



SwapRentSM and FARJHOSM

New Alternatives for Home Owners and Property Investors

The Separation of Shelter Value from Investment Value of Owning A Property

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What Is A SwapRentSM Contract?

A generic SwapRentSM transaction was created as a new **"temporary own-rent switching" contract** that facilitates the realization of **the separation of the "Shelter Value" from the "Investment Value" of owning a real estate property.**

The **shelter value** is the right to occupy and use the property similar to those rights of **a conventional renter**. The **investment value** of a property is best demonstrated by **the actual difference between the cost to own and the cost to rent.**

To put in layman's terms, a SwapRentSM contract allows either a property owner or an investor to choose **between receiving a stream of monthly cash flows vs. receiving a portion of the property's future appreciation or depreciation potential** and vice versa.

Analysis: A monthly cash flow of \$3,600 for a 30-year fixed rate mortgage of a single family house
 \$1,200 = the shelter value like that of a renter
 \$1,200 = first 50% of the investment value of the property
 \$1,200 = next 50% of the investment value of the property



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What Is A FARJHOSM Structure?

FARJHOSM was created as a new way of “shared equity” based home ownership **to allow institutional money to come in** by letting renters and property investors co-own the properties in a LLC structure so that there would be a positive yield on their investments, similar to a real estate syndication process on commercial properties but with much scaled down expenses and complexity.

Due to its simplicity, this new commercialized service is ready for use by investors and homeowners without relying on the participation or any involvements by the government or major financial institutions.

A common base structure for the US market is currently composed of a real estate syndication using an LLC legal entity. Each structure will be put together by a syndicator with up to a total of 10 members in the LLC. **One of the co-owner members will be renting the property from the LLC and treat the property as his/her own principal residence.**

FARJHOSM will serve as an additional consumer choice to **increase housing affordability under the free market**, not meant to replace any housing finance methods already in existence. It will only become a **creative destruction** if its economic value is proven and adopted by the consumers through further public education and awareness. For now it serves as a perfect alternative when homeowners either **can not afford the conventional borrowing** or **are not interested in the conventional burden of debt.**



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FARJHOSM Application in the US - Example 1

A home seeking person who currently rents, identifies a property in a geographical area of his/her choice. **He/She has the 10% of the property in cash from his/her own savings** and would like to seek to jointly own the property with other investors as the ideal home owning structure.

The reasons could be because that **he/she may not have enough monthly income to qualify for a conventional mortgage, prefers to use the discretionary monthly income for other household expenses, does not think the property value may increase in the near term, for his/her particular religious belief that rejects the lending/borrowing concepts** or simply any other personal preferences.

He/She commits to **pay a pre-agreed rent to the FARJHOSM LLC** that holds the title of the property for a specific period of time. The remaining 90% property ownership could be shared among up to nine other individual, corporate institutional or even governmental entities as members in the same FARJHOSM LLC structure.



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FARJHOSM Application in the US - Example 2a

A group of investors have identified and bought a particular single family house at bargain price through a syndicated FARJHOSM LLC structure either through a short sale process or from a bank's REO portfolio. The syndicator of the FARJHOSM LLC tries to **find a long term renter** of this single family house in order to generate stable long term rental income. Many renters do not commit to the long term and do not usually care about the houses that they rent.

The syndicator/property manager makes an offer to a qualified renter who has the ability to pay for a small percentage of the property value and invites him/her to join the FARJHOSM LLC as a minority stake holder/member himself/herself. **Once the renter becomes the minority homeowner, he/she may intend to stay for the long term and would treasure the property and take good care of it as thought it were his/her own.** In fact it is indeed his/her own, albeit partially. Although he/she does not have the economic income capability normally required to own the property entirely he/she gets to enjoy the high quality home in the neighborhood of his/her choice.



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FARJHOSM Application in the US - Example 2b

Through **buy/sell agreements between FARJHOSM LLC members**, the homeowners could increase his/her equity ownership through buying existing member's interests. Alternatively, he/she could use **SwapRentSM contracts to do so when they become available at REIDeX in the near future**. In the worst case scenario, he/she could also become a FARJHOSM LLC member in another property in the same neighborhood whenever he/she has the increased economic ability to do so and would like to have more investment exposures.

Comparing with conventional commercial property investments, FARJHOSM offers property investors less worries about vacancy and expenses. **The investor's SGI (Scheduled Gross Income) equals to his/her GOI (Gross Operating Income) and also to his/her NOI (Net Operating Income) since both annual vacancy loss and expenses are most likely zero in a FARJHOSM LLC structure.**



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FARJHOSM Application in the US - Example 3

A homeowner currently has a deeply underwater house. He/She contemplates a strategic default on his/her own house but does not like the idea of becoming an apartment renter. **A buy-and-bail strategy** sounds more appealing to him/her. He/She could use an all equity based FARJHOSM structure to become the minority owner/renter of an alternative property in his/her neighborhood before he/she begins discussions with his/her current mortgage lending bank to give up his/her existing homes in either a short sale or a flat out walk-away foreclosure.

The strategic defaulters usually could not secure another mortgage to buy another comparable home before or after he/she walks away from his/her existing home. **To qualify for a new mortgage on a second home, he/she has to either have 30% net equity in his/her existing home or a very large fully documented monthly income to qualify for the mortgage payments of two homes.** This is often not the case with most upside down homeowners.

An **all equity based FARJHOSM co-ownership structure** makes it convenient for a smoother transition to a long term comparable or even nicer and often more spacious home through a partial equity ownership without having to lose the homeowner status by becoming a conventional apartment or house renter. It may turn a somewhat embarrassing, face-losing event into a move-up in prestige as a partial owner of a much bigger and nicer house!



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Historical Time Line of the Development of SwapRentSM and FARJHOSM

- 2001 – 2004 Launching **REIFO (Real Estate Index Futures and Options) Exchange**.
- 2004 – 2006 Introducing RMB Interest Rate Swaps in the inter-bank market and Fixed Rate Mortgages to home owners in China.
- 2006 Researching and creating SwapRentSM, HELM, PELM, FVCM, REILD, PILN, SPIM and REIDeX. Filing patents in major countries.
- 2007 Working with banks in the UK, Australia, Hong Kong, Singapore as well as Wall Street firms and banks in the US. Campaigning to the Federal government agencies, Treasury and the Fed.
- 2008 Exploring municipal applications of SwapRentSM with State, County and City governments across the US, setting up **REIDeX, Inc.**
- 2009 Exploring **Islamic finance applications** with central banks and financial institutions in the Gulf Region of the Middle East.
- 2010 Farming out the **FARJHOSM** structure away from **SwapRentSM embedded FARM (Flexible And Reversible Mortgage)**, setting up **InvestorsAlly, Inc.** as a separate entity for easier commercialization.

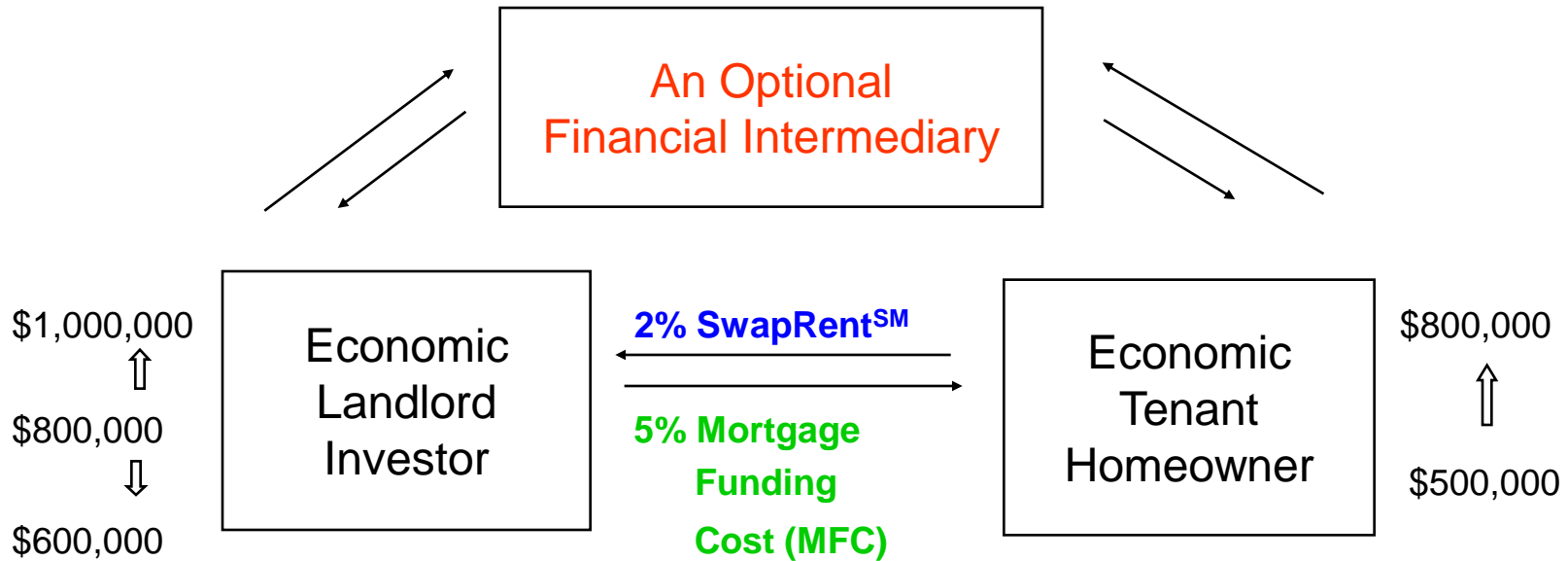


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A Generic SwapRentSM Transaction



The intermediary 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.



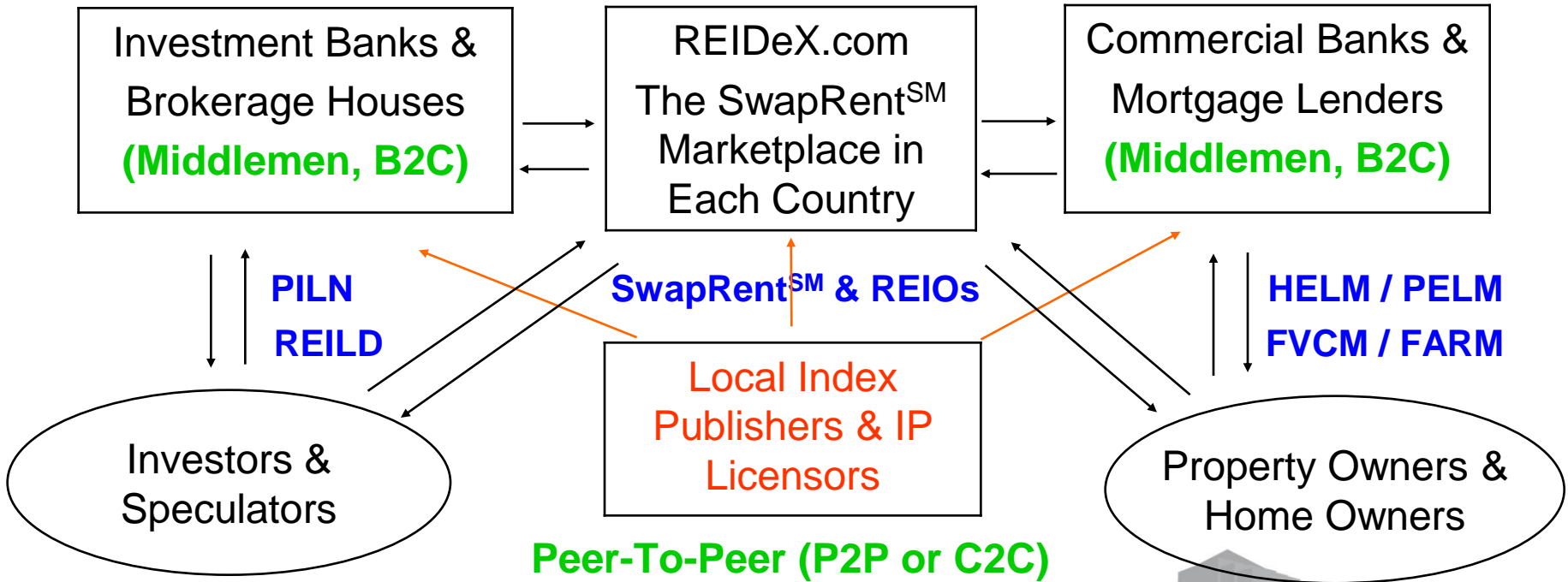
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The SwapRentSM Industry Participants

Inter-Bank Market (B2B)

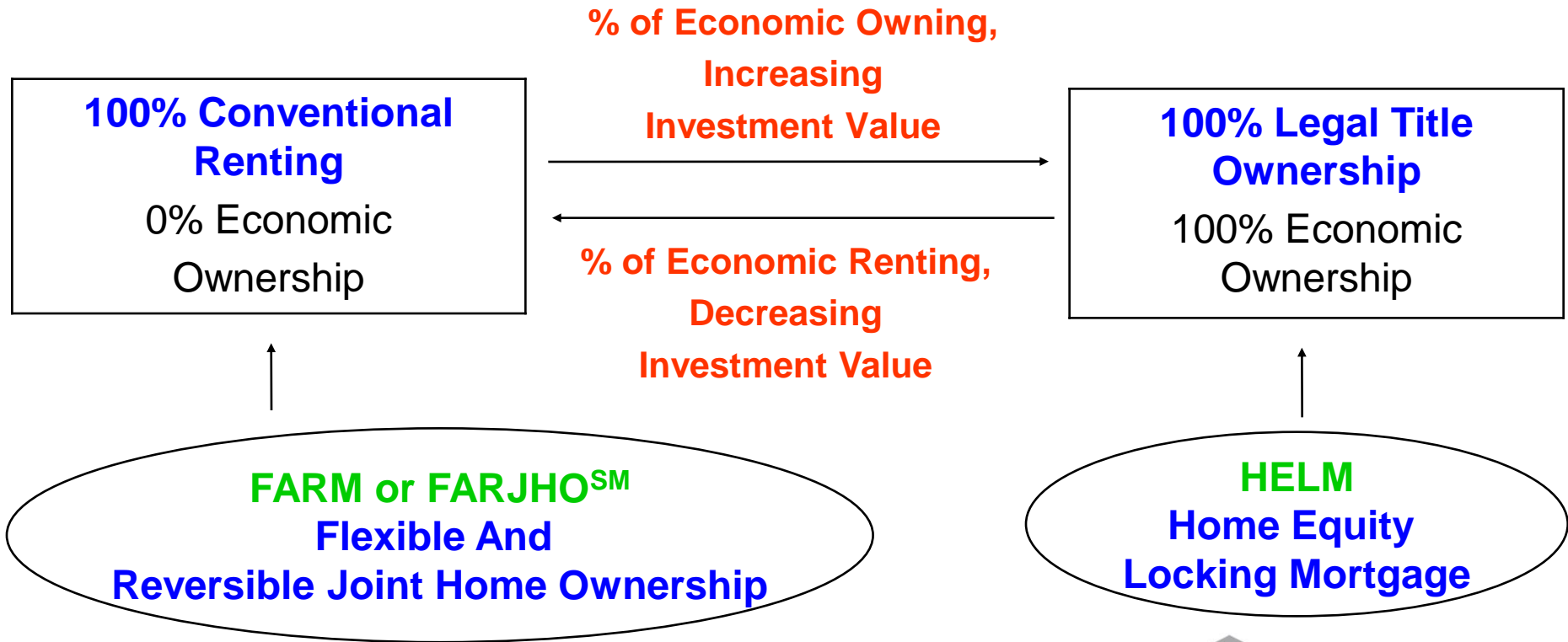


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SwapRentSM Embedded HELM, FARM and FARJHOSM Separation of Shelter Value from Investment Value of Owning A Property



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Shared Equity, Shared Appreciation, Shared Ownership SwapRentSM and FARJHOSM

Most people who are new to these concepts can not distinguish whether it is **the new "concept"** or **the new "method"** that they are learning. It could be very difficult for them to distinguish the two if both are new to them. At the moment most people are simply amazed at what the new concepts could do to help us build a new alternative housing finance system and to help restore our national economy.

Due to the fact that the whole concept is new to them they would not be able to know that the end products are actually results of very different **"business methods"** to implement the same simple **"generic concept"** at very **different evolutionary stages**. To put even more bluntly, if a person who does not speak French, he or she may not be able to tell a baby gibberish from a poetic recital in French simply because both sound new and foreign to them.

Shared equity and/or shared appreciation related generic concepts are not new and they have mostly been practiced in the UK for over 30 years. These concepts have not caught on simply because those primitive business methods engaged in the UK and more recently in Australia and the US to provide the economic benefits to consumers were not good enough. There existed plenty of room for new innovations on new business methods in this field back then, similar to the opportunity of how **Steve Job's iPhone** had potentially replaced **Gordon Gekko's Motorola platform shoe sized cell phone**. **Social sciences evolve with innovations just like technologies would.**



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A New Product Class “Shared Cash Flow” - SwapRentSM

The SwapRent (SM) transaction is the realization of the newly created consumer financial concepts of **“economic owning, renting, and temporary own-rent switching”** while keeping the existing legal ownership structure for homeowners and other investment property or commercial property owners during the entire contract period.

In fact, unlike the conventional way of using a **“shared equity”** method to accomplish **the shared appreciation objective**, a SwapRent (SM) contract has created a new class on its own to use an innovative business method of quantifiable **“shared cash flow”** to accomplish **the shared appreciation objective** of owning a real estate property.

A conventional legal ownership entitles a property owner the right to occupy and use the property, which is the **“Shelter Value”, “Utility Value” or simply called “Use Value”**, as well as the right to obtain future financial upside appreciation gains and the obligation of bearing downside depreciation loss, which is the **“Investment Value”, “Financial Value” or simply called “Economic Value”**.

A SwapRent (SM) contract aims to separate the investment value of a conventional property ownership from the shelter value in order for the owners to better manage the financial risk and return aspects of a property ownership while maintaining their shelter value at all times.



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SwapRentSM as A New Alternative Economic Policy Management Tool for Governments

A SwapRentSM contract allows either a property owner or an investor to choose between **receiving a stream of monthly cash flows** vs. **receiving a portion of the property's future appreciation or depreciation potential** and vice versa. Real estate property market is regional. **The supply and demand is confined in geographical region.**

1. Distressed Homeowners – No more foreclosures and short sales, property selling pressure will ease.
2. Property Speculators – Increased buying demand for local properties.
3. Small Business Persons and Entrepreneurs – Job creation at the grass root level.
4. Wealthy Property Owners without Mortgages – Creating local consumption power in local communities.

Homeowners who see the signs of an imminent swift recovery will think twice about their earlier plans to walk away. The only way for homeowners to feel that they should not purposely **make a strategic default** and walk away seems to be to somehow make them feel that they might be missing out on a swift recovery if they do walk away.

The detailed quantitative and technical explanations are available in an article entitled **“The SwapRentSM Transactions for Homeowners, HELM and FARM – A New Alternative Housing Finance System”** that I have published in **the Journal of Housing Finance International (HFI) by The International Union of Housing Finance (IUHF) in December 2009.** (http://www.swaprent.com/files/IUHF_SwapRent_Mr_Liu.pdf)



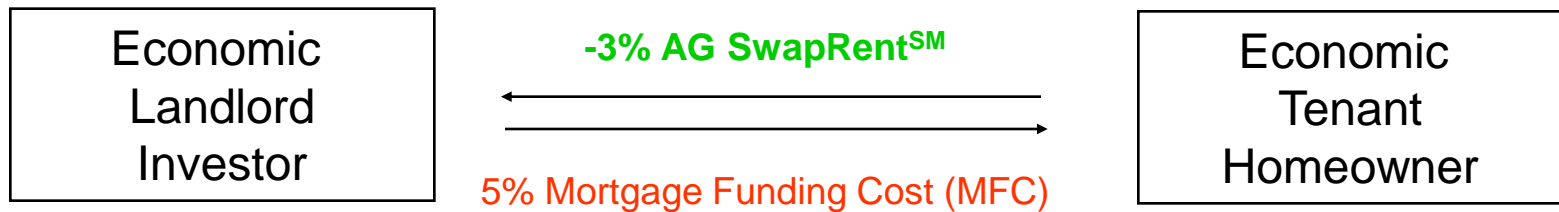
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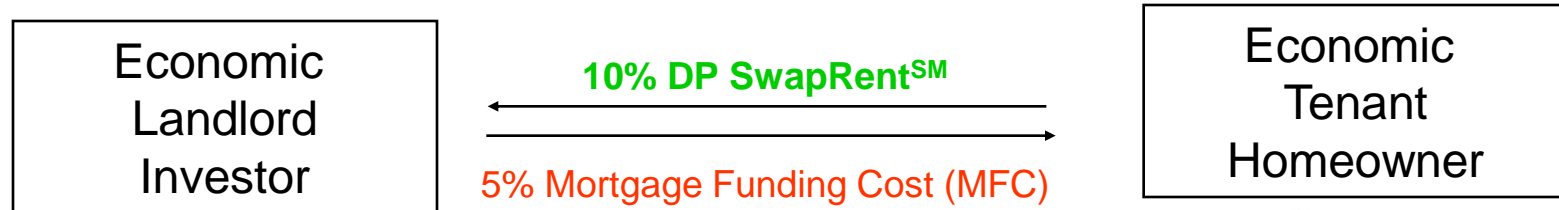


AG SwapRentSM and DP SwapRentSM

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



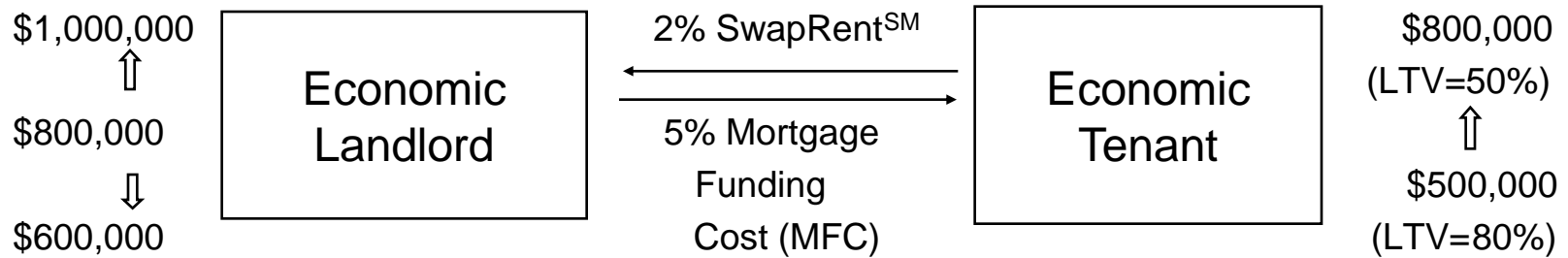
DP (Depreciation Protection) SwapRentSM: Long a Put Option





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



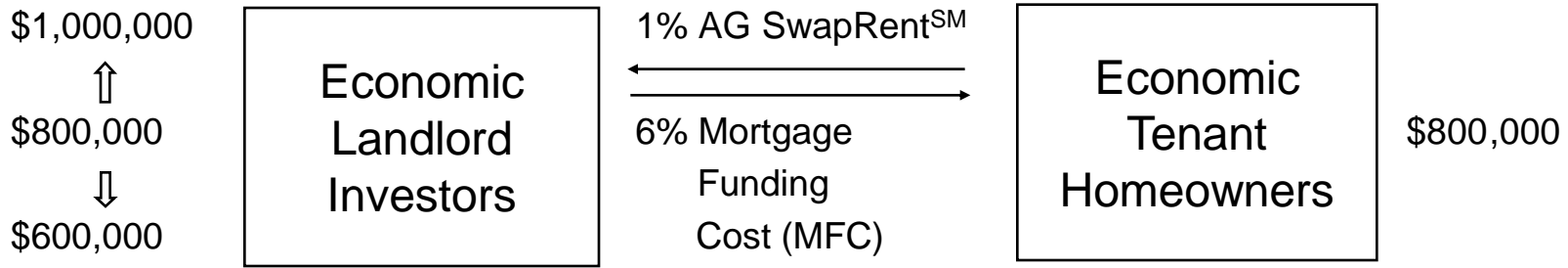
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A Shared Appreciation Example

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 such as banks, credit unions, other mortgage lenders and MBS, CDO investors.

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 not-for-profit organization, a private for-profit enterprise** or **as an SSE (State Sponsored Enterprise), alternatively called a LGSE (Local Government Sponsored Enterprise).**



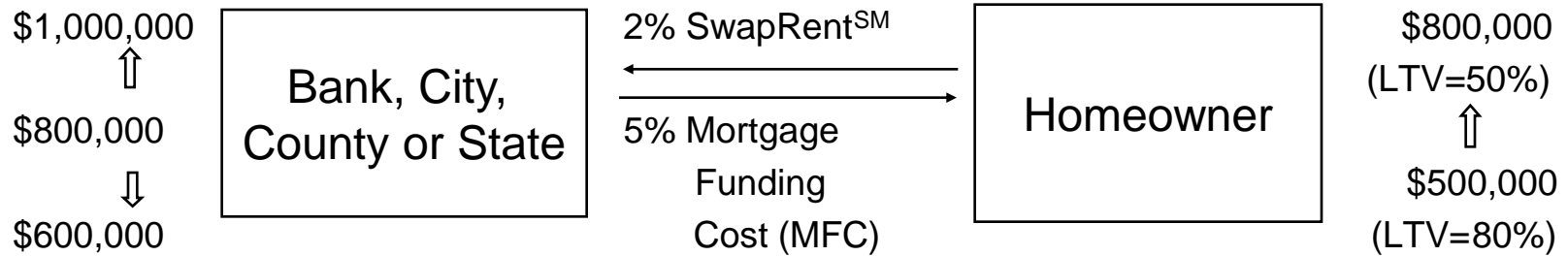
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SwapRentSM Embedded Mortgage Home Equity Locking Mortgage (HELM)

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



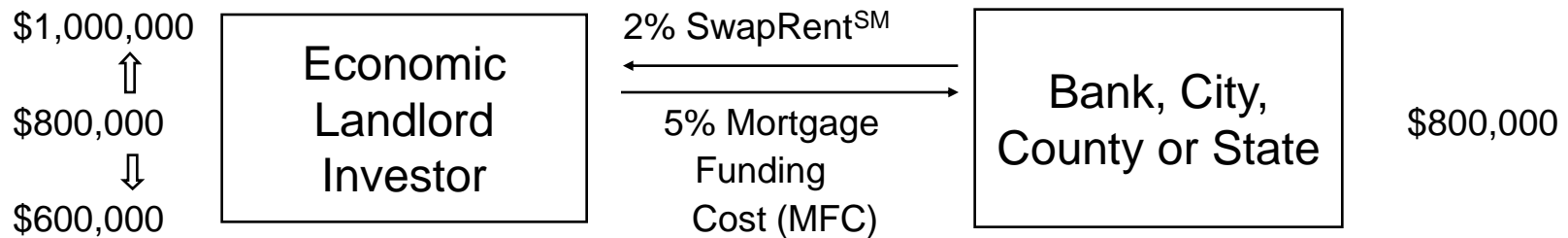
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The Off-setting SwapRentSM Transaction

50% Economic Renting Using Generic SwapRentSM Example



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

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

Collect from or Pay to the Homeowner through Their HELM



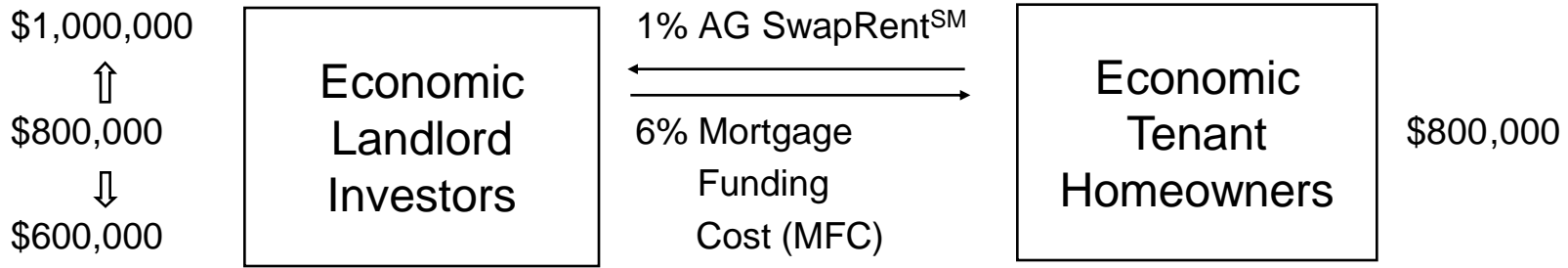
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Sample Business Model for the Middleman

50% Economic Renting Using AG 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 not-for-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.



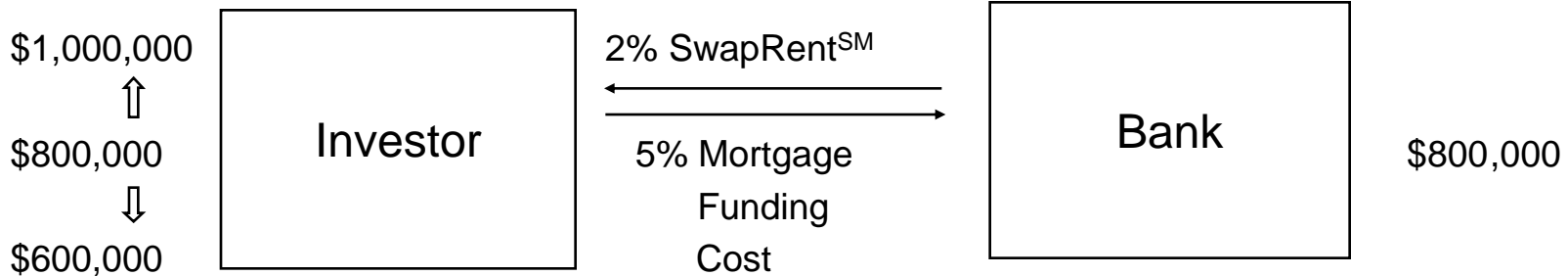
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PILN (REILD) with SwapRentSM

For a **Generic SwapRentSM** exposure



Coupon = [Deposit Rate + (2 – 5)]%

Principal Redemption

= [1 + (Ending Index – Starting Index) / Starting Index] * 100%



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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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An Example of Islamic Applications of SwapRentSM

A home seeking person could start out as a regular renter for a residential property in a location of his choice. The bank will purchase the property into **a trust or simply in a co-ownership legal structure** for him. In the trust, the person could buy into a portion of the legal ownership between 0% to 100%. Either 5%, 10% or 20% could be a good starting point depending on the issuing banks credit standard. He could buy into more of the legal ownership vehicle now or later at the then prevalent market price. Meanwhile through these **new economic owning or economic renting concepts**, this new home occupier could make proper arrangements with the bank to become an economical owner or renter for whatever proportion of the total value of the property any time in a totally flexible and reversible manner (either buying or selling) for whatever length of time through making SwapRentSM transactions at REIDeX.com.

Being a renter gives a person the rights to occupy and use of a property. Being an owner will give him the right for the financial gains if there is future appreciation by the time he decides to sell, in addition to the same rights to occupy and use that a typical renter would have during his ownership. Of course he will also have to bear the risk of depreciation if he has to give up ownership at any given time pre-maturely. To put it in a very simplified way, **the cost differential between the cost to rent and the cost to own will determine whether a person will be entitled to the future financial gains of the appreciation and the responsibility of bearing the risk of loss due to depreciation**, meanwhile he could continue to occupy and use the property regardless what the financial value of the property is.



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Introducing FARM and FARJHOSM – Flexible And Reversible Joint Home Ownership

For simplicity reasons, lets use the same numerical example for the \$800,000 house as illustrated before. Since the real physical rental rates may be higher or lower than the SwapRentSM rates (especially the short term rates) depending on the market conditions in each country, lets assume a real rental rate of the property is 1.5% per annum (\$1,200 per month). It could certainly be lower or higher, say 2.5% at other times as the market supply and demand forces dictate. The corresponding SwapRentSM for a 5 year contract may be 2% (\$1,600 per month) and cost of ownership (e.g. MFC or Mortgage Funding Cost, in Western financial system) may be 5% per annum (\$4,000 per month). The cost difference between economically renting and owning in this 5-year SwapRentSM contract example is \$2,400 a month.

Therefore upon agreeing to pay **\$1,200 a month real rental payment** the person could occupy and use the property for the next 5 year say in this 5 year contract example. He could decide to reversibly buy into the **economic ownership units of between 0% to 100%** of the home value with **a price tag of between \$0 to \$2,400 more a month** in additional monthly payments, on top of the rental payments (\$1,200) he is already paying in his legal rental agreement, through Generic SwapRentSM contracts traded at REIDeX.com. He could also sell freely the number of units of economic ownership for the remaining maturity of the contracts that he already bought before for whatever reasons he may have at any time during the 5-year period before maturity.



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Introducing FARM and FARJHOSM – Flexible And Reversible Joint Home Ownership

Furthermore, if he is only interested in obtaining future appreciation potential, he may pay a bit more in monthly payments to acquire that appreciation potential only with AG SwapRentSM contracts instead, so that he would not have to bear the downside risk if the property value goes lower in the future. It should be easily understandable that an AG SwapRentSM contract will be more expensive than a corresponding Generic SwapRentSM contract since it will only give the acquirer the right of future appreciation without the responsibility of the risk of downside losses.

It would be very interesting to note that in **a non-recourse mortgage loan**, as currently uniquely practiced in many states of the US, the same financial profile could be simulated by **conventional renting plus owning AG SwapRentSM contracts**, i. e. appreciation only, by the home occupier. Whereas for the rest of the world, where **recourse mortgage loans** are usually practiced, the financial profile is equivalent to **conventional renting plus Generic SwapRentSM contracts**, i.e. the ownership units (either conventional legal or the new economic) always come automatically with the responsibility of downside depreciation risks for the owners.



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In addition to economic owning and renting, the home occupier could of course also decide to buy into the underlying legal ownership in a trust or a FARJHO/LLC **in a lump sum fashion** (money obtained from savings, work related bonus compensations, a sale of other financial assets or even winning a trophy prize from a game show competition, etc.) any time he wishes at the then future price level with the bank which has been his co-owner in the trust. If there is enough money at hand the home occupier could buy into the entire remaining legal ownership at the then current price in order to gain complete ownership at any time he/she wishes. However, since the legal ownership comes with very **high transactional cost and many other legal and tax complications**, it does not offer the same liquidity, flexibility and reversibility that making SwapRentSM transactions at REIDeX could easily provide.

For example, **to sell back portions of the legal ownership** would be quite difficult under the current Islamic mortgage practices. With the innovative economic owning/renting concepts, when the home occupier does not have enough monthly income to sustain these economic ownership (loss of job, disability, etc.), **he/she will simply lose part of the future appreciation potential that is represented by these economic ownership units** that he/she owns. There will no longer be a reason for foreclosing and eviction, unless he/she can not even pay for the normal real rental payments.



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The **social safety net of providing rental payment assistance** to unemployed people is a totally separate issue and it is usually provided in each developed country. Most likely those safety net would kick in at that time for the home occupiers to continue to stay in their homes to look for another job and obtain income again. This is exactly how the newly created **flexible economic ownership concept as facilitated by the SwapRentSM methodology** could help avoid defaults and foreclosures and enhance social stability in a new housing finance system.

The provider banks of this new type of SwapRentSM based mortgages or investors in a FARJHOSM structure could similarly use the very same SwapRentSM contracts traded at REIDeX.com with other investors around the world to hedge off their own financial and property risks from **being a temporary co-owner in the co-ownership trusts or FARJHOSM** with the local homeowners. The provider bank could then act solely as a middleman without having to hold any market risks of these real estate properties. As illustrated before, the middleman could charge a fee or a spread for the services provided either **as a for-profit business** or **as a totally self-funded not-for-profit entity**.



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Introducing FARM and FARJHOSM – Flexible And Reversible Joint Home Ownership

None of these new transactions or mortgage products described above involve the **Riba concept**, or the charging interests on the use money, that Sharia, the Islamic laws forbid. However, FARM and FARJHOSM were not created for religious reasons. These innovations happen to provide more genuine benefits that the current practice of Islamic mortgages.

If the Western societies could also adopt this new innovative housing finance system made possible by **the new "economic owning or renting" concepts** as facilitated by SwapRentSM contracts, then homeowners will benefit from the flexibility, provider banks and mortgage lenders will benefit from the better risk management and governments also will enjoy higher tax revenue from enhanced property value and stronger economy. The entire society will subsequently enjoy a peaceful growth and prosperity. All these could be accomplished without the use of the concept of borrowing or lending, hence the potential abuse of it for housing people. When that nirvana time comes, words such as **"mortgage foreclosures", "property repossession", "securitizations", "credit default swaps",** ... etc. may not be necessary in our banking glossary anymore.



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FARM or FARJHOSM vs. HELM

In the Western financial system, people have access to easy credit and therefore take it for granted that they should own instead of rent whenever possible. That is why it is quite unusual to see people renting single family houses in the suburbs in America. With the easy credit system having been abused to the extreme in recent years, we are seeing the fallouts from the big implosion in the US today. So the way to introduce the new economic ownership concept as facilitated by SwapRentSM transactions under this situation is to let **people who already own homes (i.e. they already own 100% legal title of the property)** to start giving up some part of the future appreciation through the concept of economic renting. Therefore, **a package of 100% legal owning plus economic renting through SwapRentSM contracts** seems to be the right recipe for the homeowners in the Western world in order to de-leverage. This is due to the fact that the mistakes have already been made to allow those people who can not afford to own in terms of monthly income to become owners of a property.

The newly created mortgage product to rescue them would be **the SwapRentSM embedded AITD (All Inclusive Trust Deed) structure called HELM (Home Equity Locking Mortgage)** as fully explained in the original 2006 patent application and many times in the blog before. The HELM product would be wrap-around new package of the homeowner's existing under-water 1st mortgage and a contingent 2nd mortgage based on the outcome of the property value at the end of the embedding SwapRentSM contract.



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FARM or FARJHOSM vs. HELM

On the other hand, for consumers under the Islamic finance preference, in order for them to comply with the Sharia laws, we could introduce the economic ownership concept as facilitated by SwapRentSM transactions to a modified **Diminishing Musharakah** structure by letting **people start from being a 100% legal renter** and flexibly buy into more (or less later on) economic ownership during a certain period of time. Therefore the entry point for introducing the new economic ownership concept under this situation is **a package of 100% legal renting plus economic owning through SwapRentSM contracts** during the course of the intended ownership period.

The creativeness in this new housing finance structure offers flexibility and reversibility for the homeowners. It is no longer a one-way diminishing ownership structure for the bank. Therefore, for the Muslim consumers, instead of the old name "Diminishing Musharakh", this new innovation as facilitated by the SwapRentSM transactions could be called a **FARM - "Flexible And Reversible Musharakh"** structure or simply **"Flexible And Reversible Mortgage"** for the Western consumers.

The concepts of when and how to use either HELM and FARM are illustrated above.



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FARM or FARJHOSM vs. HELM

So let's say with the same example, this homeowner started out buying into 10% of the house value using a lump sum cash (i.e. down payment in the current mortgage product lingo). Through the intended life of the ownership, he could use SwapRentSM contracts to **flexibly and reversibly buy more, say another 20%, 30%, 50%, 90% or even 150% of potential appreciation** of the house in the form of economic ownership for a certain period of time or he could use SwapRentSM contracts to **reduce his economic ownership down to only 5%, 2% or 0% (depending on the bank's credit policy and the consumer's own credit records)** of the house value at any time he chooses based on his then economic income capability or simply his investment views on the real estate market.

In summary, after the burst of the Western mortgage lending bubble, **the SwapRentSM embedded HELM** would be the best new innovation for **the existing mortgage lenders and banks** to solve their current mortgage default and foreclosure problems. For **newly set up mortgage lenders or banks** thinking about getting into the housing finance business for the first time, **the SwapRentSM embedded FARM** may be the best new innovative structure for them and their governments to consider in order to set up a brand new housing finance system which is not solely based on lending, irrespective of whether they plan to target Western consumers or Muslim consumers in any parts of the world.



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SwapRentSM Embedded Mortgages vs. Conventional SAM, SEM

There are many major deficiencies of the old ways of offering **shared appreciation benefits** through the conventional **SAM (Shared Appreciation Mortgage)** or **SEM (Shared Equity Mortgage)** products.

- SAM or SEM do not offer any **price transparency** since there is no either a primary or a secondary marketplace for homeowners and investors **to negotiate what subsidy represents what percentage of shared future appreciation.**
- There is **no flexibility in maturity terms, percentage of appreciation give-up terms or early termination possibilities.**
- The provider banks could not **regenerate the capital** used to purchase the potential appreciation elements embedded in a SAM or SEM through selling these potential appreciation elements to other free market investors through a secondary market.

As a result, this simple economic concept of shared appreciation usually ended up only being offered by local governments to homeowners using taxpayer's money in the past. The taxpayers' money usually gets stuck for 20 or 30 years (the terms of the mortgage itself) in the way as they have been practiced so far in many countries.

The key thing to make it successful is to design a new financial contract to **extract out the shared appreciation component** and detach it from a conventional shared appreciation mortgage product so that market participants can **quantify it and give a fair value market price in a freely negotiated and traded secondary market.** SwapRentSM is the new financial contract created specifically for this purpose and REIDeX is the secondary market to facilitate **the price discovery** and **the capital regeneration** functions for the benefits of the homeowners and investors. The combined new economic owning and renting concepts is the conceptual foundation of how to use the SwapRentSM transaction and apply these new housing finance methodologies.



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SwapRentSM vs. Calls, Puts, Forwards and Swaps

The original objectives of the inventions of SwapRentSM and its embedded suite of financial products were to create a totally new consumer financial concepts and **fool-proof uses of financial transactions** so that they could continue to enjoy the same economic benefits of conventional financial derivative contracts without their complexity and the danger of potential abuses by either the consumers or the vendors.

The best example in the past of such successful consumer products is **the prepayment option built in a fixed rate long term mortgage loan**. It is in fact **an interest rate derivative contract (a call option on the interest rate level)**. Banks have never marketed as a derivative contract and consumers have been taking advantage of it without any potential dangers or problems. These objectives were exactly what SwapRentSM and its embedded financial products were originally designed to achieve.

SwapRentSM transaction will allow property owners to efficiently and effectively switch between owning and renting at any time at a very low cost. Therefore all the **shared appreciation** or **downside hedging** objectives could be **automatically realized when they switch between owning and renting**. As a new concept and methodology it will only function as a tool to help property owners realize their investment views and face the monthly income reality. It will not alter the original reasons **why people may want to switch or be forced to switch between owning and renting**. It will only facilitate it and make it more possible since the transaction cost is drastically lower as compared to buying and selling the conventional legal ownership in a joint partnership.



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Economic Renting and Owning Concepts vs. Shared Appreciation or Shared Equity Concepts

By focusing on the newly created consumer financial concepts of full or partial **“Economic Renting”** and **“Economic Owning”** will make the explanations of shared appreciation or shared equity concepts redundant. Nor will there be any need to explain what selling covered call options or buying call and put options are all about.

The best way to introduce new economic concepts to consumers is **to introduce something new through something old that they are already very familiar with**. Everyone is already familiar with the difference between owning and renting a property. Therefore if one is an owner of a real estate property, he will be entitled to the future financial appreciation of the property. At the same time he will have to bear the risk of downside depreciation. If he is a renter instead, he will not have any benefits of future appreciation or the risk of losing money if property value declines. Therefore by becoming **an “Economic Renter”** a consumer will understand that **by being a renter, by definition, he will not have the benefits of any future appreciation**.

For example, if a person chose to save money, sold his house and became a conventional renter for the next 5 years. He gets to pay a lower rental payments than the previously much higher mortgage payments every month. Five year later if the house appreciated in value by 20%, he will have no right to go back to the new owner and ask for a part of the financial gains. **No matter how dumb he may act., no laws or liberal politicians will be on his side.**



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Examples of SwapRentSM Quotes at REIDeX.com

Country: US

City: Los Angeles

SwapRentSM Last Trades

	Index	SwapRent SM Last Trades								
		Settlement	1 Yr.	2 Yr.	3Yr.	...	5 Yr.	...	10 Yr.	...
Neighborhood 1	350		2.5/2.3	2.5/2.3	2.6/2.4		2.5/2.2		2.4/2.2	
Neighborhood 2	325		2.5/2.3	2.6/2.3	2.5/2.3		2.3/2.1		2.6/2.3	
Neighborhood 3	330		2.5/2.3	2.5/2.3	2.6/2.4		2.4/2.2		2.5/2.3	
Neighborhood 4	250		2.0/1.8	2.2/2.0	2.3/2.0		2.3/2.0		2.4/2.1	
Neighborhood 5	200		1.9/1.6	1.9/1.7	2.1/1.9		2.2/2.0		2.3/2.0	
.....									
Neighborhood 26	650		2.5/2.3	2.7/2.5	2.8/2.6		2.6/2.3		2.3/2.0	
Neighborhood 27	725		2.7/2.5	2.8/2.6	2.8/2.5		3.2/3.0		3.3/2.9	
.....									
Neighborhood 38	1500		3.3/3.1	3.3/3.2	3.5/3.2		3.7/3.5		3.8/3.6	
Neighborhood 39	1750		3.5/3.3	3.6/3.4	3.7/3.5		3.5/3.2		4.2/3.9	



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Examples of SwapRentSM Quotes at REIDeX.com

Country: China **City: Hong Kong SAR** **REIO: DP SwapRentSM Last Trades**

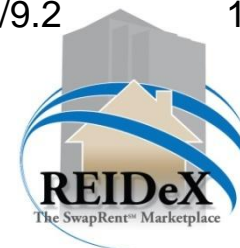
Index

Settlement 1 Yr. 2 Yr. 3Yr. ... 5 Yr. ... 10 Yr. ...

Neighborhood 1	3500	8.5/8.3	8.5/8.3	8.6/8.4		8.5/8.2		8.4/8.2	
Neighborhood 2	3250	8.5/8.3	8.6/8.3	8.5/8.3		8.3/8.1		8.6/8.3	
Neighborhood 3	3300	8.5/8.3	8.5/2.3	8.6/8.4		8.4/8.2		8.5/8.3	
Neighborhood 4	2500	8.0/7.8	8.2/8.0	8.3/8.0		8.3/8.0		8.4/8.1	
Neighborhood 5	2000	7.9/7.6	7.9/7.7	8.1/7.9		8.2/8.0		8.3/8.0	
.....								
Neighborhood 26	6500	8.5/8.3	8.7/8.5	8.8/8.6		8.6/8.3		8.3/8.0	
Neighborhood 27	7250	8.7/8.5	8.8/8.6	8.8/8.5		9.2/9.0		9.3/8.9	
.....								
Neighborhood 38	15000	9.3/9.1	9.3/9.2	9.5/9.2		9.7/9.5		9.8/9.6	
Neighborhood 39	17500	9.5/9.3	9.6/9.4	9.7/9.5		9.5/9.2		10.2/9.9	



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Examples of SwapRentSM Quotes at REIDeX.com

Country: UK

City: London

REIO: AG SwapRentSM Last Trades

	Index	Settlement	1 Yr.	2 Yr.	3Yr.	...	5 Yr.	...	10 Yr.	...
Neighborhood 1	350		-2.3/-2.5	-2.3/-2.5	-2.4/-2.6		-2.3/-2.5		-2.2/-2.5	
Neighborhood 2	325		-2.4/-2.6	-2.5/-2.7	-2.3/-2.5		-2.4/-2.6		-2.5/-2.7	
Neighborhood 3	330		-2.3/-2.5	-2.4/-2.6	-2.3/-2.6		-2.3/-2.6		-2.6/-2.8	
Neighborhood 4	250		-2.4/-2.6	-2.3/-2.5	-2.4/-2.7		-2.5/-2.7		-2.7/-2.9	
Neighborhood 5	200		-2.2/-2.5	-2.4/-2.7	-2.5/-2.8		-2.2/-2.5		-2.6/-2.8	
.....									
Neighborhood 26	650		-3.1/-3.3	-3.2/-3.4	-3.5/-3.7		-3.3/-3.5		-3.2/-3.4	
Neighborhood 27	725		-3.3/-3.5	-3.3/-3.5	-3.4/-3.6		-3.4/-3.7		-3.3/-3.7	
.....									
Neighborhood 38	1500		-3.3/-3.5	-3.3/-3.5	-3.4/-3.6		-3.6/-3.8		-3.6/-3.9	
Neighborhood 39	1750		-3.4/-3.6	-3.4/-3.6	-3.4/-3.7		-3.5/-3.8		-3.5/-3.8	



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Examples of SwapRentSM Quotes at REIDeX.com

Country: US **City: New York** **Commercial Property SwapRentSM Last Trades**

	Index	SwapRent SM Last Trades								
		Settlement	1 Yr.	2 Yr.	3Yr.	...	5 Yr.	...	10 Yr.	...
Apartment 1	350		2.5/2.3	2.5/2.3	2.6/2.4		2.5/2.2		2.4/2.2	
Hotel 1	325		2.5/2.3	2.6/2.3	2.5/2.3		2.3/2.1		2.6/2.3	
Industrial 1	330		2.5/2.3	2.5/2.3	2.6/2.4		2.4/2.2		2.5/2.3	
Office 1	250		2.0/1.8	2.2/2.0	2.3/2.0		2.3/2.0		2.4/2.1	
Retail 1	200		1.9/1.6	1.9/1.7	2.1/1.9		2.2/2.0		2.3/2.0	
.....									
Apartment 6	650		2.5/2.3	2.7/2.5	2.8/2.6		2.6/2.3		2.3/2.0	
Hotel 6	725		2.7/2.5	2.8/2.6	2.8/2.5		3.2/3.0		3.3/2.9	
.....									
Office 8	1500		3.3/3.1	3.3/3.2	3.5/3.2		3.7/3.5		3.8/3.6	
Retail 8	1750		3.5/3.3	3.6/3.4	3.7/3.5		3.5/3.2		4.2/3.9	
.....									



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