



**RESIDENTIAL (1-4 FAMILY),  
MULTIFAMILY, AND MIXED-USE  
BRIDGE LOAN ACQUISITION  
GUIDELINES**

VERSION 2.0

FEBRUARY 2025

## **Bridge Loan Acquisition Guidelines**

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The following guidelines outline the Capstone Financial (“Capstone”) loan acquisition criteria for residential and multifamily/mixed-used bridge loans. This document is intended to serve only as a guideline and reflects current loan acquisition requirements, which may be altered at any time without prior notice. **Capstone reserves the right to waive any requirement or add additional requirements at any time.**

### **Regulatory Compliance**

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#### **Loan Purpose**

Capstone does not acquire consumer loans. Originators are required to ensure that all loans are not made for personal, family or household purposes. Borrowers are required to sign a business purpose affidavit or similar document which confirms that the loan purpose complies with this paragraph.

#### **Bank Secrecy and USA PATRIOT Acts**

The Bank Secrecy Act (BSA) requires financial institutions to assist US government agencies to detect and prevent money laundering. Correspondents must have implemented anti-money laundering policies and procedures to comply with applicable federal law. As a part of this policy, correspondents must screen all borrowers and guarantors against the list of specially designated nationals maintained by the US Department of the Treasury and OFAC pursuant to the USA PATRIOT Act, amendments to the Bank Secrecy Act and its implementing regulation and investigate name matches as required by law. Capstone does not acquire loans which are made to borrowers or guarantors which are specially designated nationals.

#### **State Law**

Correspondents must comply with applicable state law governing lending practices and are required to maintain applicable state lending licenses to the extent required.

1-4 Family, Multi-Family, and Mixed-Use Underwriting Matrix

			Initial Loan Amount	Max Loan Amount	
Leverage Grid			Max LTV ("As Is")	Max LTC	Max ARV ("As Repaired")
Stabilized Bridge		Purchase	70.0%	80.0%	N/A
		Refinance No Cash Out	65.0%	N/A	N/A
		Refinance Cash Out	55.0%	N/A	N/A
Experienced Customer	Light Rehab	Purchase	80.0%	80.0%	70.0%
		Refinance No Cash Out	65.0%	N/A	70.0%
		Refinance Cash Out	55.0%	N/A	70.0%
	Heavy Rehab	Purchase	80.0%	80.0%	70.0%
		Refinance No Cash Out	55.0%	N/A	65.0%
		Refinance Cash Out	55.0%	N/A	65.0%
New Customer (No Multi/ Mixed-Use Allowed)	Light Rehab	Purchase	80.0%	80.0%	70.0%
		Refinance No Cash Out	65.0%	N/A	70.0%
		Refinance Cash Out	55.0%	N/A	70.0%
	Heavy Rehab (with good credit only)	Purchase	75.0%	75.0%	70.0%
		Refinance No Cash Out	Not Permitted	Not Permitted	Not Permitted
		Refinance Cash Out	Not Permitted	Not Permitted	Not Permitted

## Maximum LTV/ LTC Limits

The maximum loan to value and loan to cost for each loan is calculated as set forth below (in each case, the permitted loan amount is the lowest value calculated as a result of the application of the three guidelines, as applicable):

	Step	Max LTV ("As Is")	Max LTC	Max LTV ("As Repaired")
1	Maximum amount per U/W Matrix for each product type (see above)	Per matrix	Per matrix	Per matrix
2	Neither a borrower nor guarantor has a median FICO of at least 600, is a foreign national (non-permanent resident), or is a credit worthy entity approved by Capstone	-10.0%	-10.0%	-10.0%
3	Origination & broker fees >5% (calculated on Maximum Loan Amount of loans > \$100,000)	-5.0%	-5.0%	-5.0%
Property and Market Liquidity Adjustments <sup>(1)</sup>				
Property located in a zip code with days on market:				
6	Single family property value (greater of "As Is" or "As Repaired" if available) is greater than \$2 million	-5.0%	-5.0%	-5.0%
Maximum LTV/LTC (Before Excess First Loss)		Total of Applicable Adjustments Above		

(1) Data based on data in the spreadsheet provided by Capstone for the applicable month as posted to the online originator data site.

Applicable CBSA statistic for property and market liquidity adjustments may be substituted if required value is not available for the zip code

Loans in excess of the LTV/ LTC amounts calculated above are permitted to the extent that the originator retains additional first loss position ("Excess Originator First Loss") sufficient to offset the excess amounts, up to a maximum of 90% (LTV "As Is"), 90% (LTC), and 80% (LTV "As Repaired").

## Definitions

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

**New Customers:** The guarantor(s) or borrower(s) do not qualify as Experienced Customers.

**Stabilized Bridge:** Rehab Budget is less than or equal to 5% of “As Is” value (purchase and refinance) and purchase price (if applicable).

**Light Rehab:** Rehab Budget is greater than 5% and less than or equal to 100% of “As Is” value (purchase and refinance) and purchase price (if a purchase), and the project does not involve a condo sales exit, 20% expansion of the property of at least 750 square feet or a change in use.

**Heavy Rehab:** Rehab Budget greater than or equal to 100% of “As Is” value (purchase and refinance) or purchase price (if a purchase), condo sale exit, involves more than a 20% expansion of the property of at least 750 square feet, or involves a change of use. Heavy Rehab excludes properties where at least one wall does not remain standing throughout the construction process and into the finished property, or with an “As Repaired” value which is greater than 3x the initial “As Is” Value (or acquisition price if within the last 12 months).

**Loan to “As Is” Value:** Initial Loan Amount divided by “As Is” appraised value. Loan to “As Is” value is only calculated for loans which are purchased prior to completion of the first rehab draw.

**Loan to Cost:** Initial Loan Amount divided by borrower Cost Basis at the origination date.

**Cost Basis:** Cost basis is inclusive of purchase price, verified borrower paid Hard and Soft Costs expended to date (as defined in Rehabilitation/Renovation Budget section below), and customary borrower paid arms-length closing costs/fees, including real estate broker commissions, title, escrow, other closing costs and the amount of taxes, HOA dues, fees, assessments, and liens paid by the borrower or its affiliates in connection with the acquisition to date.

**Loan to “As Repaired” Value:** Maximum Loan Amount divided by “As Repaired” appraised value.

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

**Maximum Loan Amount:** Initial Loan Amount plus the maximum amount of future rehab draws and release of escrowed rehab reserves and other amounts not funded to the borrower at closing

**Purchase:** The property was purchased by the borrower or an affiliate within three months prior to the loan origination date as reflected on the executed note or is a delayed financing as described under “Refinance” below.

**Refinance:** The property was purchased by the borrower or an affiliate more than three months prior to origination. A refinance does not include financing a property without existing debt within 6 months of purchase. Such transactions would instead be considered a purchase.

**Cash Out:** In the event that the borrower is refinancing existing debt on the property, the borrower receives net proceeds (excluding third party expenses reflected on the HUD) from the refinancing that exceed 2% of the original loan amount.

**Non Cash Out:** A refinance that is not a Cash Out Refinance.

## Permitted Loan Terms

The following table describes the terms of eligible loans:

Term	Description
Borrower	Either a legal entity domiciled in the United States, including LLCs, LPs, trusts and corporations, or one or more natural persons. Non-profits permitted if approved by Capstone. Religious entities are not allowed.
Lien	First lien mortgage; Capstone will consider acquiring second liens on properties where Capstone also owns the first lien. Third party second liens permitted without intercreditor agreement up to maximum permitted LTV and LTC per the applicable underwriting matrix
Loan type	Business purpose loans. Loans may be structured with either (i) a single advance at closing with no rehab escrow, (ii) a single advance at closing with a rehab escrow or (iii) an advance at closing with additional rehab advances over time.  Loan documents must be in a form approved by Capstone.
Term	<u>1-4 Family</u> : Up to 13 months (Up to 24 months permitted if approved by Capstone) <u>Multifamily/Mixed-Use</u> : Up to 18 months (Up to 24 months permitted if approved by Capstone)
Location	All states except Alaska, North Dakota and South Dakota
Permitted collateral	One or more properties owned fee simple or leased fee by the borrower and which otherwise meet the Property Requirements (properties subject to a ground lease are not allowed unless approved by Capstone). Revolving credit facilities which permit the addition of additional collateral are not permitted.
Recourse	If the borrower is a legal entity, a full recourse guarantee by either (i) one or more individual(s) which in aggregate own at least 51% of the borrower (non-recourse with customary “bad boy” carveouts including bankruptcy permitted if approved by Capstone) or (ii) a creditworthy legal entity approved by Capstone.
Interest rate	Fixed rate
Minimum loan size	<u>1-4 Family</u> : \$50,000 funded loan amount at loan acquisition <u>Multifamily/Mixed-Use</u> : \$100,000 funded loan amount at loan acquisition unless otherwise approved by Capstone.
Maximum Loan Size	<u>1-4 Family</u> : \$2,000,000 funded loan amount at loan acquisition <u>Multifamily/Mixed-Use</u> : \$5,000,000 funded loan amount at loan acquisition unless otherwise approved by Capstone.

## Acquisition Guidelines – All Loan Types

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Minimum property Value	1-4 Family: Either the “As Is” or “As Repaired” appraised value must be equal to at least the greater of (i) \$75,000 (ii) 30% of the median home value for the applicable zip code (1) or (iii) the amount set forth in Appendix C for certain metropolitan statistical areas  Multifamily/Mixed-Use: Either the “As Is” or “As Repaired” appraised value must be equal to at least the greater of (i) \$25,000 per unit or (ii) the amount set forth in Appendix C for certain metropolitan areas
Future Fundings	Up to nine future fundings permitted upon completion of scheduled rehab work and payment of a fee which covers lender’s out of pocket costs (subject to satisfactory inspection and limited to 100% of rehab cost).
Amortization	Interest only or amortizing loans permitted
Prepayment	Up to 6 months of prepayment penalties are permitted
Release Prices	Cross-collateralized loans may permit partial releases at a release price equal to at least 120% of the allocated Maximum Loan Amount, or loans which permit partial releases at 120% of the allocated Maximum Loan Amount (i.e. condominiums)
Tax and Insurance Escrows	Collected monthly for all loans with a Maximum Loan Amount > \$5,000,000

(1) If data is not available for the applicable zip code in the spreadsheet provided by Capstone, CBSA data may be substituted

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## Market Requirements

All properties must be located in the United States. Capstone seeks to acquire loans collateralized by properties located in areas with demonstrated real estate market liquidity and stable or improving housing market conditions. Properties which are located in markets with poor liquidity and/or materially declining home prices are subject to lower LTV limitations or are not permitted (See Maximum LTV/LTC Limits above).

Properties located in sparsely populated rural locations are not permitted.

Loans collateralized by properties located in certain markets as listed in Appendix C are subject to additional limitations as set forth in the appendix.

## Property Requirements

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Eligible property types include the following:

- **1-4 Family Underwriting Matrix**
  - Single family detached residences
  - 2-4 family residences
  - Condominiums
  - Townhomes
- **Multifamily/Mixed Use Underwriting Matrix**
  - Multifamily apartment buildings which are Class A or B as determined by Capstone. Class C multifamily buildings allowed only with Capstone approval
  - Mixed-use buildings (Residential space is more than 50% of the property square footage) which are Class A or B as determined by Capstone. Class C mixed-use properties allowed only with Capstone approval

The following property types are NOT eligible for financing:

- Mobile homes (properties with VIN numbers or otherwise not attached to a permanent foundation) and cooperatives
- Raw land, working farms or ranches
- Properties subject to purchase options
- Single family condominiums of less than 500 square feet, 2-4 unit, multifamily or mixed-use residences of less than 500 square feet on average for each residential living unit and single family homes or townhomes of less than 700 square feet
- Properties which are not in compliance with local zoning regulations (including as reflected on the appraisal or residential evaluation) unless a grandfathered non-conforming use or non-compliance will be addressed through the contemplated rehab
- Single Room Occupancy (SROs) and former healthcare facilities (such as nursing homes and assisted living facilities)
- Properties with known adverse environmental conditions (other than lead paint, radon or asbestos in each case which do not present a health hazard, do not require remediation and have been contained per EPA guidelines prior to funding)
- Properties with underground oil tanks are not permitted without an environmental assessment
- **Multifamily and mixed-use properties classified as Class D**

Properties must be constructed using a method that is customary for the area in which they are located.

## Title Insurance Requirements

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The following title insurance requirements are applicable to loans purchased:

- Good and marketable fee simple lender's title (and/or leased fee for multifamily and mixed-use) free of any liens (except for minor or customary liens that can be readily mitigated including taxes not yet due for each property securing the loan) in an amount equal to or greater than the initial allocated loan amount (inclusive of rehab reserves and the maximum amount of permitted future draws) from a US domiciled title insurer which satisfies the financial ratings guidelines in the Fannie Mae Single Family Selling Guide as available at [www.fanniemae.com](http://www.fanniemae.com) (the "Fannie Mae Guidelines").
- Each property must be comprised of at least one (1) parcel which constitutes a separate tax lot and does not constitute a portion of any other tax lot not a part of such property.
- Each property must have adequate rights of access to public utilities and public rights of way.
- A survey is required for multifamily (5+ units) and mixed-use properties unless the Maximum Loan Amount is less than \$3.0 million and the title insurance policy includes a "same as survey" endorsement.

Acceptable insurers must be domiciled in the United States and licensed to do business in the state of the subject property/properties.

## Valuation

Accurate valuations are critical to the underwriting process. Capstone must obtain a current (within 5 months of closing) valuation of the property which meets the following guidelines:

- **1-4 Family:**
  - Maximum Loan Amount > \$250,000 or with rehab amounts in excess of 50% of “As Is” value, a USPAP and FIRREA compliant interior appraisal from a state licensed appraiser who is independent of the originator and borrower. Exterior appraisals are acceptable in circumstances where interior access is not possible with Capstone approval. The appraisal should contain a customary independence certification by the appraiser. The appraisal should be on the applicable form required by the Fannie Mae Guidelines for 1-4 family properties or form approved by Capstone.
  - Maximum Loan Amount <\$250,000 secured by 1-4 family properties with rehab amounts of less than 50% of “As Is” value, an appraisal as described above or, subject to Capstone approval, a FIRREA compliant interior residential evaluation from a provider. The residential evaluation must be on a form approved by Capstone. Exterior appraisals are acceptable in circumstances where interior access is not possible with Capstone approval.
- **Multifamily (5+ Units) and Mixed-Use:**
  - Appraisals must be a USPAP and FIRREA compliant interior appraisal from a state licensed appraiser who is independent of the originator and borrower. The appraisal should contain a customary independence certification by the appraiser.
    - An MAI certified narrative form appraisal must be used if Maximum Loan Amount > \$3.0 MM or if the business plan contemplates a condominium sale exit.
    - For loans other than set forth above, multifamily appraisals can be either in narrative form or Fannie Mae 1050/Freddie Mac 71A forms. Mixed-use properties must be in narrative form only.
  - Appraisals require valuations based on both a cashflow/income capitalization approach and sales comparison approach specifying property comparables for both.
  - Appraisal reviews are required for all multifamily and mixed-use properties from a vendor satisfactory to Capstone, inclusive of additional sales and market rent comps and confirmation that the appraised value, cap rate, market rent, occupancy and property cashflow projections are supported.

To the extent required by the Capstone Underwriting Matrix, all valuations must include the following:

Valuation Type	“As Is” Value	“As Repaired” Value
Stabilized Bridge	Always	Not Applicable
Light/Heavy Rehab	Determined by Either: <ul style="list-style-type: none"> <li>(i) “As Is/Where Is” basis with No Prospective/ Development Consideration (always required when property is not yet Entitled for intended use and zoning/approvals are not in-place at origination); or</li> <li>(ii) “As Repaired” Value less Rehab Budget (must apply a market profit margin and only allowed for Entitled properties)</li> </ul>	Always (Based on budget and scope submitted by borrower) <sup>1</sup>

(1) Condominium exit loans with 5 or more units require “As Repaired” value on both an “As Stabilized” market rental value and “As Complete” market value gross sellout condo value.

All valuations must be obtained from an approved vendor per Appendix B unless otherwise approved by Capstone. Valuations must be ordered by the originator or by another licensed lending institution which is independent of the borrower. In no event, are valuations ordered by borrowers or provided by vendors selected by the borrower acceptable. The originator must review the valuation to ensure that the value is well supported by the evidence in the appraisal or residential evaluation and by the comparable transactions.

### Rehabilitation/ Renovation Budget

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If the borrower's business plan contemplates rehabilitation or renovation of the property, the borrower must submit a budget (i.e. "Rehab Budget") for each property containing the scope and expected cost of the planned work to be done. The Rehab Budget may only include Hard and Soft Costs as described below:

- **Hard Cost:** Consists of all costs involved in the physical construction of the building and its infrastructure which includes all labor, materials and any associated general contractor fees.
- **Soft Cost:** Non-physical construction costs limited to 15% of the entire Rehab Budget and may only include permits, plans/architect fees, third party contractor fees, and city/county inspection fees. Other customary items may be included with Capstone approval. Items such as interest reserves, development fees, taxes, insurance, etc. are not to be included in any financed Rehab Budget. Reimbursement of Soft Costs requires "Draw Funding Control" (which includes title date down, collection of all invoices and lien waivers, inspection report and draw request) by a third party set forth in Appendix B or as otherwise approved by Capstone.

If applicable, the originator must confirm the following:

- If the property is a 1-4 family property, the scope of the budget is sufficient to enable the collateral to qualify for eligibility under the current FHA 1-4 family financing guidelines, as set forth in "The Minimum Property Standards of Housing, 1994 Edition."
- If the property is a multifamily or mixed-use property, the scope of the budget is sufficient to enable the collateral to qualify for a commercial real estate term loan.
- When the maximum amount of funded loan escrows or future loan draws are less than the remaining Rehab Budget, then borrower contributed funds must be expended prior to any loan draws unless otherwise approved by Capstone.
- The budgeted scope of work and total cost must be consistent with the property condition as reflected in the interior property photos, appraisal commentary inspection and feasibility analysis (if applicable).
- Light and Heavy Rehab loans where the loan is expected to be repaid through a sale of the property require a minimum profit margin whereby the total project cost will provide the borrower a market-based profit margin assuming the property is sold at the property's "As Repaired" value. If the "As Repaired" Value/Cost Basis ratio is less than 110% for Experienced Customers or 115% for New Customers, the originator should provide a written narrative description in support of the project viability which will be subject to Capstone approval.
- 1-4 Family Light and Heavy Rehab loans where the borrower intends to lease and hold the property require a minimum pro forma rent yield of 10% based on market rents. Rent yield is calculated as annualized pro forma market rent divided by the Maximum Loan Amount.

## Project Review

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For loans with a Rehab Budget of \$500 K or more, 20% expansion of the property of at least 750 square feet, a change of use, or refinance on ground-up construction loans without a certificate of occupancy the originator must complete a project review and feasibility study from a vendor satisfactory to Capstone, including a review of the budget/scope, proposed plans and permitting status.

## Subsequent Draw Process

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**Rehab/Renovation Draws** – In order to fund renovation draws or escrow releases, the originator or loan servicer will engage a property inspector as set forth in Appendix B or another inspector satisfactory to Capstone to ensure that the budgeted rehab work has been completed prior to releasing funds. The inspection must be completed on a form satisfactory to Capstone. The borrower will be responsible for the cost of all inspections and Capstone's out of pocket costs related to the draw review and release of funds. The borrower must complete a draw request on a Capstone approved form and submit with the inspection for review and approval.

For loans where there is a contemplated change in intended use or zoning (i.e. condo conversions), Capstone requires proof that the project has received the required permitting and approved plans stamped by the city prior to funding rehab draws. Capstone reserves the right to require lien waivers and title date downs prior to funding draws.

## Borrower Underwriting

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### Borrower Liquidity

The borrower's liquidity position is important to the underwriting decision, especially in cases where there is material property rehabilitation planned. Proof of funds or other sources of liquidity are needed to determine the borrower's ability to cover required expenses as set forth below unless otherwise approved by Capstone:

- Down payment and closing costs (if the property is being purchased at the time of loan origination); plus
- Any required borrower equity requirements to complete the property rehab (i.e., any amounts in excess of amounts to be funded through the rehab escrow or future loan fundings); plus
- Any outstanding judgements or personal liens in excess of \$15,000; plus
- 3 months of debt service for residential loans and the required months of debt service for multifamily/mixed-use loans as set forth in the table below. For loans where future advances are permitted, debt service will be calculated based on the Initial Loan Amount plus 50% of the maximum amount of future fundings.

### Debt Service Requirements for Multifamily/Mixed-Use

Maximum Loan Size	< \$1.5 MM	\$1.5 MM to \$3.5 MM	> \$3.5 MM
Months of Debt Service	3 Months	6 Months	Loan Term

The originator must document borrower liquidity through a combination of the following sources for the borrower and/or guarantor(s) (should be dated within 45 days of the loan origination date):

- Bank, money market, closing escrow or securities account statement (1 month required, using the most recent balance)
- Funded debt service reserve
- In place underwritten property net cash flow
- Cash value of a life insurance or annuity policy
- 50% of the value of 401(k) or IRA plans (1 month required, using the most recent balance)
- Cash out loan proceeds
- Trust / business assets (if borrower/guarantor has the right to access; 1 month required, using the most recent balance)
- Personal income (10% of last year's adjusted gross income as verified on a 4506-T transcript)
- List of real estate assets currently listed on MLS, net of associated financing
- Available revolving credit facility capacity

### Credit/ Background Check

For (i) each borrower (if such borrower is a natural person), (ii) each guarantor and managing member and (iii) owners of the borrower with an interest in aggregate not less than 51%, the originator must obtain each of the following from the applicable party or parties unless otherwise approved by Capstone:

- A credit history from at least two bureaus dated within 90 days of loan origination. Capstone may approve credit history dated past 90 days of loan origination on repeat borrowers. At least one natural person borrower or guarantor must have a median FICO of 575 or greater (the lower score should be used in the event only two credit scores are obtained and the highest median credit score should be used in the event of multiple guarantors). At least one natural person borrower or guarantor must have had no bankruptcy within the past 24 months and no current mortgage late (unless cured by the contemplated financing). Foreign nationals without a US credit report are permitted subject to reduced LTV/LTC limits, as set forth in the applicable Capstone Underwriting Matrix.
- A background check. A fraud screen is permitted in lieu of a background checks for loans below \$1.0 million, if approved by Capstone. To the extent Capstone obtains knowledge of previous felony convictions, misdemeanor convictions involving fraud, embezzlement or other similar crimes or adverse fraud screen results, such results are not permitted unless otherwise approved by Capstone. Foreign nationals without U.S. background checks are permitted subject to reduced LTV/LTC limits, as set forth in the applicable Capstone Underwriting Matrix.

### Track Record

For Light or Heavy Rehab loans the originator must receive a track record history for the borrower/guarantor of investment real estate property sales which have been completed within three years of the loan origination date and check each transaction in the track record (transactions in excess of three are not required to be verified) for accuracy utilizing public records (such as MLS) or HUD statements to confirm purchase price, purchase date, sale price, sale date, and owner; track record should also include rehab costs, selling costs, and total profit.

### Borrower

The originator must confirm that the borrower is either a natural person who is a US citizen or is a duly formed and existing US domiciled legal entity and that the principal who is executing the loan documents has signature authority to bind the borrower to the loan agreement.

### Guarantors

Each loan to a legal entity must have at least one guarantor. The guarantors must include one or more individual(s) and managing member, or one or more legal entities approved by Capstone which in aggregate own at least 51% of the borrower (non-recourse loans with customary “bad boy” guarantees including bankruptcy are permitted if approved by Capstone), unless otherwise approved by Capstone.

## Closing Documents

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All form closing documents will be reviewed independently by Capstone to ensure enforceability and validity of the form documents. All loans purchased thereafter must be on form documents initially approved by Capstone, unless otherwise approved by Capstone.

## Condominium Eligibility

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If the property is part of a condominium association, the originator must obtain a condominium questionnaire and insurance certificate from the condominium association to ensure that it meets the eligibility criteria as set forth in the current Fannie Mae Guidelines.

## Fire and Flood Insurance Requirements

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Each Mortgaged Property must be insured by a fire and extended perils insurance policy and such other hazards as are customary in the area where each Mortgaged Property is located, unless otherwise approved by Capstone, in an amount not less than the lesser of (i) the maximum principal balance of the Mortgage Loan and (ii) the full insurable value of each Mortgaged Property.

If any portion of each Mortgaged Property is in an area identified by any federal governmental authority as having special flood hazards, and flood insurance is available, the borrower must obtain a flood insurance policy meeting the current guidelines of the Federal Emergency Management Agency, in an amount representing coverage not less than the least of (1) the maximum principal balance of the Mortgage Loan, (2) the full insurable value of each Mortgaged Property, and (3) the maximum amount of insurance available under the National Flood Insurance Act of 1968, as amended by the Flood Disaster Protection Act of 1974.

All such insurance policies must contain a standard mortgagee clause naming Lender, its successors and assigns (including, without limitation, subsequent owners of the Mortgage Loan), as mortgagee, and, to the extent such agreement is commercially available from the related insurer, may not be reduced, terminated or canceled without 30 days' prior written notice to the mortgagee. The name of the insured as shown on the policy must be identical to the name of the borrower as shown in the loan documents.

Acceptable insurers must be domiciled in the United States, be licensed to do business in the state of the subject property/properties and meet the ratings criteria in the Fannie Mae Guidelines.

If the financing is a refinance, and the existing policy expires within six days of the closing, there must be verification that the renewal premium has been paid or will be paid at closing.

If the financing is a purchase, there must be verification that the premium period is at least six (6) months from the day of origination.

If the project is a part of a condominium association, the loan originator must review the condo project insurance policy to ensure the homeowners' association maintains a master or blanket type of insurance policy, with premiums being paid as a common expense, as required in the current Fannie Mae Guidelines. If the policy is a blanket/master policy, Lender must receive a certified copy of the Declarations page of the policy that shows the subject property/properties is/are clearly identified in the blanket/master policy.

## Zoning Certification

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- Certificate of Occupancy required for all Stabilized Bridge loans with a loan amount greater than \$1 MM.
- Rehab loans with a Maximum Loan Amount greater than \$1 MM, involve more than a 20% expansion of the property of at least 750 square feet, or involve a change of use and without a Certificate of Occupancy require prior to funding any rehab draws or escrows a Zoning Verification Letter issued by the local municipality, a Zoning Compliance Report, or a project feasibility report indicating zoning and/or building plan certification to confirm that the completed project will enable the collateral to qualify for a commercial real estate term loan.

## Concentration Limits

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Overall portfolio characteristics will be limited based on the concentration limits set forth in Appendix D, unless otherwise approved by Capstone.

## Underwritten Net Cashflow and Debt Yield Tests – Multifamily/Mixed-Use Only

Determining a sustainable and reasonable Underwritten Net Cashflow (NCF) is a critical component in determining loan risk when evaluating multifamily and mixed-use properties. A property's NCF will be used in the Debt Yield calculation:

- **Underwritten Net Cashflow:** Either (i) lower of Capstone Underwritten NCF or Appraisal NCF or (ii) the underwritten NCF determined by a Capstone approved 3<sup>rd</sup> Party underwriter as set forth in Appendix B

Capstone Underwritten Net Cashflow is calculated as the following:

Item	Calculation	
Gross Potential Revenues (GPR)	<u>Stabilized Bridge</u> Sum of (i) verified in-place rents for occupied units, (ii) market rents for vacant units, and (iii) other income if applicable (i.e. laundry, parking, etc.), which shall be limited to 5% of total rents unless otherwise approved by Capstone.	<u>Light/Heavy Rehab</u> Sum of (i) "As Repaired" market rents and (ii) other income if applicable (i.e. laundry, parking, etc.), which shall be limited to 5% of total rents unless otherwise approved by Capstone.
Less Operating Expenses and Vacancy (% of GPR)	Based on "As Is" Value Per Unit for Stabilized Bridge Loans or the ARV Per Unit for Rehab loans as set forth below (see Operating Expenses/Vacancy and Debt Yield Table)	
Less Property Taxes	Greater of current annual property taxes or appraiser confirmed post-rehab estimated property taxes (ignore tax abatements < 10 years)	
Less Insurance	Property insurance premiums based on the in-place policy at loan closing (must adjust upward to reflect completion of contemplated rehab)	
Less Replacement Reserves	The number of units times \$300 (i.e. \$300 per unit)	
Capstone Underwritten NCF	Total of above items	

- **Debt Yield:** Underwritten Net Cashflow divided by the Maximum Loan Amount. Does not apply to condo exit loans. *See Operating Expenses and Debt Yield Table Below*

### Operating Expenses/Vacancy and Debt Yield Table

ARV Per Unit (Rehab Loans) or "As Is" Value Per Unit (Stabilized Bridge Loans)	Operating Expenses and Vacancy (% of GPR)	Minimum Debt Yield
\$25 K to < \$50 K <sup>(1)</sup>	40%	9.00%
\$50 K to < \$75 K	35%	8.50%
\$75 K to < \$100 K	30%	8.00%
\$100 K to < \$150 K	25%	7.50%
\$150 K to < \$250 K	20%	7.25%
\$250 K +	15%	7.00%

(1) Only with Capstone approval

## Occupancy Requirements

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Minimum market occupancy of 90% is required for similar properties assuming the budgeted rehabilitation scope has been completed or on “As Is” basis for Stabilized Bridge loans, unless otherwise approved by Capstone.

## Property Condition, Seismic and Environmental

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- Property Condition Assessment (PCA/PCR): Required for Stabilized Bridge loans whenever an appraisal or appraisal review indicates any concerns of a structural nature or any high-rise property (> 2 floors and 10 units). Partial completed construction with remaining budget > \$250 K, change of use, or any property being converted from a commercial use to a multifamily/mixed-use requires a limited structural engineering report unless a project review and feasibility analysis is being performed. See Appendix B for a list of approved vendors.
- Environmental Screen Assessments: Multifamily properties and mixed-use properties with either (i) a loan amount greater than \$1 million, (ii) a current environmentally exposed use including a dry cleaner, gas station, or others as determined by Capstone, or (iii) where the appraisal indicates any environmental concerns, must have an EDR Environmental Risk Rating Report or a Phase 1 assessment. See Appendix B for a list of approved vendors.
- Phase 1 Assessment: Required for loans > \$5 MM, any EDR Risk Rating Report with “Elevated Risk”, or any property being converted from a commercial use to a multifamily/mixed-use. See Appendix B for a list of approved vendors.
- Seismic Assessment: Any loans >= \$3 MM (or lower amounts where the appraisal indicates any seismic construction concerns) with a Peak Ground Acceleration (“PGA”) >= 0.15g as computed by the United States Geological Survey (<https://earthquake.usgs.gov/hazards/interactive/>) will require a Level 1 Seismic Risk Assessment (“SRA”) when a third party evaluation determines that any of the following conditions are present:

- Any property with a certificate of occupancy issued prior to 1980 with residential units above ground floor commercial, retail, or tuck under parking
- Any wood framed building constructed before 1950
- Any unreinforced masonry construction regardless of seismic retrofit

If the results from a Level 1 SRA determine that there is more than a 20% and up to a 40% probable maximum loss (“PML”) earthquake insurance is required. Any PML greater than 40%, any building constructed of unreinforced masonry with no seismic retrofit, or any building constructed on a hillside with a slope exceeding a 30-degree angle (50% slope) is not an eligible property for Capstone Capital

## Appendix A: Underwriting File

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### All Loans

1. Business purpose certification/ affidavit (may be included in loan application)
2. Borrower track record for “experienced borrowers” (may be included in loan application)
3. Appraisal or residential evaluation (BPO)
4. Proof of liquidity
5. Credit report (Each guarantor/borrower, person with at least a 51% interest in the borrower, and natural person borrower)
6. Background check (Each guarantor/borrower, person with at least 51% interest in the borrower, and natural person borrower)
7. Prelim or title commitment
8. Deed of trust or mortgage note
9. Evidence of insurance (fire insurance and flood insurance if applicable)
10. Personal identification of guarantor and/or borrower (driver’s license, passport or other government issued photo identification)
11. Loan Agreement (if not separate from the mortgage note)

### Multifamily/Mixed-Use Only Loans

1. Rent roll
2. LTM and pro forma (upon completion of rehab) property net cash flow statement
3. Originator debt yield calculation
4. Appraisal Review
5. Project Feasibility Review (when applicable)
6. Property Condition Assessment (when applicable)
7. Environmental Screen Assessment (when applicable)
8. Phase 1 (when applicable)
9. Seismic assessment (properties located in seismic zones 3 & 4)
10. Assignments of leases and rents
11. Property survey (unless the Maximum Loan Amount < \$3 MM and Title policy includes “Same as Survey” endorsement)

### For Certain Loans if Applicable

1. Personal guarantee or non-recourse guarantee (if legal entity borrower)
2. Certificates of formation/ Filed articles of organization/incorporation (if legal entity borrower)
3. Operating agreement / partnership agreement / bylaws (if legal entity borrower)
4. Certificate of good standing from state of organization (if legal entity borrower and property located in state other than state of domicile; if entity formed >30 days, hard copy; if formed <30 days, hard copy within 30 days post-closing)
5. Closing instructions and closing protection letter
6. Spousal consent (if married individual borrower located in a community property state)
7. Borrower rehabilitation budget (If property rehabilitation is contemplated)

## Appendix

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8. P&S agreement, trustee receipt, disbursement letter, or HUD (if property acquired in previous 90 days)
9. Completed condominium questionnaire (If collateral is part of condominium association)
10. Copy of the condominium master insurance policy/certificate (If collateral is part of condominium association)
11. Other documents (inspection reports, explanation letters, etc. if applicable)
12. Optional: Term sheet, credit approval, underwriter worksheet, and similar documents

## Appendix B: Approved Third Party Providers

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### Valuation Vendors

1-4 Family	Multifamily/Mixed -Use (National)
Accurate Group	BBG
Appraisal Nation	
Richer Values	
Fastapp Appraisals	

### Property Inspection and Fund Control Vendors

CFSI Loan Management

Richer Values

### Property Condition Assessment (PCA)/Environmental Screen Assessment & Phase 1/

### Seismic Assessment Vendors

CBRE (IVI)



RESIDENTIAL

**RENTAL LOANS**

**UNDERWRITING**

**& CLOSING**

**CHECKLISTS**

REAL ESTATE  
INVESTMENT LOANS

# Underwriting Documents Checklist: CREDIT

LOAN PROGRAMS		NOTES	
FIX-AND-FLIP	SINGLE PROPERTY RENTALS		
GENERAL			
LOAN SUBMISSION WEB FORM	✓	✓	
<b>GUARANTOR (FOR ALL OWNERS OF <math>\geq 20\%</math> OF ENTITY)</b>			
COPY OF DRIVER'S LICENSE GOVT ISSUED PHOTO ID	✓	✓	US Citizens & Permanent Residents
COPY OF PASSPORT/ US VISA	✓	✓	Foreign Nationals and Non-Permanent Residents
SIGNED CREDIT AUTHORIZATION FORM	✓	✓	Docusign Authorization
TRIMERGE CREDIT REPORT	✓	✓	<ul style="list-style-type: none"> <li>▪ 90 days for new borrower</li> <li>▪ 120 days for current Capstone borrower with no DQs in the past 12 months</li> </ul>
BACKGROUND REPORT	✓	✓	
OFAC SEARCH	✓	✓	
PERSONAL FINANCIAL STATEMENT	✓	✓	To verify net worth
SCHEDULE OF RENTAL REAL ESTATE OWNED	✓	✓	
PERSONAL/BUSINESS BANK STATEMENTS OR INVESTMENT ACCOUNT STATEMENTS	✓	✓	<ul style="list-style-type: none"> <li>▪ For purchase transactions, verify down payment seasoning (3 months) and current liquidity</li> <li>▪ For refi transactions, verify current liquidity (all programs)</li> </ul>
<b>BORROWING ENTITY</b>			
BORROWING LLC FORMATION DOCS	✓	✓	LLC borrowers only
BORROWER LLC OPERATING AGREEMENT	✓	✓	LLC borrowers only
BORROWER LLC CERTIFICATE OF GOOD STANDING	✓	✓	LLC borrowers only
BORROWING CORP BYLAWS	✓	✓	Corp borrowers only
BORROWING CORP STOCK CERTIFICATE	✓	✓	Corp borrowers only

# Underwriting Documents Checklist: CREDIT

	LOAN PROGRAMS		NOTES
	FIX-AND-FLIP	SINGLE PROPERTY RENTALS	
SUBJECT PROPERTY			
<b>PURCHASE &amp; SALE AGREEMENT (PSA) WITH ALL ADDENDUMS</b>	✓	✓	Required for all purchase transactions, can be waived for refinance transactions if owned > 180 days
<b>COPY OF PREVIOUS CLOSING STATEMENT</b>	✓	✓	For refi transactions if owned ≤ 180 days
<b>PROPERTY MANAGEMENT AGREEMENT</b>	N/A	✓	Not applicable for self managed properties
<b>PROPERTY MANAGEMENT TRACK RECORD/RESUME</b>	N/A	✓	
<b>APPRaisal / VALUATION REPORT</b>	✓	✓	<ul style="list-style-type: none"> <li>▪ Form 1004 with Form 1007 (1-unit)</li> <li>▪ Form 1025 (2-4 units)</li> <li>▪ Form 1073 (Condominiums)</li> <li>▪ Full Narrative Commercial Appraisal (MF/Mixed Use)</li> <li>▪ Dated within 120 days or 180 days with recertification of value</li> </ul>
<b>SECOND APPRAISAL/ VALUATION REPORT</b>	If loan amount > \$1.5MM	For all properties with loan amount > \$1.5MM	
<b>PHASE 1 REPORT</b>	✗	✗	For Commercial Loans
<b>CURRENT &amp; HISTORICAL RENT ROLLS</b>	N/A	✗	Minimum 12 month history required
<b>HISTORICAL PROPERTY FINANCIALS &amp; OPERATING STATEMENTS</b>	N/A	✗	Minimum 12 month history required
<b>BORROWER'S PROFORMA PROPERTY FINANCIALS &amp; OPERATING STATEMENTS</b>	N/A	✗	

# Underwriting Documents Checklist: CREDIT

	LOAN PROGRAMS		NOTES
	FIX-AND-FLIP	SINGLE PROPERTY RENTALS	
SUBJECT PROPERTY			
<b>EXISTING LEASE AGREEMENTS &amp; ADDENDUMS</b>	N/A	✓	Include sub-leases if applicable
<b>PROOF OF RECEIPT OF RENTAL INCOME FOR 3 MONTHS</b>	N/A	✗	<ul style="list-style-type: none"> <li>▪ Bank statements with cancelled rent checks preferred</li> <li>▪ Property management statements</li> </ul>
<b>PROOF OF RECEIPT OF SECURITY DEPOSIT</b>	N/A	✓	For leases commencing within 30 days of close
<b>HOMEOWNERS ASSOCIATION (HOA) DOCUMENTATION</b>	✓	✓	Membership Certificate or Fee Letter indicating annual HOA fees, if applicable
<b>CONDOMINIUM QUESTIONNAIRE</b>	✓	✓	If applicable
OTHER			
<b>PAYOFF LETTER FROM EXISTING LENDERS</b>	✓	✓	For refi transactions
<b>INSURANCE CERTIFICATES AND PROOF OF PREMIUM PAYMENT</b>	✓	✓	Property, liability and business interruption insurance. See Insurance requirement for details
<b>FLOOD CERTIFICATION</b>	✓	✓	To be ordered by Lender
<b>REAL ESTATE TAX CERTIFICATE</b>	✓	✓	Typically available from the county assessor's website

# Closing Documents Checklist: LEGAL & TITLE

Lender requires satisfaction of all conditions of the Commitment and the Loan Documents, including delivery of all applicable Closing Checklist items, at least 24 hours prior to the closing and funding of the Loan.

**LC** Lender's Counsel | **BC** Borrower's Counsel | **TIC** Title Insurance Company | **B** Borrower

RESPONSIBLE PARTY	ITEM
<b>LC</b>	Closing Instruction Letter
<b>BC TIC</b>	Title Requirements: Please see Exhibit 1 for list of required endorsements.
<b>BC TIC</b>	Copies of all documents shown on Schedule B-II of the title commitment
<b>BC TIC</b>	Vesting Deed into current owner
<b>BC TIC</b>	Evidence that neither Borrower nor Guarantor are identified on the Specially Designated Nationals and Blocked Persons list maintained by OFAC, Department of Treasury (this can be ordered by the title company)
<b>BC TIC</b>	Paid and receipted Real Estate Tax Bills, Tax Parcel Numbers and contact information for the local Tax Assessor/Collector
<b>TIC</b>	Title Company's Invoice (which includes all endorsement fees, policy fees, search fees, recording fees, stamp tax fees, title rundown fees, etc.)
<b>TIC</b>	Settlement Statement
<b>BC</b>	Purchase and Sale Agreement (and any amendments) and closing HUD/Settlement Statements for any or all of the Collateral.
<b>BC</b>	Payoff Letters and Discharges/Releases related to existing indebtedness encumbering the Collateral
<b>BC</b>	Copies of all leases related to the Collateral <ul style="list-style-type: none"><li>▪ Add to Schedule B-II of title commitment as subordinated item(s)</li><li>▪ Tenant Estoppel Certificates (commercial units)</li><li>▪ Assignment and Assumption of Lease</li><li>▪ Subordination, Non-disturbance and Attornment Agreements (commercial units)</li><li>▪ Proof of Rent Payments</li></ul>
<b>BC</b>	Evidence of Source of Borrower's funds
<b>BC</b>	Certificate of Formation/Incorporation/Organization of Borrower and Entity Guarantor
<b>BC</b>	Operating Agreement/Bylaws/Partnership Agreement of Borrower and Entity Guarantor
<b>BC</b>	Good Standing Certificates for Borrower and Entity Guarantor

# Closing Documents Checklist: LEGAL & TITLE

**LC** Lender's Counsel | **BC** Borrower's Counsel | **TIC** Title Insurance Company | **B** Borrower

RESPONSIBLE PARTY	ITEM
<b>BC</b>	<p>Certified Resolutions/Consents of Authority</p> <ul style="list-style-type: none"><li>▪ Borrower's and Entity Guarantor's Resolution/Consents (authorizing the purchase and the loan transaction)</li><li>▪ Borrower's and Entity Guarantor's Incumbency Certificate</li></ul>

# Closing Documents Checklist: LEGAL & TITLE

## EXHIBIT 1: LENDER'S TITLE REQUIREMENTS

- Title Commitment(s), with extended coverage, issued by a nationally recognized title insurance company acceptable to Lender in its sole discretion insuring Lender's Mortgage as a valid first lien (arrange for title closer)
- Title commitment for the Subject Property showing Loan Funder LLC, Series \_\_\_, its successors and/or assigns ATIMA, 645 Madison Avenue, 19<sup>th</sup> Floor, New York, NY 10022
- Must include 24 month Chain of Title, Judgement/Lien Search on entity and guarantors and OFAC Search
- The Proforma must include the following endorsements, as applicable:

<b>1</b> Comprehensive (ALTA 9 or equivalent)	<b>20</b> Contiguity
<b>2</b> ALTA 8.1	<b>21</b> Water rights
<b>3</b> ALTA 14.06	<b>22</b> Mineral rights
<b>4</b> ALTA 17.06	<b>23</b> Mechanic's liens
<b>5</b> Secondary Market Endorsement (NJ/OH Only)	<b>24</b> Condo or PUD Endorsement (when applicable, and in FL)
<b>6</b> Usury (if commercial property and when applicable)	<b>25</b> Variable Interest Rate (when applicable)
<b>7</b> Assignment of Rents	<b>26</b> Survey Endorsement/ Lender's No Survey/ Same as Survey
<b>8</b> Zoning Letter (if commercial property)	<b>27</b> Gap Coverage
<b>9</b> Waiver of Arbitration	
<b>10</b> Street Assessment	Other NY Endorsements, as applicable:
<b>11</b> Land Same as Survey	<b>28</b> TIRSA 9-06 (Restrictions, Encroachments, Minerals - Loan Policy)
<b>12</b> Commercial Environmental Lien	<b>29</b> TIRSA 8.1 (Environmental Protection Lien)
<b>13</b> Access	<b>30</b> NY TIRSA Survey Endorsement for ALTA Loan Policy (Survey Endorsement)
<b>14</b> Deletion of Creditor's Rights Exclusion	<b>31</b> TIRSA 17 (Access)
<b>15</b> Doing Business	<b>32</b> NY Standard Residential
<b>16</b> Subdivision	<b>33</b> Policy Authentication Endorsement
<b>17</b> Tax Parcel	<b>34</b> TIRSA Mortgage Tax Endorsement
<b>18</b> Pending Disbursement/Future Advances	<b>35</b> TIRSA Tax Parcel Endorsement (Single Lot)
<b>19</b> Easements, Use of/Maintenance	<b>36</b> Waiver of Arbitration