
UNDERWRITING GUIDELINES FOR ASSET-BASED REAL ESTATE FINANCE

CONFIDENTIALITY NOTICE

THIS DOCUMENT AND THE INFORMATION IN IT ARE CONFIDENTIAL AND/OR PROPRIETARY AND ARE PROVIDED IN CONFIDENCE FOR THE SOLE PURPOSE OF EVALUATING A PROPOSED BUSINESS RELATIONSHIP AND MAY NOT BE DISCLOSED TO ANY THIRD PARTY OR USED FOR ANY OTHER PURPOSE WITHOUT THE EXPRESS WRITTEN PERMISSION OF ADAGIO, LLC.

GENERAL NOTICE

THE INFORMATION EXPRESSED IN THIS DOCUMENT IS NOT BINDING AND MAY BE SUBJECT TO CHANGE AT THE SOLE DISCRETION OF ADAGIO, LLC AND/OR ITS CURRENT OR FUTURE AFFILIATE ENTITIES.

For more information on subjects discussed in this document, email us at realestatefinance@adagiollc.com.

UNDERWRITING GUIDELINES FOR ASSET-BASED REAL ESTATE FINANCE

Adagio provides non-recourse, asset-based financing to the real estate investor market. We support investors in creating value for their projects by responsibly financing situations that other firms would not. Adagio's asset-based real estate financing program funds up to one hundred percent (100%) of our *Capitalization Rate ("Cap Rate")*¹-based valuation, regardless of the value of the purchase contract; we do not qualify down payment funds, and in some cases, no down payment is required. Further, Adagio's program is one of the only true non-qualifying products available in the residential market for both acquisitions and cash-out scenarios... no minimum FICO score and no personal income requirements. The following outlines Adagio's underwriting guidelines:

I. *Subject Property Parameters*

- (A) Residential property [single-family and multi-family housing] only. No new construction or structural rehabilitation projects will be considered.
- (B) *Non-Owner Occupied ("NOO")*² properties only
- (C) The subject property must have either recent rental history, or at least three (3) immediate rental comparables from which to determine the subject property's effective *Owner-Equivalent Rent ("OER")*³.

II. *Financing Structure*

- (A) In lieu of a mortgage, Adagio utilizes a *Lease-Option*⁴ structure purchasing the subject property on behalf of the "borrower"/*Lessee*⁵-*Optionee*⁶; the Lessee-Optionee must be a business entity. The Lease-Option is non-recourse and non-qualifying. [The credit profile of the Lessee-Optionee or its owner(s)/executive(s) will not be evaluated as part of the underwriting process.]
 - 1. For acquisitions, the "borrower"/buyer assigns his position in the contract for sale and purchase of the subject property to Adagio as partial consideration for Adagio financing the transaction, transitioning the "borrower"/buyer to Lessee-Optionee.

¹ *Cap Rate* equals a property's NOI, *see footnote 10*, divided by its value.

² *NOO* property is purchased by a borrower not for a primary residence but as an investment with the intent of generating rental income, tax benefits, and/or profitable resale.

³ *OER* is the amount of rent that could be paid to substitute a currently owned house for an equivalent rental property. *OER* is a dollar amount that is published by the U. S. Bureau of Labor Statistics to measure the change in implicit rent, which is the amount a homeowner would pay to rent or would earn from renting his or her home in a competitive market.

⁴ *Lease-Option* is an agreement or set of agreements that gives a renter the choice to purchase a property ("*Option*") during or at the end of the rental period ("*Lease*"). As long as the Lease-Option period is in effect, the landlord-seller ("*Lessor*"-"*Optionor*") may not offer the property for sale to anyone else. The Option protects an Optionee from the Optionor's ability to revoke the contract.

⁵ *Lessee* is a person who holds the lease of a property; a tenant or renter.

⁶ *Optionee* is a person who holds an Option to buy or sell the subject property.

UNDERWRITING GUIDELINES FOR ASSET-BASED REAL ESTATE FINANCE

2. For cash-out financing, the “borrower”/owner sells the subject property to Adagio, transitioning the “borrower”/owner to Lessee-Optionee.
- (B) The *Option Fee*⁷ is calculated as the difference between Adagio’s cost of acquiring the subject property [including closing costs, etc.] and the Strike Price, *see paragraph II.(C)*, plus the *Transaction Fee*⁸. The minimum Option Fee is one hundred dollars (\$100). If the Option Fee as calculated is equal to an amount less than zero (0), the calculated amount plus one hundred dollars (\$100) will be paid to the Lessee as a concession. No portion of the Option Fee will be applied as a credit towards the Strike Price.
- (C) The *Strike Price*⁹ will not exceed a range of six (6) to sixteen (16) times the subject property’s projected *Net Operating Income (“NOI”)*¹⁰ [corresponding to Cap Rates of sixteen and two thirds (16.6%) to six and one quarter percent (6.25%), respectively] depending upon the subject property’s *Class*¹¹; notwithstanding the subject property’s NOI, the Strike Price will not exceed seven hundred fifty thousand dollars (\$750,000) for single-family properties. *Inspections/Deferred Maintenance*¹² estimates will be conducted and paid by the Lessee-

⁷ *Option Fee* is the consideration paid by the Optionee for the exclusive right to purchase the subject property.

⁸ *Transaction Fee* accounts for the costs incurred by Adagio and/or its cooperating real estate brokerage to structure, fund and execute the Lease-Option. This amount is equal to six percent (6%) of the Strike Price, *see paragraph II.(C)*. Depending upon the nature of the transaction, the Transaction Fee may or may not be applied to Adagio’s purchase of the subject property (itemized on the HUD-1 Settlement Statement); if the Transaction Fee is not itemized on the HUD-1, it may be either rolled into the Option Fee, or itemized discretely from the Option Fee as an adjunct to the Lease-Option. The Transaction Fee may be payable to either Adagio or its cooperating real estate brokerage, as applicable.

⁹ *Strike Price* is the price at which the Option can be exercised. It is one of the key determinants of the market value of the Option.

¹⁰ *NOI* is a property’s yearly gross income less operating expenses. Operating expenses are costs incurred during the operation of a property including maintenance, utilities, insurance, taxes, property management, etc. Operating expenses do not include debt service. Projected NOI will account for vacancy rate.

¹¹ *Class* is a letter grade designation of “A” through “D” assigned to income-producing properties based upon their characteristics and condition; property Class designations serve as a means to approximate an asset’s risk. Class “A” properties are luxury units; they are usually less than ten (10) years old and are often new and upscale; they are generally located in desirable geographic areas. Class “B” properties are often ten (10) to twenty five (25) years old; they are generally well maintained and occupied by a middle class tenant base of both white and blue-collar workers. Class “C” properties are often thirty (30) to forty (40) years old; they are generally occupied by blue-collar and low to moderate-income tenants. Class “D” properties are often occupied by government-subsidized tenants; they are generally positioned in lower socioeconomic areas.

¹² *Deferred Maintenance* is the practice of postponing maintenance activities such as repairs that may result in higher ownership costs, asset failure, and in some cases, health and safety implications. *Deferred Maintenance*, i.e. repair costs, will be estimated by a qualified, licensed contractor who will perform his estimated work pursuant to a corresponding lump sum construction contract. The contractor will be selected and managed by the Lessee-Optionee; overruns to the lump sum construction contract will be penalized subject to a liquidated damages clause in the Lease-Option.

UNDERWRITING GUIDELINES FOR ASSET-BASED REAL ESTATE FINANCE

Optionee who will submit all associated reports and estimates to Adagio as a prerequisite for executing the Lease-Option. Adagio will conduct its own appraisal of the subject property prior to executing the Lease-Option; the appraisal will be paid by the Lessee-Optionee.

- (D) The Lease is an *Absolute Triple Net* or *Bond Lease*¹³. Monthly Lease payments are equal to one percent (1%) of the Strike Price. First and last months' rent plus a security deposit equal to one (1) month's rent will be due prior to the Lessee taking possession of the subject property. No portion of the Lease payments will be applied as a credit towards the Strike Price.
- (E) The Lease-Option term is six (6) months; the term may be extended on a case-by-case basis. If the Option is exercised prior to six (6) months, the sum of all unpaid rent under the terms of the Lease will be added to the Strike Price [such that a minimum total of six (6) Lease payments are made].
- (F) The Lease-Option is fully assignable [i.e. the Lessee may sublet the subject property, and the Optionee may sell the Option to a third-party].

III. *Default*

- (A) Lease payments are due on the first of each month [first month will be prorated accordingly]. If payment is not made on the first of the month, Adagio will immediately provide the Lessee a three-day notice for failure to pay rent. If payment is not made pursuant to the notice, Adagio will immediately move to evict the Lessee, and the Optionee will immediately forfeit his Option in addition to the Option Fee.

¹³ *Bond Lease* agreement designates the Lessee as being solely responsible for all of the costs relating to the property being leased in addition to the Lease payments. The structure of this type of lease requires the Lessee to pay for real estate taxes on the property, property insurance, maintenance (including all utilities and HOA fees, etc.) and repairs (i.e. Deferred Maintenance). Taxes and insurance must be paid in advance for the term of the Lease by the Lessee.