



PROGRAM UNDERWRITING GUIDELINES

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100. Loan Program and Product Summary

As a private money lender ONCI Program Underwriting Guidelines (the “Guide”) are designed to describe the requirements for underwriting renovation and construction loans in accordance with Old North Capital Investment Operating Agreement as well applicable state and federal laws.

We currently lend in the following states: Alabama, Arizona, Colorado, Georgia, Maryland, Tennessee, Texas, and Washington. <https://oncfund.com/where-we-lend/>

ONCI currently offers the four different loan products as described below:

Fix & Flip- ONCI will fund up to 85% of the purchase price of a property and 100% of the renovation costs based on underwriting results. No interest is charged on undrawn renovation funds. Product designed to allow borrower to quickly acquire property and renovate a property before selling the property at a higher price.

Bridge- A short-term loan for borrowers who need to bridge the gaps between buying and selling a home. Unlike the fix and flip loan, there is no separate funds for renovation. Instead, funds are disbursed as one lump sum through closing. ONCI will fund up to 85% of the purchase price of a property based on underwriting results.

Construction- Designed for investors who are purchasing an empty lot or tearing down a new home to build new construction. ONCI can fund up to 85% of the land purchase and 100% of construction costs based on underwriting results.

Transactional- product is geared towards wholesalers who are looking for capital resources to facilitate a double closing. Generally, the borrower will have a property under contract, find a new buyer to purchase the property at a higher price and then ONCI will provide funds to purchase the property while simultaneously selling the property to a new owner. ONCF will fund up to 85% of the purchase price of a property based on underwriting results

Note: For all products, ONCI funds the lesser of 85% of the purchase price + 100% on renovation costs or 85% of the property’s ARV. (see section 303c and 306 for full details).

General Terms					
Product	Loan Term	Origination Points	Rate	Max Loan Amount	Max ARV/LTV
Fix & Flip	6 Months	2-3%	12.5-13.5%	\$ 2,000,000.00	75%
Bridge	6 Months	2-3%	12.5-13.5%	\$ 2,000,000.00	75%
Construction	12 Months	2.5-3%	12.5-13.5%	\$ 2,000,000.00	75%
Transactional	Same Day	3%	N/A	\$ 2,000,000.00	N/A

200. Borrower Eligibility

ONCI will only originate loans for borrowers who meet the following requirements:

Program Underwriting Guidelines
Rev. 8/20/2024



201. LLC Requirements

ONCI does not lend to private individuals. All borrowers must complete their purchase/refinance through an LLC (Limited Liability Company). All LLCs must show as active and in good standing on the state website it is registered in prior to the funding of their loan.

202. Occupancy Requirements

Old North Capital does not originate loans for owner or tenant occupied properties. All loans originated through ONCI are exclusively for investment purposes and are classified as "Business Purpose" loans. Borrowers who intend to occupy a property must pay their ONCI loan in full before doing so.

203. Borrower Experience

Borrowers must be able to demonstrate appropriate experience based on the size and scope of each individual project. ONCI reserves the right to deny funds to borrowers with inadequate experience.

203a. Special Circumstance:

When the borrower is a 1st time borrower with Old North, the are capped at \$750,000.00, this can be for 1 project or spread over two.

204. Borrower vetting

1. Obtain LLC documentation- verify owner(s) of business
2. Have the borrower fill out the track record template with the last 7 projects completed.
3. Verify build/rehab quality via online sources i.e (Zillow, Redfin,..etc) Against photos provided by the borrower.
4. If data is not available online obtain additional documentation from borrower to verify quality/sales information. (HUD 1/Recorded Deed copies)
5. Go on county website/house canary and verify seller (LLC or borrower), date sold, and sales price.
6. Upload all results into MA under borrower's LLC page.

205. LLC Vetting

We must request LLC documentation from the borrower. Once obtained we have to verify the LLC being used on our transaction can be linked back to the individual (Borrower) providing the documentation. All documentation must be uniform, reflecting the same names, addresses and business name.



206. LLC/business documents Documentation:

IRS EIN- A form from the Internal Revenue Service assigning the business a Tax ID number. We need to verify the borrowers name is present and the business name matches other documents.

Articles of Organization- A document filed with the state the listing the business address and authorized signer.

Operating Agreement- The document also filed with the state will list all active members, and the percentage of ownership in the LLC. **Note: All members with an ownership greater than 20% must be listed on the loan as a grantor.**

State registration- Verify via the state website, the business is active and in good standing. Search (state business is registered in) business entity search. This will bring you to the state government website and allow you to check their status. **Note: This can be obtained from title prior to closing, if not active at time of underwrite take note and let the closer know.**

300. Mortgage Eligibility and Approval

To mitigate risk and ensure that all loans originated by ONCI are underwritten with a consistent level of scrutiny, all prospective loans are subject to the following eligibility requirements:

301. Credit requirement

Before approval all LLC members over 20% ownership must have a soft credit pull, with a minimum median FICO score of 600. Additional compensating factors apply. Must verify there are no foreclosures, bankruptcies, or delinquent credit lines.

302. AVM and appraisal requirement

An AVM from House Canary must be pulled for every approved transaction, to verify the as is value of the subject.

302b. Appraisals

Appraisals are not required on each transaction, however, ONCI has the right to order an appraisal post funding to further verify the subject's current and projected value.

303. Required Documents

To be considered for underwriting, borrowers must provide the following documents for review:

Executed Purchase Contract- To confirm purchase details, property address, and buyer information. The signed purchase contract also serves as confirmation that the transaction is authentic, and an offer has been accepted by the seller. Ensure the buyer of the property is the borrower's LLC, and all pages and addendums have been received.

Itemized Budget- To assess if the borrower's repair estimates are reasonable based on the condition of the property and scope of the project. Compare the new budget to budgets of previously closed deals close to the subject to verify the new budget makes sense.

Property Photos- To confirm the current condition of the property and that the borrower's project budget is aligned with work to be done. Initial property photos will later be used to



confirm draw request documentation is for the correct property and that progress is being made on the project. The borrower must provide their own photos of the property and must include one picture of the property with the address number place present.

Survey/Building Plans- (only if new build)- Plans are required to confirm the appearance and specifications of the completed home. These plans also serve as the basis for finding comparable properties. Surveys are required to confirm adequate lot dimensions and, when necessary, that the lot has been properly sub-divided.

Prior Experience- Borrowers are to provide examples of previous work completed to demonstrate prior experience commensurate with the size and scope of the project they are seeking financing for. Each new borrower must fill out the Track Record Template, with their last 7 transactions. 3 year experience history window.

303b. Prior Experience Tiering

Upfront leverage for borrowers is currently based on the below tiering

- 7+ flips of similar rehabs and rehab <\$100k = Exp 5 - qualifies for 90/100
- 5 flips of similar rehabs = Exp 5 - qualifies for 85/100
- 4 flips with similar rehabs = Exp 4 - qualifies for 82.5/100
- 3 flips with similar rehabs = Exp 3 - qualifies for 80/100
- 1-2 flips with similar rehabs = Exp 2 - qualifies for 75/100
- No experience = Exp 1 - qualifies for 70/100.

Note: Experience as a GC (Licensed General Contractor) or broker or realtor will also factor into your experience tiering. Indirect Experience can increase max leverage to 80%

303c. Additional Considerations

Upfront leverage will also be tighter on the below scenarios:

- Large Renovation Projects (> \$100k)
- No/Low-Profit Deals (even if refi exit)- (Deals above 70% LTARV)
- Lopsided Deals- When the reno budget > purchase price or initial loan amount, the max leverage we can do is 85% of the total cost (85% total LTFC)

Note: This is lower than 85% of the purchase and 100% of the rehab. If the borrower has light experience, the maximum would be 75-80% total LTFC (loan to loan basis).

303d. Case by Case Documentation

Rent Rolls- If subject property is a multi-family or the borrower intends to keep the property as a rental property ONCI requires rent rolls to be required to determine rental income.

Permits- For new construction projects ONCI needs confirmation that the property is properly permitted and zoned for residential home construction. For



more rural properties this includes septic permits which are required prior to beginning construction.

Tenant Info- Generally, ONCI will not originate loans for homes that are currently tenant occupied. To provide an exception, ONCI needs documentation/proof that the tenants intend to vacate the property or that alternative arrangements have been made.

304. Taxes, Flood, and Hazard Insurance

In addition to the document requirements stated above, prospective borrowers must adhere to following requirements for property taxes, flood zones, and hazard insurance.

304b. Taxes

Any property taxes that show as due and payable must be paid prior to or through the closing of the loan. Taxes being paid through closing must be included in Title's ALTA/HUD Statement. Additionally, ONCI does not offer impound accounts. The borrower is responsible for paying taxes due during the term of their loan

304c. Flood

ONCI does not fund loans for properties in or near flood zones. Exceptions for properties near flood zones can be made on a case-by-case basis assuming the city/county has properly zoned the land for housing.

304d. Hazard Insurance

The subject property must be covered by property insurance protecting against loss or damage from fire, lightning, and other perils (wind, hail, smoke, civil commotion (including riots), damage caused by aircraft, vehicle, or explosion) covered by the standard extended coverage endorsement. If any of the preceding perils is excluded that normally are included under an extended coverage endorsement, then the Borrower must obtain a separate policy or endorsement to cover excluded peril.

ONCI will not delay funding if the policy is not ready prior to closing. Instead, borrowers are given a 14-day grace period to provide evidence of coverage. If evidence of coverage is not provided ONCI will add force placed insurance to the subject property.

Acceptable evidence of property (hazard) insurance include: policy declaration page, evidence of insurance/renewal, certificate of insurance, and insurance binder (may not exceed 30 days) (collectively "Evidence of Insurance"). Evidence of Insurance must show at least the following information:

- Policy number, does not apply to binders
- Borrower(s) name as the insured
- Insured property location
- Policy period
- Coverage amount
- Deductible amount
- Annual premium



The amount of hazard insurance policy coverage must at least equal the lesser of:

Replacement Cost – the insurer agrees to pay up to 100% of the property’s insurable replacement cost, as established by the property insurer; or o **Extended Replacement Cost** – the insurer agrees to pay more than the property’s insurable replacement cost; or

Guaranteed Replacement Cost – the insurer agrees to replace the insurable property regardless of the cost or the unpaid principal balance of the mortgage, as long as it equals the minimum amount required to compensate for damage or loss, typically 80% of the property’s insurable replacement cost.

305. Comparable Property Analysis

In order to consistently and reliably calculate a property’s “After Repair Value” (ARV) ONCI applies the following standards to all Comparable Property Analysis’ performed during underwriting.

305b. Comp Selection Criteria

Proximity to Subject Property- Comp Properties are to be 0.5 miles within the subject property and sold (or under contract) within the last 90 days. Comps must also be limited to the same neighborhood meaning properties used for valuation should not cross any major boundary lines such as freeways, highways, other major roadways, or geographical features.

Minimum Comp Requirements- To qualify for underwriting, a subject property must have a minimum of 3 comp properties sold within the last 90 days within 0.5 mile radius of the subject property. If the 3 comps are not available search may be expanded to a 1.0 mile radius, however 1 comp within .5 miles must be selected before expanding to 1 Mile. When expanding to 1 mile, a minimum of 4 comp properties will be needed to qualify for underwriting. Exceptions can be granted on a case-by-case basis pending approval by executive management team.

Comp Characteristics- To ensure an accurate valuation comp properties must have similar characteristics such as lot size, year built, square footage of the heated living area, number of bedrooms/bathrooms. Specific characteristic criteria include the following:

Square Footage- Comp properties should generally be within +/- 300sqft of the subject property. For subject properties greater than 2500sqft, the acceptable range can be expanded to +/- 500sqft. Furthermore, valuation for finished basements or garages should be discounted at 50% even when heated.

Bathroom Count- There is a strong difference in valuation between 1-bathroom homes and 2+ bathroom homes regardless of square footage. Likewise subject properties with only 1 bathroom should always be compared against other 1-bathroom properties. Comparing 2 vs 2+ bathrooms is acceptable.



Lot Size and Year Built- Lot dimensions should be similar. Properties under 0.5 acres can be grouped together as similar lot sizes. For renovation loans, new /recently built comps should not be used when the subject property is greater than 10 years older than the comp.

305c. Calculating After Repair Value (ARV)

Once comp properties meeting the above criteria have been identified, the ARV is determined by multiplying the average price per square foot of the comp properties by the square footage of the subject property's heated living area. The ARV serves as the basis for formulating deal terms (see section 306 for full details).

Example: 5 comp properties have an average price per square foot of \$100.00 and the subject property is 1000sqft. Therefore $\$100.00 \times 1000 = \$100,000.00$

306. Budget Review

All borrowers seeking funds for renovation/construction must include an itemized budget detailing the costs of labor and materials required to complete the project. ONCI will review the borrower's budget to ensure it is inline with the condition of the property and/or building plans and that the project is within the scope of the borrower's experience level. Utilize previously closed projects, review these budgets to ensure the new budget is in line and not over or under inflated. To assess each borrower and budget, budgets can be broken down into 5 different levels base on the price of the project versus the square footage of the property.

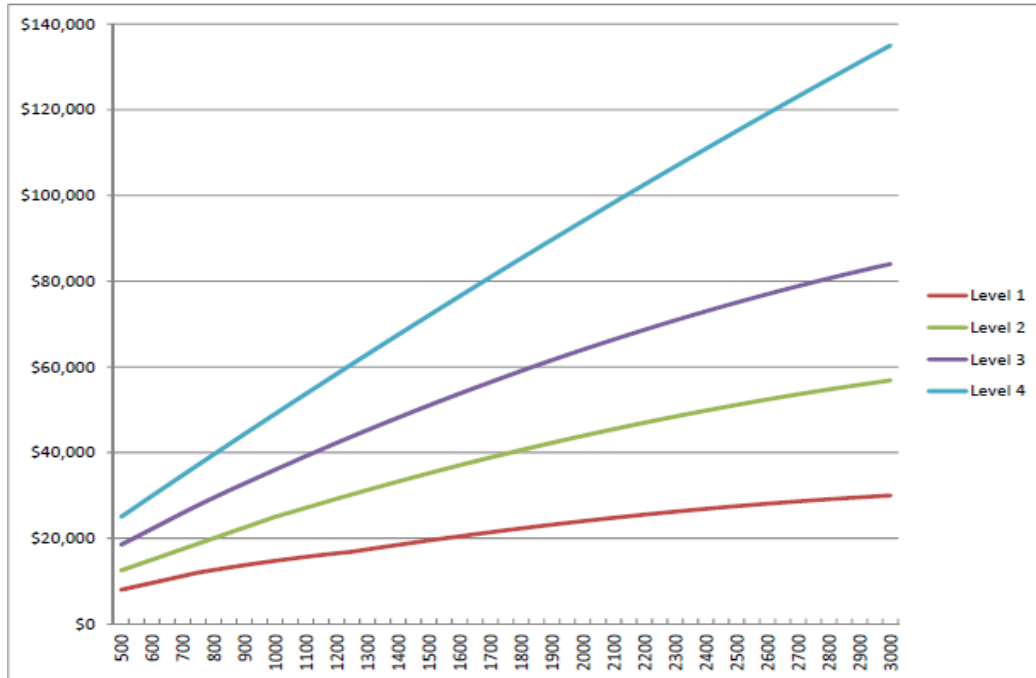
Level 1 – “Lipstick”- will be just paint and flooring, maybe freshening up landscaping. Changing out some light fixtures and mirrors. Minimal work can be done in a week or two.

Level 2 – Cosmetic Update – in addition to Level 1, one or two additional expensive updating/repairs will be required such as window replacement, roof, HVAC replacement, kitchen cabinets, bathrooms. No structural moving of walls or plumbing/electrical components. This would be a 3-4 week rehab

Level 3 – Moderate Updates/Repairs – Kitchen and bathrooms require updating. Two to three expensive updating/repairs will be required. Some plumbing and electrical work may be required. May include removing one wall and installing a glue lam beam to open up floor plan. This is the most common rehab level for older homes. Rehab would last 6-8 weeks.

Level 4 – Full Updates/Repairs – Entire home requires updating. Some moving of walls, removing of walls. Some rewiring and replumbing required. Replacement of mechanicals. May include items such as moving laundry rooms, reconfiguring kitchens, adding light circuits. Potential structural/crawlspace issues. 8+ weeks to complete the work.

Level 5 – Full Gut and/or Addition– House will be gutted to the studs and rebuilt with or without addition. All trades will require major scopes. Should be estimated case by case – not included.



307. Approval

Once the required documentation has been provided and the comparable property analysis has been completed ONCI sets loan terms based on the following:

306b. Loan Limits

ONCI will fund up to 85% of the purchase for a subject property and 100% of construction costs. However, the Total Loan Amount (Principal + Rehab Funds) must be less than 70% of the ARV (see section 303c). In other words, ONCI funds the lesser of 85% of the purchase price + 100% on renovation costs or 70% of the property's ARV. Note: Upfront leverage can vary based on experience and scope of work.

Loan Calculation Formula: $70\% \times \text{ARV} \geq \text{Upfront Principal} + \text{Rehab Funds}$

Prospective loans that meet these criteria are eligible to receive the full 85% of purchase + 100% of rehab funds. For loans that are slightly over the 85% threshold, ONCI can modify loan terms to meet the 85% threshold by requiring the borrower to make a larger down payment. Generally, if more that a 15% down payment is required to get below the 85% ARV threshold ONCI will not approve the deal and deny the borrower's loan request. Exceptions, however; can be elevated to management on a case-by-case basis. To prevent budget shortfalls, ONCI avoids lowering the renovation/construction budgets in order to meet the 85% ARV threshold.



307c. Rate and Origination Points

Based on borrower’s experience, previous business with ONCI and the property’s projected ARV, ONCI will set each loan’s rate and origination cost within the ranges provided below.

General Terms					
Product	Loan Term	Origination Points	Rate	Max Loan Amount	Max ARV
Fix & Flip	6 Months	2-3%	12.5-13.5%	\$ 2,000,000.00	75%
Bridge	6 Months	2-3%	12.5-13.5%	\$ 2,000,000.00	75%
Construction	12 Months	2.5-3%	12.5-13.5%	\$ 2,000,000.00	75%
Transactional	Same Day	3%	N/A	\$ 2,000,000.00	N/A

307d. Internal Controls for Deal Approval

To maintain proper internal controls, ONCI requires that loans over a certain threshold must be approved by executive management prior to sending loan terms to the borrower.

Total Loan amount > \$300K: For all projects with a total loan amount > \$300k, Mitch Kelly or Brandon Stein will sign off on the deal prior to sending the borrower loan terms.

Total Loan amount > \$600K; For all projects with a total loan amount > \$600k, Mitch Kelly or Brandon Stein will sign off on the deal prior to sending the borrower loan terms.

400. Borrower Application

Borrowers are required to fill out an application at the time of submission. Below is the required information and documentation:

Guarantor Information: This information is to be stated by the borrower, no supporting documentation is required and is stated to the best of the guarantor’s knowledge unless otherwise stated.

- Name: Must be primary LLC owner.
- Guarantor Primary address: Address in which they reside, not the business address. However, some business are registered to the guarantors primary address.
- They must also include; length of occupancy, owned/rented, Mortgage/owned free and clear, primary phone number and email address.
- Current employer: The guarantor must state where their primary source of income is generated, it could be self-employed or a w-2 position.



- The guarantor must also state the length of employment, and annual income. **Cash/Equivalent reserves:** The Guarantor must state their current liquid funds available. This could be cash on hand, checking and savings accounts or retirement funds.
- **Credit score:** The Guarantor must state their current credit score. Once the loan has been approved and prior to funding, Old North may obtain a soft pull tri-merge credit report to verify the stated FICO, using the median score as the qualifying credit score. All entity members over 20% ownership will have a credit report pulled.
- **US Residency Status:** Have the Guarantor state their residency status. ONCI will not accept US Nationals that do not reside in the United States.

Guarantor Experience:

The Guarantor must state the following;

- Years of experience -Number of properties owned -Investment properties rented
- Investment properties vacant -Investment properties in construction -Investment properties sold
- They must also state the current market value of REO and total mortgaged.
- Business Entity information:
 - The guarantor must document their ownership percentage, title, and length of ownership. This can be documented with Articles of organization, and Operating agreement.
- The Guarantor must state the total net worth, and liquidity of the entity being used for the transaction.
- ECOA information: the borrower must state their ethnicity, race, sex, or that they do not wish to furnish this information.

500. Draw Approvals

When borrowers request to draw funds from their property's renovation/construction budget, they must do so by specifying the work completed, the amount of funds being requested, and by providing adequate evidence that the work has been completed. Additionally, the draw request amount must correspond with the borrower's itemized project budget. Question the borrower, ask if there is an updated budget. In some instances, the borrower has increased their budget without telling underwriting. If there is an updated budget, we must review and determine a reduced draw schedule to ensure the funds last until the end of the rehab/construction. ONCI will only disburse funds in an amount that corresponds to the approved budget provided by the borrower during underwriting.

Example: A borrower has requested a \$10,000 draw for completing flooring work, but the budget has the total costs of flooring materials and labor listed at \$8000. In the case ONCI would only provide \$8000.00 unless the borrower is able to provide evidence that an additional \$2000.00 of work was completed on another budget item



501. Evidence of Completed Work

Before a draw can be approved, the borrower must provide photos, video, invoices, and/or county inspection results that 1) identify the subject property, 2) illustrate that work has been completed, and when applicable 3) prove that work that requires an inspection by the city/county has passed that inspection. Inspections provided from the county/city must be verified via the county website or phone call to the county inspection office. Once provided, ONCI can approve and disburse the draw in the amount requested. Once a draw is approved, the borrower's remaining budget is updated accordingly.

501a. Picture and video verification

All pictures and videos submitted must be done so through our third-party service TruePic. This service will geolocate the pictures and videos, to verify the pictures provided were taken at the subject property.

502. Budget Overages

If a borrower has gone over or anticipates going over budget by more than 10%, ONCI will prorate future draws by the amount of the overage.

Example: If a project is over budget by 20% and the borrower is requesting a draw for \$10,000.00, ONCI will only pay out a maximum of \$8,000.00 for that draw.

Alternatively, borrowers may be eligible to secure a junior lien through ONCI. In this instance, ONCI will essentially re-underwrite the loan to determine if there are additional funds available to allocate to the borrower without exceeding the 70% ARV threshold on the combined total of the principal Loan amount + the original renovation budget + the new renovation funds.

503. Site Inspections

For renovation/construction work that requires a city/county inspection be completed, ONCI requires proof that the work was completed adequately and passed inspections before disbursing funds. Additional inspection requirements apply to the following:

Rough Ins- Certain types of work including plumbing, electrical, and mechanical upgrades often require multiple rounds of inspections. ONCI will approve up to 65% of the budget allocated to rough-in work until the final inspection has been passed. Once the final inspection pass has been received, ONCI will disburse the remaining 35% allocated to rough ins.

Foundation Repair- For foundation repairs that exceed \$6000.00, ONCI will require the borrower to provide an external engineering report confirming the repair has been completed up to city/county code. Extensive photos of the damage are always required to ensure the funds being requested align with the work needed to repair.

Draw budgets > \$100k- ONCI will hire an inspector to visit the property and validate building progress, take photos, and confirm property location/address. The inspector will be scheduled once 50% of the draw budget has been requested by the borrower and disbursed by ONCI. ONCI will pay for the inspection fee. (Pending no City/County inspections performed to date).



600. Title Insurance Requirements

A title insurance company will issue an American Land Title Association (ALTA) standard title insurance policy, which provides the lender and homeowner (purchase only) coverage for any title problems or defects that could not be found in the public records, missed in the title search, or those that may arise from fraud.

A preliminary title report (also known as “title commitment”) is required for all loans. The title insurance policy must ensure that the title is generally acceptable and the mortgage loan is a valid first lien on the property and meet the following requirements:

Proposed Insured- Policy must include the borrower’s LLC name and ONCI REIT, its successors and/or assigns as their interests may appear as the proposed insured in schedule A. Policy must also include the policy amount. Additionally, The amount of title insurance coverage must be equal to the loan amount

Lien Position- ONCI must be in the first lien position. All other liens or loans must be cleared from the title report prior to closing

Proposed Insured- Policy must include the borrower’s LLC name and ONCI REIT LLC, its successors and/or assigns as their interests may appear as the proposed insured in schedule A. Policy must also include the policy amount

601. Acceptable Exceptions (Minor Impediments)

A property that has an unacceptable title impediment, particularly unpaid real estate taxes and survey exceptions are not eligible. The following exception items are acceptable to the title insurance policy, which are considered minor impediment:

- Customary public utility subsurface and above-surface easements (such as gas, electricity, water, sewer, cable, telephone, television or internet services), provided that the location of the easements is ascertainable and fixed and does not extend under any building or other improvements
- Encroachments on easements for public utilities by a garage, tool shed or similar structure that is not attached to, or a portion of, the dwelling structure are acceptable. The exceptions are acceptable provided that the encroachments do not interfere with the use and enjoyment of the easements or the exercise of rights of repair and maintenance in connection therewith
- Mutual easement agreements that establish a joint driveway or a party wall constructed on the subject property and on an adjoining property, as long as all present and future owners have unlimited and unrestricted use of them
- Encroachments on adjoining properties for hedges or fences misplacements on either side of the property line
- Encroachments on the subject property by improvements on adjoining property are acceptable provided that the encroachment does not touch any improvements on the subject property • Encroachments of one foot or less on adjoining property by eaves or other overhanging projections or by driveways, as long as there is at least a ten-foot clearance between the buildings on the security property on the subject property and the property line affected by the encroachment
- Outstanding oil, gas, water or mineral rights are acceptable if the exercise of such rights will not result in damage to the mortgaged premises or impairment of the use or marketability of the mortgaged premises for residential purposes and there is no right of surface or subsurface entry within 200 feet of the residential structure. Otherwise, it must comprehensively endorse the



title insurance policy to affirmatively insure the lender against damage or loss due to the exercise of such rights

602. Unacceptable Exceptions

The following exceptions are unacceptable, unless the title policy contains affirmative language that the lender will not suffer loss or damage as a result of the situation

- Easements not located; acceptable only if an ALTA Endorsement 28-06 (Easement – Damage or Enforced Removal) or equivalent is obtained
- An unexpired redemption period exception is unacceptable, regardless if the title policy contains affirmative language that the lender will not suffer loss or damage as a result of the situation
- Material or mechanics liens, filed or unfiled; must be satisfied and released as evidenced with title supplement
- Any situation in which taxes are not current; must be paid current prior to or at closing
- Use of power of attorney by borrower
- Such state of facts as would be disclosed by an accurate and current survey and inspection of the premises; acceptable only if a ALTA Endorsement 25-06 (Same as Survey) is obtained, which may require a current and satisfactory survey
- Judgments; must be satisfied and released as evidenced with and updated title supplement

Exceptions for defaulted taxes, liens (other than junior liens being subordinated), judgments, and lis pendens reflected on title policy must be satisfied and released. Any items satisfied prior to the close of escrow must be documented with an updated title report or title supplement showing that the items have been removed. If the exception items will be satisfied through closing, then it must be marked "OUT" on the lender's closing instructions to the settlement agent.

Requirements for the following items being paid at closing:

- Defaulted taxes, liens, and or judgments to be paid off at closing must be reflected on the HUD-1/Closing Disclosure and the settlement agent must provide a payoff statement showing current balance, fees, interest and penalties to fully satisfy the item(s)
- For short sale purchase transactions where the sales proceeds are insufficient to satisfy the seller's mortgage lien(s), a short sale approval letter is required from the lender(s)
- A lis pendens filed by a lender for foreclosure must be released from the title policy. However, if the lender is unwilling to release the lis pendens until their lien is satisfied, then a letter is required from the entity that filed the lis pendens acknowledging the transaction and stating that the lis pendens will be released upon satisfaction of their lien

603 Prior Mortgage Lien (Unreleased)

If the preliminary title commitment discloses a prior mortgage lien that was paid off but the lender did not file and record a release, then evidence of satisfactory release is not necessary if all of the following requirements are met:



- The mortgage lien must be verified as paid off with the borrower's credit report showing a zero balance. If the mortgage lien belongs to a prior owner then verification of borrower's credit report is not required
- All paid off HELOCs need to be verified as properly terminated, even if the credit report shows a zero balance, or the HELOC belongs to a prior owner
- An updated title report or title supplement must be provided removing/deleting the prior mortgage lien as an exception item

604. Private Transfer Fee Covenants

Private Transfer Fee Covenants (PTFCs) are a profit-sharing tool for developers and/or builders to generate additional revenue long after the land has been developed and the homes have been built and sold without offering benefit to the property. PTFCs require the seller to pay a transfer fee, generally 1% of the sales price, to the third-party beneficiary of the PTFCs (generally the developer and/or builder; however, the third-party beneficiary may be an individual seller, HOA, or trustee of the beneficiary) each time the property is sold for a certain period of time, generally for the next 99 years. Also PTFCs' may create a lien with priority over a first mortgage loan. Therefore, properties with PTFCs created on or after February 8, 2011 are not eligible for financing with TLS, unless the PTFCs is released or terminated.

605. Chain of Title

Must be reviewed for straw buyer or multiple sales in last 2 years. Must demonstrate price increases within market conditions. We are trying to verify any artificial market increases by the borrower or other members involved in the transaction. If property has sold multiple times must confirm reasoning.