Hughes Capital Investor Update

Guardian on Target at Month 2

Guardian is the proud owner of 28 new mortgages. With two full months of return completed, we are pleased to report an annualized return of 9.39% to our Guardian investors. Now, you may say that this is not our targeted return of 11% to 14%, but we have only been officially operating for April and May. As we explained to our Guardian investors, we expected to be in the 6% to 7% annualized return range in the first couple of months, with the return increasing a couple of points per month until we hit our targeted return. Once we do hit the targeted return, it should remain reasonably consistent because it is a cash flow model with very few ups and downs. When starting most funds – Guardian included – you tend to have a greater portion of cash that isn't deployed immediately. This affects the return disproportionately at the beginning because it represents a larger portion of the portfolio.

Assuravest: Comparing Notes to Sausage

Assuravest updates are sometimes best explained through stories of our notes. There is a guy we usually see at note conferences who manages a large pool of non-performing 2nd mortgages, much like the ones in Assuravest. He equated the process of working out these troublesome loans to sausage making, saying, "The end result is pretty good, but you really don't want to see how it is done." I was reminded of this when we received a discounted settlement 3X our cost on a loan that seemed to have nothing going for it.

The 1st was in foreclosure and the borrower had a 520-credit score and had not made a payment on the loan since 2007. The good news was there appeared to be positive equity in the home between the two mortgages, so we got a Realtor® to take pictures and give us a BPO. The bad news was that the roof was shot and there was substantial water damage (I mean like ceilings falling down) from the roof to the basement that was never taken care of, causing mold everywhere. As the months passed, we continually stayed in touch with the borrower and the Realtor®. Then, as often happens, the senior position changed from foreclosure to a short sale. This is how we ended up receiving a discounted settlement 3x the cost of our loan. We love sharing the profitable stories, but to keep it real, we also had a small loss on a short sale this month. We paid $10,485 and were able to negotiate $8,000 of it back. Still, we did better than the senior lien that took a loss of over $100K. It is all part of Assuravest's business model.

First Distribution in Sentinel

Sentinel has paid off its debt portion and will be distributing a portion of the equity dollars back to our investors. In round numbers, Sentinel had $1.5 million in debt and $1.5 million in equity. Many of the same investors were on both sides. In the month of May, we sold enough of the notes to pay off the $1.5 million of debt, plus have approximately $500,000 left over to start making our first distributions to the equity investors as a return.

Our goal for Sentinel was to purchase re-performing junior liens and resell them within 12 to 18 months, 12 months being preferable. Our $3 million purchase started in October 2016 and was completed at the end of December 2016. We expect to be close to achieving our goal of 12 months as we sell the rest of the portfolio in the next few months. We won't be able to report on our return to our investors until the last note is sold, so stay tuned.

Lease-to-Owns Coming Full Circle

ROI Strategies looks like it might have two new lease-to-owns completed by the time you read this update. One is here in Reno and the other is in Las Vegas. We have one to three people purchasing their homes and becoming official homeowners each month. We are very proud of how the system continues to work in helping people to achieve the American dream of owning a home. ROI Strategies is also participating in purchasing homes in the Midwest by loaning money to our company that makes the purchases. ROI is getting paid a 15% interest rate for that participation and is allowing us to keep the cash deployed.

Until next month,

Steve Sixberry　　Greg Hughes