



Arc Access Alt Income

1-Year Full Doc; 12 & 24 – Month Bank Statement; 1 & 2-Year 1099

This product is for strong credit quality borrowers who prefer to use alternative documentation (1-Year Tax Returns & Profit and Loss/W-2; 12 & 24 – Month Bank Statement; 1 & 2-Year 1099) instead of the traditional 2-year full documentation income requirements.

- **1-Year Full Doc:** Borrowers may qualify with 1 year of tax returns, P&Ls or Paystub & most recent W-2
- **12 & 24 – Month Bank Statement:** Self-employed borrowers may qualify using bank statements, in lieu of tax returns, to support self-employed income for qualification purposes.
- **1 & 2-Year 1099:** 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.

LTV Matrix

Fixed Rate and ARM (including IO)

Occupancy	Purpose	Maximum Loan Amount	Units	Min. FICO	LTV/(H)CLTV	Maximum DTI ^{1,7}
Primary Residence	Purchase and Rate/Term	\$3,000,000 ^{2,4}	1	720	75% ^{2,4}	50%
		\$3,000,000 ^{2,4}	1	700	70%	
		\$2,000,000	1	720	85% ^{1,2,4,6}	
		\$2,000,000	1	700	80% ^{2,4,6}	
		\$1,500,000	1	680	85% ^{1,2,4,6}	
		\$1,500,000	1	660 ^{1,2,4}	75% ^{2,4}	
		\$1,000,000	1	700	90% ^{1,2,3,4,6}	
		\$2,000,000	2-4	700	75% ^{2,4}	
	\$1,500,000	2-4	680	75% ^{2,4}		
	Cash-Out ⁵	\$3,000,000 ^{2,4}	1	720	70% ^{2,4}	50%
\$3,000,000 ^{2,4}		1	700	65% ²		
\$2,000,000		1	700	75% ^{2,4}		
\$1,500,000		1	680	80% ^{2,3,4,6}		
\$1,500,000		1	660 ^{1,2,4}	70% ^{2,4}		
\$2,000,000		2-4	700	70% ^{2,4}		
Second Home	Purchase and Rate/Term	\$2,000,000	1	720	80% ^{2,4,6}	50%
		\$2,000,000	1	700	75% ^{2,4}	
		\$1,500,000	1	680	80% ^{2,4,6}	
	Cash-Out ⁵	\$2,000,000	1	700	70% ^{2,4}	50%
Investment	Purchase and Rate/Term	\$2,000,000	1-4	720	75% ^{2,4}	50%
		\$2,000,000	1-4	700	70%	
		\$1,500,000	1-4	700	75% ^{2,4}	
	Cash-Out ⁵	\$2,000,000	1-4	700	65% ²	50%

1. First Time Homebuyers:

- 680 minimum credit score
- LTVs > 80%: Max 45% DTI
- LTVs ≤ 80%: Max 50% DTI
- **Note:** Borrower(s) who have 24 months rental history documented per the Arc Selling Guide are NOT subject to FTHB restrictions

2. Rural property: \$2,000,000 max loan amount; 70% max LTV for Purchase and Rate/Term, 55% max LTV for Cash-Out; minimum 680 FICO

3. Warrantable Condo: 85% max LTV for Purchase and Rate/Term, 75% max LTV for Cash-Out

4. Non-Warrantable Condo: \$2,000,000 max loan amount; 70% max LTV for Purchase & Rate/Term; 65% for Cash-Out; minimum 680 FICO

5. Cash-Out transactions: Maximum cash in hand of \$500,000 for LTVs > 65%; \$1MM maximum combined cash-in-hand total for all Arc Home loans, over rolling 12-month period.

6. Tax Liens: Transactions with Tax Liens that are left open in accordance with guideline requirements may not exceed 75% LTV/CLTV.



7. **Max DTI:** DTI up to 55% may be considered on a case-by-case basis as approved by Credit Policy.

Product Specific Requirements

Amortization Type	<p>Full Principal and Interest:</p> <ul style="list-style-type: none"> • 15 Year and 30 Year Fixed Rate • 5/6 SOFR ARM, 7/6 SOFR ARM <p>Interest Only:</p> <ul style="list-style-type: none"> • 30 Year and 40 Year Interest only Fixed Rate • 5/6 SOFR IO ARM, 7/6 SOFR Interest only ARM
ARM Information	<p>Caps: 2/2/5 Index: 30 Day SOFR Margin: 3.75% Floor: Margin</p>
Appraisal Requirement	<ul style="list-style-type: none"> • One appraisal is required for loan amounts \leq \$2,000,000. • Two appraisals are required for loan amounts $>$ \$2,000,000. • Follow the Arc Selling Guide for Collateral Review requirements.
Borrower Contribution	<p>Gift funds are permitted for down payment and closing costs. Refer to the Arc Selling Guide.</p>
Borrower Eligibility	<p>Eligible:</p> <ul style="list-style-type: none"> • US Citizens • Permanent Resident Aliens • Non-Permanent Resident Aliens • First Time Homebuyers • LLCs and Corporations provided that the Vesting in the Name of an Entity requirements in the Arc Selling Guidelines are met. <p>Ineligible:</p> <ul style="list-style-type: none"> • Foreign National Borrowers • Non-Occupant Co-Borrowers
Credit/Payment History Requirements	<ul style="list-style-type: none"> • No foreclosure/bankruptcy/short sale within last 48 months • All applicant(s) and co-borrowers, must meet the credit score requirements individually. • Non-traditional credit is not permitted. • Payment history requirements: 0x30x12 mortgage/rental history on the subject property and all financed REOs under the borrower's name.
Impound/Escrow Accounts	<p>Escrow funds/impound accounts may be waived for taxes and hazard insurance in accordance with the Arc Selling Guide.</p>
Lien Position	<p>First</p>
Minimum Loan Amount	<p>\$100,000</p>
Number of Financed Properties	<ul style="list-style-type: none"> • A single borrower can have no more than 20 financed properties including subject property. All properties in which the borrower is personally obligated must be included in the financed property maximum. • For Arc Elite, Arc Access, Conventional Investment Property and FNMA/FHLMC Second Home-Investment Property Products, each borrower may not exceed either an aggregate unpaid principal balance amount of \$5MM or 10 loans (including the subject property) financed with Arc Home Loans.
Occupancy	<ul style="list-style-type: none"> • Primary Residence • Second Home • Investment Property
Prepayment Penalty	<p>Allowed on Investment properties. May be subject to up to a three-year prepayment penalty or the maximum permitted by state law, whichever is lower.</p>



Property Types	<p>Eligible:</p> <ul style="list-style-type: none"> • 1-4 unit (Detached, Semi Detached, Attached) • PUD (Detached, Attached) • Warrantable Condominium (Detached, Attached) • Non-Warrantable Condominiums. Refer to the Arc Selling Guide for details. <p>Ineligible: Refer to the Arc Selling Guide for ineligible property types.</p>
Reserve Requirements	<ul style="list-style-type: none"> • Loan Amount \leq \$1.5MM: <ul style="list-style-type: none"> ○ LTV \leq 85%: 6 months of PITIA ○ LTV $>$ 85%: 12 months of PITIA • Loan Amount $>$ \$1.5MM-\$2.5MM: 9 months of PITIA • Loan Amount $>$ \$2.5MM: 12 months of PITIA • Cash out proceeds may be used to satisfy reserve requirements.
Secondary Financing	Allowed
Tax Transcripts	<p>1-Year Full Doc: A signed 4506-C and IRS Tax Transcripts must be obtained during the loan process or at closing.</p> <p>Additional W-2: A signed 4506-C and W-2 Transcripts must be obtained during the loan process or at closing.</p> <p>Bank Statements and 1099: A signed 4506-C and IRS Tax Transcripts are <u>not</u> required.</p>
Transaction Types	<p>Eligible:</p> <ul style="list-style-type: none"> • Purchase • Rate Term Refinance • Delayed Financing • Cash Out Refinance • Texas 50(a)(6) Rate Term and Cash Out refinances
Underwriting	Manual underwriting required. AUS not allowed. Refer to the Arc Selling Guide for complete program requirements.

1-Year Full Doc (Tax Returns & P/Ls or W-2/Recent Paystubs) Documentation/Calculation Requirements

1-Year Tax Returns & P/Ls	<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 of Tax Returns, Schedules, and P/L is required. • Income is calculated by utilizing the past ONE year of tax returns, schedules and forms. • A cash flow analysis must be prepared for all self-employed borrowers. Use Fannie Mae Form 1084 and follow all instruction to document self-employed income. (Complete just one year of information rather than two).
1-Year W-2 & Paystub	<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
Documentation Type	Doc Type must reflect "1 Yr Tax Returns"



12 & 24 month 1099

Documentation/Calculation Requirements

Employment Requirements	<p>Borrower must have a minimum 2-year history of 1099 employment:</p> <ul style="list-style-type: none"> • If the borrower is not self-employed, they must be employed at the same company for a minimum of two years. • 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 (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 • Verbal verification of employment guidelines apply, refer to the Arc Selling Guide. • The Borrower’s income from self-employment must be solely compensation for personal services performed by the Borrower.
Documentation	<p>The Borrower must receive regular, ongoing compensation on a weekly, bi-weekly, bi-monthly, monthly or quarterly basis. Do not provide tax returns.</p> <p>For a 12-month income calculation, provide the following:</p> <ul style="list-style-type: none"> • 1 year of 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, provided that earnings over 30 consecutive calendar days is verified. <p>For a 24-month income calculation, provide the following:</p> <ul style="list-style-type: none"> • 2 years of 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, provided that earnings over 30 consecutive calendar days is verified.
Income Calculation	<p>For a 12-month income calculation, the lesser of:</p> <ul style="list-style-type: none"> • The income reported on the Borrower’s 1099 tax forms for the Applicable Year* multiplied by the Profit Margin and then divided by 12 months, or • The Profit Margin multiplied by the Borrower’s year to date income, for the current year, converted into a monthly average. <p>For a 24-month income calculation, the lesser of:</p> <ul style="list-style-type: none"> • The average income reported on the Borrower’s 1099 tax forms over the two Applicable Years* multiplied by the Profit Margin and then divided by 24 months, • The income reported on the Borrower’s 1099 tax forms for the Recent Applicable Year* multiplied by the Profit Margin and then divided by 12 months, or • The Profit Margin multiplied by the Borrower’s year to date income, for the current year, converted into a monthly average <p>Profit Margin: For 1099 Income Documentation type, the borrower must provide a written narrative on their 1099 employment including an expense factor that is related to their annual business. Arc Home will utilize a maximum of 90% Profit Margin. Borrowers who identify a smaller profit margin must be qualified with the smaller profit margin.</p> <p>*For the purposes hereof the Recent Applicable Year is the calendar year prior to the date of the Borrower’s Initial Application unless the date of the Initial Application is in January, and the Borrower’s 1099 tax forms for</p>



	the calendar year prior to the date of the Borrower’s Initial Application are unavailable, in which case the Recent Applicable Year is the calendar year two years prior to the date of the Initial Application; the Applicable Years are (i) the Recent Applicable Year and (ii) the calendar year prior to the Recent Applicable Year.
Documentation Type	For 1 Year 1099: Doc Type must reflect “Other Bank Statement”, then select “12” in the 1099 field For 2 Year 1099: Doc Type must reflect “Other Bank Statement”, then select “24” in the 1099 field

12 & 24 – Month Bank Statement Documentation/Calculation Requirements

Employment Requirements	<p>The Primary borrower must be self-employed.</p> <ul style="list-style-type: none"> • Borrower must be self-employed for at least two (2) years and the business must have existed for at least two (2) years. • The business structure may change within two years if the new business provides the same product and services as the current business (i.e. Sole prop. To LLC). • 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 (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 • Verbal verification of employment guidelines apply, refer to the Arc Selling Guide.
Documentation Requirements	<p>Arc accepts personal and business checking/draft accounts only, to derive qualifying income. Regardless of the type of account (business or personal) the following apply:</p> <ul style="list-style-type: none"> • 12- or 24- month complete bank statements from the same account must be in the file <ul style="list-style-type: none"> ○ Bank statements must be consecutive and reflect the most recent months available. Arc will consider the bank statements to be consecutive if an account was closed and a new account was opened immediately thereafter; the bank statements must reflect the switch and reflect continuity (no gaps) ○ Every page including pages without transactions and advertisements must be present; transaction history printouts are not acceptable ○ 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 co-mingled. ○ Cannot mix and match different bank accounts (e.g.- January statement from personal, February statement from business and so forth) ○ A combination of business and personal is prohibited ○ Statements must support stable and generally predictable deposits. ○ All parties listed on each bank account must be included as borrowers on the loan, or a letter from the non-borrowing account holder must be provided and must indicate that the borrower has access to 100% of the account. • Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification • Monthly income must be disclosed on the initial, signed 1003



	<ul style="list-style-type: none"> • Deposits should be common and consistent based on the nature of the business and how the borrower conducts their business. Unusual deposits must be sourced and documented; unacceptable deposits are not counted toward the income derived from bank statement deposits. • If the bank statements reflect payments being made on obligations that are not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower’s debt- to-income ratio. <ul style="list-style-type: none"> ○ If the obligation does not belong to the borrower, supporting documentation is required. ○ If the borrower is the obligor an account statement a payment history must be obtained to review the account for acceptability. The payment must be included in the debt ratio. • Non-Sufficient Funds (NSFs) must be reviewed on the bank statements used in qualifying the borrower. NSF’s are allowed with the following restrictions: <ul style="list-style-type: none"> ○ If there are one (1) or more occurrences in the most recent two-month time period, up to three (3) occurrences are allowed in the most recent 12-month time period. ○ If there are zero (0) occurrences in the most recent three-month time period, up to five (5) occurrences in the most recent 12-month time period are acceptable. ○ LOE from borrower ○ Protected Overdrafts and Reversed NSF’s are NOT included in the NSF count ○ Multiple NSF’s and/or Overdrafts that occur on the same day will count as One occurrence
Business Narrative	Borrowers must provide a comprehensive business narrative that includes all of the following: <ul style="list-style-type: none"> • A description of the business • The outlook for the future of the business • Information about the products or services • An outline of how the business and management team is organized • The number of full-time employees and/or contractors
Disallowed Deposits	Disallowed deposits include transfers from other accounts credit lines, business loans, rental income, one-time only deposit in 12 months, cash advances from credit cards, returns/refunds, or income from other sources (on personal bank statements).
Personal Bank Statements	<p><u>COMMINGLED FUNDS:</u> Personal bank statements with evidence of deposits and/or expenses from the business must qualify under Arc’s business bank statement options.</p> <p>Personal Bank Statements 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>The following also applies to Personal Bank Statement income:</p> <ul style="list-style-type: none"> • Only deposits can be used; transfers from a business account into a personal account are acceptable with proof, other transfers are not acceptable • 100% of allowable deposits used for income and averaged over 12 or 24 months <p>Qualifying income is the lower of:</p> <ul style="list-style-type: none"> • income indicated on the initial signed 1003 or • (Total Deposits – Disallowed Deposits) divided by 12 or 24 months
Business Bank Statements	In addition to the documentation requirements above, the following apply: <ul style="list-style-type: none"> • Must provide business expense documentation. Expense verification will differ based on the Calculation Option chosen (see each option below for details) • Borrower must own at least 25% owner of the business. All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower’s access to the account for income-related purposes, unless the Articles of Incorporation give the borrower sole right to enter into the mortgage debt (articles of incorporation must be provided)

	<ul style="list-style-type: none"> • Qualifying Income must be multiplied by the ownership percentage to determine the owner’s portion of income allowed for the transaction • Multiple bank statements may be used if there are multiple businesses • Transfers from other business accounts may be acceptable and must be documented • Transfers from personal accounts to are not acceptable • Statements should show a trend of ending balances that are stable or increasing over time. • Decreasing or negative ending balances must be explained and may result in the loan being denied • Business expenses must be reasonable for the type of business (examples of businesses with higher expense ratios include construction companies, builders, restaurants, and retail firms)
<p>Service vs Product Industry</p>	<p>Examples of the Service Industry Include (but are not limited to) the following:</p> <ul style="list-style-type: none"> • Hospitality <ul style="list-style-type: none"> ○ The hospitality industry includes hotels, restaurants, and bars. Individuals working in hospitality offer dining experiences, hotel stays and entertainment to their customers • Tourism <ul style="list-style-type: none"> ○ The tourism industry also includes hotels, but it typically includes tour guide companies, consultation services and travel-based event planning, as well. Individuals working in the tourism industry offer experiences, knowledge, consultation and management services to their customers. • Finance <ul style="list-style-type: none"> ○ The finance industry includes banks, financial consulting firms and accounting roles. Those working in the finance industry often help clients apply for or set up investments, loans and bank accounts. They may also offer advice and consultation to customers. • Fitness <ul style="list-style-type: none"> ○ The fitness service industry includes establishments such as gyms that offer users services such as personal training sessions, fitness classes and exercise education. • Beauty and wellness <ul style="list-style-type: none"> ○ The beauty and wellness industry includes spas, hair salons, nail salons, makeup studios and dermatology practices. Individuals working in the beauty industry offer services such as haircuts, manicures, facials and makeup application to customers. • Mechanical <ul style="list-style-type: none"> ○ The mechanical industry covers all businesses that offer repair or maintenance services. The services provided by individuals in the mechanical industry include mechanical expertise, repairs and sanitation. • Media and entertainment <ul style="list-style-type: none"> ○ The media and entertainment industry includes television, film, theater, news outlets, music and live performances. The intangible products provided by those in the media and entertainment industry include experiences and entertainment. • Design <ul style="list-style-type: none"> ○ The design industry includes all businesses and individuals who offer creation and design services to customers and clients. The services provided by individuals in this field include logo designs for companies, artwork for clients and home renovation and organization for homeowners. • Marketing and sales <ul style="list-style-type: none"> ○ The marketing and sales sector includes professionals who offer promotional and sales services to businesses and clients. This type of work may include selling cars to prospective buyers, conducting marketing campaigns that effectively target a company's audience or listing houses for sale. • Education <ul style="list-style-type: none"> ○ The education industry includes schools, universities and training facilities. The services provided by those working in education may include test preparation, general education that helps a student earn a degree and advice for a student's future educational or career path. • Healthcare



	<ul style="list-style-type: none"> ○ The healthcare industry includes hospitals, care facilities and medical practices. Those working in healthcare provide services such as knowledge, advice, consulting, customer service and medical care to patients. ● Public service <ul style="list-style-type: none"> ○ The public service sector includes all fields dedicated to providing safety and maintaining the well-being of the general public. Individuals working in public service provide intangible goods such as safety, cleanliness, information, consultation and customer service. <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. <ul style="list-style-type: none"> ○ 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 ▪ Publishing ▪ Toy Maker ▪ Household Goods 																
Business Bank Statement Calculation	<p>There are several options for deriving qualifying income from bank statements. All cases using Bank Statement income must include a completed Analysis spreadsheet found on Arc’s website at https://business.archomellc.com/page/tools-and-calculators</p> <p>To calculate qualifying income using Business Bank Statement Documentation, choose one of the two (2) options below:</p>																
Calculation Option 1: Fixed Expense Factor	<p>This option uses a fixed expense ratio to determine qualifying income. Determine income as follows:</p> <ol style="list-style-type: none"> 1. Determine the <u>Average Allowable Monthly Deposits</u>: <div style="text-align: center; margin: 10px 0;"> $\left[\frac{\text{Total Deposits} - \text{Disallowed Deposits}}{12 \text{ or } 24 \text{ months}} \right]$ </div> 2. Determine the <u>Business Net Income</u> = Multiply the <u>Gross Monthly Qualifying Income</u> by the Fixed Expense Ratio (from table below): <table border="1" style="margin: 10px auto; border-collapse: collapse; width: 60%;"> <thead> <tr style="background-color: #e91e63; color: white;"> <th colspan="4">Fixed Expense Ratio</th> </tr> <tr style="background-color: #cccccc;"> <th>Number of FTE/Contractors</th> <th>0</th> <th>1-10</th> <th>10+</th> </tr> </thead> <tbody> <tr> <td>Service Business</td> <td>20%</td> <td>40%</td> <td>60%</td> </tr> <tr> <td>Product Business</td> <td>30%</td> <td>50%</td> <td>70%</td> </tr> </tbody> </table> 3. Determine the <u>Borrower’s Monthly Qualifying Income</u> = Multiply the <u>Business Net Income</u> by the Borrower’s Percentage Ownership of the Business. 4. Use the lower of the Monthly Qualifying Income or the Monthly Net Income stated on the most recent signed 1003. <p>Example: Average Allowable Monthly Deposits = \$10,000 1003 Income reflects \$8,000 monthly income Borrower has 9 employees and is in a Service Business Borrower owns 80% of the business 10,000 * 40% (expense ratio for a service business with 9 employees) * 80% (percent of business owned)</p>	Fixed Expense Ratio				Number of FTE/Contractors	0	1-10	10+	Service Business	20%	40%	60%	Product Business	30%	50%	70%
Fixed Expense Ratio																	
Number of FTE/Contractors	0	1-10	10+														
Service Business	20%	40%	60%														
Product Business	30%	50%	70%														



	<p>= \$4,800 (Lesser of \$8,000 and \$4,800) = Monthly Qualifying Income of \$4,800 (Lesser of \$8,000 and \$4,800) You must use the lesser of \$4,800 or \$8,000 (Monthly Net Income stated on the most recent signed 1003); therefore, the <u>Monthly Qualifying Income</u> is \$4,800.</p>
<p>Calculation Option 2: Third-Party Prepared Expense Statement</p>	<p>For this option, Bank Statements are used for income then the expense ratio provided by the borrower's/ company's CPA is used to determine the qualifying income. The lowest acceptable expense ratio for qualifying in these industries is 15%.</p> <p>The lower of the income stated on the 1003 or the Bank Statement income should be used.</p> <p>Documentation Requirements:</p> <ul style="list-style-type: none"> • The Expense Statement must be prepared and signed by a third-party (CPA or licensed tax preparer) indicating business expenses as a percentage of the gross annual sales/revenue. • CPA or licensed tax preparer must be verified. <p>Determine Qualifying Income as follows:</p> <ol style="list-style-type: none"> 1. Determine the <u>Average Allowable Monthly Deposits</u>: <div style="text-align: center; border: 1px solid black; padding: 5px; width: fit-content; margin: 10px auto;"> $\frac{\text{Total Deposits} - \text{Disallowed Deposits}}{12\text{- or }24\text{-months}}$ </div> 2. Determine the <u>Business Net Income</u> = Multiply the <u>Gross Monthly Qualifying Income</u> by the Expense Ratio provided by the CPA. 3. Determine the <u>Borrower's Monthly Qualifying Income</u> = Multiply the <u>Business Net Income</u> by the Borrower's Percentage Ownership of the Business. 4. Use the lower of the Monthly Qualifying Income or the Monthly Net Income stated on the most recent signed 1003. <p>Example: Average Allowable Monthly Deposits = \$20,000 1003 Income reflects \$9,000/mo. CPA provides expense factor of 50% Borrower owns 100% of the business $\\$20,000 * 50\%$ (expense ratio provided by CPA * 100% (percent of business owned) = \$10,000 However, you must use the lesser of \$10,000 or \$9,000 (Monthly Net Income stated on the most recent signed 1003); therefore, the <u>Monthly Qualifying Income</u> is \$9,000.</p>
<p>Declining Income (Business and Personal Bank Statement Qualification)</p>	<p>The Arc Home Underwriter must make a reasonable determination that the qualifying income is stable and likely to continue. If a review of the bank statement documentation suggests that the qualifying income has declined, the Arc Home underwriter must determine whether the income has stabilized. If the income has stabilized at its current level, then the current level of stable income can be utilized for qualifying. For example, if the 12-month bank statement qualifying income is \$10,000 per month, but the most recent months have stabilized at \$7,000 per month, then the stabilized income of \$7,000 may be considered.</p>
<p>Additional Income</p>	<p>If the 1003 or bank statements reflect additional income, such as alimony, child support or W-2 wages, that income must be deducted from the bank statement calculation but may be considered per Fannie Mae guidelines. W-2 Wages must include an executed 4506-C and a W-2 transcript.</p> <p>Rental Income: Borrowers who meet the eligibility requirements for using Bank Statement Income Documentation and who receive rental income (either as a primary or as a secondary income source) in the same bank account, may qualify using rental income.</p> <ul style="list-style-type: none"> • The borrower must fully complete the REO section of the loan application.

- **Documentation:**
 - Purchase transactions: Rent Schedule Form 1007/216 or 1025 (the rental lease is not required).
 - For REO properties: Rent Schedule Form 1007/216 or 1025 AND either
 - Current lease agreement OR
 - 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 rental lease to confirm the rental income that is reported on the 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.

- **Calculation:**
 - Step 1: Determine the Gross Rent:
 - Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007/216 or 1025
 - For REO properties: Use the lesser of
 - The actual or market rent on the Rent Schedule Form 1007/216 or 1025 OR
 - The rent listed on the current lease agreement OR
 - The rental deposits reflected on the bank statements or LOE.
 - Step 2: Reduce the Gross rent by the 20% vacancy factor: When bank statements, current lease agreements or the Rent Schedule Form 1007/216 or 1025 are used, the rental income must be calculated by multiplying the gross monthly rent(s) by 80%.
 - Step 3: Determine the Net 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).

Example 1:

Borrower who generates income solely from rental properties	
Explanation: Apply Expense Factor to the Gross Rental Income with the result washing the REO PITIA debt. The resulting rental income can be used as part of the borrower's qualifying income.	
Bank Statement Deposit Income (All from Rentals)	\$25,000
Expense/Vacancy Factor	X 20%
Rental Income LESS Expense/Vacancy Factor	= \$20,000
PITIA Associated with Rental Properties that are generating all deposits	- \$10,000
Qualifying Income after considering the Expense Factor vs the Net Rental Income	= \$10,000
Other Personal Debt (The REO PITIA from the rental properties is NOT carried again in the borrower debt ratios)	\$5,000/ \$10,000
Resulting DTI	50%

Example 2:



Borrower who generates income from rental properties in addition to self-employed income earned as an Accountant	
Explanation: Apply Expense Factor to the Gross Rental Income with the result washing the REO PITIA debt. The resulting rental income can be used as part of the borrower's qualifying income and can be added to the borrower's other self-employed earnings.	
Bank Statement Deposit Income (All from Rentals)	\$25,000
Expense/Vacancy Factor	X 20%
Rental Income LESS Expense/Vacancy Factor	= \$20,000
PITIA Associated with Rental Properties that are generating all deposits	- \$10,000
Qualifying Income after considering the Expense Factor vs the Net Rental Income	= \$10,000
Self Employed income earned from the borrower's Accountancy business	+ \$15,000
Total Qualifying Income (Income from Rental Properties plus income earned from the self-employed accountancy business)	= \$25,000
Other Personal Debt (The REO PITIA from the rental properties is NOT carried again in the borrower debt ratios)	\$5,000/ \$25,000
Resulting DTI	20%
Documentation Type for Bank Statements	For 12- Month Bank Statement: Doc Type must reflect "12 mo Business Bank Statement" For 24- Month Bank Statement: Doc Type must reflect "24 mo Business Bank Statement"

Product Names	
Full Principal and Interest Options	Interest Only Options
15 YR FIXED ACCESS ALTERNATE INCOME	30 YR FIXED IO ACCESS ALTERNATE INCOME
30 YR FIXED ACCESS ALTERNATE INCOME	40 YR FIXED IO ACCESS ALTERNATE INCOME
5/6m SOFR ARM ACCESS ALTERNATE INCOME	5/6m SOFR ARM IO ACCESS ALTERNATE INCOME
7/6m SOFR ARM ACCESS ALTERNATE INCOME	7/6m SOFR ARM IO ACCESS ALTERNATE INCOME
15 YR FIXED ACCESS ALTERNATE INCOME - 1 YR PREPAY PENALTY TERM	30 YR FIXED IO ACCESS ALTERNATE INCOME - 1 YR PREPAY PENALTY TERM
30 YR FIXED ACCESS ALTERNATE INCOME - 1 YR PREPAY PENALTY TERM	40 YR FIXED IO ACCESS ALTERNATE INCOME - 1 YR PREPAY PENALTY TERM
5/6m SOFR ARM ACCESS ALTERNATE INCOME - 1 YR PREPAY PENALTY TERM	5/6m SOFR ARM IO ACCESS ALTERNATE INCOME - 1 YR PREPAY PENALTY TERM
7/6m SOFR ARM ACCESS ALTERNATE INCOME - 1 YR PREPAY PENALTY TERM	7/6m SOFR ARM IO ACCESS ALTERNATE INCOME - 1 YR PREPAY PENALTY TERM
15 YR FIXED ACCESS ALTERNATE INCOME - 2 YR PREPAY PENALTY TERM	30 YR FIXED IO ACCESS ALTERNATE INCOME - 2 YR PREPAY PENALTY TERM
30 YR FIXED ACCESS ALTERNATE INCOME - 2 YR PREPAY PENALTY TERM	40 YR FIXED IO ACCESS ALTERNATE INCOME - 2 YR PREPAY PENALTY TERM
5/6m SOFR ARM ACCESS ALTERNATE INCOME - 2 YR PREPAY PENALTY TERM	5/6m SOFR ARM IO ACCESS ALTERNATE INCOME - 2 YR PREPAY PENALTY TERM
7/6m SOFR ARM ACCESS ALTERNATE INCOME - 2 YR PREPAY PENALTY TERM	7/6m SOFR ARM IO ACCESS ALTERNATE INCOME - 2 YR PREPAY PENALTY TERM
15 YR FIXED ACCESS ALTERNATE INCOME - 3 YR PREPAY PENALTY TERM	30 YR FIXED IO ACCESS ALTERNATE INCOME - 3 YR PREPAY PENALTY TERM
30 YR FIXED ACCESS ALTERNATE INCOME - 3 YR PREPAY PENALTY TERM	40 YR FIXED IO ACCESS ALTERNATE INCOME - 3 YR PREPAY PENALTY TERM
5/6m SOFR ARM ACCESS ALTERNATE INCOME - 3 YR PREPAY PENALTY TERM	5/6m SOFR ARM IO ACCESS ALTERNATE INCOME - 3 YR PREPAY PENALTY TERM
7/6m SOFR ARM ACCESS ALTERNATE INCOME - 3 YR PREPAY PENALTY TERM	7/6m SOFR ARM IO ACCESS ALTERNATE INCOME - 3 YR PREPAY PENALTY TERM



	40 YR FIXED IO ACCESS ALTERNATE INCOME - 3 YR PREPAY PENALTY TERM 5/6m SOFR ARM IO ACCESS ALTERNATE INCOME - 3 YR PREPAY PENALTY TERM 7/6m SOFR ARM IO ACCESS ALTERNATE INCOME - 3 YR PREPAY PENALTY TERM
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