

1. Advanced Private Money Conversation

- a. Private Placement
 - i. Offer to Raise Private Money
- b. SEC
 - i. the last people they are worried about are the people who are registered
- c. DID YOU KNOW??
 - i. 2010
 1. more money was raised from Private Placements than IPO's
 2. More than \$1 trillion dollars was raised by private companies and public companies
 - ii. under private placements you don't give up control
 - iii. public companies use private placement so they don't delute shareholder value
 - iv. SEC is required to keep stats
 1. HOW MUCH MONEY WAS RAISED??
- d. When you promise to repay principal plus interest / equity/ profits that is a security
 - i. regulated state and federal SEC
- e. 2 Types of Investors
 - i. Accredited
 1. Net Worth / Asset Based
 - a. \$1M Net worth
 - i. cannot include value of home you are living in
 - ii. can include all other assets and property other than personal residence
 - iii. roughly 8% of America is Accredited
 2. Income Based
 - a. Single
 - i. \$200,000 + Gross
 1. Past 2 years and the current year of annual gross income
 - b. Married
 - i. \$300,000 + Gross
 1. Past 2 years and the current year of annual gross income
 - ii. Non-Accredited
 1. everyone else
 2. roughly 92% of America is Non-Accredited
 3. SEC overprotects Non-Accredited
 - f. Intrastate vs Interstate
 - i. where is your driver's license and registered to vote
 1. that's your home state
 - a. where do they reside
 - ii. "Intrastate" Offering
 1. 80 cents out of every dollar in that state



2. YOU
 3. YOUR BUSINESS
 - a. corp
 - b. llc
 - c. partnership
 4. YOUR LENDERS/ INVESTORS
 5. YOUR PROPERTIES
 6. within 1 state
 7. 36 with NO paperwork to file
 8. Must demonstrate a prior existing relationship before making an offer of securities
- iii. "Interstate" Offering
1. crossing state lines
 2. investing in 2 or more states at same time
 3. measured by having more than 20 cents in other states
- g. Prior existing relationship vs. General Solicitation
- i. P.E.R = DEFINED AT FEDERAL LEVEL
 1. known at least 30 days at some point in your life
 2. ~PLUS~
 3. at least 3 interactions
 - a. "TOUCHES"
 - i. phone
 - ii. fax
 - iii. email
 - iv. text
 - v. social media
 - vi. face to face
 - b. does not have to be face to face
- h. INTRASTATE OFFERINGS to people you have a prior existing relationship
 - i. concept of being able to raise a certain amount of private money/ certain number of lenders / notes within your state this is assuming that YOU, YOUR LLC, YOUR PROPERTIES AND YOUR INVESTORS / LENDERS ALL WITHIN YOUR STATE LINES
 1. every STATE has a number of private investors you can have without registration filing
 - a. smallest is 4
 - b. highest 40
 2. anybody can raise money in every state
 3. I can approach people that i already have a Prior Existing Relationship with and raise up to that threshold.
 - ii. Thresholds
 1. How many investors in your state

- a. every STATE has a number of private investors you can have without registration filing
 - i. smallest is 4
 - ii. highest 40
- b. 37 states say you can raise money without any filing
- c. 13 has a filing
 - i. \$50 - \$200 bucks
 - ii. N.C.
 1. letter for private raise
 2. on record for next 12 months
 3. 12 months later send in another letter
2. How much money can you raise
 - a. Over \$1 Million +
 - i. Federal Filing to Be Done
 - b. Couple states allow only \$500k
3. Advertising to General Public
4. Across State Lines
- iii. the basic idea is that within all 50 states you'd want to use a BUSINESS - NOT AS AN INDIVIDUAL
 1. CORP or LLC or partnership
 2. it should be a registered business
 3. with its own EIN NUMBER
 4. NO DBA
 5. NO PERSONAL BORROWING
- iv. in most states you don't have to do anything to raise private money
 1. if its for real estate
 2. "putting them on notice"
 3. there are approx 13 states that say YES you can raise money we would like you to do a very basic registration
 - a. NY
 - i. largest
 - ii. require the most paperwork
 - iii. residential property where it is not personal residence you must register
 1. law to protect renters
 - iv. the department of real estate
 - v. file with attorney general
4. state level
 - a. co name
 - b. date of registration
 - c. we are going to be raising money from friends and associates
 - d. we are going to be raising money with residential or self storage
 - e. get form from Department of commerce / Sec of State

- f. call the department of commerce
 - i. the div of securities
 - ii. or
 - iii. the division of securities
 - iv. or
 - v. div of real estate
- 5. they can't / won't give legal advice
- 6. i want to make sure i do this the right way
 - a. which filing form should i use
- 7. some states will have free seminars or webinars on how to raise money
 - a. not giving legal advice but they are trying to promote business
- v. if you are doing the INTRASTATE OFFERING
 - 1. you do not need to register on a federal level
 - 2. majority of states say you don't have to send us anything
 - a. as long as you don't run ads to strangers
 - b. that you don't pool their money
 - i. if you want to pool you must file with state
 - c. most say that you can have up to that threshold without having to register
 - i. in most states up to \$1M per company
 - 1. some are up to \$500,000
- vi. YOU SHOULD STILL HAVE A DISCLOSURE DOCUMENT
 - 1. seperate document - Like an executive summary
 - 2. name of company
 - 3. where it was formed
 - 4. who owns the company
 - 5. when it was incorporated
 - 6. what is your approach to investing
 - a. debt
 - i. promissory note
 - ii. promise to pay from a company
 - b. equity financing
 - 7. interest and other information will be in a seperate promissory note
 - 8. does it have a registered agent
 - a. must if its a corp or llc
 - 9. who are the managers
 - a. just you
 - b. partners
 - c. who are managers
 - 10. what is the purpose of the business
 - a. real estate investing
 - b. residential
 - c. commercial

- d. self storage
- e. everyone should understand what you do
- 11. what are the risks
 - a. i'm not allowed to guaranteed the return BY LAW
 - i. i will use my best efforts
 - 1. they could loose some or all of their best efforts
- 12. what are the benefits
 - a. we expect to make enough to pay you interest on your money
- 13. what is your background / credentials / qualifications
 - a. NOT REQUIRED BUT HELPFUL
 - b. tell them about your training with SREC
- 14. you don't have to tell them the properties in the DISCLOSURE
- 15. There are 2
 - a. state regulator
 - b. and people who want to invest with you
- 16. MUST DISCLOSE BY LAW
 - a. bankruptcy in past 10 years
 - b. felony conviction
- vii. NOTES and ROI cannot be guaranteed (except by the federal government)
 - 1. best efforts
 - 2. plus interest rate
 - 3. put into a promissory note
 - a. legal contract
 - 4. once you take someones money and offer them a ROI this is now a security
- viii. GENERAL SOLICITATION / ADS
 - 1. NOT ALLOWED AT THIS INTRASTATE LEVEL
 - a. SEC and STATE regulators say
 - i. why would you need to advertise to people you already know
 - ii. non-accredited investors are being protected by SEC
 - iii. even once you know them we want to be sure that they can make a reasonable offering decision
 - b. not allowed when you are trying to get new people
 - c. what most states are looking at is ARE YOU LOOKING TO MAKE AN INVESTMENT OFFER
 - i. would you like to earn a 12% ROI
 - ii. minimum investments
 - iii. ITS A NO NO to be specific
 - iv. you can say - we are
 - v. this website isn't a securities offerings
 - vi. securities will only be offered by exemption or registration



- vii. we don't have FDIC insurance on our offerings
- d. you can invite them to learn more about
 - i. you are going to be educational about how private investing is and how it works BUT DO NOT MAKE THEM AN OFFER
- 2. call the state
 - a. am i allowed to advertise
 - i. here are the regs you should look at
- i. Intrastate Offering to Public whom you do NOT have a Prior Existing Relationship With
 - i. S.C.O.R.
 - 1. Small Company Offering Registration
 - a. in 40 of the 50 states
 - b. AKA
 - i. FORM U-7
 - c. REG D 504
 - i. FED REG
 - ii. U-7
 - 1. reviewed by each state
 - a. for 30 days
 - b. average 30 days +
 - iii. Biggest concern
 - 1. how are you going to return the principal to your investors
 - d. long list of questions by a group of regulators working together
 - i. filing with state
 - 1. stuff about your company
 - 2. owners
 - 3. bios and backgrounds
 - 4. plans are
 - 5. Profit and loss
 - e. once you do register you can raise up to \$1M per year
 - i. any kind of investor
 - 1. accredited
 - 2. or
 - 3. unaccredited
 - ii. you can pool
 - iii. you can advertise
 - iv. Filing fee \$500 - \$1,000 in that state
 - v. 12 months and \$1M dollars
 - vi. renew each year
 - f. IF you agree to work with just ACCREDITED INVESTORS than you can do a MAIE: SEE BELOW
 - ii. M.A.I.E.

1. Model Accredited Investor Exemption
 - a. IMPORTANT BULLETS
 - i. 40 states
 - ii. up to \$1M
 1. every 12 months
 - iii. you can pool
 - iv. you can advertise
 - v. you can renew each year
 - b. from accredited investors ONLY
 - i. you can advertise to everyone BUT you can only take money from ACCREDITED INVESTORS
 1. limiting to smaller groups
 2. deeper pockets
 3. more experience
 - ii. b/c of the nature and the fact you are working with ACCREDITED INVESTORS there is NO 60-90 days of waiting
 - iii. its a trade off
 - c. FILING DETAILS
 - i. filing fees as low as ZERO to \$200
 1. 2 pages long
 - a. who you are
 - b. where you are located
 - c. typically want your incorporation
 - d. want copy of disclosure document
 - i. executive summary
 - e. GET PROOF OF DELIVERY
 - f. NO WAITING PERIOD
 - ii. no federal filing
 - iii. state controlled
 - j. FEDERAL LEVEL - REGISTRATION - REG "D"
 - i. One organization
 - ii. Securities and Exchange Commission
 1. Early 1920 / 1930
 - a. selling 100% of my company
 2. if you are going to sell any securities
 3. if there is a conflict between state and federal - federal always WINS
 - iii. ONLINE registration
 - iv. EX
 1. FACEBOOK
 2. it is a registration
 3. this was a PUBLIC OFFERING
 4. it went onto a stock market

5. it went onto a public site
- v. Registering on a FEDERAL LEVEL IS FREE ADVERTISING
 1. www.EDGAR.com
- vi. REG D 504 FEDERAL FILING
 1. \$1M
 2. online filing
 3. no fee
 4. state and federal permission
- vii. REG D 505 FEDERAL FILING
 1. \$5M limit
 2. purely federal filing
 3. do not have to go to state for permission
 4. online filing form
 5. state gets a notice filing
 6. up to 2,000 total private lenders
 7. 500 non-accredited
- viii. Most Common
 1. Rule 506(b)
 - a. until fall of 2013 it was easiest to do
 - b. allows you to get money from accredited and non accredited
 - i. up to 500 non-accredited
 - c. NO LIMIT TO AMOUNT YOU CAN RAISE
 - d. there are MULTI BILLION DOLLAR COMPANIES USING THIS
 - e. no filing fee
 - i. none planned
 - f. lightest of questions
 - i. questionnaire to fill out
 - ii. update with ammendment
 - g. No waiting period
 - i. within hours / minutes
 - ii. you get confirmation
 - iii. "ACCEPTED"
 - iv. you can say "ACCEPTED" and you are in compliance but you CANNOT SAY "APPROVED"
 - h. most popular
 - i. no limit
 - ii. pool money
 - iii. move from state to state
 - iv. criss cross state lines
 1. NO 80/20 rule
 2. raise it in any state and criss cross as often as you like
 - v. used by private businesses

- vi. plus international
 - 1. still have to follow that countries guidelines
- i. advertise
 - i. no general solicitation allowed
 - ii. perfect if you know alot of people or you can network well
 - iii. CANNOT take out an CRAIGSLIST AD "saying get 12%"
 - 1. cannot say 10% guaranteed
 - iv. until you have the 30 days and 3 touches you cannot make a ROI offerings
 - 1. can't put offer on website
 - 2. keep it password protected or take off web all together
 - v. you can say "come learn about private mortgage lending" -
 - 1. here are examples
 - 2. is it possible to make more than the bank
 - a. YES
 - b. but they have FDIC insurance
 - c. NEVER KNOCK the other companies
 - d. here's our options
 - e. invite to webinar or seminar
 - f. tell you about company and its history
 - g. we can give examples
 - h. if you have a start up
 - i. we haven't done it but here's the kinds of deals they offered
 - j. once we've had 30 days and 3 contacts
 - k. until then the SEC prohibits me to make you an offer.
 - l. don't give the ROI
 - 3. invites you to a public
 - a. what are the risks and benefits of private mortgage investing
- vi. you just can't be specific
 - 1. come learn how to get more than
 - 2. SPECIFIC OFFERING
 - a. Interest rate
 - b. minimum or max amount
 - c. investing in particular property or properties
 - d. you can't say I will give you (X)

- e. you can say "this is what others have done"
- f. tell the lender about the SEC
- j. one of the limitations that were changed - went from 99 to 2000 investors
 - i. do not have more than 99 investors or lenders
 - ii. once you got close to 300-500 then you would be treated like a mutual fund
 - 1. got all the hard work of being treated like a mutual fund but the paperwork was prohibitive
 - iii. one of the changes that were made was you can have up to 2,000 private lenders
 - 1. are you in the business of working with 1000-2000 investors or investing in real estate??
 - iv. 506(b) FEDERAL TRUMPS STATE
 - 1. overcomes state limits
 - 2. if you want to overcome the limits of \$1M and 4-40 investors
 - 3. if you must be in business for 3 years and be profitable
 - 4. the 506(B) allows you to overcome the state laws
 - 5. FEDERAL LAW TRUMPS STATE LAW
- k. private notes are most popular
 - i. equity sharing in house, condo is another option
 - ii. OR
 - iii. equity sharing in your company
 - 1. if you give up too much equity you may give up control
- ix. 506(c) (PART OF JOBS ACT)
 - 1. THIS will become more popular
 - 2. Ralph's opinion - this will be huge
 - 3. like 506(b)
 - a. still unlimited money
 - b. still can have 2,000 investors
 - 4. Jumpstart Our Business Startups
 - a. J.O.B.S. act
 - b. There was an 80 year BAN on general solicitation advertising
 - i. you had to know people
 - ii. you had to mostly work with accredited investors
 - c. General Solicitation is NOW ALLOWED - take money from accredited investors
 - 5. general solicitation IS NOW ALLOWED

- a. DISCLAIMER
 - i. only accept money from accredited investors
- b. you can make a specific offering on DAY 1
 - i. take money on DAY 1
- c. you can only take money from ACCREDITED INVESTORS
 - i. SEC requires
 - 1. Private documents
 - a. tax returns
 - b. bank statement
 - c. provided by investor thru financial advisor (lawyer, accountant or banker)
 - i. income
 - ii. assets / networth
- d. if you want to take money from ACCREDITED INVESTORS YOU CAN ADVERTISE
 - i. YES
 - 1. billboards
 - 2. flyers
 - 3. websites
 - 4. commercials
 - e. what types of advertising will have the biggest impact
 - f. no limit on money you can raise
 - i. used to be \$5 million
 - g. no limit on amount on investors
 - i. used to be 99 accredited / 35 non-accredited
- 6. HERE's the RUB
 - a. must get registered with SEC before you take a dollar
 - b. you must wait 12 months if you already took money
 - c. DISCLAIMER
 - i. only accept money from accredited investors
- x. FORM "D" is the Form that includes all exemptions
- xi. up to 2,000 private investors
- xii. when you register federally its a free open database
 - 1. its a form of advertising
 - 2. completely legal
 - 3. can we connect with your client
 - 4. states don't have a open, digital database
 - a. IS (XYZ) company listed with you??
- xiii. The companies who register have brought themselves to the attention to the SEC and thats good
 - 1. ITS the many many thousands of others who don't register or should and don't that SEC is more likely to pursue
- k. Disclosures

- i. Exec Summary
 - 1. shorter version and summary of PPM
 - 2. NOT AN OFFER
- ii. Private Placement Memorandum
 - 1. PPM
 - a. CYA
 - i. Disclaimers
 - 2. full disclosure
 - 3. THIS IS AN OFFERING
- I. CROWD FUNDING (pooling) / Part of Jobs Act
 - i. up to \$500k
 - 1. non audited by CPA
 - ii. up to \$1M
 - 1. forever
 - 2. even with audited financials
 - 3. unlimited unaccredited but only up to \$500k
 - 4. audited by CPA
 - iii. across state lines
 - iv. 2,000 total
 - v. 500 non accredited
 - vi. 12 states including michigan
 - 1. INTRASTATE CROWD FUNDING
 - vii. kickstarter
 - 1. donations
 - viii. Just a Donation
 - 1. cannot get a return on investing
 - ix. All people will be allowed to invest between 5-10k
 - x. accredited up to 100k
 - xi. MUST file with a website portal
 - 1. management checked
 - 2. fee paid to website portal
 - 3. they will promote your offering
 - xii. will not do raise yourself
 - 1. advantage
 - 2. disadvantage
- m. Misc Questions
 - i. Family across state borders
 - 1. raising from family in PA and do deals in NEBRASKA
 - 2. have AUNT become co-owner of company
 - a. have her buy 1 unit / 1 share of the LLC
 - 3. Have Aunt start a business (LLC) in your state and lend from her business
 - 4. ALL IRA's (anything of a retirement nature) as if her money was in PA

- ii. Have them set up a LLC in your state / sell them a unit of your company and have them lend to that company
 - iii. International
 - 1. Legal in all the offerings
 - 2. legal for you to accept money into your company
 - 3. buy property with your company
 - 4. you can accept the money
 - 5. SPECIAL filing for REG "S"
 - a. living in another country
 - b. physically in another country
 - c. 4 countries that are forbidden
 - d. ONLY SELL to INTENATIONAL investors
 - i. only take money from people in other countries
 - ii. must make investors in writing that they cannot sell their investment for 12 months
 - 6. its up to the lender/ investor
 - 7. Ralph can only speak to US LAW
 - iv. Dodd Frank
 - 1. you can do 4 owner finance deals a year IN YOUR OWN NAME / not in a company
 - 2. in a company there's no limit
 - 3. going after unlicensed mortgage brokers and bankers
 - 4. SAFE ACT under dodd frank (just for home loans)
 - a. 14 states have the power to regulate private mortgage lending
 - i. if you are a private mortgage lender on a PRIVATE HOME you should be licensed
 - 1. this is to regulate the mortgage broker
 - ii. you can write it up as equity INSTEAD OF LOAN
 - iii. you can pay a licensed mortgage broker 3-5% of the deal and that's only
 - b. 36 states say - if you are in the business of creating loans for people who want a HOME LOAN
 - i. past test
 - v. HUSBAND / WIFE
 - 1. counts as one person
 - a. plus same sex marriage states
 - vi. every other family relationship is considered 1 person
- n. SEC on state level
 - i. they take more time and money to protect UNACCREDITED
 - 1. b/c they don't the money to protect themselves
 - 2. they want to protect the little guy
 - ii. they take less time and money to protect ACCREDITED
 - 1. b/c they have their own resource to protect themselves

- o. Ralph Sherman
 - i. REG D filing / fund
 - 1. REG C offering
 - a. accredited only
 - ii. start more companies
 - iii. Project Basis
 - 1. executive summary
 - a. use to create the PPM
 - 2. PPM
 - 3. Federal filing
 - 4. Ohio filing
 - 5. file in those states
 - a. 15 days after we get the money
 - b. which state we have raised money from
 - 6. less than 1 month
 - 7. SEC filings can be longer
 - 8. half up front
 - 9. half later
 - 10. letter of engagement
 - 11. Package for my students
 - a. consult with Ralph
 - b. REG D
- p. Ralph's Contact Information
 - i. www.shermanlawoffices.com
 - ii. 248-385-7100
 - iii. rose@shermanlawoffices.com
 - 1. wife and paralegal