FOUNDATION SPECIALTY FINANCE

Case Study:
Curing Underwriting Failure, Creating Value, and Protecting Capital with a High-Default CRE Bridge Loan Portfolio

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Introduction

From September 2020 through October 2023 a national CRE Bridge Loan provider (the "Company") originated and served as primary servicer for a portfolio of 208 loans totaling $529M of UPB. Former Company management reported satisfactory portfolio performance to Investors through Q3/2023, noting only two loan uncurable defaults, both which resolved through subsequent REO sales for a gain on UPB.

In fact, loan and portfolio-level performance began deteriorating a year earlier, with loans totaling approximately $70M of UPB defaulting between Q2/2022 and Q2/2023. By Q3/2023 rapidly accelerating defaults, coupled with substantial pending maturity extensions, rising interest rates, and a deteriorating lending environment, created potentially catastrophic loss of investment capital for the Company's Principal Investor.

Portfolio performance continued to deteriorate and the Investor, a middle-market PE firm managing approximately $7B, reached out for assistance replacing Company management, managing the distressed portfolio, and mitigating the potential loss of their entire investment. During the last nine months the new Company management team and Foundation have elevated the Company's approach to servicing and asset management, streamlined workflows, provided surety of execution, and delivered better insights at the asset and portfolio level.

In January 2024, 69% of the portfolio loans were non-performing, maturing in less than 90 days, in Bk or REO with LTVs exceeding 100%. Today, at the midway point of the Project, the success of the operational partnership has significantly reduced projected losses for the Investor by almost 75%, generating results that have significantly exceeded initial projections:

Currently (10/1/2024), over 66% of all portfolio assets are resolved (paid-off), performing, or under contract for resolution:

- 49 loans were resolved for a total of $83,990,970.
- 19 loans are currently performing for a total of $50,810,000 UPB.
- 20 loans are in active loss mitigation or under contract for a total of $51,849,583 UPB.

Current Portfolio level results were discussed in an accompanying Case Study: ***Creating Value and Protecting Capital with a High-Default CRE Bridge Loan Portfolio.*** The combined teams are now tasked with a forensic evaluation of the Company's historical underwriting policies, procedures, and practices to confirm cause, recommend necessary curative actions, and to potentially to re-establish Company origination and underwriting activities.

Summary Portfolio Level Observations and Data

Loan and Portfolio level performance began declining in 2022. Prior Company management masked this performance decline by extending maturity dates on a significant number of loans, in many cases multiple times. The table below illustrates the acceleration of Portfolio level default:

Defaulted Loans as of 1/31/24

Default Date	Loan Count	UPB ($)
Jul-2021	1	1,300,000
Nov-2021	1	1,789,240
Apr-2022	1	3,100,000
May-2022	1	4,200,000
Jul-2022	1	9,100,000
Oct-2022	1	4,500,000
Dec-2022	3	7,300,957
Jan-2023	1	3,720,000
Apr-2023	1	1,128,750
May-2023	1	3,980,000
Jun-2023	2	12,170,000
Jul-2023	4	18,239,120
Aug-2023	1	5,479,500
Sep-2023	4	8,990,000
Oct-2023	5	20,470,000
Nov-2023	1	3,045,000
Jan-2024	3	4,171,315
Jan-2024	6	11,280,000
Feb-2024	4	6,870,000
Grand Total	**42**	**130,833,882**

Although Underwriting results were poor from inception, the potential negative financial impact remained largely undetectable on a Portfolio or Company level due to extensive utilization of maturity extension strategies, virtually non-existent Portfolio level reporting, and aggressive accounting practices including accounting for interest income on a ninety-day accrual basis, little to no use of loan-level performance forecasting or testing, and delaying Fair Value assessment of loan performance until the end of 2023. Last, from Q2/2022 through Q4/2023, the Company's financing facility was amended nine times due to the deterioration in Portfolio level performance.

Default Type by Loan Purpose as of 1/31/24

Default Type	Loan Count	UPB ($)
⊟ Defaulted - DQ + Maturity	**26**	**87,473,817**
Purchase	2	5,375,000
Refi - Cash In	2	6,640,000
Refi - Cash Out	19	67,739,697
Refi - Rate & Term	3	7,719,120
⊟ Defaulted - Maturity	**8**	**14,086,315**
Purchase	1	3,045,000
Refi - Cash Out	6	10,386,315
Refi - Rate & Term	1	655,000
⊟ Defaulted - DQ	**8**	**29,273,750**
Purchase	2	16,310,000
Refi - Cash Out	3	7,600,000
Refi - Rate & Term	3	5,363,750
⊟ 90 Days from Maturity	**19**	**34,908,000**
Purchase	4	10,652,500
Refi - Cash In	2	5,925,000
Refi - Cash Out	10	14,882,000
Refi - Rate & Term	3	3,448,500
Grand Total	**61**	**165,741,882**

Further exacerbating default acceleration was systemic poor underwriting practices and a program of aggressive underwriting approvals of cash out or in loan applications, which ultimately accounted for 70% of all defaulted loans by UPB, and 68% by loan count. These loans were also larger, with an average UPB for defaulted cash in or out loans of $2.7M, compared to average UPB for purchase loans of $2.1M.

The negative impact of poor underwriting policies, procedures, and practice were exacerbated by the prevalence of Borrower fraud in the Company's cash out and in re-financings. Following is a summary of five loan examples impacted by a combination of poor underwriting and Borrower fraud:

- **1004285:** This $10M non-recourse loan was secured by a foreign national-controlled LLC. Loan proceeds were used to pay off an existing $3.5M loan on the Subject Property from the former company of the Senior Management team (XXX). Remaining cash-out proceeds were purportedly used to purchase FFE, additional equipment, and operating expenses. Borrower compliance was not confirmed.

- **1009213**: This $1.8M purchase loan was made to a convicted felon (narcotics distribution) who submitted falsified rent rolls and property description documents to the Company during underwriting. The Company never verified these documents or completed a background check on the Borrower and distributed $530,000 at closing to the Borrower.

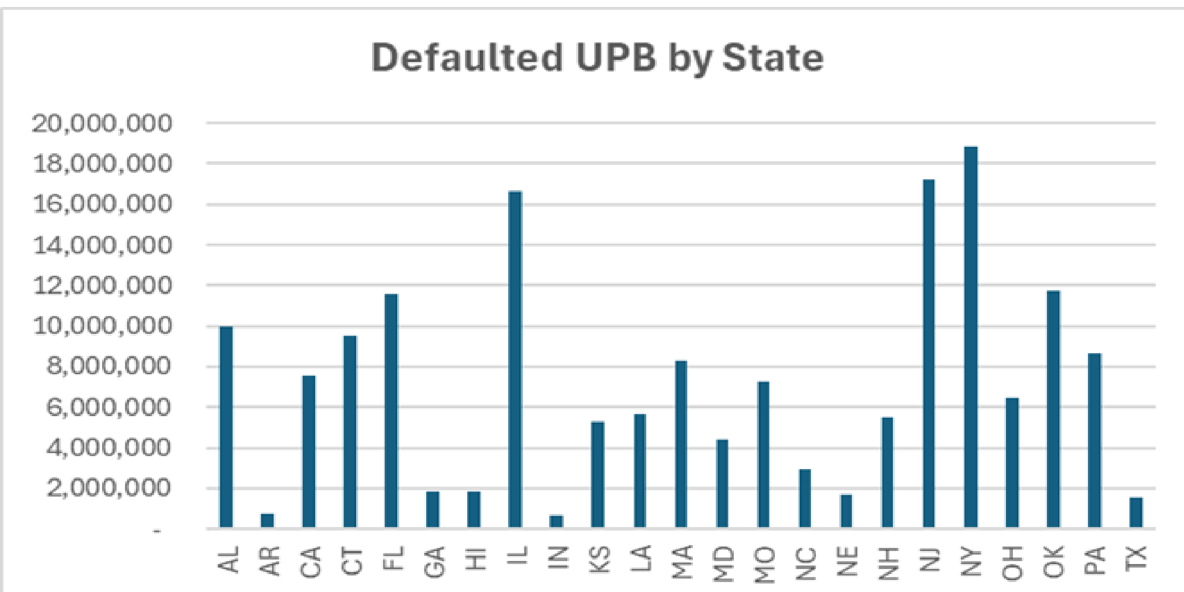
- **1013364:** This $11.6M purchase loan was the second loan in a same day back-to-back transaction scheme with a related party. The Borrower paid $3M more for the SP than the prior transaction, generating funds used for SP downpayment. Additional down payment funds were sourced from an affiliated LLC rather than the Borrower. At origination the Subject Property was only 67% occupied, and the loan was approved with a DSCR of 1x.

- **1014028**: This $7.5M re-financing included $3M cash-out at closing for the Borrower to purchase another investment property. Post-origination, the Borrower encumbered the SP with $33M of subordinate and cross-collateralized liens. At origination the Subject Property was only 30% occupied, and the loan was approved with a DSCR of 1x.

- **1008492**: This non-recourse, 24-month, cash-out refinance of an eight-unit mixed use office/retail building originated in July of 2022. The Borrower originally purchased the property in October 2014 all cash. The $4.2M loan was underwritten at a 1x DSCR at a 6.76% cap rate, with cash-out proceeds used to purchase another investment property.

Geographical Concentration

Defaulted loans were also concentrated on the East Coast and in Judicial Foreclosure states:



Occupancy Type

The loan level analysis by the FSF team did not indicate significant differences in default rates between Occupancy Type (NOST/NOMT/OOST/OOMT) or Property Type as per the following table:

Defaulted Loans by Property Type/Loan Purpose

Property Type/Loan Purpose	Loan Count	UPB ($)
Hotel/Motel	1	2,405,000
Purchase	1	2,405,000
Light Industrial	8	38,064,500
Refi - Cash Out	7	34,554,500
Refi - Rate & Term	1	3,510,000
Multifamily	12	37,064,500
Purchase	3	22,647,500
Refi - Cash In	2	5,925,000
Refi - Cash Out	7	8,492,000
Office	14	36,499,120
Purchase	2	5,150,000
Refi - Cash In	1	4,200,000
Refi - Cash Out	8	18,580,000
Refi - Rate & Term	3	8,569,120
Retail	16	30,235,555
Purchase	3	5,180,000
Refi - Cash In	1	2,440,000
Refi - Cash Out	9	20,100,555
Refi - Rate & Term	3	2,515,000
Warehouse	2	7,525,000
Refi - Cash Out	1	6,870,000
Refi - Rate & Term	1	655,000
Mixed Use	8	13,948,207
Refi - Cash Out	6	12,010,957
Refi - Rate & Term	2	1,937,250
Grand Total	**61**	**165,741,882**

Underwriting Failure Analysis

The elevated financial risk associated with poor underwriting and consequent accelerating default risk was noted by the Company Auditors in December 2022 (see Appendix A). As per this review, the Company faced significantly elevated financial risk due to several factors identified in external and internal review of loan files, underwriting practices, and monitoring processes. These deficiencies included missing loan-level documentation, weak underwriting standards and practice, poor servicing practices (virtually non-existent post-origination loan and Borrower level surveillance, and inadequate risk assessment of Borrower credit profile, collateral characteristics, and tenant operating results. These factors collectively increased the likelihood of default, financial losses, and complications in asset recovery or implementation of exit strategies.

The following analysis includes the review of an internal memo authored by the Company's Audit firm and shared with Company senior management, nine months of asset management and loan level analysis of the Company's portfolio by the FSF team, and a loan level reviews by the Auditors and the FSF team on a sample of 20 loans from the existing Company portfolio (Appendices B and C).

Following is an analysis of the seven primary categories of pervasive underwriting failure resulting from the Company's origination and underwriting activities.

1. **Inadequate Documentation and Data Issues**

   - **Missing Documents:** The 2022 external review of 18 loan files by the Company's Audit Firm revealed 16 out of 18 reviewed loans had missing or incomplete documents including property operating statements, Borrower and guarantor financials, rent rolls, and credit reports. This documentation gap made it challenging to effectively evaluate Borrower repayment capacity, track property performance, or enforce loan terms. The FSF team updated each loan level review to include current loan status. Over 50% of the sample files reviewed by the Auditor are now in active Foreclosure.

   - **Insufficient Data for Risk Assessment:** The reliance on limited operating history (often just one year) and the lack of ongoing financial updates hindered the ability to make informed underwriting decisions. These practices contributed to flawed risk assessments, leading to inappropriate loan approvals and increased risk exposure. Most active files lacked relevant information on Borrowers or tenant operating results. Bother reviews identified and confirmed this issue.

   - **Inadequate Data Analysis:** Insufficient or outdated data was used in the underwriting process, leading to inaccurate risk assessments. External data sets utilized in underwriting were inaccurate or misapplied. Both reviews identified and confirmed this issue.

2. **Underwriting Flaws**

   - **Inadequate Debt Service Coverage Ratios (DSCR):** Loans were frequently underwritten with a DSCR of 1x, meaning income generated by the subject property only covered the interest payments, leaving no margin for unforeseen expenses or income fluctuations. This minimal coverage exposed the Company to a higher risk of delinquency, especially for interest-only loans, where the unpaid principal balance remains unchanged despite payment. This practice was noted in the 2022 Auditor review, the FSF review, and increased in 2022 and 2023 as market conditions worsened.

   - **High Loan-to-Value (LTV) Ratios Without Personal Guarantees:** Several loans had LTV ratios above 70% but lacked personal guarantees, which would have provided additional security. In the absence of these guarantees, the ability to recover the full loan amount in case of foreclosure was compromised, increasing the risk of financial loss. This practice was noted in the 2022 Auditor review, the FSF review, and increased in 2022 and 2023 as market conditions worsened.

   - **Overreliance on Collateral Value:** Loans were often extended based on the perceived collateral value without reassessing the Borrower's financial status, neglecting other important risk factors such as cash flow stability and market conditions. This practice was noted in the 2022 Auditor review, the FSF review, and increased in 2022 and 2023 as market conditions worsened.

3. **Loan Extension Practices and Lack of Follow-Up**

    - **Frequent Extensions Without Additional Conditions:** Loans were regularly extended without obtaining updated financial documents or imposing stricter terms, such as higher interest rates or additional collateral. This practice allowed risk levels to remain high without sufficient mitigation measures, failing to account for potential changes in the Borrower's financial situation or property performance. This practice was noted in the 2022 Auditor review, the FSF review, and increased in 2022 and 2023 as market conditions worsened.

    - **Missed Opportunities for Additional Documentation:** The Company management should have leveraged loan extensions to require updated property operating statements, financials, and credit reports. This oversight further weakened their position and increased their risk exposure.

4. **Lack of Post-Origination Surveillance / Poor Monitoring and Credit Oversight**

    - **Lack of Regular and Post-Origination Credit Monitoring:** There was little evidence of ongoing credit monitoring for Borrowers and Guarantors, including tracking FICO scores and financial statements. The absence of updated information left the Company unprepared for potential defaults as changes in the Borrower's or Guarantor's financial health went undetected and is a critical factor in the elevated portfolio default rate.

    - **Inherent Risks of Cash-Out Refinancing and Interest-Only Loans:** The combination of cash-out refinancing, interest-only payments, and nonrecourse terms significantly increased default risk. These factors indicated that loan decisions were often based on collateral value rather than Borrower financial strength. Additionally, the cash-outs lacked justification in several cases, suggesting that the primary motivation was collecting loan origination fees rather than sound underwriting. This practice was noted in the 2022 Auditor review, the FSF review, and increased in 2022 and 2023 as market conditions worsened.

    - **Property taxes and insurance were not escrowed or monitored post-origination:** There was no regular surveillance of post-origination property tax and insurance compliance by Borrowers, significantly increasing systemic financial risk at the loan, portfolio, and Company levels.

5. **Uncertain Exit Strategies**

    - **Refinance Risk:** Many loans had "refinance" as their primary exit strategy, but there were concerns that these loans would not meet refinancing criteria upon maturity. Failure to refinance would likely result in defaults, extensions (perpetuating risk), or foreclosure, leading to financial losses.

- **Portfolio Concentration:** The portfolio was over-concentrated with owner-occupied single tenant loans. This concentration risk was increased by insufficient diligence on Borrower and Guarantor business prospects and performance. This practice was noted in the 2022 Auditor review, the FSF review, and increased in 2022 and 2023 as market conditions worsened.

6. Changing Market Conditions and Risk Environment

- As interest rates increased, exit strategies became riskier and liquidity diminished, Company underwriting guidelines should have been tightened. Instead, former Company management expanded underwriting guidelines and increased cash out or in transactions, the exact opposite strategy that should have been adopted at that time.

7. Poor (non-existent) Borrower and Guarantor Due Diligence

- There was insufficient diligence completed on Borrowers and Guarantors, especially in cash out or in re-financing. Multiple loans were made to Borrowers and Guarantors with prior felony convictions, multiple bankruptcies and business failures, poor credit histories, and improperly documented non-US citizens.

Organization Issues

Non-industry standard organizational structures and personnel issues contributed to and significantly increased underwriting failure and elevated default levels for the Company. These issues included:

- **Poor Management Structure and Delegation of Authority Across Company Operations:** The concentration of Organizational Management Authority in a small group coupled with no clear delineation of independence between loan Origination, Underwriting, Collateral Valuation, and Servicing disciplines (post-origination monitoring) significantly elevated loan and corporate level financial risk. Essentially there were no checks and balances between senior management, and virtually every loan submission was approved.

- **Remuneration / Pressure to Meet Production Targets:** Underwriting decisions were influenced by the desire to close deals or meet revenue targets, resulting in compromised risk standards. There was minimal adherence to articulated underwriting policies, practices, and procedures.

- **Approval of High-Risk Clients:** Loans were issued to Borrowers with insufficient financial documentation or inadequate risk mitigation measures (e.g., personal guarantees). This decision-making reflected flawed risk assessment practices and increased the potential for defaults.

- **Negligence in Monitoring High-Risk Loans:** The absence of ongoing oversight for inherently risky loans (cash-out, interest-only, and nonrecourse) left the loan portfolio vulnerable to defaults.

- **Improper Risk Assessment:** The risk ratings assigned at loan origination were inaccurate over time, as many loans graded as low-to-moderate risk ultimately became high-risk. This discrepancy indicated weaknesses in the Company risk assessment models, likely caused by outdated methodologies or incomplete data analysis.

- **Overreliance on Collateral Value:** Loans were often extended based on the perceived collateral value without reassessing the Borrower's financial status, neglecting other important risk factors such as cash flow stability and market conditions.

- **Minimal Portfolio-Level Reporting and Unrealistic Accounting Practices:** Company senior management masked dramatically increasing default levels and systemic risk with aggressive extension strategies, accounting treatments misrepresenting future financial impacts, and multiple amendments to debt facilities.

Curative Recommendations / Actions

To prevent previously noted failures, the following measures should be implemented:

- **Strengthening Data Governance:** Ensuring the accuracy and completeness of loan documentation and regularly updating Borrower financial information is critical.
- **Enhancing Underwriter Training:** Providing training to underwriters on risk assessment techniques, data interpretation, and the importance of ongoing monitoring will improve outcomes.
- **Maintaining Human Oversight in Automated Decisions:** Balancing automated systems with human review to identify subtle risk factors not captured by algorithms enhances efficiency without increasing default risk.
- **Cash-Out Policy:** No cash-out at origination without Borrower or Guarantor recourse must be strictly complied with.
- **Construction/Rehab Policy**: Periodic draws only, with third-party verification of completion of project milestones must be strictly complied with.
- **Improve Servicing and Post-Origination Monitoring Program:** Include Borrower credit, collateral condition, property taxes and insurance compliance, draw compliance and adherence thereto.
- **Use Technology Appropriately:** Use technology to enhance outcomes, not make UW decisions.
- **Revise Corporate Compensation Program:** Implement KPI-based remuneration for Loan Origination/Production/Servicing/ Senior Management teams.
- **Financial Reporting:** Require regular financial reporting from Borrowers, Guarantors, and Operating Businesses.
- **Senior Management Checks / Balances:** Implement a clear program for delegation of authority across Loan Origination, Underwriting, Servicing, and Asset Management disciplines.

Recommended Company Reporting Structure

The following recommended KPI reporting program requires benchmarking and regular weekly and monthly monitoring and reporting to Investment Committees, Members, and the BOD. This program should be implemented by Company senior management with assistance from outside consultants for the design and development of dashboards and reports and the integration of data silos and sourcing of necessary data points. Following is the framework for a proposed KPI tracking, monitoring, and reporting system/program:

- **Origination Pipeline Metrics:**
    - Pull-Through Rates: Total funded loans divided by loan inquiries and signed term sheet (by L/O and Corporate)
    - Average Cycle Time/Velocity: Days from Loan Submission (signed term sheet) to Funding
- **Loan Inquiry Stage:**
    - New Clients vs Repeat Clients (by month and trend analysis)
    - Average Timeline from Initial Loan Inquiry to provision of Indicative Pricing
    - Abandoned Inquiry Rate (by L/O and Corporate)
    - Conversion rate of Inquiry to Signed Term Sheet (by L/O and Corporate)
    - Conversion rate of Inquiry to Funded Loans (by L/O and Corporate)
    - Average Timeline from Initial Inquiry to Funded Loan
- **Executed Term Sheet Stage:**
    - Pull Through Rate: Total signed term sheets divided by complete applications submitted to UW (by L/O and Corporate)
    - Conversion rate of executed term sheets to funded loans (by L/O and Corporate)
    - Timeline from signed Term sheet to initial UW submission (by L/O and Corporate)
- **Loan Production (UW) Metrics:**
    - Units Funded Per FTE (by L/O and Corporate)
    - Volume Product Mix (by L/O and Corporate)
    - Average Loan Amount across Portfolio and by Product

- WAC by Product
- Originations by Geography (by L/O and Corporate)
- Cost per unit to fund

- **Loan Sale Metrics:**
  - Gross Gain on Sale (bps)
  - I/O Spread by Product
- **Funded Loans**
  - Percent held by affiliated entity or fund
  - Percent sold to third party
- **Loan/Portfolio Performance**
  - Default Rate (>60 days)
  - Cure percentage
  - Loss/Gain per defaulted/foreclosed loan
- **Marketing:**
  - Customer Acquisition Cost: Total monthly marketing costs (including personnel and OH allocation) divided by number of new monthly customers
  - Other Marketing Metrics (TBD)
- **Corporate Performance Metrics:**
  - Cost to produce a loan (bps to average loan size)
  - Average revenue per loan (bps to average loan size)
  - Net Operating Margin (bps)
  - Net Operating income (as a percentage of total revue)

Appendix A:
Auditor Communication and Loan Review

Hi XXX:

Please see attached for our notes from our preliminary review of the loan files in late 2022 (attached is a summary of our observations and follow-up questions for our selected loans). These comments and questions were shared with the XXX team and XXX had discussions with XXX, I believe.

A majority of the portfolio was performing and so most of the observations and questions relate to delinquent loans we selected. Ultimately, we evaluated the Company's concluded fair values for the portfolio in conjunction with the level of risk observed in our testing, noting that the Company applied relevant risk premiums to each loan.

The loan files are decently organized, but we are still missing much documentation. Of the 18 loans, 16 were missing documents. XXX did not seem to follow the list of documents needed for loan review that we provided at the beginning of the project.

It can be inefficient summarizing and requesting so many missing loan documents and tracking receipt of such documents. This also results in touching a loan two or three times. Attached is a list of the missing documents, as well as the list of documents needed that we provided at the beginning of the project:

- Many of their loans end up being extended. At this point in time, XXX is in the driver's seat and can dictate what they need from the Borrower beyond the loan extension fee. This is the time to request (demand) property operating statements, rent rolls, Borrower / guarantor financials and tax returns, and run credit reports on the guarantors. XXX does not do any of this, which is perplexing.

- There are numerous high-risk loans with no personal guarantees. This could be justified on a low (<50%) LTV, but I have been seeing no personal guarantees on +70% LTV loans. I believe they are being remiss in not requiring personal guarantees. These appear to often be desperate Borrowers in many circumstances where XXX could be more demanding on requirements to fund these loans.

- Most of their loans are underwritten to 1.00x "as-is" interest-only debt service coverage. I do not believe this is sufficient margin and creates additional risk for the loans.

- XXX often collects just one year of operating history, which I believe is insufficient to price risk.

- I do not see any meaningful credit monitoring in the loan files. These are inherently risky loans that require close monitoring. I do not see any form of loan monitoring, which is concerning.

- Very few if any credit reports are collected on guarantors, nonrecourse guarantors, or loan sponsors. I believe XXX is missing out on an important risk metric in the FICO scores they are not collecting.
- I am seeing lots of cash-outs on loans XXX is refinancing. A cash-out could be justified if the Borrower has improved the property, or if Borrower has owned the property for a very long time and has much built-up equity. This does not seem to be the case with the XXX loans. I could not see valid justification for the cash-outs at funding, sometimes substantial. Perhaps their justification is collecting more loan origination fees.
- A large portion of the loans where there were cash-outs at funding are now in default.
- Cash-out + Interest-only + Nonrecourse = Very risky loan. I am seeing much of this.
- Most of the risk ratings they prepared at loan origination appear to be inaccurate after time passes. Many of the loans that they graded as low to moderate risk are presently proving to be high risk loans. I believe their procedures in assessing and rating risk should be readdressed and reworked.
- Very few if any Borrower / Guarantor tax returns have been collected.
- On many of the loans, the exit strategy is refinance. Many of these loans at projected maturity will not meet standard refinance requirements, resulting in loans not being able to pay off at loan maturity.
- We requested a payment history and / or "Days past due >30" but were not provided this. This has been re-requested.

XXX, CPA
Principal, Audit & Assurance Services

Appendix B:
Auditor Communication and Loan Review

XXX – Loan-Level Document and Data Requests /12/29/2022 (Current loan status in Red)

1000584 - (P/O)

- The data tape indicated a zero current balance. Has the loan paid off? If so, could you please provide payoff documentation.
- The maturity date was 12/1/2021. Were there any loan extensions? If so, please provide extension agreements.
- We were not able to locate any property operating statements for 2021 or 2022. Were operating statements collected? If so, please provide.

1000753 - (P/O)

- We were able to locate the 3/31/2022 modification agreement that extended the loan maturity to 10/1/2022. However, we were not able to locate the additional modification which extended the loan maturity to 4/1/2023. Could you please provide the second modification / extension agreement?
- The most recent financial information on file for the guarantor, Jacqueline Streit, is from 1/2021. Have any financial statements or bank statements been collected since that time? If so, please provide.
- We were unable to locate any operating statements since 10/2020. Have there been any more recent operating statements collected? If so, please provide.
- The most recent rent roll we were able to locate is dated 6/2021. Has a more current rent roll been collected? If so, please provide.

1000944 - (REO/FC/Litigation)

- The loan was modified to extend the maturity to 8/1/2022. What is the current status of the loan? Is an extension in progress?
- The most recent operating statements for the properties on file are dated 11/2020. Were more recent operating statements collected? If so, please provide.
- The most recent rent roll on file is dated 1/2021. Has a more current rent roll been collected? If so, please provide.

1004285 - (BK/FC/Litigation)

- The loan matured on 12/1/2022. Was the loan extended? If so, please provide a copy of the extension agreement.
- We were able to locate the Title Commitment, but not the Title Policy. Could you please provide a copy of the Title Policy?
- The most recent insurance cert indicates an expiration date of 2/20/2022 for property insurance. Could you please provide the current insurance cert?
- The loan was funded to expand the business through hiring and purchasing new equipment. Could you please provide an update on the Borrower's current business operations?
- The most recent Borrower financial information on file was a 2020 tax return. Could you please provide current Borrower's financials and tax returns?

1000898 - (BK/FC/Litigation)

- Per the data tape, the loan matured on 10/1/2022 and loan payments are 120 days past due. Could you please provide an update on the status of the loan and possible foreclosure or collection from personal guaranty?
- The most recent guarantor personal financial statement on file is dated 12/2/2020. Has more current financial information been collected from the guarantor? If so, please provide.
- The most recent property operating information on file is from 12/2020. Were more current financials collected? If so, please provide.

1003857 - (BK/FC/Litigation)

- The loan was originated with the expectation that the existing tenant would begin paying increased rent on 1/1/2022 and the Borrower would refinance the loan with a traditional bank. Could you please provide an update on the property and the tenant status? Has the tenant been paying increased rent?
- The most recent property operating statement on file is dated 12/2020. Has a more current operating statement been obtained? If so, please provide.
- Per the data tape, the loan matured on 10/1/2022 and loan payments are 150 days past due. Could you please provide an update on the status of the loan and possible foreclosure?
- The property insurance cert on file indicates an expiration date of 9/9/2022. Could you please provide a copy of the most recent insurance cert?

- We were able to locate the Title Commitment, but not the Title Policy. Could you please provide a copy of the Title Policy?

1004410 - (REO/Remediation)

- Per the data tape, the loan matured on 11/1/2022. Has the loan been extended. If so, please provide the extension agreement.
- The most recent property operating statement on file is dated 7/31/2021. Has a more current operating statement been collected? If so, please provide.
- The most recent rent roll on file is dated 9/2021. Has a more current rent roll been collected? If so, please provide.
- As of 12/8/2022 cutoff date, loan payments were 30 days past due. Has the Borrower brought loan payments current?

1004858 - (PO)

- Per the data tape, the loan matured on 12/1/2022. Has the loan been extended. If so, please provide extension agreement.
- The most recent property operating statement on file is dated 10/31/2021. Has a more current operational statement been collected? If so, please provide.
- The most recent rent roll on file is dated 10/20/2021. Has a more current rent roll been collected? If so, please provide.
- The property insurance cert on file indicates an expiration date of 8/14/2022. Could you please provide a copy of the most recent insurance cert?

1000315 - (REO/Litigation/Remediation)

- The loan originated with the plan that the tenant in XXX would complete kitchen renovations then purchase the Subject Property and the Borrower would pay down the loan. What is the current status of that plan?
- Per the data tape, the loan matured on 11/1/2021 and loan payments are 390 days past due. Could you please provide an update on the status of the loan and possible foreclosure?
- The most recent property operating statement on file is dated 10/2020. Has a more current operating statement been collected? If so, please provide.
- The most recent rent roll on file is dated 10/2020. Has a more current rent roll been collected? If so, please provide.
- The property insurance cert on file indicates an expiration date of 9/20/2022. Could you please provide a copy of the most recent insurance cert?

1003688 - (PO)

- The loan originated in 6/2021, at which time occupancy was just 42%. The Borrower was to use some of the loan proceeds for renovation and tenant improvement costs to stabilize occupancy. The most recent rent roll on file is from origination showing 42% occupancy. Has the property reached stabilized occupancy? Please provide a copy of the most recent rent roll.
- Is the loan on track to pay off at 1/2023 maturity, or will it be extended?
- There was a 12-month interest reserve in place to cover debt service during stabilization. Is the property currently generating cash flow sufficient to cover debt service without an interest reserve? Please provide the most recent property operating statement.

1000911 - (REO/Litigation/Remediation)

- The most recent property operating statement on file is dated 12/2020. Has a more current operating statement been obtained? If so, please provide.
- Per the data tape, the loan matured on 3/1/2022 and loan payments are 510 days past due. Could you please provide an update on the status of the loan and possible foreclosure?

1000810 - (PO)

- The loan was originated to provide time and funds for the Borrower to make some repairs to the property and stabilize occupancy. Could you please provide an update on the Borrower's progress toward those plans?
- The most recent rent roll on file is dated 6/29/2021. Has a more current rent roll been collected? If so, please provide.
- The most recent operating statement we were able to locate is from 2020. Has a more current operating statement been collected? If so, please provide.
- The loan is to mature on 3/1/2023. Is the loan on track to pay off at maturity?

1004296 – (PO)

- The loan was funded in 8/2021 with the expectation that the vacant 4,000 sf space would be leased per letter of intent, tenant would begin tenant improvements and commence rent payments in 1/2022. The 1/28/2022 appraisal performed by Integra describes the retail space as vacant and in shell condition. Has the retail space been leased / occupied?
- The Integra appraisal indicated incomplete site improvements with parking area lights not installed and the asphalt paving without a final topcoat or lined for parking spaces. Have these improvements been completed?

- The most recent rent roll we were able to locate was from 8/2021 loan origination. Was a more current rent roll obtained? If so, please provide.
- We were not able to locate any property operating statements. Were any operating statements collected? If so, please provide.
- The property insurance cert on file indicates an expiration date of 9/17/2022. Could you please provide a copy of the most recent insurance cert?
- The loan did not pay off at 9/2022 maturity and was extended six months to 3/2023. Is the loan on track to pay off at 3/2023 maturity?

1002193 - (REO/Litigation/Remediation)

- The data-tape indicated an interest reserve in the amount of $56,807.50, while loan payments are 240 days past due. We were not able to locate any documentation regarding the interest reserve. Is this interest reserve still in place?
- The 3/31/2021 appraisal indicates that the property was 17% occupied with three tenants not yet commencing their leases. Have the remaining three tenants taken occupancy and paying rent?
- The most recent rent roll that we were able to locate is from 2/2021. Has a more recent rent roll been collected? If so, please provide.
- The most recent operating statement that we were able to locate is dated 2/2021. Has a more recent operating statement been collected?
- Per the data tape, loan payments are 240 days past due and the loan matured on 4/2022.
- Is foreclosure action in process?

Appendix C:
FSF Loan-Level Review

1002193:

- **Context**: The loan originated in 2020. Confirmed hospital across the street from SP closed in 2019 and has been vacant since. The loan was $3M, cash out to Borrower entity of $2M was used to purchase another business. There is no recourse on this loan. Our Building sourced power, water etc. from the hospital infrastructure and has no mechanicals of its own. The SP also needs sprinklers and air conditioning on upper units. There is little interest thus far in SP, as retrofit costs exceed current SP value. Hospital initially considered converting to senior care facility, but City has not been cooperative. Our site visits also revealed SP to be in extremely poor condition.

- **Cause:** There is no evidence of Borrower fraud, just extremely poor underwriting. The virtually unsaleable condition of SP should have been obvious if even the most casual diligence was completed. This loan should have never originated due to collateral condition. and poor or negligent underwriting and diligence.

- **Cure:** Loan should not have been originated. Property to be sold as is.

1009213:

- **Context:** There are significant collateral issues. Recently completed appraisal valued SP at $1,300,000. Original XXX valuation of $3 was flawed as squared footage of SP was stated to be 15,000 square feet while the actual size is only 9,000 square feet, meaning the property is 6,000 square feet smaller than XXX concluded. Further, the 3rd floor is vacant and requires significant interior / exterior renovation of approximately $500,000 to bring it to rentable condition. Last, the building's exterior is in fair/poor condition, needing $100,000 - $150,000 in renovation. The Borrower also committed fraud by mis-representing the SP size, and failing to disclose multiple criminal convictions against him and his business drug-related:

  These charges include one count of Conspiracy to commit Health Care claims fraud and Medicaid Fraud, one count of Health care claims fraud, two counts of Medicaid fraud, and one count of filing false/fraudulent Tax Returns, and should have been identified by even the most superficial of diligence on the Borrower by the UW team.

- **Cause:** This loan has a combination of a criminal Borrower, poor collateral, and lack of any diligence by the UW team. This loan should have never been originated due to the combination of Borrower fraud and criminal history, and poor or negligent underwriting and diligence.

- **Cure:** The loan should not have been originated. FC is at Judgment, property to be remediated and sold as stabilized.

1004139:

- **Context:** The SP is an unfinished mixed-use SP in NYC that originated in 2022. Borrower defaulted and has contested foreclosure action. SP is in good condition, but significant funds ($500,000) are required to complete construction.

- **Cause:** The Borrower is convicted felon (cocaine trafficking): UNITED STATES OF AMERICA v. XXX and XXX, Defendants. Dated: XXXX: MEMORANDUM & ORDER: Defendant is charged in a superseding indictment with various crimes stemming from his alleged participation in a Drug Trafficking Organization, and Defendant is charged with various crimes related to her alleged involvement in money laundering and structuring the proceeds of the DTO. On XXXX, the court also held a suppression hearing related to Alleyne's Motion to Suppress. (Suppression Hearing Tr.; Alleyne Notice of Mot. to Suppress (Docket Entry # XXX).) As set forth below, the parties' pretrial motions are granted in part and denied in part. BACKGROUND: The Fifth Superseding Indictment ("S-5 Indictment") charges that XXX, while employed as a fleet service clerk for XXX International Airport, "was the principal leader of a narcotics trafficking organization and continuing criminal enterprise operating in the XXX metropolitan area and international," (the "XXX Organization"). (S-5 Indictment 6.) The Government alleges that between 2000 and 2009, the XXX Organization smuggled over 150 kilograms of cocaine into the United States from destinations in the Caribbean by hiding it aboard XXX flights to XXX. (Id. 8-10.) It further alleges that the XXX organization distributed cocaine and over 5,000 kilograms of marijuana both domestically and internationally, and that distribution occurred in part through a footwear business in XXX, and another business overseas. (Id. 8, 11.) The S-5 Indictment charges that XXX conspired with XXX to structure transactions with financial institutions, and to engage in monetary transactions designed to conceal the proceeds of the XXX Organization's drug trafficking. (Id. 12-13.). XXX is the single member of the "XXX, LLC" the Borrower. Again, basic diligence on the Borrower would have discovered this.

- **Cure:** Borrower convicted drug trafficker. Loan should not have been originated. FC is at Judgment, property to be remediated and sold as stabilized.

1008144:

- **Context:** The loan originated in 2022. SP located in an extremely rural county (2,000 residents) in XXX on the Canadian border, and is owner-occupied, single-tenant business in the medical device commodity business (glove manufacturing). Building is light industrial manufacturing facility, power source located on adjacent parcel unsecured by loan. Prior to the loan origination there were multiple articles in the local press regarding the failure of the business and the difficulties it was experiencing, receipt of $70M was in the form of production support payments a guaranteed sales volume, not loans for plant and equipment in Texas. Articles also reported that American made gloves are substantially more expensive than the foreign gloves causing the company to fail when the price supports ended and that the company laid off its employees except a skeleton crew.

- **Cause:** This loan was $5.4M ($4.6M was cash-out) to build a new facility in Texas, with all funds advanced to Borrower at closing, no holdback, and ultimately no payments. The Borrower ultimately did not build the new plant, essentially shut down his business, and created a labyrinth of single member LLCs to stymie creditors and fraudulently convey assets to the various LLCs. There is absolutely no reason this loan should have been originated, whether or not the Borrower's business was viable (which it was not). Further, advancing $4.6M at closing encourages Borrower fraud. This is a combination of extremely bad underwriting and a criminal Borrower.

- **Cure:** Loan should not have been originated. Borrower is working with Foundation to liquidate assets and fully re-pay mortgage.

1006401:

- **Context:** Envelope 1 is a family-owned business for over 100 years that acquired a loan to expand its facility under one roof instead of paying $50,000 per month to lease space off site. When XXX did not offer the Borrower long-term financing after their bridge loan term approached, the Borrowers stopped making payments. A new facility that was built abuts the Envelope 1 manufacturing facility and encroaches the property line of the land securing the XXX loan. This facility was constructed using a $28M USDA loan to the Borrower/guarantor's husband (company LLC transferred to wife in 2020.) XXX loan is currently earning $40,000 per month in extension fees and if payoff of XXX loan does not occur prior to year-end, foreclosure will commence. SP includes a 147,772 square foot light industrial building on 12.01 acres.

- **Cause:** This loan was originated in 2022 as a cash-out refinance for $4,430,000 with the intention of paying off a mortgage with XXX with a balance of approximately $1.4M and additional proceeds to be used for business inventory to fulfill business contracts before conventional financing could be put into place. Following XXX's denial of long-term financing following the maturity of the bridge loan, the Borrower stopped paying and refused to extend due to the $80,000 extension fee. According to the original underwriting, this was a full-recourse loan at 65% LTV and a Borrower FICO score of 746, The as-is value at that time was $6.8M with a DSCR of 1.170. Using funds from a USDA loan, the Borrower's husband and owner of the adjacent property built onto the existing structure, encroaching on the property secured by the XXX loan which has adversely affected the value of XXX assets. No interest reserve was required as the property had a positive cash flow from owner occupants. The Borrower did not use the funds from the XXX loan to pay off XXX, which is still in the process of settlement.

- **Cure:** Borrower is currently making $40,000 payments every month as an extension fee to XXX. A judgment has been granted to XXX if the loan is not paid off prior to the end of the year. Once the judgment language is finalized, the extension payments will be released from the Borrower's attorney's trust account.

1004151:

- **Context:** This loan, a retail space located at XXX, was underwritten and closed by XXX on 10/29/2021 along with loan number 1004162 (XXX) as separate and stand-alone mortgages that were approved by XXX with the properties being cross-collateralized and cross-defaulted, but this never occurred per the loan documents. The Borrower owned both properties free and clear, and received combined cash out proceeds of approximately $2M. Of these funds, $525,000 was allocated to the renovation of XXX and $800,000 for XXX, with the balance going to the Guarantor. On 3/2/2022, about four months after the loans closed, the owner transferred title to both properties to XXX, the sole member of XXX, in violation of loan documents. In November 2022, the Borrower paid off the mortgage on XXX, and XXX granted a full release of the recorded mortgage without an accelerated paydown on the remaining property. In early 2023, the Borrower stopped making payments on this loan, and the loan went into default. XXX initiated the foreclosure process, and on February 16, 2024, the property went to sheriff sale and XXX credit bid the mortgage amount and was the highest bidder, taking title to the property. The property is currently occupied by XXX, and there are three additional units that appear vacant. A food truck operates on the property but does pay rent, and a local property manager is currently working on repairs and lease-up.

- **Cause:** There was Borrower fraud on several fronts on this loan. As XXX did not require a rehab holdback for these properties, it appears that although some repairs were made to the external façade of the subject property, the Borrower essentially finished the property at XXX, sold it, and pocketed the remaining funds. Additionally, there was a transfer of ownership in violation the loan documents from XXX to XXX. Finally, by not ensuring that the properties were properly cross-collateralized and cross-defaulted, XXX allowed the most valuable collateral to be released without adjusting for adverse selection and leaving the weaker property unfinished.

- **Cure:** XXX is currently the owner of the property and making necessary repairs as required by lease agreements while the property manager works to complete the lease up. Additionally, XXX still appears to be the owner of record for XXX, which may provide an avenue to pursue a potential deficiency judgment due to the guaranty carve out triggered by the transfer of the asset into XXX without notice to the lender. Moving forward, XXX should ensure that properties are documented properly for cross-collateralization and that all rehab funds are held back to prevent further Borrower fraud. Subject Property to be remediated and sold as stabilized.

1008492:

- **Context:** This loan, a non-recourse, 24-month, cash out refinance of an 8-unit mixed use office/retail building was originated in July of 2022. The Borrower originally purchased the property in October 2014 all cash. The $4.2M loan was underwritten at a 1.0 DSCR at a 6.76% cap rate. The building consists of a ground floor restaurant and four floors office space. The loan matured on August 1, 2024. The property is currently listed for sale for $4,999,999

- **Cause:** The Borrower lost two main tenants and stopped making payments on this loan and bounced the October 2023 payment. Prior to this loan the Borrower owned the subject property free and clear and claims that he used the $4.2M proceeds from this loan to acquire other investments. There does not appear to be any Borrower fraud, just poor underwriting in determining the original loan amount.

- **Cure:** There have been several offers from the Borrower to resolve this loan, none of any real substance. The foreclosure process is underway, and the Motion for Summary Judgement has been filed. The property is still being marketed currently. Borrower recently agreed to $2M SPO.

1014028:

- **Context:** The subject property is a two-story apartment building in XXX, and a loan in the amount of $7,490,000 was funded on August 3, 2023, as a cash-out refinance transaction. Of the loan amount, the Borrower received $2,395,086.08 in cash-out proceeds. Although the loan was performing, it is consistently a late-pay, with payments typically coming in during the last day of the month and has matured. Additionally, 2023 property taxes were not paid by the Borrower, and there is potentially origination fraud with the transaction. The guarantor for this loan is, who was approximately 31 years old at the time the transaction commenced, and the purchasing transaction in 2021 was not arms-length. There were two bidders for the note, but both came in at around $3M, below an acceptable bid, and the loan matured on August 1, 2024. It has since been referred to as foreclosure.

- **Cause:** The loan was originated in 2023 for $7,490,000 as a cash-out refinance, with the Borrower receiving $2,395,086.08 in cash-out proceeds. The guarantor provided a XXX driver's license at closing showing a birthday of 6/4/1992, but according to his background report, it does not appear that he has a driver's license and was born in April 1992 indicating potential origination fraud. The Borrower also placed multiple junior and cross-collateralized liens on the subject property immediately post-origination without XXX approval. Additionally, it does not appear that the original purchase was an arms-length transaction. The property appears to have been overvalued during the underwriting process, and aside from the potential origination fraud, it seems likely that this loan was approved without adequate due diligence having taken place during underwriting.

- **Cure:** Because of the potential fraud that occurred in relation to this transaction, it was decided that the Borrower would not be offered a chance to extend and would be taken to foreclosure when the Borrower was unable or unwilling to make the balloon payment at the loan's maturity. The foreclosure process has been started and is currently in the complaint stage, and title has been cleared of all liens and additional collateralizations. A more robust underwriting of this file would have likely caught some of the issues with this loan including the issue with the sponsor's driver's license, the property valuation, and potential issues arising from a related-parties purchase transaction. FC is at Judgment, Subject Property to be remediated and sold as stabilized.

1007468:

- **Context:** The subject property for this loan is a former bank building located in Akron, Ohio with 18,410 square feet over three stories. The bank vault is in the basement, and the first and second floors are currently set up as a bar and restaurant. The property was vacant at the time of origination, and the loan was a cash-out refinance for $600,000. Existing debt on the property equaled $265,228, and the Borrower's stated purpose for the cash out proceeds was to improve the space for a new tenant. Repairs and improvements were not made to the property, and the building is in significant disrepair. Multiple potential buyers have toured the building, but the feedback has been that they would not purchase the property for more than $200-300k due to the amount and expense of the work that must take place, especially as it is located in downtown Akron where the commercial market is currently declining. XXX underwrote the loan at 50% LTV, equivalent to a valuation of $1.2M, which is extremely high given the location, structure, and condition of the property.

- **Cause:** Instead of requiring the Borrower to establish a rehab holdback, XXX allowed the Borrower to take cash-out proceeds from the refinance which were never used for their intended purpose. The roof is in complete disrepair, and although an insurance claim was filed, it was determined by the insurance company that the condition of the roof was not due to storm damage, but instead due to normal wear-and-tear and a failure to perform regular maintenance. The property requires significant repairs including a full roof replacement, elevator, asbestos abatement, all interiors, water damage remediation, and it is likely to fail any code inspections.

- **Cure:** Because the sponsor is litigious and has few assets for recovery, it was decided that the Borrower will execute an Agreed Judgment and Decree of Foreclosure with a waiver of deficiency and dismissal with prejudice. The subject property will be sold as-is and for a loss as it will not be financially beneficial to attempt a rehab and sale given the subject property's condition and location in a declining market. As Borrower does not have many assets and Borrower's counsel is prepared to argue that that the Borrower's negligence does not meet the threshold to pursue a deficiency judgment, he will not be pursued individually. Moving forward, XXX must ensure that funds intended for property stabilization are held in a holdback account to avoid any potential for misuse of funds and further mitigate risk. Borrower executing DIL, Subject Property to be sold as is.

1012116:

- **Context:** This loan was originated by XXX in 2023 for a loan amount of $500,000 as a cash-out refinance. The loan amount was intended to be used to pay off a mortgage from XXX of approximately $415,500 with the remainder as proceeds to the Borrower. The original loan matured on 2/1/2022, and XXX approved of two extensions, the last of which expired on 2/1/2023. The subject property is a one-story, 4,885 square foot retail building that is currently used as a restaurant and special events venue. The property has been remodeled and is considered to be at the highest and best use and conforming to the area. The loan matured on 10/1/2024, and the Borrower is currently working on a refinance with a broker. However, the refinance has still not taken place, and taxes due 3/31/2024 in the amount of $10,301.42 are still outstanding.
- **Cause:** This loan was dropped from a note sale because of the Borrowers' credit risk, and although it does not appear that any fraud took place, the original XXX underwriting was severely deficient. In addition to the outstanding property taxes, the Borrower also has three prior foreclosures and is utilizing the property as an owner-occupied single tenant. Because of these credit issues, a refinance is an unlikely takeout option. Although the Borrower has stated that he is working with a broker to refinance the loan, the target date for the transaction was 9/30/2024 and now seems unlikely.
- **Cure:** The XXX team is currently working to negotiate an extension with the Borrower, but before one can be granted, an LOI or loan approval will be needed. Moving forward, XXX should more carefully underwrite their files for previous adverse behavior including foreclosures and delinquencies. As this loan was already in maturity default at the time of the XXX transaction, special attention should have been paid not only to the Borrower's financial history but to the property and business plan of the Borrower as well which did not occur.

1006984:

- **Context:** This loan was originated by XXX for a purchase transaction with a loan amount of $2,450,000. The loan originally matured on 5/1/2024 but was extended to 8/1/2024 to allow the Borrower additional time to find permanent financing for the asset. Although there was some level of responsiveness from the Borrower, he was generally non-responsive for requests for information regarding his exit plans and updates on any progress that was being made. Although a term sheet was provided from one lender, it appears that all efforts to refinance the property fell through. The Borrower called in July 2024 asking for an additional extension and to change the exit plan from a refinance to a sale, and an additional extension was granted to 11/1/2024. The Borrower has been making payments, and the subject property is a multi-tenant facility in a very good location with national tenants. There have been no firm bids on this loan in any note sales.

- **Cause:** Although the subject property is in a good location with nationally known tenants, it appears that some level of origination fraud may have taken place as the property was sold multiple times over the past three years to XXX investment groups – first for $2.3M in 2021, then again for $3.5M in 2022. A more thorough review by the XXX underwriting team of the property and property history may have uncovered any potential fraud and potential cash-flow issues the Borrowers have faced that have negatively impacted their ability to refinance the property.

- **Cure:** XXX needs to improve its underwriting and due diligence processes with regard to asset-based risk. It appears that this property was overvalued when it was first purchased, which has resulted in XXX inability to sell the note and the Borrower's inability to refinance the asset despite their ability to continue making loan payments. Subject Property to be sold as Performing Loan.

1013825:

- **Context**: The subject property for this loan is a 14,745 square foot industrial building on three acres located in Dayton, Nevada. The XXX loan was originated in 2023 as a cash-out refinance in the amount of $1,525,000 with a twelve-month term. Loan proceeds were to be used for a payoff of the existing mortgage in the amount of $527,778.88, with the remaining approximately $900,000 being paid as Borrower proceeds to be used for business expansion. The subject is 100% owner occupied, and at the time of origination, XXX valued the property for $3.1M as-is. The Borrower had several NSFs and late pays for interest payments and was very unresponsive to calls and emails regarding the current status of the loan, and finally put the building up for sale for $3.25M after closing his business.

- **Cause**: The Borrower for this loan, XXX, had several late and returned interest payments. Although it does not appear that there was any origination or Borrower fraud on this account, a more robust due diligence and underwriting process surrounding the Borrower and his business would have been prudent. Additionally, no interest reserve was established at the loan origination because the property was cash-flowing, but as a single owner occupant, more attention should have been given to the Borrower's financial position and to that of his business to ensure that interest payments could be made timely as they were not escrowed. Finally, given the Borrower's manufacturing of firearms and ghost gun kits, additional consideration should have been given to the exit plan as traditional permanent financing may be more difficult to obtain.

- **Cure:** XXX' s Borrower due diligence was negligent on this loan. The Borrower LLC was involved in multiple lawsuits due to the manufacturing of ghost gun kits and was under extreme financial duress. Despite this situation, XXX provided the Borrower $900,000 cash-out at loan origination without the requirement of an interest reserve which is industry-standard for cash-out loans to single tenant owner-occupants. Subject Property was just sold for full PO.

1004285:

- **Context:** The subject property for this loan is an industrial warehouse consisting of two buildings with a total combined size of 66,900 square feet. Both buildings are fully occupied by XXX, which is an owner-occupied tenant. A twelve-month term, $10M cash out refinance was approved to pay off the mortgage and obtain working capital. Loan proceeds were to be allocated to paying off the mortgage of $3,477,457, upgrading/modifying existing equipment for approximately $3.5M, the hiring of additional staff for approximately $1M, working capital in the amount of $600,000, an interest reserve of $800,000, and closing costs of $600,000. The property is currently being utilized as a marble slab shop and the other is a marble tile shop. Foreclosure proceeding started on 12/11/2023, and the property was listed for sale on 2/1/2024 for $11.95M. Despite many showings, potential buyers were concerned mostly with the condition of the flooring in the building and the costs that would be incurred to remediate potential issues. The Borrower has recently been awarded a substantial contract and is in the process of working out a loan modification.

- **Cause:** Although XXX collected an interest reserve for the full term of this loan, it went into default at the original maturity date. As a single owner-occupant of the building, the Borrower should have been better underwritten by the XXX team along with the business plan, financials, and exit. The structure of the loan is problematic and suggests that the business was already struggling when the loan was originated as it required additional investment in CapEx, staffing, and working capital. When the subject property was placed for sale in February of 2024, many buyers struggled with the cost and required repairs along with the very specific use of the building as it is currently houses very large equipment for stone cutting and fabrication. A better understanding of the potential challenges facing this business as it is the sole occupant of the property would have helped remediate some of these issues. Additionally, the loan was underwritten with an estimated LTV of 58.82%, suggesting an overvaluation at the time of origination given the responses and offers from prospective buyers.

- **Cure:** XXX must continue to tighten its underwriting standards, especially regarding single- owner-occupied facilities, due to the increased risk of default. Although there were offers on the property while it was for sale, none would have been sufficient for a full repayment of the loan balance suggesting that the property was overvalued at the time of origination. A more thorough due-diligence and underwriting process, especially for loans that may also contain FFE, is necessary. FSF working with Borrower on loan modification, Subject Property to be sold as Performing Loan. There is also a recent $10M third party offer to purchase the Subject Property.

1003857:

- **Context:** The subject property is a three-story light industrial building that was constructed in 1947 with approximately 50,581 sq. ft. of warehouse on the first and third floors, and 25,291 sq. ft. of office/storage space on the second floor for a total size of

75,872 sq. ft. The bulk of the property is in in Essex County however, a small northern portion of the site is in XXX Borough. This loan was originated in August of 2021 as a $9,100,000 cash out refinance loan for the purpose of XXX, a 35% partner in the project to buy out the other partners that control the balance of 65% of the property for $9M.

- **Cause:** The building is in average condition and is 100% occupied by XXX. XXX is a private company that manufactures and distributes electronic circuit boards and is reportedly owned by same principles that own the building. XXX closed the business in 2024. The ownership has declared bankruptcy to delay the foreclosure process for this loan.

- **Cure:** The loan matured on 10/1/22. The due diligence in this loan should have addressed the fact that the ownership in the property had existing businesses in the building and reviewed the financial status and business plan of the XXX. The Borrower has declared Chapter 11 bankruptcy. FSF and Borrower negotiating BK Plan and Short Payoff of $9M.

1007413:

- **Context:** This non-recourse $5.3M loan was cash in refinance of a 40 Unit office building in Kansas, that is 39% occupied. Borrower's current note ($4.75M) matured June 1, 2022. Borrower had issues with a property tax abatement and became delinquent as the abatement plan took too long. He then was on a payment plan for the delinquent amount and has also been paying through an impound account with his current mortgage. The Subject Property consists of a north tower and a south tower known with a total of five elevators and a rooftop conference room. As per the Borrowers the first two floors were built in 1911 with additions in 1923 and 1949. The Subject Property is currently 100% vacant.

- **Cause:** The building had multiple problems with the water, HVAC, elevators and electrical systems. There was insufficient capital the loan to cover these repairs, just to keep the building functional and occupiable. There seemed to be no report on the status of mechanical systems to be reviewed prior to this loan being made. The UW narrative stated that the building was in "good condition."

- **Cure:** This loan should never have been made as the business plan called for a $22M renovation to the property to convert into apartments. The exit strategy was unrealistic that leasing would take place to refinance this loan or find a lender willing to finance the $22M conversion to apartments in a 12-month period. FC is at Judgment with Subject Property to be sold as is.

1004410:

- **Context:** This non-recourse, $4.5M acquisition loan was underwritten at a 1% DSCR and a 5.38 Cap Rate. The subject property is a suburban office park in Flossmoor, IL, an affluent community ~24 miles south of the Chicago loop. The Subject Property occupies a corner lot with easy access via Governors Hwy and 198th St. The site is improved with four buildings in good condition and an asphalt paved parking lot with curbs, gutters, and adequate lighting in average condition and needing repairs to several large areas. Two of the buildings are designed with a common entrance and hallway, the other two have exterior entrances to individual units. At inspection, the Subject Property appeared to be ~75% occupied with a mix of medical, service business, and law firm tenants.

- **Cause:** At the time of this loan the Subject Property was 100% occupied with a proforma vacancy rate of 8%. Current occupancy rate is approximately 75%, a reduction of NOI to approximately $310K generating a shortfall of $127K annually. The 1x DSCR was very aggressive and a DSCR coverage in the 1.2 range could have avoided the loan becoming a non-performing loan.

- **Cure**: A DSCR of 1.15-1.25 should be used on this product type. XXX required no property tax escrow for this loan and there now is $681K of back taxes due on the property as well. This property has been foreclosed upon and now is a REO and will be sold stabilized.

1013364 –

- **Context:** This loan is a $11.76M non-recourse loan for the acquisition of a multifamily property located in Bethany, which is considered a suburban location within the Central Oklahoma City submarket. Subject consists of 22, two-story wood frame & brick buildings and have total 217 units. Based on provided rent roll at closing of this loan, subject is currently 67% occupied (there are 71 vacant units). Borrower planned to self-fund a $615,500 renovation plan ($320,000 in exterior and common area repairs and $295,500 for interior repairs) after acquisition that never occurred. Per purchase agreement dated 3-25-23, purchase price is $16,800,000.

- **Cause:** The loan matures on 12/1/2024. The Borrower stopped making payments and has been absentee for some time causing property condition to decline since the 5/2023 closing. At Foundation's direction, FC has commenced, and a receiver is in place to stabilize the property, ensure rent collections, and recommend a renovation/recovery plan. There has been obvious Borrower fraud and Foundation is following up with counsel. While the Borrowers were not making loan payments, they were still collecting rents and re-directing into other accounts. The property requires at least $15K per unit renovation to bring up to market standards, a total of $3.25M for the property.

- **Cure:** There was little XXX supervision of this loan. A more complete underwriting of the Borrowers should have been completed prior to this loan. A loan this size should have a property visit to determine the actual status of the property vs relying on the appraisal. There was no follow-up to see if the proposed renovation as referred to in the Underwriting Narrative was under way to enhance the value of the property.

1012217:

- **Context:** This non-recourse loan is a $4.55M loan used for the purchase of a multifamily property in Shreveport LA. The SP is a 119-unit class C masonry apartment project centrally located in Shreveport, LA. The Subject Property is in very poor condition with significant physical and structural damage, presenting life safety concerns and is littered with garbage, broken doors, gutters and other visible damage and has been taken over by local gangs. Overall, Subject Property is a hazard in a challenging section of Shreveport and will require a substantial capital investment to bring it back online and in marketable condition. The asking rents range from $469-$610 and the SP is now100% vacant and uninhabitable currently. Per CoStar, the XXX submarket vacancy rate for 1–3-star MF properties is 16.8% and the average effective rental rate is $849.

- **Cause:** The Borrower stopped making payments on this loan in September 2023, four months after closing on this loan. The Subject Property as rapidly deteriorating, no renovations were made to the Subject Property to assist with occupancy, there was no security, and local gangs ultimately occupied the Subject Property.

- **Cure:** The underwriting should have noted the deteriorating neighborhood and declining occupancy trend in the area. The property was in much worse shape than referred to in the appraisal. The 70% LTV in a declining market was too aggressive and a 0.999x DSCR was foolish.

Appendix D
Contributors

Ron McMahan: MS / CEO

Ron McMahan has over 25 years of experience as a financial and investment management executive. During his career he has been responsible for loan origination, portfolio management, asset management, and servicer oversight including loss mitigation, foreclosure and REO. He has worked with multiple real estate asset classes, including manufactured homes, distressed and performing single-family assets, and multifamily properties and loans. Ron has managed investment funds for which over $6 billion of debt and equity was raised and purchased or originated over 20,000 assets. At Foundation Mr. McMahan assists in the management of all operational aspects of the Company with a focus on capital raising and asset and portfolio level management.

Georgie Palafox: CMO

Georgie Palafox has over 25 years of experience specializing in marketing, auctions, and mortgage services. She led the expansion of a property preservation company, securing clients like Wells Fargo and Fannie Mae and successfully transforming the business into a nationwide entity. At Chronos Solutions, she grew the buyer network to 250,000+ investors and drove sales with servicers like Freedom Mortgage and US Bank. As SVP at Mortgage Connect, she expanded the Capital Markets division and developed offshore partnerships. Georgie also led business initiatives at ServiceLink, a Black Knight company. A seasoned serial entrepreneur, she has built and sold multiple businesses, demonstrating a proven ability to capitalize on market opportunities and drive revenue growth.

Corey Oliver: MBA / SVP of Loan Operations

Corey Oliver brings over twenty years of experience in commercial, conventional, and private lending, with extensive expertise in underwriting across various loan products. He started as an underwriter for a boutique mortgage brokerage firm specializing in conventional and jumbo loans, adhering to Fannie Mae guidelines. This role progressed into processing, underwriting, and management positions at institutions such as Chase and Bank of America in conventional lending, and Cottonwood Financial, Direct Access Capital, and Foundation Specialty Finance in private and commercial lending. Corey holds a BA in Sociology from Trinity University and an MBA from the Cox School of Business at SMU. Currently, as the Senior Vice President of Operations at Foundation Specialty Finance, he oversees servicing, processing, underwriting, closing, and post-closing operations.

Mark Pitts: Senior Underwriter

Mark Pitts has over 40 years of experience in commercial real estate development and financial project management, including developing more than 9,000,000 square feet of shopping centers, 1,000,000 square feet of office buildings, and 10 data storage centers across the US and Europe. Since joining Foundation CREF in 2019, Mark has transitioned into the role of Senior Underwriter, where he brings a deep expertise in financial analysis and underwriting for commercial real estate. His background includes founding Lakeside Consulting, Inc., where he analyzed commercial investments for Chicago-based firms and managed large-scale residential projects. Mark also previously served as a partner at Markley Stearns Partners, overseeing pre-development financial analysis and managing major international data storage projects.