

# Default Guidebook

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If your investment with Ignite Funding (Ignite) has been impacted as a result of a Borrower default or market effects, it is important for you to fully understand your roles, rights and responsibilities as Lenders and Property Owners, as well as Ignite's roles as Loan Servicing Agent, Default Coordinator, Asset Manager and Resolution Coordinator. We hope this information will be a valuable tool in assisting you in gaining a greater understanding of default processes and expenses, as well as the services Ignite provides to assist you in managing your assets.

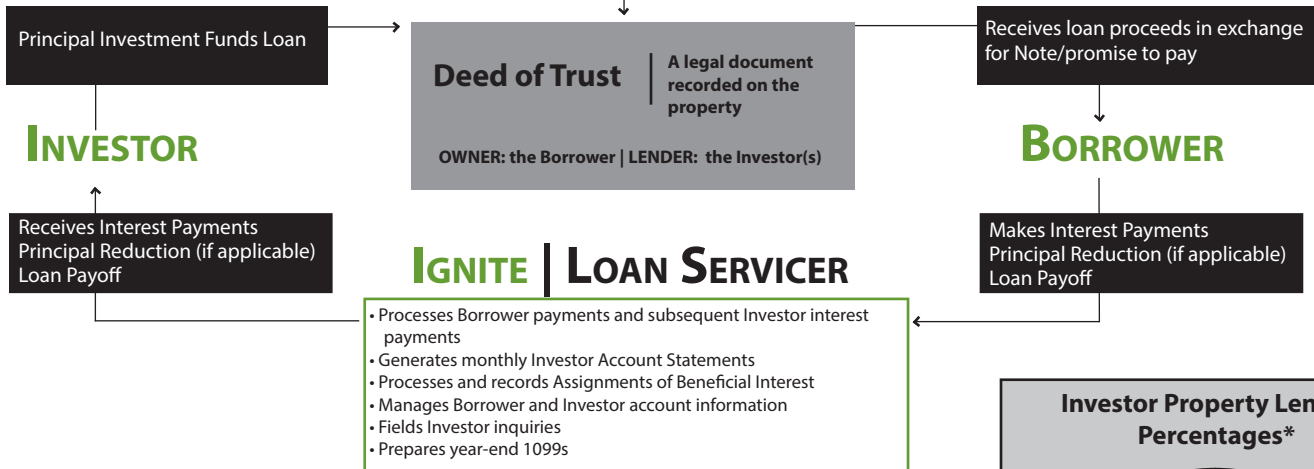
## Ignite is a Loan Origination and Servicing Agent

Ignite brings Borrowers and Investors together in a lending environment.

### IGNITE | LOAN ORIGINATOR

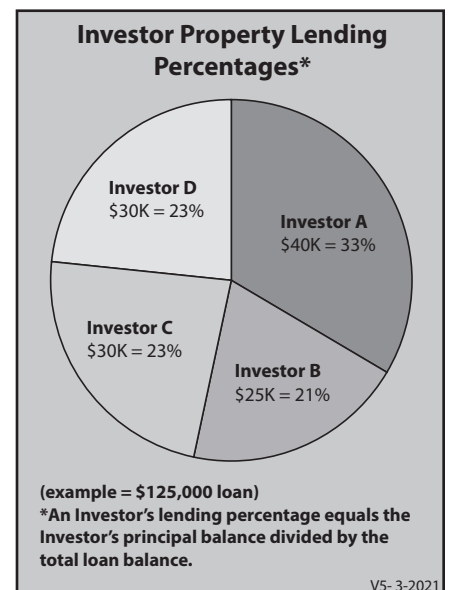
- Underwrites loan
- Coordinates completion, receipt, and recording of required loan documentation with Borrower, Lender(s) and Title company
- Sends verification to Investors

Ignite's loan portfolio includes a mixture of vacant land, development, construction and equity loans.



### THE STANDARD INVESTOR LENDING PROCESS IS AS FOLLOWS:

1. Investor selects a loan to participate in.
2. Investor loans a dollar amount, representing a percentage of the total loan on the property. Investors and their beneficial interests (investment amount / total loan amount) are listed on the Exhibit A of the recorded Deed of Trust.
3. Investor receives interest payments throughout the duration of the loan per the specific loan terms.
4. Upon repayment of the loan by the Borrower, Investor receives principal payoff in full.
5. Borrower or subsequent purchaser is granted Title to the property when the loan is repaid.
6. Ignite provides Investors with required tax reporting information.



# Ignite is a Default Coordinator

A loan is categorized as being “in Default” when a Borrower fails to make a scheduled interest payment within the payment’s grace period (10 days following payment due date). Ignite contacts the Borrower to determine the timing of the outstanding payment and a reasonable explanation for the lack of payment.

Ignite Funding will send a communication to investors on or before the 15th of the month if a borrower fails to make their scheduled interest payment. With the Investor’s best interest in mind, during this time, Ignite attempts to keep communication open with all parties, borrower and investors, and evaluate the best possible courses of action.

## INVESTOR COMMUNICATION

The Loan Resolution Department prepares letters deployed via email to Investors regarding the status of the loan and the Borrower’s current financial position with respect to future payments.

Investors receive status updates via:

- Monthly Investor Account Statements
- Ignite’s loan web-based communication platform (<http://www.ignitefunding.com>)
- Specific letter communication (when applicable)

## BORROWER COMMUNICATION / NEGOTIATION

Ignite works with the Borrower to determine feasible workout plan proposals for Investor review and ballot vote.

## INVESTOR PROPOSAL FOR DEFAULT PROCEEDINGS

Ignite, via email/letter communication to Investors, will present the most viable Investor options from the adjacent list for Investor consideration and ballot vote.

The weight of your ballot vote is your remaining principal balance divided by the total remaining principal balance on the property. Majority ballot decision on how to proceed on the property is based on the 51% loan balance majority vote.

## IMPLEMENTATION OF INVESTOR DECISION

Ignite takes action on the property as directed by the Investors per the majority ballot decision.

- Coordinates with Title to record a Notice of Default or Deed in Lieu
- Coordinates with the Borrower on the modification of the loan
- Sends communication to Investors regarding progress/status
- If foreclosure action is taken, continues to negotiate with Borrower for a workout strategy
- Coordinates with legal counsel regarding Borrower bankruptcy, litigation, etc.

## WHAT ARE INVESTOR OPTIONS AT THE TIME OF BORROWER DEFAULT?

**Loan Modification** of loan terms (maturity date, reduced interest payments, etc.).

**Loan Forbearance** Investors hold off on starting foreclosure proceedings, and allow Borrower payments to be suspended for a designated period of time. Interest may or may not accrue during this period per Investor approved Forbearance Agreement terms.

**Foreclosure Proceedings** to pursue Investor ownership of the property.

- When a Notice of Default is recorded on the property, the Borrower is given a specific “cure period” (typically 90 or 120 days based upon the state in which the property is located) during which to make payments current and/or pay off the balance owed on the property.
- The Borrower has until the Trustee’s Sale Date (the foreclosure date) to cure the debt or the Borrower’s claim to the property will be eliminated.
- At the conclusion of the cure period, advertising is posted as “public record” for a four week publication period.
- A trustee auction is the final step prior to taking ownership of the foreclosed property. Transfer taxes are due at this time.
- Upon transfer of ownership to Investors the property can be marketed for sale.
- The Borrower may file for Bankruptcy protection in an attempt to stall or prevent foreclosure on the property.
- There are direct costs associated with completing foreclosure on the property including recording costs, property transfer taxes, etc.

**Deed in Lieu of Foreclosure** may be executed with the Borrower for Investors to obtain immediate property ownership.

- This process forgoes the 90-120 day foreclosure process allowing immediate transfer of ownership to Investors.
- Deed in Lieu often requires Investors to release the Borrower and the Guarantor(s) from their obligations under the Note, and possibly other loan documents including the Guaranty.
- Ignite may market the property for sale immediately (upon property ownership transfer).
- There are direct costs associated with recording a Deed in Lieu including recording costs, property transfer taxes, etc.
- Investors avoid many of the costs tied to pursuing property ownership through foreclosure.
- Deed in Lieu is only considered when there is clean title with no liens on the property.

**No action** against the Borrower on the property.

- Ignite will continue negotiations with the Borrower to attempt to identify a feasible workout plan for the property.



# Bankruptcy

At any time during the default process the Borrower has the legal right to declare bankruptcy. The bankruptcy action puts the property into an automatic stay preventing the property from being transferred or sold. Automatic stays are injunctions that prevent most forms of debt collection. They go into effect immediately upon filing for bankruptcy. Ignite then, on behalf of investors, retains legal counsel and begins legal proceedings to obtain a lift stay to remove the property from the bankruptcy injunction. The lift stay process generally takes 30 to 60 days, as it requires a notice to be filed and a hearing before a judge. The presiding judge may rule in one of two ways; rule in favor of the Lender(s) and lift the property from the bankruptcy, thus allowing Ignite Funding to proceed with the foreclosure, or grant the Borrower additional time to sell the property, thus allowing the protective action of the bankruptcy by the Borrower.

## WHAT ARE THE STEPS IN THE BANKRUPTCY PROCESS?

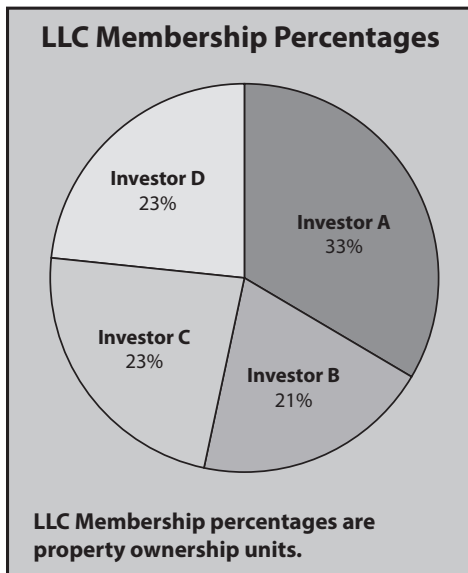
Bankruptcy Invoked

Automatic Stay Executed

Lift Stay Proceedings

## Ignite is an Asset Manager

**Upon completed foreclosure or execution of a Deed in Lieu of Foreclosure on the property, Investors transition from lenders to owners of an asset: the property.**



To facilitate property ownership, a special purpose entity (a Limited Liability Company—LLC) is created by Ignite and is recorded on title as the owner of the property. The LLC name is then referenced on monthly Investor Account Statements in place of the original loan/Borrower name. Ignite is not the property owner; however, its role as Manager is to manage the property including maintenance, expense management, and individual property concerns on behalf of you, the Investor. Ignite is not a shareholder in the LLC, but is the Manager of the LLC. Investors are represented as Members of this LLC and the LLC's Operating Agreement details the Investor membership/ownership percentages. The LLC has one asset: the property.

Ignite, as Asset Manager, coordinates the following on behalf of Investors as Members/property owners:

- Special Purpose Entity creation and management (drafts Operating Agreement, applies for and maintains Articles of Organization for LLC, etc.)
- Bill payment and collection
- Coordination of ownership responsibilities
- Physical property oversight (dust management, fencing, security, landscaping)
- Bond management
- Site inspections
- Property sale or joint venture opportunity negotiation
- Initiation/management of Investor communication of property status
- Management of liens on property and other title issues
- Representation through legal proceedings regarding Borrower litigation and/or liens
- Preparation of annual K-1's for investor tax reporting purposes (As a member of the Special Purpose Entity that owns the property, you will no longer receive a 1099 tax statement from Ignite Funding. Instead you will receive a Schedule K-1. While similar to a 1099, there are differences, as well. Please consult a tax professional to discuss how this will effect your personal tax situation.)

At the time of foreclosure, Investors' loan participation percentages transform into ownership percentages. As a property owner, the value of your ownership percentage is now tied to the market value of the property rather than the original principal balance of your investment. In other words, the property is only worth what a legitimate buyer is willing to pay for it.

## Option to remove Ignite as Manager

A Manager must be on record for the Investor Special Purpose Entity LLC. While Ignite offers this service on REO properties, Investors have the option to elect an alternate Manager such as a law firm or property management group or representative to manage your property. Should Investors seek to elect a new Manager, the name and credentials of the proposed Manager must be sent to Ignite to present to Investors for ballot vote. A 75% majority Investor ballot vote must be obtained in order to initiate the removal of Ignite as the property's Manager. Upon majority ballot decision to elect a new Manager and reimbursement of outstanding fees and expenses owed to Ignite, Ignite will transfer servicing/management responsibilities to the individual or entity appointed as the replacement Manager.

# Default Expenses

The default process can be overwhelming for Investors that have never taken property back through foreclosure. When a Borrower defaults on a loan, and the Investor(s) request Ignite Funding to take protective action there are intrinsic costs associated with the foreclosure process. These costs are the responsibility of the Investor(s) of the property.

At its discretion, Ignite Funding may front the costs to take back a property. These expenses will be reimbursed to Ignite, upon the sale of the property. If Ignite Funding elects not to front the expenses, Ignite will request a capital call from the investor(s) to complete the foreclosure process. Should an investor not be able to meet the requirements of a capital call, Ignite will present the investor(s) with the option of borrowing the funds from Ignite Funding at an accrued interest rate to be paid back upon the sale of the property.

Immediate costs to transfer ownership from the Borrower to Investors include:

- Recording fees
- Document fees
- Transfer taxes
- LLC Setup fees (Articles of Organization; Initial List of Members)
- Back taxes owed
- Back property assessments owed
- Title costs
- Filing fees
- Service of process fees
- Mailing costs
- Sheriff's fees
- Publishing and posting costs (advertising)
- Attorney Fees

## PROPERTY OWNERSHIP HAS DIRECT COSTS, RESPONSIBILITIES AND LIABILITIES.

In our experience, fees and expenses for a Real Estate Owned property (REO) generally total 5% of the original principal balance for the first year, and approximately 2.5% per year thereafter. The condition of the property and its obligations can dramatically impact the immediate and ongoing liabilities and costs of ownership. Ignite Funding, may, at its discretion pay the carrying costs of the property, which will be reimbursed upon the sale of the property. If Ignite Funding elects not to pay the carrying costs of a property, a capital call will be requested from investors as described above.

Immediate liabilities to Investors as property owners include:

- Property Insurance
- Property Taxes
- HOA (Home Owners Association) Dues
- LID and SID Expenses (Local and Special Improvement Districts—Municipality improvements such as street pavement, curbs and gutters, sidewalks, streetlights, driveways, sewer and water facilities, etc.)
- Pollution permit management and expenses (state and EPA Stormwater Pollution Prevention Plan compliance, dust control requirements, etc.)
- Property Management Fees

# Ignite is a Resolution Coordinator

While Investors have taken on additional decision roles and responsibilities as a result of borrower default or market effects on their Ignite investment, Ignite has also taken on new roles and performs new functions in order to properly manage and coordinate aspects of property resolution on behalf of Investors. Ignite's Loan Resolution Department provides the dedicated resources required to service and work through Investors' REO portfolio assets.

In conjunction with property maintenance functions performed as Asset Manager, Ignite coordinates the following in an effort to identify a feasible resolution for your property:

- Property marketing and listing agent agreements
- Solicitation of developer and/or builders as potential joint venture partners
- Property sale or joint venture negotiation
- Investor property update and proposal communications

Ignite Funding has the discretion, as Asset Manager, to accept offers to purchase the property that will return 100% or greater of Investor principal, after all hard costs associated with the default process have been recouped. If there are no offers that meet these criteria, all reasonable offers are presented to investors for consideration and ballot vote. Investors, as LLC Members, ultimately determine property outcome based upon 75% majority ballot vote. Investors may decide whether to accept an offer under the proposed terms or reject the offers in anticipation of a more favorable resolution. The decision to accept less than 100% of principal can only be made by investor majority vote. Ignite Funding, as Asset Manager, will not accept offers on behalf of Members that return less than 100% of principal to investors, after all costs have been reimbursed. Only the Member majority may elect to accept less than 100% of the original principal investment.

