

Series A: Prime Alt Doc 1-Year Full Doc; 24 – Month Bank Statement; 2-Year 1099

This product is for strong credit quality borrowers who prefer to use alternative documentation 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 Paystubs & most recent W-2, OR written VOE and paystub.
- **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.
- **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.

LTV Matrix Fixed Rate

Occupancy	Purpose	Maximum Loan Amount	Units	Minimum FICO	LTV/(H)CLTV ¹	Maximum DTI
Primary Residence	Purchase and Rate/Term	\$3,000,000	1	720	80%	50%
			1-4	700	75%	
				680	70%	
	Cash-Out ²	\$3,000,000	1	740	80%	50%
			1-4	720	75%	
				700	70%	
Second Home	Purchase and Rate/Term	\$3,000,000	1	720	80%	50%
				700	75%	
				680	70%	
	Cash-Out ²	\$3,000,000	1	740	80%	50%
				720	75%	
				700	70%	
				680	65%	

1. **Rural properties:** Max 75% LTV/CLTV for Purchase and Rate/Term and max 70% LTV/CLTV for Cash-Out.

2. **Cash-out Transactions:** \$1MM maximum cash-in-hand.

Product Specific Requirements

Amortization Type	30 Year Fixed Rate
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 Underwriting Guide for Collateral Review requirements. Appraisal Waivers (PIW) are not permitted, regardless of DU feedback
Asset Requirements	<ul style="list-style-type: none"> Assets used for down payment, closing costs and prepaids must meet Fannie Mae eligibility and documentation requirements. All funds for down payment, closing costs and reserves must be documented for greater of AUS requirements or 60 days.
Borrower Contribution	Gift funds are permitted for down payment and closing costs. Gift funds may not be used for reserves. Refer to the Underwriting Guide.
Borrower Eligibility	<p>Eligible:</p> <ul style="list-style-type: none"> US Citizens Permanent Resident Aliens Non-Permanent Resident Aliens First Time Homebuyers <p>Ineligible:</p> <ul style="list-style-type: none"> Foreign National Borrowers Non-Occupant Co-Borrowers not allowed on 1099 or Bank Statement
Credit/Payment History Requirements	<ul style="list-style-type: none"> Borrowers with Derogatory credit must meet Fannie Mae Guidelines. Forbearance permitted only due to Cares Act/COVID-19. Minimum of two FICO scores for each Borrower All applicant(s) and co-borrowers must meet the credit score requirements individually. Non-traditional credit report is not permitted. Payment history requirements: 0x30x12 mortgage/rental history on the subject property and all financed REOs under the borrower's name.
QM Requirement	Loan must meet QM Safe harbor or Rebuttable Presumption requirements.
Geographic Restrictions	Missouri is eligible for Delegated Correspondents only.
Impound/Escrow Accounts	Escrow funds/impound accounts may be waived for taxes and hazard insurance in accordance with the Underwriting Guide.
Lien Position	First
Minimum Loan Amount	\$125,000
Number of Financed Properties	<ul style="list-style-type: none"> A single borrower can have no more than 10 financed properties including subject property. All properties in which the borrower is personally obligated must be included in the financed property maximum. For Series A, 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 Loans.
Occupancy	<ul style="list-style-type: none"> Primary Residence Second Home
Prepayment Penalty	Not allowed.

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) <p>Ineligible:</p> <ul style="list-style-type: none"> • Non-Warrantable Condominiums • Condotels <p>Refer to the Underwriting Guide for ineligible property types.</p>
Reserve Requirements	<p>Greater of DU requirements or the below requirements:</p> <ul style="list-style-type: none"> • Loan Amount ≤ \$750K: 3 months • Loan Amount > \$750K - \$1.5MM: 6 months • Loan Amount > \$1.5MM-\$2.5MM: 9 months • Loan Amount > \$2.5MM: 12 months • Cash out proceeds may be used to satisfy reserve requirements up to a 70% LTV/CLTV.
Secondary Financing	Allowed
Tax Transcripts	<p>1-Year Full Doc Tax-return: A signed 4506-C and IRS Tax Transcripts for the most recent year must be obtained during the loan process or at closing.</p> <p>1-Year Full Doc Wage Earner or when an additional W-2 is used: A signed 4506-C is required. Transcripts are not required.</p> <p>1099: A signed 4506-C and IRS 1099 Transcripts are required.</p> <p>Bank Statements: 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 as a Cash-out transaction • Cash Out Refinance • Texas 50(a)(6) Rate Term and Cash Out refinances
Underwriting	Loans must score “Approve” on Fannie Mae Desktop Underwriter (DU). Loans may score “Ineligible” only for loan amount and LTV. A Caution, Incomplete, invalid or out of Scope are not allowed. Refer to the Underwriting 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 Underwriting 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 or WVOE	<ul style="list-style-type: none"> • The following reduced documentation requirements are required: <ul style="list-style-type: none"> ○ most recent year W-2 and YTD paystubs covering at least 30 days OR ○ 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. • Borrower must have two (2) years history of employment in same industry and 1-year continuous employment at current job. • Capital gains income and borrowers employed by family members are not eligible. • Follow Fannie Mae guidelines for how to calculate income: https://www.fanniemae.com/content/guide/selling/b3/3.1/01.html
Documentation Type	Doc Type must reflect “1 Yr Tax Returns”

24 month 1099 Documentation/Calculation Requirements	
Employment Requirements	Borrowers who are independent contractors, freelancers, or otherwise self-employed in the “gig economy” may qualify with 1099 statements in lieu of tax returns, to support their income. 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, refer to the Underwriting Guide.
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 24-month income calculation, provide the following:</p> <ul style="list-style-type: none"> • 2 years of Form 1099 and • Either most recent paystub showing YTD income, statement, or similar documentation that also shows the Borrower’s year-to-date earnings. The most recent documentation may be used, if earnings over 30 consecutive calendar days is verified.
Income Calculation	<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 explanation such as the Business Narrative or a similar form 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 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>
Additional Income	<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>Long term and Short term Rental Income: The borrower must fully complete the REO section of the loan application. Short term rental property must in an area that is common for short term rentals.</p> <ul style="list-style-type: none"> • Documentation: <ul style="list-style-type: none"> ○ Purchase transactions: Rent Schedule Form 1007 or 1025 (the rental lease agreement is not required). ○ 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. ○ For REO properties: <ul style="list-style-type: none"> ▪ Most recent Schedule E OR ▪ The current lease agreement AND most recent 2 months rental deposits reflected on the bank statements/cancelled checks/electronic proof OR ▪ 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),

	<ul style="list-style-type: none"> • Calculation: <ul style="list-style-type: none"> ○ Step 1: Determine the Gross Qualifying Rent: <ul style="list-style-type: none"> ▪ Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 ▪ Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement. ▪ For REO properties: Use monthly gross rental income from the borrower’s most recent Schedule E per Fannie Mae calculations, from the current lease agreement, or from the 12 month remittance statements. ○ Step 2: Reduce the Gross rent by the 20% vacancy factor: The rental income must be calculated by multiplying the gross monthly rent(s) by 80%. ○ Step 3: Determine the Net Qualifying Rent: Subtract the PITIA associated with that property to arrive at the Net Rental Income (if positive, apply to the Total Income figure) or Net Rental Loss (if negative, count in the borrower’s debt).
Documentation Type	Doc Type must reflect “Other Bank Statement”, then select “1099 – 24 months” in the Additional Doc Types field

24 – Month Bank Statement Documentation/Calculation Requirements

Employment Requirements	<p>The Primary wage earner must be self-employed as a for-profit business.</p> <ul style="list-style-type: none"> • Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years. • 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). • 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 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). <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 Underwriting Guide.
Documentation Requirements	<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"> • 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, per the Age of Documentation requirements in the Underwriting Guide. ○ 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, we will consider the bank statements 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.

	<ul style="list-style-type: none"> ○ 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) ○ Every page including pages without transactions and advertisements must be present; transaction history printouts are not acceptable ○ Statements must support stable and generally predictable deposits. ● Monthly income must be disclosed on the initial, signed 1003 ● 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. ● 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. ● 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). ● 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 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. NSFs are allowed with the following restrictions: <ul style="list-style-type: none"> ○ 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. ○ 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. ○ All NSFs in the most recent 12 months must be explained with an LOE from the borrower ○ 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. ○ Reversed/refunded 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	Business Narrative or a similar form must be completed by all self-employed Borrowers .
Disallowed Deposits	Disallowed deposits include transfer 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 Account Qualification	<p>BUSINESS DISTRIBUTIONS: 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 Employment Requirements and Documentation Requirements above, the following apply:</p> <ul style="list-style-type: none"> ● Borrower must own at least 25% of the business. ● 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. ● 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). ● 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.

	<ul style="list-style-type: none"> 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>Calculation Method</p> <ul style="list-style-type: none"> 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. No expense factor is applied if business bank statements support operating activity with expenses being paid. <p>Qualifying income is calculated as follows: (Total Deposits – Disallowed Deposits) divided by 24 months</p> <p>Income disclosed on the initial application (1003) 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>Commingled Personal Bank Account Qualification</p>	<p>COMMINGLED BANK ACCOUNT: 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.</p> <p>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 Employment Requirements and Documentation Requirements above, the following apply:</p> <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) 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) 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 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. <p>Comingled Bank Accounts may only be used by Sole Proprietors (Partnerships, S-corporations, and Corporations are not allowed):</p> <ul style="list-style-type: none"> Borrower and non-borrowing purchasing spouse with combined 100% ownership eligible; or All credit qualifying borrowers on the loan own 100% of the business; or an independent contractor dedicated to one occupation and receiving 1099 income
<p>Business Bank Account Qualification</p>	<p>BUSINESS BANK ACCOUNT: In addition to the Employment Requirements and Documentation Requirements above, the following apply:</p> <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% of the business. All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the

	<p>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)</p> <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 business bank accounts may be used for multiple businesses • Two business bank accounts may be used for the same business in situations where the borrower uses different accounts for different payment types, such as one account for cash or checks and another account for card transactions 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. • 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 cash flow 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 Capital Intensive Industry (Business Bank Account or Commingled Bank Accounts)</p>	<p>Examples of the Service Industry Include (but are not limited to) the following:</p> <ul style="list-style-type: none"> • Hospitality/Tourism <ul style="list-style-type: none"> ○ 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. • 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 Capital-Intensive Industries include (but are not limited to) the following:</p> <ul style="list-style-type: none"> ● Construction <ul style="list-style-type: none"> ○ The Construction industry includes carpentry, road construction, bridge development, contractors, and home remodelers/builders/handyman. ● Oil and Gas <ul style="list-style-type: none"> ○ The Oil and Gas industry includes the business of oil and gas exploration and production: transportation and storage; and refining and marketing such as gas stations. ● Manufacturing <ul style="list-style-type: none"> ○ The Manufacturing industry includes moving raw materials, creating the goods, storing the finished products in a warehouse and shipping the products to customer. Examples include but are not limited to automobiles, household goods, toys, publishing/printing, fashion industry, and food industry such as ownership in a store, store chain, restaurant, food supplier. ● Money Lenders <ul style="list-style-type: none"> ○ The Money Lender Industry includes the business of lending money to people or other businesses. ● Telecommunication <ul style="list-style-type: none"> ○ The Telecommunication industry includes companies that make communication possible on a global scale, whether it is through the phone or the Internet, through airwaves or cables, through wires or wirelessly. ● Transportation <ul style="list-style-type: none"> ○ The Transportation industry includes airlines, railroads, trucking, and Uber/Lyft. ● Healthcare <ul style="list-style-type: none"> ○ The Healthcare industry includes companies owning hospitals, care facilities and medical practices. ● Farming & Agricultural <ul style="list-style-type: none"> ○ The Farming & agricultural industry includes small specialist producers and growers to large scale production of crops and livestock.
<p>Calculation (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 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 <u>two (2) options below:</u></p>
<p>Calculation Option 1 (Fixed Expense Factor): (Business Bank Account or Commingled Bank Accounts)</p>	<p>This option uses a fixed expense ratio to determine qualifying income. Regardless of the Fixed Expense Ratio Chart, Arc reserves the right to request additional documentation to validate the expense ratio. Determine income as follows:</p> <ol style="list-style-type: none"> 1. Determine the <u>Average Allowable Monthly Deposits:</u> $\frac{\text{Total Deposits} - \text{Disallowed Deposits}}{\text{Number of Months}}$

24 months

- Determine the Business Net Income = Multiply the Average Monthly Qualifying Income by (100% - the Fixed Expense Ratio) (from table below):

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

- 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 (1003) 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 Bank Account 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. In this matrix, the term CPA is used generically to refer to a licensed CPA, certified tax preparer, or enrolled agent.
- CPA must be verified.

Determine Qualifying Income as follows:

- Determine the Average Allowable Monthly Deposits:

$$\left[\frac{\text{Total Deposits} - \text{Disallowed Deposits}}{24\text{-months}} \right]$$

- Determine the Business Net Income = Multiply the Average Monthly Qualifying Income by (100% - the Expense Ratio provided by the CPA).
- 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 (1003) 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>Example: Average Allowable Monthly Deposits = \$20,000 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 <u>Monthly Qualifying Income</u> is \$10,000.</p>
<p>Declining Income (Business and Personal Bank Account 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 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.</p> <p>Long term and Short term 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) may qualify using rental income.</p> <ul style="list-style-type: none"> • The borrower must fully complete the REO section of the loan application. • Short term rental property must in an area that is common for short term rentals. • Documentation: <ul style="list-style-type: none"> ○ Purchase transactions: Rent Schedule Form 1007 or 1025 (the rental lease agreement is not required). ○ 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. ○ For REO properties: <ul style="list-style-type: none"> ▪ Primary income source as a real estate investor: The rental deposits reflected on the bank statements covering the 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 (< 24 months), the borrower must also explain why the property has been rented less than 24 months and provide supporting documentation to confirm the purchase date, such as the settlement statement. <ul style="list-style-type: none"> • The underwriter is not required to request a lease agreement 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. ▪ Secondary income source: <ul style="list-style-type: none"> • Most recent Schedule E OR • The current lease agreement AND most recent 2 months rental deposits reflected on the bank statements/cancelled checks/electronic proof. • Calculation: <ul style="list-style-type: none"> ○ <u>Step 1: Determine the Gross Qualifying Rent:</u> <ul style="list-style-type: none"> ○ Purchase transactions: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 ○ Departing Residences: Use the lesser of the actual or market rent on the Rent Schedule Form 1007 or 1025 OR the lease agreement. ○ For REO properties:

- Primary income source as a real estate investor: Use the rental deposits reflected on the bank statements/LOE.
- 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.
- **Step 2: Reduce the Gross rent by the 20% vacancy factor:** When bank statements, current lease agreements or the Rent Schedule Form 1007 or 1025 are used, the rental income must be calculated by multiplying the gross monthly rent(s) by 80%.
- **Step 3: Determine the Net Qualifying Rent:** Subtract the PITIA associated with that property to arrive at the Net Rental Income (if positive, apply to the Total Income figure) or Net Rental Loss (if negative, count in the borrower’s debt).

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)	\$5000/\$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	Doc Type must reflect "24 mo Business Bank Statement"	