2021

MASTER CREDIT POLICY

The purpose of this policy is to provide a summary of the basic documentation and information requirements for funding eligible loans under Velocity Commercial Capital’s (“VCC”) program(s). Use of this confidential information is restricted to VCC and its employees.

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The underwriting guidelines contained herein provide a standard that all employees should adhere to. VCC may implement additions or modifications to this Guide from time to time and will provide written notification of such changes.

1. INTRODUCTION

1.1 LENDING OVERVIEW

VCC originates Business Purpose Loans nationwide from $75,000 to $5,000,000. Loans are to be generated through a network of mortgage brokers, mortgage bankers, and financial institutions developed by VCC. The loans are processed, underwritten and packaged to standards which meet VCC guidelines.

VCC’s loan program is designed for efficient origination for existing properties nationwide. In addition, the physical life of the property and its systems should sustain a satisfactory occupancy level over the term of the loan with normal levels of management and maintenance.

Loans under this program generally require full recourse to the borrower(s), and a personal guarantee for loans made to an entity.

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1.2 ELIGIBLE PROPERTY TYPES

VCC originates loans secured by most income producing commercial and multifamily property types such as the following:

 Multifamily 5+ units

 Office

 Mixed Use

 Retail

 Warehouse

 Self-Storage

 Auto Services

~~~~ Investor 1-4 units

 Mobile Home Parks

 Day Care Facilities

2. PROCEDURES

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2.1 GENERAL DEAL FLOW/METHODS OF ORIGINATION

General deal flow for VCC’s commercial lending program consists of the following phases:

Initial Application Package/Deal Submission

 Complete 1003 or other reasonably acceptable commercial application form

 File or transaction documentation/summary

 Borrower/credit determination

Prescreen

 Property valuation estimate

 Credit

 Debt-coverage-ratio

Loans are reviewed and prescreened by LO’s to determine whether the loan request meets VCC’s lending guidelines. LO’s may quote transactions based on the Pricing Matrix if sufficient documentation has been presented for review.

Upon receipt of executed Conditional Loan Approval and appraisal/valuation payment the loan is assigned to the operations department for processing.

Complete Submission Package

 A complete submission package shall contain all documents required to complete underwriting and final loan approval. A typical package shall contain the following:

 loan application with accurate figures demonstrating the borrower’s financial condition

 Photos of the subject property

 Signed Conditional Loan Approval by borrower demonstrating acceptance of approved terms  Necessary items as indicated on the underwriting conditions checklist

Valuation Review – Real Estate Group

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 Valuation review of 3rd party reports is completed by Velocity’s internal Real Estate Group.  Our Real Estate team analyzes each valuation report and any/all additional market data to conclude to a final internal Velocity Value.

Underwriting

 Receipt of good-faith-deposit and/or confirmation of completed appraisal/valuation order request (for third party reports) and executed CLA

 Appraisal ordered

 Submit application for Environmental insurance approval (on applicable property types)

 Appraisal reviewed

 Final Loan/Pricing approval

Once the file has been underwritten in accordance with VCC’s current guidelines the loan will be sent to closing. Closing Procedures

 Review Preliminary Title Report

 Pay Current all taxes, supplemental taxes

 Remove all existing liens, Deeds of Trusts, delinquent taxes, judgments, tax liens, unacceptable items  Specify necessary endorsements. (See Section 2.5.1.)

 Order underlying documents if necessary

 Order loan documents

 Prepare funding figures and wire

2.2 CREDIT AUTHORITY GUIDELINE

The Chief Credit Officer (“CCO”) will have final approval authority over all loan requests. In the absence of the Chief Credit Officer, a member of the Senior Management team will have equal approval authority.

Loan Approval forms must be completed by the underwriter and submitted to the Chief Credit Officer for accuracy, completeness and approval. Underwriters will have the following authority levels:

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o Level 1 (L1): $250,000

o Level 2 (L2): $500,000

o Level 3 (L3): $750,000

o Level 4 (L4): $1,000,000

Loans > Underwriter approval level require CCO or senior management approval.

2.3. GENERAL LENDING OUTLINE

Permanent Financing

Product Description Permanent financing for stabilized properties. Traditional minimum: $100,000

Loan Amounts Property Types

Investor 1-4 minimum: 75,000

Maximum loan amount: $ 5,000,000

Income Producing Commercial, Multifamily and Investor 1-4unit types considered.

|  |  |
| --- | --- |
| Minimum Debt  Service Coverage  Ratio (DSCR) | 1.20x Multifamily, & Mixed-Use – Traditional I >$500K 1.25x Commercial – Traditional II >$500K  (based on lower of market or existing rents)  Loan amounts <or = $500k No minimum required DSCR, underwriter’s discretion |

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Owner User

At the underwriter’s discretion, a 1.00 DSCR is required

on all owner user traditional 1 & 2 transactions, except in

the following cases:

No minimum DSCR is required for refinance transactions

with loan amounts <or = $500,000 or purchase

transactions with loan amounts < or = $750,000

Investor 1-4 units

No minimum required, underwriter’s discretion

Amortization Fully Amortizing up to 30-Years

Prepayment penalty is required on all loans (If allowed by

Prepayment Penalty

law). Multiple prepayment penalty options available. Ability to prepay up to 20% of principal within any rolling 12-month period without prepayment premium.

Assumable Yes, assumption is subject to borrower’s credit qualification and approval by VCC.

Full Fixed: Fixed for duration of loan term

Loan Type

Hybrid: initial fixed rate-period, which adjusts to the relevant index plus margin on the first change date after the fixed rate period and every six months thereafter.

|  |  |
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| Index | Six-Month LIBOR (average of London Interbank Offered Rates for six-month U.S. dollar deposits in the London market, based on quotations of major banks) and/or Wall Street Journal Prime Rate (WSJP). |

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Margin / Caps For current rates, margins and interest rate caps, consult VCC Permanent Rate Sheet Matrix.

|  |  |
| --- | --- |
| Floor | All loans are floored at the start rate. |

Mini-Perm/Bridge Financing

Medium term financing for acquisition, rehabilitation and

Product Description

development/stabilization of commercial income properties.

Loan Amounts Minimum: $ 750,000

Maximum: $ 5,000,000

All Income Producing Commercial and Multifamily types

Property Types

Minimum Debt Service Coverage Ratio (DSCR)

considered.

1.2 based on stabilized rents

|  |  |
| --- | --- |
| LTV/LTC | Maximum 75% of stabilized value  80% of cost |

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Amortization Interest Only

Prepayment penalty is required on all loans, minimum one

Prepayment Penalty

year of interest.

Future Advances Yes, advances available for tenant improvements and/or rehab improvements.

Loan Term 2-3 year initial term, with 12 month extensions available to a maximum of 5 years.

Interest Rate Fixed rate or variable

Margin / Caps For current rates, margins and interest rate caps, consult VCC Mini-Perm/Bridge Rate Sheet Matrix.

Floor All loans are floored at the start rate.

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| --- | --- |
| Recourse | Loans can be full or non-recourse. |

3. GENERAL APPRAISAL GUIDELINES

3.1. INTRODUCTION

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The appraisal policy has been compiled to promote a high level of consistency throughout the department. Our common approach to commercial real estate lending is as follows: responsible underwriting rooted in accurate and reasonable real estate values. By setting forth our valuation philosophy each analyst should give the same basic answer to the same question over and over again. The goal of the policy is not to dictate to the analyst specifically how to derive value in every case, but rather, to give each analyst the tools needed to reach a reasonable value conclusion

Third Party Reports

We seek the value that equates to the most probable price a property would achieve if marketed in accordance with market parameters. An equally important part of the process is analyst feedback. VCC maintains a database of appraisers in order to track their performance. After each review, it is highly recommended that the analyst adds his or her comments to the vendor database, so that prior to the next solicitation of this appraiser we can, if necessary, determine the scope of the pre engagement discussion.

3.2 APPRAISAL AND APPRAISER REQUIREMENTS

Appraiser

Requirements Appraisers must be approved by the VCC Real Estate Group and

must be duly licensed where applicable.

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| Valid Period | An appraisal report is valid for six (6) months from date of valuation. An appraisal report with an update of value will be considered on a case-by-case basis by the Appraisal department. |

Appraiser Classifications

New appraisers are added as “probation,” our entry level classification. As mentioned earlier, our highest classification is “approved.” Other classifications include “preferred” and “prevent use.” Following is a brief description of each classification.

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Approved

They fully understand our philosophy, provide good, relevant data and call the value as they see it without being swayed by outside influences. Agreement ratio is very high.

Preferred

They are dependable and provide good, supportable values but fall just short of Approved. With more work, meetings or counseling they could be elevated. Agreement ratio is high.

Probation

Recently researched appraiser who has had the VCC philosophy explained, but has not yet submitted an adequate number of reports for review.

Prevent Use

Incompetent, and/or unlicensed, high risk to the company. We will require a new appraisal.

3.3. TYPES OF APPRAISALS

Summary Appraisals

The summary appraisal is preferred and generally includes each approach, assuming each is relevant. Oftentimes, the cost approach will be omitted, especially if the subject is old, or if it is virtually impossible to derive land value. For this reason summaryappraisals include the income and sales comparison approaches.

Regardless of the type of appraisal, VCC will require our appraisers to provide an “as is” value in every case. Other values that may be derived include “as complete,” “as stabilized,” and “as completed and stabilized.” Each of these values is discussed in the next section, “The Review Process.”

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Property Inspection Reports

Property inspection reports or contractor estimates are required when the condition of the asset is undergoing a state of change (e.g., renovation) or when it exhibits a substantial amount of deferred maintenance, as determined by the real estate analyst/appraiser. A report is necessary because the extent of the renovation or deferred maintenance is often beyond our ability, or the real estate appraiser’s ability, to adequately assess. We may request a property condition assessment that will outline the current condition of the property and provide cost estimates for items in need of repair or renovation.

Broker Price Opinions

Generally, broker price opinions (BPOs) are acceptable in certain cases at the Review Appraiser’s discretion. The broker price opinion is a report that provides a set of comparable sales, comparable rental properties, and a market-based income approach. For originations, it may be used when an appraisal has been submitted by an outside party, meaning VCC did not order the report, and the reviewer needs a second opinion to help verify the veracity of the appraisal.

In some cases, which are determined solely by the real estate analyst covering the area, a BPO may be used to close a loan with the appraisal to arrive afterward. In these cases, the real estate analyst is highly confident of the property’s value and has determined that the property type (e.g., multifamily) is straightforward. It also helps if the “going-in LTV” is considered low. BPOs for originations will be limited to the senior management discretion. The property types should be restricted to multifamily and mixed use (apartments over commercial) and the deal should be prescreened with a minimum of two years’ operating history, plus a trailing 12-month statement, rent roll. The analyst will also undertake a search for comparable sales and must satisfy him or herself that the minimum anticipated value (i.e. prescreened value) will satisfy the requested loan amount. If the value does not appear “solid,” the analyst should recommend against using a BPO to close the loan.

3.4 VALUATION PROCESS

1-4 Real Estate Guidelines

Residential Property (1-4 units)

Residential properties consisting of a single unit, duplex, triplex, or 4-unit dwellings.

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Appraisal Procedure (1-4 units)

Velocity orders valuation reports through an approved vendor. Acceptable valuation reports include: 1004, 1004 + 1007, 1025, 1073, and/or Desktop Appraisal.

All appraisals are reviewed by a VCC internal Real Estate Appraiser to ensure the report’s quality, credibility and final determination of VCC value.

If the appraised value is less than $1,000,000, VCC orders an Automated Valuation Module (“AVM”) from an approved provider. This AVM populates recent/similar sales in the Subject’s area and electronically computes an estimated value for the Subject Property.

Site Visit – All Property types

For originations and the acquisition of loans, site visits are performed by VCC employee for all assets with loan balances greater than $2,000,000. The purpose of the site visit is to inspect the property, observe the subject’s market, and resolve any open questions about the property or market.

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Traditional Real Estate Guidelines:

Traditional Property Classes

Property Classes are used to rate the perceived quality of the real estate in terms of risk and liquidity. Traditional 1 have the highest perceived liquidity/quality and includes multifamily and mixed use (with residential over commercial).

 Traditional I

Traditional I includes multifamily and mixed-use properties. Mixed-use properties consist of a commercial use, usually on the first floor, and a residential use above.

To be eligible for Traditional I, mixed-use properties must meet the following standards:

1. Commercial use is generally confined to the ground floor;

2. Commercial use must not affect the health, safety or comfort of residential occupants.

3. Acceptable commercial uses are general office and retail.

Other mixed-use properties with commercial uses such as industrial, automotive, adult entertainment, bars, schools, public assistance offices or drug treatment clinics will be classified as Traditional 2 properties.

 Traditional II

Traditional II includes office, retail, warehouse, mobile home parks (with a recreational vehicle component of 25% or less), certain mixed-use properties, auto-service and self-storage.

In the case of mobile home parks, special rules apply. For “park-owned” mobile home units – as distinguished from the pads - the value, as determined in the “disposition value,” shall not exceed $2,000 per (unit). At a minimum, mobile home units must be separately and distinguishably taxed by the local taxing authority to be considered in the determination of market value.

Unacceptable Collateral

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Collateral we do not lend against: raw land, personal property, equipment, churches(where the sole or predominant use of the property is only as a church), gas stations, leasehold estates, night clubs (where the property has been designed such that no alternative use of the property exists) health care, funeral homes, campgrounds, educational (schools, etc.), car wash, auto dealerships, RV park, marinas, golf courses, and any property where the business is regulated by the Perishable Agricultural Commodities Act (PACA).

Ordering an Appraisal

As we are trying to obtain the best opinion of value, it is important to start the bidding for assignments with our best appraisers. For a more detailed explanation of each classification, please see “Appraiser Classifications.”

Whether bids are received electronically or verbally, the selection criteria include appraiser classification, fee and turnaround time. In selecting an appraiser, it is advisable to review comments in the commercial vendor database to gain an understanding of how the vendor has performed in the past. Following the selection of the appraiser, the appropriate engagement letter is sent along with any accompanying checklists, guidelines, etc.

For loan requests less than $1MM, VCC will generally order a “fee-simple” analysis from an approved VCC appraiser.

For loan requests greater than $1MM, VCC will generally order a “leased-fee” analysis which will require the following items on tenant occupied properties: two years’ operating data plus year-to-date, current rent roll, and leases (not applicable for owner user properties).

Reviewing an Appraisal

The appraisal process culminates with the review process. Velocity will conduct an appropriate appraisal review depending on the property and loan characteristics. An administrative review is appropriate in most cases, but in some situations a desk top review will be required. The goal of the reviewer is to determine whether the appraiser has submitted a reasonable and supportable value. In the event of a desk top review with a difference in opinion of value, the analyst should discuss the differences between their analysis and the appraiser’s. The Reviewer should state the data considered both in the appraisal and in the review and highlight any items that the appraiser was not provided.

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| Appraisal  Review | The review appraiser shall thoroughly review the appraisal report to ensure that it meets VCC’s requirements.   Compliance with USPAP   Legal Description, Ownership interest; scope; intended user; intended use; market value definition; three-year history of subject; current agreements, opinions, or listings, marketing period   Area and market analysis   Site & real estate tax analysis   Description of improvements   Deferred Maintenance   Land Valuation   Cost Approach   Sales Comparison Approach   Income Approach   Deductions/discounts for proposed construction or renovation, partially leased buildings, non-market lease terms, and tract developments with unsold units   Appraiser Certification  The completed desk top review should evidence that the review appraiser has evaluated the appraiser’s selection of sales comps and the appraiser’s cap rate analysis. The review appraiser should comment on all sales/rental comps and discuss current market conditions. In the Cap Rate Analysis, the review appraiser should discuss the reasonableness of the Cap Rate by referring to the different comps as well as the range of cap rates to determine the cap rate applied is reasonable. The review appraiser should determine the appropriate unit of comparison for the subject property and the comparable sales. Typical units of comparison are price per SF, GIM, price per unit and price per bedroom. |

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Another key philosophy in our valuation of real estate is that we generally will value only the real estate. Items such as furniture, fixtures and equipment (FFE), going-concern value, etc., are not generally counted.

Types of Value

 VCC Value

VCC value is the underwritten value as determined by the appraiser and reviewed by VCC. Generally the VCC value is based on the “as is” value, subject to any adjustments by VCC.

 “As Is” Market Value

The “as is” market value is the market value of the property as it currently exists, including all discounts and offsets. All Appraisals done for VCC require an “as is” value.

 “As Completed” Value

The “as completed” value implies that some construction of the subject remains as of the effective date of the appraisal. The “as completed” value is essentially the “as is” value, plus the cost of the remaining construction.

 “As Completed and Stabilized” Value

The “as completed and stabilized” value implies that in addition to unfinished construction, the subject is currently experiencing above-market vacancy. The component of cost that refers to such vacancy is “rent loss.” Essentially, the “as completed and stabilized” value is the “as is” value, plus the costs of remaining construction, plus rent loss. Conversely, to calculate the “as is” value from the “as completed and stabilized” value, construction costs and rent loss are deducted. In practice, it is often the “as completed and stabilized” value that is determined first with the “as is” value coming afterward.

3.5 DETERMINATION OF PRO FORMA NOI

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When VCC underwrites the NOI as part of a desk top review process on traditional loans, the Income and Expense format should be as follows:

Potential Gross Income (PGI)

Less: (-) Economic Loss

Plus: (+) CAM Reimbursements

Less: (-) CAM Vacancy

Plus: (+) Other Income

Less: (-) Other Income Vacancy

Equals: (=) Effective Gross Income

Less: (-) Real Estate Taxes

Operating Expenses

Equals: (=) Net Operating Income

Potential Gross Income (PGI)

Potential gross income is the total potential income attributable to the real property at full occupancy before operating expenses are deducted.

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The lower of contract or market rent should be used in every case, unless the contract rent (that is lower than market rent) terminates within one year. In such cases, market rent can be used but the value must be offset with a deduction for rent loss, assuming the offset is material. Where contract rents exceed market rent, the contract rent is lowered to market via the process known as “mark to market.”

Economic Loss

Our minimum vacancy and collection loss rate is five percent. In estimating economic loss, the market must be carefully studied. In cases where the subject’s vacancy is lower than the market, it should be increased to market levels. The estimate of economic loss assumes the property is operating at a stabilized level, even if it isn’t. If appropriate, offsets (e.g., rent loss) are made after the capitalization process.

Common Area Maintenance Reimbursements (“CAMs”)

Typically, CAMs are charged in markets strong enough to support them. In the review process, it is important to ascertain the expense treatment of the market leases (i.e., from full-service gross to triple net) and that the appraisal is based upon terms consistent with market. Typical CAM sources include:

Real Estate Taxes

Insurance

Operating expenses, including all maintenance expenses

C.A.M. Reimbursement Vacancy

In estimating CAM vacancy, it is important to know the source of the CAM reimbursements. If they are based upon a stated rate, like $2.50 per square foot, CAM vacancy at the market level should be deducted. If the CAM indication is based upon actual, historical collections, deducting for CAM vacancy would be redundant.

 Other Income

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Base rent is the largest contributor of revenue for each property type, but not the only source. Additional sources of income for Traditional 1 include:

 Laundry income

 Parking income

 Application fees

 Redecoration fees

 Lease cancellation

 Late charges/NSF fees

 Forfeited deposits

Depending on the strength of the market evidence, building owners may or may not be able to collect revenue from each listed source. Provided there is a stable history of these revenues, all but late charges and forfeited deposits are considered valid contributors of income. The underlying principle here is the income must be regular and sustainable over a reasonable period of time. In no case is a reasonable period of time less than one year. In fact, for a source to be considered “regular and sustainable,” the same should be documented with at least two years’ operating data.

Miscellaneous

Lease income that is generally extraneous to “real estate” income (e.g., billboard or telecommunications income) should not be capitalized into perpetuity. Also, the present value of billboard or telecommunications income is not added to VCC value. Telecommunication leases typically have “outs” that let the lessee break the lease with as little as 60 days written notice. Also, conditions can change over time (a new building may block the billboard or new technology may render a cell phone tower obsolete), eliminating the extraneous income and, accordingly, value. The lease should not be considered.

 Other Income Vacancy

For this item it is important to understand the source of other income. If the source is actual operating history, as is often the case, it is unlikely that any further deduction owing to vacancy will be needed. However, if the other income figures are “grossed up,” typically based on full occupancy, then it will be necessary to offset other income with a vacancy factor.

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 Effective Gross Income

After combining the factors of rent, other income and vacancy and collection loss, effective gross income results. It is important to note whether the estimate of effective gross income is substantially different from the previous year’s actual. If so, the increase must be explained. In the review phase of any appraisal, this is a key area for the reviewer, and often the first place to determine the reasonableness of the appraised value.

 Real Estate Taxes

If the subject is located in a market where real estate taxes are reset with each sale of the property, it will be necessary to calculate real estate taxes based upon the estimated market value of the property. In all other cases, it is appropriate to use “tax comparables” and rate the subject’s real estate taxes accordingly. If the subject’s actual taxes are notably lower than the comparables, then taxes should be adjusted to at least a mid-range level. Also, if the subject property is due for a reassessment in the near future, it will be necessary to account for the same in the estimate of current real estate taxes.

 Operating Expenses

Operating expenses should always be stated at market levels. In cases where the property is self-managed, it is important to remember that a number of traditional expense categories might be “hidden” because the owner is completing these tasks and not charging them to the property. It is a recommended practice to cite outside expense references such as “I.R.E.M” as appropriate. Also, be aware that if a certain aspect of the property “naturally” causes above-average expenses (e.g., the property is master-metered for utilities), it may be appropriate for the subject’s concluded expense to exceed the indicated ranges.

 Net Operating Income

The result of the previous categories is net operating income. It is capitalized to determine the “as stabilized and completed (if applicable)” value per the income approach.

 Overall Rate/CAP Rate

The overall rate should be adequately supported by the market. Generally, if the selected rate causes the concluded value to fall outside the range indicated by relevant comparable sales or listing data, the overall rate should be closely reviewed and possibly adjusted to the extent that it causes the subject’s value to fall within the indicated range.

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 Concluded Value

It is important that the value concluded via the income approach is supported by relevant, comparable investment sales data. If the concluded and reconciled value falls outside the indicated range, there should be a solid, convincing reason for the aberration. In the absence of such evidence, it is likely that a value adjustment will be required. As mentioned earlier, any offsets necessary to achieve the “as is” value should be made at this point. Such charges may include rent loss, tenant improvements, renovation costs, etc.

 Rent Loss

Rent loss is deducted based upon the estimated absorption period. It is most convenient to calculate rent loss over quarterly intervals and it is important to recognize that as each quarter passes, the total rent loss is reduced by any absorbed space (as it is now paying rent). If the contributions of the absorbed space are overlooked, rent loss will be overstated.

 Tenant Improvements

Tenant improvements typically range from $5.00 psf (for very basic work like carpeting and paint) to ~~$~~50.00 psf for more extensive improvements. Most tenant improvement allowances seem to fall in the $10.00 to $15.00 psf range but this will vary by market.

 Leasing Commissions

Leasing commissions are usually charged as a percentage (generally 5 to 6%) of the aggregate rent.

Deferred Maintenance

If a property suffers from deferred maintenance, it will be necessary to estimate the cost to repair the same. Sources for the estimate include the appraisal, any property inspections and the “Marshall Swift Cost Manual” is also helpful in certain cases. In the event of significant deferred maintenance and especially when a property is known to have been vacant for an extended period of time a contractor estimate of repairs will be required. The report is then used as the

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basis of the cost to cure estimate. In general, minor and/or cosmetic deferred maintenance shall be limited to 5% of VCC’s review value up to a maximum of $20,000

Significant deferred maintenance will be addressed by a VCC Underwriter. The underwriter will determine the resolution to address cosmetic and/or structural deferred maintenance. Cosmetic deferred maintenance is typical wear and tear, Examples include, but are not limited to:

 Wall and floor coverings

 Minor plumbing leaks

 Poor maintenance levels

In these instances, the appraiser is instructed to incorporate the cost to cure in the “As Is” Market Value estimate.

Structural deferred maintenance is a more serious form of deferred maintenance which could affect the soundness, structural integrity or livability of the property. These may include, but are not limited to:

 Cracks or settlement in the foundation

 Water seepage

 Active roof leaks

 Curled or cupped roof shingles

In situations where structural deferred maintenance is observed by the appraiser and/or property inspector, the underwriter may require the repair work to be completed or offer a holdback.

Holdbacks

As an alternative to repairing deferred maintenance prior to funding, VCC allows for hold-backs generally equal to 1.5X the amount of the repair estimate. Typical hold back periods are not to exceed 180 days.

 Excess Land

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Excess land, for excess land to contribute any value, it should be separately divisible from the “parent” tract, if not already divided, and it must be physically and independently capable of supporting the envisioned use. For instance, if the excess land can support the physical plant of another building but not the additional, required parking, it would not meet the “independently capable” test and its utility, and hence, value, would be substantially diminished. In this example, any additional value ascribed to the excess land should be handled in the land-to-building ratio adjustments, assuming the market shows this to be a factor of value. Further, if market data does not indicate recent transactions for vacant land (notwithstanding heavily developed areas where there is simply no vacant land available), the value of the excess land should be significantly discounted.

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4. PROPERTY QUALIFICATION

4.1 PROPERTY ELIGIBILITY

Income Producing Commercial and Multifamily types considered:

Acceptable Properties

-Multifamily 5+ units -Mixed use

-Office

-Retail

-Mobile Home Parks -Self Storage

-Warehouse

-Investor1-4 units -Day Care facilities

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| --- | --- |
| Unacceptable Properties/  Non-Eligible Transactions | VCC discourages loans to finance properties built for certain specialized purposes. Unacceptable properties/collateral includes raw land, personal property, and equipment, traditional churches, where the sole or predominant use of the property is only as a church, gas stations, leasehold estates, adult living facilities/nursing homes, timeshares, campgrounds/RV parks, and log homes. Unique properties such as geodesic domes, earth homes, A-frames, etc. will not be considered.  Other ineligible transactions are:   Vacant Land – of any type or nature including agricultural or income producing farms   Owner occupied Residential (1 to 4 units) where the loan proceeds are used for consumer purposes   Buildings modified specifically for Adult Entertainment  Funeral Homes, Mortuary, or Cemetery   Equipment or Lease financing  A property, which is currently for sale, is not eligible. If the property has been listed in the last 6 months, a cash out refinance |

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is available at a maximum LTV equal to 50%, or a rate and term

refinance is available with a copy of the cancelled/expired listing

agreement. Value to be based on lowest of appraised value or

underwritten values whichever is lower.

Minimum

Property Size Minimum gross building area for an eligible property is five

hundred (500) square feet.

|  |  |
| --- | --- |
| Rural  Properties | Any property located in town or city with a population less than 25,000 and is outside a 25 miles radius of a city with a population of 100,000+ is ineligible for funding   Properties located in towns with less than 2,500 population within the radius of 25 miles will be classified as rural and are not eligible for funding  o Criteria for population limits in certain geographic locations will be at the discretion of the Appraisal  department |

4.2 DEBT SERVICE COVERAGE RATIO (DSCR)

Commercial DCSR:

The debt service coverage ratio (DSCR) is a widely used benchmark which measures an income producing property's ability to cover the monthly mortgage payments. The DSCR is calculated by dividing the net operating income (NOI) by a property's annual debt service. Annual debt service equals the annual total of all interest and principal paid for all loans on a property. A debt service coverage ratio of less than 1 indicates that the income generated by a property is insufficient to cover the mortgage payments and operating expenses. For example, a DSCR of .9 indicates there is only enough income available after paying operating expenses to pay 90% of the annual mortgage payments or debt service. A property with a DSCR of 1.25 generates 1.25 times as much annual income as the annual debt service on the property. In this example, the property creates 25% more income (NOI) than is required to cover the annual debt service.

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The general DSCR requirement for commercial real estate loans shall be reflected in the VCC Matrix as published from time to time.

This ratio applies to the property being financed. If it does not meet the general underwriting criteria for that type of property, then exception approval is required.

The DSCR is calculated in the following manner:

Net Operating Income

Debt Service Coverage Ratio = ---------------------------

Annual Debt Service

There will be instances where loans are approved as exceptions with Debt Service Coverage ratios below the then current underwriting minimums with strong compensating factors.

Traditional refinance & cash out refinance transactions <$500K and purchase transactions < $750,000 do not require a DSCR for underwriting approval, although NOI will typically be determined in the appraisal process.

Investor 1-4 DSCR

Velocity reviews a rental survey and/or provided rental analyses from our preferred valuation vender(s) to determine subject rents. Investor 1-4 DSCR is calculated as follows and is reviewed as part of the overall underwrite: Gross Rental Income

Debt Service Coverage Ratio = ---------------------------

Annual Debt Service

5. GENERAL UNDERWRITING GUIDELINES

5.1 INTRODUCTION

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This section is designed to provide an outline of the procedures and documentation required to process commercial real estate loans for VCC. We will originate commercial loans consistent with our guidelines. Primary consideration will be given to the value of the real estate securing the loan and the likelihood that our loan can be repaid by the cash flow from the property.

In the risk evaluation process areas of most importance are:

 Strength of real estate

 Cash flow adequacy of the property

 Strength of the local real estate market

 Adequacy of financial data

 Borrower’s credit history

 Experience of Management

Underwriters will rely on a VCC real estate review to evaluate the strength of the real estate, but should take care to incorporate those findings into the final approval decision. In addition, we will evaluate the borrower’s credit history, underwrite the title report to ensure our loan is a first lien on the property, review relevant inspection reports and purchase contracts (if applicable), review borrower disclosures and the application, assess any environmental concerns and evaluate the complete file for creditworthiness.

Commercial loans / Business Purpose Loans

Velocity makes commercial/business purpose loans only and consumer loans are not eligible under our lending programs. Consumer loan: a loan to one or more individuals for household, family, or other personal expenditures.

Under Federal Law (Regulation Z 1026.3), the lender must determine if the loan is primarily for a business or consumer purpose.

Definitions:

Business, commercial, agricultural, or organizational credit

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1. An extension of credit primarily for a business, commercial or agricultural purpose.

2. An extension of credit to other than a natural person, including credit to government agencies or instrumentalities (see Organizational credit below).

Agricultural purpose. An agricultural purpose includes the planting, propagating, nurturing, harvesting, catching, storing, exhibiting, marketing, transporting, processing, or manufacturing of food, beverages (including alcoholic beverages), flowers, trees, livestock, poultry, bees, wildlife, fish, or shellfish by a natural person engaged in farming, fishing, or growing crops, flowers, trees, livestock, poultry, bees, or wildlife. The exemption also applies to a transaction involving real property that includes a dwelling (for example, the purchase of a farm with a homestead) if the transaction is primarily for agricultural purposes.

Organizational credit. The exemption for transactions in which the borrower is not a natural person applies, for example, to loans to corporations, partnerships, associations, churches, unions, and fraternal organizations. The exemption applies regardless of the purpose of the credit extension and regardless of the fact that a natural person may guarantee or provide security for the credit.

Land trusts.Credit extended for consumer purposes to a land trust is considered to be credit extended to a natural person rather than credit extended to an organization. In some jurisdictions, a financial institution financing a residential real estate transaction for an individual uses a land trust mechanism. Title to the property is conveyed to the land trust for which the financial institution itself is trustee. The underlying installment note is executed by the financial institution in its capacity as trustee and payment is secured by a trust deed, reflecting title in the financial institution as trustee. In some instances, the consumer executes a personal guaranty of the indebtedness. The note provides that it is payable only out of the property specifically described in the trust deed and that the trustee has no personal liability on the note. Assuming the transactions are for personal, family, or household purposes, these transactions are subject to the regulation since in substance (if not form) consumer credit is being extended.

NOTE: Velocity will not lend to Land Trusts that are for personal, family or household purposes and all Land Trusts are ineligible for the working capital program (see section 6.1).

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According to the official guidance under Regulation Z, there are specific transactions that are classified as business purpose loans:

1.) Non-owner-occupied rental property Credit extended to acquire, improve, or maintain rental property (regardless of the number of housing units) that is not owner-occupied is deemed to be for business purposes. This includes, for example, the acquisition of a warehouse that will be leased or a single-family house that will be rented to another person to live in.

NOTE: If the owner expects to occupy the property for more than 14 days during the coming year, the property cannot be considered non-owner-occupied and this rule will not apply.

2.) Owner-occupied rental property If credit is extended to acquire, improve, or maintain rental property that is or will be owner-occupied within the coming year, different rules apply:

i. Credit extended to acquire (a purchase transaction) the rental property is deemed to be for business purposes if it contains more than 2 housing units.

ii. Credit extended to improve or maintain (generally a refinance transaction) the rental property is deemed to be for business purposes if it contains more than 4 housing units.

Business-purpose examples. Examples of business-purpose credit include:

A. A loan to expand a business, even if it is secured by the borrower's residence or personal property. B. A loan to improve a principal residence by putting in a business office.

C. A business account used occasionally for consumer purposes.

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Factors for determining business purpose vs. consumer purpose

A. The relationship of the borrower's primary occupation to the acquisition. The more closely related, the more likely it is to be business purpose.

B. The degree to which the borrower will personally manage the acquisition. The more personal involvement there is, the more likely it is to be business purpose.

C. The ratio of income from the acquisition to the total income of the borrower. The higher the ratio, the more likely it is to be business purpose.

D. The size of the transaction. The larger the transaction, the more likely it is to be business purpose. E. The borrower's statement of purpose for the loan.

Second/Vacation Homes

Properties that are vacation homes or second homes are considered owner occupied if the borrower or their immediate family use or intend to use the property for more than 14 days. Underwriters must verify past/intended use and be careful to ensure compliance with this guideline.

Mixed Use Properties

Mixed use properties can be either owner or non-owner occupied and will be subject to the requirements outlined above. The underwriter must complete the Business Purpose Analysis form whenever the borrower intends to occupy the property as a primary residence.

Loans to Entities (Organizational credit – as defined above)

Under Federal law, these loans are business purpose loans. Entities must be in good standing and provide the necessary organizational documents to be underwritten and approved. Although the loan is legally defined as business purpose, the Underwriter should analyze all documents provided and determine if the loan is for a business purpose.

Guarantor Collateral

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Guarantors may pledge any real estate owned including a primary residence as collateral for a business purpose loan, provided the underwriter determines the extension of credit to the borrower is primarily for a business purpose.

5.2 CREDIT ANALYSIS

Evaluating guarantors: The Underwriter should use the following guidelines to evaluate individual guarantors for each loan. Credit reports should be standard reports from at least

Credit Report

Format

Credit Scores

Non-Borrowing Spouse

|  |
| --- |
| Selecting the  Representative Credit Score |

three national repositories (i.e., tri-merge) and must include a public record search. Credit history must be reviewed for the 24 months preceding the loan application.

Loans must have a minimum credit score of 650. Foreign Investors without a credit score are eligible for financing at a maximum of 65% LTV.

A married applicant may take title as a sole and separate borrower; however, the underwriter may require a credit report for a non-borrowing spouse in certain cases.

If… Representative Score is…

Three (3) scores are obtained for one borrower

Use the middle score

|  |  |
| --- | --- |
| Three (3) scores are obtained for one  borrower and two are identical | Use the identical score |

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Two (2) scores are obtained for one

borrower

Multiple borrowers have three (3) credit scores each

Multiple borrowers have two (2) credit scores each

Use the lower score

 Choose the middle score for each

borrower, then

 Choose the score of the borrower with the lowest middle

 Choose the lowest score for each

borrower

Inquiries

|  |  |
| --- | --- |
| One borrower with  credit scores, one  borrower without credit scores |  Choose and use the score as described  above for the borrower with the credit scores  Do not use zero as the representative score |

Underwriters should examine the inquiries to determine whether they represent potential sources of undisclosed credit.

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| --- | --- |
| Consumer Credit  Counseling (Active  Participant) | Borrowers that are at least halfway through a credit counseling program will be considered on an exception basis only. A letter of explanation, verification of timely pay history on the program and current credit report with established clean performance will be required for review. |

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Consumer Credit Counseling (Previous Participant)

Credit History

Adverse Credit

Borrowers that have completed a credit counseling program will be considered as long as there is a minimum of 12 months seasoning on credit re established since the credit counseling was terminated. The re-established credit may not include accounts paid through credit counseling.

For Borrower(s) to be eligible for the programs, they must exhibit at least two active major consumer credit and/or mortgage accounts. Borrower(s) with no credit history will be considered on a case-by-case basis. Some type of credit verification should be attempted (i.e., utility accounts, telephone accounts, rental accounts, etc.).

All judgments and liens during the prior two years must be satisfactorily explained in writing by the Borrower. The age of these types of adverse credit is counted from the date of occurrence. Individual Judgments greater than $20,000.00 should be paid off prior to or at closing unless a valid dispute exists and is fully verified and documented. Borrower(s) with tax liens will be considered on a case-by-case basis.

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| “Rolling”  Derogatory | “Rolling” derogatory (30, 60, 90 days, etc.) reflected on the credit report or other form of verification for major and minor consumer credit shall be counted as one credit event. |

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Duplicate Public Records

Judgments,

Garnishments, and Liens

Late Payments

Items that typically appear in the Public Records section of the credit report (judgments, bankruptcies, foreclosures, and tax liens) are often duplicated because the credit agencies may not attempt to merge items of this sever nature. As a result, these items may also appear in more than one verification area of the credit report.

If it is clear from the credit report data that the items are duplicates (identical account numbers, date filed, and dollar amounts), the underwriter can disregard the duplicates and document the item once. However, if it is unclear from the credit report whether any of the items are duplicated, the underwriter should treat each item individually and obtain the required documentation for each item.

Open judgments, garnishments, and all outstanding liens that are in the Public Records section of the credit report will be identified in the credit report, and may be required to be paid off at or prior to closing at underwriter’s discretion. Documentation of the satisfaction of these liabilities, along with verification of funds sufficient to satisfy these obligations, must also be maintained in the permanent loan file.

Underwriter should confirm the accuracy of the information with the borrower. Additional

documentation should be collected if the underwriter determines it is necessary to justify an approval.

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| Past-due, Collections, and Charge-off  Accounts | Collection accounts or charged-off accounts do not need to be paid off if the balance of an individual account is |

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| Prior Bankruptcy or Foreclosure (Including Deed-in-Lieu of  Foreclosure) |

less than $5,000.00 or if the total balance of all accounts is $5,000.00 or less.

Evidence of bankruptcy and discharge documents must be provided. Age of bankruptcy is counted from the discharge or dismissal date. Age of a foreclosure is counted from the consummation of the sale. Borrower(s) with double bankruptcy will be considered on a case-by-case basis.

Identification of bankruptcies in the credit report: VCC applies the following guidelines to the processing of bankruptcies:



Bankruptcy (All Except Chapter 13)

2-year time period from dismissal or discharge date

Chapter 13 Bankruptcy 2-year time period from dismissal or discharge

date

Exceptions for

Extenuating

Circumstances – All Bankruptcy Actions

2-year time period will be measured from the

bankruptcy dismissal or discharge date.

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| Multiple Bankruptcy Filings | 5-year time period from most recent dismissal or discharge date required for borrowers with more  than one bankruptcy filing within the past 7 years. |

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| Exceptions for  Extenuating  Circumstances –  Multiple Bankruptcy Filings | 3-year time period from the most recent  discharge or dismissal date  Note: The most recent bankruptcy filing must have been the result of extenuating  circumstances. |

 If a bankruptcy was filed within the 24-month period prior to the credit report date, the loan is considered ineligible.

 If the bankruptcy is not reported in a public record, but a trade line is reported with a

bankruptcy status code, then the lender will need to verify the actual filed and discharged dates to determine that the bankruptcy meets VCC’s 24-month policy.

Identification of foreclosures (including deeds-in lieu of foreclosure) in the credit report: VCC applies the following guidelines to the processing of foreclosures:

 If a foreclosure was reported within the 24- month period prior to the credit report date, the loan will be generally considered ineligible. Further documentation will be required on a case-by-case basis.

 If a foreclosure was reported more than 24 months before the credit report date, the

existence of the foreclosure is acceptable

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provided there are no additional eligibility criteria

applied to the loan.

 Foreclosure laws vary by state and the time it

takes to complete the process may vary by

state. The underwriter assumes that the date

the foreclosure was reported in the trade line is

the date of the foreclosure sale or liquidation.

The underwriter must confirm that all

foreclosures are satisfied.

 Underwriters must determine that the borrower

has sufficiently reestablished an acceptable

credit history and consider the foreclosure in

light of all other risk factors and layering of risk.

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| SSN mismatch or OFAC hit on credit report | Underwriter to require a SSN/OFAC background search |

5.3 COMMERCIAL OWNER USER/ PROPERTIES (Traditional II properties)

Borrower’s that occupy a minimum of 51% of the GBA of the property securing the loan with their business are defined as owner user commercial properties. VCC will underwrite owner user borrowers to the following parameters:

|  |  |
| --- | --- |
| Owner User Borrower | Borrower must provide:   At the underwriters discretion, a 2 years profit and loss statements for the business may be required. |

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| Owner User Property |

 At the underwriter’s discretion a current Business license may be required.

5.4 MORTGAGE

VERIFICATION

Mortgage

Property types include:

 Office and/or Medical Office, Retail, Warehouse, Auto-Service, and commercial condos.

Mortgage payment histories not reported on the credit report must be verified for the past 12 months on the subject property and the borrower’s primary residence. Mortgage payment history(s) can be generated using the following:

Payment History

Rental Payment History

Liens held by private parties:

 Verification of Mortgage (VOM) and;

 Cancelled checks from the borrower for the past 12 mo.

Land Contract/Lease with Option to Purchase:

 Cancelled checks from the borrower for the past 12 mo.

If the Borrower previously rented, a 12-month rental history must be verified with:

 Verification of Rents (VOR) from management company; or  Cancelled rent checks from the Borrower for the past 12 months.

 At the Underwriter’s discretion, LTV may be reduced as a compensating factor for borrowers that cannot verify a full 12 month rental history.

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| Mortgage  Delinquencies | VCC applies the following guidelines to the processing of loans with mortgage delinquencies:  Type Max Number of  Max Number of  Late Payments in  Late Payments in  the last 12  the last 24  Months  Months  Mortgage or   1 x 30 days   2 x 30 days  Housing   None in the last   0 x 60 or  Payments  ninety (90)  greater days  days   Mortgage must  be current   This policy applies to all mortgage trade lines, including first liens, second liens, home improvement loans,  HELOC’s, and mobile home loans.   If an account is reported on the credit report as a non mortgage trade line, and yet the account is listed on the loan application as a mortgage, the underwriter must analyze the credit history of the trade line as a mortgage. For example, if the credit report identifies as account as a revolving account, and the account is listed as a HELOC on the loan application, the underwriter will evaluate the credit history of the account as a mortgage. Any late payments in the credit report should be treated by the underwriter as delinquent mortgage payments.   If there is a mortgage that (I) is not rated on the credit report; (II) was not reported within 90 days of the credit report date; or (III) is disclosed on the loan application but not reported on the credit report, the underwriter will confirm that the account is not two or more payments past-due as of the date of the application. If the  underwriter determines that the borrower does have a |

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mortgage that is past due by two or more payments, then

the underwriter shall request additional documentation or

letter of explanation.

 Borrowers may not bring past-due mortgage accounts

current prior to closing in order to circumvent our policy

regarding past-due mortgages. However, the lender may

apply some discretion with regard to the application of this

policy if it determines and documents that the past-due

account status was not the fault of the borrower (for

example, if the mortgage servicer misapplied or lost the

borrower’s payment).

 If a loan request has excessive prior mortgage delinquency

and if the borrower has a mortgage trade line on his or her

credit report that has one or more 60-, 90-, 120-, or 150-

day delinquency reported within the 12 months prior to the

credit report date. The underwriter will be required to

document the circumstances of the excessive late

payment(s) and determine that the borrower is not likely

to have a similar recurrence on a mortgage in the future.

The above policies will apply to all mortgage trade lines, including,

first liens, second liens, home improvement loans, HELOC’s, and

mobile home loans.

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| Verification  Documents | Verifications must be completed within the previous 90 days at the time of approval and no more than 120 days at the time of closing. |

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5.5 EXCEPTION POLICY

VCC Underwriting Guidelines consider the value and adequacy of the mortgaged property as collateral for the proposed mortgage loan, but also take into consideration the credit standing and repayment ability of the prospective borrower. On a case by case basis, VCC underwriters may determine that, based upon compensating factors, a prospective borrower not strictly qualifying under the underwriting risk category guidelines warrants an underwriting exception.

The following is a list of compensating factors that may be considered when approving an exception:

 Low LTV and good property reflecting pride of ownership;

 Adverse credit is minor or isolated and does not reflect Borrower’s true credit pattern;

 Excellent payment history on mortgage(s) and major consumer credit;

 Employment stability;

 Length of ownership;

 Excellent verified cash reserves.

 Significant reduction to mortgage payment.

Underwriting exceptions must be fully justified, tracked, and reported. The analyst’s role is to determine and identify the exception type. Based on the type of exception request the underwriter will then establish whether the exception can be approved directly or will need further review of CCO or Senior Management.

 Analyst’s credit exception authority is limited to the following:

o Level 1 (L1): $250,000

o Level 2 (L2): $500,000

o Level 3 (L3): $750,000

o Level 4 (L4): $1,000,000

Exception requests for loan amounts greater than approval level require secondary approval from Chief Credit Officer or other Senior Management.

5.6 FOREIGN NATIONALS / FOREIGN INVESTORS

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Foreign Nationals and Foreign Investors are eligible for financing with VCC under the conditions listed below:

Foreign Nationals are non-permanent resident aliens who reside in the United States on a temporary basis and have obtained government issued residency documentation.

Foreign Investors are Non-U.S. residents seeking investment financing on properties located in the U.S.

Underwriting Criteria

Foreign Investor Foreign Investor w/no credit/FICO

Foreign National

|  |  |  |  |
| --- | --- | --- | --- |
| Credit (type)  US RE Holdings  Loan to Value  Asset Verification Proof of Primary Identification Proof | Personal TIN  Minimum 1  investment in US Max 65%  US Bank Acct Required  Passport/ ID | N/A  N/A  Max 65%  US Bank Acct  Required  Passport/ ID | SSC or TIN  Minimum 1  investment in US Max to Matrix  US Bank Acct  Required  Green Card/ Visa |

Ineligible:

Foreign nationals with diplomatic immunity

Real estate owned by foreign embassies

5.7 LOANS < 50% LTV

Program Specifics:

1. Letters of Explanation, Usage of proceeds, derogatory credit - N/A

2. No seasoning requirement on BK discharges, prior foreclosures, or prior derogatory mortgage history. 3. Payoff of judgments, charge offs and/or collections not required

4. No minimum trade line requirement

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5. Federal tax liens on credit report must be paid, unless confirmed payment plan

6. TRANSACTIONS

Loan Purpose: Subject to any individual program limitations, VCC’s programs may be used for purchase money, rate/term refinance, and cash-out refinance transactions. Loans can be made to owner-occupied commercial properties, businesses and investor/leased properties. VCC allows an IRS 1031 Exchange for any borrower.

6.1 BUSINESS TRANSACTIONS

Purchase: In cases where borrowers are acquiring a business in conjunction with real estate, VCC will only value the real property being acquired and will not consider the value of the business being purchased when determining the VCC loan amount. The following is a prerequisite when borrower is purchasing an existing business:

 Borrowers must have a minimum 2 years of employment in similar business being acquired.  A copy of the fully executed purchase contract including all agreed upon property inspection reports and all attachments or amendments will be required.

Refinance/ Working Capital: VCC will make loans to businesses that do not own real estate, but need working capital under the following circumstances:

 Borrower must be an entity (corporation, partnership, association, church, unions, etc.) in good standing

 Eligible entities include:

 Corporations

 Limited Liability Companies (LLC’s)

 Partnerships

 Non-profit organizations (churches, unions, associations)

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 Ineligible business entities:

 Sole proprietorships

 Trusts

 Proceeds must be used for a business purpose

 Business must be in existence for a minimum of 2 years

 Operating results- BS and/or P&L-2 years

 Satisfactory business credit report

 Personal Guarantee from an individual(s) secured by a first lien performance deed of trust or mortgage recorded against real property owned by the Guarantor (subject to normal VCC credit guidelines)

 Guarantor must provide:

 verification of ownership in the business (minimum 25%)

 credit report

 BPL disclosures

 Funds must be distributed to the business

 Loan must be secured by acceptable real estate owned by Guarantor.

 VCC will determine the value of any real estate securing the loan using normal valuation procedures. Real property must be acceptable to VCC (a single family, primary residence occupied by Guarantor is acceptable for the Working Capital program only)

6.2 PROOF OF FUNDS

Down

Payment

Purchase: Proof of down payment must be verified.

Rate and Term refinance: underwriter must verify shortage funds if amount needed to close exceeds 10% of the loan balance.

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| --- | --- |
| Acceptable Asset  Verification | Acceptable asset verification for checking, savings, or money market accounts includes a Verification of Deposit (VOD) or a recent bank statement. |

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Gift Funds

Third Party Contributions

Business

For Eligible Loans, gifts from immediate family members are allowed for purchase money transactions. A gift letter signed and dated by the donor is required and must include the amount of the gift funds and that no repayment is expected or implied. Verification of receipt of the gift funds by the Borrower is required through deposit receipt or bank statement.

Contributions from interested parties such as the Seller, Builder, Realtor, etc., are allowed for purchase transactions and may be used for closing costs and/or prepaid items only not to exceed 3% of the purchase price or VCC value.

Some seller contributions—such as moving expenses, payment of various fees on the borrower’s behalf, “silent” second mortgages held by the property seller, P&I abatements, and other contributions not disclosed on the HUD-1 uniform settlement statement—often are given to buyers outside of loan closing. These undisclosed contributions tend to reduce the effective sales price of a property; therefore, they may compromise the loan-to-value ratio for a mortgage. Consequently, a mortgage with undisclosed seller contributions is not eligible.

Accounts Business Accounts are an acceptable source of funds.

Additional acceptable sources of funds if properly verified, include, but are not limited to:

Acceptable

Assets

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U.S. Savings Bonds Stocks/bonds/mutual funds Repayment of a loan Sale of Property or Real Property IRA/Keogh Accounts Trade equity

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Unacceptable ~~Assets~~

Trust Accounts Deposit on Sales Contract.

Unacceptable sources of funds include, but are not limited to: Credit card advances Sweat equity

Cash on hand

|  |  |
| --- | --- |
|  | Foreign Assets |

6.3. FIRST TIME BUYER

Careful risk analysis should be used for a borrower who is purchasing a commercial property for the first time or does not have history of owning real estate. All borrowers must meet the mortgage/rental history requirements.

 First Time Buyer is a borrower who has not owned a commercial property and/or has limited landlord experience  Minimum three (3) months PI reserves required post-closing

 Loan to value may be limited

NOTE: First Time Buyers are ineligible for large out-of-state transactions on Traditional property types. Exceptions are allowed for reasonable distances that cross state lines.

6.4 LEASE / PURCHASE TRANSACTIONS

 If the contract is less than twelve (12) months old, use the lesser of appraised value and purchase price to calculate the LTV.

 If the borrower has occupied the property and paid on the contract for twelve (12) months or more, use the appraised value to calculate the LTV.

 Cash-out to the borrower is not permitted.

 Rent credit from the seller for part of the down payment and closing costs requires the following documentation: o Only the amount of rent paid in excess of proven market rents for the area may be applied toward the required down payment. The property appraiser must determine the market rents. And/or the rent credit is limited to a specific percentage of total monthly rental.

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o The appraiser must provide evidence of Fair Market Rents

o Rental credit must appear on HUD-1

o Cancelled rent checks or bank statements to verify rental payment history

o NOTE: Unsupported rental credits will be treated as a reduction in sales price

6.5 SUBORDINATE FINANCING

Subordinate financing is acceptable on certain transactions. Repayment terms must provide for regular monthly payments to cover at least the interest due and a minimum term equal to or greater than the fixed period term of the new VCC loan.

 The maximum allowable Combined Loan-to-Value (CLTV) is 80%. The Combined Debt-Service Coverage ratio shall generally not be below 1.15 in connection with VCC’s loan program (N/A for Investor 1-4 property types and loans <$500M made to traditional property types).

6.6 REFINANCES

Tangible

Benefit

Free & Clear Properties,

Cash-out on Recent

Purchases

A refinance must result in a net tangible benefit to the borrower.

(See Net Tangible Benefit Policy)

Definition: Properties owned free of liens and/or any encumbrance.

 Must verify 24 months chain of title

Definition: Borrower on title < 12 months

 Value estimate limited to the lessor of the original purchase price or the current appraised value

|  |  |
| --- | --- |
| Incidental Cash Limit | If incidental cash-out involved in a rate/term refinance exceeds the lesser of 2% or $20,000 the loan shall be considered a cash-out refinance. Cash-out is defined as any amount paid out |

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of settlement proceeds that are not applied to valid loans

secured by the subject property or acceptable closing costs.

Use of

Proceeds At the underwriter’s discretion, a Letter of explanation for the cash out proceeds may be necessary.

Texas

Rule

Recently Listed Properties

Borrower cannot reside in the property under any circumstances

Properties that have been recently listed (within the past 6 months) must:

 Be off the market (evidenced by expired or cancelled listing agreement) and;

 Eligible for Rate and Term refinances only if loan includes a two year prepayment penalty (if allowed by law) Borrower(s) to sign letter stating awareness of prepayment penalty associated with loan

 Value will be based on the lesser of the lowest list price, appraised value, or underwritten value.

|  |  |
| --- | --- |
| Short Funds to Close | No sourcing and seasoning of funds required |

6.7 CONTRACT FOR DEED / LAND CONTRACTS

VCC will provide financing to transactions where a land contract is present on a case-by-case basis, however, the following guidelines apply:

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 A mortgage loan that pays off a contract for deed is treated as a refinance transaction.

 Cash-out to the borrower is generally not permitted, but must be reviewed case-by-case.

 Twelve (12) months of ownership seasoning is required and the LTV is based on the appraised value.  Twelve (12) months of cancelled checks for the land contract are required.

6.8 INHERITED PROPERTIES

If a mortgaged property was inherited within the last twelve (12) months, the following restrictions apply:

 The owner must have clear title.

 Title cannot be held in probate.

 Percentage of ownership by heirs must be demonstrated.

 If paying off existing mortgage loans and heirs and with no cash to the borrower or debt consolidation, the maximum LTV ratio will be established by the product matrix.

6.9 RECENT QUITCLAIMS/TITLE TRANSFERS

At the underwriter’s discretion, a credit report may be required for all borrowers on title within the last 6 months. In addition, any transaction where a quitclaim of interest has been executed within 6 months could require a credit report from prior the owner(s). .

6.10 LOAN ASSUMPTION

Loans are assumable at Lender's discretion and a 1% Fee, plus any applicable third party fees (e.g., credit report, flood certification, etc.). VCC underwrites the credit of the new or remaining borrower(s) according to its standard program and underwriting guidelines.

6.11 POWER OF ATTORNEY

VCC will accept a power of attorney from a borrower or guarantor under the following circumstances: Must be a specific POA with the details of the proposed loan clearly identified.

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VCC must receive an original copy of the notarized POA

In general POA’s will not be accepted.

7. TITLE, TAXES, INSURANCE

The credit file must contain a commitment for an American Land Title Association (ALTA) Lender’s Title Insurance Policy (or comparable lender’s policy).

VCC requires the title policy to be written on the standard 1992 ALTA form. VCC will accept the 1970/1984 form of ALTA Loan title insurance policy provided that the policy does not contain any creditors’ rights or arbitration of claims exceptions or exclusions and any such exceptions or exclusions shall be deleted by endorsement. In those states in which ALTA forms of coverage are not used or are unacceptable, VCC requires similar coverage.

7.1 TITLE INSURANCE

 Abstract of title or equivalent title report must be dated within six months of loan closing;

 Vesting Requirements:

o purchase transactions must have evidence of chain of title from Seller to Buyer (Borrower), o refinance transactions must have evidence that title is vested in subject Borrower(s),but is not limited to the borrower(s) only as additional non-borrowing individuals may be allowed on title at the underwriters discretion.  All vested parties have executed the security instrument and complied with all title requirements;  If title has been conveyed within most recent 12 months, additional documentation may be required to ensure acceptability of transaction;

 Title must be “fee simple”; Leasehold property must have specific approval by VCC prior to lending; and  Legal description must agree with all legal documents.

 Closing Insuring Protection Letter must be provided with each file if applicable.

 Any Assignment of Leases and/or Rents on any financing statements recorded must show VCC as secured party and must not be listed as exception on Schedule B, Part I.

Title Insurance Exceptions

 Property taxes, assessments and bonds must be paid current;

 Specific title endorsements must be obtained if necessary and if required by state law (e.g., not definable easements, mineral rights, etc.);

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 All existing liens and judgments must have been paid or released;

 Insurance endorsements have been obtained to cover right of surface entry if rights are not specifically waived in the legal description;

 Title exceptions are limited to those generally acceptable in the secondary market, as determined by VCC in its sole and absolute discretion;

 Additional title endorsements may be required;

 A duly authorized agent of the issuing title insurance company must countersign title commitment;  Amount of title insurance must be equivalent to the face amount of the Note and Title Company and policy of title insurance must conform to industry requirements.

Title endorsements

The following endorsements, as applicable, must be included in the title insurance policy unless such endorsements or their equivalent are not available by statute or regulation in the jurisdiction where the Mortgaged Property is located.

Standard endorsements are: ALTA 100, 116, 110.8, 111.8 (or the standard for that state):

 Comprehensive endorsement (Restrictions, Encroachments and Minerals)

 ALTA Form 9

 Zoning use (if available)

 Usury

 Access

 Environmental lien protection, ALTA form 8.1 (if available)

 Contiguity endorsement

 Mortgage tax (if required)

 Survey

 Variable Rate endorsement (if required)

If the title commitment indicates the presence of any easements that are not specifically located (i.e. blanket easements), the title policy must provide affirmative insurance against any loss that conflicts with the use or diminishes the value of the improvements resulting from the exercise by the holder of such easement of its right to use or maintain that easement. VCC reserves the right to require any such easement to be specifically located or reduced.

7.2 PROPERTY INSURANCE AND TAXES

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Impound Accounts

VCC requires tax and insurance impounds for all loans. At the underwriters discretion the insurance impounds may be waived based on the following circumstances:

 Proof of existing coverage on subject property

(blanket coverage for the subject and other properties is ok)

 Clean credit history

 Real estate investment experience

Hazard Insurance

I. Property and Liability Insurance Policy

The property securing the loan must be continuously insured with an acceptable property and liability insurance policy, meeting the following requirements. Unless otherwise stated, all insurance forms and policies refer to Insurance Services Office (“ISO”) forms and policies. The named insured in each policy must be the owner of the real estate securing the loan with VCC and/or any VCC affiliates named as additional insured.

II. Property Damage Insurance

The property must be covered by a fire policy endorsed to include all the extended coverage perils and must not exclude from coverage (in whole or part) windstorm, hurricane, hail damages, or any other perils that are normally included under extended coverage.

a. The insurance policy:

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 must reflect the amount of coverage and shall be the lesser of (a) the outstanding unpaid principal balance of the loan, or (b) full replacement cost of the improvements without any deduction for depreciation Replacement cost can be determined by endorsement on insurance cert, the carrier’s estimate, or the lender’s appraisal estimate

 Evidence of insurance or insurance binder must agree with Deed of Trust or Mortgage and reflect Owner(s)’ name, mailing address, insured property address, and the type of insurance

 Coinsurance is generally discouraged, but at the underwriters discretion, it may be permitted on investor 1-4 properties when the insurance policy contains the replacement cost endorsement; must have a deductible equal to the lesser of $10,000 or 5% of the amount of coverage; wind/hail deductible up to the lesser of 5% or $25,000 is acceptable except as provided herein

 Policy number must be indicated

Traditional Loan - insurance criteria:

 Policy must contain Law and Ordinance endorsement “A” for traditional 1 and 2 property types  Traditional 2 Owner User properties are required to obtain a Business Interruption policy

Investor 1-4 Loan - insurance criteria:

 1-4 Tenant Occupied: Landlord insurance policy containing loss of rents, loss of use or business income coverage

 An "all risk" policy is acceptable on the following forms: DP3, special/broad, Dwelling Fire Form 3, DP-3, or a Proprietary landlord insurance policy from major carrier.

 If loss of use is indicated, insurance policy must indicate a Landlord/Rental policy.

Working Capital Loan - insurance criteria:

 Homeowners Ho3, Ho5, Ho6 (condo) policies are acceptable forms of coverage for real estate pledged and occupied by the Guarantor.

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NOTE:

If an evidence of insurance or insurance binder is provided at closing, a policy must be issued and sent within 30 days from date of issuance with the proper mortgagee clause to VCC’s designated servicer of record.

Purchase transactions with escrow accounts require two months reserves, where allowable under state law, plus the first year premium paid prior to or at the close of escrow and a paid receipt is required if the premium is paid prior to closing; if paid through escrow, the full first year premium must be shown as a disbursement on the HUD-I Settlement Statement;

Purchase transactions without escrow accounts require a paid receipt for the first year premium, if paid prior to closing and if paid through escrow, the full first year premium must be reflected as a disbursement on the HUD-I Settlement Statement;

Refinances with escrow accounts require appropriate hazard insurance reserves based upon the next due date of the premium. Refinances with escrow accounts for hazard insurance require two months reserves, where allowable under state law, plus the first year premium to be paid at or prior to loan closing when the policy expiration date is within 60 days of closing. If the policy expiration date is more than 60 days after closing, all premiums due since inception of the policy period, plus two month reserves must be collected. A paid receipt is required if the premium is paid prior to closing. If paid through escrow, the disbursement must be reflected on the HUD-1 Settlement Statement. EXAMPLE: If the first payment is due November 1 and the insurance premium is due January 1, then VCC must collect twelve (12) months of reserves;

Refinances without escrow accounts require evidence that the first year premium has been paid if the policy expiration date is within 60 days of close of escrow or proof borrower established monthly payment plan with Insurance Co.

III. Business Income Coverage

In certain cases, business income/loss of rents coverage sufficient to protect against loss for a period of up to twelve (12) months may be required at underwriter's discretion for loans over $1,000,000.

IV. General Property Damage Insurance Requirements

Each policy must have a cancellation provision that provides that the carrier will notify VCC (in writing) at least 30-days in advance of any policy modification, reduction, cancellation, (10-days for non-payment of premium). Wind and Storm (“Wind

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and Hail”) policies are required for properties located in areas of high risk.

V. General Liability Insurance

General Liability Insurance is required on all traditional loans. Personal liability is acceptable on 1-4 loans.

For Traditional loans, the minimum limit of liability with respect to bodily injury and property damage is $1 million per occurrence with a $2 million minimum general aggregate limit. Insurance must be written on an “occurrence” basis.

For Investor 1-4 properties, $300,000 is acceptable for the general aggregate limit. VCC may require additional amounts of coverage if it is determined that special risks exists, including, for example, space used for a day care center or other commercial or retail facility.

VI. Carriers

All policies shall be issued by an insurance carrier with a rating of "A-VIII" or better by Best's Key Rating Guide, rating of A or better by Demotech Inc., or a rating of "A" or better as to claims-paying ability by Standard & Poor's Rating Group.

Coverage underwritten by a state's FAIR plan is also acceptable if it is the only coverage that can be obtained. In addition, VCC will accept coverage obtained through state insurance plans, such as the Florida Residential Property and Casualty Joint Underwriting Association, the Florida Windstorm Underwriting Association, or other state-managed windstorm and beach erosion insurance pools, if that is the only coverage that is available.

VII. Evidence of Insurance

Prior to funding a loan, an ACORD Form 27 or ACORD 28 combined with an ACORD 25S, or ACORD 75S are acceptable as temporary evidence of insurance. Other insurance binders (Non ACORD forms) are acceptable at the underwriters discretion. Post-closing, either originals or certified copies of current insurance policies are acceptable as proofs of coverage. A binder is not acceptable, unless required by state law. If state law requires the acceptance of a binder as evidence of insurance, the binder must be renewed no less frequently than every 60 days.

VIII. Term

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All policies must be for a term of not less than one year. The initial policy must be paid in full prior to loan closing. IX. Blanket Policies

The borrower may comply with the above requirements through the use of a blanket or package policy (or policies) of insurance covering the property and other properties and liabilities of the borrower, provided that the property is listed and identifiable in the policy, there is a mortgagee clause, naming VCC as additional insured, that is specifically applicable to the property, all other requirements above are satisfied, and the policy must have an amendment (e.g. ISO CG 2504) that will ensure that the aggregate limit of insurance will apply separately to each covered property, including the property, that is subject to a mortgage or deed of trust held by VCC.

Flood Insurance

A copy of completed application with paid receipt is required; Flood deductible up to 2% is acceptable. Policy or application number must be indicated;

Borrower(s)’ names, property address, and/or unit number, must agree with Note;

Amount of coverage must be equal to or greater than the loan amount OR replacement cost of improvements.

If flood insurance is required, refinances with escrow accounts require two months reserves plus the first year premium to be paid at or prior to loan closing when the policy expiration date is within sixty (60) days of closing. If the policy expiration date is more than sixty (60) days after closing, fourteen (14) months reserves must be collected at closing. A paid receipt is required if the premium is paid prior to closing. If paid at closing, the disbursement must be reflected on the HUD-1 Settlement Statement.

Refinances with escrow accounts require appropriate flood insurance reserves based upon the next due date of the premium. Refinances with escrow accounts for flood insurance require two months reserves, where allowable under state law, plus the first year premium to be paid at or prior to loan closing when the policy expiration date is within sixty (60) days of closing. If

the policy expiration date is more than sixty (60) days after closing, all premiums due since inception of the policy period, plus two months reserves must be collected. A paid receipt is required if the premium is paid prior to closing. If paid through escrow, the disbursement must be reflected on the HUD-1 Settlement Statement. EXAMPLE: If the first payment

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is due November 1 and the insurance premium is due January 1, then Correspondent must collect twelve (12) months of reserves.

Property Taxes

Proof that taxes have been paid and are current (i.e., annually, semi-annually, quarterly, etc.);

Taxes with escrow accounts require the lesser of two months’ reserves or the maximum amount of reserves allowed by state law plus proof the taxes are paid and are current either prior to or at close of escrow when the taxes are due within 60 days of closing;

Provide current tax bill evidencing tax ID#, warranting that all assessments are current and are collected with the property taxes, and improvement bonds (excluding Mello Roos) are paid in full;

Purchase transactions with escrow accounts require two months’ tax reserve, plus the current bill paid prior to or at the close of escrow. If paid prior to closing, a paid receipt will be required from the corresponding taxing authority;

Purchase transactions without escrow accounts require verification of taxes paid by either a receipt from taxing authority or by an insurance verification;

Refinances with escrow accounts require appropriate reserves based upon the next due date of taxes; and,

If taxes fall due within two months before or after the purchase date, the Borrower is required to pay the taxes at the closing of the loan.

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8. TITLE VESTING GUIDELINES

Loans may be vested in the name of natural persons or trusts (except for the Working Capital program which prohibits loans to individuals or trusts (see section 6.1). Title may also vest in corporations, limited liability companies, partnerships, and non profit organizations, in accordance with VCC’s guidelines. The mortgagor will sign the Mortgage/Deed of Trust and any related Riders. The mortgagor should not be confused with the guarantor. The guarantor is the natural person who executes the guarantee (if applicable) and whose credit and/or assets are underwritten to guarantee the loan. The borrower will sign the Note and any related Addenda, and relevant closing documents.

All Eligible Loans must have a natural person as the guarantor.

8.1 TRUST VESTING REVIEW PROCEDURES

NOTE: Trusts are not eligible Borrowers for business loans made under the working capital program (Section 6.1)

Irrevocable Trusts will be reviewed on a case-by-case. The Trust must provide:

1. Completed Entity Vesting Review Request Form

2. Certified copy of the fully executed Trust Agreement; and

3. Such other documents and certifications reasonably requested by VCC or the title company or required under state law.

Inter Vivos Revocable Trusts are acceptable as eligible borrowers under certain conditions. An Inter Vivos Revocable Trust is a trust that:

I. an individual creates during his or her lifetime,

II. becomes effective during its creator's lifetime, and

III. can be changed or canceled by its creator at any time, for any reason, during that individual's lifetime.

 VCC will accept an Inter Vivos Revocable Trust as an eligible borrower for a first mortgage that is secured by all property types, as long as the eligibility criteria are satisfied and our documentation requirements for mortgages to Inter Vivos revocable trust borrowers are met.

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 Minor variances based on individual state law will be acceptable as long as, under relevant state law, our rights are fully protected (thus assuring that full title to the property would be vested in us should we ever have to initiate foreclosure proceedings) and title insurers are willing to provide full title insurance coverage (without exceptions for the trust or the trustees).

8.2 Eligibility Criteria for Trust

We require that the Inter Vivos Revocable Trust be established by a natural person. It may be established solely by one individual or jointly by more than one individual.

An Inter Vivos Revocable Trust will be considered an eligible borrower if it meets the following eligibility requirements:

 The trust must be established by a written document during the lifetime of the individual establishing the trust, to be effective during his or her lifetime.

 The trust must be one in which the individual establishing the trust has reserved to himself or herself the right to revoke the trust during his or her lifetime.

 The trust document must name one or more trustees to legally act on behalf of the trust.

 The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the Trust under the mortgage or deed of trust note.

 All loans to a Trust must be personally guaranteed by a natural person. Trustees and beneficiaries are eligible as guarantors.

8.3 LLC VESTING REVIEW PROCEDURES

Borrower must provide the following LLC documents to VCC prior to closing for review and preapproval.

 Copy of Operating Agreement and/or resolution stating Authorized signor.

 A complete Member List showing all members and managers and their respective ownership interests.  If the ownership of LLC includes a non-natural person (another business entity or trust), the LLC must provide a certification stating that (i) the non-natural person is authorized to own and participate in the LLC, (ii) that the person who signed on behalf of the non-natural person has the authority to bind that non-natural person

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 Such other documents or certificates as reasonably requested by VCC or required under federal, state and/or municipal law.

8.4 CORPORATION VESTING REVIEW PROCEDURES

Borrower must provide the following corporate documents to VCC prior to closing for review and pre-approval.

 Cert of Good Standing (or equivalent document) issued from the state in which the Corporation is incorporated. Website print-outs are accepted in lieu of a state issued certificate at the discretion of the underwriter. The certificate cannot be dated more than 60 days prior to closing and must be provided regardless of the age of the corporation.  Certified Corporate Bylaws, including all amendments, attachments and schedules, if any.

 All applicable Shareholder Agreement(s).

 A complete Shareholder, Director and Officer List identifying all shareholders, directors and officers and their respective ownership interests. If the ownership of the Corporation includes a non-natural person (another business entity or trust), the Corporation must provide a certification stating that (i) the non-natural person is authorized to own and participate in the Corporation,

 Such other documents or certificates as reasonably requested by VCC or required under federal, state and/or municipal law.

8.5 GENERAL PARTNERSHIP VESTING REVIEW PROCEDURES

Borrower must provide the following general partnership documents to VCC prior to closing for review and pre-approval.

 Copy of Operating Agreement and/or resolution stating Authorized signor.

 Filed or certified copy of Fictitious Name Registration, including all amendments (or equivalent document required by the state).

 Signed Partnership Agreement, including all amendments, attachments and schedules, if any.  Resolution of Unanimous Consent and Certification of the Partners signed by all partners of the general partnership. The resolution must specifically identify the property, approve the mortgaging of said property to secure the individual borrower’s Note, and designate a partner who shall execute the Mortgage/Deed of Trust documents on behalf of the general partnership.

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 A complete Partner List showing all Partners and their respective ownership interests.

 If the ownership of the general partnership includes a non-natural person (another business entity or trust), the general partnership must provide a certification stating that (i) the non-natural person is authorized to own and participate in the general partnership, (ii) that the person who signed on behalf of the non-natural person has the authority to bind that non-natural person.

 Such other documents or certificates as reasonably requested by VCC or required under federal, state and/or municipal law.

8.6 LIMITED PARTNERSHIP VESTING REVIEW PROCEDURES

Borrower must provide the following limited partnership documents to VCC prior to closing for review and pre-approval.

 Copy of Operating Agreement and/or resolution stating Authorized signor.

 A complete Partner List showing all Partners and their respective ownership interests.

 If the ownership of the limited partnership includes a non-natural person (another business entity or trust), the limited partnership must provide a certification stating that, (i) the non-natural person is authorized to own and participate in the limited partnership, (ii) that the person who signed on behalf of the non-natural person has the authority to bind that non-natural person.

Such other documents or certificates as reasonably requested by VCC or required under federal, state and/or municipal law.

9. CLOSING

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9.1 Final Settlement

The Final settlement statement is required on all transactions. It should include the following:

 be certified to be true and correct,

 reflect both Borrower and Seller information,

 show Borrower(s)’ and Seller(s)’ names, title search, property address and/or that legal  description agrees with legal documentation,

 show that the name of lender and borrower agrees with Note,

 indicate sales price and earnest money deposit agree with purchase contract,

 reflect fees and amounts paid by either Buyer or Seller agree with purchase contract and legal documentation,  confirm that the principal balance of new loan agrees with loan approval and promissory note,  include all other fees required by law, and

 if property taxes are due within sixty (60) days of closing and the tax installment has been issued by the taxing authority, the full tax installment must be collected and paid at closing. In addition, two months’ reserves must be collected at closing for taxes (where allowable under state law);

Note: a final settlement statement certified by the settlement agent as a true copy of the original is acceptable.

9.2 SECONDARY FINANCING

Secondary financing must agree with loan approval and conform to underwriter’s requirements; and if prior approval is required, confirmation must be in file.

9.3 CLOSING COSTS

Credits to Borrower must be analyzed for intent and business purposes:

 closing costs must be differentiated as sales concessions or financing concessions,

 nonrecurring closing costs may not exceed actual costs and may not include pre-paid items,  closing costs may not exceed maximum allowable contributions (three percent, not to exceed $20,000),  credits for repairs and expenses must be supported, and

 borrower may receive an interest credit up to and including the fifth (5th) business day of the following month;

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Excessive or disallowed credits may adversely impact the approval of the loan package;

All holdback amounts for repair(s) or completion(s) must be shown on the final settlement statement; Hazard Insurance Premium paid must agree with premium indicated on evidence of insurance;

Flood Insurance Premium paid (if required) must agree with receipt and application must be in file;

Sufficient funds must be collected to pay property taxes and insurance;

Monthly escrow for payments of taxes and insurance must equal one-twelfth (1/12) of annual payment;

Aggregate adjustments for taxes and insurance must be calculated correctly and are always equal to a credit adjustment to the Borrower(s) (any aggregate adjustment showing as a debit on the settlement statement is NOT ALLOWED);

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10. SOUND BUSINESS PRACTICES

10.1 FRAUD PREVENTION

VCC maintains a strict policy against fraud as part of our effort to prevent loss to the company.

Employee’s Role

The most efficient way to mitigate fraud-related losses is to prevent them from occurring. Cases of loan fraud can and should be detected prior to closing the transaction. Employees are reminded of their obligation to investigate all cases of suspicious activity throughout the loan origination process.

During your review of a file, you might notice inconsistencies that give you reason to suspect potential fraud. Usually these inconsistencies are the result of an incomplete application, but occasionally, they occur as the result of the intentional misrepresentation of facts. The purpose of this section is to provide you with guidance for validating the data in the loan file.

Cross Check Information

The documentation obtained during processing should support all the information disclosed on the application. The application must be thoroughly reviewed and the information compared with the supporting documentation as it is received. Become familiar with the validation sources that are available in every loan file. Here are some examples of documents that can be easily crossed-referenced for consistency:

 The borrower’s social security number appears on the application, credit report, bank statements, etc. The borrower’s name and place of residence will appear on copies of personal checks, credit card and bank statements.

Effective Communication

Inconsistencies identified within the loan application may be resolved simply by asking the originator or borrower for an explanation. All conversations should be documented, and explanations submitted in writing. Creating a paper-trail will assist in documenting a case of inconsistencies.

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Re-Verify Information

Anytime a document is supplied by a party who has an interest in the transaction, an opportunity for fraud is created. Although it is not feasible, nor necessary to investigate every verification form, there are certain business practices that are conducive to sound loan origination processes. The following is a list of recommended processes that will reduce the opportunity for fraudulent transactions:

 The application should always be completed in its entirety.

 VCC should independently order the appraisal, credit report, or any other report from trusted vendors. Verifications obtained from Internet sites should always be obtained by the VCC, and the web address must be validated.  Employees are prohibited from working in a professional capacity on any transaction in which they have a personal interest that would create a conflict of interest.

During your review of documents you may notice discrepancies. If so, independently verify the information prior to accepting it or raise the issue with a manager.

Credit Report

Many credit vendors provide a telephone number or web address that lenders can use to verify the authenticity of the report. If the suspicious credit report contains directions for validation, follow those directions:

 Independent credit references should be re-verified directly with the creditor. If possible, ask the credit reporting vendor for assistance with this task. They often have the contact numbers for most lenders. Otherwise, independently obtain the telephone number for the creditor.

 Call the creditor, identify yourself, and ask for their assistance with obtaining a credit reference.  Fax the suspicious verification form directly to the creditor if possible, requesting that they validate the information.  If you are unable to contact the creditor, ask the borrower to provide copies of the cancelled checks used to pay this account for the last 12 months. Be sure to ask for a copy of the front and back of each check.

VOD Bank Statements

Resolve VOD bank statement discrepancies by performing the following steps:

Independently obtain the address and phone number for the financial institution.

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Call the main number, and request a contact that is authorized to re-verify the VOD or statements. Often VODs can be completed by a local branch of the bank.

Fax these documents to the bank contact, with instructions to confirm their accuracy.

Internet- Generated Verifications

Resolve internet-generated verification discrepancies by performing the following steps:

 Independently obtain the telephone number for the institution.

 Call their main number and ask for the web address used to verify information.

 Compare the web address with the address printed on the verification form in the file to ensure they match.  If possible, request a duplicate on-line verification form.

 If you are not able to re-verify the information on line, call the company and ask

 If you can fax a copy of the form for confirmation.

Social Security Number

Discrepancies in Social Security numbers can be researched through a number of Internet sites. Although these databases provide useful information, only the Social Security Administration can confirm with complete accuracy whether the number on the application was issued to the borrower. Since the losses related to identity theft are escalating, the following steps should be taken to verify the borrower’s social security number if you suspect misrepresentation:

To clear an alert message on the credit report that appears to be the result of a typographical error (i.e. transposed numbers, or one incorrect number), obtain a copy of the borrower’s social security card. Preferably, you should ask the borrower to produce the original card that you can then copy. If the borrower only provided a copy of the SSN card, ensure the seal is visible. Carefully review the card for evidence of misspellings or alterations. If you still suspect fraud, ask the borrower to obtain original certified letter from Social Security Administration verifying the Social Security number.

All other types of suspicious activity

It is your responsibility to report any other suspicious activity to your manager or the Chief Credit Officer. 10.2 COMPANY INFORMATION

CONFIDENTIALITY POLICY

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Any information about VCC, its employees, its customers, or the companies with which it does business that has not been disclosed to the public is considered confidential. You should discuss confidential information only with those co-workers who need to use it in performing their own job duties. VCC expects you to maintain this confidentiality even after you stop working for the Company.

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11. COMPLIANCE

11.1 THE EQUAL CREDIT OPPORTUNITY ACT

The Equal Credit Opportunity Act (ECOA), as implemented by Regulation B (12 CFR202), promotes the availability of credit to all creditworthy applicants without regard to race, color, religion, national origin, sex, marital status, or age provided the applicant has the capacity to contract).

The regulation imposes certain requirements on creditors to notify applicants of action taken on their applications and to collect information about an applicant’s race, sex, marital status and age in connection with applications for certain dwelling-related loans. In addition, creditors must adhere to other prescribed rules including those related to taking and evaluating applications, notifying an applicant of action taken on their application, providing copies of appraisal reports used in connection with credit transactions, reporting and maintaining credit histories, and retaining records. Regulation B does not, however, prevent a creditor from considering any pertinent information necessary to evaluate the creditworthiness of an applicant.

11.2 PRIVACY POLICY

VCC acknowledges that they have a responsibility to their customers to keep records and information confidential and proprietary. VCC will make every attempt not to disclose, either directly or indirectly, to any person, firm or corporation information concerning such customers and the Eligible Loans except as permitted by law.

The board, management, and staff of VCC, LLC highly value our customer relationships and are acutely aware of the trust and responsibilities these relationships entail. We are committed to offering our customers an attractive menu of financial products and services to help them meet their financial goals. In so doing, however, we are mindful of our obligation to ensure that the privacy of the sensitive personal and financial information entrusted to us is not compromised. This Privacy Policy is intended to

ensure the attainment of these objectives.

Gathering Personal Information

VCC collects nonpublic, personally identifiable and financial information about the customer including: (i) information received from applications or other forms, such as an application for a loan; (ii) information about transactions with us, our affiliated companies, or other third parties; and (iii) information we receive from consumer reporting agencies.

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The type of information that we request depends on the service that is being utilized. For example, when a customer completes an application, we may ask for information such as name, address, income, employment, investments and other similar information. We also collect information from the use of our website.

Use of Personal Information

Although we may disclose all of the information we collect and retain, its use will be limited to what we reasonably believe is appropriate and necessary to administer our business and to provide the quality of service our customers expect and deserve, such as to: (i) protect customer records; (ii) satisfy regulatory reporting and other legal requirements; (iii) administer proper internal operations;

Safeguarding Customer Information

At VCC, we protect customer privacy by ensuring that only employees who have a business reason for knowing information have access to it.

VCC maintains physical, electronic and procedural safeguards that comply with federal regulations to guard your nonpublic, personal information. We continually assess new technology for protecting information. We strive to ensure that our operational and data processing systems are in a secure environment that protects all account information from being accessed by unauthorized parties.

Accuracy of Information

VCC has established procedures to ensure that customer’s financial information is accurate, current and complete, in keeping with reasonable industry standards. We continually strive to maintain complete and accurate information about customer accounts.

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12. ENVIRONMENTAL RISK POLICY

VCC does not lend on environmentally sensitive properties and avoids lending to properties that pose an increased environmental risk.

For Traditional properties environmental insurance questionnaire forms must be completed and executed by the borrowing entity and/or guarantor. As part of the underwriting process the underwriter will input the necessary collateral information to obtain environmental insurance from an approved VCC vendor. Should VCC learn of any potential hazardous substances located on or near the subject property, all information will be shared with the underwriter and the insuring institution.

Traditional Properties will be ineligible for financing if they fail to obtain environmental insurance VCC does not require environmental reports on Investor 1-4 properties.

12.1 REQUIRED ENVIRONMENTAL FORMS

VCC must obtain the following forms for new traditional loan applications:

 VCC Borrower Environmental Disclosure Questionnaire

 Any/all supplemental environmental documents (i.e. existing phase 1, 2) relating to the condition of the property.

12.2 POTENTIAL ENVIRONMENTAL RISK PROPERTIES

The following is a list of properties and/or business uses that must be carefully reviewed prior to approval:

Airport, Asbestos Abatement Contractor, Asphalt Plant, Auto or Boat Dealership, Auto Repair Shop, Auto Oil Change/Lube Shop, Auto Painting Shop, Automobile Salvage, Battery Reclamation Operation, Bio-Engineering, Chemical Distributor, Commercial Farm, Convenience Store with Gas Pump, Drilling/Pluming Operations, Drum/Tank Reclamation, Dry Cleaners, Electric Appliance Salvage, Electric Motor/Equipment Repair, Electric Utilities, Electrical Contractors, Embalming/Funeral Directors, Foundry, Furniture, Finishing/Refinishing, Garbage Collection/Hauling, Hazardous Waste Services, Incinerator Operator, ink Production, Landfill Operator, Lawn Care Company, Mining, Paper Mill, Paving Contractor, Manufacturing (any company using hazardous materials/chemicals in a manufacturing process), Printing, Railroad Yard, Refinery, Septic Tank Cleaning Services,

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Shipyard,/Shipping port, Tank Farm/Pipeline Operator, Tannery, Textile Dyeing/Fishing, Virus/Germ Research Laboratories, Wood Treatment Plant, Planting & Galvanizing, Junkyards, Pest Control Services, Photo Laboratories, Gene Splicing.

13. AMENDMENTS TO THE MCP

All adjustments and or amendments to this document must be approved by senior management, documented, and date stamped.

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Appendix 1: Velocity Anti-Money Laundering (“AML”) policy

Velocity Commercial Capital LLC

Anti-Money Laundering (“AML”) Program:

Compliance and Supervisory Procedures

Updated April 27, 2015

1. Firm Policy

Headquartered in Westlake Village, California, Velocity Commercial Capital is a specialty finance company focused on nationwide real estate lending through a network of mortgage brokers.

It is the policy of Velocity Commercial Capital 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

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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 similar to 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.

Our AML policies, procedures and internal controls are designed to ensure compliance with all applicable BSA regulations 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 our business (see 31 C.F.R. § 1029.210).

2. AML Compliance Officer Designation and Duties (31 C.F.R. § 1029.210(b)(2))

Velocity Commercial Capital has designated Joseph Cowell as its Anti-Money Laundering Program Compliance Officer (“AML Compliance Officer”), with full responsibility for Velocity Commercial Capital’s AML program. Our AML 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 Officer will include overseeing all aspects of Velocity Commercial Capital’s compliance with AML obligations. Specifically, our AML Compliance Officer is responsible for ensuring the following:

a. The anti-money laundering program is implemented effectively, including monitoring compliance by the company's agents and brokers with their obligations under the program;

b. The anti-money laundering program is updated as necessary; and

c. Appropriate persons are educated and trained.

The AML Compliance Officer will also ensure that Velocity Commercial Capital keeps and maintains all of the required AML records and will ensure that Suspicious Activity Reports (“SARs”) are filed with the Financial Crimes Enforcement Network

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(“FinCEN”) when appropriate. The AML Compliance Officer is vested with full responsibility and authority to enforce Velocity Commercial Capital’s AML program.

When requested by FinCEN, Velocity Commercial Capital will provide FinCEN with contact information for the AML Compliance Officer, including: (1) name; (2) title; (3) mailing address; (4) email address; (5) telephone number; and (6) fax number. Following the initial request from FinCEN, Velocity Commercial Capital will promptly (within 30 days of a change) notify FinCEN of any change in this information (see 31 C.F.R. § 1010.520(a)(3)(iii)).

3. Giving AML Information to Federal Law Enforcement Agencies and Other Financial Institutions

a. FinCEN Requests Under USA PATRIOT Act Section 314(a)

Note: Pursuant to the BSA and its implementing regulations, financial institutions are required to make certain searches of their records upon receiving an information request from FinCEN. As of the most recent update to these procedures, FinCEN did not yet have in place a system for making Section 314(a) requests of RMLOs. Once FinCEN begins making 314(a) requests of RMLOs, Velocity Commercial Capital will implement the following policies and procedures.

As required by 31 C.F.R. § 1010.520(a)(3), “upon receiving an information request from FinCEN under [section 1020.520, we will] expeditiously search [our] records to determine whether [we maintain] or [have] maintained any account for, or [have] engaged in any transaction with, each individual, entity, or organization named in FinCEN's request.” If we find a match, our AML Compliance Officer will report it to FinCEN via FinCEN’s Web-based 314(a) Secure Information Sharing

System within 14 days or within the time requested by FinCEN in the request. If the search parameters differ from those mentioned above (for example, if FinCEN limits the search to a geographic location), our AML Compliance Officer will structure our search accordingly.

When our AML Compliance Officer searches our records and does not find a matching account or transaction, we will not reply to the 314(a) Request. We will maintain documentation that we have performed the required search by printing a search self-verification document from FinCEN’s 314(a) Secure Information Sharing System evidencing that that we have searched the 314(a) subject information against our records.

We will not disclose the fact that FinCEN has requested or obtained information from us, except to the extent necessary to comply with the information request. Our AML Compliance Officer will review, maintain and implement procedures to protect the security and confidentiality of requests from FinCEN similar to those procedures established to satisfy the requirements of Section 501 of the Gramm-Leach-Bliley Act with regard to the protection of customers’ nonpublic information.

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We will direct any questions we have about the 314(a) Request to the requesting federal law enforcement agency as designated in the request. Unless otherwise stated in the 314(a) Request, we will not be required to treat the information request as continuing in nature, and we will not be required to treat the periodic 314(a) Requests as a government provided list of suspected terrorists for purposes of the customer identification and verification requirements.

b. Voluntary Information Sharing with Other Financial Institutions under USA PATRIOT Act, Section 314(b) (31 C.F.R. §1010.540)

We may share information with other financial institutions regarding individuals, entities, organizations and countries for purposes of identifying and, where appropriate, reporting activities that we suspect may involve possible terrorist activity or money laundering. Before doing so, our AML Compliance Officer will ensure that Velocity Commercial Capital files with FinCEN an initial notice before any sharing occurs and annual notices thereafter. We will use the notice form found at FinCEN’s Web site. Before we share information with another financial institution, we will take reasonable steps to verify that the other financial institution has submitted the requisite notice to FinCEN, either by obtaining confirmation from the financial institution or by consulting a list of such financial institutions that FinCEN will make available. We understand that this requirement applies even to financial institutions with which we are affiliated. As with non-affiliated firms, we will also obtain the requisite notices from affiliates and follow all required procedures.

We will employ strict procedures both to ensure that only relevant information is shared and to protect the security and confidentiality of this information.

We also will employ procedures to ensure that any information received from another financial institution shall not be used for any purpose other than:

 identifying and, where appropriate, reporting on money laundering or terrorist activities;

 determining whether to establish or maintain an account, or to engage in a transaction; or

 assisting the financial institution in complying with performing such activities.

c. Joint Filing of SARs with Other Parties (31 C.F.R. §1029.320)

If we and one or more other party have an obligation to report a transaction, we may file a single SAR jointly with the other party.

When filing jointly, we will ensure that the filed SAR contains all relevant facts, including the name of each party involved in the transaction. We will also ensure that the SAR complies with all instructions applicable to joint filings, and that we keep a copy of the report filed, along with any supporting documentation.

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If we determine it is appropriate to jointly file a SAR, we understand that we cannot disclose that we have filed a SAR to any party except the party that is filing jointly. If we determine it is not appropriate to file jointly (e.g., because the SAR concerns the other party or one of its employees), we understand that we cannot disclose that we have filed a SAR to any party.

4. BSA Reporting

a. Filing of FinCEN Form 8300 (31 C.F.R. § 1010.330)

If, in the course of our business, we receive currency in excess of $10,000 in 1 transaction (or 2 or more related transactions), we will file FinCEN Form 8300 to report the receipt of such currency. We will file Form 8300 by the 15th day after the date the currency was received.

b. Foreign Bank and Financial Accounts Reports (31 C.F.R. § 1010.350)

We will file a Report of Foreign Bank and Financial Accounts (TD-F 90-22.1), or any successor form, with the IRS for any financial accounts of more than $10,000 that we hold, or for which we have signature or other authority over, in a foreign country.

c. Currency and Monetary Instrument Transportation Reports (31 C.F.R. § 1010.340)

Velocity Commercial Capital prohibits both the receipt of currency or other monetary instruments that have been transported, mailed or shipped to us from outside of the United States, and the physical transportation, mailing or shipment of currency or other monetary instruments by any means other than through the postal service or by common carrier. We will file a CMIR with the Commissioner of Customs if we discover that we have received or caused or attempted to receive from outside of the U.S. currency or other monetary instruments in an aggregate amount exceeding $10,000 at one time (on one calendar day or, if for the purposes of evading reporting requirements, on one or more days). We will also file a CMIR if we discover that we have physically transported, mailed or shipped or caused or attempted to physically transport, mail or ship by any means other than through the postal service or by common carrier currency or other monetary instruments of more than $10,000 at one time (on one calendar day or, if for the purpose of evading the reporting requirements, on one or more days).

5. Monitoring for Suspicious Activity

a. Background:

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