RTL: Fix & Flip and Bridge

Underwriting Guidelines

Version 1.2

Last Updated 07.01.2018

1 OVERVIEW

Product-specific eligibility criteria are included on their respective matrices and in Section 4.

1.2.1 Renovation

These products are designed to assist Investors in acquiring and renovating a property or renovating a previously acquired property with the intention of selling it for capital gains or refinancing and holding the property as a rental investment.

- Purchase and Renovation 1
- Cash-out and Renovation: By exception only

1.2.2 Bridge

These products are designed to assist Investors in acquiring a property that have little or no need for renovation with the intention of selling it for capital gains or refinancing and holding the property as a rental investment.

- Purchase
- Cash-out refinance
- Rate/term refinance 2

1 Includes purchase loans and delayed financing purchase loans where the property is owned by the borrower and the note date is within six months of the purchase date.

2 Cash back to borrower not to exceed the lesser of 10% of the loan amount or $15,000; otherwise, product is considered cash-out.

LOAN TERMS

1.3.1 Rate Type

The notes are typically structured as interest only and balloon. Both fixed and adjustable rate mortgage products are acceptable.

1.3.2 Loan Terms to Maturity

For FNF loans, terms to maturity may be 12 to 24 months. For Bridge loans, terms to maturity may be 12 to 26 months.

1.3.3 Extensions

Extensions are available for up to six months on a case-by-case basis. Extensions are considered a modification to the original loan agreement and are subject to the approval of upper management. Requests for extension should include a statement from the Sponsor giving reason for extension and outlining the exit strategy. Factors considered when granting an extension request may include:

- Payment history
- Reserves
- Updated valuation (e.g. CDA, appraisal)
- Updated credit report of Guarantor(s)
- Confirmation of property taxes and insurance are paid current
- Confirmation of clean title

1.3.4 Minimum Equity

For purchase transactions, the Sponsor, and other owners of the borrowing entity, as applicable, must contribute a minimum of $30,000 towards Hard Costs (defined in Section 2.8).

For cash-out and rate/term transactions a minimum Implied Equity of $30,000 is required (see Section 2.5 for calculation).

1.3.5 Loan Balance

The minimum Total Loan Amount is $75,000. The maximum Total Loan Amount is $5,000,000 for Bridge Loans and $4,000,000 for FNF Loans.

1.3.6 Loan Structure & Interest Accrual Style of Renovation Products

For Renovation products, the loan may be structured such that Renovation Costs (see Section 2.11) may be part of the first lien or as a simultaneous second lien. Interest may accrue in either of the following ways (subject to criteria specified in Section 4.1.5):

- ***Full Balance***: Interest accrues on the Total Loan Amount
- ***As-Disbursed:*** Interest accrues on the outstanding loan balance (i.e. funds not held back/escrowed)

2 DEFINED TERMS AND CALCULATIONS

2.1 SPONSOR

The Sponsor is an individual with ownership in the borrowing entity and whose experience is used for loan qualification.

2.2 GUARANTOR

A Guarantor is an individual who executes a personal guaranty agreement (see Section 3.6.3 for personal guaranty requirements).

2.3 ACQUISITION VALUE

The Acquisition Value of the subject property is the Contract Sales Price less any Interested Party Contributions.

2.4 AS-IS VALUE

For purchase transactions, the As-Is Value is the minimum of the Acquisition Value of the subject property value and

the as-is value(s) provided on all appraisal(s). For rate/term and cash-out transactions the minimum of the as-is value(s) provided on all appraisal(s) is used. The As-Is Value must not consider any proposed improvements or market-timing price appreciation.

2.5 IMPLIED EQUITY

For cash-out and rate/term refinance transactions the Implied Equity is determined by taking the difference of the As-Is Value and the Total Loan Amount.

$$Implied\ Equity = (As\ Is\ Value - Total\ Loan\ Amount)$$

2.6 AFTER-RENOVATED VALUE (ARV)

The After-Renovated Value (ARV) of the subject property is the estimated sale value after renovations and improvements have been completed.

2.7 DIRECT CONSTRUCTION COSTS

Direct Construction Costs include third-party costs for labor, general contractor fees, and materials used for construction. All Direct Construction Cost funds must be either held back by the lender or escrowed.

2.8 HARD COSTS

Hard Costs are defined as the sum of the As-Is Value of the subject property and any Direct Construction Costs associated with the renovation.

$$Hard\ Costs = As\ Is\ Value + Direct\ Construction\ Costs$$

2.9 VALUE-ADDED SOFT COSTS

Value-Added Soft Costs may include indirect construction and transactional costs such as architectural, engineering, environmental, fire safety, and legal fees. Permits, entitlements, and legal documentation associated with change of property use (e.g. condo conversion) may also considered Value-Added Soft Costs. All Value-Added Soft Costs must be held back by the lender or escrowed.

2.10 OTHER SOFT COSTS

Other Soft Costs include taxes, origination points and fees, realtor fees, marketing expenses, interest expenses, and any other closing costs. Other Soft Costs may only be included in the determination of Total Project Cost on an exception basis.

2.11 RENOVATION COSTS

Renovation Costs include Value Added Soft Costs and Direct Construction Costs.

2.12 TOTAL PROJECT COST

Total Project Cost is defined as the sum of Hard Costs and Value-Added Soft Costs.

$$Total\ Project\ Cost = Hard\ Costs + Value\ Added\ Soft\ Costs$$

2.13 LOAN TO COST (LTC)

Loan to Cost (LTC) is defined as to the Total Loan Amount divided by Total Project Cost.

$$LTC = Total\ Loan\ Amount\ /\ Total\ Project\ Cost \times 100$$

LTC does not apply to Bridge loans.

2.14 LOAN TO VALUE (LTV)

When the loan qualifies as a Renovation Product, Loan to Value (LTV) is defined as the following:

$$LTV = Total\ Loan\ Amount\ /\ After\ Renovated\ Value \times 100$$

When the loan qualifies as a Bridge loan, LTV is defined as the following:

$$LTV = Total\ Loan\ Amount\ /\ As\ Is\ Value \times 100$$

2.15 RENOVATION RATIO (RR)

The Renovation Ratio (RR) is a measure of the proposed renovation budget as a percentage of the subject property’s As-Is Value:

$$RR = Direct\ Construction\ Costs\ /\ As\ Is\ Value \times 100$$

2.16 RENOVATION DISBURSEMENT STYLES

Renovation holdback funds are disbursed in two ways, “Advance” and “Reimbursement” defined as:

Advance: Funds are disbursed after confirmation that the relevant work on the property has been completed and/or appliances have been delivered on site. Proof of payment and presence of all applicable lien waivers for the work/materials previously done/installed must be provided before funds for current work/materials are disbursed.

Reimbursement: Funds are disbursed after confirmation that the relevant work on the property has been completed and/or appliances have been delivered on site and proof of payment and presence of all applicable lien waivers for current work/materials is provided before funds are disbursed.

2.17 QUALIFYING MONTHLY PAYMENT

The Qualifying Monthly Payment is the sum of the monthly interest and principal (if applicable) payments on the Total Loan Amount at the starting interest rate and any applicable monthly property taxes, insurance, and association dues.

2.18 PROJECT GROSS MARGIN (PGM)

For Renovation loans, the Project Gross Margin (PGM) is a forecasted measure of the gross profitability of the Renovation project. PGM is defined as the After-Renovated Value minus Total Project Cost, divided by Total Project Cost. PGM may be used as a compensating factor when requesting an exception to these Acquisition Criteria (see Section 5).

$$PGM = ARV - Total\ Project\ Cost\ /\ Total\ Project\ Cost$$

2.19 RESERVES

Reserves may be quoted in terms of months coverage of the Qualifying Monthly Payment and/or, in the case of a Renovation loan, as a percentage of Direct Construction Costs. See Section 3.10.2: Consideration of Assets to calculate the dollar Reserve Amount.

$$Months\ Reserves = Reserve\ Amount\ /\ Qualifying\ Monthly\ Payment$$

$$Construction\ Reserves\ (\%) = Reserve\ Amount\ /\ Direct\ Construction\ Costs \times 100$$

2.20 SPONSOR EXPERIENCE LEVEL

Sponsors will be categorized as one of the following for ***Renovation Transactions:***

Highly Experienced: Minimum of ten verified renovation projects completed (purchased and exited) in 36 months prior to application. At least five projects must be of similar size or larger.

Experienced: Minimum of five verified renovation projects completed (purchased and exited) in the 36 months prior to application OR minimum of three verified renovation projects in 24 months prior to application. At least two projects must be of similar size or larger.

Limited Experience: Minimum of one verified project completed (purchased and exited) in the 24 months prior to application of similar size or larger.

No Experience: Sponsor must partner with a licensed general contractor and have owned at least one investment property in the most recent 24 months prior to application. See Section 4.1.8 for specific documentation requirements.

Sponsors will be categorized as one of the following for ***Bridge Transactions:***

Experienced: A Sponsor that has owned more than three business purpose properties within 24 months prior to application.

No Experience: No Experience Sponsors must have owned a property (either as a residence or for business purposes) for a minimum of the most recent 12 months prior to application.

2.21 QUALIFYING PROPERTY CASHFLOW

If rental income is used to qualify a Bridge Loan, the Qualifying Property Cashflow is calculated as the lesser of the rents found on lease(s) in place and "As-Is" estimated market rent found on the property valuation form (e.g. Form 1007).

Leases must be in place; otherwise, the Qualifying Property Cashflow is not calculated.

Qualifying Property Cashflow does not apply to Renovation Loans or purchase transactions.

2.22 DEBT SERVICE COVERAGE RATIO (DSCR)

If rental income is used to qualify a Bridge Loan a Debt Service Coverage Ratio (DSCR) is calculated as the

following:

$$DSCR = Qualifying\ Property\ Cashflow\ /\ Qualifying\ Monthly\ Payment$$

DSCR does not apply to Renovation Loans or purchase transactions.

2.23 CASH-OUT SEASONING

Cash-Out Seasoning is the difference between the note date of the new loan and the prior financing note date or, in the case that the property is owned free and clear, the sale date.

2.24 AREA CONFORMITY STATISTIC (ACS)

The Area Conformity Statistic (ACS) is a measure used to determine if the subject property's valuation is within a reasonable range for the area using publicly available Zillow data (Zillow Home Value Index; ZHVI). See Section 3.9.5 for more information.

For **Bridge Loans:**

$$Top\ Tier\ ACS\ (\%) = As\ Is\ Value\ /\ Median\ ZHVI\ for\ Top\ 33\%\ of\ Homes$$

$$Median\ ACS\ (\%) = As\ Is\ Value\ /\ Median\ ZHVI$$

For **Renovation Loans:**

$$Top\ Tier\ ACS\ (\%) = ARV\ /\ Median\ ZHVI\ for\ Top\ 33\%\ of\ Homes$$

$$Median\ ACS\ (\%) = ARV\ /\ Median\ ZHVI$$

3 GENERAL ELIGIBILITY CRITERIA

3.1 LOAN PACKAGE AGING

Loans seasoned more than 45 days from the loan package submission date are not eligible for purchase.

3.2 DOCUMENTATION AGING

Unless otherwise specified, all documentation aging quoted in terms of calendar days prior to the note date.

Documentation Aging Maximum

Credit Report(s)	90 days
Asset Verification	Most recent full month period
Appraisal(s)	90 days
Certificate of Good Standing	90 days
Title Commitment	30 days
Background Check(s)	180 days
Flood Certificate	90 days
Power of Attorney	120 days

3.3 TAX ESCROWS & IMPOUND ACCOUNTS

Tax escrow funds and impound accounts are not required.

3.4 OCCUPANCY

Non-owner occupied (investment) properties are eligible. Primary residences, second homes, vacation homes and any other owner-occupied properties are not eligible.

Borrowers are required to acknowledge that the loan is a business purpose loan and not owner occupied; see Appendix 7.2 for example affidavit.

Underwriters are to address any red flags that may indicate that the property is not intended exclusively for investment purposes. Common occupancy red flags include:

• Subject property value exceeds value of the Sponsor’s primary residence.

• The Sponsor is currently renting his/her primary residence.

• Subject property could reasonably function as a second home.

3.5 GEOGRAPHIC ELIGIBILITY

3.5.1 State Eligibility

Properties located in all US States and the District of Columbia are eligible for financing. Properties located outside of the US or in US territories are not eligible.

3.5.2 Population Requirement

The subject property must be in a county where the population is greater than 75,000 and in a Core Based Statistical Areas (CBSAs) where the populations is greater than 150,000.

CBSA, county, and population statistics are determined by the United States Census Bureau. Refer to www.census.gov for more information.

3.5.3 State Restrictions

Properties located in the below states require a Minimum Credit Decision Score (see Section 3.7.2) of 660. For Renovation loans, the maximum LTC is 85% and maximum LTV is 70%. For Bridge loans, the maximum LTV is 75%:

- Connecticut
- Delaware
- Illinois
- Indiana
- Maryland
- Maine
- New Jersey
- New York
- Ohio
- Wisconsin

3.6 BORROWER CRITERIA & DOCUMENTATION

3.6.1 First Time Home Buyers

A First Time Home Buyer is a Sponsor who has had no ownership in a residence (either primary or investment) during the three-year period ending on the note date. First Time Home Buyers are not eligible for either Bridge or Renovation products.

3.6.2 Vesting

All loans must close in a business entity; no individual Borrowers are allowed. Allowable business entities include: Limited Liability Companies, General Partnerships, Limited Partnerships, and Corporations.

3.6.3 Personal Guaranty

All loans must have a personal guaranty. Personal guarantees must unconditionally guarantee to the Lender the full and prompt payments of principal, default interest, late charges, and other sums payable by the Borrower specified on the Note. The guarantor(s) must agree that in the event of default or breach by the Borrower that the guarantor(s) will pay the liabilities and fulfill all obligations.

Personal guarantees are required of the Sponsor and any individual with ownership interest of 25% or greater in the borrowing entity (“Guarantors”). Additionally, all loans must have guarantees from enough members such that greater than 50% ownership interest in the borrowing entity is represented.

Non-recourse and/or corporate guarantee option(s) may be available subject to approval by Management but are considered an exception to guidelines.

3.6.4 Corporate Entity Documentation

1. Entity-Type Specific Documents

    a. Limited Liability Company

        I. Articles of Organization/Certificate of Formation

        II. Executed Operating Agreement

    b. General Partnership

        I. Executed Partnership Agreement

        II. Statement of Partnership Authority/Statement of Partnership Existence filed with state where domiciled

    c. Limited Partnership

        I. Certificate of Formation

        II. Executed Partnership Agreement

        III. If the General Partner of the Borrower is a limited partnership, request these documents for the GP. If that entity is also a limited partnership, request documents for that entity as well.

    d. Corporation

        I. Articles of Incorporation

        II. Corporate By-Laws/Corporate Resolution

2. Certificate of Good Standing from the state where the entity is organized. If the business entity is operating across state lines and is required to register as a foreign entity, a Certificate of Good Standing from this state must be supplied as well. If the entity is less than 12 months old, the initial state filing(s) may be provided in lieu of the Certificate of Good Standing.

3. Tax Identification Number

4. Certificate of Authorization for the Individual executing documents on behalf of the business entity.

3.6.5 Maximum Number of Borrowers

Maximum of one Borrower (business entity) per loan.

3.6.6 Eligible Guarantors

• U.S. Citizens

• Permanent Resident Aliens

• Non-Permanent Resident Aliens that meet the following requirements:

  o Have a valid Social Security Number

  o Have a U.S. bank account

  o Have a valid work visa that may not expire for a minimum of three years following the note date.

  o File U.S. tax returns

3.6.7 Maximum Exposure

MCM Capital Solutions limits exposure to any single Guarantor to $6,000,000 or eight active properties.

3.6.8 Background Check/Fraud Report

An electronic fraud detection report and/or background check must be obtained for all members of the borrowing entity with ownership greater than 5%. Copies of the findings reports must be provided with documentation resolving any deficiencies or red flags noted. The following checks must be supplied at minimum:

• Financial fraud
• Criminal records
• Bankruptcy records
• Liens
• Judgements
• Current property deeds
• Past property deeds
• Property foreclosures
• Property assessments
• Evictions
• Global Watch List
• U.S. business affiliations

3.6.9 Driver's License

Must be valid and presented for all Guarantors.

3.6.10 Exclusionary Lists & Office of Foreign Assets Control Report (OFAC)

Loan transactions are ineligible if any material parties (company or individual) to the transaction are listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party list or any other exclusionary list.

Office of Foreign Assets Control Reports (OFAC) must be ordered for all members of the Borrowing Entity. The OFAC Report must indicate that none of the members are on the OFAC list of Special Designated Nationals and Blocked Persons.

3.6.11 Track Record Documentation

Sponsor must provide a schedule of previous transactions, current properties owned, and any other property transactions a party to.

Experience must be verified through one or more of the following methods:

- Public tax records
- National property record databases
- Verification of property ownership/sale within federal tax documents (e.g. 1040)
- ALTA/HUD-1 Settlement Statements documenting prior transactions

3.7 CREDIT

Credit is reviewed for each Guarantor.

3.7.1 Credit Decision Score

Use the lower of two credit scores or middle of three to determine Credit Decision Score. If more than one individual's credit report is considered, use the lowest Credit Decision Score amongst all individuals. A minimum of two credit scores must be available for everyone whose credit is considered.

3.7.2 Minimum Credit Decision Score

The minimum Credit Decision Score depends on the Sponsor Experience Level. A minimum of two scores must be available for each Guarantor:

- Highly Experienced: 600
- Experienced: 600
- Limited Experience: 600
- No Experience: 660

3.7.3 Credit Report

A full Residential Mortgage Credit Report (RMCR) or Tri-Merged Credit Report conforming to Fannie Mae or Freddie Mac requirements must be supplied.

3.7.4 Bankruptcies

All bankruptcy seasoning should be measured by the dismissal/discharge date to the note date.

• Chapter 13: Minimum 12 months seasoning

• Other Bankruptcy: Minimum 24 months seasoning

3.7.5 Foreclosures, Short Sales, And Deeds in Lieu

No foreclosures, short sales, and/or deeds in lieu within 24 months of the note date.

3.7.6 Housing Payment History

No late payments within 12 months of the note date.

3.7.7 Judgments and Liens

Open judgements, garnishments, and all outstanding liens that are listed in the credit report should be underwritten as follows:

• Income tax liens: When the tax lien is over $10,000 a documented payment plan is required. When under $10,000 a letter of explanation from the borrower should be provided and considered in the underwriting decision.

• Unsecured liens under $10,000 are permitted if the Guarantor's credit score is 660 or above.

• Liens under $5,000 are permitted if over 3 years old and/or if there is a documented dispute

Any other judgements and/or liens that do not fit the above criteria must be paid off prior to closing. Documentation must be provided proving payment.

3.7.8 Past-Due Accounts

All accounts that are reported as more than 60 days past due must be brought current or paid off at closing.

3.7.9 Consumer Credit Collections and Charge-Offs

With the below exceptions, all charge-offs and collections listed in the credit report must be paid off prior to closing and evidence of payment must be documented.

Exceptions to the above include:

• Cumulative collections and charge-offs under $10,000

• Collections and charge-offs that have expired under the state statute of limitations on debts. Evidence of expiration must be documented.

3.8 FINANCING

3.8.1 Secondary/Subordinate Financing

If applicable, only the construction component of a Renovation Loan may be structured as a simultaneous second lien. All other secondary or subordinate debt financing is not permitted including gap funding/financing from third party investors.

3.8.2 Interested Party Contributions

Interested Parties for the transaction include the mortgage lender or their affiliates, real estate agents, and the seller of the property. Interested Party Contributions may only be used to cover closing costs or prepaid expenses and not exceed three percent of the Total Loan Amount.

All Interested Party Contributions must be properly disclosed in the sales contract and settlement statement and be compliant with applicable federal, state, and local laws. 3.9 PROPERTY

3.9.1 Appraisal Requirements

All valuation reports are subject to review and approval by MCM Capital Solutions. Loans may be denied if the value(s) of the subject property reported is/are deemed to not be supported.

The following minimum appraisal requirements must be met regardless of loan size:

• A FIRREA compliant valuation method of the subject property.

Photos: Both interior and exterior color photos of the subject property must be supplied. The following photos are required at minimum:

o All sides of the subject property

o All views or external location factors

o All interior rooms

o All exterior amenities (e.g. basement, garage, out buildings)

o Any physical deterioration and recent remodeling/renovation

• Limited appraisal forms/exterior-only appraisals are not permitted.

• If a Renovation Loan, both an as-is value and an after-repair value must be supplied by the appraiser. The after-repair value should be based on the project plan and budget submitted by the Sponsor and should not consider market timing in price appreciation.

• Age: The appraisal should be dated no more than 90 days prior to the note date. After a 90-day period a new appraisal is required. Re-certification of value is not acceptable.

• Market: Appraisal must state if the subject property is in a declining, stable, or appreciating market.

• Comparable Transactions: The appraisal must include at least three comparable properties that have had closed sales and that are reflective of the subject property's as-is condition. If a Renovation Loan, an additional three closed sale transactions are required and should reflect the subject property's anticipated after-renovated physical condition.

• Comparable Transactions Sale Dates: Appraisals that include comparable sales greater than six months old as of the date of the report require explanation of use.

• Comparable Transactions Proximity: Appraisals that include comparable sales greater than two miles of the subject property require explanation of use.

The type of valuation method is dependent on the Total Loan Amount:

• When the Total Loan Amount is below $250,000 either a full appraisal or an appraiser-enhanced BPO appraisal (e.g. Clear Val) is required.

• When the Total Loan Amount is more than $250,000 a full appraisal is required.

When the Total Loan Amount is more than $2,000,000 two full appraisals are required.

3.9.2 Personal Property

Any personal property transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTC/LTV.

3.9.3 Rural Property

Rural properties are not allowed. A property is considered rural if any of the following conditions exist:

• Appraiser classifies the property as being in a rural neighborhood and/or as a rural property

• Less than 25% of the surrounding area is developed

• The property has more than two acres

• The property is a working farm or ranch

• Any of the comparable properties are more than three miles from the subject property

3.9.4 Low Liquidity Areas

Properties located in areas with empty lots, boarded up houses, and/or unpaved roads are accepted only on a case-by-case basis. Additionally, if appraisal identifies the subject property's neighborhood as having one or more of the following neighborhood characteristics or housing trends, the loan may only be accepted by exception:

• Demand/Supply: Over supply

• Marketing Time: Over six months

• Growth: Slow

3.9.5 Area Conformity Assessment

For Bridge loans, the appraiser must note that the subject property conforms to the neighborhood; if not, the loan will be accepted only by exception.

Publicly available Zillow data at the zip code level will be used to calculate the Area Conformity Statistic (ACS; see Section 2.24 for calculation) to determine if the subject property's valuation is within a reasonable range.

The following LTC and/or LTV adjustments apply for both Bridge and Renovation Loans based on the calculated Top Tier ACS:

• Less than 150%: No reduction to maximum LTV/LTC

• Between 150% and 175%: 5% reduction to maximum LTV/LTC

• Between 175% and 225%: 10% reduction to maximum LTV/LTC

• Greater than 225%: By exception only

If the Top Tier ACS is not available, the Median ACS will be used in lieu. The following adjustments apply for both Bridge and Renovation Loans when using the Median CS:

• Less than 200%: No reduction to maximum LTV/LTC

• Between 200% and 250%: 5% reduction to maximum LTV/LTC

• Between 250% and 300%: 10% reduction to maximum LTV/LTC

• Greater than 300%: By exception only

3.9.6 Declining Markets

Publicly available Zillow data will be used in conjunction with the housing trends provided on the appraisal(s) to determine if the subject property is in a declining market. The lower of the zip code and county year-over-year Zillow Home Value Index (ZHVI) growth rate will be considered. See https://www.zillow.com/research/data/ for more details on methodology and to view the data.

For properties located in areas where the ZHVI has declined more than 5% year-over-year and/or the appraisal indicates that property values are declining in the property's neighborhood the loan is considered ineligible and would require an exception to be purchased. For properties located in areas where the ZHVI has declined between 1% and 5%, the LTV and LTC (if applicable) must be reduced by 5%.

3.9.7 Cost Basis Verification

A Sales Contract, Settlement Statement, or Proof of Purchase from Auction/Sheriff Sale is required if a portion of the loan is used to finance the purchase and/or if the subject property has been purchased within 180 days of the Note date.

3.9.8 Lease Agreement

If a lease agreement is in place on the subject property it must be supplied.

For Renovation loans, if the property is leased or occupied at the time of the appraisal and/or closing, the following are required:

• Letter of explanation as to how the tenant will be removed

• Maximum LTC / LTV is reduced by 5%

• Sponsor must be Experienced or Highly Experienced

3.9.9 Eligible Property Types and Minimum Square Footage

The following property types are permissible conditional on meeting the minimum square footage requirement:

• Single Family Residence: 700 square feet

• Townhouse: 700 square feet

• Condominium: 500 square feet

• 2-4 Units: 400 square feet per individual unit

3.9.10 Ineligible Properties

• Owner-occupied property

• Properties that appraise for less than $60,000 in as-is condition

• Mixed-use

• Manufactured housing

• Mobile homes

• Modular homes

• Condotels

• Timeshares

• Unique properties

• Rural properties (see Section 3.9.3)

• Unimproved land

• Property currently in litigation

• Zoning violation

• Fractional ownership

- Properties encumbered by purchase option
- Kiddy condos
- Cooperatives
- Geodesic domes
- Yurts
- Berm homes/Earthships
- Properties located in Hawaii Lava Zones one or two
- Properties located on Native American Reservations
- Properties in Low Liquidity Areas (see Section 3.9.3)
- Properties in Declining Markets (see Section 3.9.6)
- Properties that do not meet the minimum square footage requirement (see Section 3.9.9)

3.9.11 Property Type Limits

The below LTC / LTV limits apply if the subject property is a condo or a 2-4 unit: Property Type LTV (Bridge) LTV (Renovation) LTC

Condo: 75 / 70 / 85

2-4 Unit: 70 / 70 / 80

3.9.12 Properties Located in Disaster Areas

Sellers are responsible for identifying geographic areas impacted by disasters and taking appropriate steps to ensure the subject property has not been adversely affected. The following guidelines apply to properties located in FEMA declared disaster areas where the later of the disaster period end date and the date of the event is within 90 days of the Note date, as identified by reviewing the FEMA web site at https://www.fema.gov/disasters. In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence should be used to determine if the disaster guidelines should be followed.

If the appraisal is completed prior to the disaster a second appraisal must be ordered in accordance to the requirements described in Section 3.9.1 and this updated value will be factored into the As-Is Value of the subject property. In addition, the appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition from the previous inspection, and the marketability and value remain the same. Any damages noted by the appraiser must be repaired and re-inspected prior to loan purchase.

If the property valuation is completed after the disaster the appraiser must comment on the adverse event and certify that there has been no change in the valuation. For Bridge loans, any disaster-related damages notated must be repaired and re-inspected prior to loan purchase.

3.9.13 Properties Subject to Oil, Gas, Water or Mineral Rights

Properties where the title report reflects exceptions for outstanding oil, gas, water or mineral rights are acceptable if commonly granted by private institutional mortgage investors in the area where the Mortgaged property is located, and:

• The exercise of such rights will not result in damage to the Mortgaged Property or impairment of the use or marketability of the Mortgaged Property for residential purposes and there is no right of surface or subsurface entry within 200 feet of the residential structure, or

• There are comprehensive endorsements to the title insurance policy that affirmatively insures the lender against damage or loss due to the exercise of such rights, such as but not limited to:

o Environmental Protection Lien Endorsement, and

o Restrictions, Encroachments, Minerals Endorsement without any deletions, and

o Minerals and Surface Damage Endorsement

Properties with existing wells (producing or non-producing) or active drilling to exercise any oil, gas or mineral rights may be considered on a case by case basis.

3.9.14 Underground Tank

In the event the subject property has any heating or oil tank underground confirmed, the following must be completed:

• Letter provided by environmental company documenting cleanup cost

• Remediation must be completed and documented prior to settlement

3.9.15 Leasehold Properties

Loans secured by leasehold properties are eligible on a case-by-case basis. 3.10 RESERVES

3.10.1 Minimum Requirement

The minimum reserve requirement is three months of the Qualifying Monthly Payment.

3.10.2 Consideration of Assets

The following weightings apply when considering assets towards the reserve requirement:

Weight	Asset Description
100%	Checking/ Savings/ Money Market Accounts
50%	Publicly traded stocks, bonds, and mutual funds
50%	Annuities
100% if Sponsor is 60+ in age; otherwise, 50% 50% net of any money borrowings against plan	(IRAs), SEP, or Keogh Accounts 401k plans
50% and must document rights to access funds	Trust Assets
100% of net cash to Borrower	Proceeds from Cash out Transaction

3.10.3 Minimum Reserve Documentation

• Most recent one full month of personal bank statements must be provided for the Sponsor and all Guarantors whose assets are utilized to qualify.

• Most recent one full month of corporate bank statements must be provided for the Business Entity. 3.11 TRANSACTIONS

3.11.1 Non-Arm's Length Transaction

A non-arm's length transaction occurs when the Sponsor has a direct relationship or business affiliation with subject property Builder, Developer, or Seller. Examples of non-arm's length transactions include employer/employee sales and renters purchasing from their landlords.

When the property seller is a corporation, partnership or any other business entity it must be ensured that the Sponsor is not an owner of the business entity selling the property.

Generally, all non-arm's length transactions are deemed ineligible; however, on a case-by-case basis the following will be considered:

• Family sales or transfers

• Sellers or buyers representing themselves; note that commissions earned by the buyer cannot be used for down payment, closing costs, or reserves.

3.11.2 Interested Party Transaction

When the transaction involves a personal relationship or business relationship (outside of the subject transaction) between the Sponsor and an interested party to the transaction (e.g. the Mortgage Broker, Loan Officer, Real Estate Broker or Agent) the relationship must be disclosed and is subject to approval by MCM Capital Solutions. Interested Party Transactions are eligible on a case-by-case basis.

3.11.3 Contract Premium and Assignment Fee

Contract premiums and assignment fees may be included when calculating the Acquisition Value of the subject property but may not be added to the as-is value found on the appraisal. The additional restrictions also apply:

• Contract / Auction Premiums: Fees should not exceed 5% of the contract sales price; excess fees are subject to review and may not be added to the Acquisition Value.

• Assignment Fees: Fees should not exceed 10% of the sales price; excess fees are subject to review and may not be added to the Acquisition Value. Confirmation that the transaction is arms-length must also be provided.

3.11.4 Purchase

A purchase transaction is one where the proceeds from the loan are used to finance the acquisition of the subject property. Purchase transactions may include delayed financing where the property is owned by the Borrower and the note date is within six months of the subject property's purchase date.

The following apply to the minimum purchase price:

• Single Family Residence: $60,000

• Townhouse: $60,000

• Condominium: $60,000

• 2-Unit: $100,000

• 3-Unit: $120,000

• 4-Unit: $140,000

3.11.5 Rate/Term Refinance

A rate/term transaction is one where the proceeds from the loan are used to pay off any first mortgage loan or subordinate loan where the subject property is used as collateral. Net proceeds (i.e. cash back) to Borrower are not to exceed the lesser of 10% of the loan amount or $15,000.

3.11.6 Cash-Out Refinance

A cash-out transaction is one where the Borrower receives cash as part of the net proceeds more than the maximum allowed for a rate/term refinance transaction (Section 3.11.5). Cash-out proceeds must be for business purposes. Cash-out transactions are subject to the following Cash-Out Seasoning restrictions when calculating As-Is Value:

• More than 12 months: No additional restrictions to calculating As-Is Value: the appraised value may be used

• Between 3 and 12 months: The As-Is Value may not exceed the Acquisition Value plus documented improvements

• Less than 3 months: Not eligible

The maximum net cash proceeds to the Borrower may not exceed the lesser of $500,000 and 30% of the As-Is Value of the subject property.

4 PROGRAM SPECIFIC ELIGIBILITY CRITERIA

4.1 RENOVATION PRODUCTS

4.1.1 Consideration of Soft Costs in Total Loan Amount

Value-Added Soft Costs may be included in the Total Loan Amount. Other Soft Costs may be included in the Total Loan Amount on an exception basis only.

4.1.2 Renovation Budget and Timeline

A Renovation Budget must be supplied from a general contractor, or if the Sponsor is not using a general contractor, an itemized estimate of costs must be supplied along with quotes from the subcontractors the Sponsor intends to use. The Budget should also include the expected Timeline with milestones for each stage of the renovation.

The Budget and Timeline should be evaluated for reasonableness based on the size of the subject property, cost per square foot, geographic location, and scope of renovation. The milestones set on the Timeline should include an estimate of the dollar amount required to fulfill and target date.

4.1.3 Feasibility Analysis

For Large Renovation Size projects, for projects where the Direct Construction Costs exceed $250,000, for projects where there is a change in property usage (e.g. condo conversion), and for projects where there is an addition of square footage a third-party feasibility analysis is required.

The feasibility analysis shall consist of a detailed review of the renovation plan including:

1. Budget Review

a. Regional costing acceptability

b. Line item cost verification

c. Missing items on budget

d. Sufficient contingency funds

2. Plans/Specifications

a. Renovation timeline

b. Permit requirements

c. Zoning requirements and limitations

d. Health and safety concerns

For all Renovation loans, underwriters should also analyze the feasibility of the project in accordance to the above-listed specifications and provide sign-off.

4.1.4 Holdback of Funds

All Renovation Costs must be held back and disbursed only as milestones found in the Renovation Budget and Timeline (Section 4.1.2) are achieved:

• For Value-Added Soft Costs: the applicable invoices must be provided prior to advancing funds.

• For Direct Construction Costs: funds are advanced after Renovation Inspections (described in Section 4.1.5) deem work to have been completed. No funds will be advanced until all permits required for renovation have been acquired.

Advances made on Renovation Costs at closing or otherwise contrary to the previously described requirements are by exception only.

4.1.5 Loan Structure & Interest Accrual Style Restrictions

No Experience Sponsors are only eligible for loans where interest accrues on the Total Loan Amount. Additionally, when the Total Loan Amount is below $250,000 or the Direct Construction Costs are below $30,000, the loan must accrue interest on the Total Loan Amount.

4.1.6 Renovation Disbursement Style, Inspection & Oversight

Disbursement of holdback funds are to be made on a Reimbursement basis (see Section 2.16 for definition). Advance disbursement styles may be granted on an exception basis and depend on:

• Borrower experience

• Credit history

• Borrower track record with lender

A third-party inspection is required before any funds allocated for the Direct Construction Costs are advanced. Sponsors can request a drawdown upon completion of a draw request form detailing the work, which will be disbursed based on the percentage of work determined to be completed. A draw request must be accompanied by acceptable documentation of lien waivers from the general contractor and/or major subcontractors. Additionally, signed invoices and/or receipts must be provided as proof of payment for items that were not purchased by the general contractor/subcontractors.

4.1.7 Maximum Number of Draws

Sponsors will be limited to the greater of three draws and one draw per $30,000 of Direct Construction Costs.

4.1.8 General Contractor Requirements

All No Experience Sponsors must utilize a licensed general contractor when the loan qualifies under a Renovation Program. The general contractor must provide proof of being licensed and registered per applicable state and municipality standards.

For Moderate and Large Renovation Size projects, for projects where there is a change of usage, and/or for projects when additional square footage is planned the Sponsor(s) may not act as its own general contractor unless licensed and registered per applicable state and municipality standards.

When a general contractor is required the following documents must be supplied prior to the first draw:

• General Liability Insurance: $500,000 minimum coverage per occurrence. Premises liability is acceptable; however, only personal liability is not acceptable.

• Workers Compensation Insurance: If general contractor employs one or more employees other than his/herself, $1,000,000 minimum coverage per accident (subject to state statutory limits).

• Builders Risk Insurance: Coverage in an amount equal to the full replacement cost for the home. The insurance must have a deductible less than $5,000 and include ordinance and law coverage. If the existing property insurance covers the property while under renovation, additional builder’s risk insurance is not required.

• Lien Waivers, including for major subcontractors.

• A General Contractor Profile: This review should be ordered by a third-party service provider and should include the following information on the general contractor:

o Years of experience

o Current license status

o Current insurance status

o Credit review with emphasis on whether the general contractor has any liens or judgments outstanding

o Prior subcontractor/vendor verification of timely payment

o OFAC Check / Patriot Act / Terror Watch List

4.1.9 Leased/Occupied Properties

If the property is leased and/or occupied at the time of the appraisal and/or closing, the following conditions are required for the loan to be eligible:

• Renovations of the property must be done in accordance to applicable state tenant laws

• Sponsor must be Experienced

• Estoppel agreement must be provided detailing removal of tenant and timeline

• Renovations may not affect the safety and habitability of the property if the property remains inhabited during renovations. Additionally, if inhabited during renovations, the maximum LTC and LTV must both be reduced by 5%.

4.1.10 Final Draw Requirements

Prior to the final draw, Certificate of Occupancy and proof that all permits are closed in the subject property's locality must be provided. Until these documents are provided, 10% of the renovations funds should be held back.

4.1.11 Conditions Precedent to Advancing Renovation Funds

The Borrower must be made aware that the following conditions must hold true prior to disbursement of held back renovation funds:

1. No Event of Default has occurred

2. Each representation and warranty in the Loan Documents continue to be true

3. Proof Borrower has satisfied all the below conditions:

a. Receipt by Lender of availability to the property of all public utility services and facilities when needed for construction and for use, occupancy and operations of Improvements

b. Receipt by Lender that Borrower has complied with all covenants, conditions, restrictions and reservations affecting the property and the property is zoned for intended use, and all zoning, subdivision, environmental approvals, permits, and maps have been obtained

c. Receipt and approval by Lender of all building and other permits in accordance with the plans approved by Planning Department, Building and Safety Department or such local government authority

d. Receipt by lender of performance, material and labor bonds, if applicable

e. Signed Owner's Sworn Statement and Request for Advance

f. Receipt and approval by Lender of site plan

g. Receipt and approval by Lender of vendor invoices and lien releases

h. Delivery of all subcontracts to Lender

i. Receipt by Lender of any documents it may reasonably request, but not limited to vendor invoices establishing work performed

j. The improvements, to extent constructed nor any part of the Property have been materially damaged, destroyed, condemned or threatened with condemnation

k. No Order of Notices have been made or received from any governmental agency that reflects work of construction is in violation of any law

l. Any subcontracts not previously approved by Lender must be submitted and approved

m. Written approval by inspection agent

n. Title date down is applied as applicable

o. All general contractor requirements are fulfilled as applicable (Section 4.1.8)

p. Prior to the final draw, Certificate of Occupancy and proof that all permits are closed in the subject property's locality must be provided 4.2 BRIDGE PRODUCTS

4.2.1 DSCR Adjustments

DSCR adjustments only apply to refinance transactions (both rate/term and cash-out), not purchase. The following adjustments apply:

• No lease in place: Reduce maximum LTV by 5%

• DSCR less than 1.0x: Reduce maximum LTV by 5%

4.2.2 Property Condition & Deferred Maintenance

The property must be in C4 or better condition as deemed by the appraisal. Uninhabited properties may have deferred maintenance with safety and habitability issues. Inhabited properties with safety or habitability issues must be cured prior to close.

The appraiser's cost-to-repair value will be used to determine the amount of deferred maintenance of the subject property. The maximum deferred maintenance allowed for a Bridge loan is $50,000. Additionally, all deferred maintenance is subject to the below LTV restrictions, measured as a percentage of the As-Is Value of the property. One-and-a-half times (1.5x) the amount of the deferred maintenance must be collected at close in an escrow account or held back by the Lender. Funds are to be released upon inspection by a third-party inspection company and approval by the Lender / Draw Manager after all deferred maintenance is cured.

5 LOAN FILE DOCUMENTATION

5.1 SIGNATURE REQUIREMENTS

The following signature requirements apply:

• Personal Guaranty(ees): Completed by Guarantor(s)

• Note, Security Instruments, and all Riders: Completed by the Guarantor(s) and/or authorized member(s) of the borrowing entity that can legally sign and bind entity.

5.2 NOTARY REQUIREMENTS

Where applicable, notary signature must be on the line provided for the notary. The notary must comply with all applicable state requirements and the notary license must be current. The notary seal must be prominently displayed, and the expiration date must be visible. The notary stamp must be legible. If state law does not require a seal, an attorney opinion will be accepted in lieu of a seal.

5.3 DOCUMENT ACCURACY, CORRECTIONS, AND MODIFICATIONS

All closing documents must be error-free and must be signed and/or notarized on or after the date thereof. Minor corrections may be permitted if completed as strikeovers that are clear, legible, and initialed by the Guarantor(s)/Authorized Signatory. White-outs, erasures, and blanket change authorization are not permitted.

5.4 UNDERWRITING PACKAGE: MINIMUM DOCUMENT CHECKLIST

5.4.1 Legal Documents

1. Original Note

2. Settlement Statement

3. Security Instruments

4. Assignment of Leases and Rents (if applicable)

5. Title Insurance & Closing Protection Letter

6. Personal Guaranty Form

7. Spousal Consent to Pledge (if applicable)

8. Equity Pledge of the borrowing entity

9. Business Purpose and Non-Owner Occupancy Certification

10. Hazard Insurance

11. Environmental Indemnity Agreement

12. Errors and Omissions Coverage Form

13. Construction Reserve/Escrow Addendum (if applicable)

14. Draw Requirements Addendum (if applicable)

15. General Contractor General Liability Insurance (if applicable)

16. General Contractor License (if applicable)

17. Workers Compensation Insurance (if applicable)

18. Flood Insurance (if applicable)

19. Property-type Specific Riders (if applicable):

a. PUD Rider

b. Condo Rider

20. Power of Attorney Forms (if applicable)

5.4.2 Guarantor Documentation

1. Background Check

2. Fraud Report

3. Driver’s Licenses

4. OFAC Report

5. Tri-Merged Credit Report

6. Asset Documentation

7. Track Record Documentation

8. Business Entity-Type Specific Documents

a. LLC: Operating Agreement and Articles of Organization

b. Partnerships: Partnership Agreement and Articles of Organization

c. Corporation: Corporate By-Laws and Articles of Incorporation

9. Business Certificate of Good Standing

10. Tax Identification Number

11. Certificate of Authorization for the Individual executing documents on behalf of the Entity

5.4.3 Property Documentation

1. Appraisal

2. Renovation Budget (if applicable)

3. Sales Contract (if applicable)

4. Latest Inspection Report (if applicable)

5. Lease Agreement (if applicable)

5.5 LEGAL DOCUMENTS (DETAILS AS APPLICABLE)

5.5.1 Original Note

5.5.2 Settlement Statement

5.5.3 Security Instruments

First lien position is required on all properties used as collateral for the mortgage loan. Second liens may only be used for construction funds as simultaneous seconds and should be included in the same loan package as the first lien. The Security Instrument(s) must include language that is optimized for state specific criteria. If allowed by state law, the Security Instrument should include language that provides the Lender’s right to enter and take possession of the property in case of default.

5.5.4 Assignments of Leases and Rents

Unless applicable language is contained in the Security Instruments, an Assignments of Leases and Rents must be signed by the Borrower of the mortgage loan.

5.5.5 Title Insurance & Closing Protection Letter

The Title Policy must be written on one of the following forms:

• 2006 American Land Title Association (ALTA) standard form

• ALTA short form

• ALTA from with amendments required by state law in states where the standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not been adopted

The following are requirements of the Title Policy:

• Coverage: Amount must be at least that of the Total Loan Amount

• Applicable Endorsements: The Originator must ensure that all applicable title endorsements are included in the title policy

• Exceptions: The title to the policy must be good, marketable, and free and clear of all encumbrances and prior liens. MCM Capital Solutions will not fund a mortgage secured by a property with an unacceptable title impediment, including unpaid real estate taxes and survey exceptions.

• Chain of Title: A 12-month chain of title is required.

The title insurance policy must insure the Lender, its successors and assigns, as to the priority lien on the mortgage in the original principal amount of the mortgage loan and against any loss because of the invalidity or unenforceability of the lien resulting from the provisions of the mortgage providing for adjustment in the interest rate and monthly payment. The title policy must affirmatively insure ingress and egress and against encroachments by or upon the mortgage property or any interests therein. Additionally, no claims have been made under such title policy and no prior holder of the mortgage has done, by act or omission, anything that would impair the coverage of such title policy.

5.5.6 Personal Guaranty

See Section 3.6.3 for requirements.

5.5.7 Spousal Consent to Pledge

Personal Guarantees from community property states (AK, AZ, CA, ID, LA, NM, TX, WA, WI) must be accompanied with a Spousal Consent to Pledge.

5.5.8 Equity Pledge

An Equity Pledge Agreement providing equity interest in the Borrowing Entity as additional security for the loan is required for all loans. See Section 7.4 for an example.

5.5.9 Business Purpose and Non-Owner Occupancy Certification

A certification of non-owner occupancy and use of the subject property for business purposes only must be signed by the Guarantor(s). See Section 7.2 for an example.

5.5.10 Hazard Insurance

5.5.10.1 One-to-Four Family Residences

All buildings and improvements upon the subject property must be insured against loss by fire, hazards of extended coverage (e.g. hail damage, windstorm), and other hazards as are customarily insured against in the area where located. The hazard insurance must have coverage in an amount at least equal to the lesser of:

1 100% of the insurable value of the improvements as established by the property insurer or

2 Guaranteed Replacement Cost Endorsement, which provides that the insurer agrees to replace the insurable property regardless of the cost or

3 The unpaid principal balance of the mortgage if it equals the minimum amount (80%) of the insurable value (total appraised value less the estimated site value) required to compensate for damage or loss calculated on a replacement cost basis.

The policy must provide coverage for a period of at least 12 months from the note date and be effective at the date of the loan closing.

All insurance policies must contain a standard mortgagee clause naming Lender and its successors and assigns as mortgagee, and all premiums thereon have been paid. Additionally, the property address and insured's names must be designated on the policy exactly as on the title policy.

The deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as "building" in the insurance policy) may not exceed 5% of the limit maintained for building coverage.

5.5.10.2 PUD

Individual insurance policies are required on Planned Unit Development (PUD) units unless the PUD unit is covered under the project's blanket policy and the PUD project's constituent documents allow the individual PUD units to be included in the projects blanket policy. In addition, the homeowner association must maintain a policy which covers the common areas, fixtures, equipment, personal property and supplies of the project.

If the individual units are covered by insurance purchased by their respective owners or leasehold lessees, the PUD homeowner association or the fee simple landowner/lessor of the ground lease community must maintain "all risk" coverage for common areas and property for 100% of their insurable value and provide for loss or damage settlement on a replacement cost basis.

Blanket insurance covering all units in the PUD or ground lease community as well as insurable common areas and property, if called for in the PUD's governing documents or in the lease, is also acceptable. Such coverage must meet the requirements applicable to each PUD or ground lease community unit and those applicable to insurable common areas and property.

The PUD's or ground lease community fee simple owners' insurance policy must name the insured in substantially the same language as follows: Association of the Owners of the Planned Unit Development for the use and benefit of the individual owners (designated by name, if required by law or the governing documents).

5.5.10.3 Condominium

On a condominium unit, an individual hazard insurance policy is not required. The policy must be in force for the entire term of the loan. The following are documentation requirements:

• Master Property Insurance Policy

• Master Liability Insurance Policy

Condominiums must be covered by an insurance policy which protects against fire, and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily insured against by similar types of projects, including those covered by the standard “all risk” endorsement.

Policies covering the common elements for a condominium project must cover all the common elements except for those that are normally excluded from coverage, such as land, foundation, excavations, etc. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be covered.

Acceptable policies also include those that satisfy the insurance specifications for the units, if the project’s legal documents allow for blanket insurance policies to cover both the individual units and common elements.

The “master” or “blanket” policy covering the common elements of a condominium project must cover all the general and limited common elements that are normally included in coverage such as fixtures, building service equipment and common personal property and supplies belonging to the homeowner association.

The policy must also insure fixtures, equipment, and other personal property inside individual units if they will be financed, whether the property is part of the common elements.

The condominium owners’ association must maintain blanket “all risk” coverage for the following:

• General and limited common elements within the condominium project

• Fixtures, machinery, equipment and supplies maintained for the service for the condominium project

• Fixtures, improvements, alterations and equipment within the individual condominium units

Coverage must be for 100% of the insurable value of the common elements or property described above and provide for loss or damage settlement on a replacement cost basis. The additional coverage required for PUD homeowner associations is also required for condominium owner associations where applicable and available.

The deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as "building" in the insurance policy) may not exceed 5% of the limit maintained for building coverage.

The insurance policy of the condominium owner's association must name the insured in substantially the same language as follows: Association of Owners of the Condominium for the use and benefit of the individual owners (designated by name, if required by law or the governing documents).

If the mortgaged premises are in a Detached Condominium Project and the condominium governing documents so permit, insurance for the mortgaged premises that meets the requirements of 1-4-unit properties is acceptable. The condominium unit owners' association must maintain all other applicable insurance coverages required.

5.5.11 Environmental Indemnity Agreement

The Environmental Indemnity Agreement must indemnify the Lender against any claims or losses arising from environmental contamination of the mortgaged property. The Agreement

5.5.12 Errors and Omissions Form

5.5.13 Construction Reserve/Escrow Addendum

If renovation funds are to be held in a construction escrow account, an escrow agreement must be signed by the Borrower. This document may also contain requirements for draw disbursement as specified in Section 4.1.11; if these requirements are not included in this addendum, a separate Draw Requirements Addendum (Section 6.5.14) must be included.

5.5.14 Draw Requirements Addendum

A document outlining requirements for draw disbursement as specified in Section 4.1.11 must be included.

5.5.15 General Contractor Liability Insurance

5.5.16 General Contractor License

5.5.17 Flood Insurance

A Flood Zone Determination Certification is required for each loan file. If the property is in a Special Flood Hazard Area as per the FEMA Flood Insurance Rate Map flood insurance is required. If required, the flood insurance must have been purchased, the policy dates must be active through the note's maturity date (at minimum), and the premiums must be paid.

When required, the minimum coverage of the flood insurance is the lesser of:

- The unpaid principal balance of the mortgage
- The maximum amount of coverage available under the National Flood Insurance Program
- The replacement cost of the improvements

For condominium and PUD projects the amount of flood insurance coverage in the Master Policy is sufficient if it is the lesser of:

• 80% of the replacement cost

• The maximum coverage available under the National Flood Insurance Program per unit

• The unpaid principal balance of the mortgage

If the coverage amount does not meet either of the above criteria, the Borrower must obtain an individual dwelling policy to cover the deficiency.

For both PUD and condominium projects, the master policy should cover any common elements in the buildings and other common property.

5.5.18 Property-Type Specific Riders

If the property is considered one of the following, the applicable rider is required:

• Condominium

• Planned Unit Development

5.5.19 Power of Attorney Forms

Closing documents may be executed via a specific power of attorney (POA) that complies with all Applicable Requirements, provided the following conditions are met:

• POA must be dated no more than 120 days prior to, and be in full force and effect on the date loan documents are executed

• Mortgagor's name in the POA appears exactly as it was stated to appear on all closing documents

• Recorder's stamp appears, if previously recorded

• The attorney-in-fact must have executed all closing documents at settlement

• Title must insure Lender is in first lien position without exception to the POA

• POA document must be recorded immediately prior to the closing documents

• All signatures effectuated through the POA should sign the borrower name and include the POA signature underneath with the following verbiage "as attorney in fact."

• Corporation resolution is acceptable for execution

5.6 COLLATERAL PACKAGE: CHECKLIST

5.6.1 Required for Closing

1. Bailee Letter

2. Original Note

3. Certified Copy of the Original Security Instrument
4. Certified Copies of the Riders, Schedules, and Allonges
5. Original Allonge: This should be from: Seller to Blank
6. Assignment (in recordable form)
7. Each original Intervening Assignments
8. Copy of Title Commitment/Binder
9. Executed Power of Attorney (if applicable)

5.6.2 Trailing Documents

1. Copy of Recorded Security Instrument and Riders
2. Final Title Policy