

# UNDERWRITING GUIDELINES &



# ELIGIBILITY CRITERIA

**UNITED  
GUARANTY**

October 1, 2009

# Recent Updates Summary

United Guaranty's Underwriting and Eligibility Guide has been updated. The sections of the guide that have been updated are indicated with an "updated date" to the right of the section heading.

- Section 2.03 "[Home Buyer Education](#)" has been updated with announced decision to discontinue the Road to Home Ownership program. (See page 5.)
- Section 3.14 "[Refinance Transactions](#)" has been updated at the "Streamlined Refinance" section to clarify the handling of Fannie Mae's Refi Plus<sup>TM</sup> and DU<sup>®</sup> Refi Plus<sup>TM</sup> and Freddie Mac's Relief Refinance<sup>SM</sup> Mortgage loans. (See page 15.)
- Section 3.14 "[Refinance Transactions](#)" has been updated with announced change to the Maximum DTI/Payment Cap requirement in the "Refinance with Certificate Modification" section. (See page 16.)
- Section 3.14 "Refinance Transactions" has been updated to remove the "Home Improvement Refinance" section.
- A new section 3.15 "[Renovation Mortgages](#)" has been added to the Guide. (See page 19.) All subsequent sections in chapter 3 have been re-numbered.
- Section 3.17 "[Construction-to-Permanent Loans](#)" has been updated to clarify when a new appraisal is required instead of a recertification of value. (See page 20.)
- Section 3.19 "[Conversion of Primary Residence](#)" has been updated to clarify that the "Pending Sale" section only applies when the existing property will not close prior to the closing of new property. (See page 21.)
- Section 5.05 "[Condominiums](#)" has been updated with the announced eligibility criteria changes. (See pages 35 & 36.)
- Section 8 "Ineligibility at a Glance" has been removed from the guide.

# United Guaranty Underwriting and Eligibility Guide

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# Introduction

This Underwriting and Eligibility Guide is designed to be a quick reference for meeting your mortgage guaranty insurance needs. In general, this guide addresses the types of loans we are *most likely* to insure.

United Guaranty is committed to insuring quality loans that make sense for everyone: lenders, investors, and home buyers alike. We recognize that certain loans may exceed United Guaranty's underwriting guidelines. When this happens, the loan should be reviewed carefully to identify any compensating factors that may warrant an exception to the underwriting guidelines.

There are certain requirements that must be met for loans to be eligible for United Guaranty mortgage insurance due to the risk they present. These requirements are referred to throughout the guide as "**eligibility criteria**." Exceptions to "eligibility criteria" are not allowed.

All manually underwritten loans, including those loans underwritten to Fannie Mae and Freddie Mac manual underwriting guidelines, are subject to United Guaranty's published guidelines. United Guaranty defers to Fannie Mae and Freddie Mac's guidelines<sup>1</sup> for manually underwritten loans (non-DU/LP) when not specifically addressed within United Guaranty's Underwriting Guidelines.

Loans denied previously by another mortgage insurance company are not eligible to be submitted to United Guaranty via RAP<sup>®</sup> (delegated underwriting) for mortgage insurance. They must be submitted as a full file.

United Guaranty believes in fair treatment of all borrowers regardless of race, color, religion, national origin, or sex. We operate in accordance with the provisions of the Fair Housing Act and Equal Credit Opportunity Act. The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction on the basis of sex, race, color, religion, national origin, marital status, age (provided the applicant has the capacity to enter into a binding contract), receipt of public assistance, or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

United Guaranty fully supports the letter and the spirit of both of these laws and will not condone discrimination in any mortgage guaranty insurance transaction. It is our objective to help make home ownership affordable and attainable.

Our commitment to you and the housing finance industry is a responsibility we take seriously, as we work to encourage fair lending, open new markets, and expand our insurance services. If you have any questions pertaining to the interpretation of these guidelines, please contact your local United Guaranty Regional Underwriting Office or United Guaranty account executive.

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<sup>1</sup> Fannie Mae and Freddie Mac guidelines are defined as guidelines outlined in the Agency Selling Guides available to all lenders without the need for a lender variance or amendment to lender's Master Agreement.

# 1. Agency AUS (Automated Underwriting Systems)

## 1.01 Agency AUS Requirements

### *Eligibility Criteria*

United Guaranty requires, as do Fannie Mae and Freddie Mac, that the accuracy of the data upon which the Desktop Underwriter<sup>®</sup> (DU) or Loan Prospector<sup>®</sup> (LP) recommendation is based **be verified**, including the credit report. Additionally, information that **cannot** be evaluated by DU or LP must be considered in the overall underwriting decision in accordance with Fannie Mae's and Freddie Mac's standard Selling Guide requirements. This information includes, but is not limited to, the following:

- Employment history.
- Income stability and continuance.
- Large asset deposits.
- Property appraisal.

United Guaranty defers to DU and LP for underwriting guidelines when the recommendations below are received and all requirements indicated below are met, **unless otherwise indicated** within this guide.

- DU Risk Classification of "Approve" and a Purchase Eligibility Rating of "Eligible for Purchase."
- LP Risk Classification of "Accept" and a Purchase Eligibility Rating of "Eligible for Purchase."

Loans receiving the above Risk Classifications from DU or LP with a Purchase Eligibility Rating of "Ineligible for Purchase" may be eligible for insurance when all United Guaranty underwriting guidelines and requirements indicated below are met. United Guaranty does not defer to DU and LP for underwriting when an "Ineligible" Purchase Eligibility Rating is received. Exceptions to underwriting guidelines may be considered when strong compensating factors are present.

All other recommendations received from DU and LP are **ineligible** for insurance with United Guaranty.

### **Requirements**

The following apply to all loans underwritten by Fannie Mae's and Freddie Mac's Automated Underwriting Systems (AUS):

- United Guaranty's "eligibility criteria."
- [Declining Markets](#) policy.
- Maximum number of insured loans per borrower.
- [Territorial Underwriting Guidelines](#).
- Loans that allow interested party contributions to be used as down payment assistance are **ineligible** for insurance with United Guaranty.

## 1.02 Acceptance of Agency AUS Documentation Requirements

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### *Eligibility Criteria*

- United Guaranty will accept the documentation requirements of the agency AUS for loan amounts up to standard conforming limits when the loan receives a DU Approve/Eligible or LP Accept/Eligible recommendation and the loan meets the requirements indicated above, with the following exceptions:
  - Jumbo loans (\$417,001–\$625,500) require full documentation, regardless of the documentation allowed by DU or LP.
  - DU<sup>®</sup> Refi Plus<sup>™</sup> loans submitted for new insurance as a rate/term refinance require full documentation for income, employment, and assets, regardless of the documentation allowed by DU.

## 2. Documentation Requirements

### 2.01 Standard Documentation

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- United Guaranty Application fully completed and signed by the lender.
- Residential Loan Application (Fannie Mae Form 1003/Freddie Mac Form 65) signed and dated by the borrower.
- Credit report.
  - Residential Mortgage Credit Report is preferred.
  - A two-repository merged in-file credit report is acceptable.
  - Should cover a minimum of two years.
  - Must disclose legal information for the past seven years for judgments, foreclosures, garnishments, and bankruptcies.
  - Should not be more than 120 days old for existing construction and 180 days for new construction.
- Appraisal.
  - The applicable Fannie Mae/Freddie Mac appraisal report form, with interior/exterior inspections and all required exhibits and photos (exterior only), is required.
  - AVMs, Fannie Mae's Property Inspection Waiver (PIW), and Freddie Mac's Property Inspection Alternative (PIA) are **not** allowed.
  - A recertification of value is required after 120 days for existing construction and 180 days for new construction. However, the original appraisal may not be more than 12 months old. (Please see the appraisal requirements in the [Declining Market Restrictions](#) section.)
- Verification of employment/income.
  - Salaried borrowers:
    - A completed Request for Verification of Employment **or**
    - A pay stub indicating the most recent 30 days' earnings and year-to-date earnings, the past two years' W-2s, and a verbal verification of employment with the employer.
    - If 25% or more of the borrower's income consists of commissions, signed federal tax returns for the previous two years should be obtained.
    - If employed by a relative, the previous two years' signed federal income tax returns should be obtained; a letter from the company's accountant showing the percentage of ownership may also be necessary.
    - Documentation should not be more than 120 days old for existing construction and 180 days for new construction (with the exception of W-2s and tax returns).
  - Self-employed borrowers: (Any borrower who has 25% or greater ownership interest in a business is considered self-employed.)
    - Complete, signed federal income tax returns for the past two years.
    - Complete, signed business tax returns for the past two years, if applicable. Business returns are not required if the borrower is self-employed for at least five years, funds do not come from the business, and individual tax returns show an increase in income for the past two years.
    - Signed IRS form 4506, 4506-T, or 8821 at closing.

- Verification of deposit.
  - A completed Request for Verification of Deposit showing average balances for two months; **or** copies of bank statements for the most recent two months.
  - The source of funds for recent large deposits must be documented.
  - The source of funds for recently opened accounts must be documented.
  - “Faxed” statements or statements downloaded from the Internet are acceptable, provided they clearly identify the name of the depository or investment institution and the source of the information.
  - Documentation should not be more than 120 days old for existing construction or 180 days for new construction.
- Sales contract/offer to purchase and addenda.
  - Final signed copy of contract/offer and addenda are required.
  - If applicable, a previous Loan Settlement Statement (HUD-1) is required.
- Mortgage payment history.
  - Standard mortgage verification from mortgage servicer; **or**
  - Credit report covering the last 12 months; **or**
  - Canceled checks for the last 12 months; **or**
  - The borrower’s year-end mortgage account statement with payment receipt history supplemented with canceled checks for the months elapsed since year-end.
- Rental payment history.
  - Canceled checks from the last 12 months (the preferred method to verify payments); **or**
  - A completed standard Request for Verification of Rent form from the landlord; **or**
  - Credit report covering the last 12 months.

## **2.02 Documentation for Closed Loans (Seasoned Loans)**

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- Seasoned loans are **ineligible** for insurance with United Guaranty. All closed loans must be submitted for insurance prior to the first payment due date

## **2.03 Home Buyer Education**

**Updated September 30, 2009**

- To help ensure that home buyers become successful homeowners, United Guaranty recommends that all first-time home buyers participate in a pre-purchase home buyer education course.
- Additionally, United Guaranty requires that borrowers eligible for certain targeted loan programs, including all loans with an LTV ratio of 95.01–97%, receive pre-purchase home buyer education.
- For loans requiring home buyer education, the loan file must contain verification that the borrowers have completed home buyer counseling; otherwise, the lender must condition the file for receipt.
- Counseling can be obtained from several sources, including the following:
  - The lender, or a nonprofit group can provide home buyer education classes that cover such topics as applying for a mortgage; budgeting for household expenses; and shopping for, inspecting, and maintaining a home.

## 2.04 Affordable Housing File Identification

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- Loans associated with affordable housing programs need to be identified using one of the following methods:
  - The loan is identified as an affordable housing loan on the United Guaranty application (box is checked “yes”).
  - The transmittal summary identifies the loan as a Fannie Mae or Freddie Mac affordable housing loan or as an affordable housing loan under a program established by the lender.
  - The file contains verification of home buyer counseling.
  - The loan has been originated under a program from a state or local housing financing agency.

## 3. Loan Program Parameters

### 3.01 General Parameters

#### Maximum Loan Amount/LTV/Minimum Credit Score

Please see the [Declining Markets](#) section for properties considered to be in a declining market.

#### *Eligibility Criteria*

- Primary residence – single-family detached, single-family attached, PUD, and site condos:<sup>2</sup>
  - 1-unit purchase and rate/term refinance:
    - 95% LTV to \$417,000: minimum credit score 680.
    - 90% LTV: \$417,001 to \$625,500:<sup>3</sup> minimum credit score 700.
- Primary residence – condominium:
  - 1-unit purchase and rate/term refinance:
    - 95% LTV to \$417,000: minimum credit score 700.
    - 90% LTV to \$417,000: minimum credit score 680.
    - 90% LTV: \$417,001 to \$625,500:<sup>3</sup> minimum credit score 700.
- Primary residence – cooperative:
  - 1-unit purchase and rate/term refinance:
    - 90% LTV to \$625,500:<sup>3</sup> minimum credit score 700.
- **Ineligible** for insurance:
  - Cash-out refinance.
  - 2- to 4-unit dwelling.
  - Second home.
  - Investment property.

#### Maximum Amortization Term

- 40 years.

#### Financed MI

#### *Eligibility Criteria*

Eligibility criteria and underwriting guidelines are determined using the base LTV (the LTV before the financed MI is added). The maximum total LTV (including financed MI) cannot exceed 97%. Please see the [Declining Markets](#) section for properties considered to be in a declining market.

#### Subordinate Financing – Maximum CLTV

#### *Eligibility Criteria*

- Purchase transactions with simultaneous secondary financing are **ineligible** for insurance.
- Rate/term refinance transactions:

<sup>2</sup> See [Affordable Housing](#) guidelines for LTVs 95.01 to 97%.

<sup>3</sup> See [Jumbo Loans \(\\$417,001–\\$625,500\)](#) section for additional restrictions.

- Transactions with new simultaneous secondary financing are **ineligible** for insurance.
- Existing subordinate financing may be re-subordinated. The CLTV may never exceed the maximum LTV per the transaction type.
- CLTV is the equivalent of all other acronyms (i.e. HCLTV, TLTV, etc.) used to describe the ratio of the combined loan amounts for the first lien and subordinate lien(s) secured by the subject property, whether drawn or not, to the lesser of the sales price or appraised value.
- Example: A property is being refinanced with an appraised value of \$140,000. The borrower obtains a first lien mortgage of \$120,000 and an existing Home Equity Line of Credit with an available line of \$10,000 and a balance of \$5,000 is re-subordinated.

To determine the CLTV:

\$120,000	First lien
+ \$ <u>10,000</u>	Total available line from Home Equity Line of Credit
\$130,000	Combined loan amount secured by subject property

$$\text{CLTV} = (\$130,000 \div \$140,000) = 92.86\%$$

### 3.02 Maximum Qualifying Ratios

#### *Eligibility Criteria*

Loans receiving a DU Approve/Eligible or LP Accept/Eligible recommendation are eligible up to the maximum DTI ratio eligibility criteria. No other qualifying ratio guidelines apply to these loans.

#### **Maximum DTI Ratio Eligibility Criteria**

- 41% DTI:
  - Loan amounts higher than \$417,000.
  - Third-party originated (TPO) loans.
  - Loans secured by properties located in a Severely Declining Market.
- 45% DTI:
  - All other loans.

Loans **without** a DU Approve/Eligible or LP Accept/Eligible recommendation are subject to the qualifying ratio guidelines listed below. These loans may be eligible up to the maximum DTI ratio eligibility criteria listed above when adequate compensating factors exist.

### Maximum Qualifying Ratio Guidelines for Loans without a DU Approve/Eligible or LP Accept/Eligible Recommendation:

- 28/36%:
  - LTV higher than 95%.
  - ARM with an initial fixed-rate period of less than 5 years.
  - Temporary interest-rate buydowns.
- 33/38%:
  - Fixed-rate/fixed-payment loans.
  - ARM with an initial fixed-rate period of 5 years or longer.

Monthly housing expense-to-income ratios and total debt-to-income ratios are tools used to help assess the borrower's capacity to meet the monthly mortgage payment obligation.

Although guidelines are established for maximum housing expense-to-income ratios and total debt-to-income ratios, we recognize there may be appropriate compensating factors that would allow these guidelines to be exceeded (such as substantial reserves, large disposable income, etc.).

Appropriate compensating factors may differ from loan to loan; therefore, each loan must be reviewed based on its own merit. When exceptions are made to qualifying ratio guidelines, compensating factors considered in making the exception must be clearly indicated. The exceptions may not exceed the DTI eligibility criteria as outlined above.

### 3.03 Jumbo Loans (\$417,001–\$625,500)

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#### *Eligibility Criteria*

United Guaranty will insure Jumbo Loans (\$417,001–\$625,500) that meet all of the following requirements:

- Primary residence – single-family detached, single-family attached, PUD, condominiums, and cooperatives:
  - 1-unit purchase and rate/term refinance:
    - Maximum 90% LTV.
- Minimum 700 credit score.
- Maximum 41% DTI. (See the [Maximum Qualifying Ratios](#) section.)
- ARMs with initial fixed-rate period less than five years are **ineligible**.
- Balloon mortgages are **ineligible**.
- Maximum seller contribution is 3%.
- Full appraisal with interior and exterior inspection required.
- Full income and asset documentation is required. DU/LP documentation efficiencies are **ineligible**.
- **Ineligible** in states considered to be in severely declining markets.
- United Guaranty's [Declining Markets Policy](#) applies.
- All other United Guaranty underwriting guidelines and eligibility criteria apply.
- United Guaranty's [Territorial Underwriting Guidelines](#) apply.

### 3.04 Affordable Housing (95.01 to 97% LTV) <sup>4</sup>

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#### *Eligibility Criteria*

- 1-unit, primary residences only.
- Purchase transactions only.
- Maximum loan amount of \$417,000.
- Minimum credit score of 700.
- The borrower must be a first-time home buyer (no home ownership in the last 3 years).
- Home buyer counseling is required.
- Income cannot exceed 100% of area median income.
- Minimum 3% borrower contribution from own funds.
- All other United Guaranty guidelines and eligibility criteria apply.

#### **Qualifying Ratios**

- See the [Maximum Qualifying Ratios](#) section.

#### **Eligible Loan Types**

- Fixed-rate/fixed-payment.
- ARMs with initial fixed-rate periods of 5 years or longer only.

#### **Other Requirements**

- All other United Guaranty guidelines and eligibility criteria apply.

### 3.05 Fixed-Rate/Fixed-Payment Mortgages

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These loans feature principal and interest payments that remain the same throughout the life of the loan.

#### **Maximum LTV**

- 95%.<sup>5</sup>

#### **Qualifying Rate**

- Note rate.

#### **Qualifying Ratios**

- See the [Maximum Qualifying Ratios](#) section.

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<sup>4</sup> Follow United Guaranty's standard underwriting guidelines and "eligibility criteria" for Affordable Housing loans with LTV ratios of 95% and lower.

<sup>5</sup> See [Affordable Housing](#) guidelines for LTVs 95.01 to 97%.

### 3.06 Adjustable-Rate Mortgages (ARMs)

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ARMs are mortgages in which the interest rate and payment adjust periodically based on predetermined intervals, index, and margin.

#### *Eligibility Criteria*

##### **Spread**

- Difference between the initial interest rate of an ARM and the FIAR (Fully Indexed Accrual Rate) at time of closing.
  - Maximum 300 basis points.

##### **Index**

- ARM indices must be published, beyond the lender's control, and accessible to the borrower (examples: Treasury Bill, LIBOR, COFI).

##### **Margin**

- The percentage above or below the index to which the interest rate will be adjusted.

##### **FIAR (Fully Indexed Accrual Rate)**

- Index plus margin.

### 3.07 Positively Amortizing ARMs

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#### *Eligibility Criteria*

##### **Maximum Loan Amount**

- ARM with an initial fixed-rate period of 5 years or longer:
  - \$625,500.
- ARM with an initial fixed-rate period of less than 5 years:
  - \$417,000.

##### **Maximum LTV**

- ARM with an initial fixed-rate period longer than one year:
  - 95% LTV.<sup>6</sup>
- ARM with an initial fixed-rate period of one year or less:
  - 90% LTV.

##### **Qualifying Rate**

- ARM with an initial fixed-rate period of three years or longer:
  - Note rate.
- Six-month and one-year ARM with an *annual cap* of 1%:
  - Note rate.
- Six-month and one-year ARM with an *annual cap* higher than 1%:
  - Maximum second-year note rate.

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<sup>6</sup> See [Affordable Housing](#) guidelines for LTVs 95.01 to 97%.

### Qualifying Ratios

- See the [Maximum Qualifying Ratios](#) section.

### Initial Adjustment Cap

- Six-month ARM: 1%.
- One-year ARM: 2%.
- Three-year ARM: 3%.
- Five-year or longer ARM: 6%.

### Periodic Cap

- Six-month ARM: 1%.
- One-year or longer ARM: 2%.

### Lifetime Cap

- 6%.

### Ineligible Loan Instruments

- Balloons.
- Temporary interest-rate buydowns for ARMs with an initial fixed-rate period less than 3 years.

## **3.08 ARMs Featuring Potential Negative Amortization (Including Pay Option ARMs)**

### *Eligibility Criteria*

- **Ineligible** for insurance with United Guaranty.

## **3.09 ARMs Featuring Scheduled Negative Amortization (Including Pay Option ARMs)**

### *Eligibility Criteria*

- **Ineligible** for insurance with United Guaranty.

## **3.10 Interest-Only Loans**

### *Eligibility Criteria*

- **Ineligible** for insurance with United Guaranty.

## **3.11 PITI Abatement Loans**

### *Eligibility Criteria*

- **Ineligible** for insurance with United Guaranty.
  - A PITI Abatement loan is any loan in which the home builder, seller, or other interested party agrees to pay the borrower's monthly principal, interest, taxes, and/or insurance obligation for a specified period of time (for example, 6 months or 1 year).

## 3.12 Temporary Interest-Rate Buydowns

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### Eligible Loan Instruments

- Fixed-rate/fixed-payment.
- ARMs with initial interest rate adjustment of three years or longer. (Maximum 2–1 buydown for ARMs with initial interest rate adjustment of less than five years.)
- Balloons with minimum term of seven years.

### Maximum Buydown Schedule

- Maximum 95% LTV for 2–1 buydowns.
- Maximum 90% LTV for 3–2–1 buydowns.

### Qualifying Rate

- Bought-down rate.

### Qualifying Ratios

- See the [Maximum Qualifying Ratios](#) section.

### Other Requirements

- All other United Guaranty underwriting guidelines and eligibility criteria apply.

## 3.13 Balloon Mortgages

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A balloon mortgage calls for the full payment of the loan balance at a certain term, prior to the loan fully amortizing.

### *Eligibility Criteria*

#### Maximum Loan Amount

- \$417,000

### Eligible Loan Instruments

- Fixed-rate/fixed-payment.

### Maximum LTV

- 90% LTV.

### Minimum Term

- Seven years.

### Qualifying Ratios

- See the [Maximum Qualifying Ratios](#) section.

### Other Requirements

- At the end of the balloon term, the lender must offer the borrower a renewal or new loan at the current market rate with no decrease in amortization and no additional underwriting requirements.

#### Rate/Term Refinance<sup>7</sup>

##### *Eligibility Criteria*

- Maximum 95% LTV.
- The loan proceeds may be used for the following:
  - Payoff of the existing first-lien mortgage. (The existing first lien mortgage may not be a cash-out refinance transaction seasoned less than 6 months.)
  - To finance reasonable and customary closing costs, financing costs, and prepaid items associated with the refinance transaction.
  - Cash back to the borrower, not to exceed the lesser of 2% of the loan amount or \$2,000.
  - Payoff of subordinate financing used entirely to acquire the subject property (simultaneous purchase-money second). A copy of the HUD-1 for the purchase of the subject property will be required. The HUD-1 must document that the first lien and subordinate liens were recorded simultaneously and that the borrower did not receive any cash back at closing.
- Existing subordinate financing may be re-subordinated, provided the CLTV requirements are met.
- Rate/term refinance transactions with new simultaneous secondary financing are ineligible for insurance.
- The current appraised value should be used if the borrower has owned the property for 12 months or longer. If the property has been owned for less than 12 months, the LTV is based on the lesser of the following:
  - The original purchase price plus documented cost of improvements.
  - The current appraised value.
- All other UG underwriting guidelines and eligibility criteria apply.

#### Cash-Out Refinance

##### *Eligibility Criteria*

- Ineligible for insurance with United Guaranty.
- A refinance transaction is considered a cash-out refinance when the proceeds are used for any one or more of the following:
  - The borrower is receiving cash back at closing in excess of the lesser of 2% of the loan amount or \$2,000.
  - Paying off a first-lien mortgage that was a cash-out refinance transaction and is seasoned less than 6 months.
  - Paying off a subordinate lien(s) not used entirely to acquire the subject property (simultaneous purchase-money second).

<sup>7</sup> Loans not meeting rate/term refinance eligibility may be considered under United Guaranty's Refinance with Certificate Modification Program when United Guaranty insures the existing loan.

## Streamlined Refinance Program

### Eligibility Criteria

- Streamlined refinance transactions are **ineligible** for new insurance commitments/certificates. All streamlined refinance transactions, including Fannie Mae's Refi Plus™ and DU® Refi Plus™ and Freddie Mac's Relief Refinance<sup>SM</sup> Mortgage (same-servicer transactions only), may be considered under United Guaranty's Refinance with Certificate Modification Program when United Guaranty insures the existing loan. Loans under Fannie Mae's Refi Plus™ and DU® Refi Plus™ and Freddie Mac's Relief Refinance<sup>SM</sup> Mortgage may be fully documented and submitted for new insurance as a rate/term refinance. All rate/term refinance eligibility criteria will apply.

## Refinance with Certificate Modification Program

### Eligibility Criteria

This same-servicer program will waive or modify most traditional underwriting guidelines and eligibility criteria to help borrowers improve their ability to repay their loans and avoid losing their homes.

The program works as follows:

- United Guaranty will consider the transaction to be a modification of an existing United Guaranty certificate of insurance.
- The existing certificate number will remain the same, and an endorsement to the original certificate will be issued.
- All original representations of the Insured made for the existing loan will remain intact.

United Guaranty–insured Fannie Mae, Freddie Mac, and portfolio loans are eligible for this program. United Guaranty is willing to modify any existing certificate of insurance that meets the criteria for this program.

## Refinance with Certificate Modification Eligibility

Category	Eligibility Policy
Eligible Lender	<ul style="list-style-type: none"> <li>The request for certificate modification must be made by the current servicer of the existing loan in all cases.</li> <li>If the originator of the new loan is not the servicer of the existing loan, the originator must ensure the loan is delivered to the current servicer, and the servicer must submit the request for certificate modification.</li> </ul>
Submission	All requests should be submitted using the United Guaranty Modification Request Form found at <a href="http://www.ugcorp.com/forms.html">www.ugcorp.com/forms.html</a> .
Minimum Credit Score	No minimum credit score.
Non-traditional Credit	Eligible.
Maximum Loan Amount	No maximum loan amount.
Maximum LTV/CLTV	No maximum LTV/CLTV.
Declining Market Eligibility	Does not need to meet United Guaranty's Declining Market eligibility policy.

Category	Eligibility Policy
Eligible DU/LP Recommendations	All DU and LP recommendations are eligible when all other program eligibility criteria are met.
Coverage/Premium Rate	<ul style="list-style-type: none"> <li>• Coverage percentage may either remain the same (most common) or decrease. Increases are not permitted.</li> <li>• The premium rate (in basis points) will only change in the event the coverage percentage is decreased; otherwise, it will remain the same. When the coverage percentage is decreased, the new premium rate will be determined based on the rates in effect at the time of the original Commitment was issued, using the new coverage percentage and the original loan terms.</li> <li>• The lender may not alter the type of mortgage insurance – i.e., borrower-paid mortgage insurance must remain borrower-paid, and lender-paid mortgage insurance must remain lender-paid.</li> </ul>
Eligible Transaction Type	<p>Rate/term refinance only.</p> <p>The new loan may include the following features:</p> <ul style="list-style-type: none"> <li>• The payoff of the existing first-lien mortgage, including the unpaid principal balance and accrued interest through the payoff date.</li> <li>• Cash back not to exceed \$250. Any excess cash must be applied as a principal curtailment to the new mortgage loan or the new loan amount must be reduced.</li> <li>• Reasonable and customary closing costs, financing costs, and prepaid items may be added to balance, not to exceed the lesser of 4% of the loan amount or \$5,000.</li> </ul> <p><b>Note:</b> For this program, the definition of a rate/term refinance will include the payoff of an existing first-lien mortgage that was a cash-out refinance and is seasoned less than 6 months.</p>
Existing Subordinate Financing	<ul style="list-style-type: none"> <li>• May not be included in new loan.</li> <li>• May be re-subordinated.</li> </ul>
Maximum DTI/Payment Cap	<p>No maximum P&amp;I payment increase limit. When the existing P&amp;I payment increases by more than 20%, income and employment must be verified (see documentation requirements below) and the maximum DTI is limited to 55%.</p> <p><i>(For existing loans with changing payments, the P&amp;I or interest-only payment made the most frequently during the last 12 months, or since the Note date of the Mortgage being refinanced if less than 12 months, must be used in the calculation.)</i></p>
Seasoning Requirements	No seasoning requirements.
Payment History	<ul style="list-style-type: none"> <li>• The loan must be current.</li> <li>• If the P&amp;I payment is staying the same or decreasing, one 30-day delinquency is allowed within the last 12 months.</li> <li>• If the P&amp;I payment is increasing, no 30-day delinquencies are allowed within the last 12 months.</li> </ul>

<b>Category</b>	<b>Eligibility Policy</b>
Eligible New Loan	<ul style="list-style-type: none"> <li>• Fully amortizing fixed-rate/fixed-payment loan.</li> <li>• Fixed-rate/fixed-payment 30-year loan with 10-year interest-only period (see limitations below).</li> <li>• Fully amortizing ARM with initial fixed-rate period of 5 years or longer.</li> </ul>
Ineligible New Loan	<ul style="list-style-type: none"> <li>• ARM with initial fixed-rate period less than 5 years.</li> <li>• Interest-only loans other than a 30-year fixed-rate/fixed-payment interest-only loan with a 10-year interest-only period (see limitations below).</li> <li>• Balloon.</li> <li>• Temporary Buydown.</li> <li>• Subprime.</li> <li>• Potential Neg Am.</li> </ul>
Impact to the Borrower	<p>Must result in a positive impact to the borrower in one of the following ways:</p> <ul style="list-style-type: none"> <li>• A reduction to the mortgage payment amount.</li> <li>• A reduction in interest rate.</li> <li>• A reduction in amortization term.</li> <li>• Replacement of a Potential Neg Am ARM, interest-only loan, or a fully amortizing ARM with a fully amortizing fixed-rate/fixed-payment mortgage or a fully amortizing ARM with initial fixed-rate period of 5 years or longer.</li> <li>• Replacement of a Potential Neg Am ARM or interest-only ARM with a 30-year fixed-rate interest-only loan with an interest-only period of 10 years.</li> <li>• Replacement of a fixed-rate interest-only loan with a 30 year fixed-rate interest-only loan with an interest-only period of 10 years; however, the interest rate and P&amp;I payment must be decreasing.</li> </ul>
Borrowers	No changes to the original borrowers are allowed, other than changes due to death or divorce.
Eligible Occupancy	All occupancy types are allowed (primary residence, second home, and investment property).
Occupancy Conversion	<ul style="list-style-type: none"> <li>• Occupancy changes that increase the risk of a loan are not allowed (for example, from primary residence to investment property).</li> <li>• Occupancy changes that decrease the risk of a loan are allowed (for example, from investment property to primary residence).</li> </ul>
Ineligible Property Types	None.
New Credit Report Required	Not required.
Appraisal Required	Not required, but if one is supplied it will be accepted (full appraisal, exterior only, or AVM).

Category	Eligibility Policy
Employment/Income/ Asset Documentation	<p>Stated employment and income.*</p> <p>Stated assets if required.</p> <p>* If the P&amp;I payment is increasing by more than 20% the following documentation is required:</p> <ul style="list-style-type: none"> <li>• Salaried Borrower – Minimum 1 paystub indicating the most recent 30 days' earnings and year-to-date earnings and a verbal VOE.</li> <li>• Self-Employed Borrower – Minimum 1 year's tax return.</li> </ul>

### Loans Eligible for an Agency HARP Plan, but Not Meeting United Guaranty's Program Eligibility Criteria

#### Eligibility Criteria

United Guaranty's Refinance with Certificate Modification Program does not completely align with all Agency HARP plans (Fannie Mae's Refi Plus<sup>TM</sup> and DU Refi Plus,<sup>TM</sup> and Freddie Mac's Relief Refinance<sup>SM</sup>).

Due to the additional risk exposure created by some of the parameters of the programs (for example, unlimited P&I payment increase, unlimited DTI ratios, and unlimited closing costs added to the loan balance), United Guaranty is willing to consider loan-level exceptions under the following process.

United Guaranty will consider loan-level exceptions when a loan meets the eligibility criteria of one of the Agency HARP plans without meeting United Guaranty's Refinance with Certificate Modification Program eligibility criteria, provided the loan transaction creates a mortgage payment that the borrower is capable of sustaining **and** does not adversely increase United Guaranty's risk exposure.

Loan-level exceptions may be considered under United Guaranty's Refinance with Certificate Modification Program for loans that are eligible under an Agency HARP plan, subject to the following criteria:

- Only "same servicer" transactions are allowed.
- A completed and signed Modification Request Form, identifying the loan as a Refinance with Certificate Modification, is required.
- The loan documentation must be a full-file submission. United Guaranty recognizes the Agency HARP program may require less than traditional "full" documentation. United Guaranty reserves the right to request additional information to ensure the new loan transaction will improve the borrower's financial position. This decision is at the discretion of the United Guaranty underwriter.
- Strong compensating factors must exist. These are evaluated at the loan level, based on the specific loan file circumstances.

#### "Buy-Out" Refinance Transaction

- Must be the borrower's primary residence.
- The individual being bought out must be the borrower's spouse, domestic partner, fiancé, or fiancée.
- Documentation should be provided to support that both parties owned and occupied the subject property as a primary residence for at least 12 months preceding the date of the mortgage application.
- A signed agreement should be provided specifying the terms of the property transfer and the proposed disposition of the loan proceeds from the refinance transaction.
- The borrower cannot receive any cash back from loan proceeds.
- The borrower should be able to qualify under United Guaranty's standard underwriting guidelines.

#### *Eligibility Criteria*

- Maximum 95% LTV.
- For a purchase transaction the LTV will be based on the lesser of the purchase price plus the documented costs of improvements; **or** the appraised value subject to completion.
- For a refinance transaction the LTV will be based on:
  - Property owned less than 12 months – The LTV is based on the lesser of the original purchase price plus the documented cost of improvements; **or** the appraised value subject to completion.
  - Property owned 12 months or longer – The LTV is based on appraised value subject to completion.
- A copy of the HUD I from the original purchase transaction must be provided for a refinance transaction when the property has been owned less than 12 months.
- A copy of the contract for cost of improvements must be provided.
- All loan proceeds must be disbursed at closing (funds earmarked for renovations are usually deposited into an escrow account). It is the lender's responsibility to ensure that all renovations are completed.
- Loans where funds are disbursed in increments and the borrower pays interest-only payments until all funds are disbursed are ineligible as a "Renovation Mortgage" and must be underwritten as a construction-to-permanent loan.
- Transactions involving the complete tear-down of the existing property with the re-building of a new property are ineligible as a "Renovation Mortgage" and must be underwritten as a construction-to-permanent loan.
- The insurance may be activated prior to the completion of the renovations.
- The borrower may not receive any cash back at closing.
- New subordinate financing is not allowed.
- For refinance transactions, existing subordinate financing may be re-subordinated (provided the CLTV requirements are met) or paid from the borrowers own funds. Subordinate financing may not be paid off from the new loan proceeds.
- All other UG underwriting guidelines and eligibility criteria apply.

### 3.16 Streamlined Purchase Programs

#### *Eligibility Criteria*

- **Ineligible** for insurance with United Guaranty.

#### Eligibility Criteria

- Mortgage insurance coverage is **ineligible** during the construction phase. The property must be complete before the insurance can be activated.
  - Mortgage insurance coverage on the permanent loan is **ineligible** if the borrower had any delinquencies (greater than 30 days) during the construction phase.
  - Commitment certificates for construction-to-permanent loans are issued for a period of 12 months. Extensions are not permitted. After 12 months, a new application is required.
  - A recertification of value will be required when the effective date of MI coverage is more than 120 days from the original commitment date. A new appraisal is required if the property is in a declining market (as defined by United Guaranty's Declining Market policy) at the effective date of MI coverage. The recertification of value (or new appraisal) must be within 60 days of the effective date of MI coverage.
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- The transaction may allow for one closing or two closings. A re-underwrite is not necessary in a single-close transaction if the lender qualifies the borrower under the terms of the permanent financing and the terms do not change when the loan is modified. In a two-close transaction, the loan must be underwritten based on the permanent financing.
  - The construction financing must be in the name of the borrower for the loan to qualify as a construction-to-permanent mortgage.
  - The borrower for the permanent financing must be the same as the borrower for the temporary construction financing.
  - A construction-to-permanent mortgage must be treated as a purchase transaction.
  - The maximum LTV is 95%.
  - 1-unit primary residence only.
  - Minimum 700 credit score is required.
  - The borrower's required investment into the transaction must be documented. (See the [Minimum Borrower Investment](#) section.)
  - The borrower must have the title to the lot prior to closing, or the lot may be purchased and transferred to the borrower at the initial closing prior to construction beginning.
  - The LTV should be based on the lesser of (1) the appraised value or (2) total acquisition costs. When determining acquisition costs, the purchase price of the lot must be used, regardless of time owned. If the lot was inherited or received as a gift, the value of the lot per the Cost Approach section of the appraisal can be used in determining the total acquisition costs.
  - The borrower should not receive any cash back at settlement.

### 3.18 Corporate Relocation Loans

#### Qualifications

Loans meeting Fannie Mae or Freddie Mac requirements for relocation loans as outlined below:

- Made to a transferred employee to finance a primary residence at a new location.
- Made pursuant to a relocation program administered by the corporate employer or its agent.
- Involves a significant employer contribution of mortgage financing (at least 3% of the loan amount).
- Made by the lender pursuant to a contract or agreement with the employer or its agent.
- Newly hired employees are eligible.
- Employer contributions must consist of one or more of the following:
  - A buydown or subsidy of the mortgage interest rate.

- Payment of the borrower’s closing costs on the new primary residence and/or the previous residence.
- Funding of a below-market rate or no-interest bridge loan.
- Payment of the difference between the property tax and/or mortgage interest rate obligation on the employee’s previous primary residence and the employee’s new primary residence.

### 3.19 Conversion of Primary Residence

**Updated October 1, 2009**

When a borrower is purchasing a new primary residence, United Guaranty has specific requirements based on the status of the current primary residence.

#### **Pending Sale (Closing for existing property will not occur prior to closing on the new property):**

- Both the current and proposed mortgage payment must be used to qualify the borrower unless:
  - An executed sales contract for the current residence is provided and
  - All financing contingencies have been cleared.
- 6 months’ PITI is required for both properties **regardless** of DU or LP recommendation unless:
  - 30% equity in the current property is documented with a current appraisal, broker price opinion, or automated property valuation. If so, then 2 months’ PITI for the existing property and 6 months’ PITI for the new property is required.

#### **Converting to Second Home:**

- Both the current and proposed mortgage payment must be used to qualify the borrower.
- 6 months’ PITI is required for both properties **regardless** of DU or LP recommendation unless:
  - 30% equity in the current property is documented with a current appraisal, broker price opinion, or automated property valuation. If so, then the reserve requirement will be reduced to 2 months’ PITI for both properties.

#### **Converting to Investment Property:**

- Both the current and proposed mortgage payment must be used to qualify the borrower.
  - 75% of the documented rental income can be used to offset the mortgage payment if 30% equity in the existing property is documented with an appraisal, automated valuation model, or broker price opinion.
  - The rental income must be documented with a copy of a fully executed lease **and** the receipt of a security deposit from the tenant **and** evidence of deposit into the borrower’s account.
- 6 months’ PITI is required for both properties **regardless** of DU or LP recommendation or the amount of equity in the current property.

### 3.20 Limited Documentation Guidelines

#### *Eligibility Criteria*

All limited documentations loans (any loan in which income, assets, and/or employment is not verified) are **ineligible** for insurance with United Guaranty.

### 3.21 A-minus Guidelines

#### *Eligibility Criteria*

All A-minus loans are **ineligible** for insurance with United Guaranty including DU Expanded Approvals (all levels), LP Caution 500 – Freddie Mac Eligible, and lender designated A-minus loans.

## 3.22 Third-Party Originations (TPO)

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### *Eligibility Criteria*

**Third-Party Originated (TPO) loans** include loans for which the loan origination (taking the loan application) is performed by an entity other than the insured. Mortgage service providers are not considered third-party originators if they do not take the loan application and are paid on an arm's-length fee basis for services performed, with payment of fees not being contingent on mortgage approval or closing.

- When applying for United Guaranty mortgage insurance involving a TPO loan, the insured lender must identify the loan as a “Third-Party Originated” loan and provide the name, city, and state of the third-party originator.
- The following eligibility criteria apply to all TPO loans:
  - Minimum 720 credit score.
  - Maximum 90% LTV/CLTV.
  - Maximum 41% DTI. (See the [Maximum Qualifying Ratios](#) section.)
  - Properties located in a “Severely” declining market are **ineligible** for insurance with United Guaranty.

## 4. Underwriting the Borrower

### 4.01 Borrower

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#### Citizenship

- All borrowers should exhibit the following:
  - Two years' credit history and deposit history in the U.S.
  - Stable and continuing employment with a minimum two-year history in the U.S.
  - Sufficient and accessible reserves.
- Permanent resident aliens:
  - United Guaranty insures mortgages made to permanent resident aliens under the same terms that are available to U.S. citizens. The lender must provide or certify that the borrower is lawfully residing in the U.S.
- Loans to non-permanent resident aliens are **ineligible**.
- Loans to foreign nationals are **ineligible**.

#### Social Security Number

All borrowers on a loan are required to have a valid Social Security number.

- Credit reports with partially displayed Social Security numbers are **not** considered eligible documentation due to the increased opportunity for fraud. United Guaranty requires the complete Social Security number to be displayed on the credit report.

#### Individual Tax Identification Number (ITIN)

- Loans to borrowers who have been issued an ITIN in lieu of a Social Security number are **not** eligible for mortgage insurance with United Guaranty.
- An ITIN is set up in the same format as a Social Security number, with nine digits. The first digit is always a 9, and the second group of digits (fourth digit) will always start with a 7 or 8 (i.e. 9xx-7x-xxxx).
- An ITIN is not proof of legal residency in the United States and is not valid proof of identification outside the tax system. An ITIN is a tax identification number issued by the IRS to individuals who are not eligible for a Social Security number and who have an obligation to file a tax return to the IRS. Any person who is employed in the United States is **required** to have a Social Security number.

#### Maximum Number of Insured Loans per Borrower

- Maximum of two loans per borrower.

#### Loans to Corporations, Partnerships, Syndications, or Irrevocable Trusts

- **Ineligible** for insurance.

#### Inter Vivos (“Living”) Revocable Trust

- United Guaranty will insure loans in which title will be held by an Inter Vivos (“Living”) Revocable Trust that complies with Fannie Mae eligibility criteria.
- The borrower and the property will be underwritten as if title were held in the name of the individual borrower.
- The borrower is qualified under United Guaranty’s standard underwriting guidelines.
- Only one-family primary residences and one-family second homes are eligible.
- The property may be a condominium, PUD, or cooperative unit.

### Co-signer/Guarantor

- A co-signer/guarantor is a credit applicant who does not have ownership interest in the security property (will not be on the title or mortgage/deed of trust) but who will be liable for the debt created by the note (must be on the application and note).
- A co-signer/guarantor may or may not occupy the property. If the co-signer/guarantor occupies the property, he or she will be qualified like any other occupying borrower. If the co-signer/guarantor does not occupy the property, the non-occupant co-borrower/co-signer guidelines apply (see below).

### Non-occupant Co-borrower/Co-signer

- Underwritten using only the occupant borrower's income and debt.
- Maximum 90% LTV.
- The occupant borrower must meet the 5% down payment requirement from personal funds.
- The non-occupant co-borrower should add strength to the transaction by exhibiting stability, good credit history, and a strong asset base.
- The non-occupant co-borrower should have sufficient liquidity to assist the occupant borrower should the need arise.
- The note and deed of trust must be signed by both the occupant and non-occupant borrowers.
- Qualifying ratios for the occupant borrower are acceptable up to 5% over applicable underwriting ratios. Ratios, including the non-occupant borrower's income and debt, should meet applicable underwriting ratio guidelines.

## 4.02 Credit and Liabilities

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### Analysis of Credit Report

- United Guaranty insures loans to borrowers who have demonstrated an ability and willingness to pay prior credit obligations in a timely and responsible fashion, as determined by the past two years of credit history. United Guaranty generally defines an acceptable level of late payments as follows:

Type of obligation	Last 3 months	Last 12 months	Last 24 months
Housing	No lates	No lates	1x30 (no 60+ days late)
Installment	No lates	1x30 (no 60+ days late)	2x30, 1x60 (no 90+ days late)
Revolving	No lates	2x30 (no 60+ days late)	2x30, 1x60 (no 90+ days late)

- If the borrower has a history of late payments or major delinquencies, the age, frequency, severity, and explanation of the derogatory credit will be evaluated to determine the borrower's willingness to pay credit obligations.
- In some cases, the borrower may need to re-establish his or her credit history for a specified period.
  - Generally, the borrower will be considered as having re-established acceptable credit if there are at least three traditional credit references with activity for the most recent 24 months and no late payments in the 24-month period.
  - A longer re-establishment period may be necessary depending on the severity of the delinquencies.
- United Guaranty requires written explanation of derogatory credit less than two years old. However, United Guaranty reserves the right to request an explanation for *any* derogatory credit directly affecting the underwriting decision.

## Credit Score Requirements

### *Eligibility Criteria*

#### **Minimum Number of Scores Required**

- United Guaranty requires a minimum of two credit scores per borrower.

**Representative Credit Score** is determined as follows:

- For one borrower with two credit scores, use the lower score.
- For one borrower with three credit scores, use the middle score.
- For multiple borrowers with two scores, use the lowest score of all borrowers.
- For multiple borrowers with three scores, use the middle score for each borrower and the lowest of the middle scores.
- When a borrower has three scores and two are identical, one of the identical scores is considered the middle score.

#### **Valid Credit Scores**

- For a credit score to be considered valid, both of the following conditions must apply:
  - The score must be generated from a minimum of three traditional trade lines evaluated for at least 12 months, regardless of a DU or LP recommendation.
  - The information provided on the credit report must be accurate.
- Borrowers with an invalid score are considered “non-traditional” credit borrowers and are **ineligible** for insurance with United Guaranty.
- Scores deemed invalid should not be provided as the borrower’s score.

#### **Traditional Credit Loans**

In order for United Guaranty to consider a borrower as a “traditional” credit borrower, the borrower’s credit history must be an established credit history, defined as a minimum of three traditional trade lines evaluated for at least 12 months. All trade lines must be reported on the credit report and all information must be accurate. Borrowers not meeting the minimum requirements for traditional credit are **ineligible** for insurance with United Guaranty.

#### **Non-traditional Credit Loans**

### *Eligibility Criteria*

Any loan for which one or more borrowers do not have a valid credit score are considered non-traditional credit loans. All non-traditional credit loans are **ineligible** for insurance with United Guaranty.

#### **No Credit History**

### *Eligibility Criteria*

Loans involving borrowers with undocumented credit histories (“no credit”) are **ineligible** for insurance with United Guaranty.

#### **Housing Payment History**

United Guaranty generally requires all borrowers to have a 12-month housing payment history with no 30-day late payments in the last 12 months.

## Judgments, Tax Liens, Collections

- Should be paid in full.
- Should be fully explained.

## Bankruptcy

- Borrowers with multiple bankruptcy filings in the past 7 years are **ineligible** for insurance.
- Borrowers with a bankruptcy filing require 4 years' seasoning after the discharge or dismissal date, and satisfactory re-established credit must be verified, **regardless** of DU or LP recommendation.

## Mortgage Foreclosure, Deed in Lieu of Foreclosure, Pre-Foreclosure Sale (Short Sale)

### *Eligibility Criteria*

- Borrowers with a foreclosure, deed in lieu of foreclosure, or pre-foreclosure sale (short sale) are **ineligible** for insurance with United Guaranty.

## Prior United Guaranty Claim

### *Eligibility Criteria*

- A borrower who was a debtor on a loan for which United Guaranty paid a claim is **ineligible** for insurance with United Guaranty.

## Credit Counseling

- Borrowers who have received credit counseling should have 12 months' re-established credit from the conclusion of the counseling with no late payments.

## Liabilities

- Installment debts:
  - Included as a monthly obligation if more than 10 payments remain.
  - All car lease payments are included as a monthly obligation regardless of the number of payments remaining on the lease.
  - Debts secured by a financial asset are not included as an obligation [401(k), Keogh, etc.].
  - Although installment debts with 10 or fewer payments remaining are generally excluded, United Guaranty analyzes the number and size of all such debts to determine whether the borrower has the ability to carry such short-term debts.
- Revolving debts:
  - Included as a monthly obligation regardless of the number of payments remaining.
  - The monthly payment verified on the credit report may be used as the payment in calculating the total debt ratio.
  - If the payment amount is not verified on the credit report, the greater of (1) the payment disclosed by the borrower or (2) 5% of the outstanding balance can be used.

## Deferred Student Loans

- Loans deferred for a minimum of 24 consecutive months will not be counted in the debt-to-income ratio.

## 4.03 Income and Employment

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### Boarder Income

- United Guaranty allows boarder income to be considered as a compensating factor for the use of higher qualifying ratios.

### Bonus

- As documented by the employer.
- Use a two-year average.

### Car Allowance

- Used as an offset to the borrower's monthly auto payment.
- Should have been received for at least one year.

### Commission

- As documented by the employer.
- If commission income is equal to 25% or more of the total income, the last two years' signed federal income tax returns should be obtained.
- Use a two-year average.

### Disability Income

- Permanent and temporary disability can be used as income with receipt of the award letter.
- For temporary disability, a letter from the employer should be provided, stating that the employee will receive disability benefits as long as he or she is disabled and, when no longer disabled, the employee will return to his or her previous position.

### Dividends/Interest

- Signed federal income tax returns are required.
- Reserves should be sufficient to continue generating income.

### MCC Credits

- United Guaranty considers MCC (Mortgage Credit Certificate) credits in qualification. Tax credit should be added to income.

### Military Income

- Flight or hazard pay, rations, clothing allowance, quarters allowance, proficiency pay, and hardship pay are all included as income.

### Mortgage Interest Differential/Cost-of-Living Differential

- Considered as income with written verification from the employer.
- Should continue for at least three years.

### Non-Taxable Income

- Non-taxable income may be grossed up by 15%.

### Notes Receivable

- A copy of the executed and recorded note should be obtained.
- Evidence of receipt for the previous 12 months should be obtained.
- Should continue for at least three years.

### **Other Income**

- If the borrower chooses to disclose income from sources other than the ones addressed above, United Guaranty will consider these sources if there is a history of receipt for two years and the other income is properly documented. United Guaranty generally requires the other income to continue for a minimum of three years. A longer time period may be required, depending on the circumstances. This is especially true when other income exceeds 25% of total income.

### **Overtime**

- As documented by the employer.
- Use a two-year average.

### **Part-Time/Second Job**

- As documented by the employer.
- Use a two-year average.

### **Rental Income**

- Rental income from other investment properties owned may be used for qualification when the following criteria apply:
  - The borrower has a 2-year history of managing rental property.
  - The credit score is 680 or higher.
  - The average income can be documented with two years' federal tax returns.
    - All depreciation can be added back to the total net income or loss for each property.
    - A negative cash flow will be included as an obligation and a positive cash flow as income.
- See the [“Conversion of Primary Residence”](#) section for rental income requirements when the borrower's current primary residence is converting to an investment property.

### **Retirement/Pension**

- Monthly payment from these accounts can be used as income.

### **Social Security**

- Considered as income when verified by:
  - Award letter; **or**
  - Bank statements confirming regular deposits of payments.
- Social Security income paid to the surviving children of a deceased spouse should continue for at least three years.

### **Trailing Co-Borrower Income**

- 100% of the trailing co-borrower income may be used, provided the following criteria are met:
  - Minimum credit score is 680.
  - Primary residence only.
  - Minimum of two years' consistent employment history in the same field.
  - Demand for job skill exists in the new location.
  - Pay scale is relative to the new location.
  - Minimum of six months' cash reserves are verified.
  - Maximum trailing co-borrower income may not exceed 33% of total qualifying income.
  - Letter of intent to obtain a position in the new area is required.
- Self-employed income from trailing co-borrower is ineligible.

## Unemployment Benefits

- Ineligible for use as qualifying income.

## 4.04 Assets and Equity

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### Minimum Borrower Investment

The following are United Guaranty's requirements for a minimum contribution from the borrower's own funds.

- 80.01–95% LTV: 5%.<sup>8</sup>
- When the borrower is required to make a down payment, the source of assets must be present for at least 90 days prior to the date of the loan application.
- Funds needed for closing must be verified.
- Source of funds should be verified for funds on deposit less than 90 days or substantial increases in account balances.
- Gifts from a family member who has resided with the borrower for at least 12 months, and who intends to continue to do so, can be considered the same as the borrower's funds. Documentation should be obtained to verify that the family member has resided with the borrower for at least 12 months.

### Deposit on Sales Contract

- Verification of deposit should be made if the deposit amount indicated in the sales contract exceeds 2% of the sales price.
- Verification is not necessary if the borrower has sufficient funds for closing without consideration of the deposit.

### Borrowed Funds

- Borrowed funds secured using the borrower's assets may be used as a source of down payment. Acceptable sources of secured assets are certificates of deposit, stocks, bonds, real estate, life insurance policies, and 401(k) savings. The term of the loan and the collateral must be verified. Loans secured by the borrower's financial assets are not included as debt in qualification.
- Additional funds (over the borrower's minimum required down payment) toward the down payment and/or closing costs may come from an unsecured loan from an United Guaranty-approved lender, non-profit organization, government agency, or other United Guaranty-approved organization or employer assistance program. This loan may not be in the form of credit card financing or overdraft protection of checking accounts. The loan should have level payments and a fixed interest rate, which should be no higher than the rate on the first mortgage. The monthly payments on the unsecured loans must be included as debt in qualification.

### Seller/Interested Party Contributions

#### *Eligibility Criteria*

- Maximum 3% contribution for loan amounts higher than \$417,000.
  - Loans that allow interested party contributions to be used as down payment assistance are **ineligible** for insurance with United Guaranty.
- 
- Maximum contributions:
    - Primary residence:
    - LTV higher than 90%: 3%.
    - 80.01 to 90% LTV: 6%.

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<sup>8</sup> See [Affordable Housing](#) guidelines for LTVs 95.01 to 97%

## **Gifts**

- Acceptable, provided the following criteria are met:
  - A gift letter is obtained indicating the amount of the gift, date the gift will be given, the donor's name and address, relationship to the borrower, and that no repayment is expected.
  - The borrower makes the required contribution toward the down payment from the borrower's own savings funds.
  - The donor is a relative, domestic partner, fiancé, or fiancée.
  - The funds are verified in the borrower's or donor's account.
  - Funds from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a fiancé or fiancée who intends to use the property as a primary residence, may be considered the borrower's own funds.

## **Uniform Gift to Minor Accounts**

- Acceptable, provided one of the following criteria are met:
  - The borrower is the custodian of the account, or
  - The borrower is the owner of the account (the minor for which the account was opened, and who is now of age).

## **Gift Funds from Bridal Registry**

- Ineligible source of funds.

## **Non-Traditional Savings Plans**

- Non-traditional methods of savings funds exist in certain cultures. Under this concept, a group of savers periodically contributes a fixed amount of money to a community savings plan. Members are able to draw from the fund to finance large purchases, such as a down payment on a home, or for any other reason the savings plan member deems appropriate. Non-traditional savings plans generally have a plan manager, required periodic contributions, rotation of distribution, set contribution period, and a set number of members. Non-traditional savings plans are acceptable, provided the following are met:
  - The borrower is making the minimum down payment from his or her own funds, and the funds from the non-traditional savings plan are being used as additional down payment.
  - The existence of funds for down payment and closing costs in a lending institution account is verified at time of application.
  - The fund manager signs a written statement disclosing the fund's terms, including required contribution, distribution amount, and availability of distribution.

## **IRA/Keogh, 401(k)**

- Only the net funds after any penalties and taxes are considered (generally 70%).
- Proof of the availability of these funds is required.
- If funds are being considered for reserves only, verification of the account is sufficient.

## **Employer Assistance**

- Eligible for primary residences only.
- Assistance must come directly from the borrower's employer.
- Documentation is required to verify that the "employer assistance" is an established company program.
- Documentation is required describing the terms of any loan agreement and other employee assistance being offered to the borrower, including the dollar amount of the assistance.
- Assistance may be used for closing costs or to supplement the borrower's down payment. (The minimum down payment requirement must be made from the borrower's funds.)

- Assistance may be in the form of a grant; a direct, fully repayable second mortgage or unsecured loan; a forgivable second mortgage or unsecured loan; or a deferred-payment second mortgage or unsecured loan. (If the assistance is a secured second mortgage, it must meet the requirements for subordinate financing.)
- Evidence of receipt of funds is required if the borrower receives the employer's assistance prior to loan closing.
- Scheduled payments must be included in the debt-to-income ratio calculation. Loans not requiring regular payments are not required to be included in the debt-to-income ratio calculation.

#### **Rent Credit (Rent with Option to Buy)**

- Ineligible source of funds.

#### **Lot Equity**

- The equity in the lot on which the subject property is being built may be applied toward the down payment. When determining the lot value, the purchase price of the lot must be used, regardless of time owned. If the lot was inherited or received as a gift, the value of the lot per the Cost Approach section of the appraisal can be used in determining the lot equity. If the lot was purchased less than three months prior to the application, the source of funds to purchase the lot should be verified.

#### **Cash-on-Hand**

- Ineligible source of funds.

#### **Sweat Equity**

- Ineligible source of funds.

#### **Reserves**

##### *Eligibility Criteria*

- United Guaranty requires a minimum of two months' PITI in reserves.
- See the "[Conversion of Primary Residence](#)" section for reserve requirements when the borrower's current primary residence is pending sale, converting to a second home, or converting to an investment property.

## 5. Underwriting the Appraisal and Property

### 5.01 Appraisal

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#### General

- The appraisal should fully analyze the neighborhood, site, physical characteristics, and condition of the property.
  - Land values generally should not exceed 40% of the total property value, unless a higher land value is predominant for the area.
  - Net adjustments for comparables generally should not exceed 15%, and gross adjustments should not exceed 25%.
  - The property should have sufficient square footage to be:
    - Acceptable to typical purchasers.
    - Typical for the area, as supported by comparables.

### 5.02 Declining Markets

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#### *Eligibility Criteria*

Properties located in declining markets present additional risk caused by the potential of reduced borrower equity.

#### **Declining Market Definition**

United Guaranty considers a property to be in a declining market when one or more of the following are present. When determining whether the subject property is located in a declining market, the following should be considered in the order listed.

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.

Likewise, if the subject property **is not** 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.

- The subject property is located in an area identified as a declining market per United Guaranty's Declining Market List. United Guaranty's declining market list consists of three classifications for declining markets: Moderately, Standard, and Severely. Separate declining market underwriting restrictions apply for each classification.
- The property appraisal contains 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).
- The lender has any other market intelligence or knowledge of the subject property being in a declining market.

Loans secured by properties in markets identified (by the appraisal or from lender knowledge) as declining, and that **are not** on United Guaranty's Declining Market List, are classified as being in a "Standard" declining market.

Loans secured by properties in markets identified (by the appraisal or from lender knowledge) as declining, and that **are also** on United Guaranty's declining market list, are classified according to United Guaranty's declining market list.

### **Declining Market Restrictions (All Declining Market Classifications)**

The following restrictions apply to all loans secured by properties located in a declining market, regardless of the declining market classification or if underwritten by DU or LP. All other United Guaranty guidelines and eligibility criteria apply.

- **Appraisal:**
  - A full Uniform Residential Appraisal Report (URAR), with interior/exterior inspections, is required.
  - Re-certifications of value are **ineligible** for properties that were in a declining market at the time the commitment/certificate was issued **or** at the time the appraisal expired.
- **Down Payment:**
  - Borrowers must make a 5% down payment contribution from personal funds. An additional down payment greater than 5% may come from a gift.
- **Financed Premium:**
  - For loans in which the property is located in a Moderately or Standard Declining Market, the maximum total LTV (including the financed MI) cannot exceed 95%.
  - For loans in which the property is located in a Severely Declining Market, the maximum total LTV (including the financed MI) cannot exceed 90%.
- **Ineligible:**
  - Condominiums and co-ops.
  - ARMs with an initial fixed-rate period of less than 5 years.
  - Construction-to-Permanent loans.

### **Moderately Declining Market Restrictions**

- 1-Unit, Primary Residence, Purchase and Rate/Term Refinance:
  - 95% LTV to \$417,000 with minimum 700 credit score.
  - 85% LTV to \$625,500 with minimum 700 credit score.

### **Standard Declining Market Restrictions**

- 1-Unit, Primary Residence, Purchase and Rate/Term Refinance:
  - 90% LTV to \$417,000 with minimum 700 credit score.
  - 85% LTV to \$625,500 with minimum 700 credit score.

### **Severely Declining Market Restrictions**

- 1-Unit, Primary Residence, Purchase and Rate/Term Refinance:
  - Maximum 90% LTV to \$417,000 with minimum 720 credit score.
  - Maximum 41% DTI. (See the [Maximum Qualifying Ratios](#) section.)
  - All attached housing is **ineligible** in the state of Florida (townhomes, condos, co-ops, etc.).
- **Ineligible:**
  - Third-party originated (TPO) loans.

## Roles and Responsibilities

- United Guaranty expects the appraiser to provide an accurate and adequately supported opinion of value and an accurate description of the property in all market conditions. The appraiser is expected to provide an objective assessment of the primary indicators of market conditions in the neighborhood. When indicators such as price changes, supply and demand, and market activity indicate a decline in property values, an over-supply of homes, and/or marketing times longer than six months, the appraiser must consider these factors in the analysis and accurately reflect this information in the appraisal report. Additionally, the appraiser must describe the reasons for these trends and indicate what, if any, impacts these trends have on the opinion of market value for the subject property.
- It is the responsibility of our lenders and underwriters to ensure the appraiser has adequately addressed all primary indicators of market conditions in the appraisal report, and to be familiar with market conditions in the subject neighborhood. If the appraisal report does not accurately reflect the current market conditions, it is expected that the lender or underwriter will request additional information from the appraiser to provide clarification or justification to make an informed decision regarding the property value and market conditions of the neighborhood.
- In all cases, United Guaranty expects all lenders exercising their delegated authority, as well as United Guaranty underwriters, to exercise prudent and objective underwriting in assessing the collateral and the borrower's ability to qualify for the mortgage, and to consider all aspects of the transaction.

## 5.03 Ineligible Property Types

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### *Eligibility Criteria*

The following property types are ineligible for insurance with United Guaranty:

- Manufactured housing.
- 2–4 unit dwellings.
- Vacant lots.
- Ineligible condominium types (see the [Condominiums](#) section).
- Time-share properties.

## 5.04 Unusual Property Types

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### **Rural Properties**

United Guaranty will insure rural properties that meet the following requirements:

- Maximum 90% LTV.
- Maximum 5 acres.
- Must have a high degree of marketability.
- Be accessible from a publicly maintained road.
- Have adequate sewage, water, and utilities.

## Mixed-Use Properties

“Mixed-use” properties are primarily residential in nature with a portion of the property used for non-residential purposes. United Guaranty will insure “mixed-use” properties that meet the following requirements:

- Maximum 90% LTV.
- 1-unit properties only.
- Minimum 680 credit scores.
- The borrower must occupy the subject property as his or her primary residence.
- The subject property must have physical characteristics of a residential dwelling.
- The subject neighborhood must be predominantly residential and have a zoning classification of residential. Properties that are in a neighborhood that is changing or is likely to change from residential are **ineligible**.
- The mixed use of the property should represent a legal, permissible use under local zoning requirements.
- The mixed use of the property should have a minimal effect on the value and marketability of the property.
- Alterations to the property to support non-residential use must be minimal and easily convertible for residential use.
- Loan instruments:
  - Fixed-rate/fixed payment and positive amortizing ARMs with a maximum 2% periodic cap and 6% lifetime cap.
  - Interest-only, temporary interest-rate buydowns, schedule and potential negative amortizing ARMs, GEMs, and GPMs are **ineligible**.
- Maximum loan amounts: See the United Guaranty [standard loan limits](#).
- Restrictions for non-residential use of the property:
  - 1-unit dwellings: The business must be both owned and operated by the borrower.
- All other United Guaranty guidelines and eligibility criteria apply.

## Mixed-Use Neighborhoods (Renters and Homeowners)

- Careful review of mixed-use neighborhoods must be conducted to determine the influence of investor properties on property values and marketability in the neighborhood. Properties in mixed-used neighborhoods may not qualify for maximum financing.

## 5.05 Condominiums

Updated September 21, 2009

### *Eligibility Criteria*

#### **Maximum LTV**

- 95% LTV. (See the [General Parameters – Maximum Loan Amount/LTV/Minimum Credit Score](#) section for complete details. See the [Declining Markets](#) section for properties considered to be in a declining market.)

#### **Maximum Investor Concentration**

- Maximum 30% investor concentration for the project.

#### **Minimum Presale**

- Minimum 70% of the units of the project or subject legal phase must be conveyed or under contract to purchasers who will occupy the unit as a primary residence or second home.

### **Additional Eligibility Criteria**

- Construction of the project or subject legal phase must be complete, subject to installation of buyer selected items (i.e., appliances), and a certificate of occupancy (or other similar legal document) must be issued.
- Construction of all common areas and facilities in the project or subject legal phase has been completed. For each legal phase completed, all common areas and facilities required for such legal phase have been completed and transferred to the homeowners association, and the homeowners association is controlled by the unit owners.
- If the project is a conversion, all renovation work must be completed to all units and common areas.
- No single entity may own more than 10% of the units in the entire project (for projects with less than 10 units no single entity may own more than 1 unit).
- No more than 20% of the total building square footage can be used for nonresidential purposes.
- No more than 15% of the condo/association fee payments can be more than one month delinquent.
- Kiddie condos (condominiums purchased by the parent for a child to occupy) are ineligible.

### **Ineligible Condominiums**

- Non-warrantable condominiums.
- Condotels.
- Studio condominiums (units without a complete kitchen or separate bedroom).
- Condominiums with less than 600 square feet.
- Timeshares or properties with segmented ownership.
- Houseboats.
- Multi-dwelling unit condominiums.
- Any condominium for which the homeowner's association or developer (if not turned over to the homeowner's association) is named as a party to current litigation, unless acceptable evidence is available to show that the legal action is minimal in nature and does not affect the value, financial condition, or marketability of the units.
- Condominiums that represent a legal non-conforming use of land, but are prohibited by zoning regulations from rebuilding in the event of partial or complete destruction.
- Projects affected by environmental health hazards.
- Units in a project with decreasing values and/or REO-auctioned properties.

### **Other Requirements**

- United Guaranty will insure a maximum of 33% of the units within a condominium project or within each individual phase of the project. A Condominium Project Approval is required when a lender requests that we insure more than 33% of the units within a project.
- Condo comparables: For condominiums in an established project with resale activity, the best indicator of value would be units from within the subject project. A minimum of two comparables (preferably all three) should come from within the project. For properties in new projects, the appraiser should select at least one comparable from within the subject project and at least one comparable from outside the project.
- The condominium's operating budget should be consistent with the nature of the project, provide for adequate cash flow to service the current debt and operating expenses, and provide for adequate replacement and operating reserves (usually 10% of the operating fees).

### **Site Condominiums**

- The term "site condominium" is used to describe a condominium development with single-family detached housing instead of two or more housing units in one structure. Site Condominiums are underwritten as single-family detached properties. They do not need to meet condominium requirements.

## 5.06 Cooperatives

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### *Eligibility Criteria*

- Maximum 90% LTV. (See the [General Parameters – Maximum Loan Amount/LTV/Minimum Credit Score](#) section for complete details. See the [Declining Markets](#) section for properties considered to be in a declining market.)
- Minimum 700 credit score required.
- The maximum allowable investor concentration is 30%.
- The underlying mortgage of the cooperative must have a balloon term of no less than three years remaining. ARM loans are **ineligible** for the underlying mortgage.
- Commercial units cannot provide more than 20% of the cooperative income.
- The developer cannot retain ownership in cooperative amenities such as parking or recreational facilities.
- The maximum of the allowable pro rata share of the project debt to the lesser of (1) the property sales price or (2) the appraised value is 35%.

## 5.07 Modular Housing

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Modular housing is built in two or more sections in accordance with state and local building codes, and is transported to the property site for final assembly. The house may be transported on a steel undercarriage, but the undercarriage is not a permanent structural component and is usually removed when the house is placed on a foundation. United Guaranty treats modular housing the same as stick-built housing.

## 5.08 Panelized or Pre-Fabricated Housing

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Panelized or pre-fabricated housing consists of packaged, factory-built components that are assembled at the home site. This type of house must conform to local and state building codes for site-built construction. United Guaranty treats panelized or pre-fabricated housing the same as stick-built housing.

## 5.09 Second Homes

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### *Eligibility Criteria*

- **Ineligible** for insurance with United Guaranty.

## 5.10 Investment Property

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### *Eligibility Criteria*

- **Ineligible** for insurance with United Guaranty.

## 6. Territorial Underwriting Guidelines

### 6.01 Alaska

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- **Ineligible** for insurance with United Guaranty.

### 6.02 Hawaii

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- Maximum 90% LTV for all leasehold properties.<sup>9</sup>
- All other United Guaranty underwriting guidelines and eligibility criteria apply.

### 6.03 Countries/Territories outside the United States

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#### *Eligibility Criteria*

- **Ineligible** for insurance (including, but not limited to, Puerto Rico, Guam, and the Virgin Islands).

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<sup>9</sup> Lease should exceed the term of the mortgage by at least five years.

## 7. Commitments/Certificates

### 7.01 Final Commitments

#### *Eligibility Criteria*

##### **Requirements**

To issue a final commitment, United Guaranty requires that all pertinent information necessary to underwrite the mortgage loan be documented and verified:

- Property address.
- Sales agreement.
- Appraisal.
- Employment.
- Income.
- Assets.
- Credit.

##### **Terms**

- Existing construction (the property is complete): 120 days.
- Properties “subject to completion”: 12 months.
  - A recertification of value will be required when the effective date of MI coverage is more than 120 days from the original commitment date. A new appraisal is required if the property is in a declining market (as defined by United Guaranty’s [Declining Market policy](#)) when the original commitment was issued or at the effective date of MI coverage. The recertification of value (or new appraisal) must be within 60 days of the effective date of MI coverage.

##### **Extensions**

- Extensions to commitments/certificates are not allowed. If the mortgage loan does not close within the term of the commitment/certificate, a new application for mortgage insurance will be required. All current guidelines, eligibility criteria, and pricing in effect at the time of new application will apply.

##### **Changes to Commitment**

- Requests for changes to a commitment/certificate that affect the risk of the mortgage loan (material changes) will require approval from United Guaranty. The change request will be evaluated based on the underwriting guidelines and eligibility criteria in effect at the time of the request. Examples of material change requests include the following:
  - Mortgage instrument.
  - Loan terms.
  - Increase in the loan amount.
  - Increase in the interest rate.
  - Decrease in the ARM interest rate that creates a larger spread than the loan program allows.
  - Collateral (change in property).
  - Appraised value.
  - Sales price.
  - Addition or removal of borrowers.

- Changes that do not affect the risk of the mortgage loan or improve the risk (non-material changes) do not require United Guaranty approval. Examples of non-material changes include the following:
  - Renewal premium option.
  - Decrease in the loan amount.
  - Typographical corrections.
  - Decrease in interest rate for a fixed-rate loan.
  - Decrease in the ARM interest rate that does not create a larger spread than the loan program allows.

## 7.02 Conditional Commitments

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### *Eligibility Criteria*

#### **Requirements**

Conditional commitments may be issued for various reasons when material information or documentation is missing. Conditional commitments are most commonly issued because of missing information or documentation relating to the collateral, sales agreement, or appraisal.

Files containing conditional commitments issued for collateral (the property is yet to be determined – otherwise known as presale/pre-qualifications) must be submitted to United Guaranty for underwriting. These loans are ineligible for delegated underwriting, which includes loan submission via RAP,<sup>®</sup> RAPid Link,<sup>®</sup> EDI connection, or Premier Compliance.<sup>®</sup>

For files containing conditional commitments issued for a sales agreement or appraisal, the terms for continued eligibility for mortgage insurance depend on (1) the property acceptability and (2) whether or not it is located in a [declining market](#).

If any condition received is materially different from the information presented on the original application, continued eligibility for mortgage insurance will be based on the underwriting guidelines and eligibility criteria in effect at the time the condition is received.

#### **Terms**

- 30 days, regardless of the construction status of the property.

#### **Extensions**

- Extensions to conditional commitments are not allowed.