United Guaranty

LOAN MODIFICATIONS

December 2, 2016

REQUESTING A LOAN MODIFICATION

Thank you for your choice of United Guaranty as your mortgage insurance provider. Please use this Loan Modifications Guide to work with United Guaranty when you have a change in your loan.

If you have questions, please contact the United Guaranty Loan Modifications Team at 877.642.4642, or you may contact your local United Guaranty Sales Representative.

Before making a change in the terms of a loan or Certificate, please notify United Guaranty by completing the Loan Modification Request Form and including all modifications that affect the contractual terms of the loan and/or insurance coverage. Email addresses are listed on the form. Modification examples include, but are not limited to:

- Decrease of insurance coverage.
- Change in interest rate, except as specified by the terms of the original loan.
- Change in interest rate from adjustable to fixed.
- Change in the loan term.
- Change in loan amount.
- Rate and term refinance when a new certificate is not required.

If approved, you will receive an endorsement to the Certificate verifying the changes. If the requested modification is not approved, United Guaranty will send prompt notification via email to explain the reason(s) for denial.

Defining Traditional Loan Modifications

- A change to any loan term of an existing first- or second-lien mortgage through modification of the existing Note (the existing loan is not paid off, and a new refinance loan is not originated); and
- The loan payment status is current (less than 30 days past due); and
- The modification is not due to a financial hardship.

Changes to the loan terms include, but are not limited to, a change in interest rate, amortization term, or mortgage instrument (for example, ARM to fixed-rate).

Generally, the new loan term should place the borrower in a more favorable position to enable continued home ownership by:

- Reducing the mortgage payment, interest rate, or principal balance; or
- Reducing the amortization term (loan term); or
- Extending the ARM fixed-payment period; or
- Providing a more stable mortgage product (for example, changing from a potential negative amortization loan to a fixed-rate fully amortizing loan).

Traditional Loan Modification Criteria
First-Lien Loan Modifications

Limits to First-Lien Loan Modifications include:

- No increases in the coverage percentage.
- No scheduled or potential negative amortization for the new loan terms.
- Increases to the original insured amount are allowed for negative amortization that results from the existing loan terms.
- The modified loan instrument should be a fixed-rate mortgage or an ARM with an initial fixed-rate period of five years or greater.
- The new terms may not feature interest-only payments.
- No maximum P&I payment increase; however, when the new P&I payment is greater than 120% of the existing P&I or interest-only payment, the following criteria apply:
    - Income and employment must be documented.
    - The maximum DTI is 55%.
    - For existing loans with changing payments, the current payment must have been made for at least seven consecutive months. Otherwise the lowest P&I payment or interest-only payment made during the most recent 12 months must be used to calculate the payment increase.

Second-Lien Loan Modifications

Second-lien loan modifications typically involve interest-rate changes or convert an open-end loan to a closed-end loan. Limits include:

- No increases in the coverage percentage.
- No cash-out through the loan modification.
- If an open-end loan, no increase in the original credit line permitted.
- The loan term, interest rate, and payment amount should not increase.
- No modification from a fixed-rate mortgage to an ARM.
- No modification of the existing ARM terms if the new terms are less favorable.
- If converting to a closed-end loan, the maximum amortization term should not exceed 180 months plus the remaining term of the original draw period.

Loan Assumptions
First-Lien Loan Assumptions

A loan assumption occurs when the title to a mortgaged property is transferred and the new owner of the property assumes the existing mortgage loan. There are two types of loan assumptions:

- Assumptions with Release of Liability (releases original borrower(s) of all liability).
- Assumptions without Release of Liability (original borrower(s) remain liable for the loan's repayment).

Effective October 11, 2013, all loan assumptions must be for loans currently insured by United Guaranty with a current payment status (less than 30 days past due) and no known financial hardship on the part of the seller (our original borrower).

All second-lien loan assumptions require United Guaranty's prior approval.

All assumptions must be submitted to United Guaranty using the Partial Release/Assumption Request Form. Some assumptions will require prior approval from United Guaranty while others only require notification to United Guaranty per the terms of our Master Policy.

When the assumption requires United Guaranty's prior approval, a complete credit package for the new borrower(s) is required for underwriting. The credit package is required regardless of whether release of liability is requested. The credit package is necessary for United Guaranty to ensure the assuming borrower(s) has the willingness and ability to meet the mortgage obligation.

The credit package should include all credit, employment, income, and asset documentation—as outlined in the Underwriting Requirements Guide—and any other documentation that is material to the transaction details and borrower qualification. Examples include Offer to Purchase, Divorce Decree, etc. Generally, a new appraisal is not required; however, if it is deemed material to the overall risk assessment, an appraisal may be requested at the discretion of the underwriter.

United Guaranty reserves the right to request additional information. Loan assumptions are subject to all underwriting guidelines and eligibility criteria in effect when the loan assumption request is received by United Guaranty. See www.ugcorp.com for complete underwriting guidelines and eligibility criteria.

Certain loan assumptions, in accordance with United Guaranty's Master Policy, are deemed approved. Please provide prior notification by submitting a completed Partial Release/Assumption Notification Form to loanassumptions@ugcorp.com.

All assumptions applicable will be underwritten by the Loan Assumptions review team. Assumptions involving loans that do not have current payment statuses or have a financial hardship will be reviewed by Loss Mitigation.

Loan assumption requests may be submitted via email to loanassumptions@ugcorp.com. Please refer to United Guaranty's Master Policy for details.

Underwriting Requirements

Assumptions requiring a credit package are subject to all underwriting requirements in effect when the loan assumption is received by United Guaranty.

If the existing loan used Performance Premium® pricing, the assumption request will be underwritten using the requirements from the current Underwriting Requirements Guide (the Reporting Acceptance Program® or RAP® Guide will apply to all original RAP submissions or any full-file submission underwritten prior to August 2012. Assumptions on loans originally submitted full file after August 2012 will be underwritten to the most recent Underwriting Requirements Guide).

- The loan representative credit score for the assuming borrower(s) can be no more than 20 points less than the loan representative credit score of the existing borrower(s). Near misses up to 5 points may be considered when strong compensating factors exist.

If the existing loan used Non-Performance Premium pricing, the assumption request will be underwritten using the requirements from the last published Non-Performance Premium Underwriting Requirements Guide. **NOTE**: This retired United Guaranty document is provided for informational purposes. The Non-Performance Premium Guide was retired and the posted document applies only to Commitments and

Certificates activated under that program prior to May 12, 2013. It does **not** apply to coverage activated after that date.

- The loan representative credit score for the assuming borrower(s) should be in the same credit score pricing band (or higher) as the loan representative credit score of the existing borrower(s). Near misses up to 5 points may be considered when strong compensating factors exist.

The occupancy for the loan assumption should be the same as the original transaction or in a lower risk category. (For example, the occupancy cannot change from primary residence to second home or investment. However, it could change from investment or second home to primary residence).

New secondary financing is not allowed.

Loan Assumptions that Require Notification Only According to the Master Policy

The following types of assumptions are deemed approved and only require notification by submitting a completed Partial Release/Assumption Request Form:

1. The Insured cannot exercise a Due-on-Sale Clause under the loan or applicable law.
2. The borrower(s) is not being released of liability and the property transfer is one of the following types:
   a. A transfer to the surviving party on the death of a joint tenant or a tenant by the entirety.
   b. A transfer to a junior lien holder as the result of a foreclosure or acceptance of a deed in lieu of foreclosure for the subordinate mortgage.
   c. A transfer to a relative of a deceased borrower when the transferee will occupy the property.
   d. A transfer to the borrower's spouse, child(ren), parent(s), brother(s) or sister(s), grandparent(s), or grandchild(ren) when they will occupy the property.
   e. A transfer to a spouse under a divorce decree or legal separation agreement or from an incidental property settlement agreement when they will occupy the property.
   f. A transfer of jointly-owned property to an unrelated co-borrower when they will continue to occupy the property and the transfer occurs at least 12 months after the loan originally closed.
   g. A transfer into an inter vivos trust when the borrower will remain as the beneficiary and occupant.
   h. The granting of a leasehold interest that has a term of three or fewer years and does not provide an option to purchase the property, provided the lease has a renewal option that would allow the term to extend beyond three years, this exemption does not apply.
   i. The creation of a subordinate lien, as long as it does not relate to a transfer of occupancy rights.
   j. The creation of a purchase money security interest for household appliances.

Partial Releases
First- and Second-Lien Partial Releases

A partial release is the release of any portion of the collateral securing the loan. There are two types of partial releases:

- “Voluntary” partial release, including a borrower selling a portion of their property:
- “Involuntary” partial release: as an example, a state or local municipality needs a portion of the property for road expansion.

Effective October 11, 2013, Voluntary and Involuntary partial releases involving loans currently insured by United Guaranty must meet the following requirements:

Voluntary Partial Releases

Voluntary partial releases are generally acceptable to United Guaranty when meeting the parameters provided below. All voluntary releases must be submitted to United Guaranty for prior approval. Requirements include:

- The current LTV/CLTV ratio may not increase as a result of the partial release.
- The principal balance must be paid down sufficient to maintain the current LTV/CLTV when the property value is reduced by the partial release.
- All funds from the sale of the property must be applied to the principal balance if there have been any late payments greater than 30 days in the previous twelve months, regardless of whether the property value is reduced by the partial release.
- When funds are required to be applied to the principal balance, the funds should be applied to the first lien principal balance when United Guaranty insures both the first and second liens; otherwise the funds are to be applied to the lien insured.
- Partial releases are unacceptable when it negatively impacts marketability of the property.

The following documentation must be submitted to United Guaranty for voluntary partial releases:

- A completed Partial Release/Assumption Request form.
- Documentation providing details of the release, including why the release is requested and the amount of money exchanged, if any.
- A copy of the survey indicating the portion of the property to be released.
- A new appraisal establishing the current value prior to the release of the property, the value after the release of the property, and the effect of the release on the marketability of the property.
- A 12-month payment history.

Involuntary Partial Releases

United Guaranty automatically approves involuntary partial releases. Funds from the sale must be applied to the principal balance, unless a new appraisal is obtained that indicates the property value is not reduced by the partial release.

Funds should be applied to the first-lien principal balance when United Guaranty insures both the first and second liens; otherwise, the funds are to be applied to the lien insured by United Guaranty.

The following documentation must be submitted to United Guaranty for Involuntary partial releases:

- A completed Partial Release/Assumption Request form.
- A letter from the government municipality providing the specifics regarding the parcel being taken, including the amount of the money exchanged, if any.
- A copy of the survey indicating the portion of the property being taken.

For questions about loan modifications, please call the United Guaranty Loan Assumptions Team at 877.642.4642 (877.MI.CHOICE), or contact your local United Guaranty Sales Representative.

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