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House Crowd Finance Ltd

Development Finance

Underwriting & Procedures Manual



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Company Registration No: 10564875

1. Background

This underwriting and procedures manual is to be used for assessing development finance applications with the view to the making of acceptable loans.

Our underwriting policy sets out the factors that we take into account in assessing a developer's ability to pay sums due under a proposed agreement. The purpose of a written policy is to ensure that our underwriting criteria and lending decisions are consistently applied and promote fair customer outcomes for borrowers and minimise credit risk for lenders.

The manual is for guidance purposes and discretion may be used as the underwriter should assess the quality of the information that has been supplied and request further information if necessary for the underwriting of the application.

Each case must be accompanied by full details of the development project including full financial budget breakdown and gross development value supported by all available evidence.

The application form must be accompanied by any upfront fees (valuation and administration) as well as appropriate money laundering documents, a completed identity verification form and any other requested documents (e.g. assets and liability statement).

Definitions:

House Crowd Finance Limited (HCF)

Credit committee:

- Frazer Fearnhead
- Suhail Nawaz
- Lewis Walters
- Clarissa Fearnhead
- Ken Jones
- Jane Surman

Underwriting Principles

Our affordability assessment will assess whether the borrower will be able to repay the capital and interest due under the article 36H agreement in accordance with the proposed repayment terms.

We will conduct credit searches on borrowers to ascertain their credit score in order to determine their credit risk.

Affordability Assessment

Our affordability assessment entails assessing the credibility of the borrower's repayment strategy. We will accept the following repayment strategies if we deem them realistic:

- The sale of the properties.
- Entry into a refinance agreement with another lender under a longer-term finance arrangement.

Evidential requirements

We will obtain evidence from borrowers to demonstrate that they have a credible repayment strategy.

Where the borrower's repayment strategy is the sale of the new build property we will take into account professional property valuations and estate agent's opinions.

Where the borrower's repayment strategy is the replacement of the short-term loan with longer-term finance, we will request evidence of a guaranteed offer or agreement in principle that will be in place once the repayment term expires.

Security Assessment

We will take security for the loan by taking a first or second charge over the borrower's property. The borrower's property which is proposed as a security must, at least, equate in value to the capital that will be provided under the article 36H agreement. Where a property already has a first charge in place, we may seek a 2nd charge where necessary.

Property Valuation

Where appropriate, we engage RICS qualified surveyors to carry out a valuation of the borrower's proposed development. The surveyor provides a valuation of the Gross Development Value (GDV) upon completion of the proposed development. We lend to a

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maximum of 85% of the GDV of the development in order to safeguard against the credit risk borne by the lenders.

Anti-Fraud Controls

We will incorporate anti-fraud controls into our affordability assessments by engaging solicitors to carry out financial crime and anti-money laundering due diligence on prospective borrowers. This will include proof of ownership, proof of identification and proof of address.

Monitoring

We will monitor the effectiveness of our credit policy by collecting Management Information in respect to default rates. High default rates will indicate weaknesses in our credit policy.

We will review our credit policy when triggered by changes in regulation or, at least, on an annual basis. Our credit policy will be reviewed by our credit committee in conjunction with our compliance manager.

Record Keeping

We will maintain client files which will record the information taken into account in each affordability assessment. Client files will maintain a record which will include:

Evidence of the borrower's repayment strategy;

Surveyor's report;

Solicitor's due diligence;

The repayment term and payments due under the agreement; and

The assessment of affordability under the agreement.

We will maintain a record of changes to our credit policy.

2. Applicant Details

The application may be in an individual name(s) or a company name.

In respect of company applications, personal guarantees may be required from company directors.

Borrowers must have a proven track record in property development

Borrower must be resident within the UK and Europe

Excluded Applicants

- Under 18 years of age at completion.
- Over the age of 65 years old at completion
- Repossessed – in the last 2 years.
- Bankrupts – in the last 2 years.
- IVA – in the last 6 years.

Convictions - HCF will not accept any application from an individual where there is evidence that that person may have committed fraud or been involved in financial irregularities.

3. Loan sizes and LTV guidelines

Minimum gross loan size: £100,000.

Maximum gross loan size: £20,000,000

All loans over £1,000,000 by majority credit committee approval

Maximum LTV is 85% of the Gross Development Value

Term

We will lend for a maximum period of 24 months, we may however consider extending for up to a further 12 month's period subject to the following:

We are satisfied that the need for the extension is genuine, i.e., a delay in selling the property and there would be no advantage in taking possession of the secured property

The borrower has maintained regular contact with us and no difficulties have arisen in gaining information from them.

The secured property has been inspected recently and we are comfortable with the condition and valuation of the property.

Payment of any agreed extension fee

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4. Exit Strategy

A full analysis of the marketability of the development must be provided prior to a decision in principle being provided.

There must be a full understanding of the exit strategy. For example, is it realistic and plausible, can the borrower provide supporting evidence. All evidence must be put on file.

5. Credit References

A credit report must be obtained from the borrower(s) from Experian, Equifax or similar reputable credit agency.

The following must be checked and deemed satisfactory;

The applicant's full name(s), including any middle names and previous names are the same as that provided on the application and match the ID provided.

Date of birth(s) and residential history are correct, with the electoral role entry matching the current residential address.

If any accounts show more than 1 missed/late payment in the last 24 months or are in default a full explanation must be obtained from the borrower including, if the funds remain unpaid, how they intend to clear the sum owing or provide any evidence that the entry is an error.

Any GAIN or CIFAS entries will need to be investigated and evidence provided.

Any CCJs must be fully explained by the applicant(s) and investigated, it may be agreed by the credit committee that it will become a condition on the loan that any outstanding CCJ's are to be paid and cleared on completion.

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Experian/Credit Expert will provide a risk score:

Score	Category	Risk Level
0-560	Very Poor	Very High Risk
561-720	Poor	High Risk
721-880	Fair	Moderate Risk
881-960	Good	Low Risk
961-999	Excellent	Very Low Risk

A borrower's credit score being under 720 will need to be investigated.

If any of the following have occurred for the borrower in the last 2 years, we will not accept the application:

- Repossession
- Bankruptcy

If an IVA has occurred within the last 6 years, we will not accept the application.

6. Anti-Money Laundering

Proof of Identity

Proof of identity will be required for every applicant in each case to comply with Anti-Money Laundering legislation. Identification will be checked by HCF using Creditsafe and by Jane Hartley Associates using Experian.

We must have acceptable KYC prior to offer on every case.

One form of personal identification is required for each applicant.

The following documents only are acceptable:

- Current valid full UK passport
- Current valid Non-UK Passport supported by 2nd item of personal ID
- Current UK Photocard Driving Licence

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If the borrower does not hold photographic ID, refer to credit committee.

If the personal identification does not include a signature we will also require a bank card or credit card to verify the customer's signature.

The borrower's solicitor will also be checked via the Legal Register and they will be required to confirm in writing that they have conducted all appropriate KYC on their client. This is incorporated into the Loan Document.

Proof of Residency

If the client is not showing on the voters roll for their present address, then one form of address identification is required.

We must have a minimum of 3 years residency history to use.

The following documents will be acceptable:

- Domestic utility bill (not mobile phone) - must not be more than 3 months' old
- Current council tax bill
- Bank/building society/ credit card statement - must not be more than 3 months' old
- Current full UK driving licence
- Current UK photocard driving licence

Please note that two separate documents are required. The same document (e.g. driving licence) cannot be used for both categories.

Foreign Nationals

A foreign national must have 36 months PROVABLE residency and a right to stay in the UK by the way of a permanent "right to reside" OR "indefinite leave to remain" stamp and a current valid passport.

EU Nationals

A national of an EU member state that was a part of the EU before May 1, 2004 (these are:

Luxemburg, Belgium, Ireland, Germany, France, Sweden, Spain, Greece, Portugal, Italy, Sweden, Finland, Denmark, Netherlands, UK, Iceland) must have 36 Months PROVABLE residency and a current valid passport.

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Nationals of Czech Republic, Estonia, Latvia, Lithuania, Slovenia, Slovakia, Poland or Hungary must register with the Home Office under the “Worker Registration Scheme” and

hold a workers’ registration certificate.

All anti money laundering checks will be accompanied by a report carried out by:

Creditsafe or similar organisation

7. Property

Minimum security value is £100,000.

Security can be residential property, semi-commercial or commercial premises or land with no agricultural ties located in England and Wales only.

HCF may at its discretion except evidence of the Gross Development Value from the Borrower.

However, if it decides to instruct its own valuation, valuation fees are paid by the client to HCF.

Once received, HCF will instruct a valuation by a panel surveyor.

An undertaking to pay our legal costs must be obtained from the Borrower’s solicitor before any legal fees are accrued.

The valuation must be carried out on behalf of House Crowd Finance (Security Agent) Limited.

The surveyor must be qualified as M.R.I.C.S or F.R.I.C.S.

The land or property should be within a 25-mile radius of the office at which the surveyor completing the valuation is based. Within the M25 this radius should be reduced to 5 miles, unless otherwise agreed by the credit committee.

In-house desktop valuations via zoopla.co.uk / rightmove.co.uk / nethouseprices.com must be used to verify the values provided on valuations.

Telephone calls with at least two local agents should also be undertaken to support valuation and establish market liquidity. Records of all research/phone call conversations is to be kept on the client file.

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If there is anything that calls the valuation into question (an adequate explanation must be provided by the borrower).

Valuation reports will be valid for a period of 6 months unless agreed otherwise acceptable by the credit committee.

Lending is based on a Gross Development Value “GDV” valuation. From time to time, the credit committee will consider the geographical concentration and exposure to us as the lender in the areas we are lending. In particular, it will consider the concentration of new build flats in certain areas where resale is proving more difficult. We will consider the location of the security in relation to the proposed exit strategy of each borrower.

Valuations received need to be checked thoroughly paying attention to the GDV and 90-day sale value.

Address and postcode of the property must be checked to ensure they correspond with the facility letter. The valuation report is checked to ensure it is in the name of HCF(SA) and the surveyor’s indemnity limit is confirmed as acceptable.

When checking the value of the property it must be ensured that the LTVs are correct, based upon both net loan and gross loan divided by GDV and that the gross loan LTV is within the agreed parameters.

Ideally, comparables provided should be of a similar type and size of security and they should have been sold within the last 6 months. They should be within 10 miles and within 10% +/- of the market valuation of our security. If this is not the case, the surveyor should be asked to provide clarification.

We will also consider:

- 100% timber construction
- Steel frame construction
- Non-standard construction
- Freehold flats or maisonettes
- Properties underpinned within the last 5 years (with an acceptable guarantee etc)

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Unacceptable properties

Determined as unacceptable security by the appointed valuer

Less than 10 years old without NHBC/Zurich Municipal guarantees or Architects certificate

Properties containing Mundic Block materials

New properties built within the last 10 years must be covered by one of the following

- NHBC
- Foundation 15
- Premier Guarantee
- Qualified Architects Certificate
- Zurich New Building Certificate

Where an architect's certificate is provided this must be issued by one of the following

- RIBA – Chartered Architect
- RICS – Chartered Surveyor
- CIOB – Member of the Chartered Institute of Banking
- BIAT – Member of the British Institute

Buildings Insurance

On or prior to completion of the Loan, the Borrower must ensure that there is adequate insurance cover in respect of each of the Secured Property(ies) with our interest as mortgagees noted therein. The amount and level of such insurance cover must be in accordance with the recommendations of the surveyor.

HCF will check the expiry date of the buildings insurance and if the date falls within the duration of the HCF loan, then the borrower must provide evidence that the policy has been extended for the term of the loan.

As a safeguard HCF may take block insurance over all secured assets.

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Panel Surveyors

- Method Valuers
- Robert Sterling Surveyors
- Aztec Property Valuers
- Bruton Knowles
- GVA Grimley
- VAS Panel

We will conduct quarterly checks to ensure panel surveyors PI cover is in place and will conduct bi-annual surveyor performance reviews.

8. Company Lending

The additional checks we will undertake when the applicant is a limited company include:

- Obtaining the full name of the company
- Checking on Companies House what the current registered address is
- Obtaining a current list of all directors
- Obtaining KYC (identification and proof of residency) for all directors of the company.
- Obtaining a copy of the Certificate of Incorporation.
- Obtaining a copy of the Memorandum and Articles of Association.
- Obtaining a copy of their most recent accounts.
- Checking for any changes in the registered address of the company.

The person instructing us must be a current director of the company.

We will require personal guarantees from all parties to the loan.

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9. Solicitors

HCF will select from a panel of its own solicitors to act on its behalf.

English solicitor panel:

- Jane Hartley Associates Ltd. Manchester
- Penningtons, Cambridge
- Ignition Law, London

Clients must choose their own solicitors which we will check and verify on the Law Society website:

<http://www.lawsociety.org.uk/choosingandusing/findasolicitor>

Solicitors being used by the client must have a minimum of 2 SRA approved partners, a copy of this check will be printed out and added to the client folder.

Upon completion, the Report on Title must be signed off by a credit committee member.

Our appointed solicitors will carry out a full title inspection.

All cases will also be covered by title insurance.

The client's solicitor may also provide an undertaking to allow us to complete certain tasks to assist with the completion of a loan. If an undertaking is provided our solicitor will ensure the items have been actioned after completion and provide us with the evidence of this to be saved in the client file.

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10. Loan Extensions

In certain circumstances, we may consider extending the loan. Before we will consider allowing the client to extend the loan we will consider when was the property last inspected, whether the last valuation is greater than 6 months old and if confirmation cannot be sourced from the valuer that we can still rely on the report for a further number of months, then a re-inspection/re-valuation will be instructed (at cost to the borrower).

The client may be required to pay the future interest and an extension fee on the existing loan prior to the redemption date of the current loan.

Consideration needs to be made as to why the exit strategy is more likely to succeed this time around rather than on the original Loan Agreement and the reasons why the borrower is requesting an extension on their existing loan.

It will also be dependent on whether the borrower has acted in a reasonable way when considering whether or not to extend the term.

If the loan is a second charge the first charge must be re-checked to ensure this has not fallen into arrears since the start of the HCF loan.

11. Underwriting Mandate

All loans that are over £1,000,000 require sign off from 2 committee members.

12. Tariff of Charges

Chaps Payment:	£35
Returned Direct Debit/Cheque Payment Fee:	£35
Late Payment Admin Fee:	£250
Formal Demand:	£100
Credit Card Payment Surcharge:	3%
Companies House Registration of Charge Document:	£50 per charge
Deed of Priority/Postponement:	£200
Security Release Fee:	£90
Companies House Statement of Satisfaction of Charge:	£90
Stage Payment Processing Fee:	£50
Redemption Statement (no charge for the initial statement):	£50

13. Deal Life Cycle and Process

Developer makes initial application for development finance loan

If enquiry is NOT QUALIFIED, i.e. does not meet HCF criteria then it is rejected.

If enquiry is QUALIFIED – Developer pays application fee and completes HCF's standard application form.

HCF welcome pack then emailed to client for signature on application form.

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Welcome pack returned by client along with required KYC.

Deal is passed to underwriting team.

Indicative offer produced and sent to client.

Credit report supplied from client and checked.

Legal Due Diligence

Preparation of Initial Loan Documents to include

- Loan Agreement prepared on the basis of the development summary and offer made to developer
- Legal Charge Debenture Resolution
- Directors Certificate signed by all directors
- Solicitors Certificate confirming advice and witnessing documents AML
- Charge over Contract (where HCF providing deposit monies and gap between exchange and completion)

Contract

Approving contract with developer's solicitor

Title

Usual due diligence to ensure good and marketable title keeping in mind the proposed development and what obstacles if any are to be overcome to achieve the proposed development and issues which may arise for end users are resolved

Searches

Searches – local, highways, drainage, environmental, chancel, coal (if applicable), flood (if applicable), utilities.

Index Map search – carried out both on the title plan and also on the site plan attached to any planning permission to ensure that the site plan is within the boundaries of the Property.

Official search

Company search on seller if corporate seller

Preliminary Information

Replies to CPSE enquiries Planning documentation

Copy right assignment re planning Section 106 agreement if any Community infrastructure levy VAT position

Replies to requisitions on title

Raising any relevant additional enquiries

Insurance

Valuation

Checking valuation against those matters revealed in the due diligence for those matters discovered re title, preliminary enquiries and searches and any differences reported to valuer for further comment.

Checking the GDV with developer and the same figure on which they have based the development costs and the LTV of the loan

Checking what the developer considers each unit would be valued at and on what basis this valuation has been arrived at.

If reference made to construction documents checking that these are in place and if so, at the cost upon which the valuer has based his figures.

Checking that any surveyor used by the developer is registered with the RICS

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Reporting

Full report provided once all investigations carried out for final approval

If passes loan documents sent to developer for final sign off.

Original Documents

All original loan documents received before completing loan exceptions sometimes taken when time sensitive but must be scanned in full form first with appropriate undertaking to send originals by special delivery

Registration

HCF lawyer deals with registration ensuring have everything it needs to conclude registration both with HMLR and Companies House

Final Documents

Once registered full set of documents sent to HCD's solicitors and HCF.

Once a loan is completed, the process is as follows

Halfway through term - reminder letter from HCF.

$\frac{3}{4}$ way through term and at least 2 months before due redemption date, regular communication with the developer obtaining updates on sales / exit strategy (including evidence) and reminding them of any penalty interest rate payable if not repaid on time

Loan redeemed

14. Client loan file format

On the front of the paper file, place the Underwriter's Checklist which is required to be completed on every case to act as an audit trail and give a brief outline of the case.

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All documents should be kept electronically, the electronic file is to be split into 8 sections as listed below: -

Borrower Information – where applicable (create sub-files if multiple borrowers)

Introducer Information (sub file)

Signed application

Welcome letter

Receipts for application fee

ID

POA

Credit Report

ALIE

Bank Statements

Pay slips

Deposit monies confirmation

Smartsearch

Any google results

Company Details

Current list of directors

Changes in registered address

Copy of the certificate of incorporation

Memorandum and articles of association

Most recent accounts and last 6 months bank statements

Company credit report

Any google results

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Security Property Details (create sub-files if multiple securities)

Valuation payment receipt

Valuation instruction

Valuation report

Land register and plan

Latest mortgage/redemption statement

Energy Performance Certificate (purchases only)

Insurance certificate and company check

Office copy of our registered charge

HCF Underwriting

Application form

Interest charging calculator

DIP / Indicative offer

Solicitor law society check

Deal proposal form

Credit pack

HCF Deal Legals

Solicitor instruction

Legal pack

Loan offers

Indemnity policies

Completion statement

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Approval

Copy of legal mortgage

Extension Documents

Request for loan extension

Extension approval

Payment confirmation

Redemption

Redemption statement

DS1 form

Funds received confirmation

Default

Letter

Upper Level Funding

Deal information form

Valuer confirmation

Solicitor's confirmation

Lender pack

Sub-charge document

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15. Redemption Of Loan - Procedure

Throughout the course of the loan, regular contact is kept with the client. Half-way, three-quarters way through term and 2 months before the loan redemption date, we will call the client and send a reminder letter and statement about the redemption date of the loan. This will be followed up by phone calls and emails where appropriate to track the progress of the matter.

Redemption statements and letters will be produced by HCF and authenticated by at least 1 other credit committee member from checking the final loan documentation and interest calculator.

If the client wishes to redeem the loan early, the interest payable will be reduced, on a pro rata basis, subject to the minimum number of months' interest being paid.

When the client repays the loan, funds will be sent from the client's solicitor to us via our solicitors.

If the client does not repay the loan in full, the charge will remain on the property and the interest on the full amount of the loan will continue to accrue.

Default of payments during term

All interest is paid upfront including arrangement fees so there will never be arrears during the term of the loan.

Arrears only accrue if the loan is not repaid at the end of the loan term.

Events of Default

The loan document includes the usual events of defaults for example (but not exhaustive) the borrower: -

Fails to pay any sum due under any finance document

Fails to comply with the terms of the loan agreement e.g. insuring etc

Insolvency

Recovery of Loan Amount if the loan is not repaid by the redemption date

Provided there are no commercial reasons to allow an extension, a letter before action sent next day if loan is not repaid in full by redemption date

Give them 14 days to repay loan

Reminder sent 7 days later

Claim for step in/ possession prepared in readiness to submit

Give borrower a further 7 days opportunity to repay the loan

If no sign of certainty, issue proceedings – the solicitor will appoint a suitable barrister for this purpose

Continue to chase for repayment whilst the court process continues

Gain possession if still not repaid in full and HCF appoint receiver

If the borrower believes they have ability to repay but need time for instance refinancing or a sale is in process and has an imminent completion or property is put at auction and evidence is provided to establish this, then time will be allowed but all proposals are checked thoroughly to ensure that there is certainty in their proposed mechanism to repay the loan.

Event of Default during term of loan

HCF notify the relevant panel solicitor of an event of default

Letter sent to Borrower notifying breach and to remedy within 14 days (dependent on type of breach and capable of remedy)

Reminder sent 7 days later

If failure to comply – letter requesting to repay the loan in full given them a further 14 days

Claim for possession prepared in readiness to submit

Procedure referred to above adopted.

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