GENERAL INFORMATION

The purpose of this policy is to state different types of construction loans offered by ASSURANCE FINANCIAL, and to set forth procedures and guidelines to follow in making these loans.

The Residential Construction Loan is an interest only product for a period of 12 months which balloons at the end of the 12th month. Only loans that receive an AUS (DU) Approve/Eligible or (LP) Accept findings for the refinance of the construction loan are eligible for construction financing.

ALL PROJECTS MUST BE CONTRACTED WITH A STATE LICENSED BUILDER.

NO SELF CONTRACT ALLOWED. NO EXCEPTIONS!!

The traditional Two-Time Closing product has separate interim and permanent loan closings. This is the only type of construction loan that we offer.

PRODUCT ELIGIBILITY TABLE - FOR CONSTRUCTION FINANCING

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Eligibility</th>
<th>Maximum LTV**</th>
<th>Maximum DTI</th>
<th>Minimum Credit Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional Fixed 10 yr.</td>
<td>Desirable</td>
<td>90%</td>
<td>45%</td>
<td>680</td>
</tr>
<tr>
<td>Conventional Fixed 15 yr.</td>
<td>Desirable</td>
<td>90%</td>
<td>45%</td>
<td>680</td>
</tr>
<tr>
<td>Conventional Fixed 20 yr.</td>
<td>Desirable</td>
<td>90%</td>
<td>45%</td>
<td>680</td>
</tr>
<tr>
<td>Conventional Fixed 25 yr.</td>
<td>Desirable</td>
<td>90%</td>
<td>45%</td>
<td>680</td>
</tr>
<tr>
<td>Conventional Fixed 30 yr.</td>
<td>Desirable</td>
<td>90%</td>
<td>45%</td>
<td>680</td>
</tr>
<tr>
<td>Jumbo (Max 1 Million)</td>
<td>Desirable</td>
<td>80%</td>
<td>43%</td>
<td>700</td>
</tr>
<tr>
<td>FHA (refinance loan)</td>
<td>Desirable</td>
<td>90%</td>
<td>45%</td>
<td>680</td>
</tr>
<tr>
<td>VA (refinance loan)</td>
<td>Desirable</td>
<td>90%</td>
<td>41%</td>
<td>680</td>
</tr>
<tr>
<td>Rural Development</td>
<td>Undesirable</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Bond Loans</td>
<td>Undesirable</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Third Party Origination</td>
<td>Undesirable</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Conventional ARMs</td>
<td>Undesirable</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Contract Type</td>
<td>Minimum Credit Score</td>
<td>Additional Liquidity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>----------------------</td>
<td>----------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed (builder cash flowing project)</td>
<td>680</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost-Plus (builder cash flowing project)</td>
<td>700</td>
<td>10% cost overruns</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supervisory Contract</td>
<td>Undesirable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-Contract</td>
<td>Undesirable</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

LTV is based upon appraised value subject to completion with the exception of Rural Property, the LTV will be at the discretion of the underwriter based on the appraisal and the comps selected on the appraisal. Collateral Underwriter score may be used in determining acceptability of appraised value.

On purchase/addition/rehabilitation projects, the customer must invest a minimum of 10% of the sales price of the subject property. Example: Sales price is $300,000 and renovation cost are $150,000. Borrower must invest a minimum of $30,000 regardless of appraised value subject to completion. LTV will be considered on the subject to completion as stated above.

Policy only allows two projects simultaneously with one Builder. If a request is received for a third project before the Builder completes the first two projects, additional builder due diligence is required which might include, but not limited to a personal credit report on the builder individually and/or an analysis of his business tax returns, financial statements and work in progress. Residential Construction Lender approval is also required.
PRIVATE MORTGAGE INSURANCE

Private Mortgage Insurance will be required on permanent loans over 80% LTV. Verifiable MI quote must accompany the file prior to initial underwriting for qualifying purposes. Subordinate financing during interim financing is prohibited.

DOWN PAYMENT

The required investment will be determined by either the appraised value or cost of construction plus the value of the lot. The borrower will utilize the equity in the lot and or verified liquid assets to meet the minimum down payment requirement. Funds from the construction lender will not be disbursed until the minimum down payment is reached. The Loan Officer is responsible for filling out the Construction Funds Worksheet in order to determine the down payment.

TYPES OF CONTRACTS AND SOURCE OF FUNDS

To protect ASSURANCE FINANCIAL, from possible losses due to lack of funds for potential cost overruns or change orders of the project, it is imperative that extra caution be taken to verify that the borrower(s) has sufficient cash reserves and liquidity to complete the project. All funds required for potential over runs must be liquid funds.

Fixed Price and Cost-Plus construction projects require a signed contract between the borrower(s) and Builder. The RCL must review the contract. The Builder must be on our Approved Builder list and if not then a Contractor Information Sheet must be completed and submitted to the RCL for review. See Residential Construction Lender section of this policy for more details. All contracts should include elements similar to the following:

- The date of the contract, the date construction is expected to start, and the date construction is to be completed or number of days for the construction period.
- The name(s) of the borrower(s).
- The Builder’s name, the Builder’s address, his/her license number, and an agreement to construct the proposed residence as per the plans and specs prepared by XXX and dated XX/XX/XX.
- The address and/or legal description of the subject property.
- The agreement should be signed and dated by all parties named in the contract and it should also include the Builder’s fee and how/when he expects to be paid by the borrower(s).

UNDERWRITING

AUS findings should be followed. DU/LP underwriting guidelines are acceptable. Credit documents cannot exceed 120 days at time of closing on permanent loan, regardless of the DU/LP findings.

The borrower must meet DTI requirements based on an interest rate of 1.5% above the FNMA or GNMA 60 day pricing. Example: 60 day FNMA pricing for 30 year is 4.0%; Borrower must meet DTI requirements based on an interest rate of 5.50% amortized over 30 years.
TERMS OF REPAYMENT

Interim financing during the construction phase will accrue interest on the disbursed amount and will be billed to the borrower(s) by the first business day after the 15th of the month. Payment is due by the last day of the month or a late charge in the amount of 5% of the payment will be assessed. The payment will be considered delinquent and 30 days past due if not received by the 15th of the following month.

APPRAISAL REQUIREMENTS

All residential construction loans must include a current appraisal rendered by a State Certified Appraiser and ordered in compliance with the Home Valuation Code of Conduct (HVCC).

Appraisals will be underwritten by an AFG underwriter with applicable authority and must be conditioned upon completion of the dwelling per plans and specifications submitted. All contracts, estimates and floor plans, and other pertinent data should be forwarded to the appraiser to accurately appraise the property. Upon completion of construction, the appraiser will submit a final inspection and recertification of value of the property.

Appraisals are valid for 180 days. Upon completion, a recertification of value is required. Projects exceeding 360 days will require a new appraisal prior to obtaining the permanent financing. A second appraisal is required for permanent financing on Jumbo loans.

Collateral Underwriter score may be used to determine validity of value.

INSURANCE

For a Fixed Price or Cost-Plus contract, General Liability in the minimum amount required by the state for issuance of a contractor's license is required at time of closing, with ASSURANCE FINANCIAL listed as an additional insured.

Builder's Risk Policy is required at closing in an amount sufficient to cover cost of construction or appraised value minus the site value or the replacement cost of the home. Coverage for Rehabilitation loans should be equal to or greater than value. Mortgagee clause naming ASSURANCE FINANCIAL its successors and assigns, as the lien holder.

If subject property falls in a flood zone of A, AE, B or any plain requiring flood insurance, a paid in full receipt for one year of coverage is required prior to any disbursements for construction. Policy must have mortgagee clause naming ASSURANCE FINANCIAL its successors and assigns, as the lien holder.

A homeowner’s or hazard policy with replacement cost coverage paid in full for one year must be obtained prior to permanent financing.
DRAWS

No Work Affidavit/Lien Waiver/Mechanical Lien Waiver is required prior to closing construction loan.

AFG will fund draws to the Builder(s) under the approved draw schedules listed below. The RCL will document the approval on the Construction Information Form:

- Four Draw Schedule (15%, 30%, 30% and 25%) **** 10% holdback prior to Final Inspection.
- Four Draw Schedule (20%, 30%, 30% and 20%) **** 10% holdback prior to Final Inspection.
- Standard Five Draw (20%, 20%, 20%, 20%, 20%) **** 10% holdback prior to Final Inspection.
- Rehab/Renovation projects will use the cost breakdown as the draw schedule or fund based only on work completed.

At the time of the slab draw request, the borrower(s) must submit the items listed on the First Draw Document Checklist to the RCL.

For new construction or addition/renovation projects, after the slab/foundation/wall's-in draw and for each draw thereafter, an independent third party inspector will use a copy of the plans and specs or appraisal or sketch to submit a report to the RCL indicating the percentage of work completed. Actual draws are based on the percentage of work completed as verified by the building inspection reports. See the applicable draw schedule for details regarding the percentage allocation to each item. If funds are requested for a down payment (such as for cabinets), the RCL may fund the amount per invoice and the invoice must be attached to the draw request, provided the borrower(s) has sufficient equity in the project and this amount will be deducted from the next draw, per inspection. If Borrower is required to have a down payment or will fund a percentage of the project, those funds will be exhausted prior to disbursements from AFG.

Internal Quality Control will be conducted on 10% of the number of homes under construction in the portfolio.

RESIDENTIAL CONSTRUCTION LENDER

The RCL will obtain the documents requested per the Residential Construction Lending Checklist in establishing a construction loan file.

1. The RCL must review the construction file for the following items:
   - The Contract
     - For New Construction only, review the “Total Estimate of Cost-New” from the appraisal to determine if construction cost are within reason:
       i. For all Fixed Price Contracts and Cost-Plus Contracts, the RCL will divide the cost approach figure by 1.10
       ii. If the Cost Approach figure is larger than the Construction Cost from the Contract, the borrower(s) must provide adequate asset to cover the difference. The funds must be liquid.
       iii. The Cost Approach from the appraisal is not used on Addition/Rehab/Renovation of an existing home.
iv. The appraisal is used to determine the value of the lot and to determine the lot equity in the project.

- The Construction Funds Worksheet is used to document the amount of funds the borrower(s) has available and to calculate the funds required to qualify. The RCL will review asset statements on all accounts listed and submitted with the 1003.
- The Transmittal Summary (1008) should be reviewed as though the customer is obtaining permanent financing. Ratios, credit scores and reserves if applicable will be reviewed.

2. If the Contractor is not currently listed on Approved Builder List:
- The MLO will obtain and forward a completed Contractor Information Sheet.
- The RCL verifies and reviews references and information provided.
- If deemed necessary, the RCL will contact past clients to confirm work was completed within the time frame and budget originally provided.
- If the review is acceptable, the Builder will be added to the Approved Builder List upon the satisfactory completion of construction.
- The RCL should mark the Contractor Information Sheet with the date of approval.
- The RCL should attach the General Liability insurance certificate to the Contractor Information Sheet with ASSURANCE FINANCIAL GROUP listed as a certificate holder.

3. RCL approval is subject to the approval of the permanent loan.

4. The RCL should contact the borrower(s) and review interim procedures and requirements.

5. If there is a funding on the loan at the initial closing, the closer will wire the funds to the Closing Attorney or Title Company.

6. The RCL will contact the borrower and Builder and go over the entire construction process.

7. At the closing, the borrower(s) receives a “Welcome Letter” (see attached) as a part of the closing package along with a draw schedule. If the RCL does not attend the closing the letter and draw schedule will be emailed or faxed to the borrower.

8. The Inspector will be engaged as documented by an engagement letter.

9. A Construction Inspection Record will be setup by the RCL.

10. The RCL will administer the draw requests on the loan until the project is complete. When the borrower(s) calls to request a draw, the RCL will review any change orders on the project since the last inspection. Upon receipt of the inspection report, the RCL will notify the borrower(s) of the percentage complete and amount available to draw. The draw will be requested by the RCL and the funds will be wired into the Builder's Operating account.

11. The RCL will request all payments for the Construction Inspections and Final Inspection.
12. If the borrower(s) needs an extension, the RCL must complete the Residential Construction Loan Extension Request Form for approval. The following items are required for loans requesting extensions:
   • Current Inspection
   • Cost breakdown on remaining items to be completed
   • Timeline for remaining construction items
   • Lien Search indicating clear title
   • Interim Interest payments must be current

13. Upon satisfactory completion of the project, the RCL will add the Builder/Contractor to the Approved Builder list. Builders will not be added to the ASSURANCE FINANCIAL’S list if their performance was not satisfactory.

14. The RCL should schedule the final inspection in order to fund 100% of the interim loan (or the maximum amount the borrower(s) wishes to advance if less than the available amount). If the borrower does not fund the full loan amount, the borrower(s) must submit documentation for the reduction in loan amount from the original closed amount. The best practice is to address this up front prior to closing by:
   • For all Residential Construction Loans, verify all liquid assets the borrower(s) intend to use, include in DU and condition for the loan amount not be reduced below the current loan amount, less the cash verified.
   • The loan will be re-submitted to underwriting when completion of the home is 85% - 90% completed. The MLO will be responsible for obtaining new paystubs if needed, updated bank statements and tax returns if applicable. A new VOE is required on all borrowers.

15. The RCL will confirm the municipal address of the subject property.

16. Municipal, County, or Parish taxes must be current at the time of permanent financing.

17. Customer must convert Builder’s Risk or purchase a new Hazard policy with replacement coverage prior to permanent financing.

18. Pursuant to State, County or Parish Statues and regulations, a Certificate of Completion or Occupancy must be obtained prior to release of the last 10% of cost of construction.

**EXTENSIONS**

1. Work cannot have stopped for over 25 days. If work has stopped for over 25 days, the loan should not be extended until a detailed explanation is given by the borrower(s)/builder as to why. These will be handled on a case-by-case basis depending on the situation.

2. The most recent inspection has to be dated within the last 30 days. This is used to determine the status of the project and what time is actually needed to complete the project.

3. A lien search will be required on the subject property at the borrower(s) expense to verify that
the only lien listed is our original mortgage.

4. The borrower must provide a detailed list of items to be completed per the original scope of the project, the current cost associated with each item and the completion date for each item.

5. The customer must be current on interest payments on the construction loan. If a payment is due, the borrower(s) must make the payment as documented by posting to the system before the extension will be approved.

6. Extension requests will be submitted to the RCL
RESIDENTIAL CONSTRUCTION LOANS
CONSTRUCTION FINANCING OVERVIEW

PRODUCT DESCRIPTION
Construction-Two-Time Close

ELIGIBLE PRODUCTS
FHA AND VA, Conventional Conforming
• 10, 15, 20, 25 or 30 yr. Fixed rate amortizations
• Documentation as stated by AUS findings
• DU – Approve Eligible or LP - Accept
• (EAI, EAIi, EAIii, FHA, Rural Housing, and Bond
products not eligible)

LOAN PURPOSE
New Construction and Purchase/Addition/Rehab or Renovation

TERM
30 years

INTERIM CONSTRUCTION TERM
12 months interest only with a balloon due in month 11

PROPERTY TYPES
Single Family
• Standard Fannie Mae guidelines

OCCUPANCY REQUIREMENT
Owner-occupied and Second Homes

MAXIMUM LOAN AMOUNT
• $424,100 – conforming limit
• Jumbo loans up to $1,000,000

MAXIMUM LOAN AMOUNT
None

MAXIMUM LOAN-TO-VALUE
• Primary Residence – 90% on conforming
• Second Homes and Jumbo - 80%
• For purchase/addition/rehab projects, borrowers must invest a minimum of 10% of the sales price of the property regardless of appraised value.

PRIVATE MORTGAGE INSURANCE
25% coverage or AUS requirement for LTV up to 90%

APPRAISAL
Full Appraisal subject to completion; Collateral Underwriter score may be used to validate value. The LTV will be based on value “subject to completion” unless property is rural. If rural property, LTV is based on discretion of Underwriter.

QUALIFYING RATIOS
Acceptable per AUS Findings; not to exceed 45% - Conforming Product
43% - Jumbo Product; All loans must qualify @1.5% above current 60 day FNMA or GNMA pricing

CREDIT SCORE REQUIREMENT
• Primary Residence 680 - Conforming
• Second/Jumbo Homes 700

ELIGIBLE LOAN AREAS
Only states with branch locations.

SELLER CONTRIBUTIONS
Not applicable

PREPAYMENT PENALTY
None

ASSUMABLE
No

INTEREST RATE
• Construction rate is subject to market. Contact Construction Lender for Current rate
• Permanent rate to be determined. Borrower must qualify at 1.5% above current 60 day FNMA or GNMA pricing.

FEES
Construction Administrative Fee- $1,250.00; Fee must be at closing and will not be considered as part of initial draw.

ESCROW
No escrows during construction financing