Mike's Mortgage Company

BUSINESS PLAN

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1. SUMMARY

1.1 Company Profile
Mike's Mortgage Company, LLC is a full service Mortgage Lender licensed in the following States, XXXXXXX.. Mike's Mortgage Company, LLC focuses its efforts on providing mortgage loan products and services to Real Estate Agents and their buyers.

1.2 Company Goals
Mike's Mortgage Company's two primary goals are to be on pace to close $200 million per year within 12 months of starting up (Hard Opening) and to be on pace to close $1 billion in loans within 3-4 years of opening. It intends to create a servicing platform with a goal of reaching $5 Billion in its servicing Portfolio. As of the date of this business plan, the exit strategy is to sell the company for 4-7 times EBIDA plus the value of the servicing portfolio. With a servicing portfolio of $5 billion and 50 basis points profit on closed loan volume, the company would be worth between $70 million- $85 million.

Mike's Mortgage Company, LLC will provide high touch/ high service Mortgage Loans with advice provided by highly qualified, experienced licensed Mortgage Loan Officers. These services will be geared toward consumers that place a high value on customer service.

1.3 Loan Officer Recruiting
The primary asset of a Mortgage company are its Loan Officers. The hardest part of running a Mortgage company is the recruiting of quality Loan officers.

The goal is to create a company that can provide all the same resources to its loan officers as its competitors. Once a level playing field has been created, loan officer recruiting comes down to the personal relationships of senior management with the Loan Officers they know and can recruit.

1.4 Customers
Mike's Mortgage Company's target customers are Real Estate Agents.

1.5 Mission Statement
Owner to complete. (Optional)

2. Growth Strategy

Mike's Mortgage Company, LLC will grow through recruiting experienced Loan Officers that Senior Management has personal relationships with. The first step in recruiting quality Loan Officers is to create a company that provides all the products, services and benefits of the top lenders in its area.

2.1 Organic Growth

Organic growth will cost between $2-3 Million spread out over the first 12 months. Most of the cost will be allocated to salaries of the senior leadership. The advantages of this option over acquisition are lower costs, lower risk and being able to create the desired culture and more seamlessly integrate employees into Mike's Mortgage Company. Organic growth will provide for better levels of Institutional knowledge and lower financial risks. The disadvantages of Organic growth over acquisition are slower pace for growth.

The first step in the Organic Growth process is to build the infrastructure to become a lender. There are multiple advantages to being a lender over a broker. Some of the top reasons are listed below.

75% of Loan Officers will not consider working for a Broker. To compound the issue, the 25% remaining that would consider working for a Broker are the bottom 25% in both quality and volume. The main asset of a mortgage company is its Loan Offices. Without quality Loan Officers, you can't achieve the desired goals.

There are three sources of Income as a Lender. Fee Income, Gain on sale and Servicing. In addition to the revenue income, the servicing portfolio will increase the value of the company by $10 million for every $1 billion in closed loans put into the servicing portfolio. Over a three year period this equals $45-$50 million in additional revenue and added value.

A broker cannot realize either gain on sale or servicing income. This represents between 50-65 basis in additional income. As a Broker you are limited by federal law to a maximum amount that can be earned on each transaction and will be limited in the type of loan products you can offer.

The maximum amount that can be collected as a Broker is 275 basis points. The typical amount collected by a Lender is between 350-450 basis points.

At the end of 7-8 years as a Lender the company will be worth between $70 - $85 million. A Mortgage Broker has almost no value.

The above numbers can and do vary based on many factors including but not limited to market conditions, geographical area and individuals' personal experience and expertise.

2.2 Executive Team

The President of Mike's Mortgage Company will contract Milestone Mergers, LLC to hire the senior leadership team and immediately start the process of building the infrastructure to become a lender. This will allow Mike to continue working at his current job and continue to earn money. In 9-12 months, Mike will have a fully operational mortgage company with senior management in place, that just needs production added.

The initial executive Team will consist of six members.

President / CEO.
The President is responsible for the overall growth and direction of the company. Their primary focus the first year will be managing the building of the corporate infrastructure to become a Lender. They will be responsible for managing all aspects of the company. A primary focus of their job will be recruiting. They will have the ability to attract high quality Loan Officers.

Director of Secondary Marketing, SVP.
The Director of Secondary Marketing is responsible for the sale of loans to the secondary market. They are responsible for creating the policy and procedures for locking in loans and delivery to the secondary market. They are responsible for managing Post Closing, Insuring/ guaranteeing. They are responsible for creating and managing the hedging program. They will be the primary contact with the Wholesale partners and will work with other departments to manage the warehouse lines of credit. They are responsible for onboarding Non Agency loan products such as Jumbo Loans, Construction Loans, local bond programs and other niche products. They will have prior experience managing a secondary marketing department.

Chief Financial Officer, SVP
The Chief Financial Officer is responsible for managing, tracking and reporting all financial data, including income, expenses and balance sheet items. They will be responsible for budgeting and projections. They will work with other departments to manage the warehouse lines of credit. They will be a key stake holder in vendor, partner and regulatory audits. They will have prior experience as a CFO for a Mortgage company.

Director of Compliance, SVP
The Director of Compliance is responsible for the management, oversight, and development of compliance operations, policies and procedures. They will be the primary contact for both internal and external audits. They will be responsible for all licensing. They will be a subject matter expert on compliance-related mortgage activities and all regulatory and lending laws. They will have prior experience as a Director of Compliance for a Mortgage company.

Director of Operations SVP
The Director of Operations is responsible for the management, oversight and development of procedures and policies for the Processing, Underwriting and Closing departments. They are responsible for managing the pipeline and ensuring all loans close on time and are saleable to the secondary market. They will work with other departments to manage the warehouse lines of credit. They will have prior experience as a Director of Operations for a Mortgage company.

Encompass Administrator
The Encompass Administrator is responsible for managing, updating and administering the company’s Loan Origination System (Encompass). The Encompass Administrator will work closely with other departments to provide accurate data and reporting functions as well as optimize company systems and

workflow to maximize efficiency and end user experience. The Encompass Administrator will have prior experience as an Encompass Administrator for a Mortgage Company.

2.3 Growth Through Acquisition

Growth through acquisition will cost between $15 - $35 million with 50% paid upfront and the remainder paid over 3-5 years. Most of these costs will be paid to the seller of an established Mortgage company. The advantages of this option are being able to scale quickly to $1 billion in closed loan volume. The disadvantages are difficulty of integrating an already established culture into Mike's Mortgage Company. There are substantially higher financial risks as more upfront cash will be needed.

Growth through acquisition will take 9-12 months to achieve $1 billion in loan production. There will be another 6 -9 months to merge the existing company into Mike's Mortgage Company.

The first step in the Growth through Acquisition process is to identify acquisition targets in the following states XXXXX. Mike's Mortgage Company will then complete the following steps: Sign NDA's, provide proof of funds, meet sellers, exchange of preliminary information, signing of Non-binding Letter of Intent (LOI), provide refundable deposit, exchange of full due diligence information via Data Room, negotiating and signing of Definitive binding Agreement, second deposit due, close on the purchase. Begin regulatory approval.

After the completion and closing of the purchase, Mike's Mortgage Company will take the next 6-9 months to learn about the acquired company and put policies and procedures in place to complete the merger. Shortly after closing, Mikes Mortgage Company will leverage the infrastructure of the new company to begin recruiting and hiring Loan Officers.

3. Miscellaneous

3.1 Industry

Mortgage loans are a commodity. 85% of all loans are sold to the FHFA agencies. Meaning 85% of all loans closed in the United States are the exact same. A 30 year fixed rate loan is a 30 year fixed rate loan. Mortgage companies are all very similar. Mortgage companies get their products from the same source. They price loans with the same pricing engines and use the same technology to run the company and interface with customers.

The differences between each company are very minimal. The differentiator normally comes down to the quality of the individual Loan Officer. Without a proper infrastructure it will be impossible to recruit quality Loan Officers.

3.2 Competitors

Mike's Mortgage Company's primary competitors are Independent Mortgages bankers, Community Banks and Credit Unions.

3.3 Competitive Advantage

Mike's Mortgage Company will have a competitive advantage over other mortgage companies in its geography due to its size and ability to be nimble yet still have all the tools its employees need to be successful.

3.4 Value Proposition

Mike's Mortgage Company, LLC primary value proposition is XXXXXX (Owner to complete). Mike's Mortgage Company, LLC will leverage that value to recruit Loan Officers who will focus on serving Real Estate Agents and their customers.

3.5 Pricing Structure

Mike's Mortgage Company, LLC will provide traditional high touch/ high service Mortgage Loans with access to, and advice provided by highly qualified, experienced licensed Mortgage Loan Officers. These services will be geared toward consumers that place a high value on customer service.

4. FINANCIAL NOTES

4.1 Overview
A properly structured Mortgage company uses the three pillars/ three legged stool principle.

Revenue Stream 1- Fee income.

Revenue Stream 2 - Gain on sale.

Revenue Stream 3 - Servicing Income.

The below assumes $1 billion to $1.5 billion in yearly closed Loans.

4.2 Fee Income
Gross Fee income- 350 - 450 basis points.
Net Fee Income after expenses 25- 50 basis points

4.3 Gain on Sale
Gain on sale 35 - 50 basis points.

4.4 Servicing
Servicing Income- 20-30 basis points. The typical value of a servicing portfolio is 100 basis points. A $1 billion servicing portfolio is worth $10 million.

Loan servicing is an important part of the overall profitability and health of a mortgage company. One of the hardest parts of managing a Mortgage company are the extreme market fluctuations that cause a need to hire when busy and downsize when slow. This can cause large swings in both gross and net income. The extreme market swings can also put a strain on overall growth and profitability. The servicing income helps to smooth out this cycle by having a residual income stream. Servicing income will be the most consistent income and will have much lower fluctuations due to market conditions.

With a servicing portfolio of $5 billion and 50 basis points profit on closed loan volume, the company would be worth between $70 million- $85 million.

The above numbers can and do vary based on many factors including but not limited to market conditions, geographical area and individuals' personal experience and expertise.