



DSCR RENTAL UNDERWRITING GUIDELINES

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 rental loans to real estate investors. Loans are not made for personal, family, or household purposes.

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 loan borrower individual or entity ("Borrower") and Borrower principals ("Sponsor") is sufficient for the Borrower to successfully undertake its business plan, 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.

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) escalation experience does not exhibit trends that should be addressed through improved underwriting management and/or review of the guidelines.

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.

Borrower and Principal Underwriting Due Diligence (KYC)

"Know Your Customer" (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 CLEAR Report) and applicable Secretary of State website(s) to confirm the entity is active, in good standing.
- If an individual, Archwest performs an extensive public record search (Thomson Reuters CLEAR Report) using the Sponsor'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 and investment account statements, personal financial 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
 - No active lawsuits
 - No felonies
 - Criminal arrest and infraction records
 - Record of fraud and other financial crimes
 - Bankruptcies
 - Foreclosures
 - OFAC alerts and watchlist
 - UCC filings
 - Death records
 - FEIN/SSN verification

SFR Rental – Investor Loan Product Description

SFR Rental Financing provides experienced real estate investors with liquidity necessary to acquire or refinance long term rental properties.

SFR rental loans are underwritten on the strength of the net operating rental income of the real properties held as collateral as well as on the financial resources, real estate investing and property management experience of the Borrower/Sponsor

Loans are underwritten based on four core credit principals of financing *Good Quality Properties* for which there is a *Reliably Sustainable Cash Flow*, identified *Favorable Local Market Conditions*, and the verifiable *Equity, Operational Expertise and Financial Strength of the Borrower/Sponsor*.

Loan Amount	\$75,000 to \$3,500,000 with variances permitted
Minimum Property Value	\$100,000
Loan Purpose	<ul style="list-style-type: none"> • Purchase <ul style="list-style-type: none"> ◦ Purchase price is calculated by subtracting the overall acquisition price less any concessions (seller paid closing costs and up to 3% concessions allowed) (up to 10% assignment fee allowed). • Delayed Purchase: the property was acquired within 180 days. <ul style="list-style-type: none"> ◦ A delayed purchase requires the lesser of either the original purchase price or the current appraised value when calculating the loan-to-value ratio; provided however, the current appraised value (if higher and supported with a second valuation product) can be used to calculate the LTV if the seller provided: (1) rehab/ SOW budget (including before and after documentation to support the improvements of the property); and (2) the internal reconciled value supporting the rehab/ value. If provided, the loan is capped at the lesser of 120% LTC or 75% LTV. • Rate-Term Refinance <ul style="list-style-type: none"> ◦ Rate/Term refinance < 90 days from the origination date are eligible provided cash back to the borrower does not exceed 2% of the original loan amount or >=\$2,000 (whichever is less). • Cash-Out Refinance: <ul style="list-style-type: none"> ◦ Refinance transactions in which the borrower receives net proceeds (excluding third party expenses reflected on the HUD) from the refinance that exceeds 2% of the original loan amount or >= \$2,000 whichever is less. ◦ A cash out refinance that occurs >=90 days and <180 days requires the original purchase HUD and rehab budget/SOW to support the increase in value
Minimum Properties	1
Maximum Properties	25 (multi-property loans must include generic cross-collateralization, cross default; substitutions are not permitted)
Minimum Number of Units per Property	1
Maximum Number of Units per Property	9
Permitted Property Types	Single Family Detached Residences PUD 2-4 Unit Residences

	<p>5-9 Unit Multifamily (<i>with ordinary expense assumptions – see VP of Rental UW for pricing</i>)</p> <p>Condominiums (non-warrantable may be permitted with clear community and association background)</p> <p>Townhomes</p> <p>See Ineligible Property Types on Schedule 1</p>
Loan Term	30 years
Lien Position	First (no subordinate financing is permitted during term of the loan).
Loan Products	<p>30-Year Fixed Rate</p> <p>5/1, 7/1 & 10/1 ARM</p> <p>Fixed loans:</p> <ul style="list-style-type: none"> • 30-year amortization term; OR • 10-year interest only period + 20-year amortization term <p>For 5/1 ARM:</p> <ul style="list-style-type: none"> • 30-year amortization term; OR • 5-year interest only period + 25-year amortization term also acceptable <p>For 7/1 ARM:</p> <ul style="list-style-type: none"> • 30-year amortization term; OR • 7-Year interest only period + 23-year amortization term also acceptable <p>For 10/1 ARM:</p> <ul style="list-style-type: none"> • 30-year amortization term; OR • 10-year interest only period + 20-year amortization term also acceptable
Amortization Period	<p>See Exhibit A</p> <p>Step-down options are available as follows:</p> <ul style="list-style-type: none"> • 5%, 4%, 3%, 2%, 1% • 4%, 3%, 2%, 1% • 3%, 2%, 1% • 2%, 1% • 1% • 0% • 5% (60); OR • 5% (12), 4% (12), 3% (36); OR • 5% (36); OR • 5% (24) • Prepayment charge of 6 months interest with varying terms between 12-60 months • Notwithstanding the foregoing, the following shall apply: <ul style="list-style-type: none"> ○ New Mexico and Alaska – If the property is a 1-4-unit business purpose property then prepayment penalties are prohibited ○ Pennsylvania – For loans secured by 2 or fewer dwelling units AND in an original principal balance less than or equal to the annual adjusting dollar limit (\$319,777) then prepayment penalties are prohibited. However, if the annual adjusting dollar exceeds the limit (\$319,777) OR loans secured by 3 or more dwelling units regardless of dollar amount these will be permitted to have a prepay charge ○ Ohio – For loans secured by 1-2 family dwelling unit properties and with loan amounts of \$112,957 or more are subject to a restriction on prepayment penalties (PPP) capped at 1% for the first five years of the loans term. Loans secured by 1-2 family dwelling unit properties with loan
Adjustable Rate Mortgage Terms	
Prepayment	

	amounts less than \$112,957 are not permitted to charge prepayment penalties
Recourse	<ul style="list-style-type: none"> • Full recourse to Individual Borrower(s). • If Borrower is a legal entity, full recourse warm body by: <ul style="list-style-type: none"> ○ One or more individuals which in the aggregate own at least 51% of the Borrower (non-recourse with customary "bad act" carveouts including bankruptcy and environmental indemnity permitted with SVP of Credit approval); or ○ All members of the entity with 20% or more controlling interest; or ○ A corporate resolution, operating agreement, bylaws or shareholder agreement authorizing the signor to execute all documents on behalf of the entity. ○ Revocable trust requires trustee and owner of the trust.
	<p>DSCR shall be calculated as monthly gross rental income over monthly principal, taxes, interest, insurance and associations (PITIA). Gross rental income shall be the lesser of actual monthly rents for leased properties per the lease agreement and 100% of monthly market rent noted on the appraisal.</p>
	<p>Minimum DSCR</p> <ul style="list-style-type: none"> • 1.2x FICOs <700 • 1.0x FICOs \geq700
	<p>5-9 Unit Multifamily (see VP of Rental UW for pricing)</p> <p>Minimum DSCR</p> <ul style="list-style-type: none"> • 1.2x NCF DSCR with ordinary expense assumptions for FICOS \geq 720
	<p>Multi-Collateral >10-properties, or >\$2M to include NCF DSCR (see VP of Rental UW for pricing)</p> <p>Minimum DSCR</p> <ul style="list-style-type: none"> • 1.2x NCF DSCR portfolio loan level with ordinary expense assumptions for FICOS \geq 720
Minimum DSCR	<p>NCF DSCR Calculation: Net Cash Flow (NCF) divided by mortgage payment, after accounting for all property operating revenues, expenses, and capital expenditure reserves</p> <ul style="list-style-type: none"> • Net Cash Flow is calculated as: <ul style="list-style-type: none"> ○ Gross Rent Income ○ (Less) Operating Expenses – Includes property management, marketing & leasing, repairs & maintenance, insurance, HOA, property taxes, turnover, other expenses ○ (Less) Capital Expenditures • Additional requirements: <ul style="list-style-type: none"> ○ Repairs and maintenance: <ul style="list-style-type: none"> ▪ \$500 per unit for properties with more than 1 unit ▪ \$500 per newly constructed single unit property ▪ \$700 per single unit property ○ Capital Expenditures: <ul style="list-style-type: none"> ▪ \$300 per unit for properties with more than one unit ▪ \$400 per newly constructed single unit property ▪ \$600 per single unit property

Maximum LTV	<ul style="list-style-type: none"> • See Exhibit B
Borrower	<ul style="list-style-type: none"> • Corporations • Limited Liability Companies • LPs • Revocable Trusts • Non-profit organizations are ineligible borrowing entities • Series LLCs are ineligible borrowing entities
Sponsor(s)	<ul style="list-style-type: none"> • Individuals at least 21 years old (US Citizens, US Legal Permanent Resident (Green Card Holders), Non-US Residents/Foreign Nationals with a domestic bank account.
Guarantor Credit History	<ul style="list-style-type: none"> • Minimum 680-mid FICO score for each Guarantor • Minimum of 3 credit lines; minimum 1 active credit lines; at least 1 trade line with 24+ month rating and 2 lines must be rated for 12 months and may be open or closed • An acceptable 12-24 month housing history not reporting on credit may also be used as a tradeline • Generally, no more than 2x30 in the last 24 months however, if any mortgage delinquencies within 24 months an LOE will be required • No active, discharged or dismissed bankruptcies (all chapters) in the past 3 years • Payoff demand (refinance transactions): No more than 30-day unpaid interest represented at the time of closing. • No derogatory housing credit event (foreclosure, short sale, deed-in-lieu) completed in past 3 years • All outstanding combined liens, judgments, collections/charge-offs or other material liens > \$10,000 against the borrowing entity and/or the guarantor must be paid in full or in satisfactory status (evidence of being current on payment plan for a minimum of 6 months prior to close) subject to below: <ul style="list-style-type: none"> ◦ Any liens attached to title must be paid prior to/at closing ◦ All government liens (federal, state or local) must be resolved ◦ Any judgments, liens, collections, or charge-offs that exceed the statute of limitations can be excluded ◦ No felonies ◦ No active lawsuits
Guarantor Liquidity Requirements	<ul style="list-style-type: none"> • Down payment if the property is being acquired, closing costs and required Debt Service Reserve. • Debt service reserve should be the ITIA / PITIA multiplied by the standard number of months of reserve requirements <ul style="list-style-type: none"> ◦ 6-9 months (depending on LTV) ◦ <=70% LTV = 6 months ◦ >70% LTV = 9 months ◦ 12 months for foreign nationals no matter the LTV • Borrower may provide 2-month bank statements with normal liquidity sourcing insuring qualifications are met and may utilize proceeds from cash out to meet these thresholds • Home Equity Line of Credit (HELOC) funds cannot be used to meet reserves requirements or used for cash to close • Gift Funds are ineligible source of liquidity verification • Payments reserves (PITIA) collected on the HUD can be used towards liquidity requirements • See additional requirements in Exhibit C
Eligible Markets	<ul style="list-style-type: none"> • All US States, except: ND, MN, VT, NV, AK, HI and UT (wholesale with exception approval). US territories are ineligible. • Major Markets

	<ul style="list-style-type: none"> No rural properties. Rural is generally defined if CFPB Rural and Underserved Designation website equals “yes”; provided however, to the extent the designation is “yes” and the property is less than a 50 minute commute to a secondary market location that has a minimum population of 250,000 based on MSA population then the SVP of Credit may designate as a non-rural property.
Escrows Required	<ul style="list-style-type: none"> An amount sufficient to pay: <ul style="list-style-type: none"> All property taxes by the 30th day prior to the date such taxes become initially due, and Initial insurance premium for a policy expiring within 2 months of loan origination date Monthly payment should be inclusive of principal, interest, taxes, and insurance (PITIA). An account may not be escrowed if approved by the SVP of Credit.
5+ Unit Multifamily	<ul style="list-style-type: none"> Minimum 1.20x DSCR with ordinary expense assumptions (<i>see VP of Rental UW for pricing</i>) Maximum leverage 75% for purchases and 70% for refinances Occupancy rate is determined by the number of units leased divided by the total number of units, <u>may not be less than 80% occupied</u>.
Section 8 and Section 42	<ul style="list-style-type: none"> Leverage Reduction of 5% for Section 8 and Subsidized Leases Section 8, Section 42 (properties/loans) and Housing Choice Voucher Programs (HCV) are permitted with SVP of Credit approval.
Property Management	<ul style="list-style-type: none"> Borrowers that intend to self-manage the property must meet one of the following: <ul style="list-style-type: none"> 2 years of experience managing income producing properties; or A certification or evidence of equivalent coursework in real estate property management; or New managers are permitted with a 700 minimum FICO
Property Condition Deferred Maintenance	<ul style="list-style-type: none"> All properties required to be in lease ready condition with no renovations or repairs required Properties must have a property condition rating of C-1 to C-4 as reflected in the appraisal Deferred maintenance items identified in 3rd party reports: <ul style="list-style-type: none"> Are not to exceed 3% of the value of the subject property >3% must be completed prior to closing
Occupancy Requirements	<ul style="list-style-type: none"> If any unit is tenant occupied, lease agreements must be obtained and reviewed to confirm there is no clause within the lease with an option to purchase Purchase transactions: leases are not required. 100% of appraisal market rents to be utilized for DSCR calculation. Refinance transactions: <ul style="list-style-type: none"> Single Family Properties require an in place lease agreement at origination. 90% of appraisal market rents with 5% reduction in LTV applied for vacant SFR properties. For 2-3 unit or 4 unit properties, there is no more than one vacant unit at origination >80% occupancy for multifamily properties.
Leased/Unleased Properties	<ul style="list-style-type: none"> Leased Properties are defined as those with: <ul style="list-style-type: none"> An active lease with a minimum initial term of 12 months, between unrelated parties New lease requires proof of receipt of security deposit or first month rent. Copy of the current lease and the two (2) most recent consecutive rental payments via check deposit, bank record, certified tenant rental payment form, or property management general ledger and payment history log, third-

	<ul style="list-style-type: none"> party payment processor verification bank records to verify an arm's length and bona fide landlord-tenant arrangement. ○ Tenant estoppels are permitted in lieu of leases
	<ul style="list-style-type: none"> ● Month to Month Leases <ul style="list-style-type: none"> ○ Permitted if rolled from initial lease term or if evidence of three (3) months of verified rental payments have been received.
	<ul style="list-style-type: none"> ● All leases must be third party lease between unrelated parties with no members of the borrower or family members leasing or occupying the property ● Each leased property must be used for residential purposes ● No individual room leases, Single Room Occupancy (SRO), or subleases, boarder leases not permitted ● Leases must be in U.S. dollars ● No commercial use allowed ● No purchase or sale-leaseback options are permitted ● No cash-for-deeds ● No leases with a term of >3 years
	<ul style="list-style-type: none"> ● Leased Units: <ul style="list-style-type: none"> ○ Lower of in-place rent and appraisal market rent. ● Unleased Units: <ul style="list-style-type: none"> ○ Purchases: 100% of market rent from valuation report ○ Refinances: 90% of market rent from valuation report with 5% LTV reduction ● Properties with no proof of rent collections or receipt of security deposit are considered as unleased
Underwritten Rents	<ul style="list-style-type: none"> ● Rents will be capped at 100% of monthly market rents for a 12 month lease, even if using Airbnb/ VRBO generates significantly higher cash flows ● No more than (10%) of production can be Airbnb/ VRBO ● Maximum LTV – 70% ● For refinances and purchases, the originator must confirm the rent patterns using the AIRDNA tool located at www.airdna.com. The documentation (rentalizer tool) must be property specific and will need to include the annual revenue generated from the property, nightly rent rates and occupancy percentage information for at least the last 12 months. For newly purchased properties, the rentalizer tool will need to have the noted information for all months that are available since purchase.
Airbnb/VRBO/Vacation/ Seasonal Rentals/Short Term Rentals	

SFR Rental Portfolio and Single Property Loan Collateral Valuation Protocol

An independent third-party appraisal completed within 120 days of loan closing will be obtained to support every loan made or purchased as set forth below (180 days is acceptable with recertification of value provided by appraiser):

- Loan amount \leq \$2,000,000 (1-4 Unit)
 - One full independent appraisal required
 - Market rent estimate included on appraisal
 - Secondary valuation product is required. The secondary valuation product value must be used to the extent the variance exceeds -10%
- Loan amount > \$2,000,000 (1-4 Unit)
 - Two full independent appraisals required
 - Market rent estimate included on appraisal
 - Lower of two appraised values to be used in LTV calculation
- 5-9 Unit Multifamily
 - Full commercial Narrative appraisal with valuations based on both cash flow/income capitalization approach and sales comparison approach, both specifying comparable
 - Appraisal must include photos/inspections of 25% of units

Exhibit A

Adjustable Rate Mortgage Terms

- Index 12 month term SOFR
- Margin 4.5% to 6%

ARM Cap Structure	Initial Rate Reset	Periodic Reset	Lifetime Reset
5/1 ARM	2.00%	2.00%	5.00%
7/1 ARM	2.00%	2.00%	5.00%
10/1 ARM	5.00%	2.00%	5.00%

Exhibit B

Underwriting Matrix (LTV/LTC)

Credit Score	Purchase	Refinance (Rate / Term)	Refinance (Cash Out)
720+	80%	80%	75%
700-719	75%	75%	70%
680-699	75%	75%	70%
5+ Units	75%	70%	70%
Foreign National	65%	65%	60%

700-719 FICO: $\geq 1.20x$ DSCR 5% increase in LTV

Foreign Nationals: $\geq 1.30x$ DSCR 5% increase in LTV

STR AirBnB / VRBO properties: 5% reduction in LTV

Section 8 or Subsidized Leases: 5% reduction in LTV

Vacant Refinance: 5% reduction in LTV using 90% of appraisal market rents

Luxury Rentals ($> \$1M$ UPB for single asset properties): $> 1.20x$ DSCR, 10% reduction in LTV, 12-month lease, with no active property listing (see *VP of Rental UW for pricing*).

Exhibit C

Documentation used to verify liquidity must be dated within 90 days of the loan origination date.

When bank statements are used, large deposits must be evaluated. A large deposit is defined as any single deposit that is more than 175% of the average total monthly deposits over \$10,000, exception when bank transaction clearly notes reason for deposit (examples: loan draw, sale proceeds, transfer between borrower accounts).

Liquidity may be verified from the following sources for the borrower and/or guarantor(s):

1. Bank, money market or securities account statement.
2. 75% of any stock, bonds, mutual funds
3. 60% of the cash value of a life insurance or annuity policy
4. 50% of the value of 401(k) or IRA plans and adjusted to 70% if the borrower is over 59 and a half years old.
5. Cash-Out Refinance will allow for 50% of the cash back to the borrower to be used as liquidity
6. Bank or brokerage account held in the name of a Trust
 - a. Requires copy of the full Trust Agreement that provides beneficiary details and access to funds in the Trust's bank and/or brokerage account; or
 - b. Requires formal or official documentation from the bank substantiating that the applicant is the beneficiary and has unlimited access to funds in the Trust account
7. Business bank or brokerage account
 - a. Requires a copy of the full Operating Agreement that details ownership of the entity and access to funds in the entity's bank/brokerage account; or
 - b. Requires formal or official documentation from the bank substantiating that the applicant is an authorized signor and has access to business account funds
8. For purposes of verifying liquidity, any bank, brokerage, retirement, or other statement used must include the following:
 - a. Name of the institution
 - b. Validation of account ownership: Borrower(s)/Guarantor(s) name and business name, when applicable
 - c. Account number to include at least three digits of the account number
 - d. Legible dates
 - e. Statements with ALL pages evidencing at least one-month consecutive activity

1031 Exchange: Like-Kind Exchanges Assets for the down payment from a "like-kind exchange," also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.

Schedule 1

Ineligible Properties

- Manufacturer, modular or mobile homes (properties with VIN numbers or otherwise not attached to a permanent foundation)
- Cooperatives
- Raw land, working farms or ranches
- Properties subject to purchase options
- Vacant land or land development properties
- Acreage greater than 10 acres
- Single family residences or townhomes <700 square feet, or 2-4 unit multifamily residences with the average of all units <500 square feet and no individual unit <400 square feet, or condominiums <500 square feet
- Properties which are not in compliance with local zoning regulations (including as reflected on the appraisal or residential evaluation)
- Properties with known adverse environmental conditions (other than lead paint, radon or asbestos in each case which do not present a health hazard, do not require remediation and have been verified contained per EPA guidelines prior to funding)
- Properties with underground oil tanks are not permitted without environmental assessment
- Total or partially condemned property (including threatened or pending eminent domain)
- Mixed use properties
- Assisted living facilities
- Log homes
- Houseboats
- Condotels
- Co-op/timeshare hotels
- Boarding houses
- Dome or geodesic homes
- Homes on Indian reservations
- Hawaii properties located in lava zones one and/or two
- Property occupied by Borrower/Guarantor
- Senior living
- Rehab housing
- Student housing
- Corporate housing and/or leases made to an entity
- Properties with inaccessible roads
- Continuing care facilities
- Mandatory country club membership
- Gas or oil leases
- Ground leases