October 25, 2011

World Economics and Financial Events:

This is a general review of the world economic and financial events and how they are affecting the U S economy and the real estate market.

Since the last quarterly report on July 25, 2011 the world economic conditions have worsened. There are many problems that are continuing to develop in Europe and Asia. The 17 European Countries that make up the (E U) European Union all use the Euro as their only currency. Five of these countries are struggling with their slowing economy and their inability to repay their debts and to borrow additional money. These countries are referred to as the (P I I G S) countries of Portugal, Ireland, Italy, Greece and Spain. These countries bonds are selling / trading at approximately 40% to 50% of their originally sold value.

The P I I G S countries are having a very difficult time paying the interest on the several trillion dollars of their existing debt / bonds. One of the main reasons why these countries are unable to service their debt is due to the lack of them selling sufficient products or services to the world. Many of the citizens of these countries are employed by some governmental agency. These countries mainly depend on tourist dollars from travelers who visit to see the artifacts and monuments. Their governments use the tourist money to pay the operating cost of their country and to employ their people, instead of paying their debts.

The world is very concerned that one or more of the P I I G S countries may go bankrupt. The European banks own billions of dollars of these Sovereign countries bonds. The failure of any of these countries could cause a run on all banks as the contagion spreads throughout the financial world. In order to limit the banking risk, the E U is trying to develop a (TARP) like program to (ring fence) protect the financial risk of the banking system. In the U S financial crash of 2008/9, the Fed/Treasury developed the TRAP program to protect all bank deposits. The E U may need a $2 to $4 trillion Euro fund to accomplish this task. The 17 E U countries are trying to create this bale out fund over the next several months. They are trying to raise $200 to $400 billion Euro from the 17 countries to set up the fund. They will then try to leverage up this amount of money into a few trillion Euro's by selling bonds/debt.

At the same time, the richer countries of the world are referred to as the (B R I C) countries. They consist of Brazil, Russia, India and China. These countries have taken steps to slow down their overheated economies. Their booming economies have caused hyper-inflation of 10% to 50% in the cost to purchase commodities. The selling prices of the available real estate has been increasing at 25% to 50% per year. These countries have raised interest rates

several times and have tightened the borrowing requirements. One of the things all of these countries have in common is they sell the products and services they produce to the rest of the world. They produce cheaper products to sell due to their low cost labor and/or they sell their countries natural resources. If the rest of the world slows down, these countries could also go into a recession. The stock markets of all of the B R I C and P I I G S countries have fallen significantly in price during the past year.

The United States also has its own financial and economic problems. By November 23, 2011, Congress has to agree to the necessary budget cuts of at least $1.2 trillion over the next 8 years. The current U S Treasury budget deficit (national debt) is approximately $15 trillion. The deficit is projected to grow to approximately $24 trillion over the next 8 years. The main question is how to finance this potential $9 trillion increase in the national debt.

This past summer, the Congress voted to set up a Super Committee to agree on how to cut the budget's growth. The committee consists of several Democrats and several Republicans. If the committee doesn't agree, then there will be an automatic across-the-board cutback of government spending for this amount that will take effect for the 2013 fiscal year. The problem with the automatic cuts in spending is most of the cutback will come from necessary spending programs such as the military, Medicare and Social Security.

Instead of this small cut back amount of $1.2 trillion, the U S really needs to cut spending by $6 to $8 trillion in order to help solve the current financial problems. Some politicians have raised the possibility of Congress using a 2/3 vote to suspend the automatic cut back of the increase in the future budget. The world has a serious problem, because the U S isn't the only country that needs to borrow/raise trillions of dollars.

The major increase in government spending/debt has created financial and political problems in the U S and World. The wealthier countries don't want to buy additional issued bonds. Neither China nor Saudi Arabia wants the U S to use their credit card to finance our high standard of living. The U S consumer can't purchase many of our newly issued bonds, because they are already deeply in debt. Neither the public nor the unions want to lower our standard of living, so the government is forced to keep printing/creating more money/bonds by the trillions.

The U S official unemployment rate is currently approximately 9.1%, but to grow this economy the rate needs to move down to the 5%/6% area. The un-official unemployment rate is estimated to be 15% to 16%. The current sluggish growth rate of our economy of 1% to 2% of (GNP) gross national product needs to be 4% to 6% of GNP. That is one of the main issues causing the political debate from the Democrat and the Republican parties. Is it better

to raise taxes to pay for the social spending programs we have/need OR is it better to lower taxes to spur business to expand the economy that will employ more people?

During the past 18 months, the U S Federal Reserve (Fed) conducted three separate money easing operations. In 2010, the Fed did Q E 1 (Quantitative Easing) for approximately one trillion dollars. The money created by the Fed was used to purchase short term paper bonds and mortgages from the banks. Then the Fed implemented Q E 2 for approximately $600,000 billion more to purchase additional short term paper. In September 2011, the Fed started Operation Twist for approximately $400,000 billion. Operation Twist will use the money from the redeeming short term paper from Q E 1 and 2 to purchase longer term paper/bonds. The Fed stated they were doing these easing's to help lower interest rates and to pump more money into the banking system. There is a possibility the Fed may decide to do Q E 3, 4 and 5 in the future to finance more government debt.

Some of the Fed's Q E easing's money operations were used by the banks to buy Treasury bonds. The reason the Fed bought the existing bonds from the banks was to make sure the banks have sufficient money to lend to businesses and people. The banks also borrow short term money from the Fed at the very low interest rates' of 0% to ¼%. The banks used some of this additional money to buy 5, 10 and 30 year Treasury bonds that pay them 2% to 3% interest. This is a major reason why the banks don't want to lend money to businesses and people. The low cost borrowing by the banks from the Fed has actually transferred approximately $400 billion in profits from the Fed / Treasury to the banks. The Fed said this was being done to help the banks make additional profits so they can recapitalize their weakened financial position.

This may help explain why millions of people are marching around the nation/world. Many of the marchers are unemployed, having a hard time paying their bills, and are rebelling against the financial markets, the Banks and the Governments. The publics' anger is spreading around the world and this could disrupt society,.

The way the U S is currently operating is one branch of the government (the Fed) is financing the other branch of government (the Treasury) bonds / debts and neither branch has any money. The Fed currently has created approximately $2 trillion with the Q E operations to the banks. However, the Fed only has approximately $70 billion in capital before they would have to go to Congress and ask for more money. The $2 trillion the Fed created and transferred to the banks was created by an accounting entry. The Fed's debt is separate from the $15 trillion national debt of the Treasury.

The selling price of most houses hasn't yet hit bottom. Management has experienced that both the cost to purchase foreclosed houses and the prices they are selling for are continuing

to slowly drift lower. However, the major plunge in housing prices from the 2006/07 high is over at this time. Due to the very low cost of mortgage money, it is becoming more expensive to be a renter than to be a buyer of some lower priced houses ($50,000 to $125,000) in many major cities.

Most retail houses are currently selling at approximately 35% to 50% below the 2006 high prices. Our 4 managed investment funds have purchased approximately 75 foreclosure houses over the past 18 months. These houses were purchased at the lenders all cash auctions which is usually held on the court house steps throughout the nation. These purchased foreclosed houses have cost approximately 20% to 25% of the prior 2006 high prices. Most of these 75 purchased houses have cost between $20,000 and $50,000 before they were repaired to rent or sell.

Usually, a rental house can be repaired for $3,000 to $7,000 and usually rents for $850 to $1,100 per month. The rental amount of the funds 40 rented houses is producing a 20% to 50% income per year, per house. When these rental houses are sold in the future, they are expected to sell for at least a similar price as the house sold currently. If the economy ever picks up, the value of the 40 rented houses may recover some of the 50% decline since 2006 and produce additional profits.

The renovation cost for most of the 35 sold houses has usually been between $8,000 and $15,000 each. Most of the sold houses were purchased at retail prices of between $50,000 and $100,000 each. Most sold houses have produced a 25% to 50% profit of $15,000 to $40,000 for the fund that owned it, within 4 to 6 months.

The lenders all-cash auctions are held in most cities either monthly, weekly or daily depending on the size of the city and the number of foreclosed homes available. Only professional buyers with cashier checks can attend the auction. Immediately after the purchase of each house at the auction, it must be paid for in full at the auction.

Recently, I was a guest on a television show as an expert on the distressed housing market. If you would like to watch the interview, go to your fund's website, Face Book or You Tube. I discuss the current opportunities of making very big profit and very high income by investing into foreclosed houses. I will be an expert speaker on many radio and television financial news shows.

Management's current 4th investment fund offering is the Distressed Realty Fund I, LLC. The website address is www.distressedrealtyfund.net This fund will only buy foreclosed houses to rent for income or to sell for profits. The fund is expected to pay the investors at least 8% per year from rental income at 2% per quarter and 50% of the net profits, paid each year. This new fund will only buy foreclosed houses as it receives new investors' money. The prices

paid to buy the current foreclosed houses are approximately 20 to 25% of the 2006 high prices. This fund will not buy any tax liens. This fund doesn't have to recover any losses caused by the prior crash in real estate houses and tax liens on worthless properties.

Management has created a fifth new website at www.bargainrealestate4u.com This real estate marketing site will display and offer for sale all available for sale houses and all open un-redeemed tax liens the funds own. The houses displayed for sale on this marketing site will be the same houses that are displayed in each fund's website. All of the houses listed for sale in this site will remain listed for sale with the local realtor where the houses are located. The interested people that want to consider buying any of these houses will be referred to the local realtor for the sale.

All of the available open un-redeemed tax liens the 3 funds own will be offered for sale to the highest bidder. The 3 funds will accept offers for cash from buyers that are willing to buy the available liens or acquired properties from the fund that owns them. Each fund will assign its interest in its liens and its acquired properties to buyers that will hold them until they can sell or use them.

The quarterly report of specific fund you are invested in will be posted separately on your fund's website in a password protected area. The password for the fund you are invested in will be sent to you along with your quarterly interest check.

David Zussman J D CEO of the Management Company for each of these 4 investment funds: R E Tax Lien Fund I, LLC, Tax Lien Income Fund I, LLC, Yield & Profit Lien Fund I, LLC and Distressed Realty Fund I, LLC.