
# Underwriting Guideline Manual

VERSION 4.0 | MARCH 12, 2018

Mortgage Insurance provided by Essent Guaranty, Inc.

 | Two Radnor Corporate Center, 100 Matsonford Road, Radnor, PA 19087 | **essent.us**
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# 1.0 Introduction

Thank you for selecting Essent Guaranty, Inc. (hereinafter referred to as "Essent") as your mortgage insurer. This underwriting guideline manual is designed to be a quick reference for meeting your mortgage guaranty insurance needs and addresses the types of loans that are generally eligible for insurance with Essent. If you have any questions pertaining to the interpretation of these guidelines, please contact the Essent Underwriting or Risk Management department:

**Underwriting Department**
Toll Free Phone: 877.330.3535
Toll Free Fax: 877.331.8311
Email Address: underwriting@essent.us

**Risk Management Department**
Phone: 610.230.0158
Fax: 610.386.2396
Email Address: risk@essent.us

## 1.1 PHILOSOPHY

Essent is committed to insuring quality loans that make sense for everyone: lenders, investors, and home buyers alike. Essent offers mortgage insurance on loans originated as "A" quality business. Essent does not insure A-minus or limited documentation loans. There are certain requirements that must be met for loans to be eligible for Essent mortgage insurance due to the risk they present. 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.

In the event that Essent guidelines are silent, when the loan is being delivered to Fannie Mae, Fannie Mae standard guidelines are to be followed, and similarly, if final delivery will be to Freddie Mac, Freddie Mac standard guidelines are to be followed (Agency standard as outlined in the Agency Selling Guides available to all lenders without the need for a lender variance or amendment to the lender's master agreement).

We expect that Essent's underwriting guidelines will be followed in most cases. Exceptions to the product eligibility requirements as outlined within the applicable Product Eligibility Matrix in Section 2 are not permitted, and require a Non-Delegated underwriting submission to Essent for review and approval. For all other situations whereby a loan fails to meet Essent guidelines, the loan may be reviewed for any compensating factors that may warrant an exception to the underwriting guidelines. Any compensating factors should be meaningful and well documented.

## 1.2. AUTOMATED UNDERWRITING SYSTEMS (AUS)

Essent will insure loans that are manually underwritten or are underwritten by an approved automated underwriting system. Prudent underwriting and reasonableness tests should be applied to all loans processed through an AUS. AUS loans submitted for underwriting are carefully evaluated and all loan factors are analyzed and considered prior to rendering an underwriting decision. The credit report used by the Agency AUS to determine its recommendation or risk classification is the credit information that the lender must use when determining the loan representative FICO score for pricing or eligibility.

## 1.3. APPROVED AGENCY AUTOMATED UNDERWRITING SYSTEMS (AUS) – FANNIE MAE DESKTOP UNDERWRITER® / FREDDIE MAC LOAN PRODUCT ADVISOR® RECOMMENDATIONS

Provided the loan meets the product eligibility criteria of the applicable Essent Product Eligibility Matrix (as outlined in Section 2) and the minimum documentation standards outlined below, Essent does not require additional guideline overlays beyond the following items for DU/Loan Product Advisor Approve/Accept Eligible loans and DU/Loan Product Advisor Approve/Accept Ineligible loans for LTVs 95.01%–97%, where the ineligibility is due only to the LTV, or ARMs with an initial fixed term ≥5 years, where the ineligibility is due only to the ARM plan/type:

- Manufactured Housing and 3-4 Unit properties are ineligible
- Debt-to-Income Ratio: DTI>45%, Min. 700 FICO required; DTI ≤45%, per DU/Loan Product Advisor approval

Minimum income/asset documentation requirements as per the DU findings or Loan Product Advisor feedback certificate are permitted. Refer to Section 3.12. for Reserve Requirements. All DU findings and Loan Product Advisor feedback certificate conditions must be satisfied and the DU/Loan Product Advisor decision must be present in the file.

Appraisal methodology: Essent requires appraisal reports completed on the appropriate form as outlined in Section 5.1. with interior/exterior inspections and all required photos, exhibits and addendums. Essent does not accept valuations based on AVMs or BPOs.

As the versions of both DU and Loan Product Advisor are updated, Essent will complete a careful evaluation for acceptance which may result in subsequent updates to the eligibility requirements as stated within this Underwriting Manual.

## 1.4. OTHER PROPRIETARY AUTOMATED UNDERWRITING SYSTEMS (AUS)

Essent does not automatically consider recommendations from automated underwriting systems as eligible to be insured, however, Essent does take the recommendation into consideration as a tool to identifying risk attributes of the file. The loans must meet Essent's guidelines as published in this underwriting manual.

## 1.5. DELEGATED UNDERWRITING AUTHORITY

Essent's counterparties approved for delegated underwriting authority may be subject to additional requirements under the Delegated Underwriting Agreement. Refer to Section 11.4. for Non-Delegated Underwriting Submission Requirements.

The following is ineligible under Delegated Underwriting Authority:

- Assumptions/Partial Releases/Title Transfers

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# 2.0 Product Eligibility Matrices

## 2.1.1. CLEAR2CLOSE® PRODUCT ELIGIBILITY MATRIX – EFFECTIVE MARCH 12, 2018

**For loans with a DU®/Loan Product Advisor® response as follows:**

» DU Approve/Eligible or Loan Product Advisor Accept/Eligible

» DU Approve/Ineligible or Loan Product Advisor Accept/Ineligible for:

- LTVs 95.01% - 97%, where the ineligibility is due only to the LTV
- ARMs with an initial fixed term ≥5 years, where the ineligibility is due only to the ARM plan/type

**The following Essent overlays apply:**

» Manufactured Housing and 3-4 Unit properties are ineligible

» Debt-to-Income Ratio: DTI >45%, Min. 700 FICO required; DTI ≤45%, per DU/Loan Product Advisor approval

| LOAN PURPOSE | PROPERTY TYPE | MAX. LOAN AMOUNT | MAX. LTV/CLTV | MIN. FICO |
|---|---|---|---|---|
| **PRIMARY RESIDENCE** | | | | |
| Purchase or Rate/Term Refinance | Single Family/Condo/Co-op | Base Conforming Loan Limit | 97/105* | 620 |
| | | FHFA Max | 95 | |
| | 2-unit | Base Conforming Loan Limit | 95/105* | |
| | | FHFA Max | 85 | |
| Construction-to-Permanent | Single Family/Condo | Base Conforming Loan Limit | 97 | 720 |
| | | FHFA Max | 95 | 620 |
| **SECOND HOME** | | | | |
| Purchase or Rate/Term Refinance | Single Family/Condo/Co-op | FHFA Max | 90 | 620 |
| Construction-to-Permanent | Single Family/Condo | | | |
| **INVESTMENT PROPERTY (6 Months PITI Reserves Required)** | | | | |
| Purchase or Rate/Term Refinance | Single Family/Condo | FHFA Max | 85 | 720 |

* Subordinate financing must meet Fannie Mae Community Seconds® or Freddie Mac Affordable Seconds® requirements.

Base Conforming Loan Limit denotes the currently effective general loan limits as specified by the FHFA for the contiguous United States, AK and HI.
FHFA Max denotes the greater of the currently effective Base Conforming Loan Limit or the county-specific loan limit as specified by the FHFA for designated high cost areas.

**NOTE:** The minimum income/asset documentation requirements as per the DU/Loan Product Advisor findings/feedback are permitted. All DU findings and Loan Product Advisor feedback certificate conditions must be satisfied and the DU/Loan Product Advisor decision must be present in the file. Loans with lender-negotiated guideline waivers/variances are deemed to be outside of Agency Selling Guide requirements and are thus ineligible.

DU® and Community Seconds® are registered trademarks of Fannie Mae. Loan Product Advisor® and Affordable Seconds® are registered trademarks of Freddie Mac.

## 2.1.2. MANUAL UNDERWRITING PRODUCT ELIGIBILITY MATRIX – EFFECTIVE DECEMBER 4, 2017

| LOAN PURPOSE | PROPERTY TYPE | MAX. LOAN AMOUNT | MAX. LTV/CLTV | MIN. FICO |
|---|---|---|---|---|
| **PRIMARY RESIDENCE** | | | | |
| Purchase or Rate/Term Refinance | Single Family/Condo/Co-op | Base Conforming Loan Limit | 97 | 680 |
| | | | 95 | 660 |
| | | FHFA Max | 95 | 700 |
| | 2-unit | Base Conforming Loan Limit | 95 | 680 |
| Construction-to-Permanent | Single Family/Condo | Base Conforming Loan Limit | 97 | 720 |
| | | | 95 | 680 |
| | | FHFA Max | 95 | 700 |
| **SECOND HOME** | | | | |
| Purchase or Rate/Term Refinance | Single Family/Condo/Co-op | FHFA Max | 90 | 700 |
| Construction-to-Permanent | Single Family/Condo | | | |
| **INVESTMENT PROPERTY** | | | | |
| Purchase or Rate/Term Refinance | Single Family/Condo | Base Conforming Loan Limit | 85 | 720 |

| MANUAL UNDERWRITING PRODUCT ELIGIBILITY REQUIREMENTS | |
|---|---|
| **Manual Underwriting** | Loans not meeting Clear2Close® eligibility requirements or not scored via DU®/Loan Product Advisor® are deemed to be manual underwrites. Manually underwritten loans must meet the product eligibility criteria as outlined within this matrix and the eligibility standards as outlined within the Underwriting Guideline Manual. |
| **Appraisal Requirements** | Full Uniform Residential Appraisal Report only |
| **Debt-to-Income Ratio** | Max. 45% DTI |
| **Reserve Requirements** | 2 months PITI or the product required min.; Investment Property: 6 months PITI required |
| **Borrower Contributions** | **Primary Residence:** 3% of borrower's own funds required; -OR- Borrower's min. contribution may come from gift funds per Agency guidelines with: 1-unit; Min. 720 FICO; Max. 41% DTI; no down payment assistance, subordinate financing, or grants with repayment<br>**Second Home:** 5% of borrower's own funds required<br>**Investment Property:** 15% of borrower's own funds required |
| **Loan Amounts Above Base Conforming Loan Limit** | Must meet the county-specific loan limit as specified by the FHFA for designated high cost areas |
| **ARMs** | Min. initial fixed period: 3 yrs.; 3 yr. and 5 yr. ARMs qualify at the greater of the initial rate +2% or the fully indexed rate; 7 yr. and 10+ yr. ARMs qualify at the initial rate |
| **Ineligible Properties** | Manufactured housing; non-warrantable condominiums; condominium hotels (condo-tels); apartment/hotel conversions; model home leasebacks; vacant lots/land; time-share properties; homes unsuitable for year-round occupancy; unimproved land; earth, berm, dome, log and straw bale homes; working farms, orchards and ranches; student housing projects ("kiddie" condos); 3-4 units |
| **Ineligible Products** | Interest only; loans with scheduled or potential negative amortization; graduated payment mortgages |
| **Non-Occupying Co-Borrower** | Max. LTV/CLTV 95%; DTI based on occupant borrower's income/debt profile; Max. 45% DTI |
| **Loan Representative FICO Score** | Lower of two or middle of three repositories to determine each borrower's representative score; lowest representative score across all borrowers; min. of two valid credit scores must be obtained for each borrower; non-traditional/no credit score is ineligible |

Base Conforming Loan Limit denotes the currently effective general loan limits as specified by the FHFA for the contiguous United States, AK and HI.
FHFA Max denotes the greater of the currently effective Base Conforming Loan Limit or the county-specific loan limit as specified by the FHFA for designated high cost areas.
DU® is a registered trademark of Fannie Mae. Loan Product Advisor® is a registered trademark of Freddie Mac.

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## 2.1.3. LOAN AMOUNTS > FHFA MAX PRODUCT ELIGIBILITY MATRIX – EFFECTIVE DECEMBER 4, 2017

| LOAN PURPOSE | PROPERTY TYPE | MAX. LOAN AMOUNT | MAX. LTV/CLTV | MIN. FICO |
|---|---|---|---|---|
| **PRIMARY RESIDENCE** | | | | |
| Purchase or Rate/Term Refinance | Single Family/Condo/Co-op | $850,000 | 95 | 700 |
| | | $1,000,000* | 90 | 720 |
| | | $1,500,000* | 85 | 740 |
| Construction-to-Permanent | Single Family/Condo | $850,000 | 90 | 720 |
| | | $1,000,000* | 90 | 740 |
| **SECOND HOME** | | | | |
| Purchase or Rate/Term Refinance | Single Family/Condo | $650,000 | 90 | 720 |
| | | $850,000 | 90 | 740 |
| Construction-to-Permanent | Single Family/Condo | $650,000 | 90 | 720 |

*Loan Amounts >$850,000 require a Non-Delegated submission

| LOAN AMOUNTS > FHFA MAX PRODUCT ELIGIBILITY REQUIREMENTS | |
|---|---|
| **Non-Retail** | Eligible |
| **Loan Programs** | Fixed Rate; 5 yr. ARM; 7 yr. ARM; 10+ yr. ARM |
| **Eligible Borrowers** | U.S. Citizens; Permanent Resident Aliens; Non-Permanent Resident Aliens; Inter Vivos Revocable Trusts |
| **Appraisal Requirements** | **Loan Amounts ≤$1,000,000**: Full Appraisal Report<br>**Loan Amounts >$1,000,000**: 2 Full Appraisal Reports OR 1 Full Appraisal Report + Field Review |
| **Documentation Type** | Full doc only; Alt Doc and all other streamline documentation is ineligible |
| **Credit Requirements** | **Mortgage Lates:** 0 X 30 in last 12 months, 0 X 60 in the last 24 months;<br>**Installment/Revolving Lates:** 0 X 60 in last 12 months, 1 X 60 in last 24 months;<br>**Judgments, Liens, Collections, Charge-Offs:** must be paid off; disputed collections may remain open to Max. $250 per account or $1,000 in total;<br>**Borrowers with invalid or no credit bureau score:** ineligible;<br>**Chap 7 & 11 Previous Bankruptcy:** 4 yrs. since discharge (2 yrs. with documented extenuating circumstances);<br>**Chap 13 Previous Bankruptcy:** 2 yrs. since discharge/4 yrs. since dismissal (2 yrs. with documented extenuating circumstances);<br>**Multiple Bankruptcy Filings in Past 7 Years:** ineligible;<br>**Foreclosure:** 5 yrs. since date of title transfer (3 yrs. with documented extenuating circumstances);<br>**Short Sale/Deed in Lieu:** 4 yrs. since date of title transfer (2 yrs. with documented extenuating circumstances);<br>**Min. 3 traditional trade lines** evaluated for at least 12 months for each borrower |
| **Income** | **Salaried/W-2 Borrowers:** Past 2 yrs. W-2s or past 2 yrs. IRS tax transcripts; Most recent 30 days paystubs indicating year-to-date (YTD) earnings; Pre-funding verbal verification within 10 business days of closing; verification of business phone number and address, must be verified by an independent third party, document name and title of person providing verification<br>**Self-Employed Borrowers:** 2 yrs. evidence of self-employment required; Most recent 2 yrs. personal and business federal income tax returns; Pre-funding verbal verification within 30 calendar days of closing; verification of the existence of the business, business phone number and address, must be verified by an independent third party, document name and title of person providing verification<br>**Capital Gains Income:** 2 yrs. personal tax returns if no more than 30% of total income; 3 yrs. personal tax returns if greater than 30% of total income; 2 yr. average for qualification if tax returns evidence realized capital gains for last 2 yrs.; support for continuance for next 3 yrs.; verification of ownership & control of assets |
| **Debt-to-Income Ratio** | **Loan Amounts ≤$850,000:** Max. 43% DTI; **Loan Amounts >$850,000:** Max. 41% DTI |
| **Eligible Property Types** | SFR; Condominiums; Cooperatives; Standard condo and cooperative project approval review required; Cooperatives only eligible in the states of CA, CT, IL, MA, MD, MI, MN, NJ, NY, PA, VA and D.C. |
| **Qualification Rate** | **Fixed Rate & 7 yr. & 10+ yr. ARMs:** Note Rate; **5 yr. ARM:** Greater of the fully indexed fully amortized rate or Note Rate +2% |
| **Reserves** | **Loan Amounts ≤$850,000:** 6 months PITI required<br>**Loan Amounts >$850,000:** 12 months PITI required<br>**First-Time Homebuyer:** 12 months PITI required<br>Two most recent monthly bank statements required to verify funds to close and reserves |
| **Borrower Contributions** | **Loan Amounts ≤$1,000,000:** 5% of borrower's own funds required; **Loan Amounts >$1,000,000:** 10% of borrower's own funds required |
| **Seller Contributions** | **>90% LTV:** Max. 3%; **≤90% LTV:** Max. 6% |
| **4506-T** | All IRS Form 4506-T must be signed, completed and dated at application and at closing by all borrowers |
| **Ineligible Properties** | Manufactured housing; non-warrantable condominiums; condominium hotels (condo-tels); apartment/hotel conversions; model home leasebacks; vacant lots/land; time-share properties; homes unsuitable for year-round occupancy; unimproved land; earth, berm, dome, log and straw bale homes; >10 acres; working farms, orchards and ranches; student housing projects ("kiddie" condos); 2-4 units |
| **Ineligible Products** | Interest only; loans with scheduled or potential negative amortization; streamline refinances; renovation loans; loans with terms greater than 30 years; graduated payment mortgages |
| **Ineligible Attributes** | Post-closed loans; refinances of previously modified loans |

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## 2.1.4. AFFORDABLE HOUSING/HFA PRODUCT ELIGIBILITY MATRIX – EFFECTIVE MARCH 12, 2018

| LOAN PURPOSE | PROPERTY TYPE | MAX. LOAN AMOUNT | MAX. LTV | MAX. CLTV | MIN. FICO DU® APPROVE/ LPA ACCEPT | MIN. FICO MANUAL U/W |
|---|---|---|---|---|---|---|
| **PRIMARY RESIDENCE** | | | | | | |
| Purchase or Rate/Term Refinance | Single Family/Condo/Co-op | Base Conforming Loan Limit | 97 | 105 | 620 | 680 |
| | | | 95 | 105 | 620 | 660 |
| | | FHFA Max | 95 | 95 | 620 | N/A |
| | 2-unit | Base Conforming Loan Limit | 95 | 105 | 620 | 660 |

| AFFORDABLE HOUSING/HFA PRODUCT ELIGIBILITY REQUIREMENTS | |
|---|---|
| **Affordable Housing** | Fannie Mae HomeReady® Mortgage or HFA Preferred™, Freddie Mac Home Possible® Mortgages, and other Housing Finance Agency (HFA) or approved Affordable Housing programs must meet the eligibility criteria as outlined within this matrix and the eligibility standards as outlined within the Underwriting Guideline Manual. |
| **Submission Criteria** | Applicable Affordable Program selection must be made in the Essent Online MI Ordering system |
| **LOANS WITH A VALID DU/LOAN PRODUCT ADVISOR RESPONSE** | |
| **DU®/Loan Product Advisor® Scored Loans** | For DU/Loan Product Advisor Approve/Accept Eligible loans and DU/Loan Product Advisor Approve/Accept Ineligible loans for LTVs 95.01% - 97%, where the ineligibility is due only to the LTV, or ARMs with an initial fixed term ≥5 yrs. where the ineligibility is due only to the ARM plan/type, the DU/Loan Product Advisor findings/feedback may be followed regarding:<br>• Documentation Requirements<br>• Credit Requirements<br>• Debt-to-Income Ratio: **DTI >45%, Min. 700 FICO required**<br>• Reserve Requirements<br>• Borrower Contributions |
| **MANUALLY UNDERWRITTEN LOANS** | |
| **Documentation Requirements** | Documentation requirements as per the Essent Underwriting Guideline Manual |
| **Credit Requirements** | Min. 3 traditional trade lines evaluated for at least 12 months for each borrower |
| **Non-Traditional Credit** | Max. 95% LTV; Max. 41% DTI; 2-unit ineligible |
| **Debt-to-Income Ratio** | Max. 45% DTI |
| **Reserve Requirements** | 2 months PITI required |
| **Borrower Contributions** | 1-unit: Lesser of $1,000 or 1%; -OR- Borrower's min. contribution may come from gift funds per Agency guidelines with: Min. 720 FICO; Max. 41% DTI; no down payment assistance, subordinate financing, or grants with repayment<br>2-unit: 3% of borrower's own funds required |
| **ALL LOANS** | |
| **Loan Programs** | Fixed Rate; 5 yr. ARM; 7 yr. ARM; 10+ yr. ARM<br>5 yr. ARMs qualify at the greater of the initial rate +2% or the fully indexed rate; 7 yr. and 10+ yr. ARMs qualify at the initial rate |
| **Seller Contributions** | Max. 3% |
| **Subordinate Financing** | Must meet Fannie Mae Community Seconds® or Freddie Mac Affordable Seconds® requirements |
| **Area Median Income (AMI)** | Loans must meet any Area Median Income requirements of the applicable program |
| **Homebuyer Education** | Loans must meet any homebuyer education requirements of the applicable program |
| **Ineligible Products** | Interest only; loans with scheduled or potential negative amortization; graduated payment mortgages; construction-to-permanent |

Base Conforming Loan Limit denotes the currently effective general loan limits as specified by the FHFA for the contiguous United States, AK and HI.
FHFA Max denotes the greater of the currently effective Base Conforming Loan Limit or the county-specific loan limit as specified by the FHFA for designated high cost areas.

DU®, HomeReady® and Community Seconds® are registered trademarks, and HFA Preferred™ is a trademark of Fannie Mae. Loan Product Advisor® (LPA), Home Possible® and Affordable Seconds® are registered trademarks of Freddie Mac.

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## 2.1.5 DOCTOR/PROFESSIONAL LOAN PRODUCT ELIGIBILITY MATRIX – EFFECTIVE DECEMBER 4, 2017

| OCCUPANCY | LOAN PURPOSE | PROPERTY TYPE | MAX. LOAN AMOUNT | MAX. LTV/CLTV | MIN. FICO |
|---|---|---|---|---|---|
| Primary Residence | Purchase or Rate/Term Refinance | Single Family/ Condo/Co-op | Base Conforming Loan Limit | 97 | 700 |
| | | | $650,000 | 95 | 700 |
| | | | $850,000 | 90 | 700 |
| | | | $1,000,000 | 90 | 720 |

| DOCTOR/PROFESSIONAL PRODUCT ELIGIBILITY REQUIREMENTS | |
|---|---|
| **Submission Criteria** | Doctor/Professional loans must be identified by selecting **Doctor/Professional Loan** in Essent Online Rate Finder or MI Ordering systems, or by typing the Essent product code **DRPROG** in your LOS rate quote request or MI submission where appropriate |
| **Second Homes** | Ineligible |
| **Investment Property** | Ineligible |
| **Loan Programs** | Fixed Rate; 5 yr. ARM; 7 yr. ARM; 10+ yr. ARM |
| **Eligible Borrowers** | Newly licensed Medical Residents who have either recently completed their residency and are about to begin their new employment or have <6 months of residency remaining; Existing Physicians/Doctors (MD, DO, DPM), Dentists (DDS, DMD), Oral Surgeons, Attorneys Non-Permanent Resident Aliens - eligible |
| **Appraisal Requirements** | Full Uniform Residential Appraisal Report only |
| **Documentation Type** | Full doc only; Alt Doc and all other streamline documentation is ineligible |
| **Credit Requirements** | **Mortgage/Housing Lates**: 0 X 30 in last 12 months; 0 X 60 in last 24 months;<br>**Installment/Revolving Lates**: 0 X 60 in last 12 months; 1 X 60 in last 24 months;<br>**Judgments, Liens, Collections and Charge-Offs**: must be paid off; disputed collections may remain open to Max. $250 per account or $1,000 in total;<br>**Borrowers with invalid or no credit bureau score**: ineligible;<br>**Chap 7 & 11 Previous Bankruptcy:** 4 yrs. since discharge (2 yrs. with documented extenuating circumstances);<br>**Chap 13 Previous Bankruptcy:** 2 yrs. since discharge/4 yrs. since dismissal (2 yrs. with documented extenuating circumstances);<br>**Multiple Bankruptcy Filings in Past 7 Years:** ineligible;<br>**Foreclosure:** 5 yrs. since date of title transfer (3 yrs. with documented extenuating circumstances);<br>**Short Sale/Deed in Lieu:** 4 yrs. since date of title transfer (2 yrs. with documented extenuating circumstances);<br>**Minimum 3 traditional trade lines** evaluated for at least 12 months for each borrower |
| **Treatment of Student Loan Debt** | Student loan debt may be excluded from the DTI calculation with documentation to evidence deferment/forbearance for at least 12 months |
| **Finance Type** | Purchase, Rate & Term Refinance, and Resubordination of existing financing eligible; Cash-Out Refinance ineligible |
| **Income** | **Salaried/W-2 Borrowers:** Past 2 yrs. W-2s or past 2 yrs. IRS tax transcripts; Most recent 30 days paystubs indicating year-to-date (YTD) earnings; Pre-funding verbal verification within 10 business days of closing; verification of business phone number and address, must be verified by an independent third party, document name and title of person providing verification<br>**Self-Employed Borrowers:** 2 yrs. evidence of self-employment required; Most recent 2 yrs. personal and business federal income tax returns; Pre-funding verbal verification within 30 calendar days of closing; verification of the existence of the business, business phone number and address, must be verified by an independent third party, document name and title of person providing verification<br>**Future Employment:** Permitted if starting within 60 days of the note date; obtain copy of fully executed employment contract/ offer letter; VVOE to be completed prior to closing to confirm employment status; obtain documentation to evidence sufficient reserves to cover mortgage PITI payment until employment commences |
| **Debt-to-Income Ratio** | **Loan Amounts ≤$850,000**: Max 43% DTI; **Loan Amounts >$850,000:** Max. 41% DTI |
| **Eligible Property Types** | SFR; Condominiums; Cooperatives; Standard condo and cooperative project approval review required; Cooperatives only eligible in the states of CA, CT, IL, MA, MD, MI, MN, NJ, NY, PA, VA and DC |
| **Qualification Rate** | **Fixed Rate & 7 yr. & 10+ yr. ARMs**: Note Rate; **5 yr. ARM:** Greater of the fully indexed fully amortized rate or Note Rate +2% |
| **Reserves** | **Loan Amounts ≤$650,000:** 2 months PITI required<br>**Loan Amounts $650,001-$850,000:** 6 months PITI required<br>**Loan Amounts >$850,000:** 12 months PITI required<br>Two most recent monthly bank statements required to verify funds to close and reserves |
| **Borrower Contributions** | **Loan Amounts ≤$650,000:** 3% of borrower's own funds required; **Loan Amounts >$650,000:** 5% of borrower's own funds required |
| **Gift Funds** | Permitted only after minimum contribution from borrower's own funds has been met |
| **Seller Contributions** | **>90% LTV:** Max. 3%; **≤90% LTV:** Max. 6% |
| **Ineligible Properties** | Manufactured housing; non-warrantable condominiums; condominium hotels (condo-tels); apartment/hotel conversions; model home leasebacks; vacant lots/land; time-share properties; homes unsuitable for year-round occupancy; unimproved land; earth, berm, dome, log and straw bale homes; >10 acres; working farms, orchards and ranches; student housing projects ("kiddie" condos); 2-4 units |
| **Ineligible Products** | Interest only; loans with scheduled or potential negative amortization; streamline refinances; construction loans; renovation loans; loans with terms greater than 30 years; graduated payment mortgages |
| **Ineligible Attributes** | Post-closed loans; refinances of previously modified loans |

Base Conforming Loan Limit denotes the currently effective general loan limits as specified by the FHFA for the contiguous United States, AK and HI.

# 3.0 Borrower Eligibility Requirements

The credit profile is one of the most critical indicators of the borrower's willingness and ability to repay debt. A thorough analysis of the borrower's income, assets, liabilities, credit history and property are required. In some instances, Essent's guidelines expand or differ from Agency guidelines and in such instances, the provisions of this underwriting guide control those differences.

## 3.1. ELIGIBLE BORROWERS

- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens without diplomatic immunity
    - Borrower must evidence a minimum 2-year history of residency, employment, and established credit within the U.S.
    - Documentation must be obtained to verify the lawful status of the borrower and to evidence the borrower's employment/income can reasonably be expected to continue for the foreseeable future
    - While not mandated as required documentation, the following are examples that may assist in determining the borrower's lawful status and duration of stay within the U.S.:
        - Copy of the borrower's current visa, and
        - Copy of the Employment Authorization Document (EAD) as evidence that the borrower is authorized for employment in the U.S. with the stated employer on the loan application, or
        - I-797 (Notice of Action) approval notice of an I-140 (Immigrant Petition for Alien Worker) filed by the borrower's employer, or
        - If a borrower has filed for permanent residency, an I-797 Receipt Notice of an I-485 (Application to Register Permanent Residence or Adjust Status)
    - Funds for down payment, closing costs and reserves should be verified as being held in a U.S. financial institution
- Legal Age – borrower must have reached the age to execute legal documents
- Inter Vivos Revocable Trust – must comply with Fannie Mae eligibility criteria

## 3.2. INELIGIBLE BORROWERS

- Foreign Nationals with diplomatic immunity
- Non-Permanent Resident Aliens with diplomatic immunity
- Foreign Nationals that are not legal residents
- Corporations, partnerships, limited partnerships, and limited liability corporations
- Borrowers who do not have a valid social security number
- Borrowers with an Individual Taxpayer Identification Number (ITIN)
- Irrevocable trusts
- A borrower who was a debtor on a loan for which Essent previously paid a claim

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## 3.3. CREDIT REPORT REQUIREMENTS AND ANALYSIS

Credit history is evaluated to determine the borrower's ability to manage debt. Essent's underwriting requirements are outlined below.

- A Residential Mortgage Credit Report (RMCR), or
- A two-repository merged in-file credit report covering a minimum of two years. (Refer to Section 3.3.2. below for specific trade line requirements)
- Must disclose legal information for the past seven to ten years for judgments, foreclosures, garnishments, and bankruptcies
- Credit report and credit references must be dated within 120 days of the closing date for existing homes and new construction

### 3.3.1. LOAN REPRESENTATIVE FICO SCORE

The loan representative FICO score is defined as the lowest individual representative FICO score across all borrowers. The individual representative FICO score is determined as the middle of three or the lower of two repository credit scores. When two credit scores are obtained, choose the lower score. When three credit scores are obtained, choose the middle score. (If two of the three scores are duplicates, choose the duplicate score as the representative FICO score. For example: 680, 700, 680–680; 700, 680, 700–700). A minimum of two valid credit scores must be obtained for each borrower in order to calculate the individual representative FICO score.

### 3.3.2. TRADE LINE REQUIREMENTS

A trade line is defined as a revolving or installment payment account. The trade line must not be in dispute and must clearly belong to the borrower in order to be eligible for consideration. The following requirements must be met:

- The credit report must reflect a minimum of 3 traditional trade lines evaluated for at least 12 months for each borrower
- Trade lines for collections, judgments, charge-offs, repossessions, foreclosures, bankruptcy repayment plans, and credit counseling are not counted toward the minimum trade line requirements

### 3.3.3. PAYMENT HISTORY

Essent generally defines the acceptable level of late payments as follows:

| OBLIGATION TYPE | LAST 12 MONTHS | LAST 13–24 MONTHS |
|---|---|---|
| Mortgage History | 0 x 30 | 1 x 30 |
| Installment/Revolving History | 0 x 60 | 1 x 60 |

Mortgage payment history is required on all loans regardless of credit score and may be documented by the following:

- Standard mortgage verification from mortgage servicer, or
- Credit report, or
- Canceled checks, or
- Year-end mortgage statement(s) with payment history supplemented with canceled checks for the months elapsed since year-end

### 3.3.4. RE-ESTABLISHED CREDIT

Essent defines re-established credit as a minimum of 3 established traditional trade lines with 2 accounts active in the past 24 months with no late payments. Trade lines must be documented on a traditional credit report.

### 3.3.5. BANKRUPTCY

Borrowers with multiple bankruptcy filings within the past 7 years are ineligible. For borrowers with a bankruptcy filing, Essent requires satisfactory re-established credit as outlined in Section 3.3.4. in addition to the following requirements:

Eligibility Requirements for Chapter 7 & 11 Bankruptcies:

| FINANCIAL MANAGEMENT | DOCUMENTED EXTENUATING CIRCUMSTANCES |
|---|---|
| 4 years after discharge | 2 years after discharge |

Eligibility Requirements for Chapter 13 Bankruptcies:

| FINANCIAL MANAGEMENT | DOCUMENTED EXTENUATING CIRCUMSTANCES |
|---|---|
| 2 years after discharge<br>4 years after dismissal | 2 years after discharge<br>2 years after dismissal |

### 3.3.6. DEED-IN-LIEU/PRE-FORECLOSURE/SHORT SALE/CHARGE-OFF OF MORTGAGE ACCOUNT

- Minimum of 4 years since date of title transfer (2 years with documented extenuating circumstances) and satisfactory credit re-establishment as outlined in Section 3.3.4.

### 3.3.7. FORECLOSURE

- Minimum of 5 years since date of title transfer (3 years with documented extenuating circumstances) and satisfactory credit re-establishment as outlined in Section 3.3.4.
- Maximum LTV/CLTV – 90% (unless 7 years since date of title transfer)
- NOTE: When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the bankruptcy waiting period may be applied if the appropriate documentation is obtained to verify the mortgage in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.

### 3.3.8. JUDGMENTS, LIENS, COLLECTIONS, CHARGE-OFFS

- All judgments, liens, collections, and charge-offs that may affect the lien position must be satisfied
- Collection accounts may remain open if related to a documented dispute subject to a maximum of $250 per account or $1,000 in aggregate

### 3.3.9. CONSUMER CREDIT COUNSELING

- A minimum of 12 months since date of completion and satisfactory credit re-establishment as outlined in Section 3.3.4.

### 3.3.10. ERRORS ON CREDIT REPORT

- Documentation must be provided that supports the erroneous credit reference is not the borrower's or is not a result of borrower negligence

#### 3.3.11. NON-TRADITIONAL CREDIT/NO CREDIT SCORE/INVALID CREDIT SCORE

- Clear2Close program – non-traditional credit eligible for DU Approve/Eligible and LPA Accept/Eligible loans in which no borrowers have a valid credit score in accordance with the applicable Agency Selling Guide requirements
- Affordable Housing Program – non-traditional credit eligible as outlined in Section 2.1.4.
- All other loans – ineligible

### 3.4. INCOME – ACCEPTABLE SOURCES OF INCOME AND DOCUMENTATION

Essent generally expects that borrowers have a 2-year history in their current position or a total of 2 years in the same line of work. Any gaps in employment that extend beyond 30 days must be explained and documented in the loan file to determine the stability of the borrower's income.

Employment and income verification must be dated within 120 days of the closing date for existing homes and new construction.

Pre-funding verbal verification of employment must be dated within 10 business days prior to the closing date for salaried borrowers. Business phone numbers and addresses must be verified by an independent third party source. Military borrowers may supply a Leave and Earnings Statement (LES) dated within 30 calendar days of closing in lieu of verbal verification. Self-employed borrowers require verbal verification dated within 30 calendar days prior to closing. Existence of the business as well as business phone numbers and addresses must be verified by an independent third party source. Verbal verifications must document the name and title of the person verifying the borrower's employment.

IRS forms 4506, 4506-T or 8821, as applicable, are required to be signed by all borrowers at time of application and again at closing.

1. Salaried
   - A minimum of 2 years history of employment is required
   - Base wages – current wages may be used for qualification purposes
   - Bonus and overtime – 2-year average must be used for qualification purposes

   Required documentation:
   - Standard Fannie Mae Verification of Employment (Form #1005), or
   - Past 2 years W-2's or past 2 years IRS tax transcripts and most recent 30 days pay stub(s), indicating year-to-date earnings

2. Self-Employed
   - Applies for any borrower who has 25% or more ownership interest in a business
   - Must have been self-employed for a minimum of 2 years
   - 2-year average to be used for qualification purposes

   Required documentation:
   - 2 years most recent re-signed personal and business tax returns are required
   - Business returns are not required if the borrower has been self-employed for at least 5 years and personal tax returns show evidence of an increase in income for the past 2 years

3. Employed by Relative
    - The file must document that the borrower has less than 25% interest in the family business
    - If the borrower's interest exceeds 25%, the borrower will be considered self-employed and the appropriate documentation must be submitted in the loan file

    Required documentation:
    - A letter showing the percentage of ownership from a CPA or company accountant who may not be an interested party to the transaction or related to the borrower, and
    - 2 years most recent federal tax returns, and
    - Standard Fannie Mae Verification of Employment (Form #1005), or
    - Past 2 years W-2's or past 2 years IRS tax transcripts and most recent 30 days pay stub(s), indicating year-to-date earnings

4. Commission Income
    - Must document a 2-year history of receipt
    - 2-year average to be used for qualification purposes
    - If commission income <25% of borrower's total annual employment income:
        - Standard Fannie Mae Verification of Employment (Form #1005), or
        - Past 2 years W-2's or past 2 years IRS tax transcripts and most recent 30 days pay stub(s), indicating year-to-date earnings
    - If commission income ≥25% of borrower's total annual employment income:
        - 2 years most recent signed personal tax returns, and
        - Standard Fannie Mae Verification of Employment (Form #1005), or
        - Past 2 years W-2's or past 2 years IRS tax transcripts and most recent 30 days pay stub(s), indicating year-to-date earnings
        - Income must be reduced to account for unreimbursed business expenses

5. Seasonal/Part-Time/Second Job
    - 2-year tenure in the same line of work is required
    - 2-year average to be used for qualification purposes
    - Confirmation from the employer that the borrower is likely to be rehired is required

6. Rental Income
    - Borrower must exhibit a 2-year history of managing rental properties if the income source is other than the borrower's Primary Residence
    - Income is to be determined using a 2-year average based on most recent federal income tax returns or 75% of rental income less PITI when supported by leases
    - Negative net rental income will be added to the borrower's obligations
    - Rental income from Second Homes is ineligible

7. Unemployment Compensation

- Eligible for seasonal employees only
- Must document a 2-year history of receipt
- Must document that income is likely to continue and confirm with the employer that the borrower is likely to be re-hired

8. Military Income

- Standard Fannie Mae Verification of Employment (Form #1005), or
- Current Leave and Earnings Statement (LES) and past 2 years W-2's or past 2 years IRS tax transcripts
- Military personnel may receive pay entitlements in addition to their base pay. Flight or hazard pay, subsistence (rations) allowance, clothing allowance, quarter's allowance, and proficiency pay entitlements may be considered as qualifying income if the entitlement is documented and is likely to continue in the future.
- Income from service in the Reserves or National Guard may be considered as qualifying income if likely to continue for at least 3 years
- If military personnel are within 12 months of release from active duty or at the end of a contract term, additional documentation must be obtained in the form of one of the following:
  - Documentation the borrower has re-enlisted or extended their period of active duty to a date beyond the 12-month period following the loan closing date;
  - Verification of civilian employment following the release from active duty to include pertinent underwriting data such as job position, start date, pay rate, probability of continued employment, etc.
  - A statement from the borrower indicating their intention to re-enlist or extend their active duty to a date beyond the 12-month period following the loan closing date, and a statement from the borrower's commanding officer confirming the borrower is eligible to re-enlist or extend their active duty as indicated and there is no reason to believe that such re-enlistment or extension of active duty will not be granted.

9. Future Employment or Increase in Salary

Employment commencing after the Note Date is permitted subject to the following:

- Eligible for Purchase, Primary Residence, 1-unit transactions only
- Minimum 2-year history in the same line of work or education
- The employment offer or contract with start date, salary, and terms of employment must be signed by the employer, accepted by the borrower, and retained in the loan file
  - The borrower's future employment offer or contract must be non-contingent, or any contingencies or conditions of employment must be evidenced as satisfied prior to the loan closing
- The time frame between the Note Date and the commencement of employment (the employment gap) must not exceed 60 days
- Any Agency delivery requirements apply regarding commencement of employment or obtaining and retaining a paystub in the loan file to support the income used to qualify the borrower
- In addition to any reserves required as per the applicable program, the borrower must have additional reserves after the Note Date to pay the proposed monthly housing expense during the employment gap



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Doctor/Professional Loan Program – future employment commencing after the Note Date is eligible as outlined in Section 2.1.5

Qualification based on a salary increase commencing after the Note Date is permitted subject to the following:

- Eligible for Purchase, Primary Residence, 1-unit transactions only
- Minimum 2-year history in the same line of work or education
- The borrower's employer must verify in writing the amount and start date of the salary increase, and such documentation must be retained in the loan file
- The effective date of the salary increase must be no more than 60 days after the Note Date
- Any Agency delivery requirements apply regarding commencement of salary increase or obtaining and retaining a paystub in the loan file to support the income used to qualify the borrower
- In addition to any reserves required as per the applicable program, the borrower must have additional reserves after the Note Date to pay the proposed monthly housing expense prior to the salary increase

### 3.4.1. OTHER SOURCES OF INCOME

For income sources not listed below, refer to standard Fannie Mae and Freddie Mac guidelines.

1. Annuity Income
   - Must provide documentation verifying a 3-year continuance
2. Child Support/Alimony/Maintenance
   - Must provide documentation of receipt for a minimum of 12 months and verification of a 3-year continuance
   - Documentation of receipt for a period of 6–12 months is allowable if the income is not more than 30% of the borrower's total earnings
3. Trust Income
   - Must provide a copy of the Trust Agreement or the Trustee's statement verifying the amount, frequency, duration of payments, and continuance for a minimum of 3 years
4. Tax Exempt Income
   - May be grossed up by 25%
   - Tax exemption must be documented with copy of borrower's most recent 2 years tax returns
5. Tip Income
   - Must provide documentation of receipt for a minimum of 2 years using W-2s
   - Employer must indicate in writing that the tip income is likely to continue
   - 2-year average to be used for qualification purposes
   - 2 years most recent federal tax returns required if utilizing tip income reported on IRS Form #4137 that was not reported by the employer on the W-2
6. Boarder Income

Rental income from boarders in a one-unit property that is also the borrower's Primary Residence or Second Home is not generally considered acceptable stable income with the exception of the following:

- When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income, in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage



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- Income verification requirements:
  - Obtain documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statements, or W-2 forms) that shows the boarder's address as being the same as the borrower's address
  - Obtain documentation of the boarder's rental payments for the last 12 months (such as copies of canceled checks)

7. Automobile/Expense Allowance Payments

- Must provide documentation of receipt for a minimum of 2 years and verify likelihood of continuation
- Allowance should not be netted against existing obligations, if any

8. Capital Gains Income

- Income received from capital gains is generally a one-time transaction and should not be considered as stable monthly income. However, if income from capital gains is needed for qualification purposes, the following documentation is required:
  - 2 years most recent personal tax returns including Schedule D (Capital Gains and Losses)
  - If capital gains income exceeds 30% of the borrower's total qualifying income, 3 years personal tax returns including Schedule D are required
  - If the tax returns evidence realized capital gains income for the last 2 years, a 2-year average may be used for qualification if the borrower provides evidence of additional property/assets remaining after closing to support continuance of the qualifying capital gains income for the next 3 years
  - Verification that the property/assets generating the capital gains income are under the ownership and control of the borrower

9. Interest and Dividend Income

- Interest and dividend income may be used for qualification purposes if it has been received for the most recent 2 years and is expected to continue for at least the next 3 years
- An average of the income received for the previous 2 years may be used for qualification if the income has remained stable or increased
- Any assets used for down payment or closing costs must be deducted from the borrower's total assets before calculating expected future interest and/or dividend income
- Income documentation requirements:
  - 2 years most recent personal tax returns
  - Copies of the most recent year-to-date account statements to verify the borrower's ownership of the assets on which the interest and/or dividend income was earned

10. Notes Receivable Income

- Must obtain a copy of the note to establish the amount and length of payment
- Income must be expected to continue for a minimum of 3 years from the date of the mortgage application
- Document regular receipt of income for the past 12 months via the most recent year's personal tax returns or bank statements
- Payments on a newly executed note that specifies a minimum duration of 3 years may not be used as stable income for qualification purposes

11. Disability Income

- Must provide verification of the amount of disability payments and determine whether there is a contractually established termination or modification date via a copy of the borrower's disability policy or benefits statement
- Confirmation of the borrower's current eligibility for the disability payments must be obtained via a statement from the benefit's payer (insurance company, employer, or other qualified party)
- Verification must be obtained that the remaining term is at least 3 years from the loan application date
- If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next 3 years because they are being converted to long-term benefits, the long-term benefits amount must be used for qualification purposes

12. Public Assistance Income

- Must provide documentation of receipt for a minimum of 2 years and verification of a 3-year continuance from the paying agency that confirm the amount, frequency, and duration of the benefit payments

## 3.5. INCOME – UNACCEPTABLE SOURCES OF INCOME

- Deferred income
- Education or scholarship benefits
- Trailing spouse income
- Rental income from Second Home
- Rental income from single family Primary Residence, except Boarder Income as outlined in Section 3.4.1.

## 3.6. DEBT-TO-INCOME RATIOS

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.

Maximum acceptable total debt-to-income ratios are:

- Clear2Close – DTI >45%, Min. 700 FICO required; DTI ≤45%, per DU/Loan Product Advisor approval
- Manual Underwriting – Max. 45% DTI
- Loan Amounts > FHFA maximum loan limits – Max. 43% DTI for loan amounts ≤$850,000; Max. 41% DTI for loan amounts >$850,000
- Affordable Housing Program –
  - Manually Underwritten Loans: Max. 45% DTI
  - Loans With A Valid DU/Loan Product Advisor Response: DTI >45%, Min. 700 FICO required; DTI ≤45%, per the DU/Loan Product Advisor findings/feedback for DU/Loan Product Advisor Approve/Accept Eligible loans and DU/Loan Product Advisor Approve/Accept Ineligible loans for LTVs 95.01% - 97%, where the ineligibility is due only to the LTV, or ARMs with an initial fixed term ≥5 years, where the ineligibility is due only to the ARM plan/type
- Doctor/Professional Loan Program – Max. 43% DTI for loan amounts ≤$850,000; Max. 41% DTI for loan amounts >$850,000

Contingent Debts

- Contingent debts generally must be included in monthly expenses but may be excluded under the following circumstances:
  - Evidence is provided that the debt has been paid off or assigned to another party by court order or assumed by another party



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  - Most recent 12 months cancelled checks indicating payments made by the primary obligor are required unless the debt has been paid off
  - The obligation must have no history of late payments
  - Essent may allow exclusion of the debt for periods shorter than 12 months under certain circumstances on an exception basis

Non-Occupying Co-Borrower's Requirements:

- Maximum LTV/CLTV – 95%
- Total debt-to-income ratio for all borrowers must meet the eligibility criteria of the applicable Product Eligibility Matrix (as outlined in Section 2)
- Occupant borrower maximum debt-to-income ratio – 45%

## 3.7. LIABILITIES – QUALIFICATION REQUIREMENTS

- All debts must be included in the debt-to-income ratio, including but not limited to those extracted from the credit report and listed on the Uniform Residential Loan Application (Fannie Mae Form 1003/Freddie Mac Form 65)
- Installment debts with less than 10 months remaining for the balance to be paid in full may be excluded from the debt ratio
  - However, if continued payment of such debt will have a material effect on the borrower's ability to repay all obligations in a timely manner, then it must be included in the DTI calculation
- Auto lease payments must be included in DTI regardless of the lease terms
- Doctor/Professional Loan Program – student loan debt may be excluded from the debt-to-income calculation with documentation to evidence deferment/forbearance for at least 12 months
- For all other loans, student loan payments, regardless of repayment status, must be included in the debt-to-income ratio:
  - Lenders must use the greater of 1% of the outstanding balance or the actual documented payment (as documented via the credit report, documentation obtained from the student loan lender, or documentation obtained from the borrower)
  - As an exception, if the actual documented payment is <1% of the outstanding balance and will fully amortize the loan with no payment adjustments, the lower, fully-amortizing monthly payment may be used for qualification purposes.
- Installment debt secured by assets such as 401(k)s, Certificates of Deposit, etc., may be excluded from the monthly debt-to-income ratio. If the borrower intends to use the same asset to satisfy the reserve requirements, the value of the asset must be reduced by the amount of the outstanding loan.

## 3.8. SOURCE OF FUNDS – ELIGIBLE SOURCES AND DOCUMENTATION REQUIREMENTS

Essent requires that the borrower has sufficient cash deposits and other assets to complete the mortgage transaction and also must confirm the level of reserves the borrower will have after closing. Refer to Section 3.12. for details on eligible funds to meet reserve requirements.

Asset verification must be dated within 120 days of the closing date for existing homes and new construction.



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Asset documentation requirements:

- Verification of deposit accounts showing average balances for 2 months, or
- Copies of depository, financial, or investment institution statements for the most recent 2 month period
- Vested stocks, bonds, and mutual funds (including retirement accounts) used for down payment and closing costs:
  - If documentation is obtained to evidence the value of the assets is at least 20% or more than the funds needed for borrower's down payment and closing costs, no documentation of liquidation is required. Otherwise, documentation of the borrower's actual receipt of funds realized from the sale or liquidation must be obtained.
- All other eligible sources of funds:
  - If funds need to be withdrawn from an asset account to complete the transaction, documentation to support the withdrawal and net proceeds is required. Funds are not eligible if withdrawal from an account that is prohibited prior to an event such as retirement, death, or termination of employment.
- Legible "faxed" statements or statements downloaded from the Internet are acceptable, provided they clearly identify the borrower as the owner of the account as well as the name of the depository or investment institution and the source of the information
- Proof of receipt of earnest money payment must be verified if the deposit amount indicated in the sales contract exceeds 2% of the sales price or 50% of the down payment. Verification is not necessary if the borrower has sufficient funds for closing without consideration of the deposit.
  - Deposit accounts must be verified by either a Verification of Deposit with 2 months average balance or by 2 months most recent account statements
  - Stock accounts require recent statement(s) covering a minimum of 2 months
  - 401(k) accounts require recent statement(s) covering a minimum of 2 months
  - Gift funds may not be from a party to the transaction and must be from a family member by blood, adoption, or legal guardianship. Gifts from a fiancé, fiancée, or domestic partner are acceptable if a 12-month shared residency is established and there is intent to continue joint residency. A signed gift letter clearly stating that no repayment is required along with documentation to support the receipt of funds.
  - Gifts from family members who have resided with the borrower for the most recent 12 months and will continue to do so or gifts from a fiancé, fiancée, or domestic partner who has met the above requirements may be considered as the borrower's own funds
  - Formally established employer assisted grants or forgivable, un-secured loans are permissible provided the employer is not an interested party to the transaction
  - Business funds are permissible provided a letter from a CPA or company accountant, who may not be an interested party to the transaction or related to the borrower, documents that the borrower has access to the funds and that withdrawal of such funds will not have an adverse impact on the business
  - Seller contributions are permissible. Interested parties include, but are not limited to: the builder, developer, property seller and the real estate agent. Essent will allow these interested parties to contribute funds as outlined in Section 3.11. below, with the maximum contribution percentage based on the lesser of the property's sale price or appraised value.

## 3.9. SOURCE OF FUNDS – INELIGIBLE SOURCES

- Sweat equity
- Trade-in equity
- Cash-on-hand



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- Unsecured loans
- Gifts requiring repayment
- Cash advances from credit cards
- Bonus advances against future earnings
- Stock options
- Non-vested restricted stock

## 3.10. MINIMUM BORROWER CONTRIBUTION REQUIREMENTS

- Primary Residence: 3% of borrower's own funds are required
  - Loans scoring DU/Loan Product Advisor Approve/Accept Eligible and DU/Loan Product Advisor Approve/Accept Ineligible for LTVs 95.01%–97%, where the ineligibility is due only to the LTV, or ARMs with an initial fixed term ≥5 years, where the ineligibility is due only to the ARM plan/type – As per the DU/Loan Product Advisor findings/feedback; The borrower's minimum contribution may come from gift funds per Agency guidelines
  - Manually Underwritten Loans – The borrower's minimum contribution may come from gift funds per Agency guidelines with: 1-unit; Min. 720 FICO; Max. 41% DTI; no down payment assistance, subordinate financing, or grants with repayment
- Second Home: 5% of borrower's own funds are required
  - Loans scoring DU/Loan Product Advisor Approve/Accept Eligible and DU/Loan Product Advisor Approve/Accept Ineligible for ARMs with an initial fixed term ≥5 years, where the ineligibility is due only to the ARM plan/type – As per the DU/Loan Product Advisor findings/feedback; The borrower's minimum contribution may come from gift funds per Agency guidelines
- Investment Property: 15% of borrower's own funds are required
- Loan amounts > FHFA maximum loan limits - 5% of borrower's own funds required for loan amounts ≤$1,000,000; 10% of borrower's own funds required for loan amounts >$1,000,000
- Affordable Housing Program:
  - Loans scoring DU/Loan Product Advisor Approve/Accept Eligible and DU/Loan Product Advisor Approve/Accept Ineligible for LTVs 95.01%–97%, where the ineligibility is due only to the LTV, or ARMs with an initial fixed term ≥5 years, where the ineligibility is due only to the ARM plan/type – As per the DU/Loan Product Advisor findings/feedback; The borrower's minimum contribution may come from gift funds per Agency guidelines
  - All other loans
    - 1-unit:
      - Lesser or $1,000 or 1%; -OR-
      - The borrower's minimum contribution may come from gift funds per Agency guidelines with: Min. 720 FICO; Max. 41% DTI; no down payment assistance, subordinate financing, or grants with repayment
    - 2-unit:
      - 3% of borrower's own funds required
- Doctor/Professional Loan Program - 3% of borrower's own funds required for loan amounts ≤$650,000; 5% of borrower's own funds required for loan amounts >$650,000

## 3.11. INTERESTED PARTY CONTRIBUTIONS/SALES CONCESSIONS

- LTV/CLTV ≤90% – maximum 6%
- LTV/CLTV >90% – maximum 3%
- Loan amounts > FHFA maximum loan limits – maximum 3% for >90% LTV; maximum 6% for ≤90% LTV %
- Affordable Housing Program – maximum 3%
- Doctor/Professional Loan Program - maximum 3% for >90% LTV; maximum 6% for ≤90% LTV
- Excessive contributions and/or non-monetary concessions shall be deducted from the sale price and will require calculation of an adjusted LTV/CLTV which must meet LTV/CLTV requirements
- PITI abatements are ineligible

## 3.12. RESERVE REQUIREMENTS

Loans scoring DU/Loan Product Advisor Approve/Accept Eligible and DU/Loan Product Advisor Approve/Accept Ineligible for LTVs 95.01% - 97%, where the ineligibility is due only to the LTV, or ARMs with an initial fixed term ≥5 years, where the ineligibility is due only to the ARM plan/type:

Follow reserve requirements as per DU/Loan Product Advisor findings/feedback

Manually Underwritten Loans - The greater of 2 months PITI or the product minimum is required

Investment Properties: 6 months PITI required, regardless of AUS findings/feedback

Loan amounts > FHFA maximum loan limits - 6 months PITI required for loan amounts ≤$850,000; 12 months PITI required for loan amounts >$850,000 and/or First Time Homebuyers

Doctor/Professional Loan Program - 2 months PITI required for loan amounts ≤$650,000; 6 months PITI required for loan amounts $650,001-$850,000; 12 months PITI required for loan amounts >$850,000

- Bonds, money market funds, U.S. government securities, savings bonds (100% of face value if mature) and others as traded on an exchange or generally made available to the public market place – 100% of value to be used to meet requirement
- Stocks, mutual funds, personal IRA, 401(k), KEOGH and other IRS-qualified employer retirement plans – 100% of current market value to be used to meet requirement
- Ineligible sources of funds cannot be used to satisfy reserve requirements

## 3.13. SUBORDINATE FINANCING

- Transactions involving new subordinate financing are ineligible, except as part of an employee relocation program, employee assistance program, an affordable lending program, or when the subordinate financing meets Agency Community Second or Affordable Second requirements
- Re-subordination of existing financing is eligible for Rate/Term refinances
- Refer to Section 4.2. for transactions involving payoff of existing subordinate liens
- Clear2Close Program – subordinate financing eligible; must meet Agency Community Second or Affordable Second guidelines as outlined in Section 2.1.1
- Affordable Housing Program – subordinate financing eligible; must meet Agency Community Second or Affordable Second guidelines as outlined in Section 2.1.4

## 3.14. BRIDGE LOANS

Essent will consider insuring loans where the source of all or part of the borrower's down payment and/or closing costs are from bridge loan financing on the property being vacated.

- The bridge loan must not be secured by the subject property

The file must include the following in order to exclude the bridge loan PITI from the borrower's DTI calculation for the subject loan:

- Borrower's executed non-contingent sales contract (financing contingency may be satisfied by a loan commitment from the buyer's lender), or
- Borrower's executed buyout agreement as part of an employer relocation plan

## 3.15. NON-ARM'S LENGTH TRANSACTIONS

Non-arm's length transactions exist whenever the borrower has a personal or business relationship with the seller, builder, developer, real estate agent, appraiser, lender providing the financing, title company, or any other interested party. These relationships may influence the transaction and are generally reviewed on a case-by-case basis.

## 3.16. MAXIMUM LOANS TO ONE BORROWER

Essent limits its overall exposure to the same borrower to a maximum of 2 loans. One loan must be for the borrower's Primary Residence.

## 3.17. FIRST-TIME HOME BUYER

A first time home buyer is defined as any borrower who has had no ownership interest (solely or jointly) in a residential property during the most recent 3-year period. First time home buyers are:

- Required to purchase the property with the intent to occupy it
- Recommended to complete Home Buyer Education

## 3.18. HOME BUYER EDUCATION

To help ensure that home buyers become successful homeowners, Essent recommends that all First-Time Home Buyers participate in a pre-purchase Home Buyer Education course:

- Borrowers eligible for certain targeted loan programs, including all loans with an LTV/CLTV over 95%, are required to receive pre-purchase home buyer education
- For loans requiring home buyer education, the loan file must indicate that education will be completed prior to closing
- Verification that the borrowers have completed home buyer counseling must be supplied to Essent upon request
- Affordable Housing Program – loans must meet any homebuyer education requirements of the applicable program

# 4.0 Product Eligibility Requirements

## 4.1. STANDARD ELIGIBILITY REQUIREMENTS

- Essent Insurance Application, fully completed and signed by the insured
- Uniform Residential Loan Application (Fannie Mae Form 1003/Freddie Mac Form 65) signed and dated by the borrower(s)
- Full documentation processing is required. For loans with DU/Loan Product Advisor Approve/Accept Eligible or DU/Loan Product Advisor Approve/Accept Ineligible findings please refer to Section 1.3. for documentation requirements

## 4.2. ELIGIBLE LOAN PURPOSES

1. Purchase

- Proof of receipt of earnest money payment must be verified if the deposit amount indicated in the sales contract exceeds 2% of the sales price or 50% of the down payment. Verification is not necessary if the borrower has sufficient funds for closing without consideration of the deposit.

2. Rate/Term Refinance

- Maximum cash permitted back to borrower is the lesser of 2% of the new loan amount or $2,000
- Reasonable and customary closing costs may be included in the loan amount
- The subject property must not be currently listed for sale. It must be taken off the market on or before the application date and the borrowers must confirm their intent to occupy the subject property (for Primary Residence transactions).
- A refinance that includes the payoff of a purchase money subordinate lien can be considered a rate/term refinance, as long as the original purchase money first lien and the subordinate lien were recorded simultaneously
- Any loan that the borrower has taken cash out within the last 6 months, either through a first lien or subordinate lien, will be treated as a cash-out refinance, and is thus ineligible

3. Cash-Out Refinance

A cash-out refinance provides funds in excess of what is permitted under rate/term refinance eligibility. Funds may be used to satisfy existing lien(s) and/or provide the borrower with cash.

- Ineligible

4. Conversion of Primary Residence to Investment Property or Second Home

Conversion of a Primary Residence to an Investment Property or Second Home reflects a purchase transaction in which the borrower's existing Primary Residence converts to an Investment Property or Second Home, and the subject property becomes the borrower's new Primary Residence

- PITI for each property is to be included in the monthly debt-to-income ratio
- 75% of rental income from a Primary Residence converted to an Investment Property may be used to offset the PITI; rental income must be supported by leases

5. Construction-to-Permanent

- The conversion of construction-to-permanent financing involves the granting of a mortgage to a borrower for the purpose of replacing interim construction financing that the borrower obtained to fund the construction of a new Primary Residence or Second Home. A mortgage to purchase a newly constructed home from a builder is not considered construction-to-permanent financing, and should be treated as a purchase transaction.
- A construction-to-permanent loan can be structured as:
  - One-time close transaction whereby the interim construction financing and the permanent financing are combined into a single loan closing; once the subject property is completed, the loan automatically converts to a permanent long-term mortgage
  - Two-time close transaction whereby the interim construction loan is closed prior to completion; once the subject property is completed, the permanent long-term mortgage is closed
- Purchase and Rate/Term Refinances are permissible
  - Purchase Transactions
    - The borrower is not currently the owner of record of the land and/or is acquiring the lot at the time of the construction financing
    - LTV/CLTV is calculated based on the lesser of the total acquisition costs (purchase price of the lot and documented construction costs) or the current appraised value as completed
  - Refinance Transactions
    - The borrower is the owner of record of the land at the time of the construction financing
    - LTV/CLTV is calculated based on the current appraised value as completed
- Primary Residences and Second Homes Only
- The borrower(s) cannot be the builder or contractor
- Documentation:
  - Credit Documentation
    - If activation of the mortgage insurance occurs >120 days from the original commitment date, a Verbal Verification of Employment (VVOE) is required. If the VVOE identifies a change in the borrower's employment, updated employment/income documentation is required to ensure the borrower continues to qualify based on the guidelines and rates in place at the time of the original commitment.
    - If activation of the mortgage insurance occurs ≤120 days from the original commitment date, no credit, employment/income, and asset documentation updates are required
  - Appraisal Documentation
    - Appraisal Update and/or Completion Certificate (Form 1004D/442) completed by the original appraiser is required at the completion of construction
    - A re-certification of value is required after 120 days; re-certifications of value are ineligible if the appraiser indicates the subject property's value has declined on the Form 1004D/442 and a full Uniform Residential Appraisal Report is required
    - A new appraisal is required after 12 months
- Commitment Term:
  - Commitments are effective for a period of 12 months. Extensions for expired commitments are ineligible under Delegated Underwriting Authority and are subject to current published Construction-to-Permanent guidelines and rates.



CONTINUED ON NEXT PAGE

- Activation of Coverage:
  - Insurance During Construction
    - For activation of coverage prior to the completion of construction, insurance is effective as of the initial loan close date.
  - Insure at Completion of Construction
    - For activation of coverage at the completion of construction, insurance is effective as of the final loan close date.
    - The loan must be current (0x30 delinquencies during the construction phase) at the time insurance is activated
    - All mechanics' liens, materialmens' liens, or any other liens that may adversely affect title must be fully satisfied prior to activation of coverage

6. Renovation Loans
   - Eligible as per the applicable Product Eligibility Matrix (as outlined in Section 2)

## 4.3. STREAMLINE REFINANCE

- Ineligible

## 4.4. TEMPORARY BUYDOWNS

- Qualifying rate:
  - Fixed: note rate
  - 3-year or 5-year ARMs: greater of the initial rate +2% or the fully indexed rate
  - 7-year or 10-year ARMs: initial rate

## 4.5. BALLOONS

- Eligible

## 4.6. INTEREST ONLY

- Ineligible

## 4.7. CORPORATE RELOCATION LOANS

- Must be made to a transferred or newly hired employee for the purpose of financing the purchase of a Primary Residence
- Employer contributions must consist of one or more of the following:
  - Payment of the borrower's closing costs on the new Primary Residence and/or the previous residence
  - Funding of a below-market rate loan such as a temporary buy-down, interest rate subsidy, 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/or the employee's new Primary Residence
- The file must contain the following in order to exclude the previous home mortgage PITI from the borrower's DTI calculation for the subject loan:



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- HUD-1 or Closing Disclosure evidencing the sale of the previous home; or
- Borrower's executed non-contingent sales contract (financing contingency may be satisfied by a loan commitment from the buyer's lender); or
- Borrower's executed buyout agreement from the employer or relocation company as part of an employer relocation plan and the borrower has cash reserves to make all monthly payments on the new mortgage, previous mortgage, and bridge loan (if applicable) up to the closing date of the borrower's previous home

## 4.8. POST CLOSED LOANS

Unless permission has been previously granted, Essent does not accept applications for insurance on loans submitted after the loan closing date.

## 4.9. NEGATIVE AMORTIZATION (INCLUDING POTENTIAL AND SCHEDULED)

- Ineligible

## 4.10. GRADUATED – PAYMENT MORTGAGES (GPMS)

- Ineligible

## 4.11. LEASEHOLD ESTATES

- Eligible – see Section 6.3. for requirement

## 4.12. FIXED RATE

- Qualifying rate – Note rate

## 4.13. ADJUSTABLE RATE

- Minimum initial fixed rate period – 3 years
- First (Initial) rate adjustment cap – maximum 6%
- Periodic rate cap – maximum 2% annually
- Lifetime rate cap – maximum 6%
- Qualifying rate
  - 3-year or 5-year ARMs: greater of the initial rate +2% or the fully indexed rate
  - 7-year or 10-year ARMs: initial rate
- Loan Amounts > FHFA maximum loan limits
  - First (Initial) rate adjustment cap – maximum 3%
  - Periodic rate cap – maximum 2% annually
  - Lifetime rate cap – maximum 6%

## 4.14. TERMS/AMORTIZATION

Maximum term is 40 years; if term is >30 years, the following is required:

- Fixed rate only
- Minimum loan representative FICO score – 700

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# 5.0 Appraisal and Property Requirements

Thorough collateral assessment and use of appropriate appraisal practices are integral to determining property acceptability and eligibility for mortgage insurance coverage. Collateral assessment is especially critical in areas vulnerable to price declines. Essent expects all lenders to adhere to the standards promulgated by Fannie Mae and Freddie Mac and to the principles contained in the Uniform Standards of Professional Appraisal Practice (USPAP).

## 5.1. FORM REQUIREMENTS

- Acceptable forms include the following appraisal reports requiring interior/exterior inspections along with all required photos, exhibits, and addendums:
  - Fannie Mae 1004/Freddie Mac 70 – Uniform Residential Appraisal Report
  - Fannie Mae 1025/Freddie Mac 72 – Small Residential Income Property Appraisal Report
  - Fannie Mae 1073/Freddie Mac 465 – Individual Condominium Unit Appraisal Report
  - Fannie Mae 2090 – Individual Cooperative Interest Appraisal Report
  - Fannie Mae 1004D/Freddie Mac 442 – Appraisal Update and/or Completion Certificate
- Essent does not accept valuations based on AVMs or BPOs
- A recertification of value is required after 120 days for existing construction and for new construction, including construction-to-permanent; a new appraisal is required after 12 months
- Re-certifications of value are ineligible if the appraiser indicated that the property was in a declining market at the time the insurance commitment/certificate was issued
- Essent will allow the use of an original appraisal for a subsequent transaction subject to the following requirements:
  - The subsequent transaction may only be a Rate/Term Refinance
  - The appraisal report must not be more than 12 months old on the Note Date of the subsequent transaction. If the appraisal report is greater than 4 months old on the date of the Note and Mortgage, then an appraisal update is required on the appropriate form.
  - Lenders must ensure that the subject property has not undergone any significant remodeling, renovation, deterioration, or has not been affected by a disaster to the extent that the improvement or deterioration of the property would materially affect the marketability or market value of the subject property
    - The borrower(s) and the lender must be the same on the original and subsequent transaction.
      - The only exception is in the event of a divorce or legal separation. The borrower for the subsequent transaction must be one of the borrowers on the original transaction, and the file must document that the borrower for the subsequent transaction obtained the property through a divorce or legal separation.

## 5.2. STREAMLINE APPRAISALS

- Ineligible

## 5.3. OCCUPANCY ELIGIBILITY – REQUIREMENTS

- Primary Residences
- Second Homes
- Investment Properties

## 5.4. PROPERTY TYPES – ELIGIBLE

Essent generally follows standard property and project eligibility requirements as published in the Fannie Mae and Freddie Mac guidelines except for certain limitations that are outlined below:

1. Single Family/PUD
   - May be detached, semi-detached or attached dwellings. The unit owners must own the lot under their units to be eligible under single family underwriting requirements.

2. Condominiums
   - Project must be warrantable according to Agency general warranty of project eligibility requirements. Subject to the project meeting the Agency general warranty, the following project approval options are deemed acceptable:
     - Fannie Mae/Freddie Mac Lender Full Review
     - Fannie Mae Limited Review
     - Fannie Mae Condo Project Manager (CPM)
     - Fannie Mae Project Eligibility Review Services (PERS)
     - Freddie Mac Streamlined Review
   - Project must not be an ineligible project according to Agency guidelines
   - The loan file must be documented with evidence of the Agency project approval or lender certification
   - Maximum single entity ownership – 10%
   - Essent maximum project exposure – limited to 33% of the total units within a project

3. Cooperatives
   - Project must be Agency warrantable
   - Primary Residences and Second Homes only
   - Balloon terms on current underlying mortgage on the cooperative cannot be less than 3 years remaining
   - New projects must have a minimum remaining loan term of 5-years on the blanket mortgage, existing projects must have a minimum of 3 years remaining
   - Maximum of allowable pro rata share of the project debt to the lesser of the property sales price or the appraised value – 35%

4. Mixed-Use
   - Property must be a one-unit dwelling that the borrower occupies as a Primary Residence
   - The borrower must be both the owner and the operator of the business
   - The property must be primarily residential in nature
   - Subject neighborhood must be predominantly residential
   - Zoning classification must be residential
   - Properties in neighborhoods that are changing or likely to change from residential zoning are ineligible
   - Must represent a legal, permissible use under local zoning requirements
   - Must have minimal effect on the value and marketability of the property
   - Alterations that support non-residential use must be minimal and easily convertible for residential use

5. Modular Housing/Pre-Fabricated

Homes that consist of 2 or more modules or sections constructed in a manufacturing facility. The sections are delivered by flat bed trucks to the site location where they are assembled similar to a site built dwelling. The building code requirements for modular homes are the same as those for site built homes.

- Must be permanently affixed to a foundation system, appropriate for the soil conditions of the site
- Must conform with the standards of the Council of American Building Officials (CABO)
- Must conform to the local building codes in the area in which it will be permanently located

6. Acreage/Rural Properties

- Loan amounts > FHFA maximum loan limits - >10 acres ineligible
- Doctor/Professional Loan Program - >10 acres ineligible
- Must exhibit a high degree of marketability
- If on a private-owned or community-owned street, an adequate, enforceable agreement or covenant for maintenance of the street is required
- Have adequate sewage, water and utilities

7. Two-Unit Properties

- Primary Residence only
- Purchase and Rate/Term refinance transactions only

## 5.5. PROPERTY TYPES – INELIGIBLE

1. Manufactured Housing
2. Non-warrantable condominiums
3. Condominium Hotels (Condo-tels)
4. Apartment/Hotel Conversions
5. Model home leasebacks
6. Vacant lots/land
7. Time-share properties
8. Homes unsuitable for year-round occupancy
9. Unimproved land
10. Earth, berm, dome, log, and straw bale homes
11. Working farms, orchards, and ranches
12. Student housing projects (“kiddie” condos)
13. 3–4 units

## 5.6. COMPLETION ESCROWS

Loans with escrow holdbacks for postponed improvements are eligible under the following terms:

- Follow Agency guidelines for the establishment and disbursement of the escrow account funds
- The improvements do not adversely affect the overall livability, soundness, or structural integrity of the subject property
- The subject property is habitable and certified for occupancy (where applicable)
- The cost of completing the improvements does not exceed 10% of the "as completed" appraised value of the subject property

## 5.7. PROPERTY FLIPPING

Property flips occur when a subject property acquired by the seller less than 180 days from the date of the loan application is subsequently resold. Exceptions to the definition of property flips are as follows:

- The seller is part of an employer relocation program
- The seller obtained the property through an inheritance or as part of a settlement in a divorce agreement
- The seller is a Financial Institution or Mortgage Insurance Company, which has acquired the property as a result of foreclosure or deed-in-lieu of foreclosure

To mitigate the risks associated with a subject property that was recently acquired by the seller and is now being resold, lenders should analyze and document the loan file to ensure:

- The subject property seller is the owner of record as validated by public records and other available documents
- The appraised value is adequately supported by market data, and that appropriate comparable sales were utilized in the appraisal report

# 6.0 Title Policy Requirements

Essent follows Fannie Mae and Freddie Mac practices and standards with regard to obtaining title insurance policies and related endorsements.

## 6.1. GENERAL REQUIREMENTS

Title insurance company must have at least one of the following ratings:

- “Financial Stability Rating” of “S” or better or a “Statutory Accounting Rating” of “C” or better from Demotech, Inc.
- "BBB" or better rating from Fitch Inc., Standard & Poor's, Inc., or Duff & Phelps Credit Rating Company
- "C" or better rating for Kroll Bond Rating Agency, Inc.
- "Baa2" or better rating from Moody's Investor Service

## 6.2. TITLE COMMITMENT

- Must insure that the security instrument creates a valid lien on the subject property
- Must list any lien that is subordinate and state that such lien is subordinate to the lien of the security instrument
- Must be marketable, free, and clear of all liens and encumbrances
- Must not be subject to any exceptions unless as outlined in the acceptable exceptions in Section 6.5.

## 6.3. LEASEHOLD ESTATES

When a mortgage is secured by a leasehold estate, or is subject to the payment of "ground rent", the borrower has the right to use and occupy for a stated term under certain conditions contained within the lease. Properties on leasehold land are eligible for insuring with the following requirements:

- Must meet all Agency requirements
- Must be an acceptable practice in the market area
- Term must exceed the term of the insured loan by a minimum of 5 years and may be automatically renewable beyond the mortgage term
- Increases in the lease payments are acceptable provided the increase is a specific amount due at a predetermined time or is based on a cost of living index, other index, or reappraisal with a stated limitation

The valuation of the property requires:

- If terms are not typical and customary for the market, the effect on marketability must be fully explained by the appraiser and requires exception approval
- Appropriate adjustments for the difference in ownership and support for these adjustments with proper documentation are required by the appraiser
- Any restrictions and conditions of the lease agreement or ground lease and the effect, if any, they have on the value and marketability of the subject property must be discussed in detail
- Residential improvements must be legal and comply with state statutes or governing law

## 6.4. SURVEY REQUIREMENTS

- A plat or improvement survey must be provided unless the loan is covered by a master title insurance policy insuring against loss due to survey-related matters. In areas where surveys are not customary, the title insurance policy must insure against loss or damage by any violation, variation, encroachment or adverse circumstance that would have been disclosed by an accurate survey.

## 6.5. ACCEPTABLE EXCEPTIONS

- Mutual easement agreements that establish joint driveways or party walls
- Above-surface public utility easements
- Customary public utility subsurface easements
- Survey exceptions where acceptable by Fannie Mae and Freddie Mac

# 7.0 Federal and State Regulatory Compliance

All loans are required to be underwritten in full compliance with all applicable laws and regulations in effect at the time of origination, including but not limited to any applicable “fair lending” laws, and including a duly diligent review to ensure that the Borrower is not at the date of commitment a “specially designated national” or “blocked person” as designated by the Department of Treasury’s Office of Foreign Assets Control.

In some instances a mortgage lender may engage Essent or an affiliate to perform mortgage loan underwriting or other lending services on behalf of the mortgage lender (“contract underwriting”). When performing contract underwriting, Essent is subject to all federal fair lending laws and Essent must comply with those laws.

# 8.0 Miscellaneous Eligibility Requirements

Essent requires that the mortgage loan documents comply with all requirements of the applicable mortgage program, as well as applicable federal, state and local laws and regulations. The most current Fannie Mae/Freddie Mac note and security instruments, including all applicable riders and addendums, must be used. Essent will accept Fannie Mae/Freddie Mac Uniform mortgage documents and any state approved mortgage documentation from a national mortgage document vendor.

All loans must be properly closed and in compliance with all applicable laws, rules and regulations.

## 8.1. LOAN MODIFICATIONS

Essent considers a loan modification as any change to an insured loan which would involve a modification agreement or a new Note with coverage continuing under a previously issued commitment certificate. Loan modifications are considered on a case-by-case basis and must be approved by Essent.

## 8.2. ASSUMPTIONS/PARTIAL RELEASES

All assumptions and partial releases require pre-approval from Essent and are not eligible under delegated underwriting authority. The assumption and/or partial release request must be sent to Essent's Risk Management Department (see Section 1 for contact information). While Essent reserves the right to request additional documentation as applicable, any of the following documents may be requested before a decision is made:

Assumptions and Releases of Liability

- Fully executed Loan Application (1003)
- New/Remaining borrower's current credit report
- Verification of Employment or past 2 years W-2's or past 2 years IRS tax transcripts and most recent 30 days pay stub(s), indicating year-to-date earnings
- Most recent 2 years signed personal and business tax returns for self-employed borrower(s)
- Fully executed Sales Contract/Purchase Agreement
- Verification of Deposit or most recent 2 months depository/financial statements
- Complete copy of divorce decree or separation agreement, or other evidence of subject property disposition
- Borrower Certification and Authorization Form(s)

Releases of Collateral

- Letter/statement addressing the reason for the release, the dollar amount of any consideration being paid, and the details regarding the release
- Current mortgage payment history
- Fully executed Sales Contract/Purchase Agreement (if applicable)
- New subject property appraisal report indicating the value of the parcel being released and the value of the remaining subject property
- Survey of the subject property indicating the parcel to be released

## 8.3. TITLE TRANSFERS

Essent considers title transfers as an assumption, which requires approval from Essent's Risk Management Department (see Section 1 for contact information).

## 8.4. NON-RETAIL ORIGINATIONS

A non-retail origination is a loan for which the origination or processing activities are performed by a different entity than the entity that closes and funds the loan. Eligibility for non-retail guidelines is subject to lender approval by Essent's Risk Management Department. Additional restrictions may apply.

## 8.5. HAZARD/FLOOD INSURANCE REQUIREMENTS

Essent requires the counterparty assure that standard hazard and flood insurance, as required in the Fannie Mae/Freddie Mac published guidelines, are in place and enforceable.

## 8.6. POWER OF ATTORNEY

Permitted

# 9.0 Commitments

## 9.1. FINAL COMMITMENTS

Final commitments cannot be issued until certain documentation has been submitted and verified, including, but not limited to:

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

## 9.2. EXTENSIONS

Essent recognizes that there are circumstances that may warrant an extension. In this case, Essent may require an updated application, appraisal and borrower's credit information. Extensions require approval by Essent's Underwriting Department (see Section 1 for contact information) and are subject to the underwriting guidelines that are in effect at the time the extension is requested.

## 9.3. INCOMPLETE/DENIED APPLICATIONS

If credit or insurance is denied on the basis of information provided by the consumer reporting agency, the Fair Credit Reporting Act (FCRA) requires that the borrower be given a notice which identifies the consumer reporting agency and includes a statement of the borrower's rights under FCRA. In the event the counterparty has approved a loan and Essent has denied the mortgage insurance coverage, Essent will send the Statement of Denial to the borrower directly. When Essent is required to deliver the notice to the borrower (as required under FCRA), a combined Equal Credit Opportunity Act (ECOA) Statement of Denial and FCRA notice will be sent directly to the borrower and a copy sent to the counterparty.

# 10.0 Premium Plans

## 10.1. PREMIUM PLANS

Responsible underwriting to determine eligibility for mortgage insurance through Essent requires a thorough evaluation of many elements relating to a proposed home financing including credit history, loan type, loan purpose, occupancy status, property appraisal, loan-to-value ratio, debt-to-income ratio, and other factors known to influence the likelihood of repayment on a mortgage loan. In developing premium plans and determining premium rates, Essent seeks to take these factors into account and establish plans, rates, and rate adjustments that provide fair compensation to Essent for providing insurance against the risk of loss in the event of borrower default on a specific mortgage.

The premium rate applicable to an insured mortgage is based on the rate in effect on the Commitment date. If loan data submitted to Essent is not correct and the loan receives an inappropriate premium rate, Essent reserves the right to apply the correct premium in accordance with the actual data and charge the submitting lender for any premium difference. If any material changes in loan eligibility factors or loan data occur prior to closing, the loan must be re-qualified and re-priced to current published rates.

The following premium plans are available from Essent to meet the various needs of borrowers who require mortgage insurance:

1. Annual premium plans: the first year's premium is paid at loan closing and subsequent renewal premiums are paid annually
2. Monthly premium plans: the first month's premium is paid at loan closing and subsequent renewal premiums are paid monthly with each monthly mortgage payment
3. Deferred monthly premium plans: instead of being paid at loan closing, the first month's premium and subsequent renewal premiums are paid monthly with each monthly mortgage payment
4. Single premium plans: a one-time, single premium is paid at closing and coverage remains in effect until cancelled for BPMI or until the loan is paid in full for LPMI.
5. Split premium plans: a combination of both an upfront premium and a subsequent monthly premium; the upfront premium is paid at loan closing and subsequent renewal premiums are paid monthly with each monthly mortgage payment
6. Financed premiums: single premiums and the upfront portion of split premiums may be financed; eligibility guidelines are based on net CLTV and rates are based on net LTV; net CLTV and net LTV are calculated excluding the amount of premium financed into the loan amount

## 10.2. METHODS OF PAYMENT

Essent offers borrower paid and lender paid mortgage insurance programs.

# 11.0 Submission Eligibility and Requirements

## 11.1. BUSINESS CHANNEL ELIGIBILITY

Guidelines for channels other than retail may be offered subject to a review of counterparty risk management processes by Essent's Risk Management Department, and may be subject to additional requirements.

## 11.2. SUBMISSION METHODS

Essent offers several options for submitting loans for consideration for mortgage insurance. Regardless of the submission option, the counterparty is responsible for the accuracy and validity of the information submitted and that all information is consistent with the information that is included in the final loan file in which the underwriting decision was based on. Streamlined submissions are not permitted. The two categories for delivery are:

- Manual delivery – the following is required:
  - 1003/1008
  - Merged credit report
  - Income/Assets documentation
  - Employment verification
  - Full appraisal with all required photos, exhibits, and addendums as outlined in Section 5.1. – compliant with Appraiser Independence Requirements
  - Sales/Purchase agreement – if applicable
- Electronic delivery – Counterparty is required to include all information as required on the Mortgage Insurance Application and to insure the information is accurate and verified. In the event a submission is suspended, a manual review will be required. Refer to Manual Delivery section above for requirements.

## 11.3. PRE-QUALIFICATIONS/PRE-APPROVALS

Pre-qualifications and/or pre-approvals where the property is not identified at the time of submission as well as when complete documentation (borrower's credit profile) is not available are ineligible.

## 11.4. NON-DELEGATED SUBMISSIONS

Essent requires a fully underwritten loan file in accordance with its own and/or investor guidelines as applicable, including all automated underwriting findings reports and third party vendor reports. In addition, the MI Only Application for insurance or Essent's MI Authorization form must be in the loan file.

# 12.0 Pricing Information

Essent monitors and updates contractual and licensing information that directly affect pricing and rates, and this information may change from time to time without advance notice.

# 13.0 Index