

LTV Matrix - Fixed Rate and ARM (including IO)										
Credit Feature	Occupancy	Purpose ³	Loan Amount Maximum	Units	Credit Score Minimum ¹	LTV/(H)CLTV ^{1,2,3,4}				
						Full Doc	24-Months Bank Statements/1099	12-Months Bank Statements/1099	One Year Full Doc	Asset Utilization
FICO to 620 (0x30x12 Housing History; derogatory credit event > 48 months prior to application)	Primary Residence	Purchase and Rate/Term	\$1,500,000	1	680	85%	85%	80%	80%	80%
					660	80%	80%	N/A	80%	80%
					640	75%	75%		75%	75%
					620	65%	65%		N/A	N/A
			\$1,500,000	2-4	680	75%	75%	75%	75%	75%
					640	75%	75%	N/A	75%	75%
					620	65%	65%		N/A	N/A
					680	80%	75%	70%	75%	70%
		Cash-Out	\$1,500,000	1	660	75%	75%	N/A	75%	70%
					640	70%	70%		70%	70%
					620	65%	65%		N/A	N/A
					680	70%	70%	70%	70%	70%
	Second Home	Purchase and Rate/Term	\$1,500,000	1	680	75%	75%	75%	75%	75%
					640	75%	75%	N/A	75%	75%
		Cash-Out	\$1,500,000	1	680	70%	70%	70%	70%	70%
					640	70%	70%	N/A	70%	70%
	Investment	Purchase and Rate/Term	\$1,500,000	1-4	680	75%	75%	75%	75%	75%
					640	75%	75%	N/A	75%	75%
		Cash-Out	\$1,500,000	1-4	680	70%	70%	70%	70%	70%
					640	70%	70%	N/A	70%	70%
1x30x12 Housing History (Must be 0x30 most recent 6 months; NOT eligible for borrowers with a derogatory credit event within prior 48 months prior to application)	Primary Residence	Purchase and Rate/Term	\$1,500,000	1	680	80%	80%	80%	80%	80%
			\$1,500,000	2-4	680	75%	75%	75%	75%	75%
		Cash-Out	\$1,500,000	1-4	680	70%	70%	70%	70%	70%
	Second Home	Purchase and Rate/Term	\$1,500,000	1	680	75%	75%	75%	75%	75%
		Cash-Out	\$1,500,000	1	680	70%	70%	70%	70%	70%
	Investment	Purchase and Rate/Term	\$1,500,000	1-4	680	75%	75%	75%	75%	75%
		Cash-Out	\$1,500,000	1-4	680	70%	70%	70%	70%	70%

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						Full Doc	24-Months Bank Statements/1099	12-Months Bank Statements/1099	One Year Full Doc	Asset Utilization
Derogatory credit event ≥ 24 but < 48 months prior to application (0x30x12 Housing History)	Primary Residence	Purchase and Rate/Term	\$3,000,000	1	740	70%	N/A	N/A	N/A	N/A
			\$2,500,000		720	75%	75%	75%	75%	75%
			\$2,000,000		680	80%	80%	80%	80%	80%
			\$1,500,000		680	85%	85%	80%	80%	80%
			\$1,500,000	2-4	660	80%	80%	N/A	80%	80%
			\$2,500,000		720	75%	75%	75%	75%	75%
			\$2,000,000		680	75%	75%	75%	75%	75%
			\$1,500,000		660	75%	75%	N/A	75%	75%
		Cash-Out	\$3,000,000	1	740	65%	N/A	N/A	N/A	N/A
			\$2,500,000		720	70%	70%	70%	70%	70%
			\$2,000,000		680	75%	75%	70%	75%	70%
			\$1,500,000		660	75%	75%	N/A	75%	70%
			\$2,500,000	2-4	720	70%	70%	70%	70%	70%
			\$2,000,000		680	70%	70%	70%	70%	70%
			\$1,500,000		660	70%	70%	N/A	70%	70%
	Second Home	Purchase and Rate/Term	\$2,500,000	1	720	75%	75%	75%	75%	75%
			\$2,000,000		680	75%	75%	75%	75%	75%
			\$1,500,000		660	75%	75%	N/A	75%	75%
		Cash-Out	\$2,500,000	1	720	70%	70%	70%	70%	70%
			\$2,000,000		680	70%	70%	70%	70%	70%
			\$1,500,000		660	70%	70%	N/A	70%	70%
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						Full Doc	24-Months Bank Statements/1099	12-Months Bank Statements/1099	One Year Full Doc	Asset Utilization
Derogatory credit event >= 12 but < 24 months prior to application (0x30x12 Housing History)	Primary Residence	Purchase and Rate/Term	\$2,000,000	1	740	80%	80%	80%	80%	80%
			\$1,500,000		720	75%	75%	75%	75%	75%
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			720		70%	70%	70%	70%	70%	
			680		65%	65%	65%	65%	65%	
			660		65%	65%	N/A	65%	65%	
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LTV Matrix Footnotes										
1. First Time Homebuyers: - Min 680 FICO - LTVs > 80%: Max 45% DTI - LTVs ≤ 80%: Max 50% DTI - Note: Borrower(s) who have 24 months rental history documented per the Arc Underwriting Guide are NOT subject to FTHB FICO and DTI restrictions. 2. Rural property: Max 75% LTV/CLTV for Purchase and Rate Term transactions. Max 70% LTV/CLTV for Cash-Out on Full Doc and Alt Doc and 65% LTV/CLTV on Asset Utilization 3. Non-Warrantable Condos, including Condotels: Max 75% LTV/CLTV for Purchase and Rate Term transactions. Max 70% LTV/CLTV for Cash-Out on Full Doc and Alt Doc and 65% LTV/CLTV on Asset Utilization 4. Cash-Out transactions: Max cash in hand of \$1MM for < 70% LTV/CLTV and Max cash in hand of \$750,000 on > 70% LTV/CLTV										

Product Details	
Amortization Type	Full Principal and Interest: 15 Year and 30 Year Fixed Rate 5/6m SOFR ARM, 7/6 SOFR ARM Interest Only: 30 Year and 40 Year Interest only Fixed Rate 5/6m SOFR IO ARM, 7/6m SOFR Interest only ARM
ARM Information	Caps: 2/2/5 Index: 30 Day SOFR Margin: 3.75% Floor: Margin
Appraisal Requirement	- One appraisal is required for loan amounts ≤ \$2,000,000. - Two appraisals are required for loan amounts > \$2,000,000. - Follow the Arc Underwriting Guide for Collateral Review requirements.
Borrower Contribution	Full Doc/Bank Statement/1099: Gift funds are permitted for down payment and closing costs. Refer to the Arc Underwriting Guide. Asset Utilization: Gift funds are not permitted for down payment, closing costs, and reserves.

Borrower Eligibility	Eligible: - US Citizens - Permanent Resident Aliens - Non-Permanent Resident Aliens - First Time Homebuyers (Not allowed on Asset Utilization) - LLCs and Corporations provided that the Vesting in the Name of an Entity requirements in the Arc Underwriting Guidelines are met. Ineligible: - Foreign National Borrowers - Non-Occupant Co-Borrowers
Credit/Payment History Requirements	- Refer to the LTV matrix for Derogatory Credit Event seasoning. Refer to the Arc Underwriting Guide for the Derogatory Credit Event definition. - All applicant(s) and co-borrowers must meet the credit score requirements individually. - Non-traditional credit report is not permitted. - Payment history requirements: 0x30x12 mortgage/rental history on the subject property and all financed REOs under the borrower's name. 1x30x12 Housing payment history (Must be 0x30 most recent 6 months) is allowed with the following: Min 680 FICO and > 24 months seasoning from derogatory credit. Rolling lates are counted as 1 30-day late. Refer to the LTV Matrix.
Geographic Restrictions	None
Impound/Escrow Accounts	Escrow funds/impound accounts may be waived for taxes and hazard insurance in accordance with the FICO, LTV, and reserve requirements in the Arc Underwriting Guide.
Lien Position	First
Minimum Loan Amount	\$125,000
Number of Financed Properties	- A single borrower can have no more than 20 financed properties including subject property. All properties in which the borrower is personally obligated must be included in the financed property maximum. Properties vested in the name of the borrower's business and not on the borrower's credit report are not included in the max financed property limit. - For Arc Elite, Arc Access, Conventional Investment Property and FNMA/FHLMC Second Home-Investment Property Products, each borrower may not exceed either an aggregate unpaid principal balance amount of \$7.5MM or 10 loans (including the subject property) financed with Arc Home Loans.
Occupancy	- Primary Residence - Second Home - Investment Property
Prepayment Penalty	Allowed on Investment Property transactions, which are treated as Business Purpose loans. May be subject to up to a five-year prepayment penalty or the maximum permitted by state law, whichever is lower. Refer to the Arc Underwriting Guide for state specific requirements.

Property Types	Eligible: 1-4 unit (Detached, Semi Detached, Attached) - PUD (Detached, Attached) - Warrantable Condominium (Detached, Attached) - Non-Warrantable Condominiums, including Condotels. Refer to the Arc Underwriting Guide for details. Ineligible: Refer to the Arc Underwriting Guide for ineligible property types.
Ratios	1-Year Full Doc/Bank Statements/1099: 50% DTI. First Time Homebuyers with LTVs > 80%: Max 45% DTI Asset Utilization: 43% DTI
Reserve Requirements	Reserve requirements are based on the PITIA of the subject property: - Loan Amount ≤ \$1.5MM: 6 months of PITIA - Loan Amount > \$1.5MM-2.5MM: 9 months of PITIA - Loan Amount > \$2.5MM: 12 months of PITIA - Cash out proceeds may be used to satisfy reserve requirements up to a 70% LTV/CLTV.
Secondary Financing	Allowed
Transaction Types	Eligible: - Purchase - Rate/Term Refinance - Delayed Financing as a Rate/Term transaction - Cash Out Refinance - Texas 50(a)(6) Rate Term and Cash Out refinances
Underwriting	Manual underwriting required. AUS not allowed. Refer to the Arc Underwriting Guide for complete program requirements.

Full Doc (Tax Returns & P/Ls or W-2/Recent Paystubs) Documentation/Calculation Requirements

2-Year Tax Returns & P/Ls	- Documentation is the same as Full documentation requirements per the Arc Underwriting Guide. - Income is calculated by utilizing the past TWO years of tax returns, schedules and forms. - A cash flow analysis must be prepared for all self-employed borrowers. Use Fannie Mae Form 1084 and follow all instruction to document self-employed income.
2-Year W-2 & Paystub	- Documentation is the same as Full documentation requirements per the Arc Underwriting Guide. - Follow Fannie Mae guidelines for how to calculate income.
Documentation Type	Doc Type must reflect "Full Document"
Tax Transcripts	2-Year Full Doc Tax-return: A signed 4506-C and IRS Tax Transcripts for the most recent year must be obtained during the loan process or at closing. 2-Year Full Doc Wage Earner or when an additional W-2 is used: A signed 4506-C is required. Transcripts are not required.

1-Year Full Doc (Tax Returns & P/Ls or W-2/Recent Paystubs or WVOE and Paystub) Documentation/Calculation Requirements

1-Year Tax Returns & P/Ls	- Documentation is the same as Full documentation requirements per the Arc Underwriting Guide, except only the most recent year of Tax Returns, Schedules, and P/L is required. - Income is calculated by utilizing the past ONE year of tax returns, schedules and forms. - A cash flow analysis must be prepared for all self-employed borrowers. Use Fannie Mae Form 1084 and follow all instruction to document self-employed income. (Complete just one year of information rather than two).
1-Year W-2 & Paystub	- Documentation is the same as Full documentation requirements per the Arc Underwriting Guide, except only the most recent year W-2 (or year-end paystub if loan is closing in January) and YTD paystubs covering at least 30 days are required. - Borrower must have two (2) years history of employment in same industry and 1-year continuous employment at current job. - Capital gains income and borrowers employed by family members are not eligible. - Follow Fannie Mae guidelines for how to calculate income: https://www.fanniemae.com/content/guide/selling/b3/3.1/01.html
Written VOE (WVOE) & Paystub	- Documentation is the same as Full documentation requirements per the Arc Underwriting Guide, except only a written VOE (Form 1005 or third-party service such as The Work Number) referencing prior year and most recent year-to-date income and most recent paystub are required. - Borrower must have two (2) years history of employment in same industry and 1-year continuous employment at current job. - Capital gains income and borrowers employed by family members are not eligible. - Follow Fannie Mae guidelines for how to calculate income: https://www.fanniemae.com/content/guide/selling/b3/3.1/01.html
Documentation Type	1-Year Tax Returns & P/Ls and 1-Year W-2 & Paystub: Doc Type must reflect "1 Yr Tax Returns" Written VOE (WVOE) & Paystub: Doc Type must reflect "VOE"
Tax Transcripts	1-Year Full Doc Tax-return: A signed 4506-C and IRS Tax Transcripts for the most recent year must be obtained during the loan process or at closing. 1-Year Full Doc Wage Earner or when an additional W-2 is used: A signed 4506-C is required. Transcripts are not required.

12 & 24 - Month 1099 Documentation/Calculation Requirements

Employment Requirements	Borrowers who are independent contractors, freelancers, or otherwise self-employed in the "gig economy" may qualify with 1099 statements in lieu of tax returns, to support their income. 1099 statements must be in the borrower's name. Borrowers must be in the same line of work for 2 years. Verbal verification of employment guidelines apply, refer to the Arc Underwriting Guide.
Documentation	The Borrower must receive regular, ongoing compensation on a weekly, bi-weekly, bi-monthly, monthly, or quarterly basis. Do not provide tax returns. For a 12-month income calculation, provide the following: 1 year of Form 1099 and - Either most recent paystub showing YTD income, statement, or similar documentation that also shows the Borrower's year-to-date earnings. The most recent documentation may be used if earnings over 30 consecutive calendar days is verified.

	For a 24-month income calculation, provide the following: • 2 years of Form 1099 and • Either most recent paystub showing YTD income, statement, or similar documentation that also shows the Borrower's year-to-date earnings. The most recent documentation may be used if earnings over 30 consecutive calendar days is verified.
Income Calculation	For a 12-month income calculation, the lesser of: • The income reported on the Borrower's 1099 tax forms for the Applicable Year* multiplied by the Profit Margin and then divided by 12 months, or • The income reported on the Borrower's 1099 tax forms for the Applicable Year* plus the Borrower's year to date income multiplied by the Profit Margin, converted into a monthly average. For a 24-month income calculation, the lesser of: • The average income reported on the Borrower's 1099 tax forms over the two Applicable Years* multiplied by the Profit Margin and then divided by 24 months, • The income reported on the Borrower's 1099 tax forms for the Recent Applicable Year* multiplied by the Profit Margin and then divided by 12 months, or The income reported on the Borrower's 1099 tax forms for the Applicable Year* plus the Borrower's year to date income multiplied by the Profit Margin, converted into a monthly average Profit Margin: For 1099 Income Documentation type, the borrower must provide a written explanation such as the Arc Business Narrative or a similar form on their 1099 employment including an expense factor that is related to their annual business. Arc Home will utilize a maximum of 90% Profit Margin. Borrowers who identify a smaller profit margin must be qualified with the smaller profit margin. *For the purposes hereof the Recent Applicable Year is the calendar year prior to the date of the Borrower's Initial Application unless the date of the Initial Application is in January, and the Borrower's 1099 tax forms for the calendar year prior to the date of the Borrower's Initial Application are unavailable, in which case the Recent Applicable Year is the calendar year two years prior to the date of the Initial Application; the Applicable Years are (i) the Recent Applicable Year and (ii) the calendar year prior to the Recent Applicable Year.
Additional Income	If the 1003 reflects additional income, such as alimony, child support or W-2 wages, that income must be considered per Fannie Mae guidelines. Long term and Short term Rental Income: The borrower must fully complete the REO section of the loan application. Short term rental property must be in an area that is common for short term rentals. • Documentation: ○ Purchase transactions: Rent Schedule Form 1007 or 1025 (the rental lease agreement is not required). ○ Departing Residences: Rent Schedule Form 1007 or 1025 or the current lease agreement AND security deposit, AND 1 month's rent rental deposit reflected on the bank statements/cancelled checks/electronic proof. ○ For REO properties: ▪ Most recent Schedule E OR ▪ The current lease agreement AND most recent 2 months rental deposits reflected on the bank statements/cancelled checks/electronic proof OR ▪ remittance statements from the renting entity (AirBnB, VRBO, etc.) covering the most recent 12-month period. Rental income must be calculated by taking the payout amount (Gross booking amount minus deductions), • Calculation: ○ <u>Step 1: Determine the Gross Qualifying Rent:</u>

	▪ Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 ▪ Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement. ▪ For REO properties: • Use monthly gross rental income from the borrower's most recent Schedule E per Fannie Mae calculations, from the current lease agreement, or from the 12 month remittance statements. ○ <u>Step 2: Reduce the Gross rent by the 20% vacancy factor:</u> The rental income must be calculated by multiplying the gross monthly rent(s) by 80%. ○ <u>Step 3: Determine the Net Qualifying Rent:</u> Subtract the PITIA associated with that property to arrive at the Net Rental Income (if positive, apply to the Total Income figure) or Net Rental Loss (if negative, count in the borrower's debt).
Documentation Type	For 1 Year 1099: Doc Type must reflect "Other Bank Statement", then select "1099 – 12 months" in the Additional Doc Types field For 2 Year 1099: Doc Type must reflect "Other Bank Statement", then select "1099 – 24 months" in the Additional Doc Types field
Tax Transcripts	1099: A signed 4506-C and IRS 1099 Transcripts are required. The year-end paystub, statement, or similar documentation may be used in lieu of the transcript when no record is found on the transcripts. When an additional W-2 is used: A signed 4506-C is required. Transcripts are not required.

12 & 24 – Month Bank Statement Documentation/Calculation Requirements	
Employment Requirements	The Primary wage earner must be self-employed as a for-profit business. • Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years. Refer to the Arc Underwriting Guide, for requirements when the borrower has been self-employed less than 2-years but more than 18 months. • The business used in qualifying must have existed/active for at least two (2) years. However, if a borrower is qualifying with less than two years but more than 18 months of self-employment, then the business should be established for the same length of time. • The borrower's ownership percentage and length of ownership must be verified with one of the following: ○ Letter from CPA/EA/CTEC or a tax preparer with a PTIN. Validation of the license/PTIN is required. ○ Business Formation Documents (Articles of Incorporation, Bylaws, Charter, Articles of Association, DBA for a sole proprietor). ▪ Any documents received must document that they have been filed properly with the state ▪ Operating Agreement/Partnership Agreement ▪ Must reflect all member-ownership interest in the business ○ Verbal verification of employment guidelines apply, refer to the Arc Underwriting Guide.
Documentation Requirements	Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification. Accounts must be from a US financial institution or a financial technology company insured by a US financial institution, FDIC member. Regardless of the type of account (business or personal) the following apply: • 12- or 24- month complete bank statements must be in the file ○ Bank statements must be consecutive and reflect the most recent months available, per the Age of Documentation requirements in the Arc Underwriting Guide.

	○ If an account was closed and a new account was opened or if the borrower was using a personal account and switched to a business account, Arc will consider the bank statements to be consecutive if the bank statements reflect the switch and reflect continuity (no gaps). The new account must be opened for at least 3 months to validate stability. The 3 months requirement may be waived if the old account was closed due to fraud. ○ Cannot mix and match different bank accounts from month to month (e.g. – January statement from personal, February statement from business, March from personal and so forth) ○ Every page including pages without transactions and advertisements must be present; transaction history printouts are not acceptable ○ Statements must support stable and generally predictable deposits. ● Monthly income must be disclosed on the initial, signed 1003 ● Deposits must be common and customary. Unusual large deposits must be sourced and documented; unacceptable deposits are not counted toward the income derived from bank statement deposits. ● Foreign income is allowed if the CPA certifies that the income has been filed on US federal income tax returns for the last 2 years and if the business has a valid US business registration (EIN). ● Non-Sufficient Funds (NSFs) must be reviewed on the bank statements used in qualifying the borrower. NSF/Overdraft is defined as a financial institution accepting a withdrawal which results in the account going into the negative and a fee is charged, or when a check/ACH is presented but cannot be covered by the balance in the account “bounced check” and a fee is charged. NSF's are allowed with the following restrictions: ○ If there are one (1) or more occurrences in the most recent three-month time period, up to three (3) occurrences are allowed in the most recent 12-month time period. ○ If there are zero (0) occurrences in the most recent three-month time period, up to five (5) occurrences in the most recent 12-month time period are acceptable. ○ All NSF's in the most recent 12 months must be explained with an LOE from the borrower ○ Protected Overdrafts, where the borrower has sweep protection from another account, or where the financial institution allows the account to go negative and does not charge a fee are NOT included in the NSF count. Validation that the sweep account belongs to the borrower is not required. ○ Reversed/refunded NSF's are NOT included in the NSF count. ○ Multiple NSF's and/or Overdrafts that occur on the same day will count as One occurrence
Disallowed Deposits	Disallowed deposits include transfer from other accounts credit lines, business loans, rental income, one-time only deposit in 12 months, cash advances from credit cards, returns/refunds, or income from other sources (on personal bank statements).
Personal Bank Account Qualification	BUSINESS DISTRIBUTIONS: If the borrower maintains separate bank accounts for personal and business use but pays themselves as a distribution/payroll into their personal bank account, those deposits into their personal bank account may be used for qualifying. In addition to the Employment Requirements and Documentation Requirements above, the following apply: ● Borrower must own at least 25% of the business ● Two months of business bank statements must be provided to document the qualifying business is an operating entity and to verify transfers to the personal account. ● The deposits into the personal bank account must exhibit the respective account number of the business bank account(s) provided (based on the provided 2 months of business bank statements). ● If one personal bank statement is being used for multiple businesses, then the deposits must be clearly matched to each business so that we can validate the stability of each business and the borrower's ability to repay.

	- Significant and/or repeated transfers from a borrower's personal account to their business account should be scrutinized carefully as they may be indicators of poor financial health. - If the personal account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded. Calculation Method - Qualifying income is calculated using the total eligible deposits from the personal bank statements reviewed divided by the number of statements, minus any inconsistent or large deposits not justified. The most recent bank statement must be consistent with the qualifying income. - No expense factor is applied if business bank statements support operating activity with expenses being paid. Qualifying income is calculated as follows: (Total Deposits – Disallowed Deposits) divided by 12 or 24 months
Commingled Personal Bank Account Qualification	COMMINGLED BANK ACCOUNT: A comingled bank account is a personal account used by a borrower for both business and personal use. A separate business account is not required. Personal bank accounts are allowed to be comingled with income/expenses from only <u>one</u> business. Personal bank accounts may not be comingled with multiple businesses. Deposits must be common and customary. Unusual large deposits must be sourced and documented as business revenue. These accounts will be treated as business accounts for purposes of determining income. In addition to the Employment Requirements and Documentation Requirements above, the following apply: - Must provide business expense documentation. Expense verification will differ based on the Calculation Option chosen (see each option below for details) - If the bank statements reflect payments being made on obligations that are not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower's debt- to-income ratio. - If the obligation does not belong to the borrower, supporting documentation is required. - If the borrower is the obligor on an account statement a payment history must be obtained to review the account for acceptability. The payment must be included in the debt ratio. Comingled Bank Accounts may only be used by Sole Proprietors (Partnerships, S-Corporations, and Corporations are not allowed): - Borrower and non-borrowing purchasing spouse with combined 100% ownership eligible); or - All credit qualifying borrowers on the loan own 100% of the business; or - an independent contractor dedicated to one occupation and receiving 1099 income
Business Bank Account Qualification	BUSINESS BANK ACCOUNT: In addition to the Employment Requirements and Documentation Requirements above, the following apply: - Must provide business expense documentation. Expense verification will differ based on the Calculation Option chosen (see each option below for details) - Borrower must own at least 25% of the business OR the combination of Borrowers own 100% of the same business. - Qualifying Income must be multiplied by the ownership percentage to determine the owner's portion of income allowed for the transaction - Multiple businesses may also be used to determine qualification provided each is separately verified in accordance with these underwriting guidelines - Multiple accounts may be utilized for calculating the business' cash flow, however, the same method must be applied to all accounts

	- Transfers between a borrower's business accounts are not considered deposits. - Any abnormal deposits will need to be sourced and documented. Abnormal deposits will typically be those that are greater than 50% of the average monthly eligible deposits and that are out of the ordinary in form, amount, or frequency
Calculation (Business Bank Account or Commingled Bank Accounts)	There are several options for deriving qualifying income from bank statements. All cases using Bank Statement income must include a completed Analysis spreadsheet found on Arc's website at https://business.archomellc.com/page/tools-and-calculators To calculate qualifying income using Business Bank Statement Documentation, choose one of the two (2) options below: Method One Uniform Expense Ratio Multiply eligible deposits received by a 50% expense ratio. Then multiply the result by borrower's ownership percentage and divide by 12 (if 24-months statements, divide by 24). As long as this expense ratio is reasonable to the borrower's line of work and the borrower qualifies, no further information is required. Method Two CPA Letter for Expense Ratio Provide a CPA, EA, or CTEC prepared letter stating the business' expense ratio based on the most recent year's tax return. Multiply the expense ratio by the business' total deposits over the 12-month period shown on bank statements. Deduct that figure from the total deposits. Multiply net deposits by the borrower's pro-rata ownership percentage and divide by 12 (if 24-months statements, divide by 24). The resulting income should be reasonable to the borrower's line of work. The lowest acceptable expense ratio for qualifying is 15%. Note: Profit and Loss statements may only come from a CPA/EA/CTEC. Tax Preparers who possess solely a CTA, PTIN, or equivalent without one of these designations are not allowed.
Additional Income	If the 1003 or bank statements reflect additional income, such as alimony, child support or W-2 wages, that income must be deducted from the bank statement calculation but may be considered per Fannie Mae guidelines. Long term and Short term Rental Income: Borrowers who meet the eligibility requirements for using Bank Statement Income Documentation and who receive rental income (either as a primary income source as a real estate investor or as a secondary income source) may qualify using rental income. - The borrower must fully complete the REO section of the loan application. - Short term rental property must in an area that is common for short term rentals. - Fannie Mae guidelines for anything not addressed, including but not limited to calculating monthly qualifying rental income (or loss) must be followed. Documentation: - Purchase transactions or Departing Residences: Rent Schedule Form 1007 or 1025 OR the current lease agreement security deposit, and 1 month's rent rental deposit reflected on the bank statements/cancelled checks/electronic proof. - For REO properties: - Primary income source as a real estate investor: The rental deposits reflected on the bank statements covering the 12 or 24-month period (depending on the documentation type) with a letter of explanation (LOE) from the borrower indicating the rental property address and the rental amount. For any newly rented properties (< 12 months), the borrower must also explain why the property has been rented less than 12 months and provide supporting documentation to confirm the purchase date, such as the settlement statement. - The underwriter is not required to request a lease agreement to confirm the rental income that is reported on the bank statements. However, to the extent that the underwriter is unable to determine whether the source of the deposit(s) is tied

to the rental property(ies), or if the deposits are inconsistent, the underwriter may, at its discretion, request rental lease(s) as needed.

- Secondary income source:
 - Most recent Schedule E OR
 - The current lease agreement AND most recent 2 months rental deposits reflected on the bank statements/cancelled checks/electronic proof.
- **Calculation:**
 - **Step 1: Determine the Gross Qualifying Rent:**
 - Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025
 - Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement.
 - For REO properties:
 - Primary income source as a real estate investor: Use the rental deposits reflected on the bank statements/LOE.
 - Secondary income source: Use monthly gross rental income from the borrower's most recent Schedule E per [Fannie Mae](#) calculations or from the current lease agreement.
 - **Step 2: Reduce the Gross rent by the 20% vacancy factor:** When bank statements, current lease agreements or the Rent Schedule Form 1007 or 1025 are used, the rental income must be calculated by multiplying the gross monthly rent(s) by 80%.
 - **Step 3: Determine the Net Qualifying Rent:** Subtract the PITIA associated with that property to arrive at the Net Rental Income (if positive, apply to the Total Income figure) or Net Rental Loss (if negative, count in the borrower's debt).

Example 1:

Borrower who generates income solely from rental properties	
Explanation: Apply Expense Factor to the Gross Rental Income with the result washing the REO PITIA debt. The resulting rental income can be used as part of the borrower's qualifying income.	
Bank Statement Deposit Income (All from Rentals)	\$25,000
Expense/Vacancy Factor	X 20%
Rental Income LESS Expense/Vacancy Factor	= \$20,000
PITIA Associated with Rental Properties that are generating all deposits	- \$10,000
Qualifying Income after considering the Expense Factor vs the Net Rental Income	= \$10,000
Other Personal Debt (The REO PITIA from the rental properties is NOT carried again in the borrower debt ratios)	\$5,000/ \$10,000
Resulting DTI	50%

Example 2:

Borrower who generates income from rental properties in addition to self-employed income earned as an Accountant

	Explanation: Apply Expense Factor to the Gross Rental Income with the result washing the REO PITIA debt. The resulting rental income can be used as part of the borrower's qualifying income and can be added to the borrower's other self-employed earnings.	
	Bank Statement Deposit Income (All from Rentals)	\$25,000
	Expense/Vacancy Factor	X 20%
	Rental Income LESS Expense/Vacancy Factor	= \$20,000
	PITIA Associated with Rental Properties that are generating all deposits	- \$10,000
	Qualifying Income after considering the Expense Factor vs the Net Rental Income	= \$10,000
	Self Employed income earned from the borrower's Accountancy business	+ \$15,000
	Total Qualifying Income (Income from Rental Properties plus income earned from the self-employed accountancy business)	= \$25,000
	Other Personal Debt (The REO PITIA from the rental properties is NOT carried again in the borrower debt ratios)	\$5,000/ \$25,000
	Resulting DTI	20%
Documentation Type for Bank Statements	For 12- Month Bank Statement: Doc Type must reflect "12 mo Business Bank Statement" For 24- Month Bank Statement: Doc Type must reflect "24 mo Business Bank Statement"	
Tax Transcripts	Bank Statements: A signed 4506-C and IRS Tax Transcripts are <u>not</u> required.	

Asset Utilization Documentation/Calculation Requirements

Documentation Requirements	Two (2) months of account statements – all pages. All assets must be seasoned at least two (2) months prior to note date. If assets from a joint account are being used to qualify and all parties are not on the loan, all non-borrowers (including spouses) must provide a letter (signed and dated) with specific authorization for full access. Among other requirements, there must be sufficient documentation to clearly demonstrate the amount of assets that the borrower(s) has direct liquidation access to; the file contents must be clear as determined at the discretion of the Arc Home underwriter that the dollar amount of assets used for qualifying are eligible to the borrower and are not impacted by withdrawals or other rights that other account holders may be able to claim on the account.
Qualified Assets (Eligible Percentages)	The qualifying assets must be liquid. Liquid assets are defined as any asset that can be converted into cash quickly with minimal impact to the price received. The amount of liquid assets used for qualification purposes are specific to the liquidity of such amounts and are set forth below: Eligible Qualifying Assets: 100% of checking, savings, CDs, and money market accounts 70% of the remaining value of stocks & bonds, mutual funds (including those held in Retirement/Annuity/Pension accounts if over age 59 ½ and, if the plan is an employer administered plan, the borrower is separated from service)

	• 50% of retirement funds (401k, IRA, Keogh, Government Annuity and Pension Income) if younger than age 59 ½ or if borrower is over age 59 ½ but is using an employer administered plan and the borrower is not separated from service • When using employer administered retirement plan accounts for borrowers that are younger than age 59 ½ or for which the borrower is over age 59 ½ but is not separated from service from the employer, the loan file should include sufficient plan account documents to determine that the borrower has the ability to liquidate the assets that are being used for determining ability to repay. The liquidation cannot be limited to “hardship” circumstances. Note: If an applicant requests that a Defined Benefit retirement plan(s) be considered, the file must contain sufficient plan account documents to determine that the borrower has the ability to liquidate the assets that are being used for determining ability to repay. The liquidation cannot be limited to “hardship” circumstances. For Defined Benefit retirement plan assets, this requirement must be satisfied regardless of either the borrower age or whether they are separated from service. Ineligible Qualifying Assets: • 529 or similar college fund • Business assets • Cash value of life insurance • Equity in real estate including current home • Funds held in foreign accounts or investments • Gift funds • Gift of equity • Funds that have been allocated as Margined/Pledged/Collateral assets/loans • Private securities or any non-publicly traded assets • Restricted stock units, stock options, non-vested stock • Stocks and bonds not publicly traded • The following trusts ○ Blind trusts ○ Irrevocable trust ○ Land trusts ○ Life estates
Calculations Requirements	A review of the account statements must be conducted to ensure that the borrower’s asset profile has remained consistent over the two-month period prior to the note date. The Eligible Percentages should be applied to the ending balance reflected on the most recent statement. If the ending balance varies by more than 10% of the prior month, then the Lender or underwriting manager (in WHL and Non-Del) may ask for additional documentation to support the change in assets. <u>Monthly Qualifying Income</u> (Total Qualified Assets – down payment – closing costs – reserves) divided by 60.
Documentation Type	Doc Type must reflect “Asset Utilization”
Tax Transcripts	Asset Utilization: A signed 4506-C and IRS Tax Transcripts are not required.