



# Early Rescission Relief Guide

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Mortgage Insurance provided by Essent Guaranty, Inc.

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## 1.0 Introduction

The purpose of this Early Rescission Relief Guide (the “Guide”) is to provide our policyholders (or “Insureds”) and their Servicers with an overview of the general requirements of Essent’s *Clarity of Coverage*® Endorsement (“Endorsement”, when attaching to Essent’s Master Policy, collectively, the “Policy”) and the various coverage options it describes. In the event there is a conflict between this Guide and the Policy, the terms of the Policy will control. Capitalized terms used throughout this Guide have the meaning given to them within the Policy. If you should have any general questions regarding the content of this Guide, please contact your Essent account manager.

## 2.0 General Overview

Essent’s Master Policy is effective for mortgage insurance applications received by Essent on or after March 1, 2020 and includes, among other things, greater flexibility by permitting Insureds to choose how they conduct business with Essent and additional opportunities for Early Rescission Relief.

The new Master Policy together with the *Clarity of Coverage* Endorsement will provide the opportunity for Early Rescission Relief, in some cases as early as the Certificate Effective Date (e.g., when component-level relief is granted on employment, income, assets, or collateral via utilization of an approved automated tool). In order for a loan to be considered for Early Rescission Relief, Essent must review the following:

- The appraisal report (or alternative approved valuation method) used to determine the Original Value, along with the real estate purchase agreement relating to the Property (if applicable)
- The final submitted Origination File and Closing File

The new Master Policy also provides Rescission Relief with respect to a loan that has not qualified for Early Rescission Relief whereby Essent will not rescind coverage under the Certificate due to a Significant Defect subject to the below outlined limitations:

**36-month limitation** – With respect to a loan that has not qualified for Early Rescission Relief, effective as of the date that is thirty six (36) months after the Borrower’s first payment due date, Essent will not rescind coverage under the Certificate due to a Significant Defect if all of the following conditions are met as of such date:

- Essent has not discovered any Credible Evidence of a Significant Defect;
- The loan is then not in Default by more than thirty (30) days;
- No more than two payments on the loan have been in Default for more than thirty (30) days;
- No single payment on the loan has been in Default for more than sixty (60) days;
- All payments on the loan have been made with the Borrower’s Own Funds; and
- The loan has not been subject to a Workout, other than a Workout entered into as a result of a natural disaster that caused the related Default.

**60-month limitation** – With respect to a loan that has not qualified for Early Rescission Relief, Essent will not rescind coverage under the Certificate due to a Significant Defect on or after the due date of the sixtieth (60th) payment if both of the following conditions are met:

- Either the loan is not in Default, or if the loan is in Default, it subsequently becomes current; and
- All payments due on the loan have been made with the Borrower’s Own Funds.

## 3.0 Early Rescission Relief Options

The new Master Policy together with the *Clarity of Coverage* Endorsement will provide Insureds with choices for Early Rescission Relief. Insureds will have the ability to select the underwriting submission process that best suits their needs as outlined below:

- **Non-Delegated Underwriting** – Essent performs a mortgage insurance underwrite of the loan, including a review of the appraisal report along with the real estate purchase agreement (if applicable). Essent stands behind its work, as Insureds are protected as of the Certificate Effective Date if Essent fails to identify any material facts or material misrepresentations in the loan that would have been readily apparent to a prudent mortgage insurance underwriter.
- **Delegated Underwriting Authority** – The Insured performs the underwrite of the loan, enabling them to retain control of the loan file, provided they have been approved by Essent to submit applications under our delegated underwriting program.

Under each of the above underwriting submission processes, Insureds will also have a choice in terms of Early Rescission Relief. For those Insureds that choose to keep their current processes the same, an overview of potential Rescission Relief is provided below:

	NON-DELEGATED	DELEGATED
UNDERWRITING MISTAKES	Certificate Effective Date	N/A
COLLATERAL ELIGIBILITY/VALUATION	Certificate Effective Date	36 months
UNDERWRITING DEFECTS	36 months	36 months

For those Insureds that prefer to change their internal processes and have Essent perform an Independent Validation to determine eligibility for Early Rescission Relief, an overview of potential Rescission Relief is provided below:

### AT COMMITMENT EFFECTIVE DATE

	NON-DELEGATED	DELEGATED
LOAN LEVEL	36 months*, with the following exceptions:	36 months
AUTOMATED TOOLS	If automated tools are utilized to validate income, employment, or assets, Essent will not rescind due to any issues related to those factors as of the date of the Commitment	N/A
COLLATERAL ELIGIBILITY/VALUATION	As the appraisal is reviewed at the time of underwrite, Essent will not rescind based on any issues related to value as of the date of the Commitment	N/A
ESSENT UNDERWRITING MISTAKES	Essent will not rescind based on mistakes made by our underwriters as of the date of the Commitment	N/A

\*At commitment, Non-Delegated loans cannot be granted Rescission Relief earlier than thirty-six (36) months because Essent has not reviewed the Closing File for compliance with the applicable eligibility criteria and underwriting requirements

### IF OPTED IN FOR POST-CLOSE REVIEW OR SUBJECT TO QUALITY CONTROL (QC) REVIEW

	NON-DELEGATED	DELEGATED
UNDERWRITING DEFECTS (INCLUDING CLOSING DOCUMENTS)	Upon completion of Independent Validation with no unresolved Significant Defects	Upon completion of Independent Validation with no unresolved Significant Defects
COLLATERAL ELIGIBILITY/VALUATION	N/A	Upon completion of Independent Validation with no unresolved Significant Defects

All Essent Insureds are eligible to participate in the Early Rescission Relief option. Your Essent account manager can help you identify the process that best aligns with your operational objectives.

## 4.0 Early Rescission Relief Requirements

### NON-DELEGATED UNDERWRITING

For Non-Delegated loan submissions, Essent will complete a review of the Origination File to confirm that a loan meets the applicable Underwriting Guidelines. Essent will also complete a review of the Property's Original Value and related materials required to be submitted as outlined within this Guide to validate that there are no Valuation Defects. There are no changes to an Insured's existing process and no additional documentation is required. To obtain Independent Validation for compliance with the applicable eligibility criteria and underwriting requirements of the loan, Insureds must opt in and provide the Closing File to Essent (and any additional documentation received after the commitment was issued) within sixty (60) days of the Certificate Effective Date of the loan.

Early Rescission Relief may be granted for a component of a loan at the specific level of validation provided by an Automated Tool, provided Essent has validated such component through an Automated Tool or the Insured has validated such component through an Automated Tool and has provided Essent with documentation evidencing the results from the Automated Tool. Insureds must comply with the requirements for using such Automated Tools as specified in our Underwriting Guidelines, and are required to update the Application with any information that either verifies or conflicts with the Automated Tool output. In addition, if the Insured discovers prior to activation of coverage that any information previously provided to Essent has become untrue or incomplete, the updated true, complete and verified information is required to be submitted to Essent.

### DELEGATED UNDERWRITING

For Delegated Loan submissions, Insureds must opt in and provide the Origination File (including collateral documents) and Closing File for Early Rescission Relief. The applicable documents must be provided to Essent within sixty (60) days of the Certificate Effective Date of the loan.

### PROCESS AND REQUIRED DOCUMENTATION

Essent has posted the [Master Policy Request Form for Early Rescission Relief Review](#) to the Master Policy Resource page on [essent.us](#). Those Insureds who decide to opt in for Early Rescission Relief will be required to complete and submit the form to Essent's Quality Assurance Team at [qualityassurance@essent.us](mailto:qualityassurance@essent.us). A representative from Essent's Quality Assurance Team will contact the Insured as outlined on the form to discuss the preferred document delivery method, testing protocol, and implementation timing.

Insureds may opt out of the applicable Early Rescission Relief option by providing written notice within ten (10) days of the desired opt-out effective date to Essent's Quality Assurance Team at [qualityassurance@essent.us](mailto:qualityassurance@essent.us). Upon receipt of the request, Insureds will be notified by the Quality Assurance Team of the official opt-out effective date. Submissions received until the official opt-out effective date will be reviewed for Early Rescission Relief as originally requested.

The **Origination File** documents (in hard copy or electronic format) required to be submitted for consideration of Early Rescission Relief include the following:

- The mortgage insurance application
- The Borrower's signed Loan application
- Loan underwriting, processing and approval notes
- Automated underwriting system findings
- Evidence or verification of employment, income, assets, deposit, rent and other Borrower debts
- Credit reports
- Appraisal or other evidence of the Original Value

- Evidence of project approval for a condominium or cooperative housing property
- Any other documents that are described in our Underwriting Guidelines in effect as of the Application date

The **Closing File** documents (in hard copy or electronic format) required to be submitted for consideration of Early Rescission Relief include the following:

- The final closing disclosure or other settlement statement signed by the Borrower
- The signed promissory note with all riders
- The signed mortgage or deed of trust with all riders
- The title insurance commitment
- Any other closing documents or information that Essent would otherwise review at the time of an Independent Validation or Claim (e.g., information required to satisfy underwriting or closing conditions that Essent has not previously reviewed)

## 5.0 Missing Documentation

If the submitted Origination File and/or Closing File (for Early Rescission Relief) are incomplete, a notification will be issued to the Insured outlining the missing documents and requesting receipt of those documents within thirty (30) days of receipt of the notification. If the requested documentation is not subsequently provided within the allotted thirty (30) day time frame, a second notification will be issued, which must be complied with no later than thirty (30) days after such second request.

Non-Delegated and Delegated loans where the Insured has not opted in for Early Rescission Relief may still be requested as part of Essent's QC program. For those Delegated loans in which Essent performs a QC review, a true and complete copy of the related Origination File and Closing File must be furnished to Essent no later than thirty (30) days after our request for such information. If such information is not provided within such thirty (30) day period, Essent will provide a second request therefore, which must be complied with no later than thirty (30) days after such second request.

If an Insured cannot fulfill requests for documents and other information, Essent will not deny, cancel or rescind coverage unless we reasonably determine the failure to produce such documents or information has materially prejudiced our ability to conduct a complete, proper and timely review of the loan. Where possible, Essent may rely on alternative documentation to enable the full review of the loan. If a loan is identified as having a Significant Defect with respect to the applicable missing documentation, the loan may then be subject to rescission of coverage or Essent may, at our discretion, offer an alternative to rescission, such as indemnification or repricing. The Rescission Relief Provisions of the Master Policy apply with respect to a Significant Defect.

## 6.0 Independent Validation

Upon making a determination that the required documentation for Early Rescission Relief review is complete, Essent will perform an Independent Validation as follows:

- Independent Validation for the full loan includes a review of the Origination File and Closing File to confirm that a loan meets the applicable Underwriting Guidelines and that there are no Significant Defects. Independent Validation also includes a review of the Property's Original Value and related materials required to be submitted as outlined within this Early Rescission Relief Guide to confirm that there are no Valuation Defects. A QC Review qualifies as an Independent Validation.



In conducting the Independent Validation, to the extent Essent uncovers any discrepancies, errors, or other questionable data/information that Essent determines in its reasonable judgment needs to be re-verified, Essent may request additional information. If the additional information does not resolve the discrepancy, error, or questionable data/information, Essent will conduct such additional independent reverification for compliance with our Underwriting Guidelines.

An assessment as to whether a loan satisfies the requirements for Early Rescission Relief will be made within one hundred eighty (180) days of receipt of the complete required documentation.

If Essent does not provide notice within one hundred eighty (180) days of receipt of the documentation required for Early Rescission Relief that it has completed its Independent Validation, such loan will not qualify for Early Rescission Relief. Instead, the rescission relief terms for loans that have not been subject to Independent Validation will apply.

## 7.0 Coverage Determination

For loans in which Essent has completed a satisfactory Independent Validation relating to Early Rescission Relief, and has not identified Credible Evidence of a Significant Defect, Essent will not rescind coverage under the Certificate due to a Significant Defect (whether or not the loan is in Default), effective upon Essent's notification to the Insured regarding the outcome of the Independent Validation.

If the Insured has submitted only the required documents and information relating to an Independent Validation of Original Value and Essent has not identified Credible Evidence of a Valuation Defect, then Essent will not rescind coverage under the Certificate due to a Valuation Defect (whether or not the loan is in Default), effective upon Essent's notification to the Insured regarding the outcome of the Independent Validation.

If Essent's notice of the outcome of an Independent Validation indicates that we were unable to resolve concerns regarding the Borrower's occupancy of a Property, then rescission relief will be effective if the Borrower has made the first twelve (12) loan payments on time from the Borrower's Own Funds and we are unable to obtain Credible Evidence that there was a Significant Defect with the original occupancy status.

For loans in which Essent has completed a satisfactory Independent Validation relating to Early Rescission Relief and has identified Credible Evidence of a Significant Defect, Essent may, at our discretion, offer an alternative to rescission, such as indemnification or repricing.

**Automated Tools** – Essent will not rescind coverage under a Certificate on account of a Significant Defect based on inaccurate results obtained from an Automated Tool at the time it was used (or if Essent cannot reasonably determine when it was used, then on the Application Date) as approved for use in underwriting loans if all of the following conditions are met:

- On or before the Certificate Effective Date the Insured did not obtain any information that conflicts with or invalidates the results obtained from the Automated Tool, or if the Insured did obtain conflicting information, such additional information was provided to Essent by such date
- The information the Insured provided in the Application accurately reflected the results obtained from the Automated Tool
- Use of the Automated Tool was in compliance with the requirements for use of such Automated Tool as specified in the Underwriting Guidelines and/or the Guide

**Single Loan Fraud by Borrower** – Essent will not rescind coverage under a Certificate for Single Loan Fraud by a Borrower if any of the following conditions are met:

- Essent completed an Independent Validation that identified no Credible Evidence of a Significant Defect and the Borrower has timely made the first twelve (12) consecutive monthly payments on the loan with Borrower's Own Funds
- Essent completed or updated an Independent Validation at least twelve (12) months following the Certificate Effective Date that did not identify Credible Evidence of any Significant Defects, without regard to the Default status of the loan before Essent completed the Independent Validation, or
- The conditions described in paragraphs (d) or (e) of Section 17 of the Master Policy apply to the loan

#### **APPROVAL FOR EARLY RESCISSION RELIEF:**

- In the event that a loan qualifies for Early Rescission Relief, Essent shall indicate such coverage on an endorsement to the Certificate of Insurance and issue such to the Insured conditional on the Borrower making any required payments as specified in the Master Policy, as of the Certificate Effective Date.

#### **APPEALS:**

- An Insured or Third-Party Beneficiary may appeal Essent's determination that a loan does not qualify for Early Rescission Relief no later than ninety (90) days after such determination.
- Appeal requests must be submitted in writing and should provide a detailed response to the identified defect, discrepancy or error from the Coverage communication. The appeal request may also include any additional supporting documentation as applicable. Essent will make a determination with respect to any such appeal no later than ninety (90) days after receiving such appeal. Appeal requests and their associated documentation may be submitted to [Essent's Secure Drop Box](#).

## **8.0 Commitment Activation**

If a loan qualifies for Early Rescission Relief, the current Certificate activation process remains the same. In the event a loan qualifies for Early Rescission Relief, Essent shall indicate such coverage on an endorsement to the Certificate of Insurance and issue such to the Insured conditional on the Borrower making any required payments as specified in the Master Policy, as of the Certificate Effective Date.

## **9.0 Glossary**

**Automated Tool** means a system, process or tool used by Essent or the initial Insured that Essent has approved for use in underwriting or validating a loan in accordance with the requirements for such usage described in the Underwriting Guidelines and/or the Guide.

**Borrower's Own Funds** means any funds saved and/or earned by the Borrower and gifts from family members to the Borrower where there is no promise or expectation of repayment. Borrower's Own Funds does not include funds provided by any Person associated with the Beneficiary, Insured or Servicer or who performed any acts related to the Application or origination of the loan.

**Certificate Effective Date** means the date on which coverage under a Certificate becomes effective, which shall be the closing date of the loan or such later date that the Insured requests and that Essent approves, in each case as reflected in Essent's books and records.





**Closing File** means the following documents, as applicable, in hard copy or electronic form: the final closing disclosure or other settlement statement signed by the Borrower; the signed promissory note with all riders; the signed mortgage or deed of trust with all riders; the title insurance commitment and any other closing documents or information that we would otherwise review at the time of an Independent Validation or Claim (e.g., information required to satisfy underwriting or closing conditions that we have not previously reviewed).

**Collateral Documents** means the appraisal report evidencing Original Value (on the appropriate form with all applicable addenda, attachments, schedules, exhibits, photographs and other information included by the appraiser in the value assessment), or alternative approved valuation method used to determine the Original Value, along with the real estate purchase agreement (including all addenda) relating to the Property if applicable.

**Credible Evidence** means any evidence that reasonably would be viewed as reliable, accurate and having a basis in fact, and can be in the form of any information: (i) in the Origination File, Closing File, or Servicing File; or (ii) otherwise related to the loan, Borrower or Property that was provided to Essent in any form at any time by the Insured or any Person, where the information can be reasonably considered accurate and related to the loan, Borrower or Property. Statements not given under oath by the Borrower are not considered Credible Evidence unless they are corroborated by other reliable evidence.

**Defect** means a misstatement, misrepresentation, omission, or data inaccuracy in connection with the origination or closing of a loan or the Application, as Essent determines based on Credible Evidence. The only remedy available for a Defect (unless such Defect is a Significant Defect) is as described in Section 43(c) of the Master Policy.

**Independent Validation** means the review of a loan conducted by Essent pre- or post-closing to determine if Early Rescission Relief under Section 17 applies. Independent Validation for the full loan includes a review of the Application and the Origination File (in whole or in part) and Closing File to confirm that a loan meets the applicable Underwriting Guidelines and that there are no Significant Defects. A QC Review qualifies as an Independent Validation. In the case of Early Rescission Relief applicable only to Original Value, Independent Validation means a review of the Property's Original Value and related materials required to be submitted by the Guide to confirm that there are no Valuation Defects.

**Original Value** means the value of a Property represented in an Application which was established by appraisal or alternative method that Essent approved (as specified in the Underwriting Guidelines) to determine value in accordance with customary loan origination practices.

**Origination File** means all information, in hard copy or electronic form, which was created, received or required in connection with the origination of the loan. For example, the following documents, as applicable, must be in the Origination File: the Borrower's signed loan application, loan underwriting, processing and approval notes, automated underwriting system findings, evidence or verification of employment, income, assets, deposit, rent and other Borrower debts, credit reports, appraisal or other evidence of the Original Value, evidence of project approval for a condominium or cooperative housing property, and any other documents that are described in the Underwriting Guidelines in effect as of the Application date.

**QC Review** means a quality control review of an Application or an insured loan that Essent conducts in accordance with its quality control processes and procedures.



**“Significant Defect”** means a Defect existing on the Certificate Effective Date that is in any respect material to our acceptance of the risk or the hazard assumed under our Underwriting Guidelines in effect when you submit the Application, such that had we known of the Defect we would not have insured the loan, regardless of whether the Defect causes a Default or contributes to the Claim Amount, including for example: (i) the underwriting of the Borrower’s creditworthiness and ability to borrow funds or repay the loan or the Borrower’s eligibility and qualification or the Borrower’s identity, (ii) the underwriting criteria related to the Property or project eligibility, the Property appraisal or the physical or environmental condition of the Property, (iii) loan terms and criteria or any terms and criteria set forth in any negotiated provision, (iv) a life-of-loan exclusion in the Master Policy for which rescission is a remedy, (v) requirements applicable to the closing and sale of the loan, or (vi) the form and/or execution of required loan and mortgage documents, without which the loan would be ineligible for insurance or the enforceability of the mortgage terms would be limited.

**Single Loan Fraud** means Essent finds clear and convincing evidence of, or a legal judgment or other legally binding determination confirms, a knowing misstatement, misrepresentation, or omission by any Person in connection with the origination or closing of a loan, or the Application, that was intended to: (i) defraud any party involved in the transaction; or (ii) obtain any insurance, money, funds, credits, assets, securities, or other properties from any party involved in the transaction by means of fraudulent pretenses, representations, or promises. Single Loan Fraud includes a Valuation Defect where there is clear and convincing evidence that the appraiser manipulated, inappropriately utilized or misrepresented information in producing the appraisal report that established the Original Value.

**Underwriting Defects** means those misrepresentations that an Essent Underwriter could not have identified (such as may have occurred after the MI underwrite).

**Underwriting Guidelines** means the definitions, criteria, methods, calculations, guidelines, documentation and other requirements Essent uses to determine if a loan is eligible for insurance under the Master Policy, as such requirements are issued or published in the underwriting guides, bulletins, premium rate cards or as Essent otherwise communicates to the initial Insured. The Underwriting Guidelines are effective when Essent issues them, including by posting them on Essent’s website, unless otherwise specified. Essent’s records maintained in good faith will be conclusive regarding the Underwriting Guidelines in effect at any particular time.

**Underwriting Mistakes** means those occurrences whereby an Essent Underwriter reviews a loan file and fails to identify a Material fact or Material Misrepresentation that should have been identified.

**Valuation Defect** means (i) a percentage variance of 15% or more between the Original Value and the opinion of market value for the subject Property as determined by a licensed appraiser in an appraisal report prepared at Essent’s request as of the date of the Original Value in compliance with industry standard appraisal practices, (ii) the loan-to-value ratio calculated as of the Certificate Effective Date using the retrospective value did not meet the Underwriting Guidelines applicable to the loan, and (iii) Credible Evidence that the appraiser manipulated or inappropriately utilized information in producing the appraisal that established the Original Value (e.g., if the sales history of the subject Property or its relation to comparable properties is misrepresented). The percentage variance is the quotient determined by dividing the difference between the two values by the Original Value, expressed as a percentage. A Valuation Defect is a Significant Defect.