

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6057(b) and 6058(a) of the Internal Revenue Code (the Code). ▶ Complete all entries in accordance with the instructions to the Form 5500.	OMB Nos. 1210-0110 1210-0089 2022 This Form is Open to Public Inspection
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Part I	Annual Report Identification Information
For calendar plan year 2022 or fiscal plan year beginning 01/01/2022 and ending 12/31/2022	
A This return/report is for:	☐ a multiemployer plan ☐ a multiple-employer plan (Filers checking this box must attach a list of participating employer information in accordance with the form instructions.) ☒ a single-employer plan ☐ a DFE (specify) ____
B This return/report is:	☒ the first return/report ☐ the final return/report ☐ an amended return/report ☐ a short plan year return/report (less than 12 months)
C If the plan is a collectively-bargained plan, check here.	☐
D Check box if filing under:	☒ Form 5558 ☐ automatic extension ☐ the DFVC program ☐ special extension (enter description)
E If this is a retroactively adopted plan permitted by SECURE Act section 201, check here.	☐

Part II	Basic Plan Information —enter all requested information						
1a Name of plan PFN LENDING GROUP INC 401(K) PROFIT SHARING PLAN & TRUST	<table border="1"> <tr> <td>1b Three-digit plan number (PN) ▶</td> <td>001</td> </tr> <tr> <td>1c Effective date of plan 01/01/2022</td> <td></td> </tr> </table>	1b Three-digit plan number (PN) ▶	001	1c Effective date of plan 01/01/2022			
1b Three-digit plan number (PN) ▶	001						
1c Effective date of plan 01/01/2022							
2a Plan sponsor's name (employer, if for a single-employer plan) Mailing address (include room, apt., suite no. and street, or P.O. Box) City or town, state or province, country, and ZIP or foreign postal code (if foreign, see instructions) PFN LENDING GROUP INC 5016 PARKWAY CALABASAS STE 200 CALABASAS, CA 91302	<table border="1"> <tr> <td>2b Employer Identification Number (EIN) 33-0886403</td> <td></td> </tr> <tr> <td>2c Plan Sponsor's telephone number 818-226-1300</td> <td></td> </tr> <tr> <td>2d Business code (see instructions) 531210</td> <td></td> </tr> </table>	2b Employer Identification Number (EIN) 33-0886403		2c Plan Sponsor's telephone number 818-226-1300		2d Business code (see instructions) 531210	
2b Employer Identification Number (EIN) 33-0886403							
2c Plan Sponsor's telephone number 818-226-1300							
2d Business code (see instructions) 531210							

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	Filed with authorized/valid electronic signature.	06/26/2024	BRENDA PERRY
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE			
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE

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Form 5500 (2022)
v. 220413

3a Plan administrator's name and address ☒ Same as Plan Sponsor		3b Administrator's EIN	
		3c Administrator's telephone number	
4 If the name and/or EIN of the plan sponsor or the plan name has changed since the last return/report filed for this plan, enter the plan sponsor's name, EIN, the plan name and the plan number from the last return/report: a Sponsor's name c Plan Name		4b EIN	
		4d PN	
5 Total number of participants at the beginning of the plan year		5	276
6 Number of participants as of the end of the plan year unless otherwise stated (welfare plans complete only lines 6a(1) , 6a(2) , 6b , 6c , and 6d). a(1) Total number of active participants at the beginning of the plan year a(2) Total number of active participants at the end of the plan year b Retired or separated participants receiving benefits c Other retired or separated participants entitled to future benefits..... d Subtotal. Add lines 6a(2) , 6b , and 6c e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits. f Total. Add lines 6d and 6e g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item)..... h Number of participants who terminated employment during the plan year with accrued benefits that were less than 100% vested.....		6a(1) 6a(2) 6b 6c 6d 6e 6f 6g 6h	276 218 0 16 234 0 234 83 13
7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item)		7	
8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristics Codes in the instructions: 2E 2F 2G 2J 2K 2T 3D b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristics Codes in the instructions:			
9a Plan funding arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor		9b Plan benefit arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor	
10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)			
a Pension Schedules (1) ☒ R (Retirement Plan Information) (2) ☐ MB (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary (3) ☐ SB (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary		b General Schedules (1) ☒ H (Financial Information) (2) ☐ I (Financial Information – Small Plan) (3) ☐ 0 A (Insurance Information) (4) ☐ C (Service Provider Information) (5) ☐ D (DFE/Participating Plan Information) (6) ☐ G (Financial Transaction Schedules)	

Part III Form M-1 Compliance Information (to be completed by welfare benefit plans)

11a If the plan provides welfare benefits, was the plan subject to the Form M-1 filing requirements during the plan year? (See instructions and 29 CFR 2520.101-2.) ☐ Yes ☒ No

If "Yes" is checked, complete lines 11b and 11c.

11b Is the plan currently in compliance with the Form M-1 filing requirements? (See instructions and 29 CFR 2520.101-2.) ☐ Yes ☒ No

11c Enter the Receipt Confirmation Code for the 2022 Form M-1 annual report. If the plan was not required to file the 2022 Form M-1 annual report, enter the Receipt Confirmation Code for the most recent Form M-1 that was required to be filed under the Form M-1 filing requirements. (Failure to enter a valid Receipt Confirmation Code will subject the Form 5500 filing to rejection as incomplete.)

Receipt Confirmation Code _____

SCHEDULE H (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Financial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	OMB No. 1210-0110 2022 This Form is Open to Public Inspection
For calendar plan year 2022 or fiscal plan year beginning <u>01/01/2022</u> and ending <u>12/31/2022</u>		
A Name of plan <u>PFN LENDING GROUP INC 401(K) PROFIT SHARING PLAN & TRUST</u>	B Three-digit plan number (PN) ►	<u>001</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>PFN LENDING GROUP INC</u>	D Employer Identification Number (EIN) <u>33-0886403</u>	

Part I	Asset and Liability Statement		
1 Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.			
Assets		(a) Beginning of Year	(b) End of Year
a Total noninterest-bearing cash.....	1a	0	
b Receivables (less allowance for doubtful accounts):			
(1) Employer contributions.....	1b(1)	0	0
(2) Participant contributions.....	1b(2)	0	0
(3) Other.....	1b(3)	0	0
c General investments:			
(1) Interest-bearing cash (include money market accounts & certificates of deposit).....	1c(1)	0	15013
(2) U.S. Government securities	1c(2)	0	
(3) Corporate debt instruments (other than employer securities):			
(A) Preferred	1c(3)(A)	0	
(B) All other	1c(3)(B)	0	
(4) Corporate stocks (other than employer securities):			
(A) Preferred	1c(4)(A)	0	
(B) Common.....	1c(4)(B)	0	
(5) Partnership/joint venture interests	1c(5)	0	
(6) Real estate (other than employer real property)	1c(6)	0	
(7) Loans (other than to participants).....	1c(7)	0	
(8) Participant loans.....	1c(8)	0	22698
(9) Value of interest in common/collective trusts.....	1c(9)	0	0
(10) Value of interest in pooled separate accounts	1c(10)	0	0
(11) Value of interest in master trust investment accounts.....	1c(11)	0	0
(12) Value of interest in 103-12 investment entities	1c(12)	0	0
(13) Value of interest in registered investment companies (e.g., mutual funds).....	1c(13)	0	767482
(14) Value of funds held in insurance company general account (unallocated contracts).....	1c(14)		
(15) Other	1c(15)	0	0

1d Employer-related investments:		(a) Beginning of Year	(b) End of Year
(1) Employer securities	1d(1)	0	
(2) Employer real property	1d(2)	0	
e Buildings and other property used in plan operation	1e	0	
f Total assets (add all amounts in lines 1a through 1e)	1f	0	805193

Liabilities

g Benefit claims payable	1g	0	
h Operating payables	1h	0	
i Acquisition indebtedness	1i	0	
j Other liabilities	1j	0	
k Total liabilities (add all amounts in lines 1g through 1j)	1k	0	0

Net Assets

l Net assets (subtract line 1k from line 1f)	1l	0	805193
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Part II Income and Expense Statement

2 Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income

		(a) Amount	(b) Total
a Contributions:			
(1) Received or receivable in cash from: (A) Employers	2a(1)(A)	33667	
(B) Participants	2a(1)(B)	567434	
(C) Others (including rollovers)	2a(1)(C)	329239	
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines 2a(1)(A) , (B) , (C) , and line 2a(2)	2a(3)		930340
b Earnings on investments:			
(1) Interest:			
(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)	149	
(B) U.S. Government securities	2b(1)(B)		
(C) Corporate debt instruments	2b(1)(C)		
(D) Loans (other than to participants)	2b(1)(D)		
(E) Participant loans	2b(1)(E)	33	
(F) Other	2b(1)(F)		
(G) Total interest. Add lines 2b(1)(A) through (F)	2b(1)(G)		182
(2) Dividends: (A) Preferred stock	2b(2)(A)		
(B) Common stock	2b(2)(B)		
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)	33950	
(D) Total dividends. Add lines 2b(2)(A) , (B) , and (C)	2b(2)(D)		33950
(3) Rents	2b(3)		
(4) Net gain (loss) on sale of assets: (A) Aggregate proceeds	2b(4)(A)		
(B) Aggregate carrying amount (see instructions)	2b(4)(B)		
(C) Subtract line 2b(4)(B) from line 2b(4)(A) and enter result	2b(4)(C)		0
(5) Unrealized appreciation (depreciation) of assets: (A) Real estate	2b(5)(A)		
(B) Other	2b(5)(B)		
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		0

		(a) Amount	(b) Total
(6) Net investment gain (loss) from common/collective trusts	2b(6)		0
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		0
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		0
(9) Net investment gain (loss) from 103-12 investment entities.....	2b(9)		0
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds)	2b(10)		-97096
c Other income	2c		
d Total income. Add all income amounts in column (b) and enter total	2d		867376
Expenses			
e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)	55693	
(2) To insurance carriers for the provision of benefits	2e(2)		
(3) Other	2e(3)		
(4) Total benefit payments. Add lines 2e(1) through (3)	2e(4)		55693
f Corrective distributions (see instructions)	2f		0
g Certain deemed distributions of participant loans (see instructions)	2g		0
h Interest expense	2h		
i Administrative expenses: (1) Professional fees	2i(1)	0	
(2) Contract administrator fees	2i(2)	3732	
(3) Investment advisory and management fees	2i(3)	2758	
(4) Other	2i(4)	0	
(5) Total administrative expenses. Add lines 2i(1) through (4)	2i(5)		6490
j Total expenses. Add all expense amounts in column (b) and enter total	2j		62183
Net Income and Reconciliation			
k Net income (loss). Subtract line 2j from line 2d	2k		805193
l Transfers of assets:			
(1) To this plan	2l(1)		
(2) From this plan	2l(2)		

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☒ Unmodified (2) ☐ Qualified (3) ☐ Disclaimer (4) ☐ Adverse

b Check the appropriate box(es) to indicate whether the IQPA performed an ERISA section 103(a)(3)(C) audit. Check both boxes (1) and (2) if the audit was performed pursuant to both 29 CFR 2520.103-8 and 29 CFR 2520.103-12(d). Check box (3) if pursuant to neither.

(1) ☒ DOL Regulation 2520.103-8 (2) ☒ DOL Regulation 2520.103-12(d) (3) ☐ neither DOL Regulation 2520.103-8 nor DOL Regulation 2520.103-12(d).

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: SPIEGEL ACCOUNTANCY CORP

(2) EIN: 26-4802175

d The opinion of an independent qualified public accountant is **not attached** because:

(1) ☐ This form is filed for a CCT, PSA, or MTIA. (2) ☐ It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

4 CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete lines 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete lines 4j and 4l. MTIAs also do not complete line 4l.

During the plan year:

a Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.)

	Yes	No	Amount
4a		X	

	Yes	No	Amount
b Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.)			
4b		X	
c Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.)			
4c		X	
d Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.)			
4d		X	
e Was this plan covered by a fidelity bond?	X		20000
f Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty?		X	
4f		X	
g Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?			
4g		X	
h Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?			
4h		X	
i Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.)	X		
4i	X		
j Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked and see instructions for format requirements.)			
4j		X	
k Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC?			
4k		X	
l Has the plan failed to provide any benefit when due under the plan?			
4l		X	
m If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.)			
4m		X	
n If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3.			
4n		X	

5a Has a resolution to terminate the plan been adopted during the plan year or any prior plan year? ☐ Yes ☒ No
If "Yes," enter the amount of any plan assets that reverted to the employer this year _____.

5b If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)	5b(2) EIN(s)	5b(3) PN(s)

5c Was the plan a defined benefit plan covered under the PBGC insurance program at any time during this plan year? (See ERISA section 4021 and instructions.) ☐ Yes ☐ No ☐ Not determined
If "Yes" is checked, enter the My PAA confirmation number from the PBGC premium filing for this plan year _____.

SCHEDULE R (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation		Retirement Plan Information This schedule is required to be filed under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.		OMB No. 1210-0110 2022 This Form is Open to Public Inspection.	
For calendar plan year 2022 or fiscal plan year beginning 01/01/2022 and ending 12/31/2022					
A Name of plan PFN LENDING GROUP INC 401(K) PROFIT SHARING PLAN & TRUST				B Three-digit plan number (PN) ►	001
C Plan sponsor's name as shown on line 2a of Form 5500 PFN LENDING GROUP INC				D Employer Identification Number (EIN) 33-0886403	
Part I Distributions					
All references to distributions relate only to payments of benefits during the plan year.					
1 Total value of distributions paid in property other than in cash or the forms of property specified in the instructions.....				1	
2 Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits): EIN(s): 16-1470238 Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.					
3 Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year.....				3	
Part II Funding Information (If the plan is not subject to the minimum funding requirements of section 412 of the Internal Revenue Code or ERISA section 302, skip this Part.)					
4 Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)? ☐ Yes ☒ No ☐ N/A If the plan is a defined benefit plan, go to line 8.					
5 If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. Date: Month _____ Day _____ Year _____ If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.					
6 a Enter the minimum required contribution for this plan year (include any prior year accumulated funding deficiency not waived).....				6a	
b Enter the amount contributed by the employer to the plan for this plan year.....				6b	
c Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount).....				6c	
If you completed line 6c, skip lines 8 and 9.					
7 Will the minimum funding amount reported on line 6c be met by the funding deadline? ☐ Yes ☐ No ☐ N/A					
8 If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure or other authority providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change? ☐ Yes ☐ No ☐ N/A					
Part III Amendments					
9 If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box. If no, check the "No" box..... ☐ Increase ☐ Decrease ☐ Both ☐ No					
Part IV ESOPs (see instructions). If this is not a plan described under section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.					
10 Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan?..... ☐ Yes ☐ No					
11 a Does the ESOP hold any preferred stock?..... ☐ Yes ☒ No					
b If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.)..... ☐ Yes ☒ No					
12 Does the ESOP hold any stock that is not readily tradable on an established securities market?..... ☐ Yes ☒ No					
For Paperwork Reduction Act Notice, see the Instructions for Form 5500.				Schedule R (Form 5500) 2022 v. 220413	

Part V Additional Information for Multiemployer Defined Benefit Pension Plans

13 Enter the following information for each employer that (1) contributed more than 5% of total contributions to the plan during the plan year or (2) was one of the top-ten highest contributors (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

14	Enter the number of deferred vested and retired participants (inactive participants), as of the beginning of the plan year, whose contributing employer is no longer making contributions to the plan for:		
	a The current plan year. Check the box to indicate the counting method used to determine the number of inactive participants: ☐ last contributing employer ☐ alternative ☐ reasonable approximation (see instructions for required attachment).....	14a	
	b The plan year immediately preceding the current plan year. ☐ Check the box if the number reported is a change from what was previously reported (see instructions for required attachment)	14b	
	c The second preceding plan year. ☐ Check the box if the number reported is a change from what was previously reported (see instructions for required attachment)	14c	
15	Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:		
	a The corresponding number for the plan year immediately preceding the current plan year.....	15a	
	b The corresponding number for the second preceding plan year.....	15b	
16	Information with respect to any employers who withdrew from the plan during the preceding plan year:		
	a Enter the number of employers who withdrew during the preceding plan year	16a	
	b If line 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers.....	16b	
17	If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment ☐		

Part VI	Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans
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18	If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment ☐
19	If the total number of participants is 1,000 or more, complete lines (a) through (c) a Enter the percentage of plan assets held as: Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____% b Provide the average duration of the combined investment-grade and high-yield debt: ☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☐ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more c What duration measure was used to calculate line 19(b)? ☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify): _____
20	PBGC missed contribution reporting requirements. If this is a multiemployer plan or a single-employer plan that is not covered by PBGC, skip line 20. a Is the amount of unpaid minimum required contributions for all years from Schedule SB (Form 5500) line 40 greater than zero? ☐ Yes ☐ No b If line 20a is "Yes," has PBGC been notified as required by ERISA sections 4043(c)(5) and/or 303(k)(4)? Check the applicable box: ☐ Yes. ☐ No. Reporting was waived under 29 CFR 4043.25(c)(2) because contributions equal to or exceeding the unpaid minimum required contribution were made by the 30th day after the due date. ☐ No. The 30-day period referenced in 29 CFR 4043.25(c)(2) has not yet ended, and the sponsor intends to make a contribution equal to or exceeding the unpaid minimum required contribution by the 30th day after the due date. ☐ No. Other. Provide explanation _____

PFN Lending Group, Inc.
December 31, 2022
Audited Financial Statements



SPIEGEL
ACCOUNTANCY CORP

PFN Lending Group, Inc.
Table of Contents
Year Ended December 31, 2022

	<u>Page</u>
Independent Auditor's Report.....	1 - 3
Balance Sheet.....	4
Statement of Operations.....	5
Statement of Changes in Stockholders' Equity	6
Statement of Cash Flows.....	7
Notes to Financial Statements	8 - 28
Supplementary Schedule I - Operating Expenses	29
Supplementary Schedule II - HUD Requirements:	
Computation of HUD Adjusted Net Worth Requirement	30
Computation of HUD Liquidity Requirement	31
Audit Firm Summary	32
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33 - 34
Report on Compliance with a Major HUD Program and on Report Internal Control Over Compliance Required by the <i>Consolidated</i> <i>Audit Guide for Audits of HUD Programs</i>	35 - 38
Schedule of Findings, Questioned Costs and Recommendations for HUD-Approved Title II Non-Supervised Mortgagees and Loan Correspondents.....	39
Schedule of the Status of Prior Audit Findings, Questioned Costs and Recommendations for HUD-Approved Title II Non-Supervised Mortgagees and Loan Correspondents	40

Spiegel Accountancy Corp.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PFN Lending Group, Inc. (formerly BM Real Estate Services, Inc.), which comprise the balance sheet as of December 31, 2022, the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PFN Lending Group, Inc. as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PFN Lending Group, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PFN Lending Group, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PFN Lending Group, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the PFN Lending Group, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for the purposes of additional analysis and is not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Information

The schedule of the status of prior audit findings, questioned costs and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2023 on our consideration of PFN Lending Group, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PFN Lending Group, Inc.'s internal control over financial reporting and compliance.



Pleasant Hill, California
March 24, 2023

Spiegel Accountancy Corp.
Certified Public Accountants

PFN Lending Group, Inc.
Balance Sheet
December 31, 2022

ASSETS

Assets:

Cash and Cash Equivalents	\$ 6,986,413
Restricted Cash	900,127
Accounts and Other Receivable	165,756
Mortgage Loans Held for Sale, Fair Value	24,937,141
Real Estate Owned	607,538
Derivative Instruments	700,660
Property and Equipment, Net	54,876
Operating Lease Right-of-Use Assets	79,943
Mortgage Servicing Rights	30,890
Prepaid Expenses	151,411
Deposits	<u>70,339</u>
 Total Assets	 \$ <u><u>34,685,094</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

Accounts Payable and Accrued Liabilities	\$ 916,653
Warehouse Lines of Credit	19,648,282
Secondary Market Reserve	70,000
Operating Lease Liabilities	<u>88,398</u>
 Total Liabilities	 <u>20,723,333</u>

Stockholders' Equity:

Common Stock; Authorized: 100,000; \$1.00 Par Value	
Issued and Outstanding: 4,000 Shares	4,000
Additional Paid-In Capital	1,009,572
Retained Earnings	<u>12,948,189</u>
 Total Stockholders' Equity	 <u>13,961,761</u>
 Total Liabilities and Stockholders' Equity	 \$ <u><u>34,685,094</u></u>

See Notes to Financial Statements

PFN Lending Group, Inc.
Statement of Operations
Year Ended December 31, 2022

Mortgage Lending Income:	
Loan Origination Fees and Gains on Sales of Mortgage Loans	\$ 10,376,214
Loan Fees Related to Lending Activities	10,030,966
Interest Income Related to Lending Activities	2,966,977
Mortgage Servicing Fee Income	409,212
Gain on Retention of Mortgage Servicing Rights	40,492
Loss on Sale of Mortgage Servicing Rights	(46,309)
Change in Value of Mortgage Servicing Rights	64,313
Total Mortgage Lending Income	<u>23,841,865</u>
Mortgage Lending Costs:	
Loan Originator Commissions and Broker Fees	8,848,405
Management and Consulting Fees	838,503
Loan Fees and Costs Related to Lending Activities	2,724,790
Warehouse Lines of Credit Interest Expense	2,668,424
Total Mortgage Lending Costs	<u>15,080,122</u>
Gross Profit	<u>8,761,743</u>
Operating Expenses:	
Salaries, Payroll Taxes and Employee Benefits	12,440,505
Office and Equipment Rent	594,955
Advertising and Marketing	725,683
General and Administrative	1,976,942
Total Operating Expenses	<u>15,738,085</u>
Loss from Operations	(6,976,342)
Other (Expense) Income:	
Interest Expense	(11,494)
Interest Income	11,057
Total Other Expense	<u>(437)</u>
Loss Before Income Taxes	(6,976,779)
Provision for Income Taxes	269,671
Net Loss	<u>\$ (7,246,450)</u>

See Notes to Financial Statements

PFN Lending Group, Inc.
Statement of Changes in Stockholders' Equity
Year Ended December 31, 2022

	Common Stock		Additional Paid-in Capital		Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2021	4,000	\$ 4,000	\$ 1,009,572	\$ 22,377,732	\$ 23,391,304	
Dividend Distributions	-	-	-	(2,183,093)	(2,183,093)	
Net Loss	-	-	-	(7,246,450)	(7,246,450)	
Balance at December 31, 2022	4,000	\$ 4,000	\$ 1,009,572	\$ 12,948,189	\$ 13,961,761	

See Notes to Financial Statements

PFN Lending Group, Inc.
Statement of Cash Flows
Year Ended December 31, 2022

Cash Flows from Operating Activities:	
Net Loss	\$ (7,246,450)
Adjustments to Reconcile Net Income to Net	
Cash from Operating Activities:	
Depreciation	36,440
Release of Provision for Secondary Market Reserve	(58,551)
Unrealized Gain on Derivative Instruments	(700,660)
Gain on Retention of Mortgage Servicing Rights	(40,492)
Change in Value of Mortgage Servicing Rights	(64,313)
Loss on Sale of Mortgage Servicing Rights	46,309
Change in Operating Assets:	
Mortgage Loans Held for Sale, Fair Value	95,793,214
Accounts and Loan Fees Receivable	3,386,064
Deposits	20,695
Derivative Instruments	2,085,227
Prepaid Expenses	(151,411)
Change in Operating Liabilities:	
Accounts Payable and Accrued Liabilities	(771,177)
Lease Liabilities	(269,481)
Secondary Market Reserve	(314,605)
Net Cash Provided by Operating Activities	<u>91,750,809</u>
Cash Flows from Investing Activities:	
Proceeds from the Sale of Mortgage Servicing Rights	<u>2,207,970</u>
Net Cash Provided by Investing Activities	<u>2,207,970</u>
Cash Flows from Financing Activities:	
Proceeds from Warehouse Lines of Credit	690,865,640
Repayments on Warehouse Lines of Credit	(783,515,297)
Dividend Distributions	<u>(2,183,093)</u>
Net Cash Used in Financing Activities	<u>(94,832,750)</u>
Net Decrease in Cash, Cash Equivalents, and Restricted Cash	(873,971)
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	<u>8,760,511</u>
Cash, Cash Equivalents and Restricted Cash - End of Year	<u>\$ 7,886,540</u>
Supplemental Disclosure of Cash Flow Information:	
Cash Paid During the Year for Interest	\$ <u>2,668,424</u>
Cash Paid During the Year for Tax	\$ <u>3,811</u>

See Notes to Financial Statements

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

PFN Lending Group, Inc. (Company) was incorporated on January 1, 2000 as BM Real Estate Services, Inc. in the state of California. The Company is principally engaged in the origination of mortgage loans secured by residential real estate located primarily in California. Generally, such loans are subsequently sold to financial institutions or to other entities that sell such loans to investors. The Company is registered with the Nationwide Mortgage Licensing System & Registry, as well as licensed with all applicable state licensing agencies. Additionally, the Company has obtained approval from the U.S. Department of Housing and Urban Development (HUD) to act as a non-supervised mortgagee, the Federal National Mortgage Association (FNMA) as a seller or servicer, and the Federal Home Loan Mortgage Corporation (FHLMC) as a seller/servicer.

On June 14, 2022, the Company changed its name from BM Real Estate Services, Inc. to PFN Lending Group, Inc.

Management's Plan to Return to Profitability

The Company incurred a net loss in the 2022 calendar year. The Company already reduced operational and processing staff to be more in line with current levels of production. The Company reduced branch, general and administrative expenses. Additionally, the Company upgraded the marketing department, increased marketing efforts and recruited new loan officers.

Basis of Presentation and Use of Estimates

The Company's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accrual basis of accounting requires the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid investments with original maturities of ninety days or less, which are readily convertible to cash.

Mortgage Loans Held for Sale

The Company records originations of mortgage loans held for sale at fair value and estimates the fair value based on quoted market prices. Gains and losses recognized upon the funding of loans are determined using the specific identification method. The fair value option was elected for mortgage loans held for sale because the Company believes fair values best reflect future economic performance.

Derivative Instruments

In connection with the origination of mortgage loans, the Company enters into commitments to originate loans whereby the interest rates on the loans are determined prior to funding (interest rate lock commitments). The Company follows the provisions of derivatives and hedging accounting guidance, which require it to record derivative instruments at fair value. Therefore, interest rate lock commitments through mandatory delivery execution and investor forward loan sale contracts are recorded at fair value. The fair value of interest rate lock commitments and investor forward loan sale contracts is determined based on current secondary market prices for underlying loans with similar coupons, maturity and credit quality, net of direct costs, subject to the anticipated loan funding probability or pull-through factor.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets ranging from 5 to 15 years.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgage Servicing Rights

The Company originates mortgage loans for sale to the secondary market and sells the loans on either a servicing-retained or servicing-released basis. The Company has obligations to service residential first mortgage loans that are acquired through loans sold on a servicing-retained basis. These mortgage servicing rights (MSRs) are recognized as assets at the time a loan is sold on a servicing-retained basis and capitalized at fair value. Changes in fair value are recorded in valuation adjustments and deletions of mortgage servicing rights in the statements of income.

Fair market value is based on the present value of estimated future cash flows using a discount rate commensurate with the risk involved. Estimates of fair market value include assumptions about contractual service fees, projected costs to service, prepayment speed, default, interest rates and other factors, which are subject to change over time. Changes in these underlying assumptions could cause the fair market value of MSRs to specifically change in the future. The Company obtains a valuation from an independent third party on a periodic and year-end basis to support the reasonableness of the fair value estimate generated by the Company's internal model.

Leases

The Company determines if an arrangement contains a lease at contract inception and recognizes right-of-use (ROU) assets and operating lease liabilities based on the present value of lease payments over the lease term. While an operating lease may include options to extend the term, the Company does not take into account the options in calculating the ROU asset and lease liability unless it is reasonably certain such options will be exercised. The present value of lease payments is determined based on the Company's incremental borrowing rate and other information available at lease commencement. The Company has elected not to recognize ROU assets and lease liabilities for short-term operating leases that have a lease term of twelve months or less. Lease expense is recognized on a straight-line basis over the term of the lease. The Company has elected to account for lease agreements with lease and non-lease components as a single lease component. Refer to Note 12 for further discussion on the Company's leasing arrangements and related accounting.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Real Estate Owned

Real estate owned includes properties acquired in full or partial settlement of loan obligations plus capitalized construction and other development costs incurred while preparing the real estate for sale. At the time of foreclosure, the property is recorded at fair value, and the gains or losses on foreclosure are recorded in operating income or expense.

Following foreclosure, valuations are periodically performed with any subsequent write-downs recorded as a separate valuation allowance against real estate owned and charged to other operating expenses. Subsequent increases to the foreclosed assets are only allowed up to the original cost basis, which is equal to the value of the property at the time of foreclosure.

Secondary Market Reserve

The Company sells the residential mortgage loans originated into the secondary mortgage market. When the Company sells the mortgage loans, the Company makes representations and warranties to the purchasers about various characteristics of each loan, such as the manner of origination, the nature and extent of underwriting standards applied and the types of documentation being provided. Typically, these representations and warranties extend for the life of the loan. If a defect in the origination process is identified, the Company may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. If there are no such defects, the Company has no liability to the purchaser for losses it sustains on the loan.

The Company estimates the losses on loans sold during the current accounting period, as well as expected adjustments to previous estimates of expected losses on loans sold. These estimates are based on the most recent data regarding loan repurchases and actual credit losses on repurchased loans, among other factors.

Revenue Recognition

Loan Origination Fees and Gain on Sale of Mortgage Loans

In conjunction with the sale of loans, the Company records realized gain or loss on the sale of loans when the loan is transferred to the buyer. For loans that have been funded and not yet sold, the Company recognizes the difference between fair value and carrying value as unrealized gain or loss on loans. Realized and unrealized changes in interest rate lock commitments and investor forward loan sale contracts are recognized when there is a change in fair value or settlement.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Loan Origination Fees and Gain on Sale of Mortgage Loans (Continued)

Gains and losses from interest rate lock commitments as well as gains and losses from fair value changes of mortgage loans held for sale are recognized in loan origination fees and gain on sales of mortgage loans in the accompanying statement of operations.

Loan Fees Related to Lending Activities

Other loan fees and costs associated with loans closed through a third-party lender are recognized when the related loan is funded.

Interest Income

Interest income from lending activities is recognized as the interest is earned.

Gains on Retention of MSRs and Servicing Fee Income

Gains on retention of MSRs are recorded when the loan is sold and the servicing is retained. Mortgage servicing fees are recorded when the service is performed. Servicing fee income, late fees and ancillary fees received on loans for which the Company owns the MSRs are included in mortgage servicing fees in the accompanying statement of operations. The servicing fees are based on the outstanding principal and are recorded as income when earned.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the asset has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over transferred assets through an agreement to repurchase them before their maturity.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The Company determines the fair values of its assets and liabilities based on a fair value hierarchy established under applicable accounting guidance which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value. The three levels are defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs are those other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Company's own financial model using assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Valuation Process and Techniques

The Company has various processes and controls in place to ensure that fair value is reasonably estimated. A model validation policy governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of models by personnel who are independent of the executive management as well as periodic reassessments of models to ensure that they are continuing to perform as designed. In addition, detailed reviews of trading gains and losses are conducted on a daily basis by personnel who are independent of executive management.

A price verification group, which is also independent of executive management, utilizes available market information including executed trades, market prices and market-observable valuation model inputs to ensure that fair values are reasonably estimated.

The Company performs due diligence procedures over third-party service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Valuation Process and Techniques (Continued)

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the year ended December 31, 2022, there were no changes to the valuation techniques that had, or are expected to have, a material impact on Company's financial position or results of operations.

The following methods and assumptions were used to estimate the fair value of the following asset groups:

Mortgage loans held for sale are based on the selling price to investors who use secondary market prices for loans with similar credit and risk profile characteristics and are classified as Level 2.

Interest rate lock commitments are valued based on quoted prices for similar assets in an active market with similar credit and risk profile characteristics, net of origination fees and direct production costs subject to a pull-through factor, and are classified as Level 3.

Investor forward loan sale contracts traded in the over-the-counter market are determined using quantitative models that utilize multiple market inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. When third-party pricing services are used, the methods and assumptions are reviewed by the Company. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other instrument-specific factors where appropriate. Investor forward loan sale contracts are classified as Level 2.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Valuation Process and Techniques (Continued)

Mortgage servicing rights are recorded at fair value based on the present value of estimated cash flows using a discount rate commensurate with the risks involved. While there is an active market for similar assets, and certain inputs such as fee rates and discount rates are observable, most of the other inputs are based on historical company data. Management obtains an independent, third-party valuation specialist to perform this analysis. Thus, mortgage servicing rights are classified as Level 3.

Foreclosed real estate owned is reported at the property's estimated fair value, less estimated costs to sell, to the extent fair value does not exceed the asset's fair value at foreclosure based on its appraised value at the time of foreclosure, less subsequent impairments. Real estate owned is classified as Level 2.

Income Taxes

The Company, with the consent of its stockholders, has elected to be an S corporation under the Internal Revenue Code and similar state law. In lieu of corporation income taxes, the stockholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the financial statements. The Company files composite state income tax returns and pays an entity level tax where required.

The Company has evaluated its current tax positions and has concluded that as of December 31, 2022, it does not have any significant uncertain tax positions for which a reserve would be necessary.

The Company's income tax returns are subject to review and examination by federal, state and local governmental authorities. As of December 31, 2022, there are three years open to examination by the Internal Revenue Service and various periods for state and local governmental authorities. To the extent penalties and interest are incurred through examination, they would be included in the operating expenses section of the statement of operations. For the year ended December 31, 2022, there were no tax penalties or interest incurred.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

During 2021, the State of California enacted Assembly Bill 150, Sales and Use Tax law. Among other features, the legislation enables companies, doing business in California that must also file a tax return in the state, to make an election to pay a passthrough entity elective tax (PTET) equal to 9.30% of qualified net income. The PTET tax paid at the company level is deductible by the Company for federal tax purposes and provides a state tax flow through credit to offset the shareholders' state tax. The PTET tax credit is eligible for tax years 2021 through 2025, and the PTET election must be made every year. The Company has not elected to participate in the PTET for the year ended December 31, 2022.

Recent Accounting Pronouncements

Accounting Standards Issued But Not Yet Effective

Credit Losses - In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, and was clarified by FASB ASU 2019-04, *Codification Improvements*, and FASB ASUs 2019-05 and 2019-11, *Targeted Transition Relief and Clarification*. Prior to these pronouncements, generally accepted accounting principles required use of the incurred loss method for recognizing credit losses in the reserve. The incurred loss method recognizes a credit loss when it is probable that a loss has been incurred. The new guidance replaces the incurred loss method with one that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. The pronouncements also allow for the irrevocable election of the fair value measurement for certain financial assets. FASB ASUs 2018-19 and 2019-10, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*, have deferred the adoptions of these standards until interim and annual periods beginning after December 15, 2022. Management is currently evaluating the guidance and the impact it will have on the Company's financial statements.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

Accounting Standards Issued But Not Yet Effective (Continued)

Reference Rate Reform - In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. On January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform*. These standards provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the benefits of) reference rate reform on financial reporting. The amendments in ASU 2020-04 are elective and apply to all entities, subject to meeting certain criteria, that have contracts, amended contracts during 2021, hedging relationships, and other transactions that reference London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. FASB ASU 2022-06 has deferred the sunset date of Topic 848 to December 31, 2024. The Company is in the process of reviewing its warehouse line of credit agreements that use LIBOR as the reference rate, and is currently evaluating the potential impact the adoption of this ASU will have on its financial statements.

2. CASH CONCENTRATION

The Company maintains funds in various financial institutions that are members of the Federal Deposit Insurance Corporation. As such, funds are insured based on Federal Reserve limits. The Company has not experienced any losses in the past, and management believes it is not exposed to any significant credit risk on the current account balances. At times, cash balances may exceed the insured amounts.

3. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Restricted cash consists of the minimum cash balance required by warehouse line of credit providers, which was \$900,127 as of December 31, 2022.

Cash and Cash Equivalents	\$ 6,986,413
Restricted Cash	<u>900,127</u>
Cash, Cash Equivalents and Restricted Cash in the Statement of Cash Flows	<u><u>\$ 7,886,540</u></u>

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

4. MORTGAGE LOANS HELD FOR SALE

All mortgage loans held for sale are secured by residential property and are collateral for the warehouse lines of credit.

Mortgage loans held for sale consisted of the following as of December 31, 2022:

Unpaid Principal Balance of Mortgage Loans Held for Sale	\$ 24,578,126
Fair Value Adjustment	<u>359,015</u>
Mortgage Loans Held for Sale, Fair Value	<u>\$ 24,937,141</u>

5. DERIVATIVE INSTRUMENTS

Derivative instruments are commitments to extend to borrowers, either at fixed or floating rates, and contracts to sell mortgage loans to investors at specific future dates and interest rates. Commitments to extend credit are generally agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The market risk associated with the commitments and investor forward loan sale contracts occurs when the market value of the commitments to extend credit does not align with the outstanding commitments to sell loans and from the possible inability of counterparties to meet the terms of their commitments.

The Company recognized net pre-tax realized and unrealized gain of \$2,032,566 for the year ended December 31, 2022 on its activity relating to interest rate lock commitments and investor forward loan sale contracts. The Company had the following derivative instruments as of December 31, 2022:

	<u>Volume</u>	<u>Fair Value</u>
Investor Forward Loan Sale Contracts	\$ 11,500,000	\$ 89,570
Interest Rate Lock Commitments	\$ 25,717,853*	<u>611,090</u>
Total Derivative Instruments		<u>\$ 700,660</u>

*Pull-through Volume

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

5. DERIVATIVE INSTRUMENTS (CONTINUED)

The following table represents quantitative information about the key unobservable inputs for interest rate lock commitments as of December 31, 2022:

Pull-through range	83.00% - 96.00%
Pull-through average	89.00%

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2022:

Furniture and Office Equipment	\$ 654,815
Computer Software	62,327
Leasehold Improvements	25,000
Total Property and Equipment	742,142
Less: Accumulated Depreciation	(687,266)
Property and Equipment, Net	\$ <u>54,876</u>

Depreciation charged to operations for the year ended December 31, 2022 was \$36,440.

7. MORTGAGE SERVICING RIGHTS

The unpaid principal balance of MSR's at December 31, 2022 was \$3,088,968. The following summarizes MSR's activity for the year ended December 31, 2022:

Beginning Balance	\$ 2,180,364
Capitalized MSR's	40,492
Sale of MSR's	(2,207,970)
Loss on Sale of MSR's	(46,309)
Fair Value Adjustment, Net of Payoffs	64,313
Ending Balance	\$ <u>30,890</u>

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

7. MORTGAGE SERVICING RIGHTS (CONTINUED)

The key assumptions used in determining the fair value of MSRs when they were initially recorded were as follows for the year ended December 31, 2022:

Discount Rates	9.00
Annual Prepayment Speeds	6.13% - 6.87%
Cost of Servicing	\$70

8. REAL ESTATE OWNED

At December 31, 2022, the Company owned one real estate property, which was acquired through foreclosure during the year ended December 31, 2022, and is accounted for at its fair value at the time of foreclosure in the accompanying balance sheet.

9. WAREHOUSE LINES OF CREDIT

At December 31, 2022, the Company has warehouse line of credit agreements with four financial institutions. These agreements are subject to annual renewal. The Company receives advances under the agreements, up to a combined maximum of \$125,000,000, based upon a percentage of mortgage loans, which are pledged as collateral against the advances received. The lines are guaranteed by the Company's stockholders. Advances are due to be repaid upon the earlier of the sale of the mortgage loans that are pledged as collateral or a specified period of time from the date on which the advance is received. Interest is accrued at an applicable interest rate depending on duration of the warehouse period. As of December 31, 2022, the interest rates charged by the financial institutions ranged from 6.12% to 6.72%. The warehouse lines of credit have expiration dates between February 2023 and January 2024.

The agreements contain certain financial covenants concerning minimum tangible net worth, minimum liquidity, maximum of total liabilities to tangible net worth, working capital requirements and profitability. As of December 31, 2022, the Company did not meet several of the restrictive covenants with one financial institution and is actively working with the financial institution to obtain the appropriate waiver. The breach of the warehouse line covenants triggered a breach with the cross-default provisions of the FNMA selling guide. The Company is also actively working to renew those agreements that have expired in 2023.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

10. SECONDARY MARKET RESERVE

The following is a summary of the secondary market reserve activity for the year ended December 31, 2022:

Beginning Balance	\$ 443,156
Release of Provision for Secondary Market Reserve	(58,551)
Charge-offs	<u>(314,605)</u>
Ending Balance	<u>\$ 70,000</u>

For the year ended December 31, 2022, charge-offs are comprised of payments and settlements for early payoffs and early payment defaults.

11. TRUST LIABILITIES

The Company collects escrow funds from borrowers during the period it funds and sells its loans to investors. The Company is required to maintain these funds in a separate trust account for the benefit of these borrowers and investors. Total funds held in trust for others at December 31, 2022 were \$184,848. The trust assets and liabilities are not included on the accompanying balance sheet.

12. LEASE COMMITMENTS

The Company uses ASU 2016-02, *Leases (Topic 842)*, to determine its lease commitments. Substantially all leases are operating leases for corporate offices, branch locations and loan production offices. The amount of the lease liability and ROU asset is impacted by the lease term and the discount rate applied to determine the present value of future lease payments. The remaining terms of long-term operating leases are through December 2023.

Most leases include one or more options to renew, with renewal terms that can extend the lease term by varying amounts. The exercise of renewal options is at the sole discretion of the Company. Renewal option periods were not included in the measurement of ROU assets and lease liabilities as they are not considered reasonably certain of exercise.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

12. LEASE COMMITMENTS (CONTINUED)

The following schedule shows ROU assets and liabilities and supplemental information as of December 31, 2022:

Operating Lease Right-Of-Use Assets	\$ 79,943
Operating Lease Liabilities	\$ 88,398
Weighted Average Remaining Lease Term, in Years	1.0
Weighted Average Discount Rate	5.50%

The following table represents lease costs and other lease information for the year ended December 31, 2022:

Month-to-Month Lease Cost	\$ 359,201
Short-term Operating Leases	59,619
Operating Lease Cost	<u>172,575</u>
 Total Lease Cost	 \$ <u>591,395</u>

At December 31, 2022, future minimum lease payments over the next year are as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ <u>109,589</u>
 Total Future Minimum Lease Payments	 109,589
Less Imputed Interest	<u>(21,191)</u>
 Total Lease Liabilities	 \$ <u>88,398</u>

13. ADVERTISING AND MARKETING

Advertising and marketing costs are charged to operations when incurred. For the year ended December 31, 2022, total advertising and marketing costs were \$725,683.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

14. FAIR VALUE MEASUREMENTS

The following table represents the Company's fair value hierarchy for its assets on a recurring basis as of December 31, 2022.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mortgage Loans Held for Sale	\$ -	\$ 24,937,141	\$ -
Investor Forward Sale Contracts	-	89,570	-
Interest Rate Lock Commitments	-	-	611,090
MSRs	-	-	30,890
Real Estate Owned	-	607,538	-
	<u>-</u>	<u>607,538</u>	<u>-</u>
Total	\$ -	\$ 25,634,249	\$ 641,980

The following table presents a reconciliation of Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2022:

	<u>MSRs</u>	<u>Interest Rate Lock Commitments</u>
Balance at December 31, 2021	\$ 2,180,364	\$ 2,025,825
Net Transfers and Revaluation Gains	<u>(2,149,474)</u>	<u>(1,414,735)</u>
Balance at December 31, 2022	\$ 30,890	\$ 611,090

At December 31, 2022, there were no assets or liabilities with non-recurring fair value measurements.

Due to their short term nature, the carrying values of accounts and other receivable, prepaid expenses, deposits, accounts payable and accrued liabilities, and warehouse lines of credit approximate their fair values at December 31, 2022.

15. RETIREMENT PLAN

The Company has a 401(k) plan (the Plan) which covers all eligible employees who have met the minimum eligibility requirements. Employees may elect to contribute up to a maximum percentage allowable, not to exceed federal tax law limitation, which may be adjusted each year based on cost-of-living calculations. The Company's contributions are discretionary and are determined on an annual basis. For the year ended December 31, 2022, the Company's contribution was \$34,288 to the Plan.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

16. RELATED PARTY TRANSACTIONS

The Company has management and consulting agreements with various related parties. For the year ended December 31, 2022, total fees paid for management and consulting fees amounted to \$838,503 and is included in the accompanying statement of operations.

17. RISKS AND UNCERTAINTIES

Mortgage Operations

In the normal course of its business, the Company is exposed to certain economic and compliance risks including repurchase risk, credit risk, concentration risk, investor risk, interest rate risk, regulatory risk and operating risk.

Repurchase Risk

The Company has mortgage loan purchase agreements with various investors. The Company is obligated to perform certain procedures in accordance with these agreements.

The agreements provide for conditions whereby the Company may be required to either repurchase mortgage loans or provide indemnification for losses suffered by investors due to borrower default for various reasons, among which may be one of the following: (i) a mortgage loan is originated in violation of the investor's requirements, (ii) the Company breaches any term of the agreement, and/or (iii) an early payment default occurs from a mortgage originated by the Company.

Credit Risk

The Company is dependent on its warehouse lending partners. Termination of one or more of these relationships could affect the Company's financial results and overall operations. The Company expects that warehouse lines of credit will remain available to finance its mortgage lending activities and that the Company will be able to obtain access to additional warehouse lines of credit, if needed. However, there is no certainty that these lending relationships or any other current relationships will continue or that the Company will be able to obtain new credit facilities. If the warehouse lines of credit become unavailable or diminished, the reduction in the Company's borrowing ability could have a material adverse effect on the results of its operations and financial position.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

17. RISKS AND UNCERTAINTIES (CONTINUED)

Concentration Risk

The Company sells loans to several investors. Loans sold to the largest investor consisted of approximately 21% its mortgage loan sales for the year ended December 31, 2022. The Company also borrowed funds from four warehouse lenders during 2022, the largest of which comprised 34% of outstanding loans as of December 31, 2022.

Investor Risk

The Company has requirements to maintain certain net worth and liquidity for their approvals with government-sponsored entities as well as other third-party aggregators. Failure to meet these financial covenant requirements could have an adverse impact on the Company's profitability.

Interest Rate Risk

Until a rate guarantee is extended to a borrower, the Company is not exposed to interest rate risk. At December 31, 2022, the Company had commitments to extend credit for which interest rates were guaranteed to borrowers, subject to loan approval. If mortgage interest rates increase between the time the rate guarantee is made to the borrower and the time such loan is priced for sale to an investor, there is a potential loss on the sale of the loan. In certain cases, the Company eliminates this risk by entering into a forward loan sale contract with one of its investors to purchase the loan at a specified price at the time the rate is guaranteed to the borrower. This locks in a precise gain on sale margin assuming the loan closes. In the event the loan does not close, the Company is under no obligation to deliver under the commitment. This type of commitment is known as a "best efforts" commitment. In other cases, the Company may elect to absorb price risk on a portion of its rate guarantees by waiting to formally obligate loans to investor commitments until after closing.

In order to manage the price risk on this population of rate guarantees, the Company enters into mandatory delivery forward sales agreements with investors at different times during the period that the underlying loans are in process. This latter method of loan sales generally entails the assumption of somewhat greater interest rate risk but also usually produces a higher gain on loan sales. The Company is also subject to risks associated with changes in interest rates to the extent that such fluctuations may have an effect on loan production volumes.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

17. RISKS AND UNCERTAINTIES (CONTINUED)

Regulatory Risk

The Company is subject to comprehensive regulation and supervision by federal and state regulatory authorities covering all aspects of the organization, management and operations. Many regulations have undergone significant changes and will significantly change in the future. The Company continually evaluates the regulations to determine the extent of the impact on Company operations. Any of the various regulatory agencies may take enforcement actions against the Company in the event management does not operate in accordance with applicable regulations, policies and directives. Regulatory enforcement could adversely affect the business, financial condition and results of operations.

Operating Risk

The Company may be influenced by the current macro-economic environment with rising interest rates and inflation, which may impact production volume, margins and financing operations, the consequences of which cannot be readily determined, but may impact the Company's ability to meet future obligations.

18. COMMITMENTS AND CONTINGENCIES

The Company has claims arising in the normal course of business. In the opinion of the Company's legal counsel and management, any outcome will be immaterial to the financial statements.

During the year ended December 31, 2022, the Company applied for the employee retention credit in the amount of \$3,249,336 under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) signed into law on March 27, 2020 and subsequent extension of the CARES Act. The Company accounts for the tax credit in analogy to FASB ASC 450, *Contingencies*, and will recognize the income only when all uncertainties have been resolved upon receipt of a formal notice. Thus, no related income or receivable have been recognized in the financial statements for the year December 31, 2022.

19. NET WORTH, LIQUIDITY AND CAPITAL REQUIREMENTS

The Company is subject to various net worth, liquidity and capital requirements in connection with agreements that the Company has entered into with HUD, FNMA, FHLMC and its warehouse line of credit providers. Failure to maintain these requirements could result in the Company's inability to originate and service loans for the respective warehouse lines and, therefore, could have a direct material effect on the Company's financial position.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

19. NET WORTH, LIQUIDITY AND CAPITAL REQUIREMENTS (CONTINUED)

The Company did not meet the HUD quarterly operating loss requirement for the fourth quarter of the year ended December 31, 2022.

The Company's actual capital and liquidity amounts and the minimum amounts required for adequacy purposes and by agency warehouse lenders are as follows as of December 31, 2022:

	<u>Actual Capital</u>	<u>Minimum Capital Requirements</u>
HUD	\$ 13,810,350	\$ 1,279,821
FNMA	\$ 13,961,761	\$ 2,507,722
FHLMC	\$ 13,961,761	\$ 2,507,722
Warehouse Line 1	\$ 13,961,761	\$ 10,000,000
Warehouse Line 2	\$ 13,961,761	\$ 8,500,000
Warehouse Line 3	\$ 13,961,761	\$ 16,000,000
Warehouse Line 4	\$ 13,961,761	\$ 2,500,000

	<u>Actual Liquidity</u>	<u>Minimum Liquidity Requirements</u>
HUD	\$ 6,986,413	\$ 255,964
FNMA	\$ 6,986,413	\$ 1,081
FHLMC	\$ 6,986,413	\$ 1,081
Warehouse Line 1	\$ 7,378,614	\$ 3,000,000
Warehouse Line 2	\$ 6,986,413	\$ 3,500,000
Warehouse Line 3	\$ 7,028,614	\$ 3,500,000
Warehouse Line 4	\$ 7,428,741	\$ 2,792,352

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

20. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 24, 2023, the date the financial statements were available to be issued, and there were the following subsequent events to report:

On March 9, 2023, one of the warehouse lines was terminated.

On March 3, 2023 the Company renewed the lease agreement for the corporate office.

Supplementary Schedules

PFN Lending Group, Inc.
Supplementary Schedule I - Operating Expenses
Year Ended December 31, 2022

Operating Expenses:

Salaries, Payroll Taxes and Employee Benefits:

Salaries	\$ 10,886,056
Payroll Taxes	1,090,343
Employee Benefits	<u>464,106</u>
Total Salaries, Payroll Taxes and Employee Benefits	<u>12,440,505</u>

Office and Equipment Rent:

Office	591,395
Equipment	<u>3,560</u>
Total Office and Equipment Rent	<u>594,955</u>

Advertising and Marketing	<u>725,683</u>
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General and Administrative:

Bank Charges	26,842
Depreciation	36,440
Dues and Subscriptions	53,702
Insurance	214,343
Legal and Professional Fees	531,265
Licenses and Fees	120,671
Meals and Entertainment	74,331
Office Expenses	290,787
Office Supplies	126,390
Outside Services	108,671
Postage and Delivery	11,619
Repairs and Maintenance	90,762
Software Licensing and Technology Expenses	57,034
Telephone	75,061
Training and Education	28,500
Travel	61,109
Utilities	<u>69,415</u>
Total General and Administrative	<u>1,976,942</u>

Total Operating Expenses	<u>\$ 15,738,085</u>
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See Notes to Financial Statements

PFN Lending Group, Inc.
Supplementary Schedule II
Computation of HUD Adjusted Net Worth
December 31, 2022

Net Worth Requirement:

FHA Servicing Portfolio	\$ -
FHA Originations	52,982,140
FHA Purchases	<u>-</u>
Subtotal - FHA Loan Activities	<u>52,982,140</u>
FHA Origination Servicing Retained	-
FHA Purchase Servicing Retained	<u>-</u>
Subtotal - Servicing Retained	<u>-</u>
Total Adjusted FHA Loan Activities	<u>52,982,140</u>
Net Worth Required Baseline	1,000,000
Additional Net Worth Required	<u>279,821</u>
Total Minimum Net Worth Required	1,279,821
Stockholders' Equity Balance	13,961,761
Less: Unacceptable Assets	151,411
Adjusted Net Worth	<u>13,810,350</u>
Adjusted Net Worth Above Required Minimum Amount	<u><u>\$ 12,530,529</u></u>

See Notes to Financial Statements

PFN Lending Group, Inc.
Supplementary Schedule II (Continued)
Computation of HUD Liquidity Requirement
December 31, 2022

Liquidity Requirement:

Cash and Cash Equivalents	\$ <u>6,986,413</u>
Total of Liquid Assets per HUD Guidelines	6,986,413
Liquidity Required	<u>255,964</u>
Liquidity Above the Program Requirement	\$ <u><u>6,730,449</u></u>

See Notes to Financial Statements

PFN Lending Group, Inc.
Audit Firm Summary
December 31, 2022

Audit Firm:	Spiegel Accountancy Corp.
Lead Auditor:	Henry S. Chavez, CPA
Address:	2300 Contra Costa Blvd, Suite 425 Pleasant Hill, California 94523
Phone:	(925) 977-4000
Federal ID:	26-4802175

Spiegel Accountancy Corp.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of PFN Lending Group, Inc., which comprise the balance sheet as of December 31, 2022, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 24, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PFN Lending Group, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PFN Lending Group, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of PFN Lending Group, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of PFN Lending Group, Inc.'s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether PFN Lending Group, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, with which noncompliance could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings, questioned costs, and recommendations, as item 2022-1.

PFN Lending Group, Inc.'s response to the findings identified in our audit are described in the aforementioned schedule of findings, questioned costs, and recommendation. PFN Lending Group, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PFN Lending Group, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PFN Lending Group, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pleasant Hill, California
March 24, 2023

Spiegel Accountancy Corp.
Certified Public Accountants

Spiegel Accountancy Corp.

REPORT ON COMPLIANCE FOR A MAJOR HUD PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS*

Independent Auditor's Report

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Opinion on the Major HUD Program

We have audited PFN Lending Group, Inc.'s compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide) that could have a direct and material effect on PFN Lending Group, Inc.'s major U.S. Department of Housing and Urban Development (HUD) program for the year ended December 31, 2022. PFN Lending Group, Inc.'s major HUD program and the related direct and material compliance requirements is as follows:

Name of Major HUD Program	Direct and Material Compliance Requirements
HUD Title II Program	Quality Control Plan, Branch Office Operations, Loan Origination, Loan Servicing, Federal Financial and Activity Reports, Lender Annual Recertification, Adjusted Net Worth, Liquidity, Licensing; Loan Settlement, Escrow Accounts, and Kickbacks.

In our opinion, PFN Lending Group, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD program for the year ended December 31, 2022.

Basis for Opinion on Each Major HUD Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of PFN Lending Group, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major HUD program. Our audit does not provide a legal determination of PFN Lending Group, Inc.'s compliance with the compliance requirements referred to above.

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to PFN Lending Group, Inc.'s HUD program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and to express an opinion on PFN Lending Group, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about PFN Lending Group, Inc.'s compliance with the requirements of the major HUD program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding PFN Lending Group, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of PFN Lending Group, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of PFN Lending Group, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Auditor's Responsibilities for the Audit of Compliance (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Therefore, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, as discussed below, we did identify certain deficiencies in internal control over compliance, that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a HUD program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings, questioned costs, and recommendations as item 2022-1 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of PFN Lending Group, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on PFN Lending Group, Inc.'s responses to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings, questioned costs, and recommendations. PFN Lending Group, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Spiegel Accountancy Corp." in a cursive, flowing script.

Pleasant Hill, California
March 24, 2023

Spiegel Accountancy Corp.
Certified Public Accountants

Spiegel Accountancy Corp.

PFN Lending Group, Inc.

Schedule of Findings, Questioned Costs and Recommendations for HUD-Approved Title II Non-Supervised Mortgagees and Loan Correspondents December 31, 2022

Current Year Findings

Our audit disclosed the following findings that are required to be reported herein under the *Consolidated Audit Guide for Audits of HUD Programs*:

Corrective Actions in Process

Finding 2022-1:

Criteria: According to chapter 7-4C of the *Consolidated Audit Guide for Audits of HUD Programs*, if a mortgagee experiences an operating loss of 20 percent or greater of its net worth, the mortgagee must submit a Notice of Material Event to the FHA within 30 business days of the loss.

Condition: For the quarter ended December 31, 2022, PFN Lending Group, Inc. exceeded the operating loss threshold. PFN Lending Group, Inc. did notify the FHA about this violation in a Notice of Material Event within the required 30 business day timeframe.

Cause: Due to general market conditions in the mortgage banking industry as a result of multiple federal reserve rate hikes during 2022, PFN Lending Group, Inc. sustained significant volume decrease and margin compression, which generated a cumulative operating loss above 20 percent of its prior year certified net worth by the 4th quarter ended December 31, 2022.

Effect or potential effect: For the quarter ended December 31, 2022, PFN Lending Group, Inc. did not meet the operating loss requirement per the *Consolidated Audit Guide for Audits of HUD Programs*.

Recommendation: N/A

Perspective: N/A

Questioned costs: N/A

Views of responsible officials: PFN Lending Group, Inc. remediated the deficiency by filing a notice of material event with the FHA on January 30, 2023, which contained management's plan for corrective action.

Auditor's evaluation of the views of responsible officials: Management's response is appropriate to address the non-compliance that occurred and the deficiency was remediated by filing a notice of material event.

PFN Lending Group, Inc.
Schedule of Status of Prior Audit Findings, Questioned Costs and Recommendations
for HUD-Approved Title II Non-Supervised Mortgagees and Loan Correspondents
December 31, 2022

Regarding the Previous Compliance Audit

Audit report dated March 24, 2022 for the year ended December 31, 2021 issued by Spiegel Accountancy Corp.

There were no open findings from the prior compliance audit report.

Regarding Audits, Attestations, Reviews or Other Studies or Monitoring Reports

There were no reports issued by HUD OIG, contract administrators or other federal agencies during the audit period.

Regarding Deficiencies Listed in Letters or Reports Issued by HUD Management

There were no letters or reports issued by HUD management during the audit period.

PFN Lending Group, Inc.
December 31, 2022
Audited Financial Statements



SPIEGEL
ACCOUNTANCY CORP

PFN Lending Group, Inc.
Table of Contents
Year Ended December 31, 2022

	<u>Page</u>
Independent Auditor's Report.....	1 - 3
Balance Sheet	4
Statement of Operations.....	5
Statement of Changes in Stockholders' Equity	6
Statement of Cash Flows.....	7
Notes to Financial Statements	8 - 28
Supplementary Schedule I - Operating Expenses	29
Supplementary Schedule II - HUD Requirements:	
Computation of HUD Adjusted Net Worth Requirement	30
Computation of HUD Liquidity Requirement	31
Audit Firm Summary	32
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33 - 34
Report on Compliance with a Major HUD Program and on Report Internal Control Over Compliance Required by the <i>Consolidated Audit Guide for Audits of HUD Programs</i>	35 - 38
Schedule of Findings, Questioned Costs and Recommendations for HUD-Approved Title II Non-Supervised Mortgagees and Loan Correspondents.....	39
Schedule of the Status of Prior Audit Findings, Questioned Costs and Recommendations for HUD-Approved Title II Non-Supervised Mortgagees and Loan Correspondents	40

Spiegel Accountancy Corp.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PFN Lending Group, Inc. (formerly BM Real Estate Services, Inc.), which comprise the balance sheet as of December 31, 2022, the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PFN Lending Group, Inc. as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PFN Lending Group, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PFN Lending Group, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PFN Lending Group, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the PFN Lending Group, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for the purposes of additional analysis and is not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Information

The schedule of the status of prior audit findings, questioned costs and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2023 on our consideration of PFN Lending Group, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PFN Lending Group, Inc.'s internal control over financial reporting and compliance.



Pleasant Hill, California
March 24, 2023

Spiegel Accountancy Corp.
Certified Public Accountants

PFN Lending Group, Inc.
Balance Sheet
December 31, 2022

ASSETS

Assets:

Cash and Cash Equivalents	\$ 6,986,413
Restricted Cash	900,127
Accounts and Other Receivable	165,756
Mortgage Loans Held for Sale, Fair Value	24,937,141
Real Estate Owned	607,538
Derivative Instruments	700,660
Property and Equipment, Net	54,876
Operating Lease Right-of-Use Assets	79,943
Mortgage Servicing Rights	30,890
Prepaid Expenses	151,411
Deposits	<u>70,339</u>
 Total Assets	 \$ <u><u>34,685,094</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

Accounts Payable and Accrued Liabilities	\$ 916,653
Warehouse Lines of Credit	19,648,282
Secondary Market Reserve	70,000
Operating Lease Liabilities	<u>88,398</u>
 Total Liabilities	 <u>20,723,333</u>

Stockholders' Equity:

Common Stock; Authorized: 100,000; \$1.00 Par Value	
Issued and Outstanding: 4,000 Shares	4,000
Additional Paid-In Capital	1,009,572
Retained Earnings	<u>12,948,189</u>
 Total Stockholders' Equity	 <u>13,961,761</u>
 Total Liabilities and Stockholders' Equity	 \$ <u><u>34,685,094</u></u>

See Notes to Financial Statements

PFN Lending Group, Inc.
Statement of Operations
Year Ended December 31, 2022

Mortgage Lending Income:	
Loan Origination Fees and Gains on Sales of Mortgage Loans	\$ 10,376,214
Loan Fees Related to Lending Activities	10,030,966
Interest Income Related to Lending Activities	2,966,977
Mortgage Servicing Fee Income	409,212
Gain on Retention of Mortgage Servicing Rights	40,492
Loss on Sale of Mortgage Servicing Rights	(46,309)
Change in Value of Mortgage Servicing Rights	64,313
Total Mortgage Lending Income	<u>23,841,865</u>
Mortgage Lending Costs:	
Loan Originator Commissions and Broker Fees	8,848,405
Management and Consulting Fees	838,503
Loan Fees and Costs Related to Lending Activities	2,724,790
Warehouse Lines of Credit Interest Expense	2,668,424
Total Mortgage Lending Costs	<u>15,080,122</u>
Gross Profit	<u>8,761,743</u>
Operating Expenses:	
Salaries, Payroll Taxes and Employee Benefits	12,440,505
Office and Equipment Rent	594,955
Advertising and Marketing	725,683
General and Administrative	1,976,942
Total Operating Expenses	<u>15,738,085</u>
Loss from Operations	(6,976,342)
Other (Expense) Income:	
Interest Expense	(11,494)
Interest Income	11,057
Total Other Expense	<u>(437)</u>
Loss Before Income Taxes	(6,976,779)
Provision for Income Taxes	269,671
Net Loss	<u><u>\$ (7,246,450)</u></u>

See Notes to Financial Statements

PFN Lending Group, Inc.
Statement of Changes in Stockholders' Equity
Year Ended December 31, 2022

	Common Stock		Additional Paid-in Capital		Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2021	4,000	\$ 4,000	\$ 1,009,572	\$ 22,377,732	\$ 23,391,304	
Dividend Distributions	-	-	-	(2,183,093)	(2,183,093)	
Net Loss	-	-	-	(7,246,450)	(7,246,450)	
Balance at December 31, 2022	4,000	\$ 4,000	\$ 1,009,572	\$ 12,948,189	\$ 13,961,761	

See Notes to Financial Statements

PFN Lending Group, Inc.
Statement of Cash Flows
Year Ended December 31, 2022

Cash Flows from Operating Activities:	
Net Loss	\$ (7,246,450)
Adjustments to Reconcile Net Income to Net	
Cash from Operating Activities:	
Depreciation	36,440
Release of Provision for Secondary Market Reserve	(58,551)
Unrealized Gain on Derivative Instruments	(700,660)
Gain on Retention of Mortgage Servicing Rights	(40,492)
Change in Value of Mortgage Servicing Rights	(64,313)
Loss on Sale of Mortgage Servicing Rights	46,309
Change in Operating Assets:	
Mortgage Loans Held for Sale, Fair Value	95,793,214
Accounts and Loan Fees Receivable	3,386,064
Deposits	20,695
Derivative Instruments	2,085,227
Prepaid Expenses	(151,411)
Change in Operating Liabilities:	
Accounts Payable and Accrued Liabilities	(771,177)
Lease Liabilities	(269,481)
Secondary Market Reserve	(314,605)
Net Cash Provided by Operating Activities	<u>91,750,809</u>
Cash Flows from Investing Activities:	
Proceeds from the Sale of Mortgage Servicing Rights	<u>2,207,970</u>
Net Cash Provided by Investing Activities	<u>2,207,970</u>
Cash Flows from Financing Activities:	
Proceeds from Warehouse Lines of Credit	690,865,640
Repayments on Warehouse Lines of Credit	(783,515,297)
Dividend Distributions	<u>(2,183,093)</u>
Net Cash Used in Financing Activities	<u>(94,832,750)</u>
Net Decrease in Cash, Cash Equivalents, and Restricted Cash	(873,971)
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	<u>8,760,511</u>
Cash, Cash Equivalents and Restricted Cash - End of Year	<u>\$ 7,886,540</u>
Supplemental Disclosure of Cash Flow Information:	
Cash Paid During the Year for Interest	\$ <u>2,668,424</u>
Cash Paid During the Year for Tax	\$ <u>3,811</u>

See Notes to Financial Statements

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

PFN Lending Group, Inc. (Company) was incorporated on January 1, 2000 as BM Real Estate Services, Inc. in the state of California. The Company is principally engaged in the origination of mortgage loans secured by residential real estate located primarily in California. Generally, such loans are subsequently sold to financial institutions or to other entities that sell such loans to investors. The Company is registered with the Nationwide Mortgage Licensing System & Registry, as well as licensed with all applicable state licensing agencies. Additionally, the Company has obtained approval from the U.S. Department of Housing and Urban Development (HUD) to act as a non-supervised mortgagee, the Federal National Mortgage Association (FNMA) as a seller or servicer, and the Federal Home Loan Mortgage Corporation (FHLMC) as a seller/servicer.

On June 14, 2022, the Company changed its name from BM Real Estate Services, Inc. to PFN Lending Group, Inc.

Management's Plan to Return to Profitability

The Company incurred a net loss in the 2022 calendar year. The Company already reduced operational and processing staff to be more in line with current levels of production. The Company reduced branch, general and administrative expenses. Additionally, the Company upgraded the marketing department, increased marketing efforts and recruited new loan officers.

Basis of Presentation and Use of Estimates

The Company's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accrual basis of accounting requires the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid investments with original maturities of ninety days or less, which are readily convertible to cash.

Mortgage Loans Held for Sale

The Company records originations of mortgage loans held for sale at fair value and estimates the fair value based on quoted market prices. Gains and losses recognized upon the funding of loans are determined using the specific identification method. The fair value option was elected for mortgage loans held for sale because the Company believes fair values best reflect future economic performance.

Derivative Instruments

In connection with the origination of mortgage loans, the Company enters into commitments to originate loans whereby the interest rates on the loans are determined prior to funding (interest rate lock commitments). The Company follows the provisions of derivatives and hedging accounting guidance, which require it to record derivative instruments at fair value. Therefore, interest rate lock commitments through mandatory delivery execution and investor forward loan sale contracts are recorded at fair value. The fair value of interest rate lock commitments and investor forward loan sale contracts is determined based on current secondary market prices for underlying loans with similar coupons, maturity and credit quality, net of direct costs, subject to the anticipated loan funding probability or pull-through factor.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets ranging from 5 to 15 years.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgage Servicing Rights

The Company originates mortgage loans for sale to the secondary market and sells the loans on either a servicing-retained or servicing-released basis. The Company has obligations to service residential first mortgage loans that are acquired through loans sold on a servicing-retained basis. These mortgage servicing rights (MSRs) are recognized as assets at the time a loan is sold on a servicing-retained basis and capitalized at fair value. Changes in fair value are recorded in valuation adjustments and deletions of mortgage servicing rights in the statements of income.

Fair market value is based on the present value of estimated future cash flows using a discount rate commensurate with the risk involved. Estimates of fair market value include assumptions about contractual service fees, projected costs to service, prepayment speed, default, interest rates and other factors, which are subject to change over time. Changes in these underlying assumptions could cause the fair market value of MSRs to specifically change in the future. The Company obtains a valuation from an independent third party on a periodic and year-end basis to support the reasonableness of the fair value estimate generated by the Company's internal model.

Leases

The Company determines if an arrangement contains a lease at contract inception and recognizes right-of-use (ROU) assets and operating lease liabilities based on the present value of lease payments over the lease term. While an operating lease may include options to extend the term, the Company does not take into account the options in calculating the ROU asset and lease liability unless it is reasonably certain such options will be exercised. The present value of lease payments is determined based on the Company's incremental borrowing rate and other information available at lease commencement. The Company has elected not to recognize ROU assets and lease liabilities for short-term operating leases that have a lease term of twelve months or less. Lease expense is recognized on a straight-line basis over the term of the lease. The Company has elected to account for lease agreements with lease and non-lease components as a single lease component. Refer to Note 12 for further discussion on the Company's leasing arrangements and related accounting.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Real Estate Owned

Real estate owned includes properties acquired in full or partial settlement of loan obligations plus capitalized construction and other development costs incurred while preparing the real estate for sale. At the time of foreclosure, the property is recorded at fair value, and the gains or losses on foreclosure are recorded in operating income or expense.

Following foreclosure, valuations are periodically performed with any subsequent write-downs recorded as a separate valuation allowance against real estate owned and charged to other operating expenses. Subsequent increases to the foreclosed assets are only allowed up to the original cost basis, which is equal to the value of the property at the time of foreclosure.

Secondary Market Reserve

The Company sells the residential mortgage loans originated into the secondary mortgage market. When the Company sells the mortgage loans, the Company makes representations and warranties to the purchasers about various characteristics of each loan, such as the manner of origination, the nature and extent of underwriting standards applied and the types of documentation being provided. Typically, these representations and warranties extend for the life of the loan. If a defect in the origination process is identified, the Company may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. If there are no such defects, the Company has no liability to the purchaser for losses it sustains on the loan.

The Company estimates the losses on loans sold during the current accounting period, as well as expected adjustments to previous estimates of expected losses on loans sold. These estimates are based on the most recent data regarding loan repurchases and actual credit losses on repurchased loans, among other factors.

Revenue Recognition

Loan Origination Fees and Gain on Sale of Mortgage Loans

In conjunction with the sale of loans, the Company records realized gain or loss on the sale of loans when the loan is transferred to the buyer. For loans that have been funded and not yet sold, the Company recognizes the difference between fair value and carrying value as unrealized gain or loss on loans. Realized and unrealized changes in interest rate lock commitments and investor forward loan sale contracts are recognized when there is a change in fair value or settlement.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Loan Origination Fees and Gain on Sale of Mortgage Loans (Continued)

Gains and losses from interest rate lock commitments as well as gains and losses from fair value changes of mortgage loans held for sale are recognized in loan origination fees and gain on sales of mortgage loans in the accompanying statement of operations.

Loan Fees Related to Lending Activities

Other loan fees and costs associated with loans closed through a third-party lender are recognized when the related loan is funded.

Interest Income

Interest income from lending activities is recognized as the interest is earned.

Gains on Retention of MSRs and Servicing Fee Income

Gains on retention of MSRs are recorded when the loan is sold and the servicing is retained. Mortgage servicing fees are recorded when the service is performed. Servicing fee income, late fees and ancillary fees received on loans for which the Company owns the MSRs are included in mortgage servicing fees in the accompanying statement of operations. The servicing fees are based on the outstanding principal and are recorded as income when earned.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the asset has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over transferred assets through an agreement to repurchase them before their maturity.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The Company determines the fair values of its assets and liabilities based on a fair value hierarchy established under applicable accounting guidance which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value. The three levels are defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs are those other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Company's own financial model using assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Valuation Process and Techniques

The Company has various processes and controls in place to ensure that fair value is reasonably estimated. A model validation policy governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of models by personnel who are independent of the executive management as well as periodic reassessments of models to ensure that they are continuing to perform as designed. In addition, detailed reviews of trading gains and losses are conducted on a daily basis by personnel who are independent of executive management.

A price verification group, which is also independent of executive management, utilizes available market information including executed trades, market prices and market-observable valuation model inputs to ensure that fair values are reasonably estimated.

The Company performs due diligence procedures over third-party service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Valuation Process and Techniques (Continued)

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the year ended December 31, 2022, there were no changes to the valuation techniques that had, or are expected to have, a material impact on Company's financial position or results of operations.

The following methods and assumptions were used to estimate the fair value of the following asset groups:

Mortgage loans held for sale are based on the selling price to investors who use secondary market prices for loans with similar credit and risk profile characteristics and are classified as Level 2.

Interest rate lock commitments are valued based on quoted prices for similar assets in an active market with similar credit and risk profile characteristics, net of origination fees and direct production costs subject to a pull-through factor, and are classified as Level 3.

Investor forward loan sale contracts traded in the over-the-counter market are determined using quantitative models that utilize multiple market inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. When third-party pricing services are used, the methods and assumptions are reviewed by the Company. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other instrument-specific factors where appropriate. Investor forward loan sale contracts are classified as Level 2.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Valuation Process and Techniques (Continued)

Mortgage servicing rights are recorded at fair value based on the present value of estimated cash flows using a discount rate commensurate with the risks involved. While there is an active market for similar assets, and certain inputs such as fee rates and discount rates are observable, most of the other inputs are based on historical company data. Management obtains an independent, third-party valuation specialist to perform this analysis. Thus, mortgage servicing rights are classified as Level 3.

Foreclosed real estate owned is reported at the property's estimated fair value, less estimated costs to sell, to the extent fair value does not exceed the asset's fair value at foreclosure based on its appraised value at the time of foreclosure, less subsequent impairments. Real estate owned is classified as Level 2.

Income Taxes

The Company, with the consent of its stockholders, has elected to be an S corporation under the Internal Revenue Code and similar state law. In lieu of corporation income taxes, the stockholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the financial statements. The Company files composite state income tax returns and pays an entity level tax where required.

The Company has evaluated its current tax positions and has concluded that as of December 31, 2022, it does not have any significant uncertain tax positions for which a reserve would be necessary.

The Company's income tax returns are subject to review and examination by federal, state and local governmental authorities. As of December 31, 2022, there are three years open to examination by the Internal Revenue Service and various periods for state and local governmental authorities. To the extent penalties and interest are incurred through examination, they would be included in the operating expenses section of the statement of operations. For the year ended December 31, 2022, there were no tax penalties or interest incurred.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

During 2021, the State of California enacted Assembly Bill 150, Sales and Use Tax law. Among other features, the legislation enables companies, doing business in California that must also file a tax return in the state, to make an election to pay a passthrough entity elective tax (PTET) equal to 9.30% of qualified net income. The PTET tax paid at the company level is deductible by the Company for federal tax purposes and provides a state tax flow through credit to offset the shareholders' state tax. The PTET tax credit is eligible for tax years 2021 through 2025, and the PTET election must be made every year. The Company has not elected to participate in the PTET for the year ended December 31, 2022.

Recent Accounting Pronouncements

Accounting Standards Issued But Not Yet Effective

Credit Losses - In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, and was clarified by FASB ASU 2019-04, *Codification Improvements*, and FASB ASUs 2019-05 and 2019-11, *Targeted Transition Relief and Clarification*. Prior to these pronouncements, generally accepted accounting principles required use of the incurred loss method for recognizing credit losses in the reserve. The incurred loss method recognizes a credit loss when it is probable that a loss has been incurred. The new guidance replaces the incurred loss method with one that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. The pronouncements also allow for the irrevocable election of the fair value measurement for certain financial assets. FASB ASUs 2018-19 and 2019-10, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*, have deferred the adoptions of these standards until interim and annual periods beginning after December 15, 2022. Management is currently evaluating the guidance and the impact it will have on the Company's financial statements.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

Accounting Standards Issued But Not Yet Effective (Continued)

Reference Rate Reform - In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. On January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform*. These standards provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the benefits of) reference rate reform on financial reporting. The amendments in ASU 2020-04 are elective and apply to all entities, subject to meeting certain criteria, that have contracts, amended contracts during 2021, hedging relationships, and other transactions that reference London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. FASB ASU 2022-06 has deferred the sunset date of Topic 848 to December 31, 2024. The Company is in the process of reviewing its warehouse line of credit agreements that use LIBOR as the reference rate, and is currently evaluating the potential impact the adoption of this ASU will have on its financial statements.

2. CASH CONCENTRATION

The Company maintains funds in various financial institutions that are members of the Federal Deposit Insurance Corporation. As such, funds are insured based on Federal Reserve limits. The Company has not experienced any losses in the past, and management believes it is not exposed to any significant credit risk on the current account balances. At times, cash balances may exceed the insured amounts.

3. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Restricted cash consists of the minimum cash balance required by warehouse line of credit providers, which was \$900,127 as of December 31, 2022.

Cash and Cash Equivalents	\$ 6,986,413
Restricted Cash	<u>900,127</u>
Cash, Cash Equivalents and Restricted Cash in the Statement of Cash Flows	<u><u>\$ 7,886,540</u></u>

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

4. MORTGAGE LOANS HELD FOR SALE

All mortgage loans held for sale are secured by residential property and are collateral for the warehouse lines of credit.

Mortgage loans held for sale consisted of the following as of December 31, 2022:

Unpaid Principal Balance of Mortgage Loans Held for Sale	\$ 24,578,126
Fair Value Adjustment	<u>359,015</u>
Mortgage Loans Held for Sale, Fair Value	<u>\$ 24,937,141</u>

5. DERIVATIVE INSTRUMENTS

Derivative instruments are commitments to extend to borrowers, either at fixed or floating rates, and contracts to sell mortgage loans to investors at specific future dates and interest rates. Commitments to extend credit are generally agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The market risk associated with the commitments and investor forward loan sale contracts occurs when the market value of the commitments to extend credit does not align with the outstanding commitments to sell loans and from the possible inability of counterparties to meet the terms of their commitments.

The Company recognized net pre-tax realized and unrealized gain of \$2,032,566 for the year ended December 31, 2022 on its activity relating to interest rate lock commitments and investor forward loan sale contracts. The Company had the following derivative instruments as of December 31, 2022:

	<u>Volume</u>	<u>Fair Value</u>
Investor Forward Loan Sale Contracts	\$ 11,500,000	\$ 89,570
Interest Rate Lock Commitments	\$ 25,717,853*	<u>611,090</u>
Total Derivative Instruments		<u>\$ 700,660</u>

*Pull-through Volume

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

5. DERIVATIVE INSTRUMENTS (CONTINUED)

The following table represents quantitative information about the key unobservable inputs for interest rate lock commitments as of December 31, 2022:

Pull-through range	83.00% - 96.00%
Pull-through average	89.00%

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2022:

Furniture and Office Equipment	\$ 654,815
Computer Software	62,327
Leasehold Improvements	25,000
Total Property and Equipment	742,142
Less: Accumulated Depreciation	(687,266)
Property and Equipment, Net	\$ <u>54,876</u>

Depreciation charged to operations for the year ended December 31, 2022 was \$36,440.

7. MORTGAGE SERVICING RIGHTS

The unpaid principal balance of MSR's at December 31, 2022 was \$3,088,968. The following summarizes MSR's activity for the year ended December 31, 2022:

Beginning Balance	\$ 2,180,364
Capitalized MSR's	40,492
Sale of MSR's	(2,207,970)
Loss on Sale of MSR's	(46,309)
Fair Value Adjustment, Net of Payoffs	64,313
Ending Balance	\$ <u>30,890</u>

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

7. MORTGAGE SERVICING RIGHTS (CONTINUED)

The key assumptions used in determining the fair value of MSRs when they were initially recorded were as follows for the year ended December 31, 2022:

Discount Rates	9.00
Annual Prepayment Speeds	6.13% - 6.87%
Cost of Servicing	\$70

8. REAL ESTATE OWNED

At December 31, 2022, the Company owned one real estate property, which was acquired through foreclosure during the year ended December 31, 2022, and is accounted for at its fair value at the time of foreclosure in the accompanying balance sheet.

9. WAREHOUSE LINES OF CREDIT

At December 31, 2022, the Company has warehouse line of credit agreements with four financial institutions. These agreements are subject to annual renewal. The Company receives advances under the agreements, up to a combined maximum of \$125,000,000, based upon a percentage of mortgage loans, which are pledged as collateral against the advances received. The lines are guaranteed by the Company's stockholders. Advances are due to be repaid upon the earlier of the sale of the mortgage loans that are pledged as collateral or a specified period of time from the date on which the advance is received. Interest is accrued at an applicable interest rate depending on duration of the warehouse period. As of December 31, 2022, the interest rates charged by the financial institutions ranged from 6.12% to 6.72%. The warehouse lines of credit have expiration dates between February 2023 and January 2024.

The agreements contain certain financial covenants concerning minimum tangible net worth, minimum liquidity, maximum of total liabilities to tangible net worth, working capital requirements and profitability. As of December 31, 2022, the Company did not meet several of the restrictive covenants with one financial institution and is actively working with the financial institution to obtain the appropriate waiver. The breach of the warehouse line covenants triggered a breach with the cross-default provisions of the FNMA selling guide. The Company is also actively working to renew those agreements that have expired in 2023.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

10. SECONDARY MARKET RESERVE

The following is a summary of the secondary market reserve activity for the year ended December 31, 2022:

Beginning Balance	\$ 443,156
Release of Provision for Secondary Market Reserve	(58,551)
Charge-offs	<u>(314,605)</u>
Ending Balance	<u>\$ 70,000</u>

For the year ended December 31, 2022, charge-offs are comprised of payments and settlements for early payoffs and early payment defaults.

11. TRUST LIABILITIES

The Company collects escrow funds from borrowers during the period it funds and sells its loans to investors. The Company is required to maintain these funds in a separate trust account for the benefit of these borrowers and investors. Total funds held in trust for others at December 31, 2022 were \$184,848. The trust assets and liabilities are not included on the accompanying balance sheet.

12. LEASE COMMITMENTS

The Company uses ASU 2016-02, *Leases (Topic 842)*, to determine its lease commitments. Substantially all leases are operating leases for corporate offices, branch locations and loan production offices. The amount of the lease liability and ROU asset is impacted by the lease term and the discount rate applied to determine the present value of future lease payments. The remaining terms of long-term operating leases are through December 2023.

Most leases include one or more options to renew, with renewal terms that can extend the lease term by varying amounts. The exercise of renewal options is at the sole discretion of the Company. Renewal option periods were not included in the measurement of ROU assets and lease liabilities as they are not considered reasonably certain of exercise.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

12. LEASE COMMITMENTS (CONTINUED)

The following schedule shows ROU assets and liabilities and supplemental information as of December 31, 2022:

Operating Lease Right-Of-Use Assets	\$ 79,943
Operating Lease Liabilities	\$ 88,398
Weighted Average Remaining Lease Term, in Years	1.0
Weighted Average Discount Rate	5.50%

The following table represents lease costs and other lease information for the year ended December 31, 2022:

Month-to-Month Lease Cost	\$ 359,201
Short-term Operating Leases	59,619
Operating Lease Cost	<u>172,575</u>
 Total Lease Cost	 <u>\$ 591,395</u>

At December 31, 2022, future minimum lease payments over the next year are as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ <u>109,589</u>
 Total Future Minimum Lease Payments	 109,589
Less Imputed Interest	<u>(21,191)</u>
 Total Lease Liabilities	 <u>\$ 88,398</u>

13. ADVERTISING AND MARKETING

Advertising and marketing costs are charged to operations when incurred. For the year ended December 31, 2022, total advertising and marketing costs were \$725,683.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

14. FAIR VALUE MEASUREMENTS

The following table represents the Company's fair value hierarchy for its assets on a recurring basis as of December 31, 2022.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mortgage Loans Held for Sale	\$ -	\$ 24,937,141	\$ -
Investor Forward Sale Contracts	-	89,570	-
Interest Rate Lock Commitments	-	-	611,090
MSRs	-	-	30,890
Real Estate Owned	-	607,538	-
	<u>-</u>	<u>607,538</u>	<u>-</u>
Total	\$ -	\$ 25,634,249	\$ 641,980

The following table presents a reconciliation of Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2022:

	<u>MSRs</u>	<u>Interest Rate Lock Commitments</u>
Balance at December 31, 2021	\$ 2,180,364	\$ 2,025,825
Net Transfers and Revaluation Gains	<u>(2,149,474)</u>	<u>(1,414,735)</u>
Balance at December 31, 2022	\$ <u>30,890</u>	\$ <u>611,090</u>

At December 31, 2022, there were no assets or liabilities with non-recurring fair value measurements.

Due to their short term nature, the carrying values of accounts and other receivable, prepaid expenses, deposits, accounts payable and accrued liabilities, and warehouse lines of credit approximate their fair values at December 31, 2022.

15. RETIREMENT PLAN

The Company has a 401(k) plan (the Plan) which covers all eligible employees who have met the minimum eligibility requirements. Employees may elect to contribute up to a maximum percentage allowable, not to exceed federal tax law limitation, which may be adjusted each year based on cost-of-living calculations. The Company's contributions are discretionary and are determined on an annual basis. For the year ended December 31, 2022, the Company's contribution was \$34,288 to the Plan.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

16. RELATED PARTY TRANSACTIONS

The Company has management and consulting agreements with various related parties. For the year ended December 31, 2022, total fees paid for management and consulting fees amounted to \$838,503 and is included in the accompanying statement of operations.

17. RISKS AND UNCERTAINTIES

Mortgage Operations

In the normal course of its business, the Company is exposed to certain economic and compliance risks including repurchase risk, credit risk, concentration risk, investor risk, interest rate risk, regulatory risk and operating risk.

Repurchase Risk

The Company has mortgage loan purchase agreements with various investors. The Company is obligated to perform certain procedures in accordance with these agreements.

The agreements provide for conditions whereby the Company may be required to either repurchase mortgage loans or provide indemnification for losses suffered by investors due to borrower default for various reasons, among which may be one of the following: (i) a mortgage loan is originated in violation of the investor's requirements, (ii) the Company breaches any term of the agreement, and/or (iii) an early payment default occurs from a mortgage originated by the Company.

Credit Risk

The Company is dependent on its warehouse lending partners. Termination of one or more of these relationships could affect the Company's financial results and overall operations. The Company expects that warehouse lines of credit will remain available to finance its mortgage lending activities and that the Company will be able to obtain access to additional warehouse lines of credit, if needed. However, there is no certainty that these lending relationships or any other current relationships will continue or that the Company will be able to obtain new credit facilities. If the warehouse lines of credit become unavailable or diminished, the reduction in the Company's borrowing ability could have a material adverse effect on the results of its operations and financial position.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

17. RISKS AND UNCERTAINTIES (CONTINUED)

Concentration Risk

The Company sells loans to several investors. Loans sold to the largest investor consisted of approximately 21% its mortgage loan sales for the year ended December 31, 2022. The Company also borrowed funds from four warehouse lenders during 2022, the largest of which comprised 34% of outstanding loans as of December 31, 2022.

Investor Risk

The Company has requirements to maintain certain net worth and liquidity for their approvals with government-sponsored entities as well as other third-party aggregators. Failure to meet these financial covenant requirements could have an adverse impact on the Company's profitability.

Interest Rate Risk

Until a rate guarantee is extended to a borrower, the Company is not exposed to interest rate risk. At December 31, 2022, the Company had commitments to extend credit for which interest rates were guaranteed to borrowers, subject to loan approval. If mortgage interest rates increase between the time the rate guarantee is made to the borrower and the time such loan is priced for sale to an investor, there is a potential loss on the sale of the loan. In certain cases, the Company eliminates this risk by entering into a forward loan sale contract with one of its investors to purchase the loan at a specified price at the time the rate is guaranteed to the borrower. This locks in a precise gain on sale margin assuming the loan closes. In the event the loan does not close, the Company is under no obligation to deliver under the commitment. This type of commitment is known as a "best efforts" commitment. In other cases, the Company may elect to absorb price risk on a portion of its rate guarantees by waiting to formally obligate loans to investor commitments until after closing.

In order to manage the price risk on this population of rate guarantees, the Company enters into mandatory delivery forward sales agreements with investors at different times during the period that the underlying loans are in process. This latter method of loan sales generally entails the assumption of somewhat greater interest rate risk but also usually produces a higher gain on loan sales. The Company is also subject to risks associated with changes in interest rates to the extent that such fluctuations may have an effect on loan production volumes.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

17. RISKS AND UNCERTAINTIES (CONTINUED)

Regulatory Risk

The Company is subject to comprehensive regulation and supervision by federal and state regulatory authorities covering all aspects of the organization, management and operations. Many regulations have undergone significant changes and will significantly change in the future. The Company continually evaluates the regulations to determine the extent of the impact on Company operations. Any of the various regulatory agencies may take enforcement actions against the Company in the event management does not operate in accordance with applicable regulations, policies and directives. Regulatory enforcement could adversely affect the business, financial condition and results of operations.

Operating Risk

The Company may be influenced by the current macro-economic environment with rising interest rates and inflation, which may impact production volume, margins and financing operations, the consequences of which cannot be readily determined, but may impact the Company's ability to meet future obligations.

18. COMMITMENTS AND CONTINGENCIES

The Company has claims arising in the normal course of business. In the opinion of the Company's legal counsel and management, any outcome will be immaterial to the financial statements.

During the year ended December 31, 2022, the Company applied for the employee retention credit in the amount of \$3,249,336 under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) signed into law on March 27, 2020 and subsequent extension of the CARES Act. The Company accounts for the tax credit in analogy to FASB ASC 450, *Contingencies*, and will recognize the income only when all uncertainties have been resolved upon receipt of a formal notice. Thus, no related income or receivable have been recognized in the financial statements for the year December 31, 2022.

19. NET WORTH, LIQUIDITY AND CAPITAL REQUIREMENTS

The Company is subject to various net worth, liquidity and capital requirements in connection with agreements that the Company has entered into with HUD, FNMA, FHLMC and its warehouse line of credit providers. Failure to maintain these requirements could result in the Company's inability to originate and service loans for the respective warehouse lines and, therefore, could have a direct material effect on the Company's financial position.

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

19. NET WORTH, LIQUIDITY AND CAPITAL REQUIREMENTS (CONTINUED)

The Company did not meet the HUD quarterly operating loss requirement for the fourth quarter of the year ended December 31, 2022.

The Company's actual capital and liquidity amounts and the minimum amounts required for adequacy purposes and by agency warehouse lenders are as follows as of December 31, 2022:

	<u>Actual Capital</u>	<u>Minimum Capital Requirements</u>
HUD	\$ 13,810,350	\$ 1,279,821
FNMA	\$ 13,961,761	\$ 2,507,722
FHLMC	\$ 13,961,761	\$ 2,507,722
Warehouse Line 1	\$ 13,961,761	\$ 10,000,000
Warehouse Line 2	\$ 13,961,761	\$ 8,500,000
Warehouse Line 3	\$ 13,961,761	\$ 16,000,000
Warehouse Line 4	\$ 13,961,761	\$ 2,500,000

	<u>Actual Liquidity</u>	<u>Minimum Liquidity Requirements</u>
HUD	\$ 6,986,413	\$ 255,964
FNMA	\$ 6,986,413	\$ 1,081
FHLMC	\$ 6,986,413	\$ 1,081
Warehouse Line 1	\$ 7,378,614	\$ 3,000,000
Warehouse Line 2	\$ 6,986,413	\$ 3,500,000
Warehouse Line 3	\$ 7,028,614	\$ 3,500,000
Warehouse Line 4	\$ 7,428,741	\$ 2,792,352

PFN Lending Group, Inc.
Notes to Financial Statements
Year Ended December 31, 2022

20. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 24, 2023, the date the financial statements were available to be issued, and there were the following subsequent events to report:

On March 9, 2023, one of the warehouse lines was terminated.

On March 3, 2023 the Company renewed the lease agreement for the corporate office.

Supplementary Schedules

PFN Lending Group, Inc.
Supplementary Schedule I - Operating Expenses
Year Ended December 31, 2022

Operating Expenses:

Salaries, Payroll Taxes and Employee Benefits:

Salaries	\$ 10,886,056
Payroll Taxes	1,090,343
Employee Benefits	<u>464,106</u>
Total Salaries, Payroll Taxes and Employee Benefits	<u>12,440,505</u>

Office and Equipment Rent:

Office	591,395
Equipment	<u>3,560</u>
Total Office and Equipment Rent	<u>594,955</u>

Advertising and Marketing	<u>725,683</u>
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General and Administrative:

Bank Charges	26,842
Depreciation	36,440
Dues and Subscriptions	53,702
Insurance	214,343
Legal and Professional Fees	531,265
Licenses and Fees	120,671
Meals and Entertainment	74,331
Office Expenses	290,787
Office Supplies	126,390
Outside Services	108,671
Postage and Delivery	11,619
Repairs and Maintenance	90,762
Software Licensing and Technology Expenses	57,034
Telephone	75,061
Training and Education	28,500
Travel	61,109
Utilities	<u>69,415</u>
Total General and Administrative	<u>1,976,942</u>

Total Operating Expenses	<u><u>\$ 15,738,085</u></u>
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See Notes to Financial Statements

PFN Lending Group, Inc.
Supplementary Schedule II
Computation of HUD Adjusted Net Worth
December 31, 2022

Net Worth Requirement:

FHA Servicing Portfolio	\$ -
FHA Originations	52,982,140
FHA Purchases	<u>-</u>
Subtotal - FHA Loan Activities	<u>52,982,140</u>
FHA Origination Servicing Retained	-
FHA Purchase Servicing Retained	<u>-</u>
Subtotal - Servicing Retained	<u>-</u>
Total Adjusted FHA Loan Activities	<u>52,982,140</u>
Net Worth Required Baseline	1,000,000
Additional Net Worth Required	<u>279,821</u>
Total Minimum Net Worth Required	1,279,821
Stockholders' Equity Balance	13,961,761
Less: Unacceptable Assets	151,411
Adjusted Net Worth	<u>13,810,350</u>
Adjusted Net Worth Above Required Minimum Amount	\$ <u><u>12,530,529</u></u>

See Notes to Financial Statements

PFN Lending Group, Inc.
Supplementary Schedule II (Continued)
Computation of HUD Liquidity Requirement
December 31, 2022

Liquidity Requirement:

Cash and Cash Equivalents	\$ <u>6,986,413</u>
Total of Liquid Assets per HUD Guidelines	6,986,413
Liquidity Required	<u>255,964</u>
Liquidity Above the Program Requirement	\$ <u><u>6,730,449</u></u>

See Notes to Financial Statements

PFN Lending Group, Inc.
Audit Firm Summary
December 31, 2022

Audit Firm:	Spiegel Accountancy Corp.
Lead Auditor:	Henry S. Chavez, CPA
Address:	2300 Contra Costa Blvd, Suite 425 Pleasant Hill, California 94523
Phone:	(925) 977-4000
Federal ID:	26-4802175

Spiegel Accountancy Corp.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of PFN Lending Group, Inc., which comprise the balance sheet as of December 31, 2022, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 24, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PFN Lending Group, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PFN Lending Group, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of PFN Lending Group, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of PFN Lending Group, Inc.'s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether PFN Lending Group, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, with which noncompliance could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings, questioned costs, and recommendations, as item 2022-1.

PFN Lending Group, Inc.'s response to the findings identified in our audit are described in the aforementioned schedule of findings, questioned costs, and recommendation. PFN Lending Group, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PFN Lending Group, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PFN Lending Group, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pleasant Hill, California
March 24, 2023

Spiegel Accountancy Corp.
Certified Public Accountants

Spiegel Accountancy Corp.

REPORT ON COMPLIANCE FOR A MAJOR HUD PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS*

Independent Auditor's Report

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Opinion on the Major HUD Program

We have audited PFN Lending Group, Inc.'s compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide) that could have a direct and material effect on PFN Lending Group, Inc.'s major U.S. Department of Housing and Urban Development (HUD) program for the year ended December 31, 2022. PFN Lending Group, Inc.'s major HUD program and the related direct and material compliance requirements is as follows:

Name of Major HUD Program	Direct and Material Compliance Requirements
HUD Title II Program	Quality Control Plan, Branch Office Operations, Loan Origination, Loan Servicing, Federal Financial and Activity Reports, Lender Annual Recertification, Adjusted Net Worth, Liquidity, Licensing; Loan Settlement, Escrow Accounts, and Kickbacks.

In our opinion, PFN Lending Group, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD program for the year ended December 31, 2022.

Basis for Opinion on Each Major HUD Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of PFN Lending Group, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major HUD program. Our audit does not provide a legal determination of PFN Lending Group, Inc.'s compliance with the compliance requirements referred to above.

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to PFN Lending Group, Inc.'s HUD program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and to express an opinion on PFN Lending Group, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about PFN Lending Group, Inc.'s compliance with the requirements of the major HUD program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding PFN Lending Group, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of PFN Lending Group, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of PFN Lending Group, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Auditor's Responsibilities for the Audit of Compliance (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Therefore, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, as discussed below, we did identify certain deficiencies in internal control over compliance, that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a HUD program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings, questioned costs, and recommendations as item 2022-1 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of PFN Lending Group, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on PFN Lending Group, Inc.'s responses to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings, questioned costs, and recommendations. PFN Lending Group, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

To the Board of Directors
PFN Lending Group, Inc.
Calabasas, California

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Spiegel Accountancy Corp". The signature is written in a cursive, flowing style.

Pleasant Hill, California
March 24, 2023

Spiegel Accountancy Corp.
Certified Public Accountants

Spiegel Accountancy Corp.

PFN Lending Group, Inc.

Schedule of Findings, Questioned Costs and Recommendations for HUD-Approved Title II Non-Supervised Mortgagees and Loan Correspondents December 31, 2022

Current Year Findings

Our audit disclosed the following findings that are required to be reported herein under the *Consolidated Audit Guide for Audits of HUD Programs*:

Corrective Actions in Process

Finding 2022-1:

Criteria: According to chapter 7-4C of the *Consolidated Audit Guide for Audits of HUD Programs*, if a mortgagee experiences an operating loss of 20 percent or greater of its net worth, the mortgagee must submit a Notice of Material Event to the FHA within 30 business days of the loss.

Condition: For the quarter ended December 31, 2022, PFN Lending Group, Inc. exceeded the operating loss threshold. PFN Lending Group, Inc. did notify the FHA about this violation in a Notice of Material Event within the required 30 business day timeframe.

Cause: Due to general market conditions in the mortgage banking industry as a result of multiple federal reserve rate hikes during 2022, PFN Lending Group, Inc. sustained significant volume decrease and margin compression, which generated a cumulative operating loss above 20 percent of its prior year certified net worth by the 4th quarter ended December 31, 2022.

Effect or potential effect: For the quarter ended December 31, 2022, PFN Lending Group, Inc. did not meet the operating loss requirement per the *Consolidated Audit Guide for Audits of HUD Programs*.

Recommendation: N/A

Perspective: N/A

Questioned costs: N/A

Views of responsible officials: PFN Lending Group, Inc. remediated the deficiency by filing a notice of material event with the FHA on January 30, 2023, which contained management's plan for corrective action.

Auditor's evaluation of the views of responsible officials: Management's response is appropriate to address the non-compliance that occurred and the deficiency was remediated by filing a notice of material event.

PFN Lending Group, Inc.
Schedule of Status of Prior Audit Findings, Questioned Costs and Recommendations
for HUD-Approved Title II Non-Supervised Mortgagees and Loan Correspondents
December 31, 2022

Regarding the Previous Compliance Audit

Audit report dated March 24, 2022 for the year ended December 31, 2021 issued by Spiegel Accountancy Corp.

There were no open findings from the prior compliance audit report.

Regarding Audits, Attestations, Reviews or Other Studies or Monitoring Reports

There were no reports issued by HUD OIG, contract administrators or other federal agencies during the audit period.

Regarding Deficiencies Listed in Letters or Reports Issued by HUD Management

There were no letters or reports issued by HUD management during the audit period.