



# SwapRent<sup>SM</sup>

A New Alternative for  
Property Owners and Investors

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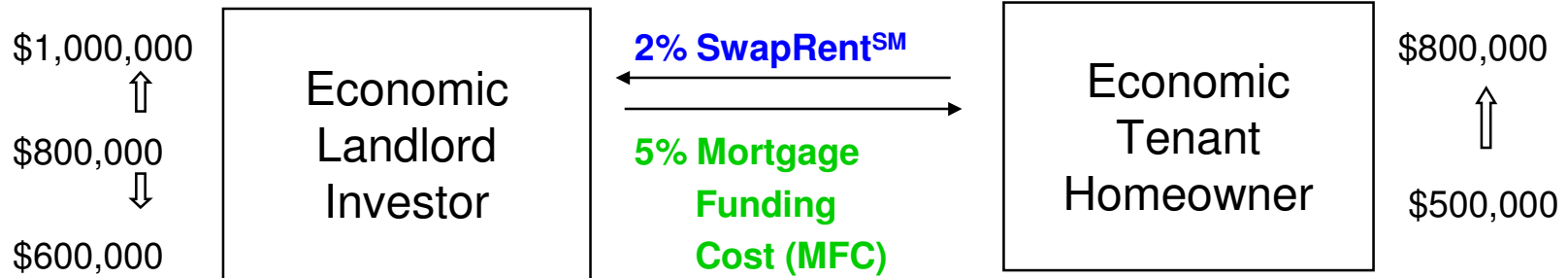
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# A Generic SwapRent<sup>SM</sup> Transaction

An Optional Middleman



The Middleman could be banks, mortgage lenders, city, county or state governments.



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## What Is A SwapRent<sup>SM</sup> Marketplace

- The SwapRent<sup>SM</sup> transaction is the realization of the newly created consumer financial concept of **economic renting** while keeping the legal ownership for homeowners and other investment property or commercial property owners during the entire contract period.
- The answer to the perennial question of to buy or to rent varies as time evolves. **Sometimes the rental rate is higher and more expensive than buying. Other times the reverse is true.**
- It would be nice if property owners can have a choice to separate the legal ownership from the economic interests and hence the financial risks and rewards of owning a property, a way to continue the legal ownership and synthetically switch back and forth between owning and renting only economically according to **the market conditions** and **their monthly income** at the time.
- That goal is what the SwapRent<sup>SM</sup> market was designed to achieve. Homeowners could use them in the new SwapRent<sup>SM</sup> embedded mortgages (Home Equity Locking Mortgage, HELM) either with their existing lenders through a loan mod conversion **without refinancing** or with any other new lenders that offer them through a refinancing.



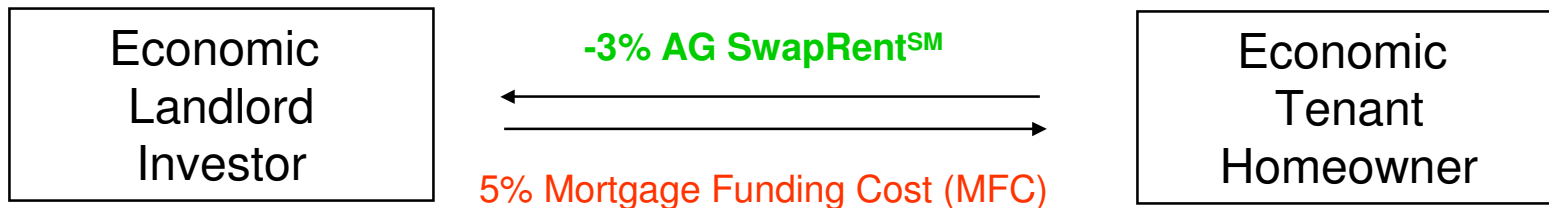
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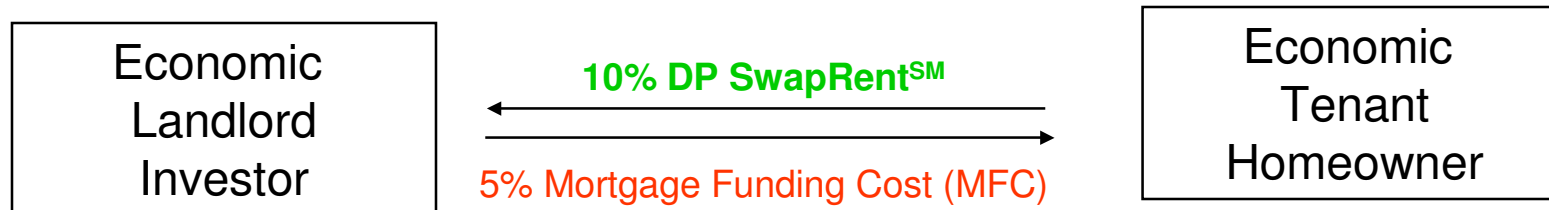


# AG SwapRent<sup>SM</sup> and DP SwapRent<sup>SM</sup>

## AG (Appreciation Give-up) SwapRent<sup>SM</sup>: Short a Covered Call Option



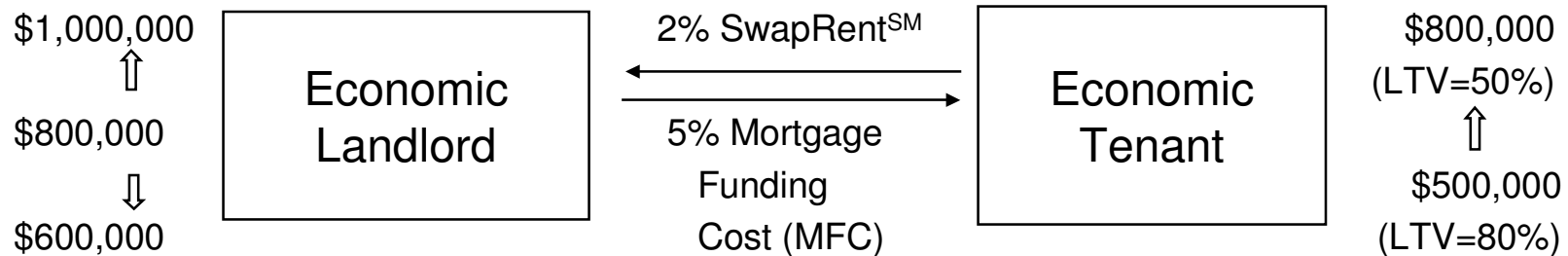
## DP (Depreciation Protection) SwapRent<sup>SM</sup>: Long a Put Option





# Settlement of A SwapRent<sup>SM</sup> Transaction

50% Economic Renting Using Generic SwapRent<sup>SM</sup> Example



Pay the Investor through A New  
2<sup>nd</sup> Mortgage of Only  
\$100,000 (Total LTV ~ 50%)

Receive \$100,000 from the Investor  
(LTV ~ 50%)

Initial 1<sup>st</sup> Mortgage  
Amount Borrowed  
\$400,000



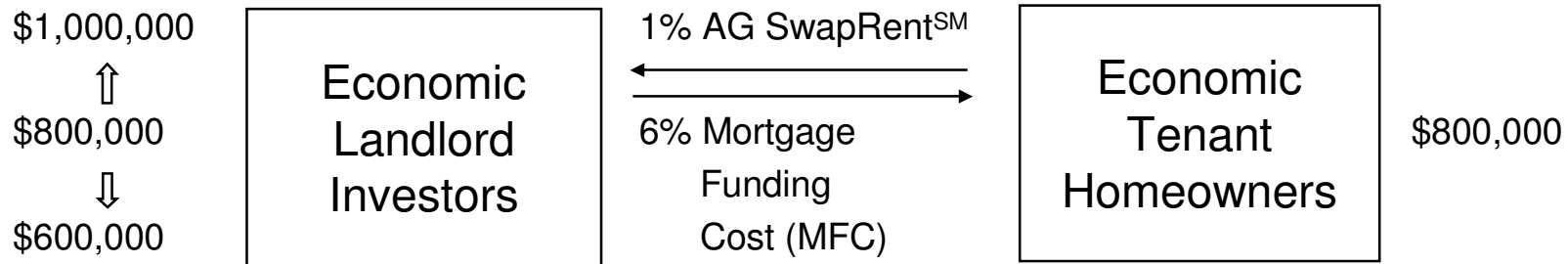
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# A Shared Appreciation Example

50% Economic Renting Using AG SwapRent<sup>SM</sup> Shared Appreciation Example



Potential Investors: (1) state, county and city public employees or teachers pension funds; (2) profit-driven, free market institutional and individual investors from both the US and abroad to become economic landlords; (3) current home mortgage credit risk holders.

REIDeX levies a small operational service fee on each party to the transaction for providing them with SwapRent<sup>SM</sup> documentation, education, transactional logistics and settlement procedural support.

The Middleman will derive revenue as fees or credit spread from homeowners either as a **non-profit organization, a private enterprise** or **as an SSE (State Sponsored Enterprise), alternatively called a LGSE (Local Government Sponsored Enterprise)**.



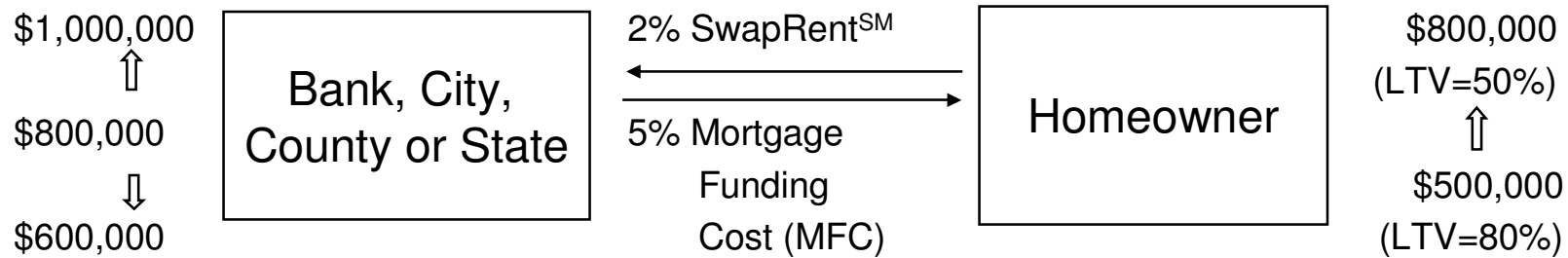
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# SwapRent<sup>SM</sup> Embedded Mortgage Home Equity Locking Mortgage (HELM)

50% Economic Renting Using Generic SwapRent<sup>SM</sup> Example



Unpaid Balance of HELM Automatically  
Increases to ~ \$500,000  
(LTV ~ 50%)

Unpaid Balance of HELM Automatically  
Reduces to ~ \$300,000  
(LTV ~ 50%)

Initial 1<sup>st</sup> Mortgage  
Amount Borrowed  
\$400,000



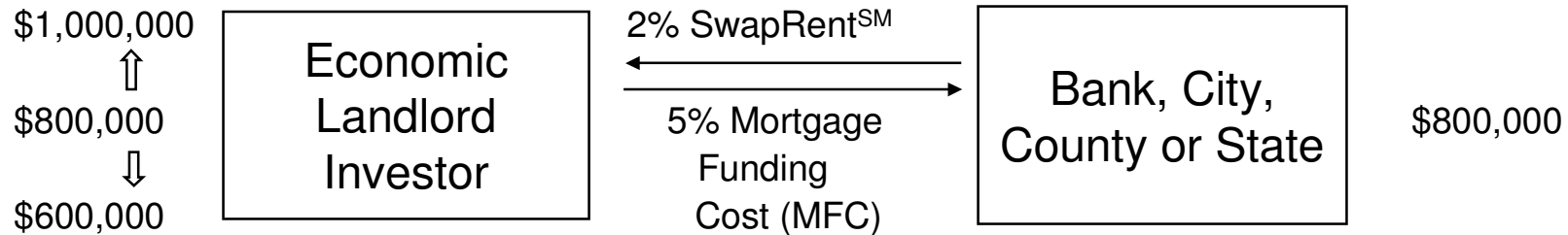
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# The Off-setting SwapRent<sup>SM</sup> Transaction

50% Economic Renting Using Generic SwapRent<sup>SM</sup> Example



Pay the Investor \$100,000  
(50% Participation)

Receive \$100,000 from the Investor  
(50% Participation)

Collect from or Pay to the Homeowner through Their HELM



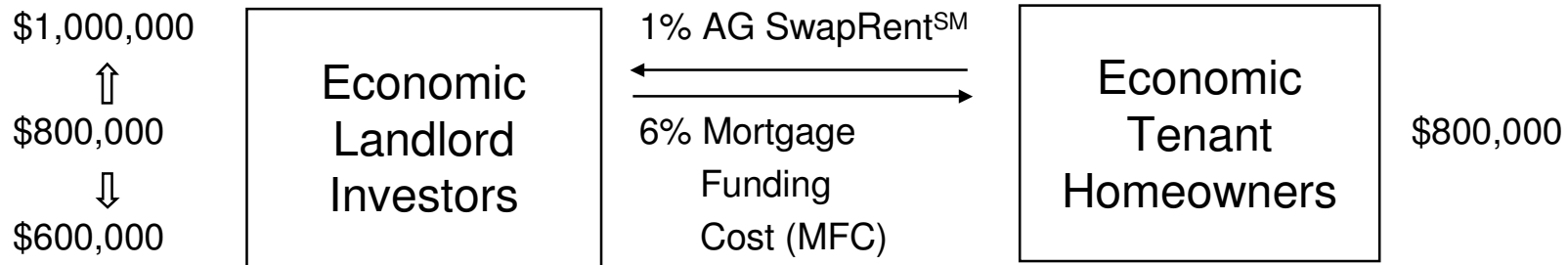
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# Sample Business Model for the Middleman

50% Economic Renting Using AG SwapRent<sup>SM</sup> Shared Appreciation Example



As an example, if the total annual spread that Middleman will get is 4.9% (after 0.1% SwapRent<sup>SM</sup> transaction fee to REIDeX), it could keep say, 0.2% to 0.5% if it is **a non-profit entity** or 0.5% to 2.0% depending on the homeowner's credit score, history, LTV, lien seniority, ... etc., as its revenue sources for **a for-profit operation**.

The net spread that the homeowners will get after Middleman's fee is 4.4% to 2.9% depending on each of the individual situations.



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## Application Examples of SwapRent<sup>SM</sup> - 1

To summarize, among many other applications, the five key economic advantages that the SwapRent<sup>SM</sup> and its related consumer finance products are:

1. For those informed and educated homeowners **to hedge the financial value of the properties** that they own by switching between owning and renting economically only based on their views on what the overall real estate market will do in the near future while keeping the legal ownership of all their properties at all time.

2. Considering the relative cost of owning and renting, the less affluent homeowners could decide to be economic renters or owners solely based on how much monthly subsidy they could receive to afford legally owning the properties while being partial or entire economic renters for a period of time. This will **increase the housing affordability** for young first-time would-be homeowners, low income working families and retired senior citizens.



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## Application Examples of SwapRent<sup>SM</sup> - 2

3. Due to the alleviation of moral hazard associated with conventional renting, SwapRent<sup>SM</sup> will **improve the neighborhood quality** of both the public housing projects and the conventional apartment rental complexes. It could thus reduce crimes and improve the overall well-being of the urban environments anywhere in the world.
  
4. For both institutional and individual investors to **become synthetic “economic landlords”**; by simply receiving SwapRent<sup>SM</sup> payments and paying out mortgage funding cost for a particular neighborhood or city. They could establish such cross border reversible long property exposures easily all over the world without worrying about the management of these properties and incurring the normally high transactional cost and taxes.
  
5. For current apartment or house renters to **establish an anticipatory hedge** position through receiving SwapRent<sup>SM</sup> payments based on a particular city level property price index so that they can lock in today's real estate price levels for intended purchases of real estate properties in that city in the future. They would not be priced out of the market if indeed real estate prices rise sharply in the future.



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