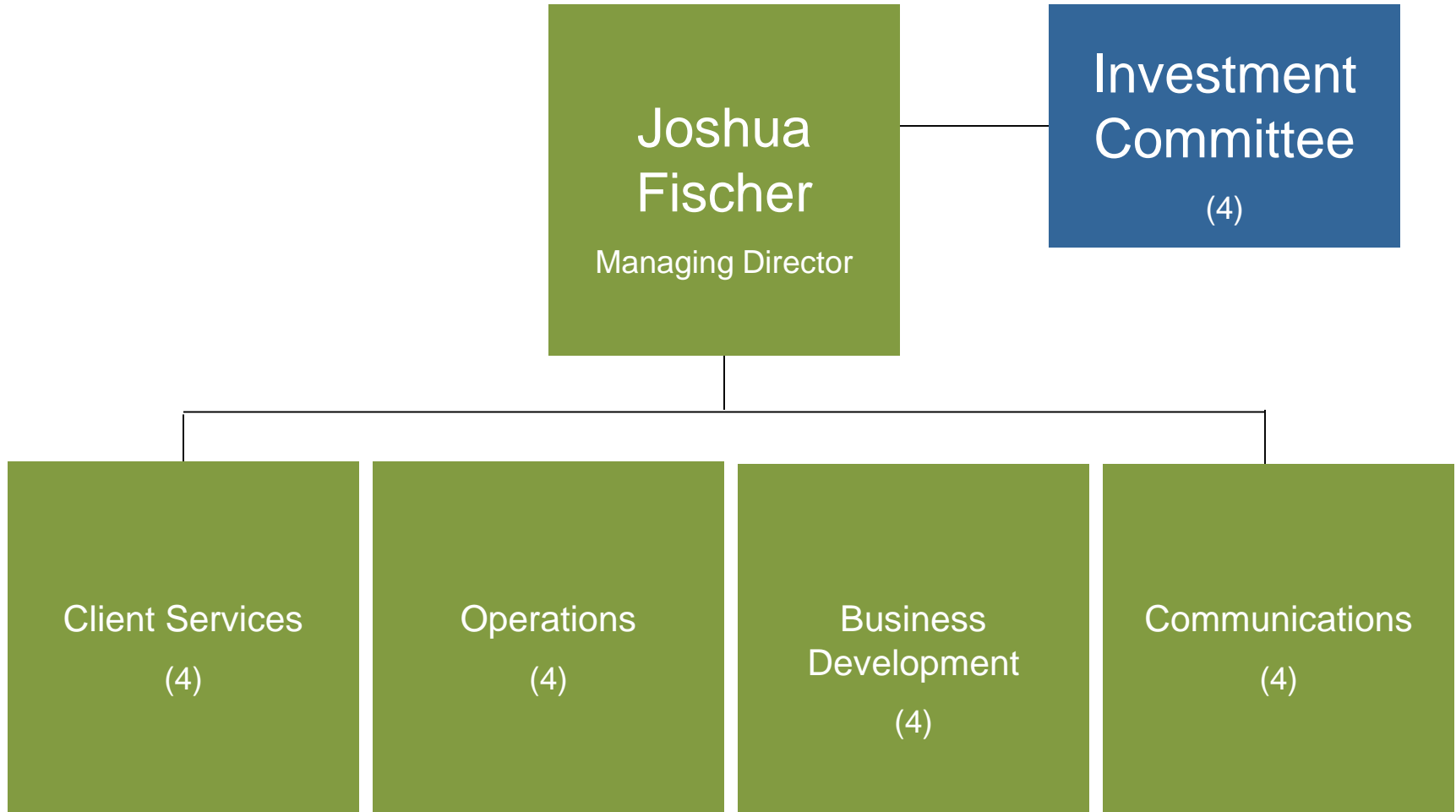


Our Interests Are Aligned With Our Investors'

- Sterling's management team's own investments account for 20% of total Assets Under Management (AUM), or \$24M
 - We invest alongside investors
- Performance Based Compensation:
 - Our Portfolio management fee is 1% of AUM. (Investor yields are always quoted *net* of this fee – so there are no “surprise” fees.)
 - Our firm revenues depend on our investment success
- Accounting is accrual based for conservatism

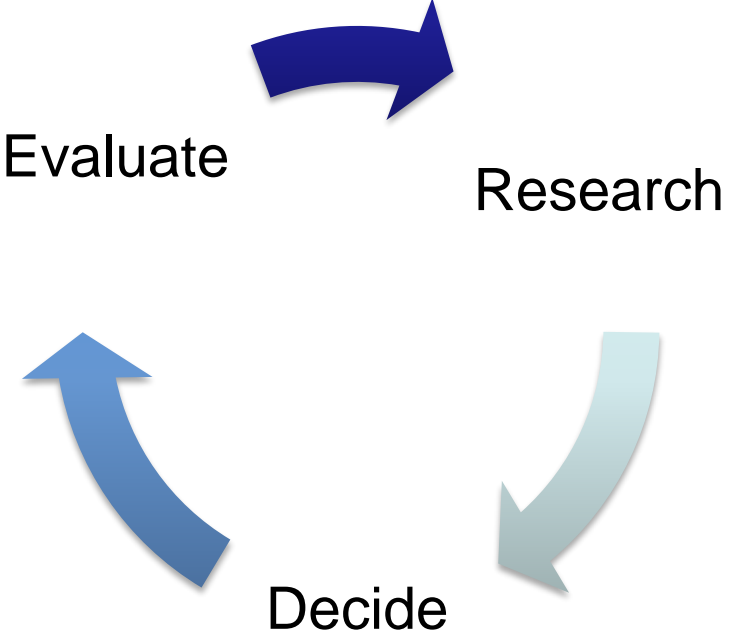


Organizational Chart

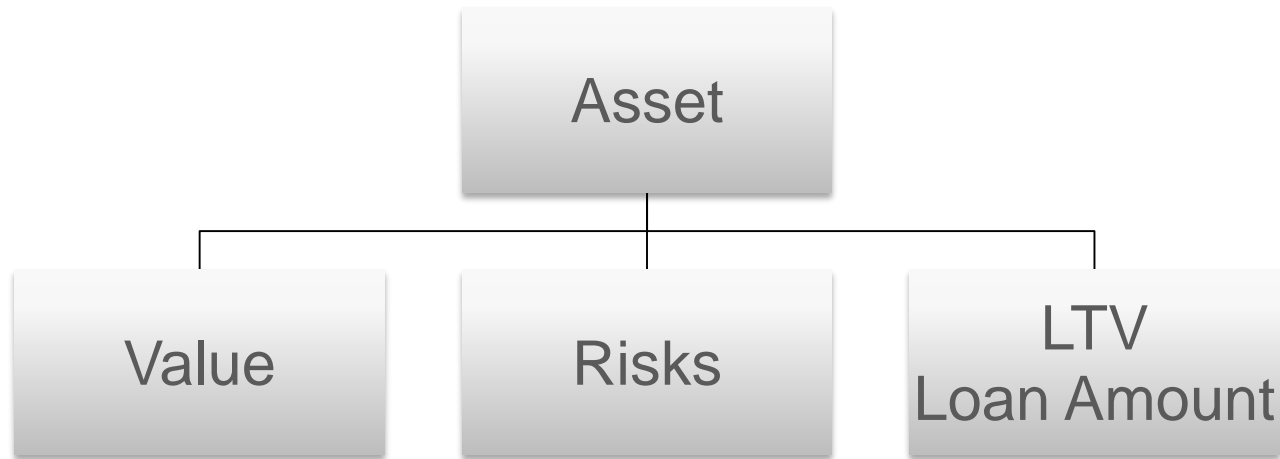


Part Four: Our Investment Process

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.

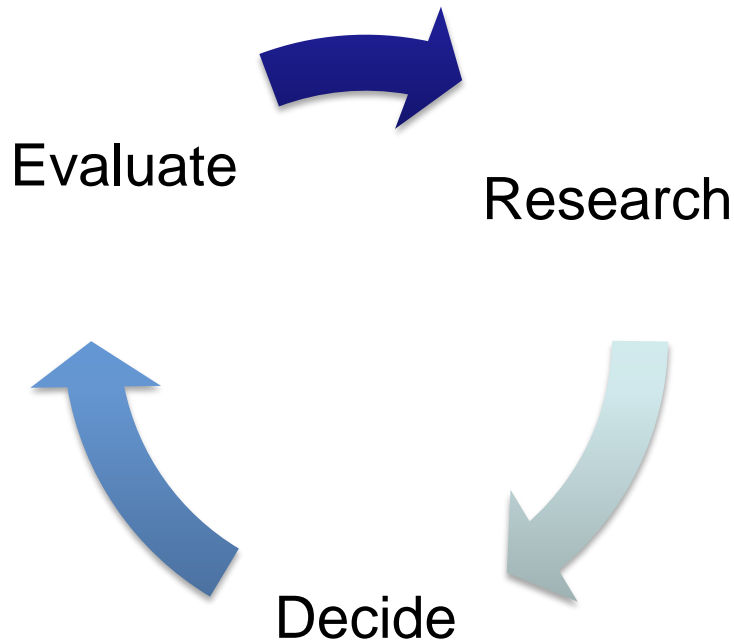


Decide

- 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)



Part Five: Our Borrowers and Investors



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 who:

- Seek diversification beyond stocks and bonds
 - Need high yields, but prefer not to lock up their money for more than a year or two
 - Want both current income and capital preservation
 - Would like to invest in real estate without managing properties or dealing with tenants
 - Prefer investments without hidden fees or “loads”
- * *Investors who prefer uncomplicated, understandable investments*



Our Investors Include:

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



Investor Testimonials:



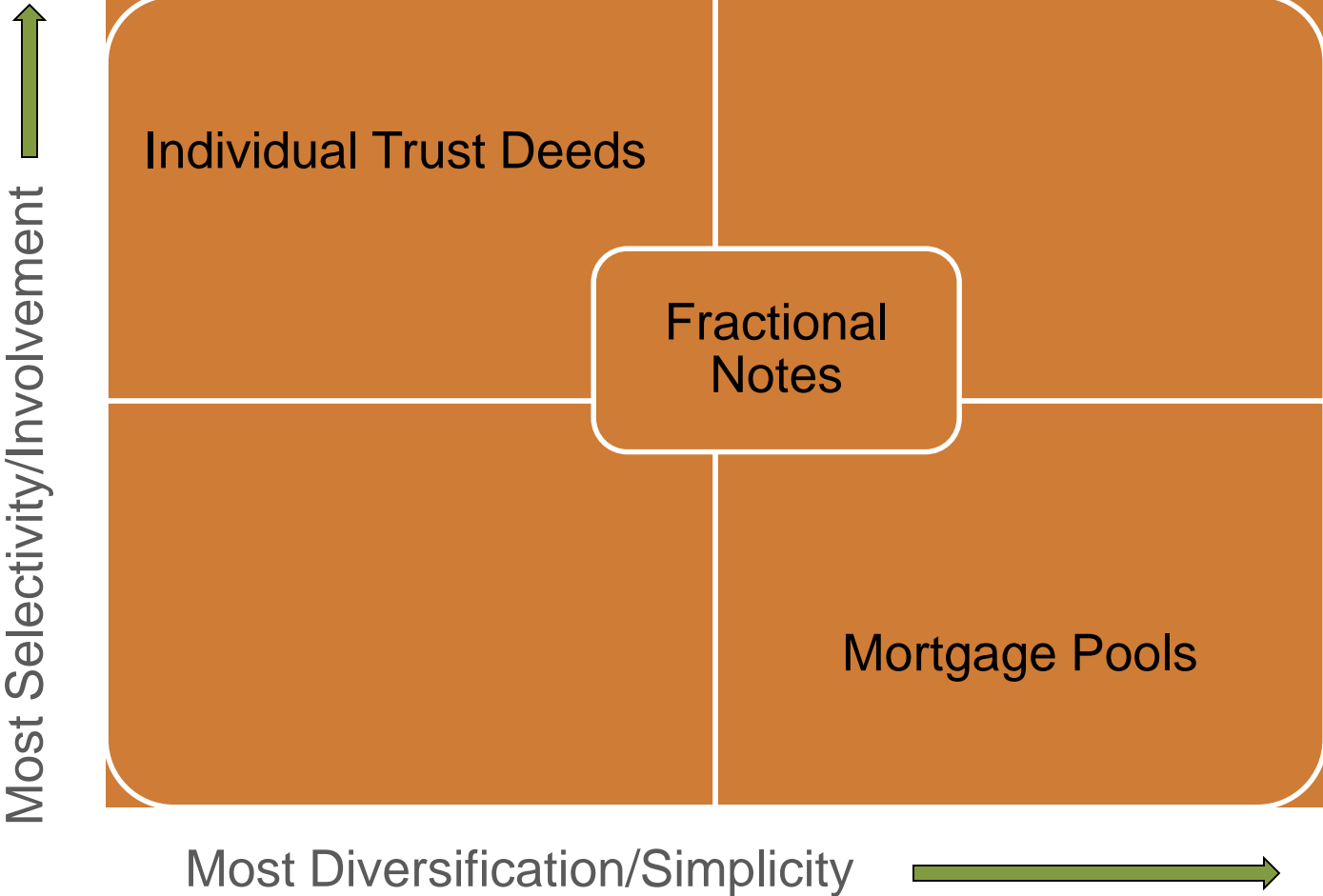
Part Six: Investment Products and Options

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
 - Lower starting investment may be possible for certain retirement or education savings accounts
- The simplest of Sterling's investment options



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%



Part Seven: Ready to Invest? Other Facts You Should Know



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, Coverdell or other tax-advantaged accounts provided the account is self-directed
- Detailed instructions are included in the appendix of this packet



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



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

