

Arc Access Non-QM & Arc Elite QM Update Summary

This summary provides a side-by-side comparison of the recent Access and Elite guideline revisions, which are effective as noted in the applicable sections below. This is intended to highlight the updates only – refer to the Arc Selling Guide and applicable product matrices for the complete details and guidelines of the Arc Access Non-QM and Arc Elite QM loan programs. **Important Note:** The most recent updates supersede any changes previously announced.

**** Effective for loans registered on or after March 27, 2023 ****

Guideline Updates – Arc Access & Arc Elite

Arc Access & Arc Elite – Alt Income		
Topic	Previous Guideline	New Guideline – 03/27/23
1-Year Full Doc	<p>For wage earner borrowers:</p> <ul style="list-style-type: none"> Documentation is the same as Full Documentation requirements per the Arc Selling Guide, except only the most recent year W-2 and YTD paystubs covering at least 30 days is required. Follow Fannie Mae guidelines for how to calculate income: https://www.fanniemae.com/content/guide/selling/b3/3.1/01.html 	<p>For wage earner borrowers:</p> <ul style="list-style-type: none"> Documentation is the same as Full Documentation requirements per the Arc Selling Guide, except only the most recent year W-2 and YTD paystubs covering at least 30 days is required, OR a Written Verification of Employment (WVOE) referencing prior year and most recent year-to-date income. Borrowers employed by family members are not eligible Follow Fannie Mae guidelines for how to calculate income: https://www.fanniemae.com/content/guide/selling/b3/3.1/01.html

Guideline Updates – Arc Access Only

Arc Access – Alt Income		
Topic	Previous Guideline	New Guideline – 03/27/23
CPA Prepared P&L Statement	Not available	<p><i>Guidelines have been expanded to allow a new alternative income documentation option for self-employed borrowers – refer to new Arc Access Alt Income – Bank Statement, 1099, One Year Full Doc, CPA P&L matrix for complete details.</i></p> <ul style="list-style-type: none"> Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years. 12-month Profit & Loss Statement (P&L) prepared, signed, and dated by a CPA for a period ending within 60 days of closing. The term CPA is used generically to refer to a licensed CPA, certified tax preparer, or enrolled agent. A letter from the CPA confirming a business relationship with the borrower and the documentation used to prepare the P&L is required.

Arc Access – Alt Income

Topic	Previous Guideline	New Guideline – 03/27/23
		<p>The Arc Home CPA Relationship Letter or a signed and dated letter from the CPA on the firm’s letterhead is acceptable.</p> <ul style="list-style-type: none"> • A minimum two (2) months of business bank statements covering the most recent two (2) month period. The average deposits from the bank statements must be greater than or no less than 10% below the average monthly sales. • Income is calculated using a 12-month average of net income from the P&L statement, multiplied by the borrower’s percentage of ownership. • A signed 4506-C is required.

**** Effective for loans registered on or after February 21, 2023 ****

Guideline Updates – Arc Access Only

Arc Access – ALL Programs

Topic	Previous Guideline	New Guideline – 02/21/23
<p>Prepayment Penalty Plan – Structures (Delegated and Non-Delegated Correspondent Only)</p>	<p>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.</p>	<p><i>Guidelines have been expanded to allow new prepayment penalty structures in the Correspondent channel.</i></p> <ul style="list-style-type: none"> • Six Months of Interest – 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. • 3%, 4%, or 5% Fixed Percentage – The prepayment charge will be equal to a fixed percentage and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that payoff due to sale or refinance. Prepayment charge is not permitted after five (5) years following the execution date of the Note. • Declining Structure – The structure must not exceed 5% or drop below 3% in the first 3 years, such as 5%/4%/3%/3%/3% or 5%/4%/3%/2%/1%. The prepayment charge will be equal to the percentage in effect and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that payoff due to sale or refinance. Prepayment charge is not permitted after five (5) years following the execution date of the Note.



Arc Access – DSCR

Topic	Previous Guideline	New Guideline – 02/17/23
State Licensing Requirements	All states require a broker license.	<p>Brokers, and the Loan Officers authorized to represent those brokers, may originate Debt Service Coverage Ratio (DSCR) loans (business purpose) for properties located in the Permitted States* listed below without a license if they are currently approved by Arc Home and active in at least one other state (per NMLS) as a Broker or Loan Officer, respectively. For example, a Broker and Loan Officer licensed in California may originate a DSCR loan in Florida even if they are not licensed as a Loan Officer in Florida. The same logic is also applicable to loan originators selling loans to Arc Home via a Non-Delegated or Delegated Correspondent basis.</p> <p>*Permitted States: CO, CT, FL, MD, TX, VA, WA</p>

**** Effective for loans registered on or after February 15, 2023 ****

Guideline Updates – Arc Access & Arc Elite

Arc Access & Arc Elite – ALL Programs

Topic	Previous Guideline	New Guideline – 02/15/23
Non-Arm’s Length Transactions	<p>Renters purchasing from a landlord:</p> <ul style="list-style-type: none"> • Payment history must be verified per standard Mortgage / Rental History requirements; however, a VOR from the Seller is not acceptable. • A 12-month mortgage history from the lending institution being paid off is required to confirm this transaction is not a foreclosure bailout. 	<p>Renters purchasing from a landlord:</p> <ul style="list-style-type: none"> • Payment history must be verified per standard Mortgage / Rental History requirements; however, a VOR from the Seller 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.
Construction-to-Permanent Financing	A construction-to-permanent transaction may be closed as a purchase or no cash-out refinance.	<p>Single-close construction-to-permanent financing is not allowed.</p> <p>Two-closing construction-to-permanent financing is allowed per Fannie Mae guidelines. The maximum LTV/CLTV is based on the individual product, refer to the applicable matrix.</p>
Asylee and Refugees	Refugees and Grant of Asylum (Asylee) are permitted with letter from U.S. Citizenship and Immigration Services indicating eligibility and completed form I-94, Arrival and Departure Record, indicating borrower is a refugee (admission class of “RE”) or has been granted asylum (admission class of “AY.”) in the U.S.	<p>Refugees are permitted with an I-94, Arrival and Departure Record, or I-797 Notice of Action, indicating borrower is a refugee (admission class of “RE”) and EAD reflecting a category code A03 or A04.</p> <p>Grant of Asylum (Asylee) are permitted with an I-94, Arrival and Departure Record, or I-797 Notice of Action, indicating borrower has</p>



Arc Access & Arc Elite – ALL Programs

Topic	Previous Guideline	New Guideline – 02/15/23
		been granted asylum (such as admission class of “AS”, “AY.”) in the U.S. and an EAD reflecting A05.
Ineligible Borrowers	Silent regarding vesting in a land trust	Vesting in a Land Trust is not allowed.
Declining Market	When the property is in a declining market, the lesser of a 10% LTV reduction or a max 70% LTV is required. Declining market is determined by the appraisal or other 3 rd party validation performed on the subject property.	When the property is in a declining market, the less punitive of the two restrictions apply: a 10% LTV/CLTV reduction (from the max LTV/CLTV for the transaction and occupancy type) or a reduction to 70% LTV/CLTV. Declining market is determined by the appraisal or other 3 rd party validation performed on the subject property.
Disaster Policy	Must provide exterior, interior, and street photos. If, based upon the type of disaster, the underwriter can determine that interior damage is unlikely, then the interior inspection with photos can be waived. Please note that if an exterior only is ordered and damage is noted, a subsequent interior inspection with damage specified will be necessary.	Must provide exterior and street photos. Please note that if damage is noted, a subsequent interior inspection with damage specified will be required.
Credit Rescore/Repull	Silent	<p>Rescore Only ONE (1) rescore is allowed. In all instances, the new credit score must be used.</p> <p>Repull The credit report may be re-pulled in the event one of the following scenarios occur:</p> <ul style="list-style-type: none"> • Suspected Fraud • Addition or Removal of an applicant • Updates as requested by the underwriter • AUS errors • Errors/inaccuracies, including disputed accounts • Payoff of Debt <p>All other cases to re-pull the credit report would be considered unacceptable. In all instances, the new credit report must be used.</p>
Mortgage/Rental History (VOM/VOR)	Minimum 12 months of housing payment history required for the current/primary residence and all financed properties. Existing mortgage or rent payments must be current at the time of application. For refinance transactions on the subject property, the payoff statement must show that the borrower is current.	Minimum 12 months of housing payment history required for the current/primary residence and all financed properties. 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.
Gift Funds	A gift can be provided by: <ul style="list-style-type: none"> • 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 can be provided by: <ul style="list-style-type: none"> • 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.



Arc Access & Arc Elite – ALL Programs

Topic	Previous Guideline	New Guideline – 02/15/23
		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 is required.
Gift of Equity	Silent	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.
Business Funds as Assets	When business funds are being used for down payment or closing costs, documentation to prove that the withdrawal of funds will not negatively impact the business is required as evidenced by either: Full Documentation loans: <ul style="list-style-type: none"> a letter from the CPA or tax-preparer; OR a cash flow analysis by use of individual tax returns and/or business returns when applicable Bank Statement loans: <ul style="list-style-type: none"> a letter from the CPA or tax-preparer; 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 	When business funds are being used for down payment or closing costs, and the borrower is using self-employed income from that business, documentation to prove that the withdrawal of funds will not negatively impact the business is required as evidenced by either: Full Documentation loans: <ul style="list-style-type: none"> a letter from the CPA or tax-preparer; OR a cash flow analysis by use of individual tax returns and/or business returns when applicable Bank Statement loans: <ul style="list-style-type: none"> a letter from the CPA or tax-preparer; 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
Cash-Out Proceeds as Reserves	Cash-out proceeds can be used to meet reserve requirements.	Cash-out proceeds can be used to meet reserve requirements when the LTV ≤ 70%.
Marijuana Related Business (MRB) Income and Assets	Silent	Federal law restricts marijuana related activities and therefore the income or assets from these sources are NOT allowed for qualifying. Related activities include: <ul style="list-style-type: none"> Possession of cannabis or cannabis seeds Processing Growing Harvesting/Cultivation Testing Packaging/Delivery Wholesale or Retail sales

Arc Access & Arc Elite – 1099 Income

Topic	Previous Guideline	New Guideline – 02/15/23
Tax Transcript Requirements for 12- and 24-month 1099	A signed 4506-C and IRS Tax Transcripts are <u>not</u> required.	A signed 4506-C and IRS 1099 Transcripts are required. If transcripts are not available, a CPA letter is required to verify that the borrower has filed a Schedule C for the past 2 years.



Arc Access & Arc Elite – 1099 Income

Topic	Previous Guideline	New Guideline – 02/15/23
1099 Borrower Requirements	Borrowers who are independent contractors, freelancers, or otherwise self-employed in the “gig economy” may qualify with 1099 statements in lieu of tax returns, to support their income.	Borrowers who are independent contractors, freelancers, or otherwise self-employed in the “gig economy” may qualify with 1099 statements in lieu of tax returns, to support their income. 1099 statements may be in the borrower’s name or the borrower’s business name if the business does not have any employees (such as sole proprietor, single member LLC, DBAs, independent contractor). Partnerships, S-corporations, and Corporations are not allowed.
1099 Employment Requirements	The borrower’s ownership percentage and length of ownership must be verified with one of the following: <ul style="list-style-type: none"> Letter from accountant/CPA or licensed tax preparer (with PTIN). Validation of the legitimacy of the CPA is required. Business Formation Documents (DBA, Articles of Incorporation, Bylaws, Charter, Articles of Association). <ul style="list-style-type: none"> 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 	If the borrower is self-employed, the borrower must be 100% owner. The borrower’s ownership percentage and length of ownership must be verified with one of the following: <ul style="list-style-type: none"> Letter from accountant/CPA or licensed tax preparer (with PTIN). Validation of the legitimacy of the CPA is required. Business Formation Documents (DBA, Articles of Incorporation).
1099 Documentation	<ul style="list-style-type: none"> Form 1099-MISC or 1099-NEC and Either most recent paystub showing YTD income, statement, or similar documentation that also shows the Borrower’s year-to-date earnings. The most recent documentation may be used if earnings over 30 consecutive calendar days are verified. 	<ul style="list-style-type: none"> Form 1099-MISC, 1099-NEC, or 1099-K and Either most recent paystub showing YTD income, statement, or similar documentation that also shows the Borrower’s year-to-date earnings. The most recent documentation may be used if earnings over 30 consecutive calendar days are verified.

Arc Access & Arc Elite – Asset Utilization Income

Topic	Previous Guideline	New Guideline – 02/15/23
Eligible Qualifying Assets	The amount of liquid assets used for qualification purposes are specific to the liquidity of such amounts and are set forth below: <ul style="list-style-type: none"> 100% of checking, savings, and money market accounts 70% of the remaining value of stocks & bonds, mutual funds (including those held in Retirement/Annuity/Pension accounts if over age 59 ½ and, if the plan is an employer administered plan, the borrower is separated from service) 50% of retirement funds (401k, IRA, Keogh, Government Annuity and Pension Income) if younger than age 59 ½ or if borrower is over age 59 ½ but is using an employer administered plan and the borrower is not separated from service 	The amount of liquid assets used for qualification purposes are specific to the liquidity of such amounts and are set forth below: <ul style="list-style-type: none"> 100% of checking, savings, CDs, and money market accounts 70% of the remaining value of stocks & bonds, mutual funds (including those held in Retirement/Annuity/Pension accounts if over age 59 ½ and, if the plan is an employer administered plan, the borrower is separated from service) 50% of retirement funds (401k, IRA, Keogh, Government Annuity and Pension Income) if younger than age 59 ½ or if borrower is over age 59 ½ but is using an employer administered plan and the borrower is not separated from service
Asset Utilization Calculator	There was a separate Asset Utilization Calculator for Access and Elite products.	The Asset Utilization Calculator has been combined for Access and Elite products. In addition, it has been reformatted so that the calculations are more automated.



Arc Access & Arc Elite – Bank Statement Income

Topic	Previous Guideline	New Guideline – 02/15/23
Bank Statement Employment Requirements	Borrower must be self-employed for at least two (2) years and the business must have existed for at least two (2) years.	<ul style="list-style-type: none"> Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years. The business used in qualifying must have existed/been active for at least two (2) years.
Personal Bank Account Definition	COMMINGLED FUNDS: Personal bank statements with evidence of deposits and/or expenses from the business may qualify under Arc’s business bank statement options. Personal accounts are only allowed if the source of the income can be clearly identified as business revenue.	<p>Guidelines have been clarified to align with our Bank Statement Calculators.</p> <p>BUSINESS DISTRIBUTIONS: If the borrower maintains separate bank accounts for personal and business use but pays themselves as a distribution into their personal bank account, those deposits into their personal bank account may be used for qualifying.</p> <p>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.</p> <p>COMMINGLED BANK ACCOUNT: A commingled 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 commingled with income/expenses from only ONE business. Personal bank accounts may not be commingled with multiple businesses. These accounts will be treated as business accounts for purposes of determining income.</p>
Commingled Bank Account Ownership	<p>Commingled Bank Accounts may only be used by:</p> <ul style="list-style-type: none"> Sole Proprietors; or Person who owns 100% of the business (if not tax filing as sole proprietor); or an independent contractor dedicated to one occupation and receiving 1099 income 	<p>Commingled Bank Accounts may only be used by:</p> <ul style="list-style-type: none"> Sole Proprietors (borrower and non-borrowing purchasing spouse with combined 100% ownership eligible); or Person who owns 100% of the business (if not tax filing as sole proprietor); or An independent contractor dedicated to one occupation and receiving 1099 income
Product Industry (Capital-Intensive)	<p>Examples of the Product Industry include (but are not limited to) the following:</p> <ul style="list-style-type: none"> Jobs that focus on the production of goods through the manufacturing process. This involves moving raw materials, creating the goods, storing the finished products in a warehouse, and shipping the products to customer. <ul style="list-style-type: none"> Building Materials Fashion Industry Furniture Printing 	<p>Examples of the Capital-Intensive Industries include (but are not limited to) the following:</p> <ul style="list-style-type: none"> Construction <ul style="list-style-type: none"> The Construction industry includes carpentry, road construction, bridge development, contractors, and home remodelers/builders/handyman. Oil and Gas <ul style="list-style-type: none"> The Oil and Gas industry includes the business of oil and gas exploration and production, transportation and storage, and refining and marketing, such as gas stations.



Arc Access & Arc Elite – Bank Statement Income

Topic	Previous Guideline	New Guideline – 02/15/23
	<ul style="list-style-type: none"> ○ Publishing ○ Toy Maker ○ Household Goods 	<ul style="list-style-type: none"> ● Manufacturing <ul style="list-style-type: none"> ○ The Manufacturing industry includes moving raw materials, creating the goods, storing the finished products in a warehouse, and shipping the products to customer. Examples include but are not limited to automobiles, household goods, toys, publishing/printing, fashion industry, and food industry such as ownership in a store, store chain, restaurant, food supplier. ● Telecommunication <ul style="list-style-type: none"> ○ The Telecommunication industry includes companies that make communication possible on a global scale, whether it is through the phone or the Internet, through airwaves or cables, through wires or wirelessly. ● Transportation <ul style="list-style-type: none"> ○ The Transportation industry includes airlines, railroads, trucking, and Uber/Lyft. ● Healthcare <ul style="list-style-type: none"> ○ The Healthcare industry includes companies owning hospitals, care facilities and medical practices. ● Farming & Agricultural <ul style="list-style-type: none"> ○ The Farming & Agricultural industry includes small specialist producers and growers to large scale production of crops and livestock
Business Bank Account Qualification	Multiple business bank accounts may be used for multiple businesses or for the same business only in situations where the borrower uses one account for cash or checks and another account for card transactions and the accounts are not commingled.	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 and the accounts are not commingled. The reason for multiple bank accounts for one business must be clearly explained by the borrower.
Non-Sufficient Funds (NSFs) Definition	<p>NSF/Overdraft is defined as a financial institution accepting a withdrawal which results in the account going into the negative (this may or may not result in a fee), or when a check/ACH is presented but cannot be covered by the balance in the account “bounced check” and a fee is charged.</p> <p>Protected Overdrafts, where the borrower has sweep protection from another account, and Reversed NSFs are NOT included in the NSF count. Validation that the sweep account belongs to the borrower is not required.</p> <p>NSFs must be explained with an LOE from the borrower.</p>	<p>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.</p> <p>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.</p> <p>Reversed NSFs are NOT included in the NSF count.</p>



Arc Access & Arc Elite – Bank Statement Income

Topic	Previous Guideline	New Guideline – 02/15/23
		All NSFs in the most recent 12 months must be explained with an LOE from the borrower.
Additional Income	When rental income is a secondary income source, the following documentation is required: <ul style="list-style-type: none"> • Most recent Schedule E, OR • The current lease agreement AND most recent 2 months rental deposits reflected on the bank statements. 	When rental income is a secondary income source, the following documentation is required: <ul style="list-style-type: none"> • Most recent Schedule E, OR • The current lease agreement AND most recent 2 months rental deposits reflected on the bank statements/cancelled checks/electronic proof.

Guideline Updates – Arc Access ONLY

Arc Access – ALL Programs

Topic	Previous Guideline	New Guideline – 02/15/23
Prepayment Penalty Plan – Structures	Silent	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.
Properties Listed for Sale – Investment Properties	Properties that have been listed for sale within the last six months must adhere to the below guidelines. <u>Rate Term:</u> Must be off market prior to application date and Product chosen must have the maximum Prepayment penalty allowable. <u>Cash out:</u> Must be off market six (6) months prior to application date -OR- Must be off market one (1) day and reduce maximum allowable LTV by 10% -AND- Product chosen must have the maximum Prepayment penalty allowable	Properties that have been listed for sale within the last six months must adhere to the below guidelines. <u>Rate Term:</u> Must be off market prior to application date and Product chosen must have at least a 3-year Prepayment Penalty or the maximum permitted by state law, whichever is lower. <u>Cash out:</u> Must be off market six (6) months prior to application date -OR- Must be off market one (1) day prior to application date and reduce maximum allowable LTV by 10% -AND- Product chosen must have at least a 3-year Prepayment Penalty or the maximum permitted by state law, whichever is lower.
Condotels	Per the Selling Guide, Condotels are allowed on all Arc Access loans; however, only the Agency Plus Product Matrix addressed Condotels. The other Arc Access Product Matrices were silent regarding whether Condotels were allowed.	All Arc Access Product Matrices have been updated to clarify that Condotels are allowed. Refer to the Product Matrices and Selling Guide for details.
Tradeline Requirements	All Borrowers are required to meet one of the following tradeline requirements: <ul style="list-style-type: none"> • A minimum of three (3) current tradelines reporting on the credit report for at least 12 months, accounts may be open or closed with 	All Borrowers are required to meet one of the following tradeline requirements: <ul style="list-style-type: none"> • A minimum of three (3) current tradelines reporting on the credit report for at least 12 months, accounts may be open or closed with



Arc Access – ALL Programs

Topic	Previous Guideline	New Guideline – 02/15/23
	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 • Three (3) credit scores and one (1) current tradeline reporting on the credit report for at least 36 months, accounts with activity reflected within the last 12 months.	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 • Three (3) credit scores and 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.
Delinquent Credit	The Borrowers must not be subject to a lien, judgment or other item that may or will attach to the Subject Property and became a lien or other “cloud” on title, and all liens, judgments and other items that may attach to the Subject Property must be paid in full.	<p>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 become 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.</p> <p>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.</p>
Non-QM Underwriter’s Certification	Silent	The Non-QM Underwriter’s Certification has been updated to add the following additional reason for the borrower to choose a Non-QM loan vs. an Agency loan: Customer Preference due to speed of closing or pricing

Arc Access – DSCR

Topic	Previous Guideline	New Guideline – 02/15/23
DSCR Documentation	<p><u>For purchase transactions:</u></p> <ul style="list-style-type: none"> • Rent Schedule Form 1007/216 or 1025 and either: <ul style="list-style-type: none"> ○ If subject property is currently rented - Executed lease agreement is required. ○ If subject property is not currently rented or if the property is rented but lease is not available, then rent loss coverage equal to 12 months of the market rent per the 1007/216 must be obtained. <p><u>For all refinance transactions:</u></p> <ul style="list-style-type: none"> • Rent Schedule Form 1007/216 or 1025 and either: <ul style="list-style-type: none"> ○ If subject property is currently rented - Executed lease agreement 	<p><u>For purchase transactions:</u></p> <ul style="list-style-type: none"> • Long-Term Rental Income: Provide a long-term Comparable Rent Schedule Form 1007 or 1025 and either: <ul style="list-style-type: none"> ○ An executed 12-month lease agreement that will commence within 60 days after the note date and proof of receipt of security deposit. When the property has a current tenant who will continue to occupy the property, the transferred lease agreement from the existing tenant/landlord is required. If the transferred lease agreement has less than 30 days remaining, then a new executed 12-month lease agreement is required.



Arc Access – DSCR

Topic	Previous Guideline	New Guideline – 02/15/23
	<p>is required.</p> <ul style="list-style-type: none"> ○ If subject property is not currently rented or if the property is rented but lease is not available, then rent loss coverage equal to 12 months of the market rent per the 1007/216 must be obtained and a 10% LTV reduction from the program max that the borrower qualifies for is required. ○ For Short-term rental income (such as AirBNB/VRBO), in lieu of a lease agreement, remittance statements from the renting entity covering the most recent 12-month period. The payout amount should be used for qualifying. 	<ul style="list-style-type: none"> ○ If a lease that will commence within 60 days after the note date is not available, then rent loss coverage equal to 12 months of the market rent per the 1007 must be obtained. ● Short-Term Rental Income: Not allowed on purchase transactions. <p><u>For all refinance transactions:</u></p> <ul style="list-style-type: none"> ● Long-Term Rental Income: Provide a long-term Comparable Rent Schedule Form 1007 or 1025 and either: <ul style="list-style-type: none"> ○ An executed 12-month lease agreement. <ul style="list-style-type: none"> ▪ If a new lease agreement has been executed, it must commence within 60 days after the note date and proof of receipt of security deposit is required. ▪ If the executed lease agreement is less than a 12-month lease, follow the below Short-term rental income requirements. ○ If an executed lease agreement is not available, then rent loss coverage equal to 12 months of the market rent per the 1007 must be obtained and a 10% LTV reduction from the program max that the borrower qualifies for is required. ● Short-Term Rental Income: Provide a nightly, weekly, monthly, seasonal, or long-term (as applicable per income being used and as available per market) Comparable Rent Schedule Form 1007 or 1025 and either: <ul style="list-style-type: none"> ○ Less than a 12-month lease agreement: Either a 12-month rental payment history must be documented OR the LTV must be reduced by 10% from the program max that the borrower qualifies for. <ul style="list-style-type: none"> ▪ A 12-month rental payment history is not required for lease agreements that were initially 12 months and have rolled to a shorter-term lease. ○ Short-term renting entity (such as AirBNB/VRBO): In lieu of a lease agreement, remittance statements from the renting entity covering the most recent 12-month period. The payout amount must be used for qualifying. Refer to the Arc Selling Guide for more details.
DSCR Calculation	<p>Gross Income for qualifying will be the lesser of:</p> <ul style="list-style-type: none"> ● the executed lease agreement (or documented short-term rental income on a refinance transaction) or ● the market rent from appraisal form 1007. 	<p>Gross Income for qualifying will be the lesser of:</p> <ul style="list-style-type: none"> ● the executed 12-month lease agreement (or average 12-month documented short-term rental income on a refinance transaction) or ● the market rent from appraisal form 1007 or 1025.



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Accessory Dwelling Unit (ADU) Income	Rental income from permitted Accessory Dwelling Unit may be included in the gross rental income.	Long-Term Rental income from permitted Accessory Dwelling Unit may be included in the gross rental income per the Long-Term documentation requirements.
DSCR First Time Investor	<p>First Time Investors (Borrowers who do not have a history of owning and managing real estate for at least 1 year in last 3 years):</p> <ul style="list-style-type: none"> • Purchase and Rate Term only • Min 680 credit score • Borrower must currently own at least 1 primary or second home in the United States for at least 1 year with no late payments in the 1-year timeframe 	<p>First Time Investors (Borrowers who do not have a history of owning and managing rental real estate for at least 1 year in last 3 years):</p> <ul style="list-style-type: none"> • Purchase and Rate Term only • Min 680 credit score • Borrower must currently own a primary or second home in the United States and either own the property free and clear or be making payments with 0x30x12 history. Borrower may have sold their property in the most recent 6 months prior to application and currently be renting; however, they must provide proof that they either owned the property free and clear or had a 0x30x12 mortgage payment history prior to selling the property. Borrowers currently living rent free are not allowed.

Arc Access – No Ratio Income

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Eligible Qualifying Assets	<p>The amount of liquid assets used for qualification purposes are specific to the liquidity of such amounts and are set forth below:</p> <ul style="list-style-type: none"> • 100% of checking, savings, and money market accounts • 70% of the remaining value of stocks & bonds, mutual funds (including those held in Retirement/Annuity/Pension accounts if over age 59 ½ and, if the plan is an employer administered plan, the borrower is separated from service) • 50% of retirement funds (401k, IRA, Keogh, Government Annuity and Pension Income) if younger than age 59 ½ or if borrower is over age 59 ½ but is using an employer administered plan and the borrower is not separated from service 	<p>The amount of liquid assets used for qualification purposes are specific to the liquidity of such amounts and are set forth below:</p> <ul style="list-style-type: none"> • 100% of checking, savings, CDs, and money market accounts • 70% of the remaining value of stocks & bonds, mutual funds (including those held in Retirement/Annuity/Pension accounts if over age 59 ½ and, if the plan is an employer administered plan, the borrower is separated from service) • 50% of retirement funds (401k, IRA, Keogh, Government Annuity and Pension Income) if younger than age 59 ½ or if borrower is over age 59 ½ but is using an employer administered plan and the borrower is not separated from service



Guideline Updates – Arc Elite ONLY

Arc Elite – ALL Programs		
Topic	Previous Guideline	New Guideline – 02/15/23
Cash-out Refinance Transactions	<p>The property must have been purchased (or acquired) by the borrower at least six months prior to the note date of the new mortgage except for the following, which are acceptable:</p> <ul style="list-style-type: none"> • Inherited Properties • Delayed Financing 	<p>Any existing first mortgage being paid off through the transaction must be at least 12 months old as measured from 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.</p> <p>The property must have been purchased (or acquired) by the borrower at least six months prior to the note date of the new mortgage except for the following, which are acceptable:</p> <ul style="list-style-type: none"> • Inherited Properties • Delayed Financing

