

## Series A: Expanded Prime – Alt Doc

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

### FICO/LTV Matrix

Fixed Rate and ARM (including IO)

Occupancy	Purpose	Maximum Loan Amount	Units	Min. FICO	LTV/(H)CLTV	Maximum DTI <sup>6,7,8</sup>
Primary Residence	Purchase and Rate/Term	\$3,500,000	1-4	740	65%	50%
		\$3,500,000		720	60%	
		\$3,000,000		720	75%	
		\$3,000,000		700	70%	
		\$3,000,000		680	65% (1 unit)	
		\$2,500,000		720	80% <sup>3</sup>	
		\$2,500,000		700	75%	
		\$2,500,000		660	70%	
		\$2,000,000		740	85% <sup>1,3,4,6</sup>	
		\$2,000,000		700	80% <sup>3</sup>	
		\$2,000,000		660	75%	
		\$1,500,000		700	85% <sup>1,3,4,6</sup>	
		\$1,500,000		680	80% <sup>3</sup>	
		\$1,500,000		660	75%	
		\$1,000,000		700	90% (1 unit) <sup>1,2,3,4,6</sup> 85% (2-4 unit) <sup>1,3,4,6</sup>	
		\$1,000,000		660	80% <sup>3</sup>	
	Cash-Out <sup>5</sup>	\$3,000,000	1-4	720	70% (1 unit) 65% (2-4 unit)	50%
		\$3,000,000		700	65% (1 unit) 60% (2-4 unit)	
		\$2,500,000		720	70%	
		\$2,500,000		700	65%	
		\$2,500,000		680	60%	
		\$2,000,000		740	75% (2-4 unit)	
		\$2,000,000		700	75% (1 unit) 70% (2-4 unit)	
		\$2,000,000		680	65%	
		\$2,000,000		660	60%	
		\$1,500,000		700	75% (2-4 unit)	
		\$1,500,000		680	80% (1 unit) <sup>3</sup> 70% (2-4 unit)	
		\$1,500,000		660	70% (1 unit)	
\$1,000,000	740	80% <sup>3</sup>				
\$1,000,000	700	75%				

Second Home	Purchase and Rate/Term	\$3,500,000	1	720	60%	50%			
		\$3,000,000		700	70%				
		\$2,500,000		700	75%				
		\$2,500,000		680	70%				
		\$2,500,000		660	65%				
		\$2,000,000		700	80% <sup>3</sup>				
		\$2,000,000		680	75%				
		\$2,000,000		660	70%				
		\$1,500,000		680	80% <sup>3</sup>				
		\$1,500,000		660	75%				
		\$1,000,000		700	85% <sup>1,3,4,6</sup>				
		\$1,000,000		660	80% <sup>3</sup>				
		Cash-Out <sup>5</sup>		\$3,000,000	1		700	60%	50%
				\$2,500,000			700	65%	
\$2,000,000	700		70%						
\$2,000,000	680		65%						
\$2,000,000	660		60%						
\$1,500,000	720		75%						
\$1,500,000	660		70%						
\$1,000,000	700		75%						
Investment	Purchase and Rate/Term	\$3,000,000	1-4	700	70%	50%			
		\$2,500,000		700	75%				
		\$2,500,000		680	70%				
		\$2,500,000		660	65%				
		\$2,000,000		700	80% <sup>3</sup>				
		\$2,000,000		680	75%				
		\$2,000,000		660	70%				
		\$1,500,000		680	80%				
		\$1,500,000		660	75%				
		\$1,000,000		700	85% <sup>1,3,4,6</sup>				
		\$1,000,000		660	80% <sup>3</sup>				
		Cash-Out <sup>4</sup>		\$3,000,000	1-4		700	60%	50%
				\$2,500,000			700	65%	
				\$2,000,000			700	70%	
\$2,000,000	680		65%						
\$2,000,000	660		60%						
\$1,500,000	720		75%						
\$1,500,000	660		70%						
\$1,000,000	700		75%						
\$1,000,000	660	70%							

**Allowable income documentation types: 1-Year Tax Returns & Profit and Loss/W-2; 12 & 24 – Month Bank Statement; 1 & 2-Year 1099; CPA Prepared P&L; Asset Utilization; and Asset Qualifier**

**1. First Time Homebuyers (FTHB):**

- Min 680 FICO
- LTV/CLTV > 80%: Max 45% DTI
- LTV/CLTV < 80%: Max 50% DTI
- **Note:** Borrower(s) who have 24 months rental history documented are NOT subject to FTHB FICO and DTI restrictions. **FTHB not allowed on Asset Utilization and Asset Qualifier.**

**2. Warrantable Condos: Max 85% LTV/CLTV**

**3. Rural property: Max 75% LTV/CLTV**

4. **Non-Warrantable Condos, including Condotels:** Max 80% LTV/CLTV
5. **Cash-Out transactions:**
  - LTV/CLTV < 60%: Unlimited cash-in-hand
  - LTV/CLTV > 60%: Maximum \$750k cash-in-hand
6. **Asset Utilization:** Min 660 FICO, Max 80% LTV/CLTV, Max 43% DTI
7. **Asset Qualifier:** Min 660 FICO, Max 80% LTV/CLTV, Max DTI does not apply.
8. **Max DTI:** DTI up to 55% may be considered on a case-by-case basis as approved by Credit Policy. Not eligible on Asset Utilization.

### Product Specific Requirements

Amortization Type	<p>Full Principal and Interest:</p> <ul style="list-style-type: none"> <li>• 15 Year and 30 Year Fixed Rate</li> <li>• 5/6 SOFR ARM, 7/6 SOFR ARM</li> </ul> <p>Interest Only:</p> <ul style="list-style-type: none"> <li>• 30 Year and 40 Year Interest only Fixed Rate</li> <li>• 5/6 SOFR IO ARM, 7/6 SOFR Interest only ARM</li> </ul>
ARM Information	<p>Caps: 2/2/5  Index: 30 Day SOFR  Margin: 3.75%  Floor: Margin</p>
Credit/Payment History Requirements	<ul style="list-style-type: none"> <li>• No foreclosure/bankruptcy/short sale within last 48 months</li> <li>• All applicant(s) and co-borrowers must meet the credit score requirements individually.</li> <li>• Non-traditional credit is not permitted.</li> <li>• Payment history requirements: 0x30x12 mortgage/rental history on the subject property and all financed REOs under the borrower's name.</li> </ul>
Declining Market	<ul style="list-style-type: none"> <li>• See Underwriting Guide</li> </ul>
Occupancy	<ul style="list-style-type: none"> <li>• Primary Residence</li> <li>• Second Home</li> <li>• Investment Property</li> </ul>
Minimum Loan Amount	<ul style="list-style-type: none"> <li>• \$125,000</li> </ul>
Prepayment Penalty	<ul style="list-style-type: none"> <li>• Allowed on Investment Property transactions, which are treated as Business Purpose loans. May be subject to up to a five-year prepayment penalty or the maximum permitted by state law, whichever is lower.</li> </ul>
Property Types	<p><b>Eligible:</b></p> <ul style="list-style-type: none"> <li>• 1-4 unit (Detached, Semi Detached, Attached)</li> <li>• PUD (Detached, Attached)</li> <li>• Warrantable Condominium (Detached, Attached)</li> <li>• Rural properties up to 20 acres</li> <li>• Non-Warrantable Condominiums, including Condotels</li> </ul> <p><b>Ineligible:</b></p> <ul style="list-style-type: none"> <li>• Refer to Guidelines for ineligible property types.</li> </ul>
Reserve Requirements	<ul style="list-style-type: none"> <li>• Loan Amount &lt; \$1 MM: <ul style="list-style-type: none"> <li>o LTV &lt; 70%: 3 months of PITIA</li> <li>o LTV &gt; 70%: 6 months of PITIA</li> </ul> </li> <li>• Loan Amount &gt; \$1MM-\$2MM: 9 months of PITIA</li> <li>• Loan Amount &gt; \$2MM: 12 months of PITIA</li> </ul>

- 2 Months of PITIA is required for each additional financed property
- Cash out proceeds may be used to satisfy reserve requirements regardless of LTV/CLTV
- Reserve requirements do not apply when the Asset Qualifier income type is being used to qualify the borrower.

## Overview For All Income Types

This Overview section applies to all income types; for more specific documentation and income calculation requirements, refer to the specific income type:

- **1-Year Full Doc:** Borrowers may qualify with 1 year of tax returns, P&Ls, OR Paystubs & most recent W-2, OR written VOE and paystub.
- **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.
- **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.
- **CPA Prepared Profit and Loss (P&L) Statement:** Self-employed borrowers may qualify using a CPA prepared 12- month Profit & Loss (P&L) Statement for a period ending within 60 days of closing.
- **Asset Utilization:** Asset Utilization attributes qualifying income to a borrower by utilizing the liquid assets of the borrower over a 60-month period. Utilization of verified liquid assets over a 60-month period is done to ensure that income attributed to a borrower is stable and is reasonably expected to continue.
- **Asset Qualifier:** This product is for eligible Borrowers who have sufficient qualified assets to meet ability to repay requirements. A DTI ratio is not calculated.

In this matrix, the term CPA is used generically to refer to a licensed CPA, certified tax preparer, or enrolled agent.

<b>Appraisal Requirement</b>	<ul style="list-style-type: none"> <li>• One appraisal is required for loan amounts &lt; \$2,000,000.</li> <li>• Two appraisals are required for loan amounts &gt; \$2,000,000.</li> </ul>
<b>Borrower Contribution</b>	Gift funds are permitted for down payment and closing costs. See Guidelines for details. Asset Utilization and Asset Qualifier: Gift funds and gifts of equity are not allowed.
<b>Borrower Eligibility</b>	<p><b>Eligible:</b></p> <ul style="list-style-type: none"> <li>• US Citizens</li> <li>• Permanent Resident Aliens</li> <li>• Non-Permanent Resident Aliens</li> <li>• First Time Homebuyers (not allowed on Asset Utilization or Asset Qualifier)</li> <li>• Non-Occupant Co-Borrowers (not allowed on 1099, Bank Statement, CPA Prepared P&amp;L, Asset Utilization or Asset Qualifier)</li> <li>• LLCs and Corporations provided that the Vesting in the Name of an Entity requirements in the Arc Underwriting Guidelines are met.</li> </ul> <p><b>Ineligible:</b></p> <ul style="list-style-type: none"> <li>• Foreign National Borrowers</li> </ul>
<b>Impound/Escrow Accounts</b>	Escrow funds/impound accounts may be waived for taxes and hazard insurance
<b>Lien Position</b>	First
<b>Number of Financed Properties</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Each borrower may not exceed either an aggregate unpaid principal balance amount of \$5MM or 10 loans (including the subject property) financed with Series A programs.</li> </ul>
<b>Secondary Financing</b>	Allowed
<b>Tax Transcripts</b>	<p><b>1-Year Full Doc Tax-return:</b> Assigned 4506-C and IRSTax Transcripts for the most recent year must be obtained during the loan process or at closing.</p> <p><b>1-Year Full Doc Wage Earner or when an additional W-2 is used:</b> A signed 4506-C is required. Transcripts are not required.</p> <p><b>1099:</b> A signed 4506-C and IRS 1099 Transcripts are required.</p> <p><b>Bank Statements:</b> A signed 4506-C and IRSTax Transcripts are <u>not</u> required.</p> <p><b>CPA Prepared P&amp;L – Income Verification:</b> Assigned 4506-C must be obtained during the loan process or at closing.</p>

	<p><b>Asset Utilization:</b> A signed 4506-C and IRS Tax Transcripts are not required.</p> <p><b>Asset Qualifier:</b> A signed 4506-C and IRS Tax Transcripts are not required.</p>
<b>Transaction Types</b>	<p><b>Eligible:</b></p> <ul style="list-style-type: none"> <li>• Purchase</li> <li>• Rate Term Refinance</li> <li>• Delayed Financing as a Rate/Term Refinance</li> <li>• Cash Out Refinance</li> <li>• Texas 50(a)(6) Rate Term and Cash Out refinances</li> </ul>
<b>Underwriting</b>	Manual underwriting required. AUS not allowed.
<b>1-Year Full Doc (Tax Returns &amp; P/Ls or W-2/Recent Paystubs)</b> <b>Documentation/Calculation Requirements</b>	
<b>1-Year Tax Returns &amp; P/Ls</b>	<ul style="list-style-type: none"> <li>• Documentation is the same as Full documentation requirements, except only the most recent year of Tax Returns, Schedules, and P/L is required.</li> <li>• Income is calculated by utilizing the past ONE year of tax returns, schedules and forms.</li> <li>• A cash flow analysis must be prepared for all self-employed borrowers. Use <a href="#">Fannie Mae Form 1084</a> and follow all instruction to document self-employed income. (Complete just one year of information rather than two).</li> </ul>
<b>1-Year W-2 &amp; Paystub or WVOE</b>	<ul style="list-style-type: none"> <li>• The following reduced documentation requirements are required: <ul style="list-style-type: none"> <li>○ most recent year W-2 and YTD paystubs covering at least 30 days OR</li> <li>○ written VOE (Form 1005 or third-party service such as The Work Number) referencing prior year and most recent year-to-date income and most recent paystub.</li> </ul> </li> <li>• Borrower must have two (2) years history of employment in same industry and 1-year continuous employment at current job.</li> <li>• Capital gains income and borrowers employed by family members are not eligible.</li> <li>• Follow Fannie Mae guidelines for how to calculate income: <a href="https://www.fanniemae.com/content/guide/selling/b3/3.1/01.html">https://www.fanniemae.com/content/guide/selling/b3/3.1/01.html</a></li> </ul>
<b>Documentation Type</b>	Doc Type must reflect "1 Yr Tax Returns"
<b>12 &amp; 24 Month 1099</b> <b>Documentation/Calculation Requirements</b>	
<b>Employment Requirements</b>	Borrowers who are independent contractors, freelancers, or otherwise self-employed in the "gig economy" may qualify with 1099 statements in lieu of tax returns, to support their income. 1099 statements must be in the borrower's name. Borrowers must be in the same line of work for 2 years. Verbal verification of employment guidelines apply.

<p><b>Documentation</b></p>	<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"> <li>• 1 year of Form 1099 and</li> <li>• Either the 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 are verified.</li> </ul> <p>For a 24-month income calculation, provide the following:</p> <ul style="list-style-type: none"> <li>• 2 years of Form 1099 and</li> <li>• Either the 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 are verified.</li> </ul>
<p><b>Income Calculation</b></p>	<p>For a 12-month income calculation, the lesser of:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• The Profit Margin multiplied by the Borrower’s year to date income, for the current year, converted into a monthly average.</li> </ul> <p>For a 24-month income calculation, the lesser of:</p> <ul style="list-style-type: none"> <li>• 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,</li> <li>• 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</li> <li>• The Profit Margin multiplied by the Borrower’s year to date income, for the current year, converted into a monthly average</li> </ul> <p>Profit Margin: For 1099 Income Documentation type, the borrower must provide a written explanation on their 1099 employment including an expense factor that is related to their annual business. A 90% Profit Margin will be utilized. 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 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.</p>

<p><b>Additional Income</b></p>	<p>If the 1003 reflects additional income, such as alimony, child support or W-2 wages, that income must be considered per Fannie Mae guidelines. W-2 Wages must include an executed 4506-C and a W-2 transcript.</p> <p><b>Long term and Short term Rental Income:</b> The borrower must fully complete the REO section of the loan application. Short term rental property must be in an area that is common for short term rentals.</p> <ul style="list-style-type: none"> <li>• <b>Documentation:</b> <ul style="list-style-type: none"> <li>○ Purchase transactions: Rent Schedule Form 1007/216 or 1025 (the rental lease agreement is not required).</li> <li>○ <b>Departing Residences: Rent Schedule Form 1007 or 1025 or the current lease agreement AND security deposit, AND 1 month's rent rental deposit reflected on the bank statements/cancelled checks/electronic proof.</b></li> <li>○ For REO properties: <ul style="list-style-type: none"> <li>• Most recent Schedule E OR</li> <li>• The current lease agreement AND most recent 2 months rental deposits reflected on the bank statements/cancelled checks/electronic proof OR</li> <li>• remittance statements from the renting entity (AirBnB, VRBO, etc.) covering the most recent 12-month period. Rental income must be calculated by taking the payout amount (Gross booking amount minus deductions),</li> </ul> </li> </ul> </li> <li>• <b>Calculation:</b> <ul style="list-style-type: none"> <li>○ <u>Step 1: Determine the Gross Qualifying Rent:</u> <ul style="list-style-type: none"> <li>▪ Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007/216 or 1025</li> <li>▪ <b>Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement.</b></li> <li>▪ For REO properties: <ul style="list-style-type: none"> <li>• Use monthly gross rental income from the borrower's most recent Schedule E per <a href="#">Fannie Mae</a> calculations, from the current lease agreement, or from the 12 month remittance statements.</li> </ul> </li> </ul> </li> <li>○ <u>Step 2: Reduce the Gross rent by the 20% vacancy factor:</u> The rental income must be calculated by multiplying the gross monthly rent(s) by 80%.</li> <li>○ <u>Step 3: Determine the Net Qualifying Rent:</u> 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).</li> </ul> </li> </ul>
<p><b>Documentation Type</b></p>	<p>For 1 Year 1099: Doc Type must reflect "Other Bank Statement", then select "1099 – 12 months" in the Additional Doc Types field</p> <p>For 2 Year 1099: Doc Type must reflect "Other Bank Statement", then select "1099 – 24 months" in the Additional Doc Types field</p>

## 12 & 24 Month Bank Statement Documentation/Calculation Requirements

<b>Employment Requirements</b>	<p>The Primary wage earner must be self-employed as a for-profit business.</p> <ul style="list-style-type: none"> <li>• Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years.</li> <li>• The business used in qualifying must have existed/active for at least two (2) years. <b>However, if a borrower is qualifying with less than two years but more than one year of self-employment, then the business should be established for the same length of time.</b></li> <li>• 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).</li> <li>• The borrower’s ownership percentage and length of ownership must be verified with one of the following:             <ul style="list-style-type: none"> <li>○ Letter from licensed CPA with PTIN (preparer tax identification number). The term CPA is used generically to refer to a licensed CPA, certified tax preparer, or enrolled agent. Validation of the legitimacy of the CPA is required.</li> <li>○ Business Formation Documents (Articles of Incorporation, Bylaws, Charter, Articles of Association).                 <ul style="list-style-type: none"> <li>▪ Any documents received must document that they have been filed properly with the state</li> <li>▪ Operating Agreement/Partnership Agreement</li> <li>▪ Must reflect all member-ownership interest in the business</li> </ul> </li> </ul> </li> <li>• Verbal verification of employment guidelines apply.</li> </ul>
<b>Documentation Requirements</b>	<p>Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification. Accounts must be from a US financial institution. Regardless of the type of account (business or personal) the following apply:</p> <ul style="list-style-type: none"> <li>• 12- or 24- month complete bank statements must be in the file             <ul style="list-style-type: none"> <li>○ Bank statements must be consecutive and reflect the most recent months available per the Age of Documentation requirements.</li> <li>○ If an account was closed and a new account was opened or if the borrower was using a personal account and switched to a business account, bank statements are considered to be consecutive if the bank statements reflect the switch and reflect continuity (no gaps). The new account must be opened for at least 3 months to validate stability.</li> <li>○ Cannot mix and match different bank accounts from month to month (e.g.- January statement from personal, February statement from business, March from personal and so forth)</li> <li>○ Every page including pages without transactions and advertisements must be present; transaction history printouts are not acceptable</li> <li>○ Statements must support stable and generally predictable deposits.</li> </ul> </li> <li>• Monthly income must be disclosed on the initial, signed 1003</li> <li>• Deposits must be common and customary based on the nature of the business and how the borrower conducts their business. Unusual deposits must be sourced and documented; unacceptable deposits are not counted toward the income derived from bank statement deposits.</li> <li>• Months with no revenue must be explained by the borrower. The underwriter must validate the stability of the income based on the nature of the business and how the borrower conducts their business.</li> <li>• 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"> <li>○ If the obligation does not belong to the borrower, supporting documentation is required.</li> <li>○ If the borrower is the obligor on an account statement a payment history must be obtained to review the account for acceptability. The payment must be included in the debt ratio.</li> </ul> </li> <li>• Foreign income is allowed if the CPA certifies that the income has been filed on US federal income tax returns for the last 2 years and if the business has a valid US business registration (EIN).</li> <li>• Non-Sufficient Funds (NSFs) must be reviewed on the bank statements used in qualifying the borrower. NSF/Overdraft is defined as a financial institution accepting a withdrawal which results in</li> </ul>



	<p>the account going into the negative and a fee is charged, or when a check/ACH is presented but cannot be covered by the balance in the account “bounced check” and a fee is charged. NSF’s are allowed with the following restrictions:</p> <ul style="list-style-type: none"> <li>○ If there are one (1) or more occurrences in the most recent three-month time period, up to three (3) occurrences are allowed in the most recent 12-month time period.</li> <li>○ 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.</li> <li>○ All NSF’s in the most recent 12 months must be explained with an LOE from the borrower</li> <li>○ Protected Overdrafts, where the borrower has sweep protection from another account or where the financial institution allows the account to go negative and does not charge a fee are NOT included in the NSF count. Validation that the sweep account belongs to the borrower is not required.</li> <li>○ Reversed/refunded NSF’s are NOT included in the NSF count.</li> </ul> <p>Multiple NSF’s and/or Overdrafts that occur on the same day will count as One occurrence</p>
<p><b>Business Narrative</b></p>	<p>Borrowers must provide a comprehensive business narrative that includes all of the following:</p> <ul style="list-style-type: none"> <li>● A description of the business</li> <li>● The outlook for the future of the business</li> <li>● Information about the products or services</li> <li>● An outline of how the business and management team is organized</li> </ul> <p>The number of full-time employees and/or contractors</p>
<p><b>Disallowed Deposits</b></p>	<p>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).</p>
<p><b>Documentation Type for Bank Statements</b></p>	<p>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”</p>

<p><b>Personal Bank Account Qualification</b></p>	<p><b>BUSINESS DISTRIBUTIONS:</b> If the borrower maintains separate bank accounts for personal and business use but pays themselves as a distribution/payroll into their personal bank account, those deposits into their personal bank account may be used for qualifying. In addition to the <a href="#">Employment Requirements</a> and <a href="#">Documentation Requirements</a> above, the following apply:</p> <p>Borrower must own at least 25% of the business</p> <p>Two months of business bank statements must be provided to document the qualifying business is an operating entity and to verify transfers to the personal account.</p> <p>The deposits into the personal bank account must exhibit the respective account number of the business bank account(s) provided (based on the provided 2 months of business bank statements).</p> <p>If one personal bank statement is being used for multiple businesses, then the deposits must be clearly matched to each business so that we can validate the stability of each business and the borrower's ability to repay.</p> <p>If the personal account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded.</p> <p>Calculation Method</p> <p>Qualifying income is calculated using the total eligible deposits from the personal bank statements reviewed divided by the number of statements, minus any inconsistent or large deposits not justified. The most recent bank statement must be consistent with the qualifying income.</p> <p>No expense factor is applied if business bank statements support operating activity with expenses being paid.</p> <p>Qualifying income <b>is calculated as follows:</b> (Total Deposits – Disallowed Deposits) divided by 12 or 24 months</p> <p>Income disclosed on the initial application should be reviewed for consistency with the income calculated from the bank statements. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn and/or additional documentation to further support the calculated income.</p>
<p><b>Commingled Personal Bank Account Qualification</b></p>	<p><b>COMMINGLED BANK ACCOUNT:</b> A comingled bank account is a personal account used by a borrower for both business and personal use. A separate business account is not required. Personal bank accounts are allowed to be comingled with income/expenses from only <u>one</u> business. Personal bank accounts may not be comingled with multiple businesses. Deposits must be common and customary based on the nature of the business and how the borrower accepts payments for their business. Unusual deposits must be sourced and documented as business revenue. These accounts will be treated as business accounts for purposes of determining income. In addition to the <a href="#">Employment Requirements</a> and <a href="#">Documentation Requirements</a> above, the following apply:</p> <ul style="list-style-type: none"> <li>• Must provide business expense documentation. Expense verification will differ based on the Calculation Option chosen (see each option below for details)</li> <li>• Statements should show a trend of ending balances that are stable or increasing over time.</li> <li>• Decreasing or negative ending balances must be explained and may result in the loan being denied</li> <li>• 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)</li> <li>• 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"> <li>○ If the obligation does not belong to the borrower, supporting documentation is required.</li> <li>○ If the borrower is the obligor on an account statement a payment history must be obtained to review the account for acceptability. The payment must be included in the debt ratio.</li> </ul> </li> </ul> <p>Commingled Bank Accounts may only be used by Sole Proprietors (Partnerships, S-corporations, and Corporations are not allowed):</p> <ul style="list-style-type: none"> <li>• Borrower and non-borrowing purchasing spouse with combined 100% ownership eligible; or</li> <li>• All credit qualifying borrowers on the loan own 100% of the business; or</li> </ul> <p>an independent contractor dedicated to one occupation and receiving 1099 income</p>

<p><b>Business Bank Account Qualification</b></p>	<p><b>BUSINESS BANK ACCOUNT:</b> In addition to the <a href="#">Employment Requirements</a> and <a href="#">Documentation Requirements</a> above, the following apply:</p> <ul style="list-style-type: none"> <li>• Must provide business expense documentation. Expense verification will differ based on the Calculation Option chosen (see each option below for details)</li> <li>• Borrower must own at least 25% 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)</li> <li>• Qualifying Income must be multiplied by the ownership percentage to determine the owner’s portion of income allowed for the transaction</li> <li>• Multiple business bank accounts may be used for multiple businesses</li> <li>• Two business bank accounts may be used for the same business in situations where the borrower uses different accounts for different payment types, such as one account for cash or checks and another account for card transactions or 1 account is a checking account and another account is a savings account. The accounts may not be co-mingled. The reason for multiple bank accounts for one business must be clearly explained by the borrower.</li> <li>• Transfers from other business accounts may be acceptable and must be documented</li> <li>• Transfers from personal accounts to are not acceptable</li> <li>• Statements should show a trend of ending balances that are stable or increasing over time.</li> <li>• Decreasing or negative cash flow must be explained and may result in the loan being denied</li> <li>• 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)</li> </ul>
<p><b>Service vs Capital Intensive Industry</b> (Business Bank Account or Commingled Bank Accounts)</p>	<p>Examples of the <b>Service</b> Industry Include (but are not limited to) the following:</p> <ul style="list-style-type: none"> <li>• Hospitality/Tourism <ul style="list-style-type: none"> <li>○ The hospitality/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.</li> </ul> </li> <li>• Finance <ul style="list-style-type: none"> <li>○ 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.</li> </ul> </li> <li>• Fitness <ul style="list-style-type: none"> <li>○ The fitness service industry includes establishments such as gyms that offer users services such as personal training sessions, fitness classes and exercise education.</li> </ul> </li> <li>• Beauty and wellness <ul style="list-style-type: none"> <li>○ 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.</li> </ul> </li> <li>• Mechanical <ul style="list-style-type: none"> <li>○ 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.</li> </ul> </li> <li>• Media and entertainment <ul style="list-style-type: none"> <li>○ 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.</li> </ul> </li> <li>• Design <ul style="list-style-type: none"> <li>○ 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.</li> </ul> </li> <li>• Marketing and sales</li> </ul>

	<p>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.</p> <ul style="list-style-type: none"> <li>• Education <ul style="list-style-type: none"> <li>○ 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.</li> </ul> </li> <li>• Healthcare <ul style="list-style-type: none"> <li>○ 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.</li> </ul> </li> <li>• Public service <ul style="list-style-type: none"> <li>○ 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.</li> </ul> </li> </ul> <p>Examples of the Capital-Intensive Industries include (but are not limited to) the following:</p> <ul style="list-style-type: none"> <li>• Construction <ul style="list-style-type: none"> <li>○ The Construction industry includes carpentry, road construction, bridge development, contractors, and home remodelers/builders/handyman.</li> </ul> </li> <li>• Oil and Gas <ul style="list-style-type: none"> <li>○ The Oil and Gas industry includes the business of oil and gas exploration and production: transportation and storage; and refining and marketing such as gas stations.</li> </ul> </li> <li>• Manufacturing <ul style="list-style-type: none"> <li>○ The Manufacturing industry includes moving raw materials, creating the goods, storing the finished products in a warehouse and shipping the products to customer. Examples include but are not limited to automobiles, household goods, toys, publishing/printing, fashion industry, and food industry such as ownership in a store, store chain, restaurant, food supplier.</li> </ul> </li> <li>• Money Lenders <ul style="list-style-type: none"> <li>○ The Money Lender Industry includes the business of lending money to people or other businesses.</li> </ul> </li> <li>• Telecommunication <ul style="list-style-type: none"> <li>○ The Telecommunication industry includes companies that make communication possible on a global scale, whether it is through the phone or the Internet, through airwaves or cables, through wires or wirelessly.</li> </ul> </li> <li>• Transportation <ul style="list-style-type: none"> <li>○ The Transportation industry includes airlines, railroads, trucking, and Uber/Lyft.</li> </ul> </li> <li>• Healthcare <ul style="list-style-type: none"> <li>○ The Healthcare industry includes companies owning hospitals, care facilities and medical practices.</li> </ul> </li> <li>• Farming &amp; Agricultural <ul style="list-style-type: none"> <li>○ The Farming &amp; agricultural industry includes small specialist producers and growers to large scale production of crops and livestock.</li> </ul> </li> </ul>
<p><b>Calculation</b> (Business Bank Account or Commingled Bank Accounts)</p>	<p>There are several options for deriving qualifying income from bank statements. All cases using Bank Statement income must include a completed Analysis spreadsheet</p> <p><b><u>To calculate qualifying income using Business Bank Statement Documentation, choose one of the two (2) options below:</u></b></p>



**Calculation Option 1:  
Fixed Expense Factor**  
(Business or  
Commingled Bank  
Accounts)

This option uses a fixed expense ratio to determine qualifying income. Determine income as follows:

1. Determine the Average Allowable Monthly Deposits:

$$\frac{\text{Total Deposits} - \text{Disallowed Deposits}}{12 \text{ or } 24 \text{ months}}$$

2. Determine the Business Net Income = Multiply the Gross Monthly Qualifying Income by the Fixed Expense Ratio (from table below):

Fixed Expense Ratio			
Number of FTE/Contractors	0	1-10	10+
Service Business	20%	40%	60%
Product Business	30%	50%	70%

3. Determine the Borrower's Monthly Qualifying Income = Multiply the Business Net Income by the Borrower's Percentage Ownership of the Business.

Income disclosed on the initial application should be reviewed for consistency with the income calculated from the bank statements. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn and/or additional documentation to further support the calculated income.

**Example:** Average Allowable Monthly Deposits = \$10,000  
 Borrower has 9 employees and is in a Service Business  
 Borrower owns 80% of the business  
 $10,000 * (1 - 0.40) * 80\% = \$4,800$   
Monthly Qualifying Income is \$4,800.

**Calculation Option 2  
(Third-Party Prepared  
Expense Statement):**  
(Business or  
Commingled Bank  
Accounts)

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%.

Documentation Requirements:

- The Expense Statement must be prepared and signed by a third-party CPA indicating business expenses as a percentage of the gross annual sales/revenue.
- CPA must be verified.

Determine Qualifying Income as follows:

1. Determine the Average Allowable Monthly Deposits:

$$\frac{\text{Total Deposits} - \text{Disallowed Deposits}}{12- \text{ or } 24\text{-months}}$$

2. Determine the Business Net Income = Multiply the Average Monthly Qualifying Income by (100% - the Expense Ratio provided by the CPA).
3. Determine the Borrower's Monthly Qualifying Income = Multiply the Business Net Income by the Borrower's Percentage Ownership of the Business.

Income disclosed on the initial application should be reviewed for consistency with the income calculated from the bank statements. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn and/or additional documentation to further support the calculated income.

	<p><b>Example:</b> Average Allowable Monthly Deposits = \$20,000          CPA provides expense factor of 50%          Borrower owns 100% of the business  <math>\\$20,000 * 50\%</math> (expense ratio provided by CPA) * 100% (percent of business owned) = \$10,000</p> <p><u>Monthly Qualifying Income</u> is \$10,000.</p>
<p><b>Declining Income</b>          (Business and Personal Bank Statement Qualification)</p>	<p>The 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 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><b>Additional Income</b>  <b>Additional Income</b>          (continued)</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><b>Long and Short Term Rental Income:</b> 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"> <li>• The borrower must fully complete the REO section of the loan application.</li> <li>• Short term rental property must in an area that is common for short term rentals.</li> <li>• <b>Documentation:</b> <ul style="list-style-type: none"> <li>○ Purchase transactions: Rent Schedule Form 1007/216 or 1025 (the rental lease is not required).</li> <li>○ <b>Departing Residences: Rent Schedule Form 1007 or 1025 or the current lease agreement AND security deposit, AND 1 month's rent rental deposit reflected on the bank statements/cancelled checks/electronic proof.</b></li> <li>○ For REO properties:                     <ul style="list-style-type: none"> <li>▪ 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 (&lt; 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.</li> <li>• 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.</li> <li>▪ Secondary income source:                             <ul style="list-style-type: none"> <li>• Most recent Schedule E OR</li> <li>• The current lease agreement AND most recent 2 months rental deposits reflected on the bank statements/cancelled checks/electronic proof.</li> </ul> </li> </ul> </li> </ul> </li> <li>• <b>Calculation:</b> <ul style="list-style-type: none"> <li>○ <u>Step 1: Determine the Gross Rent:</u> <ul style="list-style-type: none"> <li>▪ Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007/216 or 1025</li> <li>▪ <b>Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement.</b></li> <li>▪ For REO properties:                             <ul style="list-style-type: none"> <li>• Primary income source as a real estate investor: Use the rental deposits reflected on the bank statements/LOE.</li> <li>• Secondary income source: Use monthly gross rental income from the borrower's most recent Schedule E per Fannie Mae calculations or from the current lease agreement.</li> </ul> </li> </ul> </li> </ul> </li> </ul>

- 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:**

<b>Borrower who generates income solely from rental properties</b>	
<b>Explanation:</b> 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
<b>Resulting DTI</b>	<b>50%</b>

**Additional Income  
(continued)**

<b>Borrower who generates income from rental properties in addition to self-employed income earned as an Accountant</b>	
<b>Explanation:</b> 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
<b>Resulting DTI</b>	<b>20%</b>

## CPA Prepared Profit and Loss (P&L) Documentation/Calculation Requirements

### Employment Requirements

The Primary borrower must be self-employed as a for-profit business.

- Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years.
- The business used in qualifying must have existed/active 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).
- Borrower must own at least 50% of the business.
- The borrower's ownership percentage and length of ownership must be verified with one of the following:
  - Letter from licensed CPA with PTIN (preparer tax identification number). The term CPA is used generically to refer to a licensed CPA, certified tax preparer, or enrolled agent. Validation of the legitimacy of the CPA is required.
  - Business Formation Documents (Articles of Incorporation, Bylaws, Charter, Articles of Association).
    - 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.

### Documentation Requirements

The following documentation is required.

- **No less than the most recent** 12-month Profit & Loss Statement (P&L) prepared, signed, and dated by a CPA for a period ending within 60 days of closing. P&L must not contain any exculpatory language that may compromise the integrity of the information provided.
- A signed and dated letter from the CPA on their firm's letterhead evidencing signer's contact information and confirming all the below:
  - Length of relationship with borrower. CPA must have an existing relationship with the borrower for at least one (1) year or have filed the borrower's most recent tax return. If the CPA did not file the borrower's last tax return, the following is required:
    - CPA to confirm what documentation was reviewed to prepare the borrower's 12-month P&L.
    - A letter from the borrower confirming intent to use the CPA to file the immediate tax year due and an explanation for switching tax preparers.
    - Additional information may be requested when accepting a letter and P&L from a CPA that did not file borrower's last tax return or has less than 1 year relationship with the borrower.
  - Intent to file tax returns for the immediate tax year due
  - Borrower's position/title
  - Ownership percentage of company
  - Business formation date
  - Number of years borrower has been self-employed with the company
  - Confirmation that the borrower is paid annually or throughout the year based on the net profit of the business
  - Current status of the borrower's business
  - Must not contain any exculpatory language that may compromise the integrity of the information provided.
- **CPA must have a valid PTIN. Validation of the legitimacy of the CPA is required.**
- **A minimum two (2) months of bank statements covering the most recent two (2) month period. The two (2) months of bank statements must support the gross receipts/sales reflected on the P&L statement prepared by CPA. The average deposits from the bank statements must be greater than, or no less than 10% below the average monthly sales. In the event the 10% tolerance is not met, continuous bank statements may be added to the analysis until the tolerance is met.**



<p><b>Income Calculation</b></p>	<p>For income calculation:</p> <ul style="list-style-type: none"> <li>Perform a 12-month average calculation of net income from the provided profit and loss statement, multiplied by the borrower’s percentage of ownership. Depreciation and W-2 wages are <u>not</u> added back into the net income.</li> <li>If more than 12 months are provided, take the average net income from the provided profit and loss statement for all months provided, multiplied by the borrower’s percentage of ownership. Depreciation and W-2 wages are not added back into the net income.</li> </ul> <p>Income disclosed on the initial application should be reviewed for consistency with the income calculated from the bank statements. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn and/or additional documentation to further support the calculated income.</p>
<p><b>Additional Income</b></p>	<p>If the 1003 reflects additional income, such as alimony, child support or W-2 wages, that income must be considered per Fannie Mae guidelines.</p> <p><b>Long term and Short term Rental Income:</b> The borrower must fully complete the REO section of the loan application. Short term rental property must be in an area that is common for short term rentals.</p> <ul style="list-style-type: none"> <li><b>Documentation:</b> <ul style="list-style-type: none"> <li>Purchase transactions: Rent Schedule Form 1007 or 1025 (the rental lease agreement is not required)</li> <li>Departing Residences: Rent Schedule Form 1007 or 1025 or the current lease agreement AND security deposit, AND 1 month’s rent rental deposit reflected on the bank statements/cancelled checks/electronic proof.</li> </ul> </li> </ul>
<p><b>Additional Income (continued)</b></p>	<ul style="list-style-type: none"> <li>For REO properties: <ul style="list-style-type: none"> <li>Most recent Schedule E OR</li> <li>The current lease agreement AND most recent 2 months rental deposits reflected on the bank statements/cancelled checks/electronic proof OR</li> <li>remittance statements from the renting entity (AirBnB, VRBO, etc.) covering the most recent 12-month period. Rental income must be calculated by taking the payout amount (Gross booking amount minus deductions),</li> </ul> </li> <li>Calculation: <ul style="list-style-type: none"> <li><u>Step 1: Determine the Gross Qualifying Rent:</u> <ul style="list-style-type: none"> <li>Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025</li> <li>Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement.</li> <li>For REO properties: Use monthly gross rental income from the borrower’s most recent Schedule E per <a href="#">Fannie Mae</a> calculations, from the current lease agreement, or from the 12 month remittance statements.</li> </ul> </li> <li><u>Step 2: Reduce the Gross rent by the 20% vacancy factor:</u> The rental income must be calculated by multiplying the gross monthly rent(s) by 80%.</li> <li><u>Step 3: Determine the Net Qualifying Rent:</u> 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).</li> </ul> </li> </ul>
<p><b>Documentation Type</b></p>	<ul style="list-style-type: none"> <li>Doc Type must reflect “CPA P&amp;L” in the Additional Doc Types field.</li> </ul>
<p><b>Asset Utilization</b></p> <p><b>Income Documentation/Calculation Requirements</b></p>	
<p><b>Documentation Requirements</b></p>	<p>Two (2) months of account statements – all pages. All assets must be seasoned at least two (2) months prior to note date.</p> <p>If assets from a joint account are being used to qualify and all parties are not on the loan, all non-borrowers (including spouses) must provide a letter (signed and dated) with specific authorization for full access. Among other requirements, there must be sufficient documentation to clearly demonstrate the amount of assets that the borrower(s) has direct liquidation access to; the file contents must be clear as determined at the discretion of</p>

	<p>the Arc Home underwriter that the dollar amount of assets used for qualifying are eligible to the borrower and are not impacted by withdrawals or other rights that other account holders may be able to claim on the account.</p>
<p><b>Qualified Assets (Eligible Percentages)</b></p>	<p>The qualifying assets must be liquid. Liquid assets are defined as any asset that can be converted into cash quickly with minimal impact to the price received. The amount of liquid assets used for qualification purposes are specific to the liquidity of such amounts and are set forth below:</p> <p><b>Eligible Qualifying Assets:</b></p> <ul style="list-style-type: none"> <li>• 100% of checking, savings, CDs, and money market accounts</li> <li>• 70% of the remaining value of stocks &amp; bonds, mutual funds (including those held in Retirement/Annuity/Pension accounts if over age 59 ½ and, if the plan is an employer administered plan, the borrower is separated from service)</li> <li>• 50% of retirement funds (401k, IRA, Keogh, Government Annuity and Pension Income) if younger than age 59 ½ or if borrower is over age 59 ½ but is using an employer administered plan and the borrower is not separated from service</li> </ul> <p>When using employer administered retirement plan accounts for borrowers that are younger than age 59 ½ or for which the borrower is over age 59 ½ but is not separated from service from the employer, the loan file should include sufficient plan account documents to determine that the borrower has the ability to liquidate the assets that are being used for determining ability to repay. The liquidation cannot be limited to “hardship” circumstances.</p> <p>Note: If an applicant requests that a Defined Benefit retirement plan(s) be considered, the file must contain sufficient plan account documents to determine that the borrower has the ability to liquidate the assets that are being used for determining ability to repay. The liquidation cannot be limited to “hardship” circumstances. For Defined Benefit retirement plan assets, this requirement must be satisfied regardless of either the borrower age or whether they are separated from service.</p> <p><b>Ineligible Qualifying Assets:</b></p> <ul style="list-style-type: none"> <li>• 529 or similar college fund</li> <li>• Business assets</li> <li>• Cash value of life insurance</li> <li>• Equity in real estate including current home</li> <li>• Funds held in foreign accounts or investments</li> <li>• Gift funds</li> <li>• Gift of equity</li> <li>• Pledged/Collateral assets</li> <li>• Margined assets/Loans</li> <li>• Private securities or any non-publicly traded assets</li> <li>• Restricted stock units, stock options, non-vested stock</li> <li>• Stocks and bonds not publicly traded</li> <li>• The following trusts             <ul style="list-style-type: none"> <li>○ Blind trusts</li> <li>○ Irrevocable trust</li> <li>○ Land trusts</li> </ul> </li> </ul> <p>Life estates</p>
<p><b>Calculations Requirements</b></p>	<p>A review of the account statements must be conducted to ensure that the borrower’s asset profile has remained consistent over the two-month period prior to the note date. The Eligible Percentages should be applied to the ending balance reflected on the most recent statement.</p> <p>If the ending balance varies by more than 10% of the prior month, then the Lender or underwriting manager (in WHL and Non-Del) may ask for additional documentation to support the change in assets.</p> <p><b>Monthly Qualifying Income</b>          (Total Qualified Assets – down payment – closing costs – reserves) divided by 60.</p>
<p><b>Documentation Type</b></p>	<p>Doc Type must reflect “Asset Utilization”</p>

## Asset Qualifier (Income Documentation/Calculation)

<b>Documentation Requirements</b>	<p>Employment and Income are not required to be disclosed on the 1003.</p> <p>Two (2) months of account statements – all pages are required. All assets must be seasoned at least two (2) months prior to note date.</p> <ul style="list-style-type: none"> <li>If assets from a joint account are being used to qualify and all parties are not on the loan, all non-borrowers (including spouses) must provide a letter (signed and dated) with specific authorization for full access. Among other requirements, there must be sufficient documentation to clearly demonstrate the amount of assets that the borrower(s) has direct liquidation access to; the file contents must be clear as determined at the discretion of the Arc Home underwriter that the dollar amount of assets used for qualifying are eligible to the borrower and are not impacted by withdrawals or other rights that other account holders may be able to claim on the account.</li> </ul>
<b>Qualified Assets (Eligible Percentages)</b>	<p><b>Eligible Qualifying Assets:</b></p> <p>100% of checking, savings, CDs, and money market accounts</p> <ul style="list-style-type: none"> <li>70% of the remaining value of stocks &amp; bonds, mutual funds (including those held in retirement accounts if over age 59 ½ and, if the plan is an employer administered plan, the borrower is separated from service)</li> <li>50% of retirement funds if younger than age 59 ½ or if borrower is over age 59 ½ but is using an employer administered plan and the borrower is not separated from service</li> <li>When using employer administered retirement plan accounts for borrowers that are younger than age 59 ½ or for which the borrower is over age 59 ½ but is not separated from service from the employer, the loan file should include sufficient plan account documents to determine that the borrower has the ability to liquidate the assets that are being used for determining ability to repay. The liquidation cannot be limited to “hardship” circumstances.</li> <li>Note: If an applicant requests that a Defined Benefit retirement plan(s) be considered, the file must contain sufficient plan account documents to determine that the borrower has the ability to liquidate the assets that are being used for determining ability to repay. The liquidation cannot be limited to “hardship” circumstances. For Defined Benefit retirement plan assets, this requirement must be satisfied regardless of either the borrower age or whether they are separated from service.</li> </ul> <p><b>Ineligible Qualifying Assets:</b></p> <ul style="list-style-type: none"> <li>529 or similar college fund</li> <li>Annuity</li> <li>Business assets</li> <li>Cash value of life insurance</li> <li>Equity in real estate including current home</li> <li>Funds held in foreign accounts or investments</li> <li>Gift funds</li> <li>Gift of equity</li> <li>Pledged/Collateral assets</li> <li>Private securities or any non-publicly traded assets</li> <li>Restricted stock units, stock options, non-vested stock</li> <li>Stocks and bonds not publicly traded</li> <li>The following trusts             <ul style="list-style-type: none"> <li>Blind trusts</li> <li>Irrevocable trust</li> <li>Land trusts</li> <li>Life estates</li> </ul> </li> </ul>
<b>Calculations Requirements</b>	<p>A review of the account statements must be conducted to ensure that the borrower’s asset profile has remained consistent over the two-month period prior to the note date. The Eligible Percentages should be applied to the ending balance reflected on the most recent statement.</p> <p>If the ending balance varies by more than 10% of the prior month, then the Lender or underwriting manager (in WHL and Non-Del) may ask for additional documentation to support the change in assets.</p>

	<p><b>Option 1:</b> Must document assets to cover all of the following:</p> <ul style="list-style-type: none"> <li>• Loan amount</li> <li>• Down payment</li> <li>• Closing costs and prepaids</li> <li>• Five years (60 months) of current monthly obligations</li> </ul> <p>Residual income must equal or exceed \$2,000 per month.</p> <p><b>Option 2:</b> The total post-closing assets must be &gt;/= to 125% of the original subject loan amount. Residual income must equal or exceed \$3,500 per month for loan amounts &lt;= \$2,000,000 or \$5,500 for loan amounts &gt; \$2,000,000.</p> <p><b>Residual income calculation for Option 1 and 2:</b> Residual income is calculated as follows: (Total verified assets minus down payment minus closing costs &amp; prepaids) / 60 - minus monthly obligations. Example: Borrower has \$1,000,000 in assets. Down payment = \$175,000 Closing Costs/prepaids = \$25,000 Monthly debt obligations = \$4,000 <math>(1,000,000 - 175,000 - 25,000) / 60 - 4,000 = 9,333</math></p> <p><b>Monthly Obligations Definition for Option 1 and 2:</b> Documentation is required to show the borrower has at minimum, 60-months of their total monthly debts, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Monthly debts reported on the credit report</li> <li>• Monthly PITIA on the subject property</li> <li>• Other real estate owned <ul style="list-style-type: none"> <li>○ Each additional property owned must qualify using the full PITIA</li> <li>○ Rental income received is not eligible to be used to reduce, omit, and/or offset the payment</li> </ul> </li> </ul> <p>Debts being paid off or paid down for qualifying purposes is not permitted</p>
<b>Documentation Type</b>	Doc Type must reflect "Other Bank Statement", then select "Asset Qualifier" in the Additional Doc Types field