

## Introduction

Many state laws recognize rent payments to property managers as trust funds, meaning money that is received by a property management company on behalf of another person. In many states, trust funds cannot be commingled with any other funds (such as general or personal funds), and must be designated to its own trust account. Generally speaking, conducting personal business through the trust account is prohibited. These state laws are intended to protect trust funds and prevent them from being frozen in the event of a legal action or probate dispute.

There is little uniformity among state regulations concerning trust funds. PayLease recognizes the legal obligations of property management firms and offers payment services that specifically comply with trust fund requirements.

## PayLease - What We Do

PayLease is an electronic payments processor and facilitates the movement of rent and HOA payments from residents to property managers. With PayLease, property managers can accept e-check and credit card payments from residents. These funds are transferred from the resident's account into a property manager's designated trust account. Transactions primarily occur on the Internet, and also by telephone. For added convenience, PayLease can integrate its payment interface into the property manager's website and accounting system.

PayLease generates revenue by charging convenience fees in one of two models:

- Pass Through – fees are paid by the resident
- Incurred – fees are paid by the property management company

Details on how these fees are paid to PayLease are described in the Transaction Process / Flow of Funds sections below.

## Merchant Account Set Up

As part of its service, PayLease sets up merchant accounts on behalf of clients for ACH and credit card payments. Each management company using PayLease is its own respective merchant. Depending on the client's individual circumstances, PayLease uses a variety of processors for the movement of funds. Property managers have a direct contractual relationship with the processors for the movement of money, whether the payment is made by e-check or credit card.

PayLease conducts an underwriting process with each client before they are authorized to use the respective processing platforms. Each client signs a merchant agreement and provides the processor with detailed financial records, including Taxpayer ID Number (TID) and bank account information. The agreement includes a funding schedule, which provides specific instructions for the processor to deposit funds into the property management company's trust account. This funding schedule allows the property manager to meet any state deposit time requirements. PayLease's processors are able to deposit funds as quickly as one business day.

As part of its underwriting process, and to comply with Internal Revenue Code (IRC) Section 6050W, PayLease also collects a signed IRS Form W-9 from each property management company. Implemented by the IRS in 2011, 6050W requires payment settlement entities, such as PayLease, to report payees who receive more than \$20,000 in gross payment volume and 200 transactions per calendar year. PayLease complies with this requirement by filing an annual IRS Form 1099-K for each property management company exceeding these thresholds.

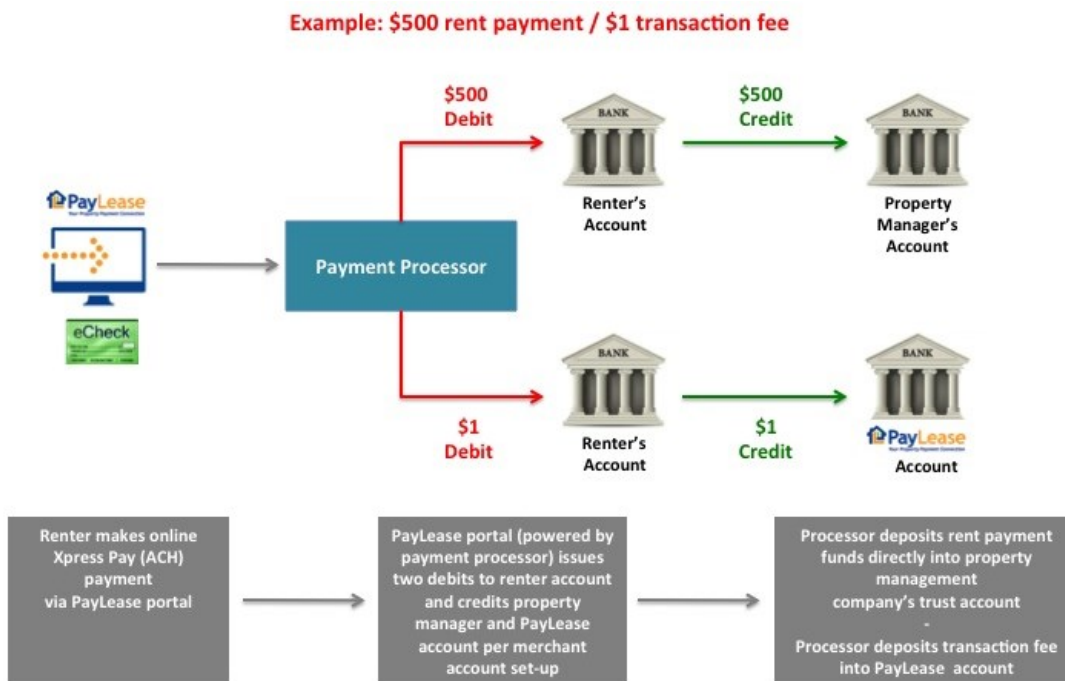
## E-Check Transaction Process - Flow of Funds

Residents visit their property management company's website or PayLease.com to make a payment. Before they can initiate a payment, residents must first register with PayLease. Once registered, residents can choose to pay by e-check or credit card. E-check transactions are the most popular payment method, accounting for 80% of PayLease's volume.

PayLease facilitates rent payments by initiating a set of ACH instructions through its payment processor. With PayLease's e-check service, the processor issues two debits to the resident's bank account; one for the amount of the rent payment, and another for PayLease's

transaction fee. Concurrently, the processor issues two credits; one to the property manager’s trust account for rent payments, and one to PayLease’s account for the fee. The rent payment moves directly from the resident’s account into the property manager’s trust account - not the PayLease account - and is not commingled with PayLease funds.

The diagram below illustrates the flow of funds using PayLease’s Pass Through fee model:



Returned payments, whether for insufficient funds or account number discrepancies, flow directly from the property manager’s account back to the resident’s account.

With PayLease’s Incurred fee model, the processor issues one debit to the resident’s account for the amount of the rent payment, and one corresponding credit to the property manager’s trust account. PayLease will then invoice the property manager once per month for the aggregate amount of transaction fees incurred.

### Credit Card Transaction Process - Flow of Funds

With credit cards, one debit is processed to the resident's account via the PayLease system on behalf of the property management company's merchant account. The debit is split funded, with the rent payment deposited directly into the property management company's trust account, and the convenience fee deposited into the PayLease account. The rent payment moves directly into the property manager's trust account - not the PayLease account - and is not commingled with PayLease funds.