

# USA Micro Distressed Debt

## A High Return Debt Investment

FutureGen Capital Ltd



### Factsheet

as at March 2012

Conservative

HOW RISKY IS THIS INVESTMENT ?

Aggressive

#### Investment Objective

To acquire for collection purposes, low balance bad debts relating to :

- Overdrawn Demand Deposit Accounts
- Defaulted Payday Advance Loans
- Overdue Federal Stafford Student Loans

#### Strategical (what and why)

Collection agencies prioritise working on larger accounts with the highest reward for least effort . Financial institutions therefore price small bad debts lower to encourage collection agencies to pursue these debts. The fund manager opines that delinquent debtors repay small debts first to remove creditor pressure. Additionally, the fund pursues debts that have had no more than one attempt at collection. Recent small debts with the fewest collection attempts have the highest chance of collection success.

#### Tactical (how)

The fund purchases bad debts directly from financial institutions, mostly under \$700. The debts are sub-contracted to third party collection agencies to collect. After nine months, all uncollected debts are sold to other collection agencies at approx 50% of the original cost.

#### Investor Suitability

**Diversification** This investment reduces overall portfolio risk and increases returns. Low correlation relative to traditional funds.

#### Performance Statistics

Management fee 4% net collected  
Performance Fee 35%

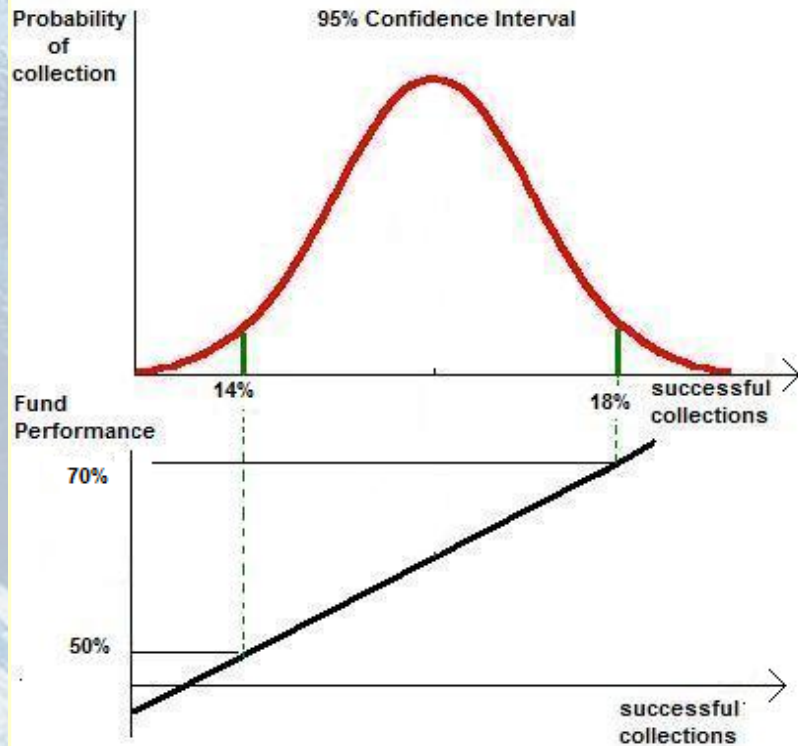
#### Investment Structure

D&B Duns No. 82-763-757  
Asset class Distressed Debt  
Term 18 months  
Start Date July 1, 2010  
Fund Structure Loan to LLC  
Maximum assets USD 5 million  
Load 4%

#### Management Information

Issuer FGC Distressed Assets Investment #1 LLC  
Address 1250 Connecticut Ave NW  
Suite 200  
Washington, DC 20036, USA  
Fund Manager Lawrence Schmidt  
Email rcarter@futuregenco.com  
Telephone +1.888.391.1525  
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#### Fund performance based on successful debt collection rate



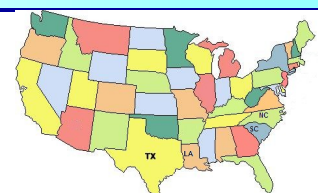
#### Estimated Return Illustration

Ref.	Description	Amount	Calculation
a.	Investment total	\$5,000,000	
b.	Set up charges	\$200,000	
c.	Available investment	\$4,800,000	a - b
d.	Debt purchase cost ratio	6.0% - 6.8%	
e.	Value of debts purchased	\$75,000,000	c / d
f.	Collection rate (est.)	<b>Low 14%</b> <b>High 19%</b>	
g.	Gross revenue	\$10,500,000      \$14,250,000	e x f
h.	Net collection after 43% agency fee	\$5,985,000      \$8,122,500	0.57 x g
j.	Uncollected debt sale proceeds	\$1,935,000      \$1,822,500	(e - g) x 3%
k.	Total net receipts	\$7,925,000      \$9,945,000	j + h
l.	Net profit	\$2,925,000      \$4,945,000	k - a
m.	Investors profit share	\$1,752,000      \$2,962,000,00	l x 60%
n.	Investor yield : 12 months	35%      59%	m / a

#### Delinquent accounts purchased by State

Debts are purchased from all States.

Less aggressive in debtor friendly States  
NC, SC, LA and TX



#### Correlation with other investments

Equities	Bonds	Commodities	Property
Nil	Nil	Nil	Nil

## Average sector breakdown

### Key

A	1	Payday Advance Loans	45.2 %
B	2	Demand Deposit Accounts	44.8 %
C	3	Unsecured Consumer /Student Loans	8.1 %
D	4	Secured loans	1.9 %



## About the fund managers

**Lawrence Schmidt** - Chief manager. CEO and founder of company. Over 30 years experience in the investment industry.

**Barry Kotzen** - Collection Manager. Career has been overseeing collection firms. His specialty is reviewing collection practices and streamlining operations.

**Kyle Arneson** - Recovery Solutions. Heads a private equity group specializing in debt purchase/sales/collections. He started with Shearson Lehman in Beverly Hills, CA and has spent the last 14 years purchasing debt for collection.

## About the management company

FutGen Capital is a division of Commercial Equity Partners ([www.commercialep.com](http://www.commercialep.com)) which is a commercial real-estate investment company headquartered in Wilmington, Delaware, USA. Their expertise lies in the areas of property acquisition, commercial mortgage notes, and the purchase of property tax liens, multi-family buildings, mortgage trust deed note and commercial real estate investment industry. The company has a strong rating from Dun and Bradstreet. They registered with the Security and Exchange Commission under Regulation D. Verified membership in the Delaware State Chamber of Commerce, Washington D.C. Chamber of Commerce, and Chicagoland Chamber of Commerce. Their website is accredited by the Better Business Bureau and NetworkSolutions, as not a single complaint has been levied. CEP formally incorporated in the State of Delaware in 2008. With initial capital of \$1 m in 2006 it's approaching \$50 m under management.

## About the Micro Distressed Debt Fund

### How does the fund work?

Delinquent debts are purchased for 5% - 8% of value from the loaning financial institution. These bad debts are demand deposit accounts **DDA** (*checking and ATM / check accounts with preagreed overdraft limits*), Payday Advance Loans **PDAL** (*small, unsecured short-term loans that are intended to cover a borrower's expenses until next payday*) and Stafford Student Loans **SSL** (*Federal loans for education*). The fund then sub-contracts third party agencies to collect on these debts. Past experience indicates a 14% - 18% success collection rate. The success fee to third party collecting agencies is approximately a third of receipts. Net of the fund managers fees, the fund should earn 45% - 70% per annum with a 95% statistical confidence.

### What quality of bad debt is purchased?

Only zero or one agency debt is purchased. This means, at most, one attempt at collection has been made. Bad debts with the least amount of unsuccessful collection attempts have a much higher probability to be collected. After one unsuccessful collection attempt, the bad debts can be sold for about 50% of their cost if sold within 9 months.

### How are small debt collections maximised?

The key is to use specialty collectors that cater for this type of collection. Most collection agencies specialize in credit card debts due to its large balances with large fee potential. Collection agencies generally ignore small balances. The fund managers feel the opposite and opine that debtors will rather pay off small debts quickly to relieve the legal threats and annoying calls from debt collectors.

### What is chance of the fund losing on the debt portfolio?

The fund needs to collect approximately 6% on the portfolio to break-even. The fund manager over the past decade has always collected at least 11% on equivalent graded debt.

### How difficult is it to collect on small low grade debts?

Subprime debt has a bad name because consumer loan debtors disappear easily. The exact opposite is true of DDA/ PDAL debt. In order to get a bank account, the account holder must provide substantial information. The debtor gives details for home, work, supervisor and 3 references. Delinquent SSL debt is a non-performing student. The student has been unable to make current payments and banks are ill-equipped to collect such loans. SSL debt is much different from any DDA/ PDL accounts because it is treated similar to IRS debt. The debt never goes away as debtors cannot wipe out SSL debt with bankruptcy. The collection process has a longer recovery cycle, but liquidation rates are higher.

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