

# Operational Procedures - Bridge 2020 05 11

From [LendingHome](#) Page > Operational Procedures > Operational Procedures - Bridge 2020 05 04 > Operational Procedures - Bridge 2020 05 11

## Contents

- 1 General Eligibility
  - 1.1 Loan Purpose
  - 1.2 Non-Arm's Length Transactions
  - 1.3 Loan Structure
  - 1.4 Loan Type
  - 1.5 Real Estate Transactional Experience
  - 1.6 Guaranty
  - 1.7 Power of Attorney
  - 1.8 Minimum/Maximum Core Loan Amounts
  - 1.9 Leverage and Loan Sizing
  - 1.10 Bridge Program Leverage Summary
  - 1.11 Jumbo Loans
  - 1.12 HomeVestors of America & 7 Figure Flipping (7FF) / 8 Figure Flipping (8FF)
  - 1.13 Maximum Borrower Exposure
  - 1.14 Large Layered Risk Loans
  - 1.15 Pack Loans
- 2 Borrower Eligibility
  - 2.1 Identification of Individual Borrowers & Guarantors
  - 2.2 Eligible Borrowers
  - 2.3 Ineligible Borrowers
  - 2.4 Entity Identity Review Process
  - 2.5 Credit Report
  - 2.6 Background Check
  - 2.7 BSA & OFAC Check
  - 2.8 Asset Review
    - 2.8.1 Funds to Close
  - 2.9 Document Validity
- 3 Property Eligibility
  - 3.1 Ownership Interest
  - 3.2 Geography
  - 3.3 Eligible Property Types
  - 3.4 Ineligible Properties
    - 3.4.1 Sinkholes
  - 3.5 Property Restrictions
    - 3.5.1 Property Size
    - 3.5.2 Condominiums
    - 3.5.3 Multiple Parcels
  - 3.6 Valuation
- 4 Project Eligibility
  - 4.1 Rehab Restrictions
  - 4.2 Feasibility Analysis
  - 4.3 New Construction Determination
  - 4.4 Project Return (ROI)
  - 4.5 Holdback Cancellation
- 5 Insurance Requirements
  - 5.1 General
  - 5.2 Title Insurance
  - 5.3 Hazard & Flood Insurance
- 6 Internal Protocols
  - 6.1 Disasters
    - 6.1.1 Internal Processes
    - 6.1.2 Communication
  - 6.2 Teardown Resolution (Post-Close)
  - 6.3 Fraud
  - 6.4 LendingHome Bridge Risk model (LHBR)
  - 6.5 Top of Funnel Underwrite (TOFU)
    - 6.5.1 Rules unique to TOFU as of 4/15/19
  - 6.6 Layered Risk Review

## General Eligibility

### Loan Purpose

LendingHome extends loans strictly for commercial business / investment purposes. Primary or secondary occupancy of subject property is prohibited. Borrowers will be required to sign a "Business Purpose & Occupancy Statement" prior to closing, which certifies that the property will be for commercial business / investment purpose only, and that the Borrower will not occupy or claim the property as a primary or secondary residence.

## Non-Arm's Length Transactions

LendingHome performs due diligence to substantiate that the subject transaction is arm's length. Non-Arm's Length (NAL) transactions are prohibited. The presence of an individual or entity member with a shared surname and/or common ownership between buying and selling parties is considered NAL.

## Loan Structure

- Lien Position: First Lien
- External subordinate financing: Acceptable if recorded at least 1 day after recordation of LendingHome's security instrument.
- Interest Type: Fixed Rate
- Term: 6-24 months (not including a partial funding month), with 3-month extension options
- Prepayment Penalty: None
- Payment Type: Interest Only ("IO") monthly payments, with principal due as a balloon payment at maturity.

## Loan Type

**Purchase:** subject property acquired with LendingHome financing

**Delayed Purchase Refinance:** subject property was acquired less than or equal to 180 days prior to application submit date.

**Seasoned Refinance:** subject property was acquired greater than 180 days prior to application submit date.

**Platform Refinance:** refinance of a loan previously originated by LendingHome under this program.

- No cash out over \$2,000, except for closing costs.

## Real Estate Transactional Experience

LendingHome will conduct diligence on the borrower's historical real estate transactional experience and tier borrowers based on qualifying exits per table below. No experience verification is performed for Standard borrowers.

	Pro	Standard
# Qualifying exits in last 24 months	5 or more	0-4

A qualifying exit is a property sold within the 24 months preceding application submit date, that was acquired no more than 36 months prior to exit.

- Pending sales & refinances do not count as qualified exits
- Exits must be found on RealtyTrac (primary source) or FirstAmerican (DataTree backup)
- Days between purchase and sale must be >30 to count as an exit
- Exits must be >=\$50,000
- Up to 1 recent exit can be sourced from HUD-1 (within 60 days of submit)
- No greater than 2 entities (including the borrowing entity or individual) may be used to qualify

For entities that have been in existence for more than 180 days, the experience of members added within 180 days from application submission is disqualified.

To utilize qualifying exits from a non-borrowing entity or individual, the following requirements apply:

- Entity - If a property exit occurred under an affiliate entity, the guarantor or a minimum 25% member of the borrowing entity must own at least 25% of the affiliate entity.
- Individual - If a property exit occurred under an individual, then the individual must be the guarantor or a minimum 25% stakeholder in the borrowing entity.

## Guaranty

LendingHome encourages a personal guarantor for all entity borrowers and requires one for all Standard borrowers.

- The guarantor must be an individual
- The guarantor must have an ownership interest in the entity of at least 25%
  - Non-profit entities are exempt from ownership requirement
- Individual borrowers may not have a separate individual guarantee the loan.

## Power of Attorney

Power of attorney must be specific to the subject property address and signed in advance of the loan closing date. A person signing under POA on behalf of our borrower may not have an interest in the transaction (i.e. member of selling entity, buying or selling agent, closing agent, broker, etc.). Use of POA by entity borrowers in New York is prohibited.

## Minimum/Maximum Core Loan Amounts

### California

	Minimum	Maximum	County Overlay
Pro	\$50,000	\$1,000,000	\$1,500,000 (Los Angeles, Orange, San Diego, San Mateo, or Santa Clara counties)
Standard	\$75,000	\$1,000,000	N/A

### Outside of CA

	Minimum	Maximum
Pro	\$50,000	\$700,000
Standard	\$75,000	\$600,000

## Leverage and Loan Sizing

**Initial Loan Amount:** Proceeds disbursed at loan origination.

**Holdback (“HB”):** The construction rehab cost escrowed at loan closing, disbursed through one or more draws upon completion and reconciliation of renovation elements against project scope of work.

**Total Loan Amount:** Initial Loan Amount plus Holdback amount (if applicable).

**Loan-to-Cost (LTC)** is the initial loan amount divided by the Cost Basis

- Cost Basis is calculated as the (i) purchase price, plus (ii) documented cost of improvements, plus (iii) assignment fees, less (iv) ineligible seller concessions.
  - Purchase price includes:
    - Auction fees – technology fee & buyer’s premium
    - Foreclosure fees - Court trustee, clerk, doc fees
    - Short sale fees from existing lienholder(s)
    - Payoff of existing lien(s)
  - Cost of improvements - applicable to delayed purchase refinances where post-acquisition rehab costs are documented
  - Assignment fees - monetary compensation in exchange for transfer of rights in a purchase and sale agreement (PSA). A wholesaler (assignor) connects the property seller with an end buyer (assignee).
  - Ineligible Seller Concessions – any amount exceeding 2% of the purchase price will be subtracted from cost basis. The following seller credits are not treated as concessions and are exempt from the 2% maximum:
    - Fees identified in purchase and sale agreement, including but not limited to buyer’s title policy, government fees, inspections, transfer taxes, sewer fees, home warranties
    - Realtor commissions from buyers representing themselves in the sales transaction

**As Is Loan-to-Value (AIV LTV)** is the initial loan amount divided by the As Is Value (AIV) of the subject property.

- Eligibility for AIV loans is limited to properties with condition ratings of C1-C4.
- C5-C6 properties are uninhabitable and require a rehab project for LH financing.

**After Repair Loan-to-Value (ARV LTV)** is the total loan amount divided by the After-Repair-Value (ARV) of the subject property.

**Loan Sizing:** The maximum loan LendingHome will extend to a borrower under this program is delineated in the Bridge Program Leverage Summary, subject to the following:

- With Rehab and with Holdback (w/ HB in table below):
  - Maximum Total Loan Amount = maximum ARV LTV%, in table below
  - Holdback = rehab cost
  - Initial Loan Amount = minimum of (LTC% \* Cost Basis), OR (max Total Loan Amount – Holdback).
- With Rehab but without Holdback (w/o HB in table below):
  - Maximum Total Loan Amount = maximum ARV LTV%, in table below
  - Holdback = N/A
  - Initial Loan Amount = minimum of (LTC% \* Cost Basis), or (max Total Loan Amount).
- No Rehab
  - Maximum Total Loan Amount and Initial Loan Amount are the same = minimum of (LTC% \* Cost Basis) or (AIV LTV \* As-Is Value) from the table below

## Bridge Program Leverage Summary

CRITERIA	Pro	Standard
Max LTC	80%	80%
Max ARV LTV (w/ HB)	75%	70%
Max ARV LTV (w/o HB)	70%	n/a
Max AIV LTV (no rehab project)	70%	70%
Seasoned Refi (initial loan amount capped via AIV)	70%	65%
Seasoned Refi ARV LTV (w/SOW)	70%	65%
Platform Refi (no rehab) AIV LTV	70%	70%
Platform Refi (w/SOW) ARV LTV	70%	65%

- All refinances with cash-out are capped at **65%** AIV LTV.
- Cash-out is defined as any non-rehab proceeds >\$2000 to the borrower.

## Jumbo Loans

All loans must be reviewed by Credit Committee and will be subject to custom terms/requirements.

Jumbo loans are generally limited to ZIP codes (<https://drive.google.com/open?id=16bKZXIUK0jQ72fphnuvIcvA8PXzVPwKc>) where 1.5x median home price is greater than \$1 million.

- Loan size:
  - If located in one of the following 5 California counties: Los Angeles, Orange, San Diego, San Mateo, Santa Clara, eligible Jumbo loan amounts are \$1,500,001 - \$2,000,000
  - For all other locations, maximum Jumbo loan amount is the lesser of 1.5x median home price by ZIP code or \$2,000,000
- Eligible borrowers: Pro entity borrowers only
- Personal Guaranty: Required
- Minimum borrower/guarantor FICO: 720
- Valuation: Pre-close Full Appraisal
- Reserves: Down payment + 20% of Scope of Work + 12 months interest carry cost

## HomeVestors of America & 7 Figure Flipping (7FF) / 8 Figure Flipping (8FF)

Borrowers affiliated with these LendingHome approved property acquisition franchises/collectives/clubs are eligible up to **90% LTC / 70% ARV**.

### Requirements:

- Personal guaranty
- Minimum 660 FICO
- Rehab project classified as standard. Rehab projects classified as extensive may be subject to a reduction in LTC.

## Maximum Borrower Exposure

Borrower/guarantor exposure limits:

### Pro

- \$3 million unpaid balance in California
- \$2 million unpaid balance in all other states
- Up to 2 outstanding Jumbo loans

**Standard** – maximum 3 loans outstanding

- Ineligible for Jumbo loans

**Brokered** borrowers - \$2 million unpaid balance

**7FF/8FF** borrowers - \$2 million unpaid balance

## Large Layered Risk Loans

Defined as the presence of one or more of the following risk factors:

- Loan size >=\$750,000
- No relevant experience:
  - in the same Metropolitan statistical area (MSA)
  - exiting a flip within the prior 2 years where the sales price was within 25% of subject project's ARV.
- Extensive rehab, where property size is increasing by >=30%
- Teardown indicators – multiple exterior walls demolished, sizeable abatement or code enforcement liens. Teardowns are prohibited.

- Mid-construction:
  - Refinancing existing rehab loan with new LH loan
  - Borrower taking over incomplete/failed project from prior owner

Risk/CapM may recommend changes to the loan dependent on the number and severity of risk factors:

- Lower LTC and/or ARV
- Increased interest rate or origination points
- Documentation of capital reserves
- Documentation of successfully executed projects with similar attributes
- Decline of the loan outright

## Pack Loans

Packs are defined as five or more properties purchased in bulk with one or more purchase contracts. Properties may be held or sold as rentals. Portfolios of rental properties have a fundamentally different risk profile than “fix n’ flip” properties:

- Less liquidity as they do not appeal to owner-occupant buyers using conventional financing
- LH’s source of repayment will rely on:
  - Long-term refinancing provided by specialized lender who has a rental program
  - Sale to another investor willing to pay a higher price for the property
- Limited value-add from rehab as budgets are typically minimal and intended to bring property to minimum condition for lease

Eligibility Requirements:

- Pro only to ensure borrower has relevant experience to manage a portfolio of multiple assets
- $\geq 660$  FICO to ensure that sponsor will be able to obtain a long-term rental loan as necessary
- \$75k minimum loan amount per property
- Minimum of 5 exits w/ identified source of repayment, either a long-term rental lender or a portfolio buyer, in the past 24 months or a commitment from a long-term lender to refinance LH financing.
- Pre-close 3rd party valuations to ensure that LH will have access to all tenant-occupied properties.
- Minimum 1.10x debt service coverage ratio to ensure loans will qualify for long-term rental loan programs. See Rental Credit Policy for calculation.

Credit Committee must review all pack submissions. Account manager to provide business plan, timing, and source of repayment. Capital Markets will consult on optimal sales strategy dependent on aggregate loan size.

## Borrower Eligibility

### Identification of Individual Borrowers & Guarantors

All individual borrowers and guarantors must be U.S. citizens or permanent residents. All entities must be U.S. entities.

Co-buyer name on purchase and sale agreement (PSA) is allowed as long as title insurer confirms that only the borrowing entity/individual will be vested on title.

### Eligible Borrowers

- Individual
- Sole Proprietorship
- Limited Liability Company (LLC)
- General & Limited Partnerships
- Corporation
- Statutory Law & Common Law Trusts (including land trusts)

### Ineligible Borrowers

LendingHome has the following restrictions on specific borrower types:

- All individual borrowers/guarantors must be of legal age to enter into a contract.
- Repeat borrowers who are either the borrower or guarantor on a currently delinquent LendingHome loan, are not eligible for new financing until any delinquencies are brought current.
- LendingHome will not extend credit to tribal organizations.
- LendingHome will not extend credit to non-profit entities unless they were organized for the purpose of investing in real estate.
- LendingHome will not extend credit to irrevocable trusts.
- LendingHome will not extend credit to retirement accounts, including IRAs and 401(k)s.

## Entity Identity Review Process

Entity borrowers must submit documentation based on entity type and applicable state law:

Entity Type	Documentation	Items to Review
<b>Sole Proprietorship</b>	N/A	<ul style="list-style-type: none"> <li>▪ Individual Borrowers are ineligible in entity only states - DC, FL, MN, NJ, OH, TX, VA</li> </ul>
<b>Limited Liability Company (LLC)</b>	Operating Agreement	<ul style="list-style-type: none"> <li>▪ Who manages the LLC</li> <li>▪ Members and %</li> <li>▪ Ability to borrow \$</li> <li>▪ Ability to own real estate</li> <li>▪ Who can execute loan docs</li> <li>▪ Date of execution</li> <li>▪ Agreement is fully executed</li> </ul>
	Articles/Certificate of Organization	<ul style="list-style-type: none"> <li>▪ Name of LLC</li> <li>▪ State of LLC's formation</li> </ul>
	Confirmation of Good Standing	<ul style="list-style-type: none"> <li>▪ State secretary website</li> </ul>
<b>Corporation</b>	Corporate By-laws	<ul style="list-style-type: none"> <li>▪ Shareholders and %</li> <li>▪ Names of officers/directors</li> <li>▪ Ability to borrow \$</li> <li>▪ Ability to own real estate</li> <li>▪ Who can execute loan docs</li> <li>▪ Date of bylaws</li> </ul>
	Articles/Certificate of Incorporation	Name of corporation State of formation
	Confirmation of Good Standing	<ul style="list-style-type: none"> <li>▪ State secretary website</li> </ul>
<b>General Partnership</b>	Partnership Agreement	<ul style="list-style-type: none"> <li>▪ Name of Partners</li> <li>▪ Ownership % of Partners</li> <li>▪ Name of Partnership</li> <li>▪ Ability to borrow \$</li> <li>▪ Ability to own real estate</li> <li>▪ Who can execute loan docs</li> <li>▪ Date of execution</li> <li>▪ Agreement is fully executed</li> </ul>
	Fictitious or Assumed Business Name or Trade Name Statement (as filed with the applicable State authority)	<ul style="list-style-type: none"> <li>▪ Name of Partnership</li> </ul>
<b>Limited Partnership</b>	Partnership Agreement	<ul style="list-style-type: none"> <li>▪ Name of General Partner</li> <li>▪ Name of Limited Partner(s)</li> <li>▪ Ownership % of Partners</li> <li>▪ Name of Partnership</li> <li>▪ Ability to borrow \$</li> <li>▪ Ability to own real estate</li> <li>▪ Who can execute loan docs</li> <li>▪ Date of execution</li> <li>▪ Agreement is fully executed</li> </ul>
	Articles/Certificate of Formation	<ul style="list-style-type: none"> <li>▪ Name of limited partnership</li> <li>▪ State of formation</li> </ul>
	Confirmation of Good Standing	<ul style="list-style-type: none"> <li>▪ State secretary website</li> </ul>
<b>Statutory Law Trust</b>	Trust Agreement	<ul style="list-style-type: none"> <li>▪ Name of Settlor/Beneficiaries (and % if applicable)</li> <li>▪ Name of Trustee</li> <li>▪ Ability to borrow \$</li> <li>▪ Trust property can include real estate</li> <li>▪ Trustee authorization to execute loan docs</li> <li>▪ Date of Execution</li> <li>▪ Agreement is fully executed</li> </ul>
	Trust Certificate of Formation	<ul style="list-style-type: none"> <li>▪ Name of Settlor/Beneficiaries (and % if applicable)</li> </ul>

		<ul style="list-style-type: none"> <li>▪ Name of Trustee</li> <li>▪ Ability to borrow \$</li> <li>▪ Trust property can include real estate</li> <li>▪ Trustee authorization to execute loan docs</li> <li>▪ Date of Execution</li> <li>▪ Agreement is fully executed</li> </ul>
	Confirmation of Good Standing	<ul style="list-style-type: none"> <li>▪ State secretary website</li> </ul>
<b>Common Law Trust</b> (including Land Trust)	Trust Agreement	<ul style="list-style-type: none"> <li>▪ Name of Settlor/ Beneficiaries (and % if applicable)</li> <li>▪ Name of Trustee</li> <li>▪ Ability to borrow \$</li> <li>▪ Trust property can include real estate</li> <li>▪ Trustee authorization to execute loan docs</li> <li>▪ Date of execution</li> <li>▪ Agreement is fully executed</li> </ul>

LendingHome will:

- review formation and operating documents where mandated by state law.
- review documentation to ensure the borrowing entity is duly formed with full authority to conduct real estate transactional and borrowing activity
- ensure the individual signing on behalf of the borrowing entity has the authority to bind the entity.
- accept a duly executed borrowing authorization form where the entity documents do not clearly establish requisite authority
- review state websites to ensure borrowing counterparties are current on all state taxes and fees and obtain a certificate of good standing

## Credit Report

Under this program, LendingHome requires a 3rd party credit report on individual borrowers, guarantors of individual borrowers (if applicable), guarantors of entity borrowers. For entity borrowers when no guarantor is provided, credit reports must be run on any managers, members, owners, partners, or stakeholders covering 51% ownership of the entity. If no single individual or entity owns at least 51%, credit reports will be run on as many owners needed to meet a 51% majority interest, starting with the highest percentage owners. Signors are excluded from credit report policy.

- Minimum FICO score:
  - Brokered borrowers - 680
  - Pro & Standard - 660
- Bankruptcies must be resolved and seasoned 24 months from resolution date to loan application date.
- No outstanding mortgage delinquency of 90 days or more.
- Open individual collection(s) greater than or equal to \$10,000 are ineligible.
- Equifax (BPR) to be used for all loans. Credco trimerge may only be used when Equifax (BPR) report does not return a FICO score. Trimerge may not be used to attempt to qualify if Equifax score is ineligible.
  - In the event a trimerge credit report is utilized, the following requirements apply:
    - There must be at least two scores available from the three credit bureaus.
    - If 2 credit bureau scores are reported, the representative score is the lower score.
    - If 3 credit bureau scores are reported, the representative score is the median score.
- For guarantors of entity borrowers or members of entity borrowers with no guarantor:
  - A single score will be pulled on each guarantor/member (as required above) to verify that FICO meets minimum requirements. For an entity borrower with no guarantor, the lowest FICO score of all members will be the qualifying FICO.
  - If an entity has been in existence for 180 days preceding the application submit date, FICO scores for members added within the 180 days preceding application submit date are not considered.

## Background Check

LendingHome conducts background check(s) on the following:

Individual borrowers	The individual borrower
Entity borrowers	<p><b>Loans with a guarantor:</b></p> <ul style="list-style-type: none"> <li>▪ The guarantor</li> </ul> <p><b>Loans without a guarantor:</b></p> <ul style="list-style-type: none"> <li>▪ The business entity itself</li> <li>▪ Any stakeholders owning 50% or more of the entity. If no single individual or entity owns a majority interest, background reports will be run on as many owners needed to meet a 51% majority interest.</li> </ul>

LendingHome will verify the following information:

- Criminal History – individuals must be free of any felony convictions within the last 7 years.
- Felonies for financial fraud or theft of any type, regardless of time elapsed from conviction, are ineligible.

## BSA & OFAC Check

LendingHome verifies the identity of all borrowers and guarantors in compliance with Section 326 of USA Patriot Act and Part 103.121 of the Bank Secrecy Act, and Customer Identification Program (CIP) regulations. LendingHome requires that all closing agents are bonded and relies on these agents to validate the identity of borrowers by personally validating their driver's License(s) or government issued ID. The names of individual borrowers, guarantors, and individuals authorized to bind entity borrowers is checked against the current Office of Foreign Asset Control (OFAC) Excluded Parties List System (EPLS) using a third-party validation tool. For loans to entity borrowers, an OFAC check is completed (as applicable) for managers, members, officers, partners and sub-entities. OFAC searches are not required on sub-entities within sub-entities.

## Asset Review

Assets are not required to qualify for Pro membership.

### Funds to Close

- All funds to close into escrow (wire or check) must originate from Borrower or Guarantor.
- Funds from individuals or entities that are not party to the loan transaction are prohibited.
- Closing instructions require settlement agent to disclose any 3rd party deposits to LH and return any outside funds on HUD-1. Closing agent must provide:
  - Copy of the returned funds/wire receipt, or
  - Email verifying that funds were returned

## Document Validity

Document validity is measured in days from the date of borrower approval by LendingHome.

Entity documentation	360
Experience Verification	360
Asset Statements	360
Certificate of Good Standing	180
Background Report	180
BPR/Credit Report	180

## Property Eligibility

### Ownership Interest

LendingHome will only extend loans on fee simple properties. No leaseholds allowed except those redeemed as fee simple at closing.

### Geography

Currently LendingHome is extending credit to properties located in the following states:

1. AZ – Arizona
2. CA – California
3. CO – Colorado
4. CT – Connecticut
5. DC - District of Columbia (entity borrowers only; no individual borrowers)
6. FL – Florida (entity borrowers only; no individual borrowers)
7. GA – Georgia
8. IL – Illinois (Pro only)
9. KY - Kentucky
10. MA - Massachusetts
11. MD – Maryland
12. MI – Michigan
13. MN - Minnesota (entity borrowers only; no individual borrowers)
14. MO – Missouri
15. NC – North Carolina
16. NJ – New Jersey (entity borrowers only; no individual borrowers)
17. NV – Nevada
18. NY – New York

- 19. OH – Ohio (entity borrowers only; no individual borrowers)
- 20. OK - Oklahoma
- 21. OR – Oregon
- 22. PA – Pennsylvania
- 23. SC – South Carolina
- 24. TN – Tennessee
- 25. TX – Texas (entity borrowers only; no individual borrowers)
- 26. UT - Utah (Sales team not currently licensed to originate in this state)
- 27. VA – Virginia (entity borrowers only; no individual borrowers)
- 28. WA – Washington
- 29. WV – West Virginia

## Eligible Property Types

- Subject property must be classified as one of the following property types:
- Single Family Residence (SFR)
- Planned Unit Development (PUD) – Attached and Detached
- Condominium (excluding Condotels)
- 2-4 Units

## Ineligible Properties

LendingHome will not extend credit against the following property types:

- Commercially zoned real estate
- Multifamily (5+) real estate
- Mixed Use Properties
- Manufactured housing, earth or dome homes, timeshares, log homes or houseboats
- Properties designated as “rural” as determined by LendingHome are eligible for financing for Tier 1 borrowers only, subject to a cap of 65% ARV LTV, and the ability to obtain valuation comparables for property.
  - Rural AIV no rehab loans are ineligible.
- Raw land

## Sinkholes

Florida properties located in the 10 high risk counties listed below will have additional **underwriting** due diligence performed, including review of:

- Preliminary title report for exceptions
- Online property listing
- Validation of address against available Florida Sinkhole county maps. Counties with a resource are hyperlinked below:
  - Florida Incident Map (<https://ca.dep.state.fl.us/mapdirect/?focus=fgssinkholes>)
  - County sinkhole maps:
    - Citrus (<https://gis.citrusbocc.com/address-lookup.html>)
    - Hernando (<https://www.hernandocountygis-fl.us/CentralGISMap/?config=configsinkhole.txt>)
    - Hillsborough (<https://batchgeo.com/map/08ad022a51ff0ec83605be72a191ab9e>)
    - Lake - n/a
    - Marion - n/a
    - Orange - n/a
    - Pasco (<http://pasco.com/view-sinkhole-properties/>)
    - Pinellas - n/a
    - Polk - n/a
    - Seminole - n/a

## Property Restrictions

### Property Size

Minimum	Maximum
500 sq ft	3500 sq ft

### Condominiums

Condominium property types have these additional restrictions:

- For properties < 10 units, no restrictions on % of ownership by one individual.
- For properties > = 10 units, no one individual can own more than 20% of the property units (by number of units).

## Multiple Parcels

Financing of multiple parcels is eligible, subject to the following requirements:

- Plat map or survey must be included for any loans with more than one APN/PIN/Lot.
- Title Policy must identify and insure via legal description and survey, with ALTA endorsements 19 & 20.
- Each parcel must be conveyed in its entirety.
- Parcels must be contiguous.
- 3rd party & LendingHome Valuation does not assign a value to vacant parcels of land.
- Partial lien release post-close is prohibited.

## Valuation

LendingHome employs a team of valuation analysts to arrive at an “After Repair” and/or “As is” value (as applicable) for each loan. A LendingHome After-Repair-Value (ARV) is established for all loans where the borrower is planning to rehab the property. All loans are underwritten to LendingHome valuations. As part of determining the after repair or as is value, the valuation analyst may obtain:

- Property inspection report
- Interior or exterior desktop appraisal
- Broker-price opinions
- Automated Valuation Models (AVM)
- Full appraisal of the property

3rd-party valuations are used on a supplemental basis and are not required to close loans under this program. Borrower ordered valuations/BPOs are prohibited.

## Project Eligibility

### Rehab Restrictions

The maximum rehab cost is determined by acquisition date:

- For Purchase or Delayed Purchase Refinance transactions - 100% of Cost Basis
- For Seasoned or Platform Refinance transactions – 100% of the As-Is Value (AIV)

LendingHome classifies rehab projects as **extensive** if any of the following are true:

- Rehab cost  $\geq$  \$100k and Rehab cost  $\geq$  25% of Cost Basis (or AIV as applicable)
- Rehab cost  $\geq$  \$50k and Cost Basis (or AIV as applicable)  $<$  \$100k
- Square footage addition (includes permitting of existing illegal space)
- Foundation work

All other projects are considered **standard** projects.

Borrowers planning to rehab the collateral property are required to submit a Scope of Work (SOW) form, which describes the planned rehab and itemizes project costs.

Pro borrowers may elect to finance the rehab in the form of a holdback. Financing of rehab costs is mandatory for Standard borrowers. Funds to cover the complete scope of work are escrowed at loan closing.

- Maximum rehab cost allowed (and associated holdback if applicable) is **\$70,000** nationally (except CA).
- Maximum rehab cost allowed (and associated holdback if applicable) in California is **\$150,000**
- Holdback must be sized to encompass the full SOW budget (variances of up to \$500 are acceptable)

## Feasibility Analysis

As part of underwriting the rehab project, LendingHome employs a project feasibility team to review the SOW for Pro borrowers. A more detailed feasibility analysis is completed on loans to Standard borrowers with extensive rehabs. Feasibility analysis is also completed on all Jumbo loans with rehab projects. The goal of feasibility analysis is to gauge the likelihood of the project proposal’s completion within the budget and timeline provided.

## New Construction Determination

New Construction classification is akin to a complete teardown, where collateral value reaches a state close to land value. The more extensive rehab, the greater the risk. During the renovation process, collateral value decreases as the home becomes uninhabitable. Complete teardowns / new construction projects are prohibited under Credit Policy. LendingHome will avoid originating loans that are classified as such, because they do not qualify under investor purchase and warehouse provider credit line agreements. The risk profile of new construction compared to “fix ‘n flip” is beyond the comfort level of our financing partners.

Whether a project is classified as new construction is determined by the Feasibility team. Determination of whether a project is new construction may not be consistent with local permitting authorities’ definition. “Red flags” include:

- Vacant land w/ ground-up development planned

- Substantial additions (>100% increase in sq. ft.)
- Structural replacement of the roof and more than one exterior wall while retaining existing foundation
- Structural replacement of the roof and all interior framing; Note: that the addition of a 2nd floor will likely require the structural replacement of the roof



- Demolition of more than 1 exterior wall

Existing



Rendering

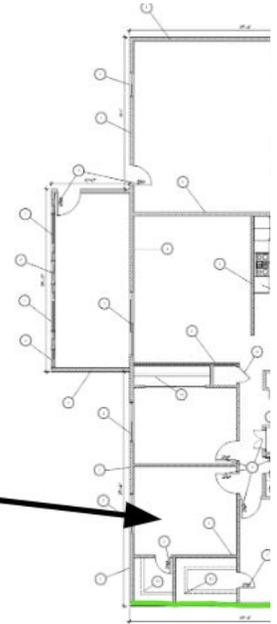


**KEY NOTES**

1. DEMOLISH EXISTING EXTERIOR WALLS
2. DEMOLISH EXISTING ROOF
3. DEMOLISH EXISTING INTERIOR FRAMING
4. DEMOLISH EXISTING INTERIOR PARTITION WALLS
5. DEMOLISH EXISTING INTERIOR DOORS
6. DEMOLISH EXISTING INTERIOR FLOORS
7. DEMOLISH EXISTING INTERIOR CEILING
8. DEMOLISH EXISTING INTERIOR STAIRS
9. DEMOLISH EXISTING INTERIOR BATHS
10. DEMOLISH EXISTING INTERIOR KITCHEN
11. DEMOLISH EXISTING INTERIOR HALLWAYS
12. DEMOLISH EXISTING INTERIOR CLOSETS
13. DEMOLISH EXISTING INTERIOR PORCHES
14. DEMOLISH EXISTING INTERIOR PATIOS
15. DEMOLISH EXISTING INTERIOR DRIVEWAYS
16. DEMOLISH EXISTING INTERIOR GARAGES
17. DEMOLISH EXISTING INTERIOR DRIVEWAYS
18. DEMOLISH EXISTING INTERIOR DRIVEWAYS

**NOTES**

1. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
2. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
3. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
4. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
5. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
6. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
7. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
8. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
9. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
10. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
11. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
12. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
13. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
14. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
15. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
16. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
17. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.
18. DEMOLITION SHALL BE IN ACCORDANCE WITH THE CITY OF LOS ANGELES ORDINANCES AND THE CALIFORNIA CONSTRUCTION CODE.



Only walls indicated in **green** will remain

At FA's escalation, potential new construction loans may be reviewed by Credit Committee. Credit Committee may decline the loan or recommend modified terms to account for risk.

**Project Return (ROI)**

All loans with rehab projects must meet a minimum ROI to qualify for financing. ROI calculation by transaction type:

- Purchase & Delayed Purchase Refinance with Rehab:  $ARV / (Cost\ Basis + Rehab\ cost)$
- Seasoned & Platform Refinance with Rehab:  $ARV / (AIV + Rehab\ cost)$

	Pro	Standard
Minimum ROI	1.00x	1.15x

**Holdback Cancellation**

Holdback may be cancelled at Feasibility/Draw team discretion, in the following circumstances:

- Fraud
- Misrepresentation of SOW or Unapproved Change Order
- Property demolition without consent
- Maturity default
- Insufficient progress after 6 months
- Lien search identifies a priority lien that jeopardizes project completion

**Insurance Requirements**

**General**

All insurance policies must be in the name of the borrower (the individual or the entity). The borrower may be listed together with other entities or individuals as the "Named Insured."

## Title Insurance

LendingHome requires an ALTA 2016 standard form title policy or equivalent. LendingHome will review preliminary title report on the subject property and require the payoff of any mortgage liens, judgments, lis pendens, property tax liens, income tax liens, contractor liens, child support or alimony liens and other financial encumbrances prior to the closing of the loan. For condo and attached PUD properties, title or the escrow company shall be instructed to pay to date all liens and assessments due the homeowner's association for the unit being financed by LendingHome's loan. The preliminary title report may not be older than 90 days as of the closing date of our loan. Title insurers must be licensed in the state of property location.

Preliminary title report must include: 1) property tax payment history 2) 24-month chain of title

Title insurers must be licensed in the state of property location.

## Hazard & Flood Insurance

Borrowers are required to establish and maintain property insurance. The insurer is required to be licensed to do business in the State in which the property is located and have rating minimums as follows:

Rating Agency	Rating Requirements
Best's Insurance Reports.	"B" or better
Standard and Poor's, Inc.	"BBB" or better
Moody's Investors Service	"A3" or better
Demotech, Inc.	"A" or better

### Coverage:

- Protects against loss or damage from:
  - Fire
  - Extended coverage perils: Wind, civil commotion, smoke, hail, aircraft, vehicle, explosion
  - Flood (if located in Federal Emergency Management Agency special flood hazard area)
    - FEMA designated flood zones: A or V (including all sub codes that start with either of these letters)
- Compensates for loss equal to the loan amount.
  - If coverage limit is lower than the loan amount, policy must compensate for loss equal to the insurable value of the improvements as established by insurer.
  - If flood policy, coverage is capped at National Flood Insurance Program limit.

### Policy type / Endorsements

- Builder's Risk or Course of Construction - required when bedroom/bath count, or property square footage increases. This includes permitting of existing illegal space.
- Landlord policy if tenant occupied
- Vacancy endorsement if vacant

### Deductible

- Maximum of 5% of coverage amount
- Blanket commercial policies with flat \$5k/\$10k deductibles are permitted up to 10% of coverage amount

### Beneficiary

- LendingHome and its successors and assigns (ISAOA).

**Condominiums & Attached PUDs** For condominiums and attached planned unit developments, the associated Homeowners Association (HOA) will have a master policy insured under the HOA for the owners or occupants of the individual units in the development. The master policy loss payee should list the HOA or insurance trustee. The master policy must compensate for loss on a replacement cost basis and cover 100% of the insured value of the project's improvements, including the replacement cost of improvements within the individual units in the project (also known as 'walls-in' coverage). If walls-in coverage is not included, the borrower must carry an individual unit owner's (HO-6) policy. The minimum coverage must be sufficient to repair the condo unit to its condition prior to a loss claim event, as determined by the insurer. This HO-6 unit policy must name LendingHome as loss payee.

# Internal Protocols

## Disasters

The disaster protocol provides a process to protect borrowers, investors, and company interests, and outlines a plan for business continuity.

### Disaster Monitoring

The Risk Department actively monitors risk of natural disaster within the states LendingHome lends in. Risk monitors the websites of State Governor's offices, National Weather Service, National Hurricane Center, and Federal Emergency Management Agency (FEMA), to obtain the most current information on potentially impacted areas (typically at the county level).