Underwriting

GUIDELINES

VERSION 1.0

Effective: 04.03.2013
Dated: 03.11.2013

National Mortgage Insurance Corporation | 2100 Powell Street | 12TH Floor | Emeryville, CA 94608 | www.nationalmi.com

Table of Contents

1.0 Introduction

1.1 Underwriting Philosophy

National Mortgage Insurance Corporation (National MI) offers mortgage insurance (MI) in the 50 states and the District of Columbia. MI plays an important role in the housing finance system expanding home ownership opportunities by helping people, especially first time homebuyers, purchase homes with less than 20% down.

National MI brings new capital to the market unburdened by legacy exposures – this strong capital position provides National MI's customers with a low counterparty risk MI solution.

National MI seeks to partner with its customers to prudently manage insured risk. The process starts with the approval of insured originators and monitoring of credit performance. Credit guidelines and pricing are continuously monitored and updated when necessary as environmental conditions change.

National MI's underwriting philosophy is to determine whether a borrower qualifies for a mortgage loan and if the borrower can successfully maintain homeownership. National MI performs an independent underwriting review of the credit worthiness of the borrower. Our underwriting is based on a careful assessment of mortgage credit risk as follows:

- Credit and Income History, Assets and Liabilities : The borrower's willingness and ability to repay the loan
- Equity and Down Payment: The borrower's commitment
- Appraisal: The marketability of the property and justification of its value as documented in the appraisal

Insurance is underwritten and approved by National MI or by partners with delegated approval authority. Each insured originator's delegated underwriting approval is assessed via National MI's independent up-front re-underwriting (Delegated Assurance Review) process that will cover all of new originations. This process provides valuable feedback to both the originators and National MI. This process also provides customers with a high level of confidence that a valid claim will be paid by reducing the risk of rescissions due to missing/insufficient documentation and/or fraud/misrepresentation.

Guidelines are organized around the following segments:

- Conforming Loans with GSE Automated Underwriting System (AUS) Approval
- Conforming High Balance Loans with GSE AUS Approval
- Non GSE AUS – Standard Guidelines

Loans which receive a Fannie DU/Approve Recommendation or a Freddie LP Accept/Eligible Response and satisfy a few credit underwriting overlays generally meet National MI's eligibility criteria. Approval for mortgage insurance will depend upon approval by a National MI underwriter for non-delegated loans or approval by a lender underwriter for delegated loans. Lender underwriters are expected to practice prudent and comprehensive underwriting and risk assessment. All delegated loans will receive a Delegated Assurance Review by a National MI underwriter, described in Section 1.7 of this Underwriting Manual.

In the event National MI's guidelines are silent on a topic, the standard agency guidelines (excluding any custom variances that may have been negotiated) of an agency (FNMA or FHLMC) that the insured originator is delivering loans to applies, even in situations where the loan amount is not eligible for delivery to either agency. If the originator is retaining loans rather than selling loans to FNMA or FHLMC, then the default guidelines will be one or the other agency as agreed to in the insured originator's approval.

Insured originators who seek to make exceptions to National MI's guidelines must submit the request to National MI for approval.

1.2 Fair Lending

It is illegal to discriminate against credit applicants on the basis of race, color, religion, sex, marital status, national origin or ancestry, and conditions, characteristics, or trends in the neighborhood or geographic area surrounding a housing accommodation. National MI is committed to treating all mortgage insurance applicants in a fair and responsible manner in accordance with all applicable federal, state and local fair lending laws and regulations. We expect our approved originators to be equally diligent in conducting their lending in accordance with all applicable fair lending laws and regulations.

1.3 Insured Originator Approval

Insured originators must be approved by National MI before an insurance certificate can be issued. Originators should contact their Sales Advisor to initiate this process, or call National MI toll free at 855.317.4NMI. Insured originators may also apply to be an approved servicer.

Approved originators are eligible for insurance covering most loans. Certain programs (listed below) require a special approval. Insured originators seeking special approval should ask their Account Manager about the application process and requirements.

Programs Requiring Special Approval:

- Construction to Permanent
- Renovation Loans
- Variances to standard agency AUS requirements negotiated by the Insured Originator
- Variances to National MI Guidelines for non-agency loans and amounts

1.4 Delegation of Underwriting Authority

Insured originators must be separately approved for delegated authority. Delegated authority may be requested in conjunction with the initial approval or by current National MI customers without delegated authority. Originators should contact their Account Manager to learn more about the application process and requirements.

Approved originators with delegated authority may approve most loans for insurance. Certain loans are not eligible for delegated approval and must be submitted to National MI for approval. These include:

- Non Arm's Length Transactions
- Policy Exceptions
- Property Flips (refer to section 3.6.4 within this manual)

1.5 National MI Online System

National Mortgage Insurance Corporation's underwriting platform, just one component of National MI's enterprise insurance management system, is in no way an automated underwriting engine. It does, however, contain a systematized key subset of National MI's eligibility rules, enabling internal and external users to submit loan data for a swift response indicating whether any of those key eligibility rules are in violation. This initial response provides customers with an efficient early indicator of a loan's potential mortgage insurance qualification. If this initial eligibility check indicates that the systematized eligibility rules have been met, the loan package may be submitted to National MI for approval. Full time, experienced underwriters will manually underwrite the entire credit package and collateral (appraisal) of the file. For lenders with delegated approval authority, a delegated commitment is issued after the lender submits the required data to the National MI system, which automatically invokes the eligibility rule check, and the pricing algorithms.

Beyond the systematized eligibility rules, the National MI system supports, and provides structure for, the underwriting process followed by the underwriters when manually underwriting loans. It provides workflow functionality, a secure facility for storing and retrieving loan document images, mechanisms for capturing and monitoring underwriting findings and conditions, a facility for generating customer facing communications and documents, and a web based application that securely enables customers to submit and track MI applications, and retrieve National MI generated correspondence and insurance commitments.

1.6 GSE AUS Systems

Fannie Mae's Desktop Underwriter® (DU) and Freddie Mac's Loan Prospector® (LP) are Automated Underwriting Systems (AUS) with embedded credit eligibility requirements that line up fairly closely with National MI's credit eligibility requirements. Where National MI considers the AUS outcome in its review process (AUS Plus Overlays guidelines), the AUS outcome is not sufficient to determine insurance eligibility. The loan must also 1) meet National MI credit requirements described within these guidelines (refer to section 2 of this manual for details); and 2) be underwritten by a National MI underwriter (Non-delegated loans) or underwritten by a lender underwriter and subject to the National MI Delegated Assurance Review Process described in the following section.

1.7 Delegated Assurance Review Process

Each insured originator's underwriting will be assessed via National MI's independent up-front re-underwriting (Delegated Assurance Review) process that will cover all new originations.

The quality assurance review will assess in-file documentation and occur soon after funding. It is intended to achieve several objectives:

Insured originators will have greater confidence of MI coverage because the review reduces the risk of subsequent rescissions due to missing/insufficient documentation and/or fraud/misrepresentation.

The insured originator will receive valuable feedback about the quality of new originations. This information may be useful to supplement and confirm the lender's own QC findings.

The continuous feedback improves National MI's ability to monitor each originator on a real-time basis and work with its customers to ensure delegated underwriting decisions remain aligned with National MI's guidelines.

1.8 Premium Plans

National MI utilizes a risk-based pricing approach driven by LTV, FICO® score, product type (fixed or non-fixed); with additional adjustments for other risk variables. Fixed pricing applies to fixed rate loans and ARMs with initial fixed periods of 5 years or more.

Borrower paid monthly refundable, monthly non-refundable, single refundable, and single non-refundable plans are available. Options for amortizing renewal, annual premium, deferred monthly are offered on monthly plans. Non-refundable lender paid monthly and single plans are also available.

For the most current premium plans and pricing, refer to the National MI website.

1.9 Guideline Questions

National MI is available to answer guideline questions. Please contact your Account Manager, call National MI toll free at 855.317.4NMI (4664), or submit your question via email to solutioncenter@nationalmi.com.

2.0 Mortgage Insurance Eligibility - AUS Plus Overlays

2.1 AUS Requirements and Comprehensive Credit Assessment

2.1.1 DU/LP Outcomes

Fannie Mae or Freddie Mac AUS approvals (DU Approve/Eligible or LP Accept/Eligible) may be utilized as a guidepost for MI approval provided the requirements in this section of the manual are satisfied. AUS approvals are not relied upon to determine National MI eligibility.

National MI underwriting of non-delegated loans and review of delegated loans will entail a comprehensive assessment of eligibility (credit, capacity and collateral) and National MI's own underwriting requirements.

Loans that are not run through a GSE AUS must be manually underwritten and meet the eligibility criteria described in section 3.0 of this manual.

2.1.2 Data Integrity

The "Eligible" decision from the AUS is only insurable if the decision is based on valid and verified inputs to the decision engine. The insured originator must verify and confirm 1) the accuracy of the data submitted to the AUS and 2) that the documentation supporting the data inputs has been appropriately evaluated.

2.1.3 Documentation

The DU/LP decision (final AUS report) must be present in the file and all approval conditions related to the AUS decision must be satisfied in accordance with agency requirements. Any red flags identified in the report or in the course of evaluating the file must be satisfactorily addressed in the loan file. When a file is submitted to National MI for underwriting, all conditions necessary for the MI underwriting approval must be satisfied and documented (excluding closing conditions) prior to issuance of our Commitment and Certificate of Insurance. At time of closing, all conditions must be satisfied and documented in the file.

2.1.4 Comprehensive Credit Assessment

The insured originator must make a prudent comprehensive credit assessment considering all factors relevant to the granting of credit. This assessment is not limited solely to factors that are considered in the AUS but also includes related agency credit eligibility criteria not evaluated by the AUS and National MI credit requirements. Any information that arises during the origination process raising questions about, or potentially contradictory to; variables that are part of the basis of the credit approval must be fully investigated to conclusion. If the insured originator is unable to obtain additional information necessary to allay the concerns, the loan is not insurable.

Lenders exercising delegated authority warrant that the loan meets the requirements of the applicable agency's guidelines (including any factors that must be considered outside of the AUS).

Lender negotiated variances to standard agency requirements ("custom" DU or LP) are not insurable unless the variances are specifically reviewed and approved by National MI.

Lenders warrant that loans meet both agency and National eligibility criteria. Consequently, when there are differences between agency and National requirements, the lender must originate to the more restrictive of the two guidelines. This rule applies at the level of individual policy topics.

2.2 General Eligibility Requirements

2.2.1 Products

Both fixed and adjustable rate products are insurable. ARMs with interest only, negative amortization (scheduled or potential), or pay-option features are not eligible. ARMs with initial fixed periods of less than 3 years are not permitted.

2.2.2 Purpose

Purchase, rate-and-term refinance, and cash-out refinance loans are insurable. Seasoned loans (insurance application received after first payment due date) are not insurable.

2.2.3 Construction to Permanent

Construction to Permanent loans may only be originated following National MI's review and approval of the insured originator's procedures. National MI will insure one-time close loans to a maximum 95% LTV with coverage beginning following completion of construction (with certificate of occupancy) and permanent end-loan closing.

2.2.4 Renovation Loans

Renovation loans may only be originated following National MI's review and approval of the insured originator's procedures. National MI will insure single family primary residence renovation loans to borrowers who are individuals. Coverage on renovation loans begins when the renovation is complete, and when required by local ordinance due to the scale of the renovation, a certificate of occupancy is obtained.

2.2.5 Occupancy

Primary residence, second home and investment properties are eligible. Primary residence purchase documentation must include a statement from the borrowers that they intend to occupy the property as a primary residence. Occupancy should occur within 60 days of closing.

2.2.6 Residency

Borrowers who are United States citizens, permanent resident aliens, or non-permanent resident aliens are insurable. Non-permanent resident aliens must be authorized to work in the U.S. Individuals with diplomatic immunity are not eligible borrowers.

2.2.7 Credit History

Borrowers must have an acceptable U.S. credit history. Non-traditional credit, non-traditional credit reports, foreign credit reports, and borrowers without a credit history are not eligible.

2.2.8 Non-arm's Length Transactions

Non-arm's length transactions are not eligible for delegated underwriting and must be submitted to National MI for approval. A non-arm's length purchase transaction occurs when there is a direct relationship or business affiliation (family, employer, employee, etc.) between the borrower and another party (including but not limited to the seller, real estate broker, loan originator, builder, appraiser, closing agent, etc.).

2.2.9 Assets and Equity

Cash-on-hand and sweat equity do not qualify as eligible assets for verification purposes.

2.2.10 Wholesale Lending

Loans sourced through the Wholesale channel (broker) are only eligible for insurance if the lender has been specifically approved for Wholesale following National MI's review of the lender's practices.

2.3 Credit Overlay Requirements

National MI's credit overlays are included on the following product matrices. **Overlays establish minimum requirements according to National MI policy – if the agency has a more restrictive policy requirement, the more restrictive agency requirement must be met.** Insured loans must meet the eligibility criteria in the matrices on the following pages:

2.3.1 Product Eligibility Matrix - Conforming Loans

2.3.2 Product Eligibility Matrix - Conforming High Balance Loans

PRODUCT ELIGIBILITY | Conforming Loans

AUS PLUS OVERLAYS GUIDELINE SUMMARY – CONFORMING LOANS

A DU Approve/Eligible or LP Accept/Eligible loan is insurable provided it meets the following underwriting overlays*:

- ARM maximum LTV 95%, minimum initial fixed term 3 years, and minimum 660 FICO if initial fixed term < 5 years
- Minimum 3% from occupant borrower's own funds.
- Exterior only appraisals or evaluations; property inspection waivers, AVMs or BPOs are not permitted
- Geographic Exclusions: Attached condos in Florida (Miami-Dade and Broward counties) and Nevada (Clark county)

Occupancy	Loan Purpose	Property Type	Loan Amount	Maximum LTV/CLTV	Minimum FICO	Maximum DTI
STANDARD MARKET GUIDELINES						
Primary Residence	Purchase or Rate / Term Refinance	Single Family Condo or Co-op	$417,000**	97	700	Per AUS Approval
		Single Family Condo or Co-op	$417,000**	95	620	Per AUS Approval
	Cash-Out Refinance	Single Family Condo or Co-op	$417,000**	85	660	Per AUS Approval
	Construction to Permanent***	Single Family	$417,000**	95	700	Per AUS Approval
	Purchase or Rate / Term Refinance	Two-Unit	$533,850**	90	680	Per AUS Approval
Second Home	Purchase or Rate / Term Refinance	Single Family or Condo	$417,000**	90	680	Per AUS Approval
Investment Property	Purchase	Single Family	$417,000**	85	680	Per AUS Approval
All	All	Manufactured Homes	All	Not Eligible	Not Eligible	Not Eligible
RESTRICTED MARKET GUIDELINES						
There are no markets identified as restricted.						

* When there are differences between agency and National MI requirements, lenders must originate to the more restrictive of the two guidelines. This rule applies at the level of individual policy topics.

** Coop properties are eligible in New York, New Jersey, Maryland, Illinois and Washington, D.C. only
Maximum Amounts for AK and HI are $625,500 (1 unit) and $800,775 (2 units)

*** Lender CtoP approval required - coverage begins after completion with permanent end loan closing.

PRODUCT ELIGIBILITY Conforming High Balance Loans

AUS PLUS OVERLAYS GUIDELINE SUMMARY – CONFORMING HIGH BALANCE LOANS

A DU Approve/Eligible or LP Accept/Eligible loan is insurable provided it meets the following underwriting overlays*:

- ARM minimum initial fixed term 3 years, and minimum 660 FICO if initial fixed term < 5 years
- Minimum 3% from occupant borrower's own funds.
- Exterior only appraisals or evaluations; property inspection waivers, AVMs or BPOs are not permitted
- Geographic Exclusions: Attached condos in Florida (Miami-Dade and Broward counties) and Nevada (Clark county)

Occupancy	Loan Purpose	Property Type	Loan Amount	Maximum LTV/CLTV	Minimum FICO	Maximum DTI
STANDARD MARKET GUIDELINES						
Primary Residence	Purchase or Rate / Term Refinance	All	All	>90% Not Eligible	Not Eligible	Not Eligible
		Single Family Condo or Co-op	$625,500**	90	620	Per AUS Approval
	Cash-Out Refinance	All	All	Not Eligible	Not Eligible	Not Eligible
	Construction to Permanent***	Single Family	$625,500**	90	700	Per AUS Approval
	All	Two-Unit	All	Not Eligible	Not Eligible	Not Eligible
Second Home	All	All	All	Not Eligible	Not Eligible	Not Eligible
Investment Property	All	All	All	Not Eligible	Not Eligible	Not Eligible
All	All	Manufactured Homes	All	Not Eligible	Not Eligible	Not Eligible
RESTRICTED MARKET GUIDELINES						
There are no markets identified as restricted.						

* When there are differences between agency and National MI requirements, lenders must originate to the more restrictive of the two guidelines. This rule applies at the level of individual policy topics.

** Coop properties are eligible in New York, New Jersey, Maryland, Illinois and Washington, D.C. only
Maximum Amounts for AK and HI are $938,250 (1 unit) and $1,201,150 (2 units)
Refer to the county specific loan limits to determine the maximum amount for a specific area

*** Lender CtoP approval required - coverage begins after completion with permanent end loan closing.

3.0 Mortgage Insurance Eligibility – Non AUS Dependent – Standard Guidelines

Loans that do not meet the requirements of section 2.0 of this manual must be manually underwritten and meet the eligibility criteria described in this section of the manual.

Where these guidelines are silent on a topic, standard agency guidelines (excluding any negotiated variances) apply. Lenders that do business with both agencies or neither agency must designate an agency for purposes of application of this default guideline rule. Lenders may not pick and choose between the guidelines of the different agencies on individual policy questions.

3.1 Mortgage Products (Loan Type)

3.1.1 Fixed Rate Mortgages

Fixed rate fully amortizing products are eligible up to a maximum term of 40 years. Fixed rate interest only products are not eligible.

3.1.2 Graduated Payment Mortgages

Fixed or adjustable rate graduated payment mortgages are not eligible.

3.1.3 Balloon Mortgages

Balloon mortgages are not eligible. Note: Balloon mortgages take the form of interest-only loans or partially amortizing mortgages. Balloon mortgages require borrowers to make regular payments for a specific interval and then pay off the remaining balance within a relatively short time. Some types of balloon mortgages can be interest-only for 10 years, and the final “balloon” payment to pay off the balance comes as one large installment at the end of the term.

3.1.4 Adjustable Rate Mortgages (ARMs)

ARMs that are fully amortizing are eligible up to a maximum term of 30 years. ARMs with interest only, negative amortization (potential or scheduled) or payment option features are not eligible.

The most common ARM caps are the “initial cap,” “periodic cap” and “lifetime cap.” The initial cap limits how much the interest rate can be increased the first time it is adjusted. The periodic cap limits how much the interest rate can be increased each subsequent time that it is adjusted after the initial adjustment. The lifetime cap sets a maximum amount by which the interest rate can be increased during the life of the loan.

The following additional requirements apply to ARMs:

Eligible Indices:	Treasury, Libor, 11th District Cost of Funds, or Federal Reserve CD rates
Initial Fixed Periods:	Minimum 36 months
Initial Adjustment Cap:	Required for all ARMs Maximum 3% for ARMs with an initial fixed period of less than 7 years Maximum 5% for all other ARMs
Per Adjustment Cap:	Required for all ARMs Maximum 2%
Lifetime Rate Cap:	Required for all ARMs Maximum 6%
Maximum Shortfall:	The maximum initial discount from the fully indexed rate is 300 bps
Temporary Buydowns:	Disregarded for qualifying purposes

3.1.5 Subordinate Financing

General Requirements

Purchase loans with new subordinate financing are not permitted.

New subordinate financing is not permitted in refinance transactions. Existing subordinate financing may be re-subordinated in a refinance transaction that does not include cash out. An existing lien may be re-subordinated in a cash-out refinance only if the junior lien is a term loan (not a line of credit) and all of the cash out is paying down the second lien balance (but is insufficient to fully extinguish the junior lien).

Affordable Lending Programs

Subordinate financing is permitted for affordable lending programs meeting the following requirements:

- Program is individually reviewed and approved by National MI
- Subordinate lien is forgivable if the borrower meets specified requirements

3.1.6 Buydowns

Temporary interest rate buydowns are permitted subject to the following restrictions:

- Not permitted for ARMs, cash-out refinances, or investor properties
- Must be established and fully funded at closing
- Agreement must be in writing
- Funds may only be paid to the borrower if the loan is paid off, used to reduce the balance in the event of foreclosure, or retained an applied going forward if the property is transferred and the existing loan is assumed
- Funds may not be used to pay past due amounts or to pay down the loan balance

The temporary buydown must be ignored for qualifying purposes.

3.2 Borrower Eligibility

3.2.1 Citizenship and Residency Requirements

Borrowers must be U.S. citizens, permanent resident aliens, or non-permanent resident aliens. Non-permanent residents must be eligible to work in the U.S. An Inter Vivos Revocable (Living) Trust is an eligible borrower if it complies with Fannie Mae or Freddie Mac eligibility criteria.

The following are ineligible borrowers:

- Borrowers without a valid social security number or ITIN number
- Corporations or Limited Liability Corporations
- Foreign nationals or non-permanent resident aliens with diplomatic immunity
- Foreign nationals that are not legal permanent or non-permanent residents
- Illegal aliens
- Irrevocable Trusts
- Partnerships or Limited Partnerships

3.2.2 Non-occupant Co-borrowers

This section of the guidelines applies to primary residence loans only.

A non-occupant co-borrower is an individual who is a borrower obligated on the note, not residing in the subject property, and may or may not have an ownership interest in the property (may or may not be an owner of record on title).

Non-occupant co-borrowers are permitted subject to the following restrictions:

- Maximum 95% LTV/CLTV
- Minimum 3% Occupant Borrower Funds

- The income and debts of non-occupant co-borrowers must be ignored for qualifying purposes (the occupant borrowers must meet National's DTI requirements)

3.2.3 Co-signers

An occupant co-borrower (who is obligated on the note) who does not have an ownership interest (not an owner of record on title) is permitted.

3.2.4 Trusts

Revocable Living Trusts are a permitted borrower if the trust complies with Fannie Mae or Freddie Mac criteria. Irrevocable trusts are not eligible.

3.2.5 Non-Arm's Length Transactions

A non-arm's length purchase transaction occurs when there is a direct relationship or business affiliation (family, employer, employee, etc.) between the borrower and another party (including but not limited to the seller, real estate broker, loan originator, builder, appraiser, closing agent, etc.).

These transactions are not eligible for delegated underwriting and must be underwritten by National MI.

For purchase transactions where there is a non-arm's length relationship between seller and the borrower:

- The non-arm's length relationship should be disclosed to the appraiser and the appraiser should comment about the relationship
- Only primary residences are eligible for insurance

3.2.6 Maximum Number of Insured Loans

National MI reserves the right to limit new insurance to borrowers with multiple existing loans insured by National MI. National MI will monitor for borrower concentrations internally and does not expect lenders to complete these assessments.

3.2.7 Borrowers with Previously Paid Claims

National MI may decline to provide new insurance to borrowers with previously paid claims on loans involving suspected fraud or misrepresentation. National MI will monitor for these borrowers internally and does not expect lenders to complete this screening.

3.3 Occupancy

3.3.1 Types

Occupancy is determined in accordance with the borrower's intent as of the time of loan closing. The following occupancy types are permitted subject to LTV and FICO restrictions:

- Owner-Occupied Primary Residence
- Owner-Occupied Second Home
- Non-Owner Occupied

Refer to the applicable product eligibility matrix for the specific guidelines.

Shared equity arrangements (where there is both an owner-occupant and an owner non-occupant investor) are not eligible for insurance.

3.3.2 Documentation

Occupancy must be consistent with and supported by documentation in the file. When circumstances arise that raise questions about the borrowers' intent to occupy the property as a primary residence, the originator should confirm occupancy and include the confirmation in the file. Circumstances that raise questions include:

- Borrower is employed a long distance from the intended primary residence
- The size of the proposed residence is inconsistent with the size of the borrower's family and number of dependents
- Borrower already owns a primary residence near the subject property and is intending to retain it (as a rental or second home) rather than sell it
- The proposed primary residence is near the existing primary residence but the new residence is not worth materially more than, or is worth less than, the existing residence
- Borrower is currently purchasing another property or has done so in the last 12 months
- Borrower is in the business of "flipping" homes

Primary residence purchase documentation must include a statement from the borrowers that they intend to occupy the property as a primary residence. Occupancy should occur within 60 days of closing.

3.3.3 Occupancy Conversions

When a borrower purchases a new property, this may cause the occupancy of an existing owned property to change. There are legitimate reasons that lead to an occupancy change for an existing owned property, but misrepresentations regarding intent to occupy present elevated risk. Most often, misrepresentation involves the mis-stated intent to convert an existing residence to a rental and occupy the new property as a primary residence.

Because of the elevated risk, National MI applies the following restrictions when an existing primary residence is converted to a rental or second home:

- The DTI calculation must be calculated as follows:
  - Including the PITI of both residences in the borrower's debts
  - Rental income may only be used to offset the PITI on the existing property (being converted) if the signed lease agreement is in file
- Reserves of 6 months PITI are required for both properties

3.4 Purpose

Eligible purposes are listed below with applicable restrictions.

3.4.1 Purchase

Refer to section 3.2.4 for purchase restrictions related to non-arm's length transactions.

3.4.2 Rate and Term Refinance

To qualify for rate and term refinance guidelines, cash back to the borrower is limited to the lesser of $2,000 or 2% of the new loan amount and the borrower may not have taken cash out (similarly defined) within the last 6 months of the new loan closing date.

In addition, the new loan proceeds may only be used to pay off the existing first lien, to pay off subordinate liens used entirely to purchase the property, and to pay reasonable and customary financing costs/closing costs/prepaids.

3.4.3 Cash Out Refinance

Any refinance that does not meet the rate and term refinance requirements is considered cash out for guideline interpretation purposes.

3.4.4 Corporate Relocation

National MI does not have any special guidelines applicable to borrowers with employer assisted relocations. Standard underwriting guidelines apply.

3.4.5 Construction to Permanent

Construction to Permanent loans may only be originated following National MI's review and approval of the insured originator's procedures. National MI will insure one-time close loans to a maximum 95% LTV with coverage beginning following completion of construction (with certificate of occupancy) and permanent end-loan closing.

3.4.6 Home Renovation (Improvement)

Renovation loans may only be originated following National MI's review and approval of the insured originator's procedures. National MI will insure single family primary residence renovation loans to borrowers who are individuals. Coverage on renovation loans begins when the renovation is complete, and when required by local ordinance due to the scale of the renovation, a certificate of occupancy is obtained.

3.5 Underwriting the Borrower

3.5.1 Income Documentation and Calculations

3.5.1.1 General and Form 4506 Requirements

This section of the guidelines describes minimum income documentation requirements.

Insured originators should require additional documentation at their discretion when necessary to verify income.

Income should be expected to continue for a minimum of three years. Income that is not expected to continue for a minimum of three years will not be considered. Originators do not need to document a 3-year continuance for the following types of income:

- Automobile allowance
- Base salary
- Bonus, overtime, commission or tip income
- Corporate retirement or pension
- Long-term disability
- Foster care income
- Interest and dividend income unless evidence exists the related assets will be depleted
- Military income
- Part time, second job, or seasonal income
- Rental income
- Self-employed income
- Social security, VA, or other governmental retirement or annuity

Income Stability

Income trending is a relevant consideration for borrowers with variable or self-employment income. If the trend is stable or increasing, the calculated income (as described by detailed income type within section 3.5.1) should be utilized. If the income was declining but has since stabilized, the lower current level should be used. If the income continues to decline, but may not be stable, further analysis must be conducted to document the appropriate income, if any, to utilize.

Gross Up

Income that is verified to be nontaxable, with a tax-exempt status that is likely to continue, may be adjusted up by adding an amount equivalent to 25% of the income.

Form 4506

A complete and signed IRS Form 4506-T is required from each borrower. The tax information must be obtained and evaluated in the underwriting along with the documentation described below.

3.5.1.2 Alimony or Child Support

Alimony and Child Support Received

- A copy of the final court approved Divorce Decree (separation agreement or other written agreement/court decree) containing the amount and duration. The income must continue for a minimum of 3 years (check for limitations on duration such as the ages of children)
- Evidence of regular receipt for the last 6 months (inconsistent or sporadic payments may not be included as income)
- Calculation
    - » Utilize the current payment amount

Alimony and Child Support Paid

- Alimony paid is considered a debt (refer to section 3.5.5.1)
- Child support paid is considered a debt (refer to section 3.5.5.1)

3.5.1.3 Auto Allowance

- Requires a two-year history
- Utilize auto allowance amount from current paystub
- Calculation
    - » Add amount to income unless borrower reports auto allowance expenses (in which case the net income or expense should be reflected in the DTI)
    - » Note: Any auto payments made by the borrower will be included in the debt payments

3.5.1.4 Bonus or Overtime

- Minimum of most recent paystub with year-to-date information representing a minimum of 30 days AND
- Last 2 years W-2s
- Note: Last 2 years signed federal tax returns may be substituted for the above
- Calculation
    - » Develop a 2 year average of the income.

3.5.1.5 Capital Gains

- Capital Gains are often one-time events that are not expected to continue for 3 or more years. These types of capital gains are not an eligible income source.
- Income from capital gains that meets all of the following requirements may be considered:
  - » Copy of two years signed personal tax returns obtained AND
  - » Documentation is obtained showing the borrower has sufficient assets to generate similar income over the next 3 years
  - » Calculation
    - Utilize the two-year average amount

3.5.1.6 Commission

Commission <25% of Borrower's total annual employment income

- Minimum of most recent paystub with year-to-date information representing a minimum of 30 days AND
- Either A) Last 2 years W-2s or B) Last 2 years tax returns
  - » Develop a 2 year average of the income.

Commission >=25% of Borrower's total annual employment income

- Last 2 years signed federal tax returns and either
  - » 1 month most recent paystub with YTD earnings for 30 days and last 2 years W-2s OR
  - » Written VOE
- Calculation
  - » Develop a 2 year average of the income.

3.5.1.7 Disability

- Copy of award letter or current disability statement
- If amount and duration is not disclosed in awards letter, a copy of the disability policy may be required
- If the benefits have a defined expiration date (not long-term disability), verify that the remaining term is at least 3 years from the date of the mortgage application.
- Calculation
  - » If higher short-term disability payment will fall to lower long-term payment during the next 3 years, use the lower long-term payment for qualifying purposes. Otherwise use the current payment. If disability income will not continue for 3 years, it cannot be included in income.

3.5.1.8 Employment Offers

- Employment offers may only be utilized if all of the following requirements are met:
  - » Offer is documented by an employment contract signed by both the borrower and the employer
  - » The borrower's first day of employment is prior to the first payment due date
- Calculation: Use the offer amount

3.5.1.9 Foreign Income

- Include foreign income that is reported on the U.S. individual tax returns only
  - » Verify that the foreign income will continue for at least 3 years from the date of the application

3.5.1.10 Foster Care

- Borrowers must have a 24 month history of foster care income (12 months if the income does not exceed 30% of qualifying income)
- Letters from organization providing income OR copies of deposit slips or bank statements confirming regular deposit of the payments OR
- Copy of two years personal tax returns
- Calculation
  - » Utilize current payment amounts

3.5.1.11 Hourly

Refer to "Salaried/Hourly" section

3.5.1.12 Interest and Dividend

- May be used as income if received for the last 2 years and borrower must have assets used to generate this income (subtracting any funds utilized to close)
- Copy of two years personal tax returns
- *If interest and dividend income is greater than 25% of the applicants total income, sufficient remaining asset balances must be verified via copies of current statements or other documentation*
- Calculation
  - » Develop a 2 year average of the income from the 1040's.

3.5.1.13 Military

Military personnel may be eligible for pay in addition to their base pay. These additional sources (hazard, clothing allowance, etc.) are acceptable provided they are documented.

- VOE or Leave and Earnings Statement (LES Statement)
- Calculation
  - » Use sum of Base, Basic Housing Allowance (BAH), and Basic Allowance for Subsistence (BAS) and other documented amounts from current LES statement or VOE

3.5.1.14 Note Receivable

- Copy of note including amount, frequency, and term of at least 3 years from the date of the mortgage application AND
- Document regular receipt of income for the past 12 months as verified by consistent deposits into the borrower's bank account or copies of signed 1040's
- Calculation
  - » Use current amount as specified by the note

3.5.1.15 Overtime

See "Bonus or Overtime" section

3.5.1.16 Part-Time or Secondary:

- Minimum 24 month total history (multiple employers)
- Minimum of most recent paystub with year-to-date information representing a minimum of 30 days AND
- Last 2 years W-2s
- Note: Last 2 years signed federal tax returns may be substituted for the above
- Calculation
  - » Develop a 2 year average of the income.

3.5.1.17 Public Assistance (Including Housing Choice Voucher – Section 8)

- Letters or exhibits from paying agency stating amount, frequency, and duration of benefit payments (can be expected to continue for a minimum three years) AND
- Document at 2 year history of income from public assistance (not required for Section 8)
- Calculation
  - » Use current amount

3.5.1.18 Rental

Rental Property Other Than Subject Property

- If the borrower has a history of renting the property extending back into the last tax filing year:
  - » Copy of most recent year of signed federal personal tax return with Schedule E including the rental property
  - » Calculation: Utilize pre-income tax cash flow
- If the borrower does not have a history of renting the property, or the borrower's history does not extend back into the last tax filing year:
  - » Obtain rent from lease agreement or
  - » If there is no lease agreement, rental income cannot be counted unless an appraisal of the rental property is obtained with a market rent analysis from the appraiser
  - » Calculation: Estimate cash flow using 75% of gross rent less PITI and HOA dues
    - If resulting income is positive, add to income. If result is loss, add to debt payments.

Subject Property is Rental Property

- If the borrower has a history of renting the property extending back into the last tax filing year (refinance transaction):
  - » Copy of most recent year of signed federal personal tax return with Schedule E including the rental property
  - » Calculation: Utilize pre-income tax cash flow
- If the borrower does not have a history of renting the property (purchase transaction), or the borrower's history does not extend back into the last tax filing year:
  - » Obtain appraisal including market rent analysis and
  - » Obtain subject property lease agreement
    - Copy of lease not required for purchase loan
    - Copy of lease required for prior purchase unless the owner can document that the property was not leased during a period of renovation or improvement
  - » Calculation: Estimate cash flow using 75% of gross rent less PITI and HOA dues. When both the appraisal market rent analysis and the lease are required or present, the lower of the two must be used in the above calculation.
    - If resulting income is positive, add to income. If result is loss, add to debt payments.

3.5.1.19 Retirement Asset Liquidation (Fund Income)

Monthly retirement income distributions from 401(K), IRA, or Keogh accounts must meet the following criteria:

- Borrower must have unrestricted access without penalty to the funds
- Remaining balances must be adjusted to consider a maximum of 70% of the value of stock, bonds, and mutual funds (if any)
- Calculation
  - » Monthly income equals adjusted balance divided by 360 months (regardless of loan term)

3.5.1.20 Retirement, Government Annuity, and Pension

- Copies of retirement award letters or current statements OR
- 1040's showing retirement income OR
- 1099 forms OR
- Copies of borrower's 2 most recent bank statements showing deposits
- Calculation
  - » Use the current amount

3.5.1.21 Reverse Mortgage Income

- Reverse mortgages may be used as source of income provided all of the following requirements are satisfied:
  - » Borrower must provide a copy of the reverse mortgage agreement to validate the ongoing nature of the income
  - » Term of the new MI insured loan cannot exceed the term of the reverse mortgage
  - » Line of credit or lump sum reverse mortgages are not eligible
- Calculation
  - » The reverse mortgage payment should not be considered in the applicant's DTI calculation. Income may be used if it meets the above requirements.

3.5.1.22 Royalty Payments

- Minimum 24 month history required
- Two-years signed federal tax returns including Schedule E
- Document that payments will continue for a minimum of 3 years at levels equal to the calculated 2-year average
  - » Calculation: Use current amount
- If documentation showing continuing payments as described above cannot be obtained:
  - » Calculation: Use 70% of the current 2-year average amount or
  - » Calculation: Utilize a 4-year average amount based on a documented 4-year history

3.5.1.23 Salaried/Hourly

- Minimum of most recent paystub with year-to-date information representing a minimum of 30 days
- Last 2 years W-2s
- Applicant must be currently employed at the employer listed on the paystub.
- Note: A written VOE may be substituted for the above
- Calculation
  - » Use the base salary (semi-monthly, bi-weekly, or hourly rate as supported by YTD) from current paystub. Examples:
    - Semi-monthly: Semi-monthly amount multiplied by 2 equals monthly income
    - Bi-weekly: Bi-weekly amount multiplied by 26 divided by 12 equals monthly income

3.5.1.24 Seasonal

- Minimum 24 month total history (multiple employers)
- Documentation from employers is required that:
  - » Describes the nature of the seasonal employment work and
  - » States that there is a reasonable chance of re-employment
- Minimum of most recent paystub with year-to-date information representing a minimum of 30 days AND
- Last 2 years W-2s
- Note: Last 2 years signed federal tax returns may be substituted for the above
- Calculation
  - » Develop a 2 year average of the income
  - » Refer also to unemployment benefits

3.5.1.25 Secondary Employment (Second Job)

Refer to “Part-Time or Secondary” section

3.5.1.26 Self-Employment

- Copy of two years signed personal tax returns AND
- Schedule K-1’s (if applicable) AND
- Corporate tax returns (if applicable)
- Calculation
  - » Develop a 2 year average of the income.

3.5.1.27 Social Security

- Copy of the award letter OR
- Social Security Benefit Statement OR

- Copy of the most recent check or bank statement reflecting receipt OR
- Last year's 1040's showing amount of Social Security received for the year
- Calculation
  - » Use current amount from documentation. Refer to Fannie Mae or Freddie Mac for details on underwriting self-employed borrowers.

3.5.1.28 Temporary Leave

- Temporary leaves include maternity or parental leave, short-term disability, or other temporary leave types that are acceptable by law or the employer
- A borrower on temporary leave is considered employed
- In order for regular income to be counted, the borrower must provide written confirmation of his or her intent to return to work by the first payment due date and the agreed upon date of return evidenced by documentation from the employer or employer designee (if a third party manages leave for the employer). If the borrower will not return to work by the first payment due date, the temporary income amount must be used.
- Calculation
  - » Use Regular employment income or temporary income as described above

3.5.1.29 Tips

- Minimum of most recent paystub with year-to-date information representing a minimum of 30 days AND
- Two-years W-2 form
- Note: A written VOE may be substituted for the above
- Calculation
  - » Use a two-year average

3.5.1.30 Trust

- Trust Agreement containing the amount of disbursement, frequency and duration of payments. Verify that the trust income will continue for at least 3 years from the date of the application AND
- Signed two years 1040's if the above does not establish prior amounts
- Calculation
  - » Use current amount listed in trust agreement or average if not specified

3.5.1.31 Unemployment Benefits

Unemployment benefits such as those received by seasonal workers may be considered stable income if properly documented as received for the last 2 years and likely to continue.

- Signed copy of two years personal tax returns
- Calculation:
  - » Develop a 2 year average of the unemployment benefit from the 1040's

3.5.1.32 VA Benefits

- A copy of the award letter or documentation of receipt of benefits
- Documentation must evidence the income is expected to continue for a minimum of 3 years
- Calculation
  - » Use current amount

3.5.1.33 Ineligible Sources of Income

- **Income types described above that cannot be documented** in accordance with National's requirements
- **Boarder income** (typically income from renting a bedroom in a single family residence)
- **Expense account payments** (reimbursement of out-of-pocket work related expenses is not income)
- **Future income** not yet being received and documented
- **Mortgage Credit Certificates** (special subsidy for qualifying first time home buyers – a federal tax credit (rather than a deduction) applicable to a percentage of mortgage interest paid)
- **Mortgage Differential Payments** (employer subsidy related to the difference between the employee's present and proposed mortgage payment)
- **Retained earnings** (when a self-employed borrower receives income paid out of retained earnings that is substantially in excess of the earning capability of the business (from prior years) rather than the business' current period income, this is not sustainable indefinitely and cannot be expected to continue for 3 or more years)
- **Second Home rental income**
- **Trailing Co-borrower** (in a relocation scenario, income earned from a non-relocated co-borrower (following or "trailing" the borrower who has the new job related to the relocation) that is still working in the prior location in a job that will be abandoned (income cannot be expected to continue for 3 or more years))
- **Unreported income** documented by bank statements or other alternative documentation
- **Unverifiable sources** (when documentation is required and cannot be provided)
- **VA educational benefits** (not income but reimbursement for expenses)

3.5.2 Verbal Verification of Employment

Income must be verbally verified within 10 days and 30 days of the note date for employment (including Military) and self-employment income respectively.

The phone number used to verify employment income should be obtained independently and the conversation should be documented (including source of number, date of verification, name/title of person confirming employment, and name/title of person completing verification). A third party vendor such as the Work Number is an acceptable source of verification.

A written verification may be substituted for the verbal one if the employer does not complete verifications by phone and the same information is captured. For military personnel, verification through the Defense Manpower Data Center or Leave and Earnings Statement dated no more than 31 days prior to the note date may be substituted.

The existence of businesses that are the source of self-employment income must be verified within 31 days of the note date via a phone listing (telephone book, directory assistance, internet) or third party (licensing bureau, regulatory agency, CPA, etc.). The source of the information and name/title of person completing the verification should be documented in the file.

3.5.3 Asset Documentation and Calculations

Funds required to close the loan (down payment, closing costs, pre-paids) and for reserves must meet National MI's requirements.

Funds sufficient to meet National MI's minimum borrower contribution requirements are required to be from the borrower's own funds. The remaining funds may come from additional eligible sources. Certain assets may not be considered (are ineligible) for purposes of mortgage insurance underwriting and approval.

3.5.3.1 Source of Minimum Borrower Contributions (Borrower's Own Funds)

Minimum required borrower contributions are documented on the applicable product eligibility matrix. Eligible funds must be under the ownership and control of the borrower for a minimum of 90 days prior to the loan application. Large deposits or cumulative large deposits (exceeding 20% of monthly income) identified on an asset statement must be investigated if they are not related to normal transaction activity (payroll deposits, rental income deposits, social security deposits, etc.). The source of these deposits must be documented. Large deposits from sources that do not meet the requirements for the minimum borrower contribution cannot be used to meet the requirement.

The following are acceptable sources of the borrower's own funds:

- **Bridge loans** provided a) the bridge loan is not cross-collateralized against the subject property and b) borrower qualifies including mortgage payments on the current home (PITIA and Bridge loan payments)

- **Business assets** provided the borrower owns a majority of the business and removal of the assets will not impair the ability of the business to continue operating. Asset balances must be verified by depository or other asset statements (as described below). Business viability must be evaluated using 2 years business tax returns and balance sheets.
- **Depository balances** (checking, savings, CDs, etc.) verified via a VOD (with 2 month history) or 2 months bank statements. If the lender is also the depository for a borrower's account, the lender may verify funds using a printout or other alternative verification produced directly from the lender's system.
- **Earnest Money Deposit** – the source need not be verified if sufficient borrower contributions and funds to close are verified separately
- **Individual Development Account**: Some nonprofit agencies will match the funds a borrower regularly deposits into a savings account that has been designated as an account that is used solely for the accumulation of funds to purchase a home. Such accounts are referred to as individual development accounts, or IDAs. Sometimes the nonprofit agencies require the borrower to repay the funds, and sometimes they do not. Sometimes, when repayment is required, a lien is filed and the obligation therefore becomes a junior lien.

  Funds that the borrower deposited into an IDA may be used to meet the borrower's minimum contribution provided all of the following requirements are met:

  » A statement segregating borrower contributions and matching funds (with vesting) is obtained. If the borrower contributions cannot be segregated, the funds cannot be used to meet minimum borrower contribution requirements

  » Documentation is obtained to determine whether or not repayment of matching funds is required, and if required, whether or not a lien will be recorded

  When the borrower must repay matching funds, the following additional requirements apply:

  » The payment must be included in the debt-to-income ratio calculation

  » No lien will be filed on the property related to the IDA. The loan is not eligible for insurance if a lien will be filed.
- **Investment balances** (stocks, bonds, mutual funds, savings bonds, etc.) verified via a VOD (with 2 month history) or statements covering a minimum of 2 months
- **Lot value** verified via an appraised value (lower of purchase or appraised value if acquired within the last 12 months)

- **Proceeds from the sale of assets other than real estate owned** (Verified by a bill of sale, documentation of receipt of funds and evidence that the sales price at market)
- **Proceeds from the sale of real estate owned** (verified via HUD1)
- **Rent** exceeding fair market rent accumulated under a documented Rent (or Lease) with Option to Purchase agreement and included in the purchase contract as down payment
- **Trust funds** verified by documentation from the trustee
- **Tax (Income) refunds** (either federal or state) evidenced by copy of return showing refund amount, copy of check and proof of increase in deposit balances

3.5.3.2 Additional Eligible Assets

In addition to the approved sources described in the preceding section, the following are also acceptable sources of funds once the minimum borrower contribution requirement has been met:

- **Employer Assistance** may be utilized if all of the following requirements are met:
- May not be used to satisfy borrower contribution requirements
  - » Utilized on a primary residence
  - » Made pursuant to an established company program
  - » Borrower eligibility is documented
  - » Repayment terms, if any, are evaluated and factored into the credit decision
  - » Employer may not be an interested party to the transaction
- **Gifts of Equity** in the subject property provided the seller is related to the borrower by blood, marriage, adoption or legal guardianship
- **Gifts of Funds** evidenced by a signed gift letter from a donor who is either related to the borrower by blood, marriage, adoption or legal guardianship; or can document an established relationship with the borrower (domestic partner or future spouse)
- **Grant Funds** permitted for primary residences only evidenced by documentation from a donor that is a public or non-profit organization, church, or governmental agency (federal, state or local). In the event the grant results in a recorded lien on the subject property, LTV requirements must be met including the lien related to the grant. Repayment of the grant may not be required except upon sale or refinance of the property.
- **Individual Development Account** (IDA) funds contributed by the borrower, vested matching funds, or vested funds where the distinction between the two is not known, provided the other IDA requirements described in the preceding section (3.5.3.1) are met.

- **Interested Party Contributions** provided they are within the maximums permitted by National MI's guidelines
- **Pooled or Community Savings Accounts** cannot be considered the borrower's own funds and used to satisfy borrower contribution amounts. However, they are an approved additional eligible asset provided the funds are deposited and verified in a financial institution prior to closing and the following requirements are met:
    - » The borrower' participation must be verified from the party managing the pool
    - » Documentation must be obtained evidencing both the borrower's history of contributions and obligation to make continued contributions
    - » If the borrower is obligated to make future contributions, then the debt must be included when calculating the debt-to-income ratio
    - » Repayment of the pooled amount may not be required and a lien related to the pooled amount is not permitted

3.5.3.3 Ineligible Assets

The following are ineligible assets (sources of funds) for purposes of MI approval:

Advances against future earnings

- Cash on Hand
- Gifts requiring repayment
- Loans against assets or unsecured loans where proceeds do not meet 90 days seasoning requirement
- Pledged assets in lieu of down payment (an asset transferred to the lender for the purpose of securing debt and retained by the lender until payoff)
- Secondary Financing
- Seller funds dispersed indirectly via third parties in a way intended to circumvent requirements related to assets, interested party contributions, etc.
- Sweat Equity

3.5.3.4 Interested Party Contributions

Interested parties are parties involved in the transaction such as the builder, seller, realtor, etc. Contributions from these parties are limited so they do not inflate the property value. Interested party contributions must meet the following requirements:

- May be used to fund normal and customary closing costs, the MI premium and prepaids; but cannot be utilized to cover the down payment.
- Primary Residence Limited to 3% for LTVs above 90% and 6% for LTVs <= 90% (if a junior lien is present, utilized CLTV rather than LTV when establishing the limit)
- Second Homes limited to 3%
- Investment Property limited to 2%
- Must be identified in the sales contract and evaluated by the appraiser in the appraisal report to determine the impact, if any, on value. Unplanned buydowns arising just before closing and paid by the seller/builder to allow the borrower to maintain an interest rate after rates rise are considered contributions.
- Amounts in excess of the limit must be deducted dollar-for-dollar from the sales price for purposes of calculating the LTV to determine eligibility
- Non-monetary sales incentives must be deducted dollar-for-dollar from the sales price for purposes of calculating the LTV to determine eligibility
- Lender funded transaction costs are not considered contributions unless the lender is affiliated with an interested party

3.5.3.5 Reserve Requirements

A minimum of two months reserves are required. Amounts to cover principal, interest, property taxes, insurance (flood and hazard) and home owner's association dues should be included in the calculation. Higher reserves are required as follows:

- If the borrower has an existing primary residence or second home for sale, six months verified reserves are required on both the current and proposed properties. However, if the borrower is qualified using both payments, only four months of reserves is required on both properties (refer to section 3.5.5.2 of this manual)
- If a higher amount is specified on the applicable product eligibility matrix

3.5.4 Credit Reports and Scores

3.5.4.1 Traditional Credit Requirements

A credit report is required for every borrower based on data provided by the national credit repositories. Reported information cannot be changed but duplicate information may be deleted. Credit information must be developed by combining data from at least two of the national repositories (Experian, Equifax and TransUnion) as follows:

- A two or three-repository merged in-file credit report
- A Residential Mortgage Credit Report (RMCR)

Each eligible borrower must have:

- A minimum of 3 trade lines (excluding authorized user, charge-off, collections, judgment, repossession, foreclosure, bankruptcy, credit counseling trades and trade lines for which a payment has never been made (i.e. deferred student loan)) reporting for a minimum of 12 months each
- Two FICO scores
- If the borrower has a previous foreclosure, deed-in-lieu, short-sale or bankruptcy, the following additional requirements apply:
  - » Must be discharged more than 4 years ago
  - » Must have re-established credit after discharge (similar to above 3 trade lines rule except 24 months and no delinquencies are required)
- If the borrower had previous credit counseling, credit must be re-established following completion (similar to above 3 trade lines rule except 24 months and no delinquencies are required)

3.5.4.2 Non-Traditional Credit

Borrowers must have an acceptable U.S. credit history meeting the Traditional Credit Requirements described above. Non-traditional credit, non-traditional credit reports, foreign credit reports, and borrowers without a credit history or credit score are not eligible.

3.5.4.3 Foreign Credit

Refer to Non-Traditional Credit requirements above.

3.5.4.4 Representative FICO Score for Underwriting

Each borrower's individual representative FICO score is determined by taking the middle of three or lower of two FICO scores. The representative FICO for the loan that must be used for underwriting is the lowest of the representative FICO scores among the borrowers.

3.5.4.5 Minimum FICO Score

The minimum FICO score is described on the applicable product matrix.

3.5.4.6 Payment of Derogatory Amounts

Judgments, tax liens, collections, charge-offs and repossessions must be paid in full at the time of loan application. Collection accounts with documented disputes are excluded.

3.5.4.7 Fraud Alert Messages on Credit Reports

The credit reporting agencies include messages on the credit report identifying potential fraudulent activities involving social security numbers, telephone numbers, borrower address, etc. All such messages appearing on the credit report must be sufficiently investigated to conclusion to ensure that the information upon which the insurance is approved is correct.

3.5.5 Liabilities and Ratios

3.5.5.1 General Requirements

The income and debts of the applicants should be utilized to calculate qualifying ratios. Income should be documented and calculated as described in section 3.5.1 of this manual. Liabilities should be determined in accordance with the credit report requirements described in Section 3.5.4 of this manual.

All debts for which the borrowers are obligated should be included in the debt ratio calculations with the following exceptions:

- Installment payments (including child support and alimony) where it has been documented that 10 or fewer payments remain (but lease payments must be included regardless of the number of remaining payments)
- Court-Ordered Assignment of Debt: When the borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement), the debt should not be counted as a recurring debt obligation unless the primary obligor has a history of being delinquent in making payments on the debt. For purposes of this guideline, a history of being delinquent is defined as any one or more of the following: a) currently 30+ days-past-due (DPD), or b) one or more 60DPD+ or two or more 30DPD+ in the last 12 months.
- Borrower has cosigned for a loan: When the borrower has an outstanding debt that was co-signed, the debt should not be counted as a recurring debt obligation if the borrower can document that the primary obligor has been making payments on the debt for at least 12 months and the primary obligor does not have a history of being delinquent as defined above.
- Debt payments made by the business may be excluded if it is documented that

the business is paying the debt (for a minimum of the preceding 12 months) and the debt payment was included in the business cash flows upon which the self-employment income was calculated

- Debts that are paid off prior to loan application

A debt payment should be included for the following even if the borrower is not currently obligated to make payments at the time loan closing:

- Student loans payments for loans with payment deferment. The payment amount may be established from documentation from the servicer or a monthly payment estimated using 2% of the outstanding balance
- A future obligation to make reverse mortgage payments on a property being vacated and retained by the borrower

3.5.5.2 Qualifying Payment Amounts

Unless otherwise required in this or other sections of this manual (refer to section 3.1.6 (Buydowns)), the following qualifying payments should be utilized unless the Underwriter has determined it is more appropriate to use a higher amount:

- **Installment Debts:** Current Payment Amount
- **Revolving Credit:** Current Payment Amount based on outstanding balance. If the Current Payment Amount is not available, use the greater of $10 or 5% of the outstanding balance.
- **New Mortgage Payment:**
  - Initial Fixed Term < 5 Years: Fully amortizing payment calculated using the greater of the fully indexed rate or the initial note rate plus 2%; and including property taxes, insurance (hazard and flood) and HOA dues
  - All Others: Fully amortizing payment calculated using the initial note rate; and including property taxes, insurance (hazard and flood) and HOA dues
- **Conversion of Property to Rental:** Refer to section 3.3.3 of this manual.
  - **Pending sale of current primary residence or second home:** Provided the borrower has at least 6 months of verified reserves (refer to section 3.5.3.5) for the current (for sale) and proposed properties, the payment on the current “for sale” primary residence or second home may be excluded. If the borrower has less than 6 months reserves on both properties, both the current and proposed monthly payment (PITIA) must be included when qualifying.
  - **Bridge Loans:** Borrower must be qualified including mortgage payments on the current home (PITIA plus Bridge loan payments)

3.5.5.3 Debt-To-Income (DTI) Ratios

Maximum DTI ratios are documented in the applicable product eligibility matrix.

3.6 Underwriting the Property

3.6.1 Eligible Property Types

National MI will insure loans secured by the following eligible property types:

3.6.1.1 Single Family/PUD

Properties where ownership includes the lot under the dwelling fall into this category. The category includes detached, semi-detached and attached units.

3.6.1.2 Condominiums

Properties where ownership excludes the lot under the dwelling fall into this category. Condominiums must meet agency eligibility and project requirements.

Detached site condominiums (similar to a regular condominium except the units are detached) are underwritten as detached single family properties. Also refer to 3.6.1.7 (Factory-Built Housing Other Than Manufactured Housing) as applicable and 3.6.1.5 (Mixed Use) for additional restrictions.

National MI reserves the right to limit new insurance to borrowers seeking to finance properties in condominium projects where National MI has a high existing concentration of insured loans.

3.6.1.3 Co-ops

Co-op share loans finance the borrower's ownership interest in a co-op housing corporation and accompanying occupancy rights to a particular unit owned by the co-op. A co-op share loan is secured by a pledge of the borrower's co-op shares and an assignment of the borrower's rights under a proprietary lease or occupancy agreement with the co-op housing corporation.

Co-op properties must meet agency requirements. In addition, co-ops may be limited to specific markets – refer to the applicable product eligibility matrices for restrictions.

3.6.1.4 Two-Unit

Two-unit properties must meet agency requirements.

3.6.1.5 Mixed Use

Mixed use properties must meet the following requirements:

- One-Unit Primary residence only
- Borrower is also both the owner and operator of the business
- Business use is compatible with residential use

- The property must be primarily residential in nature and the market value of the property must be primarily a function of its residential characteristics (rather than business use or business-specific modifications)
- The mixed usage represents a legal, permissible use of the property under local zoning and the neighborhood must be primarily residential in nature
- Property is not a condominium
- Appraiser adequately describes the mixed-use characteristics of the subject property

3.6.1.6 Acreage

The property should not exceed 10 acres. Value cannot be given to agricultural usage (such as crops) or commercial usage – must be residential in nature (and appraised as residential) and zoned as a residential property.

3.6.1.7 Factory-Built Housing Other Than Manufactured Housing

"A manufactured home" is any dwelling unit built on a permanent chassis and attached to a permanent foundation system. Manufactured homes are not eligible collateral. Other types of factory built housing (modular, prefabricated, panelized or sectional) that are not built on a permanent chassis (and do not therefore meet the definition of Manufactured Housing) are eligible. Other factory-built housing must assume the characteristics of site-built housing, be legally classified and taxed as real property, and conform to applicable local building codes.

3.6.1.8 Zoning

The property must be a legally permissible use of the land and there may not be any governmental restrictions or regulations prohibiting reconstruction or maintenance of the property.

3.6.1.9 Accessory Unit

A single family or two-unit property with an accessory unit (unit over detached garage, basement unit, guest house, etc.) is eligible provided all of the following requirements are met:

The property and improvements must be a legally permissible use of the land

- The legal description and property tax assessment must show the property as single family or two-unit (as applicable) without counting the accessory unit
- Income from the accessory unit, if any, cannot be considered when qualifying the borrower
- The appraisal report must demonstrate that the improvements are typical and marketable for the area through an analysis including at least one comparable sale with an accessory unit

3.6.1.10 Property Condition

General Requirements

The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies, the property must be appraised subject to completion of the specific repairs or alterations needed to remedy the deficiency. In these instances, theds property condition and quality ratings must reflect the condition and quality of the property based on the hypothetical condition that the repairs or alterations have been completed.

If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must identify and describe the deficiencies and the property must be appraised subject to a satisfactory inspection by a qualified professional.

The appraisal may have to be revised based upon the results of the inspection. If so, the report must indicate the impact, if any, on the final opinion of value. The lender must review the revised appraisal report to ensure that no physical deficiencies or conditions that would affect the safety, soundness, or structural integrity of the property are indicated. A certification of completion is required to ensure the necessary alterations or repairs have been completed prior to closing.

And "as is" valuation is acceptable providing any existing conditions are minor and do not affect the safety, soundness, or structural integrity of the property; and the appraiser's value opinion reflects these conditions.

Natural Disasters

Natural disasters caused by floods, hurricanes, tornados, earthquakes, forest fires, or other catastrophes may impact property condition and value. If the disaster occurs prior to the appraisal, the impact, if any, of the disaster must be reflected in the value conclusion. When the disaster occurs following the appraisal but prior to loan closing and issuing of insurance, the lender must take prudent and reasonable actions to determine whether the condition of the property was affected by the disaster and those actions and conclusions must be documented in the file. Lenders must warrant that the insured property has no damage affecting safety, soundness, structural integrity or property value. If the property has damage affecting any of these things, the property must be repaired prior to the issuance of the mortgage insurance.

3.6.1.11 Postponed Improvements – Completion Escrows

This section of the guidelines applies only to properties with conditions that do **not** affect the safety, soundness or structural integrity of the property (also refer to Property Condition section above).

Appraised Value "As Is"

When there are minor condition and deferred maintenance issues that do not affect safety, soundness, structural integrity or ability to obtain the occupancy permit; and the appraiser has completed the appraisal "as is"; repairs need not be made prior to closing. Lenders may escrow for these items at their discretion without limitation. Additionally, the condition issues should not have a significant impact on marketability as evidenced by the appraiser's comments and marketing time not in excess of 6 months.

Appraised Value "As Completed"

When there are no condition issues or minor condition and deferred maintenance issues that do not affect safety, soundness, structural integrity or ability to obtain the occupancy permit; and the appraiser has completed the appraisal "as completed"; the loan is eligible for insurance only when all of the following requirements are met:

- The appraiser provides a list of the items needing completion
- A disinterested but relevant party provides a cost estimate to complete the items listed by the appraiser (must be part of the sales contract if new construction) and a timeline to complete the items in no more than 180 days following closing
- The cost of completing the improvements does not exceed 15% of the "as completed" value
- The lender establishes a completion escrow account controlled by the lender in an amount no less than 150% of the estimated cost of improvements
- A certificate of completion is completed by the appraiser stating the improvements were completed in accordance with the requirements/conditions in the original appraisal report and is accompanied by photographs of completed improvements
- Title report is obtained showing no mechanics liens are present on the subject property

3.6.1.12 Properties Listed or Previously Listed for Sale

For refinance transactions, properties may not currently be listed for sale and must have been taken off the market on or before the application date. For rate and term refinance transactions, if the subject property was listed for sale within the 6 months prior to the application date, the documentation must include a signed statement from the borrowers indicating their intent to retain the property. For cash-out refinance transactions, the subject property may not have been listed for sale in the last 6 months.

3.6.2 Ineligible Property Types

- Apartment/hotel conversions
- Condotels
- Berm, dome, earth, geothermal, log, and straw bale homes
- Float Homes
- Houseboats
- Kiddie condominiums
- Land (including improved or unimproved lots)
- Located outside of the 50 states and the District of Columbia
- Lot loans
- Manufactured Homes: Any dwelling unit built on a permanent chassis and attached to a permanent foundation system is a manufactured home for purposes of these guidelines. Refer to "Factory-Built Housing Other Than Manufactured Housing" in section 3.6.1.7 of this manual for requirements for other factory built housing.
- Mobile homes
- Properties not appraised as residential
- Properties not primarily residential in nature (farms, ranches, orchards, vineyards, etc.)
- Properties not suitable for year-round occupancy
- Property of a type that is potentially eligible but fails to meet the specific requirements above
- Properties operated as a hotel
- Timeshares
- Unique properties where marketability in the local market cannot be established
- Units in excess of 2

3.6.3 Eligible Ownership Types

3.6.3.1 Fee Simple Estate

Absolute exclusive ownership in perpetuity with greatest rights of possession, use and disposition

3.6.3.2 Leasehold Estates

Properties located on leasehold land are eligible provided all of the following requirements are met:

- Agency requirements must be met
- There must be an established market for leaseholds in the area and the comparable properties in the appraisal must include at least three leasehold properties
- Increases in the ground rent, if any, must occur according to a pre-determined schedule, in accordance with a cost-of-living or similar index, or in accordance with a reappraisal process with reasonable limitations
- The leasehold term must exceed the term of the mortgage by at least 5 years

3.6.4 Property Flips

Property Flips occur when a property is resold within 6 months (close of escrow to close of escrow) of purchase. The following are excluded from the definition of property flips:

- Property obtained by the seller via foreclosure or deed-in-lieu of foreclosure
- A property that was recently inherited or obtained via a divorce settlement
- Sale occurring in conjunction with a corporate sponsored employee relocation

Loans to purchase properties sold via simultaneous or double closings (purchased and flipped simultaneously or concurrently) are not eligible for insurance.

Transactions involving property flips are not eligible for delegated underwriting. Required documentation includes an explanation and evidence of any improvements made to the property and the HUD-1 statement from the original purchase.

3.6.5 Geographic and Market Considerations

National Mortgage Insurance Corporation (National MI) offers mortgage insurance (MI) in the 50 states and the District of Columbia.[1]

In order to protect National MI and its insured policy holders, mortgage insurance may not be offered in markets experiencing or likely to experience severe declines in economic conditions and/or property values. These restrictions, if any, are described on the applicable product eligibility matrix.

National MI periodically evaluates the health of national, regional and local real estate markets. National MI may designate certain markets as “restricted”. This indicates the market carries elevated risk and more restrictive guidelines will apply. In addition, National MI may establish specific underwriting criteria for individual markets when necessary.

[1] As of March 5, 2013 National Mortgage Insurance Corporation was licensed in 37 states and the District of Columbia to write insurance. Our applications are pending in the remaining 13 states and we expect approval shortly.

3.6.5.1 Restricted Markets

Restricted markets and the related guideline restrictions are described in the applicable product matrix.

3.6.5.2 Appraisal Indicates Declining Market

If the appraiser indicates that values are declining, even if the larger market itself is not identified by National MI as restricted, the maximum LTV is limited to 95%. In addition, the Underwriter should take special care in the review of the appraisal to ensure the value conclusion is appropriately supported.

3.6.6 Appraisal Types

National MI requires a traditional full appraisal with an interior inspection. Exterior only appraisals or evaluations, property inspection waivers, AVMs or BPOs are not permitted.

Appraisals should include all required photos, exhibits and addendums and be on one of the following acceptable forms:

- Uniform Residential Appraisal Report (Fannie Mae 1004 / Freddie Mac 70)
- Individual Condominium Unit Appraisal Report (Fannie Mae 1073 / Freddie Mac 465)
- Individual Cooperative Interest Appraisal Report (Fannie Mae 2090)
- Small Residential Income Property Appraisal Report (Fannie Mae 1025 / Freddie Mac 72)
- Appraisal Update or Completion Certificate (Fannie Mae 1004D / Freddie Mac 442)

The appraisal must be in compliance with:

- Uniform Standards of Professional Appraisal Practice (USPAP)
- Federal Housing Finance Agency (FHFA) Appraisal Independence Requirements (AIR)

3.7 Loan-to-Value (LTV) and Home Equity Combined Loan-to-Value (HCLTV)

LTV requirements are described on the applicable product matrix.

3.7.1 Financed Premiums and LTV

When premiums are financed in whole or in part (split), LTV is calculated excluding the amount of the financed premium.

3.7.2 Home Equity Combined Loan-to-Value (HCLTV)

The HCLTV is calculated by adding the first lien amount to the combined total of the junior liens (adding the outstanding balance of loans, the remaining balance of lines in repayment without ability to make new draws, and the greater of the line amount or outstanding balance for lines of credit that are active where the borrower continues to have the ability to make new draws). When a junior lien is present, payment must be included when calculating the qualifying ratios and the HCLTV must not exceed program guidelines.

3.8 Loan Amount

The maximum loan amount is contained in the applicable product eligibility matrix.

3.9 Insurance Requirements

3.9.1 Flood Insurance

Flood insurance consistent with standard Fannie Mae/Freddie Mac requirements must be in place.

3.9.2 Hazard Insurance

Hazard insurance consistent with standard Fannie Mae/Freddie Mac requirements must be in place.

3.9.3 Title Insurance

Title insurance consistent with standard Fannie Mae/Freddie Mac requirements must be in place.

3.10 Legal and Regulatory Requirements

Loans must be originated in accordance with applicable federal, state and local laws and regulations.

3.11 Age of Documentation

3.11.1 Credit Bureau and FICO Score

Must be dated within 120 days of closing

3.11.2 Income and Asset Documentation

Must be dated within 120 days of closing

3.11.3 Verbal Verification of Employment

Refer to section 3.5.2 of this manual for the applicable requirements.

3.11.4 Appraisal

Eligible appraisals must be dated within 120 days of closing.

If the appraisal is more than 120 days old (but less than 6 months old), an update to the existing appraisal is required. The update must meet the following requirements:

- Include an inspection of the exterior of the property and
- Include a review of the current market data to determine whether or not the value of the property has declined since the original appraisal
- Determine if the subject property for a refinance transaction is listed for sale or was listed following the date of the original appraisal
- Be completed by the original appraiser (of if a substitute appraiser is used the file must include an explanation as to why the original appraiser was not used and the substitute appraiser must review the original appraisal and confirm in writing that the original appraiser's value conclusion as of the date of the original appraisal was reasonable)
- If the update indicates that the value has not declined, the appraiser must provide the lender with a signed written document evidencing the appraiser's conclusion and describing the scope of the appraiser's work evidencing the above requirements have been met

If the update indicates that the property value has declined, then a new appraisal is required.

When the original appraisal becomes more than 6 months old, a new appraisal is required.

3.12 Additional Requirements

3.12.1 Origination Channel (Retail and Non-Retail)

A non-retail loan is a loan where the entity taking the application and processing the loan differs from the entity that closes, funds and insures the loan. A retail loan is a loan for which these functions are unified within the same entity.

Retail loans are eligible for insurance. Non-retail loans are not eligible for insurance with one exception: Loans sourced through the Wholesale channel (broker) are only eligible for insurance if the lender has been specifically approved for Wholesale following National's review of the lender's practices.

3.12.2 Fraud Tools

Tools are increasingly available from a multitude of vendors that can assist lenders to identify fraud and misrepresentation related to identify, occupancy, employment, income, assets, property, undisclosed debt and other risk issues. Tools that are developed "in house" by lenders may also be deployed in the origination process.

National MI does not currently require the use of such tools, but does consider them a best practice and encourages lenders to incorporate them into their origination processes. How lenders make use of such tools is one factor in the approval process utilized by National MI to assess prospective lenders.

When fraud tools are incorporated into the lender's origination process, the lender must evaluate the results when making the credit decision. Any issues raised by the tools should be investigated to conclusion and the results should be documented in the file.

3.12.3 Changes to MI Commitments

When a loan with an approved MI commitment is changed during the course of origination process, the loan must be re-approved if the change impacts any aspect of the variables affecting eligibility and qualification.

Lenders may make some changes without obtaining a new approval including:

- Decreasing the loan amount (provided sufficient down payments and reserves have been previously verified to cover the associated increase in down payment, if any)
- Decreasing the interest rate
- Corrections to typographical errors to names or address
- Changes to the renewal premium option (amortizing or level)

3.12.4 Incomplete/Denied Applications and Borrower Communication

The Fair Credit Reporting Act (FCRA) requires that when an insurance application is denied on the basis of information provided by a consumer reporting agency, the applicant must be given notice identifying the consumer reporting agency and includes a statement of the applicant's rights under FCRA. If the lender has approved the request and National MI has denied it, the Statement of Denial will be sent directly to the applicant by National MI.

3.12.5 Pre-Funding Audit

National MI strongly recommends but does not require that lender's implement a pre-funding audit process (such as those prescribed by Fannie Mae and Freddie Mac) to improve loan origination quality.

3.13 Product Eligibility Matrices – Non AUS Conforming and Jumbo Loan Amounts

The following product eligibility matrices summarize National MI's standard or "non AUS" guidelines. The matrices may include non AUS dependent guidelines that are more restrictive than, and take precedence over, those described above.

PRODUCT ELIGIBILITY Non AUS Conforming Loans

NON AUS GUIDELINE SUMMARY – CONFORMING LOANS

Loans that are **not** originated in accordance with one of National MI's "AUS Plus Overlays" programs must meet the following underwriting rules and be originated in accordance with National MI's Standard Underwriting Guidelines:

- Full income documentation is required (Paystub + W2s; 2 Years Tax Returns; and/or standard requirements as applicable)*
- Minimum 2 months reserves
- ARM maximum LTV 95%, minimum initial fixed term 3 years (5 years for investment), and ineligible for cash-out refinance
- Minimum 3% from occupant borrower's own funds. Non-occupants are not considered when determining qualifying DTI.
- Exterior only appraisals or evaluations; property inspection waivers, AVMs or BPOs are not permitted
- Geographic Exclusions: Attached condos in Florida (Miami-Dade and Broward counties) and Nevada (Clark county)

Occupancy	Loan Purpose	Property Type	Loan Amount	Maximum LTV/CLTV	Minimum FICO	Maximum DTI
STANDARD MARKET GUIDELINES						
Primary Residence	Purchase or Rate / Term Refinance	Single Family Condo or Co-op	$417,000**	97	720	45%
		Single Family Condo or Co-op	$417,000**	95	700	45%
		Single Family Condo or Co-op	$417,000**	90	680	45%
	Cash-Out Refinance	Single Family Condo or Co-op	$417,000**	85	720	45%
	Construction to Permanent***	Single Family	$417,000**	95	700	45%
	Purchase or Rate / Term Refinance	Two-Unit	$533,850**	90	700	45%
Second Home	Purchase or Rate / Term Refinance	Single Family or Condo	$417,000**	90	700	45%
Investment Property	Purchase	Single Family	$417,000**	85	720	45%
All	All	Manufactured Homes	All	Not Eligible	Not Eligible	Not Eligible
RESTRICTED MARKET GUIDELINES						
There are no markets identified as restricted.						

Coop properties are eligible in New York, New Jersey, Maryland, Illinois and Washington, D.C. only

* Refer to section 3.5.1 of the manual for details on documentation for specific types of income
** Maximum Amounts for AK and HI are $625,500 (1 unit) and $800,775 (2 units)
*** Lender CtoP approval required - coverage begins after completion with permanent end loan closing.

PRODUCT ELIGIBILITY | Non AUS Jumbo Loans

NON AUS GUIDELINE SUMMARY – JUMBO LOAN AMOUNTS

Loans that are not originated in accordance with one of National MI's "AUS Plus Overlays" programs must meet the following underwriting rules and be originated in accordance with National MI's Standard Underwriting Guidelines:

- Full income documentation is required (Paystub + W2s; 2 Years Tax Returns; and/or standard requirements as applicable)*
- Minimum 6 months reserves
- ARM maximum LTV 95% and minimum initial fixed term 5 years
- Minimum 3% from occupant borrower's own funds. Non-occupants are not considered when determining qualifying DTI.
- Manufactured Homes, Second Homes, Investment Properties and Restricted Markets are ineligible
- Exterior only appraisals or evaluations; property inspection waivers, AVMs or BPOs are not permitted
- Geographic Exclusions: Attached condos in Florida (Miami-Dade and Broward counties), Nevada (Clark county)

Occupancy	Loan Purpose	Property Type	Loan Amount	Maximum LTV/CLTV	Minimum FICO	Maximum DTI
STANDARD MARKET GUIDELINES						
Primary Residence	Purchase or Rate / Term Refinance	Single Family Condo or Co-op	$625,000**	95	700	45%
		Single Family Condo or Co-op	$850,000	90	720	45%
	Cash-Out Refinance	All	All	Not Eligible	Not Eligible	Not Eligible
	Construction to Permanent***	Single Family	$850,000	90	720	45%
	All	Two-Unit	All	Not Eligible	Not Eligible	Not Eligible
Second Home	All	All	All	Not Eligible	Not Eligible	Not Eligible
Investment Property	All	All	All	Not Eligible	Not Eligible	Not Eligible
All	All	Manufactured Homes	All	Not Eligible	Not Eligible	Not Eligible
RESTRICTED MARKET GUIDELINES						
There are no markets identified as restricted.						

Coop properties are eligible in New York, New Jersey, Maryland, Illinois and Washington, D.C. only

* Refer to section 3.5.1 of the manual for details on documentation for specific types of income
** Limited to FHFA High Balance Markets only
*** Lender CtoP approval required - coverage begins after completion with permanent end loan closing.

4.0 Commitments and Certificates

4.1 Conditional Commitments and/or Pre-qualifications

National MI does not issue pre-qualifications for non-delegated approvals. All pertinent data must be transmitted to obtain a commitment for insurance.

Originators with delegated authority may have various types of origination and prequalification processes. However, delegated loans must be fully documented, underwritten and qualified for insurance prior to submission to National MI for mortgage insurance.

4.2 Submission Requirements

4.2.1 Delegated Submissions

National MI requires that the following information be submitted so that an insurance certificate may be issued:

- A fully completed National MI Application for Mortgage Insurance (data to be entered into National MI's web-portal)
- One of the following must be completed (where data is defined as all of the 1003 (Loan Application) and 1008 (Underwriting Transmittal Summary) mortgage information):
  - A business to business transfer of all loan data
  - An upload of either an XML or DU 3.2 file with all of the loan data
  - Lender to manually enter all of the loan data directly into National MI's web-portal

4.2.2 Non-delegated Submissions

National MI requires that the following information be submitted so that an insurance underwriting may occur:

- National MI Application
- 1003 Loan Application
- 1008 Underwriting Transmittal Summary
- AUS final reports – DU Findings/LP Feedback (if applicable)
- Credit Reports (including all required letters of explanation (LOX))
- Verification of Rent (VOR)/Verification of Mortgage (VOM) as required
- Employment and Income verification (paystubs, W-2's, tax returns, verifications of employment, verbal VOEs, and letters of explanation)
- Executed 4506-T (or GSE approved equivalent) with IRS Transcripts from the most recent two years (or timeframe as required by DU/LP)

- Asset verifications (bank/investment statements, verifications of deposit (VOD), gift letters, community or employer grants)
- Appraisal Report (including all attachments)
- Sales Contract (final executed with all attachments - if applicable)
- HUD-1 from previous sale
- Underwriter notes/worksheets utilized
- Other documents as required

4.3 Submission Methods

4.3.1 Fax

Fax to National MI's Underwriting Fulfillment department at 510.858.0340

4.3.2 Email

Contact your Sales Advisor should secure email submission be necessary.

4.3.3 Electronic Delivery

Register, check eligibility and upload via National MI's electronic interface/channel (EDI/XML)

4.3.4 Upload (partial) with Data Entry

A DU 3.2 or XML upload of the Loan Application data with additional data entry of MI information into National MI's Insurance Management System

4.3.5 Data Entry Only

Data entry of the borrower Loan Application and MI information in the National MI Insurance Management System

4.3.6 Other

There are no other approved submission methods at this time.

4.4 National MI Commitment of Insurance and Insurance Activation

After insurance is approved, National MI sends or makes available an insurance commitment. The commitment evidences approval and obligates National MI to insure the loan provided the lender satisfies all of the conditions of the commitment and the closed loan complies with National MI policy requirements (including age of documentation at closing) in effect at the time of the commitment.

Commitments are good for 120 days (12 months for Construction to Permanent). If an extension is needed, National MI may require an updated application, income/asset documentation, borrower credit information, and appraisal. Extensions are subject to National MI guidelines in effect at the time the extension request occurs.

Changes to existing commitments alter the risk profile of the commitment. Consequently, changes require re-approval and will be evaluated according to National MI guidelines in effect at the time of the change. A new certificate should be obtained reflecting the changes. The 120 day timeframe starts again from the date of the new commitment.

Activation is triggered by loan closing or receipt of the first MI payment by National MI. Refer to the National MI product description for details regarding activation. Upon activation, the commitment becomes an insurance certificate.

5.0 Changes After Insurance Issued (Certification)

5.1 Insuring Loans after Closing

National MI does not insure loans if the application for insurance occurred after the following dates:

- Borrower Paid MI: First payment due date
- Lender Paid MI: First payment due date

5.2 Assumptions, Partial Releases and Transfer of Title

Mortgage insurance is issued based on the specific risk characteristics present at time of origination, including the specific borrowers involved. Assumptions, partial releases, transfers of title and/or other transactions that release one or more borrowers or transfer ownership will invalidate insurance unless specifically approved by National MI. Note: The removal of a deceased borrower from title does not invalidate insurance or require National MI approval.

5.3 Modifications to Existing National MI Insured Loans

Modifications to existing loans insured by National MI are outside the scope of these guidelines. Please contact your National MI representative to obtain information on modification programs.

5.4 Reinstatement of Cancelled Certificate

Reinstatement will be considered on a case-by-case basis. Contact National MI's Policy Servicing department for consideration and required documentation.

6.0 Underwriting Guideline Manual Revision History

Underwriting Guideline Manual Revision History

DATE	REVISION SUMMARY
4.3.2013	First Effective

7.0 Underwriting Guideline Summary

Qualified Mortgage Insurer Standard – National MI Meets the Test!

- **Able and Willing to Pay**
  The purpose of mortgage insurance is to pay for a covered loss, so why would you rely on stated solvency when you discontinued stated income years ago? National MI is able to pay – we're well capitalized and will be there to pay your claims. And National MI is willing to pay – National MI will not rescind or deny a claim provided the borrower makes just 18 consecutive timely payments from their own funds (so long as there is not lender fraud or misrepresentation). National MI is a great choice from a counterparty risk perspective your first choice among mortgage insurers.

- **Value Added Business Partner**
  You'll get feedback on every insured loan. National MI will underwrite or re-underwrite 100% of insured files. For delegated customers, the re-underwriting following funding provides a high level of confidence that a valid claim will be paid by reducing the risk of future rescissions due to missing/insufficient documentation and/or fraud/misrepresentation. National MI will inform you up-front if a problem is discovered, and will give you an opportunity to correct it.

- **Competitive Guidelines and Pricing**
  Loans which receive a Fannie DU/Approve Recommendation or a Freddie LP Accept/Eligible Response and satisfy a few credit underwriting overlays generally meet National MI's eligibility criteria. Our standard guidelines cover non GSE loans - and we're ready to work with portfolio lenders to develop and implement customized insurance solutions.

- **Easy to Use and Committed to Service**
  You'll be surprised at how easy it is to get approved – we've done our homework and developed a streamlined approval process that most lenders will qualify for. We've assembled a talented and experienced team – from sales to underwriting to servicing and claims – and we've built one cradle-to-grave insurance management system to simplify the logistics.

Refer to National MI's Master Policy and Underwriting Guideline Manual for complete description of policies and requirements.

AUS Approval Plus Overlays Guidelines

Fannie Mae or Freddie Mac AUS approvals (DU Approve/Eligible or LP Accept/Eligible) may be utilized together with the following criteria to determine insurance eligibility.

- Data Integrity: The "Eligible" decision from the AUS is based on valid and verified inputs to the decision engine.
- Documentation: The DU/LP decision (final AUS report) is present in the file and all approval conditions related to the AUS decision are satisfied
- Comprehensive Credit Assessment: A prudent comprehensive credit assessment is completed considering all factors relevant to the granting of credit. This includes agency credit eligibility criteria not evaluated by the AUS and National MI credit requirements.
- General Eligibility Requirements: Meets National MI' requirements including:
  - No interest-only, negative amortization, or pay option ARMs
  - No seasoned loans
  - Eligible residents (U.S. citizens, permanent residents or non-permanent residents with permission to work in the U.S. who do not have diplomatic immunity)
  - Acceptable traditional U.S. credit history
  - Cash-on-hand and sweat equity not relied upon for approval
  - Special approvals obtained for certain loans including wholesale, construction to permanent, and renovation. Non-arm's length transactions require non-delegated approval.
- Credit Overlays: National MI's credit overlays are included in the attached product matrix. Overlays establish minimum requirements according to National MI policy – if the agency has a more restrictive policy requirement, the more restrictive agency requirement must be met.
  - Product Eligibility Matrix - Conforming and Conforming High Balance Loans

Standard Guidelines

Loans that are not run through a GSE AUS or do not meet National MI's "AUS Approval Plus Overlays" guidelines described above must be manually underwritten and meet the eligibility criteria described in National MI's standard guidelines.

Standard Guidelines are described in National MI's Underwriting Guideline Manual.

Where National MI's standard guidelines are silent on a topic, standard agency guidelines (excluding any negotiated variances) apply.

PRODUCT ELIGIBILITY Conforming and Conforming High BalanceLoans

AUS PLUS OVERLAYS GUIDELINE SUMMARY – CONFORMING LOANS

A DU Approve/Eligible or LP Accept/Eligible loan is insurable provided it meets the following underwriting overlays*:

- ARM maximum LTV 95%, minimum initial fixed term 3 years, and minimum 660 FICO if initial fixed term < 5 years
- Minimum 3% from occupant borrower's own funds.
- Exterior only appraisals or evaluations; property inspection waivers, AVMs or BPOs are not permitted
- Geographic Exclusions: Attached condos in Florida (Miami-Dade and Broward counties) and Nevada (Clark county)

Occupancy	Loan Purpose	Property Type	Loan Amount	Maximum LTV/CLTV	Minimum FICO	Maximum DTI
STANDARD MARKET GUIDELINES						
Primary Residence	Purchase or Rate / Term Refinance	Single Family Condo or Co-op	$417,000** $417,000**	97 95	700 620	Per AUS Approval
		Single Family Condo or Co-op	$625,500**	95	620	Per AUS Approval
	Cash-Out Refinance	Single Family Condo or Co-op	$417,000**	85	660	Per AUS Approval
	Construction to Permanent***	Single Family	$417,000** $625,500**	95 90	700 700	Per AUS Approval
	Purchase or Rate / Term Refinance	Two-Unit	$533,850**	90	680	Per AUS Approval
Second Home	Purchase or Rate / Term Refinance	Single Family or Condo	$417,000**	90	680	Per AUS Approval
Investment Property	Purchase	Single Family	$417,000**	85	680	Per AUS Approval
All	All	Manufactured Homes	All	Not Eligible	Not Eligible	Not Eligible
RESTRICTED MARKET GUIDELINES						
There are no markets identified as restricted.						

* When there are differences between agency and National MI requirements, lenders must originate to the more restrictive of the two guidelines. This rule applies at the level of individual policy topics.

** $625,500 maximum available in FHFA high balance markets only – otherwise limited to $417,000
Refer to the county specific loan limits to determine the maximum amount for a specific area
Coop properties are eligible in New York, New Jersey, Maryland, Illinois and Washington, D.C. only
Maximum Amounts for AK and HI are:

- Conforming - $625,500 (1 unit) and $800,775 (2 units)
- Conforming High Balance - $938,250 (1 unit) and $1,201,150 (2 units)

*** Lender CtoP approval required - coverage begins after completion with permanent end loan closing