



SwapRentSM

A New Alternative for
Property Owners and Investors

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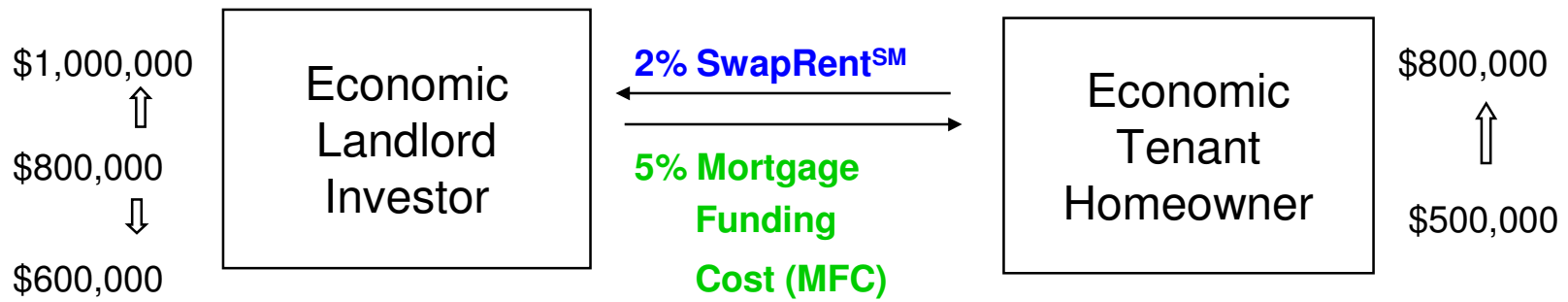
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A Generic SwapRentSM Transaction

An Optional Middleman



The middleman could be a bank, mortgage lender, a city, county or state government. Peer-to-peer model operates without a middleman.



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What Is A SwapRentSM Marketplace

- The SwapRentSM 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 (rent levels vs. interest rates)** and **their monthly income abilities** at the time, or **their investment views on the future performance of the residential real estate markets.**
- That goal is what the SwapRentSM market was designed to achieve. Homeowners could use them in the new SwapRentSM 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.



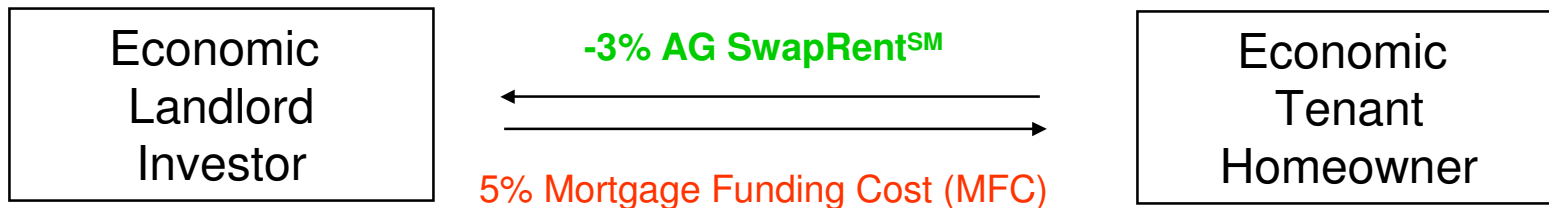
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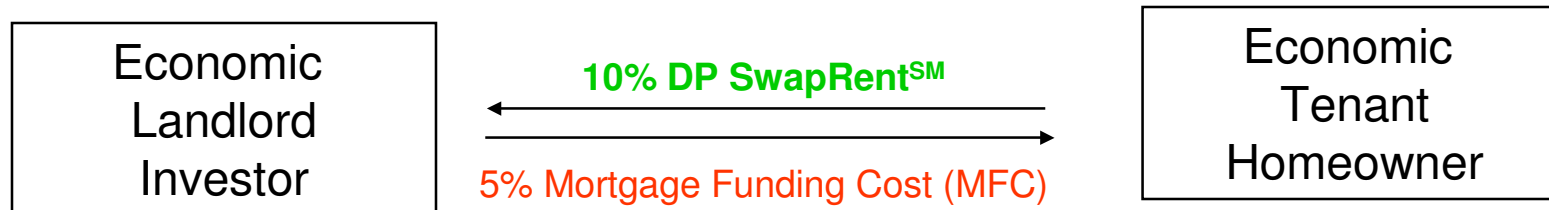


AG SwapRentSM and DP SwapRentSM

AG (Appreciation Give-up) SwapRentSM: Short a Covered Call Option



DP (Depreciation Protection) SwapRentSM: Long a Put Option



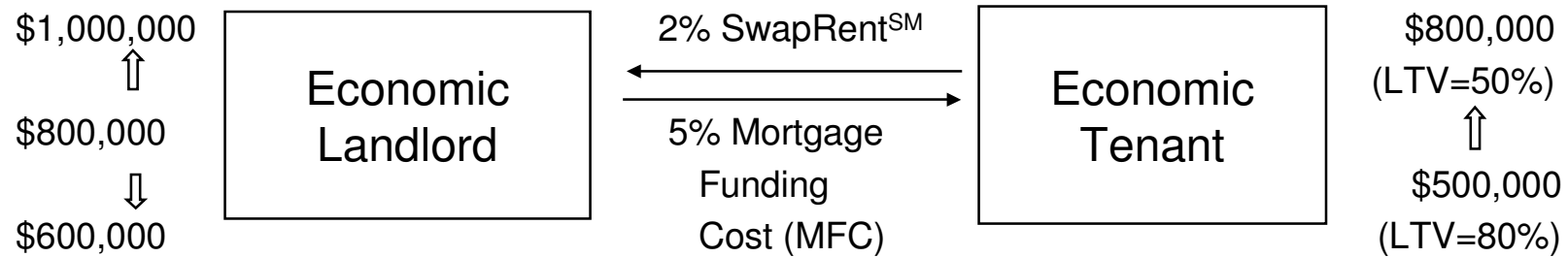
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Settlement of A SwapRentSM Transaction

50% Economic Renting Using Generic SwapRentSM Example



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

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

Initial 1st Mortgage
Amount Borrowed
\$400,000



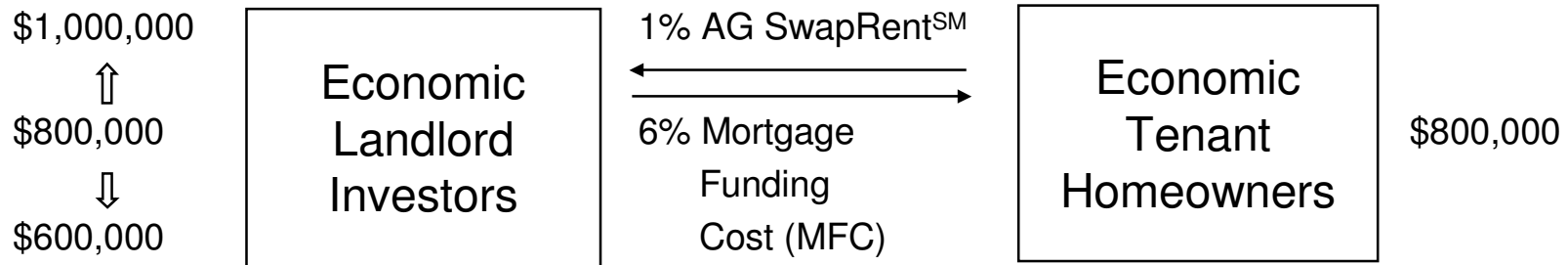
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A Shared Appreciation Example

50% Economic Renting Using AG SwapRentSM 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 SwapRentSM 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 for-profit enterprise** or **as an SSE (State Sponsored Enterprise)**, alternatively called a **LGSE (Local Government Sponsored Enterprise)**.



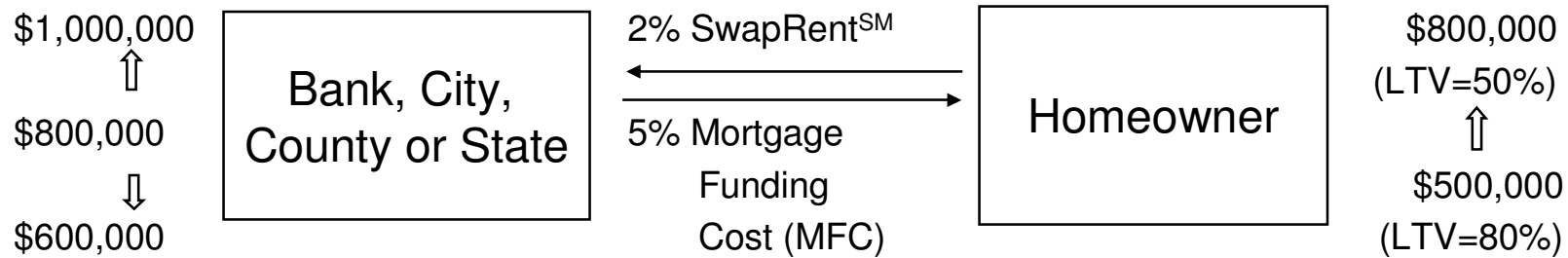
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SwapRentSM Embedded Mortgage Home Equity Locking Mortgage (HELM)

50% Economic Renting Using Generic SwapRentSM Example



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

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

Initial 1st Mortgage
Amount Borrowed
\$400,000



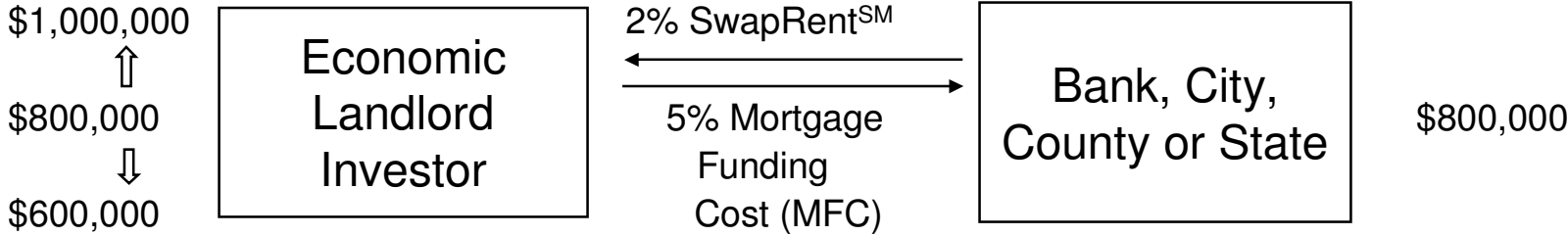
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The Off-setting SwapRentSM Transaction

50% Economic Renting Using Generic SwapRentSM Example



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

Collect from or Pay to the Homeowner through Their HELM

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



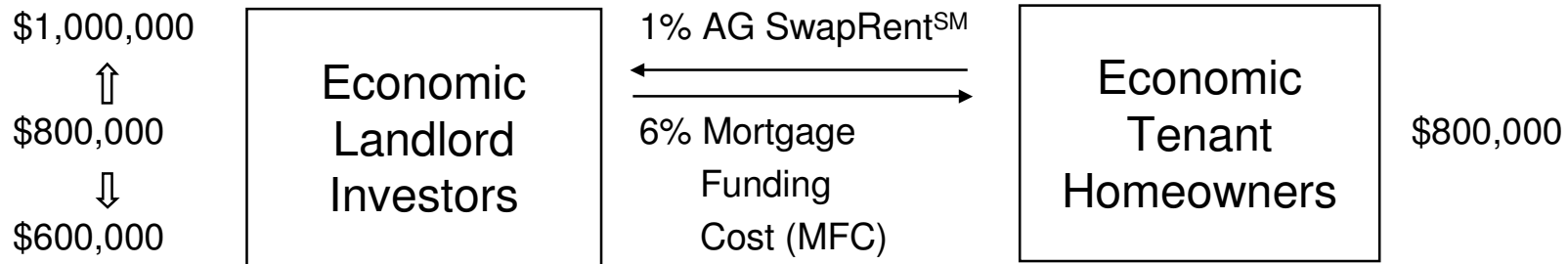
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Sample Business Model for the Middleman

50% Economic Renting Using AG SwapRentSM Shared Appreciation Example



As an example, if the total annual spread that Middleman will get is 4.9% (after 0.1% SwapRentSM 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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Potential Applications of SwapRentSM - 1

To summarize, among many other applications, the five key economic advantages that the SwapRentSM 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. **It is a much better alternative to a reverse mortgage.**



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Potential Applications of SwapRentSM - 2

3. Due to the alleviation of moral hazard associated with conventional renting, SwapRentSM 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. With this **newly created portable housing affordability**, municipalities will no longer have to waste taxpayers' money to build affordable housing complexes that often turn into slums.
4. For both institutional and individual investors to **become synthetic "economic landlords"**; by simply receiving SwapRentSM 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 SwapRentSM 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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Application Examples of SwapRentSM - 1

As a simple application example, a homeowner who lives in Los Angeles may decide to be the "economic tenant" of his/her own home in Los Angeles by paying SwapRentSM rate **(at say 1.5% per annum)** based on the Los Angeles metropolitan area index to an investor who is willing to be his/her "economic landlord" investor for a contract maturity of 10 years and simultaneously receiving **an annual mortgage funding cost (MFC) of say 5%** from this investor for the duration of the SwapRentSM contract. Once this contract is executed, during this 10-year contract period, he/she would have locked in the current price level of his/her own home and would not have any future appreciation potential or any downside depreciation worries anymore. The homeowner could decide to unwind and terminate this SwapRentSM transaction any time (e.g. 6 months, 1 year or 2 years later) before maturity due to relocation, new jobs with higher monthly income, investment timing views (i.e. cutting loss, taking profit, being bullish about the LA property market again) or simply free will.

The reason why this decision is to be made could be based on either **a hedging purpose**, **an equity withdrawal or appreciation give-up cash-out purpose** since he/she would receive a netted monthly payment from the investor, both as mentioned above, or simply **a pure life style change purpose**.



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Application Examples of SwapRentSM - 2

For example, this person may be retiring in 10 years and may decide to relocate to Hawaii for his/her retirement. He/She could then enter into another SwapRentSM contract of similar remaining maturity based on the Honolulu metropolitan area index with another counterparty homeowner in Honolulu by receiving a SwapRentSM rate **(at say 2.5% per annum)** and simultaneously paying **an annual MFC of say 5.5%** so that he/she could become an "economic landlord" him/herself in Honolulu. By doing so he/she would be able to move to Honolulu 10 years later to look for an ideal dream house in that city and purchase the chosen house then at a price level (say per sq ft price) that was locked in 10 years earlier through the SwapRentSM contract.

Both of these two separate SwapRentSM contracts could be unwound and terminated earlier before or on the final maturity dates, either together or separately, at some freely traded secondary markets such as REIDeX. Of course they would have to be unwound at the then market rates to reflect a profit or loss, just like how any other financial instruments operate in their own markets.



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Application Examples of SwapRentSM - 3

In the foreseeable future, homeowners might be able to apply this on an international scale. For example, a homeowner in London could decide to do a retirement life style change plan through SwapRentSM contracts so that he/she could retire in Nice in South of France. Homeowners could do the same between Tokyo and Singapore or between Beijing and Taipei.

The decisions could also be financial and investment view driven. A resident in Toronto may think that the future real estate property appreciation potential in Australian metropolitan area could be higher for the next 5 years than Canadian metropolitan area. He/She could then make arrangement through city index based SwapRentSM contracts and be **a 80% "economic tenant" in his/her own house in Toronto** and be **a 40% "economic landlord" investor in both Sydney and Melbourne**.

Financially speaking, with very little hassle and transactional cost, he/she would then have a diversified investment exposure **composed of 20% Toronto, 40% Sydney and 40% Melbourne** in his/her medium term investment portfolio on the residential real estate markets. Socially speaking, he/she and his/her children will continue to enjoy the comfort of occupying 100% of his/her own house and the associated neighborhoods in Toronto for the next 5 years and more. Innovations could indeed continue to make our world even flatter!



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Suggested Local Government's Active Roles

From the providers' delivery perspective, on the Canadian side, the Ontario Provincial Government or Toronto Municipal Government could channel the net positive monthly subsidies from an “economic landlord” investor which it has a separate SwapRentSM contract with to this Toronto homeowner. The Toronto homeowner could then use part of these net monthly proceeds he/she has received from the local government to become the **“economic landlord citizen”** in Australia.

On the Australian side, the State Governments of New South Wales and Victoria, their housing agencies, or the Municipal Governments of Sydney and Melbourne could administer these SwapRentSM programs for their local residents. Among many other sources, they could even have a SwapRentSM contract with this Toronto homeowner directly to treat him/her as an **“economic virtual citizen” of their cities** and channel these net positive monthly subsidies to many other homeowners in their cities who may be in need of these monthly subsidies through another SwapRentSM contract or a HELM contract.

For better managing the homeowner counter-party credit issues, the best way would be for the municipal or state/territory and provincial **governments at different geographical locations to communicate with one another** for managing the credit risks of both “economic tenant” homeowners and “economic landlord” investors in their cities, states or provinces in order to make sure only morally responsible and economically eligible law-abiding citizens get the chance to participate in these reciprocal programs. These new **social innovations** derived from the cross-city and cross-border aspects of the SwapRentSM business provide certain privileges to people who behave in a morally decent way in our civilized human economic societies and are definitely not meant for everybody in every city around the world. Local governments' active participation and proper regulations could ensure that will remain the case.



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Significance in Creating New Housing Affordability

In this way, the Australian state/territory or municipal governments could simply accomplish their goals of **providing housing affordability** to their local low income families or other homeowners in need without having to resort to any of their own local taxpayer's money since the money will be provided from private free market sources that may include both foreign or domestic institutional investors and the individual **"economic virtual citizens"** of their municipalities.

In addition, by being the middlemen to administer these SwapRentSM programs, the local governments could **generate a reasonable fee to enhance the local governments' own finances** for offering these services to their local real citizens and many virtual citizens around the world so that they could reduce the local property and other tax burdens to their own local residents.

Wouldn't this be a better free market based alternative addition to offer housing affordability that could **discourage the abuse of over-leveraging** in the various national housing finance systems for the future of our capitalism society?



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