

## ■ What is a tranche loan?

A tranche loan can either be funded as a single closing or multi-closing loan. Single closing tranche loans will have the entire master loan amount allocated across two or more tranches which will all simultaneously be disbursed to the borrower at closing. Multi-closing tranche loans will have an amount less than the full master loan amount disbursed at the initial close (the first tranche), with the remaining funds disbursed across one or more additional tranches at a future date.

## ■ What are single closing tranche loans?

- Single closing tranche loans occur when a borrower needs a set amount of money in one lump sum to acquire or refinance a piece of real estate. When the land associated with a single closing loan has two or more unique parcels, lots, or units associated under the same master loan, it typically makes sense to assign certain parcel numbers, lots, or units to specific tranches.
- As an example, a borrower may come to Ignite Funding with a loan request to purchase 5 lots. For this transaction, each lot will represent its own tranche within the master loan, and all tranches will fund to the borrower during a single closing to allow them to purchase all 5 lots.

## ■ What is the benefit of single closing tranche loans?

This type of tranche loan benefits investors, borrowers, and Ignite Funding as the mortgage broker. Investors benefit by being able to lend to borrowers that would typically obtain financing through traditional banks, allowing them to access opportunities typically not investible by the public. Investors also benefit by avoiding excessive principal paydowns during the lifetime of their investment which increases their interest-earning potential while also allowing them to receive more capital back per paydown to re-invest/use as they see fit. With the tranche system, each tranche is tied to specific collateral within the loan, meaning when the borrower pays off a specific piece of collateral, it will only pay off investors on the corresponding tranche. This allows each investor within a tranche to receive a larger portion of the paydown compared to if the loan had no tranches. Borrowers benefit from this loan structure by having access to alternative financing outside the realm of traditional lending sources, such as banks, providing a loan structure that may benefit their specific project more when compared to other financing options. Finally, by offering a loan structured similarly to traditional banks, Ignite Funding can compete with traditional lending sources and attract high quality borrowers, which in turn benefits investors by providing greater investment opportunities.

## ■ What are multi-closing tranche loans?

- Multi-closing tranche loans occur when a borrower has a budget requiring a set amount of money but will not need the entire amount funded to them at closing. Often this will occur when the borrower is seeking a loan for a piece of real estate they plan to improve upon, typically in the form of land development, vertical construction, or both. When this occurs, Ignite Funding will break this loan into multiple tranches which will be used to fund the different phases of the project such as the initial acquisition/refinance of the land, development and/or construction for the project as work is completed. Subsequent tranches will only be funded to the borrower after Ignite Funding verifies the work done on the project and that the overall project is still on track, while always considering the borrower's overall financial standing as well.
- As an example, a borrower is seeking a loan to acquire a parcel of land to build a house upon. The first tranche may include enough money for the initial purchase plus any closing costs or pre-development fees and subsequent tranches will allocate the remaining monies to the borrower as they complete the development and construction work on the land. As this work is done, borrowers will submit draw requests for work completed, which Ignite will verify and then fund to the borrower which creates new tranches available for investment.

## ■ What is the benefit of multi-closing tranche loans?

This type of tranche loan benefits investors, borrowers, and Ignite Funding as the mortgage broker. Investors benefit by

being able to lend to borrowers that would typically obtain financing through traditional banks, allowing them to access opportunities typically not investible by the public. Investors are also insulated from unnecessary risk that could occur if the whole loan was funded to the borrower up front. Ignite Funding works to limit investor risk by tracking the progress of the project and only providing investors with vetted investment opportunities that are backed by the value of the collateral they are investing in and the work completed to improve the project. Borrowers benefit by only having to pay interest on the portion of the funds that are intermittently disbursed as needed throughout the development and/or construction of residential or commercial properties. Finally, by offering a loan structured similarly to traditional banks, Ignite Funding can compete with traditional lending sources and attract high quality borrowers, which in turn benefits investors by providing greater investment opportunities.

## ■ **Why does Ignite offering these type of loan structures? 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 gradually reduce their total investment amount deployed. Thereby decreasing the interest earning potential of their capital. By structuring some loans as a tranche loan, investors may avoid having excessive principal paydowns throughout the term of a single loan and can thereby keep their full investment capital deployed and earning interest for longer.

This loan structure is for those investors who want to maintain a consistent principal balance invested and not have 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 lost loan opportunities to the traditional lending sources in the past.

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

Although an investor's loan participation 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 tranches associated to specific 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. 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 investing \$100k or more across multiple parcels?**

Tranche loans may offer an incentive for investments of \$100,000 or more per placement within a single tranche. 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 tranche (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?**

Each tranche loan will be funded as a single loan that is a fraction of the whole master loan.

- For single close loans, each tranche or portion of the master will be funded together with all other tranches.
  - For multi-close loans, each tranche or portion of the master will be funded at intervals throughout the life of the project 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 pay off the loan balance before all intended tranches have funded.
- Overall, there is no material difference in what you experience with any other loan in terms of funding.

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

Both single close and multi-close tranche loans are funded through a single 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:

### EXHIBIT A

Tranche Loan #: 4725

#### Tranche 4726

Preferred Trust Company Custodian FBO David Bowe, IRA AS TO AN UNDIVIDED 100.00% INTEREST

#### Tranche 4727

Preferred Trust Company Custodian FBO Elvis Presley, IRA AS TO AN UNDIVIDED 50.00% INTEREST  
Axl Rose Revocable Trust AS TO AN UNDIVIDED 50.00% INTEREST

#### Tranche 4728

Freddie Mercury and Tammie Mercury, together as joint tenants AS TO UNDIVIDED 8.80% INTEREST  
Preferred Trust Company Custodian FBO Iggy Pop, IRA AS TO UNDIVIDED 10.00% INTEREST  
Preferred Trust Company Custodian FBO Nikki Sixx, IRA AS TO UNDIVIDED 10.70% INTEREST  
The Edge Family Revocable Trust AS TO AN UNDIVIDED 40.00% INTEREST  
Preferred Trust Company Custodian FBO Alice Cooper, IRA AS TO UNDIVIDED 10.50% INTEREST  
Preferred Trust Company Custodian FBO Jon Bon Jovi, IRA AS TO UNDIVIDED 20.00% INTEREST

*NOTE: In the case of multi-close tranche loans, an Assignment Deed of Trust will be recorded for all tranches funded after the first tranche loan.*

## ■ 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 all of 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 encompasses all tranches currently funded and their associated parcels. Therefore, the borrower pays one interest payment, and that payment is then subdivided among all the individual tranches. This ensures that all tranches are treated equally and fairly.

■ **Might some tranches within a master loan 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 for that specific parcel at the time of payoff. When a payoff occurs, the investors portion of the tranche incorporating the specific collateral paid off is no longer considered a part of the master loan and has no additional rights or responsibilities to the loan.

■ **Might some tranches within a master loan extend and others not?**

Outstanding tranches are all tied the same master loan; therefore, any outstanding tranches would extend together. The only tranches that would not follow the actions of the master loan would be tranches that have had their associated collateral paid down in full by the borrower prior to the extension or loan modification.

■ **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 tranche loan, will the percentage of ownership be determined by tranche loan or the master loan?**

The ownership of the tranches will be calculated based on the total dollars associated with the master loan, whether the loan is a single closing tranche loan or a multi-closing tranche loan.

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

Yes, some borrowers 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.

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

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