



**FORTRESS
SQUARE
CAPITAL**

Due Diligence Requirements

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This Diligence Requirements Manual (“Manual”) sets out the diligence requirements, policies, procedures, and guidelines used by Fortress Square Capital (“Company”) and its affiliates to screen **Multifamily Residential Bridge Loans** before submission to the Company’s marketplace. Other loan programs may exist from time to time and are governed by alternative or supplemental requirements not included herein.

This Manual reflects current practices and requirements, and may be amended or supplemented at any time, and from time to time, at the sole discretion of Company’s marketplace advisory (“Marketplace Advisory”).

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Article I. Introduction

Company has created and manages a marketplace for investing in real estate backed loans. Company performs counter-party vetting and due diligence on prospective lenders (“Originators”) who wish to make their loans available for investment through Company’s marketplace. Approved Originators may provide their loan data and loan files to Company for screening, review, and analysis. Company generally purchases or funds loans that conform to the diligence requirements (“Requirements”) described in this Manual. Certain investors may have loan criteria or requirements that differ from, or supplement, those outlined in this Manual.

Loans that meet Company’s Requirements as described in this Manual, may be purchased or funded by Company on behalf of investors, and subsequently made available for investment or purchase by individual or institutional investors.

All loans are reviewed for viability and eligibility in accordance with these Requirements, and a full diligence process must be completed before funding can be confirmed.

Capitalized terms not defined in this Manual refer to commonly accepted industry terminology.

Article II. Marketplace Advisory

Section II.01 Generally

Company’s team which is composed of members of the Fortress leadership team, along with representatives from capital markets, investor relations, real estate, finance, research, asset management, and Fortress’s retail business unit.

Section II.02 Purpose

The primary purpose of Marketplace Advisory is to collect and consolidate investment criteria and diligence requirements from the participating investors who wish to purchase loans through the marketplace. These aggregated terms and requirements for each loan program are compiled into the Diligence Requirements with the supporting exhibits.

This document is updated approximately once per fiscal quarter, based on updated terms and demand from participating customers in Fortress’s marketplace.

Article III.

Overview of Process and Guidelines

Section III.01 Generally

Loan data is accepted from Originators on a continuous basis. The following is a brief overview of the loan diligence process (all described in further detail in subsequent sections of this Manual).

Section III.02 Overview of Diligence Process

The following are high-level steps that the broker should do within 24 hours of receiving the loan data from the Originator. These steps are meant to quickly determine loan suitability, critical fatal flaws and eliminate any loan that clearly does not meet Company's Due Diligence Requirements.

(C) Review all qualifying metrics and critical property issues:

- (1) Value
- (2) Credit
- (3) Background
- (4) Mortgage Statement (if applicable)
- (5) Guarantor Liquidity
- (6) Guarantor Citizenship
- (7) Guarantor Track Record
- (8) Scan environmental report(s), if available at submission
- (9) Scan title report, if available, if available at submission

(D) Order third-party valuation validation of the collateral (if not ordered by the Originator);

(E) Follow up with Originator for missing information and clarification, as needed;

(F) Review all remaining diligence requirements as outlined in these Standards;

(G) Obtain approval from appropriate delegated authority; (H)

Purchase loan or loan interest from Originator; and

(I) Collect post-closing items, if any.

Article IV. Loan File Requirements

Section IV.01 Generally

Loan diligence will primarily consist of documentation review and verification of submitted information from the submitted documentation.

Section IV.02 Documentation Review Requirements

All documents must conform to the following:

- (A) All documents must be complete, dated, signed by all parties, and acknowledged by a notary public where applicable, with all exhibits and schedules attached;¹
- (B) All text must be legible;
- (C) The loan file must include extensions, amendments, supplements, and modifications, where applicable; and
- (D) Recorded documents must either bear the stamp of the recorder's office where the document was recorded or be certified "as filed" (including the filing date) by the title company that issued the title policy

Section IV.03 Required Documentation

The following documentation must be in the loan file:

- (A) Application – loan application
- (B) Valuation
- (C) EOI – Evidence of Property Insurance and listed insurance premium
- (D) Title policy documentation
 - (1) Title Policy – docs must be executed
 - I) Final Title Policy (required if the origination date is more than 45 days old);
 - II) Title Commitment with escrow instructions;
 - III) Preliminary Title Report with escrow instructions;
 - IV) Pro Forma Title Policy; or

¹ Company's legal department reviews Originator's form loan documents during Originator's onboarding process.

V) marked up title policy (must be signed by the title officer attesting that they will remove all items in Schedule B that are marked for removal).

(2) Closing Protection Letter (CPL) – when a final title policy is not available.

I) Must be signed and include ISAOA (except Texas).

II) NY – Agent Authorization Letter (AAL) with ISAOA is required instead.

(3) Transfer Deeds, if applicable:

I) For refis (FIO/TF): title holder should be the Borrower, but if title holder in the commitment differs from Borrower and Schedule B – Requirements do not list a deed transferring title, obtain transfer deed (draft or executed).

II) For individual Borrowers, we generally require such deed to ensure correct vesting clause.

(E) Guarantor and principal documentation

(1) State-issued ID, such as driver's license, passport, or state ID (green card if non-US citizen) – ID must be valid at date of purchase and green card must be valid through the end of the loan term.

(2) Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN) number

(3) Credit reports

(F) Minority owner documentation – Social security number (SSN) and government issued ID number

(G) Proof of guarantor funds such as bank, money market, or brokerage account statements showing sufficient liquidity to meet guarantor liquidity requirements

(H) Schedule of completed real estate

(I) Loan origination documents:

(1) Note – Promissory note

(2) Mortgage – Original recorded mortgage/deed of trust (or certified copy)

(3)

(4) Business purpose declaration – Certificate of business purpose

(5) Escrow instructions – Escrow instructions signed by escrow officer, title officer, and the originator.

(6) Settlement statement – Final settlement statement (HUD1).

(J) Other documentation (if applicable)

- (1) Environmental database review that indicates low environmental risk and phase I
- (2) ALTA Survey
- (3) Property condition report or property condition assessment
- (4) Unit mix and current detailed rent roll
- (5) Current operating statements (past 3-6 months)
- (6) Historical operating statements (trailing 12-24 months)

Section IV.04 Conditionally Requires Documentation

(A) For Funded Loans:

- (1) Personal guaranty – Personal guaranty (from at least one owner of the borrowing entity)
- (2) Modification – Extensions/modifications
- (3) ALR – Recorded assignments of leases/rents (if applicable)
- (4) Disclosures
- (5) Prior assignment documentation if the loans has been assigned to another originator after the initial origination date
- (6) Flood Insurance (flood insurance binder) – loans with properties in flood zones
- (7) Loan payment history from the current servicer – for seasoned loans

(B) For Refinance Loans:

- (1) Most recent mortgage statement showing the outstanding mortgage amount for all existing liens.

(C) For Acquisition Loans:

- (1) Purchase and sale agreement (PSA) with any required addendums and extensions, including broker or wholesale agreements and auction paperwork (if applicable). PSA must not be expired, and must be fully executed by both parties. Loans that have been fully closed and recorded may have an expired PSA.

(D) For Construction Loans (The term “**Construction**” as used in this document refers to renovation and improvement work performed on existing structures and not ground up construction):

- (1) Scope of Work and Construction Budget
- (2) Feasibility Report

(3) Proof of work if funds have been disbursed:

- I) Inspection Report
- II) Lien Releases
- III) Evidence of Wire to Borrower

(4) Construction Loan documents - for loans with construction reserves and properties located in New York

- I) Building loan agreement
- II) Building loan mortgage
- III) Section 22 affidavit (lien law affidavit)
- IV) Section 73 affidavit (notice of lending)

(E) For loans with condo properties (currently disallowed):

- (1) Condo questionnaire

(F) For properties that are part of an Owners Association (OA) OA

- (1) OA documents, CC&R's and other title documents related to OA.

(G) For Loans with entity borrowers:

- (1) Entity governing documents (Bylaws / Operating Agreement / Partnership Agreement / Trust Agreement)
- (2) Entity evidence of good standing dated within 30 days from origination or 30 days from date of PS purchase.
- (3) Entity tax identification number (Fed TIN) or SSN if the entity only has a single member entity and does not have a separate Fed TIN.
- (4) Filed entity formation documents
- (5) Entity evidence of signatory authority (if a separate document) I)
 - LLC Consent – LLC Entity
 - II) Resolution – Corporations
 - III) LP/GP Consent – Limited Partnerships

(H) For loans with additional debt:

- (1) Note of junior debt – Promissory note
- (2) Mortgage of junior debt – Recorded mortgage/deed of trust (or certified copy with recording info written in)
- (3) Intercreditor agreement - Company form of intercreditor agreement must be used

Article V.

Evaluating the Loan Criteria Section V.01

Generally

This manual covers a loan product for loans that provide borrower capital to reposition multifamily residential properties as they prepare for a refinance or sale.

Multiple underlying loan programs may be governed by this single document, and if more than one program exists then each loan program shall have a separate Credit Box linked in the attached exhibits. Such documents will be maintained by the company which will include, but not be limited to, items such as Minimum Loan Size, Maximum Leverage Ratios, and Minimum Guarantor Credit Score. All loans must conform to the requirements of the applicable loan program as defined in the relevant Credit Box exhibit.

Section V.02 Loan Strategy

The following loan strategies are covered by this Manual. For the avoidance of doubt ground-up construction or properties where existing permitted structures will be demolished shall be rejected. Demolition of non-permitted structures shall be allowed.

- (A) **Bridge loans:** Loans on properties where there is no plan to fix the property. The construction budget for bridge loans must be less than or equal to \$10,000.
- (B) **Light Construction Loans:** Loans with construction budgets in excess of \$10,000 and <50% of loan amount
- (C) **Heavy Construction Loans:** Loans with construction budgets in excess of \$10,000, ≥50% of loan amount.

Section V.03 Lien Type

Loan must be a first-mortgage lien as stated in the title policy.

Section V.04 Loan Purpose

All loans must be for commercial or business purposes. Loans will be categorized as one of three purposes as described below:

- (A) **Acquisition-Money Loan ("Acquisition-Money Loan").** A loan that funds the purchase of a property or is originated within the first 120 days following the purchase of a property that was not financed.
- (B) **Refinance Loan ("Refinance Loan").** Any refinance or recapitalization loan for a property that is owned by a borrower. A refinance loan may replace an existing lien or may add a new lien to a property that did not previously have debt encumbering the property. In the case where a property was purchased within the first 120 days without the use of financing, the loan

will be considered a Acquisition-Money Loan.

(C) Cash-Out Refinance Loan (“Cash-Out Refinance Loan”). Any Refinance Loan or recapitalization loan where the loan amount exceeds the cumulative existing loan balance across all liens and the amount of cash-out to the borrower exceeds the lesser of \$10,000 or 5% of the total loan proceeds.

(1) No cash-out refinance loans are permitted if the previous financing occurred within the last six (6) months. All cash purchases shall not be considered previous financing.

(2) Cash-out refinance loans are permitted if the borrower is an entity borrower. Cash-out loans to individual borrowers permitted on a limited basis with a waiver application that includes the following:

I) Statement from the borrower regarding the use of cash-out proceeds; and

II) Either of the following:

a) Evidence that the borrower owns and resides in a residence other than the subject property;

b) Evidence that the subject property is not the borrower’s primary or secondary residence (lease supported by interior photos showing the property is occupied and/or utility bills in the name of the tenant).

Section V.05 Construction Budget

The construction budget shall consist of a Scope of Work and Project Budget for all Construction loans. The construction budget shall at a minimum identify the itemized estimated costs, anticipated payment schedules, and any other pertinent

information. For the avoidance of doubt the Scope of Work and Project Budget may be contained in the same document. Additionally, a Feasibility Report may be required in certain circumstances as described below.

(A) Scope of Work (“Scope of Work”). The scope of work shall include all of the planned work items.

(B) Project Budget (“Project Budget”). The construction budget shall list the anticipated costs for each item listed in the scope of work.

(C) Feasibility Report (“Feasibility Report”). Shall refer to a third-party report from an approved vendor that evaluates the feasibility of achieving the Scope of Work within the Project Budget. Feasibility reports shall not be required for project budgets less than or equal to \$100,000, and the requirements of the feasibility report shall be determined according to the following tiers:

(1) Tier I. Feasibility studies for tier I projects can be a desktop costing analysis and no site visit will be required. Light Construction loans where the project budget is $> \$100,000$ and $\leq \$250,000$, no change of use is planned, and no substandard housing conditions exist (as noted in the valuation or other reports) shall be considered Tier I. Approved vendors for Tier I feasibility studies can be found in Exhibit IV.

(2) Tier II. Feasibility studies for tier II projects require a full report that

includes a site visit. Loans that are Heavy Construction, have a project budget >\$250,000, any change of use is planned, or any substandard housing conditions exist (as noted in the valuation or other reports) shall be considered Tier II. Approved vendors for Tier II feasibility studies can be found in Exhibit IV.

Section V.06 Valuation

Company will rely on third-party valuations to determine the designated values used for calculating any relevant ratios or requirements contained within the guidelines. All valuations must conform to the requirements listed in the Valuation Process exhibit.

- (A) Rounding. When calculating any leverage ratio, such as LTV, the ratio will be rounded to two decimal places. For example a property value of \$399,900 and a loan amount of \$200,000 shall be considered 50.01% and over 50% LTV.
- (B) Fully Funded Loan Amount (“Fully funded loan amount”). The stated loan amount on the promissory note inclusive of all reserve funds that may be disbursed at a later date.
- (C) Cost Basis (“Cost Basis”). The Cost Basis for a loan shall be the summary of paid hard construction costs incurred to date, purchase price, customary borrower paid arms-length closing costs/fees, and up to \$5,000 in seller credits. Hard costs shall consist of items that cover the materials and labor for the physical construction of the real estate, such as carpet, drywall, landscaping, carpentry and also includes permit fees paid to municipalities directly related to the scope of work. Customary borrower paid arms-length closing costs/fees shall consist of broker commissions, title fees, and other such costs. For seller credits in excess of \$5,000, the Cost Basis will be reduced by the amount that exceeds \$5,000. Soft costs shall consist of costs that are not directly related to construction of the property, such as architectural or engineering and will not count towards the cost basis.
- (D) Initial Loan Amount (“Initial loan amount”). Calculated by subtracting any undisbursed funds held in a construction reserve from the fully funded loan amount. Interest reserves and other reserves are not subtracted from the fully funded loan amount to calculate the initial loan amount.
- (E) Designated after repair value (“ARV”). The estimated value of the property after all construction is complete that is designated. The process of determining the designated value of the property after all construction is complete is listed in the Valuation Process Exhibit.
- (F) Designated as-is value (“AIV”). The estimated current value of the property that is designated. The process of determining the designated current value of the property is listed in the Valuation Process Exhibit.
- (G) Loan-to-value (“LTV”). When calculating LTV, the numerator is the loan amount and the denominator is AIV. For loans with construction reserves, LTV is determined using an “effective LTV” calculation. When calculating effective LTV, the numerator is the initial loan amount plus any construction funds advanced as of a particular point in time, and the denominator is the AIV as of the same point in time. References to LTV may refer to both LTV and effective LTV.

- (1) In cases where construction reserves have been withheld in an escrow account and the fully funded loan amount divided by the AIV exceeds the maximum LTV, the following must be true:
- I) The LTARV must be less than the maximum LTARV allowable under these Requirements and;
 - II) The effective LTV must be less than the maximum LTV allowable under these Requirements.
- (H) After repair loan-to-value ("LTARV"). The loan-to-value ratio when calculated based on the ARV. When calculating LTARV, the numerator is the fully funded loan amount and the denominator is the ARV.
- (I) Loan to Cost ("LTC"). The initial loan amount - divided by the Cost Basis. LTC shall only apply to properties held ≤ 3 years by the borrower.
- (J) Cumulative loan to cost ("CLTC"). When calculating the CLTC, the numerator is the initial loan amount plus all junior liens and subordinate positions and the denominator is the Cost Basis. CLTC shall only apply to properties held ≤ 3 years by the borrower.
- (K) Cumulative loan-to-value ("CLTV"). When calculating CLTV, the numerator is the sum of all liens outstanding, including but not limited to second liens and subordinate positions. For loans with construction reserves, CLTV is determined using an effective CLTV calculation. When calculating effective CLTV, the numerator is the sum of the initial loan balance plus any construction funds advanced as of a particular point in time of the subject loan plus the sum of all subordinate liens, and the denominator is the AIV as of the same point in time. Reference to CLTV may refer both to CLTV and effective CLTV.
- (L) Cumulative after repair loan-to-value ("CLTARV"). The loan-to-value ratio when calculated based on the ARV. When calculating LTARV, the numerator is the sum of all liens plus the fully funded loan amount, and the denominator is the ARV.
- (M) Rapid High Price Appreciation ("Rapid High Price Appreciation"). When evaluating the AIV, company may require additional documentation to support significant increases in value over a short period of time. Generally, but not limited to, value increases over a six month period of time where the value increased more than 20% from a previous sale or known valuation may be considered a Rapid High Price Appreciation. Documentation to evidence property improvement such as pictures or receipt of borrower work, or sub-market price appreciation may be required in these cases.
- (N) Primary Residential Usage ("Primary Residential Usage"). Mixed use residential properties are allowed subject to all properties securing the loan must have no more than 25% of either the attributed stabilized Gross Rental Income (GRI) or Net Rentable Area (NRA) towards non-residential purposes. Acceptable mixed uses are retail, office and live work. Such properties may be approved on a case-by-case basis.

Section V.07 Prepayment

Loans are generally pre-payable subject to the terms and conditions outlined in loan documents for the subject loan. Prepayment penalties may be required if listed in the Bridge Credit Box exhibit.

Section V.08 Loan Reserves

Company may require certain reserves as listed in the Bridge Credit Box exhibit. These reserves will be for future payments, including but not limited future interest payments.

Section V.09 Recourse

In cases where the borrower is an entity, a repayment guaranty must be executed by at least one individual who is a principal of the borrower entity and who meets the applicable Requirements as defined herein.

- (A) Trusts: For purposes of recourse requirements, borrowers that are trusts (revocable and irrevocable) are treated as entity borrowers. A repayment guaranty executed by at least one individual who is a trustor, trustee, or beneficiary of the trust and meets the applicable Requirements as defined within must be a part of a file where the borrower is a trust.
- (B) The Guarantor(s) must be either an individual with 50% ownership or all Principals if there is not a single controlling interest in the entity.

Section V.10 Junior Liens

Junior Liens shall be allowed up to the maximum cumulative leverage ratios defined in the Credit Box exhibit. All junior liens must conform to the following:

- (A) Intercreditor agreement. In all cases where junior liens exist, the loan file must include an intercreditor agreement wherein the relationship between the senior and subordinate lienholders are defined, and the rights and responsibilities of each party are delineated.
- (B) Terms of junior lien loan. The maturity date of the junior lien must be co-terminus with or later than the maturity of the subject first lien position.

Section V.11 Non-Arm's Lengths Transactions

Company will not permit non-arm's length transactions of any kind. Those include, but are not limited to:

- (A) Borrowers who are investors, family members, owners, or employees of Originator; and
- (B) Purchase transactions in which there is a relationship or business affiliation

between the buyer and seller of the property.

Section V.12 Multi-Collateral Loans

Multi-collateral loans (i.e., a loan in which multiple properties collateralize and secure the loan).

- (A) When a single loan transaction consists of multiple loan types or multiple strategies (e.g., some properties are purchase-money loans and some properties are refinances) the loan terms, allocated loan amounts, and property characteristics must be in compliance with the requirements outlined in this document and the Credit Box exhibits.
- (B) For all multi-collateral loans, the loan will be constructed in such a way that:
 - (1) An allocated loan amount and release price for the collateral is assigned to each property by multiplying the allocated loan amount by 125%. The allocated loan amount is determined by calculating the pro rata portion of the loan based upon the values of each property. In cases where there are properties where funds are escrowed as a construction reserve, the ARV of that property should be used to calculate the allocated loan amount.
 - (2) If no release pricing for the collateral is defined, then any sale or transfer of any one property shall require full payment of the entire loan amount.
- (C) If a single loan transaction consists of at least one property where funds are escrowed as a construction reserve and at least one property where no escrow for construction reserve exists, then each property will be subject to the terms and conditions set forth in this document, including but not limited to:
 - (1) Company requires that all escrowed funds for renovation only be used for renovation work on collateralized properties.
 - (2) Effective LTV is calculated by combining the LTV for the property with no escrow for Construction Reserve and the effective LTV of the property with escrowed funds for Construction Reserve.
 - (3) LTARV is calculated by combining the LTV for the property with no escrow for Construction Reserve and the LTARV of the property with escrowed funds for Construction Reserve.

Section V.13 Construction Draws

- (A) Company may allow the applicant to access repair or collateral improvement funds (a "Construction Reserve"); provided that the loan does not exceed the requirements set forth in the Credit Box. Loans with future advance Construction Reserves are administered by Company or by a third party acceptable to Company. Interest shall accrue on all future funds at the note rate (also known as "Dutch Interest"). Company, approved Originator, or an approved third-party construction management firm (collectively, "Construction Manager") inspects work completed by the borrower and its contractors to ensure that the work has been completed in a good workmanlike manner. Construction Manager

will also inspect lien releases (when applicable) to ensure that clean title has been preserved. Once Construction Manager provides its recommendation to Company, Company may advance funds held in escrow to reimburse the borrower for approved work.

- (B) For loans with fully advanced Construction Reserves the Loan file must include a schedule of advances, approvals and evidence for advances made, and lien releases (when applicable).
- (C) For loans with a future advance Construction Reserves:
 - (1) Loan files must include a schedule of past advances, approvals and evidence for advances made, and lien releases (when applicable), along with any scheduled upcoming advances and a statement of process and evidence required for distribution (may be included in loan documents).
 - (2) If the construction budget exceeds the amount remaining in the Construction Reserve, approved draw will be reimbursed by Company out of the Construction Reserve in a pro rata amount of the total construction budget. For instance, in the case when a construction budget is \$100 and Construction Reserve is \$75 (or 75% of the total construction budget); if a draw request for \$40 is approved, then Company will reimburse the borrower a pro rata portion of that approved draw in the amount of \$30 (75% of the approved funds for release); and
 - (3) Construction disbursement agreement and assignment of the agreement, if applicable; and
 - (4) If a pending disbursement clause is included in the title policy, the Company will require: (i) a date-down of or update to the title commitment/report, and (ii) an endorsement to the title policy increasing the policy coverage amount, from time to time as required by Company.
 - (5) In the state of New York, special loan documentation for loans with construction reserves shall be required, including but not limited to:
 - I) Building loan agreement;
 - II) Building loan mortgage;
 - III) Section 22 affidavit (lien law affidavit); and
 - IV) Section 73 affidavit (notice of lending).

Article VI.

Reviewing the Property

Section VI.01 Generally

Properties securing the loan must be in one of the 50 United States, but not Minnesota or South Dakota. All properties securing the loan must be held as fee

simple.

Section VI.02 Restricted Geographies

From time to time Company may elect to temporarily designate certain geographical areas as Restricted Geographies (“Restricted Geographies”) in the Bridge Credit Box exhibit. Loans secured by properties in a Restricted Geographies will be rejected.

Section VI.03 Rural Properties

Loans secured by property in rural locations are rejected. Company considers the property location to be rural if any of the following conditions are met:

- (A) Company determines that the property is not within a MSA (Metropolitan Statistical Area) or CBSA (Core Based Statistical Area) with at least 50,000 people. The following link can be used to determine if a property is located in a MSA <https://geomap.ffiec.gov/FFIECGeocMap/GeocodeMap1.aspx>;
- (B) Company determines that the property is located in a U.S. Census Bureau defined place with less than 7,500 residents. The following link <https://www.census.gov/quickfacts/fact/table/US/LND110210> can be used to determine conformity to this standard;

(C) The property is designated as rural by the party completing the valuation.

Section VI.04 Intentionally Omitted

Section VI.05 Intentionally Omitted

Section VI.06 Non-Owner Occupied

Loans with owner-occupied unit(s) are rejected. Company considers the property owner-occupied if: the applicant or any owner of the borrowing entity resides at the property; or if any person who is a direct lineal descendant or a collateral descendant of an individual applicant; or any affiliate of the borrowing entity who resides at the property. The direct lineal descendants of an individual borrower or the principal owners of a borrowing entity shall refer to mother, father, grandmother, grandfather, son, daughter, and grandchildren. The collateral descendants of an individual borrower or the principal owners of a borrowing entity shall refer to brothers, sisters, nieces, nephews, and cousins. Collectively, the lineal descendants and collateral descendants are defined as the “Borrower Party.”

The following is the procedure for verifying that the property is non-owner occupied:

- (A) Company verifies the loan file includes evidence of non-owner occupancy executed by the borrower and any guarantors that verifies that no lineal or collateral descendants occupy the property;
- (B) Company verifies the loan file contains a representation of business

purpose of the loan executed by the borrower;

- (C) Company reviews the loan application and verifies that the address for the loan collateral is different from the home address stated in the loan application by the borrower and any guarantors; and If the addresses are the same, Company requires evidence that the person with the matching address resides at an address that is not the address for the loan collateral. Acceptable evidence includes, but is not limited to, either a current rental agreement or utility bill. Without such evidence, Company will reject the loan.
- (D) Company uses a third-party vendor to conduct a people search report ("Report") to verify the borrower's and any guarantor's home address as stated in the loan application. If the address for the loan collateral also appears to be the Borrower Party's home address on the Report, Company requires evidence that the person with the matching address resides at an address that is not the loan collateral address. Acceptable evidence includes, but is not limited to, either a current rental agreement or utility bill. Without such evidence, Company will reject the loan.

Section VI.07 Disallowed Property Types

The following property types are not loans in which Company will buy:

- (A) Properties where the non-residential and/or commercial uses exceed 25% of the net rentable area (NRA) or stabilized gross rental income (GRI).;
- (B) High-rise (8 or more stories) condos in the state of Florida or city of Las Vegas;
- (C) New construction, ground up construction, or properties where the existing structure is scheduled to be demolished;
- (D) Properties with an oil tank (either above or below ground) without an environmental report indicating no risk;
- (E) Properties that are not properly zoned for their current use;
- (F) Condo conversions
- (G) Properties with known illegal structures or additions that are a material component of the property (generally includes any illegal structure that has a cost to cure of \$5,000 or greater);
- (H) Condo-hotels;
- (I) Co-ops;
- (J) Properties with no ingress and egress to a publicly dedicated street (direct or indirect via easement agreement);
- (K) Timeshares;
- (L) Properties without existing or feasible utility connections;
- (M) Properties subject to ground leases;

- (N) Assisted living, mobile home parks or other special use properties
- (O) Rural properties; and
- (P) High-Rise Condos as defined in the section above.

Section VI.08 Property Subject to OA

If the subject property is subject to an owners association (OA), as evidenced by the title documents, notwithstanding any other requirement contained in this Manual, the following shall apply:

- (A) The loan file must include a copy of OA governing documents, as provided by the title company, including bylaws, CC&Rs, or any other document that governs the OA; and
- (B) Governing documents must allow for current use and that the property is current on all required payments and assessments.

Article VII.

Reviewing the Borrower and Guarantor

Section VII.01 Generally

The following concepts may apply to any loan:

- (A) **Borrower.** A borrower will refer to the party who owns the properties securing the loan, and who will be the named party on all loan documents. Borrowers may be individuals or entities, such as a Limited Liability Corporation (LLC). Individual borrowers shall be considered synonymous with guarantors for the purposes of this manual.
- (B) **Guarantor.** A guarantor will be any individual who has guaranteed timely payment of interest and principal on the loan, and whose individual history will be evaluated for these standards. For entity borrowers the Guarantor(s) must be either an individual with at least 50% ownership or all Principals if there is not a single controlling interest in the entity.
- (C) **Principal.** A principal will refer to individuals with an ownership share equal to or greater than 20% of an entity borrower, regardless of if they have signed a payment guarantee or not.
- (D) **Minority Owner.** A minority owner will refer to individuals with an ownership share less than 20% of an entity borrower, regardless of if they have signed a payment guarantee or not.
- (E) **Foreign National.** A Foreign National is a non-resident alien who is not authorized to live or work in the U.S. or holds a work Visa that is indicative of a more temporary residency than those required to meet Non-Permanent Resident Alien requirements. A Foreign National may periodically visit the U.S. for various reasons including vacation and/or

business. In order to be eligible, the guarantor must live and work in another country and be a legal resident of that same country.

Section VII.02 AML

All related parties, including minority owners, must pass an Anti-Money Laundering (“AML”) check to identify suspicious activities that may involve money laundering, fraud, terrorist financing, or other crimes. Company will perform a desktop search or third-party service to perform this check, or confirm that the originator has robust AML policies in place that have been performed before origination of the loan. Company reserves the right to request additional information and documentation from any borrower in connection with performing this check.

Section VII.03 OFAC

No related parties, including minority owners, can appear on the Office of Foreign Assets Control (“OFAC”) Specially Designated Nationals and Blocked Persons List. Company either searches the OFAC internet search function or commissions a third-party service provider to determine if a borrower, guarantor or entity member appears on the OFAC list, or confirmed that the originator performed this before origination of the loan.

Section VII.04 Guarantor Criminal Events

Company will review the background of all guarantors, principals, and minority owners for any criminal events. All results for the following must comply with the Credit Box exhibits:

(A) Any of the following items shall be considered a Tier 1 event:

- (1) Any felony conviction for fraud;
- (2) Any felony convictions for financial crimes;
- (3) Felony convictions for extreme violence, such as murder, rape, other crimes of a sexual nature, manslaughter, kidnapping, or domestic battery;
- (4) Any violent felony convictions within the past seven years;
- (5) Felony convictions for assault with a deadly weapon in combination with another crime in the past seven years;
- (6) Felony convictions for theft within the past seven years;
- (7) Felony convictions for drug distribution within the past seven years;
- (8) Three or more felony convictions of any kind within the past seven years; or
- (9) Two or more fraud misdemeanor convictions within the past seven years.

(B) Any of the following items shall be considered a Tier 2 event:

- (1) Fraud misdemeanor convictions;
- (2) Two or more violent misdemeanor convictions within the past seven years; or
- (3) Any fraud felony charge.

Section VII.05 Negative Credit Events

Company will review the credit history for all guarantors and principals, as reported by a major credit agency. All results for the following must comply with the Credit Box exhibits:

- (A) Mortgage Payment Delinquency (defined as 30 or more days late from the date due);
- (B) Foreclosures;
- (C) Bankruptcy (as measured by the date of dismissal or discharge);
- (D) Short-Sales;
- (E) Deed-In-Lieu;
- (F) Charge-Offs;
- (G) Judgement and Liens; and
- (H) Forbearance.

Section VII.06 Credit Score

Company will review the concluded credit scores from major credit agencies for all guarantors. All credit reports must meet the following conditions:

- (A) Approved Agencies. Credit scores are accepted from major credit agencies only. Approved agencies include: Equifax, Experian, and TransUnion.
- (B) Credit Reports. A hard inquiry (otherwise known as a “hard credit pull”) is required for all guarantors and principals. The credit report must include a score from at least one approved agency. Such credit reports must be dated within three (3) months of the origination date of the loan. If more than one qualifying credit report is included in the file, then the most recent report is used. If the loan was originated more than three (3) months ago, a soft inquiry (otherwise known as a “soft credit pull”) may be used.
- (C) Authorized Inquirer. Originator must perform the credit inquiry with written approval from the Guarantor.
- (D) Credit Score (“Credit Score”). If credit reports include scores from all three major credit agencies, then the median score is reported. If credit reports include scores from two of the major credit agencies, then the lower of the two scores is reported.
- (E) Designated Credit Score (“Designated Credit Score”). The highest Credit Score, as defined above, among all guarantors shall be the Designated

Credit Score and used for the purposes of qualifying the loan.

Section VII.07 Track Record

The borrower or guarantor's experience in successfully completing real estate investments is a key determining factor in qualifying loans. When determining the track record for a loan the largest track record across all guarantors will be used for loan qualification purposes.

- (A) Completed. Only investments that have been successfully completed shall count towards qualification. For Construction loans, only properties where the renovation has been fully complete shall count towards track record. For bridge loans currently held rental properties shall count in addition to exits.
- (B) Substantially Similar. Previous completed investments should be substantially similar in complexity and strategy to the current loan. For example if the current loan is a Light Construction strategy, then previously completed Heavy Construction and Light Construction shall be counted towards the track record for the current loan. Any real estate investments may be used for the purposes of a bridge loan, such as flips without renovation or recently purchased and leased rentals.
- (C) Recent. Only completed investments in the past three years (36 months) shall count towards a guarantor's track record.
- (D) Verified. Completed investments must be verifiable, such as through public sales records in the name of a guarantor or related borrower entity.

Section VII.08 Capital Requirements

The Company's primary focus in diligence is on the value and cash flow of the property(ies) securing the loan, but the Company may still require certain additional conditions to be met on the guarantor capital at time of loan origination as defined in the Bridge Credit Box exhibit. The following concepts will apply to evaluating the guarantor's capital:

- (A) Guarantor Liquidity ("Guarantor Liquidity"). The documented accessible capital held by the guarantor. Documentation submitted must be dated within 60 days of the time of loan origination.
 - (1) The accounts must be held in the name of the guarantor or have accompanying documentation proving that the guarantor has full access to the documented funds. The total of any of the following may be used to satisfy this requirement:
 - I) 100% of the value of any bank, money market, or brokerage accounts;
 - II) 100% of the cash value of any life insurance or annuity plans;
 - III) 100% of cash out proceeds from the subject property; and
 - IV) 50% of the value of any 401(k) or IRA account.
- (B) Minimum Guarantor Monthly Reserves ("Minimum Guarantor Monthly

Reserves”). Shall be measured as number of months of property expenses covered by the Guarantor Liquidity.

- (C) Multiple Loans. Guarantor’s Liquidity must be sufficient to cover the required Minimum Guarantor Monthly Reserves for all loans funded by the company that are not yet paid off.
- (D) Verification: Company shall review submitted documentation from the guarantor.

Section VII.09 Repeat Borrower Policy/Repeat Broker Policy

- (A) Company encourages repeat borrowers; however, if a borrower has one or more outstanding loans, and that borrower has failed to make a loan payment on or before the expiration of the applicable grace period provided for in the promissory note on any loan, Company will not buy another loan made to that borrower until the loan(s) in which payments have not been made on are paid in full.
- (B) Any individual, either as a Borrower, Guarantor, or Principal, is limited to \$5 million in total loans funded through Company. Exceptions to this limit will be made on a case-by-case basis and contingent on a review of payment history on previously funded loans, updated background information, and other items the deemed relevant.
- (C) Originator represents that no other loans from the borrower are delinquent. Any loans from the borrower held by Company are not delinquent.

Section VII.10 Borrower Eligibility and Documentation (Individual)

- (A) The borrower must be a U.S. citizen, or a permanent resident alien, and must have a physical (not a P.O. box) address in the United States where it can receive notices.
- (B) Verification: U.S. citizens must have a valid social security number. Permanent resident aliens must provide a 1-551 Permanent Resident Card (Green Card) issued by the Department of Homeland Security U.S. Citizenship & Immigration Services. Permanent resident aliens must have either a social security number or an ITIN.

Section VII.11 Borrower Eligibility and Documentation (Trust)

- (A) Revocable inter-vivos trusts are acceptable borrowers if the trust is established by one or more natural persons. The trustee(s) must have the power to mortgage the property for the purpose of securing a loan, and a physical (not a P.O. box) address in the United States.
- (B) Verification: The loan file must include a copy of the trust agreement or a certification of trustee that identifies the name of the guarantor,

beneficiary, trustee, and state that the trustee has the power to sell, convey, borrow, and encumber the property.

Section VII.12 Borrower Eligibility and Documentation (Entity)

(A) The borrower must be a properly formed, validly existing U.S. entity, formed in any one of the 50 states, must have a physical (not a P.O. box) address in the United States where it can receive notices, and all signatories must have authority to sign loan documents on behalf of the borrower entity.

(B) Disallowed borrower types:

(1) Land trusts

(2) Series LLCs

(C) Verification: Formation and governing documents. When the borrower is an entity, the loan file must include the following:

(1) Corporation

I) Articles of incorporation filed with the state's secretary of state office in the state in which the entity is formed;

a) Must include the filing number and filing date.

II) Bylaws:

a) Bylaws typically govern the activities of a corporation. Bylaws also outline who has the authority to execute documents on behalf of and bind the corporation. The signatory authority of the company's officers should be set forth in the bylaws.

b) If a corporation is owned by a single shareholder who also serves as the sole board member and sole officer of the corporation, the corporation may not have bylaws. In this instance, Company will accept an affidavit signed by the sole shareholder or other evidence representing that he/she is the sole shareholder, sole director, sole officer, and sole signatory authority.

III) Verification that the entity is in good standing must be in the file. This can be accomplished by producing either of the following:

a) A screenshot from the website of the applicable state government office showing that the entity is in good standing; or

b) A certificate of good standing dated within one month of the loan origination.

IV) Federal Tax Identification Number (EIN) for the entity is required.

(2) Limited Liability Company ("LLC")

- I) Certificate of formation/articles of formation filed with the state's secretary of state office in the state in which the entity is formed;
 - a) Must include filing number and filing date
- II) Operating agreement;
 - a) The operating agreement governs the day-to-day activities of an LLC. The operating agreement also describes who has the authority to execute documents on behalf of and bind the entity.
 - b) If borrowing entity does not have operating agreement, an acceptable alternative is a consent executed by all known members designating an authorized signatory for purposes of the loan documents.
 - c) If the LLC is owned by a single member, the entity may not have an operating agreement. In this instance, Company will accept an affidavit signed by the sole member or other evidence representing that he/she is the sole member and the only person who has authority to execute on behalf of the entity.
- III) Verification that the entity is in good standing must be in the file. This can be accomplished by producing either of the following:
 - a) A screenshot from the website of the applicable state government office showing that the entity is in good standing; or
 - b) A certificate of good standing dated within one month of the loan origination.
- IV) Federal Tax Identification Number (EIN) for the entity is required.

(3) Limited partnership

- I) Certificate of partnership/articles of formation filed with the state's secretary of state office in the state in which the entity is formed;
- II) Partnership agreement;
 - a) The partnership agreement governs the day-to-day activities of a limited partnership. The partnership agreement also describes who has the authority to execute documents on behalf of and bind the entity.
- III) Verification that the entity is in good standing must be in the file. This can be accomplished by producing either of the

following:

- a) A screenshot from the website of the applicable state government office showing that the entity is in good standing; or
- b) A certificate of good standing dated within one month of the loan origination.

IV) Federal Tax Identification Number (EIN) for the entity is required.

Article VIII. Insurance Requirements

Section VIII.01 Title Report and Title Insurance

Any issuer of title insurance that meet the ratings criteria as set forth in the Fannie Mae guidelines, and cover 100% of the loan balance unless not permitted by law or the insurance company. The title policy must conform to the separately maintained "Title Checklist for Residential Loans" document found in Exhibit 6.

Section VIII.02 Property Insurance

Each property securing the loan must have property insurance that is in effect as of the origination date, and must conform to the following requirements:

- (A) Property insurance is required in the amount of 100% of the replacement cost or 100% of the loan amount if no replacement cost is listed.
- (B) Property insurance can be designated as Mortgagee, Loss Payee, Additional Insured, or Lender's Loss Payable.
- (C) Intentionally left blank
- (D) The property insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. Flood insurance is required for any property that has a building, dwelling, structure, or improvement situated in a Special Flood Hazard Area (SFHA).
- (E) A Standard Flood Hazard Determination Form to determine if the property is located in a Standard Flood Hazard Area. Properties located in a Standard Flood Hazard Area are required to have flood insurance.
- (F) The related mortgaged property, including all buildings or other customarily insured improvements upon the mortgaged property, must be insured by a fire and extended perils insurance policy, and insured against such other hazards that are customary in the area where the mortgaged property is located, such other hazards as are covered under a standard extended coverage endorsement.
- (G) Liability insurance totaling \$500,000 per incident / occurrence or the

maximum allowable by the insurance company must be in place.

- (H) Any issuer of property insurance must meet the ratings criteria as set forth in the Fannie Mae guidelines. The following link can be used as reference:
<https://www.fanniemae.com/content/guide/selling/b7/3/01.html>
- (I) Company must be added as mortgagee, loss payee, lender's loss payable, or additional insured (within three months of post-loan purchase).

Article IX.

Attached Exhibits

Section IX.01 Generally

Company will maintain certain exhibits to these Diligence Requirements in separate documents that may be updated from time to time.