Arc NQM Underwriting Guide

Table of Contents

1. Doing Business with Arc Home

1.1. Lending Policy

1.1.1. General Eligibility Standard

These underwriting guidelines provide an overview of eligibility standards and general criteria used in evaluating residential loan applications for the origination of loans to mortgagors who do not generally qualify for or choose not to use traditional agency, government, or private label non-agency jumbo products. Disqualification factors for traditional products include, but are not limited to, prior negative credit events, prior mortgage delinquency, insufficient credit history, loan size and income documentation requirements.

The originator (Correspondent or Broker) must represent and warrant that the origination of the loan complies with all applicable rules, laws and regulations, including, without limitation, related to the Borrowers' ability to repay the Loan, including the regulations of the Consumer Financial Protection Bureau, as applicable. In addition, originators must confirm their representation and warranty regarding compliance with rules, laws and regulations at the time the originator executes a purchase agreement setting forth the terms under which the Loan is being sold to Arc Home.

All loans submitted to Arc Home must meet the current published guide as of the date of the file submission. Arc Home reserves the right to modify the Underwriting Guidelines at any time without notice.

Arc Home does not tolerate fraud or misrepresentation in a mortgage loan transaction. Correspondents and brokers are responsible for the content and quality of each application taken and each loan submitted to Arc Home. The submission of a loan application containing information that is false or misrepresented is a federal crime. Evidence of loan fraud of any type will result in the immediate termination, for cause, of the wholesale or correspondent relationship with Arc Home.

All loans must be submitted to an automated third-party fraud and data check tool (i.e. Fraud Guard, DataVerify's DRIVE, etc.). A copy of the findings report must be included in the loan file. All red flags and inconsistencies must be resolved and the supporting documentation clearing the deficiencies are to be provided as well.

1.1.2. Underwriter Certification

Underwriter must certify that the Edge or Access loan is not eligible for sale or securitization by Fannie Mae, Freddie Mac or Ginnie Mae.

All Edge and Access loans must be manually underwritten and must be documented and certified by the underwriter that the subject loan does not qualify for delivery to the agencies (Fannie/Freddie/Ginnie). The Underwriter Certification must identify the reason(s) for choosing a Non QM product. If appropriate, in addition to the underwriter comment, a copy of the AUS results from the GSE showing anything other than "approve/eligible" may be used as further proof the loan was not eligible to the GSE (this cannot be used solely to prove the loan was not eligible for sale/securitization to the GSE). Refer to the Non QM Underwriter's Certification.

1.2. Compliance with all Laws & Regulations

1.2.1. TILA-RESPA Integrated Disclosure (TRID)

All loans must comply with TRID rules except for loans originated solely for business purposes, as defined in 12 CFR 1026.3(a)(1)of Regulation Z.

As used in this Guide, a "Business Purpose Loan" means a loan:

- Single Family Non-Owner Occupied: To acquire, improve or maintain rental property (regardless of the number of housing units) that is not owner-occupied. This includes, for example, a single-family house that will be rented to another person to live in. If the owner expects to occupy the property at any time while the loan remains outstanding, the property cannot be considered non-owner-occupied and this special rule will not apply. For example, a beach house that the owner will occupy for a month in the coming summer and rent out the rest of the year is owner occupied and is not Business Purpose Loan.
- Loans meeting this definition of "Business Purpose" are not subject to ability to repay and TRID disclosure requirements; borrower(s) must affirm the purpose of the loan by executing a Business Purpose and Occupancy Affidavit or a similar form. If a Business Purpose disclosure is not in the file, then the merits of the file must indicate that the loan meets the definition of a Business Purpose loan.
- Special rules also apply to Business Purpose loans where the borrower is taking cash-out of the transaction. In such situations, the cash being taken out must also be used for a Business Purpose and not for personal or consumer use. This includes, for example, using the cash-out of the transaction to improve or maintain other rental properties owned by a borrower. An example of an impermissible use would include using the cash-out of transaction to pay for college tuition or personal debt (i.e., a non-business purpose).
- All DSCR loans are "Business Purpose Loans"; therefore, to be eligible for the product, the owner cannot occupy the property at any time while the loan remains outstanding and all cash out proceeds must only be used for business purposes (e.g., acquisition maintenance /improvement of rental properties).

1.2.2. Homeownership Equity Protection Act (HOEPA)

Loans secured by the consumer's principal dwelling that meet the definition of a "high-cost loan" under Section 32 of HOEPA or other state local "high cost" or other predatory lending regulations are ineligible under Arc Home's programs. Specifically, the "annual percentage rate" or "total points and fees" (as each such term is defined under HOEPA) payable by the mortgagor on such transactions may not equal or exceed the applicable thresholds as defined under HOEPA (12 CFR 226.32 (a)(1)(i) and (ii)). Regardless of if the originator is exempted from state/local "high cost" regulations, loans exceeding any state or local "high cost" laws are ineligible for purchase by Arc Home.

The following types of programs/loans are not subject to HOEPA: (i) business purpose loans; (ii) loans originated under Arc Home's DSCR Program; or (iii) loans secured by a dwelling other than the consumer's primary dwelling (e.g., investment Properties and Second Homes). A loan exempt from coverage under HOEPA must also not be considered a high-cost loan or predatory loan under applicable state and local laws, regulations, and requirements.

1.2.3. New York Subprime Home Loans

Arc Home does not purchase loans subject to the Home Ownership and Equity Protection Act of 1994 (HOEPA), also known as “federal high-cost” mortgages. Arc Home does not purchase mortgage loans that meet the definition of “high cost,” “high risk,” “covered,” “subprime,” or any similar designation under state or local law. In Correspondent, Arc Home will purchase loans that comply with N.Y. Banking Law § 6-M (New York Subprime). Arc Home abides by all NY state statutes.

1.2.4. HPML

If a loan is Higher Priced Mortgage Loan (HPML) as defined by the Consumer Finance Protection Bureau, refer to the Impound/Escrow Account section and HPML Property Flipping section.

- **Conforming loan amounts:** A loan is “higher-priced” if the APR is 1.5 percentage points or more than the APOR on a primary residence.
- **Non-conforming loan amounts:** A loan is “higher-priced” if the APR is 2.5 percentage points or more than the APOR on a primary residence.

Conforming and Non-conforming loan amounts: HPML loans are allowed on Edge and Access.

1.2.5. Qualified Mortgage

Edge and Access loans are structed as Non-Qualified Mortgage (Non-QM) therefore QM Safe harbor or Rebuttable Presumption requirements do not apply, but rather still must meet the ability to repay standard.

1.2.6. Net Tangible Benefit

Unless the mortgage loan is being originated as a Business Purpose loan, originators must ensure the transaction provides a net tangible benefit to the borrower(s). Examples of tangible benefits include but are not limited to:

- financing the acquisition of a property
- reducing the cash expenditure required to service an existing mortgage
- lowering the interest rate of an existing mortgage
- extending the period during which the interest rate on an existing mortgage is fixed
- extending the term of an existing mortgage
- obtaining additional cash proceeds through a cash-out refinance.

The tangible benefit provided to the borrowers by the Loan must exceed the borrowers’ cost to acquire the Loan.

1.2.7. Fair Lending Statement

Arc Home will only purchase/fund loans that meet fair lending requirements.

1.2.8. Ability to Repay (ATR)

Unless the mortgage loan is being originated as a Business Purpose loan, the borrower's ability to pay must be fully evaluated and documented. The Non-QM Underwriter's Certification must be completed by the underwriter and be in the file.

Under Dodd-Frank eight (8) factors must be considered when determining the borrower(s) ability to repay:

1. Current or reasonably expected income or assets (other than the value of the property that securesthe loan) that the consumer will rely on to repay the loan
2. Current employment status (if there is reliance on employment income when assessing the consumer's ability to repay)
3. Monthly mortgage payment for the subject loan. The monthly mortgage payment is calculated using the Note rate or fully indexed rate, whichever is higher, and monthly, fully-amortizing payments that are substantially equal that will pay off the loan at the maturity date
4. Monthly payment on any simultaneous loans secured by the same property
5. Monthly payments for property taxes and insurance that you require the consumer to buy, and certain other costs related to the property such as homeowner's association fees or ground rent
6. Debts, alimony, and child-support obligations
7. Monthly debt-to-income ratio or residual income, that is calculated using the total of all of the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income
8. Credit history

The rule does not preclude you from considering additional factors, but you must consider at least these eight factors.

NOTE: Currently, the Debt Service Coverage Ratio Program (DSCR) and the Asset Qualifier Program (where borrower has enough assets to cover the entire amount of the loan) are the only programs that do NOT require calculation of a DTI.

1.2.9. Qualified Non-Conforming Mortgages

Arc Home may categorize selected NQM loans as Conventional Non-Conforming Qualified Mortgages, herein as QM Non-Conforming or QM NC. In order to satisfy provisions of the ATR/QM rule, to the extent that Arc Home has NQM loans that may be designated as QM or QM NC, a loan transaction shall not have any of the following attributes, and are required to pass the below referenced compliance tests related to QM points & fees, as well as the APR/APOR comparison for those loans that may be considered Higher Priced Mortgage Loans (HPML).

- Loan terms exceeding 30 years
- Interest Only payments
- Balloon payments

- Negative Amortization
- Excessive points & fees

Points & Fees

Follow guidance related to QM points and fees testing as regulated by the CFPB at https://www.consumerfinance.gov/rules-policy/final-rules/. See also, section 12 CFR 1026.43(e)(3)(i), as defined at 12 CFR 1026.32(b)(1)) for the corresponding regulatory provisions on points and fees.

Annual Percentage Rate ("APR") and Average Prime Offer Rate ("APOR") Comparison

To verify compliance with QM Higher Priced Mortgage Loans ("HPML") thresholds, please see https://files.consumerfinance.gov/f/documents/cpfb_atr-qm_small-entity_compliance-guide.pdf and 12 CFR 1026.43(e)(2)(vi).

1.3. Exceptions & Items Not Addressed in this Guide

Unless otherwise stated, Fannie Mae definitions, required documentation and underwriting guidelines should be followed. Additionally, while these Underwriting Guidelines are intended to be comprehensive, they may not encompass all specific loan or borrower scenarios. Arc Home recommends that any specific criteria or guideline question that is not covered herein be submitted to Arc Home's scenario desk by emailing: scenarioexception@archomeloans.com.

Arc Home will review exceptions on a case-by-case basis when a case profile does not fall within the parameters of our published guidelines or Fannie Mae guidelines. Cases with exception requests should exhibit strong compensating factors. Arc Home's decision to allow or deny any exception is based on the information provided at the time of request; any material change(s) that become manifest during the processing and underwriting of the case may result in disqualification of the granted exception as originally submitted; therefore, exception decisions do not bind Arc Home to extend credit to the borrower or to purchase loan.

2. Program Overview

2.1. Loan Products & Features

The following loan products are eligible for purchase by Arc Home. Fannie Mae security instruments, notes, riders/addenda, and special purpose documents should be utilized for loan documentation when available. In cases where Fannie Mae doesn't offer current documentation, (e.g. Interest Only Rider) an industry recognized document vendor, such as Doc Magic, Docutech, or Ellie Mae, should be utilized for forms.

This Arc Underwriting Guide must be used for the following products. Refer to the individual Product Matrices for additional details.

- Access Product Suite:
  - Access Agency Plus

  - Access Alt Income 1 Year Full Doc, 1099, Bank Statement, CPA Prepared P&L, Asset Utilization, Asset Qualifier
  - Access Clean Slate
  - Access DSCR
- Edge Product Suite:
  - Edge Agency Plus
  - Edge Alt Income 1099, Bank Statement, CPA Prepared P&L
  - Edge DSCR
- Foreign National DSCR

2.1.1. Fully Amortizing Products

Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the loan term. Reserves are calculated based on the qualifying payment.

- 5yr/6month SOFR: Qualifying Rate: qualify borrower(s) at the Note rate
- 7yr/6month SOFR: Qualifying Rate: qualify borrower(s) at the Note rate
- 15 Year Fixed and 30 Year Fixed: Qualifying rate: qualify borrower(s) at the Note Rate

2.1.2. Interest-Only (I-O) Products

For full document and alternative document loans, the qualifying ratios are based on the fully amortizing monthly payment (principal and interest) that will repay the loan amount over the term of the loan remaining as of the date the interest-only period ends.

For DSCR loans, the qualifying ratio may utilize the interest only payment.

Reserves for a loan with an Interest-Only feature will be calculated based upon the interest only payment.

- 5yr/6month SOFR:
  - Qualifying Rate: qualify borrower(s) at the Note rate
  - Interest-Only Period: 10 Year Interest-Only Period followed by a 20 Year Amortization Period
- 7yr/6month SOFR
  - Qualifying Rate: qualify borrower(s) at the Note rate
  - Interest-Only Period: 10 Year Interest-Only Period followed by a 20 Year Amortization Period
- 30 Year Fixed Rate
  - Qualifying rate: qualify borrower(s) at the Note Rate
  - Interest-Only Period: 10 Year Interest-Only Period followed by a 20 Year Amortization
- 40 Year Fixed Rate
  - Qualifying rate: qualify borrower(s) at the Note Rate
  - Interest-Only Period: 10 Year Interest-Only Period followed by 30 Year Amortization

2.2. Assumability

Fixed Rate Products: Are not assumable.

Adjustable-Rate Products: May be assumable based upon the Note. In general, Fannie Mae Notes containan Assumability clause. In any case, the verbiage in the Note and Closing Disclosure must match.

2.3. Prepayment Penalties (PPP)

Edge and Access 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.

Prepayment penalties on primary residence and second home transactions are prohibited.

The prepayment penalty must be disclosed in a separate Rider.

For Retail and Wholesale loans: The prepayment charge will be equal to 6 months of interest on the amount of the prepayment that exceeds 20% of the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12-month time period.

- A prepayment penalty in New Jersey is only allowed on DSCR loans when closing in the name of a Corporation or S-Corp, subject to applicable entity vesting requirements.
- Arc Home does not allow a prepayment penalty to be charged: Alaska, Illinois, Kansas, Michigan, Minnesota, New Mexico, Ohio, and Rhode Island. North Dakota is not allowed on the Foreign National or Edge products.

For Correspondent loans: Refer to Exhibit F in the Correspondent's Seller's Guide for prepayment structures that are acceptable.

- Arc Home does not allow a prepayment penalty to be charged: Alaska, Illinois, Kansas, Michigan, Minnesota, New Mexico, Ohio, and Rhode Island. North Dakota is not allowed on the Foreign National or Edge products.

2.4. Impound/Escrow Accounts

On Higher Priced Mortgage Loans as defined by 12 CFR 1026.35, an escrow account must be established before consummation of the loan for payment of property taxes and premiums for mortgage-related insurance. The escrow account must be maintained for at least five years.

Flood insurance must always be escrowed. Escrow funds/impound accounts may be waived for taxes and hazard insurance on non HPML transaction loans if the following requirements are met:

- For All Access loans:
  - The Representative credit score is $\geq$ 700 and
  - In California, the LTV cannot exceed 90%
- For all Edge loans:
  - The representative credit score is $\geq$ 700
  - The LTV may not exceed 80%

- At least 12 months' reserves (cash-out proceeds allowed) are documented

On purchase transactions, exemptions may be applied if fully verified and documented and still apply to the borrower (ex. Primary residence homestead exemption on an owner- occupied purchase). Proof of the exemption amount from the county must be in the file. An underwriter or processor certification is acceptable.

2.5. Geographic Restrictions

Properties must be located in one of the 50 United States. Missouri is eligible for Delegated Correspondents only.

2.6. Property and Title Insurance

All hazard insurance (homeowner's insurance) and title policies must meet Fannie Mae guidelines.

The Title Commitment and Closing Protection Letter must be dated within 90 days prior to Note Date.

A 24-month chain of title is required. A homestead is not considered as being on title.

2.7. Conflicts of Interest

A conflict of interest exists when the borrower has multiple roles in the transaction. These include, but are not limited to the below situations. The below situations are NOT permitted:

- The borrower is the builder
- The borrower is loan officer on the transaction;
- The borrower is listing and selling agent (borrower cannot be both);
- The borrower is owner/principal of a mortgage brokerage or correspondent lender may not originate their personal mortgage with their own company.
- The borrower cannot act in dual capacity (for example, borrower acting as broker/lender/appraiser/title company in the transaction). The borrower may act as the realtor as long as there is no other business affiliation.
- The broker/loan officer cannot act in dual capacity (for example, broker/loan officer and realtor or broker/loan officer and any other affiliation within the transaction).
- When the property seller is a corporation, partnership, or any other business entity, it must be ensured that the borrower is not an owner of the business entity selling the property.

Employees of mortgage brokerages or correspondent lenders originating through their employer are acceptable borrowers only under the following circumstances:

- They do not act as a processor, underwriter or in any capacity in originating their loan; AND
- The subject property is their primary residence or second home; investment properties are not permitted.

3. Transaction Eligibility

3.1. Purchase Transaction

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property. All purchase transactions require a copy of the fully executed sales contract and all addenda, which must be reviewed by the Underwriter and included in the Mortgage file. CEMA transactions are not allowed on purchase transactions.

An assignment of purchase contract is acceptable only if the sales price is not increased and a transfer fee is not charged.

3.1.1. Property Flipping

3.1.1.1. Overview

Property flip transactions refer to the process of purchasing an existing property, then immediately reselling it for a profit. Property flips are not necessarily illegal unless the transaction includes an act of fraud or misrepresentation such as an inflated appraised value. Property flip transactions most often, but not always, involve distressed properties acquired at a discounted price, then resold at an increased sales price to an uninformed buyer.

A property is considered a Flip based on the acquisition date the seller became the legal owner of the property (based on state law). The purchase date, as defined by the CFPB, is the date the borrower and seller execute the original purchase contract. This date, regardless of the number of borrowers added to the Purchase contract, will stay consistent based on original date of execution. This also applies to a builder selling a newly built house or a borrower obtaining permanent financing on a construction loan within the 180-day timeframe as defined by the CFPB.

There are several indications that are common to property flipping. Underwriting loan files with property flipping indication(s) require a higher level of scrutiny during the loan review. Some examples of indicators include, but are not limited to:

- Several ownership changes within a few months reflected on title or in Fraud report.
- The appreciation of the subject property exceeds the typical appreciation in the market.
- The seller recently acquired the property for a significantly lower price, or there have been several transfers of the property according to the tax assessment records.
- No real estate agent is involved in the transaction.
- The property was recently in foreclosure or acquired at an REO sale at a considerably lower sales price.
- Parties to the transaction are affiliated by business relationships or related by birth or marriage.
- Owner listed on the appraisal and/or title does not match the property seller on the sales contract.
- Sales contract has an unusually large earnest money deposit held by the property seller.
- Unusual fees or credits are reflected on the Closing Disclosure.
- Title commitment references other deeds to be recorded simultaneously.
- Property seller is a corporation such as an LLC.
- Comparable sales used in the appraisal report are properties involving the same seller

and/or the same real estate broker as the subject property in an attempt to artificially inflate the market.

3.1.1.2. Property Flipping Exclusions

If the Seller is any of the following, then flipping guidelines do not apply:

- A local, state, or federal government agency
- A nonprofit entity as part of a local, state, or federal government program that lets nonprofits acquire title to single-family properties for resale from a seller who itself acquired title to the property through foreclosure, deed-in-lieu of foreclosure, or other similar judicial or nonjudicial procedure
- A person who inherited the property or acquired it through a court-ordered dissolution of marriage, civil union, or domestic partnership, or through the partition of the seller's joint or marital assets
- An employer or relocation agency in connection with an employee relocation
- A service member, as defined in 50 U.S.C. appendix 511(1) 5, who received a deployment or permanent change of station order after purchasing the property

3.1.1.3. HPML Property Flipping

When an Arc Edge and Access loan is a primary residence and HPML, as defined by the Consumer Finance Protection Bureau (CFPB), the below HPML Property Flipping requirements apply. Refer to the Property Flipping Exclusions section for exclusions to this policy. Depending on the sales increase, an additional property valuation may be required, refer to the below chart:

Days from Seller's Acquisition	Sales Increase	Action
0-90 days from seller's acquisition	≤ 10%	Appraised Value may be used.
	> 10%	A second appraisal is required. The lesser value of the 2 appraisals must be used to calculate the LTV. • The increased value must be supported with commentary from the appraiser, market conditions, and comparable properties. • If the appraisal commentary is not sufficient to support the increase and the increase is due to renovations, sufficient documentation (Receipts, building permits and/or signed contracts) to validate the actual costs to renovate, construct, etc. to support the increase is required. Arc Home will cover the cost of an additional appraisal.
91 - 180 days from seller's acquisition	≤ 10%	Appraised Value may be used.
	> 10% and ≤	Appraised Value may be used with supporting documentation: • The increased value must be supported with commentary from the appraiser, market conditions,

	20%	and comparable properties. • If the appraisal commentary is not sufficient to support the increase and the increase is due to renovations, sufficient documentation (Receipts, building permits and/or signed contracts) to validate the actual costs to renovate, construct, etc. to support the increase is required.
	> 20%	A second appraisal is required. The lesser value of the 2 appraisals must be used to calculate the LTV. • The increased value must be supported with commentary from the appraiser, market conditions, and comparable properties. • If the appraisal commentary is not sufficient to support the increase and the increase is due to renovations, sufficient documentation (Receipts, building permits and/or signed contracts) to validate the actual costs to renovate, construct, etc. to support the increase is required. Arc Home will cover the cost of an additional appraisal.

3.1.1.4. Non-HPML Property Flipping

Non-HPML flip property flipping guidelines apply to all occupancy types. Any increase in the sales price over the seller's acquisition cost should be representative of the market and/or improvements made to the subject property. Refer to the Property Flipping Exclusions section for exclusions to this policy.

- If the property has been transferred to an LLC within the last 180 days for $0, provide proof that the LLC is majority-owned or controlled by the previous seller and that they owned the property for at least 6 months. This also applies vice versa if the property was recently transferred from an LLC to the seller for $0.
- If the property has been transferred to a trust within the last 180 days for $0, provide proof that the previous seller is the beneficiary of the trust and that they owned the property for at least 6 months. This also applies vice versa if the property was recently transferred from a trust to the seller for $0.

If the property seller has owned the property less than 180 days (measured from seller's acquisition date to purchase contract date of this transaction) then the following applies:

- The property seller must be the owner of record.
- Loan must be an arm's length transaction.
- When the purchase price exceeds 10% of the seller's acquisition price, the increase must be supported with commentary from the appraiser, market conditions, and comparable properties.
- If the appraisal commentary is not sufficient to support the increase and the increase is due to renovations, sufficient documentation (Receipts, building permits and/or signed contracts) to validate the actual costs to renovate, construct, etc. to support the 10% increase.

3.2. Non-Arm's Length Transaction

A non-arm's length transaction occurs when the borrower has a direct relationship or business affiliation with the Seller of the subject property. These transactions include, but are not limited to:

- Family sales or transfers.
- Corporate sales or transfers.
- Borrowers employed in the real estate or construction trades who are involved in the construction, financing, or sale of the subject property.
- Some transactions involving principals or a lender or other vendor (such as an appraiser, settlement agent, or title company) who is involved in the lending process of the subject property.

Non-arm's length transactions are permitted under the following circumstances:

- Purchase transactions are permitted only when the following aremet:
  - 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;
  - A payoff statement showing the mortgage is current and no penalties/late fees is required to confirm this transaction is not a foreclosure bailout.
- Renters purchasing from a landlord:
  - Payment history must be verified per standard Mortgage / Rental History requirements; however, a VOR from the Seller or credit supplement from interested party is not acceptable.
  - A payoff statement showing the mortgage is current and no penalties/late fees is required to confirm this transaction is not a foreclosure bailout.

Ineligible non-arm's length transactions:

- If the borrower is purchasing from a builder who is buying his or her existing primary residence, the transaction is not permitted.
- Second home or investment properties are not permitted if the property is a newly constructed property, and the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property.

3.3. Rate Term Transaction

3.3.1. Definition

Rate Term Refinance is defined as a transaction in which the new loan amount is limited to the payoff of the present first lien mortgage (including HELOCs), subordinated mortgages used for purchase money, closing costs and prepay penalties. A transaction that requires one owner to buy out the interest of another owner may be considered a rate term refinance transaction per Fannie Mae guidelines.

3.3.2. Eligibility Requirements

The following requirements apply to rate term transactions:

- No seasoning requirement.
- Cash to the borrower must not exceed the lesser of 2% of the new loan amount or $5,000.
- There is zero cash back allowed for primary/homestead refinance transactions in the state of Texas. Rate/Term refinances on Texas primary/homestead residences when the borrower is refinancing a Home equity lien must be treated as a Texas 50(a)(6) loan.
- Properties may not be currently listed for sale. Properties that have been listed for sale within the last six months must adhere to the requirements set forth within the Properties Listed for Sale section.
- CEMA transactions are permitted. Paying off a privately held CEMA is not allowed. A lost note affidavit is not acceptable.
- For additional eligibility requirements, refer to Fannie Mae guidelines.

3.4. Delayed Financing Transaction

Delayed Financing – Follow Fannie Mae guidelines, except delayed financing must be treated as a rate term refinance transaction for pricing and LTV/CLTV limits.

- Delayed financing on a primary residence/homestead in Texas must be treated as a cash-out transaction under Texas 50(a)(6) guidelines.
- Refer to the Product Matrices for eligibility requirements.

3.5. Cash-out Refinance Transaction

3.5.1. Definition

Cash-out Refinance is defined as a transaction in which any of the following are true:

- paying off the UPB of the existing first mortgage (provided the existing first mortgage is at least six months old, refer to Ownership of the Property and Seasoning Requirements);
- financing the payment of closing costs, points, and prepaid items. The borrower can include real estate taxes in the new loan amount. Delinquent real estate taxes (taxes past due by more than 60 days) can also be included in the new loan amount, but if they are, an escrow account must be established, subject to applicable law or regulation;
- paying off any outstanding subordinate mortgage liens of any age;
- taking equity out of the subject property that may be used for any purpose.

3.5.2. Eligibility Requirements

The following requirements apply to cash-out transactions:

- The transaction must be used to pay off existing mortgage loans by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it (the borrower owns the property free and clear at the time of refinance).

- Refer to Seasoning Requirements for how long the first lien must be seasoned (note date to note date).
- At least one borrower must have been on title for at least for six months prior to the disbursement date of the new loan. Refer to Ownership of the Property for exceptions.
- Cash-in-hand is determined by the amount of cash out reflected on the Final closing Disclosure (after any debt is paid off, associated with the subject property or otherwise). Any cash-in-hand proceeds, to the Borrower, from any cash-out refinance transaction must be wired to a U.S. bank account. Refer to the Product Matrices for cash back limits.
- Subject properties may not currently be listed for sale. Properties that have been listed for sale within the last six months must adhere to the requirements set forth within Properties Listed for Sale of this guideline.
- Business purpose loans/DSCR cash-out transactions must include a signed letter of explanation from the borrower stating the purpose of the cash-out. The explanation must be detailed enough to understand if any cash-out proceeds will be used for personal (e.g., paying off personal debt, reserves, acquisition/maintenance/improvement of an owner-occupied property, including a second home, or other household usage, etc.) or business (e.g., acquisition/maintenance/improvement of rental properties, capital investment in or working capital to support a business) purposes. Cash out received on a Business Purpose loan or DSCR loan must be used for business purposes only. Personal use is not allowed.
- Cash-out proceeds can be used to meet reserve requirements, refer to Reserve section for details.
- CEMA transactions are permitted. Paying off a privately held CEMA is not allowed. A lost note affidavit is not acceptable.
- Use of a Power of attorney is not allowed.

3.5.3. Ownership of the Property

The following ownership requirements apply to cash-out transactions:

- At least one borrower must have been on title for at least six months prior to the note date of the new mortgage except for the following, which are acceptable:
    - Inherited Properties - There is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership). The inheritance/award must be documented per Fannie Mae guidelines. This seasoning exclusion for an inherited property is not permitted on DSCR loans.
    - Delayed Financing – Refer to Delayed Financing Transaction.
- If the property was owned prior to closing by an entity that is majority-owned or controlled by the borrower(s), the time it was held by the entity may be counted towards meeting the borrower's six-month ownership requirement.
- If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.

3.5.4. Seasoning Requirements

The following seasoning requirements apply to cash-out transactions:

- Acquisition to cash out refinance: If an existing first mortgage is being paid off through the transaction, it must be at least 6 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. If the existing first lien mortgage was modified and the modification resulted in a new Note Date, the required seasoning starts from the new Note Date. The 6 months seasoning does not apply:
  - to inherited properties
  - to any existing subordinate liens being paid off through the transaction, or
  - when buying out a co-owner pursuant to a legal agreement.
- Refinance to cash out refinance: 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. If the existing first lien mortgage was modified and the modification resulted in a new Note Date, the required seasoning starts from the new Note Date. If the existing first lien is seasoned less than 12 months, then the prior closing disclosure (CD) is required to verify the seasoning time frame and to verify if the previous refinance was a rate term or cash-out transaction. The 12 months seasoning does not apply:
  - If the prior transaction was a rate term transaction and the Ownership of the Property requirements are met.
  - If the prior transaction was a cash out refinance, then the 12 months seasoning may be reduced to 6 months if the appraisal provides evidence of improvements completed on the subject property in the most recent 12 months. A 5% LTV reduction from the max LTV/CLTV for the transaction and occupancy type is required reduction from the max is required. All comparables must have similar quality ratings. Ownership of the Property requirements must be met.

3.6. Texas50(a)(6) Loans

Texas law determines whether or not a loan is a Texas Section 50(a)(6) loan. Texas 50(a)(6) loans are eligible for all Access, other than DSCR, under the following terms:

- Primary Residence only
- Max 80% LTV/CLTV
- Permitted for Single Family Dwelling, PUD or Condominium, multi-unit properties are not permitted
- Fully amortizing loan terms only, Interest Only is prohibited
- Cannot use a Power of Attorney (POA) at closing
- Closing costs cannot total more than 2% of the original principal amount of the loan (does not include prepaids, appraisal, property survey, title insurance premiums, title examination)
- Any existing Texas Section 50(a)(6) lien must be seasoned for at least 12 months before the borrower is eligible for a new refinance.
- Loan may not close until 12 calendar days after the later of:
  - The date the borrower signs a loan application, or
  - The date the customer signs the "Notice Concerning Extension of Credit".
- The borrowers must be given a complete and accurate copy of the final Closing Disclosure no later than one business day prior to loan closing. Borrowers must sign Borrower's Certification of Receipt of Settlement Statement and the Accuracy Thereof at closing.
- If the property is the borrower's urban homestead, it must not exceed 10 acres.
- If the property is the borrower's rural homestead, it must not exceed 20 acres.

- All requirements in Texas 50(a)(6) legislation apply.

3.7. Texas 50(f)(2) Loans

Texas law permits an existing home equity loan that meets certain requirements to be refinanced in a rate/term refinance loan. Texas 50(f)(2) loans are eligible for all Edge and Access products, other than DSCR, under the following terms:

- Primary Residence only
- Max 80% LTV/CLTV
- Permitted for Single Family Dwelling, PUD or Condominium, multi-unit properties are not permitted
- The loan amount can only include funds advanced to refinance the existing Texas Section 50(a)(6) lien; plus, actual costs required to refinance the debt.
- Borrower may not receive any cash back (no additional funds other than the actual costs and reserves required to refinance the debt).
- The refinance is closed at least one year after the date of the original Section 50(a)(6) loan.
- The Notice Concerning Extensions of Credit (defined by Section 50(f)(2) of the Texas Constitution) must be received by the borrower no later than the third business day after the date of application. If disclosures are mailed, this Notice must be sent to the borrower on the same day of application to ensure it is received within 3 business days. This notice must be received by the borrower at least 12 days before the date the loan closes.
- The borrower(s) must sign the Owner's Affidavit Acknowledging Lender's Compliance with Constitutional Requirements for Rate Term Refinance (Section 50(f)(2), Article XVI, Texas Constitution) and Acknowledgment As To Fair Market Value Of Homestead Property – Rate/Term Refinance Of Equity Loan (Pursuant to Section 50(f)(2), Article XVI, Texas Constitution) at closing.

3.8. Properties Listed for Sale

Properties that have been listed for sale within the last six months prior to the application date must adhere to the below guidelines. Properties currently listed for sale are not permitted for refinance.

Proof that the subject property listing agreement has been terminated is required. Provide a copy of the cancelled listing along with a current Multiple Listing Service (MLS) search to verify that the property is not currently listed by a different real estate agency.

A written explanation from the Borrower as to intent for future use (or sale) of the property is required.

	Primary or Second Home	Investment Property
Rate Term Refinance	Must be off market prior to application date	Must be off market prior to application date and on Edge and Access products, must have at least a 1-year Prepayment Penalty or the maximum permitted by state law, whichever is lower. For states in which a

		PPP is not allowed, this requirement does not apply.
Cash-Out Refinance	Must be off the market at least six (6) months prior to loan application date -OR- Must be off market one (1) day prior to application date and a 5% LTV reduction from the max LTV/CLTV for the transaction and occupancy type is required	Must be off market six (6) months prior to application date -OR- Must be off market one (1) day prior to application date. A 5% LTV reduction from the max LTV/CLTV for the transaction and occupancy type is required -AND- On Edge and Access investment products, must have at least a 1-year Prepayment Penalty or the maximum permitted by state law, whichever is lower. For states in which a PPP is not allowed, this requirement does not apply.

3.9. Construction-to-Permanent Financing

Single close construction-to-permanent financing is not allowed.

Two time construction-to-permanent financing is allowed per Fannie Mae guidelines. Maximum LTV/CLTVs are based on the individual product.

Property Tax Assessment

The Settlement Agent must provide either a completed tax information sheet, tax certification, or preliminary title report with tax information to document the taxes with improvements. If that is not available, a county/city tax rate website search must be completed to calculate the millage calculation or tax rate calculation.

Note: On California properties, compare the documented millage/tax rate calculation to 1.25% of the purchase price. Use the greater of value for qualification purposes. If third party documentation cannot be provided, use 1.25% of the purchase price.

3.10. Secondary Financing

Arc Home does not offer second or other subordinated mortgage products. Arc Home permits secondary financing under the following circumstances:

- The subject property Occupancy and Purpose are either:
  - Primary Residence or Second Home for all transaction types (Purchase, Rate Term or Cash- out Refinance)
  - Investment Properties for Purchase or Rate Term Refinance Only in all products other than DSCR.
    - Loans originated in the DSCR product may not have Secondary Financing
    - Investment property occupancy with Cash-out Refinance purpose in all

product types may not have Secondary Financing

- CLTV does not exceed the applicable LTV limits;
- Financing must be held by an institutional lender only;
- The payment is included in the DTI calculation and calculated at the maximum available credit line amount or provide proof that the draw period is closed;
- The terms of the subordinate financing conform to Fannie Mae requirements;
- Existing secondary financing must be subordinated to the subject loan and recorded; and
- The executed Subordination agreement is included in the loan file.

3.11. Interested Third-Party Contributions (IPCs) (Seller Concessions)

Interested party contributions (IPCs) are costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest in or can influence the terms and the sale or transfer of, the subject property.

Interested parties to a transaction include, but are not limited to, the property originator, the builder/developer, the real estate agent or broker, or an affiliate who may benefit from the sale of the property and/or the sale of the property at the highest price possible. An originator or employer is not considered an interested party to a sales transaction unless it is the property originator or is affiliated with the property originator or another interested party to the transaction.

A downward adjustment to the sales price of the property to reflect the amount of any contributions that exceed the limitations shown in the table below. In addition, the cost of any contributions that are in the form of personal property (such as furniture, decorator items, automobiles, club memberships, or other "giveaways") always must be deducted from the sales price of the property. The maximum LTV ratio (or CLTV) must then be calculated based on the lesser of the reduced sales price or the appraised value. Any personal property mentioned in the purchase contract with no value is allowed; however, the appraiser must confirm that the appraised value is based on the property only.

Occupancy Type	LTV/CLTV Ratio	Maximum IPC
Primary or Second Home	All LTV/CLTVs	6%
Investment property	All LTV/CLTVs	6%

4. Borrower Eligibility

Closing documents can be executed and notarized in an U.S. Embassy, Consulate, or on a Military Base. All requirements set forth by the State Department for overseas Citizens Services and the Uniform Code of Military Justice must be met.

In the event an U.S. Embassy or Consulate is not accessible, Arc Home may permit the use of an Apostille consistent with the requirements under applicable laws and treaties. In general, an Apostille authenticates the seals and signatures of officials on public documents issued by a public authority so that they can be recognized in foreign countries that are members of the 1961 Hague Convention Treat. Consultation with an approval of the Legal Department is required before Arc Home may permit the use of an Apostille.

4.1. US Citizens

Eligible without guideline restrictions as it relates to citizenship. Other than Foreign Nationals, all borrowers must have a valid, verifiable, legal primary residence address within the United States.

4.2. Permanent Resident Aliens

Permanent Resident Aliens are individuals who permanently reside in the United States.

A valid social security number is required.

The following documentation is acceptable:

- *INS Form I-551*, Green Card/ *Alien Registration Receipt*, with an unexpired date on the front (copy of the front and back is required); or
- *INS Form I-551*, *Conditional Alien Registration Receipt*, with an unexpired date on the front. *I-551 Forms* due to expire within 3 months must be accompanied with a copy of United States Citizenship and Immigration Services (USCIS) *Form I-751* (Petition to Remove Conditions on Residence) or USCIS *Form I-829* (Petition to Remove Conditions) filing receipt, or
- Unexpired passport, visa, or I-94 with unexpired stamp reading "Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [date]. Employment authorized." This evidences the holder has been approved for, but not issued, a Permanent Resident Alien card. If the I-551 is due to expire within 3 months of closing, evidence of application for Permanent Resident Alien Card must be in the loan file.

4.3. Non-Permanent Resident Aliens

Non-Permanent resident aliens are non-United States citizens who are permitted to reside in the United States on a temporary basis and who may receive authorization to work in the U.S. by the U.S. Citizenship & Immigration Services (USCIS).

Non-Permanent resident alien borrower must have a valid social security number and must be authorized to work in the United States with the likelihood of employment continuance for at least 3 years. Non-Permanent resident alien borrower must have a 2 year credit history.

A copy of the borrower's unexpired Visa must be obtained. Refer to the below list of acceptable Visa classifications. If the Visa does not provide the authority to work, an Employment Authorization Card (EAD) is also required. An EAD by itself is not sufficient to document that a non-U.S. Citizen is legally able to reside in the United States.

- Acceptable alternative documentation to verify Visa/EAD status is an I-797 form (Notice of Action). The I-797 must relate to either an acceptable non-permanent resident alien status or permanent resident alien status, have a valid extension date and evidence that the proper extension steps have been followed per the USCIS website.
- If the EAD or Visa expires within 6 months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued Visa/EAD renewal sponsorship (employer on the loan application must be the

same as on the unexpired visa). If there are no prior EAD/Visa renewals, the likelihood of renewal must be determined, based on the information from the USCIS and EAD/Visa type.

The following Visa classifications are acceptable:

- E Series E-1, E-2, E-3
- H Series H-1B & C, H-2 through Spouse H-4
- L Series (L-1, L-1A, L-1B, Spouse L-2 with employment authorization)
- NATO Series (NATO 1 through 6 with employment authorization)
- O Series O-1
- TN-1 & 2 Canadian (NAFTA)

Refugees are permitted with an I-94, Arrival and Departure Record, or I-590/I-730/I-797 Notice of Action, or court documents indicating borrower is a refugee (admission class of "RE") or EAD reflecting a category code A03 or A04.

Grant of Asylum (Asylee) are permitted with an I-94, Arrival and Departure Record, or I-589/I-730/I-797 Notice of Action, or court documents indicating borrower has been granted asylum (such as admission class of "AS", "AY.") in the U.S. or an EAD reflecting AO5.

Borrowers who are residents of countries which participate in the Department of Homeland Security's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website:

https://www.dhs.gov/visa-waiver-program-requirements

Non-U.S. citizens, without lawful residency status in the United States, borrowers with Diplomatic Immunity, Foreign Nationals, Deferred Action Status (such as DACA), Temporary Protected Status, or any non-U.S. citizen, who does not hold an eligible visa designation, are ineligible.

4.4. Foreign National Borrowers

Foreign National Borrowers are defined as individuals that do not reside within the United States, do not possess a Green Card or Visa, do not work within the United States, and have a primary residence (mortgage, rental, or free and clear property) within their country of origin or country of residence. Foreign National Borrowers are eligible under the Foreign National Product only. Refer to the Foreign National Product Matrix.

4.5. First Time Homebuyers

An individual is to be considered a first-time homebuyer who has had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the subject property. The following requirements apply if any borrower is a first-time homebuyer:

- Primary Residence and second home transactions only. Investment Property transactions are ineligible.
- Eligibility, FICO and DTI restrictions apply – See Product Matrices

4.6. Non-Occupant Co-Borrowers

- Subject must a Primary Residence for the occupying borrower
- 1 unit only
- Non-occupant co-borrower must be qualified based on 1 year or 2 year Full documentation or 24 month Bank Statement
- The following non-owner occupant co-borrower income types are not allowed: 12 month Bank Statement/1-2 year 1099/CPA Prepared P&L, Asset Utilization, Asset Qualifier
- Non-Occupant Co-Borrowers are not permitted for the Clean Slate product
- One of the following must be met:
  - Occupying borrower must have a DTI ratio of 50% or less, exclusive of income and debts of the non- occupant
  - Max 45% combined DTI and max 80% LTV

4.7. Inter-Vivos Revocable Trust

Vesting title in an inter-vivos revocable trust is permitted when the trust has an ownership interest in the subject property for all transaction types. The following requirements should be followed:

- The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. The trust must become effective during the lifetime of the person establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage. The trustee must include either:
  - The individual establishing the trust (or at least one of the individuals, if 2 or more); or
  - An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.
- The trustee must have the power to hold the title and mortgage the property. This must be specified in the trust. One or more of the parties establishing the trust must use personal income or assets to qualify for the mortgage.
- The trustee is:
  - Duly qualified under applicable law to serve as trustee
  - The borrower
  - The settler
  - Fully authorized under the trust documents and applicable law to pledge, or otherwise encumber the trust assets.

4.8. Vesting in the Name of an Entity

Arc Home permits title to be vested in an Entity (LLC or Corporation) on all Edge and Access Business purpose loans. Partnerships are not allowed. The transactions are underwritten based on the individual Entity owner(s') credit, income and assets.

4.8.1. Eligibility Requirements

The following requirements apply to all transactions where title will be held by an acceptable entity:

- Edge and Access products only
- Occupancy type must be an investment property
- The Entity is limited to a maximum of four (4) individual owners (owners are typically members)
- All owners must be natural persons
- Layered entities are not allowed
- Unanimous consent/shareholder approval of all owners is required.
- Title may not be vested in more than one Entity
- Using a Power of Attorney (POA) is not allowed
- All Entities must be domiciled in a US State. Entities may not be domiciled in a US territory or US possession.
- For all transactions the percentage of ownership may not change within 90 days prior to application date.

4.8.2. Co-mortgagors are an Entity and a Natural Person

For Transactions where the co-mortgagors are both the Entity and a natural person(s) who has authority to sign on behalf of the entity:

- At least one Entity owner must complete the application (Form 1003) and, as applicable, may be subject to a full underwrite for credit, income, assets. The Entity owner(s) completing the Form 1003 must, in the aggregate, directly and personally own at least 25% of the Entity. Section labelled “Title will be held in what Name(s)” should be completed with only the Entity name.
- The Note must be executed by all borrowers and the Entity (the borrower will sign on behalf of the Entity).
- The Deed and Security Instrument must be executed by the Entity (the borrower will sign as an authorized signor of the Entity).
- Separate agreement or personal guarantee document is not required.
- For Wholesale and Direct DSCR loans, the entity will sign the Note and Security Instrument. A Personal Guarantee will be required from the Borrower(s).

4.8.3. Entity is the Sole Mortgagor

In Correspondent, for transactions where an Entity is the sole mortgagor, the following requirements apply:

- At least 1 borrower must own 25% of the entity.
- A personal guarantee is required from all members on the application
- Each Guarantor must have authority to execute loan documents on behalf of the entity.
- If an entity member applicant/guarantor is married, and both spouses do not own the Entity, a Spousal Consent to Pledge is required for all loan amounts of $1,000,000 or greater.
- Each Entity member providing a personal guarantee must:

- Complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of guarantor. Only the debt appearing on the personal credit report of individual(s) providing a personal guarantee needs to be reflected on the 1003 loan application. The application of each member providing a personal guarantee and their credit score, and creditworthiness will also be used to determine qualification and pricing.
  - Section on the 1003 labelled "Title will be held in what Name(s)" should be completed with only the Entity name.
  - Sign the following documents as an authorized signatory of the Entity:
    - Form 1003
    - All Disclosures (e.g., GFE, TIL, ECOA)
    - Any state or federally required settlement statements
    - Note, Deed of Trust/Mortgage, and all Riders
- The guarantee should be executed at loan closing and dated the same date as the Note.
- A Business Loan Rider must be executed. No Correspondent Seller shall suggest or encourage the formation of an Entity for the purpose of obtaining a mortgage loan. Such structures shall be initiated and arranged by the members of the Entity

4.8.4. Required Entity Documentation

The following Entity documentation must be provided for a **Limited Liability Company**:

- A copy of the LLC Formation Documents (and all amendments)
- Complete copy of LLC Operating Agreement, if any, (and all amendments) including provisions that permit the acquisition, improvement and/or maintenance of the property along with the ability to mortgage the property. If the Secretary of State from the LLC's home state does not require an Operating Agreement, then an Officer's Certificate is required.
  - The mortgage transaction can only be executed by those individuals that are designated as being an authorized signatory for the LLC (as indicated within the LLC Operating Agreement, Corporate Resolution or Officer's Certificate).
- Corporate documents that contain a list of owners along with titles
- Certificate of Good Standing showing the company's status as "Active" is required (such as, but not limited to documentation from the Secretary of State, OpenCorporates.com, or Lexis Nexis). This requirement may be waived if the LLC was formed in the last 90 days.
- Federally issued ID number such as but not limited to EIN or Federal Tax ID number.
- A Borrowing Resolution and Incumbency Certificate evidencing LLC's approval and authorization of the underlying mortgage transaction. All operating members must re-sign if the loan amount exceeds the approved loan amount in the Borrowing Resolution and Incumbency Certificate.
- To the extent that the documentation provided does not satisfy the applicable requirements herein, Arc Home reserves the right to request additional information and documentation, including but not limited to an Attorney Opinion Letter addressed to Arc Home LLC, and its successors and assigns, in satisfactory form and substance to Arc Home LLC and its counsel.

The following Entity documentation must be provided for a **Corporation (Including an S Corp)**:

- Filed Certificate/Articles of Incorporation (and all amendments)
- By-Laws (and all amendments) including provisions that permit the acquisition, improvement and/or maintenance of the property along with the ability to mortgage the property. If the corporation is a single member/owner and Secretary of State from the Corporation's home state does not require Bylaws, then an Officer's Certificate is required.
- Certificate of Good Standing showing the company's status as "Active" is required (such as, but not limited to documentation from the Secretary of State, OpenCorporates.com, or Lexis Nexis). This requirement may be waived if the Corporation was formed in the last 90 days.
- Federally issued ID number such as but not limited to EIN or Federal Tax ID number.
- A Borrowing Resolution and Incumbency Certificate evidencing Corporation's approval and authorization of the underlying mortgage transaction. All directors must resign if the loan amount exceeds the approved loan amount in Borrowing Resolution and Incumbency Certificate.
- Receipt of current year franchise tax payment or clear search
- To the extent that the documentation provided does not satisfy the applicable requirements herein, Arc Home reserves the right to request additional information and documentation, including but not limited to an Attorney Opinion Letter addressed to Arc Home LLC, and its successors and assigns, in satisfactory form and substance to Arc Home LLC and its counsel.

4.9. Maximum Arc Home Exposure to Single Borrower

For Edge, 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. Arc Home may show as the following on the credit report:

- LoanCare
- Shellpoint

For borrowers with loans showing from the above servicers, further review is required to determine whether Arc Home was the originating lender.

To confirm the aggregate unpaid principal balance amount does not exceed the $7.5MM or 10 loan limit, Underwriters must verify any additional loans in process with Arc Home, for each Borrower, utilizing the Social Security number search feature within the loan origination system (LQB/Meridian Link) as well as reviewing the Duplicate Loan Report.

Refer to the specific Product Matrix for the overall maximum number of financed properties that a single borrower may have. Follow Fannie Mae guidelines for property types that are not subject to the maximum number of financed properties limitations.

4.10. Rapid Acquisition

A single borrower must not have acquired and currently be financing more than 5 properties (including the subject property) in the 12 months prior to the application date. Vacant land is not included in the total count.

4.11. Ineligible Borrowers

- Irrevocable or Blind Trusts
- Land Trusts
- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- ITIN borrowers residing in the U.S. or ITIN borrowers under a program other than the Foreign National program
- Non-Permanent Resident Alien Borrowers from OFAC sanctioned Countries
- Borrowers listed on an OFAC list.
- Politically Exposed Persons (PEPs)

5. Property and Collateral Requirements

5.1. Eligible Property Types

- One Unit Single Family Residences (Attached and Detached)
- PUDs (Attached and Detached)
- Warrantable Condominiums
- Non-Warrantable Condominiums (Edge and Access only)
- Townhomes
- 2-4 Unit Properties
- Modular Homes
- Log homes (façade only) – NO true log homes
- Rural properties
- Property with 20.00 acres or less. Properties with >10 acres up to 20.00 acres must include similar, like comparable properties that support marketability of like properties in the subject's market area
- If property is located in Texas, there may be no exceptions for mineral or drilling rights
- Mixed Use Properties per Fannie Mae's definition and Fannie Mae's appraisal guidelines.
- Agriculturally Zoned properties, where the primary use of the property is residential
- Properties with unpermitted additions must meet Fannie Mae guidelines in order to be eligible

5.2. Rural Properties

Rural properties as indicated by the appraisal are allowed. Rural properties must comply with the following criteria:

- Some products require an LTV reduction for rural properties. Refer to the Product Matrix for any LTV restrictions (if applicable).
- The primary use must be residential;
- The present use must be the "highest and best use" for the subject property;
- The property must not be used for agricultural purposes, or otherwise providing a source of income to the Borrower or for the subject loan;
- The photographs must include pictures of the inside of out-buildings;
- The lot size and acreage must be typical for the area and similar to the surrounding

properties;
- The maximum acreage allowed is 20 acres;
- The condition, quality and use of outbuildings may be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information

5.3. Non-Conforming Zoning

Properties with Non-Conforming zoning must meet the following requirements:

- The appraiser's analysis reflects any adverse effect that the non-conforming use has on the value and marketability of the property.
- Either the appraiser must specifically state in the appraisal that the property can be rebuilt "as is" in the event of a loss, or a letter from the local jurisdiction must be obtained which verifies that the property can be rebuilt "as is" in the event of a loss.

5.4. Condominiums

5.4.1. Warrantable Condominiums

Warrantable condominiums must conform to Fannie Mae condominium project eligibility requirements. A Condo Project Warranty Certification must be provided with the loan package.

- Site Condos are eligible per single-family dwelling LTV/CLTV parameters
- HO-6 insurance policy must provide coverage, as determined by the insurer that is sufficient to repair the condominium unit to at least its condition prior to a loss claim event, typically this coverage is equal to 20% of the condominium unit's appraised value.
- Established and New Projects which meet Fannie Mae requirements are eligible.
- For generic Fannie Mae Condo Project Review and Insurance Requirements, refer to the Project Standards and Eligibility page.
- Limited Review: Follow the process in Fannie Mae guidelines: B4-2.2-01, Limited Review Process
    - B4-2.2-04, Geographic-Specific Condo Project Considerations to determine those cases where Limited Reviews are permitted.
    - Condo Project Manager (CPM) is required to verify that the project is not "unavailable". If the project is "unavailable" refer to the Non-Warrantable Condominium section.
- Full Review: Follow the process in Fannie Mae guidelines: B4-2.2-02, Full Review Process
    - Condo Project Manager (CPM) is required. If the project is "unavailable" refer to the Non-Warrantable Condominium section. When CPM is used as part of the project review, the reviewer must document the loan file with the CPM decision by including the unexpired CPM Certification in the file. CPM Certifications are based solely on the data that the Lender enters into CPM. The reviewer is responsible for reviewing the applicable project documentation to obtain the information needed to complete the project review and enter the data into CPM. The reviewer is also responsible for ensuring that all data entered into CPM is correct and that the project meets all applicable Fannie Mae eligibility requirements.

- 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.
  - 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. PERS Overview Fact Sheet.
  - If a PERS approval cannot be obtained, then a full review will be required as a non-warrantable condominium.

5.4.2. Non-Warrantable Condominiums

Non-Warrantable Condominiums (condominiums that do not meet Fannie Mae warrantable guidelines) are allowed on Edge and Access products only. A Full Review Condo Questionnaire is required. The following Non-Warrantable Condominium features are eligible:

- Single Entity Ownership: 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 or 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)*
- Commercial Space: The total space used for nonresidential (commercial or mixed-use) purposes may not exceed 50% of the project or building where the project is located. This includes above and below grade commercial space but does not include commercially dedicated parking. *(Warrantable limit: 35%)*
- Presale Requirement: At least 30% of the total units in the project or subject legal phase must be conveyed or be under contract for sale, regardless of occupancy type. *(Warrantable limit: 50%)*
- Investor Concentration: 100% of the units may be conveyed to investment property owners. *(Warrantable limit: 50%)*
- HOA Delinquencies: Maximum 20% of total units are 60 days or more past due. *(Warrantable limit: 15%)*
- Budget and Reserve Fund Balance: The HOA must also allocate a minimum of 10% of their annual budgeted assessment income to their Reserve Fund. A lower percentage of annual income may be allocated to the Reserve Fund if the HOA, Reserve Study, or meeting minutes indicates no major repairs, and the Reserve Fund balance supports a higher percentage of the annual budgeted income: *(Warrantable limit: 10%)*
  - $\geq$ 7% to 9.99% annual budget is allocated to reserves, then the Reserve Fund balance must equal 30% of the annual budgeted assessment income.
  - $\geq$ 5% to 6.99% annual budget is allocated to reserves, then the Reserve Fund balance must equal 50% of the annual budgeted assessment income.
  - $\geq$ 3% to 4.99% annual budget is allocated to reserves, then the Reserve Fund balance must equal 75% of the annual budgeted assessment income.
- Hazard Insurance: The maximum allowable deductible for all required property insurance perils is 10% of the property insurance coverage amount. *(Warrantable limit: 5%)*. Actual cash value for the roof is allowed if the HOA has enough reserves to cover the cost of the roof replacement.
- Mandatory memberships/recreational leases: A condo with mandatory memberships/recreational leases (such as golf memberships, beach clubs and dining

memberships) owned by an outside party are eligible. Membership fees must be included in the DTI, must not affect the marketability and a minimum of 2 or more similar sales comps will be required.

- Timeshares: For condo projects located in Hawaii, a maximum of 20% of the units may be owned as a timeshare. The subject unit may not be a timeshare.
- Condotel/Condos with Hotel-Like Features: A condo project with hotel like features is eligible, provided the hotel like features do not adversely impact the marketability and are common and customary to the area. Condo units located in condotel or hotel like projects are subject to the following guidelines in addition to the standard non-warrantable guidelines:
    - Refer to the Product Matrix for the max LTV.
    - For investment property transactions in established projects, 100% of the total units in the project may be investor occupied.
    - Subject unit must have a minimum 500 square feet and a fully functioning kitchen with stove/oven (cooktop only not permissible)
    - Must be in a resort area or metropolitan area
    - No fractional ownership permitted
    - Mandatory rental pools and/or rental requirements are not permitted. Borrower must have exclusive use of the unit.
    - Commercial space limit may be increased to 50% (Parking not included in calculation)
    - Occupancy restrictions or black-out dates not permitting year-round owner occupancy are not permitted.
    - The maximum allowable borrower concentration is 20% ownership of the condo project.

The following non-warrantable features may also be eligible for purchase by Arc Home with prior review and approval by Underwriting Management:

- Litigation: Condominiums with litigation that is not structural in nature and does not affect the marketability of the units. For example, single unit complaints or slip and fall cases
- Commercial Insurance: Exceptions to Fannie Mae's commercial general insurance coverage requirements
- Interested Party Contribution: Builder/developer concession greater than 1%.

5.4.3. Ineligible Projects

In addition to Fannie Mae's Ineligible Projects, the following are not allowed:

- A project subject to the rules and regulations of the U.S. Securities Exchange Commission.
- New Condo conversion completed less than 2 years.
- Manufactured home projects
- Project units sold with excessive Originator contributions that may affect the value of the subject property.
- Any project that requires Private Transfer Fees as a part of the transaction and that fee does not benefit the association
- Projects with units used for 'live-work"
- Projects that restrict the owner's ability to occupy the unit
- Projects with mandatory rental pooling agreements that require unit owners to either rent

their units or give a management firm control over unit occupancy
- Common interest apartments without a governing HOA
- Timeshare or segmented ownership projects or lockout units (other than properties located in HI, see above)
- Continuing Care Retirement Communities or Life Care Facilities
- Multi-unit dwelling condos that permit an owner to hold title to more than one dwelling unit, with ownership of all of his or her owned units evidenced by a single deed and financed by a single mortgage

5.5. Ineligible Property Types

- Manufactured/Mobile Homes, including as ADUs
- Co-ops
- Unique Properties, such as Dome or Geodesic
- True Log Homes
- Vacant land
- Hawaii Properties on the Big Island located in lava zones 1 and/or 2
- Community Land Trusts
- Houseboats
- Multi-Unit with greater than four (4) units
- Properties closing with a blanket mortgage, where multiple real estate properties are listed as collateral for one loan.
- Boarding Houses/Padsplits or Bed & Breakfast properties
- Fractional Ownership/Time Shares
- Assisted Living/Continuing Care Facilities
- Agricultural-type properties, such as undeveloped land, or land-development-type properties.
- Working Farms, ranches, orchards
- Properties in C5 or C6 condition
- Properties on Indian reservations/Bureau of Indian Affairs tribal trust land
- Properties less than 500 square feet
- Multi-unit properties with units less than 500 square feet
- Properties and multi-units without at least one separate bedroom and a fully functioning kitchen with stove/oven in each unit. Cooktops only are not permissible.
- Properties not suitable for year-round occupancy
- Properties that are using short term rental to qualify but the local code of ordinances do not allow short term rentals.
- Properties located in Puerto Rico, Guam and the US VirginIslands

5.6. Appraisal Requirements

5.6.1. Appraisal Overview

A Full Interior / Exterior appraisal is required. Fannie Mae/Freddie Mac Forms 1004/70, 1025/72, or 1073/465 must be used. All Fannie Mae guidelines apply to appraisal process and value determination.

- A new appraisal must be ordered for this origination. Using the same appraisal from a previous origination for this subsequent transaction is not allowed.
- A full appraisal must not be more than 180 days old on the date of the note and a FNMA approved appraisal update is required on appraisals older than 120 days.
- All appraisals must comply with and conform to USPAP and the Appraisal Independence Requirements, and any requirement for higher priced mortgage loans (HPMLs), if applicable.
- The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction.
- An appraisal prepared by an individual who was selected or engaged by a borrower, property originator, real estate agent or other interested party is not acceptable.
- All Wholesale appraisals must be ordered through an AMC (Appraisal Management Company) to ensure compliance with the CFPB regulations.
- Correspondent appraisals must be ordered through an AIR-compliant process. The appraiser of the subject property or the Appraisal Management Company ("AMC") can acknowledge that they have followed the appraiser independence safeguards in compliance with Appraisal Independence Requirements (AIR) established by Fannie Mae and Freddie Mac. Counterparty validates the AIR compliance at the time of Arc Home Correspondent Client approval.

5.6.2. Transferred Appraisals

Transferred appraisals may require an Arc Home Collateral Desk review to determine if the transferred appraisal can be accepted.

Other than Delegated Correspondent, all transferred appraisals require an Arc Home Collateral Review when the SSR Score > 2.5 or no score is returned. When two transferred appraisals are received, if the lower appraised value returns an SSR score > 2.5 or no score is returned, an Arc Home Loan Collateral review is required.

If an SSR score cannot be obtained, then a CDA from Clear Capital or field review is required. If an SSR is obtained, any warnings from the Collateral Underwriter (CU) must be reconciled on the 1008.

5.6.3. Number of Appraisals

Loan Amount	Number of Appraisals	CDA from Clear Capital Required
≤ $2,000,000	1	Depends on the SSR score
> $2,000,000	2	No

When two appraisals are required, the lower of the two values must be used.

5.6.4. Appraisal Valuation Requirements

All appraisals must be submitted to Fannie Mae's Collateral Underwriter (SSR).

If an SSR score cannot be obtained, then a CDA from Clear Capital is required. In addition, Arc Home Collateral Review is required if LTV > 65. If an SSR is obtained, any warnings from the Collateral Underwriter (CU) must be reconciled on the 1008.

When two appraisals are required, if the lower appraised value returns an SSR score **>3.5** an Arc Home Loan Collateral review is required.

When one appraisal is required, the following applies:

- If the SSR score is ≤ **2.5**, no additional appraisal review products are required unless otherwise determined by the Arc Home Loan underwriter at the time of review.
- If the SSR score is **> 2.5** order a CDA and follow the Collateral Waterfall.
- If the SSR score is **> 3.5** order a CDA and follow the Collateral Waterfall. An Arc Home Loan Collateral review is required.
- If the SSR score is not returned, order a CDA and follow the Collateral Waterfall. When the SSR score is not returned on a loan with an LTV > **65**% an Arc Home Loan Collateral review is required.

Collateral Waterfall		
Appraisal Review	**CDA from Clear Capital**	
	CDA Value	**Action**
	≤ 10% below* Appraised Value	Appraised Value may be used.
	> 10% - 20% below* Appraised Value	The lower of the Appraised Value or CDA value may be used or a field review may be ordered.
	> 20% below* Appraised Value or Indeterminate	Field review is required. Follow Field Review section below.
	Field Review	
	Field Review Value	**Action**
	≤10% below*Appraised Value	Appraised Value may be used.
	> 10% - 20% below* Appraised Value	The lower of the Appraised Value or Field Review value may be used or a second appraisal may be ordered.
	> 20% below* Appraised Value	• 2nd full appraisal is required • Lower of the two appraised values must be used

* The > 10% variance rule applies when the CDA/Field Review variance is reflecting a lower value than the appraisal. If the CDA/Field Review variance reflects a higher value than the appraisal, the appraisal is fully supported, and an additional valuation is not required.

Important Notes:

- Each appraisal review product must be completed by a different appraisal company and appraiser than the original appraisal.
- The **Correspondent** is responsible for ordering and paying for the services, as applicable, if a CDA or Field Review/additional supporting appraisal is required per the details noted

above. The CDA must be ordered from Clear Capital.

- If a loan requires an AVM, the AVM must be ordered from one of these approved vendors and receive a maximum acceptable Forecast Standard Deviation ("FSD") score as specified:

▪ **Black Knight Collateral Analytics – FSD < 0.26**	▪ **Any provided from Clear Capital's AVM Cascade**
▪ **Clear Capital – FSD < 0.13**	▪ **House Canary – FSD < 0.14**
▪ **Cotality (CoreLogic) – FSD < 0.22**	▪ **Homegenius Real Estate/Red Bell Real Estate, LLC – FSD < 0.17**
	▪ **Veros/Vero Value – FSD < 0.16**

- The **Broker** is responsible for ordering the Field Review or additional appraisal AND initiating a Change of Circumstance to include the fee in the loan charges if a Field Review or additional appraisal is required by Arc Home to confirm the subject property value. **Arc Home** will order and pay for the AVM, CDA and BPO, if required.

5.7. Declining Market

When the property is in a declining market a 5% LTV reduction from the max LTV/CLTV for the transaction and occupancy type is required.

Declining market is determined by the appraisal.

5.8. Escrow Holdbacks

In Retail/Direct and Wholesale: Escrow holdbacks are not allowed.

In Correspondent: The escrow holdback must be closed prior to Arc purchasing the loan.

5.9. Disaster Areas

All properties must be verified that they are not located in an area designated as a FEMA declared disaster area with individual assistance prior to closing. A review of the FEMA website should be conducted at Declared Disasters | FEMA.gov to ensure the property is not geographically impacted by a natural disaster.

If an appraisal has been completed, then the appraiser:

- must perform a re-inspection of the property that indicates:
  - the subject is free and clear from any damage;
  - the property remains in the same condition as the original date of the appraisal; and
  - marketability and value have not changed.
- must provide exterior and street photos. Please note that if damage is noted, a subsequent interior inspection with damage specified will be required.

If the appraisal was completed after the disaster end date, then the appraiser must comment on the event and certify the subject property was not affected and the housing values in the immediate area have not been impacted by the disaster event.

If the appraiser indicated existing damage in the report, the property must be repaired and a re-inspection is required prior to purchase.

6. Credit Requirements

6.1. General Credit Information

A tri-merged in file credit report from all three repositories is required for all loans. Frozen credit reports are not allowed. Brokers and non- delegated correspondents must reissue or run the credit report within SPARC (Arc Home's origination portal). The report must include the full name, address, and telephone number of the credit reporting agency, as well as the names of the national repositories that the agency used to provide information for the report.

The credit reporting agency must make responsive statements about all items on the credit report – indicating "unable to verify" or "employer refused to verify," when appropriate.

6.2. Age of Documentation

Credit Documentation: All credit documentation must be no more than 120 days old at time of closing.

Asset Statements: The most recent asset statement to verify the source of funds or reserves or to calculate income based on the borrower's assets must be dated no more than 45 calendar days earlier than the date of the loan application for monthly statements, and not more than 120 days earlier than the date of the Note.

Utilization of a quarterly statement is permissible and must be dated within 90 days of the initial loan application date. The underwriter must confirm that the funds in the account have not been transferred to another asset account that is verified with more current documentation.

Income Documentation: The most recent income documentation including paystubs and P&L reports, must be dated no more than 30 calendar days earlier than the date of the loan application, and not more than 120 days earlier than the date of the Note.

6.3. Representative Credit Score

Each Borrower must have a minimum of **two** FICO scores and must meet the credit score requirements in the LTV matrix individually. The Representative Credit Score is the credit score of the primary income earner (>50% of qualifying income) as explained below and will be used for pricing. Each income source used to qualify the borrower must be documented and the income must be calculated correctly. Income may not be manipulated and/or reduced to meet eligibility or pricing requirements.

- If the primary income earner has 3 scores, use the middle score; or
- If the primary income earner only has 2 scores, use the lower score.
- If borrower and co-borrower income is equal or on DSCR loans, use the following:
  - If each borrower has three (3) credit scores, use the lower of the middle scores for each borrower

Example 1:

Borrower and co-borrower income is equal:		
	Borrower 1	Borrower 2
Equifax	580	620
Experian	600	580
TransUnion	620	680

Use 600 for the Representative Score, the lower of the representative score for each borrower.

- If one or more of the borrowers has only 2 scores, use the lower score of the 2 scores for any borrower with 2 scores, then compare to middle score for borrower(s) with 3 scores

Example 2:

Borrower and co-borrower income is equal:		
	Borrower 1	Borrower 2
Equifax	580	620
Experian	630	630
TransUnion	650	

Use 620 for the Representative Score, the lower of the representative scores for each borrower.

6.4. Rescore/Repull

6.4.1. Rescore

Only one (1) rescore is allowed. In all instances, the new credit score must be used.

6.4.2. Repull

The credit report may be re-pulled in the event one of the following scenarios occur:

- Suspected Fraud
- Addition or Removal of an applicant
- Updates as requested by the underwriter
- AUS errors
- Errors/inaccuracies, including disputed accounts
- Payoff of Debt

The most recent credit report must be used when multiple credit reports have been pulled.

6.5. Tradeline Requirements

If all borrower(s) have 3 FICO scores, then all borrower(s) must have 1 tradeline currently reporting that is not an authorized user account.

If any borrower has less than 3 FICOs, then the borrower must meet one of the following tradeline requirements::

- A minimum of three (3) current tradelines reporting on the credit report for at least 12 months, accounts may be open or closed with activity reflected within the last 12 months.

  OR

- Two (2) current tradelines reporting on the credit report for at least 24 months, accounts may be open or closed with activity reflected within the last 12 months.

  OR

- One (1) current tradeline reporting on the credit report for at least 36 months, accounts may be open or closed with activity reflected within the last 12 months.

Non-Permanent resident alien borrowers must have a 2 year credit history.

A Verification of Mortgage (VOM)/Verification of Rent (VOR) from a 3rd party/Management Company may be used as a credit tradeline if the payment history meets the reporting timeframe requirement for one of the tradeline options above. Privately held VOM/VOR must be supported with cancelled checks. In lieu of canceled checks, the borrower's bank statements, copies of money orders, or other reasonable methods for documenting the timely payment of rent may be used. The documentation must clearly indicate the payee and amount being paid, and reflect that payments were made on a consistent basis.

Joint accounts may be used to meet each individual borrower's tradeline requirement.

The following cannot be counted as a tradeline:

- Non-traditional credit as defined by Fannie Mae
- Deferred accounts
- Any account discharged in a bankruptcy
- Accounts being paid through a trustee in a Chapter 13 bankruptcy
- Authorized user accounts
- Charge offs
- Collection accounts
- Foreclosures

6.6. Mortgage / Rental History

Minimum 12 months of housing payment history required for the current/primary residence. 12 months of payment history is also required for all financed properties if the loan is seasoned 12 months. Existing mortgage or rent payments must be current at the time of application and the month prior to closing. For refinance transactions on the subject property, the payoff statement must show that the borrower is current or due in the month of funding. If the payment is due, the payoff statement must include that payment and show no 30-day late charges (unless the product allows 30 day late payments).

For DSCR, payment history is only required on the subject property and the borrower's primary residence; however, any mortgages reported on the credit report must meet payment history requirements as well. Refer to the DSCR Product Matrix for housing history requirements.

- If a 12 month mortgage payment history is not included in the borrower's credit report/credit supplement, one of the following must be used to verify the borrower's housing payment history:
  - loan payment history from the servicer;
  - A copy of the fully executed mortgage note/lease agreement and proof of electronic transfer such as 12 months cancelled checks, bank statements, or pay histories (Zelle, Venmo, etc) that clearly document the payment history for the most recent 12 months. Cash receipts for up to 2 months are allowed;
    - If the existing lien does not require any type of amortized payments (including interest only payments) per the terms of the note, a payment history is not required.
  - Verification of Mortgage (VOM)/Verification of Rent (VOR) from a 3rd party/Management Company;
  - Private party VOM/VOR and proof of electronic transfer such as 12 months cancelled checks, bank statements, or pay histories (Zelle, Venmo, etc) that clearly document the payment history for the most recent 12 months. Cash receipts for up to 2 months are allowed
- All financed properties must be properly documented for the purpose of documenting satisfactory mortgage payment history(ies)
  - Other Real Estate Owned (REO): If the loan is seasoned less than 12 months, evidence the existing loan has no 30-day lates since the inception of the loan and no 30-day lates or greater mortgage lates for any first mortgage loans are associated with the property and borrower(s) in the most recent 12 months.
  - Mortgage history may be waived for the period in which the borrower owns or owned a property free and clear; the loan must include documentation to support the free and clear status of the property
  - If a Borrower is living with a spouse and is not obligated on the current mortgage for the current residence, review property records to verify that the borrower is not obligated on the note.
- Payment history may be waived if 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 Borrower's current residence, verifying Borrower is living rent-free, will be required. Review property records to verify that the borrower is not obligated on the note.
- If the Borrower's employer or business is paying for their housing payment, then the payment history may be counted as sufficient housing history if satisfactory documentation is provided to show that there are no delinquencies in the most recent 12 months (eg. - Most recent 12 months cancelled checks or bank statements or documentation from the employer for Employer-paid housing).

6.7. Credit Inquiries

An Undisclosed Debt Monitoring (UDM) system, soft pull or credit refresh from 1 credit agency is required to detect debts and inquires opened during the origination process.

- On Full and Alt Doc products, a written explanation for all inquiries within 90 days of application is required as well as any credit inquiries during the origination process. A UDM will not be required for DSCR loans.

The borrower is required to disclose any secured or unsecured debt that was opened but not yet listed on the Credit Report. A copy of the statement of new debt must be included in the credit file or information on the UDM may be used to calculate the DTI. The DTI is to be recalculated based on any new debt disclosed.

6.8. Open 30-Day Charge Accounts

Open 30–day charge accounts (for example, AmEx), require the balance to be paid in full every month.

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, the borrower must have funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.

If proof of a monthly payment is provided that is less than the outstanding account balance, then that monthly payment amount may be included in the calculation of the qualifying DTI.

If sufficient liquid assets are not verified, then 5% of the outstanding balance must be included in the calculation of the qualifying DTI.

6.9. Past Due Accounts

All past due accounts (revolving and installment) must be brought current prior to or at closing. This guideline does not apply to collections and charge-offs.

6.10. Derogatory Credit

6.10.1. Derogatory Credit Event Definition

A Derogatory Credit Event is defined as a short-sale (SS), deed-in-lieu (DIL), mortgage loan charge-off (MCO), pre-foreclosure, foreclosure (FCL), Chapter 7, 11, 13 Bankruptcy (BK), non-COVID or disaster Forbearance, Notice of Default (NOD), or 120-day mortgage late payment. A modification due to default is a Derogatory Credit Event; however, a COVID or non-default modification is not a Derogatory Credit Event. A written explanation for all derogatory credit is required.

Other than the Clean Slate Product, the length of time is measured from the date of discharge/dismissal or property resolution (completion date) to the note date.

For the Clean Slate Product, the length of time is measured from the date of discharge/dismissal or property resolution (completion date) to the application date.

Refer to the specific Product Matrix for the Derogatory Credit Event seasoning.

6.10.1.1. Delinquent Credit

Delinquent credit – including IRS Federal income taxes (Delinquent is defined as an amount owed to the IRS after the payment deadline), real estate taxes, judgments, charge-offs of non-mortgage accounts, mechanic's or materialmen's liens, liens or any other item that may or will became a lien, or other "cloud" on title of the Subject Property, or can affect Arc Home's lien position, or diminish the borrower's equity—must be paid off at or prior to closing.

As a best practice, when federal income taxes are showing an amount due on the most recently filed tax returns that can significantly impact the DTI or there are no reserves to cover the debt, the underwriter may request proof that the amount has either been paid in full or the borrower has an approved monthly installment agreement with the IRS. When a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the monthly payment amount must be included in the borrower's DTI, refer to the below Income Tax Liens,
section.

6.10.1.2. Income Tax Liens

Outstanding tax liens may remain open if all the following requirements are met:

- A copy of the repayment agreement is obtained
- A minimum of three (3) months has elapsed on the plan and evidence of timely payments for the most recent three (3) months is provided
- The maximum payment required under the plan is included in the debt-to-income ratio
- The title company provides written confirmation confirming (a) the title company is aware of the outstanding tax lien, and (b) there is no impact to first lien position
- The file contains a copy of the repayment agreement from the IRS or state taxing authority
- The balance of the lien is included when determining the maximum CLTV for the program
- Refinance transactions require a subordination agreement from the taxing authority

6.10.1.3. Consumer Credit Charge-Offs and Collections

- Borrowers are not required to pay off outstanding collections or non-mortgage charge-offs under $5,000, provided the lien will not cloud title.
- If collections and non-mortgage charge-offs are not paid off prior to closing and it will not become a lien that will cloud title, they may remain open if the borrower has documented reserves covering the balance or the borrower can qualify with a calculated 5% payment added to the DTI.
- Any open collections, charge-offs or judgements that may cloud title must be paid off at or prior to closing.

Medical collection accounts are excluded and are not required to be paid in full at or prior to closing.

All collections and charge-offs that have expired under the state statute of limitations do not have to be paid. Evidence must be provided to confirm the expiration and will be excluded from payoff requirements.

If a collection account is currently being paid under a payment plan, the balance is not required to be paid off. The payment is to be added to the DTI calculation.

7. Income & Employment

7.1. General Information

Income used in calculating the borrower's debt-to-income ratio must be verified, stable and reasonably expected to continue. Gaps of employment greater than 90 days must be explained in writing by the borrower.

Declining Income: Income should be documented and analyzed in each loan file. Both salaried and self-employed borrowers should be reviewed for stability of income. Underwriter may require a letter of explanation in cases where income is not stable or declining.

7.2. Salaried/Wage Earner Income

7.2.1. Full Documentation Requirements

When a borrower is employed and does not own more than 25% of a business and they do not derive qualifying income from IRS form 1099, they may be classified as a 'wage earner' or W-2 borrower. Salaried/Wage earner income must be verified for the most recent two full years.

- Income must be documented by either:
  - A Written Verification of Employment (WVOE) and most recent paystub including year-to-date earnings (covering 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 years' W-2s. The paystub must include sufficient information to appropriately calculate income. W-2 transcripts may be used in lieu of W-2s.
- Executed 4506-C forms are required at initial disclosures and at closing.
- IRS third-party tax transcripts must be obtained for any income types that require tax returns. Transcripts are not required for wage earners.
- Seasonal /Irregular Pay can be used to qualify the loan if the borrower can demonstrate prior two years of receipt, as well as the likelihood that it will continue for the next three years. Employer must confirm the upcoming current year anticipated hours of seasonal/irregular employment months anticipated that the borrower will work, etc.
- Analysis of overtime, bonus or commission must be based on information obtained from the employer as needed.
- Follow Fannie Mae guidelines for additional employment documentation requirements.
- Follow Fannie Mae guidelines for gaps in income.
- A Verbal Verification of Employment is required.

7.2.2. Calculating Income Salaried/Wage Earners

Follow Fannie Mae guidelines for calculating wage earner income.

7.3. Self-Employed Income

If a borrower has 25% or more ownership interest in any business or 1099 income, they are considered self-employed.

7.3.1. Types of Businesses Structures

As a general matter, a self-employed borrower will utilize one of four corporate structures, with the documentation and calculation requirements for income will be dependent on the type of corporate structure utilized by the self-employed borrower.

- Sole Proprietor
- General Partner
- Limited Partner
- S-Corporation
- Corporation

7.3.2. Minimum Length of Employment

Income from self-employment is generally considered stable and effective if the borrower has been self-employed for two or more years.

The business structure may change within two years if the new business provides the same product and services as the current business (i.e. Sole prop. To LLC).

On full documentation loans, a self-employed borrower may qualify if they have been self-employed for less than two years but more than one year if:

- The borrower's most recent signed federal income tax returns reflect the receipt of 1 full year of earnings.
  - At least two years of documented previous successful employment in the line of work in which the person is self-employed, or in a related occupation; or
  - One year of employment and formal education or training in the line of work.
- If the borrower has been self-employed for less than one year, such income cannot be considered usable effective income.

On alternate income documentation loans, borrowers with less than 2 years as self-employed may be eligible under one of the following 2 options:

- Option 1: Must be self-employed for a minimum of 18 months and must have a minimum of three (3) years experience in the same line of business.
  - Minimum 700 score
  - Max 80% LTV on primary residence, max 75% LTV on second home; max 70% LTV on investment
- Option 2: Self-employed borrowers in a licensed profession (i.e., Medical, Legal, Accounting) must be self-employed for a minimum of 12 months and must have a minimum of three (3) years experience in the same line of business or education.
  - Minimum 700 score
  - Max 80% LTV on primary residence, max 75% LTV on second home; max 70% LTV on investment

A Verbal Verification of Employment is required.

7.3.3. Documentation and Calculation Requirements

7.3.3.1. Full Documentation Requirements

Follow the table below whenever IRS Income tax forms are required to document self-employed borrower income on Full Documentation products:

	IRS FORM						Other Required Documents		
	1040	Schedule C	1065	K-1	1120-S	1120	YTD P&L[1]	Partnership Agreement[2]	Existence of Business
Sole Proprietor	✓	✓					✓		✓
General Partner	✓		✓	✓			✓	✓	✓
Limited Partner	✓			✓			✓	✓	✓
S-Corporation	✓			✓	✓		✓		✓
Corporation	✓					✓	✓		✓
For All:	Schedules B, D and/or E as appropriate								

[1]YTD Profit and Loss Statement (P&L) prepared by a CPA, or the borrower is required. The P&L may be audited or unaudited, but must be signed and dated by the preparer and the borrower. If the loan has an application date between January 1st and March 31st, the previous full year's P&L is required. The P&L is required to ensure that the income is stable and expected to continue; it may not be used for qualifying the borrower. The P&L must report business revenue, expense, and net income up to and including the most recent month preceding the loan application date.

[2] For General Partnership, the 1065 or Partnership Agreement may be used to determine ownership percentage.

Additional documentation, in addition to the items in the table above, may be requested by the underwriter as necessary to fully document income.

Calculation Requirements

Income is calculated by utilizing the past two years 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 instructions to document self-employed income.

7.3.4. CPA Verification

Use this chart to determine whether a CPA/EA/CTEC or tax preparer is allowed.	
Reason for Verification/Income Document	**Qualification**
Verification of: • Borrower's ownership percentage, • length of ownership in the business, or • negative impact of using business funds for downpayment, closing costs, or reserves	Must be verified by a CPA/EA/CTEC or tax preparer with a PTIN. Validation of the license/PTIN is required.
Either of the following income documents: • CPA Prepared Profit and Loss (P&L) or • Third-party prepared expense statement	Must be verified by a CPA/EA/CTEC. Tax Preparers who possess solely a PTIN without one of these designations are not allowed to prepare the P&L or expense statement. Validation of the CPA/EA/CTEC license is required.

The CPA/EA/CTEC license or Tax preparer's PTIN must be verified with either a copy of their license or an online verification. Examples of online verifications would include but not be limited to:

- CPA verification https://cpaverify.org/
- American Institute of CPAs https://us.aicpa.org/forthepublic/findacpa
- CPA/EA/CTEC/PTIN verification via the IRS website RPO Preparer Directory (https://irs.treasury.gov/rpo/rpo.jsf) or PTIN Verification (https://www.irs.gov/tax-professionals/ptin-information-and-the-freedom-of-information-act).
- PTIN search https://www.ptindirectory.com/membership-certificates.cfm
- CTEC verification: https://www.ctec.org/verify?nav=tax-professionals

7.4. Verbal Verification of Employment (VVOE)

A verbal verification of employment is required for each borrower using employment or self-employment income to qualify.

7.4.1. Wage Earner

The Verbal Verification of Employment is required for all borrowers using salaried income to qualify and must be completed within 10 business days prior to the note date. Correspondent lenders may obtain the verbal VOE (or allowable alternative) after closing, up to the time of loan delivery to Arc Home.

- A phone number and, if possible, an address for the borrower's employer must be independently verified by using a telephone book, the Internet, directory assistance, or by contacting the applicable licensing bureau.
- The conversation must be documented. It should include the following:
  - name and title of the person who confirmed the employment for the lender,
  - name and title of the person who completed the verification for the employer,
  - date of the call, and
  - the source of the phone number.

Alternative Methods to Verify Employment:

The following can be obtained:

- 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.
    - Due diligence is required to confirm that the email address for the employer is accurate. Examples of due diligence include, but are not limited to, searches of domain name on employer website (review for match to employer email address), employer directory on the internet, or other professional networking or business profile websites.
    - The email exchange must include borrower's name and employer's name; name, title, and work email address of the individual contacted at the employer; date of contact; and borrower's current employment status.
- either a paystub or bank statement dated within 15 business days prior to the note date that:
    - 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.
- If the borrower is a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), 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. Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the note date.

7.4.2. Military Personnel

If the borrower is in the military, in lieu of a verbal or written VOE, either a military Leave and Earnings Statement dated within 120 calendar days prior to the note date, or a verification of employment through the Defense Manpower Data Center can be obtained.

7.4.3. Self-Employed

Verbal Verification of Employment 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:

- Verify from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; 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:
  - 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).

The source of the information and the name and title of the employee who obtained the information must be documented.

7.5. Asset Utilization

7.5.1. Qualification Requirements

Asset Utilization attributes qualifying income to a borrower by utilizing their liquid assets divided by a specific time frame to ensure that income attributed to a borrower is stable and is reasonably expected to continue. **Asset Utilization is not eligible on the Edge suite**.

Access Qualification Requirements:

Asset Utilization as primary income source: If Asset Utilization is the primary source of income (> 50% of the total qualifying income), then refer to the Access Asset Utilization Product Matrix or Access Asset Qualification Product Matrix for Loan amount, FICO, LTV, DTI, and documentation requirements rather than this section. **Asset Utilization is not eligible on the Edge suite**.

Supplemental Asset Utilization: If Asset Utilization will be used as supplemental income (≤ 50% of the total qualifying income), then the requirements in this section apply. The ending balance of the asset statements must match the total amount of assets used to calculate the income. The balance on the account statement cannot be reduced solely for the purpose of lowering the supplemental income to less than the 50% qualifying income threshold. The same asset account cannot be used for distribution income and asset utilization. Asset Utilization may be used to supplement other types of qualifying income on the following products. **Asset Utilization is not eligible on the Edge suite.**

- Alt income 1-year Full Doc, Bank Statements, 1099, CPA Prepared P&L
- Clean Slate
- Agency Plus

Two (2) months of account statements are required. All assets must be seasoned at least two (2) months prior to note date. 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.

Monthly Qualifying Income is calculated as follows:

(Total Qualified Assets – down payment – closing costs – reserves) divided by **60**.

7.5.2. Eligible Qualifying Assets

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:

- 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) can be used if the borrower is 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. The loan file must 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 as of the date of the note. 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.

7.5.3. Documentation Requirements

All pages of the account statements must be provided. There must be sufficient documentation to clearly demonstrate the amount of assets that the borrower(s) has access to.

- The underwriter must determine that the dollar amount of assets used for qualifying are not impacted by withdrawals and are eligible to the borrower regardless of other account holders who may have a claim to the account.

- 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.

7.5.4. 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
- 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

7.6. Marijuana Related Business (MRB) Income

Income derived from an illegal source in accordance with all applicable federal, state, and local laws, rules, and regulations is ineligible. Federal law restricts marijuana related activities and therefore the income from these sources are not allowed for qualifying. Related activities include:

- Possession of cannabis or cannabis seeds
- Processing
- Growing
- Harvesting/Cultivation
- Testing
- Packaging/Delivery
- Wholesale or Retail sales, including the sale of marijuana related paraphernalia and other herbal products (such as kratom)

7.7. Mortgage Credit Certificates (MCCs)

Mortgage credit certificates (MCCs) enable an eligible first-time homebuyer to obtain a mortgage secured by their principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments. MCCs are not allowed as income.

7.8. Other Income

All other income is acceptable per [Fannie Mae] documentation and calculation requirements.

7.9. Residual Income

Loans with a debt-to-income ratios (DTI) of 43% or higher, require a Monthly Residual Income of $2,000. Refer to the Alt Doc Product Matrix for residual income requirements when the borrower is qualifying using Asset Qualifier. This does not apply to DSCR loans.

Residual income equals:

Qualifying income

- PITIA for subject property;

- Any negative net cash flow from rental properties;

- All liabilities counted in the Borrowers debt-to-income

7.10. Restricted Stock (RS) and Restricted Stock Units (RSU) Income

Income from Restricted Stock and Restricted Stock Units are available to employees based on either performance-based vesting provisions or time-based vesting provisions. In all cases, the following information must be provided about the vesting plan:

- Evidence the stock is publicly traded
- Documentation verifying that the vesting provisions are time-based or performance-based (e.g., RS and/or RSU agreement, offer letter)
- Vesting schedule(s) currently in effect detailing past and future vesting
- Evidence that the RS/RSU used for qualifying was vested and distributed to the Borrower, from their employer, without restriction
- Evidence of receipt of previous year's payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its cash equivalent distributed to the Borrower (pre-tax)
- Evidence of continuance for the next three years

A two-year history of receipt must be documented for performance based vesting provisions as evidenced with the following:

- YTD paystub(s) documenting all YTD earnings, including payout(s) of RS or RSU, and W-2 forms for the most recent two calendar years
  OR

- Written VOE documenting all YTD earnings (including payout(s) of RS or RSU) as well as earnings for the most recent two calendar years. Employment and income verifications obtained through a third-party verification service provider are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSU.

A one-year history of receipt must be documented for time-based vesting provisions as evidenced with the following:

- YTD paystub(s) documenting all YTD earnings, including payout(s) of RS or RSU, and W-2 form for the most recent calendar year
  OR

- Written VOE documenting all YTD earnings (including payout(s) of RS or RSU) as well as earnings for the most recent calendar year. Employment and income verifications obtained through a third-party verification service provider are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSU.

Follow Freddie Mac Selling Guide Chapter 5303.1(d).(ii).(D) for calculation of Restricted Stock and Restricted Stock Units.

7.11. Rental Income

Long term rental income may be used for qualifying purposes.

- For Full Documentation loans: Refer to Fannie Mae guidelines.
- For Alternative Documentation loans or DSCR loans: Refer to the Program Matrix for more details.

7.12. Short-Term Rental Income

Short-term rental income (such as AirBNB/VRBO) may be used for qualifying purposes on either the Subject property or other investment properties that the borrower owns for purchase or refinance transactions.

- **Full Documentation Loans**:
  - Purchase transactions: Property must in an area that is common for short term rentals. Rental income must be calculated by taking the nightly, weekly, monthly, or seasonal market rent from the Comparable Rent Schedule Form 1007 or 1025 (as available per market), multiplied by 75% to account for a vacancy factor, then averaged over 12 months.
  - Refinance transactions: Must be verified by the most recent year's tax returns/ Schedule E. Rental income must be calculated by using the income from Schedule E averaged over 12 months.
    - If a full year is not captured on the most recent year's tax returns, income must be verified by 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), multiplied by 75% to account for a vacancy factor, then averaged over 12 months.
    - In cases where the short-term rental property is self-managed, evidence of 12 months of receipt of the rental income, through canceled checks or bank statements, is required. Rental income must be calculated by taking the gross deposits over the 12-month period, multiplied by 75% to account for a vacancy factor, then averaged over 12 months.
- **For Alternative Documentation loans or DSCR loans**: Refer to the Program Matrix for more details.

A fully completed Condo Questionnaire is required to verify that short term rental agreements are permissible under the CC&Rs whenever the subject property is utilizing this income method.

The appraiser must comment on the prevalence of short-term rental activity in the market area, and whether there is an impact on marketability. All short-term rental properties must be located in highly marketable areas.

7.13. Rental Income from an Accessory Dwelling Unit (ADU)

Rental income from an Accessory Dwelling Unit (ADU) is permitted when:

- the subject property is a 1-unit principal residence with an existing ADU
- rental income is from the ADU only (except DSCR)
- the ADU income cannot exceed 30% of the total qualifying income
- Permitted transactions are Purchase and Rate/Term refinance

8. Assets

8.1. Verification

For Edge and Access: Full Asset verification is required for both funds to close and reserves. Asset statements must cover 30 days of account activity in accordance with the documentation types in Fannie Mae Verification of Deposits and Assets Guidelines. The most recent month statement or the most recent quarterly statement is required for all Products. This does not include the Asset Utilization Products, refer to the Asset Utilization Product Matrices for additional clarification. All assets from the borrower(s) must be disclosed and verified.

8.2. Business Funds as Assets

Business funds may be used for down payment, closing costs and reserves with all the following documentation.

- The business funds must be sourced or seasoned for thirty days prior to application date
- Evidence of Borrower's percentage of ownership must be provided
- The borrower must be (at least 25% owner) of the business account as evidenced by the firm's operating agreement, CPA/EA/CTEC or a tax preparer with a PTIN letter, or equivalent.
- The underwriter must multiply the available business funds by the borrower's ownership percentage to compute the business funds available for down payment, closing costs, and reserves.
    - On DSCR transactions, when the loan is vesting in an entity and the entity funds are being used for down payment, closing costs and reserves, the borrower may use 100% of the funds if all other entity owners provide an access letter.
- If business statements show payments being made to a loan, the loan terms must be provided to verify whether the business assets were used as collateral for the loan and verify that assets are allowed to be withdrawn for personal use, so that Arc Home's lien is not in 2nd lien position.

In addition, when business funds are being used for down payment or closing costs, and the borrower is using self-employed income from that business to qualify, documentation to prove that the withdrawal of funds will not negatively impact the business is required as evidenced by either:

- Full Documentation loans:
    - a letter from the CPA/EA/CTEC or a tax preparer with a PTIN; OR
    - a cash flow analysis by use of individual tax returns and/or business returns when

applicable

- Bank Statement loans:
  - a letter from the CPA/EA/CTEC or a tax preparer with a PTIN; OR
  - when the borrower owns 100% of the business, a letter from the borrower AND a cash flow analysis based on the Underwriter's review of the Bank Statements

To assess the impact of the use of business funds, Arc Home MAY require a level of documentation greater than what is required to evaluate the borrower's business income (for example, several months of recent business asset statements to see cash flow needs and trends over time, or a current balance sheet). This may be due to the amount of time that has elapsed since the most recent tax return filing, or the lender's need for information to perform its analysis.

8.3. Credit Card Financing

Credit card financing for the payment of common and customary fees paid outside of closing is allowed up to a maximum of 2% of the loan amount. The borrower must have sufficient liquid funds (financial reserves) to cover these charges (in addition to funds needed for other closing costs and the down payment that they will be paying).

8.4. Electronic Currency (Such as Cryptocurrency, Bitcoin)

Follow Fannie Mae guidelines.

8.5. Foreign Assets

When the source of funds needed for down payment, closing costs or reserves is, or otherwise originates from, asset(s) located outside the United States and its territories, the funds must be transferred into a United States or State regulated financial institution or to the title company at least 10 days prior to closing and the funds must be currently available to the borrower.

When the funds are deposited in a U.S. or State regulated financial institution within 60 days of the application date, all of the following requirements must be met:

- Documented evidence of funds transferred from the country from which the funds originated,
- It can be established that the funds belonged to the borrower, before the date of the transfer, and
- The source of all funds used for closing can be verified, just as they would for any other depository account.

All documents of foreign origin must be filled out in English or the originator must provide a translation, attached to each document, and warrant that the translation is complete and accurate. Translations are to be completed by a disinterested 3rd party evidenced with a seal or stamp from an official translator, artificial intelligence translations are not acceptable.

All foreign currency amounts must be converted to U.S. dollars using the current exchange rate.

8.6. Gift Funds

Refer to the Product Matrix for eligibility. If the product allows gift funds to be used for down payment and closing costs, then the below requirements must be met. Gift funds cannot be counted towards reserves.

LTV/CLTV of 80% or Less:

- One-to Four Unit Primary Residence, Second Home and Investment Property Transactions: A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.

LTV/CLTV greater than 80%:

- One- to Four Unit Primary Residence, Second Home, and Investment Property Transactions: The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment and closing costs.

Gift of Equity, other than for DSCR loans, is permitted and must be reflected on the final closing disclosure as a Seller Credit.

Acceptable Donors: A gift can be provided by:

- a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
  a fiancé, fiancée, or domestic partner.

A gift cannot be provided by a person with any affiliation with the builder, the developer, the real estate agent or any other interested party to the transaction. When a gift of equity is provided by an acceptable donor, the donor is not considered to be an interested party and the gift of equity is not subject to interested party contributions.

Down payment and closing costs funds received from a non-borrowing purchaser, who is on the purchase contract and will sign the deed and security instrument, are not considered a gift; however, existence of the funds are required. A gift letter is not required. Funds received from a non-borrowing purchaser cannot be used as reserves.

8.6.1. Gift Fund Documentation

Gifts must be evidenced by a gift letter signed by the donor. The gift letter must:

- specify the actual or the maximum dollar amount of the gift;
- include the donor's statement that no repayment is expected and
- indicate the donor's name, address, telephone number, and relationship to the borrower.

Verification must be provided showing that sufficient funds to cover the gift have been transferred to the borrower's account. Acceptable documentation includes the following:

- a copy of the donor's check and the borrower's deposit slip,
- a copy of the donor's withdrawal slip and the borrower's deposit slip,
- evidence of the electronic transfer of funds from the donor's account to the borrower's account or to the closing agent,

- a copy of the donor's check to the closing agent, or
- a settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to settlement, the underwriter must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check or wire transfer.

8.7. Large Deposits

Other than DSCR, large deposits must be documented per Fannie Mae requirements. Below is a summary:

- On Refinance transactions: Documentation or explanation for large deposits is not required.
- On Purchase transactions:
  - For personal accounts, if funds from a large deposit in excess of 50% of monthly qualifying income or if funds from any large deposit that is out of the ordinary are needed to complete the transaction (that is used for the down payment, closing costs, or financial reserves), document that those funds are from an acceptable source. Occasionally, a borrower may not have all the documentation required to confirm the source of a deposit. In those instances, use reasonable judgment based on the available documentation as well as the borrower's DTI and overall income and credit profile. Examples of acceptable documentation include:
    - Borrower's written explanation
    - Proof of ownership of an asset that was sold
  - For business accounts or personal accounts being used for business use, review the most recent bank statements provided along with business income documentation to ascertain what is normal and typical for the business. If the business account is being used for assets, the underwriting loan file must include written documentation or the rationale for using the funds.

8.8. Real Estate Commission

When the borrower is acting as their own real estate agent, real estate commission earned from the sale of the subject property being purchased is an eligible source of funds for down payment and closing costs provided the borrower is a licensed real estate agent. The borrower may not be the listing and the selling agent. The following documentation is required:

- the settlement statement must reflect the commission earned by the borrower, and
- the earned commission amount must be credited towards the mortgage loan.

8.9. Reserves

Refer to Product matrices for reserve requirements. However, the following criteria apply:

- Reserves for a loan with an Interest-Only feature will be calculated based upon the interest only payment.
- Cash-out proceeds can be used to meet reserve requirements. Refer to the LTV matrix as

some products only allow when the LTV ≤ 70%.

- Business Funds may be used for reserves. Refer to Business Funds section for additional detail.

8.9.1. Unacceptable sources of reserves

- Gift funds
- Proceeds from unsecured/revolving debt or cash advances such as credit cards
- Proceeds from 1031 Exchange
- Assets being used for dividend and interest income

8.10. Ineligible Assets

The following assets are ineligible for down payment, closing costs and reserves:

- 529 or similar college fund
- Equity in real estate including current home
- Funds held in foreign accounts or investments
- Pledged/Collateral assets
- While Margin accounts are acceptable for down payment, closing costs and reserves as funds secured by an asset, funds that have been allocated as Margined/Pledged/Collateral assets are not allowed. Any funds required for closing must be liquated. After liquidation, any funds still available to be borrowed (the value of the Margined/Pledged/Collateral asset reduced by the outstanding loan balances and accrued interest and fees) may be used for reserves.
- Private securities or any non-publicly traded assets
- Vested and non-vested stock options and non-vested restricted stock
- Non-vested stock
- Grant funds
- Builder profits
- Employer Assistance Assets
- Cash advance on credit card
- Cash for which the source cannot be verified (cash on hand)
- Proceeds from an unsecured Loan
- Salary advance
- Sweat equity (contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash)
- Unverifiable source of funds
- Marijuana Related Business (MRB) Assets. Federal law restricts marijuana related activities and therefore assets from these sources are not permitted. Related activities include:
  - Possession of cannabis or cannabis seeds
  - Processing
  - Growing
  - Harvesting/Cultivation
  - Testing
  - Packaging/Delivery

  - Wholesale or Retail sales, including the sale of marijuana related paraphernalia and other herbal products (such as kratom)
- Bridge loan from a Reverse 1031 exchange
- Reverse mortgage
- Seller real estate tax credit

9. Monthly Debt Obligations

Refer to Fannie Mae guidelines for monthly debt obligations not addressed below.

9.1. Business Debt in Borrower's Name

When a self-employed borrower claims that a monthly obligation that appears on their personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the underwriter must verify that the obligation was actually paid out of company funds and that this was considered in the analysis of the borrower's business.

The account payment does not need to be considered as part of the borrower's DTI ratio if:

- the account in question does not have a history of delinquency,
- the business provides acceptable evidence that the obligation was paid out of company funds (such as 6 months of canceled company checks), and
- the underwriter's analysis of the business took payment of the obligation into consideration.

The account payment must be considered as part of the borrower's DTI ratio in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds.
- If the business provides acceptable evidence of its payment of the obligation, but analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the analysis.
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the underwriter should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.

10. Exhibits

LLC Borrowing Resolution

The undersigned, being all of the Members of___________________________________, a_________ ____[state] Limited Liability Company (hereafter "Company"), acting by unanimous written consent and pursuant to the Certificate of Organization and Operating Agreement (if any), do hereby consent to and adopt the following resolutions;

BE IT RESOLVED: that the Company acknowledges that ___________________________________[name of individual borrower(s)] is obtaining a loan from__________________________________("Lender") in the principal amount up to $_____________(the "Loan"). As security for the Loan, the Company is hereby authorized to execute a first deed of trust or mortgage on the property commonly known as:

[property address]____;

The Resolution is adopted this___________________ day of_____________, 20__.

Name of Entity: _______________________

By: ________________________________

Printed Name: ________________________

Title: ______________________________

Name of Entity: _______________________

By: ________________________________

Printed Name: ________________________

Title: ______________________________

Name of Entity: _______________________

By: ________________________________

Printed Name: ________________________

Title: ______________________________

Name of Entity: _______________________

By: ________________________________

Printed Name: ________________________

Title: ______________________________

Corporate Borrowing Resolution

The undersigned, being all of the members of the Board of Directors of _________ Corporation, [INSERT STATE] corporation ("Company"), hereby consent to the adoption of the following resolutions and actions which shall have the same force and effect as if duly adopted at a meeting of the Board of Directors duly called and held for the purpose stated herein.

BE IT RESOLVED: that the Company acknowledges that __________________________________[name of individual borrower(s)] is obtaining a loan from_________________________________("Lender") in the principal amount up to $_____________(the "Loan"). As security for the Loan, the Company is hereby authorized to execute a first deed of trust or mortgage on the property commonly known as:

[property address]____;

IN WITNESS WHEREOF, the undersigned have duly executed this unanimous written consent of the Board of Directors as of the ______ day of ____, 20__.

____________________________________ ____________________________________

Name: [Director #1] Name: [Director #2]

Attorney Opinion Letter Example

Re: [name of entity] ("Mortgagor")

Mortgagor (a) is a [limited liability company or corporation], duly organized, validly existing under the laws of the State of_________ and in any other jurisdiction where the Mortgaged Property is located; and (b) has all requisite power and authority and all governmental certificates of authority, licenses, permits and qualifications to own, lease and operate its properties and carry on its business as now being conducted in the State of__________ and in any other jurisdiction where the Mortgaged Property is located. The persons acting on behalf of the Mortgagor have been duly authorized to bind the Mortgagor to the Mortgage.

The execution and delivery of the Mortgagee and the performance by the Mortgagor of its obligations thereunder (a) are within its [limited liability company or corporation] powers; (b) have been duly authorized by all requisite partnership action; (c) will not violate, be in conflict with, result in the breach of, or constitute (with due notice or lapse of time, or both) a default under any statute, regulation, rule order or other legal requirements applicable to it, nor to our knowledge, any agreement to which the Mortgagor is bound.

Officer's Certificate Example

I, ___________, hereby certify that I am the duly appointed _________ of ____________ a _______ [limited liability company/corporation] ("Company"), and further certify, on behalf of the Company, as follows:

1. The Company was formed on _________ under the laws of the State of ________.
2. _________ is (please check boxes of all that apply): (a) the sole member of the Company [___] (b) the Manager of the Company [___]; and (c) personally owns the entirety of the Company [___].
3. Attached hereto as Exhibit A is a true and correct copy of the Certificate of Formation for ____________ ("Articles") filed with the ______________ on _________. To the best of my knowledge, the Articles have not been amended, restated, or otherwise revised since their filing.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed the seal of the Company this ___ day of ______ 20__.

_________________ _________________

Name: Name:

Title: Title:

_________________ _________________

Name: Name:

Title: Title:

STATE OF ________

COUNTY OF _______

The foregoing instrument was acknowledged before me this _____ day of ______ 20___, by

_______________________ (name of person acknowledging.)

____

(Seal) Signature of Notary Public

Print, Type/Stamp Name of Notary

Personally known: _______

OR Produced Identification: ________

Type of Identification Produced: ______