CHURCHILL REAL ESTATE

Residential Transitional Lending – Fix/Flip, Ground-Up Construction, Bridge

Underwriting Policy and Guidelines Manual (UPG)

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1. General Standards

Churchill Real Estate and its various affiliates/subsidiaries (commonly referred to as "Churchill" throughout this UPG) originates and acquires business purpose loans to credit worthy investors that acquire, rehabilitate, or newly construct residential and residential like properties. Without compensating factors such as low LTV and high FICO, Churchill borrowers should have a verifiable track record and liquidity. Loans are secured by first mortgage liens and, in most cases, personal guarantees. Churchill maintains the highest ethical and professional standards. All underwriting standards not specifically addressed in these guidelines are structured through "common sense" underwriting.

This manual is designed to promote credit underwriting guidance to achieve Churchill's overall financial and risk management objectives. On occasion Churchill may move forward with a loan that does not meet all applicable guidelines. Churchill retains the authority to review exceptions to these guidelines on a case-by-case basis. Churchill encourages a balanced underwriting approach with the expectation that the following characteristics are appropriately and proportionately considered:

1.A. Borrower

The Borrower should have overall financial strength, a reserved tolerance for risk, be of high integrity and have a proven track record of completing projects on time and on budget and repaying debt obligations.

1.B. Collateral

The property should be in a stable or improving market. The project to be repaired and improved should be well conceived with realistic profitability opportunity. The costs spent repairing the property should create incremental value greater than such costs.

1.C. Structure

The transaction should be priced to reflect the level of inherent risk, and the term of the loan should be appropriate to accommodate adequate improvement and a realistic marketing period. Churchill receives a first lien mortgage on each property and all loan approval decisions will consider the elements described above. The ultimate transaction pricing, structure and terms will be determined based on the characteristics of each transaction and a measurement of the transaction's inherent risks.

1.D. Investment Committee

The Investment Committee is responsible for approving every new and modified Borrower loan request. The current list of Churchill Investment Committee members is in section 9 of this UPG. The Investment Committee shall meet, at a minimum, twice per week to discuss transactions (approvals, requests for more information, etc.) and asset management issues.

2. Defined Terms and Calculations

As-Is Value

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.

After-Repair Value (ARV)

The After-Repair Value (ARV) of the subject property is the estimated sale value after renovations and improvements have been completed. When more than one appraisal is received, the minimum ARV should be used in underwriting.

Direct Construction Costs

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

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.

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

Value-Add Soft Costs

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.

Total Project Costs

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

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

Loan to Cost (LTC)

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

$$LTC = \frac{Total\ Loan\ Amount}{Total\ Project\ Cost}$$

Day 1 LTC is defined as Origination Date Disbursed Loan Amount divided by Project Costs Spent to Date

$$Day\ 1\ LTC = \frac{Origination\ Date\ Disbursement}{Project\ Costs\ Spent\ as\ of\ Origination\ Date}$$

Loan to As-Is Value (LTAIV)

Loan to As-Is Value (LTAIV) is defined as the Origination Date Disbursement divided by the As-Is Value

$$LTAIV = \frac{Origination\ Date\ Disbursement}{As\ Is\ Value}$$

Loan to As-Renovated Value (LTARV)

Loan to As-Renovated Value (LT ARV) is defined as the following:

$$LTARV = \frac{Total\ Loan\ Amount}{After\ Repair\ Value}$$

Purchase Price

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

Gross Profit Estimate

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

$$Gross\ Profit\ Estimate = ARV - Total\ Project\ Costs$$

Net Profit Estimate

Net Profit Estimate is defined as Gross Profit Estimate minus 6% of ARV minus the estimated debt service for the estimated loan duration.

$$Gross\ Profit\ Estimate - (ARV * 6\%) - (Annualized\ Interest\ Payments * \frac{Hold\ Time}{12})$$

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

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

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

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

Purchase

Purchase loans are those in which the proceeds are used to pay the property seller. A copy of the fully executed purchase contract and all attachments or addenda is required.

Delayed Finance

Delayed Finance is financing a property without existing debt within six (6) months of purchase.

Refinance

Any loan that does not meet the definition of Purchase or Delayed Finance

Cash Out Refinance

The borrower receives net proceeds (excluding third party expenses reflected on the HUD) from the Refinance that exceeds the lesser of 2% of the original loan amount or $2,000.

Rate/Term Refinance

A Refinance that is not a Cash Out Refinance

3. General Lending Criteria and Terms

Churchill offers business purpose loans to credit worthy investors that acquire, rehabilitate, or newly construct residential properties.

3.A. Origination

Loans will be underwritten by Churchill employees. If a loan is referred to Churchill by an approved Referral Partner, Churchill may pay a "finder's fee" as determined at the time of submission and agreed upon fee agreement. Churchill may also pay an "administration fee" as defined in an executed MLPA where Churchill purchased already funded loans. In all cases, loans will be subject to Churchill guidelines, policies, procedures, and quality control.

3.B Priority of Mortgages

All Churchill loans will be secured by a valid first mortgage or deed of trust lien.

3.A. Property Types

The primary property held as collateral will be non-owner occupied and may be currently uninhabitable. Specific property types are as follows:

3.A.1. Single Family Residential

This includes properties with 1-4 units that are attached and/or detached. Single family properties with rental purposes should follow the debt yield requirements in 3.A.2.B. below.

3.A.2. **Multi-family Residential/Mixed Use**

Properties that include five or more units or properties with residential space of more than 50% of the total property sq. ft. space that meet minimum Debt Yield requirements as shown below in section 3.A.2.B. Multi-family Residential and Mixed-Use property types require, at a minimum, an Experienced borrower as defined below in section 5.A.5.5.

3.A.2.A. **Gross Potential Rent (GPR)** - Lessor of annualized in place rent as verified with lease agreement and proof of most recent month rent received or annualized market rent as identified in a market rent addendum on applicable valuation report completed through an approved vendor listed in Appendix A.

3.A.2.B. **Underwritten Net Cash Flow (NCF) =** GPR - (Operating Expense % x GPR)

ARV Per Unit (Rehab Loans) or "As Is" Value Per Unit (Stabilized Bridge Loans)	Operating Expense %	Minimum Debt Yield (NCF / Total Loan Amount) *
< $150K	40%	7.00%
$151K - $500K	35%	6.00%
$501K +	30%	5.00%

* Exceptions considered on a case-by-case basis with compensating factors

3.A.3. **Low-Rise/High-Rise Condominium**

Loans on condominium properties will be considered, however in many cases Churchill may require a higher down payment.

3.A.4. **Modular Homes**

The home must be completely manufactured and properly secured on the property. It must also be high quality and comply with the Federal Manufactured Home Construction and safety standards as well as local ordinances.

3.A.5. **Mobile Homes and Cooperatives** - will not be considered for financing.

3.B. **Product Categories**

All transaction types fall under the following 3 product categories:

3.B.1. **Fix/Flip**

Six (6) to Twenty-Four (24) months in duration, subject to discretionary one-to-three-month incremental extensions described below in section 3.E. below.

3.B.2. **Ground Up Construction (GUC)**

Six (6) to Twenty-Four (24) months in duration.

3.B.3. **Bridge**

Six (6) to Twenty-Four (24) months in duration.

3.C. **Term Extensions**

Loan term extensions are considered upon the request of the Borrower and after the underwriter has verified no material characteristics, including value, have changed. Typical extension periods are between one-to-three-month increments, not to exceed a total extension period of twelve months, with fees generally between 0.25-0.50% of the total loan amount. Final approval is required by two members of the Investment Committee.

3.D. **Borrower Equity**

The Borrower is required to provide equity for the total loan amount at closing for Fix/Flip and GUC. Churchill will fund 100% of refurbishment loan disbursement requests made during life of loan. Exceptions are made on a case-by-case basis as approved by the Investment Committee.

3.E. Product Base Coupons and Origination Points

Appropriate coupons and points are based on the credit profile, market, and collateral characteristics of every loan and are disclosed on Product Rate Sheets, which are subject to Investment Committee Approval.

3.F. Amortization

Loans will be made on an interest only basis.

3.G. Payment Terms

The due date of the first payment will be no more than 60 days from the date of the note and will not permit negative amortization. Interest is payable on the first day of each month, with interest calculated and payable in arrears and the principal balance is payable at the earlier of note maturity or the date on which the indebtedness thereunder becomes immediately due and payable. In some cases, a portion of the interest may be prepaid or held in escrow or paid upon maturity.

3.H. Licensing

In most states licensing is not required for loans offered by Churchill, but legal counsel should always be sought to ensure this is correct for each loan in a new jurisdiction.

4. Underwriting Process

Churchill will perform a consistent, highly disciplined, and thorough process of underwriting each loan. Any material changes or deviations will potentially result in an updated Term Sheet being issued to counterparty or a rejection of the loan request.

4.A. Borrower Interview - Know Your Counterparty ("KYC")

Churchill (or its authorized representative) or its approved Referral Partner will conduct an interview (typically over the phone) with the prospective Borrower to obtain detailed information on the background, skill set, experience, and business plan of the Borrower.

4.B. Required Borrower Information

4.B.1. Background Check report(s) (Criminal/AML/OFAC/Patriot Act/Etc.), dated within 90 days of approval.

4.B.2. Credit reports, from a nationally recognized credit reporting agency, on all Principals in accordance with section 5.A., dated within 90 days of approval.

4.B.3. Track record report, of like and kind projects within the last 36 months, covering properties purchased, repaired, sold, or rented with supporting documentation.

4.B.4. Entity Formation Docs (if applicable)

- Operating Agreement/Bylaws
- Certificate of Formation/Articles of Organization/Incorporation
- IRS Form W-9 or Company EIN
- Certificate of Good Standing (dated within 90 days of approval)
- Signing Authority Docs (as requested)

4.C. Age of Documents

Unless outlined, Churchill will require updated documents set forth in section 4.B as appropriate, no later than 90 days after the Borrower approval date. Exceptions may be made for repeat borrowers to provide on an annual basis.

4.D. Required Property Information

Churchill requires the following documentation for each property to be financed:

4.D.1. Appraisal showing As-Is and After-Repair value to include interior/exterior photographs (dated within 90 days of approval)

4.D.2. Title Commitment/Policy (Lenders (including assigns) and owners), dated within 60 days of closing

4.D.3. Proof of hazard and/or flood insurance, if in a FEMA declared flood hazard area, in an amount equal to the lesser of 100% replacement cost or the note amount. – See Section 6 of this UPG for mortgagee clause info

4.D.4. Construction/Refurbishment Budget (if applicable)

4.D.5. For a purchase transaction, purchase agreement or Trustee Receipt (if applicable)

4.D.6. For non-purchase transactions, HUD-1/Closing Statement if purchased within 12 months of application

4.D.7. If GUC, heavy fix/flip rehab and/or structural modifications occurring:

- Plat Map/Survey
- Plans/Specifications for home, if available
- Builder's Risk Insurance, If applicable
- Permit/Entitlement Documentation

5. Underwriting Guidelines

5.A. Borrower Underwriting

Churchill will review the background of (i) all parties which control the borrower and (ii) any party which owns 20% or more of the borrowing entity directly or indirectly (collectively the "Key Principals and Entities"). Churchill requires background checks on all Key Principals and Entities described below including criminal history, OFAC, litigation, bankruptcy, judgments, and lien searches.

5.A.1. Borrower Types

Ownership must be fee simple only except in geographic regions where ground leases are the standard for that region and must be in the name of the individual Borrower, Trust, or Business Entity. Title may be in the name of the Borrower(s) or an affiliated borrowing entity provided the proper documentation is verified. Revocable and Irrevocable trusts are also acceptable provided the Note and Mortgage are executed by the trustee. Most Churchill loans including, but not limited to, loans to corporations, limited partnerships or other entities generally require personal recourse to the Guarantor.

5.A.2. Borrower Residency

Borrowers can be U.S. Citizens, Permanent Residents and Non-Permanent Resident Aliens. Resident Foreign Nationals are considered on a case-by-cases basis.

5.A.3. Borrower Equity Contribution

Borrower equity contribution is evaluated and may require any recent, large unusual and/or undocumented deposits to be sourced. Churchill will collect the Borrower Equity at closing for Fix/Flip and GUC to mitigate borrower liquidity risk as it relates to project refurbishment and completion.

5.A.4. Maximum Loan Exposure to One Borrower

Loan exposure is closely monitored and the total principal balance, to any one Borrower, shall not exceed $20,000,000 (exceptions approved on a case-by-case basis for Tier 1 borrowers).

5.A.5. Borrower Credit Guidelines

The general creditworthiness of a Borrower and any Guarantor is thoroughly reviewed to determine a Borrower's ability to repay the loan according to its terms. Such considerations are viewed as part of the overall credit approval profile, which will include consideration of equity contribution to satisfy the loan-to-value ratios, Borrower and Guarantor liquidity, track record and experience, and credit history. Additional collateral and other credit enhancements may be considered to augment and strengthen a

Borrower’s overall credit profile (e.g. holding interest and/or repair funds in escrow, requiring additional down payment or adding additional collateral). The following are used as guidelines to determine Borrower and Guarantor credit worthiness at the time of approval:

5.A.5.1 The borrower will have been discharged from bankruptcy for at least two years and four years’ time from foreclosure, short sale and/or deed in lieu.

5.A.5.2 The Borrower is generally free of any violent crime and financial related felony charges and does not have any material open judgments or pending litigation.

5.A.5.3 The Borrower must not have been 60 days late on any mortgage payment during the past 24 months. Any deviation would require exception approval from Churchill Investment Committee.

5.A.5.4 Borrower Experience calculations will be applied to determine coupon, fee and advance rate structures.

5.A.6. Personal Guaranty

In most cases, Churchill will require certain individuals that have direct or indirect involvement in the loan.

5.A.7. Borrower Experience

The Churchill underwriter will carefully consider the Borrower’s experience. The primary method of verification of Borrower experience will be satisfied by reviewing HUD statements, Tax Returns, MLS data, county records, or other verifiable sources. In most cases, the Borrower will satisfy the below minimally acceptable underwriting guidelines. On occasion, Churchill will leverage the General Contractor's track record.

5.A.7.1 The borrower should have at least 1 year of verified acceptable real estate experience. Such experience should include real estate investing; managing or owning investment properties; a licensed realtor; or operating as a licensed contractor or builder(this would include building or performing a major renovation on his/her personal residence if such person was the general contractor).

5.A.7.2 The Borrower has access to reputable contractors to successfully complete existing properties under repair plus any new properties being financed.

5.A.7.3 The Borrower has demonstrated an ability to create substantial value through the successful process of purchasing, , and selling or renting properties.

5.A.7.4 The Borrower does not currently own a substantial backlog of inventory.

5.B. Property Underwriting

5.B.1. Appraisal / Valuation

Churchill requires a third-party Uniform Residential Appraisal Report (“URAR”) to establish the current value for any collateral being pledged as part of the loan request. Churchill may require an additional automated valuation model (“AVM”) or other valuation product when necessary. The Appraisal must indicate the As-Is value and the After-Repair value, where applicable. All appraisals will be carefully reviewed by a Churchill underwriter.

5.B.2. Appraiser Qualifications

All appraisers retained by Churchill shall be licensed or qualified as independent fee appraisers and be certified by or hold designations from one or more of the following organizations: The Federal National Mortgage Association (“FNMA”), the Federal Home Loan Mortgage Corporation (“FHLMC”), the National Association of Review Appraisers, the Appraisal Institute, the Society of Real Estate Appraisers, and/or

M.A.I.

5.B.3. Appraisal Aging

Appraisal must be no more than 90 days old at the time of closing. For appraisals older than 90 days, an additional valuation shall be required.

5.B.4. Appraisal Report Disclosures

The following guidelines describe items that should be contained within the appraisal report:

5.B.4.1 Legal Description

A complete legal description of the subject property should be noted in 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.

5.B.4.2 Neighborhood Analysis

Market strength can be measured by a review of the neighborhood comments. The neighborhood should be acceptable to enough 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.

5.B.4.3 Location

The subject property may be in an urban, suburban or, in extremely rare cases, rural 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.

5.B.4.4 Condominium Concentration

Churchill may finance borrowers that acquire more than one unit of a condominium project. In these cases, the Churchill 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 GSE eligibility. These loans may require larger down payments and lower LTVs.

5.B.4.5 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.

5.B.4.6 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.

5.B.4.7 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. When property values are declining, financing will generally not be considered.

5.B.4.8 Supply and Demand

Appraisal findings of a market shortage or in balance conditions are preferable. An oversupply of housing is not desirable; it signifies that houses are selling slowly, with considerable competition and the potential for a decrease in value.

5.B.4.9 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 6 months will require careful analysis.

5.B.4.10 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.

5.B.4.11 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 mixed-use 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.

5.B.4.12 Price/ As-Is Value/ After-Repair Value

If the As-Is indicated value of the subject property is more than 5% above or below the range for properties in 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 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. Furthermore, if the property's After-Repair value significantly exceeds the prevailing values, the loan terms should generally be more conservative because the property may not be acceptable to the typical buyer.

5.B.4.13 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.

5.B.4.14 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, conforms 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.

5.B.4.15 Over Improvement

The Churchill 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. A sale price or indicated value that exceeds the neighborhood range
b. A lack of reasonably comparable properties

5.B.4.16 Neighborhood Comments

The appraisal should describe the following:

a. The neighborhood boundaries and characteristics,
b. Favorable or unfavorable changes (within the previous year) that affect the marketability of neighborhood properties,
c. 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).

5.C. Property Underwriting Confirmations

As part of the underwriting process, the Underwriter will confirm the following items:

5.C.1. Advance Formula

For the loan to be approved, the Purchase Price/As-Is and/or the After-Repair value must support the loan advance formula as indicated herein.

5.C.2. Trading Market

The Churchill Underwriter will thoroughly research the market area of the property to evaluate current and local market conditions.

5.C.3. Clean Title

The Churchill Underwriter will confirm that the collateral property is free of any encumbrance or lien, other than the lien of Churchill's security instrument.

5.C.4. Back Taxes

The Churchill Underwriter will confirm whether the collateral property is free of any tax encumbrance and that all taxes are paid and current by closing. Churchill reserves the right to collect and confirm taxes are paid through loan proceeds advanced at closing.

5.D. Property Refurbishment

The Borrower must submit a complete budget, which will indicate the entire project costs, including the cost of acquisition, hard construction, repair costs and all soft costs; however, this is generally not required if there is less than $10,000 in repairs, or Churchill uses the As-Is value as the After-Repair value (e.g. a cash out refinance on a completed property or a loan without construction draws). The proper Churchill authority will review and validate that the Borrower submitted budget properly considers the required repairs, including contingencies that support the prospective value of a repaired house. Churchill will engage in working with origination partner an approved third-party inspector with substantial construction expertise, if a rehab holdback loan amount will be established, to review and approve the Property Repair Budget of GUC loan requests and Fix/Flip loan requests with Heavy Rehab if such feasibility or budget review reports are not already provided by origination partner. Churchill Underwriter will confirm budget feasibility on standard Fix/Flip loan requests.

5.E. Business Plan and Organizational Underwriting

Churchill 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 Churchill Underwriter will confirm adherence to the following guidelines:

5.E.1. Confirmation of Marketing and Exit Strategy

Churchill 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.

5.E.2. Confirmation of Borrower Profitability

Churchill 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.

5.E.3. Confirmation of Organizational Integrity

Churchill will confirm that the Borrower has enough internal or external resources, and operational integrity to successfully achieve the business plan as conceived.

6. Closing Requirements

6.A. Loan Documentation

Churchill only accepts loan documents (i) developed by, or (ii) reviewed and approved by Churchill Legal Counsel or internal Churchill staff. Churchill's Legal Counsel or Churchill's internal staff will review all loan documents for compliance with all applicable state and federal laws and regulations.

Loan documents are to be maintained in the custody of Churchill, the originating lender (if an acquisition) or the designated escrow or title company handling the closing. For remote execution situations, mobile notaries may be used if engaged by one of the foregoing parties and instructed to not allow for any release of documents from custody. In no event, will the Borrower be allowed to have independent custody of the final loan documents for any loan. The following represents the list of loan documents required to close a loan:

- Prelim Title / Title Commitment
- HUD - 1 / Settlement Statement
- Promissory Note and prior Allonges (if applicable)
- Executed Mortgage/Deed of Trust and prior Assignments (if applicable)
- Loan Agreement (If applicable)
- Borrower Guaranty
- Certificate of Business Purpose/Non-Owner Occupancy (if not included in aforementioned docs)
- Collateral Assignment of Leases and Rent (if not included in aforementioned docs)
- Collateral Assignment of Contracts, Plans, Permits and Approvals (if not included in aforementioned docs)
- Certification of Commercial Loan and Waiver of Federal/State TIL Disclosures (if not included in aforementioned docs)
- Environmental Indemnity Agreement (if not included in aforementioned docs)
- Copy of Fully Executed Deed for purchase transactions
- Flood Certificate
- Evidence of Property/Casualty Insurance w/ Churchill (or its affiliates/subsidiaries) Mortgagee clause

All the loan documents require proper execution by initialing, signing, and dating where required. If Escrow is in receipt of the original loan documents, Churchill will accept the scanned copies to meet funding conditions.

6.B. Title Insurance

Satisfactory title insurance coverage will be obtained for all loans, with the title insurance policy naming the beneficiary(s) Churchill (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 (Purchase Price Loan Amount plus Refurbishment Loan Amount). Title Indemnity Agreements and Mechanic Lien Endorsements may be requested by Churchill, and under certain circumstances Churchill may obtain receipt of appropriate lien waivers prior to disbursement of proceeds. Churchill may perform periodic title examinations based on loan and credit quality performance. Commitment must be free and clear of manual mark-ups or changes.

6.B.1 Churchill requires a lender's title policy for each loan. Churchill must review the preliminary title policy/title commitment when underwriting the loan. Prior to funding, the title officer must execute Churchill's 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 Churchill Funding I LLC
- 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 Churchill's underwriters
- All taxes, liens, and assessments must be paid current at closing unless preapproved by Churchill
- No mortgages, deeds of trust and/or liens shall be shown as existing in subordinate position to the Deed of Trust unless preapproved by Churchill
- The policy shall contain the following endorsements (in the form applicable to the corresponding state):
    - CLTA 100/ALTA 9-06 (Restrictions, Encroachments, Minerals)
    - CLTA 116/ALTA 22-06 (Location)
    - CLTA 110.9/ALTA 8.1 (Environmental Protection Lien)

6.B.2 Churchill will generally not allow any of the following exceptions:

- 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
- Previous deeds of trusts

6.B.3 Title's Disbursement Endorsements for Construction/Refurbishment Draws on large construction loans where refurbishment is greater than 50% of the ARV, Churchill 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.

6.C. Property Hazard Insurance

Satisfactory fire and casualty insurance shall be obtained for all loans, which insurance shall name origination partner as loss payee in an amount equal to, at a minimum, the Total Loan Amount (Purchase Price Loan Amount plus Refurbishment Loan Amount) or 100% of replacement cost as determined by issuing insurance company. The mortgagee clause be included on the policy as follows:

Churchill Funding I LLC (or its affiliates/subsidiaries) ISAOA/ATIMA
1415 Vantage Park Dr. Ste 240
Charlotte, NC 28203
Loan No. __________

6.D. Flood Certificate / Flood Insurance

The property will be reviewed to determine if it is in a "flood plain" area as defined by the Federal Insurance Administration pursuant to the Federal Flood Disaster Protection Act of 1973, as amended or through a required Flood Certificate. If the property is in a flood plain area, Federal Flood Insurance will be required in the maximum obtainable amount up to the amount of loan.

6.E. Subordinate Debt / Other Encumbrances

No subordinate financing including second mortgage or seller financing is permitted on the pledged asset at the time of acquisition, without the prior written consent of Churchill.

6.F. Loan Escrows

Loan escrow deposits will be determined and required as deemed appropriate by Churchill.

6.G. Loan Funding

The designated individual from the Churchill Investment Committee will review and require that all signatures have been obtained prior to initiating an advance of loan proceeds.

6.G.1. Settlement Statement

Prior to funding, the designated Investment Committee member of Churchill reviews the Estimated Settlement Statement to verify its accuracy as well as the Final Settlement Statement, upon closing.

6.G. 2. Verification of Recording of Trust Deed

Churchill 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 in which the property is located. Requests must be made in writing and may take up to six weeks before receiving a response.

7. Loan Funding and Advances

7.A. Eligible Financed Costs

Churchill will determine the eligibility of appropriate costs and expenses to be financed. The following is a guideline of potential eligible financed costs and expenses:

In Most Cases	In Some Cases	
Property Acquisition	Lenders Fees	Appraisal Fees
Direct Construction / Rehab Costs	Title Fees	Inspection Fees
Assignment Fees	Property Real Estate Taxes	Permitting Fees
	Insurance	Architectural Fees

7.B. Net Funding

Churchill may deduct any fees, points and interest due to be paid by the Borrower out of the loan proceeds.

7.C. Refurbishment Loan

Refurbishment loan proceeds will be disbursed by Churchill only upon completion of the work phases and subsequent inspection of the property by Churchill approved vendors. The borrower may request a refurbishment loan disbursement up to 1-2x per month with a max of 9 total disbursements.

7.D. Property Inspections

Churchill will review and approve the vendor Draw Inspection Report, the Draw Request Balance Sheet, and the Construction/Refurbishment Loan Draw Request prior to authorizing the release of any loan proceeds, repair proceeds, or funds held in escrow by Churchill.

7.E. Construction/Refurbishment Loan Disbursement Procedures

7.E.1. Managing Construction/Refurbishment Loan Disbursement Process Flow

Borrower submits construction/refurbishment budget -> Borrower collects lien releases and receipts and submits funds request form -> Site visit: inspector verifies work and issues status report -> Funds remitted to borrower

- Borrower provides a detailed line-item construction/refurbishment budget to lender and inspector. The form is called the Construction/Refurbishment Loan Draw Request.
- The inspector uses the line-item construction/refurbishment budget as the basis for creating a status spreadsheet. Draw request items will correspond to line items inthe budget.
- Suppliers and or subcontractors complete work and bill for materials and services.
- The borrower collects receipts for the bills he/she pays along with unconditionallien releases, and collects invoices for bills due, along with conditional lien releases.
- The borrower completes a Construction/Refurbishment Loan Draw Request Form. Each line item on the request form corresponds to a line item on the Construction/Refurbishment Status Report; which includes:
    - Sub Account Number (SA#) from the Construction/Refurbishment Status Report form;
    - Amount Requested;

    - Party to whom the borrowers wrote the check;
    - A description work completed; and,
    - Indicate Unconditional or Conditional Lien Release obtained.
- The borrower submits the Construction/Refurbishment Loan Funds Request Form along with lien releases, copies of invoices from suppliers, paid receipts for reimbursements (credit card or bank statements), and invoices from sub-contractors.
    - Material Suppliers: Invoice must show amounts and types of material delivered and the point of delivery.
    - Subcontractors: Invoices must show where the work was performed, the total contract, and the payment being requested.
    - Conditional Lien Releases: Along with the invoice from a subcontractor or material supplier, the subcontractor or supplier must also provide a signed conditional lien release. Suppliers to the subcontractor must also providea signed lien release.
    - Unconditional Lien Release: When the borrower pays a supplier or subcontractor that person must sign an unconditional lien release to be included with the request for reimbursement.
- The inspector inspects the property, looking at each line item and ensuring that the work has been done.
- The inspector submits a report to the lender. With comments, photos and the percentage of the work completed.
- Lender approves draw request and releases funds.
- Unconditional Lien Releases: Once a subcontractor or supplier has been paid in full and has no further payment due on the job, they must sign an unconditional lien release.

8. Compliance and Federal Consumer Financial Laws

Churchill recognizes the importance of documenting the non-consumer nature of loans made to our Borrowers. Churchill must be vigilant in documenting the non-consumer (business) use of loan proceeds by the Borrower during the application process, in the transaction documents, and at closing.

The Underwriter will be on alert to recognize suspicious activity and if suspicious activity is apparent the Underwriter will:

a) Document the recognition of apparent suspicious activity,
b) Report apparent suspicious activity to the Churchill Managing Partners and Senior Vice Presidents,
c) We will report the apparent suspicious activity to the appropriate government authorities.

Bank Secrecy Act (“BSA” / Anti-Money Laundering USA Patriot Act)
The BSA requires financial institutions to assist in detecting and preventing money laundering by reporting suspicious activity that might signify money laundering, tax evasion, or other criminal activities. “Financial institution” is defined broadly to include “loan or finance companies”. The key to a sound Bank Secrecy Act program is a comprehensive BSA policy. Violations of the Bank Secrecy Act carry the highest criminal and civil penalties of any other banking law or regulation. Civil penalties for BSA non-compliance range from fines of $500, $1,000, and $10,000 per occurrence. Criminal penalties for BSA non-compliance range from $10,000 and 5 years to $500,000- and 10-years imprisonment per occurrence. Employees must be aware that penalties may be assessed based upon actions described further below:

Anti-Money Laundering (AML) Program Compliance and Supervisory Procedures
It is the policy of Churchill to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities by complying with all applicable requirements under the Bank Secrecy Act (BSA) and its implementing regulations.

Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the proceeds appear to have derived from legitimate origins or constitute legitimate assets. Generally, money laundering occurs in three stages. Cash first enters the financial system at the "placement" stage, where the cash generated from criminal activities is converted into monetary instruments, such as money orders or traveler's checks, or deposited into accounts at financial institutions. At the "layering" stage, the funds are transferred or moved into other accounts or other financial institutions to further separate the money from its criminal origin. At the "integration" stage, the funds are reintroduced into the economy and used to purchase legitimate assets or to fund other criminal activities or legitimate businesses.

Terrorist financing may not involve the proceeds of criminal conduct, but rather an attempt to conceal either the origin of the funds or their intended use, which could be for criminal purposes. Legitimate sources of funds are a key difference between terrorist financiers and traditional criminal organizations. In addition to charitable donations, legitimate sources include foreign government sponsors, business ownership and personal employment. Although the motivation differs between traditional money launderers and terrorist financiers, the actual methods used to fund terrorist operations can be the same as or like methods used by other criminals to launder funds. Funding for terrorist attacks does not always require large sums of money and the associated transactions may not be complex.

Churchill’s AML policies, procedures and internal controls are designed to ensure compliance with all applicable BSA regulations and FinCEN rules and will be reviewed and updated on a regular basis to ensure appropriate policies, procedures and internal controls are in place to account for both changes in regulations and changes in their business.

Churchill has designated the compliance officer as its Anti-Money Laundering Program Compliance Person (AML Compliance Person), with full responsibility for Churchill’s AML program. The compliance officer has a working knowledge of the BSA and its implementing regulations and is qualified by experience, knowledge, and training. The duties of the AML Compliance Person will include monitoring Churchill’s compliance with AML obligations, overseeing communication and training for employees. The AML Compliance Person will also ensure that Churchill keeps and maintains all the required AML records and will ensure that Suspicious Activity Reports (SARs) are filed with the Financial Crimes Enforcement Network (FinCEN) when appropriate. The AML Compliance Person is vested with full responsibility and authority to enforce Churchill’s AML program.

Churchill will provide FinCEN with contact information for the AML Compliance Person, including: (1) name; (2) title; (3) mailing address; (4) email address; (5) telephone number; and (6) facsimile number through the FinCEN Contact System (FCS). Churchill will promptly notify FinCEN of any change in this information through FCS and will review, and if necessary, update, this information within 17 business days after the end of each calendar year. The annual review of FCS information will be conducted by the compliance officer and will be completed with all necessary updates being provided no later than 17 business days following the end of each calendar year. In addition, if there is any change to the information, the compliance officer will update the information promptly, but in any event not later than 30 days following the change.

Rules: 31 C.F.R. § 103.120; FinCEN Rule 3310, NASD Rule 1160.

Churchill Finance LLC Cooperation with Federal Agencies
Churchill will cooperate with any and all federal agency requests for information as it pertains to applicable laws.

Checking the Office of Foreign Assets Control Listings
Before beginning a transaction, and on an ongoing basis, the compliance officer will check to ensure that a customer does not appear on the SDN list or is not engaging in transactions that are prohibited by the economic sanctions and embargoes administered and enforced by OFAC. (See the OFAC Web site for the SDN list and listings of current sanctions and embargoes). Because the SDN list and listings of economic sanctions and embargoes are updated frequently, the compliance officer will consult them on a regular basis and subscribe to receive any available updates when they occur. With respect to the SDN list, the compliance officer may also access that list through various software programs to ensure speed and accuracy. See also FINCEN's OFAC Search Tool that screens names against the SDN list. The compliance officer will also review existing accounts against the SDN list and listings of current sanctions and embargoes when they are updated, and he will document the review.
If it is determined that a customer is on the SDN list or is engaging in transactions that are prohibited by the economic sanctions and embargoes administered and enforced by OFAC, they will reject the transaction. CHURCHILL will also call the OFAC Hotline at (800) 540-6322 immediately.

Customers Who Refuse to Provide Information
If a potential or existing customer either refuses to provide the information described above when requested, or appears to have intentionally provided misleading information, Churchill will not begin a new transaction. In any case, our AML Compliance Person will be notified so that we can determine whether we should report the situation to FinCEN on a SAR.

Verifying Information
Based on the risk, and to the extent reasonable and practicable, Churchill will ensure that they have a reasonable belief that they know the identity of their customers by using risk-based procedures to verify and document the accuracy of the information they get about their customers. The compliance officer will analyze the information they obtain to determine whether the information is sufficient to form a reasonable belief that they know the identity of the customer (e.g., whether the information is logical or contains inconsistencies).

Churchill will verify customer identity through documentary means, non- documentary means or both. They will use documents to verify customer identity when appropriate documents are available. Considering the increased instances of identity fraud, they will supplement the use of documentary evidence by using the non-documentary means described below whenever necessary. Churchill may also use non- documentary means if they are still uncertain about whether they know the true identity of the customer. In verifying the information, Churchill will consider whether the identifying information that they receive, such as the customer's name, street address, zip code, telephone number (if provided), date of birth and Social Security number, allow them to determine that they have a reasonable belief that we know the true identity of the customer (e.g., whether the information is logical or contains inconsistencies).

Appropriate documents for verifying the identity of customers include the following:

a) For an individual, an unexpired government-issued identification evidencing nationality or residence and bearing a photograph or similar safeguard, such as a driver's license or passport; and
b) For a person other than an individual, documents showing the existence of the entity, such as certified articles of incorporation, a government-issued business license, a partnership agreement, or a trust instrument.

Churchill understands that they are not required to take steps to determine whether the document that the customer has provided to them for identity verification has been validly issued and that they may rely on a government-issued identification as verification of a customer's identity. If, however, they note that the document shows some obvious form of fraud, they must consider that factor in determining whether they can form a reasonable belief that we know the customer's true identity.

Churchill will use the following non-documentary methods of verifying identity:

a) Independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database or other source
b) Checking references with other financial institutions; or
c) Obtaining a financial statement.

Churchill will use non-documentary methods of verification when:

a) The customer is unable to present an unexpired government-issued identification document with a photograph or other similar safeguard;
b) Churchill is unfamiliar with the documents the customer presents for identification verification;
c) The customer and firm do not have face-to-face contact; and
d) There are other circumstances that increase the risk that Churchill will be unable to verify the true identity of the customer through documentary means.

Churchill will verify the information within a reasonable time before or after the transaction begins. Depending on the nature of the requested transactions, they may refuse to complete a transaction before they have verified the information, or in some instances when they need more time, they may, pending verification, restrict the types of transactions or dollar amount of transactions. If they find suspicious information that indicates possible money laundering, terrorist financing activity, or other suspicious activity, they will, after internal consultation with Churchill's AML Compliance Person, file a SAR in accordance with applicable laws and regulations.

Churchill recognizes that the risk that they may not know the customer's true identity may be heightened for certain types of accounts, such as an account opened in the name of a corporation, partnership or trust that is created or conducts substantial business in a jurisdiction that has been designated by the U.S. as a primary money laundering jurisdiction, a terrorist concern, or has been designated as a non- cooperative country or territory. They will identify customers that pose a heightened risk of not being properly identified. They will also take the following additional measures that may be used to obtain information about the identity of the individuals associated with the customer when standard documentary methods prove to be insufficient, such as obtaining information about beneficial ownership, individuals with authority or control over such account.

Rule: 31 C.F.R. §103.122(b).

Lack of Verification

When Churchill cannot form a reasonable belief that they know the true identity of a customer, they will do the following: (1) not proceed with the transaction; (2) impose terms under which a customer may conduct transactions while they attempt to verify the customer's identity; (3) and determine whether it is necessary to file a SAR in accordance with applicable laws and regulations.

Rule: 31 C.F.R. §103.122(b)(2)(iii).

Recordkeeping

Churchill will retain records of all identification information for five years after the transaction has been closed; They will retain records made about verification of the customer's identity for five years after the record is made.

Rule: 31 C.F.R. §103.122(b)(3)

Notice to Customers

Churchill will provide notice to customers that they are requesting information from them to verify their identities, as required by federal law.

Reliance on Another Financial Institution for Identity Verification
Churchill may, under the following circumstances, rely on the performance by another financial institution of some or all of the elements of our CIP with respect to any customer that is opening an account or has established an account or similar business relationship with the other financial institution to provide or engage in services, dealings or other financial transactions:

a) when such reliance is reasonable under the circumstances;
b) when the other financial institution is subject to a rule implementing the anti-money laundering compliance program requirements of 31 U.S.C § 5318(h), and is regulated by a federal functional regulator; and
c) when the other financial institution has entered into a contract with our firm requiring it to certify annually to us that it has implemented its anti- money laundering program and that it will perform (or its agent will perform) specified requirements of the customer identification program.

Rule: 31 C.F.R. § 103.122(b)(6).

Emergency Notification to Law Enforcement by Telephone
In situations involving violations that require immediate attention, such as terrorist financing or ongoing money laundering schemes, Churchill will inform the appropriate law enforcement authority. If a customer or company appears on OFAC's SDN list, they will call the OFAC Hotline at (800) 540-6322. Other contact numbers they will use are: FinCEN's Financial Institutions Hotline ((866) 556- 3974) (especially to report transactions relating to terrorist activity), local U.S. Attorney's office, local FBI office. If they notify the appropriate law enforcement authority of any such activity, they will still file a timely SAR.

Although they are not required to, in cases where they have filed a SAR that may require immediate attention by the SEC, we may contact the SEC via the SEC SAR Alert Message Line at (202) 551-SARS (7277) to alert the SEC about the filing. CHURCHILL understands that calling the SEC SAR Alert Message Line does not alleviate their obligations to file a SAR or notify an appropriate law enforcement authority.

Rule: 31 C.F.R. § 103.19.

Responding to Red Flags and Suspicious Activity
When an employee of Churchill detects any red flag, or other activity that may be suspicious, he or she will notify the compliance officer of suspicious activity. Under the direction of the AML Compliance Person, Churchill will determine whether or not and how to further investigate the matter. This may include gathering additional information internally or from third-party sources, contacting the government, freezing the account and/or filing a SAR.

Appendix A

List of Approved 3rd Party Vendors and Relationship

Valuation

1-4 Family	Multifamily/Mixed-Use
Service Link	BBG
Single Source	CBRE
Red Bell / Radian	Colliers
Clear Capital	Cushman & Wakefield
Accurate Group	Bowery Valuation
Mercury Network	Newmark Knight Frank
Pro Teck	JLL
LRES	Valbridge Property Advisors
Fastapp	
ValuationLink	
Incenter AM	
Bowery Valuation	
Appraisal Nation	

Property Inspection / Budget Reviews

Trinity	CCDI
Granite	CM&D
Buildzig	Varian
CFSI Loan Management	Contech
AMS Commercial Real Estate	Newmark Knight Frank
NVMS	Newbanks
NWCC	Partner ESI
Built	CREtelligent

PCA / Environmental Screening & Phase 1 / Seismic Assessment

AEI Consultants
CBRE (IVI)
EDR Risk Ratings Report
GRS Group
Partner ESI
CREtelligent