Underwriting Guidelines

Multifamily – Long Term

Dated: May 30, 2023

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DEFINED TERMS AND CALCULATIONS

Assignment / Wholesale Fees: Third party / arms-length assignment fees are capped at 10% of purchase price (unless otherwise approved. The Guarantor must provide wire confirmation(s) and an executed affidavit stating that the assignor is neither a related business entity nor a family member.

Cash-Out: Equity from refinance transactions that the lender finances.

Change of Use: Changing the number of units in a property or converting the property from one property type to another.

Cost Basis: Cost basis is inclusive of purchase price, verified borrower paid Hard and Soft Costs expended to date (as defined in Rehabilitation / Renovation Budget section), and customary borrower paid arms-length closing costs / fees, including real estate broker commissions, title, escrow, assignment fees, other closing costs and the amount of taxes, HOA dues, fees, assessments, and liens paid by the borrower or its affiliates in connection with the origination to date. Mortgage broker fees, origination fees, and points are excluded.

Delayed Financing: A property purchased by the borrower or an affiliate within three (3) months prior to the loan origination date as reflected on the executed Note.

Down Unit: A Down Unit is a unit undergoing repairs in excess of a standard unit turn that cannot be made rent ready within a standard turn time for a vacant unit.

Foreign National: An individual who is not a United States citizen or green card holder and does not reside or work in the United States.

Guarantor: The individual seeking financing who holds at least 20% of the borrowing entity (all members of the borrowing entity that have 20% or more ownership are identified as Guarantors for the transaction).

Loan-to-Cost: Total Loan Amount divided by the Total Project Cost.

Primary Guarantor: One designated Guarantor who holds at least 20% of the borrowing entity. In the event that no Guarantor owns at least 20%, the Primary Guarantor is the Guarantor with the highest ownership percentage of the borrowing entity. If the borrowing entity has a sole managing member, that member should be the Primary Guarantor.

Purchase Price: The Purchase Price of the subject property is the Contract Sales Price less any other contributions (as determined by Underwriting).

Rate / Term: A refinance that is not a Cash Out Refinance (Closing Costs can be included in Rate / Term transactions).

Refinance: A property purchased by the borrower or an affiliate more than three (3) months prior to origination.

Seller Concessions: Closing costs that the seller has agreed to pay (any seller concessions above the $5,000 threshold are subject to management approval).

SECTION 1 - INTRODUCTION

1.1
Approved States for Business Purpose Loans

The following states are approved for Business Purpose lending:

- Alabama
- Arizona
- Arkansas
- California
- Colorado
- Connecticut
- Delaware
- District of Columbia
- Florida
- Georgia
- Hawaii
- Idaho
- Illinois
- Indiana
- Kansas
- Kentucky
- Louisiana
- Maine
- Maryland
- Michigan
- Minnesota
- Missouri
- Montana
- Nebraska
- Nevada
- New Hampshire
- New Jersey
- New York
- North Carolina
- Ohio
- Oklahoma
- Oregon
- Pennsylvania
- South Carolina
- Tennessee
- Texas
- Utah
- Vermont
- Virginia
- Washington
- Wisconsin
- Wyoming

1.2 **Policy and Procedure Purpose**	The following sections outline the Underwriting procedures for multifamily residential properties (as defined by the jurisdiction where subject property is located) located throughout the United States originated by Acra Lending ("Acra") a dba of Citadel Servicing under the long-term multi-family rental program. This document reflects current lending product requirements, which may be altered at any time without prior notice. All transaction decisions are subject to Acra Management's discretion and / or exception.
1.3 **Loan Characteristics**	Acra will consider any loan on a multifamily property meeting the following characteristics:
1.3 (a) **Liens**	All loans will be secured by a valid first mortgage or deed of trust lien. Third party second liens are not permitted without Acra's approval.
1.3 (b) **Loan Terms**	Loan Terms will be as follows: • Thirty-year (30-year) loan term; • Thirty-year (30-year) amortization period; • Five (5) Interest Only ("IO") period is available per Matrix with stressed exit analysis in certain markets – followed by a 25 year fully amortized period; and • Prepayment Penalties are configured as a stepdown (i.e.: based on a progressive decrease in percentage of the principal balance at time of prepayment).
1.3 (c) **Minimum Loan Amount**	The minimum amount for any single loan is $250,000.
1.3 (d) **Maximum Loan Amount**	The maximum amount for any single loan is $7.5 million for properties between 5-8 units. Anything 9+ units is limited to $3.0 million.
1.3 (e) **Maximum Number of Loans**	The maximum number of open loans to one borrower is subject to management discretion.
1.3 (f) **Maximum Loan Amount Calculation**	For the purpose of an acquisition, the lendable value is the lesser of (i) purchase price less any Interested Party Contribution(s) of the purchase price and (ii) appraised As-Is Value. For the purpose of a refinance, the lendable value is determined by the appraiser.
1.4 **Net Purchase Price & Interested Party Contribution ("IPC")**	The Net Purchase Price is determined by considered Interested Party Contributions ("IPC(s)"). IPCs consist of costs that are normally the responsibility of the property purchaser. IPCs are paid directly or indirectly by another party who has a financial interest in the subject property and / or can influence the terms of the purchase price, sale, or transfer of the subject property. IPCs are limited to five percent (5%) of purchase price.

1.5 **Debt Service Coverage Ratio ("DSCR") Calculation**	DSCR is calculated as the Net Operating Income ("NOI") divided by the sum of annual principal and interest payments for the subject property.
1.5 (a) **Minimum Debt Service Coverage Ratio ("DSCR")**	The DSCR calculation must be no less than 1.25 ; 1.00 or subject to Acra Management discretion.
1.5 (b) **Net Operating Income ("NOI")**	NOI is defined as cashflow derived from the property after ordinary expenses and before debt service. It is calculated as follows:
1.5 (b) (1) **Determine Gross Potential Rent ("GPR")**	The maximum amount of rental income that a landlord can generate from a property (calculated as rent due for occupied units according to the lease plus market rent for any vacant units).
1.5 (b) (2) **Determine Effective Gross Income ("EGI")**	Apply either actual vacancy or minimum vacancy according to the guidelines, whichever is higher, to determine EGI. Minimum vacancy for the purposes of calculating NOI is 5%.
1.5 (b) (3) **Determine Real Estate Taxes**	Real Estate Taxes are found on the Tax Assessor's website for most municipalities. Ensure all tax districts are accounted for as some municipalities have county along with city or school district assessments.
1.5 (b) (4) **Determine the Insurance Premium**	Verify Acra minimum insurance requirements are met such that the borrower has sufficient insurance coverage. Underwritten insurance expense should be based on actual premium.
1.5 (b) (5) **Determine Additional Operating Expenses**	These expenses can include but not be limited to utilities, repairs / maintenance, general and administrative, management fee, and any additional recurring expenses.
1.5 (b) (6) **Determine NOI**	Add together all expenses as described above and subtract total expenses from EGI, also as determined above.
1.5 (b) (7) **Determine Principal and Interest Payment**	Using final loan amount and interest rate, calculate annual principal and interest payment. P&I is applicable to this calculation regardless of if final loan terms utilize an IO period.
1.6 **Loan Proceeds**	Acra generally calculates maximum loan amount based on the lesser of the following: • Maximum Loan-to-Value ("LTV"); or • Minimum DSCR.

SECTION 2 – "KNOW YOUR BORROWER"

2.1
Borrower Interview

As a part of the "Know Your Borrower" review process, Acra will conduct an interview (typically by phone) with the prospective borrower to obtain detailed information on the background, skill set, experience, project details, and business plan of the borrower.

2.2
Full Recourse Guaranty

All loans must close in an eligible legal entity, requiring a full recourse guaranty by all individuals that in aggregate own at least 20% or are managing members of the registered entity.

2.3
Eligible Entities

A legal entity domiciled in the United States including corporations (C and / or S), Limited Liability Companies (LLCs) is an eligible borrowing entity. Tenancy-in-Common entities ("TIC(s)") will be considered on a case-by-case basis by Acra Management.

The entity must be registered in the state of formation and be in good standing. Entities operating in a state that differs from the registered state require an appropriate Foreign Entity Registration.

All entities that will hold direct ownership of the subject property and will be on title as a direct owner are required to be a borrowing entity.

2.4
Ineligible Entities

Charities, Irrevocable Trusts, Limited Partnerships, Non-profit corporations, religious entities, and Sole Proprietorships are not permitted without approval from Acra Management.

2.5
Entity Documentation

The following must be provided for the subject entity that is required to close the loan:

- Operating Agreement and / or Bylaws;
- Certificate of Formation and / or Articles of Organization/Incorporation;
- Company Employer Identification Number (EIN):
- Certificate of Good Standing:
- Signing Authority;
- Foreign Entity Registration (if registered state differs from location of subject property); and
- Balance Sheet (dated within 180 days of submission).

2.6
Guarantor(s)

Each loan to a legal entity must have at least one (1) Guarantor of the comprised members with signing authority. All members with 20% ownership in the entity and / or signing authority must be included as Guarantors and are subject to the Underwriting review process.

2.6 (a)
Eligible Guarantors

Guarantors shall be natural persons.

2.6 (b) **Guarantor Identity**	The Underwriter will verify the identity of all Guarantors by reviewing the appropriate combination of the following government-issued documents: • (i) Driver’s License, (ii) Identification (ID) Card, or (iii) Passport; AND • Social Security Number (SSN) Card.
2.7 **Background Check**	Acra will review the background of the subject entity / entities and each Guarantor. Background checks are valid for Underwriting decisions up to ninety (90) days from date obtained to closing. Background checks that reveal the following will disqualify Guarantors (subject to Management’s discretion): • Evidence of previous felony or misdemeanor convictions involving fraud, embezzlement, financial crimes, and / or violent crimes; • Material litigation, pending misdemeanors or felonies, regulatory investigations / citations, or other matters of similar relevance; • Ten (10) or more judgements and / or liens in the last three (3) years, or current liens in excess of $15,000; or • Inclusion in the Office of Foreign Assets (OFAC) database.
2.7 (a) **Pending Litigation Requirements**	Borrowers involved in pending civil litigation or open court cases are reviewed and approved on a case-by-case basis – This includes both lawsuits and pending cases. Any open court cases that could impact the performance of the loan are generally ineligible until satisfactorily resolved.
2.7 (b) **Criminal Records Requirements**	Any criminal convictions or criminal adjudications, regardless of age, that involve any aspects of fraud, misrepresentation, financial crimes, or are considered acts of moral turpitude will render the applicant(s) ineligible. Pending criminal charges that carry any potential incarceration or involve fraud, misrepresentation, or acts of moral turpitude must be resolved (dismissed or exoneration) prior to closing. Acra will carefully review any felony convictions or felony adjudications regardless of age.
2.8 **Experience**	For loans where the Borrower/Guarantor intends to self-manage, Acra requires at least one (1) Guarantor to have prior multifamily property experience with at least ten (10) units owned or extensive experience with Single-Family Residential Fix-and-Flip transactions in the past thirty-six (36) months. The documented experience must be supported by HUDs, SREOs, or other acceptable verification.
2.9 **Credit Report**	For each Guarantor, Underwriting will require a tri-merged credit report dated within ninety (90) days of the closing date. In the event that only two (2) credit reports are obtained, the lower of both scores shall be considered. Acra requires a minimum of two (2) trade lines, each with a minimum twenty-four (24) months of history. The following will disqualify borrowers unless otherwise approved by Management: • A median FICO score below 625 (unless otherwise approved by Management); • Bankruptcies and / or Foreclosures within the past forty-eight (48) months; • Short sales and / or deeds-in-lieu within the past forty-eight (48) months; • Current mortgage delinquencies of sixty (60) days or more within (24) months; or • Any litigation, liens, and / or judgements. In the case of multiple Guarantors, Acra uses the highest median score as the representative score. If the Guarantor has frozen credit bureaus, the bureau information must be unfrozen, and a new credit report pulled.

2.10 **Borrower Liquidity**	The borrower's liquidity position is important to the Underwriting decision. Proof of funds evidenced by the required months of reserves (per matrix inclusions) are needed to determine the borrower's ability to cover required expenses. Any outstanding government tax liens, judgements, and / or personal liens in excess of $15,000 require additional evidence of liquidity – performing payment plan and additional judgement payment reserves. Acra reserves the right to periodically verify liquidity over the life of the loan to ensure borrower's ability to cover applicable expenses for the transaction.
2.10 (a) **Minimum Net Worth and Liquidity**	For all loan requests, Guarantors must provide a Personal Financial Statement ("PFS") showing a total net worth equal to 50% of the requested loan amount. Net worth must be verified in with evidence supporting the information on the provided PFS. All Guarantors must provide statements showing post-closing liquidity, as defined below, equal to six (6) months of Principal and Interest payments, regardless of any IO periods.
2.10 (b) **Transaction Specific Liquidity**	Liquidity is transaction specific; if the borrower has multiple concurrently open loans with Acra, the liquidity requirements compound for each loan (i.e.: every loan is independent).
2.10 (c) **Eligible Liquidity Sources**	Acra will review the borrower's assets for liquidity confirmation. Eligible asset consideration at 100% will be as follows: • Checking Account (DDA); • Money Market Account; • Mutual Funds; • Bonds; • Publicly Traded Stocks; • Savings Account (SAV); and / or • Life Insurance Cash Surrender Value. Eligible asset consideration at 50% will be as follows: • IRA – Roth / Self-Directed (100% for borrowers of retirement age); • 401K (100% for borrowers of retirement age); • Pension Plan (100% for borrowers of retirement age); • Annuity; and / or • 529 College Savings Account. In the event that the account only offers a bi-annual or annual statement, the statement is acceptable with proof the current balance is equal to or greater than the most recent full statement balance. Evidence may be in the form of online screenshots, where the account number is visible, or VODs otherwise consistent with §2.10 (e) below. Evidence of current balance must be dated within thirty (30) days of closing. As part of evaluating the Borrower liquidity, the Underwriter will review the source of recent large, unusual, and / or undocumented deposits / withdrawals. Liquidity sourcing in an entity name other than the borrowing entity requires the proper entity documentation showing controlling interest of said entity (indicated controlling interest will determine the percentage of consideration for said funds).

2.10 (d)
Ineligible Liquidity Sources

The following will not be considered for liquidity sourcing:
- Trust Accounts;
- Gift Funds; and / or
- Cash-out from the subject transaction.

2.10 (e)
Liquidity Documentation Requirements

Liquidity must be verified via the most two (2) consecutive account statements (monthly or quarterly) from a U.S. depository institution and must be dated within sixty (60) days of closing date. Requirements are outlined as follows:
- Institution name;
- Guarantor(s) name and Entity name, if applicable;
- Account number to include at least the last four (4) digits of account number;
- Visible and legible dates; and
- Account Statements with all pages, including any pages marked "intentionally left blank".

Electronic submission (i.e.: photos, scans, faxes, etcetera) are acceptable. Microsoft Excel workbooks or other editable forms are not acceptable.

2.10 (f)
Liquidity Sourcing Requirements

Account statements used for liquidity sourcing must be evaluated as a part of the Underwriting review.

Large deposits that are verified as any of the below do not need to be sourced:
- Payroll / bonus compensation;
- Social Security;
- Disability income;
- Unemployment income;
- Transfers between Borrower / Guarantor's accounts;
- Tax refunds; and / or
- Pension payments.

Large deposits that are not identified as one of the sources above are defined below and are required to be sourced if needed to qualify for reserve levels. If the Underwriter can back out the deposit(s) or accounts(s) and the liquidity is still sufficient the deposits are not required to be sourced.

Large deposits over $50,000 must be sourced.

Deposits in business accounts that can clearly be identified as normal business operations are not required to be sourced regardless of the number or size of the deposits. The Underwriter will retain discretion to require sourcing if it appears the deposits have been structured to avoid the sourcing requirements above.

2.11
Derogatory Credit Requirements

The policies regarding derogatory credit items are as follows:

2.11 (a) **Judgements & Liens**	All judgements or liens (federal, state, property, and / or personal) for the Borrower / Guarantor(s) must be paid prior to or through closing. Any current judgments or liens must include performing proof of payment plan. Acra allows payoff of all liens and judgments through escrow / title if necessary. Any payoff through closing requires an itemization on the final HUD. Acra will require evidence of payoff if paid prior to closing by account statements, cancelled checks, and / or invoice / receipt from institution.
2.11 (b) **Bankruptcy &** **Foreclosure**	The Borrower will have seasoned from all types of bankruptcy and / or foreclosure for at least forty-eight (48) months. Exceptions may be granted by Acra Management with pricing and / or LTV adjustments.
2.11 (c) **Deed-in-Lieu &** **Short Sale**	The Borrower will have seasoned all types of deeds-in-lieu and short sales for at least forty-eight (48) months. Exceptions may be granted by Acra Management with additional pricing and / or LTV adjustments.
2.11 (d) **Mortgage Lates**	The Borrower must not have been sixty (60) days late or greater on any mortgage payment during the past twenty-four (24) months. Any deviation would require exception approval from Acra Management. The following may be considered at reduced LTVs by Acra Management: • Non-current mortgage payables; • All thirty-day (30-day) late mortgage payments within the preceding six (6) months; • More than one (1) thirty-day (30-day) late mortgage payment within the preceding twelve (12) months; and / or • Any sixty-day (60-day) late mortgage payments within the preceding twenty-four (24) months.

SECTION 3 – "KNOW YOUR PROPERTY"

3.1
General

Acra provides financing only for residential units with the sole purpose of being leased as income property to non-borrower-affiliated tenants as confirmed by leases and a business purpose affidavit. Owner-occupied units (designated for property management) will be accepted; however, any income that is received from this unit will not be counted towards GPR, and all expenses associated with this until will be counted towards NOI.

3.2
Minimum Property Requirements

Acra will consider properties only if they meet the Minimum Property Requirements. Properties must adhere to the following for each unit:

- Minimum of 400 square feet in size;
- Contain at least one (1) fully functional three-quarter bathroom, which includes at minimum a standup shower, toilet, and sink;
- Contain a fully functional kitchen (must meet state or local codes and contain relevant appliances);
- All new tenants must sign a lease with a minimum term of 12 months at initial move in; and
- Month-to-month leases are acceptable, assuming:
    1. They are common in the market,
    2. The tenant signed a twelve- month (12-month) lease at initial move-in; and
    3. The lease is available either electronically or physically.

Short-term rentals are allowed per policies contained herein.

3.3
Reserved

3.4
Eligible Properties

The following list identifies eligible collateral property(ies):

- Multifamily (as defined by the jurisdiction where subject property is located);
- Modular Construction;
- Section 8 Housing; and / or
- Properties with a limited number of style short term rentals (i.e.: AirBNB, VRBO).

3.4 (a)
Modular Construction

Modular Construction includes factory-built housing not built on a permanent chassis such as modular, prefabricated, panelized, or sectional housing is not considered manufactured housing and is eligible.

The property must meet the following:

- Assume the characteristics of site-built housing;
- Be legally classified as real property;
- Conform to all local building codes in the jurisdiction in which they are permanently located; and
- Be appraised on a commercial narrative appraisal.

3.4 (b) **Section 8 & Public Assistance Housing**	Housing Choice Voucher Programs (Section 8, Rental Assistance programs, etcetera) are acceptable. Acra requires copies of vouchers from the public agency to determine the monthly amount of rents and will confirm that charged rents are in line with voucher details.
3.4 (c) **Condominiums**	Acra will lend on condominiums; however, the borrower must have 100% ownership of the units in said project / building. If a COA / HOA exists, the borrower must dissolve the owners' organization prior to loan funding.
3.5 **Ineligible Properties**	Property types that are ineligible for financing include the following: • Hawaii properties in Lava Zone 1 or 2; • Properties with more than 10% of the units – to a maximum of two (2) units total – used as short-term rentals (i.e.: AirBNB, VRBO, etcetera); • Mixed-Use commercial properties; • Any property with a historical use as a dry cleaning service or if the property is found to have toxic chemicals as part of its business operations; • Properties listed for sale on refinance transactions in the last six (6) months from application date; or • Rural properties.

3.6
Property Title

A lender's title insurance policy naming Acra Lending as the beneficiary is required in an amount at least equal to or greater than the original principal amount of the mortgage from a title insurer satisfactory to Acra. The title insurance policy must ensure that the title is free of any encumbrance or lien, other than the lien of Acra's security instrument acceptable and that the mortgage constitutes a lien of the required priority on a fee simple property. Acra will confirm the collateral property is free of any tax encumbrance and that all taxes are paid and current by closing. Title Indemnity Agreements and Mechanic Lien Endorsements may be requested by Acra, and under certain circumstances Acra may obtain receipt of appropriate lien waivers prior to disbursement of proceeds.

The title policy must be written on the 2006 American Land Title Association (ALTA) standard form because the 2006 ALTA forms provide protection for the time between loan closing and recordation of the mortgage, policies written on those forms may be effective as of loan closing date.

The Title Policy must meet the following requirements:

- Each property must be comprised of at least one (1) parcel, which constitutes a separate tax lot and does not constitute a portion of any other tax lot not a part of such property. Properties comprised of more than one (1) parcel are ineligible if additional parcels are not included as collateral;
- There must not be any liens for delinquent charges or unpaid assessments for homeowner's association dues or improvements as it pertains to the subject property. Any liens present on the title must either be released or paid in full prior to closing; and
- No subordinate debt permitted at the time of close and no re-subordination will be allowed for the duration of the loan.

Any entity with direct ownership of the subject property must be a Borrower / Guarantor.

Property Survey is not required if the title agent indicates that the appropriate survey endorsement will be issued with the final policy; otherwise, a valid survey will be required. All parties to the loan must sign the closing documents.

3.7
Miscellaneous Property Requirements

The following are additional minimum requirements all properties must conform to in order to qualify for Acra's Multifamily DSCR program:

3.7 (a)
Utilities

Each property must have adequate rights of access to public utilities and public rights of way. If public sewer and / or water facilities that are supplied and regulated by the local government are not available, community or private well and septic facilities must be available and utilized by the subject property. Private well or septic facilities must be located on the subject site (properties with a private well or septic facilities are subject to reduced leverage).

3.7 (b) **Multiple Parcels**	Acra allows properties with multiple parcels that meet the following requirements: • Each parcel must be conveyed in its entirety; • Parcels must be contiguous; and • Each parcel must have the same basic zoning (for example, residential, agricultural). Properties not meeting the above requirements may still be eligible on a case-by-case basis with reduced leverage in the discretion of Acra Management.
3.7 (c) **Transfers to Unrelated Parties**	Acra requires that transfers involving 20% or more interest, or that constitute managing control, must provide documentation to establish that the transfer was an arm's length sale with equitable consideration paid for such interests (i.e.: settlement statement).
3.7 (d) **Property Transfer Requirements**	If a property transfer was gifted, inherited, or made for reasons other than monetary consideration, Acra requires verifying documentation along with a letter of explanation from the borrower or their attorney detailing: • The reason for the transfer; • That no ongoing obligation (monetary or otherwise) exists; and • That there is no lien or profit-sharing arrangement outside of the organizational documents as a result of the transfer.
3.8 **Refinance Transactions**	Refinance transactions will be considered based on specific parameters as listed below:
3.8 (a) **Property Ownership**	Acra considers ownership history all refinance transactions as follows: • Properties with no debt within the first six (6) months of ownership shall be considered purchase transactions for leverage considerations; • Rate / Term Refinance transactions require ownership for at least four (4) months with debt on the subject property; • Properties owned at least twelve (12) months with debt will be considered for Cash-Out Refinance transactions; • Borrowers must have been on the title for at least twelve (12) months in cases of related party transfers; • Borrowers must have been on the title for at least six (6) months in cases of unrelated party transfers; and • 20% ownership must be maintained for six (6) months regarding transfers to borrowing entities. Acra will document all transfers of ownership in mortgaged properties for a period of twelve (12) months for refinance transactions.

3.8 (b)
Cash-Out Transactions

Cash-Out Refinance transactions will be considered for properties owned for a minimum of twelve (12) months at the time of closing; properties owned for fewer than twelve (12) months will be exclusively considered for Rate / Term Refinance transactions.

Cash-Out Refinance transactions will be subject to the following maximums:

- For properties being refinanced within twelve to twenty-three (12-23) months of the initial purchase, the maximum cash-out available is 15% of the Loan-to-Value calculation (per matrix provisions); and
- For properties being refinanced after twenty-four (24) months or more the maximum cash-out available is 25% of the Loan-to-Value calculation (per matrix provisions).

Cash-Out Refinance transactions will feature a -5% LTV as compared to purchase transactions.

3.9
Occupancy and Lease General Requirements

General requirements for occupancy and lease requirements are as follows:

- Leases must be in U.S. dollars;
- All leases must be to an unaffiliated third party to be considered when calculating property income;
- Borrower-affiliated tenants are allowed (defined as any family member, officer, manager, employee), but must show proof of receipt of rents if income is to be considered;
- Each leased property must be used for residential purposes;
- Corporate leases are acceptable with lease terms consistent with typical market standards and are subject to standard market rent verification. Corporate leases should occupy no more than 10% or two (2) of the total units at the subject property;
- Leased units for purchase transactions can verify rent by providing copies of recent rental payments or a seller or property manager signed verification of rent form; and
- Leases containing tenant purchase option are not permitted.

3.10
Appraisal Requirements

An appraisal is required for all subject properties. An automated valuation model ("AVM") or other valuation product will be utilized and reviewed upon Management's discretion. The Underwriter must order appraisals from an approved appraisal management company. Borrowers must obtain appraisals from an approved vendor. All appraisals will be carefully reviewed by the Underwriter. At its discretion, Acra may order additional valuation(s) to support the value expressed in the appraisal.

3.11
Commercial Narrative Appraisal Requirement

A Commercial Narrative Appraisal is required for all transactions above $3 million and / or containing 15 or more units. All loan under $3 million may be completed on a Small Residential Income Property Appraisal Report form (Forms 71A or 71B).

All Appraisal must be signed by an appraiser with MAI designation.

3.12
Appraiser Qualification

The appraiser or review appraiser must be appropriately licensed or certified for the state in which the property is located and comply with the competency rules of USPAP. Acra reserves the right to reject an appraisal from any given appraiser or to request a second appraisal.

3.12 (a) **Appraiser Licensing & Certification Requirements**	Acra requires appraisal reports to be completed by appraisers that have appropriate licensing for the scope of practice performed by the appraiser, whose license must be in good standing. Appraisal reports signed by a trainee appraiser must be co-signed by a supervisor appraiser either a licensed or certified residential appraiser. The supervisory appraiser does not have to inspect the property based on the USPAP guidelines. Acra will verify the status of the license with the state or national registry of appraisers.
3.13 **Appraisal Aging**	Appraisals must be no more than one hundred eighty (180) days old at time of closing.
3.14 **Appraisal Inspections**	Appraisers must inspect the interior and exterior of the subject property and include respective photos. Properties require inspection of five (5) units or 10% of the total units (whichever is greater). Specific inspection requirements include: • A minimum of two (2) occupied units; • At least one (1) vacant unit (if property contains vacant units); • If the property has multiple unit types, one (1) occupied unit of each type must be inspected; and • All inspected units must be photographed and included in the appraisal. All units not in leasable condition must be inspected and do not count toward the five (5) required units.
3.15 **Appraisal Report Inclusions**	The appraisal shall follow the policies below and address the following areas:
3.15 (a) **Appraisal Form**	The Underwriter requires a third-party Uniform Residential Appraisal Report ("URAR") to establish the value for any collateral being pledged as part of the loan request. The appraiser shall include a statement "the appraisal was prepared in accordance with the requirements of Title XI of the Financial Institutions, Reform, Recovery, and Enforcement Act (FIRREA) of 1989, as amended (12 U.S.C. 3331 et seq.)."
3.15 (b) **Area Density**	The appraisal should provide comments for areas that are less than 25% developed. The percentage is based on the amount of land available for development. If the area has a high percentage of land that is unavailable for development, such as government owned land, the appraisal will neither provide comments nor include this land when determining the percentage of land available for development. Areas that have been developed between 25% and 75% are desirable if they show a steady growth pattern.
3.15 (c) **As-is-Value ("AIV")**	The appraisal must indicate the As-Is Value for the subject property. If the As-Is Value of the subject property is more than 5% above or below the range for properties in the proximity, the appraisal should comment as to the anticipated effect on the subject property's marketability and appeal. If the property has a sales price and / or As-Is Value that significantly exceeds the prevailing upper price level, the loan terms should generally be more conservative because the property may not be acceptable to the typical buyer.

3.15 (d) **Growth Rate**	The growth rate reveals how the neighborhood is developing. If it is developing slowly, the appraisal should comment on the contributing factors. Consideration should be given to the effect of the slow growth on the subject property's marketability.
3.15 (e) **Land Use Change**	When the appraiser indicates the area is undergoing a land use change (for example, from a one- to four-unit residential neighborhood to a multi-family neighborhood), careful consideration will be given to whether maximum financing is justified. Land use change raises the question of a possible detrimental effect on residential values. The appraiser should discuss the potential impact on marketability and overall buyer appeal.
3.15 (f) **Legal Description**	A complete legal description of the subject property should be noted on the appraisal report. The legal description provided within the appraisal report must conform to the information within the application, the purchase agreement and the preliminary title report.
3.15 (g) **Location**	The subject property may be located in an urban and / or suburban area. However, loans must be secured by a property that is residential in nature based on the description of the subject property, zoning, and the present land use. All properties must be readily accessible by roads that meet local standards and must have adequate utilities available and in service. Certain factors relating to a property's location require special consideration. The appraisal must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.
3.15 (h) **Marketing Time**	Marketing time is the average time it takes for a reasonably priced property to sell in the subject's neighborhood. The appraisal must address marketing trends within the subject's neighborhood. A protracted marketing time may be an indication of oversupply, declining values, or limited marketability. Marketing times over six (6) months will require careful analysis.
3.15 (i) **Neighborhood Analysis**	Market strength can be measured by a review of the neighborhood comments. The neighborhood should be acceptable to a sufficient number of potential purchasers to support an active resale market. The appraisal should address the general market conditions affecting values within the subject market area. Local economic climate and supply and demand for housing have a direct effect on property values and available methods of financing. The appraisal should identify the local prevailing financing practices and the specific financing terms of the subject property and compare the two.
3.15 (j) **Neighborhood Comments**	The appraisal should describe the following: • The neighborhood boundaries and characteristics; • Favorable or unfavorable changes (within the previous year) that affect the marketability of neighborhood properties,; and / or • Market conditions in the subject neighborhood (i.e.: factors that support conclusions related to the trend of property values, supply and demand, and marketing time).

3.15 (k) **Neighborhood Property Values**	Property values should be stable or increasing. If property values are declining, the appraisal should comment on the contributing factors. If the decline is likely to continue, serious consideration should be given to the property's acceptability. In any case when the property values are declining, maximum financing will generally not be considered.
3.15 (l) **Predominant Value**	The predominant value should be the appraiser's best determination of the most frequently occurring residential sales within the subject property's neighborhood.
3.15 (m) **Present Land Use**	Present land use is shown as an estimated percentage of each type of property in the neighborhood, with all the property types totaling 100%. In general, dwellings are most likely to maintain their value in neighborhoods where comparable residencies predominate. A one- to four-unit property in a neighborhood with project apartments and / or commercial or industrial development may lack the stability required to sustain value over a long period of time. However, this can be offset by value-enhancing factors that increase the purchaser's motivation to buy. Value-enhancing factors include easy access to employment centers, improved neighborhood appearance, and a high level of community activity. Older neighborhoods frequently reflect a successful mixing of commercial services such as grocery stores, other neighborhood stores, and multifamily properties.
3.15 (n) **Environmental Hazards**	If there is reference in the Appraisal or Environmental Screen to environmental hazards or any other conditions that affect well, septic, or public water facilities, the appraisal must address the effect of the hazards on the value and marketability of the subject property.
3.15 (o) **Property Age**	It is important that the age of the subject property be within the general range of the neighborhood. A property falling outside the general age group must be given special consideration. Unless there is strong evidence of long-term neighborhood stability, a new dwelling in an old neighborhood will carry marginally increased risk. Conversely, an old dwelling in a newly developed area is generally acceptable if the house, when modernized, will conform to neighborhood norms. If a property's age falls outside of the range, the appraiser should comment regarding the anticipated effect on the property's marketability and appeal.
3.15 (p) **Supply and Demand**	Appraisal findings of a market shortage or in balance conditions are preferable. An oversupply of housing is not desirable; it signifies those houses are selling slowly, with considerable competition and the potential for a decrease in value.

3.15 (q) **Addenda**	If the Appraiser determines supplemental addenda are required, the addenda must be attached to the appraisal report and incorporated into the report by reference. Appraiser must comment on all forms of obsolescence and specify causes as follows: • Appraiser to comment regarding any disparity between Appraiser's Gross Building Area (GBA) measurements and GBA measurements declared in public records and provide permits and / or public records validating the difference in GBA measurements; • Regarding additions / conversions not reported in public records, Appraiser to indicate when work was originally completed and whether the work was done in a workmanlike manner; Appraiser must also comment if the type of addition / conversion is functional and conforming to the original structure. The Appraiser must also discuss if the addition is a legal structure and that any additional units have a valid Certificate of Occupancy; and / or • If it is determined an improvement is illegal, Appraiser must disclose the illegal aspects of the subject property's improvements in the appraisal report (sketch and addendum commentary) and exclude the illegal component(s) from contributing to the subject's value. Additionally, any income associated with a unit determined by the Appraiser to be illegal will not factor into the NOI calculation.
3.15 (r) **Floor Plan & Building Sketch**	The exterior sketch of improvements must include dimensions and calculations used by the Appraiser to determine the size of the subject property. For multiple units (multiunit properties) the sketch must include: • Layout and entries of each unit; • The square footage of living area per unit; and • Gross Building Area ("GBA").
3.15 (s) **Photographs**	Appraiser must provide photographs (with descriptions) of the subject property, which are to include: • Descriptive interior and exterior photographs of the subject property; • Descriptive street scene photographs; • Photos of all amenities, whether or not value is given; • Photos of swimming pools, spas, any water features; • Visual evidence of any potential health and safety concerns / issues; • Visual evidence of any code violations; and • Exterior photos of comps. All photographs must be clear, and in color; pixilated or blurry photographs are not acceptable.
3.15 (t) **Appraiser License**	The Appraiser must provide a copy of his / her certification/license.
3.15 (u) **Errors & Omissions Insurance**	The appraisal report must include a copy of the appraiser's Errors & Omissions ("E&O") Insurance policy, naming the Appraiser or Appraisal company as the insured.

3.15 (v) **Valuation Methods**	The appraisal must include the following valuation methods: • Income / capitalization approach; • Sales comparable approach; and • Insurable value.
3.16 **Property Review**	Acra will perform a review of all appropriate reports for the subject property including but not limited to: • Appraisal(s); • Environmental Report(s) (only applicable when Loan Amount is over $3 million); (Alternatively a CDA report will be required) • Feasibility Report(s); • Geological Survey Assessment(s); • Property Condition Report(s); and • Seismic Assessment(s).
3.17 **Property Management**	Acra requires that the financed properties either be managed by a professional property manager with experience in the subject market or self-managed by the borrower / affiliate. Borrowers seeking to self-manage properties must meet one (1) of the following criteria: • Two (2) years of experience managing income-producing real estate; • A certification or equivalent coursework in real estate property management; or • A completion certificate from the Institute of Real Estate Management (IREM) and National Association of Residential Property Managers (NARPM) for courses that cover all of the following topics: management agreement, ethics and legal issues, risk analysis, maintaining the property, financial tools, and marketing and leasing.
3.18 **Property Management Questionnaire**	Acra requires that a Property Management Questionnaire is completed by the borrower in the case of self-managed properties and for the Property Management Questionnaire be completed by the property manager in the case of third-party property management.

3.19
Environmental & Seismic Assessments

Environmental Survey Assessments are required for all Multifamily properties when the loan amount is over $3 million.

Seismic Assessment are required for any transactions greater than $2 million or transactions where the appraisal indicates any seismic construction concerns with a Peak Ground Acceleration ("PGA") greater than or equal to 0.15g as computed by the United States.

Geological Survey Assessments are required as necessary and will require a Level 1 Seismic Risk Assessment ("SRA") when a third-party evaluation determines that any of the following conditions are present:

- Any wood framed building constructed before 1950;
- Any unreinforced masonry construction regardless of seismic retrofit; or
- If the results from a Level 1 SRA determine that there is more than a 20% and up to a 40% probable maximum loss.

Probable Maximum Loss ("PML") earthquake insurance is required as necessary. Any PML greater than 40%, any building constructed of unreinforced masonry with no seismic retrofit, or any building constructed on a hillside with a slope exceeding a 30-degree angle (50% slope) is not an eligible property for Acra.

3.20
Insurance Requirements

Acra requires that the borrower obtain applicable insurance for all transactions. Specific requirements are as follows:

3.20 (a)
Insurance Carrier Selection

Each Guarantor has the right to select his or her own insurance carrier to provide coverage for the secured property provided that the policy and the insurer meet the requirements as outlined in this policy.

3.20 (b)
Acceptable Insurance Carriers

Acceptable insurers must be domiciled in the United States, licensed to do business in the state(s) in which the subject property is located, and must be written by a carrier that meets the following rating requirements. The carrier needs to meet only one (1) of the following rating categories, even if it is rated by more than one (1) agency:

- Best's Insurance Reports – "B" minimum rating;
- Best's Insurance Reports (Non-US Edition) – "A" minimum rating;
- Demotech's Hazard Insurance Financial Stability Ratings – "A" minimum rating; or
- Standard & Poor's Ratings Direct Insurance Service – "BBB" minimum rating.

3.20 (c)
Name of Insured

The Evidence of Property Insurance must show the name of the borrower exactly as it appears in the loan documents. Lender must be listed as the Mortgagee as follows:

Citadel Servicing Corporation
ISAOA
25531 Commercentre Drive
Suite 160
Lake Forest, CA 92630

3.20 (d)
Notice of Change in Coverage

The policy, or state law, must require the insurer to provide notice of cancellation, termination, or non- renewal to the Lender at least thirty (30) days prior to the change in coverage.

3.20 (e) **Continuous Coverage Requirement**	All required insurance coverage must remain in place at the required coverage at all times, for the life of the loan. In the event that insurance coverage lapses or becomes insufficient, Acra reserves the right to force-place insurance coverage at the borrower's expense to ensure coverage remains adequate. In all instances, the loan file must contain documentation of premium amount being paid.
3.20 (f) **Purchase Transaction Insurance**	The loan file must contain verification the premium period is at least twelve (12) months from the day of closing and the premium has been paid in full. Installment payment of premiums is prohibited.
3.20 (g) **Refinance Transaction Insurance**	If the existing policy currently in place expires within thirty (30) days of the closing, there must be verification in the loan file that the twelve-month (12-month) renewal premium has been paid in full.
3.20 (h) **Maximum Insurance Deductible**	The maximum allowable deductible for any insurance (Hazard, Flood, Wind, Condo, etcetera) covering a property loan is 5% of the loan amount.
3.20 (i) **Hazard Insurance**	Acra requires that the borrower obtain hazard insurance to protect against loss or damage from fire, lightning, and / or other hazards covered by the standard extended coverage endorsement. Insurance must cover the lesser of the total loan amount or 100% of the replacement cost as established by the property insurer. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, and / or explosion.
3.20 (j) **Flood Insurance**	The Underwriter will determine if the collateral property is located in a "flood plain" area as defined by the Federal Insurance Administration pursuant to the National Flood Insurance Act of 1968 as amended by the Federal Flood Disaster Protection Act of 1973. If the property is located in a flood plain area, the Underwriter will require Federal Flood Insurance up and to the maximum amount allowable per the insurer.
3.21 **Rent Loss & Business Interruption Coverage**	Rent Loss Coverage is required on all Multifamily loans. The amount of coverage must be at least six (6) months of the gross in-place rental income.
3.22 **Boiler & Machinery Coverage**	Boiler and machinery policy is required for properties containing steam boilers, pipes, turbines, engines and / or other pressure vessels. Insurance must cover the lesser of 100% of the insurable value of improvements to the parcel, as established by insurer, or unpaid principal balance of the mortgage.