

**CLARITY OF COVERAGE<sup>SM</sup> ENDORSEMENT TO THE MASTER POLICY OF MORTGAGE  
GUARANTY INSURANCE, EGI 1002.001 (01/11), FOR NON-DELEGATED LOANS**

It is understood and agreed that this Clarity of Coverage<sup>SM</sup> Endorsement ("Endorsement") shall apply to a Loan only if the Certificate for the Loan is issued on or after the date on which this Endorsement is delivered to the Insured and thereby made part of the Insured's Master Policy of Mortgage Guaranty Insurance ("Policy");

The Policy is hereby amended as follows for each Loan and its related Certificate:

1. A new Section I(C)(3X) (Responsibilities Regarding Underwriting) shall be inserted after Section I(C)(3) (Application Part of Policy):

"3X. Responsibilities Regarding Underwriting. Regarding the obligations of the Insured and the Company with respect to the underwriting of the Loan,

a) The Insured is responsible for:

- (1) Underwriting and satisfying all conditions for the Loan in full accordance with the Insured's underwriting guidelines and Applicable Law;
- (2) Providing accurate and verified documentation as of the Certificate Effective Date, required in accordance with the Company's underwriting guidelines in effect as of the Application date.

b) The Company is responsible for:

- (1) Determining the eligibility as an insurable risk based on the creditworthiness and financial capacity of the Borrower and the collateral for mortgage insurance; and,
- (2) Working directly with the Insured's underwriter to communicate (i) additional underwriting conditions and (ii) denials of coverage."

2. A new Section I(FX) (Investigations Relating to Representations) shall be inserted after Section I(F) (Representations of Insured):

"FX. Investigations Relating to Representations. The Company will investigate Loans for misrepresentation in the Application in accordance with the following standards:

- (1) In the event that the first thirty-six (36) months' Loan payments have been paid on time and from the Borrower's Own Funds, the Company will not initiate a further investigation (i.e., beyond the Application, Origination file, closing file and servicing file) with respect to fraud or misrepresentation, except where the Company has evidence to support a reasonable belief that:
  - a. a First Party knew or should have known of such fraud or misrepresentation, or
  - b. there is evidence of a pattern or practice of such fraud or misrepresentation or activity consistent with a fraud ring, or
  - c. regulators or law enforcement agencies are involved.

Nothing herein shall limit the Company's ability to request Loan files in accordance with Section VI(A) (Duty of Cooperation)."

3. The text of Section I(G) (Company's Remedies for Misrepresentation) shall be deleted in its entirety and replaced with the following:

"G. Company's Remedies for Misrepresentation.

1. Subject to Section I(H) (Incontestability for Certain Representations) and Section I(FX) (Investigations Relating to Representations), if any of the Insured's representations as described in Section I(F) (Representations of the Insured) are materially false or misleading with respect to a Loan and the Company reasonably relied upon such material misrepresentation, the Company will have at its option:
  - a. the right to defend against a Claim, or
  - b. to the extent permitted by Applicable Law, to rescind coverage under any Certificate retroactively to commencement of coverage (or if the material misrepresentation occurs with respect to continuation of coverage upon assumption of a Loan, to so defend, cancel or rescind retroactively to the date of such continuation).
2. The Company generally considers misrepresentations (whether they arise out of knowingly wrongful acts, including error or omission or through the negligence of a First Party) to be material if, had the true facts been known, the Loan would not have been eligible for the Company coverage at the time of origination or would have received a different premium rate.
3. Notwithstanding the foregoing, the Company will not rescind coverage if, after finding evidence of misrepresentation in the Application, the Company determines, in its sole judgment, that such evidence is immaterial. Moreover, if the Company, in performing its mortgage insurance underwriting with respect to an Application, fails to identify a material fact or misrepresentation which would have been readily apparent to a prudent mortgage insurance underwriter such that the Application should not have been approved for mortgage insurance, and such material fact or misrepresentation is later identified (i.e., after loan closing

and Certificate Effective Date), the Company will not rescind its coverage on the sole basis that the Insured's underwriters erred in failing to identify the same material fact or misrepresentation prior to submitting the loan to the Company for mortgage insurance.

4. In the case of rescission, the Company shall return at that time all paid premiums retroactively to such applicable date in a manner that permits the Insured to ascertain the specific Loan to which such premiums relate. The Company agrees that the receipt and deposit of a premium refund by the Insured or its Servicer does not constitute acceptance thereof by the Insured.
  5. Subject to subsection (3) above, if a representation relied upon by the Company's underwriters is inaccurate (whether fraudulently or not) and based on the true facts the Loan would have been eligible for coverage but would have received a different premium rate, the premium owed will be required to be paid to the Company or, if the Company shall so determine, be offset from Insurance Benefits otherwise payable."
4. The text of Section I(H) (Incontestability for Certain Misrepresentations) is deleted in its entirety and is replaced with the following:
- "H. Incontestability for Certain Representations.
1. Notwithstanding Sections I(F) (Representations of the Insured), I(FX) (Investigations Relating to Representations) or I(G) (Company's Remedies for Misrepresentation), no Claim for Loss will be denied or adjusted, nor will the Certificate's coverage be rescinded or cancelled, by reason of any misrepresentations other than those related to the Down Payment (whether by statements made or omitted) contained in an Application, provided that all of the following requirements, conditions and circumstances, to the extent not waived in writing at the option of the Company, are satisfied:
    - a. The misrepresentation must not have been knowingly made, or knowingly participated in, by a First Party.
    - b. The Borrower must have made the first twelve (12) consecutive, full installments of principal, interest and impound or escrow amounts in the amounts as called for by the Loan, and all of those payments must have been made from the Borrower's Own Funds. A payment will be considered to be "consecutive" only if it is made prior to the date the next scheduled installment becomes due.
    - c. This Section I(H) will not apply to a Certificate if within twelve (12) months before or after a material misrepresentation by a Borrower or other Person (other than those identified in I(H)(1), above), there are one or more material misrepresentations in an Application (i) with respect to three (3) or more other mortgage Loans insured at any time by the Company for the Insured or any other lender and (ii) which result from the direct or indirect acts or omissions of the same Borrower or some other Person (including any other Person acting directly or indirectly in concert).

- d. The Company's payment of a Claim will not limit any rights which the Company has against the Borrower or any other Person (other than the Insured) for any misrepresentation.
2. The Company will not reach a determination that a First Party knowingly made or knowingly participated in the fraud or misrepresentation of a Borrower unless it has credible evidence that the First Party knew or should have known of the fraud or misrepresentation at the time of the Certificate Effective Date. Examples of credible evidence of First Party misrepresentation and/or fraud include, but are not limited to:
  - a. Fraudulent VOE, VOD or HUD -1 (as these documents should not be within the Borrower's control). Note that while the Company views verifications as important parts of a lender's control process, the Company would be open to investigative findings submitted by the Insured that rebut the presumption of First Party knowledge or participation founded on a fraudulent VOE, VOD or HUD-1;
  - b. Undisclosed mortgage to the Borrower by same originator as the subject Loan (as the originator should detect such other loan and ensure it is disclosed); and,
  - c. A review appraisal indicates a variance of fifteen percent (15%) or more in the value of the Property as compared to the Original Value and there is evidence that the appraiser manipulated or selectively utilized information in producing the appraisal that established the Original Value (e.g., if the sales history of the subject property or relating to comparable properties is misrepresented).
3. The Company will not consider findings from the following investigative practices to be sufficient, by itself, to establish First Party misrepresentation and/or fraud:
  - a. That average salary information, such as is available from various vendors, is less than the verified income used to qualify the Borrower;
  - b. That information submitted to a bankruptcy court by the Borrower refutes asset and liability representations made by the Borrower on the mortgage application;
  - c. That Borrower statements not made under penalty of perjury made after coverage is issued and not made available to the Insured by the Borrower contradict the income or assets as represented by the Borrower on the Loan application and properly verified by the lender."
5. A new Section VI(L) (Monitoring and Escalation Process) shall be inserted:

"L. Monitoring and Escalation Process

The Company's commitments are conditioned on qualifying the original Insured via upfront due diligence focusing on an evaluation of the Insured's loan manufacturing processes. Once an Insured has been qualified, the Company will monitor and provide periodic feedback to the Insured on observed performance. Material issues identified

during the ongoing performance monitoring process may require the development of mutually agreeable remediation plans. The components of the monitoring and escalation process are:

- (1) Upfront evaluation and ongoing monitoring of the Insured's loan manufacturing processes;
- (2) Quality Assurance testing on initial Loan submissions and periodic samples on an ongoing basis;
- (3) Monitoring of insured Loan portfolio profile, Loan performance trends (e.g., delinquency and rates of early payment defaults), concentrations of risk and other factors indicative of loan quality and performance;
- (4) Ongoing monitoring of the Insured's financial condition and counterparty strength; and
- (5) Evaluative feedback to the Insured on a periodic basis with respect to Loan performance, risk profiles, manufacturing issues, loss mitigation, and other relevant factors affecting performance of the Insured's portfolio overall and in relation to the Company's expectations.

The Company shall have the right to periodically audit, during normal business hours and upon reasonable advance notice, the records, books and accounts of the Insured pertaining to Loans for compliance with the terms of the Policy and the responsibilities of the Insured in Section I(C)(3X)(a)(1) hereof. If the Company determines that the Insured has not been complying with the responsibilities of the Insured in Section I(C)(3X)(a)(1) hereof, has not performed in accordance with the Company's counterparty approval expectations, or otherwise has not complied with the terms of the Policy, the Company has the right, at its discretion and depending upon the incidence and nature of the lack of compliance, to escalate unresolved issues, and to take such other remedial action as the Company deems reasonable and appropriate, including but not limited to, making product or underwriting guideline revisions, or refusing to accept new Applications for mortgage insurance."

All conditions of the Policy not modified by this Endorsement remain in full force and effect for all Loans insured under the Policy.

**ESSENT GUARANTY, INC.**



Mark A. Casale, President



Mary Lourdes Gibbons, Secretary