# Underwriting Guidelines

# Residential& Multifamily:
# Rehab & Bridge

Dated:
May 30, 2023 V2

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# DEFINED TERMS AND CALCULATIONS

**After-Repair-Value (ARV)**: The stated and / or appraised value accounting for the proposed rehab to a property.

**As-Is-Value (AIV)**: For purchase transactions, the As-Is-Value is the lesser of (i) the purchase price of the subject property value and (ii) the minimum As-Is-Value provided on appraisals received. For rate / term and cash-out transactions, the As-Is-Value is the least As-Is-Value provided on all appraisals received. The As-Is-Value must not consider any proposed improvements or market-timing price appreciation.

**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-on-Cash Gross Profit Return**: Cash-on-Cash Gross Profit Return is defined as Gross Profit Estimate minus 6% of ARV divided by Total Project Costs.

$$\frac{\textit{Gross Profit Estimate} - (\textit{ARV} + 6\%)}{\textit{Total Project Costs}}$$

**Cash-on-Cash Net Profit Return**: Cash-on-Cash Net Profit Return is defined as Net Profit Estimate divided by the difference of Total Project Costs minus Total Loan Amount Requested

$$\frac{\textit{Net Profit Estimate}}{\textit{Total Project Costs} - \textit{Total Loan Amount}}$$

**Cash Out**: Equity from refinance transactions that the originator finances.

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

**As-Is-Value Loan-to-Cost (AIV LTC)**: Origination Date Disbursed Loan Amount divided by Project Costs Spent to Date.

$$\textit{AIV LTC} = \frac{\textit{Origination Date Disbursement}}{\textit{Project Costs Spent as of Origination Date}}$$

**Direct Construction Costs**: Direct Construction Costs include third-party costs for labor, general contractor fees, and materials used for construction.

**Experienced Guarantor**: A guarantor that has at least three (3) documented real estate investment property sales, completed rehab on rental properties, or equivalent experience in the past three (3) years and at least one (1) year in the business of acquiring real estate for investment purposes or renovating real estate.

**Foreign National**: An individual who is not a United States citizen, green card holder or permanent resident alien.

**Gross Profit Estimate**: Gross Profit Estimate is defined by the difference After-Repair Value and Total Project Cost of the subject property.

$$\textit{Gross Profit Estimate} = \textit{ARV} - \textit{Total Project Costs}$$

**Guarantor**: The individual borrower/customer seeking financing (any individual with 20% or more ownership interest of the borrowing entity is required to sign the financing agreement).

**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***

**Heavy Rehab**: A project where any one of the following applies:

- Rehab Budget is greater than or equal to 50% but never greater than or equal to 100% of subject property As-Is-Value;
- Condo Conversion;
- Involves more than a 20% expansion of the property of at least 750 square feet; or
- Involves a change of use (unless a certificate of occupancy has been issued for the new use).

**Initial Loan Amount**: Loan amount at the origination date (inclusive of any debt service reserve and exclusive of rehab and other escrows or other amounts not funded to the borrower at closing).

**Loan-to-As-Is-Value (LTAIV)**: the Origination Date Disbursement divided by the As-Is Value.

$$LTAIV = \frac{\textbf{Origination Date Disbursement}}{\textbf{Lessor value of As-Is-Value or Purchase Price}}$$

**Loan-to-After-Repair-Value (LTARV)**: Defined as:

$$LTARV = \frac{\textbf{Total Loan Amount}}{\textbf{As-Repair-Value}}$$

**Loan-to-Cost (LTC)**: The Total Loan Amount divided by Total Project Cost.

$$LTC = \frac{\textbf{Total Loan Amount (TLA)}}{\textbf{((Lesser of Purchase Price or As-Is Value) + Rehab Budget + Acra's Origination Fee + Acra's processing fee)}}$$

**Light Rehab**: A Rehab Budget that is less than or equal to 49% of the subject property As-Is-Value.

**Loan-to-As-Is-Value**: Initial Loan Amount divided by "As Is" appraised value unless property is purchase within the last twelve (12) months, For properties purchase within 0-6 months of origination, on a case-by-case basis, the Loan-to-As-Is-Value will be Initial Loan Amount divided by Purchase Price plus the dollar amount of documented improvements. For Properties purchased within 6-12 months of origination, on a case-by-case basis, the Loan-to-As-Is-Value will be the Initial Loan amount divided by As-Is appraised value, upon receipt of satisfactory documentation of improvements.

**Loan-to-Cost**: Initial Loan Amount divided by borrower Total Project Cost at the origination date.

**Maximum Loan Amount**: Initial Loan Amount plus Rehab Loan Amount and other amounts not funded to the borrower at closing.

**Net Profit Estimate**: Gross Profit Estimate minus 6% of ARV minus the estimated debt service for the estimated loan duration.

$$\textit{Gross Profit Estimate} - (\textit{ARV} + 6\%) - \left(\textit{Annualized Interest Payments} \times \frac{\textit{Hold Time}}{12}\right)$$

**Primary Guarantor**: One designated guarantor who owns at least 20% of the borrowing entity that personally guarantees the loan.

**Purchase**: A property purchased by the borrower / guarantor(s) or an affiliate within four (4) months prior to the loan origination date as reflected on the executed transfer deed.

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

**Rate / Term**: A refinance that is not a Cash Out Refinance (up to 2% of closing costs can be included in Rate / Term transactions).

**Refinance**: A property purchased by the borrower / guarantor(s) or an affiliate more than four (4) months prior to origination.

**Rehab Budget Amount**: The amount of funds provided by the lender to complete a property needing rehab (cannot exceed 100% of As-Is-Value). Maximum amount of future rehab draws and release of escrowed rehab reserves.

**Seller Concessions**: Closing costs that the seller has agreed to pay. In the event, Seller Concessions are above 3% of the Purchase Price, when the LTV is equal to or greater than 80%, Purchase Price will reduce by the amount greater than 3% to offset the Seller Concession for underwriting qualification purposes.

**Total Project Cost (TPC)**: The sum of lesser of the As-Is-Value or Purchase Price, plus Acra's origination points and fees and Broker's origination and processing fees.

NOTE: Acra's and Broker/Referral (points and processing) cannot exceed 6%.
***TPC = As-Is-Value (AIV)*** *or* ***Purchase Price (PP) + Rehab Budget Amount (RBA) + Origination Fees***

**Value-Add Soft Costs**: May include indirect construction and transactional costs such as architectural, engineering, environmental, and legal fees. Permits, entitlements, and legal documentation associated with change of property use (e.g., condo conversion) may also be considered Value-Add Soft Costs.

# SECTION 1 – LOAN PARAMETERS

**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
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- Maryland
- Massachusetts
- Michigan
- Minnesota
- Mississippi
- Missouri
- Montana
- Nebraska
- Nevada
- New Hampshire
- New Mexico
- New Jersey
- New York
- North Carolina
- Ohio
- Oklahoma
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- Tennessee
- Texas
- Utah
- Vermont
- Virginia
- Washington
- West Virginia
- Wisconsin
- Wyoming

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| **1.2 Policy and Procedure Purpose** | The following sections outline the Underwriting procedures for single-family residential and multifamily 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 Fix and Flip / Stabilized Bridge 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 single-family residential and / or multifamily properties meeting the following characteristics: |
| **1.3 (a) Liens** | All loans will be secured by a valid first mortgage or deed of trust lien. Acra will not consider originating second liens on properties where Acra also owns the first lien. Third party second liens are not permitted without Acra's approval. |
| **1.3 (b) Product Categories** | All transaction types contemplated shall fall under the following two (2) product categories:<br>• Fix and Flip – transactions including rehabilitation to a property; or<br>• Stabilized Bridge – all other transactions. |
| **1.3 (b) (1) Purchase Transactions** | Properties that are new acquisitions at the time of origination will be considered Purchase transactions (leverage calculations will be derived from Purchase matrix guidelines). |
| **1.3 (b) (2) Delayed Purchase Transactions** | Properties that were purchased by the Borrower or affiliate within ninety (90) days prior to the loan origination date as reflected on the executed note will be considered Delayed Purchase transactions (leverage calculations will be derived from Purchase matrix guidelines). |
| **1.3 (b) (3) Refinance Transactions** | Properties that have been owned for at least ninety-one (91) days prior to the loan origination date (with or without existing debt) will be considered Refinance transactions (leverage calculations will be derived from Refinance matrix guidelines). |
| **1.3 (c) Loan Terms** | Loan Terms will be six (6) to twenty-four (24) months in duration, subject to discretionary one to three-month incremental extensions. |
| **1.3 (d) Loan Term Extensions** | Loan term extensions will be considered upon the request of the Borrower and must be approved by Acra Management. Term extensions will be considered in one (1) to three (3)-month increments, not to exceed a total extension period of twelve (12) months. Fees for extensions will be determined at the time of the Borrower's request. Fees will generally be 0.5 - 1% of total loan amount for every one-to-three-month extension. A term extension will be considered only after the underwriter has verified that the initial underwriting characteristics have not materially changed, including the asset value. |
| **1.3 (e)** | The minimum amount for any single loan is: |

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| **Minimum Loan Amount** | • $100,000 with minimum initial advance of $75,000 (Single-Family Residential 1-4 Units); and<br>• $250,000 / $35,000 per unit (Multifamily 5-29 Units). |
| **1.3 (f) Maximum Number of Loans** | Acra limits the number of open loans with the same borrower at any one time to a maximum of four (4) loans subject to Acra Management discretion and / or exception (considering the status of the loans, duration of the loan, and time frame between each origination). On a case-by-case basis, Acra Management will allow more than four (4) loans to one (1) Borrower. |
| **1.3 (g) Interest Rate & Amortization** | The interest rate will be fixed, twelve (12) to twenty-four (24) month term, interest only. |
| **1.3 (h) Payment Terms** | Interest is payable on the first day of each month (late interest payments are subject to penalties). Principal is payable on or before the maturity date. The due date of the first payment under the loan will be no more than sixty (60) days from the date of the note. The note will not permit negative amortization. In some cases, a portion of the interest may be prepaid or held in escrow or paid upon maturity. |
| **1.3 (i) Repayment Terms** | The minimum interest to be paid is required as:<br>• Three (3) months (Single-Family Residential 1-4 Units); or<br>• Six (6) months (Multifamily 5-29 Units).<br><br>Thereafter, loans can be repaid in part or in full at any time. |
| **1.3 (j) Maximum Loan-to-Value (LTV)** | The maximum LTV percentages for Single-Family Residential 1-4 Units transactions are:<br>• 80% for Stabilized Bridge Purchases;<br>• 90% for Fix and Flip Purchases;<br>• 80% for Rate & Term Refinance transactions; and<br>• 70% for Cash-Out Refinance transactions.<br><br>The maximum LTV percentages for Multifamily 5-29 Units transactions are:<br>• 85% for Stabilized Bridge Purchases;<br>• 85% for Fix and Flip Purchase transactions less than $1 million;<br>• 80% for Fix and Flip Purchase transactions greater than or equal to $1 million;<br>• 80% for Rate & Term Refinance transactions; and<br>• 70% for Cash-Out Refinance transactions. |
| **1.3 (k) Maximum After-Repair-Value (ARV)** | The maximum ARV percentages for Single-Family Residential 1-4 Units transactions are:<br>• 80% for Fix and Flip Purchases; and<br>• 80% for all Refinances (Fix and Flip, Cash-Out, Rate & Term).<br><br>The maximum ARV percentages for Multifamily 5-29 Units transactions are:<br>• 75% for Fix and Flip Purchases; and<br>• 75% for all Refinances (Fix and Flip, Cash-Out, Rate & Term). |

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| **1.3 (l) Maximum Loan-to-Cost** | The maximum LTC percentages for Single-Family Residential 1-4 Units and Multifamily 5-29 Units transactions are:<br>• 90% for Fix and Flip Purchases; and<br>• 90% for all Refinances (Fix and Flip, Cash-Out, Rate & Term). |
| **1.3 (m) Origination & Exit Fees** | Any purchase transaction origination/processing fees will be paid at closing (“Origination Fees”) or paid upon payoff of the loan (“Exit Fees”). The Underwriter will determine the eligibility of appropriate costs and expenses to be included in funding for refinance transactions only. The following are potential funded costs and expenses:<br>• Lender Fees;<br>• Broker Fees;<br>• Insurance Fees;<br>• Property Taxes; and / or<br>• Title Fees. |
| **1.4 Subordinate Debt and Other Encumbrances** | No subordinate financing including second mortgage or seller financing is permitted on the pledged asset, without the prior written consent of Acra. |
| **1.5 Loan Funding Review** | Acra will review and require that all signatures have been obtained prior to initiating an advance of loan proceeds. |
| **1.6 Settlement Statement** | Acra will review the Estimated Closing Statement to verify its accuracy as well as the Final Settlement Statement prior to closing/funding. |
| **1.7 Credit Box** | Acra’s Credit Box matrices outline the current factors for loan pricing and will be utilized accordingly for the Underwriting review. |
| **1.8 Document Aging** | Documentation considered during the Underwriting process must adhere to the appropriate aging parameters set forth. The Underwriter will require updated documents set as necessary. For repeat borrowers, such information will be updated annually at a minimum. |
| **1.9 Compliance** | Acra will comply with all applicable lending laws/regulations. |

# SECTION 2 – "KNOW YOUR BORROWER"

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| **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 which in aggregate own at least 20% 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), and / or revocable trusts (permitted on a case-by-case basis). 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. Nested Entities are allowed case-by-case with Acra Management approval. |
| **2.4 Ineligible Entities** | Charities, Irrevocable Trusts, Limited Partnerships, Non-profits, religious entities, Sole Proprietorships, and Tenancy-in-Common (TIC) entities are not permitted unless otherwise permitted by Acra Management. |
| **2.5 Entity Documentation** | The following must be provided for the subject entity that is required to close the loan:<br>• Operating Agreement and / or Bylaws;<br>• Certificate of Formation and / or Articles of Organization/Incorporation;<br>• Company Employer Identification Number (EIN);<br>• Proof of active status and / or good standing;<br>• Signing Authority; and<br>• Foreign Entity Registration (if registered state differs from location of subject property). |
| **2.6 Guarantor(s)** | Each loan to a legal entity must have at least one (1) Guarantor. 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:<br>• (i) Driver's License, (ii) Identification (ID) Card, or (iii) Passport; AND<br>• Social Security Number (SSN) Card. |

**2.7 Background Check**

Acra will review the background of the subject entity(ies) 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 Acra Management discretion):

- Evidence of previous felony convictions involving fraud, embezzlement, financial crimes, and / or violent crimes (i.e.: rape, murder, child molestation, etc.) unless the drug related or non-financial crime felony is older than 10 years and the borrower/guarantor(s) has had a clean track record since;
- 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; and / or
- Inclusion in the Office of Foreign Assets (OFAC) database.

**2.8 Credit Report(s) & Qualifying Score**

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 credit scores are returned, the lower of both scores shall be considered. One score reporting is insufficient for qualifying purposes.

The following will disqualify borrowers unless otherwise approved by Acra Management:

- A median FICO score below 600 (unless otherwise approved by Acra Management);
- Bankruptcies and / or Foreclosures within the past forty-eight (48) months;
- Deeds-in-Lieu and / or Short Sales within the past four (4) years;
- Current mortgage delinquencies of sixty (60) days or more within (24) months; and / or
- Any non-disclosed litigation (liens, judgements, etcetera).

To establish the qualifying score in events where multiple guarantors are applying:

- The Applicant who has the majority of ownership will be utilized; or
- Where all Applicants have an equal ownership percentage, the highest will be utilized.

Note, Underwriting maintains discretion where parties attempt to modify ownership percentages to circumvent use of the most appropriate Applicant’s score.

Acra Management may approve credit reports dated past ninety (90) days of loan origination for repeat borrowers.

**2.9 Experience**

It is preferred that the borrower(s) have documented experience as a real estate investor ("Experience"). The documented experience must be supported by HUDs, SREOs, or other acceptable verification in one or more of the following areas (exceptions subject to Acra Management approval):

- Previous ownership of a property that was rehabbed in the past five (5) years - Property must be sold
  - 1 point of experience per APN
- Proof of licensure as a realtor or Real Estate Agent (+1 toward experience calculation);
- Prior or current ownership of investment properties with one (1) or more units - Owned minimum 12 months (Exceptions may be considered by Management) - 1 point of experience per APN;
- Verified Professional License. Proof of license and appropriate documentation for each project is required:
  - General Contractor (.5 point per project)
  - Architect (.5 point per project)
  - Rehab Project Manager (.5 point per project).
- NOTE: If experience is under a different entity the guarantor(s) must be at least a 20% owner of that entity.

If experience documentation is provided that does not reflect the guarantor(s)' name(s) or subject-entity, documentation must be provided showing ownership for the closing entity.

New Borrowers are permitted on a case-by-case basis (with additional loan terms, liquidity, reduced ARV, LTC, and / or LTV, professional property management, and / or vetted general contractor / realtor licensure requirements).

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The borrower's liquidity position is important to the underwriting decision, especially in cases where there is material property rehabilitation planned. Proof of funds evidenced by three (3) to twenty-four (24) months of reserves are needed to determine the borrower's ability to cover any of the required expenses as set forth below:

- Down Payment minus EMD;
- Interest Payment Reserves; and / or
- Rehab Draws and / or fees (for reimbursement);
- Acra's and Broker's Fees.

Any outstanding government tax liens, judgements, and / or personal liens require additional evidence of liquidity – payment plan and three (3) months of judgement payment reserves.

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**2.10 (a) 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).

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| **2.10 (b) Eligible Liquidity Sources** | Acra will review the borrower's assets for liquidity confirmation. Eligible asset consideration at 100% will be as follows:<br>• Checking Account (DDA);<br>• Money Market Account;<br>• Mutual Funds;<br>• Bonds;<br>• Publicly Traded Stocks;<br>• Savings Account (SAV);<br>• HELOC and / or<br>• Life Insurance Cash Surrender Value.<br><br>Eligible asset consideration at 50% will be as follows:<br>• IRA – Roth / Self-Directed (100% for borrowers of retirement age);<br>• 401K (100% for borrowers of retirement age);<br>• Pension Plan (100% for borrowers of retirement age);<br>• Annuity; and / or<br>• 529 College Savings Account.<br><br>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 (d) below. Evidence of current balance must be dated within thirty (30) days of closing.<br><br>As part of evaluating the Borrower liquidity, the Underwriter will review the source of recent large, unusual, and / or undocumented deposits / withdrawals.<br><br>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). The amount of liquidity will be limited by the percentage of ownership of the guarantor(s).<br><br>Capital contributions by silent partner/non-guarantors are acceptable. Acra reserves the right to review these contributions on a case-by-case basis when the percentage of contribution exceeds the silent partner/non-guarantor's percentage of ownership. |
| **2.10 (c) Ineligible Liquidity Sources** | The following will not be considered for liquidity sourcing:<br>• Gift Funds;<br>• Accounts which are not in the name/control of the Borrower or any owner(s) of the Borrower and / or<br>• Trust Accounts – may potentially be acceptable if borrower/guarantor is both the trustee and beneficiary of the trust funds (i.e.: John Smith as trustee and beneficiary of the John Smith living trust, etc.) |

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| **2.10 (d) Liquidity Documentation Requirements** | Liquidity must be verified via the most recent 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:<br>• Institution name;<br>• Guarantor(s) name and Entity name, if applicable;<br>• Account number to include at least the last four (4) digits of account number;<br>• Visible and legible dates; and<br>• Account Statements with all pages, including any pages marked “intentionally left blank”.<br><br>Electronic submission (i.e.: photos, scans, faxes, etcetera) are acceptable. Microsoft Excel workbooks or other editable forms are not acceptable. |
| **2.10 (e) Liquidity Sourcing Requirements** | Account statements used for liquidity sourcing must be evaluated as a part of the Underwriting review.<br><br>Large deposits that are verified as any of the below do not need to be sourced:<br>• Payroll / bonus compensation;<br>• Social Security;<br>• Disability income;<br>• Unemployment income;<br>• Transfers between Borrower / Guarantor’s accounts;<br>• Tax refunds; and / or<br>• Pension payments.<br><br>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.<br><br>Large deposits over $100,000 must be sourced.<br><br>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.<br><br>As long as there is evidence that the cash came from an eligible liquidity source, a maximum variance of $1,500 is allowable for the necessary funds-to-close versus the final asset statements. |
| **2.10 (f) Post-Closing Liquidity** | Single Family Residence (1 – 4 Units) - 3 months Minimum<br>Multifamily (5-29 Units) – 6 months Minimum<br>NOTE: Post Closing Liquidity requirements are based upon the full loan |

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| **Requirements** | amount for both dutch and non-dutch loans. In addition, post-closing liquidity requirements may be offset by upfront payments collected at closing. |

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| **2.11 Derogatory Credit Requirements** | The policies regarding derogatory credit items are as follows: |
| **2.11 (a) Judgements & Liens** | All liens (federal, state, and / or property) for the Borrower / Guarantor(s) must be paid prior to or through closing. Any current liens must include performing proof of payment plan.<br><br>Any judgments and liens observed in credit and background may result in disqualifying the Borrower / Guarantor(s) if there are ten (10) or more judgments and /or liens in the last three (3) years, or current liens in excess of $15,000.<br><br>Acra allows payoff of all liens and judgments through escrow / title if necessary. Any payoff through closing requires an itemization on the final HUD.<br><br>Acra will require evidence of payoff if paid prior to closing by account statements, cancelled checks, and / or invoice / receipt from institution.<br><br>Proof of payment or payment through closing is not required for liens greater than 7 years old unless it is a State or Federal lien. |
| **2.11 (b) Bankruptcy & Foreclosure Discharge** | The Borrower will have been discharged 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 Discharge** | The Borrower will have been discharged from all types of deeds-in-lieu and short sales for at least forty-eight (48) months. Exceptions may be granted by Acra Management with pricing and / or LTV adjustments. |
| **2.11 (d) Mortgage Late Payments** | The Borrower must not have been sixty (60) days late on any mortgage payment during the past twelve (12) months on the credit report.<br><br>Any deviation would require exception approval from Acra Management. |

# SECTION 3 – "KNOW YOUR PROPERTY"

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| **3.1 Eligible Property Types** | The primary property held as collateral will be non-owner occupied and fee simple. Properties that are uninhabitable are permitted. Specific property types are included as follows (subject to Acra Management discretion): |
| **3.1 (a) Single-Family Residential** | Properties with 1-4 units that are attached and / or detached. |
| **3.1 (b) Multifamily** | Properties with 5-29 units that are attached and / or detached (or as defined by the jurisdiction where the subject property is located). |
| **3.1 (c) Condominium** | Properties that contain several independently owned units. |

**3.2 Ineligible Properties**

The following property types are NOT eligible for financing (unless otherwise approved by Acra Management):

- Hawaii properties in Lava Zone 1 or 2;
- Rural properties;
- Mixed-Use properties;
- Rehab properties located in municipalities where the applicable construction activity is prohibited;
- Mobile and/or Manufactured homes
- Cooperatives;
- Ground-Up Construction;
- Properties subject to a ground lease;
- Raw land, working farms, and / or ranches;
- Properties subject to purchase options;
- Residences of less than 400 square feet on average for each residential living unit;
- Properties that are not in compliance with local zoning regulations (including as reflected on the appraisal or residential evaluation) unless a grandfathered, 100% rebuild, non-conforming use or non-compliance will be addressed through the contemplated rehab;
- Former healthcare facilities (such as nursing homes and assisted living facilities);
- Properties with known adverse environmental conditions (other than lead paint, radon, and / or asbestos that do not present a health hazard, do not require remediation, and have been contained per EPA guidelines prior to funding);
- Properties with underground oil tanks where an environmental assessment has not been executed or plans for removal are not included;
- Multi-family properties with an After-Repair-Value that is greater than three times (3x) the appraised As-Is-Value or purchase price if purchased within the last twelve (12) months;
- Areas where more than 10% of other properties within a two (2)-block radius are either clearly vacant, abandoned, and / or boarded-up;
- Properties that are part of new “track area developments” or newly developing areas where more than 25% of other nearby properties within a one (1)-mile radius are newly constructed, homes under construction, and / or lots are for sale;
- Multifamily properties classified as Class D Properties that are not constructed using a customary method for the area in which they are located; and / or
- Illegal usage according to the local jurisdiction’s zoning code.
- Multifamily properties that do not adhere to the following for each unit: (1) minimum of 400 square feet in size; (2) contain at least one (1) fully functional three-quarter bathroom. ,which includes at minimum a standup shower, toilet and sink; (3) contain a fully functional kitchen (must meet state or local codes and contain relevant appliances); (4) all new tenants must sign a lease with a minimum term of 12 months at initial move in; and (5) month-to-month leases are acceptable, assuming: they are common in the market, the tenant signed a twelve (12) month lease at initial move-in and the lease is available either electronically or physically.

**3.3 Required Property Documentation**

The Underwriter will review the following documentation for the subject property when applicable:

- Rehabilitation Budget (if applicable);
- Appraisal (from an approved appraisal management company) showing As-Is-Value, After-Repair-Value with interior/exterior photographs;
- Purchase Contract;
- Applicable Insurance;
    1. Proof of flood insurance in an amount equal to either 100% replacement cost or the note amount (if in a FEMA declared flood zone);
    2. Proof of hazard insurance in an amount equal to either 100% replacement cost or the note amount; and
    3. Title Commitment/Policy (lenders, including assigns)
- 2nd Appraisal;
- Feasibility Report;
- Permit Documentation;
- Warranty Deed;
- Lease Agreements (Based on the Underwriter's discretion as to multifamily properties only);
- Plat Map/Survey;
- Property Condition Assessment;
- Condo Questionnaire;
- Condo Master Insurance Policy; and / or
- Documentation showing purchase price and date of purchase (for refinance transactions).

**3.4 Rehabilitation Budget**

If the borrower's business plan includes rehabilitation of the subject property, the borrower must submit a budget ("Rehab Budget") for the property containing the written scope of work and expected cost of the planned work to be completed. The rehab Budget must adhere to the following:

- Heavy rehab outside the borrower's experience will be considered by Acra Management on a case-by-case basis and will require contractor quotes/licenses and a feasibility report;
- Included **"**Hard Costs" pertain to physical construction of the property and its infrastructure which includes all labor and materials;
- Included "Soft Cost" are limited to 10% of the entire Rehab Budget and pertain to non-physical construction costs (permits, plans/architect fees, third-party contractor fees, and / or city/county inspection fees);
- Other customary items may be included with Acra Management approval;
- The written scope of work and total cost must be consistent with the property condition as reflected in the interior property photos, appraisal inspection/commentary and feasibility analysis (if applicable);
- Rehab Budgets that are less than or equal to 10% of the subject property's As-Is-Value or Purchase Price ("Insufficient Rehab") will be considered on a case-by-case basis;
- The Rehab Budget is strongly advised to include 20% of the budget devoted to unforeseen issues as a contingency and
- Items such as interest reserves, taxes, insurance, etc. are not to be included in any financed Rehab Budget.

**3.4 (a) Heavy Rehab**

Heavy Rehab consists of Fix and Flip transactions where the Rehab Budget Amount is greater than or equal to 50% but never greater than or equal to 100% of the As-Is-Value and / or 20% of current square footage being added to the subject property.

**3.4 (b)**

If the borrower is adding square footage to the subject property the

**Square footage additions**

following applies:

Purchase Transactions:

- Prior to closing: Renderings and a written detailed description of the improvements/additions to be made is required during the processing stage and prior to conditional loan approval. The addition must conform to the subject property's municipality and must be provided to the appraiser and incorporated into the appraisal report. Renderings and written detailed description do not need to be from an Architect or an Engineer.
- Post Funding: Prior to the first draw all permit(s) and any accompanying plans/specs required by the permitting agency must be provided to Acra.

Refinance Transactions:

- Prior to Closing: All permit(s) and any accompanying plans/specs required by the permitting agency must be provided to Acra. Management's discretion to move this to post funding and prior to first draw.

On a case-by-case basis Acra Management can make an exception to requiring the above documentation prior to first draw for the following items:

- Soft costs (permits/plans/architectural drawings/renderings, etc. not general contractor Fees).
- Demolition/ initial clean-up/dumpsters and labor associated thereof.

**3.5 Appraisal Requirements**

An appraisal is required for all subject properties. An automated valuation model ("AVM") or other valuation product will be utilized and reviewed subject to Acra Management discretion. Appraisals may be ordered by the Broker and/or Borrower. All loans with a rehab component must be ordered through a third-party Appraisal Management Company ("AMC"). All appraisals will be carefully reviewed by the Underwriter. For loans requiring two appraisals, the lowest value must be utilized for structuring the loan (unless otherwise approved by Acra Management).

**3.6 Second Appraisal Requirement**

A second Appraisal is required for the following:

- Single-Family Residential transactions of $2 million or more; and
- Multi-Family transactions of $3 million or more - if the first appraisal is not a commercial narrative.

**3.7 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.

**3.7 (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, who's 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.)

**3.8 Appraisal Aging**

120 days as of closing, but may be extended to 180 days with an appraisal recertification.

**3.9 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), as to Multifamily Properties (5-29 Units) only. Specific inspection requirements include:

- A minimum of two (2) occupied units;
- At least one vacant unit (if property contains vacant units);
- If the property has multiple unit types, one 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.

**3.10 Appraisal Report Inclusions**

The appraisal shall follow the policies below and address the following areas:

**3.10 (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.).

| PROPERTY TYPE | FNMA FORM |
|---|---|
| SINGLE FAMILY RESIDENCE | URAR – Uniform Residential Appraisal Report (FNMA Form 1004 dated 09/2011) |
| PLANNED UNIT DEVELOPMENT (PUD) | URAR – Uniform Residential Appraisal Report (FNMA Form 1004 dated 09/2011) |
| CONDOMINIUM UNITS | Individual Condominium Unit Appraisal Report (FNMA Form 1073 dated 09/2011) |
| 2-4 FAMILY UNITS | Small Residential Income Appraisal Report (FNMA Form 1025 dated 03/2005) |
| 5-29 FAMILY UNITS | Small Residential Income Appraisal Report (FHLMC Form 71B dated 08/1977) |

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| **3.10 (b)**<br>**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. |
| **3.10 (c)**<br>**As-is-Value (AIV) & After-Repair-Value (ARV)** | The appraisal must indicate the following for the subject property:<br>• The As-Is-Value as supported by comparable properties in proximity to the subject property that are similar in schematics and / or amenities;<br>• The After-Repair-Value (for transactions including rehab) accounting for the proposed rehab and supported by comparable properties that are similar in schematics and / or amenities currently listed for sale or recently sold in proximity to the subject property; and / or<br>• Comment(s) as to the anticipated effect on the subject property's marketability and appeal if the As Repair Value of the subject property is more than 5% above or below the range for properties in the proximity.<br><br>If the property has a sales price, As-Is-Value, and / or After-Repair-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. |
| **3.10 (d)**<br>**Appraisal Rehab Budget** | All subject properties that will be rehabbed are required to contain a rehab budget within the appraisal report.<br><br>Allowable budget variances between initial budget within appraisal report and final underwritten budget:<br>• Contingencies – if the only difference between the budget within the appraisal report and the underwritten budget is the contingency's addition or removal, Acra will allow the appraisal report to proceed as is without requiring the budget within the appraisal report to be updated. |
| **3.10 (e)**<br>**Condominium Concentration** | Acra Lending may finance borrowers that acquire more than one unit of a condominium project. In these cases, the underwriter will carefully consider the risk related to securing two or more units in the same project. Extra attention will be given to the additional concentration risk related to valuation, exit strategy, and Government-Sponsored Entity (GSE) requirements. |
| **3.10 (f)**<br>**Condominium Valuation** | Fix and Flip projects in which the subject property is a condominium with five (5) or more units require After-Repair-Value on both an "As Stabilized" market rental value and "As Complete" market value gross sellout condo value (As-Is-Value based on market rental value only). |
| **3.10 (g)** | The growth rate reveals how the neighborhood is developing. If it is |

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| **Growth Rate** | 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. |
| **3.10 (h) 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. |
| **3.10 (i) 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. |
| **3.10 (j) 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. For example, properties in resort areas that attract people for seasonal or vacation use are acceptable only if they are suitable for year-round use. 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. |
| **3.10 (k) 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. |
| **3.10 (l) 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. |
| **3.10 (m) Neighborhood Comments** | The appraisal should describe the following:<br>• The neighborhood boundaries and characteristics;<br>• Favorable or unfavorable changes (within the previous year) that affect the marketability of neighborhood properties; and / or<br>• 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). |

**3.10 (n) 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.

**3.10 (o) Over-Improvement**

The Underwriter will consider whether a property in an urban area is among those being rehabilitated. Demand for rehabilitated urban houses is increasing; a house should not be considered over-improved if there is a strong market interest as evidenced by the existence of comparable properties. Often, an over-improvement can be identified by:

- A sales price or indicated value that exceeds the neighborhood range; and / or
- A lack of reasonably comparable properties.

**3.10 (p) 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.

**3.10 (q) 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 multi-family properties.

**3.10 (r) 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.

**3.10 (s) 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.

**3.10 (t) Location Map**

The location map must locate the subject property and all comparable properties (including sale, rental and, listing comparable as applicable). The map should also disclose the street names of the subject property and comparable sales.

**3.10 (u) Plat Map / Survey**

In states where available, a plat map (a survey from the title commitment if applicable) showing the location of the subject property with the dimensions of the lot size may be required to be obtained on a case-by-case basis.

**3.10 (v) Floor Plan / Building Sketch**

Each Appraisal shall include:

- A sketch showing the location of all rooms and exterior doors; and
- Location of interior walls and doors is required if a condition of functional obsolescence is noted.

NOTE: Interior floor plan sketches are not mandatory on *Multifamily* props.

**3.10 (w) Exterior Sketch**

The exterior sketch of the improvements must include the dimensions and calculations that the appraiser used to determine the size of the subject property. An exterior building sketch is used for detached one-unit properties and end PUD units; an interior perimeter sketch is acceptable for condominium units and interior PUD units. For properties with more than one unit, the sketch must include each unit's layout and entries, indicate the square feet of living area per unit, and the gross building area.

**3.11 Feasibility & Property Condition Assessment**

Borrower must obtain a project review and feasibility study (including a review of the budget/scope, proposed plans, and permitting status) and / or obtain a Property Condition Assessment (PCA/PCR) from an approved vendor satisfactory to Acra as set forth below when any of the following conditions apply:

- Change of use – i.e., properties purchased as five (5) units and converted to three (3) luxury units;
- 20% Expansion;
- Appraisal / appraisal review cites structural concern;
- Projects with Heavy Rehab; and / or
- Per Underwriter discretion and/or for project budgets > $1.0 Mil.

**3.12 Rent Control Consideration**

Properties subject to rent control require consideration of the lower of the prevailing rent control rent and the market rents for both an As-Is-Value and After-Repair-Value basis.

**3.13 Insurance Requirements**

Acra requires that the borrower obtain applicable insurance for all transactions. Insurance must be either obtained by the Borrower during underwriting of the loan or paid prior to closing.

General requirements:

- Evidence of insurance or declaration page is required.
- Binders are acceptable on purchase transactions with proof of paid receipt (must be paid in full 12 months).
- The subject property address must be on the policy.
- The insurance company must be duly authorized and licensed

where required by law to transact insurance business and approved as an insurer by Fannie Mae or Freddie Mac or GNMA as applicable.

Specific insurance considerations are as follows:

**3.13 (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 herein.

**3.13 (b) Name of Insured**

The Evidence of Property Insurance must show:

- Borrower and if applicable co-borrower must be reflected - the name of the borrower(s) exactly as it appears in the loan documents.
- Entity/trust loans - the entity name must be listed. The guarantor(s) may be an additional insured.

The insurance policy must reflect the following mortgagee clause along with Acra's loan number. No other party can be included.

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

**3.13 (c) 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.

**3.13 (d) 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.

**3.13 (e) Purchase Transaction Insurance**

The loan file must contain verification that the premium period is at least twelve (12) months with a start date no more than 30 days prior to the day of closing and the premium has been paid in full or paid through closing. Installment payment of premiums is prohibited.

**3.13 (f) Refinance Transaction Insurance**

For refinance transactions, the policy must be an annual policy and cannot expire less than one month from the date of Funding. If expiring, a copy of the renewal policy is required in addition to the current policy. The new policy must be a 12-month policy and must be paid through closing.

- Policy start date to be no more than 30 days prior to the date of funding - if new policy.
- If the term of the loan is 18 months or less and no impounds are

required, Acra can accept a 6-month policy that cannot expire less than one month from the date of Funding.

**3.13 (g)**
**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.

- A flood certificate is pulled on every loan. If a property is in a flood zone, flood insurance is required.
- Flood insurance is reviewed for all the same insurance requirements.
  - The one item that is reviewed differently on flood insurance is the Amount of Coverage.
    - The amount of coverage should cover the loan amount up to a max $250k. If loan amount exceeds $250k generally they will not increase the coverage past this amount. However, if they do have coverage more than $250k it is acceptable.

**3.13 (h)**
**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.

**3.13 (i)**
**Amount of Coverage**

If transaction does not involve property rehab, basic coverage versus special coverage is acceptable.

If transaction involves property rehab, hazard insurance policy with builder's risk endorsement or a builder's risk policy is required.

Single Family Residential and Detached Condos/Townhomes

- HO3 dwelling coverage policy is required. Coverage must be at least the lessor of the loan amount, total estimated cost of new from the appraisal or the replacement cost estimator (documentation required from the insurance agent).

- NOTE: If the policy includes extended or guaranteed replacement, the insurance agent must confirm the total coverage amount or policy must indicate 100% guaranteed replacement cost.

Condos

- HO6 dwelling coverage policy is required. H06 hazard insurance policy ("walls in coverage") that provides coverage sufficient to repair the condo unit to its condition prior to a loss claim event, as determined by the insurer.
- If the master insurance policy includes walls in (with Improvements and Betterments) a separate HO6 policy is not required. However, an endorsement to the master insurance policy is required and is reviewed for the same requirements of an HO6 policy.

**3.13 (j)**
**Insurance Deductible and Premiums**

Premiums:

- The Insurance Policy must reflect the total annual premium or invoice must be provided.
- Refinances – Insurance policy must show paid in full or proof of $0 invoice required. If there are any outstanding premiums it must be paid through Closing.
- Purchases – Insurance policy must be paid in full or paid through Closing.
- Binders - on Purchase transactions must be paid in full in advance of Closing/Funding.
- Flood Insurance – Must be paid in full prior to closing/funding unless it is an existing policy that has already been paid.

**3.13 (k)**
**Condominium Insurance Policy**

If the project is a part of a condominium association, Acra must review the condo project insurance policy to ensure the homeowners' association maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. If the policy is a blanket/master policy, Acra must receive a certified true copy of the Declarations page of the policy that shows the subject property is clearly identified within the blanket/master policy.

Master insurance policies will be reviewed for the following:

- Walls Out – If the condo master insurance policy is walls out only, Acra reviews for the following:
    - Correct HOA name as the Insured Party.
    - Building subject property is located in is listed on the policy.
- Walls In – If the condo master insurance policy also contains walls in coverage, Acra will require the following:
    - Same requirement as HO3 Policy on an endorsement to the condo master insurance policy.

**3.13 (l)**
**Title Insurance**

Satisfactory title insurance coverage will be obtained for all loans, with the title insurance policy naming the beneficiary(s) the Underwriter (or the appropriate affiliate/subsidiary) as the insured and providing title insurance in an amount equal, at a minimum, to 100% of the total loan amount. Upon discretion, Title Indemnity Agreements and Mechanic Lien Endorsements will be requested by the Underwriter, and under certain circumstances the Underwriter will obtain receipt of appropriate lien waivers prior to disbursement of proceeds. The Underwriter will perform periodic title examinations based on loan and credit quality performance. Commitment must be free and clear of manual mark-ups or changes.

**3.14 Title Policy Requirements**

The Underwriter requires a lender's title policy for each loan. The Underwriter must review the preliminary title policy/title commitment when underwriting the loan. Prior to funding, the title officer must execute closing instructions letter as evidence of his / her commitment to issue a final title policy that meets the following specifications:

- The Policy shall be an ALTA 2006 Extended Coverage policy from a reputable title company (Fidelity, First American, Stewart, Old Republic, Chicago, Westcor and their respective family of companies are acceptable);
- The name of the insured shall be Citadel Servicing Corporation, ISAOA;
- The amount of coverage shall be 100% of the total loan amount;
- The estate shall be a fee and vested in the name of the Borrower;
- The insured deed of trust shall be the Deed of Trust;
- The Deed of Trust shall be in first priority lien position;
- The insured Deed of Trust shall only be subject to the exceptions approved by the underwriters;
- All taxes, liens, and assessments must be paid current at closing unless preapproved by the Underwriter;
- No mortgages, deeds of trust and / or liens shall be shown as existing in subordinate position to the Deed of Trust unless preapproved by the Underwriter; and
- The policy shall contain the following endorsements (in the form applicable to the corresponding state):
    1. CLTA 100/ALTA 9-06 (Restrictions, Encroachments, Minerals);
    2. CLTA 116/ALTA 22-06 (Location); and
    3. CLTA 110.9/ALTA 8.1 (Environmental Protection Lien).

**3.14 (a) Ineligible Title Policy Exceptions**

The Underwriter will generally not allow any of the following exceptions for Title Policies:

- Any facts, rights, interests, or claims which are not shown by the Public Record but which could be ascertained by an inspection of the Land;
- Easements, liens, or encumbrances not shown by the Public Record;
- Discrepancies, conflicts in boundary lines, shortage in area, encroachments, or any other facts which a correct survey would disclose, and which are not shown by the Public Records;
- Any lien or right to a lien for services, labor or material not shown by the Public Records;
- Rights and claims of tenants;
- Rights and claims of parties in possession; and / or
- Previous deeds of trusts.

**3.15**
**Draw Process**

In order to fund renovation / escrow releases, the borrower must first submit a draw request to Acra. Draw requests must include photos of the completed work along with any paid invoices and / or receipts. Draw requests will be reimbursed for each line item based on the percentage of completion on that specific line item on the inspection. At all times draw requests will be limited by the percentage of completion on the line and the overall percentage of completion of the overall project per the inspection from a third party. Prior to any release of draw funds, a property inspector will ensure that the budgeted rehab work has been completed. The borrower's draw request(s) must coincide with the line items outlined in the submitted Rehabilitation Budget. For projects where there is a contemplated change in intended use or zoning (i.e.: condo conversions), Acra requires proof that the project has received the required permitting and approved plans by the city prior to disbursing funds for coinciding hard cost Rehab Budget items. Acra reserves the right to require one or a combination of a conditional or unconditional lien waiver, title search, or title date down prior to funding draw disbursements for certain projects.

The borrower will be responsible for the cost of all inspections and Acra's out of pocket costs related to the draw review and release of funds.

To facilitate advancement of approved Rehab Budget funds, the Borrower must follow the Draw Process parameters as follows:

**3.15 (a)**
**Draw Requests**

For each request for disbursement of Rehab Budget funds, the Borrower must submit a draw request to Acra. Draw requests:

- Must coincide with line items outlined in the final approved Rehab Budget;
- Must be accompanied by any paid invoices, receipts, and / or photos of completed work;
- limited to two (2) per month and nine (9) total disbursements; and
- Contingency fund disbursements are based on overall percentage of completion, to be disbursed as needed as the project is progressing.

**3.15 (b)**
**Draw Inspections**

Draw Inspections will be completed by a property inspector and are required for:

- Confirmation of completed work prior to disbursement of funds;
- Confirmation of progress towards completion regarding reimbursements for deposits and/or advancements; and / or
- Confirmation of project progress before disbursing remaining balances if funds have been reimbursed for deposits as evidenced by invoices and /or paid receipts.

Acra will review and approve the vendor draw inspection / report considering the approved Rehab Budget and the draw request prior to authorizing the release of any draw reimbursements.

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| **3.15 (c)**<br>**Draw Disbursements** | Draw Disbursements consist of funds disbursed to the Borrower following review of the draw inspection report for:<br>• Up to the first 20% of the final approved Rehab Budget without paid invoices and / or receipts (on a case-by-case basis subject to Acra Management approval);<br>• Deposits as accompanied by paid invoices and / or receipts (on a case-by-case basis subject to Acra Management approval);<br>• Reimbursement for completed work accompanied by paid invoices / receipts, and photos.<br><br>Draw disbursements must be facilitated by wire to the Borrower's or Guarantor's account information on file. |
| **3.16**<br>**Underwriting Confirmations** | As part of the underwriting process, the Underwriter will confirm the following items: |
| **3.16 (a)**<br>**Advance Formula** | In order for the loan to be approved, the Purchase Price, As-Is-Value, and / or After-Repair value must support the loan advance formula as indicated herein. |
| **3.16 (b)**<br>**Trading Market** | The Underwriter will thoroughly research the market area of the property to evaluate current and local market conditions. |
| **3.16 (c)**<br>**Clean Title** | The Underwriter will confirm that the collateral property is free of any encumbrance or lien, other than the lien of the Underwriter's security instrument. |
| **3.16 (d)**<br>**Back Taxes** | The Underwriter will confirm whether the collateral property is free of any tax encumbrance and that all taxes are paid and current by closing. The Underwriter reserves the right to collect and confirm taxes are paid through loan proceeds advanced at closing. |

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| **3.16 (e)**<br>**Borrower Profile** | The Underwriter will evaluate an overall profile which include the Borrower's financial capacity, the Borrower's track record, and experience in the renovation business, the property As-Is valuation, the repair budget and the potential to achieve the After-Repair value. These elements, together with the marketing strategy, the exit strategy and the overall Borrower financial profit expectation will be considered. As such, the Underwriter will confirm adherence to the appropriate set forth below. |
| **3.16 (f)**<br>**Exit Strategy** | The Underwriter will review and confirm that the marketing strategy conforms to the underwriting expectation of price and time. Further, the Underwriter will assess that the plan is achievable within the local market conditions of the property. |
| **3.16 (g)**<br>**Project Profitability** | The Underwriter will review the Borrower's financial assumptions to confirm that appropriate profit assumptions are realizable and provide enough incentive to complete the project as conceived. |
| **3.16 (h)**<br>**Title Disbursement Endorsements** | On large construction loans where rehab is greater than or equal to 50% of the After-Repair-Value, the Underwriter will request the ALTA 32.2 endorsement to be attached to the ALTA loan policy. If the ALTA 32.2 endorsement is requested at the time of closing, title's underwriter will not need to review and approve each draw request. |
| **3.16 (i)**<br>**Deed of Trust Verification** | The Underwriter will request a digital copy of the recorded Deed of Trust in two days from the funding date, to verify the lien was recorded properly in first position. The physical copy of the recorded Deed of Trust will be mailed approximately within ten days of the funding date. If the physical copy of the recorded Deed of Trust is not received within four weeks of the funding date, then a copy can be requested from the County Clerk's office from the County in which the property is located. Requests must be made in writing and may take up six weeks before receiving a response. |
| **3.17**<br>**Multifamily Underwriting Considerations** | The Underwriter will consider the following in its review of multifamily property submissions: |
| **3.17 (a)**<br>**Occupancy Requirements** | Lease verification is required for all occupied Multifamily loans with a maximum loan amount greater than $3 million with current occupancy greater than or equal to 50%. Acra is responsible for confirming leases of at least 20% of the occupied units by verifying to the borrower submitted rent roll, unless otherwise approved by Acra Management<br><br>Rent roll must contain unit identifier, unit type, square footage, occupancy status, lease dates, actual rent and whether any units are subject to rent control, Section 8, etcetera. The rent roll needs to be signed and dated within sixty (60) days of loan closing. |

**3.17 (b) Environmental & Seismic Assessments**

Environmental Survey Assessments are required for Multifamily properties. Loan amounts over $3 million will require for formal survey. A CDA Report will be acceptable in the alternate if the loan amount is less than or equal to $3 million.

Seismic Assessment are required for any transactions where the underwrite indicates any seismic construction concerns with a Peak Ground Acceleration (“PGA”) greater than or equal to 0.15g as computed by the Unites 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.