ESSENT®

COVID-19 MORTGAGE INDUSTRY BEST PRACTICES FOR ORIGINATIONS & UNDERWRITING

AS OF APRIL 1, 2022

Essent continues to support the remaining temporary measures announced by Fannie Mae and Freddie Mac regarding the impact of COVID-19 on originations and appraisals. In order to help navigate this time of uncertainty and avoid potential disruptions, we consider the following origination and underwriting best practices to be prudent during the COVID-19 pandemic. We remain focused on insuring sustainable loans for borrowers who show a commitment to homeownership, have demonstrated an ability to effectively manage credit and have a documented capacity to service their mortgages.

These practices do not replace or supersede our credit policy or Underwriting Guideline Manual. They are temporary measures that loan originators may want to employ to enhance risk management during the pandemic.

EMPLOYMENT, INCOME AND ORIGINATIONS

Verbal Verification of Employment (VVOE)

Obtain the VVOE as close to the Note Date as possible, but ideally no more than three (3) days prior to closing. A borrower attestation, signed and dated at closing, affirming active employment and income is viewed as a prudent option.

Evidence of Reduced Hours/Pay

For recent paystubs/bank statements evidencing reduced hours and/or pay, the amount of any declining income should not be averaged over the period of declination, and should only be used for qualification if it has stabilized.

Self-Employed Borrowers

- **Income Calculation:** If 2021 tax returns are not available, ideally obtain the most recent prior two (2) years of tax returns, supplemented with a year-to-date (YTD) Profit & Loss Statement or CPA Letter, and a month-to-date (MTD) printout of business bank statements to evaluate transactional activity in consideration of income stability and continuance.
- **Confirmation Business is Open/Operating:** Obtain the verification of self-employment as close to the Note Date as possible, but ideally no more than three (3) days prior to closing, supplemented with a borrower attestation, signed and dated at closing, affirming the business is currently operating and revenue/income is consistent with that used for qualifications.

Capital Gains/Interest and Dividend/RSU Income

Given current market volatility, additional due diligence and adjustments should be considered when utilizing capital gains, interest and dividend, and Restricted Stock Unit (RSU) income for qualification with consideration of the current market value of the underlying asset.

Defined Expiration/Depleted Asset Income

Apply additional due diligence to income sources with a defined expiration date or that are attributed to the depletion of an asset, particularly when they are the sole source or majority of a borrower's qualifying income.

Rental Income

Consider adjustments to allowable rental income at lower levels such as 65% (vs. 75%) of the gross monthly rent to account for increased risk of vacancy and tenant delinquency in the current environment.

Residual Income/Reserves

Monthly "residual income" and post-closing liquid reserves are key components in assessing a borrower's continued ability-to-repay (ATR). A "residual income" qualifier may be a more prudential measure of continued ATR for high debt-to-income (DTI) loans, particularly for low-to-moderate income households whose remaining income in absolute dollars may be insufficient to cover their living expenses.

Refinance Net Tangible Benefit

For refinance transactions, ensure the establishment of a net tangible benefit to the borrower from the transaction in the form of a product change, financial improvement or title transfer benefit.

CREDIT REPORTING

Date of Credit Report

Ideally obtain credit reports dated within 30 days of the Note Date to ensure up-to-date information is being considered as part of the borrower's overall credit assessment.

Civil Judgment/Tax Lien Identification

Utilize third-party credit reporting products to identify potential unreported civil judgments and tax liens to accurately assess a borrower's overall credit worthiness and any potential material impacts on their ATR.

Significant Derogatory Credit Events Waiting Periods

Do not allow shorter waiting periods with extenuating circumstances for borrowers with prior significant derogatory credit events. Align with the base waiting period requirements.

COLLATERAL REVIEW

Pandemic Effect Analysis

Ensure the appraiser has provided an adequate analysis of the effect of the COVID-19 pandemic on market conditions and demand/supply within the subject property's neighborhood and surrounding market area.

Age of Comparable Sales

Consider tightening the timeline for the allowable age of comparable sales to within 90 days (from 180 days) of the appraisal effective date in order to gain better insight into current market conditions.

Declining Property Values/Time Adjustments

Ensure the appraiser includes an analysis of market area trends and demand/supply, and appropriate time adjustments are made to the comparable sales (or a credible explanation has been provided as to why time adjustments are not warranted) for properties located within a declining market.

Property Flip Value Increases

Require interior photos and documentation to provide evidence of any renovations/upgrades that have been completed in support of the value increases on property flip transactions (acquired <180 days from the date of the application and subsequently resold).