



**OLD NORTH CAPITAL**

# **CREDIT PROGRAM GUIDELINES**

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## 1.1 Program Philosophy

Old North Capital Fund (“ONCF”) provides senior debt secured by real estate to experienced real estate investors to finance the acquisition, refinance, rehabilitation, and construction of residential 1–4 unit properties. Old North Capital Fund was created to give real estate investors the freedom to bring their visions to life with an investor-first approach of quick and flexible financing solutions. ONCF can evaluate loans quickly with accurate borrower and project information that is supported with reliable third-party reporting.

The borrower’s ability to meet the debt obligations of the loan are carefully considered through a comprehensive evaluation. All building plans, project budgets, and valuations of each proposed transaction must be supported by legitimate third-party reports. ONCF will thoroughly underwrite the borrower’s ability to perform on the loan, confirm the project’s profitability, and sign off on the exit strategy.

The following guidelines outline ONCF’s debt financing criteria. This document is intended to serve only as a guideline and reflects current loan requirements, which may be altered at any time without prior notice. ONCF reserves the right to waive any requirement or add additional requirements at any time.

## 1.2 Loan Products

The following products were designed for experienced real estate investors to help accelerate growth and keep pace with today’s demanding real estate market. All loans are made for investment purposes only and are not available to owner-occupants.

### Rehab Loans

Designed to assist borrowers with the purchase or refinance of a property intended to be improved for sale or eventually refinanced into a longer-term rental.

- Renovation funds are included in the loan amount and are escrowed for future distribution upon a pre-determined draw schedule.
- 100% of the budget must be financed.
- The rehab budget, project plan, and contractor must be approved by Lender.

### Bridge Loans

Designed to assist borrowers with the acquisition or refinance of a property that needs limited or no renovation or a rental property. The borrower needs to have a defined exit plan for the loan payoff and a stated timeline.

- Value is based upon purchase price plus documented improvements for all properties owned less than 12 months.
- Value is based upon the applicable property valuation per guidelines for all properties owned over 12 months.
- No cash out available on properties owned less than 6 months.
- Cash out must be for a business purpose. Must verify that the loan being refinanced was not a consumer loan.
- No existing bridge lender refinances permitted.
- Letter of Explanation for cash out required.



## Ground Up Construction

The maximum loan size is \$2,500,000. Exceptions are considered for multiple properties and in locations where higher property values are typical.

- The reserve requirement is 6 months.
- All of the Borrower's equity is due at the closing of the loan.
- Land/lot must have zoning approval letter and/or permits to build along with any legal documents supporting "as of" right to build and be fully entitled for the proposed project.
- Septic system and well must be approved. Project should be ready to build.
- The property being built should conform to its neighborhood in both size and style.
- Plans approved to match SOW in file.
- Zoned residential or grandfathered residential with right to rebuild.
- Public utilities and public rights of way for access to property.
- SFR min. 700 SF; PUD 500-3,000 SF; Condo 500-2,500 SF
- Survey in file to show the location of new improvements.
- Plans, Drawings, elevations required.
- Assignment of Plans, Contracts, Permits document required.
- Title requires a mechanics lien endorsement series 32.
- Builders Risk policy with workman's compensation clause. If Borrower is not GC, then GC must have workman's comp.
- Experience must be similar: Ground up and similar make and size, in same market.
- If owner is not GC, then GC docs are required.
- Credit Tier minimum is 680 for ground up, exceptions down to 650 with compensating factors.
- Full third-party Appraisals ordered by ONCF are required.

## 1.3 Loan Terms

- First Lien secured by a mortgage, deed of trust or other security instrument on a residential dwelling.
- Business Purpose only
- Full recourse guarantee by either (i) one or more individual(s) which in aggregate own at least 51% of the borrower, or (ii) a creditworthy legal entity approved by ONCF.
- Fixed Rate, Default interest rate as allowable.
- 12-month term up to 18 months on an exception basis.
- Interest only
- Interest Reserve account at Lenders discretion.
- Loan Sizes from \$250,000 up to \$2,500,000.
- 680 minimum credit score using middle of 3 credit bureaus. Exceptions down to 650 with compensating factors.
- 24-month credit event seasoning on Bankruptcy, Foreclosure, Short Sale, Modification.
- Refinances require verification of existing mortgage and payment history with no delinquency.
- Subordinate debt not permitted except on an exception basis.



The maximum loan size is \$2,500,000. Exceptions are considered for multiple properties and in locations where higher property values are typical.

## 1.4 Loan to Value/Loan to Cost Matrix

The maximum loan to value and loan to cost for each loan is calculated as set forth below.

Borrower Type	Max LTV	Max LTC	Max Blended LTC w/ IR*
Experienced	70%	85%	90%
Limited Experience	65%	80%	85%
<b>Maximum Allowed</b>	<b>70%</b>	<b>85%</b>	<b>90%</b>

\*Up to an additional 5% of LTC costs can be utilized to provide the borrower with interest reserves payable via the loan under certain circumstances.

If the guarantor does not have a median credit score of at least 680, the max LTV and LTC threshold will be reduced by 5%.

Experienced Guarantor: successfully completed at least 3 projects of similar size and scope in the past 24 months.

## 1.5 Exit Strategy

Having a well thought out exit strategy is critical for safeguarding investor capital, maximizing returns, and mitigating potential risk. ONCF will consider the following exit strategies when evaluating potential loan scenarios:

- Loan Sale – one of the most straightforward exit strategies is selling loans to interested investors or financial institutions. This option will allow ONCF to transfer the debt and associated risks to another party, freeing up capital for future investment.
- Sale of Asset – following completion of the proposed improvements or capital plan, the borrower will sell the subject property to pay back the loan balance in full.
- Refinance – if the borrower is approaching the maturity date on the subject loan, they may elect to work with another lender to refinance the current loan balance. This typically occurs when there have been schedule delays and/or budget overages.

## 2.1 Eligibility

All borrowers will certify they are applying for an investment purpose loan. Borrowers and guarantors are prohibited from occupying the subject property as a primary or secondary residence at any time during the loan term.

### Vesting and Ownership Interest

- Loans to business entities
  - Limited Liability Corporations



- Limited Partnerships
- General Partnerships
- Corporations
  - A Personal Guaranty is required for all guarantors with more than 25% ownership in the entity, and for all guarantors whose assets and income contribute to the minimum requirements for approval.
- Modifications to the entity ownership structure after the application date in general are not acceptable. Any modification made to the ownership structure after the application date must be approved by ONCF.
- Loans to individuals
  - U.S. Citizens
  - Permanent Resident Aliens with valid social security number
- Maximum Exposure: the maximum loan exposure to any borrower or guarantor is 15% of ONCF's AUM (currently \$3,500,000).

## 2.2 Credit and Background

The review of credit is an important factor in assessing the ability of the borrower to repay. Credit depth, history, and a borrower's character should be reviewed. The greatest emphasis should be placed upon a borrower's mortgage credit history.

- A fully completed and signed application is required for all borrowers and guarantors.
- 680 minimum credit score (middle of 3 bureaus) from Lender approved vendor.
- The credit report (hard pull) can be no more than 60 days prior to the note date.
- Fraud Reports and OFAC
  - All members of the borrowing entity must be cleared through OFAC's SND list: <http://sdnsearch.ofac.treas.gov/>
- Background check on the borrower and guarantors. Felony convictions, cases regarding fraud, adverse litigation or fraud screen results are permitted on an exception basis only.
- No BK's, Foreclosure, DILs, Modifications, or Short Sales within the past 24 months.
- No current mortgage late payments.
- All delinquent debt, including mortgages, lien amounts, and judgments must be paid off or brought current at closing except in cases of minor medical collections, payment plans with taxing authorities where the borrower is current.
- Valid Driver's License or Government issued ID card.

## 2.3 Asset Reserves and Liquidity

A borrower's reserves and overall net worth are important for this loan product. The ability to service the debt for the loan term in the event a property does not sell or refinance in the timeframe expected is a necessary factor in determining the ability of a borrower to repay. Additionally, a borrower's net worth is directly related to the value of his personal guaranty. Emphasis should be placed upon liquidity in the net worth calculation.

- Reserve Requirement: 6 months of loan payments.



- Lender must document source of funds to support the down payment, closing costs, borrower portion of construction costs, and minimum liquid reserves to make interest payments.
- Gift funds or gifts of equity are approved on an exception basis.
- Proceeds from credit card or personal loans may not be used.

## 2.4 Experience & Contractor Requirements

Relevant past project experience is an important factor in the loan analysis and will affect maximum loan amounts and pricing. Borrower must provide a schedule of previous completed projects.

New borrowers with limited or no experience are acceptable. New Borrowers should live or work near the subject property, not be remote investors, and have some compensating factor(s) such as experience in real estate as a GC, contractor, property manager or real estate agent, a budget prepared by a GC who will be engaged on the project, or ample liquid reserves to service the debt for the loan term.

Borrower experience must be verified using the following sources:

- Settlement statements documenting the purchase and sale
- Tax returns and other filings verifying ownership/sale
- Public tax records and property record databases

When a General Contractor is required or used, verification of the below items must be provided:

- Contractor Agreement
- Budget prepared by the GC
- General Contractor Licenses in good standing (if required in the subject jurisdiction)
- Liability Insurance/Bond
- Contractors will be reviewed for background and track record

## 2.5 Non-Arms-Length Transactions

A non-arms-length transaction exists whenever the borrower(s) have a personal or business relationship with the seller, builder, developer, real estate agent, appraiser, lender providing the financing, title company, escrow company, or any other interested party. These relationships may influence the transaction and are generally not eligible for financing. Non-arms-length relationships of other parties to the transaction will be reviewed on a case-by-case basis. It is acceptable for licensed realtors to represent themselves on purchase transactions.

However, on a case-by-case basis, a loan will be considered if all the following conditions have been met:

- Relationships are disclosed with the initial submission.
- Additional risk factors are not present (distressed sale, high amount of seller contributions, etc.).



## 3.1 Collateral Requirements

High-quality collateral in stable real estate markets is a key program requirement. The marketability and affordability of the subject's loan collateral is a crucial element in the underwriting decision. Properties that are considered unique, illiquid, or overvalued relative to the subject's neighborhood are not acceptable.

Any property subject to rent stabilization or rent control must be duly qualified and registered with local municipality, be in compliance with applicable law, and approved on an exception basis.

### Eligible Property Types

No owner-occupied or second homes permitted in any situation. Multiple properties are acceptable on a case-by-case basis and any collateral release provisions must be at the lender's sole discretion. All properties must have access to public utilities and public rights of way. Properties should be zoned "residential" or be grandfathered for residential use.

- Residential Properties (SFR, 1-4F, Condos (warrantable only), Townhomes)
  
- Ineligible Properties:
  - Manufactured housing, Mobile Homes, Non-warrantable condo, Modular Homes, Timeshares, Log Homes, and fractional ownership.
  - Rural properties defined as: less than 25% of the surrounding area as being developed, property is a working farm, or appraiser classifies property as rural.
  - 2+ acres – unless typical for area and on exception only.
  - Properties subject to leasehold – unless typical for the area and on exception only.
  - Raw land
  - Commercial enterprises (hotels, day care, etc.).
  - Rent controlled or stabilized properties, by exception.
  - Properties not located within a MSA of at least 100,000 people.
  - Properties with evidence of structural compromise, termites or wood infesting bugs, mold, and failing well or septic must be resolved to the Lenders satisfaction and documented in the file.
  - Underground fuel tanks must be remediated prior to closing, or if acceptable soil testing results indicating no active issue is present, must have a quote for removal from an environmental company, the cost of which is included in the budget.

### Cross Collateralization

ONCF will consider using a free and clear business-use property as collateral to extract required project liquidity under certain circumstances. Additionally, borrowers with multiple active loans will be required to cross collateralize them as part of our closing procedures.

## 3.2 Collateral Valuations

Depending on the transaction type, ONCF will accept either a full property appraisal or Broker's Price Opinion (BPO) completed by appraisers/brokers who are employed by one or more appraisal management companies. All appraisals must meet the appropriate appraisal standards and conform to the Uniform Standards of Professional Appraisal Practice. Property valuations where property



improvements are contemplated must contain the appraisers/brokers opinion of both the “as-is” and “as completed” property values after review and consideration of a detailed budget and scope of work provided by the borrower.

“As Completed Value” needs to be supported by a compliant appraisal which contains at least 3 comparable sales within 1-mile of the subject property and have less than a 25% variance on unit size. The estimated value should be bracketed by the comparable sales.

Due to the complex nature of some properties and projects, ONCF reserves the right to require additional valuations as needed.

### 3.3 Construction Budget, Scope of Work, Project Review

Borrowers will be required to submit a detailed project budget, scope of work, and expected draw schedule. Depending on the size and complexity of the project, ONCF will make the determination if a project feasibility study and site inspection are also necessary. If required, the feasibility study should include a comprehensive review of the construction scope of work, plans for construction/renovations, and detailed budget.

### 3.4 Construction Holdback

The borrower will sign a Loan Agreement (or equivalent document) at closing which will detail:

- The total budget
- Method by which the borrower requests each draw, and which documents are due with the submission request
- Lenders review procedure and/or timing for response to draw request

All funds placed into a reserve account for the borrower at closing will be accessed through the inspection and draw process over the life of the loan. Draws will be requested periodically by the borrower for completed work which will be verified through inspection. ONCF will utilize an approved third-party vendor for the inspection of the work completed.

Conditions to obtaining a draw should be detailed in the Loan Agreement and may include:

- Draw request submitted by borrower with status photos, proof of payment for labor and materials, copies of permit signoffs, etc.
- Requirement to obtain lien waivers from certain contractors to confirm payments
- Inspection by Lender
- Title date-down if required
- Good standing on loan payments and other terms (taxes, insurance)
- Permits are required as per local jurisdiction
- Prior to final draw, receipt of Certificate of Occupancy (if applicable) and proof that all permits obtained were closed

Upon verification of the completed work, draws will be disbursed.



### 3.5 Interest Reserve

An Interest Reserve may be Borrower funded or funded through loan proceeds. Up to an additional 5% of LTC costs can be utilized to provide the borrower with interest reserves payable via the loan.

ONCF will require the Interest Reserve be subject to completion milestones in order to ensure the construction is progressing in a reasonable manner. A milestone schedule must be incorporated in the loan agreement.

### 3.6 Title Insurance

The title insurance policy must insure the Lender, its successors and assigns, as to the priority lien on the mortgage in the original principal amount of the mortgage loan and against any loss because of the invalidity or unenforceability of the lien resulting from the provisions of the mortgage providing for adjustment in the interest rate and monthly payment. The title policy must affirmatively insure ingress and egress and against encroachments by or upon the mortgage property or any interests therein. Additionally, no claims have been made under such title policy and no prior holder of the mortgage has done, by act or omission, anything that would impair the coverage of such title policy.

The following are requirements of the Title Policy:

- Coverage: Amount must be at least that of the Total Loan Amount with Gap coverage to the date of recording of the security instrument.
- Applicable Endorsements: The Originator must ensure that all applicable title endorsements are included in the title policy: 100,116, 8.1-06. Mechanics lien coverage via date-down endorsement, 122 or endorsement 32-series, as applicable.
- Forms: The final title policy must be written on one of the following forms: 2006 American Land Title Association (ALTA) long form or ALTA short form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted.
- Exceptions: The title to the policy must be good, marketable, and free and clear of all encumbrances and prior liens. Lender will not purchase a mortgage secured by a property with an unacceptable title impediment, including unpaid real estate taxes and survey exceptions.
- Chain of Title: A 12-month chain of title is required to identify title flipping and mitigate fraud.
- In jurisdictions where the final title policy is not available at closing, the preliminary report must be dated within 90 days of closing.
- A survey is required for all property types regardless of loan size or date of acquisition.

### 3.7 Insurance Coverage

Properties must be adequately secured against loss for fire or any other hazards as are customarily insured in the subject property area. The type of coverage must reflect the status of the property: vacant, under construction, leased, etc. Builders risk insurance is required as appropriate. Homeowners or Second Home policies are not permitted. The borrower must be insured for liability. The following are requirements of the Insurance policy:

- Policies must contain the mortgagee clause naming “ONCI REIT, LLC, its Successors and/or Assigns” as mortgagee



- Policies must provide that it may not be reduced, terminated, or cancelled without 30-days' prior notice written notice to the mortgagee.
- Acceptable insurers must be domiciled in the U.S., be licensed to do business in the state of the subject property.
- All premiums on rehab and construction loans must be paid in full for a minimum of the lesser of one year or the term of the loan. Premiums on refinance loans must be prepaid at least 3 months from loan closing.
- Coverage must be equal to the lesser of (i) the replacement cost of the property or (ii) the full loan amount with appropriate liability insurance.
- Exclusions not permitted: theft of materials, windstorm, hurricane, hail, earthquake (if applicable), or any perils normally included under an extended coverage endorsement.
- Properties that are leased should have rental loss coverage.
- The property address and the insured names must be designated on the policy as referenced on the title policy.
- The effective date of the policy should be prior or same day as the recording of the loan transaction.
- Deductible should not exceed the lesser of 5% of coverage amount or \$10K per occurrence.
- Condo's must have an adequate master insurance policy for the building as well as individual unit interior coverage.

### Flood Insurance

Flood certifications will be performed on every property to check with the Flood Insurance Rate Map (FIRM) and the Flood Hazard Boundary Map (FHBM) to determine if the subject property is in a Federal Emergency Management Agency (FEMA) flood zone. Properties that are verified to be in a flood zone must acquire a flood insurance policy available under the National Flood Insurance Act of 1968. For properties that are in a flood zone in which borrowers are requesting loan amounts greater than \$250,000, additional private market flood insurance is required as allowed by law. Flood policies must be received by Lender within 45 days of closing or borrowers will be subject to "forced place" insurance. Flood coverage less than the replacement cost will be permitted on a case-by-case basis.

## 3.8 Geographic Restrictions

ONCF is currently lending in the following states.

- Alabama
- Colorado
- Georgia
- Maryland
- North Carolina
- Tennessee
- Texas
- Washington

ONCF will consider lending in other non-judicial foreclosure states on a case-by-case basis.



## 4.1 Required File Documentation

The file should contain all documents obtained in processing, underwriting, and closing the loan. This may include:

### General Submission

- Credit Memo or Loan Summary including major deal terms: Loan amount, rate, LTC, LTV, construction budget, after repair value, interest reserve, loan purpose, exit strategy, borrower profile, guide exceptions, compensating factors, etc.

### Legal Documents

- Original Note with Addenda if language not included: Interest Only, Default Rate, Prepay Penalty, Interest Reserve, etc.
- Security Instruments with Riders if language not included: Interest Only, 1-4 Family, Default Rate, Prepay Penalty, Balloon, Interest Only, Condo/PUD, Construction/Rehab, etc.
- Assignment of Leases if applicable, if not included in Security Instrument
- Construction Reserve Agreement if applicable
- Title Insurance, Preliminary Report, with all applicable endorsements
- Survey, as applicable
- Personal Guaranty Agreement (assignable)
- Power of Attorney (Investor pre-approval required)
- Spouses Consent to Pledge if applicable
- Signed Settlement Statement
- Closing Protection Letter and closing instructions
- Business Purpose and Non-Owner Certification
- Compliance Agreement/Post closing Correction Agreement
- Hazard/Liability Insurance or Builder's Risk/Liability Insurance if applicable
- Flood certification
- Flood Insurance if applicable
- Property-type Specific Riders (if applicable)
- Closing Disclosures as applicable

### Guarantor Documentation

- Loan Application
- Signed Credit Authorization form
- Credit Report
- Background Check/Fraud Report/OFAC Report
- Driver's license or state issued ID
- Personal Financial Statement
- Asset Documentation, one month of statements at a minimum
- Income Documentation as applicable
- Track Record Documentation (resume, list of completed projects, etc.)
- Business Certificate of Good Standing, if formed over 12 months ago



- Certificate of Authorization for the Individual executing documents on behalf of the Entity (corporate resolution), if not a sole owner entity
- Business Entity-Type Specific Documents
  - LLC: Operating Agreement and Articles of Organization
  - Partnerships: Partnership Agreement and Articles of Organization
  - Corporation: Corporate By-Laws and Articles of Incorporation

### Property Documentation

- Sales Contract
- Appraisal, BPO, and any other valuations
- Condominium package: HOA Cert, Declarations, Financials
- Construction Budget / Scope of Work
- Feasibility Report (Vendor) as required
- Contractor's licenses if applicable
- Contractor Agreement if applicable
- Plans, permits, drawings, etc.
- Property inspections as applicable
- Leases if applicable

## 4.2 Required Trailing Documents

ONCF will provide the following documents to our secondary market partners and note sale buyers as required.

- Loan Summary
- Credit Report
- Background Check
- Guarantor PFS
- Proof of Liquidity
- Guarantor Resume/List of Completed Projects
- Project Budget
- Appraisal Report
- Title Commitment
- Building Plans
- Permits
- Construction Schedule
- Feasibility Report as required
- Closing Package (Title)