

## MONGOOSE INCOME FUND, LLC.

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### EXECUTIVE SUMMARY

Mongoose Income Fund, LLC. (the “Fund”) will be established by Levenstein, Vaceva & Company, a limited liability company (the “General Partner”), to purchase [generally] without recourse retail automobile installment sales contracts originated by select independent dealers in connection with the sale of used automobiles. The Fund’s investment objective will be to generate substantial short and medium-term capital appreciation by purchasing carefully selected retail automobile installment sales contracts entered into by customers who are typically unable to obtain financing from banks, credit unions, manufacturer captive auto finance companies and other traditional and non-traditional financing sources. The Fund is seeking total initial capital commitments of \$25 million. The Fund is targeting an annualized gross internal rate of return (“IRR”) on its investments of approximately 25% for its Limited Partners.

The principals of the General Partner believe that, as a result of their experience regarding the acquisition of automobile retail installment contracts (“RIC”) and the automobile finance industry generally, the Fund will be able to successfully acquire sub-prime retail automobile installment contracts. The Fund will generally identify and acquire retail automobile installment sales contracts at greatly discounted prices and the General Partner believes the Fund will subsequently manage a portfolio of such contracts in order to achieve a satisfactory rate of return for the Fund’s limited partners.

### COMPELLING MARKET OPPORTUNITY

The Fund plans to capitalize on the significant opportunities made available by the current state and characteristics of the auto finance industry sector in the United States. Companies established in the automobile finance industry have historically traditionally heavily relied on the availability of credit lines and the ability to securitize their portfolio of automobile loans. The principals of the General Partner believe that several factors will drive changes in the U.S. auto finance industry sector which they anticipate will take place over the next two years, including:

- The continued existence of still largely underserved market of consumers who are typically unable to obtain automobile financing from traditional financing sources banks (as of 2005, 36 million Americans - 17% of the United States adult

population - had a credit bureau score below 550, and 58 million Americans - 28% of the United States adult population - had a credit score below 640). A potential recession coupled with mortgage defaults has undoubtedly increased the size of the credit-impaired population.

- The continued existence of a growing market dedicated to the sale of used vehicles; and
- The uncertainty which currently exists regarding investor demand for sub-prime assets, which in turn may limit the ability of established large sub-prime auto lenders to access some of their traditional funding avenues, such as credit lines and the automobile loan securitization market, in which pools of loans are packaged into securities which are sold to investors.

As a result of the foregoing, the principals of the General Partner anticipate that there will be substantial purchase opportunities in the retail automobile installment sales contracts sector. The principals of the General Partner believe that these factors will dominate the industry for the next three to five years.

Furthermore, even with a marked increase or decrease size of the market for RIC, MIF should be able to find excellent opportunities, because it only has to select 3,000 to 5,000 contracts to allocate the first 25 to \$50,000,000. The total number of used car sales in the US is anticipated to be 15,000,000 to 20,000,000, so MIF would only need 0.0370% of the market.

## **INVESTMENT STRATEGY OF THE FUND**

### **Marketing**

Target Market. The Fund's retail automobile installment sales contracts program will be designed to primarily serve customers who have limited access to automobile financing through banks, credit unions and other traditional and non-traditional financing sources. The bulk of the Fund's typical borrowers will have experienced prior credit difficulties or have limited credit histories and generally have "Fair Issac" credit bureau scores below 600. Because the Fund will serve customers who are unable to meet the credit standards imposed by most banks, credit unions and manufacturer captives, the Fund will generally buy RIC at a discount effecting a significantly higher yield than would be earned by such sources. Since the Fund will provide financing in a relatively high-risk market, the Fund also expects to sustain a higher level of credit losses than these other automobile financing sources. Good underwriting and collections efforts will cause the Fund to achieve higher economic profits.

Marketing Activities. The Fund will be an indirect lender. As a result, the Fund will focus its marketing activities on automobile dealerships using primarily Internet and print advertising. The Fund will be selective in choosing the dealers with whom it conducts business and primarily pursue select independent dealerships. The Fund will target financing later model, low mileage used vehicles, and have internal controls in place to make sure that no dealer location accounts for more than 10% of the total volume of contracts purchased by the Fund in a given year.

Prior to entering into a relationship with a dealer, the Fund will consider the dealer's operating history and reputation in the marketplace. The Fund will then maintain a non-exclusive relationship with the dealer. This relationship will be actively monitored with the objective of maximizing the volume of retail automobile installment sales contracts purchased from the dealer that meet the Fund's underwriting standards and profitability objectives. Due to the non-exclusive nature of the Fund's relationships with dealerships, the dealerships will retain discretion to determine whether to sell a particular retail automobile installment sales contract to the Fund or to another source in respect of loans made by the dealership to a customer seeking to make a vehicle purchase, increasing the risk of "adverse selection."

The Fund will generally purchase retail automobile installment sales contracts without recourse to the dealer. From a practical standpoint, the fund will try to impose a two-payment recourse purchase, but will enforce it by holding back the advance for a specific purchase until two payments have been received by the Fund from the Obligor directly. Accordingly, the dealer usually will have no liability to the Fund if the consumer defaults on the contract. Although finance contracts will be purchased without recourse to the dealer, the dealer will typically make certain representations as to the validity of the contract and compliance with certain laws, and agree to indemnify the Fund against any claims, defenses and set-offs that may be asserted against the Fund because of assignment of the contract or the condition of the underlying collateral. The Fund does not expect its determination as to whether recourse against a particular dealer based on these representations and indemnities will be available to be of material significance to its decision to purchase finance contracts from a particular dealer. The managers of the GP had problems with full-recourse arrangements with their previous company, because the dealer still perceived that it had "sold" the RIC, verses financing it with full-recourse. In the end, the managers' previous company received lower quality RIC from the dealer and the recourse to the dealer was not worth much.

Origination Network. The Fund's originations process will involve people who specialize in the marketing of the Fund's retail automobile installment sales contracts program and the Fund's underwriting criteria. Responsibilities will be segregated so that the Fund's sales personnel will market the Fund's program to the Fund's dealer customers, while the Fund's underwriting personnel will focus on defining and refining underwriting criteria. Separate compensation schemes will be created for both types of personnel.

Target markets will probably be smaller or mid-sized metropolitan areas, with exceptions being made for exceptional motor vehicle dealers and Obligors in larger cities.

### **Credit Underwriting**

The Fund will use an Obligor credit scoring system to support the credit approval process. Credit scoring will be used to differentiate retail automobile installment sales contracts by the credit quality of the consumers which are parties to such contracts and to order rank credit risk in terms of expected default rates. For example, a consumer with a lower score would indicate a higher probability of default and, therefore, the Fund would either decline to purchase the contract that consumer entered into, or, if the Fund decided to purchase that contract, compensate for this higher default risk through the pricing of the contract. While the Fund will employ a credit scoring system in the purchase approval process, credit scoring will not eliminate credit risk, and

adverse determinations in evaluating contracts for purchase or changes in certain macroeconomic factors could negatively affect the credit quality of the Fund's receivables portfolio.

The Fund's credit scoring system will consider data contained in the customer's credit application to the dealer and credit bureau report as well as the structure of the contract originated by the dealer and produce a statistical assessment of these attributes. This assessment will be used to segregate applicant risk profiles and determine whether the risk is acceptable and the price the Fund should charge for that risk. The Fund's credit scorecards will be monitored through comparison of actual versus projected performance by score. Periodically, the Fund will endeavor to refine its scorecards based on new information including identified correlations between receivables performance and data obtained in the underwriting process.

The Fund will purchase individual contracts which satisfy certain underwriting criteria set by the Fund's underwriting specialists using a process tailored to account for local market conditions. Completed contract packages will be sent to the Fund by dealers. A loan processing representative will verify certain employment, income and residency information in respect of the customer when required by the Fund's credit policies. Loan terms, insurance coverages and other information may be verified or confirmed with the customer. For dealer applications in respect of contracts that are not automatically declined because they do not satisfy certain threshold criteria, the Fund's underwriting personnel will review the loan package and determine whether to approve the purchase, approve the purchase subject to certain conditions being met, or deny the purchase application.

The Fund's underwriting and collateral guidelines, including credit scoring parameters, will form the basis for the purchase decision. Exceptions to credit policies and authorities will have to be approved by designated individuals with appropriate authority. Additionally, the Fund's centralized credit risk management department will monitor exceptions.

Upon purchase of a particular contract, the Fund will acquire a perfected security interest in the automobile that was financed. Daily loan reports will be generated for review by The GP. All of the Fund's contracts will be fully amortizing with substantially equal monthly installments. Key variables, such as loan applicant data, credit bureau and credit score information, loan structures and terms and payment histories will be tracked. The credit risk management function will also regularly review the performance of the Fund's credit scoring system and will be responsible for the development and enhancement of the Fund's credit scorecards as well as comparisons of the scorecard to industry averages as published by certain firms

### **Loan Servicing**

The Fund's servicing activities will consist of collecting and processing customer payments, responding to customer inquiries, initiating contact with customers who are delinquent in payment of an installment, maintaining the security interest in the financed vehicle, monitoring physical damage insurance coverage of the financed vehicle, and arranging for the repossession of financed vehicles, liquidation of collateral and pursuit of deficiencies when necessary.

The Fund's collections activities will be performed at 576 Sacramento Street, FL5 located in San Francisco, CA and in other locations by individuals connected to the internet within the US,

Russia and India. In the event an account reaches a certain level of delinquency, the account will be moved to one of the Fund's collection agents. The objective of these collectors will be to resolve the delinquent account. The Fund will have the ability to repossess a financed vehicle in the event an account is deemed uncollectible, the financed vehicle is deemed by collection personnel to be in danger of being damaged, destroyed or hidden, the customer deals in bad faith or the customer voluntarily surrenders the financed vehicle.

At times, the Fund may offer payment deferrals to customers who have encountered temporary financial difficulty, hindering their ability to pay as contracted. A deferral will allow the customer to move delinquent payments to the end of the loan, usually by paying a fee that will be calculated in a manner specified by applicable law.

Repossessions are subject to prescribed legal procedures, which include peaceful repossession, one or more customer notifications, a prescribed waiting period prior to disposition of the repossessed automobile and return of personal items to the customer. Some jurisdictions provide the customer with reinstatement or redemption rights. Legal requirements, particularly in the event of bankruptcy, may restrict the ability of the Fund to dispose of the repossessed vehicle. Independent repossession firms engaged by the Fund will handle repossessions. Upon repossession and after any prescribed waiting period, the repossessed automobile will generally be sold at auction. The proceeds from the sale of the automobile at auction, and any other recoveries, will be credited against the balance of the contract. Auction proceeds from sale of the repossessed vehicle and other recoveries will usually not be sufficient to cover the outstanding balance of the contract, and the resulting deficiency will be charged off. Please see Appendix 1 below for a model of recovery rates on charged-off contracts. The Fund will pursue collection of deficiencies when such action is deemed appropriate.

The value of the collateral underlying the Fund's receivables portfolio will be updated monthly with a valuation model developed by the General Partner. This data, along with the Fund's managers' own experience relative to mileage and vehicle condition, will be used for evaluating collateral disposition activities. Essentially, there are only two things that will be valued in the calculation of the value of the Fund:

1. Cash
2. Obligations having aged less than 60 days, valued at their book value.

Please see Appendix 3 for more specific accounting definitions.

## **THE GENERAL PARTNER**

The initial investment team of the General Partner is comprised of three professionals with experience working together at the same company in the automotive finance area. THE GP will grow its staff for analytic and operational areas when the fund is formed. See Appendix 2 for our staff biographies.

## **Appendix 1 - Modeling Investor Rates of Return.**

Please contact us for our simulations

## **Appendix 2 – Staff Biographies**

Please contact us for our staff biographies.

## **Appendix 3 –Accounting Definitions, Notes**

Please contact us for accounting definitions and notes.