



Due Diligence Questionnaire for Prospective Investors

for

Hearthfire Income Fund I, LLC

July 12, 2023

Disclaimer

Please note that the information provided here is for general informational purposes only. This is not a legal document, nor should it be considered as a substitute for the full Private Placement Memorandum (PPM) or any other official documents related to Hearthfire Income Fund I (The Fund). Potential investors should review the full PPM and all relevant legal documents, and consult with a legal, financial, or other professional advisor before making any investment decisions. Nothing contained herein constitutes investment, legal, tax, or other advice.

Fund Information

1. Please provide the name and primary contact information for The Fund.
*Investor Services, investors@hfireholdings.com, 267-225-4373
Robert Moreno, Vice President of Investments, robert@hfireholdings.com, 720-490-9091
Corinn Altomare, Founding Partner, corinn@hfireholdings.com, 818-378-1524
Sergio Altomare, Founding Partner and CEO, sergio@hfireholdings.com, 267-738-9354*
2. What is the investment strategy of The Fund?
*The Fund is intended to make and manage various loans and other debt-related mortgage instruments to various borrowers in various real estate ventures, chiefly self-storage assets.
The Fund operates as an “evergreen” model, which means that it intends to perpetually raise and deploy capital on an ongoing basis through this Offering or potential subsequent offerings.
Note: although The Fund intends to make investments in third-party operating companies and borrowers, the initial investments shall be Hearthfire assets and investments.*
3. What is the target return for The Fund?
*Class A - 10% per annum
Class B - 8.5% per annum
Class C - 7% per annum*
4. What types of assets will The Fund invest in?
Primarily Self Storage and related assets and companies. Primary land and real estate loans, bridge loans, transaction loans, mezzanine debt, growth and rescue capital, special situation investments.
5. What is The Fund's size and target capital raise?
The Fund size is evergreen with no cap, however the initial target capital raise is \$25,000,000

6. Can you provide the Sources and Uses of The Fund?

Hearthfire Income Fund I - Sources and Uses		
Sources		
GP Equity	\$1,250,000	5.00%
LP Equity	\$23,750,000	95.00%
Total Sources	\$25,000,000	100.00%
Uses		
Investments in Debt Instruments Linked to Self Storage Properties	\$10,000,000	40.00%
Direct Investment in Self-Storage Land & Development Projects	\$10,000,000	40.00%
Investment in Portfolio Companies	\$2,500,000	10.00%
Audit, Legal & Regulatory (Life of Fund)	\$100,000	0.40%
Fund Operating Expenses (Life of Fund)	\$150,000	0.60%
Interest Reserve	\$250,000	1.00%
Liquidity Reserve	\$2,000,000	8.00%
Total Uses	\$25,000,000	100%

7. Are there any projects that have or will be funded at this time?

Hearthfire Income Fund I - Investment Pipeline									
Location	Asset Type	Borrower	Loan Type	Loan Amount	LTV/LTC	Term	Projected Close Date	Maturity	APR (Inc Pts)
Allentown, PA	Land	Hearthfire	Land Acq Loan	\$650,000	50.00%	3 Mo	9/30/2023	12/31/2023	14.00%
Allentown, PA	Land	Hearthfire	Land Acq Loan	\$750,000	50.00%	3 Mo	9/30/2023	12/31/2023	14.00%
Fitchburg, MA	Self Storage	Hearthfire	Construction Loan	\$800,000	40.00%	12 Mo	9/30/2023	9/30/2024	10.00%
Laurel, DE	Self Storage	Hearthfire	Construction Loan	\$1,000,000	20.00%	24 Mo	9/30/2023	9/30/2025	11.00%
LaPorte, IN	Self Storage	Hearthfire	Acquisition Loan	\$750,000	75.00%	3 Mo	10/31/2023	12/31/2023	14.00%
				\$3,950,000	47.00%				12.60%

8. What is the proposed timeline for raising funds and closing The Fund?

The Fund launch date is 6/30/2023. The life of The Fund is expected to be 10 years.

Management Team

9. Who comprises the management team and what are their qualifications and experience?

Please see our [Company Overview deck](#) for our management team and their qualifications.

10. Please provide an overview of the management team's past performance in similar investment strategies.

Please see our [Company Overview deck](#) for our management team's past performance in similar investment strategies.

11. Have there been any recent changes to the management team? If so, please describe.

Please see our [Company Overview deck](#) for recent changes to our management team.

12. How is the management team compensated?

The management team is compensated through the profitability of the underlying investments made in connection with the use of The Fund's assets.

Investment Process

13. Please describe The Fund's due diligence process for identifying and vetting potential investments.

Refer to Section II. Project Details of the PPM, pages 15-17.

Qualified Borrower: To be considered for a project loan, a borrower must ideally meet the following criteria, although exceptions can be made at The Fund's discretion:

- *Minimum credit score of 680*
- *No bankruptcy or receiverships in the last five years*
- *Debt-to-income ratio not exceeding 45%*
- *Proven track record in real estate industry with minimum five years' experience and three completed comparable projects*
- *In certain cases, a personal guaranty might be required.*

Hearthfire Borrowers:

- *Will adhere to market rates and terms, ensuring fairness and transparency*
- *Will likely acquire self-storage properties with market opportunity, proven viability, strong operational capabilities, growth potential, and provide attractive risk-adjusted returns.*

Equity Investments Directly in Real Estate:

- *Investments will be evaluated based on potential to generate risk-adjusted returns, market analysis, asset quality, Loan-to-Value (LTV) ratio, Loan-to-Cost (LTC) ratio, and Debt Service Coverage Ratio (DSCR).*

Investment Criteria in Miscellaneous Business or Real Estate Companies:

- *Investments will be based on market opportunities, due diligence, and risk management.*

Please note that all criteria and qualifications are subject to change, and The Fund reserves the right to reject or provide a project loan for any reason that falls outside the mentioned criteria.

14. How does The Fund determine the pricing of its investments?

Our team uses a thorough underwriting process to determine the pricing of its investments. This process typically involves assessing a range of factors like the property's current and potential future value, location, demand for self-storage in that area, the borrower's credit history, the proposed terms of the loan, and overall market conditions. For example, if a property is in a high-demand area and the borrower has a solid credit history, the loan may command a lower rate compared to riskier investments.

15. What is The Fund's approach to diversification across geographic locations, borrower types, and deal sizes?

We place a strong emphasis on diversification to mitigate risk. Our target portfolio includes properties from a broad range of geographic locations, and we intend to lend to a variety of borrower types, from established entities to newer ones in the market. Our deal sizes are also diverse, spanning from smaller, single-site operations to larger, multi-site projects. This

approach helps spread our exposure and reduces the potential impact if any single investment performs poorly.

16. How does The Fund manage the concentration of risk in its investments?

In terms of risk management, we will constantly monitor the concentration of risk in our portfolio, avoiding overexposure to any project type, borrower, or location.

To manage defaults and non-performing loans, we have a well-defined process that includes negotiating with the borrower to restructure the loan, or in worst-case scenarios, we may resort to legal remedies including foreclosure.

We use various strategies to manage interest rate risk and market volatility, such as diversification and constant market analysis to help us adapt to changing conditions.

Risk Management

17. Please provide an overview of The Fund's risk management strategy.

The Fund's risk management strategy follows industry standards to ensure a comprehensive program for continuous management and monitoring of inherent, systemic, and market risk to ensure portfolio stability and liquidity. Our risk management practice includes:

1. Diversification: A primary control to minimize risk lies in the power of diversification. We actively ensure our investments are spread across a variety of self-storage assets, geographical locations, investment strategies, debt instruments, interest rate and maturity programs, and borrower types. This diversified approach aids in insulating our portfolio from the volatility associated with any single investment or market.

2. Portfolio Monitoring and Assessment: We perform regular and ongoing monitoring of our investment portfolio. Our team uses advanced risk modeling and analytics to assess potential vulnerabilities and evaluate the health of our portfolio. If any high-risk scenarios are identified, we take immediate steps to rebalance our portfolio or apply suitable risk-mitigation strategies.

3. Rigorous Investment Criteria: The Fund operates with stringent investment criteria. We only consider investments that meet our thorough due diligence process, which includes a comprehensive evaluation of the borrower's creditworthiness, and a detailed appraisal of the property in question.

4. Hedging Strategies: While our primary focus is on direct investment in self-storage assets, we also employ hedging strategies when appropriate to mitigate risk further. These strategies may include financial derivatives or other instruments that offset potential losses in our portfolio.

5. Limiting Exposure: We have specific rules in place to prevent over-concentration in any single investment, borrower, or geographical area. These risk-limiting procedures are a critical part of our fund's risk management strategy and ensure that our exposure to any potential downside is limited.

6. Contingency Plans for Adverse Events: At Hearthfire we maintain comprehensive contingency plans for dealing with potential adverse events, including defaults or non-performing loans. We have an established loan restructuring process, and if necessary, we have legal recourse to take control of and liquidate the underlying property to recover funds.

18. How does The Fund manage potential defaults or non-performing loans?

We have a robust process in place to manage potential defaults. Here's a step-by-step look at our strategy:

1. Early Warning System: We continually monitor key financial indicators and payment patterns to identify any signs of potential default at the earliest possible stage. This allows us to be proactive and act before a situation escalates.

2. Open Communication: As soon as we identify potential issues, we prioritize open and clear communication with the borrower. We believe that many problems can be resolved through a collaborative approach, working with borrowers to understand the issues they're facing.

3. Loan Restructuring: If a borrower is unable to meet their original loan terms due to financial hardship, we consider loan restructuring as a potential solution. This could involve modifying the loan's interest rate, extending the loan term, or offering a period of interest-only payments. Our aim is to work out a solution that suits both parties and increases the likelihood of loan recovery.

4. Legal Action: If all else fails, we are prepared to take legal action. This could involve initiating the foreclosure process to take control of the underlying property. We will then aim to sell the property and use the proceeds to recover the outstanding debt.

5. Investor Transparency: Throughout this entire process, we maintain clear communication with our investors. You will receive regular updates, including details on any loans that are at risk of default, the steps we're taking to mitigate potential losses, and the expected impact, if any, on The Fund's overall performance.

Please remember that while defaults are an inherent risk of investing in debt instruments, we are committed to proactively managing this risk and minimizing any potential impact on our investors. Our approach to risk management has maintained stability across two asset classes and two recessions without a single default, and our comprehensive default management strategy is a key part of our commitment to protecting your investment.

19. What is The Fund's historical loss ratio on its investments?

The Fund is new, therefore has no historical losses.

20. How does The Fund manage interest rate and market volatility risks?

Our team has implemented an expert team of capital markets professionals to manage and maintain the potential impact of interest rate volatility on our portfolio, and as such, we have put a few strategies in place to manage this risk:

1. Diversification: We diversify our portfolio across different investment strategies, borrower types, deal sizes, and geographic regions. This way, we are not overly dependent on a particular market condition or interest rate.

2. Fixed Interest Rates: We typically issue loans at fixed interest rates, which means the interest we receive doesn't change even if the market rates fluctuate. This approach provides our fund and our investors with a predictable income stream.

3. Upfront Points: We often charge upfront points on our loans, which are fees paid by the borrower at the beginning of the loan term. This strategy provides us with immediate income and helps offset potential future interest rate risks.

4. Varied Maturity Patterns: By having loans with different maturity dates, we can mitigate the impact of interest rate fluctuations that may impact demand of our debt products. If market rates are low, not all of our investments are maturing at once, which reduces the overall impact on our fund's income.

5. Active Monitoring: We keep a close eye on market conditions and economic indicators, allowing us to anticipate potential shifts in interest rates and adjust our strategies as needed.

All these strategies combined help us manage the risk associated with interest rate volatility and protect our investors' returns.

Investment Terms

21. What are The Fund's terms for investor liquidity and redemptions?

	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Minimum Purchase:	\$200,000	\$100,000	\$50,000
Preferred Return	10%	8.5%	7%
Lockup Period	2 years	1 year	6 months
Withdrawal Notice	not less than ninety (90) days	not less than sixty (60) days	not less than thirty (30) days

22. What are the minimum commitment and subsequent investment sizes?

See above for the minimum commitment amount. Subsequent investment sizes are flexible, depending on existing investment holdings with Hearthfire.

23. How often will investors receive distributions from The Fund?

When it comes to distributions, investors have the flexibility to choose their preferred schedule. You can opt for monthly distributions, quarterly distributions, or have your returns compounded quarterly, depending on what aligns best with your investment strategy.

24. When does the Preferred Return begin to accrue?

The preferred return begins to accrue on the 15th of the month following your investment. This specific schedule is not arbitrary; it is tied directly to our filing requirements and the specific accounting model we use, ensuring precise record-keeping and regulatory compliance.

25. What is The Fund's carried interest structure?

Carried interest is only available as a private reserve class, discretionary by The Fund's investment committee, and only available for investments that exceed \$1MM.

Performance and Reporting

26. How often do you provide performance updates to your investors?

As soon as reasonably and practically available following the end of each Fiscal Year, consolidated annual balance sheets of the Company as at the end of each such Fiscal Year and consolidated annual statements of income, cash flows, and Members' equity for such Fiscal Year, in each case setting forth in comparative form the figures for the previous Fiscal Year, shall be prepared and distributed to the Members. In addition thereof, the Company shall provide quarterly updates regarding the progress of the Project, including summary financials and

progress reports to the Members, such quarterly reports to be prepared and distributed as soon as reasonably practical following the end of each fiscal quarter.

27. What information will be included in the regular reports provided to investors?

Investor statements will include accrued and paid returns. Annual reports will include fund investments and performance details.

28. Will investors have access to underlying loan data and portfolio metrics?

While it is not contemplated that this will be regularly published data, the underlying portfolio of loan data and metrics shall be made available upon request.

Redemption Process

29. What happens at the end of the initial Commitment period (the Redemption Process)?

Our primary objective is to make the redemption process as efficient as possible for all our investors. While our operating agreement allows for a maximum processing time of 90 days, this is a maximum time frame only. In practice, we strive to fulfill withdrawal requests well before the 90-day mark. The preferred return stops accruing when we initiate the transfer in our system, which aligns with the withdrawal processing. We operate on a 365-day cycle for calculating returns, so this practice is seamlessly integrated into our accounting model.

30. Can you explain the Withdrawal gate?

The withdrawal gate mechanism in our agreement is designed to protect all parties involved - both our investors and the fund itself - in the event of a substantial capital withdrawal. It ensures an orderly process for capital distributions, similar to the practices of banks and stock markets. This measure maintains stability and protects the collective investor community within our fund.

Tax Matters

31. How are income taxes treated for investors?

In general, Net Income and Net Loss (including individual items of profit, income, gain, loss, credit, deduction and expense) of The Fund will be allocated among the Members in a manner such that the Capital Account balance of each Member, immediately after making that allocation, is, as nearly as possible, equal (proportionately) to the Distributions that would be made to that Member.

32. Are investors eligible to receive passthrough tax losses by investing in The Fund?

Given The Fund's structure as an income fund with a fixed rate of return, the primary expectation is for The Fund to generate income rather than incur losses. The goal of our fund is to provide steady and predictable income streams to our investors. Notably, Investors are advised that the gains realized by The Fund are likely to be characterized and taxed as ordinary taxable income to the Members and not in capital gains, per IRS regulations.

In terms of passthrough tax losses, because our fund is primarily designed to generate income, it is generally not anticipated to generate significant tax losses to pass through to investors. In the case of investors who invest larger sums and participate in carried interest investments, while there may be circumstances under which they could receive passthrough losses, these situations would be the exception rather than the rule.

As always, it's important to consult with a tax professional or advisor to understand the specific tax implications related to your investment in Hearthfire Income Fund I. Please review our fund's offering documents for more detailed information.

33. Are there any tax incentives for investing in The Fund?

Yes. An example tax incentive is the Qualified Business Income (QBI) Deduction, commonly known as the Section 199A deduction. This provision permits eligible taxpayers to deduct up to 20% of their qualified business income. To illustrate, if you invest \$200,000 in the fund and generate \$20,000 in interest over one year, you could potentially deduct up to \$4,000 (20% of \$20,000) under the Section 199A provision. For a comprehensive understanding, please refer to this source. It is essential to consult with your tax adviser to determine how this incentive might benefit your individual tax situation.

Regulatory and Compliance

34. Please describe The Fund's compliance with regulatory requirements.

As a fund offering under Regulation D Rule 506(c), Hearthfire Income Fund I complies with a range of regulatory requirements to ensure the protection of its investors and the integrity of its operations.

Investment Company Act and Investment Advisors Act: The Fund is not expected to be registered under the Investment Company Act pursuant to an exemption set forth in Section 3(c)(5) of the Investment Company Act. Moreover, by way of exemption under 3(c)(5) of the Investment Company Act, neither the Manager, nor the Sponsors, nor any of their respective affiliates are seen as advising the Fund on investments in securities, and thus are not state or federal registered investment advisers (or exempt reporting advisers) under the Investment Advisors Act, nor do they intend to become so. The Investment Company Act and the Investment Advisors Act provides certain protection to investors and imposes certain restrictions on registered investment companies and advisors (including, for example, limitations on the ability of registered investment companies to incur debt or provide additional disclosures), none of which will be applicable to the Fund, or the Manager and Investors must be fully aware of these circumstances.

- 1. Verification of Accredited Investors: Regulation D Rule 506(c) permits general solicitation and advertising, but all purchasers in the offering must be accredited investors. Consequently, we take reasonable steps to verify the accredited investor status of each potential investor, which may include reviewing documentation such as W-2s, tax returns, bank and brokerage statements, credit reports, and the like.*
- 2. Form D Filing: Following the first sale of securities, we file a Form D with the Securities and Exchange Commission (SEC). This form includes information about The Fund's principals, the type and amount of securities offered, and the size of the offering, among other details.*
- 3. Anti-Money Laundering (AML) and Know Your Customer (KYC): We conduct rigorous AML and KYC checks in line with U.S. federal regulations to prevent illegal activities, identify our investors, and understand their financial dealings.*
- 4. Transparency and Disclosure: We maintain high standards of transparency, providing comprehensive disclosure to our investors via our Private Placement Memorandum*

(PPM). This includes details on The Fund's operations, management, investment strategy, fee structure, and risks associated.

5. *Record Keeping: We keep accurate and detailed financial records in accordance with GAAP standards. This includes tracking all transactions and periodically auditing our operations to ensure the integrity of our financial reporting.*
6. *State Blue Sky Laws: We comply with state securities laws, or "blue sky laws," which vary from state to state, and involve making necessary filings and paying related fees as required in each state where our securities are sold.*
7. *Adherence to Investment Guidelines: We strictly adhere to the investment guidelines as detailed in our PPM and subscription documents. Any changes in the investment strategy are communicated to the investors in accordance with The Fund's offering documents and SEC regulations.*

Please note that this overview is not exhaustive, and other rules and regulations may apply. As always, investors are encouraged to consult with legal counsel or a financial advisor to fully understand the regulatory environment of The Fund.

35. Has The Fund or any of its principals been involved in any legal or regulatory proceedings?

No.

References

36. Can you provide references from existing or past limited partners or other relevant entities?

Yes, furnished upon request