



# **Arc Home Jumbo Express Underwriting Manual**

**June 26, 2023**

**(Effective for locks taken out on or after June 26, 2023)**

All information contained herein is proprietary and shall be kept confidential

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## 1.0 Fair Lending Statement

Federal law prohibits discrimination in connection with the origination of 1-4 family mortgage loans. The Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, because an applicant receives income from a public assistance program, or because an applicant has in good faith exercised any right under the Consumer Credit Protection Act. Also, the Fair Housing Act prohibits discrimination in the sale, rental, and financing of dwellings, and in other housing-related transactions, based on race, color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women, and people securing custody of children under the age of 18), and disability. It is the responsibility of all parties to ensure that they adhere to these laws and their underlying principles in connection with mortgage loans purchased and sold to Arc Home.

## 2.0 Underwriting Philosophy

All loans must be prudently underwritten utilizing the Jumbo Express program guidelines and industry standard best practices. DU Approve/Eligible, LPA Accept or DU Approve/Ineligible, LPA Accept/Ineligible for loan amount or maximum LTV on cash-out refinances only is required. All data points on the AUS should represent the loan attributes with the exception of the guideline overlays contained in this guideline. PIW waiver, Value Acceptance, Value Acceptance + Property Data Report, Hybrid Appraisal and Desktop Appraisal based on AUS recommendation is not allowed. Refer to [Appendix A](#) for a summary of overlays.

Seller must ensure that each loan delivered to Arc Home is in compliance with the Ability to Repay (ATR) and the Qualified Mortgage (QM) rules established by the Consumer Financial Protection Bureau ("CFPB") as well as all regulatory compliance regulations as outlined in [Section 4.0](#).

All loans submitted to Arc Home for purchase and sale must conform to the Underwriting Guidelines.

For scenarios not specifically addressed in the following Underwriting Guidelines, please contact your sales representative, transaction manager or underwriting.

## 3.0 Products

This product description describes product guidelines and requirements for the following loan programs:

- Fully Amortizing Fixed Rate 15 and 30-year terms.
- No Mortgage Insurance allowed.

## 4.0 Regulatory Compliance

Seller must ensure that each loan delivered to Arc Home has been originated, closed, serviced and transferred in compliance with all applicable federal, state and local laws and regulations including without limitation the Ability to Repay (ATR) and the Qualified Mortgage (QM) rules effective 3/1/21, the TILA-RESPA Integrated Disclosure (TRID) rule effective 10/3/15 and the laws and regulations listed below. All loans must be designated Safe Harbor QM (APR/APOR) and Verification Safe Harbor QM as defined by § 1026.43.

- Regulation X – RESPA
- Regulation Z – Truth in Lending
- Regulation G – SAFE Act – Federal Licensing and Registration
- Regulation H- SAFE Act - State Licensing and Regulation
- Regulation V – Fair Credit Reporting
- Regulation B – Equal Credit Opportunity
- Regulation P – Privacy of Consumer Financial Information (GLB)
- USA Patriot Act
- Fair Housing Act
- Dodd-Frank Act

- Federal high-cost loan regulations.
- State, local and county high cost and usury regulations.
- National Flood Insurance Act.

All applicable closing documentation and disclosures pertaining to the above regulations should be included in the closed file submission.

## **5.0 Borrower Eligibility**

Borrowers must have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located. There is no maximum age limit for a borrower. All borrowers must have a valid social security number.

### **5.1 Eligible Borrowers**

- U.S. Citizens
- Permanent resident aliens
  - Copy of valid resident alien card must be included in loan file.
- Non-permanent resident aliens
  - Must be legally present in the U.S with an acceptable visa type. Acceptable visa types are as follows:
    - E Series (E-1, E-2, E-3)
    - G Series (G-1, G-2, G-3, G-4, G-5)
    - H Series (H-1B, H-1C)
    - L Series (L-1, L-1A, L-1B, Spouse L-2 with EAD)
    - NATO Series (NATO 1 – 6)
    - O Series (O-1)
    - TN-1, Canadian NAFTA visa
    - TN-2 Mexican NAFTA visa

See USCIS.gov for more information.

- Must have a history of visa renewals and a minimum of two (2) year employment history in the U.S and qualifying income must be from the U.S.

- o Must be able to verify that current employment has a probability of three (3) year continuance. VOE form may be used to document.
  - o Funds to close must be deposited in a U.S. financial institution. No funds to close from outside the U.S are allowed.
- Inter-Vivos Revocable Trusts
  - o Trust must be established by one or more natural persons, individually or jointly.
  - o The individual(s) establishing the trust must be the primary beneficiary/beneficiaries.
  - o 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.
  - o At least one of the trustees must be either the individual establishing the trust, or an institutional trustee that customarily performs the duties of a trustee and is duly authorized to act as a trustee under applicable state law.
  - o The mortgage and trust documents must meet agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to inter-vivos revocable trusts.
  - o The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note.
- Illinois Land Trusts
  - o Not eligible.
- First time homebuyers

A first-time homebuyer is defined as a borrower who has not had ownership interest in a property within the last three (3) years from the application date. Arc Home does not allow the use of verification of asset reports to identify recurring rent payments to potentially enhance the AUS credit assessment.

- o Owner-occupied only.
- o Maximum 80% LTV/CLTV.
- o Maximum loan amount \$2,000,000.

- Maximum of four (4) borrowers per loan.

## **5.2 Ineligible Borrowers**

- Borrowers with only an ITIN (individual taxpayer identification number).
- Irrevocable trusts.
- Corporations, limited partnerships, general partnerships, and limited liability companies.
- Borrowers who are party to a lawsuit.
- Borrowers with Diplomatic Immunity.
- Foreign Nationals.

## **5.3 Multiple Financed Properties**

- Follow the DU or LPA requirements.

## **5.4 Ownership**

- Ownership must be fee simple only and must be in the name of the individual Borrower(s) or Trust. Borrower(s) may hold title as follows:
  - o Individual
  - o Joint Tenants

## **6.0 Occupancy**

### **6.1 Primary Residence**

A primary residence is the property the borrower occupies as his or her principal residence. At least one of the borrowers must occupy, be on title to the property and execute the Note and the security instrument. A borrower may not maintain more than one primary residence at any given time.

- 1-4 units detached, attached, PUD, and eligible condominiums.

### **6.2 Second Home**



The property must be occupied by the borrower from time-to-time and is suitable for year-round use. Typically, the property is located in either a resort or vacation area or for convenience in a city where the borrower works when the primary residence is in a distant suburb.

- 1 unit detached, attached, PUD, and eligible condominiums.
- Property may not be a time share or subject to a rental agreement.
- The property must be a reasonable distance from the borrower's primary residence.
- Rental income and expenses on Schedule E of the borrower's personal tax return(s) must not exceed 30 rental days.
- Rental income from a second home cannot be used to qualify the borrower.

### **6.3 Investment Property (Non-owner occupied)**

An investment property is owned by the borrower but is not occupied by the borrower.

- 1-4 unit detached, attached, PUD, and eligible condominiums.

For cash-out refinance transactions of an investment property, a borrower signed [Business Purpose & Occupancy Affidavit](#) indicating the loan purpose is for the acquisition, improvement or maintenance of a rental property is required. Affidavit must be signed prior to or at closing. See Appendix B for form of Affidavit.

Cash out loan proceeds used for any personal use are not eligible as a Business Purpose loan and will be subject to TILA compliance.

## **7.0 Eligible Transaction Types**

### **7.1 Purchases**

- Must adhere to Agency guidelines.
- LTV/CLTV is calculated using the lesser of the purchase price or the appraised value of the subject property.
- If Seller has taken title to the property within ninety (90) days prior to the

date of sales contract the following requirements apply:

- o Property seller on the purchase contract is the owner of record
  - o LTV/CLTV will be based on the lesser of the prior sales price or the current appraised value
- Loans that are bank or relocation sales are exempt from the above requirements.
- Personal property may not be included in the purchase agreement/sales contract. Personal property items should be deleted from the sales contract or reasonable value must be documented and the sales price adjusted. Items that are customary to residential real estate transactions such as lighting fixtures, kitchen appliances, window treatments and ceiling fans are not considered personal property for purposes of this section 7.1.

## **7.2 Rate and Term Refinance**

- Minimum of 6 months seasoning from the note date of the new transaction required if previous refinance was cash-out, including the pay-off of a non-seasoned subordinate lien.
- For properties purchased more than six (6) months prior to the closing date the current appraised value may be used to calculate LTV.
- For properties purchased within six (6) months of closing date the LTV will be based upon the lesser of the original sales price or the current appraised value conclusion from the appraiser. Original sales price will be determined from the Closing Disclosure from the subject acquisition transaction.
- Inherited properties are exempt from this seasoning requirement. LTV will be calculated off current appraised value.
- The mortgage amount may include the:
  - o Principal balance of the existing first lien.
  - o Payoff of a purchase second lien.
  - o Payoff of a co-owner pursuant to a written agreement.
  - o Financing of the payment of prepaid items and closing costs.
  - o Payoff of a non-purchase second lien seasoned a minimum of 12 months from date of application. The second lien must not

evidence draws exceeding \$2,000 within the past 12 months from date of application. Withdrawal activity must be documented with a transaction history of the line of credit.

- Cash back to the borrower is limited to the lesser of \$2,000 or 1% of the new loan.
- Principal reduction is permitted up to a maximum of \$2,000 or 2% of the new loan.
- Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing.

### **7.3 Cash-Out Refinance**

- Borrower must have held title for a minimum of 6 months from disbursement date.
- If an existing first mortgage is being paid off through the transaction, it must be at least 12 months old at the time of refinance, as measured by the note date of the existing loan to the note date of the new loan. The requirements do not apply to any existing subordinate liens paid off through the transaction or when buying out a co-owner pursuant to a legal agreement.
- Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing.
- Texas 50(a)6 loans are ineligible.
- Cash-out is limited to the maximum amount stated on the Product Matrix. Cash-out includes the payoff of a non-purchase second lien that does not meet the requirements in the Rate and Term Refinance section above.

### **7.4 Continuity of Obligation**

For a refinance transaction to be eligible for purchase there must be a continuity of obligation of the outstanding lien that will be paid through the refinance transaction.

Continuity of obligation is met when any one of the following exists:

- At least one borrower is obligated on the new loan who was also a borrower obligated on the existing loan being refinanced.

- The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
- The loan being refinanced and the title to the property are in the name of a natural person or a limited liability company (LLC) as long as the borrower owns at least 25% of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.
- The borrower has recently been legally awarded, the property (divorce, separation or dissolution of a domestic partnership).

Loans with an acceptable continuity of obligation may be underwritten, priced and delivered as either cash-out or limited cash-out refinance transactions based on the requirements for each type of transaction.

## **7.5 Delayed Financing Refinance**

Delayed financing refinances in which the borrowers purchased the subject property for cash within ninety days (90) from the date of the application are eligible for purchase. Cash back to the borrower in excess of the original purchase price or appraised value (whichever is less) is not allowed. If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds were used to pay off or pay down the loan used to purchase the property. Funds received as gifts and used to purchase the property may not be reimbursed with the proceeds of the new loan. Delayed financing refinances are underwritten as rate and term refinances and are not subject to cash-out refinancing program limitations. Property may not be located in Texas. Arc Home will permit a maximum of three (3) delayed financing loans per Borrower.

A Closing Disclosure is required to document no mortgage financing was used to obtain the subject property.

## **7.6 Contract for Deed/Land Contract**

Contract for Deed/Land Contracts are ineligible.

## **7.7 Construction Loan Refinancing**

Construction loan refinances are eligible as rate and term or cash-out refinances and must meet the following criteria:

- Only the permanent financing on a construction to perm loan is eligible. Single closing construction permanent loan refinances are ineligible.
- Borrower must have held title to the lot for a minimum of 6 months prior to the closing of the permanent loan.
- The LTV will be based on the current appraised value if the borrower has held title to the lot for 12 or more months prior to the closing date of the permanent loan.
- If the lot was acquired less than 12 months before the closing date of the permanent loan the LTV will be based on the lesser of a) the original purchase price of the lot plus the total acquisition costs (sum of construction costs) or b) the current appraised value of the lot plus the total acquisition costs.
- Appraiser's final inspection is required.
- A certificate of occupancy is required from the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy proof must be provided.
- Construction loan refinances in which the borrower has acted as builder are not eligible for purchase.

## **7.8 Non-Arm's Length Transactions**

All of the parties to a transaction should be independent of one another. Except as indicated below if a direct relationship exists between or among the parties, the transaction is a non-arm's length transaction and the related loan is not eligible for purchase. The following transactions are eligible provided that such transactions and the related circumstances are properly documented:

- Sales or transfers between members of the same family. Transaction may not be due to any adverse circumstances.
- Property seller acting as his or her own real estate agent.
- Borrower acting as his or her own real estate agent.

- Borrower is the employee of the originating lender.
- Borrower purchasing from his or her current landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord).
- Investment property transactions must be arm's length.

## **7.9 Loan Seasoning**

- To be eligible for purchase, the period between the closing date and the lock date cannot exceed 90 days.

## **8.0 Credit Documentation Requirements**

For scenarios not specifically addressed in the AUS findings or chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020 below please contact your sales representative, transaction manager or underwriting.

### **8.1 Credit Documents Age**

- Follow the DU and the requirements in chapters [B3-3 through B3-6](#) of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections [5102 through 5500](#) of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.

### **8.2 Credit Score**

- The representative credit score for qualification purposes for an individual borrower is the middle score of the three (3) scores reported. If two (2) scores are reported the representative credit score is the lower of the two scores. Credit scores from all three repositories must be requested (Equifax, Experian and TransUnion).
- For multiple borrowers the credit score is the lowest of all representative credit scores.

- If only one credit score or no credit score is reported borrower is not eligible. A minimum of two credit scores is required.
- No borrower in a transaction may have frozen credit. If a borrower has frozen credit and unfreezes their credit after the original credit report was ordered, a new credit report must be obtained to reflect current updated information for evaluation.
- Credit rescoring is not permitted unless the rescore is correcting erroneous line items or disputed accounts.

See loan product matrix for minimum credit score requirements.

### 8.3 Minimum Credit Requirements

- Follow the DU and the requirements in chapters [B3-3 through B3-6](#) of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections [5102 through 5500](#) of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.

### 8.4 Mortgage/Rental History

- A minimum of twenty-four (24) months verified housing history is required with a 0 x 30 payment history.
- For rental verification, a standard VOR completed by a professional management company, or 24 months bank statements/ cancelled checks **and a lease agreement to document the term and payment** are required.
- Borrowers with no mortgage/rental history due to a residence scenario requiring no mortgage or rental payments are eligible with a satisfactory letter of explanation.
- If housing history reflects a forbearance arrangement, the payment history must reflect 0 x 30 lates in the most recent 24 months since exiting forbearance. The payment history must be provided by the lender/servicer of the loan.

### 8.5 Credit Inquiries

- All inquiries that have taken place within 120 days of the credit report date must be explained by the borrower and documented accordingly.

- Borrower must be qualified with any new debt.

## 8.6 Liens, Judgments and Collections

- Satisfactory explanation for any delinquent credit from the borrower is required.
- Borrower must pay off all delinquent credit that has the potential to impact lienposition.
- Collection accounts or charged-off accounts do not need to be paid off if the balance of an individual account is less than \$1000.00 or if there are multiple accounts the total balance of all accounts cannot exceed \$2,500.00.

## 8.7 Foreclosure, Deed-In-Lieu of Foreclosure, Bankruptcy, Short Sales and Modifications

- At least seven (7) years must have elapsed since bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale, deed-in-lieu or modification measured from the date of completion to the date of application.

## 9.0 Employment and Income

Follow the DU and the requirements in chapters [B3-3 through B3-6](#) of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections [5102 through 5500](#) of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed. The loan file should include an Income Analysis form detailing income calculations.

For information regarding employment and income requirements not addressed below please contact your Sales Representative or Scenario Desk.

### 9.1 Employment and Income Stability

Borrower(s) must have a minimum of two (2) years employment and income history on the 1003.



## 9.2 Income Documentation Requirements

### Salaried Borrowers:

- Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.
- Follow the DU and the requirements in chapters [B3-3 through B3-6](#) of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections [5102 through 5500](#) of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide, the guide requirements must be followed.
- Signed IRS Form 4506C.

### Salaried Borrowers with Commission/Bonus:

- Commission income must be documented with a written VOE breaking down the bonus or commission income for the past 2 years or a year-to-date paystub and W-2's supporting the income. **Commission/Bonus income with less than a 2-year history may not be used for qualification.**

### Verbal VOE:

- Verbal VOE of current employment documented in writing is required to be obtained no more than ten (10) business days prior to the Note Date. If the employer uses a third-party employment verification vendor, the verification must be obtained within the same time frame as the verbal VOE requirements above and the verification must evidence the information in the vendor's database was no more than 35 days old as of the Note Date.

### Tax Transcripts:

- Tax transcripts are required to be obtained from the IRS only for income for years being used for qualification. Wage transcripts are acceptable for W-2 borrowers. Borrower pulled transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided by the lender must be consistent.

### Self-Employed Borrowers:

- Borrowers with a 25 percent or greater ownership interest in a business are

considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes.

- Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.
- Follow the DU and the requirements in chapters [B3-3 through B3-6](#) of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections [5102 through 5500](#) of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.
- If the tax return for the previous tax year is not filed a 12-month P&L and balance sheet for this period is required.
- If the most recent year's tax returns have not been filed by the IRS deadline, an executed copy of the borrower's extension request for both personal and business tax returns must be provided.
- Signed IRS Form 4506C.

### **Additional Requirements for P&L, Balance Sheet, and Business Bank Statements for Self-Employment Income used to qualify:**

Lenders should apply due diligence and review the actions of the business and any impact the current economic environment has taken on the flow of income in order to determine if the borrower's income is stable and there is a reasonable expectation of continuance.

The underwriter must include comments/justification of their analysis to clearly explain their conclusion of the effect to the business. Due to the pandemic's continuing impact on businesses, lenders are now required to obtain the following documentation to support the decision that the self-employment income meets requirements:

- (1) An audited year-to-date P&L, no older than 60 days from the Note date, reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and (2) a Balance Sheet;  
**OR**
- (1) An unaudited year-to-date P&L, no older than 60 days from the Note date, signed by the borrower reporting business revenue, expenses, and net income

up to and including the most recent month preceding the loan application date, and (2) business bank statements from the most recent **three** months represented on the year-to-date P&L and (3) a Balance Sheet.

- o For example, the business bank statements should be from March through May 2021 for a year-to-date profit and loss statement dated through May 31, 2021.
- o The **three** most recent bank statements must support and/or not conflict with the information presented in the current year-to-date P&L statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from the current year-to-date P&L statement.

### **Small Business Administration (SBA) Loans and Grants Requirements:**

The existence of a Paycheck Protection Program (PPP) loan or any other similar COVID related loan or grant could be helpful information in analyzing the borrower's business.

PPP loan terms allow deferred payments for a specified period, no personal loan guarantee, and the potential for all or some portion of the loan to be forgiven. Therefore, a payment for the PPP loan does not need to be included in the borrower's liabilities at this time. Once it has been determined that any portion of the PPP loan must be repaid, follow the requirements of the "Employment and Income" and "Debts and Liabilities" sections of these guidelines.

Proceeds from the PPP loan must not be included as business income or assets.

PPP loan proceeds cannot be used for the subject transaction down payment, closing costs, prepaids or reserves.

Follow all requirements in this section for underwriting self-employed borrowers.

### **Verification of Active Business:**

- The lender must verify the existence of the Borrower's business in writing no more than ten (10) business days prior to the Note Date. Methods of verifying the business include verification from a third party such as a CPA, regulatory agency or by an applicable licensing bureau. Internet listings are not an acceptable source of verification.

### **Tax Transcripts:**

- Tax transcripts are required to be obtained from the IRS only for income for years being used for qualification. Borrower pulled transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided by the lender must be consistent.

## **9.3 Other Income**

For all other acceptable income sources;

- Follow the DU and the requirements in chapters [B3-3 through B3-6](#) of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections [5102 through 5500](#) of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide the guide requirements must be followed.

## **9.4 Unacceptable Income**

Unacceptable income sources include the following:

- Any source that cannot be verified.
- Restricted stock income (RSU).
- Income that is temporary.
- Rental Income (Boarder Income) received from the borrower's primary residence.
- Expense account payments.
- Retained earnings.
- Automobile allowances.
- Virtual currency

## **10.0 Debts and Liabilities**

For information regarding the treatment of debts and liabilities not addressed below please contact your sales representative, transaction manager or underwriting.

## 10.1 Debt-to-Income Ratio

The Debt-to-Income (DTI) ratio is based on the total of existing monthly liabilities and any planned future monthly liabilities divided by gross monthly income. Liabilities include but are not limited to all housing expenses, revolving debts, installment debts, other mortgages, rent, alimony, child support, and other consistent and recurring expenses. The seller must ensure that all liabilities are included in qualifying. Refer to the Product Matrix for the maximum allowable DTI.

## 10.2 Installment Debt

- Follow the DU and the requirements in chapters [B3-3 through B3-6](#) of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections [5102 through 5500](#) of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide the guide requirements must be followed.

## 10.3 Revolving Debt

- Follow the DU and the requirements in chapters [B3-3 through B3-6](#) of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections [5102 through 5500](#) of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide the guide requirements must be followed.

## 10.4 Home Equity Line of Credit (HELOC)

- For HELOC loans paid off at closing, the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document.
- Subordination of HELOC loans is permitted up to maximum CLTV per matrix. The CLTV should be calculated using the full amount of any HELOCs (whether or not funds have been drawn).

## 10.5 Pending Sale of Departing Residence or Conversion of Departing Residence to Investment Property

- Follow the DU and the requirements in chapters [B3-3 through B3-6](#) of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections [5102 through 5500](#) of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide the guide requirements must be followed.

## 11.0 Assets and Source of Funds

For information regarding assets and source of funds not addressed below please contact your sales representative, transaction manager or underwriting.

### 11.1 Source of Funds

- Follow the DU and the requirements in chapters [B3-3 through B3-6](#) of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections [5102 through 5500](#) of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide the guide requirements must be followed.
- Gifts of equity are not allowed.

### 11.2 Cash Reserves

Follow the greater of the AUS reserve requirements or below requirements:

- If AUS does not provide minimum reserve requirements follow below requirements;
- For LTV/CLTV  $\leq$  80%:
  - If loan amount  $\leq$  \$1,000,000 - follow the AUS requirements.
  - If loan amount  $>$  \$1,000,000  $\leq$  \$2,000,000 - 3 months PITI reserves.
  - If loan amount  $>$  \$2,000,000  $\leq$  \$2,500,000 - 12 months PITI reserves.
  - If loan amount  $>$  \$2,500,000  $\leq$  \$3,000,000 - 18 months PITI reserves.
- For Cash-out Refinances transactions:
  - If loan amount  $>$  \$2,000,000  $\leq$  \$2,500,000 - 18 months PITI reserves

- If LTV/CLTV >80% - 6 months PITI reserves.

Reserves must be verified and comprised of liquid assets that borrower can readily access. Equity lines of credit, gift funds, business assets and cash out from the subject property on a refinance transaction are not acceptable sources to meet the reserve requirement.

## **12.0 Property**

### **12.1 Eligible Property Types**

- 1-4 unit attached/detached owner-occupied and non-owner-occupied properties.
- 1-unit second homes.
- Low/mid/high-rise new and established agency warrantable condominiums. Condominiums with HOA in litigation are ineligible.
- Minimum square footage 400.
- Planned Unit Development (PUD).
- Maximum lot size 20 acres. Properties with greater than 10 acres must have three comparables with similar acreage.

### **12.2 Ineligible Property Types**

- Manufactured Homes
- Co-ops
- Factory built housing
- Geodesic/Dome homes.
- Properties held as leasehold
- Condo hotel units
- Log homes
- Unwarrantable condominiums

- Timeshare units
- Unique properties
- Mixed use properties
- Commercially zoned properties.
- Agriculturally zoned properties (agricultural/residential eligible)
- Rural zoned properties
- Properties with an oil and gas lease
- Properties with more than 20 acres
- Working farms
- Properties located in Puerto Rico, Guam, and US Virgin Islands.
- Properties in C5 or C6 condition

### **12.3 Declining Markets**

- Reduce maximum LTV/CLTV by 10% for any property located in an area of declining property values as reported by appraiser.

### **12.4 Land-to-Value**

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. As amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.

### **12.5 Appraisal Requirements**

- All appraisals must be completed on the most current Agency appraisal forms as



stipulated in the Seller's Guide and conform to Agency appraisal practices.

- Property Inspection Waiver (PIW)/Value Acceptance, Value Acceptance + Property Data Report and Hybrid Appraisals are not allowed.
- Properties must be appraised within the twelve months that precede the date of the Note and Mortgage.
- Two (2) full appraisals are required for loan amounts > \$2,000,000. LTV/CLTV will be based on the lower of the two values. All inconsistencies between the two appraisals must be addressed and reconciled.
- Appraisals transferred or assigned from another lender are not acceptable.
- Appraisals must not be over 120 days old from the date of the Note. If appraisal is over 120 days old a recertification of value needs to be performed.

## 12.6 Third Party Appraisal Review

- A CDA is required for all loans. For loans in which two appraisals are required, the CDA will be pulled on the appraisal with the lower of the two values.
- A copy of the appraisal desk review report should be submitted in the loan file. The review must not be over 120 days old from the date of the Note.
- If the CDA from Clear Capital returns a value < 90% of the appraised value, a Field Review or additional appraisal (supporting value) may be required to confirm the subject property value.
- If the field review or additional appraisal also produces a value < 90% of the appraised value, then the loan will be ineligible for purchase.
- All appraisals are reviewed for eligibility as well as value support. However, the use of an appraisal review product does not relieve the seller of its representations and warranties relating to the property and the appraisal including the underwriting thereof.
- For Correspondent loans, the Correspondent is responsible for ordering and paying for the CDA or Field Review/additional appraisal, as applicable, per the details noted above.

## 12.7 Properties Located in a Disaster Area

The following is required for properties located in a FEMA declared disaster zone

to be eligible for purchase:

- If the property is in a zone where a Disaster End Date has been declared by FEMA, Arc Home will order a post disaster inspection prior to closing/funding to confirm the property value has not been impacted by the disaster.

For scenarios not addressed in this section please contact your Sales Representative or Scenario Desk.

## **13.0 Additional Loan Attributes and Policies**

### **13.1 Subordinate Financing**

- Allowed up to maximum CLTV per matrix. Secondary financing terms must conform to Agency guidelines.
- The CLTV should be calculated using the unpaid principal balance on all closed-end subordinate financing and the full amount of any HELOCs (whether or not funds have been drawn).

### **13.2 Chain of Title**

- All transactions require a minimum twelve (12) month chain of title.

### **13.3 Balloon Mortgage**

- Balloon mortgages are not eligible for purchase.

### **13.4 Recasting/Re-amortizing**

- Recasting or re-amortized transactions are not eligible for purchase.

### **13.5 Temporary Buydown**

- Temporary buydown mortgage loans are not eligible for purchase.

### **13.6 Prepayment Penalty**

- Mortgage loans with prepayment penalties are not eligible for purchase.

### 13.7 Interested Party Contributions

Interested party contributions include funds contributed by the property seller, builder, developer, real estate agent or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses.

- LTV between 75.01% - 89.99% max 6% contribution allowed.
- LTV  $\leq$  75% max 9% contribution allowed.
- Non-owner-occupied properties max 2% contribution allowed.

### 13.8 Seller Concessions/Contribution

- Seller contributions in excess of the interested party contribution limits or contributions not being used for prepaid expenses or closing costs are considered seller concessions. The amount of the seller concession must be deducted from the purchase price and appraised value to determine the LTV.

### 13.9 HERO/PACE/Solar Panels

- Any item that will include a UCC associated with the property and/or will create a lien on title is ineligible.
- Payoff of a HERO lien is considered cash-out.

### 13.10 Hazard Insurance

- Properties where the insurance coverage on the declaration page does not cover the loan amount must have a cost estimate from the insurance company or agent evidencing the property is insured for its replacement cost.
- Hazard insurance must have the same inception date as the date of disbursement on purchase money mortgages. This may be documented with a post-closing Closing Disclosure or the correction of the inception date on the hazard policy.

### 13.11 Escrows

- Escrow accounts may be created for funds collected by the originator to pay taxes, hazard insurance, flood insurance, special assessments, water, sewer, and other items as applicable.

- All applicable loans must adhere to HFIAA regarding flood insurance escrow requirements for properties located in an Special Flood Hazard Area.
- Escrow holdbacks are not allowed.

## **14.0 Title and Closing Documentation**

### **14.1 Forms**

- All Notes, security instruments, riders, addenda and special purpose documents used in connection with fully amortizing one to two family conventional first mortgages delivered to the Exchange must be prepared on approved Agency forms unless this guide specifically requires otherwise. See most recent Fannie Mae and Freddie Mac Selling Guides for reference.
- Copy of security instrument submitted in the file must be a true and certified stamped copy of the original recorded security instrument.

### **14.2 Title**

Title insurance must meet Agency requirements and be written on the 2006 American Land Title ALTA form providing gap coverage or the ALTA short form. Other state forms may be used in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not been adopted. If alternative forms are used, the lender must ensure that those amendments provide the same coverage.

- The title policy should include all applicable endorsements issued by a title insurer qualified to do business in the jurisdiction in which the mortgage insured property is located, including the endorsements for Condominiums, PUDs, and ARM loan types.
- The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form).
- The title insurance policy must ensure the mortgagee and its successors and assigns as to the first priority lien of the loan amount at least equal to the outstanding principal balance of the loan.
- A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related Mortgage during the period between the date of the funding of the related Mortgage Loan and the date

of the related title policy (which title policy shall be dated the date of recording of the related Mortgage) is insured.

- Any existing tax or mechanic's liens must be paid in full through escrow.

## Appendix A - Summary of Program Overlays to AUS and Fannie Mae/Freddie Mac Guides

Please reference guidelines for complete requirements.

- Section 3.2, 8.2, and 11.2 – (Eligibility)
  - Minimum credit score, maximum DTI (45%), maximum cash-out and reserves as per program matrix.
  - A minimum of two credit scores is required for each borrower.
  - Credit rescues are not permitted unless the rescore is correcting erroneous line items or disputed accounts
- Section 5.1 (First Time Homebuyer)
  - Arc Home does not allow the use of verification of asset reports to identify recurring rent payments to potentially enhance the AUS credit assessment
  - Owner-occupied property only.
  - Maximum 80% LTV/CLTV.
  - Maximum loan amount - \$2,000,000
- Section 5.2 (Ineligible Borrowers)
  - Refer to section for overlays.
- Section 6.3 (Business Purpose and Occupancy Affidavit)
  - For cash-out refinances of a NOO properties a borrower signed Business Purpose & Occupancy Affidavit indicating the loan purpose is for the acquisition, improvement or maintenance of a rental property is required. Loans delivered without the affidavit will be subject to TILA compliance.
- Section 7.3 (Cash-Out Refinance) –
  - Texas 50(a)6 loans are ineligible.
  - Cash-out is limited to the maximum amount stated on the Product Matrix
- Section 7.4 (Continuity of Obligation) - For a refinance transaction to be eligible for purchase there must be a continuity of obligation of the outstanding lien that will be paidthrough the refinance transaction. See section for full requirements.
- Section 7.5 – (Delayed Financing) - Delayed financing refinances in which the borrowers purchased the subject property for cash must be within 90 days of application date. A Closing Disclosure is required to document no mortgage financing was used to obtain the subject property.
- Section 7.6 – (Contract for Deed/Land Contract) – Contract for Deed/Land Contracts are ineligible.

- Section 7.8 (Non-Arm's Length Transaction) - If a direct relationship exists between or among the parties, the transaction is a non-arm's length transaction and the related loan is not eligible for purchase. See section for full requirements.
- Section 8.4 (Mortgage/Rental History)
  - A minimum of twenty-four (24) months verified housing history is required; 0 x 30 lates.
  - If housing history reflects a forbearance arrangement, the payment history must reflect 0 x 30 lates in the most recent 24 months since exiting forbearance. The payment history must be provided by the lender/servicer.
  - For rental verification, a standard VOR completed by a professional management company or 24 months bank statements or cancelled checks and a lease agreement to document the term and payment are required.
- Section 8.6 (Liens, Judgments and Collections) – Requirements for the treatment of liens, judgements, and collections. See section for full requirements.
- Section 8.7 (Credit Events) - At least seven (7) years must have elapsed since bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale, deed-in-lieu or modification measured from the date of completion to the date of application.
- Section 9.2 (Income Documentation Requirements)
  - Commission/Bonus income with less than a 2 year history may not be used for qualification.
  - Verification of Active Business: the lender must verify the existence of the Borrower's business no more than ten (10) business days prior to the Note Date. Internet listings are not an acceptable source of verification.
  - Tax transcripts are required to be obtained from the IRS only for income for years being used for qualification.
- Section 9.10 (Unacceptable Income)
  - Refer to section for overlays.
- Section 11.1 (Source of Funds) Gifts of equity are ineligible.
- Section 11.2 (Cash Reserves) - The greater of the AUS reserve requirements or the reserve requirements in the Product Matrix are required. If AUS does not provide reserve requirements follow the Product Matrix reserve requirements. Business assets are not an acceptable source to meet the reserve requirements.
- Section 12.0 (Property) – Refer to section for overlays for the following;
  - Eligible properties
  - Ineligible properties

- Minimum square footage
  - Appraisal requirements (PIW/**Value Acceptance, Value Acceptance + Property Data Report and Hybrid Appraisals**, not allowed, Desktop Appraisal as minimum assessment not permitted; Two appraisals required for loan amounts > \$1,500,000)
  - Third-party appraisal review process.
  - Properties located in FEMA declared disaster areas.
- Section 12.1 (Eligible Property Types) – Condos in litigation are ineligible.
  - Section 12.3 (Declining Markets) – Reduce maximum LTV/CLTV by 10% for any property located in an area of declining property values as reported by appraiser.
  - Section 13.0 (Additional Loan Attributes and Policies) – Refer to section.
  - Section 13.9 (HERO) - Payoff of a HERO lien is considered cash-out.
  - FraudGuard report or similar must be included in each file submission. The report should include a comparison of all participant names against industry watch and exclusionary lists such as OFAC.



**Appendix B - Business Purpose & Occupancy Affidavit (the “Affidavit”)**

LOAN NO: \_\_\_\_\_ (the “Loan”)

BORROWER(S) NAME: \_\_\_\_\_

BORROWER(S) ADDRESS: \_\_\_\_\_

PROPERTY ADDRESS: \_\_\_\_\_ (the “Property”)

I, the undersigned borrower(s), hereby declare that the following is true and correct:

1. **I have applied for this Loan and am seeking financing for the Property, subject to the terms and conditions of certain documentation related to the Loan (the “Loan Documents”), for business purposes only.** I do not intend to use the proceeds of the Loan for personal, family, or household purposes.
2. **The proceeds of the Loan will be used to purchase, improve, or maintain the Property.** If I have not executed a lease with a tenant (or tenants) at or before closing of the Loan, I intend to, and will use commercially reasonable methods and effort to obtain a tenant (or tenants) for the Property following closing of the Loan.
3. **Neither I nor any family member intend or expect to occupy the Property at any time. I will not, under any circumstances, occupy the Property at any time while the Loan remains outstanding.** In addition, I will not claim the Property as my primary or secondary residence for any purposes for the duration of my Loan. I now reside, and for the duration of my Loan will continue to reside, elsewhere.
4. **I understand that Lender originating the Loan in reliance upon this Affidavit.** If this Affidavit is not true and correct, and in consideration of Lender making the Loan, I agree to indemnify Lender and its agents, affiliates, subsidiaries, parent companies, successors and assigns and hold them harmless from and against any and all loss, damage, liability or expense, including costs and reasonable attorneys’ fees, which they may incur as a result of or in connection with my misrepresentation. I further understand that any misrepresentation in this Affidavit will constitute an event of default under the terms of this Loan and the related Loan Documents, and may result in the immediate acceleration of my debt and the institution of foreclosure proceedings, eviction, and any other remedies allowable by law.
5. **I understand that the agreements and covenants contained herein shall survive the closing of the Loan.**
6. **I understand that, based on the contents of this Affidavit, the Loan is a business-purpose loan secured by non- owner-occupied real property.** I understand that this means that the Loan may not be subject to the requirements of certain federal and state consumer protection, mortgage lending, or other laws, including but not limited to the provisions of the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5101 et seq.), and Homeowners Protection Act (12 U.S.C. § 4901 et seq.), and that my ability to avail myself of protections offered under federal and state laws for consumer-purpose residential mortgage loans may be limited.
7. **I understand that any false statements, misrepresentations, or material omissions I make in this Affidavit may result in civil and criminal penalties.**

[Signature Page Follows]

|                    |  |
|--------------------|--|
| <b>Initial(s):</b> | <b>The Property is not and will not be occupied by me or any family member, or if Borrower is an entity, any member or owner of the Borrower entity.</b> |
|                    |  |
|                    |  |
|                    |  |

Borrower(s) / Borrowing Entity Members:

[\_\_\_\_\_]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

[\_\_\_\_\_]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**ACKNOWLEDGMENT**

State of \_\_\_\_\_)  
County of \_\_\_\_\_)

On \_\_\_\_\_ before me, \_\_\_\_\_ (insert name and title of the officer) personally appeared \_\_\_\_\_, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of \_\_\_\_\_ that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature \_\_\_\_\_ (Seal)

\_\_\_\_\_