Wholesale Closed End Second Product Matrix

This product is for strong credit quality borrowers looking for a second lien. This loan product is subordinate to the first lien.

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Closed End Seconds Matrix

Transaction Type	Minimum FICO[1]	Max CLTV		
		Owner Occupied	2nd Home	Investment
Rate-Term and Cash-Out	740	80%	75%	75%
	700	80%	75%	70%
	680	80%	70%	65%
	660	70%	N/A	N/A
	640	65%	N/A	N/A

CLTV Matrix Footnotes

[1] Alt Doc Income requires minimum 660 FICO

Closed End Seconds Product Details

Amortization	• Stand-Alone Second Liens • Fixed rate terms: 10 ,15, 20, & 30 years

Appraisal Requirements / Valuation	• For loan amounts > $400,000, a Full Appraisal will be ordered
	• For all other loan amounts, an AVM within 60 days of note date or Traditional Full Appraisal within 120 days of note date is required.
	• AVM's will be ordered from one of the below vendors, with an acceptable score as indicated:
	  ○ Black Knight Collateral Analytics – FSD < 0.26
	  ○ Clear Capital – FSD < 0.13
	  ○ CoreLogic/Cotality – FSD < 0.22
	  ○ Any provider from Clear Capital's AVM Cascade
	  ○ House Canary – FSD < 0.14
	  ○ Veros/Verovalue – FSD < 0.16
	  ○ Quantarium – FSD < 0.15
	• All Higher priced mortgage loans, regardless of loan amount, must have full standard appraisal as

	specified by FNMA Guidelines. • When a full interior appraisal shows "SUBJECT TO", a 1004D from the same appraiser who completed the appraisal is required to certify that any required repairs or improvements mentioned in the appraisal have been completed.

ATR/QM and HPML	All loans must comply with the ATR/QM rule
	• Loans may be QM safe harbor, QM rebuttable presumption, or Non-QM, but all must meet ATR requirements in 12 CFR Part 1026.43.
	• Arc Home will not originate High-Cost loans
	  ○ High Cost defined as secondary/subordinate financing with an APR 8.5% ≥ above the APOR
	  ○ Includes loans classified as High-Cost mortgages under any state law
	• Arc Home will originate Higher Priced Mortgage Loans (HPML) that comply with all regulatory compliance.
	  ○ HPML defined as secondary/subordinate financing with an APR 3.5% ≥ above the APOR

Credit/Payment History Requirements	• A full tri-merge credit report is required. The middle score will be used (or the lowest of the two when only two scores are available). • Non-traditional credit is not permitted • Credit report must show a max of one 30-day late in the last 12 months for all mortgage tradelines. • Client must be current at the time of closing and cannot be in a forbearance. • Per Fannie Mae Selling Guide for all other credit requirements.
Lender Eligibility	Eligible for Wholesale Brokers
Loan Amounts	• Minimum Loan Amount: $25,000 • Maximum Loan Amount: $500,000
Maximum Total Financing	• Owner-Occupied - Limited to $3,000,000 (total amount of 1st and 2nd lien combined) • Second Homes - Limited to $2,000,000 (total amount of 1st and 2nd lien combined) • Investment Properties - Limited to $2,000,000 (total amount of 1st and 2nd lien combined). Limited to 10 Financed Properties
Property Types	<u>Eligible:</u> • SFR • Condo (Fannie Mae warrantable, Full Review required) • PUD • 2-4 Unit Properties <u>Ineligible:</u> • Non-Warrantable Condos • 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 Virgin Islands • Income producing buildings or land • Rural property • Properties with more than 20 acres
Income Documentation and Calculation Requirements	
Full Documentation Loans	
Income & Asset Underwriting	Manually underwritten, per Fannie Mae Selling Guide
Alternative Income Documentation Loans Requirements & Calculations Please refer to the Arc Underwriting Guide for any requirements not discussed below.	
1-Year Full Doc Income Documentation/Calculation Requirements	
1-Year Tax Returns & P/Ls	• Documentation is the same as Full documentation requirements per the Arc Underwriting Guide, except only the most recent year of Tax Returns, Schedules, and P/L is required. • Income is calculated by utilizing the past ONE year of tax returns, schedules and forms. • A cash flow analysis must be prepared for all self-employed borrowers. Use Fannie Mae Form 1084 and follow all instructions to document self-employed income. (Complete just one year of information rather than two).
1-Year W-2 & Paystubs	• Documentation is the same as Full documentation requirements per the Arc Underwriting Guide, except only the most recent year W-2 (or year-end paystub if loan is closing in January) and YTD paystubs covering at least 30 days are required. • Borrower must have two (2) year history of employment in same industry and 1-year continuous employment at current job. • Capital gains income and borrowers employed by family members are not eligible. • Follow Fannie Mae guidelines for how to calculate income
WVOE	• Documentation is the same as Full documentation requirements per the Arc Underwriting Guide, except only a written VOE (Form 1005 or third-party service such as The Work Number) referencing prior year and most recent year-to-date income and most recent paystub are required. • Borrower must have two (2) year history of employment in same industry and 1-year continuous employment at current job. • Capital gains income and borrowers employed by family members are not eligible. • Follow Fannie Mae guidelines for how to calculate income
Documentation Type	**1-Year Tax Returns & P/Ls and 1-Year W-2 & Paystub**: Doc Type must reflect "1 Yr Tax Returns" Written **VOE (WVOE) & Paystub**: Doc Type must reflect "VOE"
Tax Transcripts	**1-Year Full Doc Tax-return:** A signed 4506-C and IRS Tax Transcripts for the most recent year must be obtained prior to clear to close. **1-Year Full Doc Wage Earner or when an additional W-2 is used:** A signed 4506-C is required. Transcripts are not required.

12& 24-Month Bank Statement Income Documentation/Calculation Requirements	

Employment Requirements	The wage earner must be self-employed as a for-profit business.
	• Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years. Refer to the Arc Underwriting Guide, for requirements when the borrower has been self-employed less than 2-years but more than 1-year.
	• The business used in qualifying must have existed/active for at least two (2) years. However, if a borrower is qualifying with less than two years but more than one year of self-employment, then the business should be established for the same length of time.
	• 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).
	• The borrower's ownership percentage and length of ownership must be verified with one of the following:
	  ○ Letter from CPA/EA/CTEC or a tax preparer with a PTIN. Validation of the license/PTIN is required.
	  ○ Business Formation Documents (Articles of Incorporation, Bylaws, Charter, Articles of Association, DBA for a sole proprietor).
	  ▪ Any documents received must document that they have been filed properly with the state
	  ▪ Operating Agreement/Partnership Agreement
	  ▪ Must reflect all member-ownership interest in the business
	• Verbal verification of employment guidelines apply, refer to the Arc Underwriting Guide.

Documentation Requirements	Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification. Accounts must be from a US financial institution or a financial technology company insured by a US financial institution, FDIC member. Regardless of the type of account (business or personal) the following apply:
	• 12- or 24- month complete bank statements must be in the file
	• Bank statements must be consecutive and reflect the most recent months available per 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
	• If an account was closed and a new account was opened or if the borrower was using a personal account and switched to a business account, Arc will consider the bank statements to be consecutive if the bank statements reflect the switch and reflect continuity (no gaps). The new account must be opened for at least 3 months to validate stability. The 3-month requirement may be waived if the old account was closed due to fraud.
	• Cannot mix and match different bank accounts from month to month (e.g.- January statement from personal, February statement from business, March from personal and so forth)
	  ○ Every page including pages without transactions and advertisements must be present; transaction history printouts are not acceptable
	  ○ Statements must support stable and generally predictable deposits.
	• Monthly income must be disclosed on the initial, signed 1003
	• Deposits must be common and customary based on the nature of the business and how the borrower conducts their business. Unusual deposits must be sourced and documented; unacceptable deposits are not counted toward the income derived from bank statement deposits.
	• Months with no revenue must be explained by the borrower. The underwriter must validate the stability of the income based on the nature of the business and how the borrower conducts their business.
	• Foreign income is allowed if the CPA certifies that the income has been filed on US federal income tax returns for the last 2 years and if the business has a valid US business registration (EIN).
	• Non-Sufficient Funds (NSFs) must be reviewed on the bank statements used in qualifying the borrower. NSF/Overdraft is defined as a financial institution accepting a withdrawal which results in the account going into the negative and a fee is charged, or when a check/ACH is presented but cannot be covered by the balance in the account "bounced check" and a fee is charged. NSFs are

	allowed with the following restrictions: • If there are one (1) or more occurrences in the most recent three-month time period, up to three (3) occurrences are allowed in the most recent 12-month time period. • For Edge loans, if there are zero (0) occurrences in the most recent three-month time period, up to five (5) occurrences in the most recent 12-month time period are acceptable. • For Access loans, if there are zero (0) occurrences in the most recent three-month time period, up to six (6) occurrences in the most recent 12-month period are acceptable. • All NSFs in the most recent 12 months must be explained with an LOE from the borrower • Protected Overdrafts, where the borrower has sweep protection from another account or where the financial institution allows the account to go negative and does not charge a fee are NOT included in the NSF count. Validation that the sweep account belongs to the borrower is not required. • Reversed/refunded NSFs are NOT included in the NSF count. • Multiple NSF's and/or Overdrafts that occur on the same day will count as one occurrence
Disallowed Deposits	Disallowed deposits include transfers from other accounts credit lines, business loans, rental income, one-time only deposit in 12 months, cash advances from credit cards, returns/refunds, or income from other sources (on personal bank statements).
Personal Bank Account Qualification	**BUSINESS DISTRIBUTIONS:** If the borrower maintains separate bank accounts for personal and business use but pays themselves as a distribution/payroll into their personal bank account, those deposits into their personal bank account may be used for qualifying. In addition to the Employment Requirements and Documentation Requirements above, the following apply: • Borrower must own at least 25% of the business. • Two months of business bank statements must be provided to document the qualifying business is an operating entity and to verify transfers to the personal account. • The deposits into the personal bank account must exhibit the respective account number of the business bank account(s) provided (based on the provided 2 months of business bank statements). • If one personal bank statement is being used for multiple businesses, then the deposits must be clearly matched to each business so that we can validate the stability of each business and the borrower's ability to repay. • Significant and/or repeated transfers from a borrower's personal account to their business account should be scrutinized carefully as they may be indicators of poor financial health. • If the personal account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded. **Calculation Method** • Qualifying income is calculated using the total eligible deposits from the personal bank statements reviewed divided by the number of statements, minus any inconsistent or large deposits not justified. The most recent bank statement must be consistent with the qualifying income. • No expense factor is applied if business bank statements support operating activity with expenses being paid. Qualifying income is **calculated as follows**: (Total Deposits – Disallowed Deposits) divided by 12 or 24 months Income disclosed on the initial application (1003) should be reviewed for consistency with the income calculated from the bank statements. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn and/or additional documentation to further support the calculated income.
Commingled Personal Bank Account Qualification	**COMMINGLED BANK ACCOUNT:** A comingled bank account is a personal account used by a borrower for both business and personal use. A separate business account is not required. Personal bank accounts are allowed to be comingled with income/expenses from only one business. Personal bank accounts may not be comingled with multiple businesses. Deposits must be common and customary based on the nature of the business and how the borrower accepts payments for their business.

	Unusual deposits must be sourced and documented as business revenue. These accounts will be treated as business accounts for purposes of determining income. In addition to the Employment Requirements and Documentation Requirements above, the following apply:
	• Must provide business expense documentation. Expense verification will differ based on the Calculation Option chosen (see each option below for details)
	• Statements should show a trend of ending balances that are stable or increasing over time.
	• Decreasing or negative ending balances must be explained and may result in the loan being denied
	• Business expenses must be reasonable for the type of business (examples of businesses with higher expense ratios include construction companies, builders, restaurants, and retail firms)
	• If the bank statements reflect payments being made on obligations that are not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower's debt- to-income ratio.
	  ○ If the obligation does not belong to the borrower, supporting documentation is required.
	  ○ If the borrower is the obligor on an account statement a payment history must be obtained to review the account for acceptability. The payment must be included in the debt ratio.
	
	Comingled Bank Accounts may only be used by Sole Proprietors (Partnerships, S-corporations, and Corporations are not allowed):
	• Borrower and non-borrowing purchasing spouse with combined 100% ownership eligible; **OR**
	• All credit qualifying borrowers on the loan own 100% of the business; **OR**
	• An independent contractor dedicated to one occupation and receiving 1099 income

Business Bank Account Qualification	**BUSINESS BANK ACCOUNT:** In addition to the Employment Requirements and Documentation Requirements above, the following apply: • Must provide business expense documentation. Expense verification will differ based on the Calculation Option chosen (see each option below for details) • Borrower must own at least 25% of the business OR the combination of Borrowers own 100% of the same business. • Qualifying Income must be multiplied by the ownership percentage to determine the owner's portion of income allowed for the transaction • Multiple business bank accounts may be used for multiple businesses • Two business bank accounts may be used for the same business in situations where the borrower uses different accounts for different payment types, such as one account for cash or checks and another account for card transactions or 1 account is a checking account and another account is a savings account. The accounts may not be co-mingled. The reason for multiple bank accounts for one business must be clearly explained by the borrower. • Transfers from other business accounts may be acceptable and must be documented • Transfers from personal accounts are not acceptable • Statements should show a trend of ending balances that are stable or increasing over time. • Decreasing or negative cash flow must be explained and may result in the loan being denied • Business expenses must be reasonable for the type of business (examples of businesses with higher expense ratios include construction companies, builders, restaurants, and retail firms)
Income Calculation (Business Bank Account or Commingled Bank Accounts)	Qualifying income is calculated using a fixed 50% expense ratio. Determine income as follows: 1. Determine the Average Allowable Monthly Deposits: (Total Deposits – Disallowed Deposits) ÷ (Number of Bank Statements) 2. Determine the Business Net Income: Average Allowable Monthly Deposits x 50% 3. Determine the Borrower's Monthly Qualifying Income = Multiply the Business Net Income by

	the Borrower's Percentage Ownership of the Business. Income disclosed on the initial application (1003) should be reviewed for consistency with the income calculated from the bank statements. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn and/or additional documentation to further support the calculated income.
Declining Income (Business and Personal Bank Account Qualification)	The Arc Home Underwriter must make a reasonable determination that the qualifying income is stable and likely to continue. If a review of the bank statement documentation suggests that the qualifying income has declined, the Arc Home underwriter must determine whether the income has stabilized. If the income has stabilized at its current level, then the current level of stable income can be utilized for qualifying. For example, if the 12-month bank statement qualifying income is $10,000 per month, but the most recent months have stabilized at $7,000 per month, then the stabilized income of $7,000 may be considered.
Doc Type for Bank Statements	**Business Bank Statements:** • For 12- Month Bank Statement: Doc Type must reflect "12 mo Business Bank Statement" • For 24- Month Bank Statement: Doc Type must reflect "24 mo Business Bank Statement" **Personal Bank Statements:** • For 12- Month Bank Statement: Doc Type must reflect "12 mo Personal Bank Statement" • For 24- Month Bank Statement: Doc Type must reflect "24 mo Personal Bank Statement"
Tax Transcripts	**Bank Statements:** A signed 4506-C and IRS Tax Transcripts are not required **When an additional W-2 is issued:** A signd 4506-C is required. Transcripts are not required.
Additional Income Income Documentation /Calculation Requirements	
Bank Statements as the primary source and additional income as the second source	If the 1003 or bank statements reflect additional income, such as alimony, child support or W-2 wages, that income must be deducted from the bank statement calculation but may be considered per Fannie Mae guidelines. **Long term and Short term Rental Income**: Borrowers who meet the eligibility requirements for using Bank Statement Income Documentation and who receive rental income (either as a primary income source as a real estate investor or as a secondary income source), may qualify using rental income. ○ The borrower must fully complete the REO section of the loan application. ○ Short term rental property must in an area that is common for short term rentals. ○ Follow Fannie Mae guidelines for anything not addressed, including but not limited to calculating monthly qualifying rental income (or loss) must be followed. **Documentation:** ○ Rental income may be considered on a subject property purchase transaction with the following documentation: ▪ Rental income identified on the 1007 rental schedule. ▪ 75% utilized for qualifying income. ○ Rental income may be considered on a departing residence with the following documentation: ▪ Copy of current lease agreement which states the monthly rental amount and terms of the lease, and ▪ Copies of the security deposit and first month's rent check with proof of deposit for new executed agreement

	▪ A recently completed appraisal Form 1007 or 1025 (as applicable) can be used to determine gross market rent when a current lease, copies of security deposit and first month's rent check are not available ▪ Calculate using 75% of the lease agreement or market rent (if applicable) less PITIA. Rental income can only be used to offset the PITIA of the related property. • Positive income from departing residence will be included in overall qualifying income • Rental loss from departing residence will be included in liabilities ○ Rental income may be considered on a subject property refinance transaction and/or non-subject property with the following documentation: ▪ Copy of current lease agreement which states the monthly rental amount and terms of the lease, and ▪ Bank statements for the most recent 2 months to confirm regular receipt of the rental income. If rental receipt is being deposited into the same account being used to document self-employment income, then rental income cannot be used, the Borrower must qualify carrying the REO payment, and the PITIA for the property must be counted as a liability. ▪ Calculate income using 75% of the lease agreement less PITIA.

Closed End Seconds Underwriting Requirements	
Age of Documents	Expiration Dates are based on the Note Date of the Loan: • Credit Report – 120 Days • Income documents – 120 Days • Asset documents – 120 Days • Title – 90 Days • AVM and Appraisal: See above Appraisal Requirements / Valuation section for each product
Assumptions	Not Assumable
Borrowers: Eligible	• US Citizens • Must have a valid SSN • Permanent Residents • Non-Permanent Residents: ○ Primary Residence Only ○ 2-year US employment history • Properties vested in Revocable Trust (Follow Fannie Mae)
Borrowers: Ineligible	• Borrowers with ITIN's • Non-occupying co-borrowers • Guarantors or Co-Signers • Use of power of attorney not permitted • Properties titled in Irrevocable Trusts are not permitted • Properties titled in Land Trusts are not permitted • Non-individual legal entities such as corporations, general partnerships, limited partnerships, real estate syndications, or investment trusts • Foreign nationals • Individuals classified under diplomatic immunity, temporary protected status, deferred enforced departure (including DACA) or humanitarian parole • Borrowers party to a lawsuit in which they have any personal financial liability
Business Purpose	The Closed End Second product is not a business purpose loan
DTI	Max 50% DTI
Eligible First Lien Programs	• Agency & Government Fixed Rate and ARM's with initial fixed rate term > 5 years • Non-Conforming Fixed Rate and ARM's with initial fixed rate terms > 5 years
Flood Certificates	• Obtain a flood cert to ensure the property is not in a flood zone. If the property is in a flood zone,

	then obtain flood insurance so that the DTI can be calculated accurately. • Follow Fannie Mae requirements if Flood Insurance is required.
Geographic Restrictions	Closed End Second loans are eligible for Wholesale lending in AK, AL, AR, AZ, CA, CO, CT, DC, DE, GA, FL, HI, IA, ID, IL, IN, KS, KY, LA, MD, MI, MN, MO, MS, MT, NC, ND, NH, NJ, NM, NV, OK, OR, PA, SC, SD, TN, UT, VA, VT, WA, WI, WY
Homeowner's Insurance	Proof of existing coverage is required. • Maximum loan amounts less than $250,000: Use of existing coverage amount is permitted. Replacement cost estimator or increases in coverage are not required regardless of outstanding lien amounts • Maximum loan amounts greater than or equal to $250,000: Existing coverage amount must be equal to the lesser of the following: ○ 100% of the insurable value of the improvements, as established by the property insurer; OR ○ The unpaid principal balance of all existing liens against the subject property, plus the new Maximum Line Amount
Ineligible Senior Lien	Senior liens with high-risk features which can include, but are not limited to: • Tax and judgement liens • Loans in active forbearance or deferment • Negative amortization mortgages • Balloon mortgages • Partial claim due to a loan modification • Reverse Mortgages • Interim Construction loans • Private Mortgages opened within the past 12 months • Texas 50(a)(6) • HELOC in the draw period
Maximum Total Financing	• Owner-Occupied - Limited to $3,000,000 (total amount of 1st and 2nd lien combined) • Second Homes - Limited to $2,000,000 (total amount of 1st and 2nd lien combined) • Investment Properties - Limited to $2,000,000 (total amount of 1st and 2nd lien combined). Limited to 10 Financed Properties
MERS	Loans will be assigned through MERS.
Mortgage Insurance	Not required
Occupancy	• Primary • Second Home • Investment
Prepayment Penalty	N/A
Reserves	If Cash-Out, no reserves required. If Rate & Term, 3 months reserves are required
Lien Position	• Up to 2 liens on a single property, including Arc Home's mortgage. The first lien must be a mortgage and cannot be a HELOC. • Arc Home's lien must be in second lien position. • This transaction may pay off other existing liens on the property.
Title Insurance	• A property search will be completed on all transactions. • Title Insurance -One of three options, depending on locality: ○ Insurance Wrapper ○ Junior Loan Policy ○ Full Title Policy
Underwriting (Income & Assets)	Manually underwritten per Fannie Mae Selling Guide, unless otherwise specified in this matrix
Product Names	

Closed-End Seconds
ARC 10 YR CLOSED END 2ND LIEN ARC 15 YR CLOSED END 2ND LIEN ARC 20 YR CLOSED END 2ND LIEN ARC 30 YR CLOSED END 2ND LIEN ARC 10 YR FIXED ALT INCOME CLOSED END 2ND LIEN ARC 15 YR FIXED ALT INCOME CLOSED END 2ND LIEN ARC 20 YR FIXED ALT INCOME CLOSED END 2ND LIEN ARC 30 YR FIXED ALT INCOME CLOSED END 2ND LIEN