



SELF SYNDICATION POLICIES & DUE DILIGENCE PROCEDURES

I. INTRODUCTION

Open Source Capital, LLC helps Sponsors obtain equity and debt capital for real estate projects.

The following guidelines, policies, and procedures are designed to enhance our ability to find quality Sponsors in keeping with our stated investment guidelines.

II. SPONSOR APPROVAL

Formal approval is required for Sponsors. The following documentation is the minimum required for each submission:

1. Sponsor Profile/Application
2. Three Trade references
3. Three Investor references
3. Authorization to Release Information
4. Copy of GC Contractor's License and Business License

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5. Articles of Incorporation of a newly formed “SPE” (Special Purpose Entity) LLC (or in some cases a “SPV” (Special Purpose Vehicle) LLC formed to hold the B Membership Units in the “SPE”).>
6. Operating Agreement
7. Resumes of Principals
8. History of the Operating Company
9. Personal Financial Statement(s) dated within 90 days for any individual who maintains an ownership in excess of 9%.
10. Copies of the last two years signed and dated individual income tax returns for any individual who guarantees the senior loan. (if applicable)
11. Information on proposed construction project including budgets, cost information, existing appraisals, soil, and/or engineering reports.

III. OTHER DOCUMENTATION REQUIREMENTS

1. Appraisal – Senior Lender provides guidelines for obtaining and reviewing appraisals.
2. Survey of the Property
3. Building Permits and Approvals or evidence of application in process
6. Availability of utilities letter from engineer
7. Copies of Approved Plans and Specs
8. Insurance

IV UNDERWRITING STANDARDS

Loan to Value Limitations

1. Maximum Loan to Value Ratio: 65% of finished value.

Land and Improvements: The loan to value ratio for the completed or proposed development including land shall be based upon an appraisal of the plans and specs.

2. Maximum Loan to Cost Ratio 75%.

- i. **Land:** The loan to value ratio for land will be based on the sales contract of the land if purchased within the last 12 months.
- ii. If the land has been owned for more than one year, the value will be based upon the appraisal. If the land is gifted to the borrower, the value will be based upon the appraisal.
- iii. Cost shall only include:

1. Land cost

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2. Closing Cost
3. Engineering and architectural fees
4. Hard cost of construction
5. Bank interest and fees

“Cost” does not include any overhead, marketing and/or sales expense or any developer fees)

V GENERAL UNDERWRITING GUIDELINES

1. Credit Criteria

Open Source Capital requires a statement from the Sponsor assuring Open Source Capital that there are no major derogatory credit issues (such as undisclosed debts, judgments, bankruptcies, foreclosures, etc.

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2. APPRAISALS

Only appraisal companies approved by the Senior Lender will be allowed. Appraisals must be dated within 6 months of closing. Open Source Capital has the sole discretion to accept or reject any reports not prepared on their behalf.

3. INSURANCE REQUIREMENTS

A. Construction Financing Only (General Contractors/Builders)

- Builders Risk Insurance- The Borrower/Contractor must acquire and maintain builder's risk insurance (fire and extended coverage insurance policy) in an amount sufficient to cover the loan or the full insurable value with a standard mortgagee clause in favor of Builder Funding LLC its successors and/or assigns, ATIMA
- Flood Insurance- The Borrower/Contractor must provide evidence of flood insurance, if applicable, usually prior to the first draw or when the walls are up.
- General Contractor Builder Workman's Compensation policy

4. TITLE INSURANCE

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Title insurance including affirmative mechanics lien insurance must be provided for the full amount of the mortgage.

5. SURVEYS

- Boundary Survey. A boundary survey of the property showing all recorded easements and applicable set-backs and which indicates that there is no encroachments existing onto the property or onto the adjoining property must be provided prior to settlement (closing).
- Foundation Survey- Once the footings and foundation are completed, a foundation survey showing the location of the improvements on the property must be provided prior to the first draw.
- Final Survey- A final survey showing all the improvements on the property (including pool and other structures, if applicable) must be provided prior to the disbursement of the final draw.
- Three original copies of each type of surveys will be required.

A registered Civil Engineer or Surveyor must prepare all surveys. All surveys should indicate size of building, encroachments or easements, if any. All surveys should have correct legal description and be dated with original signature and embossed seal. **Surveys must be certified to (1) Borrower(s), The Lender (2) the Title Underwriter, (3) the Title Company.**

Survey exceptions on title are not allowed. The title company must remove the survey exception from the final title policy.

6. BUILDING PERMIT

The Sponsor/Contractor must provide a copy of the building permit prior to the first draw. The Borrower/Contractor must also provide a copy of the demolition permit, if applicable.

7. SOIL TREATMENT

The Borrower/Contractor must provide a copy of the Soil Treatment Certificate prior to the first draw.

8. NOTICE OF COMMENCEMENT (if applicable)

The Sponsor/Contractor must visibly post and maintain a Certified Copy of the Recorded Notice of Commencement on the job site for the duration of the project.

9. WAIVER AND RELEASE OF LIENS

The Sponsor/Contractor must provide Open Source Capital, LLC prior to the disbursement of any construction draw up to date unconditional partial releases of lien until the final releases are obtained from all parties that have filed a Notice to Owner. The partial release must state the

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release of all work done for labor, service and materials through a given date in the correct dollar amount owed and paid for the work.

10. FINAL DRAW

The Sponsor/Contractor must provide a final contractor's affidavit, certificate of occupancy, prior to the disbursement of the final draw. There may be instances where other documentation is required, such as construction loan title update endorsement.

11. CONSTRUCTION PROGRESS

The Sponsor/Contractor must contact Open Source Capital should progress between draws not occur approximately every 30 days and Open Source Capital shall notify the investors of the status, reasons for delay and projected date for meeting draw requirements. “

12. PROJECT SUBMISSIONS AND CLOSINGS

At Open Source Capital, Real Estate Syndications are originated by a select group of “Sponsors” for acceptance onto the OSC platform. Each Sponsor has a broad range of industry knowledge often skilled in residential or commercial construction, real estate sales and operations. We support Self Syndications made only to qualified Sponsors. The primary job of our Managers is to help produce quality Syndications and to assure the safety and soundness of the deals we approve for the platform.

Pre-Offering checklist.

- OSC signoff that all conditions have been met from Senior Underwriter
- Site Plan approval or engineer's letter.
- Survey with endorsements
- Appraisal
- General liability insurance
- Builder Risk insurance
- Signed loan commitment letter and commitment fee
- Bank commitment letter
- Formation of LLC
- EIN number
- Operating Agreement
- Wire instructions
- Name and address of settlement agent
- Title policy delivered to escrow agent
- Verification of utilities letter
- Verification letter from engineer showing satisfactory evidence that permits for the contemplated development will be submitted to the appropriate governmental authorities and that there are no issues outstanding that would preclude the timely issuance of a building permit.

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Estoppel certificate from first lender (showing amount of principle outstanding/ or limitation of future advance.

PROJECT SUBMISSION CHECKLIST

Prior to submission:

- Visual inspection of the property by Open Source Capital employee together with photographs of the site and surrounding neighborhood.
- Overall Builder qualification summary (why this project makes sense.)
- Loan cost worksheet and profit projections
 - Total project cost
 - Cost per unit
 - Land cost
 - Eng/planning/design cost
 - Hard cost
 - Closing cost
 - 1st lender cost
 - Marketing cost
 - Projected sales price
- Third party market evaluation
- Sales and Marketing plan
- Summary of the project with a basic term sheet, site plan building plans etc. (time line of construction)
- Draft commitment letter
- Map location and property legal description
- Names of borrowing entity and all guarantors with home and business address along with telephone numbers