

FAQs about TAMA 38 projects

(frequently asked questions & answers) Updated July 2018

QUESTION	PAGE
1) Who are the various parties involved in a project?	2
2) What is the investment structure and process?	2
3) How are funds invested and returned?	2
4) What are the funds used for?	3
5) What are the terms of the lender loans?	3
6) What is the collateral to secure the loans?	3
7) How can the bonus/interest be so high? Is this “too good to be true”?	4
8) What can go wrong?	4
8a) Would it be possible that a project could not obtain a building permit (heter)?	4
8b) What happens if the <u>developer</u> cannot meet his obligations or expectations?	5
8c) What happens if the <u>builder</u> does not meet his obligations or expectations?	5
8d) What happens if market prices for apartments drop?	5
8e) <i>“I am a foreign investor and I live far from Israel - not sure I trust Israeli developers. How will I be protected?”</i>	5
9) What happens if there is a bank or keren (<i>lending institution</i>) involved in the project?	6
10) How do we try to prevent a default situation?	6
11) What happens in a default situation?	6
12) What is the actual process in a default situation?	7
13) If additional funding is required, who contributes?	7
14) How safe / “trustworthy” are the Kablan (builder) and co-developer?	8
15) How/when does the kablan (builder) get paid?	8
16) How much does the developer have invested in the project?	8
17) Do lenders share in any additional profits?	8
18) What are the tax implications on the bonus (interest) earned?	9
19) What is AID’s investment, role and compensation?	9
20) Who reviews the legal and financial aspects of the deal?	9
21) What is AID’s experience?	10
22) Who are AID’s advisors and consultants?	10
23) Who pays for expenses (lawyer, due diligence, accounting, etc)?	11
24) Can I have an option to buy an apartment at a discounted price	11
25) Why invest now? Why not wait?	11
26) References	11
27) Is a heter iska required for this type of investment?	11
28) What is the difference between TAMA 38/1 and TAMA 38/2?	12
29) What is the process for bank financing on a TAMA project	12
30) How do we register our security?	12
31) Why investing in a TAMA project is better than buying an apartment in Israel	13
32) Investment deal structure	14

1) Who are the various parties involved in a project?

- a) The DEVELOPER (“yazam”) initiates and controls the project. Generally the developer signs up the tenants (apartment owners), or buys a pre-signed contract from a 3rd party. The developer prepares all aspects of the application and acquires all of the permits. The developer hires the kablan (builder) and supervises all aspects of construction, sales and operations.
- b) The KABLAN is the actual construction company (builder). The kablan is hired and managed by the developer to complete both the strengthening of the building and construction of the new apartments. The kablan is not a partner in the project. The developer generally maintains a supervisor on-site to oversee the kablan.
- c) The MANAGING DIRECTOR (MD) (or co-developer) is the company that finds, negotiates and packages the deal on behalf of the lenders. The MD generally partners with the developer in supplying capital and management services to the project.

American Israel Development (**AID**) is generally the Developer or CO-developer in our projects. If we are CO-developing, it means that we have partnered with another developer. In this case, both developers are very involved in all aspects of the project.

NOTE : the perspective of these FAQs is that AID is acting as the Managing Director, on behalf of the lenders.

2) What is the investment structure and process?

The basic investment structure is as follows:

- Each project is generally set up in a new Israeli limited corporation (LendCO). The sole purpose of this SPC is to hold and manage the investment. Sometimes the SPC holds multiple projects.
- The sole shareholder of this SPC is American Israel Development (AID). AID manages the project on behalf of the lenders (investors) and has responsibility for any liabilities.
- The investors are “lenders” to the SPC (they are not shareholders - only creditors). Lenders have no liability.
- Each lender has a loan agreement with the SPC for a fixed rate of return and term.
- If AID is co-developing, the SPC enters into an agreement with the co-developer company. This agreement outlines all of the rights and obligations of both parties.
- The shares of the project SPC (ProjectCO) are pledged to the lender group as collateral for their loans. These shares carry all of the collateral and security that has been pledged for the project.
- The Lenders advance funds to a project bank account. The funds are distributed directly to the project based on milestones and benchmarks, with the supervision of the managing director, AID.

3) How are funds invested and returned?

- The SPC lends money to the project to fund expenses
- During the construction phase of the new apartments, the developer starts to pre-sell apartments. These proceeds are used to pay for construction costs or to re-pay loans (first bank, then lenders).
- The kablan (builder) can be paid his fee either in cash or by designating certain apartments in the building for him to retain or sell (a “combination” deal) In this case the developer monitors and controls the timeframe and price that the kablan can sell the apartments.
- After all costs of the project are paid, and the bank (or lending institution) is re-paid, the SPC receives back the balance of it’s outstanding loan plus the total bonus (interest) owed to it.
- Even if the project is late, the loan becomes due on a fixed date. At that time the loan is either extended, or the developer refinances the project and pays back the loan.
- These funds are then distributed back to lenders as per their loan agreement with the SPC
- After the lenders are paid back in full, then the developer may take profits from the project.

4) What are the funds used for?

- Generally in a TAMA project, it takes about one year to sign up the apartment owners in a building. There are significant costs to creating renderings, floor plans, feasibility studies, legal advice, etc. The developer bears these costs. (depending on size of building, costs vary from about 300,000 to 500,000 nis)
- In some cases, the developer purchases the rights to a building that has already been signed up by another developer or a real estate agency. (payment for rights to a signed project can range from about 500,000 to well over 1,500,000 nis for a large project)
- Once a building is signed up, there are significant costs to preparing the engineering, architectural and design plans, preparing and filing permit applications and legal and financial work. These are called “soft costs”. In many cases the developer funds these costs and is reimbursed when the project commences, or the investors fund these costs when they come into the project. (generally about 500,000 – 1,500,000 nis)
- In a typical TAMA project, the private lenders advance the first 25 - 30% of capital to cover the costs of approvals, (and/or acquiring a project) and initial construction to strengthen the building. Once the strengthening renovations are completed, generally a bank or other lending institution (keren) advances the next 70 - 75% of the capital for construction of the new apartments.
- Generally the developer begins pre-selling apartments during construction. Proceeds from pre-sales can reduce the capital requirements of a project. However as the new apartments get closer to being finished, they can usually be sold for a premium, so a developer may wait to sell some apartments.

5) What are the terms of the lender loans?

- Generally lenders earn a fixed bonus (interest) amount for their loan. Loan terms range from about 24 – 36 months. The bonus (interest) is about 12% - 15% per year, depending on size and duration of loan. However if a loan is repaid early, the effective yield can be higher.
- Bonus (interest) is calculated only on funds that are actually loaned. Bonus is not paid on funds that are committed, until they are actually loaned. Bonus paid is calculated as simple interest, not compounded (ie. lenders are not paid interest on their interest that is earned, but not yet paid). Bonus begins to be calculated with funds are received by AID.
- If loans are not re-paid by the contracted date, see FAQ on default situation.
- Generally lenders earn bonus as interest income in Israel, however in certain situations the income can be distributed to lenders in other ways.
- Lenders are paid out the balance of their loan and all of the bonus at the end of the term. However in some situations there could be interim loan re-payments to lenders.
- The SPC withholds taxes as per government regulations, as applicable to each lender.
- Lenders sign a loan agreement with the SPC.
- The structure of the SPC is designed to minimize tax and other liabilities for lenders and maximize security.
- There is a possible mechanism to allow lenders to use their loan proceeds towards the purchase of an apartment.
- Neither the SPC, nor AID can give tax advice to any individual lender.
- Terms vary between projects and lenders.

6) What is the collateral to secure the loans?

- The SPC is granted securities over the rights to the project. These rights give the owner (the SPC) the ability and permission to build and sell additional apartment units. These rights are very valuable.
- The SPC generally holds a charge on any possible asset that the project company owns
- The lenders are granted all rights controlled by the SPC.

- Once construction begins, the developer takes out an insurance policy to protect the interests of all lenders and creditors.
- In the event of a breach, the lenders have the right to realize their (liens) charges and take control of the project. Basically the lender group “steps into the shoes” of the developer. The lender group can then sell the project or hire another developer to complete the project and pay out the loan and bonus owing

7) How can the bonus/interest be so high? Is this “too good to be true”?

- There is a lot of profit in a TAMA 38 project.
- Developers can afford to pay very high interest rates for early stage funding. This gives them the ability to engage in multiple projects and leverage their profitability.
- This is an excellent time to invest in TAMA projects, before large institutions start to “get in the game” and bring down the yield to private lenders.

8) What can go wrong?

There are two major possible risks in a TAMA project

- 1) Real estate prices drop. This is an uncontrollable factor

However in the case of our TAMA projects, the market prices would have to drop by about 20% before the lenders are affected regarding their payback of principal and bonus. Real estate prices in Israel historically have never dropped anywhere near that level and it is not realistic to believe that they will. In fact in the past 50 years real estate prices in almost every region in Israel have appreciated substantially.

- 2) The developer cannot meet their obligations or expectations

- There are also external, uncontrollable factors that can affect a real estate project; including acts of nature, inclement weather, labor strikes and disputes, etc. We deal with these situations if they arise.

8a) Would it be possible that a project could not obtain a building permit (heter)?

- To date we have not experienced any TAMA projects that have not received a building permit. There can be delays in receiving a permit, but once proper submissions are completed, a permit is issued.
- Possible reasons for not obtaining a building permit are :
 - 1) The local authorities (municipalities) might be involved in restructuring and could be delayed in issuing a permit. However we only do projects in municipalities that are friendly and eager for TAMA projects
 - 2) There could be changes in laws or regulations. However the policy and mood in all the municipalities that we work in is very favorable to TAMA projects so the likelihood is that any policy changes would further benefit TAMA development.
 - 3) Plans may not meet city requirements, or may have legitimate objections by neighbors. In this case the plans would be modified to meet all requirements and approvals.
- TAMA projects generally receive pre-approval from the municipalities before we participate in them.
- Once a TAMA project is signed off by tenants and pre-approved by the municipality, it is very rare that it will not receive a building permit. Perhaps there may be design or engineering changes that may delay a project
- In any case, if a building permit cannot be attained, the borrower (Developer) must still pay back the loan to our SPC. We are creditors with the borrower.
- Unfortunately in Israel, there tend to be delays with municipal offices processing paperwork for building permit applications. We try to anticipate these delays in our planning process.

8b) What happens if the developer cannot meet his obligations or expectations?

- In any real estate deal, there are possibilities that the parties involved in the project could run into adverse situations. A developer could over-extend its resources, submissions or administrative approvals could be delayed. Or the developer could be negligent in managing various aspects of the project.
- We try to mitigate any potential concerns by working with quality developers and builders. Before we participate in a deal, we do extensive due diligence to insure that submissions and approvals have been properly granted/filed and that all aspects of the deal are double checked by our lawyer and advisors.
- If anything goes wrong, we have contracted rights to remedy the situation, including the right to take over the entire project. There are very specific terms and obligations, which a developer must meet. If they breach our contract the developer generally has only 7 days to remedy (fix) the problem. If they cannot remedy we have the right to take action.
- In projects where AID is the developer, if something happens to our business, our lenders have the rights and the collateral to take over the project they are participating in.

8c) What happens if the builder does not meet his obligations or expectations?

- The developer has a tight contract with the builder (kaban). If the builder is late or misses on expectations, the developer will give the builder notice (a week or two) to rectify the situation. If the situation cannot be corrected the developer will quickly terminate the contract with the builder and bring in another builder.
- The builders give the developer a completion guarantee bond (usually more than 500,000 NIS). The developer can use these funds to mitigate any losses they may have in replacing a builder.
- TAMA renovations are actually quite simple; so many builders can step into a project mid-stream and take over construction. Our developers work with multiple builders who are all very capable and experienced (and hungry) for this type of work.

8d) What happens if market prices for apartments drop?

- Generally market prices in Israeli residential real estate continue to rise. Historically, even after hostilities, real estate prices rise in Israel.
- There is a shortage of housing in the central areas where our TAMA projects are developed (ie. Tel Aviv area, Jerusalem). This creates a high demand for new housing in the areas where people are already living. All we are doing is basically expanding buildings in very high demand areas – not developing new housing in unproven new sub-divisions.
- However, real estate prices can drop. The lenders get paid their full principal and interest before the developer earns any profits. There is enough profit in our projects to allow for approximately 20% decrease in real estate prices, before it would affect bonus payments to the lenders. The chances of the Israeli home market in Tel Aviv and Jerusalem slipping by anywhere close to this level, is extremely low.

8e) “I am a foreign investor and I live far from Israel. I’m not sure that I trust Israeli developers. How will I be protected?”

- We understand your concerns. Unfortunately in every country (including Israel) there are challenging stories about real estate investments. In Israel, mostly these stories pertain to new developments where there is a delay in permits/administration or there has been an unscrupulous developer. Usually these stories involve new building projects.
- TAMA 38 deals are quite different.
 - There is no purchase or development of land and no “new” redevelopment plans. So the process of building can be faster and less expensive.
 - Municipalities very much want TAMA development. It increases safety, beauty and economic

development in their regions at no cost to them. If TAMA regulations change, generally they are to the benefit of the developer to make projects happen faster.

- TAMA projects are relatively easy to build. Once the engineering specs are in place, in TAMA renovation projects the builder can quickly (with 6 months) do the foundation / earthquake strengthening work, and then start of the new apartment construction. A typical TAMA renovation takes about 18 - 24 months of construction
- In TAMA 1 projects, tenants continue to live in the building during the construction phase. The tenants (and municipality) are eager to get the construction done as quickly as possible and they put pressure on the builder to get it done. This is not an unoccupied project that can sit for weeks without movement. The builders in a TAMA project are always under the watchful eye of all the tenants, who's main objective is to finish the project quickly and professionally.
- In TAMA 2 projects, tenants leave the building for about 2 years. The original building is demolished and a new building is erected. But again, the displaced tenants want to get back to the new building as quickly as possible so they monitor the project closely to make sure it stays on track.
 - If a builder (kablan) is not meeting expectations, the developer can quickly replace them with another builder. There are many builders in Israel who want this type of contract.
 - We do significant due diligence on our co-developers and projects to ensure we are dealing with good, reputable companies. And then we tie up the deals as tight as possible from a legal perspective.
- American Israel's main role is to protect our lenders' interests. We earn our profit only after our lenders are paid out in full. **And yes, we also invest in our own deals so that we have "skin in the game"**

9) What happens if there is a bank or keren involved in the project?

- If a bank or other lending institution (keren TAMA) provides second stage financing, the bank will require first charge on the pledged securities. Our position would then rank just behind the bank as secured creditors.
- It is important to note that a bank only funds AFTER work has been completed. As the bank lends money the project increases in value. It is actually good for us when a bank comes in. They increase our protection.
- In the case of a default situation, we would have the right to buy out the bank's position and then take over the project. In this case, AID would need to arrange alternative financing to buy out the bank's position. We would exercise this option if we believed that it would be in the best interest of our lenders to take over the project. In this case we would likely be able to negotiate favorable terms with the bank whereby we might get a discount in buying out their position, and/or financing terms.
- If we do not exercise this option to take over the bank's position, the bank would have the option to liquidate the project. The initial proceeds would go towards paying out the bank's debt. The next proceeds would go towards paying out AID's lenders (both principal and interest). Any remaining proceeds would be allocated to other creditors and finally to the developer.

10) How do we try to prevent a default situation?

- In projects that AID is the sole developer, we control all aspects of the project.
- In a co-development project, we have an extensive inspection mechanism to make sure that a project stays on track. We have control over bank accounts and payments to suppliers/contractors. We review all project expenses on a timely basis. We have full access to the administration and paperwork on a project. We are highly involved in the management of the project

11) What happens in a default situation?

- If there is a default situation by the project or the developer (example, the project is more than 7 days late in a payment), the SPC has the right to call on its security (per its agreement with the project company that owns the rights)

- In this situation the SPC can take over the project and decide what course of action to engage (continue to build, rectify the problem with the developer, sell the project rights, or other options)
- If a bank or other similar lending institution has advanced funds to the project, this institution will rank in priority to the SPC as a secured creditor. The SPC will have the ability to pay out the obligations to the bank and control the rights, or co-operate with the bank as a secondary creditor.
- In a default situation, the developer is entitled to be re-paid it's investment expenses and contributions after the lenders have been paid in full both their loans and bonus/interest. The developer is not entitled to earn additional profits.
- In most projects the developer stands to earn significant profits. So in a default situation, the lenders have substantial coverage for their loans and bonus.
- Lenders earn a fixed bonus on their loans, which are contracted to be repaid by a specific date. If a loan payment is not made on time, the lender will earn a slightly higher annual contract bonus rate of about .25% per month more than their regular bonus rate, for up to an additional six months.
 - Example; lender loans 1,000,000 to the SPC. He is contracted to be paid 12% per year (1% per month) bonus, at the end of the 24 month loan agreement. For this example, the lender will earn 240,000 bonus at the end of the project.
 - If the loan is not repaid until, let's say, 30 months. From month 24 – 30 the lender will then earn 12.25% bonus on his initial 1,000,000 investment. He does not earn additional interest on the bonus owing.
 - At the end of 30 months, the lender will be paid back his initial 1,000,000 investment plus the 240,000 original contracted bonus plus an additional 12,500 penalty bonus earned in the subsequent six months.
- In a default situation the SPC and AID will work with the lawyer to determine the best course of action. The lenders will be bound by that course of action and will participate in re-payments of loans and bonus owing.

12) What is the actual process in a default situation?

- In the SPC's contract with the developer, there are clear specifications of breach. Some of these include
 - 1) any misrepresentations made by the borrower (developer)
 - 2) if the borrower registers any charges or liens on their assets
 - 3) not making payments on time
 - 4) any delay of over 7 days on any milestone
 - 5) if the borrower makes an application for bankruptcy
- Upon a breach/default the SPC can immediately take action with the borrower after 7 days notice
- The SPC can give notice to the borrower to take charge of the project company and it's bank account(s).
- Generally the borrower will co-operate as it is in it's best interests to have the project continue towards completion.
- If the borrower opposes this action, then the SPC would immediately proceed with legal action. During this process it is not in anyone's best interest to cease construction on the project. The parties would appoint a mutually acceptable project manager to continue the project.

13) If additional funding is required, who contributes?

- If additional funding is required for the project the developer and the SPC are responsible to advance those funds as per the agreement.
- In the case of the SPC, AID will be responsible to advance all funding required
- Lenders will not be called upon to advance additional funds
- Any "Cash Call" funds rank first in re-payment before loans or bonus are re-paid to SPC.



- When funds are available to re-pay loans, first AID (via SPC) is re-paid its cash call advances in full. Then developer is re-paid its cash call advances.
- Subsequent funds are then used to re-pay SPC loans and bonus as per agreement

14) How safe / “trustworthy” are the Kablan (builder) and co-developer?

- We perform significant due diligence on everyone we work with. We check out their history, track record, references, etc to determine their status. We thoroughly review and evaluate each project from both a legal and financial perspective to make sure that every project is very realistic and manageable.
- Our lawyers do extensive legal due diligence on each project to ensure that all legal work, contracts, registrations, etc have been properly documented and filed. We also engage a third party, independent engineer (shamai) who reviews and certifies that all of the projected costs and revenues for the project are realistic. This information is all documented in a doc efes (feasibility report).
- The developer hires and manages the kablan (construction company). If there is a problem with a kablan, the developer handles it. The developer has the ability to quickly replace a kablan that is not performing to expectations. To date, the kablanim that we have hired are excellent. They generally have experience in building both TAMA and traditional projects.

15) How/when does the kablan (builder) get paid?

- The builder is paid for his actual costs of construction during the construction phases. The builder's costs are vetted by both the developer and lending organizations to make sure they are accurate.
- At the end of the project, when all construction is complete, the builder earns his profit in one of two ways :
 - He is paid a markup for his work (usually 15% – 25% of total costs)
 - He receives apartments for the value of his profit – which he either retains or sells

16) How much does the developer have invested in the project?

- The developer generally funds the initial costs of signing up the owners (tenants) in the building, or purchasing the “signed up” contract. Costs range from about 250,000 – 750,000.
- The developer also contributes to all of the professional fees associated with the early stages of the project. These include architects, engineers, city planning, parking, utilities, and supervising the builder. These costs are generally about 600,000 – 900,000.
- In most projects the developer generally invests the first 200,000 – 500,000.

17) Do lenders share in any additional profits?

- AID's lenders are creditors but not shareholders in the projects we finance.
- As creditors they enjoy the security of knowing that they earned a fixed rate of return in a fixed time frame and that they are paid out our principal and bonus (interest) BEFORE the developer earns final profits.
- In most of our projects there is a significant buffer of profits that protect our lender's financial position from most developer defaults or market changes that could occur.
- If the developer earns additional profits on the project (ie. comes in under budget on costs or earns more on sales), our lenders generally do not share in these additional profits.
- Our lenders earn a fixed return regardless of whether the project makes more or less. They generally do not share in the profits, or losses of the developer.
- However we do have optional profit sharing programs for lenders who advance larger loans. (see individual project summaries for details)

18) What are the tax implications on the bonus (interest) earned?

- This may be different for all lenders, based on their personal tax situation and changing laws and regulations. We recommend that lenders receive tax advice from their own personal advisors.
- As a general guideline, for Israeli citizens:
 - Israeli citizens can acquire a form 857 from the Income Tax Authority, which will reduce their withholding tax liability. מריבית מס ניכוי. With this form, AID would have to withhold 15% of the bonus paid. We provide this form to our lenders
 - If an Israeli does not acquire the exemption form 857, then AID would have to withhold 25% of the bonus paid. Subsequently the Israeli lender could apply for the form 857 and receive back the 10%.
- As a general guideline, for foreign/USA citizens:
 - AID would have to withhold 17.5% of the bonus paid
 - However USA citizens could receive a tax credit from the IRS, making their tax withheld, a lower rate

19) What is AID's investment, role and compensation?

- AID or the principals of AID generally invest personally in our projects. We have "skin in the game".
- AID is the developer or co-developer.
- AID finds projects and reviews, plans and negotiates the deal terms.
- AID handles all of the due diligence for the lenders and their advisors.
- AID manages the project on behalf of the lenders. AID management visits the site, audits expenses and distributions, directs the activities of the SPC's lawyer and prepares and sends regular reports to the lenders.
- AID is the sole shareholder in the SPC. The SPC takes on all the responsibilities and liabilities of the investment on behalf of the lenders.
- If there is a cash call (ie. Additional funding is required for the project), AID is responsible to fund that call (as per the terms outlined in the FAQs)
- As compensation AID earns
 - A management fee for finding and structuring the deal, handling the due diligence and arranging the financing. This fee is generally paid upon the initial funding of the project.
 - As the developer AID earns reasonable project management fees
 - After the lenders are paid out their full loan principal and bonus, AID may earn an additional incentive completion fee from the profits of the project. This bonus is based on the successful repayment of the funders' loan/bonus. This incentive drives AID to manage the project as tightly and responsibly as possible. This final potential bonus does not affect the lender's loans or bonus.

20) Who reviews the legal and financial aspects of the deal?

- The SPC hires an independent lawyer in Israel who represents the interests of the SPC and lenders with respect to the project. He does complete due diligence on all legal and administrative issues pertaining to the project.
- The financial projections for revenues and costs are presented in a feasibility document called a doch efes (zero report). Lending institutions (like banks), depend on this information for making decisions regarding a project. Generally the numbers are very conservative and are audited and verified by an independent certified appraiser (shamai).
- The doch efes presents a thorough detailed report which compares projected sales of apartments and costs of construction to real sales prices and construction costs that have occurred recently in the neighborhood.
- Our SPC generally supplies the first 25% – 30% of the required funding for a project. The remaining funding is generally advanced by a bank or other major lending institution. You can be sure that the bank has also done



comprehensive review to ensure that a deal is solid. The bank also assigns a monitor to review all costs before payments are advanced to the kaban.

- If the project comes short on its revenues or over-budget on its costs, then the profit will be reduced. This reduction in profits is borne by the developer. The profitability of our projects is high enough that the lenders have plenty of “breathing room” before any cost overruns or lower selling prices affect their payback. Lenders receive back all of their principal and bonus before the developer takes profits.

21) What is AID's experience?

- To date AID and its sister company AIC (American Israel “Finance”) has financed over 30 TAMA projects mainly in Tel Aviv (Gush Dan region) and Jerusalem. We have paid out on 5 loans; full principal and interest >> on time.
- Each year AID expects to add an additional 6 - 8 projects to its portfolio and complete a similar number (our turnaround rate)
- TAMA projects are relatively new in Israel. This is the ground floor. In the next two decades there will be thousands of TAMA projects in various phases.
- We have been evaluating all aspects of TAMA for the past 5 years, waiting for the right time to enter the market. The early TAMA projects did not produce significant ROI, so we patiently waited. In 2013 TAMA guidelines were modified to substantially increase the investor yield on a TAMA project.
- AID is extremely well connected with the best co-developers and projects in the Gush Dan region.

22) Who are our advisors and consultants?

- We are associated with professional advisors and consultants who have proven expertise and success in TAMA projects and their respective fields
 1. **Lawyers**

Yony Aharonson	yony@salawyers.co.il	972 03 6700676
Jacob Shwergold	jacob@salawyers.co.il	972 03 6700676

Yony and Jacob have over a decade of experience in Israeli real estate and corporate law. They are well versed in TAMA 38 projects and real estate developments throughout Israel. Their clients are private buyers, investors, and developers. They are both fluent in English and Hebrew and are well connected in real estate.
 2. **Accountants**

Pesach Woznica, CPA	pesach@pwtax.com	972 077 228-5371
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Pesach and his team are well experienced in Israeli and North American accounting and tax practices.
 3. **Shamai** (Independent financial review)

Roi Blair

Its activities in our projects include economic analysis of project and feasibility studies of all aspects of the project. This professional review confirms that all financial representations in the project are realistic (even conservative).
 4. **Real Estate Consultants** - Pollack Real Estate and Investment Consultants is a Jerusalem based client oriented real estate brokerage and investment firm with over 37 years of experience in the Israeli market. Led by Eli Pollack a veteran realtor, the firm has experience in advising local and foreign buyers in all aspects of real estate investing.
 5. **Banks / Keren TAMA** (*private lending organizations*)
 - a) Bank Hapoalim
 - b) Bank Mizrachi
 - c) Several private kerens

23) Who pays for expenses (lawyer, due diligence, accounting, etc)?

- AID covers the expenses of the lender group, including
 1. Due diligence with the lawyer(s) and financial consultant (shamai)
 2. Preparation & registrations of all legal work and documentation
 3. Accounting and financial filing fees
 4. Supervision of project / reporting
 5. Office and administration
- AID pays for basic initial legal review for each lender. If a lender needs additional use of legal services, the lender covers that additional cost on his/her own account.

24) Can I have an option to buy an apartment at a discounted rate?

- As a lender to a project, if you are also interested in having an option to buy an apartment, there would be two SEPARATE transactions.
- In the first transaction, you are lending funds to a project and receiving back your loan and bonus (interest) at the end of the project.
- In the second transaction you would become a buyer of an apartment. You can of course use funds from your loan repayment and bonus to apply towards the purchase of an apartment. In this case there might be an opportunity to reduce taxable income.
- Generally our developers will offer our lenders discounted rates on the purchase of an apartment, but each case is different, depending on timing, demand, location, etc. A developer will be more motivated to offer a discount if part of the purchase price of the apartment is paid in advance. Your loan cannot be used as a pre-payment towards an apartment during the term it is loaned to the developer. (You may have to invest additional funds towards a discounted apartment pre-payment – and this additional investment would not be subject to earning a bonus). In other words, the loan/bonus cannot be combined into one transaction with an apartment purchase.
- If you are interested in the option of purchasing an apartment, please try to notify AID management as early as possible so that we can begin discussions with the developer.

25) Why invest NOW (instead of waiting to see what happens in the future)

- TAMA projects are very lucrative right now. Developers need funding and Lenders can earn a significant rate of return. In the future, as TAMA projects continue to become more and more common throughout Israel, we expect that there will be many more sources of bank and institutional funding available for early stage TAMA projects. This will cause the yield for private lenders to drop significantly. A few years ago, we were able to pay out 15%+ to investors. As competition entered the market, our rates are now 12%+ (which are still excellent). In the future our payout rates could reduce further.
- Investors who come in now, lock in for a few years at the higher rate.

26) References

- All of our lenders are private individuals. We cannot publish their contact information.
- However, upon request, we can put you in touch with investors who can give references.

27) Is a heter iska required for this type of investment?

- All of the undertakings, commitments and payments are subject to the provisions of our heter iska as provided on our website. We have an excellent heter iska.
- Each lender should consult their own Rabbinical authority for clarification

28) What is the difference between TAMA 38/1 or 3 and TAMA 38/2?

- In a TAMA 38/1 or 3 project, the EXISTING building is renovated. The tenants continue to live in the building while the TAMA renovations are done on the building. Renovations usually take about 20 - 24 months to complete. Most of the projects that AID participates in are these TAMA 38/1 project.
- In a TAMA 38/2 project, the existing building is demolished and a brand NEW building is put up in its place. This new building can be larger than a TAMA 38/1 building, but there are many more additional costs. Of course during the construction, the existing tenants are given rent subsidies to find alternative living accommodations for about 24 – 30 months.

29) What is the process for bank financing on a TAMA project

- When a bank issues a loan to a TAMA developer they require collateral that holds the property itself. This is the process for any loan a bank gives in a real estate transaction.
- The issue with lending to TAMA-1 projects (strengthening the building, not demolishing it) is that the existing tenants will not give up their own apartments as collateral for the developer's loan. Therefore, the mechanism that evolved is that the developer is required to amend the writ of common house ("Tzav Bait Meshutaf") to add another sub-unit (like the tenant apartments) to which all the potential TAMA building rights are attached, and a lien is attached to that sub unit. Until such registration amendment is completed and a lien is attached, banks will not fund. Additionally, banks usually don't fund without a building permit for the project. This is partly why as a developer, we acquire earlier stage funding for our projects.
- This sub unit, is usually a small storage area ("Machsan") which is extracted from the general use (not physically, but registration wise) and registered as a sub unit.
- When a purchaser of an apartment requires a loan to purchase his apartment, he too needs to put up collateral to his lending bank. However, when one purchases an un-finished apartment ("on paper") he cannot give his bank collateral through the property, because he doesn't own the property (and usually, neither does the entity that sold him the apartment).
- According to the Sales Law (Insuring Purchaser Funds), article 2(b), each purchaser of an apartment "on paper" must receive a security against every shekel he pays. The law states 3 kinds of securities: (a) Bank Guarantee; (b) insurance policy against the sums; (c) a caution remark / caveat ("Hearat Azhara") on the land, free of any earlier 3rd party right, + payment according to building milestones set by the law.
- In developer projects in which the developer issues one of the first 2 securities, the purchaser assigns his rights from these securities to his lending bank.
- In a developer project utilizing the 3rd security option, since the purchaser received a caution remark, it is also possible to give his bank one.
- Just to make the whole thing circular, in order for a developer to give a security according to one of the first two options (and thus not requiring a caution remark), he needs to register a caution remark to his bank. So basically – in any case he'd need a caution remark on a separate sub unit registered.
- If units are being sold in a project that cannot give any of the aforementioned securities, either because no bank / insurance company was engaged, or because no sub unit was registered yet, then according to the law, the developer cannot take into his account funds exceeding 7% of the consideration for the apartment. Usually, the funds are held in escrow by the developer's attorney (or not paid at all at that time by the purchaser). In this case, the purchaser will not be required to pay sums exceeding his equity, until he receives on of the 3 securities.

30) How do we register our security?

- The company registrar in Israel is what is called a "declarative" registrar, rather than a "statutory" one.
- This means that the existence or non-existence of a certain right in it's records, does not necessarily mean that

that right exists or doesn't. Pledges formed by a company are formed upon their signing, and may or may not be registered at the company registrar.

- This is not to say that the registrar is not relevant. As of today, it is the only public record one can search in order to find out information regarding these kind of rights and its records can be used as evidence in court. However, they can be refuted if presented with a document signed by the company and which has not been registered.
- In short – pledges for AID's Lenders exist upon their signing, let alone from their filing, and their actual registration, while important, is not imperative for them to hold their weight.

31) Why investing in a TAMA project is better than buying an apartment in Israel

American Israel

Investing in a TAMA project vs. buying an apartment, renting then selling

Note : these numbers are approximations

Assumptions :

Investor has 2M nis to place

Option to either invest in TAMA projects or buy apartment

Option A : Invest in TAMA projects

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	TOTAL
TAMA project Loan	2,000,000	2,000,000	2,000,000	2,442,000	2,442,000	2,981,682	2,981,682	3,640,634	3,640,634	4,445,214	4,445,214	
Interest Earned	13.0%		520,000		634,920		775,237		946,565		1,155,756	
Taxes	15.0%		-78,000		-95,238		-116,286		-141,985		-173,363	
Net Capital Available			2,442,000		2,981,682		3,640,634		4,445,214		5,427,606	5,427,606

Option B : Buy an apartment, rent then sell

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	TOTAL
Investment in Apartment	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Net Rental Income (after maintenance & all taxes & fees)		50,000	52,000	54,080	56,243	58,493	60,833	63,266	65,797	68,428	71,166	600,305
Taxes	15.0%	-7,500	-7,800	-8,112	-8,436	-8,774	-9,125	-9,490	-9,869	-10,264	-10,675	-90,046
Appreciation of apartment/year	5.0%	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	1,000,000
Net Value of Apartment		2,100,000	2,200,000	2,300,000	2,400,000	2,500,000	2,600,000	2,700,000	2,800,000	2,900,000	3,000,000	
Capital Tax	25.0%										-250,000	-250,000
Value of Proceeds upon sale												3,260,260

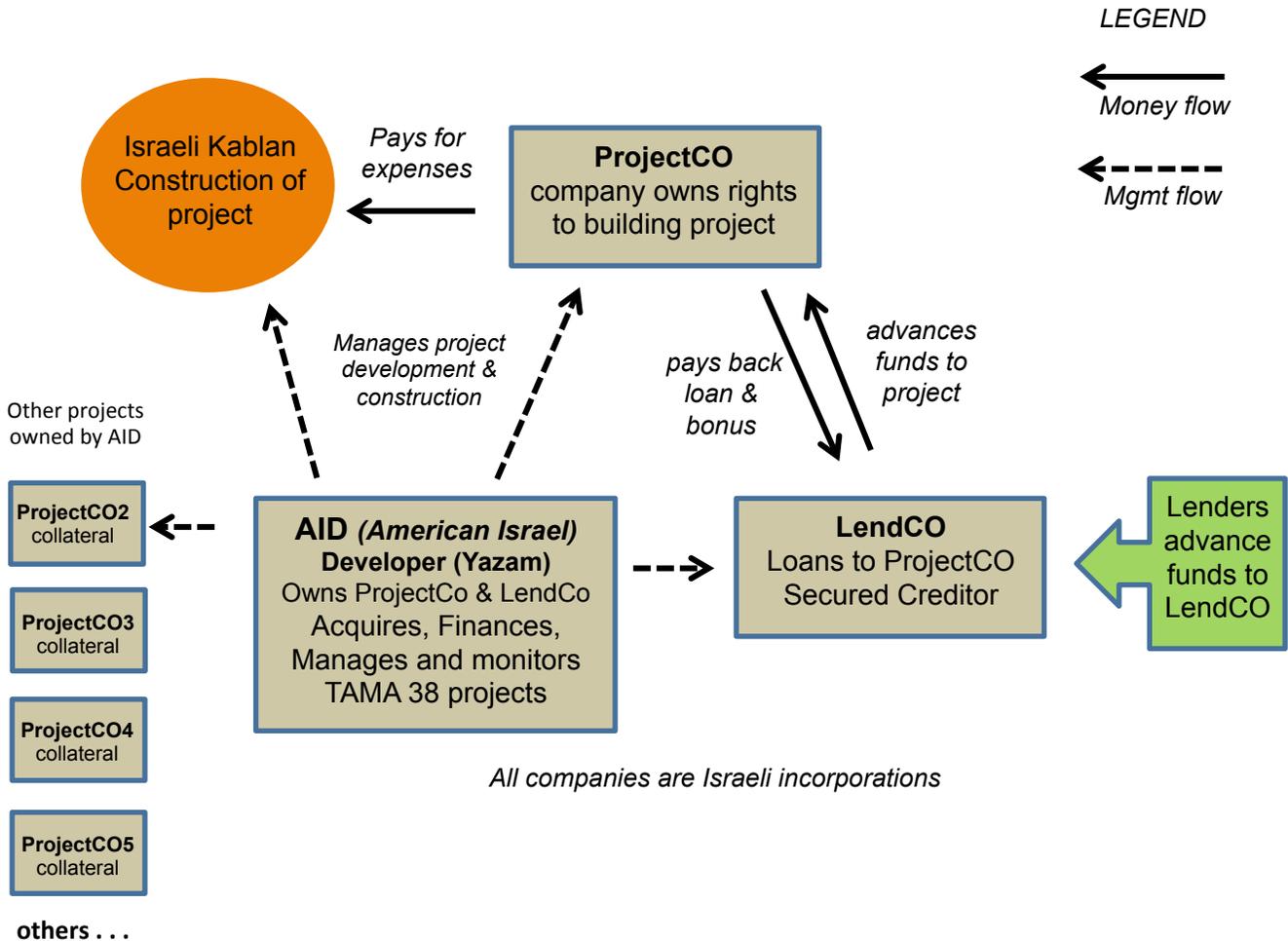
Additional income investing in TAMA > 66% 2,167,346

TAMA lender earns 66% more by investing in TAMA vs owning an apartment

Plus Lending to a TAMA project is cleaner. You are not a landlord and have no responsibilities or risks to manage or maintain a property

A TAMA investor can exit every two years - not locked in waiting for appreciation

32) Investment deal structure



Notes :

- 1) Each project has a separate LendCO.
- 2) In some situations AID controls 100% of the project (equity). In other “co-developer” situations AID is equity partners with another developer. However AID controls the projects
- 3) Lender’s advance funds as creditors to the LendCO
- 4) The LendCO then advances funds to the ProjectCO as a loan
- 5) The LendCO has collateral in the ProjectCO
- 6) The LendCO is paid out it’s full loan principal and bonus BEFORE the Developer earns any profits