



Risk Assessment Criteria

UNDERWRITING GUIDELINES

G1 Investment, LLC

G1 Investment, LLC
1-29-2023

UNDERWRITING PHILOSOPHY

G1 Investment is a direct lender that provides “Asset-Based” mortgage financing for real estate investors. An Asset-Based financing program does not document the guarantors personal ability to repay the loan using income but rather documents the collateral’s ability to generate cash flow and secure the loan.

We look at the three (3) C’s: **CREDIT | CASH | COLLATERAL**

CREDIT INCLUDES:

- [Borrower Analysis](#)
- [Credit Analysis](#)
- [Housing History Review](#)
- [Entity Review](#)

CASH INCLUDES:

- [Asset Analysis](#) for down payment, closing costs, and reserves


COLLATERAL INCLUDES:

- [Appraisal Review](#)
- [Title Insurance Review](#)
- [Property Insurance Review](#)

To gain a better understanding of how to qualify and be eligible for a loan funded by G1 Investment, please become familiar with these guidelines. Our intention is to create a general awareness and overall transparency around how we evaluate credit risk and predict loan performance.

If you are ever confused about how to interpret a guideline, please contact your Account Executive, or email connect@g1commercial.com with the specific section you are confused about and we will go out of our way to provide clarity.

Thank you!



Troy Smith, Founder | CEO

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1 LENDING POLICY

These guidelines serve to provide direction and consistency in loan, borrower, and property eligibility.

1.1 LOAN APPROVAL & ELIGIBILITY PHILOSOPHY

G1 underwriters will evaluate many aspects of the loan but primarily rely on evaluating the borrower's credit history, cash capacity, and the ability of the collateral to secure the loan when predicting loan performance.

G1's Guidelines establish the criteria under which a loan will be eligible for funding. G1 has a no-tolerance policy as it relates to fraud. Loans containing fraudulent documentation or information will immediately be declined and forwarded for further review. If there is any determination of broker involvement, the broker will be made inactive, and the appropriate agencies notified.

1.2 FAIR LENDING STATEMENT

G1 operates in accordance with the provisions of the Fair Housing Act and Equal Credit Opportunity Act. The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction based on sex, race, color, religion, national origin, marital status, age (provided the borrower has the capacity to enter a binding contract), receipt of public assistance, or because the borrower has in good faith exercised any right under the Consumer Credit Protection Act. G1 fully supports the letter and spirit of both laws and will not condone discrimination in any mortgage transaction.

2 GENERAL PROGRAM INFORMATION

2.1 G1 LOAN PROGRAMS

G1 offers business-purpose mortgage financing for real estate investors. These underwriting guidelines focus specifically on Long-Term Rental programs. See the appropriate Loan Program

Matrix for additional details not contained herein. G1 requires brokers to select the best program/product for their borrowers based on their needs and circumstances.

2.2 PREPAYMENT PENALTIES, POINTS, AND FEES

Total points, fees, and APR may not exceed current state and federal high-cost thresholds. Some states may impose different definitions of points and fees, rate/APR, or prepayment penalties than apply under HOEPA. States may also use different triggers in each category to determine whether a loan will be a high-cost mortgage (or equivalent terms) under state law. As a matter of policy, G1 does not fund loans defined as high-cost mortgages (or equivalent terms) under Federal or State law, regardless of the basis for the loan's treatment as such.

2.3 EXCEPTIONS

Exceptions to published guidelines are considered on a case-by-case basis. Loans with exception requests should exhibit strong compensating factors. Some compensating factors include: DSCR 1.00+, three (3) months excess reserves, no derogatory history on credit, LTV 5% below the maximum per matrix.

3 TRANSACTIONS

3.1 OCCUPANCY – INVESTMENT PROPERTY

An investment property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy.

3.2 PURCHASE

A purchase transaction allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required.

The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

3.3 GENERAL REFINANCE REQUIREMENTS

Rate/term refinance and cash-out refinance transactions are allowed.

3.3.1 DETERMINING LOAN-TO-VALUE

Rate/Term Refinance:

The appraised value may be used on a rate/term refinance.

Cash-Out Refinance:

If the property was acquired less than or equal to 6 months from the application date, the loan must meet restrictions under [Cash-Out Seasoning](#). If the property was acquired greater than six (6) months from the application date, the appraised value may be used.

3.3.2 PROPERTIES LISTED FOR SALE

Properties that have been listed for sale by the borrower within the past three (3) months from the loan application date are not eligible for cash-out refinances. Before the loan application date, all properties must be removed from MLS (Multi Listing Service). The borrower must also confirm in writing the reason for the prior listing and intent to rent the subject property.

For cash-out transactions, if the subject property was listed for sale in the six (6) months prior to the application date, a 5% LTV reduction from the maximum available for the specific transaction is required.

The lesser of the most recent list price or the current appraised value should be used to determine loan-to-value for both rate/term and cash-out transactions.

3.4 RATE/TERM REFINANCE

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest rate and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a rate/term refinance is limited to the sum of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided:
 - The subordinate financing was secured by the subject property, AND

- For closed-end seconds, the loan is at least one (1) year seasoned as determined by the time between the note date of the subordinate lien and the application date of the new mortgage.
- For HELOCs and other open-ended lines of credit, the loan is at least one year seasoned, and there have been less than \$2,000 in total draws over the past twelve (12) months.

On rate/term transactions, the borrower may only receive cash back in an amount that is less than two per centum (2%) of the new mortgage balance. Delinquent property taxes can be paid on rate/term transactions, provided they are no more than sixty (60) days past due.

3.5 CASH-OUT REFINANCE

A cash-out refinance is a refinance that does not meet the [rate/term refinance](#) definition. Cash-out would include a refinance where the borrower receives cash from the transaction or when an open-ended subordinate lien (not meeting the rate/term seasoning requirements) is refinanced into the new transaction.

A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in [3.4 Rate/Term Refinance](#)
- The amount of any non-mortgage related business debt paid off through closing
- Additional cash in hand reflected on the settlement statement

A signed letter from the borrower disclosing the purpose of the cash-out must be obtained for all cash-out transactions. The broker should ensure that the purpose of the cash-out is also reflected in the loan application. **MUST BE FOR BUSINESS PURPOSES.**

3.5.1 CASH-OUT SEASONING

For all cash-out refinance transactions, a minimum of six (6) months must have elapsed since the most recent mortgage transaction on the subject property (either the original purchase

transaction or subsequent refinance). Note date to note date is used to calculate the six (6) months.

When ownership is transferred from an LLC, Partnership, or S-Corp to an individual, the six (6) month title seasoning may be waived if the following requirements are met:

- At least one borrower is a managing member of the LLC, Partnership, or S-Corp and holds at least twenty-five per centum (25%) ownership
- The borrower must have been a managing member of the business entity, meeting all requirements prior to the business entity taking ownership of the subject property
- The business entity must have owned the subject property for at least twelve (12) months with a clean twelve (12) month payment history prior to ownership transfer. Proof of payment history is required
- The business Operating Agreement/Bylaws, Articles of Organization/Incorporation, and applicable ownership transfer deeds may be required

The seasoning requirement may also be waived when the borrower is recouping monies used to renovate the property. Two eligible comp factors are required. The LTV will be based on the lower of the Appraised Value or Purchase Price plus (+) Documented Cost of Improvements.

3.5.2 DELAYED FINANCING

Cash-out on properties purchased by the borrower with cash and owned for less than six (6) months is allowed. The following requirements apply:

- The original transaction was an arm's length transaction
- Settlement statement from purchase confirms no mortgage financing was used to acquire the subject property
- Source of funds used for purchase documented (gift funds may not be included)
- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing costs, prepaid fees, and points on the new mortgage loan
- All other cash-out refinance eligibility requirements must be met
- LTV is based on the lesser of the purchase price or appraised value

3.5.3 CASH-OUT LIMITS

All loans are limited to one million dollars (\$1,000,000) cash in hand unless the final LTV is less than or equal to fifty per centum ($\leq 50\%$), in which case, cash in hand is unlimited.

Cash in hand is defined as the loan amount balance after all applicable liens and closing costs are paid through closing.

3.6 FLIP TRANSACTIONS

When the subject property is being resold within 365 days of its acquisition by the seller and the sales price has increased more than ten per centum (10%), the transaction is considered a “flip.” To determine the 365-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used.

Flip transactions are subject to the following requirements:

- All transactions must be arm’s length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction
- No pattern of previous flipping activity may exist in the last twelve (12) months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through a divorce, and sales by the holder of a defaulted loan.
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing
- No assignments of the contract to another buyer
- If the property is being purchased for more than five per centum (5%) above the appraised value, a signed letter of acknowledgment from the borrower must be obtained
- An additional appraisal product is required. See [Appraisal Review Process](#)

Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Regulation Z revisions can be found at <https://www.consumerfinance.gov/rules-policy/final-rules/appraisals-higher-priced-mortgage-loans/>.

A second appraisal is required in the following circumstances:

- Greater than 10% increase in the sales price if the seller acquired the property in the past ninety (90) days.
- Greater than twenty per centum (20%) increase in sales price if the seller acquired the property in the past 91-180 days.

3.7 NON-ARM'S LENGTH TRANSACTIONS

Non-arm's length transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan. The appraiser must be informed of the relationship and address any impact on market value.

Examples of non-arm's length transactions include, but are not limited to, the following:

- Family member sales
- Buyer trading properties with the seller
- Property seller foreclosure bailouts
- Existing buyer relationship with loan officer, real estate agents, closing agent, appraiser, builder, or developer

Non-arm's length transactions are subject to all of the following requirements:

- The subject property is tenant occupied and sold at fair market value. The seller cannot occupy the property prior to closing or post-consummation. A twelve (12) month seller mortgage history is required. The seller must be current prior to contract execution and through closing.
- Relationship must be fully disclosed
- An appraisal review product is required
- Borrower to provide a written explanation stating the relationship to the seller and reason for purchase
- Borrower to provide a copy of the canceled earnest money check paid to the property seller
- All liens on title are to be paid in full and reflected on the settlement statement
- Lesser of the sales price or current appraised value to be used to calculate the LTV
- Borrowers cannot provide services on the transaction (closing agent, title agent, appraiser, etc.)
- Borrower may not be an owner of a business entity selling the subject property
- **G1 will make the final determination on the eligibility of any non-arm's length relationship**

The following additional requirements apply to family sales:

- Payment history for the seller's mortgage on the subject property must be obtained and show no pattern of delinquency within the past twelve (12) months (if applicable)

- Verification that the borrower has not been on title to the property in the past twenty-four (24) months
- Gift of equity is **NOT** permitted

3.8 INHERITED PROPERTIES

Inherited properties are allowed as both rate/term and cash-out transactions. If the subject property was inherited less than twelve (< 12) months prior to the application, the transaction is considered a cash-out and subject to the following:

- Equity owners must be paid through settlement. A written agreement signed by all parties stating the terms of the buy-out and property transfer must be obtained.
- The subject property has cleared probate, and the property is vested in the borrower's name
- The current appraised value is used to determine the loan-to-value

3.9 LAND CONTRACT/CONTRACT FOR DEED

When the proceeds of a mortgage transaction are used to pay off the outstanding balance on a land contract that was executed more than twelve (12) months prior to the date of the loan application, the transaction is considered a rate/term refinance. The transaction is considered a purchase if the land contract was executed within twelve (12) months of the loan application date. The following requirements apply:

- Copy of fully executed land contract and payoff(s) to be obtained
- Copies of canceled checks for twelve (12) months (or term of the contract if less) as evidence of timely payments
- Borrower must be able to document a minimum twelve (12) months housing history
- Liens on title to be paid in full and reflected on the settlement statement at closing
- If the land contract was executed less than twelve (12) months ago, the lesser of the purchase price or the current appraised value must be used to determine the LTV. The current appraised value may be used to determine the LTV if the land contract was executed over twelve (12) months ago (This applies to refinance and purchase transactions).
- Cash-out on non-arm's length transactions not eligible (this transaction type is considered non-arm's length)

3.10 PERMANENT FINANCING FOR NEW CONSTRUCTION

The conversion of construction to permanent financing involves granting a long-term mortgage to a borrower to replace interim construction financing obtained by the borrower to fund the construction of a new residence. The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction.

When a refinance transaction is used, the borrower must have held legal title to the lot before he/she applied for the construction financing and must be named as the borrower for the construction loan.

A construction to permanent transaction may be closed as a purchase, rate/term refinance, or cash-out refinance. All construction work must be complete. See [New Construction](#).

- For lots owned \geq 12 months from the application date for the subject transaction, the LTV is based on the current appraised value
- For lots owned $<$ 12 months from the application date for the subject transaction, the LTV is based on the lesser of the current appraised value of the property or the total acquisition costs (sum of construction costs and purchase price of the lot).

4 BORROWERS

A borrower is a credit applicant who will have an ownership interest in the subject property, sign the security instrument, and sign the mortgage or deed of trust note. If two or more individuals own the property jointly and are jointly and severally liable for the note, all are borrowers.

4.1 CUSTOMER IDENTIFICATION PROGRAM (CIP)

The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address, and identification number of all borrowers. Brokers are to follow the published CIP procedures for each client to ensure the identity of all borrowers has been documented.

4.2 FRAUD REPORT AND BACKGROUND CHECK

All loans must include a third-party fraud detection report for all borrowers, borrowing entities, and/or guarantors. Report findings must cover standard areas of quality control including, but not limited to, borrower validation, social security number verification, criminal records, and

property information (subject property and other real estate owned). The client must address all high-level alerts in the report.

G1 will use an electronic fraud report prior to funding any loan transaction. The fraud report must indicate a low level of risk in proceeding with the loan transaction. The fraud check will include occupancy status to validate and endorse the Business Purpose & Occupancy Affidavit.

4.3 U.S. CITIZENS

U.S. Citizens are eligible for all financing options.

4.4 PERMANENT RESIDENT ALIENS

A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for all financing options.

Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:

- I-151 Permanent Resident Card (Green Card) that does not have an expiration date
- I-551 Permanent Resident Card (Green Card) issued for ten (10) years that has not expired
- I-551 Conditional Permanent Resident Card (Green Card) issued for two (2) years that has an expiration date, if it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions
- Unexpired Foreign Passport with an unexpired stamp reading as follows: “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until MM-DD-YY. Employment Authorized.”

4.5 NON-PERMANENT RESIDENT ALIENS

A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis.

Program Restrictions:

- Maximum 75% LTV/CLTV or limits as posted on the applicable matrix, whichever is lower
- Purchase and Rate/Term Refinance transaction only
- Borrowers with diplomatic immunity are not eligible

- Borrower must have a minimum of 2 years residency with the likelihood of employment continuance
- Own a primary residence in the U.S. already (12-months evidence required)
- Borrowers have an SSN (No ITIN)
- Borrowers must provide a copy of a valid passport from their country of origin with an expiration beyond the VISA

4.5.1 VERIFICATION OF RESIDENCY STATUS

The following visa classifications are allowed as Non-Permanent Resident Aliens:

- A-1, A-2, A-3
- B2 & B2
- E-2, E-2, E-3
- G-1 through G-5
- H-1, H2, H3
- I
- J1, J2
- L-1
- NATO
- O-1, O-2
- P-1, P2
- R-1
- TN (NAFTA)

Copies of the borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing. A valid employment authorization document (EAD) must be obtained if the borrower's current employer does not sponsor the visa. If the visa will expire within six (6) months of the loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (the employer on the loan application must be the same as on the unexpired visa).

If a non-U.S. citizen borrows with a U.S. citizen, it does not eliminate visa or other residency requirements. Borrowers who are residents of countries participating in the Department of Homeland Security's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website at <https://www.dhs.gov/visa-waiver-program-requirements>.

4.5.2 CREDIT REQUIREMENTS

A U.S. credit report is required for each borrower on the loan, using a valid Social Security number. The credit report should provide merged credit information from the three (3) major national credit repositories. A two (2) year housing history is required.

4.5.2.1 QUALIFYING U.S. CREDIT

The qualifying U.S. credit designation refers to a non-U.S. citizen borrower who meets [Standard Tradelines](#) in Standard Tradeline Requirements. A Qualifying U.S. Credit borrower is eligible for all products and programs available on the applicable G1 Matrix.

4.5.2.2 QUALIFYING FOREIGN CREDIT

The Qualifying Foreign Credit designation refers to non-U.S. citizen borrowers who do not meet the Standard Tradeline requirements. A borrower classified as a Qualifying Foreign Credit will **not** be eligible for financing.

4.5.3 ASSETS

Qualifying U.S. Credit: Non-Permanent Resident Aliens must have six (6) months of PITIA reserves for the subject property. All funds for the transaction must be seasoned for sixty (60) days (or sourced). See Asset Documentation. Assets used for the down payment and closing costs must also be seasoned in a U.S. depository institution for thirty (30) days prior to closing. Assets held in foreign accounts are eligible for reserves. See also Foreign Assets.

4.6 FOREIGN NATIONALS

Loans to Foreign National borrowers are currently ineligible. A Foreign National is a non-U.S. citizen authorized to live in the U.S. on a temporary basis but does not meet the definition of a Non-Permanent Resident Alien.

4.7 EXCLUSIONARY LIST | OFAC | DIPLOMATIC IMMUNITY

All parties involved in each transaction must be screened through an exclusionary list. Parties to the transaction must be cleared through OFAC's SDN List (borrower, property sellers, employers, banks, etc.) A search of the Specially Designated Nationals and Blocked Persons List may be completed via the U.S. Department of the Treasury website:

<https://sanctionssearch.ofac.treas.gov/>.

Borrowers from OFAC-sanctioned countries are ineligible. Access the link below for a list of sanctioned countries: <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information>.

Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification that the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport, and/or the U.S. Department of State's Diplomatic List at <https://www.state.gov/resources-for-foreign-embassies/>.

4.8 LIMITED POWER OF ATTORNEY

A Limited Power of Attorney (POA) is acceptable when the following requirements are met:

- POA is specific to the transaction
- Recorded with the Mortgage/Deed of Trust
- Contains an expiration date
- Used only to execute the final loan documents
- Borrower who executed the POA signed the initial mortgage application
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may act as Power of Attorney
- Not permitted on cash-out or Foreign National transactions

4.9 VESTING AND OWNERSHIP

Ownership must be fee simple. Acceptable forms of vesting are:

- Individuals
- Limited Liability Company (LLC)
- Limited and General Partnerships
- Corporations

4.9.1 INTER VIVOS REVOCABLE TRUST

Not permitted (Must be removed prior to closing).

4.9.2 LIMITED LIABILITY COMPANY (LLC)

Vesting in the name of an LLC is acceptable and required in some states. Brokers must ensure loans vested in an LLC are solely business-purpose loans to purchase or refinance an investment property. The following standards apply:

- The purpose of the LLC is for the ownership and management of real estate.
 - The borrower(s) must be majority owners or managing members of the LLC. For LLCs with multiple owners, G1 will require that each borrower owns no less than twenty-five per centum (25%) of the vesting business. All this information must be supported in the Operating Agreement and/or the Articles of Incorporation.
- Loan must be disclosed to all borrowers

The following LLC documentation must be provided:

- Articles of Incorporation
- Operating Agreement
- Tax Identification Number (IRS Form SS-4 EIN)
- Certificate of Good Standing
- A personal guaranty is required as well

4.9.3 LIMITED AND GENERAL PARTNERSHIPS AND CORPORATIONS

Vesting in the name of a partnership or corporation is acceptable. Brokers must ensure that loans vested in a business entity are solely business-purpose loans to purchase or refinance an investment property.

4.9.3.1 GUARANTY

A personal guaranty is required for loans vested in a partnership or corporation, subject to the following requirements:

- The guarantor must be an individual person and not a business entity
- The guarantor must be a managing member or majority owner of the business entity. Each borrower can own no less than 25% of the vesting business.
- The guarantor is subject to the same credit requirements and fraud checks as individual borrowers

4.9.3.2 ENTITY REVIEW PROCESS

G1 will review all entity documents to ensure the borrowing entity is duly formed with full authority to conduct real estate transactional and borrower activity as stated in their organizational documents. The following business entity documentation must be provided:

- Articles of Incorporation/Organization
- Operating Agreement and Corporate Resolutions/Bylaws
- Tax Identification Number (IRS Form SS-4 EIN)
- Certificate of Good Standing

Furthermore, G1 will ensure that the individual signing on behalf of the borrowing entity has the authority to bind the entity. Confirmation of good standing status must be reviewed on state websites to ensure borrower counterparties are current on all state taxes and fees. All entities must be in good standing and provide proper formation documentation.

4.10 MULTIPLE FINANCED PROPERTIES AND G1 EXPOSURE

G1 exposure may not exceed \$5 million aggregate with a maximum of five (5) loans for each individual borrower. Exceptions to this policy will be reviewed on a case-by-case basis.

Borrowers may have an unlimited number of financed properties.

4.11 INELIGIBLE BORROWERS

The following borrowers are not eligible:

- Borrower with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Residents of any country not permitted to transact business with U.S. companies are ineligible (as determined by any U.S. government authority)
- Irrevocable or Revocable Trusts or Land Trusts
- Borrowers less than eighteen (18) years old

5 CREDIT ANALYSIS

5.1 EQUAL CREDIT OPPORTUNITY ACT, FAIR HOUSING ACT & STATE FAIR LENDING LAWS

The Federal Equal Credit Opportunity Act prohibits lenders from discriminating against credit borrowers based on race, color, religion, national or ethnic origin, sex, marital or familial status, age (provided the borrower has the capacity to enter into a binding contract), disability, because all or part of the borrower's income is derived from a public assistance program or because the borrower has, in good faith, exercised any rights under the Consumer Credit Protection Act.

State laws may also prohibit discrimination on certain additional basis, such as sexual orientation.

Similarly, the Fair Housing Act prohibits lenders from discriminating against mortgage borrowers based on race, color, religion, sex, familial status, national origin, or disability.

G1 expects brokers originating loans for G1 to adhere to the letter and spirit of federal and state fair lending laws.

5.2 CREDIT REPORT

A credit report is required for every borrower, guarantor, and any majority member of a borrowing entity. The credit report should provide merged credit information from the three (3) major credit repositories. A valid Social Security Number (SSN) is required for all borrowers on the loan.

Either a three (3) bureau merged report or a Residential Mortgage Credit Report (RMCR) is required. The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the individual has resided in the last two (2) years.

5.2.1 AGE OF CREDIT REPORT/CREDIT DOCUMENTATION

All credit documentation, including the credit report, may not be more than 120 days old at the time of closing.

5.2.2 FRAUD ALERTS

The three national credit repositories have developed automated messaging to help identify possible fraudulent activity on a credit report. Examples of fraud alerts include:

- Initial 90-day Fraud Alert
- Extended Fraud Alert
- Active-Duty Alert
- HAWK Alert

All Fraud Alerts must be addressed and resolved before submitting the loan to underwriting. The actions must be reasonable and compliant with applicable laws. An underwriting decision cannot be made without a full resolution of the alert.

5.2.3 CREDIT REPORT SECURITY FREEZE

The credit report used to evaluate a loan may not reflect a security freeze and must be resolved prior to an underwriting decision. If a borrower unfreezes his or her credit after the date the original credit report was ordered, a new three-bureau merged report must be obtained to reflect current and updated information from all repositories.

5.2.4 INQUIRIES

A signed letter of explanation from the borrower or creditor is required for all inquiries within the most recent 120 days to determine whether additional credit was granted as a result of the borrower's request.

5.2.5 UPDATED PAYMENT HISTORIES

Payment histories may be requested directly from a creditor when the credit report indicates delinquencies have been removed or when the majority of credit is from a non-institutional lender.

5.2.6 GAP CREDIT REPORT

Gap Credit reports are NOT required.

5.3 CREDIT SCORE REQUIREMENTS

The applicable credit score is the middle of three scores provided for any borrower. If only two credit scores are obtained, the lesser of two will be used. When there are multiple borrowers, the lowest applicable score from the group of borrowers/guarantors is the representative credit score for qualifying.

5.4 TRADELINE REQUIREMENTS

Standard Tradelines:

- Three (3) tradelines reporting for twelve (12)+ months with activity in the last twelve (12) months, OR
- Two (2) tradelines reporting for twenty-four (24)+ months with activity in the last twelve (12) months

To qualify as an acceptable tradeline, the credit line must be reflected on the borrower's credit report. The account must have activity in the past twelve (12) months and may be open or closed. Accounts with delinquencies are allowed when the account is no more than 30 days

past due at the time of application. An acceptable 12 or 24-month housing history not reporting on credit may also be used as a tradeline.

Credit lines on which the borrower is not obligated to make payments are not acceptable for establishing a minimum history. Examples of unacceptable tradelines include loans in a deferment period, collection or charge-off accounts, accounts discharged through bankruptcy, and authorized user accounts. Student loans can be counted as tradelines if they are in repayment and are not deferred.

Non-traditional credit is not allowed. Each borrower must have a valid and usable score as defined in [Credit Score Requirements](#).

5.5 MORTGAGE AND RENTAL PAYMENT VERIFICATION

A combined total of all late mortgage and rental payments in the past twelve (12) months must be used to determine the housing history. For Private Party Landlords, a VOR (or a copy of the current lease) will be required ALONG with 12 months of canceled checks. A VOR without canceled checks is allowed for properties managed by a Professional Management Company. G1 must be able to verify the existence of the Professional Management Company online. A VOM **AND** proof of monthly housing payments made over the last twelve (12) months are required when the borrower makes mortgage payments to a non-institutional lender or private party not appearing on credit. Canceled checks, bank transaction history reports, and Lender Mortgage History reports are acceptable proof of payment history over the last twelve (12) months.

All mortgages and rental payments should be current at the time of closing. Updated documentation is required to verify that the account is current if the credit report or VOR/VOM reflects a past-due status.

G1 will require that all disputes be removed on disputed mortgage accounts with delinquent mortgage payments reported within the last 36 months. An updated credit report with new scores will be required. Removal of dispute can be waived if proof of timely payments is provided.

5.5.1 NO HOUSING HISTORY OR LESS THAN 12 MONTHS VERIFIED

Borrowers who do not have a complete twelve (12) month housing history are not eligible for financing.

5.5.2 MORTGAGE MODIFICATION

A mortgage modification will be deemed a housing event when the borrower was thirty (30) days late (or more) within three (3) months of the execution of the modification. Examples of modifications include (but are not limited to)

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage
- Application of a principal curtailment by or on behalf of the investor to stimulate principal forgiveness
- Interest rate of the loan was lowered, or the maturity of the loan was extended
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage
- Conversion of any portion of the original mortgage debt from secured to unsecured
- The above text applies unless the loan was current prior to the modification being granted/approved

5.6 CONSUMER LATE PAYMENTS

See the applicable Program Matrices for specific consumer late restrictions.

5.7 ROLLING LATE PAYMENTS

Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

5.8 PAST DUE ACCOUNTS

All past-due accounts must be brought current prior to closing. These accounts are not the same as charge-off/collection accounts. [See 5.13 Collections and Charge-Offs](#)

5.9 WRITTEN EXPLANATIONS FOR DEROGATORY CREDIT

Recent Housing Events and bankruptcies in the most recent four (4) years must be explained by the borrower with a signed letter of explanation. Housing lates \geq 60 days in the last twelve (12) months also requires a written explanation. Supporting documentation may be required.

5.10 DELINQUENT CREDIT BELONGING TO EX-SPOUSE

Delinquent credit belonging to an ex-spouse can be excluded from the credit evaluation when all the following apply:

- Borrower provides a copy of the divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse
- Late payments occurred after the date of the divorce or separation
- Evidence of title transfer prior to any delinquent debt must be provided if the debt is a mortgage, and evidence of “buyout” as part of court proceedings.

5.11 LAWSUIT/PENDING LITIGATION

If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, a statement from the borrower’s attorney is required. The statement must explain the circumstances of the lawsuit or litigation and discuss the borrower’s liability and insurance coverage. A copy of the complaint and answer may also be needed. The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of our first lien position.

5.12 CONSUMER CREDIT COUNSELING SERVICE (CCCS)

Borrower enrollment in CCCS is allowed when a minimum of twelve (12) months have elapsed on the plan and evidence of timely payments for the most recent twelve (12) months is provided. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.

If the accounts included in the CCCS plan reflect as charge-offs or collection accounts on the credit report, then exclude these balances from the charge-off and collection limits in [5.13 Collections and Charge-offs](#).

If a completion date is not shown on the credit report, the borrower must submit verification from the counseling agency establishing the completion date.

5.13 COLLECTIONS AND CHARGE-OFFS

Collection and Charge-Off accounts can remain open and are not required to be paid off. Substantial collection and charge-off accounts may impact the overall underwriting decision regarding the borrower’s creditworthiness. These accounts are not treated as Past Due accounts when determining if they need to be paid off.

5.14 JUDGMENTS AND TAX LIENS

Judgments and tax liens must be paid off prior to or at closing unless the requirements listed below are met. Adverse credit that will impact title must be paid in full as title must insure our lien position without exception.

Court-ordered judgments may **NOT** remain open.

Outstanding tax liens may remain open on purchase transactions only (additional LTV reductions may be required based on the size of the lien). All the following requirements must be met:

- A copy of the repayment agreement is obtained
- A minimum of two (2) months has elapsed on the plan, and evidence of timely payments for the most recent two (2) months is provided (For new installment plans, payments may be made in advance); and
- The title company must provide written confirmation confirming (a) the title company is aware of the outstanding tax lien, and (b) there is no impact to first lien position.

5.15 CHAPTER 7, CHAPTER 11 & CHAPTER 13 BANKRUPTCY

See applicable Program Matrices for specific Bankruptcy requirements.

A Chapter 13 bankruptcy may remain open after loan closing when all the following requirements are met:

- A minimum 24-month repayment period in the bankruptcy has elapsed
- Bankruptcy plan payments for the last 12 months have been made on time
- The borrower has received written permission from the bankruptcy court to enter the mortgage transaction
- Full bankruptcy papers may be required

A cash-out refinance is not allowed to pay off the remaining balance of a Chapter 13 bankruptcy.

Chapter 13 requires 24-months seasoning and is based on the filing date.

5.16 HOUSING EVENTS

A housing event is any one of the following events listed below. If the Housing Event occurred within 48 months of closing, it is considered a Recent Housing Event:

- Foreclosure
- Notice of Default (NOD) on any property the borrower has an ownership interest
- Lis Pendens, associated with the subject property
- Deed-in-Lieu
- Short Sale
- Modification (Unless Current before Modification)
- 1 x 120 Mortgage Late

Seasoning of a foreclosure, deed-in-lieu, or short sale is measured from the date of the completed sale or final property transfer. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining.

For a 120-day mortgage late, seasoning is from the date the mortgage was brought current. Seasoning for a modification is from the date the modification was executed. See also [5.5.2 Mortgage Modification](#).

The bankruptcy discharge date is used for seasoning if the property was surrendered in a Chapter 7/11 bankruptcy. Bankruptcy papers may be required to show that the property was surrendered. The foreclosure action is not required to be fully complete. A Lis Pendens that is not related to mortgage default will not be counted as a Housing Event. G1 will not allow a borrower to close with an active NOD/Lis Pendens, regardless of if the NOD/Lis Pendens is mortgage related. Housing Events must season for a minimum of 24 months.

See applicable program matrices for specific housing event seasoning requirements and adjustments.

5.16.1 PERMITTED HOUSING EVENTS

See applicable program matrices for specific housing event seasoning requirements and adjustments.

6 DOCUMENTATION

6.1 AGE OF LOAN DOCUMENTATION

Unless otherwise noted, all loan documentation must be dated within 90 days of closing except for the credit report and appraisal, both of which are good for 120 days. See [9.2.4 Transferred Appraisals](#).

6.2 EMPLOYMENT/INCOME DOCUMENTATION

There is no employment verification or income analysis required.

6.3 ASSET DOCUMENTATION

Assets to be used for the down payment, closing costs, business debt payoff, and reserves must be seasoned for 60 days or sourced.

Verification of assets is required for purchase or refinance transactions to evidence sufficient funds to close. Assets must be verified with the most recent two (2) months of account statements or quarterly account statements.

Sourcing of deposits is not required; however, verification of large or unusual deposits may be required at the discretion of G1.

7 RATIOS AND QUALIFYING

7.1 ADJUSTABLE RATE AND INTEREST ONLY QUALIFYING

Interest Only Loans will qualify using the interest-only payment over 360 months regardless of the Interest Only period.

The interest-only option for the thirty (30) year fixed and 5/6 ARM products are available as a forty (40) year term or a thirty (30) year term. The forty (40) year interest-only term has a ten (10) year initial interest-only period followed by a thirty (30) year fully amortizing period. The thirty (30) year term has a ten (10) year initial interest-only period followed by a twenty (20) year fully amortizing period.

ADJUSTABLE-RATE CRITERIA	
	PROGRAM DETAILS
MARGIN	5.00%
CAPS	5 YEAR ARM = 2/1/5
INDEX	30-DAY AVERAGE SOFR
RESET PERIOD	6 MONTHS
FLOOR	MARGIN

30 DAY AVERAGE SOFR INDEX AS PUBLISHED BY THE NEW YORK FEDERAL RESERVE

8 ASSET ANALYSIS

Loan files must evidence sufficient funds from acceptable sources for the down payment, closing costs, prepaid items, business debt payoff, and applicable reserves. A borrower's ability to accumulate assets provides insight into the individual's ability to manage personal finances successfully. See [6.3 Asset Documentation](#) for sourcing and seasoning requirements.

8.1 DOWN PAYMENT

See the applicable loan program matrix for specific LTV and down payment requirements.

8.2 RESERVES

Reserves are measured by the number of months of housing expenses a borrower can pay using his or her financial assets. See the applicable loan program matrix for reserve requirements. The highest reserve requirement, rather than a cumulative total, should be used when a transaction has multiple required reserves. Reserves for all Interest-Only loans may be calculated using the Interest-Only payment.

Net proceeds from cash-out transactions can be used to meet the reserve requirement. Gift funds may not be considered.

Additional reserves are also required when the following situations are present:

- Multiple Financed Properties: borrowers with greater than two (2) financed properties require two (2) months of reserves for each additional financed property.

8.3 VERIFICATION OF ASSETS

8.3.1 BORROWED FUNDS SECURED BY AN ASSET

Borrowed funds that are secured by an asset can be used as a source of funds for the down payment, closing costs, and reserves. Assets that may be used to secure funds include automobiles, artwork, collectibles, stocks and/or bonds, and 401(k) accounts.

The terms of the secured loan and transfer of funds to the borrower should be documented. The individual providing the secured loan cannot be a party to the transaction.

If the borrower's financial asset is used as part of his or her financial reserves, the adequacy of the borrower's reserves must be determined after considering the asset's net value after it has been reduced by the proceeds from the secured loan (and any related fees).

8.3.2 BUSINESS ASSETS

For self-employed borrowers, business assets are an acceptable source of funds for the down payment, closing costs, and reserves. The borrowers on the loan must have twenty-five per centum (25%) of ownership of the business and be the account owners. Access letters from the remaining owners of the business must be obtained as well.

8.3.3 CONCESSIONS AND CONTRIBUTIONS

8.3.3.1 Financing Concessions/Client Contributions

The property seller and/or interested parties may contribute up to 2%.

8.3.3.2 Sales Concessions

Sales concessions include:

- Financing concessions in excess of the maximum financing concession limitations; OR
- Contributions such as cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways granted by any interested party to the transaction (contributions with a combined value under \$1,000 should be excluded)

The value of sales concessions must be deducted from the sales price when calculating LTV for underwriting and eligibility purposes. The LTV is then calculated using the lower of the reduced purchase price or the appraised value.

8.3.4 DEPOSITORY ACCOUNTS

Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts can be used for the down payment, closing costs, and reserves.

The underwriter must investigate any indications of borrowed funds, including recently opened accounts, recent large deposits, or account balances that are considerably greater than the average balance over the previous few months. A signed, written explanation of the source of funds should be obtained from the borrower, and the source of funds should be verified.

Unverified funds are not acceptable. See also [6.3 Asset Documentation](#).

If the borrower does not hold the deposit account solely, all non-borrower parties on the account (excluding a non-borrowing spouse) must provide a written statement that the borrower has full access and use of the funds. See also [8.3.16 Spousal Accounts](#).

Any specific deposit exceeding 50% of the monthly calculated deposits must be explained and sourced. Sourcing of deposits is not required for refinance transactions. The underwriter may request sourcing for deposits that appear to be gifts or loans on **ALL** transaction types.

8.3.5 EARNEST MONEY/CASH DEPOSIT ON SALES CONTRACT

If the earnest money is needed to meet the borrower's minimum contribution requirement, the underwriter must verify that the funds are from an acceptable source. Satisfactory documentation includes any of the following:

- Copy of the borrower's canceled check
- Certification from the deposit holder acknowledging receipt of funds
- VOD or bank statement showing that the average balance was sufficient to cover the amount of earnest money at the time of the deposit

If the earnest money check has cleared the bank, bank statements should cover the period up to, and including the date the check cleared the account. A copy of the check that has not cleared may also be obtained along with the processor's certification verifying with the bank the

date the check cleared, the dollar amount of the check, and the individual providing the information.

8.3.6 BORROWERS ACTING AS REALTORS

Borrowers are eligible to act as their own realtor in purchase transactions. All commissions earned from the transaction are eligible to be applied towards the down payment and closing costs.

8.3.7 GIFT FUNDS

Gift funds are not permitted.

8.3.8 GIFTS OF EQUITY

Gifts of equity are not permitted.

8.3.9 FOREIGN ASSETS

Assets used for the down payment and closing costs must be seasoned in a U.S. depository institution for thirty (30) days prior to closing.

Foreign assets deposited into a U.S. depository institution within sixty (60) days of the application are acceptable if there is evidence that the funds were transferred from the country where the borrower previously or currently resides. It must also be established that the funds belonged to the borrower before the date of transfer.

Assets held in a foreign account can be used for reserves for Non-Permanent Resident Aliens. The most recent thirty (30) day account statement is required, and the funds are to be converted to U.S. dollars using the current exchange rate. A letter of reference on company letterhead from a verifiable banking institution may also be obtained. Contact information must be provided by the person signing the letter. The letter must state the type or relationship, the length of the relationship, how the accounts are held, and the current balance. Any translation must be signed and dated by a certified translator.

8.3.10 LIFE INSURANCE

Net proceeds from the surrender of a life insurance policy or from a loan against the cash value are acceptable for the down payment, closing costs, and reserves.

To document the receipt of funds from the insurance company, a copy of the check from the insurer or a copy of the payout statement issued by the insurer must be obtained.

The underwriter must assess any repayment obligations to determine any impact on borrower qualification or reserves.

8.3.11 MINIMUM BORROWER CONTRIBUTION

All funds for the transaction must come from the borrower, with the exception of seller concession. See also [8.3.16 Spousal Accounts](#) for the exception.

8.3.12 NET PROCEEDS FROM THE SALE OF REAL ESTATE

If part of the down payment is expected to be paid from the sale of the borrower's real estate owned (REO), a final settlement statement verifying sufficient net proceeds must be obtained.

8.3.13 RETIREMENT ACCOUNTS

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. The lender must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status.

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of [Stocks, Bonds, and Mutual Funds](#) for determining value and whether documentation of the borrower's actual receipt of funds will be required when used for the down payment and closing costs. When funds for retirement accounts are used for reserves, only sixty per centum (60%) of the vested balance may be used, and they do not have to be withdrawn from the account.

8.3.14 SALE OF PERSONAL ASSETS

Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the asset is not a party to the property sale or mortgage financing transaction.

The underwriter must document the following:

- Borrower's ownership of the asset
- Value of the asset, as determined by an independent and reputable source
- Transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser

- Borrower’s receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser’s canceled check

8.3.15 SECONDARY/SUBORDINATE FINANCING

Secondary or subordinate financing is not permitted.

8.3.16 SPOUSAL ACCOUNTS

Accounts held solely in the name of a non-borrowing spouse may be used for the down payment, and closing costs only and are subject to the seasoning requirements outlined in [6.3 Asset Documentation](#).

Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.

8.3.17 STOCK OPTIONS

Vested stock options are an acceptable source of funds for the down payment and closing costs when immediately available to the borrower. Stock options may not be used to meet reserve requirements. The value of vested stock options can be documented by:

- Referencing a statement listing the number of options and the option price; AND
- Determining the gain that would be realized from the exercise of an option and the sale of the optioned stock using the current stock price.

8.3.18 STOCKS, BONDS, AND MUTUAL FUNDS

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The underwriter must verify the borrower's ownership of the account or asset.

When used for the down payment or closing costs, if the asset value is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower’s actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.

When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

**G1 may require the use of a lower percentage of account balances if other exceptions are granted.

8.3.19 TRUST ACCOUNTS

Funds disbursed from a borrower's trust account are an acceptable source for the down payment, closing costs, and reserves, provided the borrower has immediate access to the funds.

To document trust account funds, the client must:

- Obtain written documentation of the value of the trust account from either the trust manager or the trustee; AND
- Document the conditions under which the borrower has access to the funds

8.3.20 UNACCEPTABLE FUNDS

- Cash-on-hand
- Sweat Equity
- Gift Funds
- Down Payment Assistance programs
- Bridge Loans
- Unsecured Loans or Cash Advances
- Section 8 Voucher Assistance

9 PROPERTIES

9.1 GENERAL PROPERTY REQUIREMENTS

A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested. The underwriter is responsible for all the following:

- The accuracy and completeness of the appraisal and its assessment of the property's marketability.
- Underwriting the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage.

- Continually evaluating the quality of the appraiser's work through normal underwriting review of all appraisal reports and spot-check field review of appraisals as part of its quality control program.
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate property description.
- Ensuring that the appraiser provides his or her license or certification on the appraisal report.
- Complying with the Appraiser Independence Requirements published by Fannie Mae/Freddie Mac and the requirements of the Federal Truth in Lending Act and Regulation Z with respect to valuation independence.
- Disclosing to the appraiser any information about the subject property of which it is aware that could impact the marketability of the property.
- Providing the appraiser with the ratified sales contract and other financing or sales concessions that are associated with the transaction.
- Ordering and receiving the appraisal report for each mortgage transaction.
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin for any party in the transaction, or impermissible demographics of the community in which the property is located, as the basis for market value.

9.2 UNIFORM RESIDENTIAL APPRAISAL REPORT (URAR)

Appraisers must use current appraisal report forms acceptable to Fannie Mae and/or Freddie Mac. The following appraisal report forms should be used:

- Uniform Residential Appraisal Form (FNMA Form 1004)
- Small Residential Income Property Appraisal Report (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Market Conditions Addendum to the Appraisal Report (FNMA Form 1004MC)
- Appraisal Update and/or Completion Report (FNMA Form 1004D)
- Single Family Comparable Rent Schedule for all one (1) unit investment properties (FNMA Form 1007)
- Operating Income Statement for 2-4 unit investment properties (FNMA Form 216)
- 1-4 Family Rider (Assignment of Rents) for all investment properties (FNMA Form 3170)

9.2.1 APPRAISAL REPORT REQUIREMENTS

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparables used
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required, along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condo project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the subject property's front, street, and rear views. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject property are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/improvements.
- Any other data as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value.
- Appraisal report must contain analysis of all agreements of sale, options, or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal.
- Appraisal report must include a completed Sales Comparison Approach section of FNMA Form 1004 where there are comparables used with more than one sale or transfer in the twelve (12) months prior to the effective date of the appraisal.
- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and Statement of Limiting Conditions signed by the appraiser.

9.2.2 APPRAISER QUALIFICATIONS

Real estate appraisers are to be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. They must have the requisite knowledge required to perform a professional quality

appraisal for the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

The underwriter must have a process to ensure the appraisers it selects have the appropriate knowledge, experience, access to the appropriate data sources, geographic competence, and the ability to generate a quality appraisal report. The underwriter may choose to use an appraisal management company; however, the underwriter must establish appropriate procedures and qualifications and continue to meet all requirements noted in these guidelines.

An unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed appraiser may perform a significant amount of the appraisal if the appraisal report is signed by a licensed or certified appraiser and is acceptable under state law. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the “Appraiser” must have performed the level of inspection of the subject property required by the assignment.

9.2.3 ELECTRONIC SUBMISSION OF APPRAISAL REPORT

Appraisal reports which have been transmitted electronically using the internet, wireless transmissions, or other types of electronic transmissions are acceptable, provided the following are met:

- The appraisal report accurately identifies the appraiser and is signed by the appraiser. Digitized signatures are acceptable.
- The appraisal report was created by the appraiser whose name appears on the appraisal report and that the appraisal is complete, unaltered, and submitted by the identified appraiser.

9.2.4 TRANSFERRED APPRAISALS

Transferred appraisals are only allowed when the appraisal has been reviewed by a G1-approved AMC and is named as the Lender in the report. All transferred appraisals require a transfer letter. Appraisals being transferred must be less than or equal to ninety (90) days old.

The following documents are required for an appraisal transfer:

- Full Appraisal
- Transfer Letter from the transferring lender (must be signed by someone in management and speak to the AIR guidelines)
- Paid Invoice

- HVCC/Appraisal Ordering Guidelines
- XML File
- AIR Cert
- SSR's
- Delivery Cert

9.2.5 AGE OF APPRAISAL AND APPRAISAL UPDATES

When an appraisal report will be more than four (4) months old on the date of the note and mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal.

The inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D), with interior and exterior photos.

If the appraiser indicates on the Form 1004D that the property value has not declined, then the underwriter may proceed with the loan in process without requiring any additional framework.

Note: When relying on an appraisal update, the appraisal cannot be more than 120 days old at the time of closing, and the appraisal update must occur within the four (4) months that precede the date of the note and mortgage.

The original appraiser should complete the appraisal update; however, underwriters may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraisers opinion of market value was reasonable on the date of the original appraisal report. The underwriter must note in the file why the original appraiser was not used.

Appraisals are valid for 120 days.

9.2.6 USE OF AN APPRAISAL FOR A SUBSEQUENT TRANSACTION

G1 will allow the use of an origination appraisal for a subsequent transaction if the following requirements are met:

- The subsequent transaction may only be a Limited Cash-Out Refinance.

- The age of the appraisal report must be less than twelve (12) months from the note date of the subsequent transaction. If the appraisal report exceeds four (4) months from the date of the note and mortgage, an appraisal update is required. See the preceding section, [9.2.5 Age of Appraisal and Appraisal Update Requirements](#), for requirements for completing an appraisal update.
- The underwriter must ensure that the property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property.
- The borrower and Lender must be the same on the original and subsequent transaction.

9.2.7 MINIMUM PROPERTY STANDARDS

All properties must:

- Be improved real property
- Be designed and available for year-round residential use
- Contain a kitchen and a bathroom
- Contain a minimum of 600 square feet of gross living area. Multi-unit properties with specific units below 600 square feet will be considered case-by-case, assuming these units meet code and all other municipal requirements to be considered a legal living dwelling. There can be no negative affect on marketability due to the smaller unit size as well.
- Be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated.
- Average or better than average condition.
- Represent the “highest and best” use of the subject.
- Be free of all health and safety violations.
- NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property.

9.3 PROPERTY LOCATION

See applicable program matrix. Subject property must be subject to the laws of the state in which the loan is made.

9.4 ELIGIBLE PROPERTY TYPES

PROPERTY ELIGIBILITY	
PROPERTY TYPE	ELIGIBLE
Single-Family Residence Detached	Yes
Single-Family Residence Attached	Yes
Planned-Unit Development (PUD) Detached – New PUD Developments may be ineligible for lending. G1 will review the PUD appraisal for specific eligibility information.	Yes
Planned Unit Development (PUD) Attached – PUD Certification will be required.	Yes
Townhomes	Yes
Multi-Family Properties (2-4 unit)	Yes
Manufactured Homes	No
Modular Homes	Yes
Condominium (low-rise 1-4 stories)	Yes
Condominium (high-rise 5+ stories)	Yes
Site Condominium	Yes
Non-Warrantable Condominiums (Per G1 Non-Warrantable Guidelines)	Yes
Co-operative Units	No
Condotels and Condo Hotels	Yes, Max 65 LTV
Mixed-Use Properties (includes Adult Care Facilities)	Case-by-case per guidelines
Log Homes	No
Farms or Hobby Farms	No
Properties subject to Rent Control regulations	Case-by-case
Unique Properties (Earth Homes, Berm Homes, Dome Homes, etc.)	No

9.5 MARKET ANALYSIS

9.5.1 NEIGHBORHOOD REVIEW

The neighborhood section should contain an accurate description of the subject's neighborhood and any factors about the neighborhood that may influence value. Specific neighborhood characteristics include the following:

- Degree of development
- Demand and Supply
- Present land use
- Owner-occupancy
- Price range and predominate value
- Age of subject property
- Appeal to market and marketing time

9.5.2 COMPATIBILITY OF SUBJECT PROPERTY AND NEIGHBORHOOD

The age and price of the subject property should generally be within the age and price ranges of properties in the subject neighborhood, as reported on the URAR. Neighborhood factors indicating compatibility of the subject, such as present land use, predominant occupancy, and anticipated change in present land use are considered. Residential properties in areas that are zoned as either agricultural or commercial may be considered acceptable risks so long as their location does not impact marketability.

9.5.3 PROXIMITY OF COMPARABLES TO SUBJECT PROPERTY

Whenever possible, comparable sales in the same neighborhood as the subject property should be used. Sales prices of comparable properties in the neighborhood should reflect the same positive and negative location characteristics.

For properties in established subdivisions, condo projects, or PUDs, comparable sales from within the same subdivision or project as the subject property must be used if the subdivision or project has resale activity. The use of comparable properties located outside of the established neighborhood must be explained in the appraisal analysis.

For properties in new subdivisions, condo projects, or PUDs, the subject property must be compared to other properties in its general market area as well as to properties within the subject subdivision or project. The appraiser must select one comparable sale from the subject subdivision or project and one comparable sale from outside the subject subdivision or project. The third comparable sale can be from inside or outside the subject subdivision or project, provided it is a good indicator of the property's value.

9.5.4 AGE OF COMPARABLES

Generally, appraisals should contain comparable sales dated within six (6) months from the report date. Comparables from six (6) to twelve (12) months are permitted on a limited basis with an explanation from the appraiser. Older comparable sales that are the best indicator of value for the subject property may be used if appropriate. Underwriters must ensure that the value is supported, and market acceptance has been demonstrated when older comparables are utilized.

9.5.5 PROPERTY VALUES WITHIN MARKET AREA

The value of the subject property should be in line with the home prices in the subject's market area. The appraiser must report the primary indicators of market conditions for properties in the subject's neighborhood as of the effective date of the appraisal by noting the following:

- The trend of property values
- The supply of properties in the subject neighborhood
- Marketing time for properties

The appraiser must provide their conclusions about why a market is experiencing declining property values, an oversupply of properties, or marketing times over six (6) months. The Market Conditions Addendum (FNMA Form 1004MC) is required for all loans with appraisals of 1-4 unit properties.

9.5.5.1 Declining Property Values

Properties located in areas of declining value will have the maximum allowable LTV reduced by a minimum of five per centum (5%). This restriction may be increased based on the appraiser's opinion, as noted in the appraisal.

9.5.6 REDLINING PROHIBITION

Prohibited bases such as race, ethnicity, gender, minority geography, or any other prohibited basis category should not be included as an appraisal factor or considered when reviewing an appraisal. As a matter of policy, appraisal reports which refer to a prohibited basis category (e.g., race or minority geography) are not acceptable. Using code phrases as proxies for race that are not necessarily descriptive of value or risk is unacceptable. The information in the appraisal report must support, in an objective manner, any statement or conclusion contained in the report.

9.5.7 OVER-IMPROVEMENTS

An over-improvement is an improvement that costs more than its contributory value within the marketplace. The appraiser must comment on over-improvements and indicate their contributory value in the “sales comparison analysis” adjustment grid. Improvements can represent an over-improvement for the neighborhood but still be within the neighborhood price range—such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements. Underwriter must review appraisals on properties with over-improvements that may not be acceptable to the typical purchaser to ensure that only the contributory value of the over-improvement is reflected in the appraisal analysis.

9.6 VALUATION ANALYSIS

9.6.1 SALES COMPARISON APPROACH

Each appraisal must contain an estimate of market value. Market value is defined as the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and client each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from client to buyer under conditions whereby:

- Buyer and client of property are typically motivated
- Both parties are well informed or well advised, acting in what they consider their best interest
- A reasonable time is allowed for exposure in the open market

- Payment is made in terms of cash in U.S. dollars or in terms of comparable financial arrangements
- The price represents the normal consideration for the subject property sold, unaffected by special financing or sales concessions granted by anyone associated with the sale

A minimum of three (3) closed comparable sales must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate.

Comparable sales utilized in the market approach should:

- Be within one mile of the subject property
- Have been closed within the last six (6) months
- Indicate properties that are similar to the subject property with respect to age, size, features, amenities, etc.
- Result in an overall net adjustment not exceeding fifteen per centum (15%) of the sales price of that comparable and a gross adjustment not exceeding twenty-five per centum (25%) of the sales price of that comparable.
- Reflect adjustments for individual line items not exceeding ten per centum (10%)
- Have a sales price that is within the general range of value as the subject
- Have at least three (3) comparables recently sold

In instances where comparables conforming to the criteria state above cannot be used, the appraiser must clearly justify reasons for alternate comparables.

9.6.2 COST APPROACH

When completed, the cost approach must clearly segregate value attributed to land, outbuildings, etc. If the ratio of land value to total value exceeds 35%, an explanation from the appraiser may be required to demonstrate conformance with neighboring properties. See also [9.7.12 Land Value](#). Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

9.6.3 INCOME APPROACH

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data and the calculations used to determine the gross multiplier.

Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

9.6.4 VALUATION ANALYSIS AND FINAL RECONCILIATION

In the final reconciliation, appraisers must reconcile the reasonableness and reliability of each applicable approach to value along with the validity of the indicated values. The appraiser must select and report the approaches that were given the most weight. An averaging technique cannot be used.

9.6.5 APPRAISAL REVIEW PROCESS

The Appraisal Review Process requires underwriters to obtain a Desk Review on all loans from either Clear Capital or Protek Valuation Services on all loans to support the appraisal value for the transaction. If the Desk Review variance is greater than ten per centum (10%) of the appraised value, one of the following appraisal products will be required:

- Clear Capital or ProTek BPO and Final Reconciliation of Value
- Field Review
- Additional Full Appraisal (appraisals must be completed by different independent appraisers and the lowest of all appraised values used to determine value)

The following transactions require a second (2nd) full appraisal:

- Approved loan amount exceptions
- HPML flip transactions as defined by the CFPB
- Loan amounts > \$2,000,000

A Desk Review will be required on the lower of the two (2) appraised values. If the Desk Review variance exceeds ten per centum (10%) a Clear Capital or ProTek BPO product and Final Reconciliation of Value product is required.

Existing underwriting policies should continue to be followed for guidance on ordering discretionary appraisal review products if there are concerns with the original appraisal report. G1 reserves the right to request additional appraisal products at their discretion based on the appraisal and loan file review.

9.6.6 APPRAISAL REVIEW TOLERANCE

A 10% tolerance is permitted for secondary review products. If the review product value is more than 10% below the appraisal value, the lower of the two values must be used.

If the tolerance is exceeded, the underwriter may choose to order an additional review product of a higher-level review. The original appraised value may then be used if the additional review product value is within 10% of the appraised value. If the variance is greater than 10%, a second full appraisal is required.

9.7 PROPERTY CONSIDERATIONS

9.7.1 ACCESSORY UNITS

Properties with accessory units, also known as Granny units, mother-in-law suites, etc., are acceptable if all the following are met:

- Property is typical, readily acceptable, and common in the subject's market area
- Property must conform to all zoning laws and/or regulations
- Appraisal contains two (2) comparables with similar additional accessory units
- Accessory unit is substantially smaller than the primary dwelling
- Legal non-conforming use is acceptable provided its current use does not adversely affect value and marketability
- Any rental income received from the accessory unit may not be used for qualification unless requirements outlined in the applicable documentation section of the guidelines are met
- Existence of the unit must not jeopardize any future hazard insurance claim that may need to be filed for the property

9.7.2 DAMPNES

If the appraisal report notes evidence of dampness, the appraiser must clearly define the effect on the value and marketability of the subject property, as well as comment regarding the probable cause of the dampness problem. Generally, a structural engineer's report is required prior to making a loan decision. The cause of the dampness must be corrected prior to closing should the dampness problem indicate a structural deficiency and/or significant negative impact on value or marketability.

9.7.3 DEED RESTRICTIONS

Deed restrictions impact the future transferability of a property. The following deed restrictions are allowed:

- Age Restricted Communities

Deed restrictions must be reviewed to ensure all the following are met:

- Appraisal supports property is common and typical for the market area
- Deed restriction must not impair or restrict the first mortgage holder's legal rights in the event of default (or cure), foreclosure, or any other default measure
- Declarations must not contain any provisions that would require the first mortgage holder to send a notice of default or foreclosure to any third party
- Deed restriction must not require the lender to provide notification to the governing authority of any delinquency or default

9.7.4 DEFERRED MAINTENANCE

Properties must be in average or better condition. Grades of C5 or lower are not allowed under any circumstances. Deferred maintenance resulting in an appraisal grade of "Below Average" for 2-4-unit properties is not allowed. A grade of C4 is eligible provided the neglected item is not structural in nature or a health and safety hazard (as noted by the appraiser). These items should be minor and cosmetic in nature with a cost cure not to exceed \$2500.

9.7.5 DISASTER AREAS

Underwriters are responsible for identifying areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected. Examples of disasters include, but are not limited to, hurricanes, earthquakes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest, and terrorist attacks.

Adverse events that receive a formal disaster declaration issued by local, state, or federal departments of emergency management must follow the procedures listed below. A list of all federally declared disaster areas may be found on the FEMA website at

<http://www.fema.gov/disasters>.

In addition, when there is knowledge of an adverse event occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required to determine whether the disaster area guidelines must be followed.

9.7.5.1 Time Period

Guidelines for disaster areas should be followed for 90 days from the incident period ending date or the date the adverse event occurred, whichever is later.

9.7.5.2 Appraisal Not Completed or Appraised Prior to Disaster Incident

When the appraisal was completed prior to the disaster incident or has not been completed, an interior and exterior inspection of the subject property is required.

- Inspection must be completed by licensed third-party professionals to certify the condition of the subject property and to identify any impact to habitability or marketability
- Inspection report must include photographs of front, rear, and street view of the property
- Any damage must be repaired and re-inspected prior to purchase
- The file must contain a copy of the inspection report and evidence of inspector licensing

An appraisal update or final inspection from the appraiser must also be obtained.

- Appraiser must comment on the adverse event and certify there has been no decline in value
- Existing damage must meet requirements in [9.7.4 Deferred Maintenance](#).

9.7.5.3 Disaster Incident Occurs After Closing, Prior to Funding or Purchase

Loan is ineligible for purchase or funding until an appraisal update or final inspection from the appraiser is obtained.

- Appraiser must comment on the adverse event and certify there has been no decline in value
- Existing damage must meet requirements in [9.7.4 Deferred Maintenance](#).

9.7.6 ELECTRICAL SYSTEMS

An electrical certification from a licensed electrician is required if the appraisal notes a fair or poor rating concerning the adequacy or condition of the system. Any electrical inadequacies must be corrected prior to closing.

9.7.7 ENVIRONMENTAL HAZARDS

The appraisal report should note the existence of known environmental hazards and their effect on the value and marketability of the subject property. Environmental hazards may include but are not limited to:

- Evidence of radon above EPA safety levels which is left untreated
- Properties built on or near toxic waste dumps, cleanup sites, etc.
- Presence of urea formaldehyde foam insulation (UFFI)

A property inspection completed by a licensed inspector is required to make a final determination of the acceptability of the property. The mortgagor's acknowledgment of condition is required.

9.7.8 ESCROWS FOR WORK COMPLETION

Not allowed.

9.7.9 FLOOD ZONE

The appraisal should indicate if the property is in a flood zone. Refer to **Flood Insurance** for additional information on flood certifications and flood insurance.

9.7.10 FOUNDATION SETTLEMENT

If the appraisal report notes evidence of excessive settlement, the appraiser must clearly define the effect on value and marketability of the subject property. Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing. Generally, a structural engineer's report is required prior to making a loan decision.

Properties with evidence of sinkhole activity are ineligible for financing.

9.7.11 HEATING SYSTEMS

A central heat source with ductwork or baseboard in all rooms is required on all properties. If subject does not have central heat, the appraiser must provide similar comparable properties and an addendum indicating:

- The heat source is typical for the area
- The heat source is permanently attached
- The heat source is adequate for the dwelling

- The heat source is externally vented

9.7.12 LAND VALUE AND ACREAGE

Acreage and land value must be typical and common for the subject's market. The maximum acreage permitted is 20 acres. Special consideration should be taken for properties with land values that exceed 35% of the total property value to ensure the value is justified and the property has marketability. The appraisal report must provide data which indicates like-size properties with similar land values are typical and common in the subject's market area.

See also [9.7.23 Rural Properties](#).

9.7.13 MIXED-USE PROPERTIES

Properties that have a business use in addition to their residential use may be permitted assuming the following requirements are met:

- The borrower must be both the owner and the operator of the business
- The property must be primarily residential in nature
- The dwelling may not be modified in a manner that has adverse impact on its marketability as a residential property. There can be no commercial upgrades.
- Adult care facilities and residential rehab facilities on a case-by-case basis as long as the home is residential in nature with no commercial upgrades.

In addition, the appraisal must contain the following:

- Provide a detailed description of the mixed-use characteristics of the subject property
- Indicate that the mixed-use of the property is a legal, permissible use of the property under local zoning requirements
- Report any adverse impact on marketability or market resistance to the commercial use of the property; AND
- Report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made

9.7.14 MODULAR HOMES

Modular, prefabricated, panelized, or sectional housing homes are eligible for financing at a maximum LTV of 80%. Modular homes must meet all the following requirements:

- Must assume the characteristics of site-built housing; AND

- Must be legally classified as real property; AND
- Must conform to all local building codes in the jurisdiction in which they are permanently located

9.7.15 MULTIPLE DWELLINGS ON ONE LOT

Properties with three (3) or more detached single-family homes on a single lot are generally ineligible for financing. Single-family properties containing additional residential dwellings (guesthouse, carriage house, etc.) must comply with local zoning regulations. They must be typical and common within the subject's neighborhood. Typically, the additional dwelling is smaller than the main dwelling and will not be rented. The subject property should be appraised as a single-family residence. Any value for additional dwellings should be supported by comparable sales. See also [9.7.1 Accessory Units](#).

9.7.16 MULTIPLE PARCELS

When a property consists of more than one parcel of real estate, the following requirements must be met:

- Each parcel must be conveyed in its entirety
- Parcels must be adjoined to the other unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.
- Each parcel must have the same basic zoning (for example, residential, agricultural)
- The entire property may contain only one dwelling unit. Limited additional nonresidential improvements, such as garages, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
- The mortgage must be a valid first lien that covers each parcel

9.7.17 NEW CONSTRUCTION

The following are required for all new construction properties:

- Appraisal Update and/or Completion Report (FNMA Form 1004D) with complete interior and exterior photos reflecting completion, if applicable. Proposed improvements are not allowed.
- Property taxes are calculated at 1.25% of the sales price for qualifications

9.7.18 PEST INFESTATION

If the appraisal report or sales contract notes evidence of termites or other insect infestation, a pest inspection report certifying treatment of the infestation prior to closing is required. Any significant structural damage due to pest infestation must be corrected prior to closing.

9.7.19 PLUMBING

A plumbing certification from a licensed plumber is required whenever the appraisal states a fair or poor rating concerning the adequacy or condition of the system. Any inadequacies must be corrected prior to closing.

9.7.20 PRIVATE ROADS

Properties on private roads are acceptable, subject to the following:

- The title company must insure access to the subject property from a public street; and
- A legally enforceable agreement or covenant for the maintenance of the street is required
 - The agreement should include provisions for the responsibility for payment of repairs, including each party's representative share, default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations, and the effective term of the agreement which in most cases should be perpetual and binding on any future owners.
 - If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

9.7.21 PUD (PLANNED UNIT DEVELOPMENT)

A Planned Unit Development (PUD) is a project or subdivision consisting of common property and improvements owned and maintained by an owners' association for the benefit and use of the individual PUD units. For a project to qualify as a PUD, each unit owner's membership in the owners' association must be automatic and non-severable and the payment of assessments related to the unit must be mandatory. Zoning is not a basis for classifying a project or

subdivision as a PUD. The PUD project must be analyzed to ensure that an individual unit in the project will be acceptable security for the mortgage.

There are two (2) distinct classifications for PUD projects: Type E (established) and Type F (new).

9.7.21.1 Detached PUDs

If the subject property is a detached unit, no analysis is required.

9.7.21.2 Attached PUDs

Attached Type E PUD: the developer must have turned over voting control of the HOA to the unit purchasers. This is the sole criterion to qualify a Type E Project.

Attached Type F PUD: the developer has not turned over voting control of the HOA to the unit purchasers. The project must meet the following eligibility criteria:

- The project cannot have been created by the conversion of existing buildings into a PUD
- The project may not include any multi-dwelling units that represent the security for a single mortgage
- The project must not be composed of manufactured homes
- Enough of the total units in the project (or legal phase) must have been conveyed or be under contract to be sold to the purchasers in order to determine whether the presales will support the responsibilities of the owners' association for at least two (2) years
- The units must be owned in fee simple, and the unit purchasers must have the sole ownership interest in, and right to the use of, the projects' facilities once control of the owners' association has been turned over to them

9.7.22 REPAIRS

The appraisal must identify all items that require repair. It should also include and describe physical deficiencies that could affect a property's soundness, structural integrity, livability, or improvements that are incomplete. Any immediate or necessary repairs must be completed and re-inspected by the appraiser prior to closing. See also [9.7.4 Deferred Maintenance](#).

9.7.23 RURAL PROPERTIES

A property indicated by the appraisal as rural, or containing any of the following characteristics, is typically considered a rural property and **NOT** eligible for financing:

- Neighborhood is less than 25% built up
- Area around the subject is zoned agricultural
- Photographs of the subject show a dirt road
- Comparables are more than five (5) miles away from the subject
- Subject is in a community with a population of less than 25,000
- Distance to schools and/or amenities are greater than 25 miles
- Subject property and or comparables have lot sizes greater than ten (10) acres
- Subject property and or comparables have outbuildings or large storage sheds

Rural properties are not acceptable.

9.7.24 SEPTIC SYSTEM/SEWAGE DISPOSAL SYSTEM

Sewage disposal systems may require certification if the appraiser or purchase contract indicates the necessity. The report should be provided by a city, county, state (governing body) official or qualified entity stating:

- Sewage disposal system complies with applicable local and/or state health standards, is in proper working order, and can be expected to function satisfactorily; or
- Local and/or state health standards do not apply for the sewage disposal system; however, it is found to be in proper working order and adequate for the subject property
- For systems one (1) year old or less, the certification may be no more than one (1) year old on the date of closing. For systems more than one (1) year old, the certification should be no more than 120 days old on the date of closing

9.7.25 SOLAR PANELS

Properties with solar panels are eligible for financing. If the property owner is the owner of the solar panels, standard eligibility requirements apply (for example, appraisal, insurance, and title). If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply (whether to the original agreement or as subsequently amended):

- The solar panels may not be included in the appraised value of the property
- The property must maintain access to an alternate source of electric power that meets community standards
- The lease or power purchase agreement must indicate that:

- Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home)
- The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not named loss payee (or named insured) on the property owner's property insurance policy; AND
- In the event of foreclosure, the lender or assignee has the discretion to
 - Terminate the agreement and require third-party owner to remove the equipment
 - Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third-party; OR
 - Enter into a new lease/agreement with the third-party, under terms no less favorable than the prior owner

9.7.26 UNCONVENTIONAL FLOOR PLANS

Properties with unusual floor plans or functional obsolescence are allowed if the appraisal demonstrates acceptability in the marketplace and includes appropriate adjustments. A floor plan sketch is required for all appraisals.

9.7.27 WATER SUPPLY

Water certification must be obtained if required by the appraiser or purchase contract. The report should be provided by a city, county, state (or governing body) official or a qualified entity stating:

- The water supply system is in proper working order and pumping an adequate supply of water for the subject property; AND
- The water supply is potable and complies with local and/or state health authority standards (in the absence of a local health authority, a reputable chemical testing agency must certify that the water is fit for human consumption). The water

certification(s) for existing properties can be no more than 120 days old on the date of closing. If new construction, the report may be one (1) year old as of the date of closing.

9.7.28 ZONING AND LAND-USE REGULATIONS

Property improvements must constitute a legally permissible land use based on the zoning ordinance. If the improvements represent a legal, non-conforming use of land, a letter from the local building authority or appraiser must be obtained to certify the subject property can be rebuilt “as is” in the event of partial or total destruction.

The appraiser must compare the existing and potential use of the subject property to the zoning regulations. In addition, the appraiser should note any adverse effect that a non-conforming use has on the value and marketability of the subject property.

Special consideration must be given to properties that are subject to other types of land use regulations, such as coastal tideland or wetland laws, as setback lines or other provisions may prevent reconstruction or maintenance of the property improvements in the event of damage or destruction. The intent of some land-use regulations is to remove existing land uses and to stop land development (including the maintenance, or new construction, or seawalls) within specific setback lines. Except as stated above, properties with land-use restrictions which prohibit the reconstruction to maintenance the dwelling are ineligible.

9.8 CONDOMINIUMS

A condominium is a form of ownership in which the interior space is individually owned, and the balance of the property (including land and building) is owned collectively with the other unit owners.

9.8.1 DEFINITIONS OF ESTABLISHED AND NEW CONDOMINIUMS

Specific eligibility criteria are dependent upon whether the condo project reviewed classifies as established or new.

Established condominium projects meet the following criteria:

- At least 90% of the total units in the project have been conveyed to the unit purchasers
- Project is 100% complete, including all units and common elements
- Project is not subject to additional phasing or annexation; AND
- Control of the HOA has been turned over to the unit owners

New condominium projects meet the following criteria:

- Fewer than 90% of the total units in the project have been conveyed to the unit purchasers
- The project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo
- The project is newly converted; or
- The project is subject to additional phasing or annexation

9.8.2 GENERAL CONDOMINIUM REQUIREMENTS

All condominium projects must meet the following requirements:

- All common areas and amenities within the project or subject phase must be complete
- Subject units must have at least 600 square feet of living space
- The sustainability, marketability, and financial stability of the project must be supported
- Project must be in an area where acceptability of condominium ownership is demonstrated
- The project must follow all applicable state or local laws. The homeowners' association must be incorporated in the state where the project is located
- Condo projects must have acceptable [insurance coverage](#)
- An environmental hazard assessment is required for condo projects if an environmental problem is identified by the underwriter through performance underwriting or due diligence. The solution must be deemed acceptable by G1.
- Projects with pending or threatened litigation are typically ineligible. Litigation may be acceptable if it is determined to be minor or immaterial. See also [Non-Warrantable Condominiums](#).
- The project must be located on one contiguous parcel of land. The project may be divided by a public street.
- The structures within the project must be within a reasonable distance from each other. Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
- All programs are limited to a maximum number of units purchased or funded by G1 within one project of twenty per centum (20%) or twenty (20) loans, whichever is less
- The maximum loan concentration by an individual borrower in a particular condo development is ten per centum (10%)

- High-Rise Condominiums and those in areas considered “over-built,” are subject to a reduction in max allowable LTV by five per centum (5%).

9.8.3 CONDOMINIUM PROJECT REVIEWS

A valid project review is required for all condominium transactions, along with a completed G1 Homeowners’ Association Certification. The project review methods below should be utilized to determine the acceptability of a condominium project: Condominium projects consisting of no more than four (4) units do not require a project review, all other guidelines must be met. The HOA certification may not be greater than 120 days old at the time of closing.

The project review methods below should be utilized to determine the acceptability of a condominium project:

9.8.3.1 PERS (Project Eligibility Review Service)

PERS project approvals: <https://www.fanniemae.com/singlefamily/project-eligibility>

Projects with Fannie Mae PERS approvals are acceptable and can be found on the Fannie Mae website. Projects must also meet the [General Condominium Requirements](#) and may not be an **Ineligible Project**. A PERS approval is valid for eighteen (18) months from the date of issue and must be valid as of the note date. [New projects](#) are acceptable only with a PERS approval.

9.8.3.2 FHA Approved Condominiums

FHA condo approvals: <https://entp.hud.gov/idapp/html/condlook.cfm>

Projects with FHA condo approvals are acceptable and can be verified on the HUD website. Projects must also meet the [General Condominium Requirements](#) and may not be an [Ineligible Project](#). An FHA condo approval must be valid as of the date of the note.

9.8.3.3 HOA Certification Review

An HOA Certification Review is required for all established condominium projects without valid PERS or FHA approvals or for projects that do not meet all the requirements of the various project review methods. Underwriters must review the completed *G1 Homeowners’ Association Certification* to ensure compliance with the following requirements:

- Only Established Condominium Projects are allowed (see restrictions below)

- New Condominium projects are not allowed without an FHA or PERS approval
- No more than fifteen per centum (15%) of the total units in a project may be sixty (60) days or more past due on their HOA dues
- No single entity, the same individual, investor group, partnership, or corporation may own more than ten per centum (10%) of the total units in the project. For projects with 1-4 total units, single entity ownership may not exceed one (1) unit. For 5-20 unit projects, single entity ownership may not exceed two (2) units.
- No more than twenty-five per centum (25%) of the total square footage of the project may be used for commercial purposes
- Mortgagee may not be responsible for more than the greater of six (6) months or the maximum amount permitted under applicable state law of delinquent HOA dues. For condos in Florida, the first mortgagee’s liability for dues assessed prior to its acquisition of title is limited to the lesser of twelve (12) months’ assessments or one per centum (1%) of the original mortgage debt.
- All facilities related to the project must be owned by the unit owners or the HOA cannot be subject to a lease between the unit owners or HOA and another party
- HOA certification reflects the funding of replacement reserves for capital expenditures and deferred maintenance that is at least ten per centum (10%) of the budget

9.8.4 NON-WARRANTABLE CONDOMINIUM

Non-warrantable condominiums are allowed on an exception basis. A completed G1 HOA Certification is required. See the below chart for examples of characteristics that will be considered.

9.8.4.1 LTV Restrictions

Non-warrantable condominiums are eligible at a max LTV of seventy-five per centum (75%). Condotels will be limited to sixty-five per centum (65%) LTV.

9.8.4.2 Non-Warrantable Condo Eligibility Criteria

NON-WARRANTABLE CONDOS	
CHARACTERISTICS	EXCEPTION CONSIDERATIONS
COMMERCIAL SPACE	The subject unit is 100% residential. Commercial space in building/project < 50%. Any commercial must be “typical to the

	marketplace” and have no negative impact on marketability. Commercial % determined by appraiser. Commercial entity cannot control HOA.
COMPLETION STATUS	The project, or the subject’s legal phase along with other phases, must be complete. All common elements in the project or legal phase must be 100% completed. At least 50% must be sold or under a bona-fide contract.
CONDOTELS	True Condotels with onsite reservation desks are allowed at a max 65% LTV. Development must be by a nationally recognized chain (if not, secondary marketing must review and approve for exception).
DELINQUENT HOA DUES	No more than 20% of the total units in the project may be 60 days or more past due on the payment of condominium/association fees.
INVESTOR CONCENTRATION	Investor concentration in project up to 60%. Higher percentages may be considered when an established history of a high percentage of rental units in the condo project can be demonstrated.
HOA CONTROL	The developer may be in control of the condominium association provided the Master Agreement allows the homeowners to take control upon either a predetermined percentage of unit sales or within a defined period.
HOA RESERVES	HOA Budget must include a dedicated line-item allocation to replacement reserves of at least 8% of the budget.
LITIGATION	Pending litigation may be accepted on a case-by-case basis. Litigation that involves structural issues, health and safety issues or items that will impact the marketability of the project will not be accepted.
NEW PROJECTS	NOT ALLOWED ON NON-WARRANTABLE
SINGLE ENTITY OWNERSHIP	Single entity ownership in project up to 25% (limited to 15% for condotels)

9.8.5 CONDOMINIUM CONVERSIONS

A condominium conversion is the conversion of an existing building to a condominium project. Project conversions legally created in the past 3 years are not allowed.

9.8.6 SITE CONDOMINIUMS

Projects consisting of single-family detached dwellings (also known as site condominiums) are acceptable provided the appraisal supports market acceptance of site condominiums in the subject's market area. A Homeowners' Association Certification is not required.

Appraisals for site condos are to be documented on FNMA Form 1004 when possible. Site condos completed on the condominium form will be considered when the appraiser notes that the property is a detached site condo and explains why the condo appraisal form was used. The appraiser should include an adequate description of the project, information about the homeowners' association fees, and note the quality of the project maintenance.

9.8.7 INELIGIBLE PROJECTS

- Projects comprised of manufactured homes
- Projects with units used for "live-work"
- Projects managed and operated as a hotel or motel
- Projects containing the word hotel or motel in the name
- Projects that restrict the owner's ability to occupy the unit
- Projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over unit occupancy
- Projects with non-incidental business operations owned or operated by the homeowners' association (such as a restaurant, spa, health club, etc.)
- Common interest apartments
- Timeshare or segmented ownership projects
- Continuing Care Retirement Communities or Life Care Facilities
- Multi-unit dwelling condos that permit an owner to hold title to more than one dwelling unit, with ownership of all his or her owned units evidenced by a single deed and financed by a single mortgage
- Tenants in Common developments

10 PROPERTY INSURANCE

10.1 HAZARD INSURANCE

10.1.1 MINIMUM HAZARD INSURANCE COVERAGE

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.

Hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not acceptable.

Borrowers may not obtain hazard insurance policies that include such limitations or exclusions unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

Hazard insurance coverage should be in the amount of the lesser of:

- 100% of the insurable value of improvements, as established by the property insurer;
OR
- The unpaid principal balance of the mortgage

10.1.2 DETERMINING THE AMOUNT OF REQUIRED HAZARD COVERAGE

The following table describes how to calculate the amount of required hazard insurance coverage:

DETERMINING HAZARD COVERAGE	
STEP	DESCRIPTION
1	Compare the insurable value of the improvements as established by the property insurer to the unpaid principal balance of the mortgage loan.
1A	If the insurable value of the improvements is less than the unpaid principal balance, the insurable value is the amount of coverage required.

1B	If the unpaid principal balance of the mortgage loan is less than the insurable value of the improvements, go to Step 2.
2	Calculate 80% of the insurable value of the improvements.
2A	If the result of this calculation is equal to or less than the unpaid principal balance of the mortgage, the unpaid principal balance is the amount of coverage required.
2B	If the result of this calculation is greater than the unpaid principal balance of the mortgage, this calculated figure is the amount of coverage required.

EXAMPLES			
CATEGORY	PROPERTY A	PROPERTY B	PROPERTY C
INSURABLE VALUE	\$90,000	\$100,000	\$100,000
UNPAID BALANCE	\$95,000	\$90,000	\$75,000
80% INSURABLE VALUE	—	\$80,000	\$80,000
REQUIRED COVERAGE	\$90,000	\$90,000	\$80,000
CALCULATION METHOD	STEP 1A	STEP 2A	STEP 2B

10.1.3 DEDUCTIBLE AMOUNT

The maximum allowable deductible for insurance covering a property securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss

deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

10.1.4 EVIDENCE OF HAZARD INSURANCE

Policy must be effective for at least 60 days after the date of funding (does not apply to condominium project insurance policies). Evidence of Insurance may be provided in one of the following forms:

- Policy
- Certificate of Insurance (COI)
- Insurance Binder

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the names on the note
- Property address agrees with the note/security instrument
- Mailing address is the same as property address
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount
- Coverage amounts and deductible
- Loss payee clause as applicable

10.1.5 OPTIONAL COVERAGE

Hazard insurance policies may include optional coverage(s) which are acceptable but are not required. For example, a “homeowners” or “package” policy is acceptable if any part of the coverage that exceeds the required coverage is not obligated for renewal.

10.1.6 RATING REQUIREMENTS

The hazard insurance policy must be written by a carrier that meets at least one of the following requirements:

- Carriers rated by A.M. Best Company, Inc. must have:

- A “B” or better Financial Strength Rating in Best’s Insurance Reports, or an “A” or better Financial Strength Rating and a Financial Size Category of “VIII” or
- Greater in Best’s Insurance Report Non-US Edition
- Carriers rated by Demotech, Inc. must have an “A” or better rating in Demotech’s Hazard Insurance Financial Stability Ratings
- Carriers rated by Standard and Poor’s must have a “BBB” or better Insurer Financial Strength Rating in the Standard and Poor’s Rating Direct Insurance Service

Policies underwritten by a state’s Fair Access to Insurance Requirements (FAIR) plan or other state insurance plan are also acceptable, if it is the only coverage that can be obtained.

An insurance policy that includes either of the following endorsements will assure full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the subject property’s insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

Unless a higher maximum amount is required by state law, the maximum deductible amount for policies covering the common elements in a PUD project is the lesser of \$10,000 or 5% of the policy face amount. However, for losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible related to the individual unit may not exceed 5% of the face amount of the insurance policy. Funds to cover these deductible amounts should be included in the operating reserve account that is maintained by the homeowners’ association.

10.2 CONDOMINIUM AND PUD PROJECT INSURANCE REQUIREMENTS

10.2.1 MINIMUM HAZARD INSURANCE COVERAGE

Insurance should cover 100% of the insurable replacement cost of the project improvements and common elements, including the individual units in the project.

If the subject property is an attached PUD or a condominium, the respective associations may acquire a blanket policy to cover the project. The entire project insurance policy should be reviewed to ensure the homeowners' association maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. The policy must show the HOA as the named insured.

For PUD projects, individual insurance policies are also required for each unit. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, blanket policies are acceptable in satisfaction of its insurance requirements for the units.

The policy must require the insurer to notify in writing the HOA (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least ten (10) days before it cancels or substantially changes a condo project's coverage.

10.2.2 HO-6 INSURANCE COVERAGE FOR CONDOMINIUMS

If the unit interior improvements are not included under the terms of the condominium policy, the borrower is required to have a HO-6 hazard policy ("walls-in coverage"), which is sufficient to repair the condo unit to its condition prior to a loss claim event. G1 defaults to Fannie guidelines for HO-6 policies.

10.2.3 DEDUCTIBLE AMOUNT

For policies covering the common elements in a PUD project and those covering condo projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy.

For losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit. If, however, the policy provides for a wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

10.2.4 GENERAL LIABILITY COVERAGE

Project liability insurance requirements are as follows:

- The homeowners' association must maintain a commercial general liability insurance policy for condo projects or Type F PUD projects, including all common areas and elements, public ways, and any other areas that are under its supervision.
- The insurance should cover commercial spaces that are owned by the homeowners' association, even if they are leased to others. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.
- The amount of liability coverage should be at least \$1,000,000 for bodily injury and property damage for any single occurrence.
- The policy should provide for at least ten (10) days' written notice to the owners' association before the insurer can cancel or substantially modify it. For condominium projects, similar notice must also be given to each holder of a first mortgage or share loan on an individual unit in the project.

An insurance policy that includes either of the following endorsements will assure full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance); or
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the subject property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

10.2.5 FIDELITY BOND COVERAGE

Fidelity bond coverage is required for condominium projects over 20 units (or per state requirements). The insurance coverage must be at least equal to the greater of three (3) months HOA dues or reserves or minimum required by state law. Coverage is not required when the calculated amount is \$5,000 or less.

10.3 FLOOD INSURANCE

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be in a community which participates in the FEMA program to be eligible for financing.

10.3.1 FLOOD CERTIFICATE

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). The appraisal report should also accurately reflect the flood zone.

The flood insurance requirement can be waived if:

- Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

10.3.2 MINIMUM FLOOD INSURANCE COVERAGE

The minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements.
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently \$250,000 per dwelling; or
- the unpaid principal balance of the mortgage

10.3.3 PROJECT FLOOD INSURANCE REQUIREMENTS

The flood policy for a PUD or condominium project must cover any common element buildings and any other common property located in a SFHA. The amount of flood insurance coverage for a PUD or condo project should be at least equal the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

10.3.4 EVIDENCE OF FLOOD INSURANCE

Flood insurance must be maintained throughout the duration of the loan. If final evidence of flood insurance is not available at closing, the following may be used:

- Completed and executed NFIP application with a copy of the borrower's premium check, the insurance agent's paid receipt, or the final settlement statement reflecting the flood insurance premium paid at closing.
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the property seller to the borrower.
- Agent-executed NFIP Certification of Proof of Purchase of Flood Insurance

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address.
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount and deductible
- Coverage amount
- Loss payee clause as applicable
- Signed and dated by agent.

11 TITLE INSURANCE

11.1 TITLE POLICY REQUIREMENTS

Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect.

Preliminary title must indicate that the final title policy will be issued after funding.

The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae/Freddie Mac requirements.

11.1.1 BORROWER INFORMATION

All borrower names must be indicated on the title commitment. If the borrower's marital status appears to be different than on the 1003, the discrepancy must be addressed. The property seller's name must be cross referenced to the purchase agreement and valuation chain of title.

11.1.2 COVERAGE AMOUNT

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

11.1.3 INSURED NAME

Title policy must ensure G1 as its name appears in the security instrument. It must also include the language "its successors and assigns as their interest may appear."

11.1.4 AGE OF REPORT

The preliminary title report/title commitment should be dated no later than 120 days prior to closing. Any requirements by title, such as Statements of Information or copies of trust agreements, must be cleared prior to closing.

11.1.5 VESTING

The final title policy vesting should reflect the name(s) of the individual borrower(s). See [Vesting and Ownership](#).

11.1.6 GAP COVERAGE

The preliminary title report/title commitment must be updated after closing in writing to ensure the mortgage is in first lien position and documented through one of the following:

- Final title policy
- Title bring-down search representing the period from the original search through the time the mortgage is recorded.
- Gap coverage from the time of the original search until the mortgage is recorded, when the mortgage is not recorded at the time of diligence.

11.1.7 TITLE POLICY FORMS

The final title policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard form
- ALTA short form
- ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided those amendments are acceptable to Fannie Mae/Freddie Mac.

11.1.8 TITLE POLICY UNDERWRITER

A nationally recognized insurer or reinsurer which has received one of the following ratings must have underwritten the title insurance policy:

- BBB or better rating from Duff and Phelps Credit Rating Company
- C or better rating from LACE Financial Corporation
- Baa or better rating from Moody's Investors Service
- BBB or better rating from Standard and Poor's, Inc.
- A Financial Stability Rating of S (Substantial) or better, or a Statutory Accounting Rating of C (Average) or better from Demotech, Inc.

11.2 TITLE COMMITMENT REVIEW

11.2.1 CHAIN OF TITLE

All files are to contain a 24-month title history from an acceptable source. Transfer date, price, and buyer and seller names on any title transfers that occurred within the previous 24 months should be provided. The vesting history should be reviewed for inconsistencies or any indication of flipping activity.

11.2.2 TITLE EXCEPTIONS

The following items are allowable title exceptions:

- Customary public utility subsurface easements: the location of which are fixed and can be verified. The exercise of rights of easement will not interfere with the use and enjoyment of any improvement of the subject property or proposed improvements upon which the appraisal or loan is based.
- Above-surface public utility easements that extend along one or more property lines for distribution purposes or along the rear property line for drainage, provided they do not extend more than 12 feet from the subject property lines and do not interfere with any of the buildings or improvements, or with the use of the subject property; and public utility

restrictions, provided their violation will not result in the forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the subject property.

- Mutual easement agreements that establish joint driveways or party walls constructed on the subject property and on an adjoining property, provided all future owners have unlimited and unrestricted use of them.
- Encroachments on one foot or less on adjoining property by eaves or other overhanging projections or by driveways provided there is at least a 10-foot clearance between the buildings on the subject property and the property line affected by the encroachments.
- Encroachments on the subject property by improvements on adjoining property provided these encroachments extend one foot or less over the property line of the subject property, have a total area of 50 square feet or less, do not touch any buildings, and do not interfere with the use of any improvements on the subject property or the use of the subject property not occupied by improvements.
- Encroachments on adjoining properties by hedges or removable fences.
- Liens for real estate or ad valorem taxes and assessments not yet due and payable.
- Outstanding oil, water, or mineral rights if they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.

11.2.3 SURVEY REQUIREMENTS

If the title company requires a survey or plat map due to an exception noted on the title policy, a copy must be submitted in the loan file. Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. Unimproved land surveys are not acceptable.

Surveys should be reviewed for easements, encroachments, flood zone impacts, and possible boundary violations, considering the location of the dwelling on the property.

11.3 SERVICING

All loans are to be serviced by a third-party servicer approved by G1.

Borrowers are required to establish initial and monthly escrow for annual taxes, hazard insurance, flood insurance (if applicable), and HO-6 insurance coverage (if applicable), unless otherwise specified by applicable state law. One twelfth (1/12) of the annual premiums are to be paid with the principal and interest payments. Borrowers who do not desire an impound account may request it be waived. G1 will allow the waiver of impounds if:

- LTV is equal to or less than 80% (90% in California)
- Loan is not HPML.
- Loan meets all applicable State requirements for impound waivers.
- Under no circumstances can flood insurance impounds (when required due to the property being in a flood zone) be waived.

12 ADDITIONAL PROGRAM REQUIREMENTS

This Mortgage Program is designed for investment, non-owner-occupied loans that are designated for business purposes only. This program does not require disclosure of employment or income.

12.1 OWNERSHIP OF PRIMARY RESIDENCE

All borrowers must presently own their primary residence. This requirement may be waived if the borrower can clearly demonstrate that the subject property is rental in nature and inferior in size and quality to their primary residence (leased or owned). If the borrower doesn't own a primary residence the borrower must be renting another residence and the lease must continue for the foreseeable future (minimum of 6 months). Exceptions will be considered on a case-by-case basis when the borrower lives rent free in a home owned or leased by their Spouse and/or parents. The borrower is required to provide an adequate explanation with supporting documentation on why they live and plan to remain in their current primary residence. In these instances, the subject property should not be located within 25 miles of the current primary residence.

12.2 LEASE REQUIREMENTS

G1 requires that the lower of the monthly lease amount and the Market Rent be used to calculate the DSCR percentage. A copy of the lease is generally not required however; when occupancy concerns arise additional items may be requested (including a copy of the lease, proof of receipt of rent, utility bills etc.).

12.3 HOME SHARE STYLE SHORT-TERM RENTALS

Short term rentals through companies such as VRBO, Airbnb, or HomeAway are eligible for qualification under the this program. DSCR will be calculated based on the market rent as provided by the appraiser. G1 will allow the higher short term monthly rent to be used to calculate the DSCR percentage when 12-months proof of rent is provided in the form of a 12-month ledger from the company marketing the property (i.e., VRBO, Airbnb, or HomeAway, etc.). The 12-month rent total will be averaged monthly to calculate the DSCR. Additional documentation may be required. A ledger is only required if the short-term rental income will be used to qualify in lieu of the appraiser’s opinion of market rent.

12.4 INCOME OPTIONS

12.4.1 DSCR

A Debt-Service Coverage Ratio (DSCR) may be calculated for the subject property to take advantage of expanded LTVs. See the Product Matrix for available LTVs and corresponding DSCR options. The DSCR calculation is as follows:

Fully Amortized Transactions: Debt-Service Coverage Ratio = Gross Income / Proposed PITIA

Interest Only Transactions: Debt-Service Coverage Ratio = Gross Income / Proposed ITIA

To calculate gross income, use the lower of the (a) executed lease agreement or (b) market rent from appraisal form 1007. If the executed lease agreement reflects a higher monthly rent, it may be used in the calculation when evidence of receipt of the higher amount for the three (3) most recent, consecutive months is provided.

All loans must have a Debt-Service Coverage Ratio ≥ 0.75 as per the matrix.

12.4.2 LONG-TERM ADU RENTAL INCOME

Long term rental income from an ADU on the subject property is eligible for use when the following terms are met:

- ADU must meet minimum property size of 600 sq ft
- Appraiser must provide at least two (2) rental comparables with ADU’s that are being rented. The 1007 must breakdown the difference in rent between the main dwelling and the ADU. G1 will use the lower of the Market Rent (Main Dwelling + ADU) or the Current Leases
- Lease for the ADU and main dwelling will be required when the current rent for both dwellings is being used in lieu of the Market Rent. Proof of six (6) months receipt is required.

- Rental income is only used for one (1) ADU.
 - Rental income can be used for **NO** more than one (1) ADU
- No short-term ADU rental income can be used

12.4.3 NO RATIO

No Ratio DSCR loans are not permitted.

12.5 RENT LOSS INSURANCE

Rent loss insurance for the subject property is required and must equal at least 6 months of local average monthly rents. Blanket policies covering the subject property are permitted.

12.6 REQUIRED FORMS

The following forms are required:

- Business Purpose & Occupancy Affidavit (all borrowers are required to sign prior to close to declare that the property is, or will be, for commercial business or investment purpose only)
 - Further, by signing this form the borrower will attest that, “Neither I nor any family member intend or expect to occupy the Property at any time. I will not, under any circumstances, occupy the Property at any time while the Loan remains outstanding. In addition, I will not claim the Property as my primary or secondary residence for any purposes for the duration of my Loan. I now reside, and for the duration of my Loan will continue to reside, elsewhere.”
- Personal Recourse is required
- Guaranty (if applicable)
- 1-4 Family Rider/Assignment of Rents (FNMA Form 3170)

13 COVID-19 ADDENDUMS

In response to the ongoing Covid-19 Pandemic G1 has instituted the following overlays on all loans to be funded or reviewed for purchase.

Borrowers who have requested forbearance across either mortgage or consumer debt since March 1st, 2020, must provide a LOE explaining the reason for forbearance and provide payment history.

Borrowers who obtained mortgage forbearance after March 1st, 2020, but nonetheless made all their payments and stayed current (MBA methodology) throughout the forbearance plan will not have any restrictions regarding qualifying. Borrowers who “opted out” of their mortgage forbearance plan without missing any payments (stayed current per MBA methodology) will not have any restrictions.

Borrowers who obtained mortgage forbearance on any mortgage, including co-signed loans after March 1st, 2020, may be eligible if the following requirements are met:

- Borrowers in a Repayment Plan or Payment Deferral Plan must be performing under the agreement(s) and have made three (3) consecutive timely payments as per terms of repayment plan or deferral agreement
- Borrowers who received a Term Modification for the length of the forbearance period will be eligible after they have made three (3) consecutive payments. Term Modifications in excess of the forbearance period will be ineligible.
- Borrowers who paid a “reinstatement” will be eligible. G1 must source the payment of the reinstatement and will require 60 days of asset statements. Funds used must be borrower owned funds. Loans and/or gifts are not allowed.
- Borrowers who received a Rate Modification, Principal Forgiveness Modification, or any modification besides the extension of Term to match the missed forbearance payments will not be eligible.

Deposits from PPP or SBA loans cannot be used for the down payment, cash to close, or reserves. These funds must be deducted from eligible funds.

14 CONDITION REVIEW GUIDE

Category	Condition	Explanation
Housing	12 Month Written Verification of Mortgage (WVOM)	If the lender is a private party or non-institutional, 12 months of canceled checks or lender pay history will be required along with WVOM. Not needed if the mortgage history is reporting on credit.
Housing	Verification of Rent (VOR) completed by a professional management company	If the landlord is a private party or non-institutional, provide the VOR or copy of the current lease and 12 months canceled checks. VOR can be substituted for the lease. You do not need a lease agreement and VOR.
Housing	Provide mortgage statements for all properties showing a balance due for the current month	We need to document that the mortgage is paid good through the funding date.
Housing	<p>If the mortgage is in a forbearance plan, provide one (1) of the following:</p> <ul style="list-style-type: none"> provide proof that the borrower has made all full mortgage payments on time during the forbearance. A credit supplement is required. If the borrower is on a negotiated payment plan, provide proof of three (3) months on-time payments made at the negotiated amount. Proof of negotiated payment agreement is required as well. Provide proof of the most recent three (3) months of full-on-time mortgage payments. 	Applies to all mortgages listed on credit or disclosed on the mortgage application.
Housing	Provide Loan Modification documentation	If there was a loan modification on the mortgage.
Credit	<p>Letters of explanation (LOE)</p> <ul style="list-style-type: none"> All inquiries within the last 120-days Any derogatory tradelines All addresses not listed on the mortgage application 	If all addresses reporting on credit are listed on the mortgage application, an LOE for addresses is not needed. Inquiry LOEs must speak to each inquiry.
Credit	Provide a government-issued Photo ID. Must be active.	
Credit	Provide a copy of your social security card	We need this to validate your social security number
Credit	Provide Full Bankruptcy documentation to include all schedules and proof of discharge if discharged. Provide Foreclosure Transfer Deed if the home was foreclosed in the BK	If the borrower had a bankruptcy
Credit	Provide a Benefit to Borrower and/or Cash-Out Letter	This is a letter explaining what the cash will be used for
Credit	Borrower to provide a hand-signed letter of explanation (LOE) to confirm the reason for the Fraud Victim Alert on credit as well as intent to apply for mortgage financing.	Only as applicable per credit report
Property	Fully executed Purchase Contract with all Addendums	
Property	Title Receipt of Earnest Money Deposit (EMD) and two (2) months statements showing the source of funds	The title company needs to provide you with a receipt for your EMD, including the amount of the check and the check number. You will need to provide two (2) months of bank statements to show the funds clearing the account and the source of the funds.
Property	Homeowners Insurance (HOI) Declaration page including loan number and mortgagee clause: Guardian Financial, LLC, ISAOA/ATIMA 3261 Old Washington Rd. Ste. 2020 Waldorf, MD 20602	

	<ul style="list-style-type: none"> • Must provide an HOI invoice showing that there is a balance due OR paid in full • Rent Loss Insurance for the subject property must equal at least six months of local average monthly rents. • Must provide Replacement Cost Estimator 	
Property	Flood Declaration page with loan number and mortgagee clause: Guardian Financial, LLC, ISAOA/ATIMA 3261 Old Washington Rd. Ste. 2020 Waldorf, MD 20602.	*Flood Insurance (required only for properties in flood zones) - coverage equal to the maximum required NFIP (currently \$250,000).
Property	Written Payoffs for all liens on Title	The payoffs should be good for at least 30-days from when it was requested.
Property	<p>Provide adequate condominium documentation:</p> <ul style="list-style-type: none"> • Condo Questionnaire - to be provided • H06 Declaration page with G1 mortgagee clause and loan number • HOA Master Declaration Policy with borrower name, subject address, G1 Mortgagee Clause, and loan number • Condo current year budget • Attorney Opinion letter (if applicable) 	<p>Guardian Financial will complete the condo review once ALL of the conditions listed above are provided. Additional conditions may apply.</p> <p>We will request these documents from the Condo Association and their insurance provider. The borrower or agent will provide the contact information for the Association. If there is a fee, the borrower will pay for it.</p>
Property	Flip Transactions: Full 2nd AIR compliant Appraisal required	<p>2nd Appraisal is required when:</p> <ul style="list-style-type: none"> • Greater than 10% increase in sales price if the seller acquired the property in the past 90 days. • Greater than 20% increase in sales price if the seller acquired the property in the past 91-180 days.
Entity	<p>To vest in the name of an LLC or Corporation, please provide the following:</p> <ul style="list-style-type: none"> • Articles of Organization / Incorporation • Operating Agreement / Bylaws • Tax Identification Number • Certificate of Good Standing 	The borrower will be required to sign a Personal Guaranty at closing. The purpose of the LLC is for the ownership and management of real estate. All LLC owners (no more than 2) are borrowers on the transaction.
Assets	Sixty (60) days of the most recent asset statements.	<p>If business funds are being used for cash to close, we need to verify the business's existence and that the borrower owns 100% of the business listed on the bank statement.</p> <p>The borrower may own not less than 50% of the business on an exception basis. Documentation of additional owners will need to be provided along with access letters signed by the additional owners.</p>
Assets	<p>Regarding the 1031 Exchange. the following will be required:</p> <ul style="list-style-type: none"> • Copy of the sales contract from both the sale of the previous property and the purchase of the subject property • 1031 Exchange Agreement and title transfer • Settlement Statement from the sale of the previous property and the purchase of the subject property • Verification of receipt of funds from the intermediary 	We will request these conditions if the borrower is using funds from a 1031 exchange to cover any portion of the down payment and closing costs required for the transaction.

Scope of Work (SOW)	Provide a detailed line item rehab budget listing all repairs, materials used, and cost of the repairs	We will require the borrower to use our SOW form. We just need to ensure the borrower has filled out the form completely and the rehab budget dollar amount matches what they presented initially. You can locate the rehab amount they submitted initially by looking at the term sheet from the DOCs page within the loan origination portal.
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