

CA-0508-3

Declining Market, Eligibility, and Underwriting Guideline Changes

Effective May 1, 2008

Due to further deterioration in the housing market and prospects for further decline, it is necessary for United Guaranty to make additional changes to declining markets, eligibility criteria, and underwriting guidelines **effective for mortgage insurance applications received on or after May 1, 2008**. *Please note that United Guaranty will insure GSE Conforming Jumbo loans, **effective immediately**, subject to the eligibility requirements outlined in this announcement.*

These changes apply to all business, including that related to United Guaranty products and previously approved lender programs. United Guaranty will continue to defer to Fannie Mae Desktop Underwriter[®] (DU) and Freddie Mac Loan Prospector[®] (LP) for underwriting guidelines when a DU Approve/Eligible or LP Accept/Eligible recommendation is received; however, these loans are subject to United Guaranty's eligibility criteria and Declining Market policy. Loans receiving a DU Approve/Eligible or LP Accept/Eligible recommendation that do not meet United Guaranty's eligibility criteria or Declining Market policy are ineligible for insurance.

Additional requirements have been added to United Guaranty's Declining Market policy, also effective for mortgage insurance applications received on or after May 1, 2008. The comprehensive Declining Market policy, including the new requirements, is provided in this announcement.

All other changes to eligibility criteria and underwriting guidelines are outlined in the attached table, following the Declining Market policy. The table provides the changes only and does not provide complete eligibility criteria and underwriting guidelines. For complete eligibility criteria and underwriting guidelines, please see United Guaranty's Underwriting Guidelines at www.ugcorp.com. All changes will be incorporated into the Underwriting Guidelines and made available as quickly as possible.

In addition to the above changes, clarification is provided below for the handling of Commitments issued prior to eligibility criteria and underwriting guideline changes, as well as delegated submissions without the identification and underwriting of the subject property.

United Guaranty will honor Commitments for mortgage insurance issued prior to the effective date of eligibility criteria and underwriting guideline changes until the Commitment expiration date, provided there are no material changes to the loan terms or loan information in which the Commitment was based. If any changes are made to the loan after the issuance of the Commitment, the loan will be re-evaluated, and if the risk has increased, the loan may no longer be eligible for mortgage insurance. Changes made resulting in the loan's failure to meet United Guaranty's eligibility criteria will no longer be eligible for insurance.

In the case of Commitments issued subject to the Sales Agreement and appraisal, continued eligibility for insurance, and under what terms, is dependent on the property acceptability and if it is located in a declining market.

All delegated submissions must have the subject property identified and underwritten prior to submitting to United Guaranty for mortgage insurance. Delegated submissions without the subject property identified will not be accepted. Delegated submissions include loans submitted as a RAP[®] submission to an United Guaranty underwriting office, or electronically via an EDI connection or United Guaranty's RAPid Link[®] or Premier Compliance[®] applications.

If you have questions regarding these changes, please contact your local United Guaranty Sales Representative or Regional Underwriting Manager.

Declining Market Policy¹

The following changes are effective for mortgage insurance applications received on or after May 1, 2008 for properties located within a declining market.

- Maximum 90% LTV. Maximum 85% LTV for 2-unit dwellings.
- Minimum 680 credit score for loans up to \$417,000 (\$533,850 for 2-units), and 700 minimum credit score for jumbo loans.
- Second homes, condominiums, co-op, and construction-to-permanent loans are ineligible.

The table below provides United Guaranty's complete Declining Market policy **effective for mortgage insurance applications received on or after May 1, 2008.**

Topics		Policy
Declining Markets	Declining Markets Definition	<p>When determining whether the subject property is located in a declining market, the following should be considered in the order listed.</p> <p>For example, if the subject property is located in an area identified as a declining market per United Guaranty's Declining Market List, the property is in a declining market, regardless of the appraisal, lender knowledge, or GSE AUS response.</p> <p>Likewise, if the subject property <u>is not</u> located in an area identified as a declining market per United Guaranty's Declining Market List, but the appraisal indicates the subject is in a declining market, the property is in a declining market, regardless of the lender's knowledge or GSE AUS response.</p> <ul style="list-style-type: none"> • Subject property is located in an area identified as a declining market per United Guaranty's Declining Market List. • Property appraisal has any negative comments, including but not limited to adjustments or indications of being in a declining market (oversupply, over six months' marketing time, or declining markets check box noted). • Lender has any other market intelligence or knowledge of the subject property being in a declining market. • GSE AUS response identifies the subject property location as being in a declining market.
	Ineligible	<ul style="list-style-type: none"> • LTV/CLTV greater than 90%. • Cash-out refinance. • A-minus loans. • Investment properties (including owner-occupied 3- to 4-unit dwellings). • Limited documentation (this does not include GSE AUS doc waivers). • Manufactured housing. • ARMs with first rate adjustment of less than 5 years. • ARMs with interest-only period less than 10 years. • Second homes. • Condominiums. • Co-ops. • Construction-to-permanent loans. • Potential negative amortization. • Loan amounts greater than \$650,000. <i>(Loans under the GSE Conforming Jumbo product greater than \$650,000 are eligible for insurance with maximum 85% LTV.)</i>

¹ United Guaranty's Declining Markets policy does not apply to rate/term refinance transactions that are currently insured by United Guaranty when:

- The new loan amount is not increasing more than 2% above the original loan amount; **and**
- The coverage percentage is not increasing above the original coverage percentage.

Topics		Policy
	Appraisal	<ul style="list-style-type: none"> A full Uniform Residential Appraisal Report (URAR), with interior/exterior inspections and photos, required.
	LTV/Credit Scores	<p>1-Unit, Primary Residence, Purchase & Rate/Term Refinance</p> <ul style="list-style-type: none"> Up to \$417,000: maximum 90% LTV, minimum 680 credit score. \$417,000–\$650,000: maximum 90% LTV, minimum 700 credit score. (Higher loan amounts allowed under GSE Conforming Jumbo product with maximum 85% LTV.) <p>2-Unit, Primary Residence, Purchase & Rate/Term Refinance</p> <ul style="list-style-type: none"> Up to \$533,850: maximum 85% LTV, minimum 680 credit score.
	Down Payment	<ul style="list-style-type: none"> Borrowers must make a 5% down payment contribution from personal funds. An additional down payment greater than 5% may be from a gift. See United Guaranty’s Underwriting Guidelines at www.ugcorp.com for additional information on gift funds.

The below table provides only those changes effective May 1, 2008, and does not provide complete eligibility criteria and underwriting guidelines. For complete eligibility criteria and underwriting guidelines, please see United Guaranty’s Underwriting Guidelines at www.ugcorp.com. All changes outlined in this announcement will be incorporated into the Underwriting Guidelines and made available as quickly as possible.

Topics	Changes	Eligibility/Guideline
Automated Underwriting System (AUS) Responses	GSE AUS Responses <ul style="list-style-type: none"> Loans receiving a DU Approve/Eligible or LP Accept/Eligible recommendation are acceptable for insurance subject to all United Guaranty eligibility criteria, including Declining Markets policy. <p><i>All other GSE AUS recommendations are ineligible for insurance (for example, DU Expanded Approval Levels, DU Refer, DU Refer with Caution, LP Caution, and LP Caution 500-Eligible).</i></p>	Eligibility
	All Other AUS Responses (Lender AUS & Custom DU) <ul style="list-style-type: none"> All loans must meet United Guaranty’s eligibility criteria and underwriting guidelines, including Declining Markets policy. 	Eligibility
Products	A-minus <ul style="list-style-type: none"> Ineligible for insurance. <i>Includes DU Expanded Approval (all levels) and LP Caution 500-Eligible recommendations.</i> 	Eligibility
	Limited Documentation <ul style="list-style-type: none"> Ineligible for insurance. 	Eligibility
	GSE Doc Waivers (Documentation per DU/LP Findings) <ul style="list-style-type: none"> Eligible for loans up to standard conforming limits (for example, \$417,000 for 1-unit dwelling) receiving a DU Approve/Eligible or LP Accept/Eligible recommendation. 	Eligibility
	Affordable Housing (for LTVs >95%) <p><i>(Includes GSE Affordable Housing Programs)</i></p> <ul style="list-style-type: none"> Maximum 97% LTV. Minimum 700 credit score. First-time home buyer. Home buyer counseling required. Income cannot exceed 100% of median income. Minimum 3% borrower contribution required. 	Eligibility
	Financed MI <ul style="list-style-type: none"> Eligibility criteria and underwriting guidelines (including LTV limits) are determined using the base LTV (before financed MI). The total LTV (with financed MI) cannot exceed 97% LTV, or 90% LTV for declining markets. 	Eligibility

Topics		Changes	Eligibility/Guideline
General Parameters (LTVs/CLTVs, Loan Amounts, Credit Scores)	Standard	1-Unit, Primary Residence, Purchase & Rate/Term Refinance* <ul style="list-style-type: none"> 95.01%–97% LTV: maximum \$417,000, minimum 700 credit score.** ≤95% LTV: maximum \$417,000, minimum 620 credit score. ≤90% LTV: \$417,001 to \$650,000, minimum 700 credit score. 2-Unit, Primary Residence, Purchase & Rate/Term Refinance <ul style="list-style-type: none"> ≤90% LTV: maximum \$533,850, minimum 680 credit score. 1-Unit, Primary Residence, Cash-Out Refinance*** <ul style="list-style-type: none"> ≤90% LTV: maximum \$417,000; minimum 720 credit score. <p>* Certain rate/term refinance transactions where the existing loan is currently insured by United Guaranty may not be required to meet this eligibility criterion. See the Rate/Term Refinance section in this document.</p> <p>** LTVs of 95.01–97% are <u>only</u> eligible for Affordable Housing loans meeting the requirements outlined in the Affordable Housing section of this document.</p> <p>*** See the Cash-Out Refinance section in this document.</p>	Eligibility
	GSE Conforming Jumbo (Effective Immediately)	1-Unit, Primary Residence, Purchase & Rate/Term Refinance <ul style="list-style-type: none"> ≤90% LTV: \$417,001 to \$729,750, minimum 700 credit score. <p>Loans must meet all GSE Conforming Jumbo requirements, with the exception full documentation is required, regardless of the documentation allowed by the GSE AUS. Loans are subject to United Guaranty’s Declining Market Policy and cannot exceed 85% LTV as required by the GSE Conforming Jumbo program when the subject property is located within a declining market.</p>	Eligibility
	CLTV/HCLTV	<ul style="list-style-type: none"> CLTV may not exceed the maximum allowable LTV. CLTV is the equivalent to all other acronyms (for example, HCLTV, TLTV, etc.) used to describe the ratio of the combined loan amounts for the first and subordinate lien(s) secured by the subject property, whether drawn or not, to the lesser of the sales price or appraised value. 	Eligibility
Loan Types/Features	ARMs	<ul style="list-style-type: none"> ARMs with first rate adjustment of one year or less: maximum 90% LTV. 	Guideline
	ARM Spread	<ul style="list-style-type: none"> Maximum 300 basis points. 	Eligibility
	Interest-Only (IO)	<ul style="list-style-type: none"> 1-unit, purchase transactions only. Minimum 5-year IO term for 15-year amortization terms; minimum 10-year IO term for amortization terms greater than 15 years. Fixed-rate/fixed-payment and ARM with a first rate adjustment of 5 years or greater. ARMs with a first rate adjustment of less than 5 years and temporary buydowns are ineligible. Non-traditional credit loans are ineligible. 	Guideline

Topics		Changes	Eligibility/Guideline
Loan Types/Features	Temporary Buydown	<ul style="list-style-type: none"> 1-unit, purchase transactions only. Fixed-rate/fixed-payment and ARMs with a first rate adjustment of 5 years or greater. ARMs with a first rate adjustment of less than 5 years and temporary buydowns are ineligible. Non-traditional credit loans are ineligible. 	Guideline
	Balloon	<ul style="list-style-type: none"> Maximum 90% LTV. Primary residences only. Fixed-rate/fixed-payment only. Minimum 7-year balloon term. 	Guideline
Transaction Types	Rate/Term Refinance²	<ul style="list-style-type: none"> Maximum 95% LTV. LTV based on lesser of sales price or appraised value for properties purchased in the last 12 months. Properties listed for sale in the last 12 months must be explained. 	Guideline
	Streamlined Refinance	<p>Only loans meeting the requirements below are eligible for United Guaranty's Streamlined Refinance program. All loans <u>will be</u> subject to pricing in effect when the mortgage insurance application is received.</p> <p>Loans qualifying for a Streamlined Refinance <u>are not</u> subject to eligibility criteria and Declining Market policy. Loans meeting all Streamlined Refinance requirements may be delegated for mortgage insurance.</p> <ul style="list-style-type: none"> Current United Guaranty-insured loan. New loan must be originated by the current servicer of the original loan. Rate/term refinance transactions only. New loan can include only the payoff of the existing first lien and customary closing costs up to \$2,000. (Subordinate financing cannot be paid off with the new loan.) Subordinate financing that will remain subordinate to the new loan must be a purchase-money second; otherwise, the loan is not eligible as a Streamlined Refinance. Minimum 12 months' seasoning for all current liens (including subordinate liens). Original loan <u>cannot</u> be any of the following: <ul style="list-style-type: none"> A-minus (includes any loan currently receiving A-minus pricing). Limited Documentation (does not include GSE AUS documentation waivers). Subprime. 	Eligibility

²The new loan may be exempt from eligibility criteria and underwriting guidelines (including maximum 95% LTV) when the loan is currently insured by United Guaranty, and the refinance is improving the borrower's and United Guaranty's position. The loan must be submitted to United Guaranty for underwriting when it falls outside of eligibility criteria and underwriting guidelines.

Topics		Changes	Eligibility/Guideline
Transaction Types	Streamlined Refinance	<ul style="list-style-type: none"> • New loan <u>cannot</u> be any of the following: <ul style="list-style-type: none"> – A-minus (including DU EA's, LP Caution 500-Eligible, or lender-designated A-minus). – Subprime. – Potential Neg. Am. – ARM with first rate adjustment of less than 5 years. – Interest-only with IO term less than 10 years. • No increase above original insured amount (loan amount). • No increase above original coverage percentage. • No change from original occupancy. • No increase in P&I from original loan. • No 30-day late payments (and current at application) for all existing liens, including subordinate liens. • New credit report required. • All borrower credit scores must be provided when submitting for mortgage insurance. • All employment information, including income, must be stated on the loan application (1008). Verification of employment and income are not required. 	Eligibility
	Cash-Out Refinance	<ul style="list-style-type: none"> • Properties listed for sale in the last 12 months are ineligible. 	Guideline
	Construction-to-Permanent Loan	<ul style="list-style-type: none"> • Maximum 95%. • 1-unit, primary residences only. • Minimum 700 credit score. • Must be treated as a purchase transaction. • Costs of acquisition (COA) must be documented and LTV based on lesser of COA or current appraised value. • Lot equity for down payment is determined using the lesser of costs or current value. • Manufactured housing ineligible. • Ineligible in declining markets. 	Guideline
Occupancy	Investment	<ul style="list-style-type: none"> • Ineligible for insurance. 	Eligibility
	Second Home	<ul style="list-style-type: none"> • Ineligible for insurance. 	Eligibility
Property Types	Condominium	<ul style="list-style-type: none"> • Maximum 90% LTV. • Maximum 30% investor concentration for project. • 70% of project must be sold for existing projects, 70% of subject phase for projects not complete. • Non-warrantable condos are ineligible. 	Eligibility
	Co-op	<ul style="list-style-type: none"> • Maximum 90% LTV. • Primary residence, purchase, rate/term only. • Minimum 700 credit score. 	Eligibility
	3- to 4-Units	<ul style="list-style-type: none"> • Ineligible for insurance. 	Eligibility
	Manufactured Housing	<ul style="list-style-type: none"> • Ineligible for insurance. 	Eligibility
	Mixed Use Property	<ul style="list-style-type: none"> • Maximum 90% LTV. • Maximum of 2 units. • Minimum 680 credit score. 	Guideline
	Rural Property	<ul style="list-style-type: none"> • Maximum 90% LTV. • Maximum 5 acres for purchase documents and appraisal. 	Guideline

Topics		Changes	Eligibility/Guideline
Appraisal Requirements	Documentation	<ul style="list-style-type: none"> A full Uniform Residential Appraisal Report (URAR), with interior/exterior inspections and photos, required. 	Guideline
Borrower	Non-Permanent Resident Aliens	<ul style="list-style-type: none"> Ineligible for insurance. 	Guideline
Credit	Non-Traditional Credit	<ul style="list-style-type: none"> Maximum 90% LTV. Fixed-rate/fixed-payment only. ARMs, temporary buydowns, and interest-only are ineligible. Ineligible in declining markets. 	Eligibility
Income	Qualifying Ratios	<ul style="list-style-type: none"> 28/36% for 95.01–97% LTVs, temporary buydowns, and ARM with first rate adjustment of less than 5 years. 33/38% for all other. <i>Loans exceeding these ratios must have compensating factors.</i>	Guideline
	Self-Employed Borrowers	<ul style="list-style-type: none"> Signed IRS Form 4506, 4506-T, or 8821 must be obtained at closing. 	Guideline
	Housing Payment History	<ul style="list-style-type: none"> All borrowers should have a 12-month housing history verified with no 30-day late payments in last 12 months. 	Guideline
	Non-Taxable Income	<ul style="list-style-type: none"> May be grossed up 15%. 	Guideline
	Part-Time or Second Job Income	<ul style="list-style-type: none"> Must have 2-year history. 	Guideline
	Rental Income	<ul style="list-style-type: none"> Rental income may be used for qualification when (includes two-unit, primary residences when income from second unit is needed for qualification): <ul style="list-style-type: none"> Borrower has a history of successfully managing rental property (preferably for a two-year period), <i>and</i> Borrower has a credit score of 660 or higher, <i>and</i> Rental income is documented and averaged from borrower's most recent two years of signed federal tax returns. 	Guideline
	Unemployment Income	<ul style="list-style-type: none"> Ineligible for qualification. 	Guideline
Assets	Bridal Registry Gift Funds	<ul style="list-style-type: none"> Ineligible source of funds. 	Guideline
	Rent Credit	<ul style="list-style-type: none"> Ineligible source of funds. 	Guideline
	Cash on Hand	<ul style="list-style-type: none"> Ineligible source of funds. 	Guideline
	Sweat Equity	<ul style="list-style-type: none"> Ineligible source of funds. 	Guideline
	Non-Traditional Savings Plans	<ul style="list-style-type: none"> Allowed as additional down payment after minimum down payment from borrower's own funds has been met. 	Guideline
MI Submissions & Commitment Terms/ Extensions	Closed Loans	<ul style="list-style-type: none"> Closed loans must be submitted for mortgage insurance prior to the first payment due date. 	Guideline
	Commitment Terms and Extensions	<ul style="list-style-type: none"> Existing properties: maximum commitment term of 6 months. New construction: maximum commitment term of 12 months. Extensions <u>are not</u> permitted. Submission as a new loan with current documentation is required and will be subject to United Guaranty eligibility criteria, guidelines, and pricing in effect at that time. 	Eligibility