



Due Diligence Report

**Offering
Date**

Yrefy SLP4, LLC
February 2, 2022

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Executive Summary

Offering Summary

Table 1 summarizes the key offering terms and defines abbreviations used throughout this report.

Table 1

Offering Overview	
Offering name	Yrefy SLP4, LLC (SLP4)
Legal structure	Delaware limited liability company
Date formed	December 27, 2019
Security type	Secured promissory notes; Tranche A, B, C, D, E
Investment focus	Refinancing defaulted and distressed private student loans
Maximum offering	\$50 million
Minimum offering	\$100,000
Minimum purchase	\$100,000; subject to management discretion
Offering termination	December 31, 2022
Features and Status	
Current raise	<ul style="list-style-type: none"> \$3,710,000 as of January 16, 2022 Initial offering date was June 20, 2021; first investor closed on July 14, 2021
Price per note	\$100,000
Maturity date & interest rate	<ul style="list-style-type: none"> Tranche A: 12-month term, 4.25% Tranche B: 24-month term, 4.75% Tranche C: 36-month term, 5.50% Tranche D: 48-month term, 6.25% Tranche E: 60-month term, 8.25%
Optional redemption	Yes, subject to Manager discretion. Redemption amount equals face value of the Note reduced for interest already received
Mandatory redemption	Prepayable at any time; no redemption premium
Leverage	None intended except the Notes; but no restrictions established
Management investment in Notes	None required nor intended
Registration and Suitability	
Suitability	Accredited investors only; qualified and non-qualified funds accepted
Registration exemption	Regulation D 506(c); general solicitations allowed
Offering circular date	June 20, 2021
Most recent supplement	N/A
Form D	April 30, 2021; CIK 0001859283

Service Providers	
Managing broker dealer	NA
Auditor	Frazier & Deeter, LLC
Legal & Blue Sky	Jaburg & Wilk, P.C.
Escrow	Held in a segregated, self-managed account with Chase Bank, N.A.
Trustee	Yrefy, LLC
Transfer agent/custodian	Yrefy SLP4 LLC

Sponsor Summary	
Sponsor/manager	Yrefy, LLC (Yrefy)
Sponsor contact	Laine Schoneberger, Chief Investment Officer & Managing Partner
Sponsor phone number	(800) 614-8569 / (877)-400-8569 (Investor Relations)
Year of formation	2017
Prior syndications	2 Regulation D offerings
Full-cycle programs	None
Assets under management (AUM)	\$18 million

Investment Objectives

SLP4's investment objectives consist of the following:

- Negotiate the pay offs of existing student loans with the purpose of originating refinanced student loans.
- Service and manage portfolio of refinanced loans in order to redeem noteholders.

Additional Information

- SLP4 intends to refinance delinquent and defaulted private student loans by offering current lenders 35% to 40%, on average, of face value. The loan principal to borrowers is not reduced, but the interest rate to those same borrowers is cut significantly, often from 18%-to-20% to 4.0%-to-4.5%, which assists borrowers in meeting loan payments and avoids the tax expense from cancelled debt. SLP4 makes money from accretion of the discounted purchase price and fees.
- Investors are providing all of the capital in exchange for the Notes, which are senior to Yrefy's equity. Yrefy can take out capital once note interest has been paid.
- SLP4 is offering an aggregate of \$50.0 million in promissory notes (the Notes). Investors have the choice of Notes with five different maturities, each paying a different interest rate.
 - The underlying structure and terms of the Notes are effectively the same, with the exception of maturity date and corresponding interest rate.
- Investors may spread their investment across the five different note maturities, regardless of the size of their investment. A \$100,000 investment, for example, could be split into a \$20,000 ladder purchase of each the 12-month, 24-month, 36-month, 48-month, and 60-month Notes.

- Yrefy is targeting private-market student loans rather than government-backed loans, which have recently been the subject of legislative efforts for partial loan forgiveness.

Operational Due Diligence

FactRight has not been engaged to provide a current operational due diligence report on Yrefy. Broker dealers and registered investment advisors are encouraged to review Yrefy’s financial position, track record, organizational structure, and operational controls in addition to this report.

Capitalization

Use of Proceeds

FactRight assessed the use of proceeds to determine whether they are consistent with SLP4’s investment objectives and business plans. Table 2 includes a summary of the estimated use of proceeds based on the maximum offering amount provided in the PPM and subsequent updates provided to FactRight.

Table 2

Estimated Use of Funds	Amount	Offering Proceeds
Selling commissions	\$2,500,000	5.00%
Offering expenses	\$25,000	0.05%
Operating expenses—Yrefy	\$16,616,250	33.23%
Reserves	\$0	NM
Funds available for investment	\$30,858,750	61.72%
Total	\$50,000,000	100.00%

FactRight considers the up-front expenses to be notably higher than in typical private offerings, reflecting the pass through of certain operating expenses from Yrefy.

- As Manager, Yrefy will receive up to \$16.6 million, or 33% of offering proceeds, which it represents will be used to pay operating expenses attributable to SLP4.
 - Neither the PPM nor the operating agreement specify that these funds must be used for the benefit of SLP4. However, Yrefy represented that the \$16.6 million is a maximum draw and that \$9 million to \$11 million is more likely. The majority of the funds will be used for variable expenses like marketing.
- SLP4 plans to fund an additional reserve account to be used for Note redemptions using cash flow received from borrowers’ monthly payments. However, the offering documents do not require funding of the additional reserve account.
- The PPM permits SLP4 to change the use of proceeds if management believes that is in SLP4’s best interests.

Management Investment

Yrefy is not required to invest in SLP4’s Notes offering. However, Yrefy’s interest is aligned with Investors through their ownership of the carried interest.

- Yrefy does not plan to participate in the Notes offering, as is typical of similar note programs.
- Yrefy does not anticipate providing any equity for this offering.
- FactRight notes that the value of Yrefy’s carried interest might increase if SLP4 were to take on additional risk in the form of borrowing or in less creditworthy borrowers.

Capital Raise

FactRight assessed Yrefy’s prior capital raise experience to determine whether SLP4 is positioned to achieve its capital-raising goals. An inability to raise capital can impact Yrefy’s ability to execute its business plan and limit its ability to diversify SLP4’s holdings. Table 3 includes a summary of Yrefy’s last three offerings.

Table 3
(\$millions)

Prior Investment Programs	Year Launched	Status	Target Raise	Current Raise
SLP1 (friends & family)	2017	Closed	\$25	\$4.77
SLP2*	2019	Closed	N/A	\$3.66
SLP3	2020	Closed—still deploying capital	\$50	\$10.34
Total	N/A	N/A	N/A	\$18.77

*Direct placement with a single entity.

Yrefy has experience investing in student loans but the absence of an MBD may reduce the pool of potential investors. SLP4 should be able to quickly diversify its exposure to any one borrower due to the relatively small size of each loan.

- Yrefy has sponsored three investment programs that have closed during the past three years; none have gone full cycle yet.
 - All of Yrefy’s offerings have been of notes, with the proceeds used to refinance student loans.
 - The three prior programs have refinanced loans for nearly 362 borrowers with approximately \$15.2 million of face value as of January 31, 2022.
- Yrefy SLP3 has, thus far, refinanced loans with approximately \$8.2 million in face value from 235 borrowers. It has \$2.6 million in investor capital remaining to deploy.
 - Yrefy SLP3 is a joint venture with an unaffiliated entity Save our Students Management, LLC, which owns a 20% stake. Yrefy owns the other 80%.
- The current offering, SLP4, closed its first investor in July 2021 and had raised \$3.71 million as of January 31, 2022.
- Yrefy uses a third-party firm, Parallel Markets, for investor accreditation.

Fees and Expenses

FactRight assessed whether fees and expenses are in line with similar offerings and whether the fee structure creates any conflicts of interest for management.

Offering Expenses

Table 4 provides an overview of offering expenses associated with an investment in SLP4's Notes as a percentage of gross offering proceeds.

Table 4

Offering Expenses*	Amount	Paid To
Selling commission—third party	Up to 4.00% up front	Broker-dealer
Selling commission—in-house	1% to 2% up front	In-house reps
Finders' fee—third party	1% annually, if paid	RIAs
Non-accountable due diligence and marketing allowance	N/A	N/A
MBD fee	N/A	N/A
O&O expense reimbursement	0.05%	Manager

*Based on a \$50 million raise.

The lower than typical offering expenses related to broker-dealer sales is mostly reflect Yrefy's plans to sell the Notes itself; however, its less common finder's fee could result in higher than typical RIA compensation.

- Yrefy expects to sell the offering mostly itself; in-house sales personnel may receive sales commissions of up to 2% of offering proceeds. None of the three in-house reps have active FINRA registrations; it is outside of the scope of this report to determine whether their sales activities would require registration under Section 15(a) of the Exchange Act of 1934.
- Independent RIAs that sign a finder's agreement can receive compensation of up to 1.0% of the contributed amount yearly from SLP4 for as long as the Investor holds the Notes. Depending on the term of Notes subscribed, this fee in aggregate could reach 5%. However, most RIAs do not accept Sponsor compensation.
- Broker/dealers that sign a sales agreement are entitled to receive an upfront sales commission of up to 4% irrespective of the Note duration. Similar programs typically tailor the selling commission to the Note term.
 - If the Investor seeks an early redemption, SLP4 will clawback a pro rata share of the upfront commission. See [Liquidity](#).
- SLP4 is responsible for paying all sales commissions; an investor contributing \$100,000 would receive Notes with a principal value of \$100,000.

Sales Discounts

No sales discounts are provided for in the PPM.

Early Investor Incentive

- SLP4 is offering a one percentage point step up to the interest rate for Investors that subscribe prior to March 31, 2022; expiration of the incentive is subject to extension by SLP4.
 - As an example, Investors selecting the 3-year Notes with a 5.50% fixed annual interest rate will, after the bonus step-up, receive an annual interest rate of 6.50% on their investment for the term of the Note.
 - This provision should not prove dilutive to Investors unless SLP4 defaults on the Notes, in which case the allocation of collateral might be more favorable to early Investors than later Investors.

Sponsor Compensation

FactRight assessed the amount and priority of compensation that Yrefy anticipates receiving from its participation in this offering to determine if it is reasonable and if it incentivizes SLP4 to act in the best interest of Investors. Table 5 includes a summary of compensation payable to Yrefy.

Table 5

Operating Fees	Amount	Paid To
Origination fee	5.0% of outstanding loan balance, including fees and penalties owed to original lender	Manager
Operating expenses	None following upfront allocation from offering proceeds	Manager
Portfolio servicing fee	1% annualized, calculated using aggregate borrowers' ongoing loan balance	Manager
Property management fee	N/A	N/A
Disposition fee	None	N/A

FactRight considers the fee structure in aggregate to be higher than the fee structure included in other private investment programs FactRight has reviewed recently. This is primarily due to the fact that the fees are based on the full principal balance, whereas SLP4 is only paying 30% to 40% of the principal balance on the loans. Although the fees are not directly charged to noteholders, they do reduce funds SLP4 has available to honor the Note obligations.

- According to the cash flow waterfall, SLP4 is responsible for paying the full origination fee to Yrefy upon closing of the refinanced loan.
 - SLP4 expects to recoup the full origination fee as borrowers repay their loans; the origination fee is incorporated in each borrower's total balance.

- SLP4 expects to use the accumulated borrower escrow payments to cover the majority of this fee. However, it is permitted to use offering proceeds if necessary.
 - During the application and underwriting process, borrowers are required, as per the PPM, to make four monthly loan payments, but will typically make six or seven by the time the refinancing is completed. This is to demonstrate ability and willingness to pay at the proposed lower amount. If the refinancing is approved these payments, which had been placed into an escrow account, are released to SLP4 and applied against the loan balance. If not approved, all of the money is returned to the applicant.
- While the origination fee is 5% of the loan face value, when calculated as a percent of the negotiated pay off amount, or actual cash outlay, it is approximately 13.8%.
- The origination fee is permitted to vary between borrowers; however, Yrefy represented that it has thus far always utilized a 5% fee.
 - Loan agreement documents provided to new borrowers establish an initial range of 4% to 8% for the fee. The final loan refinance proposal provided to a potential borrower includes a fixed percentage.
- The borrower has the choice to pay the origination fee upfront or have it incorporated into the monthly payment for the duration of the loan. According to Yrefy, 100% of borrowers across its investment programs have elected to add the amount to the loan balance.
- The 1% servicing fee is in line with industry standards. However, assuming SLP4 is paying 33% for the loan, this fee is closer to 3% based on SLP4's investment amount.
- As noted previously, Yrefy will seek reimbursement for up to \$16.6 million of early operating expenses. Yrefy intends to cover ongoing costs with profits distributed by SLP4 as per the waterfall.
- In many similar programs, payment of any fees to the Sponsor are subordinate to repayment of principal and interest on the Notes.

Distributions

FactRight assesses SLP4's priority of distributions to determine whether it is designed to appropriately incentivize Yrefy to act in the best interest of Investors.

- This is an offering of secured notes, where Investors will receive their interest payments and return of capital, but will not participate in any potential upside beyond that as the student loans are repaid.
- Yrefy may withdraw any accumulated earnings after SLP4 has met its current Note obligations.

Investment Overview

Targeted Investments

FactRight reviewed offering documentation to identify whether SLP4’s investment strategy is reasonable and clearly articulated and to determine whether Yrefy has the discretion to diverge from the articulated strategy.

Table 6 contains a summary of targeted investment parameters.

Table 6

Asset class	Distressed and defaulted private student loans
Security type	Unsecured loans
Portfolio size	Scales relative to capital raised through current offering
Target return	40% to 45% IRR
Holding period	<ul style="list-style-type: none"> Up to the extended maturity date of any refinanced loans Loans may be sold earlier to cover Note maturities
Refinanced loans	<ul style="list-style-type: none"> 2- to 15-year terms, 9.3-year average Fixed interest rates ranging from 3% to 7%, with recent average of 3.9%
Geography	United States
Sources	Relationships with banks, collection agencies, law firms, and servicers, as well as marketing efforts directed at distressed borrowers

Table 7 provides an approximation of how a hypothetical \$100,000 investment in 60-month Notes would be utilized as part of SLP4’s proposed investment strategy. The column labeled PPM is based on fees and expenses directly from the Use of Proceeds section, while the Yrefy column represents what management considers a more likely application of proceeds.

Table 7

Year 1 cash flow	PPM	Yrefy forecast
Investor Notes subscribed, 5-year term	\$100,000	\$100,000
Fees to Yrefy	\$32,230 @ 32.23%	\$18,000 @ 18.00%
Sales commissions and offering expenses	\$5,050 @ 5.05%	\$1,050 @ 1.05%
Available to SLP4	\$62,720	\$80,950
Negotiated pay-off rate with lender	38.50%	38.50%
Original loan face value	\$162,909	\$210,260
Refinance amount, includes fees	\$171,054	\$220,773
Refinanced loan term	120 months	111 months
Annual payment from borrowers	\$20,968	\$27,459
Interest component of payment in Yr 1 @ 4.19%	\$7,167	\$8,810
Initial escrow from borrower @ 4 months	\$6,989	\$9,153
Origination fee to Yrefy	\$8,145	\$10,513
Servicing fee @ 1%	\$1,711	\$2,208
Interest due Noteholder in Yr 1 @ 9.25% with early-investor bonus rate	\$9,250	\$9,250
Finder's fee	\$0	\$0
Residual cash flow in Year 1, before tax	\$8,851	\$14,641

Yrefy's investment strategy relies largely on its ability to refinance loans at the anticipated discount rate, terms of the Notes selected by Investors, and reinvesting borrowers' monthly payments. FactRight considers the following information to be material in understanding SLP4's investment strategy:

- Yrefy sources potential refinance candidates individually, it does not acquire portfolios of loans.
 - Yrefy markets directly to the student loan borrowers through direct mailings, online advertising, and other direct channels.
 - Borrowers are often referred to Yrefy by loan services, banks, collection agencies, and other involved parties.
- Yrefy's efforts are focused exclusively on the private student loan market, which is not subject to loan forgiveness initiatives or government-mandated payment deferrals. FactRight provides additional details of the private student loan market in [Investment Pipeline](#).
- Less than 10% of borrowers that contact Yrefy will make it through the underwriting phase and be selected for a refinancing.
 - About 70% of Yrefy's refinanced loans have a co-signer.
 - A loan committee of five voting members reviews all the borrower's information and makes the final decision. The loan committee is comprised of Yrefy's three owners and two additional executives.

- The face amount of the newly refinanced loan will be the sum of outstanding balances, including fees and penalties, of the loan(s) being refinanced plus a 5% origination fee.

Investment Allocation

A lack of formal allocation guidelines could lead to investment allocation conflicts and prevent management from allocating the best opportunities that it identifies to SLP4. FactRight notes the following:

- As manager, Yrefy has sole discretion as to allocation of refinanced loans between portfolios.
- Yrefy still had \$2.6 million to deploy from its SLP3 program as of the date of this report.
- According to Yrefy, allocations between SLP3 and SLP4 are decided on a loan-by-loan basis and the impact to overall portfolio metrics, as well as available cash.
 - Yrefy expects to place lower-balance loans into SLP4 early in the term to reduce concentration risk, while loans with larger balances will likely be used to complete SLP3 deployments.

Affiliated Transactions

FactRight reviewed the operating agreement and offering documents to determine whether and to what extent SLP4 is precluded from entering into affiliated transactions.

FactRight considers the lack of limitations on affiliated transactions to be a risk; however, that risk is partially mitigated by noteholders have a higher position in the waterfall.

- SLP4 is permitted to transact with subsidiaries and affiliates.
 - The terms of such transactions may not represent arm's length negotiations.
 - Affiliated transactions give rise to several inherent conflicts of interest, and such transactions are not guaranteed to have fair terms for all related parties.
 - Neither an appraisal nor investor approval is explicitly required to conduct an affiliated transaction.
- Yrefy represented that it may sell refinanced loans from earlier portfolios into SLP4 to provide liquidity to investors in earlier programs.
 - The primary risk appears to be a reduction in equity cushion if SLP4 were to purchase the loans at a premium valuation. The underlying monthly payments made by the borrower would not change.
 - The operating agreement does not address how the value of the loans would be determined. However, Yrefy represented that any purchase must be fair to the selling portfolio, as well as to Investors in the current portfolio.
- Similarly, Yrefy includes the sale of loans from SLP4 to another portfolio as one of the potential exit strategies.
 - Yrefy represented that any sale of loans under SLP4's collateral agreement would require either an equivalent portion of the Notes being redeemed or new loans being added to SLP4

to maintain collateral levels. Yrefy, in its role as collateral manager, has sole discretion as to selecting which loans are taken out of or added to the collateral pool.

- The impact would be felt mostly by the equity holder, Yrefy, LLC, since noteholders are more senior in the capital structure and profit waterfall.
- The operating agreement provides a special exemption from non-compete covenants to one of Yrefy's executives, Ms. Terry, due to stock ownership in companies where she previously had management roles. Both companies are involved in refinancing student loans but do not compete in Yrefy's niche.

Portfolio Analysis

Current Investments

- As of January 16, 2022, SLP4 had raised \$3.71 million and had closed on \$3.71 million in Notes. Management represented that a majority had 60-month durations.
 - Based on SLP4's expectations for pay-off discounts and 18% in upfront expenses, a successful raise of \$50.0 million through this offering could support approximately \$102.5 million in face value of refinanced loans and approximately 2,562 borrowers.
 - By FactRight's calculations that incorporates the full 32% in upfront expenses, the offering could support \$75 million in face value of refinanced loans.
- Yrefy represented that SLP4 held loans with a face value of \$1.25 million; the average loan balance per borrower is approximately \$31,963. The average term for the refinanced loans is 103 months with an average interest rate of 3.35%.
- With regard to borrower defaults, Yrefy represented that it has 362 borrowers whose refinanced loans are owned by SLP1, SLP2, and SLP3. Only 18 borrowers, or 3.7%, are over 30 days past due on loan payments. Of those borrowers that are past due, six are over 150 days delinquent, and two of those six had stopped payment.
- The combined default rate across all Yrefy's portfolios was 1.17% as January 31, 2022.
- Yrefy has a special program in place for its borrowers where they can skip one month's payment without penalty, provided they notify Yrefy in advance and have made all required payments in the immediately prior six months.
- Additionally, Yrefy will work with borrowers having difficulty with current payments to extend the loan term. By servicing its own portfolios, Yrefy has added flexibility to review the underwriting, require a co-borrower, or amend the interest rate.

Investment Pipeline

FactRight reviewed SLP4's investment plans to determine whether targeted opportunities meet the stated investment criteria and if sufficient assets are available in the pipeline to allow SLP4 to

successfully implement its investment strategy, as described in [Targeted Investments](#). Table 8 provides information on the size of the private student loan market compared to the overall market.

Table 8

Student Loan Market Profile	
Total Student Loans	
Market size	Approximately \$1.7 trillion in principal outstanding
Number of borrowers	45 million
Average loan balance	\$40,904 per borrower
Default rate	Long-term average is 15%
Discharge rate	0.7% (rate prior to November 2020)
Private Student Loans	
Market size	Between \$130 billion and \$200 billion
Number of borrowers	2.4 million
Average loan balance	Between \$33,900 and \$43,900 per borrower
Loans in deferment	17.5% (Q3 2021)
Loans in forbearance	2.4% (Q3 2021)
Charge-off rate	1.35% annualized (Q3 2021)

Source: EducationData.org for total and federal student loans; MeasureOne for private market loan statistic. MeasureOne primarily sources its data from the largest student loan lenders and holders, representing approximately 57% of the private market.

FactRight has no reason to believe that the defaulted private loan market will not provide a reasonable opportunity for SLP4 to deploy capital. Even at the maximum raise, SLP4’s capital deployment would represent a fraction of the overall market.

- FactRight calculates that Yrefy is seeking refinance opportunities within a pool of between 650,000 and 700,000 borrowers, representing those in either deferment or forbearance.
- According to management, the current pipeline includes approximately \$4.7 million in potential loans at face value.
- Yrefy represented that current and proposed student loan forgiveness programs are unlikely to impact SLP4’s target market.
 - Private student loans are not eligible for any of the current student loan forgiveness programs.
 - These same loans are also not eligible for the payment pause available to borrowers with Federal loans.
- Student loan forgiveness efforts for federal loans have increased in 2021 but represent less than 1% of total outstanding federal student loan debt.
 - According to Fortune magazine, more than \$11 billion in federal student loans were cancelled in 2021. Efforts thus far have targeted borrowers with disabilities, public service workers, and those who were defrauded by for-profit institutions or attended a now-closed school.

- Many private student loan borrowers also have government loans. Yrefy believes that large-scale federal debt forgiveness efforts might actually result in borrowers having more money available to service their private student loans.

Leverage

The formation documents and notes agreement lack investor safeguards related to SLP4's ability to add leverage. However, the collateralized nature of the Notes serves as indirect protection.

- SLP4 represented that it does not intend to incur any debt beyond the Notes being sold in the current offering. It targets an approximate loan face value-to-Notes ratio of 3:1.
 - The collateral agent agreement grants a first priority interest in all of SLP4's assets (including all refinanced loans and cash/reserve accounts) to the collateral agent. As noted previously, the collateral agent is an affiliate of Yrefy.
 - There are no explicit restrictions or covenants in the offering documents or collateral agreement that limit SLP4's ability to add debt.
- The operating agreement explicitly permits SLP4 to borrow money from banks, other lending institutions, as well as affiliated companies and persons. FactRight notes that the operating agreement includes the following provisions related to borrowing:
 - Majority approval is required for any borrowing beyond the Notes. However, Yrefy is the sole voting member of SLP4. As such, the majority approval requirement provides no investor protection.
 - SLP4 is permitted to pledge security interests in company assets to secure repayment of the borrowed amount. However, all of SLP4's assets are pledged to the Notes.
- According to management, the debt provisions in the operating agreement are intended to allow for a refinancing of the SLP4 portfolio, which is one of the potential exit strategies (See [Exit Strategy](#)).
- Similarly, the notes agreement contains no leverage or cash coverage covenants that might offer Investors additional protection. However, Yrefy must add any new loans it refinances using Notes proceeds to the collateral pool.

Capital Structure and Subordination

The loans being refinanced by SLP4 will essentially be 100% debt financed, since the purchase price is funded entirely through the current Notes offering. FactRight believes that naming Yrefy as the initial collateral agent represents a potential conflict of interest.

- The PPM indicates that UMB Bank is the collateral agent. However, the collateral agreement names Yrefy as the collateral agent, and is signed by Yrefy as collateral agent.
 - Although management represented that UMB Bank would take over as collateral agent in the event of an uncured default, the collateral agreement does not provide for any such trigger.
- The Notes will be secured debt in SLP4, with the underlying portfolio of student loans serving as collateral. The individual student loans are considered unsecured debt but are bankruptcy remote.

- All refinanced loans will be added to the collateral pool. While not required, Yrefy indicated it would file a UCC statement.
- In an event of default, all noteholders would be treated equally, each receiving a pro rata share of available proceeds.
- The laddered structure of the Notes means that shorter-maturity Notes will receive a return of principal before the longer-term Notes, indirectly making them senior to the longer-term Notes.
- The refinanced loans will be carried on SLP4's balance sheet at face value as borrower notes receivable.

Event of Default

FactRight considers the events of default to be customary but having Yrefy as the collateral agent presents a conflict of interest.

- Should an event of default occur, the collateral agent will take over management of the loan portfolio.
 - The collateral agent is authorized to take any necessary actions, including the sale of loans in the portfolio in order repay principal and accrued interest to noteholders.
- Under the loan agreement, the following events constitute an event of default:
 - Failure to pay interest or principal when due and payable, subject to a 15-day cure period.
 - Default in the performance of any other obligation, covenant, or condition contained in the loan agreement or any related agreement.
 - No cure period was provided for in the loan agreement.
- According to the event of default provision, a default on one tranche of Notes will trigger default across all the maturities.
- Following an event of default, each noteholder may submit a written demand that the principal and accrued interest become immediately due and payable.

Financial Model

Assessment of Sponsor's Pro Forma

FactRight reviewed the financial model provided by SLP4 to assess the reasonableness of assumptions and the ability to cover the coupon and return capital to Investors inclusive of the load. Table 9 provides a summary of SLP4's financial projection model based on the maximum \$50 million capital raise.

Table 9

Yrefy Assumptions	Amount
Gross offering proceeds	\$50,000,000
Aggregate face value of refinanced loans	\$119,128,020
Average interest rate to borrowers	4.25%
Average loan term	104 months
Life-of-loan default rate	2.00%
Average interest rate to Investors	9.00%
Average investor term	45 months

The laddering of Note maturities creates a duration mismatch; however, loans can be sold individually or in blocks to meet cash needs as the Notes mature. While not reflected in the model, the intended recycling of residual cash flows into new loans will likely increase monthly cash generation.

- According to Yrefy’s model, SLP4 could accumulate sufficient cash in 55 months to redeem the Notes. This assumes the only outflows were Note interest and servicing fees, and no recycling of residual cash flows.
 - An increase in the default rate from 2% annually to 5% shifts the breakeven point to 58 months while a 10% default rate would increase it to 62 months.
 - A reduction in the initial discounted pay-off price of 38% to 45% would shift the breakeven point to 59 months.
 - If, based on the same underlying figures, SLP4 needed to redeem all the Notes outstanding after 48 months, it would need to realize approximately \$0.41 per \$1.00 of face value in a sale of the loans.
- The model appears to overstate SLP4’s capacity to refinance loans in that the model excludes the \$16.6 million in operating expenses deducted from offering proceeds.
 - In period one of the model, Yrefy anticipates refinancing loans with a face value of \$880,524 based on SLP4 using \$379,764 in Note proceeds.
 - That same \$379,764 in Note proceeds, once adjusted for the 38.28% in offering-related expenses and fees, would support \$497,855 in face value of loans.
- If Yrefy’s model is adjusted to incorporate the upfront offering expenses, SLP4 would not be able to accumulate sufficient cash within the average loan term of 10 years.
 - If, based on the same underlying figures, SLP4 needed to redeem all the Notes outstanding after 48 months, it would need to realize approximately \$0.72 per \$1.00 of face value in a sale of the loans.
- The [Exit Strategy](#) section provides additional details of Yrefy’s potential sale of loans.

FactRight notes that the following may qualify its assessment of the pro forma model:

- There are several mitigants to concerns regarding timing of cash flows according to Yrefy, including the following:
 - Accelerated repayment of loans by borrowers; prepayment speed has been 10% recently
 - Maturing Notes rolling into a remaining longer-duration note tranche, extending the amount of time SLP4 has to repay principal and earn additional interest on invested capital
 - Investors redeeming their Notes early forfeit all interest
 - A sale, partial or in full, of loans from the portfolio
- The model’s average annual interest rate paid to noteholders of 9.0% is likely overstated considering the 60-month Notes carry an 8.25% interest rate. While the early investor incentive of a one percentage point increase in the interest rate would increase the rate to 9.25% on the 60-month Notes, this bonus interest is only available to Investors until March 31, 2022.
- The model does not reflect any potential finder’s fee that SLP4 could owe to RIAs for placing clients in the offering.
- Likewise, there is no provision in the model for SLP4’s potential purchase of loans from Yrefy’s prior programs. The economics on these purchases of more seasoned loans likely will be different than newly sourced refinancings.
- Yrefy represented that it has contemplated several potential exit strategies for noteholders. See [Exit Strategy](#) for additional details. Four of the five strategies contemplated involve sale of the loans.
 - The model does not provide for an exit transaction.

Liquidity

FactRight assessed SLP4’s redemption program to determine to what degree and on what terms it offered liquidity to noteholders.

Table 10

Feature	Measure
Lock-out period	None
Repurchase price	100%, principal reduced by any interest already paid less potential claw-back of a portion of any upfront selling commission
Accrued and unpaid interest	All interest, paid or accrued, is forfeited
Investor minimum	None
Annual limit	Subject to Yrefy’s discretion
Death or disability provision	No
Source of repurchase funds	Available cash flow
Payment of repurchase price	Within 60 days of written notice
Suspension/termination	Yrefy’s discretion

FactRight finds the liquidity features of this program to be less favorable than those of other private bond offerings since Investors forfeit all interest earned. FactRight considers the following information to be material to understanding the program:

- SLP4’s early redemption penalty remains in effect for the full term of the Notes, unlike other private bond offerings reviewed recently by FactRight where redemption penalties were reduced according to length of ownership.
 - While the impact to SLP4 noteholders is likely less in the first year, the cumulative effect of forfeiting interest earned becomes more costly the longer the investment has been held. For example, two years’ worth of forfeited interest at an 8% annual rate is already larger than a 5% or 10% penalty on redeemed principal as has been more typical in other private programs.
 - If upon maturity, a noteholder rolls their investment up to a longer maturity, as detailed in [Exit Strategy](#), only the interest earned from that point forward would be subject to forfeiture if this new investment was redeemed prior to maturity.
- Early redemption requests will be prioritized according to the order they were received. Yrefy has sole discretion in determining the size and timing of any redemptions.
 - Yrefy represented that in the event a noteholder is invested in more than one tranche, the redemption request would be applied starting with that noteholder’s shortest duration investments, moving to the next shortest until filled.
- In the event of an early redemption, the return of principal to the redeeming Investor will not be paid until SLP4 has received a return of a pro rata amount of the associated up-front sales commission paid to the broker/dealer that arranged the investment.
 - In the case of RIA’s receiving the 1% annual finders’ payment, the monthly payment would cease upon receipt of the redemption request.

Mandatory Redemption

FactRight has reviewed Yrefy’s ability to repurchase Notes to determine the impact of such action on noteholders. Table 11 provides a summary of the call option.

Table 11

Mandatory Share Repurchase	Measure
Lock-out period	None
Repurchase price	100% of stated value
Accrued and unpaid interest	Paid upon redemption

Yrefy may call the Notes at any time at par plus accrued interest. While this is not anticipated to impact the performance of the Notes, use of this feature could result in reinvestment risk to noteholders.

- SLP4 may redeem all or a portion of the Notes at any time without penalty; there is no call premium.
- In the event of a partial redemption, Yrefy will be responsible for selecting which Notes will be redeemed.

Transferability

FactRight reviewed the organization documents to identify under what circumstances noteholders may sell or transfer the Notes.

- Transfers require authorization of SLP4 at its sole discretion.
- No secondary market in which Investors might trade the Notes is anticipated.

Exit Strategy

FactRight believes the mix of Note durations selected by Investors will heavily influence SLP4's liquidity plans. However, a partial sale of the portfolio appears likely to fund Note maturities.

- Yrefy cites the following options in its PPM for funding the redemption of its promissory notes:
 - Use institutional capital to pay maturing Notes
 - Refinance the loan portfolio into another Yrefy-owned portfolio of student loans
 - Sell the full portfolio of loans to a third party
 - Negotiate a forward loan purchase agreement with another entity
 - Apply excess spread capital set aside in the investor reserve bank account
- Yrefy believes that it could sell loans, either individually or as a portfolio, at a notable premium to its original cost. By the time of a sale, the loans would be more seasoned with the underlying borrowers having a track record of payments and an improved credit score, as well as having full documentation.
 - Based on its experience, Yrefy believes the period of highest borrower default risk is between 12 and 18 months, after which it lessens considerably.
 - Although no transaction occurred, Yrefy represented that it had received soft offers on an earlier loan portfolio that valued the portfolio at approximately 80% of the face value of the loans.
 - The average FICO score of refinanced borrowers increased an average of 125 points during the subsequent year. Co-borrowers have experienced an average 138 point improvement in their FICO score over the same period.
- A sale price for the portfolio, in part or whole, would also be influenced by the perceived direction of interest rates at the time of sale. Since an acquiror is essentially buying a stream of fixed payments from borrowers, the purchase price becomes the primary means to adjust targeted rates of return.
 - Yrefy, as the sole equity holder, would be the first impacted by any price shift.
- Yrefy represented that it intends to use a portion of the proceeds from borrowers' monthly payments to establish an investor reserve account that would be used to cover the short-duration note maturities. The target level of reserves is the equivalent of three months of borrower payments.
- Yrefy represented that it will provide noteholders the opportunity to roll their investment into a longer-term Note upon maturity.

- For example, a holder of 36-month Notes could, at the time of maturity, elect to have their proceeds reinvested into the 48-month or 60-month Note tranches for the remaining term of those respective Notes and stepped up to the respective distribution rate.
- Reinvestment of matured notes proceeds in this manner would be treated similar to a new investment; only interest accrued and paid subsequent to the roll-up, or new investment, date would be subject to any surrender penalty.
- No additional commissions would be payable to RIAs or broker/dealers for the roll-up.

Management

FactRight reviewed the authority and qualifications of management to determine whether they are well positioned to execute SLP4's investment strategy while protecting the interests of Investors.

- Yrefy functions as the manager of SLP4, in addition to being the sponsor.
 - Yrefy is responsible for implementing SLP4's investment strategy, managing the underwriting of loans, and overseeing day-to-day activities. It has broad discretion over the use of proceeds in the offering. SLP4 has no employees of its own.
 - Donald Fenstermaker, Laine Schoneberger, and Mary Jo Terry are co-owners and managers of Yrefy.
- Based on the information provided in the offering circular, it appears that Yrefy's executive team are qualified to execute the duties and responsibilities of the manager.
 - The team members have extensive experience originating and securitizing student loans, negotiating debt settlements, refinancing private and government student loans, as well as basic small company entrepreneurship.

Additional Offering Considerations

Investor Rights

- FactRight assessed the notes agreement to determine whether noteholders will have any voting rights. As is typical with note offerings, investors are not permitted to take part in the management or control of the business of SLP4.
- Yrefy may not amend any aspect of the note agreement, including payment terms to noteholders, without approval from all affected parties.
- Members representing more than 75% interests in SLP4 may remove Yrefy as manager for cause, including conviction of certain crimes, fraud or gross negligence, or breach of contract or of fiduciary duty.
 - Noteholders have no ability to remove Yrefy as manager.
 - Yrefy is the sole shareholder of SLP4.

- Any unresolved dispute between SLP4 and an Investor will be subject to arbitration; the venue for any arbitration will be Maricopa County, Arizona.

Transparency

FactRight assessed the operating and note agreements to determine whether the information Investors will receive is customary to similar programs.

- Investors will have access to account balances and SLP4 financial statements through the Yrefy investor portal, which is expected to be available at the end of June 2022.

Liability

FactRight reviewed the operating and loan agreements to determine what level of personal liability Investors will incur by investing in the Notes and under what circumstances, if any, capital calls are permitted.

Limited personal liability for Investors is customary for note programs. FactRight found no unusual liabilities for Investors compared with similar offerings.

Indemnification

FactRight reviewed the LLC agreement to determine under what circumstances SLP4 will hold harmless and indemnify Yrefy and whether those conditions are customary for other similar private programs.

FactRight found no unusual conditions for indemnification of Yrefy compared with similar limited liability company agreements.

- SLP4 will indemnify and hold harmless Yrefy and its affiliates except in the case of gross negligence, or reckless or intentional misconduct as determined by judgement or arbitration.

Audit Considerations

Yrefy represented that it changed auditors for SLP4 in order to work with a larger, PCAOB-approved firm.

- The audit firm for SLP4 is Frazier & Deeter, LLC, a mid-sized public accounting firm with offices throughout the Southeast and Southwest.

Legal and Regulatory

The purpose of this section is threefold. First, this section attempts to ascertain the likelihood that an organization's officers or key employees may commit fraudulent or risky activity and to identify whether the manner in which an organization conducts its business activities may position the

organization for costly litigation. Second, this section attempts to identify disqualifying “bad actor” events under 17 C.F.R. §230.506(d) of issuers, affiliated issuers, and individuals. This review does not include registered representatives or selling group members. Third, this section attempts to identify areas of litigation-related contingent liabilities that may affect the organization’s financial position. FactRight attempts to analyze these questions by performing litigation and background searches on officers, certain key employees, and organizational entities. Additionally, FactRight reviews any exam or audit conducted by an organization’s governing body. FactRight performs litigation and background searches using Scherzer International (Scherzer), Lexis Advance® from LexisNexis (LexisNexis), Public Access to Court Electronic Records (PACER), FINRA BrokerCheck, and various state-sponsored websites. Although FactRight makes every effort to locate any material criminal or civil matters, liens, judgments, and regulatory events, every background search system has limitations. Thus, not all such matters and events may be disclosed below.

With respect to background checks, FactRight reports only on those matters that it deems to be material using its professional judgment. Generally, FactRight’s scope is 10 years, except for certain matters, including but not limited to fraud (including securities-related), license revocations, and other securities-related matters. FactRight deems immaterial isolated incidents of traffic violations, small tax liens, personal domestic matters, and litigation matters with small amounts at issue. With respect to entity background checks, FactRight deems immaterial matters within the ordinary course of business and when the amount in controversy is less than \$100,000.

FactRight reviewed biographical information provided by Yrefy for reasonableness and verified all educational and professional licenses and credentials for key personnel listed below. Biographies of key personnel can be found in the PPM. Table 12 summarizes FactRight’s background searches.

Table 12

Legal and Regulatory Background Searches	
Date of searches	January 6, 2022; supplemented with data provided by LexisNexis on January 25, 2022
Individual searches	<ul style="list-style-type: none"> • Donald Fenstermaker • N. Laine Schoneberger • Mary Jo Terry
Entity searches	<ul style="list-style-type: none"> • Yrefy, LLC • Yrefy SLP4, LLC

FactRight’s review found no disqualifying “bad actor” events related to Yrefy, any affiliated issuer, or any affiliated individual. However, FactRight determined that the following was appropriate to disclose to readers of this report:

- On December 17, 2021, a state tax lien in the amount of \$38,350 was filed against Mr. Fenstermaker in Honolulu County, Hawaii. The status of this lien is unknown.

- On January 8, 2015, a civil judgment in the amount of \$25,205 was filed against Mr. Fenstermaker by Wells Fargo Bank, NA. The status of this judgment is unknown.
- Mr. Fenstermaker represented that both of the above items have been paid.

Summary of Key Findings

Strengths

- **Secured notes.** The Notes are collateralized by SLP4's holdings of refinanced uncollateralized student loans and cash. With all of SLP4's loans and cash pledged to noteholders, the Manager has incentive to repay the Notes. Otherwise, Yrefy is in default of its note obligation and surrenders the collateral, losing any equity it had accumulated in SLP4. This structure also indirectly limits SLP4's ability to issue additional debt.
- **Diversified borrower base.** SLP4 should be able to rapidly reduce its exposure to credit risk of individual borrowers. Considering the average refinanced loan is between \$40,000 and \$50,000, the number of different borrowers increases rapidly as more capital is raised. At the same time, Yrefy's strategy to reduce the average interest rate, which lowers the size of monthly payments, has helped borrowers stay current on their loans. This, in turn, boosts their credit scores and the market value of the loan.
- **Note roll.** SLP4 will allow Investors with shorter note terms to roll their investment into another note tranche upon maturity and receive the interest rate step up at the time of reinvestment.
- **Industry experience.** *The primary executives at Yrefy have significant experience originating and refinancing student loans, both federal and private. Similarly, they have first-hand knowledge in financial planning and entrepreneurship, having started several businesses.*
- **Unique asset.** SLP4's investment strategy provides prospective investors with access to a unique asset class with a risk profile that may differ from their other holdings.

Risks

This section discusses the risks and mitigants (if applicable) that are unique to, or especially significant in, this offering. For an overview of risks that are generally present in private fund offerings, see [Appendix B: Customary Private Fund Risks](#).

- **Capital intensive business strategy.** According to the PPM, the Manager anticipates using up to 33% of offering proceeds to fund marketing and other expenses designed to identify and secure borrowers. FactRight notes that the 33% is an estimate and that the offering documents do not cap this amount, nor do they specifically state that such funds must be used for the benefit of SLP4.
 - *Mitigant: The Manager represented that the up-front payments are for SLP4-related operating expenses, like marketing, and are expected to be less than the amount presented in the PPM.*
- **High fees.** While the Fund anticipates refinancing loans by paying the current lender between 38 and 40 cents on the dollar, the refinanced loans will consist of the full outstanding principal amount of the former loan plus any amortized fees. Yrefy is charging origination and servicing fees that are based on the new loan value rather than cost of the asset to SLP4. This results in an origination fee on the investment amount of approximately 14% and an annual servicing of 3% per year. These fees reduce the capital available to SLP4 to underwrite new borrowers and to redeem the Notes at

maturity. Furthermore, Yrefy is entitled to receive its fee income before the interest expense on the Notes is paid.

- *Mitigant: Since the borrowers will pay the origination fee either up-front or over time, SLP4 is likely to recover the full amount of the origination fee as the loan is paid off as long as borrowers do not default on their loans.*
- **Lack of independent trustee, escrow agent, and custodian.** Note structures typically provide third party oversight to protect investor interests. However, in this case, Yrefy is named as the trustee, the escrow agent, and the collateral agent. In addition, Yrefy is granted considerable discretion by the offering documents as to use of offering proceeds, leverage, and managing conflicts of interest.
 - *Mitigant: The potential forfeiture of all potential equity if the Notes are not repaid may incentivize Yrefy to manage SLP4 in a way that benefits Investors.*
- **No sponsor investment.** The sponsor is not providing any initial capitalization to SLP4, leaving noteholders to provide the entire capital to fund the discounted pay-off amount. This initially leaves SLP4 without any equity base. Even if the equity base increases over time, Yrefy is authorized to distribute equity from SLP4 as long as SLP4 has met its current principal and interest obligations on the Notes. It is not required to create a sinking fund for the repayment of Note principal at maturity. Under this structure, investor upside is capped at the Note coupon despite providing all the initial risk capital.
 - *Mitigant: The Manager is incentivized to repay the Notes and grow the equity from borrowers making their monthly loan payments. In an event of default, the Notes are secured by all of SLP4's loans and cash, likely wiping out the Manager's equity.*
- **Duration mismatch.** The laddered maturity structure of the notes being offered could result in cash flow challenges if note principal needs to be repaid before SLP4 has accumulated sufficient funds. For example, the shortest note maturity is 12 months, however, the anticipated average loan maturity is approximately 120 months. According to FactRight's analysis, SLP4 will likely need to sell loans to cover early note maturities. There is no assurance as the pricing that SLP4 might achieve on single or small batches of loans to high risk borrowers.
 - *Mitigant: The Manager expects that loan prepayments and Investors extending or rolling their Notes into longer-term ones will lessen the impact of redemptions. Recycling loan payments into additional refinancings will likely add to monthly cash flows without increasing the notes outstanding. Yrefy further represented that there is a large number of active buyers of seasoned student loans if it needed to raise additional funds. An earlier test of buyer interest by Yrefy resulted in offers that were considerably above the discounted purchase price. It also cites the active market for student loan asset backed securities (SL ABS) as providing general demand-side support.*
- **Risky borrowers.** SLP4 portfolio will consist of loans refinanced for borrowers that had previously defaulted on their loan payments. Sub-prime borrowers generally have an above average likelihood of missing future payments and defaulting again.
 - *Mitigant: Yrefy represents that its loan structure significantly lowers monthly payments for borrowers and has contributed to default rates under 1% annually across earlier portfolios. By*

paying off their original loans at a large discount, Yrefy believes it can take on borrowers at financing terms that are more manageable for the borrower.

- **No FINRA registration.** Yrefy’s in-house sales representatives did not have active FINRA registrations as of the date of this report. It is unclear whether commissions paid to these employees would require them to register as brokers under Section 15(a) of the Exchange Act. Accordingly, FactRight believes this adds regulatory risk to the offering.
 - *Mitigant: Yrefy’s Counsel has advised it that the in-house employees have additional job responsibilities beyond raising capital and are therefore exempt from FINRA registration. Yrefy also represented that it can target independent RIAs that have no broker-dealer affiliation.*
- **Student loan reform and forgiveness.** A lot attention has been focused on student loans recently as government officials seek ways to reduce the financial burden to borrowers. If federal loan forgiveness efforts were to accelerate, private market lenders could come under pressure to provide similar relief. The most likely beneficiaries of this would be borrowers already in deferral or default and could reduce the pool of borrowers from which Yrefy sources refinancing opportunities.
 - *Mitigant. Loan forgiveness efforts from within the private student loan market would likely occur on a lender by lender basis since each loan is a private contract. It is uncertain how the government could force changes in the private market without lengthy legal challenges or reimbursement. However, many private student loan borrowers also have federal student loans. These borrowers stand to benefit from any reduction in monthly payments on their federal student loans as that money could then be redirected to paying down existing private student loans.*

FactRight, LLC

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Appendix A: Documents Reviewed

As part of its review process, FactRight submitted its standard Request for Information (RFI) document to Yrefy, which may be supplemented with other written requests. In general, any documents or files provided to FactRight that were not requested are not reviewed.

1. Private Placement Memorandum, dated June 20, 2021
2. Operating Agreement, dated January 31, 2020
3. Certificate of Formation from the state of Delaware, dated December 27, 2019
4. Form Loan Agreement and Promissory Note
5. Security Agreement, dated May 28, 2021
6. Form of Subscription Agreement
7. Form Finder's Agreement
8. Company Financial Model, provided on December 8, 2021
9. Form Private Loan Application & Promissory Note
10. Form Private Loan Application & Promissory Note—Co-Borrower Application
11. Redacted Final Disclosure Statement to Borrower, dated November 24, 2021
12. Investor Marketing Presentation, undated
13. Yrefy SLP4 Income Statement and Balance Sheet, dated November 2021

Appendix B: Customary Private Fund Risks

This offering includes customary risks that are typically present in private fund offerings. Customary risks include the following:

- This is a best-efforts offering. In the event SLP4 is unable to raise substantial funds, the size and number of investments it can make will be limited.
- FactRight cannot evaluate the quality of SLP4's future investments or their economic merits. Investors must rely exclusively on Yrefy's ability to source and identify viable investments.
- SLP4 will hold Yrefy and its affiliates harmless and indemnify them against any losses, damages, liabilities, or expenses.
- This is an illiquid investment since no secondary market is expected and surrender charges apply during the full term of the Notes.
- SLP4 is highly reliant on key individuals at Yrefy to carry out its business plan. A loss of key individuals could have an adverse effect on SLP4's operations.
- Noteholders have no ability to remove Yrefy, even in the event of poor performance.