National MI TrueGuide®

Underwriting Guidelines

VERSION 2.7

Effective: 12/10/2016

Table of Contents

1.0 Introduction

1.1 National MI TrueGuide® 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 either independently validated or subject to selection for a Quality Control audit. . 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 Desktop Underwriter® (DU®)/Approve Recommendation or a Freddie Product Advisor℠ (LPA℠) 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.

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:

- 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:

- Policy Exceptions

1.5 National MI AXIS 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 Product Advisor℠ (LPA℠) 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 Independent Validation Process

When an originator uses its delegated authority to obtain the certificate of insurance on a loan and then submits the underwriting package post-close pursuant to our Delegated Assurance Review ("DAR") process, the conclusion of such review with a finding of "Insurable" provides the originator with confidence of coverage that such loan was underwritten consistent with these Underwriting Guidelines and such loan will have rescission relief after 12 months of timely Borrower payments, as specified in our Master Policy (an independent validation). Additionally, National MI will not perform a QC audit on a loan that we have reviewed under our DAR process.

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®/LPA℠ Outcomes

Fannie Mae or Freddie Mac AUS approvals 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 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®/LPA℠ 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 eligibility criteria (credit, capacity, collateral, etc.) not evaluated by the AUS, and National MI requirements (credit, capacity, collateral, etc.). The assessment should also address the layering of risk variables to ensure that they are not excessive and confirm that the intent of National MI guidelines and pricing is not circumvented. 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. Any excessive layered risks or risk characteristics must be mitigated. If the insured originator is unable to obtain additional information necessary to allay the concerns and/or mitigate excessive risk characteristics, 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 LPA℠) are not insurable unless the variances are specifically reviewed and approved by National MI.

Qualifying income should reasonably be expected to continue for a minimum of three years. The documentation required to determine the amount of income that can be relied upon varies according to the income type and materiality, the applicant's ownership interest in the income source, and other factors. The documentation and calculation of income must adhere to the applicable Fannie Mae or Freddie Mac guidelines. Further guidance is described in Sections 3.5.1.1 (General Requirements) and 3.5.1.26 (Self Employment) of the TrueGuide.

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.

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 one-time close loans must meet GSE eligibility requirements and requirements in the applicable eligibility matrix contained within these Underwriting Guidelines. Prior to finalizing claim payment, the lender must document that the subject property and its improvements have been completed to standards consistent with the original valuation (evidenced by the appraiser's final inspection and occupancy permit from the appropriate jurisdiction) and (if the activation occurred more than 120 days after commitment and documents were not previously submitted) provide updated documents collected from the borrower at activation.

2.2.4 Renovation Loans

National MI will insure renovation loans to borrowers who are individuals. Prior to finalizing claim payment, the lender must document that the subject property and its improvements have been completed to standards consistent with the original valuation (evidenced by appraiser's final inspection and occupancy permit (when applicable) from the appropriate jurisdiction)

2.2.5 Occupancy

Primary residence, second home and investment properties are eligible. The occupancy indicated on the borrowers' signed application is sufficient to document that the borrowers 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

One or more borrowers must have at least one FICO score. The representative FICO score must meet our guideline/matrix minimum to be eligible. Foreign credit reports and loans where not even one borrower has a credit score are not eligible. The representative credit score should be determined in accordance with the applicable GSE's requirements.

2.2.8 Non-arm's Length Transactions

Non-arm's length transactions are eligible for delegated underwriting. 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 does not qualify as an eligible asset 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.

2.2.11 Corporate Relocation

National MI does not have any special guidelines or overlays applicable to borrowers with employer assisted relocations. Standard AUS Plus Overlays guidelines apply.

National MI may offer a borrower participating in an employer-sponsored corporate relocation program a pricing benefit (refer to the rate card for details) provided all of the following conditions are satisfied:

- The borrower is a transferred or new employee purchasing a primary residence
- The borrower is participating in a formal program sponsored by the borrower's employer (or agent) evidenced by a copy of the relocation agreement and/or other documentation detailing the nature and amount of the employer's contribution
- The employer's contribution is equal to at least 3% of the new loan amount and is used for closing costs (on property being purchased and/or sold), discount points, below-market bridge-loan financing, ongoing subsidy payments related to cost differences, moving expenses, or other expenses related to the relocation.

2.2.12 State Restrictions

<u>New York</u>

New York prohibits the placement of MI on certain loans according to specified means of calculating LTV (the "New York LTV Assessment"). National MI has therefore established the following requirements:

- The New York LTV Assessment must be made to determine if MI may be placed for certain loans based on MI type, property location, and Master Policy Holder:
  - BPMI Loans: Property is located in New York – New York LTV Assessment Required
  - LPMI Loans: Property is located in New York and Master Policy Holder (MPH) is domiciled in New York – New York LTV Assessment Required (an assessment is not required for LPMI loans if the MPH is domiciled outside of New York)
- When required, the following New York LTV Assessment must be made to determine if MI may be placed. The assessment considers property type and loan purpose.
  - All Property Types except Cooperative Property
    - All purposes: If LTV (based on the appraised value) is less than 80%, then MI cannot be placed on the loan. If MI is allowed, then for mortgage insurance purposes the LTV must be calculated based on the lower of the purchase price or appraised value.

- Cooperative Property
  - Purpose is purchase or construction to permanent: If LTV (based on the purchase price) is less than 80%, then MI cannot be placed on the loan. If MI is allowed, then for mortgage insurance purposes the LTV must be calculated based on the lower of the purchase price or appraised value.
  - All other purposes: If LTV (based on the appraised value) is less than 80%, then MI cannot be placed on the loan. If MI is allowed, then for mortgage insurance purposes the LTV must be calculated based on the lower of the purchase price or appraised value.

All Other States

No restrictions.

2.2.13 Appraisal Review

Unless otherwise described, National MI defers to GSE appraisal review requirements.

Appraisal Review with Fannie Mae Collateral Underwriter (CU)
The lender must submit the following to National MI:

- DU CU Findings and
- CU Print Report or the UCDC Submission Summary Report (SSR) from Collateral Underwriter.

If the CU Score is <= 2.5 and the following criteria are satisfied, the value conclusion is considered approved/validated and no further assessment of the appraisal is required:

- Loan is AUS Eligible per DU and the appraisal qualifies for limited review according to CU Day 1 Certainty Eligibility requirements for appraisals with CU scores <=2.5
- Appraisal is present, complete, current, and consistent with the purchase contract and application
- Review of the appraisal narrative and photos do not reveal any influences on value that cannot be modeled and appropriately considered by CU
- Condition rating of the property in its current condition is C4 or better (a property that is subject to work to bring it to C4 is not eligible)
- Renovation loans are not eligible

Appraisal Review with Fannie Mae Property Inspection Waiver (PIW)
National MI will accept the value and does not require that the lender provide an appraisal if the loan satisfies Fannie's requirements with respect to the PIW. National MI's review will consist of confirmation that the PIW requirements have been satisfied as specified in the DU message indicating that the loan receives a PIW offer and that there

are no situations present for which Fannie requires an appraisal even though a PIW offer was made (e.g., natural disaster, resale restriction, etc.).

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

2.3.3 Product Eligibility Matrix – Affordable Lending

PRODUCT ELIGIBILITY | **Conforming Loans**

AUS PLUS OVERLAYS GUIDELINE SUMMARY – CONFORMING LOANS

- A DU® Approve/Eligible or LPA℠ Accept/Eligible loan is insurable provided it meets the requirements described in Section 2 of the TrueGuide and the following underwriting overlays[1]:
- One or more borrowers must have at least one FICO score
- Geographic Exclusions: None

A DU® Approve/Ineligible or LPA℠ Accept/Ineligible loan that meets National MI's AUS Plus Overlay requirements is insurable if:

- AUS ineligibility due to LTV >95% to 97% (Fixed rate only)
- AUS ineligibility due to ARM plan/type and that plan/type meets National MI's Standard ARM Guidelines in section 3.1.4
- AUS ineligibility for primary residence due to cash-out refinance loan purpose to 85% LTV

Occupancy	Loan Purpose	Property Type[2]	Loan Amount[3]	Maximum LTV/CLTV	Minimum FICO	Maximum DTI
STANDARD MARKET GUIDELINES						
Primary Residence	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family Condo or Co-op Manufactured Hm	$424,100	97%	620	Per AUS Approval
	Cash-Out Refinance	Single Family Condo or Co-op Manufactured Hm	$424,100	85%	620	Per AUS Approval
	Purchase or Rate / Term Refinance or Construction to Permanent	Two-Unit	$543,000	90%	620	Per AUS Approval
Second Home	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family Condo or Co-op Manufactured Hm	$424,100	90%	620	Per AUS Approval
Investment Property	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family Condo or Co-op	$424,100	85%	680	Per AUS Approval
RESTRICTED MARKET GUIDELINES						
There are no markets identified as restricted.						

1 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.

2 Construction to Permanent excludes condos and co-ops
Single-wide manufactured homes must be in GSE approved/eligible developments

3 Maximum Amounts for AK and HI are $636,150 (1 unit) and $814,500 (2 units)

PRODUCT ELIGIBILITY | **Conforming High Balance Loans**

AUS PLUS OVERLAYS GUIDELINE SUMMARY – CONFORMING HIGH BALANCE LOANS

A DU® Approve/Eligible or LPA℠ Accept/Eligible loan is insurable provided it meets the requirements described in Section 2 of the TrueGuide and the following underwriting overlays[1]:

- One or more borrowers must have at least one FICO score
- Geographic Exclusions: None

A DU® Approve/Ineligible or LPA℠ Accept/Ineligible loan that meets National MI's AUS Plus Overlay requirements is insurable if:

- AUS ineligibility due to ARM plan/type and that plan/type meets National MI's Standard ARM Guidelines in section 3.1.4

Occupancy	Loan Purpose	Property Type[2]	Loan Amount[3]	Maximum LTV/CLTV	Minimum FICO	Maximum DTI
STANDARD MARKET GUIDELINES						
Primary Residence	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family Condo or Co-op	$636,150	95%	620	Per AUS Approval
	Cash-Out Refinance	All	All	Not Eligible	Not Eligible	Not Eligible
	Purchase or Rate / Term Refinance or Construction to Permanent	Two-Unit	$814,500	85%	620	Per AUS Approval
Second Home	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family Condo or Co-op	$636,150	90%	620	Per AUS Approval
Investment Property	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family Condo or Co-op	$636,150	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.						

1 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.

2 Construction to Permanent excludes condos and co-ops

3 Maximum Amounts for AK and HI are $954,225 (1 unit) and $1,221,750 (2 units)
Refer to the county specific loan limits to determine the maximum amount for a specific area

PRODUCT ELIGIBILITY | **Affordable Lending**

AUS PLUS OVERLAYS GUIDELINE SUMMARY – CONFORMING AFFORDABLE LENDING

A DU® Approve/Eligible HomeReady Mortgage or LPA℠ Accept/Eligible Home Possible Mortgage loan is insurable provided it meets the requirements described in Section 2 of the TrueGuide and the following underwriting overlays[1]:

- One or more borrowers must have at least one FICO score
- Geographic Exclusions: None

A DU® Approve/Ineligible or LPA℠ Accept/Ineligible loan that meets National MI's AUS Plus Overlay requirements is insurable if:

- AUS ineligibility due to ARM plan/type and that plan/type meets National MI's Standard ARM Guidelines in section 3.1.4

Occupancy	Loan Purpose	Property Type[2]	Loan Amount	Maximum LTV/CLTV	Minimum FICO	Maximum DTI
STANDARD MARKET GUIDELINES						
Primary Residence	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family Condo or Co-op Manufactured Hm	$424,100[3]	97%/105%	620	Per AUS Approval
		Single Family Condo or Co-op Manufactured Hm	$636,150[4]	95%/95%	620	Per AUS Approval
	Cash-Out Refinance	All	All	Not Eligible	Not Eligible	Not Eligible
	Purchase or Rate / Term Refinance or Construction to Permanent	Two-Unit Two Unit 3-4 Units	$814,500[4] $543,000[3] $636,150[3]	85%/95% 95%/105% 95%/105%	620 620 700	Per AUS Approval
Second Home	All	All	All	Not Eligible	Not Eligible	Not Eligible
Investment Property	All	All	All	Not Eligible	Not Eligible	Not Eligible
RESTRICTED MARKET GUIDELINES						
There are no markets identified as restricted.						

1 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.

2 Construction to Permanent excludes condos and co-ops
Single-wide manufactured homes must be in GSE approved/eligible developments
Minimum 6 months reserves (PITIA) for 3-4 units

3 Maximum Amounts for AK and HI are $636,150 (1 unit), $814,500 (2 units), and $850,000 (3-4 units)

4 Available only for loan amounts eligible according to Fannie high balance or Freddie super conforming limits
Maximum Amounts for AK and HI are $954,225 (1 unit) and $1,221,750 (2 units)
Refer to the county specific loan limits to determine the maximum amount for a specific area

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 12 months
Initial Adjustment Cap:	Required for all ARMs Maximum 2% of initial fixed periods < 5 Years Maximum 3% for initial fixed period >= 5 to <7 years Maximum 5% for initial fixed periods >= 7 years
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:

- Refer to 3.4.7.1

3.1.6 Buydowns

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

- Fixed Rate Mortgages permitted
- Adjustable Rate Mortgages permitted if
  - LTV <= 95% and
  - Maximum 2-1 buydown for initial fixed term < 5 years
- Not permitted for cash-out refinances or investor properties
- Must be established and fully funded at closing

The temporary buydown must be ignored for qualifying purposes (refer to qualifying payment amount guidelines in 3.5.5.2).

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 with diplomatic immunity 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 eligible for delegated underwriting.

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

The occupancy indicated on the borrower's signed application is sufficient to document that the borrowers intend to occupy the property as a primary residence. Occupancy as primary residence should occur within 60 days of closing, unless one or more borrowers are military service members (as evidenced by a current Leave and Earnings Statement) and the following additional requirements are satisfied:

- Property: 1 Unit
- Purpose: Purchase or Rate/Term Refinance
- Rental Income: Rental income from the subject property may not be used for qualifying purposes
- Ownership of other residential property: No borrower may own other residential property

- History of subject property occupancy: For a refinance, at least one borrower must have occupied the subject property as their primary residence immediately prior to military member reporting for the duty that requires the borrowers to reside outside of the subject property (e.g., the spouse resides in the subject property while the military member is on duty elsewhere in a nearby state, and the new overseas assignment causes the whole family to relocate)
- Commitment to re-occupy as primary residence: The borrowers must provide a signed letter stating they intend to occupy the subject property as their primary residence as soon as their duty assignment (or retirement from the military) allow
- Ability to occupy within 60 days of closing: The borrowers must be unable to occupy the subject property within this timeframe due to their active military service as evidenced a copy of borrower's military service orders evidencing that the borrower's occupancy absence corresponds to the military assignment timelines stated in the military orders"

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 miss-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 restrictions described below when an existing primary residence will be or recently has been converted to a rental or second home. For purposes of this policy, a recent conversion is one that occurred within the last 60 days and/or one that is not evidenced by both a signed lease agreement and bank statements evidencing deposit of the security deposit or one or more rental payments.

1) If the existing property is being converted to an investment property, the following requirements apply: Include the PITI on the property being converted
2) Rental income from the property converted to an investment may be used to qualify only if the following additional requirements are satisfied:
    a. Evidenced by fully executed lease (use 75% of amount in calculations)
    b. Evidenced by copy of check for security deposit
    c. Bank statements showing the deposit of the security deposit (and rent payments if any made to date) are present
    d. For previously rented units in a 2-4 unit property that includes an occupied unit being converted: income may be utilized from units previously and currently rented provided the income can be documented per the borrowers tax returns. Leases are only permitted if the property being converted was acquired in the current tax year (use 75% of rental amount in calculations if

leased used).

3) Incremental reserves in excess of those required in the absence of a prior residence being converted to an investment property are required as follows: 6 months PITI for the converted property

If the existing property is being converted to a second home, the following requirements apply:

1) Include the PITI on the property being converted
2) Rental income from the property converted to a second home may not be used to qualify
3) Incremental reserves in excess of those required in the absence of a prior residence being converted to a second home are required as follows: 2 months PITI for the converted property

3.3.4 Pending Sale of Current Residence

If the prior residence is pending sale rather than being converted, the following requirements must be satisfied:

1) The PITI on the prior residence must be included in the qualifying ratios unless there is either
    a. An executed sales contract with financing contingencies removed or
    b. An executed buyout agreement as part of an employer relocation plan (of the type qualifying for the relocation discount as defined in these guidelines) where the employer/relocation company are responsible for the outstanding mortgages on the property pending sale.
2) Incremental reserves in excess of those required in the absence of a prior residence pending sale are required as follows:
    a. Pending with executed sales contract or buyout agreement satisfying the requirements above
        i. If PITI on the pending property included in the DTI: 0 months PITI on the pending property or
        ii. If PITI on the pending property excluded from the DTI: 2 months PITI on the pending property
    b. Other pending and for sale not pending:
        i. If PITI on the pending property included in the DTI: 2 months PITI on the pending or for sale property or
        ii. If PITI on the pending property excluded from the DTI: 2 months PITI on the subject property and 6 months PITI on the pending property

3.4 Purpose

Eligible purposes are listed below with applicable restrictions.

3.4.1 Purchase

Refer to section 3.2.5 for purchase restrictions related to non-arm's length transactions.

3.4.2 Rate and Term Refinance

To qualify for rate and term refinance, the following requirements must be satisfied:

- One of the following requirements must be satisfied:
  - At least one borrower on the new loan must be on title, and if primary residence or second home, have resided in the subject property for 6 or more months immediately preceding the application date
  - At least one borrower on the new loan must have inherited the property or been legally awarded the property through divorce, separation or dissolution of a domestic partnership
- 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 (via either a first or subordinate lien)
- The new loan proceeds may only be used for one or more of the following:
  - Pay off the existing first lien
  - Pay off subordinate liens used entirely to purchase the property
  - Pay off nonpurchase-money subordinate liens seasoned for at least 12 months prior to the loan application date and (if a home equity line of credit) with total draws during the 12 months preceding the application date not in excess of $3,000
  - Pay an individual who has been a joint owner for at least 12 months immediately prior to the application date (12-month requirement does not apply in the case of inheritance) for their interest in the property pursuant to a written agreement (e.g., divorce, separation, dissolution of a domestic partnership, etc.)
  - Pay reasonable and customary financing costs/closing costs/prepaids (consistent with the GSE's definition of permissible expenses)
  - Payoff of Property Assessed Clean energy (PACE) obligations. A PACE obligation includes any energy retrofit obligation used to finance energy conservation improvements that is repaid through a property tax assessment

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.

National MI may offer a borrower participating in an employer-sponsored corporate relocation program a pricing benefit (refer to the rate card for details) provided all of the following conditions are satisfied:

- The borrower is a transferred or new employee purchasing a primary residence
- The borrower is participating in a formal program sponsored by the borrower's employer (or agent) evidenced by a copy of the relocation agreement and/or other documentation detailing the nature and amount of the employer's contribution
- The employer's contribution is equal to at least 3% of the new loan amount and is used for closing costs (on property being purchased and/or sold), discount points, below-market bridge-loan financing, ongoing subsidy payments related to cost differences, moving expenses, or other expenses related to the relocation.

3.4.5 Construction to Permanent

Construction to Permanent loans must meet the eligibility requirements described in this section and in the applicable eligibility matrix contained within this manual.

National MI will insure one-time close loans and two-time close loans as follows:

- One-time close eligible – the interim construction financing and the permanent end loan financing are combined into a single closing (no second closing needed because the original documents from the single closing specify the terms of the permanent financing). The lender may elect to activate coverage at closing so that the coverage includes the construction phase, or elect to activate coverage upon completion of the property and forego coverage during the construction phase.
- Two-time close eligible - defined as a construction loan that upon property completion (following construction period where lender manages draws/disbursements) is replaced by a permanent end loan evidenced by a new note signed by the borrowers and originated via a second closing in which the construction loan is replaced with the new permanent loan. The lender that provides the permanent financing may be different from the lender that provides the interim construction financing. In the two-time close scenario, the loan should be submitted as a refinance and not as Construction to Permanent.
- Cash out is not permitted for either one-time or two-time close loans. Cash to the borrower at closing that is reimbursement for documented borrower-paid construction expenses is not considered cash out.
- Transactions where the borrower uses the construction financing to a) both purchase the lot and finance construction of the property ("purchase" as defined by the GSEs) or b) only finance construction of the property when title to the lot is owned prior to

the application for construction financing ("limited cash-out" or "no cash out" as defined by the GSEs) are permitted as one-time or two-time close loans.

One-time Close Construction to Permanent LTV should be calculated as follows:

- Lot acquired after date of construction loan application, then use lesser of
  - » As completed appraised value or
  - » Purchase price (lot sales price plus sum of the construction costs)
    - » If lot was gifted or otherwise obtained via means other than purchase after the date of the construction loan application, use the current appraised value of the lot
- Lot acquired prior to the date of the construction loan application, then use the as-completed appraised value

The value of a lot obtained via gift or inheritance does not count toward borrower contribution requirements described in the applicable eligibility matrix

Note: Construction to Permanent commitments require that borrower documents be current at time of commitment approval (refer to Section 3.11 Age of Documentation).

If the appraisal becomes more than 12 months old, a new appraisal is required.

Commitments are as follows:

1. One-time Close: 12 months
2. Guidelines and pricing in effect at the time of the commitment will be honored during the commitment period (even if the guidelines and/or pricing change) provided the terms of the loan/insurance do not change. Proposed changes to existing commitments alter the risk profile of the commitment and must be re-approved as described below.
3. For Construction to Permanent One-time Close 12 month commitments, the only supporting documentation that must be updated is the following if they are more than 120 days old at activation:
   a. Verbal VOE. If the verbal VOE reveals that the borrower has changed employment from what was initially disclosed and verified, then updated loan application, employment and income documentation from the borrower is required, and the mortgage insurance must be re-underwritten taking into consideration changes to any of the updated information.
   b. Recertification of Value. If the recertification of value shows the current value is lower, a new appraisal is required and the borrower must qualify (using guidelines and pricing in effect at original commitment) at the new higher LTV.
   c. Payment history on the subject property loan showing zero 30-day or more delinquencies during the construction phase.

d. Note: If the updated documents are not submitted to National MI at activation and a claim is later made, the documents will be required to perfect the claim.

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 and pricing 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. For qualifying borrowers, a new commitment will be issued reflecting the changes. The timeframe (12 months) starts again from the date of the new commitment.

MI coverage may be activated as follows:

- One-time Close: On either the date of the interim construction loan closing or conversion or modification to a permanent loan provided the following requirements are met:
  - The loan must be current at the time of MI activation
  - If the loan is activated at conversion or modification to a permanent loan following completion of construction, no 30-day or more delinquencies during the construction loan are allowed
  - Prior to finalizing claim payment, the lender must document that the subject property and its improvements have been completed to standards consistent with the original valuation (evidenced by appraiser's final inspection and occupancy permit from the appropriate jurisdiction)

3.4.6 Home Renovation (Improvement)

Renovation loans are either purchase or limited cash out (rate and term) refinance loans that include funds for the borrower covering costs of repairs, remodeling, renovations and/or energy improvements (condo/co-op work must be limited to the interior). Loan proceeds must be fully dispersed at closing into an escrow or similar account, and the lender must insure the improvements are completed. Loans with draw features or where interest is charged only as the funds are dispersed are not eligible as renovation loans and must be underwritten in accordance with construction-to-permanent requirements. The improvements must be permanently affixed to and add value to the real property.

National MI will insure renovation loans that satisfy the following requirements:

- Single family primary residence
- Borrowers are individuals
- LTV is calculated based on an "as completed" appraised value
- Cost of renovation may not exceed 50% of the "as completed" appraised value. If the

existing structure will be completely torn down and replaced by a new structure, the loan is not eligible as a renovation loan (even if the cost is less than 50% of the "as completed value) and the loan must be approved as construction-to-permanent

- Standard 120 commitments apply and standard Age of Documentation requirements (contained in Section 3.11) must be satisfied. Guidelines and pricing in effect at the time of the commitment will be honored during the commitment period (even if the guidelines and/or pricing change) provided the terms of the loan/insurance do not change. Proposed changes to existing commitments alter the risk profile of the commitment and must be re-approved.
- Insurance must be activated at closing
- Renovation work must be completed no later than 12 months from the date the mortgage is closed
- Prior to finalizing claim payment, the lender must document that the subject property and its improvements have been completed to standards consistent with the original valuation (evidenced by appraiser's final inspection and occupancy permit (when applicable) from the appropriate jurisdiction)
- Lenders must follow GSE requirements with respect to the following:
    - Expenses that may be considered part of the renovation costs
    - Plans and specifications
    - Contractor requirements
    - Energy Report requirements
    - Escrows for mortgage payments during the renovation phase
    - Contingency Reserves
    - Renovation Escrow Account
    - Completion Documentation (certificate of completion, title update, lien releases, etc.)
    - Energy Improvement limits and requirements

3.4.7 Affordable Lending

3.4.7.1 General Requirements

National MI's Non-AUS (Manual Underwriting) affordable guidelines are applicable to both Housing Finance Agency (HFA) and non-HFA loan programs so long as the individual loans meet National MI's guidelines described in the applicable eligibility matrix and this section of the manual:

- One-unit (detached, attached, condos and coops) and two-unit properties are eligible.
- Borrowers must meet GSE affordable lending eligibility requirements and income limitations (and applicable HFA requirements (if any) that may be more restrictive than GSE requirements). This applies to all borrowers (e.g., even if the loan is originated in accordance with a non-GSE portfolio program).
- First-time Home Buyers must complete GSE-eligible pre-purchase homebuyer education required by National MI. All borrowers must also comply with other educational requirements (if any) per applicable GSE and/or HFA requirements.
- Fixed rate loans and adjustable rate loans with an initial fixed term of 3 years or more are permitted. ARM LTVs may be limited based on the length of the initial fixed period – refer to the eligibility matrix for details.
- Second liens that meet Fannie Mae Community Second or Freddie Mac Affordable Second guidelines are permitted. Refer to the eligibility matrix for the maximum LTV and CLTV.
- Financed MI must meet the following requirements:
  - » 1-Unit: The LTV and CLTV including any financed MI must adhere to National MI LTV and CLTV limits
  - » 2-4 Units: Not permitted

3.4.7.2 Reserves

National MI Non-AUS (Manual Underwriting) Affordable Lending reserve requirements are as follows:

- 1 Unit:
  - » 0 Months: Rate/Term refinance with lower payments
  - » 2 Months: Purchase and all other refinances
- 2-Units:
  - » 2 Months: Rate/Term refinance with lower payments
  - » 3 Months: Purchase and all other refinances
- 3-4 Units: 6 months

3.4.7.3 Borrower Contributions

Borrowers approved in accordance with National MI's Non-AUS Affordable Lending guidelines must meet borrower contribution requirements. Occupant borrowers must contribute a minimum 3% from their own funds unless they qualify for the Affordable Gift Feature described in 3.4.7.4. Contributions must be verified and be from sources that qualify as borrower contributions in accordance with GSE requirements.

3.4.7.4 Gifts, Grants and the Affordable Gift Feature

National MI's Non-AUS Affordable Lending guidelines permit gifts and grants from a GSE eligible source, but these amounts do not count toward the minimum borrower contributions or reserves requirements unless the gifts/grants are eligible under the Affordable Gift Feature described below.

Affordable Gift Feature

This feature is available only to borrowers who qualify under National MI's Non AUS Affordable Lending guidelines (refer to the Affordable Lending Matrix in Section 3.13). Gifts and grants may be used to satisfy some or all of the required borrower contributions and reserves if all of the following requirements are met:

- Grantor/Giftor Eligibility
  - Parent, Grandparent, Sibling, or Spouse (biological, adoptive, step, marriage, fiancé', domestic partner)
  - Church, employer, non-profit or municipality (provided in lieu of forgivable 2nd liens or the equivalent)
  - Donor may not be affiliated with an interested party in the transaction
  - Documented per GSE requirements
- Recipient Eligibility
  - Does not own other residential property
  - No prior bankruptcy, deed-in-lieu, foreclosure or short sale
- Loan Eligibility
  - Purchase 1 Unit only
  - No subordinate financing
  - All borrowers must occupy the property
  - FICO and DTI is:
    - LTV <=95%: >=700 and <= 41%
    - LTV > 95%: >=720 and <=41%

3.4.8 Special Programs

3.4.8.1 Medical Professional Program

This program is applicable to borrowers actively practicing in their field in one of the following professions:

- Medical (may be in internship or resident phase)
- Dental (may be in internship or resident phase)
- Ophthalmologists (may be in internship or resident phase)

Qualifying medical professionals must also satisfy the following eligibility requirements:

- Occupancy: Primary Residence
- Purpose: Purchase or rate/term refinance
- Property Type: 1 Unit single family or warrantable condo/co-op
- Maximum DTI: 45%
- Loan Amount, LTV, FICO and Reserves

Max Loan Amount	LTV	FICO	Reserves
$417K	97%	700	2 months
$650K	95%	700	2 months
$850K	90%	700	6 months
$1,000K	90%	720	6 months

- Student Loan Payment History: No 30DPD permitted ever
- Products: Limited to Fixed Rate or ARMs with minimum initial fixed term of 3 years
- Minimum Occupant Borrower Contributions:
  - » 97% LTV: Minimum 3% from borrower's own funds
  - » 95% LTV: Minimum 5% from borrower's own funds
- Non-Occupant Co-borrowers: Not considered when determining qualifying DTI
- Secondary Financing: Not permitted
- Limited to Retail originated loans submitted for MI by the originating lender
- Lender must track and monitor loans and provide reports to NMI upon request

Monthly payments on student loans may be **excluded** from the debt calculation provided that borrower provides either:

- A letter from student loan servicer confirming that student loan payments were approved for a minimum of 12 months of deferment from the date of the mortgage loan application date or a letter from the employer verifying the residency will continue for a minimum of 6 months (both from the application date) or
- Borrower provides evidence that the medical professional's employer is making the student loan payments on the borrower's behalf as evidenced by an employment contract or other written documentation indicating the amount and duration of the payments approved for the borrower and that those payments will continue for a minimum of 3 years
- Note: Per existing guidelines (3.5.1.8 – Employment Offers and Compensation Increases), new employment and/or pay increases may be used for qualifying provided they are to occur within 90 days of loan closing (refer to the TrueGuide for details)

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.

Qualifying income should reasonably 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. The documentation required to determine the amount of income that can be relied upon varies according to the income type and materiality, the applicant's ownership interest in the income source, and other factors described in the guideline sections that follow. The requirements described for each type of income within Section 3.5.1 of the TrueGuide and the applicable GSEs requirements must be satisfied.

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 to supplement/confirm standard income documentation when:

- Self-employment income is necessary to include in the qualifying income or
- The lender has obtained the transcripts prior to submitting the file to National MI

Definition of "Last Year" (i.e., Most Recent Year)

In the following subsections of Section 3.5.1, the terms "last years" or "last 2 years" are used to describe income documentation requirements. Early in a new year, precisely what "last year" means may be uncertain. Last Year (i.e., most recent year) means the following for purposes of income documentation:

- W-2s
  - If the loan application is dated prior to 2/1 of the current year, and income verification documentation is current and not expired at the time of underwriting, the W-2 from the prior year is preferred but not required (e.g., MI Underwriting on 3/1/16 for an application dated 1/1/16, then the W-2 for 2014 may be accepted as "last years" W-2 (in lieu of the 2015 W-2), and the W-2s for 2013 and 2014 may be accepted as the last 2-years (in lieu of 2014 and 2015).
  - If the loan application is dated on or after 2/1 of the current year, then the W-2 from the prior year is required (e.g., MI underwriting on 3/1/16 for an application dated 2/2/16, then "last years" W-2 is the W-2 for 2015, and the last 2 years W-2s are those for 2014 and 2015.
- Tax Returns
  - The most recent years (or last years) tax return is defined as the last return scheduled to be filed with the Internal Revenue Service (e.g., on 4/15/16 the 2015 returns become the most recent year for new applications). National MI defers to GSE requirements with respect to this document, so additional details can be found in the applicable GSE's guidelines.

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 and related expenses reported on the applicable forms described below
- Calculation- Use either of the following options
  - » Cash Flow Approach: If the borrower reports the allowance on IRS Form 1040 Schedule C or IRS Form 2106, add amounts in excess of monthly expenditures to income or add expenses in excess of the monthly allowance to monthly obligations
  - » Income and Debt Approach: If the borrower does not report the allowance on either Schedule C or Form 2106, include the allowance in income and the auto loan/lease payments in monthly obligations

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

This policy section does not apply to temporary leaves (see 3.5.1.28).

- 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 and Compensation Increases

- Employment offers and compensation increases may only be utilized if all of the following requirements are met:
    - Offer/Increase (amount and effective date)is documented by an employment contract signed by both the borrower and the employer or otherwise well documented
    - The employment and income is in the same line of work and/or

consistent with education (new graduates) and is reasonable given the borrower's circumstances and information contained in the loan file
    - Additional reserves are verified to enable the borrower to make the mortgage payment during the pre-job/pre-increase period
    - Eligible source is base pay (salary, hourly, social security, etc.) – variable pay (commission, overtime, bonus, etc.) or self-employment income requires a history and new offers or increases cannot be considered
    - The borrower's first day of employment or the date of the increase is within 90 days of closing
- Calculation: Use the offer or increased 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, housing, 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.
- Refer to 3.5.1.8 for new employment offers and compensation increases
- 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

Qualifying Income – General Requirements

Self-employment income that *reasonably* can be expected to be *distributed* to the borrower (or is in possession of the borrower, e.g., Schedule C income) and can *reasonably* be expected to *continue* for at least the next three years may be included in qualifying income. A reasonable expectation requires a documented history of receipt (typically 2 years) and an analysis assessing the stability of business income and the ability of the business to continue to generate income consistent with the distributions used for qualifying purposes. The documentation and level of analysis required to determine the amount of income that can be relied upon varies according to the income type and materiality, the applicant’s ownership interest in the income source, and other factors described in this section. The requirements described for self-employment income within the

TrueGuide and the applicable GSEs requirements must be satisfied.

Documentation of Income History

- Copy of two years signed personal tax returns (see also "Definition of 'Last Year' (i.e., Most Recent Year) in section 3.5.1.1) INCLUDING
- All schedules including K-1's (if applicable) AND
- Two years Business tax returns (if applicable)
- Notes
  - Unless there is something to the contrary in the documentation, borrowers are presumed to have ongoing access to business income and need not provide partnership agreements or corporate resolutions to evidence ongoing access.
  - Complete and legible IRS-issued tax transcripts may be used in lieu of personal and/or business tax returns

In the following circumstances, lesser documentation may be accepted:

- Business returns may be waived if two years of personal returns are provided and applicable (if any) GSE requirements permitting waiver are satisfied
- Only one year of personal and business returns may be provided if consistent with the GSE AUS approval and provided that applicable (if any) GSE requirements permitting waiver are satisfied
- If the borrower previously worked in a similar occupation (same products/services and/or similar responsibilities) as supported by the most recent tax returns showing income from a similar occupation in an amount at the same or greater level than used in qualifying; then a 12-24 month history may be considered in lieu of a 2 year history
- If the qualifying borrower's income excludes self-employment income entirely, and there is a co-borrower that is self-employed that will not be used for qualifying, then National MI does not require that the co-borrower's self-employment income be documented or analyzed. Note that the GSEs may require a minimum level of documentation and if there is a meaningful loss, additional documentation and an analysis of personal and business tax returns.

Less Than 25% Ownership – Schedule K-1 Income

The general requirements described above apply even though this income is not considered self-employment (because of the borrowers' lower ownership interest). If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income consistent with the qualifying K-1 business income, then no further documentation or analysis of business income is required. If the Schedule K-1 does not reflect the above, then the business must be analyzed to confirm sufficient liquidity to support ongoing withdrawals of income consistent with the amount used for qualifying.

Greater Than 25% Ownership – Schedule K-1 Income

Any individual who has a 25% or greater ownership interest in a business is considered to be self-employed.

A written analysis of the borrower's personal tax returns must be completed to determine stable and continuing qualifying self-employment income. However, if the borrower is qualified using only income that is not derived from self-employment and the self-employment is secondary and a separate source of income, then in this case a written analysis of self-employment income is not required.

A written analysis of the borrower's business income is also required if self-employment income is used for qualifying purposes. The analysis should confirm that the business has sufficient liquidity to support ongoing withdrawals of income consistent with the amount used for qualifying. A 2 year average income should be calculated. Trends should be evaluated and considered in accordance with the Income Stability requirements in section 3.5.1.1 of these guidelines.

If assets from the business rather than personal assets are being used for the down payment, closing costs or reserves, then a cash flow analysis must be completed to assess the impact and confirm it will not affect the ability of the business to earn income consistent with the borrower's qualifying income.

Calculation of Qualifying Income

» Develop a 2 year average of the income.

» Refer to Fannie Mae or Freddie Mac requirements for details on underwriting self-employed borrowers.

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 3.5.1.1 for guidelines regarding gross up of non-taxable income.

3.5.1.28 Temporary Leave

Temporary leaves include maternity or parental leave, short-term medical 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 income to be counted, the borrower must provide:
  - » Written confirmation of his or her intent to return to work on a specific date and
  - » Confirmation of the agreed upon date of return evidenced by written documentation from the employer or employer designee (if a third party manages leave for the employer).
- When the borrower documents return to work will occur on or before the first mortgage payment due date, documented pre-leave income should be used or the borrower's verified post leave income if different.
- If the borrower will not return to work by the first payment due date, the lesser of the following must be used:
  - » Documented pre-leave income or the borrower's verified post leave income if different
  - » Documented temporary leave income. If needed to qualify, an additional amount may be added to temporary leave income for qualifying purposes – the addition is from verified liquid assets available to pay short-term living expenses. The additional amount is calculated by dividing the borrower's verified liquid assets (minus any funds needed to close and required reserves) by the number of months the liquid assets will be used to supplement income.
    - The number of months should be the sum of the months beginning with the month in which the first payment is due and ending with the month which the borrower returns to work. For example, if the first payment will be due January 1st, and the borrower will return to work on April 15, the number of months is 4 in the above calculation.
    - Liquid assets include cash and other assets that are easily converted to cash by the borrowers. They include:
      - Checking or savings accounts
      - Investments in stocks, bonds, mutual funds, certificates of deposit, money market funds and trust accounts (excluding those in retirement/tax deferred accounts)
      - If tax deferred retirement/IRA/401k/etc. funds will be used, the amount utilized in the calculation should be net of estimated income taxes (based on the borrower's income level) and estimated penalties for early withdrawal (if applicable). Note: If a loan secured by these assets is obtained to generate liquid assets, the corresponding payment must be included in the qualifying ratios.

- Cash value of fully vested life insurance
- 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 Mortgage Credit Certificate (MCC)

- A copy of the MCC award (purchase) or written confirmation (reissue certificate) from the MCC provider evidencing that the MCC will remain in place (refinance)
- Calculation

- » Add the maximum MCC benefit (loan amount times note rate divided by 12) to the qualifying income (not a deduction to the mortgage payment)

3.5.1.34 Ineligible Sources of Income

- **Income types described above that cannot be documented** in accordance with National's requirements
- **Accessory Unit Income** (A single family or two-unit property with an accessory unit is an eligible property type if it meets the requirements in 3.6.1.9, but the income from the rental of the accessory unit is ineligible (cannot be counted))
- **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 unless it satisfies the requirements in 3.5.1.8
- **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)

3.5.1.35 Unreimbursed Business Expenses

Employees who pay out of their own pocket (unreimbursed) ordinary and necessary business expenses must file IRS Form 2106 to deduct those expenses from their income. Unreimbursed business expenses must be deducted from qualifying income (both commission and non-commission). Actual vehicle business expenses from Form 2106 should be included in the unreimbursed business expenses. Vehicle depreciation should be excluded from unreimbursed business expenses.

3.5.1.36 Other Eligible Income

- **Marijuana - cultivation, distribution and sale**: This activity is not permitted according to federal law, but may be permitted in some states. The conflicting legal status raises questions about continuity. Only in states where the activity is legal, salary and hourly income (and related bonus, commission and overtime income) earned by borrowers employed in this industry is eligible. Bonus and commission income is eligible only if there is a 1-year history in the marijuana industry and a total history of 2 or more consecutive years including prior employment. Self-employment income is not eligible. Refer to Sections 3.5.1.23 (Salaried/Hourly), 3.5.1.4 (Bonus or Overtime) and 3.5.1.6 (Commission) for documentation and calculation requirements.

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 120 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 120 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 25% 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 to determine contribution (refer to section 3.4.5 for requirements related to lot value for purposes of Construction to Permanent LTV calculation)
- **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
- **Sweat Equity** is permitted only if the specific lending program is managed by a strong, experienced nonprofit organization with a minimum 5% down and a minimum 3% from the borrower's own funds (with 2% sweat equity).

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 that does not meet the requirements of Section 3.5.3.2 (above)

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 6%
- 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 unless a higher minimum is specified in the applicable product eligibility matrix. 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:

- Conversions: If a purchase loan is being insured, and the borrower is changing the occupancy of an existing property (e.g., current primary residence will become a rental), refer to section 3.3.3 (Occupancy Conversions) for additional reserve requirements

- Pending Sale: If the borrower's current residence is pending sale, refer to section 3.3.4 (Pending Sale of Current Residence) for additional reserve requirements
- For Sale: Pending Sale requirements in section 3.3.4 apply

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 must be determined in the manner described in section 3.5.5.2 for student loans
- 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
- **Student Loans**: For each borrower separately, sum the outstanding balances from all student loans (regardless of their payment status) and calculate a qualifying minimum payment of 0.50% of the total combined balance.
- **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 or Second Home; or pending sale of current primary residence or second home:** Refer to section 3.3.3 of this manual.
- **Bridge Loans:** Borrower must be qualified including mortgage payments on the current home (PITIA plus Bridge loan payments)
- **Alimony, Child Support and separate Maintenance:**

  If the borrower . . .
  - » Discloses specific payments for alimony, child support or separate maintenance in the liabilities section of the application or
  - » Discloses in the declaration that "yes" they are obligated to make such payments or
  - » Submits tax returns deducting alimony payments or
  - » Has provided some documentation that should cause an underwriter to believe alimony, child support or maintenance obligations may be present

  Then National MI requires written documentation supporting the payment. Absent such disclosure (even if the borrower is separated with dependents or unmarried with dependents), then National MI does not require written documentation. If the borrower declares the payment is voluntary or that no written agreement exists (perhaps no such agreement has yet been finalized), then no payment needs to be included.

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 and 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.

3.6.1.4 Two-Four (2-4) Units

Two-four 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 and Manufactured Housing

A manufactured home is any dwelling unit built on a permanent chassis and attached to a permanent foundation system. An eligible Manufactured home must meet the following requirements:

- Wheels and hitch removed

- Classified as real property including the land to which it is affixed
- Double-wide (single wide not permitted)
- Satisfies or exceeds all GSE eligibility requirements

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, the 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.

3.6.1.13 Resale Restrictions

Resale restrictions are a right in perpetuity or for a certain number of years that may limit the use or resale of the property. They can take many forms including a restriction, covenant or condition of a deed. These restrictions are binding on current and subsequent property owners and remain in effect until they are formally removed or terminated in accordance with their terms (e.g., foreclosure). Because they can impair the marketability of the insured property, they are not permitted except in the following circumstances:

- Affordability-Related

  The loan must be originated in accordance with a program managed by a GSE-eligible sponsor with procedures for screening and processing applicants. The applicants' qualifying income cannot exceed GSE limits for affordable programs. Only 1-unit primary residence purchase and rate/term refinance loans are eligible.

LTV Calculation:

- If the affordability-related resale restrictions terminate automatically upon foreclosure (or expiration of any applicable redemption period), the appraisal should reflect the market value of the property without resale restrictions, and it is permissible to calculate LTV based on the appraised value without resale restrictions (typically higher than the sales price) as an alternative to the approach described in Section 3.7 (lesser of sales price or appraised value with restrictions in place).
- If the affordability-related resales restrictions survive foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparable sales with similar restrictions. The LTV should be calculated based on the lesser of the sales price or appraised value with restrictions in place.

- Age-Related
    - Restrictions that require one or more occupants are age 55 and over are acceptable. Restrictions with higher age requirements or those that require all occupants meet age requirements are not eligible. Only 1-unit purchase and rate/term refinance loans are eligible. The LTV should be calculated in the same fashion as described in the above affordability-related section (in most cases the age-related restrictions will survive foreclosure).

Except with respect to GSE loan amount limits or as otherwise specific above, loans with resale restrictions must be eligible according to the requirements of Fannie Mae or Freddie Mac.

3.6.2 Ineligible Property Types

- Apartment/hotel conversions that do not satisfy agency eligibility and project requirements
- 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 – Single Wide: Refer to “Factory-Built and Manufactured Housing” in section 3.6.1.7 of this manual for requirements for double wide manufactured homes.
- 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
- Properties with resale restrictions (unless permitted as described in Section 3.6.1.13 (Resale Restrictions))
- Timeshares
- Unique properties where marketability in the local market cannot be established

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
- Community Land Trusts (CLTs) satisfying the above criteria are eligible. CLTs are developed by nonprofit organizations or public entities to create and preserve long-term affordable housing. The CLT sells the home, retains ownership of the land, and provides an affordable below-market ground lease to the buyer. Provisions of the ground lease typically guarantee continued use of the property for low and moderate-income borrowers via restrictions affecting resale of the property improvements. Because the buyer is paying a subsidized price, the sales price is not an indicator of market value – therefore the LTV ratio must be determined by dividing the loan amount by the

appraised value of the improvements and leasehold interest. The appraisal must be prepared in accordance with applicable GSE requirements.

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 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.

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.

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)
- Note: FHA appraisals are acceptable provided they are on the Fannie/Freddie acceptable forms noted above

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

When mortgage insurance is required, the lesser of the appraised value or sales price is used to calculate the LTV and CLTV ratios and determine the applicable National MI guidelines and pricing (unless otherwise specific in Section 3.6.1.13 (Resale Restrictions). Maximum LTVs and CLTVs are described in the applicable product matrix. Note that individual states may require that lenders and/or mortgage insurers use different calculations to determine whether or not mortgage insurance is required or permitted. Refer to Section 3.12.7 for state eligibility restrictions related to LTV.

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

For Construction to Permanent 12 month commitments, please also refer to section 3.4.5

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. Note: Refer to section 3.4.5 for Construction to Permanent loan requirements.

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 identity, 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.

3.12.6 Comprehensive Credit Assessment

The insured originator must make a prudent comprehensive credit assessment considering all factors relevant to the granting of credit. This assessment includes but is not limited to factors described in National MI requirements (credit, capacity, collateral, etc.). The assessment should also address the layering of risk variables to ensure that they are not excessive and confirm that the intent of National MI guidelines and pricing is not circumvented. 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. Any excessive layered risks or risk characteristics must be mitigated. If the insured originator is unable to obtain additional information necessary to allay the concerns and/or mitigate excessive risk characteristics, the loan is not insurable.

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

3.12.7 State Restrictions

<u>New York</u>

New York prohibits the placement of MI on certain loans according to specified means of calculating LTV (the "New York LTV Assessment"). National MI has therefore established the following requirements:

- The New York LTV Assessment must be made to determine if MI may be placed for certain loans based on MI type, property location, and Master Policy Holder:
  - BPMI Loans: Property is located in New York – New York LTV Assessment Required
  - LPMI Loans: Property is located in New York and Master Policy Holder (MPH) is domiciled in New York – New York LTV Assessment Required (an assessment is not required for LPMI loans if the MPH is domiciled outside of New York)
- When required, the following New York LTV Assessment must be made to determine if MI may be placed. The assessment considers property type and loan purpose.
  - All Property Types except Cooperative Property
    - All purposes: If LTV (based on the appraised value) is less than 80%, then MI cannot be placed on the loan. If MI is allowed, then for mortgage insurance purposes the LTV must be calculated based on the lower of the purchase price or appraised value.
  - Cooperative Property
    - Purpose is purchase or construction to permanent: If LTV (based on the purchase price) is less than 80%, then MI cannot be placed on the loan. If MI is allowed, then for mortgage insurance purposes the LTV must be calculated based on the lower of the purchase price or appraised value.
    - All other purposes: If LTV (based on the appraised value) is less than 80%, then MI cannot be placed on the loan. If MI is allowed, then for mortgage insurance purposes the LTV must be calculated based on the lower of the purchase price or appraised value.

<u>All Other States</u>

No restrictions.

3.12.8 Third Party Verification Services

The Master Policy Holder is responsible if ensuring the accuracy and integrity of the information provided by third-party verification services. Consequently, National MI does not vet these providers or maintain a list of approved companies.

3.13 Product Eligibility Matrices – Non AUS Conforming, Non AUS Jumbo and Non AUS Affordable Loans

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)[1]
- Minimum 2 months reserves
- DU® Approve/Ineligible or LPA℠ Accept/Ineligible loans which meet the requirements in this matrix and are otherwise eligible in accordance with Section 3.0 guidelines can now follow the AUS documentation requirements for income, assets and employment
- ARM maximum LTV/CLTV 95%, minimum initial fixed term 1 year (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: None

Occupancy	Loan Purpose	Property Type[2]	Loan Amount[3]	Maximum LTV/CLTV	Minimum FICO	Maximum DTI
STANDARD MARKET GUIDELINES						
Primary Residence	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family Condo or Co-op	$424,100	97%	680	45%
		Single Family Condo or Co-op	$636,150	95%	660	45%
		Single Family Condo or Co-op Manufactured Hm	$636,150	90%	660	45%
	Cash-Out Refinance	Single Family Condo or Co-op	$424,100	85%	680	45%
	Purchase or Rate / Term Refinance or Construction to Permanent	Two-Unit 3-4 Units	$543,000 $636,150	95% 90%	680 720	45%
Second Home	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family Condo or Co-op Manufactured Hm	$424,100	90%	680	45%
Investment Property	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family Condo or Co-op	$424,100	85%	720	45%
RESTRICTED MARKET GUIDELINES						
There are no markets identified as restricted.						

1 Refer to section 3.5.1 of the manual for details on documentation for specific types of income

2 Construction to Permanent excludes condos and co-ops
Manufactured homes must be classified as real property and double-wide (single-wide not permitted)
Minimum 6 months reserves (PITIA) for 3-4 units

3 Maximum Amounts for AK and HI are $636,150 (1 unit), $814,500 (2 units) and $850,000 (3-4 units)
1 Unit: $636,150 denotes where FHFA High Balance maximums apply (AK/HI High Balance maximum is $954,225) - Loan amount may not exceed the applicable FHFA maximum. Manufactured home maximum is $424,100
2-4 Units: FHFA High Balance Maximums do not apply

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)[1]
- Minimum 6 months reserves
- ARM 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, Investment Properties and Restricted Markets are ineligible
- Exterior only appraisals or evaluations; property inspection waivers, AVMs or BPOs are not permitted
- Geographic Exclusions: None

Occupancy	Loan Purpose	Property Type	Loan Amount	Maximum LTV/CLTV	Minimum FICO	Maximum DTI
STANDARD MARKET GUIDELINES						
Primary Residence	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family Condo or Co-op	$650,000	95%	700	45%
		Single Family Condo or Co-op	$650,000 $750,000 $850,000 $1,000,000	90%	660 680 700 720	45%
	Cash-Out Refinance	All	All	Not Eligible	Not Eligible	Not Eligible
	All	Two-Unit	All	Not Eligible	Not Eligible	Not Eligible
Second Home	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family Condo or Co-op	$650,000 $750,000	90%	700 720	45%
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.						

Construction to Permanent excludes condos and co-ops

[1] Refer to section 3.5.1 of the manual for details on documentation for specific types of income

PRODUCT ELIGIBILITY | Non AUS Affordable Lending

NON AUS GUIDELINE SUMMARY – CONFORMING AFFORDABLE LENDING LOANS

Affordable Lending loans that are **not** originated in accordance with National MI's "AUS Plus Overlays" Affordable Lending program must meet the following underwriting rules and be originated in accordance with National MI's Standard Underwriting Guidelines including the Affordable Lending requirements described in Section 3.4.7:

- Full income documentation is required (Paystub + W2s; 2 Years Tax Returns; and/or standard requirements as applicable)[1]
- DU® Approve/Ineligible or LPA℠ Accept/Ineligible loans which meet the requirements in this matrix and are otherwise eligible in accordance with Section 3.0 guidelines can now follow the AUS documentation requirements for income, assets and employment
- ARM maximum LTVs: 95% (initial fixed term 7+ years), 90% (3-<7 years) or ineligible (<3 years)
- Exterior only appraisals or evaluations, property inspection waivers, AVMs or BPOs are not permitted
- Non-traditional credit is not permitted
- Minimum 3% contribution from occupant borrower's own funds. Affordable Gift Feature (refer to Section 3.4.7.4 for requirements) permits 100% gift/grant for qualifying borrowers covering borrower contributions and reserves.
- Geographic Exclusions: None

Occupancy	Loan Purpose	Property Type[2]	Loan Amount[4]	Maximum LTV/CLTV	Minimum FICO	Maximum DTI
STANDARD MARKET GUIDELINES						
Primary Residence	Purchase or Rate / Term Refinance or Construction to Permanent	Single Family or Condo	$424,100	97%/105%	680	45%[3]
		Single Family Condo or Co-op	$424,100	95%/105%	640	45%[3]
		Single Family Condo or Co-op Manufactured Hm	$424,100	90%/105%	640	45%[3]
	Cash-Out Refinance	All	All	Not Eligible	Not Eligible	Not Eligible
	Purchase or Rate / Term Refinance or Construction to Permanent	Two-Unit 3-4 Units	$543,000 $636,150	95%/105% 90%/105%	680 720	45%[3]
Second Home	All	All	All	Not Eligible	Not Eligible	Not Eligible
Investment Property	All	All	All	Not Eligible	Not Eligible	Not Eligible
RESTRICTED MARKET GUIDELINES						
There are no markets identified as restricted.						

1 Refer to section 3.5.1 of the manual for details on documentation for specific types of income.

2 Construction to Permanent excludes condos and co-ops

Manufactured homes must be classified as real property and double-wide (single-wide not permitted)

Minimum 6 months reserves (PITIA) for 3-4 units

3 Maximum 41% if the Affordable Gift Feature is utilized.

4 Maximum Amounts for AK and HI are $636,150 (1 unit), $814,500 (2 units) and $850,000 (3-4 units)

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 (not required for online submissions or electronic deliveries that include detailed MI information)
- 1003 Loan Application
- 1008 Underwriting Transmittal Summary
- AUS final reports – DU® Findings/LPA℠ 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®/LPA℠)
- 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 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

4.3.2 Data Entry Only

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

4.3.3 Electronic Delivery

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

4.3.4 Fax

Fax to National MI's Underwriting Fulfillment department at 510.858.0340

4.3.5 Email

Contact your Sales Advisor should secure email submission be necessary.

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), meaning:

1. Guidelines and pricing in effect at the time of the commitment will be honored during the commitment period (even if the guidelines and/or pricing change)
2. For 120 day commitments, supporting documentation (credit, income, asset, verbal VOE, and appraisal) must be updated as necessary to comply with the applicable age of documentation requirements described in Section 2.0 (AUS Plus Overlays) or Section 3.0 (Non-AUS Dependent – Standard Guidelines (see 3.11)) of these guidelines.
3. For Construction to Permanent 12 month commitments, refer to section 3.4.5 of this manual.

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 and pricing 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

EFFECTIVE DATE	REVISION SUMMARY
4.3.2013	Version 1.0 – First Effective
4.22.2013	Version 1.1 – Clarification to Section 4.2.2 describing when a National MI Application is not required
5.3.2013	Version 1.2 – Added (Section 1.1) and updated (Section 3.6.5) footnotes documenting the number of approved states
6.1.2013	Version 1.3 – Updated footnotes and text referencing the number of approved states
9.15.2013	Version 1.4: • Clarified 3.5.1.7 (Disability) to document that it does not apply to temporary leave (3.5.1.28) • Clarified and modified the temporary leave (3.5.1.28) income calculation to include an alternative that considers supplemental income from the use of verified liquid reserves. • Clarifications made to calculation portions of both 3.5.1.26 (Self Employment) and 3.5.1.27 (Social Security) • Added new guidelines (Section 2.3.3): Product Eligibility Matrix – Affordable Lending • In Section 3.5.3.1, changed the threshold triggering investigation of large deposits from exceeding 20% to exceeding 25% of monthly income.
1.27.2014	Version 1.5: • 2.3.1 Product Eligibility Matrix – Conforming Loans Revisions to 1) 620 minimum FICO for all primary residence, second home, and construction to permanent segments; and 2) remove geographic exclusions. • 2.3.2 Product Eligibility Matrix – Conforming High Balance Loans Revisions to 1) 620 minimum FICO for construction to permanent segment and 2) remove geographic exclusions. • 2.3.3 Product Eligibility Matrix – Affordable Lending Removal of geographic exclusions

- 3.4.5 Construction to Permanent Expanded content to fully describe and clarify requirements.
- 3.13 Product Eligibility Matrices – Non AUS Conforming and Jumbo Loan Amounts
  - » Removal of geographic exclusions from both matrices
  - » Introduction of new offers within an expanded Non AUS Jumbo matrix
- 4.4 National MI Commitment of Insurance and Insurance Activation
  Clarification of commitment and extension requirements
- Various Sections
  Minor clarifications to 2.2.3 (“one-time close”), 3.4.1 (corrected reference), 3.5.1.13 (added “housing”), 3.5.3.1 (lot value), 3.11 and 3.11.4 (references to 3.4.5), 6.0 (revision history update), and 7.0 (consistent with changes described above)
- National MI is now licensed in Florida

3.17.2014 Version 1.6:

- Eliminated minimum 3% from occupant-borrower’s own funds for AUS Eligible loans – refer to:
  - » 2.3.1 Product Eligibility Matrix – Conforming Loans
  - » 2.3.2 Product Eligibility Matrix – Conforming High Balance
  - » 2.3.3 Product Eligibility Matrix – Affordable Lending
  - » 7.0 Product Eligibility Matrix – AUS Eligible Summary
- In conjunction with National MI’s introduction of a Corporate Relocation pricing discount, policy has been added (2.2.11 for AUS Eligible Loans and 3.4.4 for Non-AUS loans) defining Corporate Relocation for purposes of pricing discount eligibility.
- 3.13 Product Eligibility Matrix – Non-AUS Jumbo
  Our Non-AUS Jumbo guidelines have expanded via the elimination of the higher minimum FICOs previously applicable to properties located in non-FHFA High Balance markets - the same minimum FICOs now apply in all markets.
- 4506-T requirements in Section 3.5.1.1 applicable to Non-AUS approvals have been revised. The tax information (transcripts) must be obtained and evaluated only when self-employment income is needed to qualify or the lender has obtained the transcripts prior to submitting the loan to National MI

5.5.2014 Version 1.7:

- Modified AUS Eligible Affordable Guidelines for DU® Approve/Eligible MyCommunity or LP Accept/Eligible Home Possible Mortgages (2.3.3)
  - » Increased maximum CLTV to 105%
  - » Added 2-Unit properties (minimum 660 to 95% LTV)
  - » Removed DTI Overlay
  - » Reduced minimum FICOs to 660 (97% LTV) and 620 (95% LTV)
  - » Allowed 7/1 and 10/1 ARMs up to 95% LTV
  - » Eliminated minimum LTV requirements limiting the size of the second lien
- Introduced new Non AUS Affordable Guidelines
  - » Added new guideline Section 3.4.7 (Affordable Lending)
  - » Revised 3.1.5 to refer the reader to Section 3.4.7 for Affordable Lending Subordinate Lien requirements
  - » Added new Product Eligibility Matrix – Non AUS Affordable Lending (Section 3.13)
- National MI is now licensed in Wyoming
- Modified 2.2.5 and 3.3.2 to clarify that the signed application is sufficient to evidence the borrower's intention to occupy the property as primary residence.

9.15.2014 Version 1.8:

- DU® Approve/Ineligible and LP Accept/Ineligible
  - o DU® Approve/Ineligible and LP Accept/Ineligible loans now qualify for AUS Plus Overlay guidelines (Underwriting Guideline Manual Section 2.0) if the ineligibility is caused by one of the following reasons (revisions to 2.1.1, 2.1.2, 2.3.1, 2.3.2, 2.3.3 and 7.0):
    - ▪ LTV >95% to 97%
    - ▪ ARM plan/type and that plan/type meets National MI's Standard ARM guidelines in section 3.1.4
  - o DU® Approve/Ineligible and LP Accept/Ineligible loans that meet Non AUS Conforming or Non AUS Affordable Lending guidelines can now follow the AUS documentation requirements for income, assets and employment (revisions to Non AUS Conforming and Non AUS Affordable Lending matrices within 3.13).
- Eliminates the requirement that lenders be separately approve for:

- Construction-to-Permanent (revisions to 1.3, 2.2.3, 3.4.5, and 7.0)
    - Renovation loans (revisions to 1.3, 2.2.4, 3.4.6, and 7.0)
- Adopts higher conforming loan amounts for Alaska and Hawaii Affordable Lending
    - Affordable Lending Matrix (2.3.3)
    - Non AUS Affordable Lending Matrix (3.13)
- Permits Investment Property Limited Cash Out (Rate and Term) Refinances to 85% LTV – Non AUS Conforming Loans matrix (3.13)
- Expands co-op eligibility to include second homes
    - Conforming Loans Matrix (2.3.1)
    - Non AUS Conforming Loans Matrix (3.13)
- Clarifies description of the Delegated Assurance Review Process in 1.7.
- Revises 2.2.7 to clarify that all borrowers must have at least one FICO score that meets guideline/matrix eligibility requirements.
- Modifies 3.5.5.2 (Qualifying Payments) to direct readers to updated content in 3.3.3 (Occupancy Conversions) and 3.3.4 (Pending Sale of Current Residence) that clarifies requirements
- Adds "occupant" to clarify borrower contribution requirement in 3.13 Non AUS Affordable Lending matrix
- Clarifies renovation loan policy (2.2.4 and 3.4.6) and expands content (3.4.6)

3.23.2015 Version 1.9:

- Revised maximum loan amounts, maximum LTVs, and minimum FICOs within the Non AUS Conforming Matrix (3.13):
    - Loan amount expanded to the applicable FHFA high balance maximum for primary residence (excluding cash-out, 2-unit, and manufactured homes) up to 95% LTV
    - Primary Residence minimum FICOs reduced to 680 at 97%, 660 at 95%, and 90% to 660 (excluding Cash-Out and Two-Unit)
    - Two-Unit maximum LTV increased to 95% and minimum FICO reduced to 680
    - Second Home minimum FICO reduced to 680
    - Cash-Out minimum FICO reduced to 680
- Expanded Investor eligibility to include condos and co-ops
    - Conforming Loans Matrix (2.3.1)
    - Non AUS Conforming Loans Matrix (3.13)
- Expanded Co-op maximum LTV from 95% to 97% for Conforming Affordable Lending (2.3.3)

- Expanded eligibility to include Manufactured Homes:
    - Conforming Loans (2.3.1) – Primary and Second Home
    - Conforming Affordable Lending (2.3.3) - Primary
    - Non AUS Conforming (3.13) – Primary and Second Home
    - Non AUS Affordable Lending (3.13) – Primary
    - Changed title of Section 3.6.1.7 to "Factory Built and Manufactured Housing" and updated contents
    - Modified 3.6.1.2 to reflect new name of Section 3.6.1.7
    - Modified 3.6.2 to show only single-wide manufactured homes as ineligible
    - Modified Table of Contents to also reflect the revised name of Section 3.6.1.7
    - Updated matrix within 7.0
- Added compensation increases to the content within 3.5.1.8 (Employment Offers and Compensation Increases) and clarified requirements. Added reference to 3.5.1.8 within Section 3.5.1.33 (Ineligible Sources of Income) and 3.5.1.28 (Salaried/Hourly)
- Revised guidelines to enable delegated approval of Non-arm's Length Transactions and Property Flips
    - Non-arm's Length: Modified 1.4, 2.28, and 3.2.5
    - Property Flips: Modified 1.4 and 3.6.4
- Revised requirements related to student loans:
    - In 3.5.5.1 (Liabilities and Ratios – General Requirements) revised minimum estimated payment amount from 2% to 1% for student loans in deferment
    - In 3.5.5.2 (Qualifying Payment Amounts) established a minimum 1% payment amount for student loans in repayment
- Added Section 3.5.1.34 documenting how to evaluate unreimbursed employee business expenses
- Clarification to Conforming Matrix (2.3.1), Non AUS Conforming Matrix (3.13) and matrix in section 7.0 that both the ARM LTV and CLTV are limited to 95%
- Clarified meaning of "eligibility criteria" in 2.1.4 to include credit, capacity, collateral, etc.
- Removed redundant rows (no impact to guidelines) within:
    - Conforming Loans (2.3.1)
    - Conforming High Balance Loans (2.3.2)
    - Conforming Affordable Lending (2.3.3)
- Modified 3.6.2 (Ineligible Property Types) to:
    - Clarify that ineligible conversions are those that do not meet agency eligibility and project requirements
    - Correct typo so the number of states reads 50
- Added language to 3.6.3.2 (Leasehold Estates) clarifying that Community Land Trusts are eligible

5.11.2015 Version 2.0:

- Removed guidelines restricting co-op eligibility to 5 states plus the District of Columbia. The change is reflected in section 3.6.1.13 and the various matrices through the guidelines
- For Non-AUS Jumbo primary residence (matrix in 3.13), reduced the minimum FICO by 20 points at each loan amount in the 90% LTV tier, and added a new 90% LTV amount of $1,000,000 with a 720 minimum FICO
- Added a Non-AUS Jumbo second home offer (matrix in 3.13) with maximum LTV of 90% and minimum FICOs of 700 to $650,000 and 720 to $750,000
- Amended the various matrices to align Construction to Permanent eligibility with existing purchase and rate/term refinance requirements for all occupancy types (primary residence, second home and investment) including all 1-4 Family property types excluding manufactured homes, condos and co-ops
- Removed overlays related to ARMs as follows:
  - Section 2 AUS Eligible Guidelines
    - Removed language in 2.2.1 prohibiting ARMs with initial fixed periods of less than 3 years
    - Removed the ARM overlay from the following matrices: 2.3.1, 2.3.2, 2.3.3 and 7.0
  - Section 3 Non-AUS Eligible Guidelines
    - Revised 3.1.4 (Adjustable Rate Mortgages) to reduce the minimum initial fixed period from 3 years to 1 year and to establish a maximum initial adjustment of 2% for ARMs with initial fixed periods of less than 5 years
    - Revised the Non-AUS Conforming matrix to reflect the 1 year initial fixed term applicable to primary residence and second home

7.20.2015 Version 2.1:

- Expanded the definition of rate and term refinances (i.e., limited cash out refinances) in 3.4.2 applicable to Non-AUS loans to include payoff of nonpurchase-money subordinate liens (seasoned 12 months with draws not exceeding $3,000 in the last 12 months) and/or payments to joint owners provided specified requirements are satisfied
- Expanded AUS Eligible Section 2.2.7 guidelines to permit loans including one or more borrowers without a score so long as at least one borrower has an acceptable credit score

- Expanded eligibility to include 3-4 units
  - For purchase, rate/term refi, and construction to permanent
  - 95%/700 – Conforming AUS Affordable (2.3.3)
  - 90%/720 – Non-AUS Conforming Affordable (3.13)
  - 90%/720- Non-AUS Conforming (3.13)
  - To $625,500 ($850,000 in AK/HI)
  - Minimum 6 months reserves (PITIA) applicable to AUS (Section 2) and Non AUS (Section 3) loans
  - Updated 3.6.1.4 to include 3-4 units as eligible
- Increased to 90 days from 60 days after closing the maximum threshold for first day of employment or effective date of a compensation increase that may be included when qualifying the borrower per Section 3.5.1.8 applicable to Non-AUS loans
- Revised 3.1.6 to permit temporary buydowns for Non-AUS ARMs provided specified requirements are met (excluding cash out and investment)
- Clarified guideline language:
  - Removed from 2.3.3 (AUS Eligible Affordable Lending Matrix) language discussing 97% approve/accept ineligible (the GSEs now purchase loans up to 97% LTV)
  - Consistent with 3.6.1.9, added language in 3.5.1.33 stating that rental income from accessory units is ineligible (cannot be included in qualifying income)
  - Added language to 3.6.2 listing properties with resale restrictions (other than age restrictions in senior living developments) as ineligible

8.17.2015 Version 2.2:

- DU® Approve/Ineligible and LP Accept/Ineligible loans now qualify for AUS Plus Overlay guidelines (subject to requirements in TrueGuide Section 2.0) if the ineligibility is caused by the cash out refinance loan purpose (revisions to Sections 2.1.1 and 7.0)
- Construction to Permanent requirements:
  - Amended matrices to permit for Manufacture Homes
  - Clarified Section 3.4.5 to better distinguish one-time and two-time close requirements

12.7.2015 Version 2.3:

- Expanded Conforming High Balance (Section 2.3.2) guidelines:
  - 95% LTV for 1 Unit Primary Residence (minimum 620)
  - 85% LTV for 2 Unit Primary Residence (minimum 620)
  - 90% LTV for Second Home (minimum 620)
  - 85% LTV for Investment (minimum 680)
- Reduced the minimum FICO from 660 to 620 for Conforming Affordable (Section 2.3.3) with CLTVs above 97%
- Amended Non AUS guidelines in Section 3.5.5.2 (Qualifying Payment Amounts) to require that the qualifying payment for student loans be calculated as 0.50% of the cumulative outstanding balances (regardless of the payment status of individual loans)
- Clarified Section 3.7 to state that the lesser of the appraised value or sales price is used to calculate LTV ratios and determine the applicable National MI guidelines and pricing, and that state-specific regulatory requirements as to when MI is required or permitted is outside the scope of the TrueGuide
- Minor change to Section 3.5.1.3 (Auto Allowance) making clear the distinction between 2 different approaches to qualifying borrowers with allowances
- Simplified and reduced Non AUS reserve requirements with Property For Sale, Pending Sale or Occupancy Conversion (Sections 3.3.3, 3.3.4 and 3.5.3.5)
- Non AUS Rate and Term (i.e., Limited Cash Out) Refinance eligibility requirements (Section 3.4.2) have been expanded to include borrowers who have inherited or legally been awarded the subject property

4.4.2016 Version 2.4:

- Clarified Comprehensive Credit Assessment requirements with respect to risk layering:
  - Revised language in 2.1.4 applicable to AUS eligible loans
  - Added new Section 3.12.6 applicable to Non AUS loans
- Revised the AUS Conforming Product Eligibility Matrix (2.3.1) to permit Investment Property Rate / Term refinances to 85% LTV
- Added language to the matrices at the end of Section 2 reminding

the reader that the requirements in Section 2 apply

- Removed Section 7 (TrueGuide Summary) from the Guidelines
- Clarified Sections 1.1 and 1.7 to distinguish between delegated with and without independent validation
- Clarified Section 3.6.6 to indicate that FHA appraisals are acceptable
- Clarified 3.4.7.1 and 3.4.7.2 with respect to 3-4 unit properties

8.22.2016 Version 2.5:

- Expanded Section 2.3.3 (Conforming Affordable Lending):
  - Include high balance loans amounts:
    - One-Unit: 95% LTV / 95% CLTV
    - Two-Units: 85% LTV / 95% CLTV
  - Reduce the Two-Unit minimum FICO to 620 from 660 (applicable to all amounts)
- Amended guidelines to permit sweat equity
  - Section 2.2.9 (Assets and Equity) – deleted language prohibiting sweat equity
  - Section 3.5.3.2 (Additional Eligible Assets) – added language
  - Section 3.5.3.3. (Ineligible Assets) – revised language
- Removed from the Non-AUS list of ineligible income types (3.5.1.34) mortgage credit certificates (MCCs), and added 3.5.1.33 (MCCs) describing income documentation and calculation guidelines for MCCs
- Added Section 2.2.12 (State Restrictions) applicable to AUS loans and Section 3.12.7 (State Restrictions) applicable to Non AUS loans, and updated Section 3.7 (LTV) – all to describe New York state restrictions on the availability of MI
- Added Section 3.12.8 (Third Party Verification Services) documenting policy regarding such providers
- Amended Section 3.3.2 (Occupancy Documentation) to describe how primary residency may be established for military service members
- Clarified income documentation requirements by adding “Definition of ‘Last Year’” content to Section 3.5.1.1 (General and Form 4506 Requirements) addressing both W-2s and tax returns

- Clarified requirements related to properties with deed restrictions by adding Section 3.6.1.13 (Resale Restrictions) and referencing the new section in Section 3.7 (LTV) and 3.6.2 (Ineligible Property Types)
- Clarified that for AUS eligible loans, one or more borrowers must have at least one FICO score. Language was added to the top of the matrices (2.3.1, 2.3.2 and 2.3.2) making this point and 2.2.7 (Credit History) was amended
- Clarified requirements in Sections 2.1.4 (Comprehensive Credit Assessment, 3.5.1.1 (General and Form 4506 Requirements – Income Stability), and 3.5.1.26 (Self Employment) with respect to assessing income from self-employment.

11.7.2016 Version 2.6:

The following changes affect AUS eligible loans:

- Section 2.2.4 (Renovation Loans): Renovation loans are no longer limited to single family primary residences
- Section 2.3 (Credit Overlay Requirements and Matrices): Eliminated the underwriting overlay related to the property valuation type

The following changes and clarifications affect Non AUS loan eligibility:

- Section 3.4.2 (Rate and Term Refinance): Property Assessed Clean Energy (PACE) obligations may now be paid off with rate and term refinance loan proceeds
- Section 3.4.8.1 (Medical Professionals Program): New policy defining guidelines (including calculation of student loan qualifying payments) applicable to qualifying medical professionals
- Section 3.5.1.36 (Other Eligible Income): Established eligibility requirements addressing income from the cultivation, distribution and sale of marijuana
- Section 3.5.2 (Verbal Verification of Employment): Revised self-employed verbal verification from within 31 days to within 120 days from the note date
- Section 3.5.3.4 (Interested Party Contributions): Increased the second home maximum to 6% from 3% for Non AUS loans
- Section 3.5.5.2 (Qualifying Payment Amounts): New guidelines

clarify when written documentation is and is not required for alimony, child support, and/or separate maintenance payments

12.10.2016 Version 2.7:

The following guideline changes have been incorporated:

- Maximum eligible loan amounts were updated in the matrices within:
    - Section 2.3 (AUS Eligible)
    - Section 3.13 (Non AUS Eligible)

  Where National MI loan amount maximums are currently aligned with the GSE maximums, these changes will maintain that alignment when the new GSE limits take effect.
- Section 2.2.13 (Appraisal Review): This guideline defines appraisal review requirements for appraisals submitted with a Fannie Collateral Underwriter score of <= 2.5

The following clarifications have been incorporated:

- Section 2.2.4 (Construction to Permanent) and Section 3.4.5 (Construction to Permanent): Clarified requirements regarding submission of documents required if the activation occurs more than 120 days after the commitment date
- Section 2.2.13 (Appraisal Review): Added language to clarify/confirm that National MI will insure a loan without an appraisal provided the loan adheres to Fannie Property Inspection Waiver requirements