Jumbo Prime
Underwriting Manual

Effective for locks taken out on or after 3/31/23

Table of Contents

1.0 Fair Lending Statement

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

2.0 Underwriting Philosophy

All loans must be manually underwritten and documented per the requirements in this Guide. Sections 8.0 Credit Documentation Requirements, 9.0 Employment and Income, 10.0 Debts and Liabilities and 11.0 Assets and Source of Funds require the seller to follow either the Fannie Mae Single Family Selling Guide, published June 3, 2020, or the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. The seller should follow one of the June 2020 Agency Guides on each loan and should notate the selected guide (Fannie Mae June 2020 or Freddie Mac June 2020) on the Loan Approval.
Seller must ensure that each loan is in compliance with the Ability to Repay (ATR) and the Qualified Mortgage (QM) rules established by the Consumer Financial Protection Bureau ("CFPB") as well as all regulatory compliance regulations as outlined in Section 4.0.
All loans submitted must conform to the Underwriting Guidelines. For scenarios not specifically addressed in the following Underwriting Guidelines, please contact the Arc Home Scenario Desk.

3.0 Products

3.1 Products Offered

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

- Fully Amortizing Fixed Rate 15 and 30-year terms.
- Fully Amortizing 5yr/6m, 7yr/6m and 10yr/6m SOFR ARM's.
- ARM Qualifying:
    - 5yr/6m ARM products must be qualified at the higher of the maximum potential Note rate after first adjustment or the fully indexedrate. The fully indexed rate is the sum of the index and themargin.
    - 7yr/6m and 10yr/6m ARM products must be qualified at the Note rate.
- No Mortgage Insurance allowed.

3.2 ARM Parameters

- 5yr/6m SOFR ARM

The interest rate will be fixed for an initial period of five (5) years (60 payments). The initial rate change will take place effective as of the sixty-first (61st) payment due date and on that day every 6 months thereafter, using the index figure in effect on the day that is 45 days before the interest rate adjustment date.

- 7yr/6m SOFR ARM

  The interest rate will be fixed for an initial period of seven (7) years (84 payments). The initial rate change will take place effective as of the eighty-fifth (85th) payment due date and on that day every 6 months thereafter, using the index figure in effect on the day that is 45 days before the interest rate adjustment date.

- 10yr/6m SOFR ARM

  The interest rate will be fixed for an initial period of ten (10) years (120 payments). The initial rate change will take place effective as of the one hundred and twenty first (121st) payment due date and on that day every 6 months thereafter, using the index figure in effect on the day that is 45 days before the interest rate adjustment date.

- Index

  30 Day Average SOFR Index as published by the New York Federal Reserve

- Margin

  For 5yr/6m, 7yr/6m and 10yr/6m ARM's the margin is 2.75%

- Interest Rate Caps

  For 5yr/6m, 7yr/6m, and 10yr/6m ARM's, adjustment caps are as follows:

  - 5yr/6m ARM - 2% / 1%/ 5% (First, Periodic, Lifetime)

  and

  - 7yr/6m and 10yr/6m ARM - 5% / 1%/ 5% (First, Periodic, Lifetime)

- Floor

  The floor is 2.75%.

4.0 Regulatory Compliance

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

- Regulation X – RESPA
- Regulation Z – Truth in Lending
- Regulation G – SAFE Act – Federal Licensing and Registration
- Regulation H- SAFE Act - State Licensing and Regulation

- Regulation V – Fair Credit Reporting
- Regulation B – Equal Credit Opportunity
- Regulation P – Privacy of Consumer Financial Information (GLB)
- USA Patriot Act
- Fair Housing Act
- Dodd-Frank Act
- Federal high cost loan regulations.
- State, local and county high cost and usury regulations.
- National Flood Insurance Act.
- Taxpayer First Act of 2019.

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

Arc Home Loans cannot fund loans in the states of HI.

5.0 Borrower Eligibility

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

Lender is required to order a third-party fraud report (Fraudguard or similar) to identify any borrower information discrepancies and indications of possible fraudulent activity.

5.1 Eligible Borrowers

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

        - NATO Series (NATO 1 – 6)
        - O Series (O-1)
        - TN-1, Canadian NAFTA visa
        - TN-2, Mexican NAFTA visa

        See USCIS.gov for more information.
    - Must have a valid Social Security Number.
    - Must have a minimum of two (2) year employment history in the U.S and qualifying income must be from the U.S.
    - Must be able to verify that current employment has a probability of three (3) year continuance. VOE may be used to document.
    - Must have a two (2) year credit history in U.S. and must meet minimum credit requirements as set forth in section 8.0.
    - Funds to close must be deposited in U. S financial institution. No funds from outside the U.S are allowed.

- Inter-Vivos Revocable Trusts
    - Trust must be established by one or more natural persons, individually or jointly.
    - The individual(s) establishing the trust must be the primary beneficiary/beneficiaries.
    - 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.
    - At least one of the trustees must be either the individual establishing the trust, or an institutional trustee that customarily performs the duties of a trustee and is duly authorized to act as a trustee under applicable state law.
    - The mortgage and trust documents must meet Agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the loan origination of inter-vivos revocable trusts.
    - The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note.

- Illinois Land Trusts
    - Not eligible.

- Community Land Trusts
    - Not eligible

- First time homebuyers
    - Defined as not having owned real estate in past three (3) years from application date.
    - Owner-occupied primary residences only.
    - Max 80% LTV/CLTV
    - See product matrix for loan limits and other requirements.

- Maximum of four (4) borrowers per loan.

5.2 Ineligible Borrowers

- Borrowers with only an ITIN (individual taxpayer identification number).

- Irrevocable trusts.
- Corporations, limited partnerships, general partnerships, and limited liability companies.
- Non-occupant co-borrowers contributing income.
- Foreign Nationals.
- Borrowers with Diplomatic Immunity.
- Borrowers who are party to a lawsuit.

5.3 Multiple Financed Properties

- Borrowers may not own more than four (4) residential 1-4 unit financed properties regardless of the occupancy of the subject property.
- Borrowers must have six (6) months PITI reserves for each additional financed property owned.
- Financed properties held in the name of an LLC or other corporation, commercial properties, and unimproved land can be excluded from the calculation of number of properties financed.

5.4 Ownership

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

6.0 Occupancy

6.1 Primary Residence

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

- 1 -4 units detached, attached, PUDs, and eligible condominiums. Co-ops are not eligible.

6.2 Second Home

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

- 1 unit detached, attached, PUDs and eligible condominiums. Co-ops are not eligible.

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

6.3 Investment Property (Non-owner occupied)

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

- 1-4unit detached, attached, PUD, and eligible condominiums. Co-ops are not eligible.

For cash-out refinance transactions on an investment property, a borrower signed Business Purpose and Occupancy Affidavit indicating the loan purpose is for the acquisition, improvement, maintenance of a rental property is required. See Appendix A for form of Affidavit. Loans without the affidavit may still be eligible but will be subject to TILA compliance.

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

7.0 Eligible Transaction Types

7.1 Purchases

- Must adhere to Agency guidelines.
- LTV/CLTV is calculated using the lesser of the purchase price or the appraised value of the subject property.
- If the Seller has taken title to the subject property ninety days or less prior to the date of sales contract the following requirements apply:
  - Property seller on the purchase contract is the owner of record.
  - LTV/CLTV will be based on the lesser of the prior sales price or the current appraised value.

  Loans that are bank or relocation sales are exempt from the above requirements.
- Personal property may not be included in the purchase agreement/sales contract. Personal property items should be deleted from the sales contract or reasonable value must be documented and the sales price adjusted. Items that are customary to residential real estate transactions such as lighting fixtures, kitchen appliances, window treatments and ceiling fans are not considered personal property.

7.2 Rate and Term Refinance

- Properties listed for sale are ineligible for refinances unless the listing is withdrawn (or expired) prior to the date of closing.
- Minimum of 6 months seasoning from the note date of the new transaction required if previous refinance was cash-out, including the pay-off of a non-seasoned subordinate lien.

- For properties purchased more than six (6) months prior to the closing date the current appraised value may be used to calculate LTV.

- For properties purchased within six (6) months of closing date the LTV will be based upon the lesser of the original sales price or the current appraised value conclusion from the appraiser. Original sales price will be determined from the Closing Disclosure from the subject acquisition transaction.

- Inherited properties are exempt from this seasoning requirement. LTV will be calculated off current appraised value.

- The mortgage amount may include the:

  - Principal balance of the existing first lien.
  - Payoff of a purchase second lien
  - Payoff of a co-owner pursuant to a written agreement.
  - Financing of the payment of prepaid items and closing costs.
  - Payoff of a non-purchase second lien seasoned a minimum of 12 months from date of application. The second lien must not evidence draws exceeding $2,000 within the past 12 months from date of application. Withdrawal activity must be documented with a transaction history of the line of credit.

- Cash back to the borrower is limited to the lesser of $2,000 or 1% of the new mortgage loan.

- Principal Reduction is permitted up to the lesser of $2,500 or 2% of the new loan.

7.3 Cash-Out Refinance

- Borrower must have held title for a minimum of 6 months from disbursement date.

- If and existing first mortgage is being paid off through the transaction, it must be at least 12 months old at the time of refinance, as measured by the note date of the existing loan to the note date of the new loan. The requirements do not apply to any existing subordinate liens paid off through the transaction or when buying out a co-owner pursuant to a legal agreement.

- Properties that are listed for sale are ineligible for refinance unless the listing is withdrawn (or expired) prior to the date of closing.

- Texas 50(a)6 refinances are ineligible.

- Cash out is limited to the maximum amounts stated on the Product Matrix.

7.4 Continuity of Obligation

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

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

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

- The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.

- The loan being refinanced and the title to the property are in the name of a natural person or a limited liability company (LLC) as long as the borrower owns at least 25% of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.

- The borrower has recently been legally awarded, the property (divorce, separation or dissolution of a domestic partnership).

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

7.5 Delayed Financing Refinance

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

The original purchase transaction must be documented by a Closing Disclosure confirming that no mortgage financing was used to obtain the subject property.

7.6 Contract for Deed/Land Contract

The payoff of an installment loan land contract is not eligible.

7.7 Construction Loan Refinancing

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

- Only the permanent financing on a construction to perm loan is eligible. Single closing construction to permanent loan refinances that include a modification are ineligible.

- Borrower must have held title to the lot for a minimum of 6 months prior to the closing of the permanent loan.

- The LTV/CLTV will be based on the current appraised value if the borrower has held title to the lot for 12 or more months prior to the closing date of the permanent loan.

- If the lot was acquired less than 12 months before the closing date of the permanent loan the LTV will be based on the lesser of a) the original purchase price of the lot plus the total acquisition costs (sum of construction costs) or b) the current appraised value of the lot plus the total acquisition costs.

- Appraiser's final inspection is required.

- A certificate of occupancy is required from the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy proof must be provided.

- Cash out is limited to the maximum amounts stated on the Product Matrix.

- Construction loan refinances in which the borrower has acted as builder are not eligible.

7.8 Non-Arm's Length Transactions

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

- Sales or transfers between members of the same family. Transaction may not be due to any adverse circumstances.
- Property seller acting as his or her own real estate agent
- Borrower acting as his or her own real estate agent
- Borrower is the employee of the originating lender
- Borrower purchasing from his or her current landlord (cancelled checks or bank statements required to verify satisfactory pay history between Borrower and Landlord)
- Investment property transactions must be arm's length

8.0 Credit Documentation Requirements

For scenarios not specifically addressed below please contact the Arc Home Scenario Desk.

8.1 Credit Documents Age

- Follow the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020, or the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020.

8.2 Credit Score

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

- For multiple borrowers the credit score is the lowest of all representative credit scores.

- If only one credit score or no credit score is reported borrower is not eligible.

- No borrower in a transaction may have frozen credit. If a borrower has frozen credit and unfreezes their credit after the original credit report was ordered, a new credit report must be obtained to reflect current updated information for evaluation.

- Credit rescores are not permitted unless the rescore is correcting erroneous line items or disputed accounts.

See loan product matrix for minimum credit score requirements.

8.3 Minimum Credit Requirements

- Each borrower contributing income must have three (3) open and active trade lines for the past 24 months with a 24-month history. Two (2) of the three (3) trade lines must show activity within the last 12 months from date of application.

- One trade line must be an installment, rental or mortgage account.

- Arc Home will consider a borrower not meeting the above trade line requirement if the credit history meets the following:
  - No fewer than eight (8) trade lines are reporting, one (1) of which must be a mortgage or a rental history.
  - At least one (1) trade line has been open and reporting for a minimum of 12 months.
  - The borrower has an established credit history for at least 10 years.
- Non-traditional/alternative credit accounts are not considered acceptable trade lines.

- Authorized user accounts are not considered acceptable trade lines.

- Trade lines may not show significant adverse history.

8.4 Mortgage/Rental History

- A minimum of twenty-four (24) months verified housing history is required with 0 X 30 payment history.

- For rental verification, a standard VOR completed by a professional management company, or 24 months bank statements, or canceled checks are required.

- Borrowers with no mortgage/rental history due to a residence scenario requiring no mortgage or rental payments are eligible with a satisfactory letter of explanation.

- If the housing history reflects a forbearance arrangement, the payment history must reflect 0 x 30 in the most recent 24 months since exiting forbearance. The payment history must be provided by the lender/servicer.

8.5 Credit Inquiries

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

- Borrower must be qualified with any new debt.

8.6 Liens, Judgments and Collections

- Satisfactory explanation for any delinquent credit from the borrower is required.

- Borrower must pay off all delinquent credit that has the potential to impact lien position.

- Collection accounts or charged-off accounts do not need to be paid off if the balance of an individual account is less than $1,000.00 or if the total balance of all accounts is $2,500.00 or less.

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

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

9.0 Employment and Income

Follow the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020, or the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. The loan file should include an Income Analysis form detailing income calculations.

9.1 Employment and Income Stability

Borrower(s) must have a minimum of two (2) years employment and income history on the 1003. Two (2) years employment and income documentation are required to be obtained for income being used for qualification.

9.2 Income Documentation Requirements

Salaried Borrowers:

- Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.
- Follow the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020, or the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020.
- Signed IRS Form 4506C.

Salaried Borrowers with Commission/Bonus:

- This must be addressed with a written VOE breaking down the bonus or commission income for the past 2 years, or a year-to-date paystub and W-2's supporting the income.

Verbal VOE:

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

Tax Transcripts:

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

Self-Employed Borrowers:

- Borrowers with a 25 percent or greater ownership interest in a business are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes.
- Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.
- Follow the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020, or the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020.
- If the tax return for the previous tax year is not filed a 12-month P&L and balance sheet for this period is required.
- If the most recent year's tax returns have not been filed by the IRS deadline, an executed copy of the borrower's extension request for both personal and business tax returns must be provided.
- Signed IRS Form 4506C.

Additional Requirements for P&L, Balance Sheet and Business Bank Statements:

Lenders should apply due diligence and review the actions of the business and any impact the current economic environment has taken on the flow of income in order to determine if the borrower's income is stable and there is a reasonable expectation of continuance. The underwriter must include comments/justification of their analysis to clearly explain their conclusion of the effect to the business. Due to the pandemic's continuing impact on business, lenders are now required to obtain the following documentation to support the decision that the self-employment income meets requirements:

- (1) An audited year-to-date P&L, no older than 60 days from the Note date, reporting business revenue, expenses and net income up to and including the most recent month preceding the loan application date, and (2) a Balance Sheet; **<u>OR</u>**
- (1) An unaudited year-to-date P&L, no older than 60 days from the Note date, signed by the borrower reporting business revenue, expenses and net income up to and including the most recent month preceding the loan application date, and (2) business bank statements from the most recent three months represented on the year-to-date P&L and (3) a Balance Sheet.
    - For example, the business bank statements should be from March through May 2021 for a year-to-date profit and loss statement dated through May 31, 2021
    - The three most recent bank statements must support and/or not conflict with the information presented in the current year-to-date P&L statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from the current year-to-date P&L statement.

Small Business Administration Loans and Grants Requirements:

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

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

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

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

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

Verification of Active Business:

- The lender must verify the existence of the borrower's business within10 business days prior to the Note Date, or after the Note Date but prior to funding by Arc Home's investor. Methods of verifying business include verification from a third party such as CPA, regulatory agency or by an applicable licensing bureau. Internet listings are not an acceptable source of verification

Tax Transcripts:

- Two years 1040 tax transcripts are required to be obtained from the IRS for income being used for qualification. Borrower pulled transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided by the lender must be consistent.

Rental Income:

- Rental income from other properties must be documented with the borrower's most recent signed federal income tax return that includes Schedule E. Leases are required for all properties where rental income is being used to qualify. Rental income for properties with leases from management companies or other rental companies (i.e., Airbnb and VRBO) is not allowed.

- Proposed rental income from the comparable rent schedule may be used for qualifying if there is not a current lease or assignment of lease on purchase of an investment property.

- Properties with expired leases that have converted to month to month perthe terms of the lease will require bank statements for the lesser of 12 months or the time period after the lease expired.

- A 25% vacancy factor must be applied to the gross rent used for qualifying. Multiply the gross rent by 75% and subtract the PITI to arrive at the rental income/loss used for qualifying.

- Commercial properties owned on Schedule E must be documented with commercial leases and evidence that the primary use and zoning of the property is commercial.

9.3 Other Income

For all other acceptable income sources, follow the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020, or the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020.

9.4 Unacceptable Income

Unacceptable income sources include the following:

- Any source that cannot be verified.

- Restricted stock income (RSU).

- Income that is temporary.
- Rental Income (Boarder Income) received from the borrower's primary residence.
- Expense account payments.
- Retained earnings.
- Automobile allowances.

10.0 Debts and Liabilities

For information regarding the treatment of debts and liabilities not addressed below please contact the Arc Home Scenario Desk.

10.1 Debt-to-Income Ratio

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

10.2 Installment Debt

Follow the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020, or the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020.

10.3 Revolving Debt

Follow the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020, or the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020.

10.4 Home Equity Line of Credit (HELOC)

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

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

Follow the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020, or the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020.

11.0 Assets and Source of Funds

Two (2) months asset documentation is required to be obtained for assets being used to qualify.

11.1 Source of Funds

Follow the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020, or the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published

June 10, 2020.

Gifts of equity are not allowed to be used as a source of funds.

11.2 Cash Reserves

All loans require a minimum cash reserve. Please refer to the Product Matrix for reserve requirements. Reserves must be verified and comprised of liquid assets that borrower can readily access. If a borrower owns multiple financed properties, the borrowers must have six (6) months cash reserves, PITIA, of each additional property. Equity lines of credit, gift funds, business assets and cash out from refinance transactions are not acceptable sources to meet the reserve requirement.

12.0 Property

12.1 Eligible Property Types

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

12.2 Ineligible Property Types

- Manufactured Homes
- Co-ops
- Factory built housing
- Geodesic/Dome homes
- Condo hotel units
- Log homes
- Unwarrantable condominiums
- Condominiums with HOA in litigation
- Timeshare units
- Unique properties
- Mixed use properties

- Working farms
- Hobby farms
- Commercially zoned properties
- Agriculturally zoned properties (agricultural/residential eligible)
- Rural zoned properties
- Properties with an oil and gas lease
- Properties with more than 20 acres
- Properties with Equestrian Amenities
- Properties held as leasehold
- Properties located in Puerto Rico, Guam, and US Virgin Islands.
- Properties in C5 or C6 condition

12.3 Declining Markets

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

12.4 Land to Value

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

12.5 Appraisal Requirements

- All appraisals must be completed on the most current Agency appraisal forms as stipulated in the Seller's Guide and conform to Agency appraisal practices.
- Properties must be appraised within the twelve months that precede the date of the Note and Mortgage.
- Two (2) full appraisals are required for loan amounts > 1.5 million. LTV will be based on lower of the two values. All inconsistencies between the two appraisals must be addressed and reconciled.
- Appraisals assigned from another lender are not acceptable.
- Appraisals must not be over 120 days old from the date of the Note. If appraisal is over 120 days old, a re-

certification of value needs to be performed.

12.6 Third Party Appraisal Review

- The Correspondent must order a Collateral Desktop Analysis (CDA) from Clear Capital.
- A copy of the appraisal desk review report should be submitted in the loan file. The review must not be over 120 days old from the date of the Note.
- The CDA from Clear Capital must return a value at least 90% of the appraised value.
- If the CDA from Clear Capital returns a value < 90% of the appraised value, a Field Review or additional appraisal (supporting value) may be required to confirm the subject property value.
- If the Field Review or additional appraisal returns a value < 90% of the appraised value, the loan is not eligible.
- The Correspondent is responsible for ordering and paying for the CDA or Field Review, as applicable.
- All appraisals are reviewed for eligibility as well as value support. However,the use of an appraisal review product does not relieve the seller of its representations and warranties relating to the property and the appraisal including the underwriting thereof.

12.7 Properties Located in a Disaster Area

The following is required for properties located in a FEMA declared disaster zone to be eligible for purchase:

- If the property is in a zone where a Disaster End Date has been declared by FEMA, Arc Home will require an inspection to confirm the property value has not been impacted by the disaster
- If the property is in a zone where a Disaster End Date has not been declared by FEMA, in addition to the above inspection requirement, a date and time stamped area map from a state or county agency or similar, showing the subject property in relation to the disaster area is required to evidence the property is outside of the disaster impact boundaries.

For Scenarios not addressed in this section, please contact the Scenario Desk or your Underwriter for assistance.

13.0 Additional Loan Attributes and Policies

13.1 Subordinate Financing

- Permitted on purchase & rate/term refinance transactions only up to maximum LTV/CLTV per matrix. Secondary financing must conform to Agency guidelines.
- The CLTV should be calculated using the unpaid principal balance on all closed-end subordinate financing and the full amount of any HELOC's (whether or not the funds have been drawn).

13.2 Chain of Title

- All transactions require a minimum twelve (12) month chain of title.
- For purchase transactions, follow the requirements in Section 7.1 if seller has taken title to the subject property within ninety (90) days of the date of sales contract.

13.3 Balloon Mortgage

- Balloon mortgages are not eligible for purchase.

13.4 Recasting/Re-amortizing

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

13.5 Temporary Buydown

- Temporary buydown mortgage loans are not eligible for purchase.

13.6 Prepayment Penalty

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

13.7 Interested Party Contributions

- Interested party contributions include funds contributed by the property seller, builder, developer, real estate agent or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses.
  - Owner Occupied and Second Home: max 6% contribution allowed.
  - Non-Owner Occupied: max 2% contribution allowed.

13.8 Seller Concessions/Contribution

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

13.9 Hazard Insurance

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

13.10 HERO/PACE/Solar Panels

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

13.11 Escrows

- Escrow accounts may be created for funds collected by the originator to pay taxes, hazard insurance, flood insurance, special assessments, water, sewer, and other items as applicable.
- All applicable loans must adhere to HFIAA regarding mandatory flood insurance escrow requirements for properties located in a Special Flood Hazard Area.
- Escrow holdbacks are not allowed.

14.0 Title and Closing Documentation

14.1 Forms

- All Notes, security instruments, riders, addenda and special purpose documents used in connection with fully amortizing one to two family conventional first mortgages delivered to Arc Home must be prepared on approved Agency forms unless this guide specifically requires otherwise. See most recent Fannie Mae or Freddie Mac Selling Guide for reference.

- Copy of security instrument submitted in the file must be a true and certified stamped copy of the original recorded security instrument.

14.2 Title

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

- The title policy should include all applicable endorsements issued by a title insurer qualified to do business in the jurisdiction in which the mortgage insured property is located, including the endorsements for Condominiums, PUDs and ARM loan types.

- The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form).

- The title insurance policy must insure the mortgagee and its successorsand assigns as to the first priority lien of the loan amount at least equal to the outstanding principal balance of the loan.

- A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related Mortgage duringthe period between the date of the funding of the related Mortgage Loan and the date of the related title policy (which title policy shall be dated the date of recording of the related Mortgage) is insured.

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

Appendix A - Business Purpose & Occupancy Affidavit (the "Affidavit)

LOAN NO:_______________(the "Loan")

BORROWER(S) NAME:____

BORROWER(S) ADDRESS:____

PROPERTY ADDRESS:_(the "Property")

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

1. **I have applied for this Loan and am seeking financing for the Property, subject to the terms and conditions of certain documentation related to the Loan (the "Loan Documents"), for business purposes only.** I do not intend to use the proceeds of the Loan for personal, family, or household purposes.

2. **The proceeds of the Loan will be used to purchase, improve, or maintain the Property.** If I have not executed a lease with a tenant (or tenants) at or before closing of the Loan, I intend to, and will use commercially reasonable methods and effort to obtain a tenant (or tenants) for the Property following closing of the Loan.

3. **Neither I nor any family member intend or expect to occupy the Property at any time. I will not, under any circumstances, occupy the Property at any time while the Loan remains outstanding.** In addition, I will not claim the Property as my primary or secondary residence for any purposes for the duration of my Loan. I now reside, and for the duration of my Loan will continue to reside, elsewhere.

4. **I understand that Lender originating the Loan in reliance upon this Affidavit.** If this Affidavit is not true and correct, and in consideration of Lender making the Loan, I agree to indemnify Lender and its agents, affiliates, subsidiaries, parent companies, successors and assigns and hold them harmless from and against any and all loss, damage, liability or expense, including costs and reasonable attorneys' fees, which they may incur as a result of or in connection with my misrepresentation. I further understand that any misrepresentation in this Affidavit will constitute an event of default under the terms of this Loan and the related Loan Documents, and may result in the immediate acceleration of my debt and the institution of foreclosure proceedings, eviction, and any other remedies allowable by law.

5. **I understand that the agreements and covenants contained herein shall survive the closing of the Loan.**

6. **I understand that, based on the contents of this Affidavit, the Loan is a business-purpose loan secured by non- owner-occupied real property.** I understand that this means that the Loan may not be subject to the requirements ofcertain federal and state consumer protection, mortgage lending, or other laws, including but not limited to the provisions of the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5101 et seq.), and Homeowners Protection Act (12 U.S.C. § 4901 et seq.), and that my ability to avail myself of protections offered under federal and state laws for consumer-purpose residential mortgage loans may be limited.

7. **I understand that any false statements, misrepresentations, or material omissions I make in this Affidavit may result in civil and criminal penalties.**

[*Signature Page Follows*]

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

Borrower(s) / Borrowing Entity Members:

[________________________________]

By:__________ Name: Title:_ Date:_

[________________________________]

By:__________ Name: Title:_ Date:_

ACKNOWLEDGMENT

State of______________) County of___________)

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

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

WITNESS my hand and official seal. Signature___________________(Seal)