

ORIGINAL



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Arizona Corporation Commission  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

GARY PIERCE, Chairman  
BOB STUMP  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BRENDA BURNS

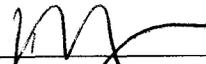
12 In the matter of:  
13 Morgan Financial, L.L.C., an Arizona limited  
14 liability company,  
15 Morgan Financial Lenders, L.L.C., and Arizona  
16 limited liability company,  
17 Jimmy Hartgraves Jr. and Laurie Hartgraves,  
18 husband and wife,  
19  
20 Respondents.

DOCKET No. S-20719A-09-0583  
**2<sup>ND</sup> NOTICE OF FILING EXHIBIT  
TO RESPONDENTS'  
SUPPLEMENTAL LIST OF  
WITNESSES AND  
DOCUMENTARY EVIDENCE**

21 Morgan Financial, L.L.C., MORGAN FINANCIAL LENDERS, L.L.C., JIMMY  
22 HARTGRAVES, JR., and LAURIE HARTGRAVES ("Respondents") through  
23 undersigned counsel, hereby submits Exhibit B through D attached hereto.  
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RESPECTFULLY SUBMITTED this 13 day of May, 2011.



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Melissa S. Ho  
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Original and 13 copies filed  
this 13<sup>th</sup> day of May, 2011  
with the Arizona Corporation Commission  
Docket Control Center and COPIES hand-delivered  
this same date to:

Administrative Law Judge Marc E. Stern  
Arizona Corporation Commission, Securities Division  
1200 W. Washington St.  
Phoenix, AZ 85007

Phong (Paul) Huynh  
Staff Attorney  
Arizona Corporation Commission, Securities Division  
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# EXHIBIT B

First Magnus Financial

# Construction Lending Manual

# **FIRST MAGNUS SPOT (TWO-TIME) CONSTRUCTION LOAN HIGHLIGHTS**

(As of 6/20/2007)

## **SPOT LOAN OVERVIEW:**

This is a construction loan in an individual(s) name. The borrower must be approved through First Magnus Financial (FMFC) underwriting using a FMFC perm loan program. The borrower(s) builder must be approved through the National Construction Department.

## **ELIGIBLE PROPERTIES:**

1. Single family, primary residence
2. Second homes
3. "Tear-downs". This is the process of tearing down an existing home to build a new home. Homes that are stripped to the existing foundation are also eligible. Rehab loans are not available.

## **INELIGIBLE PROPERTIES**

1. Manufactured and modular housing
2. Investment properties

## **ELIGIBLE STATES:**

1. Arizona
2. California
3. Colorado
4. Nevada – loans must be originated in Nevada by a FMFC affiliated mortgage company.
5. Any other state is on a limited exception base only. If you have the opportunity for a construction loan in any other state, please call the Construction Department prior to accepting an application. If an exception is granted, you must follow the procedures and policies of the NPC Division.

## LOAN TO VALUES:

**OWNER-OCCUPIED – PRIMARY RESIDENCES AND SECOND HOMES-680**  
minimum credit score required.

**Fully Documented Loan, , and NO Ratio Approvals (No Ratio approvals cannot have a payment shock of more than 50%)**

CONSTRUCTION LOAN AMOUNTS	LOAN TO VALUE (Based on the lesser of Acquisition or Appraisal)	CASH REQUIREMENT (Based on the higher of Acq. Or Appraisal)
Up to \$650,000	90%	5%
\$650,001-\$1,000,000	85%	5%
\$1,000,001-\$1,500,000	80%	10%
\$1,500,001-\$2,000,000	75%	15%

1. The Construction commitment will not exceed the Perm loan amount approval.
2. Perm loan approvals can include CLTV's
3. If the lot has been owned more than twelve months the equity may be used as
4. If the lot has been owned for more than twenty-four months the equity may be used as the borrower's cash requirement. A separate land appraisal is not required. The site value of the subject appraisal will be used.

**GAP:** Applies only when a General Contractor is building the home. GAPS with owner-builder cannot exceed \$60,000.00 and borrower must have three times the amount of the GAP in liquid reserves.

A "GAP" is the difference between the acquisition cost (lot value plus the cost to build) and the down payment plus the construction loan commitment.

For Example:

Lot cost of value:	\$100,000
Cost to build:	\$400,000
Total acquisition:	\$500,000
Required down payment (5%)	\$ 25,000 (\$500,000 x 5%)
Construction loan commitment:	\$450,000 (\$500,000 x 90%)
Total funds available:	\$475,000
Total "Gap":	\$ 25,000 (\$500,000-\$475,000)

This amount (\$25,000) is known as the Gap. The amount of the gap is the amount the builder will defer until the subject home is complete and the perm loan is funded. The gap must be explained to the builder prior to the construction close and the builder must sign a statement acknowledging the gap amount. The gap must be covered by any or all of the following ways:

1. Perm loan approval;
2. Bank accounts;
3. Equity in current home to sell.

**EARNEST MONEY:**

Borrowers must reflect the total cash required in the following form:

1. Bank accounts
2. 401K's
3. Stock statements-if borrower is selling stock for their down payment, required FNMA documents required.
4. Sale of home-a copy of the settlement statement.

**CONSTRUCTION ACCEPTANCE:**

The following items must be submitted to the National Construction Department for final Construction approval:

See attached stacking order.

**APPRAISAL REQUIREMENTS:**

Follow Perm Loan Product Highlights.

**UNDERWRITING:**

MINIMUM CREDIT SCORE IS 680, NO EXCEPTIONS. FMFC Underwriting must issue the perm loan approval; brokered loan approvals will not be accepted. SUB-PRIME CREDIT APPROVALS ARE NOT ACCEPTABLE.

**INTEREST RATE AND FEES:**

Perm Loan Approval	Rate	Fees (All construction loans will be charged a \$400.00 construction fee to the LO)
Fully documented or No Ratio/Verified Assets	Prime plus one	½ a percent of the commitment amount plus \$400.00 Construction Admin Fee. The fee for loan document preparation is \$500.
Owner-Builder	Prime plus two	½ a percent of the commitment amount plus \$1,000 Construction Admin Fee. \$500 loan document fee.

The Prime Rate will be established using the Wall Street Journal Prime Rate.

**INTEREST RATE ADJUSTMENT AND CAP:**

Interest rates adjust according to the Wall Street Journal's announcement. The interest rate will change the next day that the Wall Street Journal reports a change in the Prime Rate. The maximum rate during construction will not exceed the maximum allowable by individual state usury statute.

**CONSTRUCTION LOAN TERMS:**

CONSTRUCTION LOAN AMOUNTS	TERM
Up to \$400,000	12 Months
\$400,001 to \$650,000	12 Months
\$650,001 to \$1,000,000	15 Months
\$1,000,001 to \$1,500,000	15 Months
\$1,500,001 to \$2,000,000	18 Months

A request for a longer term will be handled as an exception only.

**EXTENSIONS:** All extensions will be handled by the Construction Department. The Construction Department will contact each borrower within 60 days of maturity to determine if an extension will be needed. All extensions will be handled as an exception. Prior to any extension, the builder must address in writing the reasons that the extension is being requested, i.e. it took longer for the permits to be approved or weather. This written request must also include the additional amount of time needed to complete the project. An appraisal will also be required as well as a new credit report for any extension. An extension will not be granted if the project has been completed.

Construction loans with a Licensed Contractor building the home	<u>A ¼ point fee or \$1000.00, whichever is greater, will be charged for any extension up to 6 months. A ½ point fee or \$2500.00, whichever is greater, will be charged for any extension over 6 months. In addition, there will be an appraisal fee based upon the amount charged to the Construction Department by the appraiser. For additional extensions, the fees will be negotiated by the Construction Department.</u>
Owner-Builder	<u>A ¼ point fee or \$1,500.00, whichever is greater, will be charged for a 3 month extension. If an extension is approved for more than 3 months, then a ½ point of the commitment or \$3,000.00, whichever is greater, will be charged. In addition, there will be an appraisal fee based upon the amount charged to the Construction Department by the appraiser. For additional extensions, the fees will be negotiated by the Construction Department.</u>

**MODIFICATIONS:**

A modification is when the construction loan commitment is changed. Typically the borrower request that their construction loan commitment be increased due to cost overruns. When a request to increase the borrowers construction loan the following applies:

1. The loan to value tables must be used, i.e. if a construction loan commitment increases from \$350,000 to \$450,000 the construction LTV would remain the same but the amount of cash required would be increased to 10%, of the entire cost.
2. The perm loan approval amount must still be higher or the same amount of the new construction commitment amount.
3. A new appraisal will be required according to the loan to value tables.
4. An addendum to the original construction contract reflecting the new cost.
5. If a discount fee was charged originally the same percentage of the fee will be charged for the modification amount.
6. A modification fee of \$1,000.00 will be charged by the Construction Department if the home is being built by a license contractor. A 2% fee will be charged for any owner-builder loan. This 2% will be calculated on the entire new commitment amount with a minimum fee of \$2,000.00

## **PREPAYMENT:**

There is not a prepayment on the construction loan.

## **INTEREST RESERVE:**

All construction loans will be required to have an Interest Reserve Account. An Interest Reserve Account is a line item within the construction loan that will be available to pay the interest each month on the borrower's behalf as the elect. An Interest Reserve Account will be set up for loans funded with out building permit but will not be allowed to be used until building permit are pulled. The calculation for the amount held is as follows:

The amount disbursed at the funding of the construction loan times the interest rate divided by the day in the year times the days of the term of the construction loan. Take the remaining balance and times this by the interest rate divided by the day in the year times half of the construction term.

Example:

Construction Commitment:	\$500,000
Interest Rate:	9%
Days in year:	365
Term:	12 months
Original funding amount (Lot and fees)	\$100,000
Remaining balance:	\$400,000

$\$100,000 \text{ times } 9\% \text{ divided by } 365 \text{ days times } 365 \text{ days} = \$9,000$

$\$400,000 \text{ times } 9\% \text{ divided by } 365 \text{ times half the day of the term (183)} = \$18,049.29$

The total amount held in the Interest Reserve Account would be \$27,049.29

If the borrower elects to pay the interest out of their pocket, the amount paid each month can be placed into a line item of the borrower's choice. All changes made to the cost breakdown will be on an exception basis and approved by management.

If an extension is granted the amount of interest held in reserve must be enough to cover the extended period of time. If not, the borrower will be required to prepay one month of interest calculated at the total commitment amount of the loan.

## **CONTINGENCY RESERVES:**

A contingency Reserve is a line item set up by either or both the borrower and builder. This line item is used for cost overruns or when a borrowers allowance for a line item, i.e. appliances or flooring, cost more than budgeted. The maximum contingency should not exceed 10% of the construction contract. Contingency Reserves are required on all self-builds or owner-builder projects.

## **BUILDERS RISK INSURANCE:**

Builders Risk Insurance must be in place prior to the Foundation Disbursement being made. The amount of the Builders Risk Insurance Policy will equal the construction contract at a minimum. Theft coverage is also required within the policy. First Magnus Financial must be listed as the mortgage and the borrower listed as an additional insured.

## **TITLE INSURANCE:**

A standard ALTA Title Binder is required at the time of construction close. Title must be free and clear from Mechanic's Liens at closing. All taxes must be paid current prior to or at construction close. The Title Company will "hold the title open" until the permanent loan closes.

## **CONSTRUCTION LOAN APPROVALS AND ACCEPTABLE AND NON-ACCEPTABLE CONDITIONS:**

1. Savings funds to close. Not allowable. Refer to "gap"
2. Gift funds. Borrower must have 5% of their own money into the construction loan. Additional monies may be gifted. A fully executed gift letter is required prior to construction loan documents being drawn.
3. Trade equity. Not allowed
4. Sale of existing residence. The payment must be included in the total debt ratio.
5. Any condition that could affect the First Magnus loan approval needs to be cleared prior to construction loan approval. i.e. collections, judgments, liens, etc.

## **BUILDER APPROVAL:**

Every new builder must complete the builder information and application form. (Exhibit B) Once the application has been completed it is to be sent to the National Construction Department. All information will be reviewed and an approval will be issued if acceptable. Only licensed General Contractors are eligible for approvals and licensing requirements will follow state guidelines. Self-build contractors are not eligible.

The maximum exposure with one builder will not exceed 10 homes or a total accumulative construction commitment \$5,000,000.00.

Builders building in a subdivision will be limited to a maximum of 5 homes in each subdivision and cannot exceed 20 % of the total number of lots. When a builder controls a subdivision (the only builder building in the subdivision), the construction contract must be reviewed and approved by FMFC counsel.

## **SELF-BUILDS/OWNER-BUILDER: OFFERED AS AN EXCEPTION ONLY.**

A self-build is considered when a person is acting as their own general contractor; this can be either a person who owns his own construction company and is building his own home or a person who is using a consulting company to assist in the building of his own home. This type of financing is by exception only. The owner-builder must have the ability to act as a contractor, i.e. in the business, a Foreman, subcontractor, etc. A cost breakdown with a written proposal for any line item over \$10,000 will be required. A 10% contingency is required above the cost to build. Borrower must have 10% of the construction loan commitment in reserves at time of closing the construction loan. For self-build/owner-builder projects, the existence of a GAP will be by exception only. If a GAP is approved it will be limited to \$60,000.00 and the borrower will need to have a minimum of 3 times the amount of the GAP in **liquid reserves**.

## **BORROWER DEPOSITS:**

Funds paid directly to the builder or suppliers, i.e. Architect or permits, by the borrower will be counted towards the required funds to close. A copy of the check, both front and back, paid to the builder or supplier as well as a lien waiver from is required. Any funds deposited with the builder will be applied against their initial draws until the entire amount of the deposit is depleted. This amount can not be identified as profit, overhead, or supervision.

## **CONSTRUCTION CONTRACTS AND CONSTRUCTION COST BREAKDOWNS:**

NO COST PLUS CONTRACTS. All construction loans must have a signed contract between Contractor's company and borrower. Construction Cost Breakdowns need to identify both a Supervision/Overhead and a Profit line item. This cost breakdown is for First Magnus use only and will not be given to any borrower.

## **DISBURSEMENTS:**

The initial disbursement at construction closing will be limited to 1) purchasing the land or 2) paying off an existing note on the land; and construction loan closing costs. A "soft cost" draw, not to exceed 5% of the builder's contract can be ordered 3 days after the funding/recording of the construction loan. Advances will be disbursed to reimburse the cost incurred for the construction improvements of the property. Funds will be disbursed after the construction is complete or a partial draw will be advanced in accordance with the amount of work completed. Draws can either be advanced directly to the builder, with the borrower's authorization, or to the borrower, again with the builder's authorization.

There are two methods of disbursing construction funds:

1. Line item disbursements. Funds will be disbursed using the builder's original cost breakdown. The builder will submit a draw request reflecting which line items he or she is requesting funds from. An inspection will be completed to determine if the requested work is complete. A title update will be ordered if Title Company requires this to provide mechanics lien coverage. If all work is complete, title is clear, funds will be disbursed. If the work is not complete the builder will be contacted and a decision to short the draw request or wait until the work is complete. Once the draw has been funded, a lien waiver will be sent directly to the builder for their signature. The next draw will not be executed until the previous lien waiver has been signed and returned. Lien waivers from sub-contractors or suppliers are not required unless funds are directly paid by First Magnus.
2. Percentage of completion disbursements. Funds will be disbursed according to the percentage of completion reflected on the inspection report. (Exhibit C) The builder does not need to request a draw from individual line items; they will only request that an inspection be completed. Once the inspection has been completed, the builder will be notified what the percentage of completion is and how much the draw will be for. Again, a lien waiver will be sent directly to the builder for their signature.

**Soft Cost Draws: Soft cost draws are any draws that are incorporated into the builder construction cost breakdown and are not actual, visible work performed on the site. Soft cost draw requests must be accompanied with the receipts and must be approved by the borrower.**

**BUILDER MATERIAL DEPOSITS: BY EXCEPTION ONLY**

Deposits requested by a builder, i.e. cabinets, flooring, windows, will be paid directly to the supplier. A copy of the invoice will be required. The deposit will be either 50% of the budgeted line item reflected on the approved builder's cost breakdown or the manufacturers/suppliers invoice, whichever amount is less. Prior to the disbursement being made the borrower must sign authorization. A lien waiver must be signed and returned from the sub-contractor or supplier prior to any other draws being completed. No checks will be issued. Funds will be wired to either the borrower or the builder.

**EXCEPTIONS:**

All exceptions will be handled through the National Construction Department. Information regarding the exception i.e. Credit scores, Cash Requirements, Loan to Values, will need to be put in writing by the loan officer. The request will then be reviewed by the National Construction Department and approved only by the National Construction Manager. A response to the request should be handled within 48 hours.

Exceptions to Loan to Values or cash requirements must be approved by the National Construction Manager and will only be reviewed for the following:

1. There will only be one exception, either to the LTV or the cash requirement, not to both LTV and Cash.
2. No exception will be granted to an increase to the LTV above 90%
3. No Exception will be granted to a decrease in cash requirement below 5%.
4. The max exception for any LTV will be 5%.
5. The max exception for any reduction in cash will be 5%.

# EXHIBIT C

**Background**

Morgan Financial 'Morgan' has an agreement with a Senior Lender 'Lender' for a warehouse line to facilitate the funding of loans to residential builders 'Borrower' for the construction and renovation of single and multi-family residences. The following underwriting guidelines are in accord with the lending parameters agreed upon between the Lender and Morgan. The processor and underwriter are to maintain a file in accord with filing instructions. In certain cases where an exception is required, approval in writing by Morgan and/or the Lender is required; the underwriter will be provided with the Morgan contact that will facilitate the proper approvals. The items below that are ***Bold and Italic*** indicate forms that were sent with this document.

**MINIMUM LOAN ELIGIBILITY**

**Loan Purpose**

The purpose of the loan is to fall under one of the following categories:

Acquisition and Development (A&D) - acquisition of land and development including sidewalks, streets and gutters for lot(s) built for the construction of 1-4 family homes

Construction – construction of residential 1-4 family homes

Renovation – renovation of 1-4 family homes

**Security Description**

The note is secured by a first lien on a 1-4 family residential property or land located in the state of Arizona; property in any additional states requires approval by Lender;

**Max Loan Amount and LTV Limits**

The maximum original principal balance shall not exceed \$350,000, unless otherwise approved by Lender;

Unless otherwise agreed to, the loan-to-value shall not exceed seventy-five percent (75.00%) of the "as-completed" value for construction loans, seventy-five percent (75.00%) of the "as-renovated" value for renovations loans and sixty-five (65.00%) of the "as completed" value for the initial land acquisition and development loans of the underlying property pursuant to a valuation methodology acceptable to Lender, which in no event shall exceed one hundred percent (100.00%) of the hard and soft costs associated with the loan;

**Loan Terms**

The note receivable shall have a maximum monthly term for: (i) renovation loans of Six (6) months, (ii) acquisition and development loans of six (9) months, and (iii) construction loans of twelve (12) months;

**Interest Terms**

The note receivable shall have a minimum interest rate of twelve percent (12.00%) or two percent (2.00%) over the Interest Rate paid by Borrower to Lender; In any event all pricing to be approved by Morgan.

**Section 32**

No note shall be qualified as a Section 32 mortgage;

**Exception**

Any loan that does not meet these criteria will be considered on an exception basis requiring approval by Morgan and Lender.

**MINIMUM BORROWER ELIGIBILITY****Description**

Borrower may be an individual, corporation or partnership. However, in all cases if the borrower is a corporation or partnership the principals/officers must provide personal guarantees and meet the individual requirements specified below. The corporation is to demonstrate it follows good business practices by showing financial stability, proper filings with government authorities that are current and good relations with customers and suppliers. The Contractors Questionnaire is used to provide the contact information for customers and suppliers.

**Corporation/Partnership**

If the Borrower is a corporation or partnership the underwriter is to obtain copies and review the Articles of Incorporation, Operating Agreement to determine the business purpose is in line with the proposed project. The underwriter is go to <http://starpas.azcc.gov/scripts/cgiip.exe/WService=wsbroker1/main.p> to confirm online the corporation is in good standing with the State and the respective web page to be printed and maintained in file. The corporation is to demonstrate it follows good business practices by showing financial stability, proper filings with government authorities that are current and good relations with customers and suppliers. The **Contractors Questionnaire** is used to provide the contact information for customers and suppliers.

**Corporate/Partnership Resolution**

If the borrower is a corporation or partnership a **Resolution** signed by the directors/partners authorizing the transaction is required.

**Corporate/Partnership Financial Review**

An assessment of the financial health of the corporation/partnership is to be completed by reviewing at least the following documents:

- Tax Returns (2 years min. or since conception)
- Bank Statements (2 months) (a **Verification of Deposit** to be obtained from respective bank)
- YTD P&L, Balance Sheet and Statement of Cash Flow
- UCC filings, if any, with State
- Entity tax id number

**Corporate/Partnership Litigation**

The corporation is to sign **Rep and Warranty** indicating any and all outstanding or pending litigation with a warranty there will be no conflict with the loan. If there is any outstanding or pending litigation a review and written approval will be needed by Morgan and Lender.

**Individual Requirements****1003 Application**

All individuals as borrowers or guarantors are to complete a **1003 Application**. (note: the application includes all personal information including, addresses, assets, liabilities, job history, residential history, work history, income, real estate owned, and disclosures/rep and warranties.

**Residency**

All borrowers must have a valid Social Security number.

**Permanent Resident Aliens**

A non-U.S. citizen who is lawfully residing in the U.S. as a permanent resident alien is eligible for a Loan on the same terms as a U.S. citizen.

**Non-Permanent Resident Aliens**

A non-U.S. citizen who is lawfully residing in the U.S. as a nonpermanent resident alien is eligible for a Mortgage on the same terms as a U.S. citizen.

**NOTE:** A Lawful Permanent Resident Alien is a non-U.S. citizen holding acceptable evidence of permanent residency issued by the Immigration and Naturalization Service (INS). A copy of all documents to be kept in file. Underwriter to confirm that the duration of legal residency per documentation exceeds loan term by at least 180 days.

**Ineligible borrowers**

Foreign Nationals

**Arms Length**

The maker(s) of the note, whether a person or corporate guarantor, (individually, an "Obligor" or collectively, "Obligors") shall be a U.S. resident personally liable on the note receivable who is not affiliated with or employed by Borrower, any Guarantor or investor in the Company and shall have no claim to any defense, set off, or counter claim with respect to the note, unless otherwise approved by Morgan Financial and Lender;

**Litigation**

Within the **1003 Application** the individual signs a disclosure indicating any and all outstanding or pending litigation with a warranty there will be no conflict with the loan. If there is any outstanding or pending litigation a review and approval will be needed by Morgan Financial and Lender. The underwriter is to also check the public record section of the credit report for any tax liens that may be outstanding.

**Credit Requirements for Individuals/Guarantors****Credit Score**

All loans will require a 2- or 3-source credit report. The representative score is to be the middle score for a three score repository or the lowest number on a 2 score repository. Each credit report should contain a Credit Score for each borrower whose income and/or assets will be used for qualifying. (note: all credit information including scores is automatically loaded into the **1003 Application** – a copy of the credit report is kept in the file)

Credit score models are periodically updated by credit vendors. If the credit score is project to be more than 120 days old at funding a new credit report is to be obtained.

**Acceptable Credit Repositories:**

TRW (FICO).

Equifax (Beacon).

Trans Union (Empirica).

**Minimum Credit Requirements**

There is technically no minimum credit score but the score is used for reference. However any score less than 620 requires approval on an exception basis. At a minimum the following factors must be met:

- Any bankruptcy must be discharged for a minimum of 4 years
- Credit report must be clear for 2 years (no 30+ delinquencies on any trade line)
- No foreclosures less than 4 years old
- Collection accounts no more than \$5000 total and no less than 4 years old
- No outstanding IRS liens or judgments unless IRS has subordinated in writing

**Individual Assets**

<b>Morgan Financial</b>	<b>Underwriting Guidelines – Portfolio Lending</b>	<b>Rev</b>	<b>June 5, 2006</b>
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All individuals providing personal guarantees are to provide at a minimum the following for review:

- Tax Returns (2 years min)
- Bank Statements (2 months)
- Personal Financial Statement (incorporated in the *1003 Application*)
- List of all assets including 401Ks, IRA
- Statement of Stocks/Bonds owned from financial institution

#### **Exceptions**

Any borrower that does not meet these criteria will be considered on an exception basis requiring final approval by Morgan and Lender.

#### **Public Records**

Any public records indicated in the credit report, title and/or *1003 Application* that have not been settled need review with actual copies from the respective court. In the event there are any public records remaining the loan needs to be completed on an exception basis. Any tax liens must be paid off unless the tax agency subordinates their position in writing.

### **MINIMUM PROPERTY ELIGIBILITY**

#### **Description**

All projects to be for 1-4 family residential properties.

#### **Taxes**

All real estate taxes shall be paid current at closing and thereafter;

#### **Insurance**

The property underlying the note shall be covered by property, casualty and title insurance (acceptable to Lender);

#### **Appraisal Description**

The appraisal is possibly the most critical in risk assessment and control. The underwriter is expected to be diligent in following a test of reasonableness in terms of the comparables.

A third party appraisal on all underlying properties by an appraiser on the approved vendor list (note: we covered some of the appraiser requirements in the Executive Summary – we do require they are approved for government loans causing more frequent audits and peer reviews). Each property is to have an appraisal completed. For a multi parcel development a representative appraisal may be completed for multiple properties. For example a development of 12 properties with 4 floor plans should only need 4 appraisals. However, each loan file is to contain a copy of the representative appraisal. Generally one appraisal only is needed for an A&D of multiple parcels by selecting an average size parcel to be used as the representative. In any event when a representative appraisal is used for multiple properties it is to be approved by Morgan on an exception basis.

#### **Appraisal Forms**

All appraisals to be 'as-completed/renovated' per drawings completed by licensed architect(s) within the state of the respective property.

For Construction and Bridge Loans a 2055 internal/external appraisal per Fannie Mae is to be completed.

For A&D a 2070 appraisal per Fannie Mae is to be completed.

#### **Title**

Title report not to show any encumbrances or other matters that may affect lien position. Any title report showing legal matters will need review by Morgan prior to loan approval.

#### **Environmental Assessment**

To the best of Borrower's knowledge, no environmental issues shall be outstanding on the real property underlying the note.

### **MINIMUM CONTRACTOR ELIGIBILITY**

#### **Description**

The general contractor requires review for suitability to high standards of capability as evidenced by experience, license history and references.

#### **License**

The underwriter is to go to <http://www.azroc.gov/clsc/AZROCLicenseQuery> contractor is to be properly licensed within the state the project is to be carried out. The license history is to be obtained from state indicating any complaints or disciplinary actions. For any open complaints or disciplinary actions all associated documentation will be required for review. Any disciplinary actions shown on the report whether resolved or not requires approval by Morgan on an exceptions basis.

#### **Contractor Questionnaire**

The standard *Contractor Questionnaire* form is to be complete by the general contractor in charge of the project. For new contractors the underwriter is to call at least 2 of the most recent customers and at least 3 of the most recent sub-contractors used. (the questionnaire includes information on license, ownership, customers, vendors...). The *Contractor Reference Check Form* is to be used to complete the reference check.

### **SERVICING**

#### **Payment Draws**

The underwriter is to work with the Borrower to create a 4 or 5 draw schedule for payment of subcontractors during the build process. The intent is for the Borrower not to receive profit until the home sells to the permanent buyer. No provision is to be made to management fees or similar to the general contractor. The GC is to be motivated to complete the project in as timely a manner as possible.

#### **Draw System**

All funds are to be placed at a third party Servicer providing audit and disbursement services. The current Servicer is Safe Harbor. Safe Harbor will conduct on site audits when the Borrower indicates the completion of a phase to take down one of the scheduled payment draws. The audit is to confirm completion of a construction phase with review and written approval required by Morgan. The Safe Harbor disbursement Form is to be completed by the underwriter. (note: a copy of the form is attached)

#### **Interest Payments**

Borrower's note payments shall be due and payable monthly in installments of interest with any prepaid interest payments to be held in escrow by Servicer and deposited in kind to Lenders blocked account as due.

### **GENERAL**

The Borrower's loan application, the note, and all other applicable instruments shall be in form and content (acceptable to Lender;) and other items reasonably required by the Lender to be determined during due diligence. To make sure the most current revision is used the underwriter to only use forms available on the network at Morgan Financial.

# EXHIBIT D

**Background**

Morgan Financial 'Morgan' has an agreement with a Senior Lender 'Lender' for a warehouse line to facilitate the funding of loans to residential builders 'Borrower' for the construction and renovation of single and multi-family residences. The following underwriting guidelines are in accord with the lending parameters agreed upon between the Lender and Morgan. The processor and underwriter are to maintain a file in accord with filing instructions. In certain cases where an exception is required, approval in writing by Morgan and/or the Lender is required; the underwriter will be provided with the Morgan contact that will facilitate the proper approvals. The items below that are ***Bold and Italic*** indicate forms that were sent with this document.

**MINIMUM LOAN ELIGIBILITY**

**Loan Purpose**

The purpose of the loan is to fall under one of the following categories:

Acquisition and Development (A&D) - acquisition of land and development including sidewalks, streets and gutters for lot(s) built for the construction of 1-4 family homes

Construction – construction of residential 1-4 family homes

Renovation – renovation of 1-4 family homes

**Security Description**

The note is secured by a first lien on a 1-4 family residential property or land located in the state of Arizona; property in any additional states requires approval by Lender;

**Max Loan Amount and LTV Limits**

The maximum original principal balance shall not exceed \$350,000, unless otherwise approved by Lender;

Unless otherwise agreed to, the loan-to-value shall not exceed seventy-five percent (75.00%) of the "as-completed" value for construction loans, seventy-five percent (75.00%) of the "as-renovated" value for renovations loans and sixty-five (65.00%) of the "as completed" value for the initial land acquisition and development loans of the underlying property pursuant to a valuation methodology acceptable to Lender, which in no event shall exceed one hundred percent (100.00%) of the hard and soft costs associated with the loan;

**Loan Terms**

The note receivable shall have a maximum monthly term for: (i) renovation loans of Six (6) months, (ii) acquisition and development loans of six (9) months, and (iii) construction loans of twelve (12) months;

**Interest Terms**

The note receivable shall have a minimum interest rate of twelve percent (12.00%) or two percent (2.00%) over the Interest Rate paid by Borrower to Lender; In any event all pricing to be approved by Morgan.

**Section 32**

No note shall be qualified as a Section 32 mortgage;

**Exception**

Any loan that does not meet these criteria will be considered on an exception basis requiring approval by Morgan and Lender.

**MINIMUM BORROWER ELIGIBILITY****Description**

Borrower may be an individual, corporation or partnership. However, in all cases if the borrower is a corporation or partnership the principals/officers must provide personal guarantees and meet the individual requirements specified below. The corporation is to demonstrate it follows good business practices by showing financial stability, proper filings with government authorities that are current and good relations with customers and suppliers. The Contractors Questionnaire is used to provide the contact information for customers and suppliers.

**Corporation/Partnership**

If the Borrower is a corporation or partnership the underwriter is to obtain copies and review the Articles of Incorporation, Operating Agreement to determine the business purpose is in line with the proposed project. The underwriter is to go to <http://starpas.azcc.gov/scripts/cgip.exe/WService=wsbroker1/main.p> to confirm online the corporation is in good standing with the State and the respective web page to be printed and maintained in file. The corporation is to demonstrate it follows good business practices by showing financial stability, proper filings with government authorities that are current and good relations with customers and suppliers. The **Contractors Questionnaire** is used to provide the contact information for customers and suppliers.

**Corporate/Partnership Resolution**

If the borrower is a corporation or partnership a **Resolution** signed by the directors/partners authorizing the transaction is required.

**Corporate/Partnership Financial Review**

An assessment of the financial health of the corporation/partnership is to be completed by reviewing at least the following documents:

- Tax Returns (2 years min, or since conception)
- Bank Statements (2 months) (a **Verification of Deposit** to be obtained from respective bank)
- YTD P&L, Balance Sheet and Statement of Cash Flow
- UCC filings, if any, with State
- Entity tax id number

**Corporate/Partnership Litigation**

The corporation is to sign **Rep and Warranty** indicating any and all outstanding or pending litigation with a warranty there will be no conflict with the loan. If there is any outstanding or pending litigation a review and written approval will be needed by Morgan and Lender.

**Individual Requirements****1003 Application**

All individuals as borrowers or guarantors are to complete a **1003 Application**. (note: the application includes all personal information including, addresses, assets, liabilities, job history, residential history, work history, income, real estate owned, and disclosures/reps and warranties.

**Residency**

All borrowers must have a valid Social Security number.

**Permanent Resident Aliens**

A non-U.S. citizen who is lawfully residing in the U.S. as a permanent resident alien is eligible for a Loan on the same terms as a U.S. citizen.

NOTE: A Lawful Permanent Resident Alien is a non-U.S. citizen holding acceptable evidence of permanent residency issued by the Immigration and Naturalization Service (INS). A copy of all documents to be kept in file. Underwriter to confirm that the duration of legal residency per documentation exceeds loan term by at least 180 days.

**Ineligible borrowers**

Foreign Nationals

**Arms Length**

The maker(s) of the note, whether a person or corporate guarantor, (individually, an "Obligor" or collectively, "Obligors") shall be a U.S. resident personally liable on the note receivable who is not affiliated with or employed by Borrower, any Guarantor or investor in the Company and shall have no claim to any defense, set off, or counter claim with respect to the note, unless otherwise approved by Morgan Financial and Lender;

**Litigation**

Within the **1003 Application** the individual signs a disclosure indicating any and all outstanding or pending litigation with a warranty there will be no conflict with the loan. If there is any outstanding or pending litigation a review and approval will be needed by Morgan Financial and Lender. The underwriter is to also check the public record section of the credit report for any tax liens that may be outstanding.

**Credit Requirements for Individuals/Guarantors**

**Credit Score**

All loans will require a 2- or 3-source credit report. The representative score is to be the middle score for a three score repository or the lowest number on a 2 score repository. Each credit report should contain a Credit Score for each borrower whose income and/or assets will be used for qualifying. (note: all credit information including scores is automatically loaded into the **1003 Application** – a copy of the credit report is kept in the file)

Credit score models are periodically updated by credit vendors. If the credit score is project to be more than 120 days old at funding a new credit report is to be obtained.

**Acceptable Credit Repositories:**

TRW (FICO).

Equifax (Beacon).

Trans Union (Empirica).

**Minimum Credit Requirements**

Any situation whereby the following requirements are not met management approval is needed to proceed:

- FICO score of 620 minimum
- Any bankruptcy must be discharged for a minimum of 2 yrs.
- Credit report must be clear for 2 years (no 30+ delinquencies on any trade line)
- No foreclosures less than 4 years old
- Collection accounts no more than \$5000 total and no less than 4 years old
- No outstanding IRS liens or judgments unless IRS has subordinated in writing

**Individual Assets**

All individuals providing personal guarantees are to provide at a minimum the following for review:

- Tax Returns (2 years min)
- Bank Statements (2 months)
- Personal Financial Statement (incorporated in the **1003 Application**)
- List of all assets including 401Ks, IRA
- Statement of Stocks/Bonds owned from financial institution

**Exceptions**

Any borrower that does not meet these criteria will be considered on an exception basis requiring final approval by Morgan and Lender.

**Public Records**

Any public records indicated in the credit report, title and/or **1003 Application** that have not been settled need review with actual copies from the respective court. In the event there are any public records remaining the loan needs to be completed on an exception basis. Any tax liens must be paid off unless the tax agency subordinates their position in writing.

**MINIMUM PROPERTY ELIGIBILITY**

**Description**

All projects to be for 1-4 family residential properties.

**Taxes**

All real estate taxes shall be paid current at closing and thereafter;

**Insurance**

The property underlying the note shall be covered by property, casualty and title insurance (acceptable to Lender);

**Appraisal Description**

The appraisal is possibly the most critical in risk assessment and control. The underwriter is expected to be diligent in following a test of reasonableness in terms of the comparables.

A third party appraisal on all underlying properties by an appraiser on the approved vendor list (note: we covered some of the appraiser requirements in the Executive Summary – we do require they are approved for government loans causing more frequent audits and peer reviews). Each property is to have an appraisal completed. For a multi parcel development a representative appraisal may be completed for multiple properties. For example a development of 12 properties with 4 floor plans should only need 4 appraisals. However, each loan file is to contain a copy of the representative appraisal. Generally one appraisal only is needed for an A&D of multiple parcels by selecting an average size parcel to be used as the representative. In any event when a representative appraisal is used for multiple properties it is to be approved by Morgan on an exception basis.

**Appraisal Forms**

All appraisals to be 'as-completed/renovated' per drawings completed by licensed architect(s) within the state of the respective property.

For Construction and Bridge Loans a 2055 internal/external appraisal per Fannie Mae is to be completed.

For A&D a 2070 appraisal per Fannie Mae is to be completed.

**Title**

Title report not to show any encumbrances or other matters that may affect lien position. Any title report showing legal matters will need review by Morgan prior to loan approval.

**Environmental Assessment**

To the best of Borrower's knowledge, no environmental issues shall be outstanding on the real property underlying the note.

**MINIMUM CONTRACTOR ELIGIBILITY**

**Description**

The general contractor requires review for suitability to high standards of capability as evidenced by experience, license history and references.

**License**

The underwriter is to go to <http://www.azroc.gov/clsc/AZROCLicenseQuery> contractor is to be properly licensed within the state the project is to be carried out. The license history is to be obtained from state indicating any complaints or disciplinary actions. For any open complaints or disciplinary actions all associated documentation will be required for review. Any disciplinary actions shown on the report whether resolved or not requires approval by Morgan on an exceptions basis.

**Contractor Questionnaire**

The standard **Contractor Questionnaire** form is to be complete by the general contractor in charge of the project. For new contractors the underwriter is to call at least 2 of the most recent customers and at least 3 of the most recent sub-contractors used. (the questionnaire includes information on license, ownership, customers, vendors...). The **Contractor Reference Check Form** is to be used to complete the reference check.

**SERVICING**

**Payment Draws**

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**Draw System**

All funds are to be placed at a third party Servicer providing audit and disbursement services. The current Servicer is Safe Harbor. Safe Harbor will conduct on site audits when the Borrower indicates the completion of a phase to take down one of the scheduled payment draws. The audit is to confirm completion of a construction phase with review and written approval required by Morgan. The Safe Harbor disbursement Form is to be completed by the underwriter. (note: a copy of the form is attached)

**Interest Payments**

Borrower's note payments shall be due and payable monthly in installments of interest with any prepaid interest payments to be held in escrow by Servicer and deposited in kind to Lenders blocked account as due.

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# EXHIBIT E

**MOODY'S**  
INVESTORS SERVICE

**Rating Action: Moody's Rates WMALT Series 2006-9 Alt-A Mortgage Deal**

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Global Credit Research - 10 Nov 2006

**Approximately \$239 Million of Mortgage-Backed Securities Rated**

New York, November 10, 2006 – Moody's Investors Service has assigned a Aaa rating to the senior certificates issued by Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2006-9 Trust, and ratings ranging from Aa2 to Ba3 to the subordinate certificates in the deal.

The securitization is backed by M&T Mortgage Corporation (45.2%), First Magnus Financial Corporation (14.3%), and various others originated fixed-rate Alt-A mortgage loans. The ratings are based primarily on the credit quality of the loans and on protection from subordination, overcollateralization, and excess spread. Moody's expects collateral losses to range from 1.05% to 1.25%.

Washington Mutual Bank will service the loans and Washington Mutual Mortgage Securities Corp. will act as master servicer. Moody's has assigned Washington Mutual Mortgage Securities Corp its servicer quality rating of SQ2+ as a master servicer of mortgage loans.

**THE COMPLETE RATING ACTIONS ARE AS FOLLOWS:**

Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2006-9 Trust

Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2006-9

Cl. A-1A, Assigned Aaa

Cl. A-1B, Assigned Aaa

Cl. A-2, Assigned Aaa

Cl. A-3, Assigned Aaa

Cl. A-4, Assigned Aaa

Cl. A-5, Assigned Aaa

Cl. A-6, Assigned Aaa

Cl. A-7, Assigned Aaa

Cl. A-8, Assigned Aaa

Cl. M-1, Assigned Aa2

Cl. M-2, Assigned A1

Cl. M-3, Assigned A2

Cl. M-4, Assigned A3

Cl. B-1, Assigned Baa1

Cl. B-2, Assigned Baa2

Cl. B-3, Assigned Baa3

Cl. R, Assigned Aaa

Cl. PPP, Assigned Aaa

Cl. B-4, Assigned Ba3

The Class B-4 certificates were sold in privately negotiated transactions without registration under the Securities Act of 1933 (the "Act") under circumstances reasonably designed to preclude a distribution thereof in violation of the Act. The issuance has been designed to permit resale under Rule 144A.

Additional information is available on <http://www.moody.com>

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MOODY'S  
INVESTORS SERVICE

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**MOODY'S**  
INVESTORS SERVICE

**Rating Action:** Moody's Rates RBSGC Mortgage Loan Trust, Series 2007-A Alt-A Mortgage Loans

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Global Credit Research - 15 Feb 2007

**Approximately \$461 Million of Mortgage-Backed Securities Rated**

New York, February 15, 2007 -- Moody's Investors Service has assigned a Aaa rating to the senior certificates issued by RBSGC Mortgage Loan Trust 2005-A and a rating of Aa2 to the Class B-1 certificate.

The securitization is backed by fixed-rate, Alt-A mortgage loans originated by Wells Fargo Bank, N.A. (61.43%), First Magnus Financial Corporation (19.33%) and MortgageIT, Inc (19.24%). The ratings are based primarily on the credit quality of the loans, and on the protection from subordination. Moody's expects collateral losses to range from 0.80% to 1.00%.

Wells Fargo Bank, N.A. will service the loans. Moody's has assigned Wells Fargo Bank, N.A. its top servicer quality rating of SQ1 for prime loans.

The complete rating action is as follows:

Issuer: RBSGC Mortgage Loan Trust 2007-A

Mortgage Loan Pass-Through Certificates, Series 2007-A

Cl. 1-A-1, Assigned Aaa

Cl. 2-A-1, Assigned Aaa

Cl. 2-A-2, Assigned Aaa

Cl. 2-A-3, Assigned Aaa

Cl. 2-A-4, Assigned Aaa

Cl. 2-A-5, Assigned Aaa

Cl. 3-A-1, Assigned Aaa

Cl. 3-A-2, Assigned Aaa

Cl. X, Assigned Aaa

Cl. PQ, Assigned Aaa

Cl. R, Assigned Aaa

Cl. B-1, Assigned Aa2

Additional research is available on <http://www.moody's.com>

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