Gap Platform Advance (G-Pa) Guidelines

Underwriting Guidelines Version 1.0

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Chapter 1: Introduction

1.1 Underwriting Philosophy

Hometown Equity Mortgage takes a common-sense approach to credit policy to simplify the process of underwriting. As a result, Hometown Equity Mortgage is aware that not every loan scenario will be specifically addressed within these guides and may deserve additional consideration. Hometown Equity Mortgage originates 1-4 unit loans in compliance with the Dodd-Frank Act Ability to Repay (ATR) provisions, where applicable. Additionally, the G-PA loan products may fall outside of Qualified Mortgage (QM) guidelines and may represent a higher (or lower) level of risk. As a result, Hometown Equity Mortgage will only originate loans to borrowers that, in Hometown Equity Mortgage's sole opinion, have a reasonable, good-faith determination that the consumer has a reasonable willingness & ability to repay the loan. Hometown Equity Mortgage does this by verifying information provided by the loan applicant(s), independently verified third-parties and/or third-party records that provide reasonably reliable evidence of income or assets.

Each applicant has a unique situation and therefore, is weighed on its own merits. Hometown Equity Mortgage's stated objective is to facilitate the financing needs of credit-worthy borrowers while mitigating risk for the enterprise.

If a loan is subject to the ATR rules under the Federal Truth in Lending Act (TILA), Hometown Equity Mortgage will consider the following eight underwriting factors:

- The consumer's current or reasonably expected income or assets, other than the value of the dwelling, including any real property attached to the dwelling, that secures the loan
- The consumer's current employment status, if Hometown Equity Mortgage relies on income from the consumer's current employment in determining repayment ability
- The consumer's monthly payment for the covered transaction, calculated in accordance with these guidelines
- The consumer's monthly payment on any simultaneous loan that Hometown Equity Mortgage knows or has reason to know will be made, calculated in accordance with these guidelines
- The consumer's monthly payment for mortgage-related obligations
- The consumer's current debt obligations, alimony & child support
- The consumer's monthly debt-to-income ratio or residual income in accordance with these guidelines
- The consumer's credit history

Certain loans may be exempt from TILA or otherwise exempt from the ATR rule. In those instances, Hometown Equity Mortgage may originate a loan which does not adhere to the formal requirements of the ATR rule.

1.2 AUS/ Alternative Loan Review	This is not required for a business purpose loan

Chapter 2: Programs

2.1 Program Overview	G-PA has been crafted for borrowers seeking financing for non-owner or investment properties. This program offers two options specifically designed for business purpose 1-4 unit commercial loans. • G-PA (12 month term): No DSCR required • G-PA 2+1 (24 month term): DSCR >1.10 required
2.2 Eligible Products	• 12 & 24 month I/O
2.2.1 Product Details	**Interest-Only** ○ Qualifying ratios are based on the initial interest-only payment (ITIA)
2.3 Maximum Loan Exposure	More than 4 loans HEM loans extended to any one individual requires loan committee approval
2.4 Maximum LTV/CLTV	Maximum CLTV = Maximum LTV. [See Matrix] for program specific LTV/CLTV restrictions.

2.5 Interested Party Contributions / Seller Concessions

Maximum Contributions		
Occupancy	**LTV**	**Contribution**
Investment/NOO	All	6%

- Max percentage calculated off lesser of sales price or appraised value

All interested party contributions must be disclosed in the sales contract, estimated settlement statement, appraisal, and closing disclosure and must be compliant with applicable federal, state & local law.

Interest party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction.

Interested party contributions may only be used for closing costs, prepaid expenses, discount points and other financing concessions. They may never be applied to any portion of the down payment or contributed to the borrower's financial reserves requirements. If an interested party contribution is present both the appraised value and sales price must be reduced by the concession amount that exceeds the limits above.

2.6 Impounds/ Escrows

Impounds are required for:

- HPML transactions
- Flood insurance
- All Foreign National Loans

2.7 Subordinate Financing

Subordinate financing is allowed and does not need to be institutional in nature but must adhere to the below:

- The scheduled payments must cover at least the interest due, negative amortization is not allowed
- Subordinate financing payments must be included in the subject properties DSCR, if the note does not contain a rate of interest, impute a market rate of interest with an interest only payment calculation. If a market rate of interest cannot be reasonably ascertained, 1.0% of the original loan amount can be utilized as an alternative method of payment calculation
- If the secondary financing is an equity line of credit, the CLTV must be calculated using the maximum credit limit, unless the line of credit is past its draw period, plus any other subordinate financing

If the subordinate financing has a simultaneous closing, the following is required:

- A copy of the executed note at closing
- A copy of the loan approval & repayment terms for the new financing

If the existing secondary financing is being subordinated, the following is required:

- The terms of the existing lien
- A copy of the subordination agreement prior to closing

A copy of the executed subordination agreement at closing

2.8 *Age of Credit* Exhibits	All loan documentation must be dated within 120 days of the note date. The appraisal should be dated no more than 180 days prior to the note date. See Appraisal Age for further details
2.9 Property Listing Seasoning	Properties listed for sale in the past six (6) months are ineligible
2.10 Prepay Penalty	Prepayment penalties are eligible on transactions and must comply with the terms and limitations of the applicable state and federal law(s).
2.11 State & Federal High Cost Loan	Not Eligible
2.12 Assumability	UPER G-PA loansare not assumable

Chapter 3: Insurance

3.1 Hazard Insurance	The subject property must always be covered, including when vacant, against loss or damage from fire and other hazards with a Homeowners/Master Casualty Policy. Hazard insurance is required for all 1-4 unit attached and detached properties. An individual Homeowners policy is acceptable for 2- to 4-unit properties. The insurance must be in force at the time of closing and the loan file must evidence the existence of insurance for the subject property and project (where applicable) prior to the close of escrow. For investment property transactions, rent loss insurance for the subject is required and must equal at least 6 months of the initial monthly payment plus impounds. Taxes and insurance need not be included if there are no impounds. Blanket policies covering the subject are permitted.
3.1.1 Condo and Attached PUD Specific Hazard Insurance	The homeowner may provide insurance protection from either an individual insurance policy or a master insurance policy provided by the HOA using one of the following options: ➢ A master policy provided by the HOA that includes full insurance protection for the individual (both exterior & walls-in) as well as the common areas ➢ A master policy provided by the HOA that includes coverage for the exterior of the unit as well as the common areas, the homeowner must then provide a walls-in policy; or ➢ A master policy provided by the HOA that covers only the common areas. The homeowner must then provide coverage for both the exterior and interior (walls-in) of the unit Either the master policy or the individual unit policy must provide adequate liability coverage in addition to structural coverage.
3.1.2 Amount of Coverage	The amount of coverage must be at least equal to: ➢ 100% of the insurable value of the improvements as established by the insurer or coverage amounts as determined by Hometown Equity Mortgage's calculation from a full appraisal; or ➢ The unpaid principal balance of the mortgage, as long as it at least equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained. [see Fannie B7-3-03] Hometown Equity Mortgage will not accept hazard insurance policies that limit or exclude coverage for windstorms, hurricanes, hail damages, or any other hazard normally included under an extended coverage endorsement unless a separate policy or endorsement is obtained that provides adequate coverage for the limited or excluded peril. The separate policy may come from an insurance pool established by a state to cover the limitations or exclusions

3.2 Flood Insurance

Flood insurance is required for any property located within any area designated by FEMA as a Special Flood Hazard Area. This is typically denoted as Flood Zone A or Zone V. Properties located in Flood Zone A or V must be in a community which participates in the FEMA program to be eligible for financing.

Flood insurance must be impounded

3.2.1 Flood Zone Determination / Flood Certificate

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by FEMA. Additionally, the appraisal report should reflect the flood zone.

Flood insurance can be waived if:

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

3.2.2 Minimum Flood Insurance Coverage

If the subject property is in a Special Flood Hazard Area (SFHA), flood insurance is required. 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
- The unpaid principal balance of the mortgage

When a mortgage loan is secured by a unit in an attached condo project and any part of the building improvements are in an SFHA, Hometown Equity Mortgage must verify that the HOA maintains a master policy of flood insurance. The premiums must be paid as a common expense unless indicated otherwise in the table located in the "Requirements for a Unit in a Project Development" Section.

3.3 Commercial General Liability Insurance: 2-8 Mixed-Use Properties

Commercial general liability insurance blanket policy against claims for personal injury, bodily injury, death or property damage occurring upon, in or about any property, such insurance to be:

- Per Occurrence Minimum Coverage: $1,000,000
- Aggregate Coverage: $2,000,000
- At least as broad as Insurance Services Office's (ISO) policy form CG 00 01

3.4 Mortgage Insurance	Mortgage insurance is not required

Chapter 4: Appraisal

4.1 Appraisal Requirements	A completed appraisal report with full interior/exterior appraisal is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested. The licensed appraiser is required to perform an interior inspection when completing the appraisal report. Appraisers are required to use current appraisal report forms acceptable to Fannie Mae and/or Freddie Mac. The subject property should show pride of ownership. Properties for which the appraisal indicates condition ratings of C5 or C6 or a quality rating of Q6, each as determined under the Uniform Appraisal Dataset guidelines are not eligible under the G-PA program.

Loan Amount	Appraisal Requirement
≤ $1.5 million	One Full Appraisal*
> $1.5 million	Two Full Appraisals**

*CDA or Fannie Mae SSR risk score of ≥ 2.5 is required in addition to appraisal
**The lower value of the two appraisals will be utilized (ARR/CDA/CU not required). A second appraisal may be required on Flip transactions. CDA's are not required when 2 appraisals are obtained

There must be at least 3 comparables in the same zip code or within 1 mile of the subject property with sales within the last 6 months. One comparable must be within 1 mile of the subject property with limited adjustments unless otherwise approved.

4.2 Appraisal Age	The appraisal should be dated no more than 120 days prior to the note date. .
4.3 Appraisal Transfers	Appraisal transfers are NOT allowed.

4.4 Additional Valuation Requirements	When only one full appraisal is required and the CU score ≥ 2.5 or there is no CU score: A Clear Capital CDA (or similar) supporting the appraised value within 10%. If the CDA comes in ≥ 10% below the appraised value, then a field review ordered from a provider approved by Hometown Equity Mortgage is required. If the field review value is within 5% of the appraised value, Hometown Equity Mortgage will use the appraised value. If, however, the field review is > 5% below the appraised value, a second appraisal is required along with management review. Hometown Equity Mortgage will utilize the lower of the two appraised values if management approves.
4.5 Disaster Events	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 can be found on the FEMA website. When an adverse event is occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required and Hometown Equity Mortgage will determine whether the disaster area guidelines should be followed.
4.5.1 Appraisals Completed Prior to Disaster Event	A re-inspection of the subject property is required, and the file must contain an inspection report and evidence of inspector licensing. The report must: ➢ State property is damage-free, and the value & marketability is unaffected ➢ Contain exterior photos of the subject including street view, rear and front ➢ Interior photos may be required (case-by-case) For hurricane and Flood disasters, an external-only DAIR is allowed
4.5.2 Appraisals Completed After Disaster Event	When the inspection date of the appraisal is after the incident date, a re-certification is not required if the appraisal contains language stating the property is free of damage and the value & marketability is unaffected.

Chapter 5: Property Eligibility

5.1 Minimum Property Standards	Minimum property standards include but may not be limited to: ➢ 700 sq. ft total gross living area for SFR and Townhomes ➢ 500 sq. ft for condos ➢ 500 sq. ft for each unit for 2-4 units ➢ Constructed for year-round use ➢ Permanently affixed to a continuous heat source ➢ Maximum deferred maintenance cannot exceed $2,000 provided the neglected item is not structural in nature (as noted in the appraisal). Deferred items may be left “as is” if the deficiency does not impact the safety or habitability of the property
5.2 Personal Property	Any personal property transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the value of the personal property for purposes of calculating the LTV, CLTV, etc.
5.3 Ineligible Property Types	The Following are ineligible: ➢ Houseboat ➢ Hawaii properties located in lava zones 1/2 ➢ Co-op ➢ Mobile Homes ➢ Manufactured Homes ➢ Hobby Farm ➢ Working farms, ranches, or orchards ➢ Rural properties and/or properties located in zip codes where population density is under 100 people per square mile ➢ Legal non-conforming properties ➢ Properties with buried oil tanks areas where more than 10% of other properties in a 2-block radius are either clearly vacant, abandoned and/or boarded up. ➢ Properties which are a part of new ‘track developments’ or newly developing areas where more than 25% of other nearby properties within .10 mile radius of the property are newly constructed, homes under construction, and/or lots for sale. The following are eligible on a case-by-case basis ➢ Agricultural zoned property ➢ Income producing properties with acreage ➢ Property subject to oil and/or gas leases ➢ Unique properties

5.4 Acreage Limitations	➢ Maximum 2 acres (exceptions on a case-by-case basis, appraisal must include total acreage & must have acceptable sales comps of similar size) [See Matrix]
5.5 Property Flipping	A flip transaction occurs when a property is being sold with a sales price more than 10% above the original acquisition price within 365 days of its acquisition date (measured from the day the seller became the legal owner to the executed purchase agreement on the subject transaction). Flip transactions must follow these requirements: ➢ All transactions must be arm's length, with no identity of interest between the buyer and the property seller or other parties participating in the sales transaction ➢ Property seller on the purchase contract must be the owner of record ➢ Increases in value should be documented in the appraisal with commentary from the appraiser and recent sales comps ➢ The property was marketed openly and fairly, through MLS, auction, FSBO or developer marketing ➢ Sufficient documentation to validate actual cost to construct or renovate ➢ No assignments of the contract to another buyer ➢ Flip transactions must comply with the TILA HPML Appraisal Rules in Regulation Z https://bit.ly/2CL3lxl A second appraisal is required in the following circumstances: ➢ Greater than 25% increase in sales price if seller acquired the property in the last 90 days ➢ Greater than 50% increase in sales price if seller acquired the property in the last 91-180 days
5.6 Ownership	Ownership must be fee simple
5.7 Title Vesting	The following forms of vesting are acceptable: ➢ Individual names ➢ Tenants in Common ➢ Joint Tenants ➢ Living Trust (inter vivos revocable trust) ➢ Limited Liability Company (LLC) ➢ Limited and General Partnerships ➢ Corporations ➢ S-Corporations

5.7.1 Living Trust /Inver Vivos Revocable Trust	The Inter Vivo revocable (Living) trust must comply with the following: The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) who is/are establishing the trust. The trust must become effective during the lifetime of the person establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage. ➢ The trustee(s) must be named in the trust document to hold legal title to and manage the property in the trust and the trustee must have explicit power to mortgage the property for the creator(s) of the trust. ➢ The title policy must indicate that title is vested in the trustee(s) of the Inter Vivo trust or such other manner as is customary in the jurisdiction for living trusts. ➢ Loan documents are to be executed so as to ensure full recourse against the underlying creators/applicant(s). The creator/applicant(s) will sign the note individually as guarantor(s) ➢ The trust must comply with all applicable state and local laws & regulations ➢ A copy of the trust may be required or, in lieu of the trust documents, a signed attorney's opinion letter may be obtained. The opinion letter must indicate the trust meets all of the above requirements and must also include: 1. Name of the trust 2. Settler(s) of the trust 3. Date trust was executed 4. Name(s) and total number of trustee(s) 5. Trust is revocable 6. Manner in which vesting will be held 7. Whether the trust has been revoked, amended or modified in any manner

5.7.3 Limited Liability Company (LLC)	An LLC is a non-corporate business whose owners actively participate in the organization's management and are protected against personal liability for the organization's debts and obligations. Vesting in Domestic LLCs are eligible subject to the requirements below: ➢ Must be legal in the state in which the LLC is being formed ➢ The LLC must be registered as a foreign company and authorized to do business in the state where the property is located ➢ Maximum 4 members (all must individuals and must be US citizens, permanent resident aliens or non-permanent resident aliens) ➢ Members of the LLC must be beneficial owners of the property ➢ The operating agreement must provide the term of the LLC and the members authorized to encumber the LLC as guarantors ➢ All members of the LLC are required to guarantee the loan ➢ LLCs are acceptable in all lending areas and all occupancies ➢ Credit qualifying member must have ≥ 25% ownership in the LLC ➢ An LLC can be the manager of an LLC but not a member LLC documentation requirements: ➢ Articles of organization/incorporation ➢ Operating agreement/By-Laws ➢ Unanimous consent & resolution to borrow ➢ SS-4 form listing tax ID number ➢ Certificate of good standing from the applicable Secretary of State's office ➢ The LLC must be approved by Hometown Equity Mortgage Note: the LLC is not required to be a single purpose LLC and may own multiple properties
5.7.4 Limited & General Partnerships, Corporations, and S- Corps	Vesting in the name of a partnership or corporation is acceptable under the These loans must be business purpose loans. The following standards apply: ➢ All owners/members with >25% ownership must be borrowers on the loan, meet credit requirements, be on the note and personally guarantee the loan ➢ All borrowers must sign the Occupancy Affidavit or business purpose application/disclosures prior to closing The following documentation is required: ➢ Articles of incorporation ➢ Operating agreement ➢ Tax identification number ➢ Certificate of good standing from the applicable Secretary of State's office

5.8 Leasehold Properties	Leasehold estates are ineligible.
5.9 Mixed Use Properties	Eligible - See section 16.0
5.10 ADU/ Accessory Units	An accessory unit is a separate dwelling (as identified in the appraisal) with a kitchen and a bathroom. ADUs are allowed per Fannie Mae guidelines, note rental income from an ADU is an acceptable source of qualifying income [See Income section for additional details]. Manufactured Homes are not eligible ADUs and cannot be anywhere on the subject property.
5.11 Unpermitted Additions	In order to include the space in the determination of value, the appraiser must comment that the addition was completed in a workmanlike manner and demonstrate the addition does not have any adverse impact on marketability. Otherwise, the appraiser should make note of the space but not include it in the conclusion of value.

5.12 Deed/ Resale Restrictions	Hometown Equity Mortgage will allow the following deed restrictions: • Age-related requirements (senior communities must comply with applicable laws) Deed restrictions have the following requirements: • Deed restriction must not restrict the first mortgage holder's legal rights in the event of a 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 restrictions must not require the lender to provide notification to the governing authority of any delinquency or default • Must follow Fannie resale restriction appraisal requirements
5.13 Land Contracts/ Bond for Deed	A copy of the executed land contract or contract for deed is required. Transaction definitions (Purchase, etc.) and LTV calculations should follow Fannie Guidelines.
5.14 Power of Attorney (POA)	Power of Attorney Requirements • An attorney-in-fact or agent under a power of attorney must sign the security instrument and/or note • The power of attorney must be specific to our transaction and must reference the address of the subject property • A power of attorney used for a signature on a security instrument must be recorded with the security instrument • The name(s) on the power of attorney must match the name(s) of the person on the loan document • The power of attorney must be valid at the time the loan documents are executed. • The power of attorney must be notarized • All POAs must be approved by the underwriting manager • Not allowed on cash out refinances Ineligible Attorneys-in-Fact • any employee or affiliate of Hometown Equity Mortgage • the loan originator; • the employer of the loan originator; • any employee of the employer of the loan originator; • the title insurance company providing the title insurance policy or any affiliate of such title insurance company • any real estate agent with a financial interest in the transaction or any person affiliated with such real estate agent. Foreign Nationals are not eligible for POA

5.15 Assisted Living / Nursing Homes	○ Not eligible
5.16 Declining Markets	• If the trend of property values is downward, a "Declining Market" exists. This requires a 5% LTV reduction from the regular LTV matrix.

Chapter 6: Warrantable Condominiums

6.1 General Project Criteria	➢ Project must be in full compliance with all applicable local and state laws & regulations ➢ Project meets all FNMA insurance requirements for property, liability and fidelity coverage ➢ Common areas and amenities within the project or subject phase must be complete ➢ Project documents do not give a unit owner or any other party priority over the rights of the first mortgagee
6.1.1 Project Review Requirements	General Requirements ➢ Completed HOA certificate is required (see below) ➢ Copy of Master property insurance & flood insurance (if applicable) ➢ Master liability insurance Limited Review Requirements ➢ Must meet General Project Standard per the Fannie Sellers Guide ➢ Fannie Mae form 1077 – Project Questionnaire – Short Form ➢ Appraisal detailing all project occupancy, size and phasing Full Review Requirements ➢ Must meet General Project Standard per the Fannie Sellers Guide ➢ Fannie Mae form 1076 – Project Questionnaire – Long Form ➢ Appraisal detailing all project occupancy, size and phasing ➢ Copy of current balance sheet ➢ CC&Rs and Bylaws (New Construction) ➢ Litigation docs (if applicable) ➢ Ground lease (if applicable)

6.2 Limited Review Eligible Transactions

Site condos meeting the Fannie Mae definition are eligible for single-family dwelling LTV/CLTV. [See Matrix]

For attached units, in established projects outside the state of Florida:

Limited Review Eligible Transactions	
Occupancy	**Max LTV/CLTV/HCLTV**
Investment Property	75%

For attached units, in established projects in the state of Florida:

Florida Limited Review Eligible Transactions	
Occupancy	**Max LTV/CLTV/HCLTV**
Investment Property	70/70/70%

6.3 Ineligible Projects

- Timeshares or projects that restrict the owner's ability to occupy the unit
- Projects that include live/work units
- Manufactured home projects
- Assisted living facilities, continued care facilities and life care facilities
- Multi-family units where single deed has ownership of more than one of the units
- Projects where > 50% of the total sq footage in the project is used for non-residential purposes
- Common interest apartments
- Projects in litigation (or other disputes) or with adverse environmental issues involving safety, soundness or habitability of the subject

6.4 Condo Title Surveys

Title surveys are not required for condominiums

Chapter 7: Non-Warrantable Condominiums

7.1 General Criteria

Non-Warrantable condos allowed according to the characteristics listed in the table below. Completion of Fannie Mae's Condominium Full Review Form (or similar Seller's form) with supporting documents must be provided with loan package. The project and individual unit are to be reviewed by the Seller to determine whether the non-warrantable characteristic shown in the following table.

Review requirements, documents and limitations:

- Only one non-warrantable factor per project considered
- Completed HOA certificate is required
- Copy of Master property insurance and flood if applicable
- Master liability insurance
- HOA budget
- Copy of current balance sheet
- For new construction CC&Rs and Bylaws
- Litigation docs if applicable
- Ground lease if applicable

Non-Warrantable Condo Allowable Characteristics	
Characteristic	**Parameters**
Commercial Space	Subject unit 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.
New Projects	The project or the subject's legal phase along with other phases must be complete. All common areas in the project must be 100% complete. Minimum of 50% of units must be sold or under contract.
Delinquent HOA Dues	No more than 20% of the total units in the project may be 60 days or more past due on HOA fees.
HOA Control	The developer may be in control of the condominium association as long as the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.
HOA Reserves	Annual budget specifies a minimum of 5% allocation of replacement reserves.
Investor Concentration	Concentration up to 60%. Higher percentages may be accepted when there is an established history of a high percentage of rental units in the project demonstrated.
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.
Single Entity Ownership	Single entity ownership up to 25%

7.2 Condotels	• Not Eligible

Chapter 8: Transaction Types

8.1 Purchase Money	Proceeds from the mortgage transaction must be used to finance the acquisition of the subject property or to pay off the outstanding balance of a land contract or contract for deed.
8.1.1 Arm's Length Purchase Transactions	The following transactions are considered "Arm's Length": ➢ Spousal buyout due to divorce ➢ Interest buyout of an inherited property ➢ Borrower acting as their own "selling" broker (the purchaser's realtor) • The borrower as the listing agent (seller's realtor) is a "Non-Arm's Length" transaction. See 8.2 Non-Arms Length ➢ Loan officer representing the borrower who works in the same office ➢ Broker of record originating their own loan or through an employee and Loan Officers originating their own loan • Case by case only • Transferred appraisals are OK with a CDA • Requires management review
8.1.2 Purchase LTV/CLTV	The LTV/CLTV is based upon the lesser of the sales price or appraised value.
8.2 Non-Arm's Length	Non-arm's length transactions include, but are not limited to: ➢ Sales transactions between family members ➢ Foreclosure bailouts ➢ Trading properties between buyer & seller ➢ Renters purchasing from landlord ➢ Buyer/Borrower relationship with the builder or developer Non-arm's length transactions are not eligible for the G-PA program

8.3 Rate & Term Refi

A rate & term refinance transaction is the refinance of an existing mortgage plus any junior lien(s) against the subject property by obtaining a new first mortgage loan secured by the same property. All refinances must meet any and all Net Tangible Benefit requirements in accordance with applicable state and federal regulation.

The following transactions may be classified as a Rate & Term:

- Maximum cash-out cannot exceed the lesser of $5,000 or 5% of the balance of the new refinance mortgage loan.
- Paying off the unpaid principal balance of the existing first mortgage (and any subordinate lien(s) used to purchase the property including prepayment penalties) plus closing costs, prepaid items and points.
- Paying off any equity line of credit seasoned more than 6 months that has not had draws >$5,000 in the past 6 months
- Buying out a co-owner or beneficiary pursuant to an agreement acceptable in its form to Hometown Equity Mortgage. A stipulation of settlement and/or divorce decree is acceptable to meet this requirement. The applicant does not need to be a signer on the current note.
- Recoupment of funds expended to purchase a property acquired for cash within the 6 months prior to application date. The closing statement evidencing a cash sale must be provided and evidence of the source of funds used to purchase must be documented as the applicant's own. Recoupment of gift funds is deemed to be cash-out. Max proceeds not to exceed applicant's documented investment. The value utilized for LTV calculations will be the lower of the purchase price or appraisal value unless the appraiser can justify and support the increase.
- Recoupment of funds expended to improve the subject property. Improvements must have been completed in the previous 6 months, funds must have been 100% applicants own. Cash-out amount not to exceed documented improvement costs, otherwise the transaction will be deemed cash-out. Value utilized for LTV calculation is the current appraised value. Acceptable documentation would include copies of invoices for work completed along with proof of payment by the applicant.
- A refinance of a prior cash-out loan regardless of seasoning timeline
- Pay-off of any closed end seconds not used to purchase the subject property as long as either: the second lien is at least 3 months seasoned as determined by the time between the note date of the sub lien and the app date of the new mortgage or the new loan amount is greater than the maximum conforming loan limit.
- Pay-off of the unpaid principal balance of PACE loans and/or other debt used for energy-related improvements.

8.4 Cash-out Refi	A refinance that does not meet the definition of a rate/term transaction is considered cash-out. • See Loan/LTV Matrices for maximum cash-out amounts and restrictions. • A mortgage secured by a property currently owned free and clear is considered cash-out. • The payoff of delinquent real estate taxes (60 days or more past due) is considered cash-out. • If the cash-out is for personal, family, or household use, the loan must also meet all applicable federal and state requirements of a consumer loan transaction even if the borrower is a company or the loan was initially intended for business purposes. • Cash-out eligible to satisfy the reserve requirements. Loans not eligible for cash-out: • Primary Residence or Second Home properties listed for sale in the past six (6) months. • Investment properties listed for sale in the past six (6) months, unless a three (1) year prepay penalty, per requirements in Section 4.4.7 Prepayment Penalty are met. • There has been a prior cash-out transaction within the past six (6) months • Payoff of a Land Contract/Contract for Deed. • When proceeds from the loan transaction are used for consumer purpose, i.e., payoff personal debt, personal tax lien(s), personal judgments, personal collection, or lines of credit secured by the subject property. Cash-Out Seasoning is defined as the time difference between application date of the new loan and the property acquisition date. • A minimum borrower seasoning requirement of six (6) months is required for a transaction to be eligible for cash-out. • For properties owned 12 months or longer, the LTV/CLV is based upon the appraised value. • If the cash-out seasoning is less than 12 months, but greater than 6 months, the transaction property value is limited to the lower of the current appraised value or the property's purchase price plus documented improvements. • Cash-out seasoning of six (6) months or less is allowed with the following restriction: o ▪ The broker has documented that the borrower acquired the property through an inheritance, or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.

Chapter 9: Applicant Eligibility	
9.1 Public Record Search	All loans must include a third-party fraud detection report for all borrowers. Report findings should cover standard areas of quality control including: ➢ Borrower validation ➢ SSN verification ➢ Property information including other REO ➢ No outstanding judgements or liens
9.2 First-Time Homebuyer	A borrower who has had no ownership interest in a residential property during the three-year period preceding the date of purchase of the subject property is considered a first-time homebuyer (FTHB).
9.3 Residency	➢ U.S. Citizen (Eligible without restrictions) ➢ Permanent Resident Alien ➢ Non-permanent Resident Alien (Treated as Foreign National) ➢ Foreign National

9.3.1 Permanent Resident Alien	A permanent resident alien is a non-US citizen authorized to live and work in the US on a permanent basis. Acceptable evidence of lawful permanent residency must be documented and meet the following criteria: ➢ I-551 Permanent Resident Card (AKA "Green Card") issued by the Dept. of Homeland Security (DHS) U.S. Citizenship & Immigration Services. ➢ Applicant must present either unexpired I-551 card or unexpired temporary I-551 stamp on an unexpired foreign passport reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until MM-DD-YY. Employment Authorized."
9.3.2 Non-Permanent Resident Alien	A non-permanent resident alien is a non-US citizen authorized to live and work in the U.S. on a temporary basis. Non Permanent resident aliens are treated as foreign nationals. The following visa categories are eligible for financing: ➢ E-1, E-2, E-3, EB-5, G-1 through G-5, H-1B, L-1, NATO, O-1, R-1, TN NAFTA. Applicants must have been living and working in the U.S. for at least 2 years, have a valid SSN, and have established credit history. Copies of borrower's passport and unexpired visa must be obtained. Visa must be current and may not expire for a minimum of 3 years following the close date. A valid employment authorization document (EAD) is acceptable in lieu of a Visa. • If the EAD will expire within 12 months of the note date, evidence of a prior renewal and approved renewal application must be obtained.

9.3.3 Foreign National	Foreign Nationals are defined as Applicants who do not work in or reside in the U.S. The Applicant must reside in and work in a foreign country. Foreign Nationals may purchase property in an entity, subject to the entity section. All other underwriting requirements must be met. See the Matrix for LTV/FICO/Loan Amount requirements An IRS form W-8BEN, Certificate of Foreign Status must be filed with the IRS (all Applicants). A copy of the Certificate must be retained in the file. See the Foreign Nationals Section of these guidelines for program requirement. POAs are not allowed Foreign Nationals must vest in an approved U.S. entity.
9.3.4 Ineligible Borrower(s)	➢ Employees of Hometown Equity Mortgage or any of it's affiliates ➢ Irrevocable trust ➢ Individuals possessing diplomatic immunity or otherwise excluded from U.S. jurisdiction ➢ Any material parties to the transaction listed on HUDs Limited Denial of Participation List (LDP) or the OIG List of Excluded Individuals and Entities (LEIE).

Chapter 10: Credit

	N/A
10.3 Credit Requirements	A U.S. credit report is required for each borrower on the loan using a valid SSN or ITIN. The credit report should provide merged credit information from the three major bureaus. A report for any applicant containing only two bureaus is acceptable to the extent there is no further information available.
10.4 Credit Score Used for Underwriting	Use the lowest middle score on the file. If only two scores are available, utilize the lower of the two scores. At least two FICO scores are required.
10.5 Undisclosed Debt	The borrower is obligated to inform us of any new debt they incur on any outstanding obligation that may affect the subject property

10.6 Housing History	Housing history for the G-PA is limited to verifying the borrower's primary residence and the subject property if a refinance transaction. Housing History • Any housing event reported on the credit report for any property owned by the borrower needs to be included in the housing history eligibility. • For any non-subject property, non-primary mortgages not reporting to the credit bureau, additional housing history is not required. • See <u>10.6.1 No Housing History</u> for addition requirements • A free and clear property with 12 months of ownership will satisfy the housing history requirement Mortgage and rental payments not reflected on the credit report must be documented via a standard VOM, VOR or credit supplement. • A private party VOM or VOR is acceptable for verification of mortgage or rent history ○ Alternative documentation is also acceptable (see below). Alternative documentation must show the most recent 12-month history and may be in the form of cancelled checks, bank statements, mortgage/rental statements, etc. Borrower mortgage and/or rental history may reflect late payments (see Matrix) provided. • All housing late payments must be cured at the time of application and remain paid as agreed through closing. • Rolling late payments are not considered a single event.
10.6.2 No Housing History	No housing history is acceptable if: ➢ The borrower lives in a marital home that is owned or leased by the spouse, the mortgage or rent on the martial home must be current as evidence by a minimum of a 12-month rating ➢ Borrower(s) who sold a primary residence within the past six (6) months and are currently residing rent-free until subject transaction closes are not considered living rent-free
10.7 Consumer Credit	Any non-mortgage account can be no more than 30-days delinquent at time of application. Any delinquent account must either be brought current or paid off at closing.

10.8 Consumer Credit Charge-offs & Collections	The following accounts may remain open: ➢ Charge-offs, regardless of balance ➢ Collections < 24 months old with a maximum cumulative balance of $2,000 ➢ Collections ≥ 24 months old with a maximum of $2,500 per occurrence ➢ All medical collections (regardless of amount) Collections that have expired under the state statute of limitations on debts (evidence of expiration must be documented)
10.9 Disputed Accounts	Any disputed account(s) on the applicant's credit report within the last two years prior to credit report date require additional due diligence. ➢ Accounts no derogatory information – no action required ➢ Accounts with derogatory information – remove and pull new credit report Any derogatory credit on an applicant's credit report within the last 12 months, not otherwise addressed, must be adequately explained by the applicant. Any patterns of delinquent credit outside of the 12-month period must be explained by the applicant.
10.10 Credit Counseling	Applicants may have elected to participate in credit counseling sessions, whether and completion of the sessions before closing is not relevant. The existence of credit counseling in and of itself does not preclude the borrower from financing.
10.11 Judgments or Tax Liens	Any outstanding judgments or tax liens may remain open under the following: ➢ Applicant(s) must be on a repayment plan and have made at least 6 payments ➢ Most recent 3 months payments paid in a timely manner (must be documented) ➢ If the judgement or tax lien is recorded against the property it must be subordinated ○ The balance must be included in the CLTV If the conditions above are not met, the judgment or tax lien must be paid off prior to or at closing. Cash-out proceeds may not be utilized for this purpose unless the debt is business related.

10.12 Bankruptcy	Recent bankruptcies are NOT allowed. ➢ All bankruptcies must be settled at the time of application ➢ Evidence of bankruptcy resolution is required ➢ Seasoning is measured from the discharge/dismissal date to the note date. ➢ All bankruptcies must be discharged or dismissed for a minimum of 36 months from closing date. **No multiple housing events (FC, BK, SS/DIL) in the last seven years**
10.13 Foreclosure	➢ Seasoning of a foreclosure is measured from the settlement date (final property transfer) to the note date. ➢ Foreclosure must be seasoned for a minimum of 36 months from closing date. [See matrix for details] **No multiple housing events (FC, BK, SS/DIL) in the last seven years**
10.14 Short Sale/ Deed-in-Lieu	➢ Seasoning of a short sale or deed-in lieu is measured from the settlement date (sale or final property transfer) to the note date ➢ SS/DIL must be seasoned for a minimum of 36 months from closing date. [See matrix for details] **No multiple housing events (FC, BK, SS/DIL) in the last seven years**
10.15 Forbearance or Modification	All mortgages in forbearance or modification must be completed prior to funding. The borrower may not have any mortgages currently in forbearance or modifications in trial payment periods. Forbearance or loan modification resulting in any of the attributes below is subject to seasoning of 36 months: ➢ Forgiveness of a portion of principal and/or interest on either the first or second mortgage ➢ Application of principal curtailment by or on behalf of the investor to simulate principal forgiveness ➢ 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 A letter of explanation from the borrower addressing the situation that made forbearance or modification necessary and that the situation requiring the forbearance or modification has passed.
10.16 1x120	1x120 (or worse) on any mortgage must meet the 24-month seasoning requirement

Chapter 11: Liabilities

11.1 Overview	Liability assessments and payments are not applicable to the G-PA program. Debt ratios are not calculated.

Chapter 12: Assets

12.1 Documenting Assets	Asset documentation is required to evidence funds to cover down payment and other related closing costs as well as satisfy reserve requirements (if applicable). Assets and reserves should be calculated and documented per Fannie Guidelines unless otherwise specified in these guides.
12.1.1 Asset Document Validation	All bank statements used to verify assets used for income, down payment, closing costs, and reserves require validation through a third-party service provider.
12.2 Reserves	Reserves include cash and other assets that are easily convertible into cash by the borrower. Required reserves are published on the [matrices], are calculated utilizing the qualifying payment and are measured by the number of months of housing expense that an applicant could pay using their financial assets. Cash-out from the subject transaction may be used toward the reserve requirement. For loans with an IO (interest only) feature, reserves are based on the ITIA payment. Reserves must be sourced and documented per Fannie Mae requirements.
12.3 Down Payment	Down payment funds should be seasoned 30 days or sourced and documented using the methodology described in the Fannie Mae Sellers Guide B3-4.2-01: Verification of Deposits & Assets. Generally, all earnest money deposits must be fully documented including the source of the down-payment from the applicant(s) account(s) and the evidence of the transfer to the closing agent. Gift Funds may not be utilized towards down payment requirements. See Gift Funds for restrictions. If Hometown Equity Mortgage determines that the source of down payment is another extension of credit, Hometown Equity Mortgage will consider this simultaneous secondary financing.

12.4 Depository Accounts	Funds held in a checking, savings or other depository account(s) can be used for down payment, closing costs & reserves. Hometown Equity Mortgage will investigate any funds which appear to be borrowed such as recent large deposits, recently opened accounts or account balances that are significantly larger than the average balance leading up to loan application date. In these instances, Hometown Equity Mortgage will require a written LOE signed by the applicant(s). If any account utilized for down payment, closing costs and/or reserves is coming from an account not held solely by the borrower, all parties on the account must provide a written statement that the borrower has full access to and use of the funds.
12.5 Gift Funds	➢ Gift funds are NOT allowed.
12.6 Gift of Equity	Gifts of equity are not allowed.
12.7 Assets Held in Foreign Accounts	Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. Closing funds and reserves must be transferred to a U.S. domiciled account in the borrower's name at least 30 days prior to closing. For U.S. citizens & permanent resident aliens all funds required for down payment, closing costs and reserves must be seasoned for 60 days. Assets held in foreign accounts must be documented as follows: ➢ Assets must be verified in U.S. Dollars using the current exchange rate via either the Wall Street Journal conversion table or www.xe.com ➢ A copy of the two most recent statements of the account. If the funds are not seasoned at least 60 days, an LOE is required along with supporting information to comprise a 60 day chain of funds
12.8 Asset Eligibility	The following provides details of eligible assets and when they can be utilized. Assets not specifically mentioned in this section may be acceptable if pre-approved by Hometown Equity Mortgage.

12.8.1 Business Assets	Business assets may be used for down payment, closing costs or reserves for self-employed borrowers. Borrowers on the loan must have at least 25% ownership of the business and must be owners on the business account being utilized. Ownership percentage will be determined by CPA letter, operating agreement or equivalent. All non-borrowing owners of the business must acknowledge the transaction and confirm the borrower(s) has access to funds in the account by providing a signed and dated letter stating such. To determine the borrower(s) portion of the business assets allowed for the transaction, multiply the balance of the business assets by the cumulative ownership percentage of the borrower(s).
	Any business funds transferred into the borrower's personal account prior to application date may be utilized without restriction.

12.8.2 Proceeds from a Cash-Out Refi	Cash-out proceeds from the subject property (or non-subject property) refinance may be used for closing costs or to pay down or pay off business debt(s). Cash-out may also be used as reserves for all G-PA Options.
12.8.3 Earnest Money Deposit (EMD)	If an EMD is needed, it must be verified that the funds are from an acceptable source. Any of the following is acceptable documentation: ➢ Copy of the borrower's cancelled check ➢ Certification from the deposit holder acknowledging receipt of funds ➢ Bank statement or VOD showing the average balance was sufficient to cover the amount of EMD If the funds have not cleared, a copy of the check may be obtained along with a certification verifying with the bank the date the check cleared, the dollar amount of the check and the name of the individual providing the information.
12.8.4 Proceeds from the Sale of Real Estate	Proceeds from the sale of real estate is an acceptable source of funds for down payment closing costs and/or reserves. The closing of the non-subject transaction must be simultaneous with the subject closing (or take place prior to). The net proceeds to the borrower must be verified via a settlement statement or equivalent documentation.
12.8.5 Certificate of Deposit (CD)	CDs are an acceptable source of funds for down payment, closing costs and/or reserves. The funds must be U.S. Dollar deposits in U.S. institutions. 100% of the face value of the account may be utilized.
12.8.6 Life Insurance & Annuities	The cash value of a whole life insurance policy or an annuity is an acceptable source for down payment, closing costs and/or reserves. The cash value is 100% of the stated value net of any loan(s). If being utilized for funds to close, the liquidation must be documented.
12.8.7 Borrowed Funds	Borrowed funds from a secured loan may be used as a source of funds for down payment, closing costs and/or reserves as long as: ➢ The borrower already owns the asset securing the loan (retirement account, CDs, etc.)

12.8.7 Borrowed Funds (cont)	➢ The terms of repayment and the secured nature of the loan must be documented via a copy of the note ➢ The value of the remaining assets must be reduced by the amount of the secured loan balance
12.8.8 Marketable Securities	Marketable securities may be used for down payment, closing costs, and/or reserves provided the value can be verified. ➢ Marketable securities must be traded on a major market exchange such as the New York Stock Exchange, NASDAQ, etc. where liquidity and valuation can be easily determined. o 100% of the value of the marketable security can be utilized. ➢ The liquidation of any marketable security needed for down payment or closing costs should be documented along with the new ending balance.
12.8.9 Retirement Accounts	Vested funds from a 401(k), IRA, or other retirement savings account are acceptable as a source of down payment, closing costs and/or reserves. Ownership of the account must be verified as well as the receipt of any funds received from the liquidation of the asset(s) needed for the subject transaction. ➢ If the funds are being utilized for reserves, liquidation is not required. Retirement accounts without withdrawal restrictions may be utilized for reserves. To calculate the amount available, utilize the vested balance less any outstanding loans and funds liquidated at 80% of net value (if borrower is of retirement age) or 70% (if borrower is not of retirement age). **NOTE:** If the retirement account only allows for withdrawal of funds based on the borrower's employment termination, retirement (unless borrower is of retirement age), or death, the vested funds cannot be utilized as reserves.

12.9.10 1031 Exchange	Transactions involving a 1031 exchange must meet the following requirements: ➢ The exchanged property must be identified within 45 days from the date of sale of the previous transaction ➢ All 1031 proceeds of the previous transaction must be controlled by a qualified intermediary (QI), accommodator or facilitator ➢ The QI/accommodator/facilitator of the 1031 Exchange cannot be the taxpayer, a related party or an agent of the taxpayer ➢ All 1031 proceeds must be re-invested in like-kind property within 180 days of the previous transaction ➢ Documentation the QI/accommodator or facilitator, exchange company or attorney is holding the funds must be in the file ➢ If exchange funds are being used as an EMD the taxpayer must sign an assignment of purchase and sale agreement with the QI/accommodator/facilitator prior to disbursement
12.9.11 Trust Funds	Trust account funds are an acceptable source of down payment, closing costs and/or reserves provided the borrower has immediate access to the funds. The following requirements must be met: ➢ Trust agreement must be in the file ➢ A trust manager or trustee must provide written documentation verifying the value of the trust account and the condition(s) under which the borrower has access to the funds and the effect the withdrawal of the funds may have on trust income used to qualify the borrower
12.9.12 Stock Options	Vested stock options are an acceptable source of funds for down payment, closing costs and/or reserves if the options are immediately available to the borrower. The value of the vested stock options should be documented by referencing a statement listing the number and price of the options and comparing that to the current stock price. The resulting gain from exercising the options and the sale of the resulting stock is the value that can be utilized for down payment and closing costs. If the fiduciary of the stock option transaction did not withhold taxes from the net proceeds, Hometown Equity Mortgage must investigate whether or not the borrower will suffer a liquidity event when the taxes become due. If vested stock options are being used for reserves, 70% of the current market value of the options can be utilized. **NOTE:** Non-vested options are not an acceptable source of funds.

12.9.13 Spousal Accounts	Accounts held in the name of a non-borrowing spouse may be used for down payment or closing costs but cannot be used as reserves.
12.9.14 Transaction Commissions	Borrowers acting as their own Realtor or Loan Officer (not both) may use the commissions earned from the subject transaction towards down payment, closing costs or reserves.
12.9.15 Ineligible Assets	The following are not acceptable: ➢ Unsecured loans or cash advances (credit card advances, etc.) ➢ Sweat equity ➢ Restricted securities ➢ Cash on hand ➢ Non-marketable securities ➢ Gift/Grant funds which must be repaid ➢ Section 8 voucher assistance ➢ Down payment assistance programs

Chapter 13: Income	
13.1 General Criteria	Income is not required to be verified on the G-PA program
13.2 AirDNA Rent Surveys	▪ Not allowed

Chapter 14: G-Pa Options

14.1 Overview	Various forms of documentation are acceptable depending on borrower profile, income type and corresponding G-PA Option.
14.2 4506-T	4506-Ts are not required on the G-PAProgram.
14.3 G-PA ≥ 1.10 DSCR Overview	G-PA: Debt Service Coverage Ratio This Option is designed for experienced real estate investors seeking financing for business purposes. Qualification is determined solely based on the Debt Service Coverage Ratio (DSCR). No borrower income or employment is to be included on the loan application. These loans are deemed business purpose and are exempt from ATR, QM and HPML requirements. The program is limited to Investment Properties ONLY, no exceptions. Borrower must acknowledge the loan is intended for "business purposes". No 4506-T, Tax Transcripts or Tax Returns A First-Time investor is defined as a borrower who has not owned at least one investment property for a minimum of twelve months anytime during the most recent 36 months. A First-Time Investor is allowed

14.3.1 G-PA > 1.00 DSCR Qualification

Income used to qualify is based upon the cash-flow from the subject property. To determine income, utilize the following:

Purchase:

Utilize the market rent survey from the appraisal.

- Lease agreements on purchase transactions are not required
- Market rents will be used to determine DSCR

Refinance:

If the transaction is a refinance, the appraisal should reflect the subject as being tenant occupied or an LOE should be provided. Income is calculated as the lesser of:

- Market rents per the appraisal; or
- Actual rents per the appraisal or the lease agreement
  - Lease agreements must be obtained if the appraisal reflects the subject as tenant occupied
- Must be third party lease with no borrowers, owners of the borrower or their immediate family members leasing or occupying the property.
- Must be executed by both an eligible tenant and the borrower (landlord).
- Must have a unit rental rate and terms consistent with rates and terms then prevailing in the local market where the property is located.
- Complies with all appliable legal requirements in all material aspects and including all required disclosures required by applicable legal requirements
- Covers 100% of the square footage of the applicable residential unit.
- leases that are month to month requires the most recent rent check or other evidence of collection, and a copy of the initial lease that is dated six (6) or more months prior to the loan origination date to the same tenant. Acceptable forms of rent payment verification include copies of cancelled checks from tenants or annotated bank statements reflecting rents received.

14.3.1 G-PA > 1.1 DSCR Qualification (cont.)

<u>Short-term Leases</u>:
Short-Term Rental (e.g., Airbnb, VRBO, FlipKey) Documentation and DSCR Calculation

Short-term rentals are properties which are leased on a nightly, weekly, monthly, seasonal, or lease is <6 month term or a month to month lease less than 6 months old.

Short-Term Rental Income – Purchase and Refinance Transactions:

- When the DSCR is < 1.10, the NO DSCR Matrix must be used.
- DSCR Calculation:
    - Monthly gross rents divided by ITIA
    - The lesser of he lease or Market Rent survey will be used
- Any of the following methods may be used to determine gross monthly rental income:
    - A 1007 or 1025 Comparable Rent Schedule survey prepared by the appraiser reflecting long-term or short-term market rents.

<u>NOTE:</u>

- Lease agreements made to entities are acceptable
    - The borrower cannot be part of the entity

<u>Qualification</u>:
For full amortization, use the <u>note rate</u> to calculate the PITIA for use in the DSCR calculation.
For Interest Only loans, use the note rate to calculate the ITIA for use in the DSCR calculation.

<u>DSCR Calculation</u>:
The debt service coverage ratio (DSCR) is calculated by taking 100% of the gross rents divided by either the ITIA (interest only) of the subject property unless otherwise stated above.

For multiple units:
Each unit will be reviewed independently using the logic above. For instance, take the 2-unit scenario below:
Unit 1: Market rents $2,000 | Lease agreement $1,900
Unit 2: Market rents $1,500 | Lease agreement $1,600
The gross rents (without proof or receiving higher rents) would be $1,900 (unit 1) + $1,500 (unit 2) = $3,400.

For Option 1: Debt Service Coverage Ratio the DSCR <u>Must</u> be ≥ 1.10

15.0 Foreign Nationals	Please refer to the matrix for FICO, maximum loan amounts, LTVs and reserve requirements Any documentation provided from an Applicant's home country must be provided in its original language listing that country's currency, as applicable. A certified translation must also be provided.

15.1 Visa Requirements	The following are required as evidence the borrower is in the U.S legally:
	• Copy of the borrowers valid and unexpired passport (including photograph) and
	  o Copy of the borrower's valid and unexpired visa (including photograph) OR an I-797 form with valid extension dates and I-94, or
	  o Borrowers from countries participating in the State Department's Visa Waiver Program (VWP) are not required to provide a valid visa.
	    ▪ Participating countries can be found at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html The credit file should be documented with a current print-out of the participating countries, with the borrower's country of origin highlighted.
	  o Citizens of Canada traveling to the United States do not require a G-Pammigrant visa.
	
	▪ A list of G-Pammigrant Visa types is located on the U.S. Department of State web site https://travel.state.gov/content/travel/en/us-visas/visa-information-resources/all-visa-categories.html . If a non-U.S. citizen is borrowing with a U.S. citizen, foreign national documentation requirements still apply.
	
	▪ All parties (Borrower's and Seller's) involved on the transaction must be screened through exclusionary lists and must be cleared through OFAC's SND list. A search of Specially Designated Nationals & Blocked Persons list may be completed via US Department of Treasury: http://sdnsearch.ofac.treas.gov/ .
	
	▪ Borrowers from OFAC sanctioned countries are ineligible http://www.treasury.gov/resourcecenter/sanctions/Programs/Pages/Programs.aspx .
	
	▪ Individuals with Diplomatic immunity are not eligible, immunity status is listed on the reverse side of the U.S. issued ID card or at: https://2009-2017.state.gov/s/cpr/rls/dpl//index.htm
	
	▪ Documents signed by Borrowers outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille.
	
	▪ See the following link to determine if the country is part of the Hague Convention:
	  o https://travel.state.gov/content/travel/en/records-and-authentications/authenticate-your-document/apostille-requirements.htm
	
	Model Apostille forms can be found on the following link:
	https://www.hcch.net/en/instruments/specialised-sections/apostille
	
	Citizens of Venezuela, Russia and Belarus are ineligible

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15.2.1 Credit Score	No US credit score is required unless one is available • Treated as 680 if no score
15.2.2 Credit Events	Borrowers with any of the following major credit events in the US in the most recent three year period measured from event completion date or discharge/dismissal date to application date are not eligible - bankruptcy, foreclosure, modification, short sale, short pay, deed in lieu, 120+ day mortgage late, pre-foreclosure including Notice of Default or Lis Pendens
15.3 Automatic Payment Authorization (ACH)	Automatic Payment Authorization (ACH) Form is required for all foreign national borrowers. ▪ Funds must be from a U.S. Bank. ▪ The (ACH) enrollment form must include the bank routing number, account number, and account type.
15.4 Housing History	Housing history is not required
15.5 Assets	Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. These funds must be transferred to a U.S. domiciled account in the borrower's name at least ten (10) days prior to closing. Documenting Assets Held in Foreign Accounts: • Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table. • A copy of the two (2) most recent statements of that account. If the funds are not seasoned a minimum of sixty (60) days, a letter of explanation is required, along with the information to comprise a sixty (60) day chain of funds. • See the assets Documentation section for eligible types and sources of assets
15.6 Power of Attorneys	Not allowed
15.7 Property Types	• 1-4 unit attached and detached properties. • Warrantable Condos • PUDs

16.0 Glossary

Experienced Customers: At least one Guarantor (with a minimum of 10% ownership) has at least 3 documented real estate investment property sales, refinancing following completed rehab on rental properties or equivalent experience in the past three years and at least one year in the business of acquiring real estate for investment purposes or renovating real estate.

New Customers: No guarantor(s) or borrower(s) qualifies as an Experienced Customer.

Stabilized Bridge: Properties which are currently in a leasable state or will be in a leasable state upon completion of a Rehab Budget which is less than or equal to 5% of "As Is" value (purchase and refinance) and purchase price.

Light Rehab: Rehab Budget is greater than 5% and less than or equal to 100% of the lower of "As Is" value (purchase and refinance) and purchase price (if a purchase), and the project does not qualify as a Heavy Rehab.

Heavy Rehab: A project where any one of the following applies: (1) Rehab Budget greater than 100% and less than 150% of the lower of "As Is" value (purchase and refinance) or purchase price (if a purchase) , (2) condo conversion, (3) involves more than a 20% expansion of the property of at least 750 square feet, (3) involves a change of use (unless a certificate of occupancy has been issued for the new use), or (4) for any 1-4 Family properties with an "As Repaired" value which is greater than 3x the initial "As Is" Value (or acquisition price if within the last 12 months).

Loan to "As Is" Value: Initial Loan Amount divided by "As Is" appraised value. Loan to "As Is" value is only calculated for loans which are purchased prior to completion of the first rehab draw.

Loan to Cost: Initial Loan Amount divided by borrower Cost Basis at the origination date.

Cost Basis: Cost basis is inclusive of purchase price, verified borrower paid Hard and Soft Costs expended to date (as defined in Rehabilitation/Renovation Budget section), and customary borrower paid arms-length closing costs/ fees, including real estate broker commissions, title, escrow, other closing costs and the amount of taxes, HOA dues, fees, assessments, and liens paid by the borrower or its affiliates in connection with the acquisition. Third-party/arms-length assignment fees may be included up to 5% of the purchase price. If closing costs are not documented or clearly verifiable at the time of closing, then up to 2% of the purchase price may be added to the purchase price for the assessment of Cost Basis. Mortgage broker fees, origination fees, points, etc. are excluded.

Loan to "As Repaired" Value: Maximum Loan Amount plus any Rehab Budget which is not financed or escrowed at closing divided by "As Repaired" appraised value.

Rehab Loan Amount: Maximum amount of future rehab draws and release of escrowed rehab reserves.

Initial Loan Amount: Loan amount at the origination date (inclusive of any Rolled Interest and exclusive of rehab and other escrows or other amounts not funded to the borrower at closing).

Maximum Loan Amount: Initial Loan Amount plus Rehab Loan Amount and other amounts not funded to the borrower at closing.

Purchase: The property was purchased by the borrower or guarantor within three months prior to the loan origination date as reflected on the executed note or is a delayed financing as described under "Refinance" below.

Refinance: The property was purchased by the borrower or guarantor more than three months prior to origination. A refinance does not include financing a property without existing debt within 6 months of purchase. Such transactions would instead be considered a purchase. For all refinances a 12-month recent payment history is required. A loan which is currently delinquent or has been at any time in the past 6 months delinquent for more than 30 days for interest and/or principal is classified as a defaulted loan and is not eligible for purchase. Appendix

Cash Out Refinance: In the event that the borrower is refinancing existing mortgage debt on the property and receives net proceeds (excluding third party expenses reflected on the HUD) from the refinancing that exceed 2% of the Initial Loan Amount. Financing of properties owned free and clear and acquired more than six (6) months prior to the loan origination date is also considered a Cash Out Refinance.

Rate/Term Refinance: A refinance that is not a Cash Out Refinance.
Rolled Interest: Interest that has been calculated at underwriting to cover the maximum loan during the loan term. The Rolled Interest product calculates payments based upon the entire loan amount rather than payments on partial advancements in a construction loan. Rolled Interest is calculated as the Maximum Loan Amount (x) Interest Rate (x) Loan Term. The Rolled Interest is applied to the loan balance on a monthly basis. (See Appendix E) For rehab loans, Lenders should have language requiring an inspection by the fourth month of the loan if no draws have been requested to ensure the asset value is being preserved.

Defaulted Loan: A loan which is currently delinquent or has been at any time in the past 6 months delinquent for more than 30 days for interest and/or principal. A loan that is currently subject to a repayment plan, payment deferral, or loan modification, is also a Defaulted Loan. Notwithstanding the above, a loan with a delinquent final scheduled payment (i.e. a maturity default) is not considered a Defaulted Loan if the loans is otherwise current on regular interest payments.

Change of Use: Changing the number of units in a property or converting the property from one property type to another.

Primary Guarantor: One guarantor designated by HEM who owns at least 25% of the borrowing entity. In the event that no guarantor owns at least 25%, the guarantor with the highest ownership percentage of the borrowing entity will be the Primary Guarantor.

Foreign National: An individual who is not a United States citizen or a green card holder.

Weathertight: The building shell has been completed sufficiently to keep out wind, rain, or the weather in general, thus assuring that weather-sensitive materials or work can begin indoors without those materials suffering weather damage by rain, wind, snow, etc. Typically, this includes a minimum completion and installation of the roof, house wrap, windows, and doors. Guidelines based on renovation amount and as-is value will be used to determine if the loan is considered light or heavy rehab.