

**FIX AND FLIP  
GROUND UP CONSTRUCTION  
UNDERWRITING GUIDELINES**

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## **Introduction**

Archwest's strategic objective is to originate and purchase business-purpose mortgage loans secured by first mortgage liens against residential properties as herein described, and to underwrite, document and price those loans to generate assets that produce targeted rates of return without exposing Archwest or its investors to undue risk.

Loans are sourced directly, by way of mortgage broker relationships, and through correspondent lenders. Loan products include bridge loans to real estate investors who need short-term execution capital, fix and flip loans to real estate investors executing rehabilitation strategies, and ground-up construction loans to home builders and developers.

Credit quality is to be managed in balance with other objectives, and in any event, should never be sacrificed or mitigated for immediate results. Accordingly, it is incumbent upon the management of Archwest to instill a credit culture that fosters and actively supports the extension of credit on sound, fundamental lending principles.

## **General Underwriting**

The strengths and weakness of each loan request are carefully assessed to determine the extent to which the experience, credit, cash flow and financial condition of the Borrower and borrower principals is sufficient for the Borrower to undertake successfully its business plan and/or renovation plans as well as undertaking the burdens of operating costs and contractual debt service obligations, and determine the extent to which the characteristics of the local real estate market are favorable, the as-is value of the specific real estate collateral property is sufficient at loan origination to secure the initial loan funding, and the pro-forma (typically as-renovated) value of the real estate collateral will be sufficient at the end of the loan term to provide for payment in full of the loan by way of a sale or refinance of the property.

All factors that significantly reduce risk should be awarded in the overall credit decision. Just as a thorough review of collateral quality as well as the strengths of the Borrower and Sponsor should be considered by the underwriter, risks can be balanced by way of prudent loan structure.

## **Underwriting Escalations**

These guidelines are intended to define an approach and set forth criteria to be followed for the purpose of ensuring that credit is extended in a manner consistent with risk tolerance parameters adopted by the organization. Because it is impractical to provide for every circumstance or to pre-judge every nuance that an underwriter might encounter in the evaluation of a loan request, it stands to reason that there will be loan requests that present the requirement for senior management to review and approve.

If an underwriter recommends a loan be approved, but the loan does not meet the guidelines as presented in this document, they will escalate the loan for review by an SVP or Senior Manager who will review the loan request.

All underwriting escalations will be made available to and be tracked by executive management, who will ensure that (i) the number of escalations is minimal, (ii) all escalations are offset by compensating factors such as prudent loan structuring in combination with favorable Borrower and/or collateral characteristics, and (iii) escalations do not exhibit trends that should be addressed through improved underwriting management and/or review of the guidelines. Upon approval of the escalation by an SVP or Senior Manager, that loan is deemed to meet the guidelines as presented in this document.

## **Borrower and Sponsor Evaluation**

The underwriting of each loan will include the following evaluation of every Borrower and Sponsor(s):

- Borrowing entities must be duly organized, in good standing and otherwise legally capable of undertaking the proposed loan.
- Borrowers and the Sponsor(s) must not be engaged in business activities that, by their nature, could pose reputation risk to Archwest.
- Financial strength should be consistent with the size and complexity of the financing requested.
- Credit profile and a history of good character should sufficiently demonstrate ability to be counted on to be a responsible secondary source of repayment.

- Real estate investment experience, real estate development, fix and flip management, and property management experience should be sufficient to capably manage the proposed real estate investment successfully.

Variable	Category	Weight (Total)
Experience Tier	Guarantor	24.00%
FICO	Guarantor	20.00%
Liquidity	Guarantor	15.00%
Borrower Financial Background	Guarantor	5.00%
Experience Similar to Subject Property	Guarantor	3.00%
Target Market	Deal Structure	15.00%
Leverage	Deal Structure	15.00%
Interest Reserve	Deal Structure	3.00%
<b>Total</b>		<b>100.00%</b>

Tier Rankings	
Tier	Min Score
Tier 1	7
Tier 2	5
Tier 3	3
Tier 4	1

Archwest updated underwriting guidelines and weights of specific variables to reflect the deal tier. Program guidelines are designed to delineate all general lending parameters. Deal Tier is calculated by taking into account the following variables weighted on a scale between 1-10

#### **Borrower and Principal Underwriting Due Diligence (KYC)**

“Know Your Counterparty”(KYC) on each Borrower and Sponsor is part of the underwriting process. KYC allows Archwest to evaluate a Borrower before extending credit to the Borrower and forming a relationship. The goal of the KYC process is to confirm the following:

##### Formation/Standing/Identity

- If an entity, Archwest performs extensive corporate record searches (Thomson Reuters) applicable Secretary of State website(s) to confirm the entity is active, in good standing and authorized to do business in the appropriate state.
- If an individual, Archwest performs an extensive public record search (Thomson Reuters Clear Report) using the Borrower's personal information.
- Archwest reviews the entity's formation documents to ensure business purpose, ownership, authorization to borrow funds, and execution authority.
- The underwriter reviews the Borrower's bank statements, real estate schedules, background checks, credit reports and other financial documentation to confirm that the Borrower meets the cash flow, net worth and liquidity requirements given the size of the proposed loan and contemplated construction improvements.
- If Borrower or Sponsor(s) hold professional licenses, a review is made to determine whether the licenses are active, in good standing and whether there has been any disciplinary activity.

##### Background Searches

- A search is conducted for any outstanding items that may impact the Borrower's ability to perform, including the following on the borrowing entity, principals/ key management and affiliates including:
  - Litigation, judgments and liens
  - Criminal arrest and infraction records
  - Record of fraud and other financial crimes
  - Bankruptcies
  - Foreclosures
  - OFAC alerts and watch list
  - UCC filings
  - Death records
  - FEIN/SSN verification

## **Consumer Credit Reports**

A Tri-Merge credit report relating to all Individual Borrowers and Sponsor(s) of Borrowing Entities is reviewed to determine the extent to which each subject has managed credit responsibility.

Letters of Explanation are obtained for review by the underwriter with respect to adverse credit report information such as late payments, liens, judgments, foreclosure, bankruptcy, and creditor account closures and collections.

The Borrower and Sponsor's real estate investment and/or fix and flip experience is assessed.

Clear report searches on the Borrower, affiliated entities, and Sponsor(s) to find evidence of real estate transactions undertaken.

Findings from the Clear reports are compared to Schedules of Real Estate Owned that are provided by the Borrower and Sponsor(s).

## **Collateral Evaluation**

All loans are to be secured by a first mortgage lien against real property that is zoned for and improved in a manner consistent with the program requirements for each loan. As part of the underwriting process, the underwriter:

- Confirms the proposed real property collateral meets eligibility guidelines.
- Reviews and analyzes the loan origination appraisal/valuation, multiple listing information and other available pertinent market data to determine the extent to which the as-is value of the real estate collateral property is sufficient at loan origination to secure the initial loan funding and the *pro-forma* (typically as-renovated) value of the real estate collateral will be sufficient at the end of the loan term to provide for payment in full of the loan by way of a sale or refinance of the property.
- Reviews title report and (when appropriate with respect to certain multifamily property loans) environmental site assessment, property survey, and seismic risk assessment.
- Analyzes (when appropriate with respect to certain fix and flip or construction loans) construction budget as well as related building plans and detailed summary of improvements to be constructed to determine sufficiency/adequacy to complete project and whether a contingency is necessary.
- Assesses the extent to which the property either benefits or suffers from the access, visibility, physical condition and market competitiveness of the property location.
- If tenant occupied, compares each lease or rental agreement to the current rent roll and assesses whether the lease or rental agreement reflect market rents.

## **Eligible Real Property Collateral**

- Zoning is consistent with current use (as a single-family residence and/or a multifamily residential property).
- Located within one of the largest 225 metropolitan statistical areas of the United States of America (those with a population of 200,000 or greater) even if not within nation's largest cities
- Located in a primary, typically in a secondary, and sometimes in a tertiary urban or suburban market with average or better population density and which exhibit average or better than average recent population and employment growth.
- Current improvements and use is highest and best use of the subject property.
- Located within reasonable proximity to community amenities such as schools, shopping, recreational facilities and employment centers.
- Benefits from direct proximity and use of a public street. Properties located on private roads are not eligible.

See *Ineligible Properties Section*.

## **FNF/Bridge Financing Product Description**

Bridge Financing provides experienced investors with liquidity necessary to acquire, refinance and sometimes rehabilitate single family residential as well as multifamily residential properties containing 9 or fewer units.

Loans are made for a term of typically 12 -24 months with up to two extensions. Each note is payable interest-only until maturity against properties that may not stabilized and may require upgrades or significant capital improvements.

Critical to the underwriting of bridge loans is a well-founded belief that (i) the subject property has the potential to achieve After Renovated Value and readily provide for a sale or refinance in time to retire the bridge loan at or before maturity, and (ii) the Borrower has the management capacity, construction experience and requisite financial resources to achieve the property's full potential, and (iii) a commercially reasonable refinance at completion of renovation, or sale at completion of renovation, will be readily available.

<b>Loan Size</b>	Minimum \$150,000 Maximum \$3,500,000 maximum
<b>Loan Purpose</b>	Purchase Delayed Purchase Rate and Term Refinance Cash Out Refinance (See additional guidelines on page 8) Refinance
<b>Transaction Purpose</b>	Fix and Flip with Lender Financed Rehab Fix and Flip with Borrower Financed Rehab Bridge Loan
<b>Loan Term</b>	Fix and Flip: 6 – 24 Months with up to two 3-months extension subject to underwriting and a fee Bridge: 6- 12 months with up to one 3-month extension subject to underwriting and a fee
<b>Balloon Payment</b>	Yes
<b>Lien Position</b>	First Lien Loan (no subordinate financing permitted)
<b>Maximum Loan Amount</b>	The Loan Amount will be limited to the lesser of: 90% LTAIV 93.50% LTC 80% LTARV Small Multifamily Leverage Reduction: -5%
<b>Max Rehab %</b>	60% of overall Loan Amount
<b>Loan Structure</b>	Interest Only, Fixed Rate, Balloon Loan
<b>Borrower</b>	Individuals Partnerships Corporations Limited Liability Companies Trusts (with local counsel approval)
<b>Minimum Experience</b>	1 in the last 36 months
<b>Liquidity</b>	All Tiers: Post-closing verified cash reserves > insurance and real estate taxes due during the initial term + 6 Months Debt Service + 10% of rehab/capex (hard costs + soft costs + contingency)

<b>Recourse</b>	Full to Borrower Unconditional Guaranty Required: By one or more stakeholder in the Borrower which in aggregate own at least 51% of the Borrower By each stakeholder with a 20% or greater ownership in the Borrower Warm body guaranty may be waived to the extent the Borrower has a net worth in excess of 250% of the total Loan Amount and liquidity in excess of 100% of total Loan Amount
<b>Maximum Units</b>	9 units
<b>Equity Pledge</b>	Required on Small Multifamily (5-9 Units) Required in Judicial Foreclosure states if a warm-body guarantor is not obtained
<b>Contingency</b>	Minimum Hard Cost and Soft Cost Contingency: 5.0%
<b>Tax and Insurance</b>	Tax and Insurance is not Reserved but is instead paid by Borrower as a condition of closing, if due within 90-days of the closing date.  Insurance is prepaid for 1 year; provided however, that for refinances, Archwest will accept an active policy so long as it does not expire within 90 days of closing and any remaining balance is paid at closing.

With respect to loan amounts above **\$3,500,000** the following will supersede the foregoing:

<b>Loan Amount</b>	Between \$3,500,000 and \$5,000,000
<b>Maximum ARV</b>	Maximum After-Repair/As-Complete Value as % of Average Home Sale Price*** in Zip Code (9-digit) in past 60-days: 115%
<b>Minimum FICO</b>	720
<b>Minimum Experience</b>	At least 5+ (must be on title)
<b>Prior Bankruptcies</b>	None

#### **Additional Underwriting Criteria:**

- Tier 4 Borrowers may not have a FICO less than 700
- Borrowers and/or Sponsors must not have any bankruptcy filings within the last 10 years

### Cash-out Refinance

Any Bridge loan in which borrower/sponsor is receiving cash-out may require additional parameters to ensure strong exit of asset at maturity of loan term. To the extent that the following parameters are not adhered to, escalation for approval must be obtained from either an SVP of Credit or the COO:

Archwest Capital Cash Out Refinance Matrix					
Borrower Experience Tier	Cash-Out Available	Max \$ Amount	Max % Value Added*	Appraisal Type	Max % Allocated to Liquidity
1	Yes	\$500,000	50%	Interior Valuation	75.00%
2	Yes	\$300,000	30%	Interior Valuation	50.00%
3	No	-		-	-
4	No	-		-	-

\*% of how much value add (since the most recent arm's length transaction) can be counted

For additional consideration on cash-out refinances:

- Proceeds are paying off a mortgage that has not yet matured
- Cash out refinance is defined as a loan where cash out to borrower exceeds 2% or \$2,000 (whichever is lower).
- Mid-construction Cash-outs are prohibited

For rate and term refinances, some considerations:

- Proceeds are paying off a mortgage that has not yet matured
- Cash back to borrower at closings cannot exceed 2% or \$2,000 (whichever is lower). (If exceeds> considered a “Cash-out”)
- Items that can be paid off in a rate term refinance must be business expenses only including: mortgage liens, real estate taxes, insurance, customary closing costs.

## **Ground-Up Construction Product Description**

Ground-Up Construction Financing provides experienced real estate developers with liquidity necessary to acquire or refinance properties and construct single family residential as well as multifamily residential properties containing 9 or fewer units.

Loans are made for a term of typically 12 -24 months with up to two 3-month extensions available subject to a fee. Each loan is payable interest-only until maturity and will be secured by a first mortgage lien against real property for which entitlements to construct a residential property that conforms to these guidelines has been received.

Critical to the underwriting of a construction loan is a well-founded belief that (i) the subject project is economically viable, (ii) the Borrower and contractor have the management capacity, construction experience and requisite financial resources to complete the project, (iii) and a commercially reasonable refinance at completion of renovation, or sale at completion of renovation, will be readily available.

<b>Loan Size</b>	Minimum \$236,250 (minimum initial loan amount \$0) Maximum \$5,000,000
<b>Loan Purpose</b>	Purchase Delayed Purchase Cash Out Refinance Rate and Term Refinance
<b>Transaction Purpose</b>	Fix and Flip with Lender Financed Rehab
<b>Loan Term</b>	12 – 24 Months with up to two 3-month extension subject to underwriting and a fee
<b>Balloon Payment</b>	Yes
<b>Lien Position</b>	First Lien Loan (no subordinate financing permitted)
<b>Maximum Loan Amount</b>	The Loan Amount will be limited to the lesser of: 70% LTAIV 85% LTC 67.5% LTARV Small Multifamily Leverage Reduction (5 to 9 units): -10%
<b>Loan Structure</b>	Interest Only, Fixed Rate, Balloon Loan
<b>Borrower</b>	Individuals Partnerships Corporations Limited Liability Companies
<b>Minimum Experience</b>	3 in the last 36 months; or 2 in the last 36 months if the Borrower is a licensed General Contractor, has 2x liquidity and at least a 720 FICO
<b>Liquidity</b>	All Tiers: Post-closing verified cash reserves > insurance and real estate taxes due during the initial term + 6 Months Debt Service based on note amount + 10% of rehab/capex (hard costs + soft costs + contingency)

<b>Interest Reserve</b>	Required for Small Multifamily equal to 100% of Interest and Carry during Loan Term  May Be Required in All Other Instances
<b>Recourse</b>	Full to Borrower Unconditional Guaranty Required: <ul style="list-style-type: none"> <li>• By one or more stakeholder in the Borrower which in aggregate own at least 51% of the Borrower</li> <li>• By each stakeholder with a 20% or greater ownership in the Borrower</li> </ul> Warm body guaranty may be waived to the extent the Borrower has a net worth in excess of 250% of the total Loan Amount and liquidity in excess of 100% of total Loan Amount
<b>Maximum Units</b>	9 units
<b>Equity Pledge</b>	Required on Small Multifamily (5-9 Units) Required in judicial foreclosure states if a warm-body guarantor is not obtained
<b>Completion Guaranty</b>	Required
<b>Completion Bond</b>	Required for projects with construction budgets in excess of \$10,000,000
<b>Contingency</b>	Minimum Hard Cost and Soft Cost Contingency: 5.0%
<b>Feasibility</b>	Required
<b>Tax and Insurance</b>	Tax and Insurance is not Reserved but is instead paid by Borrower as a condition of closing, if due within 90-days of the closing date.  Insurance is prepaid for 1 year

With respect to loan amounts above **\$3,500,000** the following will supersede the foregoing:

<b>Loan Size</b>	Between \$3,500,000 and \$5,000,000
<b>Maximum ARV</b>	Maximum After-Repair/As-Complete Value as % of Average Home Sale Price*** in Zip Code (9-digit) in past 60-days: 110%
<b>Minimum FICO</b>	720
<b>Minimum Experience</b>	At least 10+ (must be on title)
<b>Prior Bankruptcies</b>	None

With respect to loans with an **LTC of more than 82.5%** the following will supersede the foregoing:

<b>Maximum Loan Amount</b>	\$2,000,000
<b>Maximum ARV</b>	65%
<b>Minimum FICO</b>	720
<b>Minimum Experience</b>	At least 10+ (must be on title)
<b>Prior Bankruptcies</b>	None

#### **Additional Underwriting Criteria:**

- Tier 4 Borrowers may not have a FICO less than 700

- Borrowers and/or Sponsors must not have any bankruptcy filings within the last 10 years

## **Appraisal Requirements**

An independent third-party appraisal will be obtained to support every loan made or purchased as set forth below:

Loans with a Note Amount greater than or equal to \$400,000:

A full appraisal, including an interior inspection of the subject property, in compliance with FIRREA with a date within one-hundred twenty days of the origination date or 6 months prior to the Closing Date. Each appraisal is to be signed by an appraiser who is licensed to prepare appraisals in the state where the Mortgaged Property is located and satisfies applicable legal and regulatory requirements.

Loans with a Note Amount less than \$400,000:

A property valuation or appraisal suitable to the purpose of determining the quality and status of the dwelling and is one of the following types: an Appraisal with qualities as described in these guidelines for loans of \$1,000,000 or more, a Broker Price Opinion, a Desktop Valuation with property inspection from a vetted and approved vendor, or Automated Valuation Model.

Properties for which rehab is contemplated:

- The property valuation or appraisal must be developed with the assumption the proposed new construction will be completed as of the anticipated date of completion.
- The property valuation or appraisal must be developed with the assumption the proposed new construction will conform to Borrower's construction budget as well as related building plans and detailed summary of the improvements to be constructed.
- The property valuation or appraisal must be developed with the assumption the Borrower will obtain all requisite work permits and complete the required renovations in a workmanlike manner within no more than 12 months and will obtain a Permanent Certificate of Occupancy within a reasonable time horizon.
- The property valuation or appraisal must be developed with the assumption that after the completed construction, the subject property will be in good condition.

Appraisal/Property Valuations will be developed with two distinct values:

- The current ("as is") value given current market conditions and depicting the property in its current physical and economic conditions; and
- A pro forma (as renovated "ARV") value given current market conditions and depicting the property in a physical condition that assumes completion of contemplated capital improvements/property upgrades and economic condition that would be consistent with the subject property in the same real estate market.

Appraisal signed by an appraiser who is licensed and certified to prepare appraisals in the state where the Mortgaged Property is located that follows FIRREA with a date within 90 days of the origination.

All of the following methods are used to assess proposed real estate collateral.

## **Broker Price Opinion**

BPOs don't necessarily follow a standard format, which means that they may look somewhat different based on the individual practices of the broker. A BPO can be done either as a drive-by visit or as a full inspection of a property's interior. In either case, the broker or agent will typically drive through the neighborhood to get a better understanding of the local area. Then, they'll use their MLS to find similar, comparable properties to create an accurate estimate of the subject property's value. Generally, they will use at least three properties that are currently on the market, as well as three properties that have recently sold, in order to create a reasonable estimate. This is a version of the sales comparison approach that is often used for traditional appraisals. Nevertheless, BPOs are not conducted by licensed appraisers and are not completed in accordance with the uniform standards for professional appraisal practice ("USPAP").

## **Appraisals**

Appraisals are conducted by someone who has satisfactorily completed required course work and training, obtained a state-issued appraisal license, and performs appraisal in accordance with USPAP. A full appraisal is a valuation performed by an appraiser who visits the property being appraised, takes photos, measures and evaluates in person the condition of your home. A desktop appraisal is a valuation performed without a physical inspection of the property. All research is done as the name suggests, from the appraiser's desk. In any event, the valuation is completed by a licensed appraiser in accordance with USPAP.

### **Hybrid Appraisals**

All of the desktop appraisals that we will obtain are commonly referred to as hybrid appraisals, because – as part of each appraisal – an inspection is conducted by a local real estate professional, so the desktop appraisal is augmented by a property inspection conducted by a local real estate professional whose accounts and descriptions are taken into consideration by the appraiser.

### **Automated Valuation Model**

An automated valuation model (“AVM”) is a computer driven mathematical formula that uses basic property characteristics, local market information, and price trends to arrive at an estimated value or value range. The most obvious example of AVM technology at work is Zillow. It is important to understand that AVM's consider the location, lot size, building size, bedroom/bathroom count and age but assume all properties are in similar average condition and therefore do not account for differences in property condition and/or cosmetic upgrades. Accordingly, AVM's produce reliable estimates of value when the subject property is very similar to many recently sold properties and the range of sales prices for such properties does not vary widely.

## **Ineligible Properties**

1. ADUs
2. Assisted Living Facilities
3. Boarding Houses
4. Built-to-Rent projects that are not subdivided/have individual tax lots and/or not sellable individually
5. Collateral Cross-Collateralized with Properties Financed by Other Lenders
6. Cooperatives
7. Dome
8. Geodesic Homes
9. Houseboats
10. Improved Residential Properties containing 10 or more acres of land
11. Improved Residential Properties containing 5 or more acres of land
12. Individual townhomes or condominium units containing less than 500 SF of GLA with the exception that a single ADU associated with a conforming SFR may be => 250 SF
13. Leased Land
14. Log Homes
15. Master leased properties and land/leaseholds
16. Metal Buildings
17. Multifamily properties valued at less than \$150,000/unit
18. Multifamily properties with greater than 9 units
19. Non-warrantable condominiums
20. Properties located on Indian Reservations
21. Properties subject to government rent control/regulation
22. Properties with Agricultural or Natural Zoning
23. Properties with Section 8 tenants
24. Properties with significant attendant environmental risks (including Hawaii properties located in lava zones one or two)
25. Properties with underground oil tanks
26. Properties which are used for daily tenancy
27. Residential properties where Day-Care services are provided
28. Retail (including mixed-used properties with ground-floor retail)
29. Rural Properties
30. SFR properties containing fewer than 2 bedrooms or less than 700 SF of GLA
31. SFR properties valued at less than \$100,000
32. Seasonal Rentals
33. Single-Room-Occupancy residential properties
34. Student Housing Facilities (rented by the bed)
35. Time shares/special purpose and exotic real estate
36. Undeveloped Land
37. Unreinforced brick buildings

\*Mid-construction properties are not ineligible but require Bain Capital approval.