

Arc Guideline Update Summary

This summary provides a side-by-side comparison of the recent Arc Underwriting Guide and/or program matrix revisions, which are effective as noted below. This is intended to highlight the updates only – refer to the Arc Underwriting Guide and applicable product matrices for the complete guidelines and eligibility by program for Access Non-QM, Edge Non-QM, Foreign National, and Elite QM. **Important Note:** The most recent updates supersede any changes previously announced.

**** Effective for loans REGISTERED on or after August 26, 2024 ****

Matrix Update – Access & Edge

DSCR Matrix		
** Access Non-QM & Edge Non-QM **		
Topic	Previous Guideline	New Guideline – 08/26/24
First Time Investors	First Time Investors allowed on a purchase transaction with a minimum 680 credit score down to .75 DSCR (Access) or .80 DSCR (Edge).	First Time Investors allowed on a purchase transaction with a minimum 680 credit score down to 1.0 DSCR (Access and Edge) .
Family Members as Tenants	Silent	If the tenant of the subject property is a family member of the borrower, the transaction is not allowed.
DSCR Calculation	<u>Long-Term Rental Income – Refinance</u> On refinance transactions, the higher 12-month lease agreement amount may be used with evidence of two (2) months history of timely receipt and the lease agreement amount may not be greater than 125% of the market rent from the 1007/1025.	<u>Long-Term Rental Income – Refinance</u> On refinance transactions, when the lease agreement is greater than the 1007/1025, the lower of the lease agreement or 120% of the 1007/1025 market rent may be used with three (3) months current proof of receipt of the higher rental income.
DSCR Documentation	Silent	<u>Short-Term Rental Income – Refinance</u> When qualifying a DSCR refinance transaction with short-term rental income, evidence that the property is actively listed as a short-term rental is required.

Matrix Update – Foreign National

Foreign National DSCR Matrix		
Topic	Previous Guideline	New Guideline – 08/26/24
Family Members as Tenants	Silent	If the tenant of the subject property is a family member of the borrower, the transaction is not allowed.



Foreign National DSCR Matrix

Topic	Previous Guideline	New Guideline – 08/26/24
DSCR Calculation	<p><u>Long-Term Rental Income – Refinance</u></p> <p>On refinance transactions, the higher 12-month lease agreement amount may be used with evidence of two (2) months history of timely receipt and the lease agreement amount may not be greater than 125% of the market rent from the 1007/1025.</p>	<p><u>Long-Term Rental Income – Refinance</u></p> <p>On refinance transactions, when the lease agreement is greater than the 1007/1025, the lower of the lease agreement or 120% of the 1007/1025 market rent may be used with three (3) months current proof of receipt of the higher rental income.</p>

**** Effective immediately for ALL loans ****

Guideline Updates – Access, Edge, Elite & Foreign National

Arc Underwriting Guide		
** Changes apply to Access, Edge, Elite, and Foreign National, unless guidelines indicate otherwise **		
Topic	Previous Guideline	New Guideline – 08/15/24
Purchase Transaction – Assignment of Contract	Silent	An Assignment of Purchase Contract is acceptable only if the sales price is not increased and a transfer fee is not charged.
Non-Arm’s Length Transaction	<p>Non-arm’s length transactions are permitted for purchase transactions when the following are met:</p> <ul style="list-style-type: none"> Signed and dated letter of explanation (LOE) from borrower stating relationship to seller and reason for the purchase; Appraiser to be advised of non-arm’s relationship; 12-month mortgage history from lending institution being paid off must be provided to confirm it is not a foreclosure bailout. 	<p>Non-arm’s length transactions are permitted for purchase transactions when the following are met:</p> <ul style="list-style-type: none"> Signed and dated letter of explanation (LOE) from borrower stating relationship to seller and reason for the purchase; Appraiser to be advised of non-arm’s relationship; 12-month mortgage history from lending institution being paid off must be provided to confirm it is not a foreclosure bailout. A payoff statement showing the mortgage is current and no penalties/late fees is required to confirm this transaction is not a foreclosure bailout.
Vesting in the Name of an Entity (Access, Edge)	<p><u>Eligibility Requirements</u></p> <ul style="list-style-type: none"> Business purpose and activities of the Entity are limited exclusively to ownership and management of real estate. 	<p><u>Eligibility Requirements</u></p> <ul style="list-style-type: none"> Business purpose and activities of the Entity are limited exclusively to ownership and management of real estate. The business purpose and activities of the Entity are no longer limited. <p>**Refer to Arc Underwriting Guide for complete requirements**</p>
Condominium Review	<p>On Delegated Correspondent loans, the Lender may provide a Project Eligibility Review Service (PERS) approval for eligible condominium projects, as outlined in the Fannie Mae guidelines. Refer to the Fannie Mae Project Eligibility Review Service (PERS) Overview Fact Sheet.</p>	<p>For projects that require a Project Eligibility Review Service (PERS) approval, Fannie Mae guidelines must be followed for the condo project to be considered warrantable.</p> <ul style="list-style-type: none"> On Delegated Correspondent loans, the Lender may provide a Project Eligibility Review Service (PERS) approval for eligible condominium projects, as outlined in the Fannie Mae guidelines.



Arc Underwriting Guide

**** Changes apply to Access, Edge, Elite, and Foreign National, unless guidelines indicate otherwise ****

Topic	Previous Guideline	New Guideline – 08/15/24
		<p>Refer to the Fannie Mae Project Eligibility Review Service (PERS) Overview Fact Sheet.</p> <ul style="list-style-type: none"> If a PERS approval cannot be obtained, then a Fannie Mae Full Review will be required for the non-warrantable condominium under the Access or Edge program.
Non-Warrantable Condominiums	<p><u>Single Entity Ownership</u> A single entity (same individual, investor, group, partnership, corporation, HOA rented units) can own up to 30% of the units in projects of 21 units or more and 4 units in projects of 20 units or less. (Warrantable limit: 20% for projects with 21 or more units, 2 units for 20 units or less)</p>	<p><u>Single Entity Ownership</u> A single entity (same individual, investor, group, partnership, corporation, HOA rented units) can own up to 30% of the units in projects of 21 units or more and 4 units in projects of 5-20 units. (Warrantable limit: 20% for projects with 21 or more units, 2 units for 5-20 unit projects)</p>
Ineligible Property Types	Silent	<ul style="list-style-type: none"> Padsplits Properties that are using short-term rental income to qualify, but the local code of ordinances does not allow short-term rentals. <p>**Refer to Arc Underwriting Guide for complete list**</p>
Appraisal Valuation Requirements	When two appraisals are required, if the lower appraised value returns an SSR score ≥ 3.5 OR no score is returned, an Arc Home Loan Collateral review is required.	<ul style="list-style-type: none"> When two appraisals are required, if the lower appraised value returns an SSR score ≥ 3.5 OR no score is returned, an Arc Home Loan Collateral review is required. Loan amounts $> \\$3,000,000$ require a third-party review, regardless of SSR score. <p>**Refer to Arc Underwriting Guide and Arc Home Appraisal Valuation Requirements for complete details**</p>
Credit Report Requirements (Elite)	A tri-merged in file credit report from all three repositories is required for all loans.	A tri-merged in file credit report from all three repositories is required for all loans. The credit report must include trended credit data. Trended credit data is expanded credit information reflecting historical tradeline data such as balances, scheduled payments and actual payments reported for each month over an extended period of time.
Mortgage/Rental History	Payment history may be waived if the borrower is living rent free. A “Rent-Free” letter from the owner or leaseholder of the borrower’s current residence, verifying the borrower is living rent-free, is required. Property records will be reviewed to verify that the borrower is not obligated on the Note.	Payment history may be waived if the borrower is living rent free. When the person who the borrower is living rent free with is not on the loan application , a “Rent-Free” letter from the owner or leaseholder of the borrower’s current residence, verifying the borrower is living rent-free, is required. Property records will be reviewed to verify that the borrower is not obligated on the Note.
Credit Inquiries and Undisclosed Debt Monitoring	For DSCR loans, a written explanation for credit inquiries is not required. Other than the DSCR product, a written explanation for all inquiries within 90 days of application is required, as well as any credit inquiries during the origination process.	For DSCR loans, when a mortgage inquiry is present, a written explanation for the inquiry is required. An explanation is not required for non-mortgage inquiries.



Arc Underwriting Guide

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Topic	Previous Guideline	New Guideline – 08/15/24
	In the Wholesale channel, Arc Home runs an Undisclosed Debt Monitoring (UDM) system to detect debts and inquiries opened during the origination process.	Other than the DSCR product, a written explanation for all inquiries within 90 days of application is required, as well as any credit inquiries during the origination process. An Undisclosed Debt Monitoring (UDM) system, soft pull, or credit refresh from all three (3) credit agencies is required to detect debts and inquiries opened during the origination process.
Salaried/Wage Earner Income <i>(Access, Edge)</i>	Salaried/wage earner income must be verified for the most recent two full years. <ul style="list-style-type: none"> Most recent paystub including year-to-date earnings (covering minimum of 30 days). The paystub must include sufficient information to appropriately calculate income. Otherwise, additional documentation, such as a Written Verification of Employment (WVOE), may need to be obtained. Prior two (2) years W-2s must be obtained. W-2 transcripts may be used in lieu of W-2s with a completed Written Verification of Employment (WVOE). 	Salaried/wage earner income must be verified for the most recent two full years. Income must be documented by either: <ul style="list-style-type: none"> A Written Verification of Employment (WVOE) and most recent paystub including year-to-date earnings (covering a minimum of 30 days). Sufficient information must be provided to verify the most recent two full years of income. OR Most recent paystub including year-to-date earnings (covering minimum of 30 days) and prior two (2) years W-2s. W-2 transcripts may be used in lieu of W-2s.
Verbal Verification of Employment (VVOE) – Wage Earner	Verbal Verification of Employment (VVOE) is required for all borrowers using salaried income to qualify and must be completed within 10 business days prior to the Note Date. <u>Alternative Methods to Verify Employment</u> If the employer will not verbally verify employment, the following can be obtained: <ul style="list-style-type: none"> A written verification (other than an additional paystub) confirming the borrower’s current employment status. The written documentation must include the name and title of the person who completed the verification for the employer. An email exchange with the borrower’s employer from the employer’s work email address. If the borrower is a union member who works in an occupation that results in a series of short-term job assignments and the union facilitates the borrower’s placement in each assignment, a verbal VOE from the union may be obtained. If the employer uses a third-party employment verification vendor, a written verification from the vendor of the borrower’s current employment status may be obtained. 	Verbal Verification of Employment (VVOE) is required for all borrowers using salaried income to qualify and must be completed within 10 business days prior to the Note Date. Delegated Correspondent Lenders may obtain a verbal VOE (or allowable alternative) after closing, up to the time of loan delivery to Arc Home. <u>Alternative Methods to Verify Employment</u> As an alternative to obtaining a phone number for the employer and verbally confirming the borrower’s current employment status, the following can be obtained: <ul style="list-style-type: none"> A written verification (other than an additional paystub) confirming the borrower’s current employment status. The written documentation must include the name and title of the person who completed the verification for the employer. An email exchange with the borrower’s employer from the employer’s work email address. Either a paystub or bank statement dated within 15 business days prior to the Note Date that: <ul style="list-style-type: none"> Reflects information for the most recent expected pay period based on the date it is provided and the borrower’s pay cadence, AND Does not include any information indicating the borrower may not be actively employed.



Arc Underwriting Guide

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Topic	Previous Guideline	New Guideline – 08/15/24
		<ul style="list-style-type: none"> • If the borrower is a union member who works in an occupation that results in a series of short-term job assignments and the union facilitates the borrower’s placement in each assignment, a verbal VOE from the union may be obtained. • If the employer uses a third-party verification vendor, a written verification from the vendor of the borrower’s current employment status may be obtained.
Verbal Verification of Employment (VVOE) – Self-Employed	<p>Verbal Verification of Employment (VVOE) is required for all borrowers using self-employed income to qualify and must be completed within 20 business days prior to the Note Date. Existence of the business(es) is required:</p> <ul style="list-style-type: none"> • Verify from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau; or • Verify the phone listing and address for the borrower’s business using a telephone book, the internet, or directory assistance; or • For 1099 borrowers who are paid as individuals, only the below documentation is required. <p>In addition, verification that the borrower’s business is currently operating is required:</p> <ul style="list-style-type: none"> • Evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment); • Evidence of current business receipts (payment for services performed); • Lender certification the business is open and operating (lender confirmed through a phone call or other means); or • Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled). <p>The source of the information and the name and title of the employee who obtained the information must be documented.</p>	<p>Verbal Verification of Employment (VVOE) is required for all borrowers using self-employed income to qualify and must be completed within 30 calendar days prior to the Note Date. Correspondent Lenders may obtain the verbal VOE after closing, up to the time of loan delivery to Arc Home. Existence of the business(es) is required:</p> <ul style="list-style-type: none"> • Verify from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau; or • Verify the phone listing and address for the borrower’s business using a telephone book, the internet, or directory assistance; or • For 1099 borrowers who are paid as individuals, the below documentation is required: <ul style="list-style-type: none"> ▪ Most recent paystub, statement, or similar documentation that shows the borrower’s year-to-date earnings; or ▪ Verification from the payer of the 1099 that the borrower is currently a contracted employee; or ▪ Evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment); or ▪ Evidence of current business receipts (payment for services performed). <p>The source of the information and the name and title of the employee who obtained the information must be documented.</p>



Matrix Updates – Access & Edge

Agency Plus Matrix ** Access Non-QM & Edge Non-QM **		
Topic	Previous Guideline	New Guideline – 08/15/24
Number of Financed Properties	<ul style="list-style-type: none"> A single borrower can have no more than 20 financed properties including the subject property. All properties in which the borrower is personally obligated must be included in the financed property maximum. 	<ul style="list-style-type: none"> A single borrower can have no more than 20 financed properties including the 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.

Alt Income Matrix ** Access Non-QM & Edge Non-QM **		
Topic	Previous Guideline	New Guideline – 08/15/24
Multiple Income Documentation Types	Silent	<p>Different income types may be used to qualify each borrower so long as the documentation makes sense and does not conflict with each other. Documentation type and pricing are based on the documentation type of the primary wage earner (higher income). Below are examples including but not limited to:</p> <ul style="list-style-type: none"> Full doc tax returns and bank statement income for two borrowers filing separately; or A single borrower has two income streams, such as self-employment and alimony; or 1099 income and supplemental asset utilization.
Number of Financed Properties	<ul style="list-style-type: none"> A single borrower can have no more than 20 financed properties including the subject property. All properties in which the borrower is personally obligated must be included in the financed property maximum. 	<ul style="list-style-type: none"> A single borrower can have no more than 20 financed properties including the 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.
Business Bank Account Qualification	<ul style="list-style-type: none"> Each borrower must own at least 25% of the business. All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower’s access to the account for income-related purposes. 	<ul style="list-style-type: none"> Each borrower must own at least 25% of the business OR the combination of borrowers owns 100% of the same business. All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower’s access to the account for income-related purposes. An access letter is no longer required.



Clean Slate Matrix

** Access Non-QM **

Topic	Previous Guideline	New Guideline – 08/15/24
Multiple Income Documentation Types	Silent	Different income types may be used to qualify each borrower so long as the documentation makes sense and does not conflict with each other. Documentation type and pricing are based on the documentation type of the primary wage earner (higher income). Below are examples including but not limited to: <ul style="list-style-type: none"> • Full doc tax returns and bank statement income for two borrowers filing separately; or • A single borrower has two income streams, such as self-employment and alimony; or • 1099 income and supplemental asset utilization.
Number of Financed Properties	<ul style="list-style-type: none"> • A single borrower can have no more than 20 financed properties including the subject property. All properties in which the borrower is personally obligated must be included in the financed property maximum. 	<ul style="list-style-type: none"> • A single borrower can have no more than 20 financed properties including the 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.
Business Bank Account Qualification	<ul style="list-style-type: none"> • Each borrower must own at least 25% of the business. • All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to the account for income-related purposes. 	<ul style="list-style-type: none"> • Each borrower must own at least 25% of the business OR the combination of borrowers owns 100% of the same business. • All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to the account for income-related purposes. An access letter is no longer required.

DSCR Matrix

** Access Non-QM & Edge Non-QM **

Topic	Previous Guideline	New Guideline – 08/15/24
Borrower Eligibility	Non-first-time investors who rent a primary residence must provide evidence of an active lease. The primary residence must meet one of the following: <ul style="list-style-type: none"> • Geographically consistent with the borrower's place of employment • General appeal and location is superior to subject property • If the primary residence does not meet one of the above reasons, then additional review by underwriting management is required. 	Non-first-time investors who rent a primary residence must provide evidence of an active lease. The general appeal and location of the primary residence must be superior to the subject property. If the primary residence is not superior to the subject property, then additional review by underwriting management is required.
Number of Financed Properties	A single borrower can have no more than 20 financed properties including the subject property. All properties in which the borrower is personally obligated must be included in the financed property maximum.	A single borrower can have no more than 20 financed properties including the 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



DSCR Matrix

** Access Non-QM & Edge Non-QM **

Topic	Previous Guideline	New Guideline – 08/15/24
		and not on the borrower’s credit report are not included in the max financed property limit.

Matrix Updates – Elite

Elite QM – Alt Income Matrix

** Asset Utilization **

Topic	Previous Guideline	New Guideline – 08/15/24
Number of Financed Properties	<ul style="list-style-type: none"> A single borrower can have no more than 10 financed properties including the subject property. All properties in which the borrower is personally obligated must be included in the financed property maximum. 	<ul style="list-style-type: none"> A single borrower can have no more than 10 financed properties including the 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.

Elite QM – Alt Income Matrix

** Bank Statements, 1-Year Full Doc, 1099s **

Topic	Previous Guideline	New Guideline – 08/15/24
Multiple Income Documentation Types	Silent	<p>Different income types may be used to qualify each borrower so long as the documentation makes sense and does not conflict with each other. Documentation type and pricing are based on the documentation type of the primary wage earner (higher income). Below are examples including but not limited to:</p> <ul style="list-style-type: none"> Full doc tax returns and bank statement income for two borrowers filing separately; or A single borrower has two income streams, such as self-employment and alimony; or 1099 income and supplemental asset utilization.
Number of Financed Properties	<ul style="list-style-type: none"> A single borrower can have no more than 10 financed properties including the subject property. All properties in which the borrower is personally obligated must be included in the financed property maximum. 	<ul style="list-style-type: none"> A single borrower can have no more than 10 financed properties including the 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.



Elite QM – Alt Income Matrix

** Bank Statements, 1-Year Full Doc, 1099s **

Topic	Previous Guideline	New Guideline – 08/15/24
Business Bank Account Qualification	<ul style="list-style-type: none"> Each borrower must own at least 25% of the business. All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower’s access to the account for income-related purposes. 	<ul style="list-style-type: none"> Each borrower must own at least 25% of the business OR the combination of borrowers owns 100% of the same business. All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower’s access to the account for income-related purposes.An access letter is no longer required.

Elite QM – Jumbo Prime Matrix

Topic	Previous Guideline	New Guideline – 08/15/24
Number of Financed Properties	<ul style="list-style-type: none"> A single borrower can have no more than 10 financed properties including the subject property. All properties in which the borrower is personally obligated must be included in the financed property maximum. 	<ul style="list-style-type: none"> A single borrower can have no more than 10 financed properties including the 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.

