

# FAQs | Tranche Loans

6700 Via Austi Parkway, Suite 300  
Las Vegas, NV 89119  
PHONE 702.739.9053 | 877.739.9094  
FAX 702.739.7735  
IGNITEFUNDING.COM



## ■ What is a tranche loan?

A tranche loan has two different characteristics that allow the funding of a loan, compartmentalized by the phases of construction or funded as individual lots in a masterplan community.

## ■ What are Construction Phase Tranche Loans?

The first type of tranche loan that is offered by Ignite Funding are construction loans in which a borrower determines the total amount needed to complete the construction on the master property. This total amount represents the master loan amount although the borrower does not pay interest on the full amount until each tranche is funded. As an example, a borrower is constructing a home which typically has five phases of construction; phase one: foundation, phase two: framing, phase three: plumbing, mechanical, electrical, phase four: insulation and drywall, and phase five: exterior and interior finishes. Each phase is equivalent to a tranche loan. With each tranche loan funds are deployed upon inspection of the completed phase.

This lending structure is what many borrowers are familiar with when borrowing from traditional, commercial banks. The primary reason a borrower would not want to borrow the full amount at one time is to reduce the interest cost over time, but instead only take the funds needed to complete each phase of the overall project.

## ■ What is the benefit of Construction Phase Tranche Loans?

This type of tranche loan benefits borrowers, investors and Ignite Funding as the mortgage broker. Borrowers benefit by only having to pay interest on the portion of the funds that are intermittently disbursed throughout the construction of residential or commercial properties. Investors benefit by being able to lend on construction loans typically obtained through traditional bank financing which is not investable by the general public. Construction loans also have shorter investment timeframes with a clear exit strategy. Finally, by offering a loan structured similarly to traditional banks, Ignite Funding is able to compete with traditional lending sources and attract high quality borrowers, which in turn benefits investors by providing greater investment opportunities.

## ■ What are Lot Tranche Loans?

The second type of tranche loan that is offered by Ignite Funding are loans that have two or more unique parcels, or lots, associated under the same master loan and borrower. Each tranche is specific to a parcel number (lot), and all tranches (lots) are related through a master loan taken by a single borrower.

As an example, a borrower is taking a loan to develop a 75-lot community. While the borrower is taking out 1 loan to encompass the development of all 75 lots, Ignite Funding has subdivided the loan by each individual lot to offer to investors individually, which in turn allows investors to hold ownership in specific parcels or lots.

## ■ What is the benefit of Lot Tranche Loans?

The benefit to this type of tranche loan is primarily for investors to allocate ownership to a specific parcel or lot. This allows for an investor to avoid having multiple principal paydowns throughout the life of the investment which gradually reduces the interest payments over time. Instead, the investor receives fewer principal reductions which allows for maximum earning potential.

## ■ Why is Ignite offering these type of loan structures now? What is the advantage of these structures?

Ignite Funding listens to the feedback of our investors and borrowers. Investors have repeatedly expressed a desire to avoid multiple, smaller principal reductions that do not keep their total investment amount deployed at all times, thereby decreasing the interest earning potential of their capital. By structuring some loans as a tranche loan, investors may avoid having multiple principal paydowns throughout the term of a single loan and can thereby keep their full investment capital deployed and earning interest at all times.

This loan structure is for those investors who want to maintain a consistent principal balance invested and not have

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money sitting idle while they wait for their principal return to reach the minimum amount needed to reinvest on another loan, potentially increasing their overall annual yield.

Likewise, borrowers have repeatedly expressed an interest in tranche loans that would allow them to take the funds needed in phases and reduce the overall cost to borrow, which allows them to have a higher profit margin. It is what the most well qualified borrowers are used to from bank financing and one of the biggest reasons Ignite Funding loses loan opportunities to the traditional lending sources.

## ■ Will I be able to choose a specific parcel?

Although, an investor's ownership will be tied to a specific parcel or lot related to a master loan, investors **will not** be able to choose a specific lot or parcel under a master loan. The reason is that the parcels are offered on a first come, first serve basis and allowing individual selection of a lot may imply that one lot has more value or less risk than another, which cannot be evaluated or assumed on any loan. As an example, a borrower may initially identify certain lots as Phase 1 development implying that those lots will be developed and sold first; but the borrower may, at their discretion or at the decision of an end buyer, change that development strategy at any time, and what was once identified as a Phase 1 lot could be reallocated to a later development. In order to avoid any misleading or unforeseeable changes, investors will not be allowed to choose specific parcels. All parcels should be viewed as described in the Investment Overview presented and carry equal weight and value across the master loan.

## ■ What if I am in investing \$100k or more across multiple parcels?

Unlike some loans offered by Ignite Funding, tranche loans will not offer an incentive for investments of \$100,000 or more. The interest rate will be as shown on the Investment Overview.

## ■ Will I receive updates specific to my parcel?

As with any loan, updates pertinent to the master loan will be provided, as necessary. You **will not** receive updates on the status of a specific parcel. When your parcel is paid off you will receive a payoff notification just as you would on any other loan.

## ■ Will tranche loans be funded differently than your standard loan?

Lot tranche loans will be funded as a single loan through the master loan. Each tranche or portion of the master will be funded together with all other tranches under the same master. There is no difference in what you experience with any other loan in terms of funding.

Construction tranche loans will be funded by tranche, with subsequent tranches funding at later dates until the full intended loan amount has been distributed to the borrower, or the borrower pays off all principal distributed. A borrower may choose to payoff the loan balance before all intended tranches have funded.

## ■ Why is there only one recorded deed for all the parcels?

Tranche loans are funded as a single loan through a master loan. The Investment Overview will list the number of tranches and the master loan name, which will be the same format shown on the recorded Deed of Trust. Investors will have beneficial interest linked to a specific tranche, identified by a loan number. The Deed of Trust will list the loan numbers and investors specific to that loan number as shown in the sample below:

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## EXHIBIT A

Tranche Loan #: 4725

### Tranche 4726

Preferred Trust Company Custodian FBO Carrie Cook, IRA AS TO AN UNDIVIDED 100.00% INTEREST

### Tranche 4727

Preferred Trust Company Custodian FBO Misty Bethany, IRA AS TO AN UNDIVIDED 50.00% INTEREST  
Lori Agar Revocable Trust AS TO AN UNDIVIDED 50.00% INTEREST

### Tranche 4728

Patrick Vassar and Andre Vassar, together as joint tenants AS TO UNDIVIDED 8.80% INTEREST  
Preferred Trust Company Custodian FBO Izzy Irizarry, IRA AS TO UNDIVIDED 10.00% INTEREST  
Preferred Trust Company Custodian FBO Howard Robbins, IRA AS TO UNDIVIDED 10.70% INTEREST  
Pitts Family Revocable Trust AS TO AN UNDIVIDED 40.00% INTEREST  
Preferred Trust Company Custodian FBO Melissa Harris, IRA AS TO UNDIVIDED 10.50% INTEREST  
Preferred Trust Company Custodian FBO Bill Bray, IRA AS TO UNDIVIDED 20.00% INTEREST

\*In the case of construction tranche loans, an Assignment Deed of Trust will be recorded for all tranches funded after the first tranche loan. (Ex of assigned off tranche)

### ■ What happens if the borrower defaults on a tranche loan or the property goes into foreclosure?

If a borrower defaults or goes into foreclosure on a tranche loan, you will have the same rights as you do on any other loan and the same policies will be followed by Ignite Funding (see Default Guidebook). Keep in mind that all tranches are under a master loan and tie back to the same property, therefore a borrower who defaults on a tranche loan would be in default of the whole loan. As such, all tranches would be in default and all investors across the tranches would share the same rights and responsibilities as defined in the Default Guidebook.

### ■ Does the borrower pay interest on each parcel in a tranche?

The borrower pays interest on the master loan, which is encompassed by each phase of construction or parcel (lot), therefore the borrower pays one payment and that payment is then subdivided among all the individual tranches. This ensures that all tranches are treated equally and fairly.

### ■ Might some phases of construction or parcels (lots) default and others not?

The borrower has one loan with Ignite Funding, subdivided internally among multiple tranches and investors, therefore a default on one outstanding tranche loan would mean a default on the master loan. However, due to the nature of tranche loans, parcels that have been paid off during the life of the loan would not be affected by a default as those investors would have been paid in full at the time of payoff. When a payoff occurs, the investors associated with each phase of construction or parcel (lot) are no longer considered a part of the master loan and have no additional rights or responsibilities to the loan.

### ■ Might some phases of construction or parcels (lots) extend and others not?

Outstanding phases of construction or parcels (lots) are all tied to a master loan; therefore, any phases of construction or remaining parcels (lots) would extend together. The only parcels that would not follow the actions of the master loan would be parcels that have been paid in full by the borrower prior to the extension or loan modification.

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## ■ How are my voting rights calculated in the event of a loan modification or default?

Voting rights are determined by the investor's percentage of ownership to the total principal remaining on the master loan. As tranches are paid off throughout the life of the loan, the voting rights of investors on the remaining tranches increase as investors who have been paid off no longer have any right or responsibility to the master loan.

In the event of a foreclosure on a construction tranche loan, will the percentage of ownership be determined by tranche loan or the master loan?

Because the construction loan is only associated to one property (or APN) the ownership of the tranches will be calculated based off the total phases (tranches) as a master loan.

## ■ In the event of a foreclosure on a parcel (lot) tranche loan, will the percentage of ownership be determined by tranche loan or the master loan?

Because the parcels are a unique property (or APN) they could be foreseeably be sold independently and therefore the ownership will stay with the tranche loan and not the master loan. It is, however, important to remember that the value of the sum of many parcels (lots) may determine the highest return of capital to investors.

## ■ Will borrowers still pay down individual lots at an amount higher than par value?

Yes, some borrower's may make paydowns on a master loan that result in a higher than par value paydown on a lot tranche loan. The amount collected above the full payoff of the tranche will be applied to one of the remaining tranches under the master loan. Typically the accelerated payment is applied to the last tranches (lots) expected to payoff in the community, although that may not always be the case as borrower's have the ability to change their development plans at any time.

## ■ Will investors ever receive partial principal paydowns on a tranche loan?

Yes, occasionally an investor may receive a partial principal paydown on their lot tranche investment as a master loan gets closer to maturity and the accelerated paydowns as applied to the remaining tranches.

\*Partial paydowns are not allowed on a construction tranche loan.

## ■ Is there a maximum amount an investor can invest in a tranche loan?

Yes, just like any other loan offered by Ignite Funding, an individual investor or related group of investors may either take 100% of the total intended loan amount, or are limited to up to 50% of the total intended loan amount. This is to protect the rights of all investors on a loan and avoid one investor from having autonomy over decisions relating to a property that is mutually owned by other unrelated investors.

It is important to note that in regards to a construction tranche loan an investors percentage of ownership could increase and be greater than 50% of the actual loan balance if the borrower does not take the full intended loan amount.