

September 13, 2012

Mr. Chairman, members of the Committee:

My name is Garry Pierce. I own Garry Pierce Financial Services, LLP at 1929 North Washington Street here in Bismarck. I am here to propose the following amendment.

Proposed amendment: The Commissioner may recommend but not require that investors comply with suitability standards.

During the last legislative session, Representative Klemin and I co-sponsored HB 1140 which sought to eliminate a Securities Department rule which directly affected the public and which had not been presented to the Legislature for review. NASAA, the North American Securities Administrators Association, issues statements of policy for the various State administrators to use when evaluating securities offerings. The rule, "who may invest," is in nine of these statements of policy.

I have read through all 26 Statements of Policy the Securities Department wants to adopt. The statement of policy on cattle feeding programs, for example, simply states that the investment should be suitable for the investor. There is no suitability requirement whatsoever for purchasing church bonds. But some of the NASAA statements of policy that the Commissioner wants to adopt have this rule, "who may invest" embedded in them. For example, in NASAA statement of policy number 19, which applies to real estate investment trust, (or REIT) offerings, there are 30 pages of guidelines which help the examiner to evaluate the investment offering. But on page number 10, "who may invest", is a rule. It states who, among the public, may invest and, by implication, who may not invest.. It isn't the amount required to invest that makes it a rule but the fact that it is mandatory. If the Securities Department instead recommended it, there would be no rule. Likewise, the NASAA statement of policy number 13 which applies to oil and gas programs, is 35 pages long. Again, the guidelines help the examiner to evaluate the offerings. But on page number 11, "who may invest", is that rule again. The Securities Department is requiring brokers to enforce this rule upon the public. Over the years, I and other brokers have seen situations where investors who would have benefited from investments were denied access to them because of this rule. Moreover, it violates a person's fundamental right to own property.

The fifth amendment to the Constitution says we may not be denied life, liberty or property without due process of law. One might argue that, "We tell people how they must drive through traffic rules". I believe that I have an analogy that will illustrate my point. Suppose that the Members of the Committee were thinking of buying a new vehicle. So you go to your local dealer and sit down with the sales person. The sales

person produces a form and asks you to list your adjusted gross income and net worth (everything you own excluding your home, furnishings and car) and then to sign the form. If your income and net worth are sufficient, only then can the sales person show you a new vehicle. When you ask why this is, the sales person replies that the administrators of the transportation departments in all 50 states formed an association and that association, which is the group of employees from their respective state transportation departments, decided on their own, to protect the public from over investing in new vehicles. If you ask if this is a law, the reply is no, the various state transportation department administrators just went ahead and did it without notifying their legislatures. That is what I am talking about here. This is not a situation where a driver affects other drivers on the road. It is an individual's right that is guaranteed in the Constitution.

I visited the securities act websites of all 50 states during the last legislative session and again recently. Fewer than ten states have specifically adopted these NASAA statements of policy and the investor suitability rule in them. Which means that most state legislatures aren't even aware of this rule. Several state legislatures have decided that state law prevails over rules of outside organizations. Two states, Kansas and Massachusetts, now say that their departments "recommend" the standards. They are listed on the back of the NorthStar REIT prospectus cover page which is the last page of the handout. This is a nation-wide offering. If you wish to turn to the back of this last page which is titled Suitability Standards, you will see that line nine says, "The following states have established suitability standards different from those we have established." Some states require different earnings or net worth amounts. But two states, Kansas and Massachusetts, in the middle of the page, recommend the standards. That means their suitability standard is not a rule. So I talked to Lynn Hammes, Director of Finance and Administration for the Kansas Securities Department and Joe Sheehan, attorney for the Massachusetts Securities Department and asked them why their states recommend the standards rather than require them. Both said the same thing: the securities industry is too complex and each investor situation is too complex to be covered by a single rule. And their recommendation policy covers all non traded investments, not just real estate investment trusts. If our Securities Department recommended the investor suitability standard as Massachusetts and Kansas do, this issue would be resolved.

During the last legislative session, the Commissioner stated at the Senate hearing that the cost of formally adopting these Statements of Policy would cost about \$500,000., a cost the Committee I expect, understandably did not want to incur. In the final days of that session, the Commissioner added a policy request to her existing budget request. It was to be allowed to continue to follow the NASAA statements of policy on an informal basis - without complying with House Bill 1280. I think the Commissioner should continue to follow those guidelines informally because there is no cost to the taxpayer,

but I also feel that her department should comply. It is the only agency in our State Government which has not complied and the Commissioner agreed, at the Senate Committee hearing during last session that her department was subject to House Bill 1280. Now the Commissioner is seeking to adopt these 26 Statements of Policy at a cost not to exceed \$50,000.

During both the House and Senate committee hearings last session, the Commissioner mistakenly stated that the cost of local real estate investment trusts was, "8% going in and 10% on the way out". She misread the cover page on both offerings. 8% is what the REIT pays the broker for selling the investment. It is not a customer cost. The only cost to the customer is the 10% redemption charge by the REIT when the customer decides to cash out.

The Commissioner also quoted alarming, and misleading, statistics to the effect that there are thousands of investments, implying that investors would be unprotected if this rule were made a recommendation. This is not true. Every one of those investments is a security or they wouldn't be under the authority of the Securities Commissioner. All securities must be sold by brokers. All brokers must be members of FINRA, the Financial Regulatory Authority. Every broker dealer office across the country must have a compliance officer who is charged with determining the suitability of every new investment based upon a new account form signed by the investor, which states the investor's income, net worth, investment background and investment goals. That is how the investor is protected – by a trained professional examining each transaction for suitability, not a one-size-fits-all rule.

The words, "Who May Invest" appearing in nine of these twenty six statements of policy are all that is preventing our Securities Department from complying with House bill 1280. The proposed amendment would take the rule out of the NASAA statements of policy. This would resolve the entire issue. The Securities Department would no longer have a rule that affects the public and would be in compliance with HB 1280. The Securities Department could continue to apply the NASAA statements of policy on an informal basis, which has cost the taxpayers nothing, investors will still be protected and taxpayers would save up to \$50,000.

Thank you Mr. Chairman, members of the Committee. Are there any questions?

**NORTHSTAR REAL ESTATE INCOME TRUST, INC.**

Sponsored by  
**NorthStar Realty Finance Corp.**  
**\$1,100,000,000 Maximum Offering**

NorthStar Real Estate Income Trust, Inc. is a Maryland corporation formed in 2009 to originate, acquire and manage a diversified portfolio of commercial real estate investments. We expect to use substantially all of the net proceeds from this offering to originate, acquire and structure: (i) commercial real estate loans, including senior mortgage loans, subordinated mortgage loans (also referred to as B-Notes), mezzanine loans, and participations in such loans; (ii) commercial real estate-related debt securities, such as commercial mortgage-backed securities, or CMBS, commercial real estate collateralized debt obligations, or CDOs, senior unsecured debt of real estate investment trusts, or REITs; and (iii) select commercial real estate equity investments. As of April 15, 2011, we owned two AAA-rated CMBS bonds and a senior mortgage loan. We are sponsored by NorthStar Realty Finance Corp. (NYSE: NRF), a publicly traded commercial real estate finance company with approximately \$7.3 billion of commercial real estate debt, commercial real estate securities and net leased properties under management as of December 31, 2010. We refer to NorthStar Realty Finance Corp. as our sponsor. We intend to elect to be taxed as a REIT for federal income tax purposes beginning with the taxable year ending December 31, 2010.

We are offering up to \$1,000,000,000 in shares of our common stock to the public at \$10.00 per share. Discounts are available to investors who purchase more than \$500,000 in shares of our common stock and to other categories of investors. We are also offering up to \$100,000,000 in shares of common stock pursuant to our distribution reinvestment plan at a purchase price of \$9.50 per share. We expect to offer shares of common stock in our primary offering until July 19, 2012, unless extended by our board of directors.

**Investing in our common stock is speculative and involves substantial risks. You should purchase these securities only if you can afford a complete loss of your investment. See "Risk Factors" beginning on page 13 to read about the more significant risks you should consider before buying shares of our common stock. These risks include the following:**

- We depend on our advisor to select our investments and conduct our operations. We pay substantial fees and expenses to our advisor and its affiliates that were not negotiated at arm's-length. These fees increase your risk of loss.
- We have a limited operating history, and the prior performance of our sponsor and its affiliated entities may not predict our future results. Therefore, there is no assurance that we will achieve our investment objectives.
- We have acquired a limited number of assets to date and have not identified any additional assets to acquire with the future proceeds of this offering; therefore, you will not have the opportunity to evaluate most of our assets prior to purchasing shares.
- We intend to invest a substantial portion of the proceeds from this offering in a variety of commercial real estate loans, mezzanine loans and participations in such loans. The collateral securing our mortgage loans may decrease in value or lose all value over time, which may lead to a loss of some or all of the principal in the investments we make. Mezzanine loans are typically unsecured, and this may involve a heightened level of risk, including a loss of principal or the loss of the entire investment.
- Our executive officers and our advisor's key real estate debt professionals are also officers, directors, managers and/or key professionals of our sponsor and its affiliates. As a result, they face conflicts of interest, including time constraints, allocation of investment opportunities and significant conflicts created by our advisor's compensation arrangements with us and other affiliates of our sponsor.
- The fees we pay to affiliates in connection with this offering and in connection with the acquisition and management of our investments were not determined on an arm's-length basis, therefore we do not have the benefit of arm's-length negotiations of the type normally conducted between unrelated parties.
- If we raise substantially less than the maximum offering, we may not be able to acquire a diverse portfolio of investments and the value of your shares may vary more widely with the performance of specific assets.
- If we internalize our management functions, your interest in us could be diluted and we could incur other significant costs associated with being self-managed.
- We may change our investment policies without stockholder consent, which could result in investments that are different from those described in this prospectus.
- Our organizational documents permit us to pay distributions from any source, including offering proceeds, borrowings or sales of assets. We have not established a limit on the amount of proceeds we may use to fund distributions. If we pay distributions from sources other than our cash flow from operations, we will have less funds available for investments and your overall return may be reduced. Our sponsor has agreed to purchase shares of our common stock in this offering under certain circumstances in order to provide additional funds for distributions to stockholders; however, such issuances will dilute the equity ownership of public stockholders.
- We set the offering price of our shares arbitrarily. This price is unrelated to the book or net value of our assets or to our expected operating income.
- Our charter does not require our directors to seek stockholder approval to liquidate our assets by a specified date, nor does our charter require our directors to list our shares for trading by a specified date.
- No public market currently exists for our shares. Until our shares are listed, if ever, you may not sell your shares unless the buyer meets applicable suitability and minimum purchase standards. If you are able to sell your shares, you would likely have to sell them at a substantial loss.
- If we fail to qualify as a REIT for federal income tax purposes and no relief provisions apply, our cash available for distribution to our stockholders and the value of our shares could materially decrease.
- Our intended investments in CMBS and CDOs and other structured debt securities will be subject to risks relating to the volatility in the value of our assets and underlying collateral, default on underlying income streams, fluctuations in interest rates, decreased value and liquidity of the investments and other risks associated with such securities which may be unknown and unaccounted for by issuers of the securities and by the rating agencies. These investments are only appropriate for investors who can sustain a high degree of risk.

Neither the Securities Exchange Commission, the Attorney General of the State of New York nor any other state securities regulator has approved or disapproved of our common stock, determined if this prospectus is truthful or complete or passed on or endorsed the merits of this offering. Any representation to the contrary is a criminal offense.

The use of projections or forecasts in this offering is prohibited. No one is permitted to make any oral or written predictions about the cash benefits or tax consequences you will receive from your investment in shares of our common stock.

	Price to Public(1)	Selling Commissions	Dealer Manager Fee(2)	Net Proceeds (Before Expenses)
Primary Offering Per Share	\$ 10.00	\$ 0.70	\$ 0.30	\$ 9.00
Total Primary Offering	\$1,000,000,000.00	\$70,000,000.00	\$30,000,000.00	\$900,000,000.00
Distribution Reinvestment Plan Per Share	\$ 9.50	\$ 0.00	\$ 0.00	\$ 9.50
Total Distribution Reinvestment Plan	\$ 100,000,000.00	\$ 0.00	\$ 0.00	\$100,000,000.00

We reserve the right to reallocate shares of common stock being offered between the primary offering and our distribution reinvestment plan.

(2) Discounts are available to certain categories of purchasers.

The dealer manager for this offering, NRF Capital Markets, LLC, is an affiliate of our advisor. The dealer manager is not required to sell any specific number or dollar amount of shares but will use its best efforts to sell the shares offered. The minimum initial investment in shares of our common stock is \$4,000.

## SUITABILITY STANDARDS

The shares of common stock we are offering are suitable only as a long-term investment for persons of adequate financial means and who have no need for liquidity in this investment. Because there is no public market for our shares, you will have difficulty selling any shares that you purchase.

In consideration of these factors, we have established suitability standards for investors in this offering and subsequent purchasers of our shares. These suitability standards require that a purchaser of shares have either:

- a net worth of at least \$250,000; or
- gross annual income of at least \$70,000 and a net worth of at least \$70,000.

The following states have established suitability standards different from those we have established. Shares will be sold only to investors in these states who meet the special suitability standards set forth below.

*Alabama* — Alabama investors must represent that, in addition to meeting the suitability standards listed above, they have a liquid net worth of at least 10 times their investment in us and other similar programs.

*California* — A California investor must have a net worth of at least \$350,000 or, in the alternative, an annual gross income of at least \$85,000 and a net worth of \$250,000 and the total investment in this offering may not exceed 10% of the investor's net worth. Net worth should be calculated exclusive of homes, furnishings and automobiles.

*Iowa* — An Iowa investor must have a net worth of \$100,000 (exclusive of home, auto and furnishings) and an annual income of \$70,000 or in the alternative, a net worth of \$350,000 (exclusive of home, auto and furnishings) and the total investment in this offering may not exceed 10% of the investor's liquid net worth.

*Kansas* — It is recommended by the Office of the Kansas Securities Commissioner that Kansas investors not invest, in the aggregate, more than 10% of their liquid net worth in this and similar direct participation investments. Liquid net worth is defined as that portion of net worth which consists of cash, cash equivalents and readily marketable securities.

*Kentucky* — A Kentucky investor's aggregate investment in this offering and other or similar programs may not exceed 10% of the investor's liquid net worth.

*Massachusetts* — It is recommended by the Massachusetts Securities Division that Massachusetts investors not invest, in the aggregate, more than 10% of their liquid net worth in this and similar direct participation investments. Liquid net worth is defined as that portion of net worth which consists of cash, cash equivalents and readily marketable securities.

*Michigan* — Michigan investors may not invest more than 10% of their liquid net worth in us and other or similar programs.

*Oregon* — An Oregon investor's aggregate investment in this offering and other or similar programs may not exceed 10% of the investor's liquid net worth.

*Tennessee* — A Tennessee investor must have a liquid net worth of at least 10 times his or her investment in us and other or similar programs.

For purposes of determining the suitability of an investor, net worth in all cases should be calculated excluding the value of an investor's home, home furnishings and automobiles. In the case of sales to fiduciary accounts (such as individual retirement accounts, or IRAs, Keogh Plans or pension or profit-sharing plans), these suitability standards must be met by the fiduciary account, by the person who directly or indirectly supplied the funds for the purchase of the shares if such person is the fiduciary or by the beneficiary of the account.

Our sponsor, those selling shares on our behalf and participating broker-dealers and registered investment advisers recommending the purchase of shares in this offering must make every reasonable effort to determine that the purchase of shares in this offering is a suitable and appropriate investment for each stockholder based on information provided by the stockholder regarding the stockholder's financial situation and investment objectives.