

## **Lender Program Outline**

Stallion Funding engages in private money lending by offering financing options for real estate properties and developers. The funds used to finance each borrower come from private investors who use Stallion Funding to place their money in select real estate projects. The goal of Stallion Funding is to provide excellent investment opportunities with superior customer service to its clients.

Stallion Funding takes responsibility for locating, evaluating, underwriting, and servicing these opportunities for its investor clientele. The appeal of investing with Stallion Funding is the ability to easily participate in tangible, controlled real estate projects while earning a superior rate of return with a secured position.

## **Advantages of Real Estate Investing with Stallion Funding**

- High Yield on Investment – 9.5% Return
- Collateral - Invested capital is secured by real estate
- Minimal Management – Stallion Funding manages all aspects of the investment
- Monthly Income – Interest payments are due every month, if elected
- Diversification – Investing directly in real estate diversifies portfolios that are typically heavy in stocks and corporate or municipal debt

## **Why Borrowers Choose Stallion Funding**

- Quick funding for time sensitive projects (Typically less than two weeks)
- Flexible and customizable loan terms
- Ability to cross collateralize real estate projects
- Short term bridge loans with no prepayment penalty
- Responsive customer service
- Non conventional property characteristics
  - Partially completed construction projects
  - Property rehabilitation
  - Property repositioning / value added construction
- Borrower may not qualify for bank financing
  - Complex financing structures (LLCs, partnerships, trusts)
  - Credit deficiencies
  - Insufficient assets or net worth
  - Previous foreclosure or bankruptcy
  - Excessive contingent liabilities

## **Product Structure**

Real Estate lending is characterized by making a loan to a borrower who executes a promissory note and deed of trust that encumbers the borrower's real property.

The promissory note is the borrower's promise to repay the loan.

The deed of trust is a security instrument that creates a lien against the borrower's real estate. The deed of trust is recorded with the county where the property is located. A deed of trust can be recorded in different lien positions, with a 1st lien having a superior position.

Stallion Funding typically only offers investments in 1st lien positions and will only offer a subordinate position when the superior liens can be fully managed. The date and time of the recording of the deed of trust establishes lien priority of the deed of trust.

## **Standard Structure**

The standard investment opportunity consists of a note and deed of trust in the 1st lien position that will encumber investment property owned by the borrower. The standard terms of the note are as follows:

- One year maturity
- Monthly interest-only payments
- 9.5% interest rate
- 65% loan to value (40% loan to value for land/ lots)
- Construction funds are held in escrow
- Personal Guarantee from Borrower or 3rd Party

Stallion Funding will lend up to 65% loan to value, using the as-is, after repaired, or after completed value. That means that for every dollar of value that exists or that is created through construction, the investor is only loaning 65 cents. This structure allows the investor's principal to have a buffer of protection against loss.

Stallion Funding uses a conservative process to release construction funds. As you will see in the "Regularly Scheduled Inspections" section, money is released only after the work is completed and inspected. This further protects our Investors.

Payments are due on the first of every month and a late payment fee is assessed if payments are not received by the 10th of the month.

There are no participation or service fees charged to the investor by Stallion Funding. Investors enjoy the full pass through of the interest rate of the note and the assurance that their investment is being professionally managed.

## **Risk Mitigation – Underwriting Program**

Stallion Funding uses a simple, systematic underwriting system to qualify borrowers and properties. The purpose of the underwriting system is to mitigate the risk of the investment and provide for a satisfying investment experience. The goal of the system is create a turn key, low-maintenance investment where the underlying value of the investment is always secure.

The first step of the underwriting process is to evaluate the borrower. Every borrower must complete a standard 1003 loan application. The application allows analysis of credit, income stability, debt to income ratios, late payment history, and asset coverage.

Applicants are approved if there is sufficient evidence that the borrower will be capable of servicing the monthly interest payments. A criminal background check is also performed to evaluate the character of the borrower.

Once the borrower is approved, the project is evaluated for feasibility and viability. The borrower is required to complete a project information form that captures the pertinent information of the project and the property. The information gathered from the form allows a quick analysis of the project.

If the project is accepted, the due diligence process is initiated, during which all the relevant information about the project is collected, analyzed, and verified. It must be noted that due diligence requirements are customized based upon the scope and scale of each project.

The following is the due diligence checklist of a typical project:

### **Borrower / Sponsor Documentation**

- Loan application for each borrower / sponsor of the project
- Resumes of each borrower/ sponsor of the project detailing real estate experience
- Entity validation/ verification documentation
- List of completed projects with addresses and project summaries
- Written management and disposition strategy for the project

### **Property Documentation**

- Appraisal report from approved appraiser
- Title insurance commitment from approved title company
- Survey of the property
- Sales contract
- Proof of hazard or builder's risk insurance prepaid for term of loan

### **Construction Documentation**

- Full set of construction plans including engineering specifications
- Copies of building/ construction permits from all applicable agencies
- Itemized cost breakdown (schedule of values) for all construction phases
- Full building material specifications including finish-out materials

- Structural engineering report
- Construction contract between borrower/ sponsor and general contractor
- Contact information and bid prices for all subcontractors

Once all of the documentation is collected, it is carefully scrutinized for accuracy and plausibility. Typical underwriting functions will include, but not be limited to, verifying comparables used in the appraisal, comparing construction itemizations with market material and labor prices, verifying issuance of permits and site plans, site visits to previous projects, insurance policy verification, and analysis of market demand and market trends.

### **Construction Process**

The purpose of the construction program is to provide all funds necessary to complete the real estate project, while protecting the investor's position in the loan. This is accomplished by having the complete construction plan before the loan closes. The developer must supply a set of full construction plans, a cost breakdown, building specifications, a draw schedule, and building permits to our underwriting department. All documents are analyzed for completeness and feasibility. Once the documents are approved by underwriting, the overall construction plan is set and changes cannot be made without approval from Stallion Funding.

### **Regularly Scheduled Inspections**

As part of the due diligence the borrower will create a cost breakdown that will outline all the costs associated with construction. The cost breakdown uses a line item format that assigns a certain cost to each step of the construction process such as foundation, framing, roofing, etc. The breakdown, or budget, is approved before closing. At closing the entire amount of construction funds are escrowed.

During construction, it is the borrower's responsibility to complete each item of the cost breakdown and then submit a draw request for reimbursement from Stallion Funding. A building inspector is sent to inspect the work for completeness and quality. If the work is satisfactory, the funds corresponding to the completed line items are released from the escrow account. By using this method, the investor's funds are never released before the corresponding work has been completed and inspected.

Construction inspections will occur once a month at minimum. Inspections are performed by a qualified construction inspector, who is familiar with the entire construction plan for the project. Pictures of the progress of the project will be made available to investors upon request.

### **Liquidity Concerns**

While most lenders leave their principal invested for the entire term of the loan, it is possible to withdraw the funds from the loan if needed. Typically, another lender will be brought in to assume the position in loan. The new lender will assume the loan by purchasing the interest at face value. That way, the original investor does not lose any principal and is able to access the needed funds. Interest will be handled on a per diem basis based upon the actual fund transfer date. Stallion Funding requests a two week notice to process a position liquidation.

## **Default Timeline**

We have a highly efficient and systematic process for handling late payments, defaults, and foreclosures. When the process is started with a borrower, generally they will bring the loan current. During the collections/foreclosure process, it may become necessary for our lenders to sign off on documents which give authorization to proceed with the process.

Depending on the circumstances, if we do take back a property in foreclosure, we will need you to sign a listing agreement for us to sell the property, or a release if you want to take over the project.

If we do take back a property and complete the project, we will handle every aspect of construction, marketing, and disposition of the property to insure your return of interest and principal.

During the foreclosure process our top priority is to protect your principal investment.

## **DEFAULT PROCESS**

- 20 days late –  
We send a certified letter which is a notice of default from Stallion Funding that gives the borrower a deadline to bring the loan current by or face default remedies under the deed of trust (foreclosure)
- 30 days late –  
We have Wilson Sterling & Russell (our Real Estate Attorney) send a demand letter to the borrower (1st step of foreclosure) which gives them 10-15 days to bring the loan current or face foreclosure.
- 45 days late –  
We will post the property for foreclosure for the first Tuesday of the month that is at least 21 days from the day of posting. Once this takes place we will decide via your input to take over and manage the project to completion or sell the project in current state.

The attorney's office that we use for foreclosures is Wilson, Sterling and Russell. We feel that it is important that you have their information in case of emergency.

Wilson, Sterling and Russell, LLP  
9951 Anderson Mill Road, Suite 200  
Austin, Texas 78750

512.258.2244 – Office  
512.335.4400 – Facsimile

Contact: Bob Wilson, Attorney

Please contact us with any questions or concerns about this process.

## **Summary**

The advantage of investing in real estate with Stallion Funding is the ability to easily participate in tangible, controlled projects while earning a superior rate of return with a secured position.

The structure is set to mitigate risk, supervise construction and to exit the project with predictability.

Borrowers and developers use Stallion Funding to add value to their project; we are ready to add that same value to your portfolio. We look forward to providing excellent investment opportunities and superior customer service to you.



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