

# CapWest INCOME

THE REAL ESTATE LENDING OPPORTUNITY IS **NOW**





An aerial photograph of a residential neighborhood with several houses and streets. A diagonal graphic element consisting of multiple parallel teal lines runs from the top left towards the bottom right, partially obscuring the houses. The text 'Table of Contents' is positioned to the right of this graphic.

# Table of Contents

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An aerial photograph of a residential neighborhood with several houses and streets. A large teal triangle is overlaid on the left side of the image, containing the text. The text is white and centered within the teal area.

# CapWest Income

CapWest Income provides investors with the opportunity to earn a fixed interest rate of 9%. CapWest Income works with investors who want to build wealth in their investment portfolio through a passive income stream. Investors invest their funds with CapWest Income, CapWest purchases existing loans secured by first trust deeds, CapWest pays the investors back a 9% return rate! Our mission is to provide an alternative to the traditional market that offers a high return, low-risk investment opportunity to our investors as well as a first-class lending experience to our borrowers.

CapWest Income is spot on for our times. By leveraging the availability of real estate opportunities with strong rates of return and the upswing in the real estate market, we present an alternative choice to investors with an established strategy.





# An Opportunity as Unique as Our Times

Taking advantage of real estate opportunities is the cornerstone of our fund strategy.

CapWest Income provides unsecured fixed-rate promissory note investment opportunities to our investors. The fund generates income by purchasing existing loans secured by first trust deeds on real property from the originating mortgage banker or broker, which provide us with a steady stream of monthly income from the borrower's interest payments. We use that income to pay our investors a fixed 9% return and the difference covers our expenses and serves as our profit.



# Understanding the Trust Deed Model

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## WHAT IS A Trust Deed?

A trust deed is a document that is used instead of a mortgage to secure repayment of a debt by creating a lien on real property. Once signed by the borrower, the trust deed is recorded at the county recorder's office where the collateral is located. The recording of the trust deed encumbers the title and provides public notice that the debt exists. When a title company researches a property, it is usually looking for trust deeds (or other evidence of indebtedness). The recorded trust deed is also the trust deed lender's security: it allows the lender to be repaid in full when the property is sold, provided the sale price is high enough to repay the underlying debt owed to the lender.

## WHAT IS A First Trust Deed?

The highest priority private debt in the case of default. When real property is used to back a debt, debts secured by first trust deeds are paid before all other private debt holders.

## WHAT IS Trust Deed Investing?

Trust deed investing is simply investing in loans secured by real estate.

## HOW DOES CapWest Income Use Trust Deeds?

CapWest purchases existing loans secured by trust deeds. Most trust deed investments we buy are relatively short-term loans (maturity under five years, with many loans two years or less) made to professional real estate investors. Presently, banks are unwilling to make real estate loans unless they fit a very strict set of criteria. They often do not want to lend to opportunistic real estate investors because the property that secures the loan is not "move-in ready" at the time of loan funding—it usually needs some work. For this reason, real estate investors have limited financing options available to them and lenders to this market are able to command relatively high interest rates. We are buying such loans and using the interest payments from the borrowers to generate income to repay the notes held by our investors.



# How the CapWest Income Model Works

1. A borrower finds a profitable real estate investment property.
2. A mortgage broker/banker loans the borrower between 60 and 80 percent of the property's loan-to-value ratio (LTV). The loan is secured by a first trust deed against the property.
3. CapWest Income purchases the loan from the originating mortgage broker/banker.
4. The borrower renovates the property, improving its value and further protecting the loan.
5. If everything goes according to plan, in 6 to 24 months, the borrower sells the property for a profit and repays our secured loan.
6. If the borrower defaults, CapWest forecloses on the property. The 20 to 40 percent difference between the value of the real property and the loan amount provides a margin of safety for CapWest to recoup its principal and any lost interest at a foreclosure sale.



# Security Interest



**Borrower**

**Lender**  
*(Mortgage Broker/Banker)*

**Fund Investors**

9% INTEREST PAID TO INVESTORS



# The Foundation of Our Investment Strategy



## High Current Income

Professional commercial and single-family home renovators have special requirements, such as short funding timelines, that traditional institutional lenders are unwilling to accommodate. This provides an opportunity for private lenders who cater to this market to command premiums on their capital.

## A Comfortable Margin of Safety

Loans are secured by a first lien on an asset. Borrowers typically provide 20%-25% of the capital needed to buy the asset. Additionally, professional developers often create equity at the time of purchase by buying assets at prices below retail value. They further enhance the value of the collateral through renovations that they fund with their own equity.

## Liquidity

Due to the relatively short-term nature of the 9% unsecured promissory notes we must repay to our

investors, our assets will, in turn, largely consist of short-term loans secured by first trust deeds.

## Diversification Reduces Default Risk

We intend to build a portfolio of secured loans from multiple borrowers, which reduces our risk should any particular borrower default.

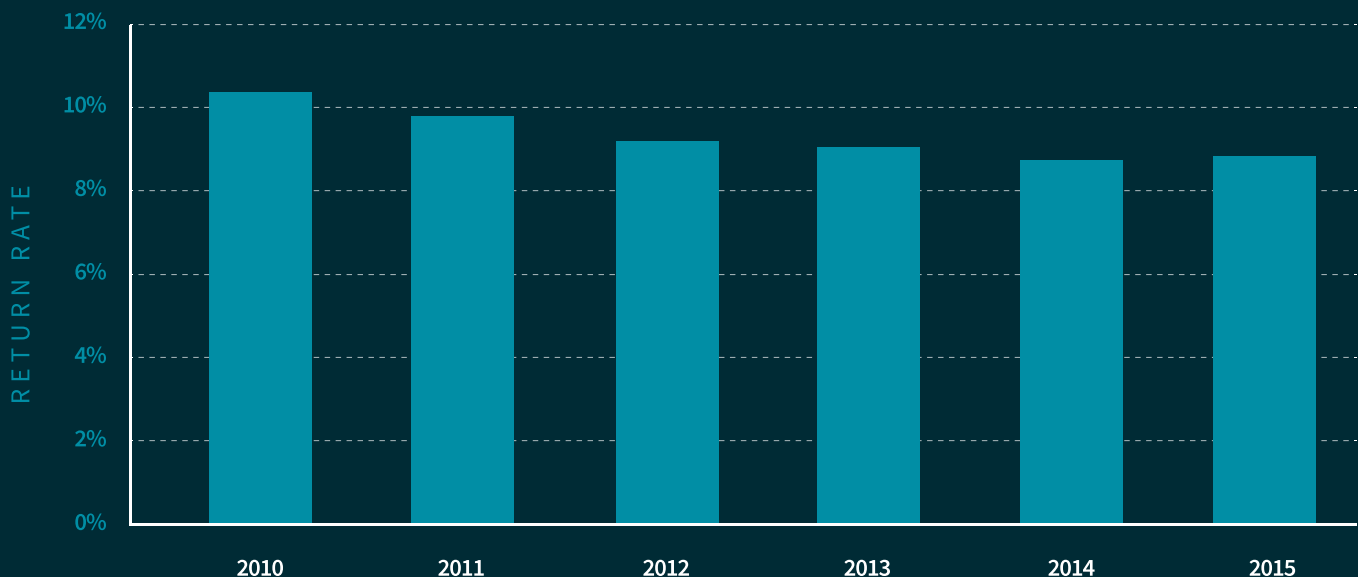
## Solid Returns

We offer a fixed 9% rate of return, which is a significantly higher rate of return than what you'll get with more traditional fixed income investments.

## A Conservative Approach to Underwriting

CapWest Income will only purchase loans from mortgage brokers and bankers that perform a consistent and detailed underwriting process on every investment they make. Their underwriting processes will combine a deep knowledge of local real estate markets and their collateral value with strong relationships with borrowers and an understanding of their strategy and capabilities.

## Trust Deeds Historical Investor Return Rates







# First Trust Deed Samples



## CASE STUDY HOTEL

### 188 Howard Johnson Hotel

**Property:** 188 Howard Johnson Hotel, located in Austin, Texas.

**Security:** First trust deed on the property.

**Description:** The hotel was built in 1974 and consists of 188 standard guest rooms. Guest rooms are accessed through interior corridors. There is a bar, a restaurant, and a large interior courtyard with a pool and spa. The hotel is on a large parcel (5.49 acres) located at a major intersection north of downtown Austin. All guest rooms are fully equipped and furnished with linens, televisions, refrigerators, and microwave ovens.

**Loan Amount:** \$2,500,000

**Value:** The hotel was appraised for Hanmi Bank, the former lender, by U.S. Hotel Appraisals “as is” for \$2,700,000. The appraisal also valued the hotel “when completed” (assuming a full renovation is completed) for \$6,600,000.

**Renovated Value:** \$4,300,000

**LTV:** 58.1%



CASE STUDY  
LAND DEVELOPMENT

# 156 Finished Town Home Lots

**Property:** 156 finished town home lots, located in Mesa, Arizona (“VCC”).

**Security:** First trust deed on the property.

**Description:** A guarded and gated community with a total of 369 home sites originally developed between 2004 and 2006.

**Loan Amount:** \$4,992,000

**Value:** \$16,605,000. The Broker’s Price Opinion (BPO) was prepared by Chris Wyatt and dated with RE/MAX Fine Properties of Scottsdale as of October 2013. BPO values are between \$45,000 and \$60,000 per lot.

**LTV:** 53-71%





# The CapWest Income Investment Philosophy



# When deciding to purchase a loan, our investor is always our first thought. We consider the following to ensure the safety of their investment:

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## Limited Risk

We would rather give up some of the “upside” of an investment in order to limit our risk. We are fundamentally risk-averse.

## Investment Strategy

We prefer strategies that are difficult to execute for larger competitors because they allow us to earn above average returns. Excessive amounts of capital can ruin good investment opportunities so we avoid highly competitive markets whenever possible.

## Undervalued Assets

We invest where we see undervalued assets (such as buying loans secured by first trust deeds in the wake of the financial crisis). However, we do not pursue investments whose returns are based on the timing of a recovery in asset values, which we consider too hard to predict and too volatile.

## Expertise in Niche

We seek investments in products, people, and markets we know well. This gives us a strong point of view on the risks, value, and potential rewards of each investment.

## Economic Trends

We actively pursue a deep understanding of long-term demographic trends and seek to take advantage of these trends when we invest. For example, millennials are increasingly demanding homes in urban areas with shorter commutes than larger homes with yards and longer commutes. Simultaneously, we see a limited supply of high-quality properties in very desirable urban neighborhoods where demand is strongest. Our point of view on these trends drives many of our investment decisions.

## Customer Needs

We are willing to build out infrastructure and develop vertically integrated platforms when necessary to serve our customers. This goes hand in hand with reaching out to niche markets and focusing on smaller investments.

## Nimble Approach

We aim to remain nimble enough to change our investment strategy as the market changes. This may mean pre-paying the notes held by our investors in the fund as market opportunities disappear from one area and emerge in others.



# Diversify Your Portfolio With CapWest Income's 9% Unsecured Notes



## Income

Professional commercial and single-family home renovators have special requirements, such as short funding timelines, that traditional institutional lenders are often unwilling to accommodate. This provides an opportunity for private lenders who cater to this market to command premiums on their capital. We will take advantage of this opportunity by buying these private loans from private mortgage bankers or brokers and, in turn, pay our investors an above-market interest rate of 9%.

## Excellence Begins at the Top

The CapWest executive team includes industry veterans and leaders Steve Byrne, Greg Herlean, Kent Clothier, and Andrew Jolley. These experienced professionals have decades of real estate investment and lending experience. Their mission is to leverage their decades in the commercial real estate, trust deed lending, banking, and finance industries to consistently find and acquire investment opportunities that are well-underwritten and provide a uniquely favorable combination of strong returns and security with a relatively short investment duration.



### Steve Byrne

**Steve Byrne** has worked extensively in the financial service industry since 1979. He is the founder of CapSource, a loan servicing company, and has underwritten and/or serviced several billion dollars in real estate loans and investments, including over \$5 billion in hospitality and gaming deals. From 1986 to 1991, Steve served at First Interstate Bank (later Wells Fargo), where he managed the resolution of several hundred million dollars of problem commercial loans and closed over \$3 billion of hospitality and gaming loans. Later, as the president of a private commercial lending company, he made several hospitality construction loans and investments.



### Greg Herlean

**Greg Herlean** has spent over 15 years focused on growth opportunities and wealth accumulation through real estate vehicles. His aptitude for business has afforded him the opportunity to provide management direction, capital restructuring, investment research analysis, business projection analysis, and capital acquisition services. Greg has helped fund over \$1.1 billion in real estate transactions.





## Principal Protection

The loans we purchase will be secured by first trust deeds on real property. Borrowers typically provide 20 to 25 percent of the capital needed to buy the underlying property. Additionally, professional developers often enhance the value of the collateral through renovations that they fund with their own equity.



## Diversification

High-rate fixed-income investments can be an important component of a well-diversified portfolio. An allocation to fixed-income investments can reduce overall portfolio volatility and increase overall returns, as they are not correlated with the stock market.



### Kent Clothier

**Kent Clothier**, a national leader in the real estate investing industry, is the founder and CEO of Real Estate Worldwide (REWW), a multifaceted real estate technology and education company headquartered in La Jolla, California, which has been featured on the Inc. 5000. After perfecting their systems and processes for generating high-quality buying and selling prospects, Kent began educating others in the industry to do the same.



### Andrew Jolley

**Andrew Jolley** is an executive with more than 15 years of experience in financial services, real estate, marketing, technology, and business development. He began his career working on large, complex technology projects for financial services and retirement companies such as Janus Mutual Funds and Manulife Financial. Since 2001, Andrew has been involved in hundreds of millions of dollars' worth of real estate projects as an owner's representative.

# The Real Estate Opportunity is NOW

CapWest / INCOME FUND

CAPWEST

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## DISCLOSURE STATEMENT

This brochure and any accompanying presentation have been prepared solely for prospective investors considering the purchase of a 9.0% fixed rate unsecured promissory note (each a “Note” and collectively the “Notes”) from CapWest Income LLC (“CapWest”) and does not constitute an offer to sell, or a solicitation of an offer to buy, our Notes in any jurisdiction. Each prospective purchaser of a Note will be provided with an Offering Circular (the “Offering Circular”), which has been filed as part of our registration statement as filed with the U.S. Securities and Exchange Commission (the “SEC”) for the offering on Form 1-A, and will be required to execute a subscription agreement to purchase a Note. If any of the descriptions or terms in this brochure or the presentation are inconsistent with such documents, such documents shall control.

Any public offering of the Notes will be made solely by means of the Offering Circular and our registration statement. The Offering Circular contains detailed information about CapWest, the Notes, and our management, as well as our audited financial statements. The Notes will be offered solely in the United States. The Notes may not be registered for sale in all states. Sales of the Notes will not be registered under the laws of any foreign jurisdiction. CapWest will not be registered as an investment company under the Investment Company Act of 1940 (the “Investment Company Act”) and purchasers of our Notes will not be afforded the protections of the Investment Company Act. Neither the Notes nor the Fund will be registered under the Securities Exchange Act of 1934 (the “Exchange Act”) and purchasers of our Notes will not be afforded the protections of the Exchange Act. Once purchased, the Notes may not be re-sold or otherwise transferred without registration with the SEC or pursuant to an exemption from such registration. There will be no public market for the Notes and there is no obligation on the part of any person to register the Notes for re-sale.

This brochure, any accompanying presentation, and the Offering Circular all contain forward-looking statements that involve risks and uncertainties. We use words such as anticipate, believe, plan, expect, future, intend, and similar expressions to identify such forward-looking statements. Our actual results are most likely to differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us described in the Risk Factors section of the Offering Circular.

Each prospective investor in the Notes should make its own investigation and evaluation of CapWest, including the merits and risks of investing in the Notes, and should review the “risk factors” set forth in the Offering Circular, which are incorporated herein by reference. Each prospective investor in our Notes should inform itself as to the legal requirements applicable to the acquisition, holding, and disposition of the Notes, and as to the legal and tax consequences of such acquisition. Prospective investors should have the financial ability and willingness to accept the high risk and lack of liquidity inherent in an investment in our Notes.

No assurance can be given that CapWest’s investment objectives will be achieved or that purchasers of our Notes will receive interest payments or an eventual return of any principal. The Notes are general obligations of CapWest only and are not secured by any of our assets, including any loans we may hold that are secured by real property or otherwise. CapWest was only recently formed, has no history of operations, and will make investments having certain risk characteristics that may result in our inability to repay the Notes in a timely fashion or at all.

Neither the SEC nor any other federal or state agency has approved an investment in our Notes or have confirmed the accuracy or determined the adequacy of this brochure, any accompanying presentation, or our Offering Circular. Any representation to the contrary is unlawful.

