



Correspondent Announcement

Arc Underwriting Guide, Alt Income & DSCR Updates

The following updates are effective for loans registered on or after **May 4th, 2026**.

Underwriting Guide

Arc Home Underwriting Guide		
Topic	Previous Guideline	New Guideline
<u>Property and Title Insurance</u>	The Hazard Insurance, HO-6 Insurance, Title Commitment and Closing Protection Letter must be dated within 60 days prior to Note Date.	The Hazard Insurance, HO-6 Insurance, Title Commitment and Closing Protection Letter must be dated within 60 90 days prior to Note Date.
<u>Non-Arm's Length Transaction</u>	<ul style="list-style-type: none"> • Renters purchasing from a landlord: <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. 	<ul style="list-style-type: none"> • Renters purchasing from a landlord: <ul style="list-style-type: none"> ○ Payment history must be verified per standard Mortgage / Rental History requirements; however, a VOR from the Seller or credit supplement from interested party is not acceptable. ○ A payoff statement showing the mortgage is current and no penalties/late fees is required to confirm this transaction is not a foreclosure bailout.
<u>Acceptable Documentation to Verify Permanent</u>	Unexpired passport with unexpired stamp reading "Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [date]. Employment authorized." This	Unexpired passport, visa, or I-94 with unexpired stamp reading "Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [date]. Employment

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<u>Resident Alien Status</u>	evidences the holder has been approved for, but not issued, a Permanent Resident Alien card.	authorized." This evidences the holder has been approved for, but not issued, a Permanent Resident Alien card. If the I-551 is due to expire within 3 months of closing, evidence of application for Permanent Resident Alien Card must be in the loan file.
<u>Full Documentation for Self-Employed Borrowers</u>	Partnership agreement required	For General Partnership, the 1065 or Partnership Agreement may be used to determine ownership percentage.
<u>Collection Accounts</u>	<p>For one-unit, principal residence properties, borrowers are not required to pay off outstanding collections or non-mortgage charge-offs—regardless of the amount; however, the borrower must qualify with a calculated 5% payment added to the DTI.</p> <ul style="list-style-type: none"> For two- to four-unit owner-occupied and second home properties, collections and non-mortgage charge-offs totaling more than \$5,000 must be paid in full prior to or at closing. For investment properties, individual collection and non-mortgage charge-off accounts equal to or greater than \$250 and accounts that total more than \$1,000 must be paid in full prior to or at closing. 	<ul style="list-style-type: none"> For one-unit, principal residence properties Borrowers are not required to pay off outstanding collections or non-mortgage charge-offs under \$5,000, provided the lien will not cloud title.—regardless of the amount; For all transactions collections and non-mortgage charge-offs totaling more than \$5,000 must be paid in full prior to or at closing. For investment properties, individual collection and non-mortgage charge-off accounts equal to or greater than \$250 and accounts that total more than \$1,000 must be paid in full prior to or at closing.

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	<ul style="list-style-type: none"> If collections and non-mortgage charge-offs are not paid off prior to closing and it will not become a lien that will cloud title, they may remain open if the borrower has documented reserves covering the balance or the borrower can qualify with a calculated 5% payment added to the DTI. 	<ul style="list-style-type: none"> If collections and non-mortgage charge-offs are not paid off prior to closing and it will not become a lien that will cloud title, they may remain open if the borrower has documented reserves covering the balance or the borrower can qualify with a calculated 5% payment added to the DTI. Any open collections, charge-offs or judgements that may cloud title must be paid off at or prior to closing.

Alt Doc Guideline Updates

Alt Income Product Matrix		
Topic	Previous Guideline	New Guideline
<u>Alt Doc Departure Residence Rental Income</u>	<ul style="list-style-type: none"> Calculation: <ul style="list-style-type: none"> Step 1: Determine the Gross Qualifying Rent: <ul style="list-style-type: none"> Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement 	<ul style="list-style-type: none"> Calculation: <ul style="list-style-type: none"> Step 1: Determine the Gross Qualifying Rent: <ul style="list-style-type: none"> Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement (if provided)

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<p><u>Documentation for Long & Short-Term Rental Income</u></p>	<ul style="list-style-type: none"> • Documentation: <ul style="list-style-type: none"> ○ Purchase transactions or Departing Residences: Rent Schedule Form 1007 or 1025 OR the current lease agreement, security deposit, and 1 month's rent rental deposit reflected on the bank statements/cancelled checks/electronic proof. ○ For subject refinance transactions and REO properties: <ul style="list-style-type: none"> • Primary income source as a real estate investor: The rental deposits reflected on the bank statements covering the 12 or 24-month period (depending on the documentation type) with a letter of explanation (LOE) from the borrower indicating the rental property address and the rental amount. For any newly rented properties (< 12 months), the borrower must also explain why the property has been rented less than 12 months and provide supporting documentation to confirm the purchase date, such as the settlement statement. • The underwriter is not required to request a lease agreement to confirm the rental income that is reported on the 	<ul style="list-style-type: none"> • Documentation: <ul style="list-style-type: none"> ○ Purchase transactions or Departing Residences: Rent Schedule Form 1007 or 1025 OR the current lease agreement, security deposit, and 1 month's rent rental deposit reflected on the bank statements/cancelled checks/electronic proof. ○ For subject refinance transactions and REO properties: <ul style="list-style-type: none"> • Primary income source as a real estate investor: The rental deposits reflected on the bank statements covering the 12 or 24-month period (depending on the documentation type) with a letter of explanation (LOE) from the borrower indicating the rental property address and the rental amount. For any newly rented properties (< 12 months), the borrower must also explain why the property has been rented less than 12 months and provide supporting documentation to confirm the purchase date, such as the settlement statement. • The underwriter is not required to request a lease agreement to confirm the rental income that is reported on the

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	<p>bank statements. However, to the extent that the underwriter is unable to determine whether the source of the deposit(s) is tied to the rental property(ies), or if the deposits are inconsistent, the underwriter may, at its discretion, request rental lease(s) as needed.</p> <ul style="list-style-type: none"> • Secondary income source: <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. 	<p>bank statements. However, to the extent that the underwriter is unable to determine whether the source of the deposit(s) is tied to the rental property(ies), or if the deposits are inconsistent, the underwriter may, at its discretion, request rental lease(s) as needed.</p> <ul style="list-style-type: none"> • Secondary income source: <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.
<p><u>Bank Statement as the Primary Source and Additional Income as the Second Source</u></p>	<ul style="list-style-type: none"> ○ <u>Step 1: Determine the Gross Qualifying Rent:</u> <ul style="list-style-type: none"> • Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 • Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement (if provided) • For REO properties: <ul style="list-style-type: none"> • Primary income source as a real estate investor: Use the rental deposits reflected on the bank statements/LOE 	<ul style="list-style-type: none"> ○ <u>Step 1: Determine the Gross Qualifying Rent:</u> <ul style="list-style-type: none"> • Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 • Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement (if provided) • For REO properties: <ul style="list-style-type: none"> • Primary income source as a real estate investor: Use the rental deposits reflected on the bank statements/LOE

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	<ul style="list-style-type: none"> • Secondary income source: Use monthly gross rental from the borrower's most recent Schedule E per FannieMae calculations or from the current lease agreement ◦ Step 2: Reduce the Gross rent by the 20% vacancy factor: When bank statements, current lease agreements or the Rent Schedule Form 1007 or 1025 are used, the rental income must be calculated by multiplying the gross monthly rent(s) by 80% ◦ Step 3: Determine the Net Qualifying Rent: Subtract the PITIA associated with that property to arrive at the Net Rental Income (if positive, apply to the Total Income figure) or Net Rental Loss (if negative, count in the borrower's debt) 	<ul style="list-style-type: none"> • Secondary income source: Use monthly gross rental from the borrower's most recent Schedule E per FannieMae calculations or from the current lease agreement ◦ Step 2: Reduce the Gross rent by the 20% vacancy factor: When bank statements, current lease agreements or the Rent Schedule Form 1007 or 1025 are used, the rental income must be calculated by multiplying the gross monthly rent(s) by 80% ◦ Step 3: Determine the Net Qualifying Rent: Subtract the PITIA associated with that property to arrive at the Net Rental Income (if positive, apply to the Total Income figure) or Net Rental Loss (if negative, count in the borrower's debt). Add the gross monthly rental income into the Borrower's qualifying income and add the liabilities for the respective property into liabilities
<u>1099. CPA Prepared P&L and Asset Utilization as the Primary Source and Additional Income as the Second Source</u>	<ul style="list-style-type: none"> ◦ Step 1: Determine the Gross Qualifying Rent: <ul style="list-style-type: none"> • Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 • Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement (if provided) 	<ul style="list-style-type: none"> ◦ Step 1: Determine the Gross Qualifying Rent: <ul style="list-style-type: none"> • Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 • Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement (if provided)

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	<ul style="list-style-type: none"> • For REO properties: Use monthly gross rental from the borrower's most recent Schedule E per FannieMae calculations, from the current lease agreement, or from the 12 month remittance statements ◦ Step 2: Reduce the Gross rent by the 20% vacancy factor: The rental income must be calculated by multiplying the gross monthly rent(s) by 80% ◦ Step 3: Determine the Net Qualifying Rent: Subtract the PITIA associated with that property to arrive at the Net Rental Income (if positive, apply to the Total Income figure) or Net Rental Loss (if negative, count in the borrower's debt) 	<ul style="list-style-type: none"> • For REO properties: Use monthly gross rental from the borrower's most recent Schedule E per FannieMae calculations, from the current lease agreement, or from the 12 month remittance statements ◦ Step 2: Reduce the Gross rent by the 20% vacancy factor: The rental income must be calculated by multiplying the gross monthly rent(s) by 80% ◦ Step 3: Determine the Net Qualifying Rent: Subtract the PITIA associated with that property to arrive at the Net Rental Income (if positive, apply to the Total Income figure) or Net Rental Loss (if negative, count in the borrower's debt). Add the gross monthly rental income into the Borrower(s) qualifying income and add the liabilities for the respective property into liabilities.

DSCR Updates

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<u>DSCR First-Time Investor Requirements</u>	<p>First Time Investors (Any borrower who does not have a history of owning and managing a rental property for 12 months in last 3 years prior to note date.) are allowed on purchase and refinance transactions.</p> <ul style="list-style-type: none"> Min 700 credit score Min 1.00 DSCR score All borrowers must currently own and be obligated on a mortgage for at least 1 primary or second home in the United States for 12 months. Evidence of a 0x30x12 payment history or that the property is owned free and clear is required. Borrower may have sold their property in the most recent 3 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. Refinance transactions are allowed when the subject property was acquired within the last year or has been vacant due to recent renovations. For renovations, the appraisal must support that recent work has been completed and provide visual evidence. Short term rental income is allowed 	<p>First Time Investors (Any borrower who does not have a history of owning and managing a rental property for 12 months in last 3 years prior to note date.) are allowed on purchase and refinance transactions.</p> <ul style="list-style-type: none"> Min 700 credit score Min 1.00 DSCR score All borrowers must currently own and be obligated on a mortgage for at least 1 primary or second home in the United States for 12 months. Evidence of a 0x30x12 payment history or that the property is owned free and clear is required. Borrower may have sold their property in the most recent 3 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. Current rental payments may be included in the 12-month housing history when borrowers have sold or vacated a primary residence. Borrowers currently living rent free are not allowed. Refinance transactions are allowed when the subject property was acquired within the last year or has been vacant due to recent renovations. For

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		<p>renovations, the appraisal must support that recent work has been completed and provide visual evidence.</p> <ul style="list-style-type: none"> Short term rental income is allowed
<u>DSCR Month-to-Month Lease for Refinance Transactions</u>	<p>Long-Term Rental Income (Any term between month to month and 12 months): On refinances, when the lease agreement is greater than the market rent from the 1007/1025, the lease agreement rent may be used with 3 months current proof of receipt of the higher rental income (not including the security deposit). Provide a monthly, seasonal, or long-term (as available per market) Comparable Rent Schedule Form 1007 or 1025 and:</p> <ul style="list-style-type: none"> When the property is currently occupied by a tenant, an executed lease agreement. For month-to-month lease agreements, the most recent rental receipt must be documented. 	<p>Long-Term Rental Income (Any term between month to month and 12 months): On refinances, when the lease agreement is greater than the market rent from the 1007/1025, the lease agreement rent may be used with 3 months current proof of receipt of the higher rental income (not including the security deposit). Provide a monthly, seasonal, or long-term (as available per market) Comparable Rent Schedule Form 1007 or 1025 and:</p> <ul style="list-style-type: none"> When the property is currently occupied by a tenant, an executed lease agreement. For month-to-month lease agreements, the most recent rental receipt must be documented. Receipt of rent is not required when market rent is greater than month-to-month lease.

We appreciate your business!