



# Mortgage Guaranty Insurance Master Policy with *Clarity of Coverage*<sup>®</sup>

**Corporate Headquarters**

Essent Guaranty, Inc.  
Two Radnor Corporate Center  
100 Matsonford Road  
Radnor, PA 19087

**Operations Center**

Essent Guaranty, Inc.  
101 South Stratford Road  
Winston-Salem, NC 27104  
877.569.6547

Mortgage Insurance provided by Essent Guaranty, Inc.



Home Office  
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Radnor, Pennsylvania 19087

Operations Office  
101 South Stratford Road, Suite 400  
Winston-Salem, NC 27104  
Toll Free (877) 569-6547

essent.us

## Mortgage Guaranty Insurance Master Policy with *Clarity of Coverage*<sup>®</sup>

Essent Guaranty, Inc. (a Pennsylvania corporation organized as a stock mortgage guaranty insurance company hereinafter called the "Company") agrees to pay to the Insured or Third Party Beneficiary, in consideration of the premiums to be paid as specified in this Policy, and in reliance on the Insured's Application for coverage under this Policy, any Insurance Benefit determined to be payable in connection with a Default by a Borrower on a Loan, subject to the terms and conditions of the related Certificate and this Policy.

.....  
Name and Address of Insured:

Master Policy Number:

Policy Effective Date:

.....  
IN WITNESS WHEREOF, the Company has caused its corporate seal to be affixed hereto, and this Master Policy to be signed by its duly authorized officers in facsimile and to become effective as its original seal and signatures and binding on the Company.

**ESSENT GUARANTY, INC.**

\_\_\_\_\_  
Mark A. Casale, President



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Mary Lourdes Gibbons, Secretary

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SAMPLE

## **TERMS AND CONDITIONS**

All capitalized terms used in this Policy and not otherwise defined shall have the meanings ascribed to them in the Glossary at the end of the Policy. Any pronouns, when used in this Policy, will mean the singular or plural, masculine or feminine, as the context shall require. Titles used for Sections are for convenience of reference only and are not part of the Terms and Conditions of this Policy.

## **I. Coverage**

### **A. SCOPE OF POLICY**

This Policy shall be limited in application to Commitments issued hereunder on or after the Policy Effective Date and prior to the date this Policy has been cancelled, and to Certificates evidencing the extension of coverage of this Policy to specific Loans.

### **B. ELIGIBILITY OF LOANS FOR COVERAGE**

Loans that satisfy the Eligibility Criteria as prescribed by the Company and not otherwise subject to Exclusion shall be eligible for coverage under this Policy.

### **C. APPLICATION AND CERTIFICATE**

1. **Applying for Coverage.** In order to obtain insurance coverage for a Loan under this Policy, the Insured or a Person acting on behalf of the Insured must submit to the Company a properly completed Application.
2. **Approval of Application.** Approval of any Application will be at the discretion of the Company and will be in the form of a Commitment or a Certificate which offers to extend, or extends coverage under the terms and conditions of both this Policy and the Commitment or Certificate, as the case may be.
3. **Application Part of Policy.** Each Application for insurance shall be deemed to be part of this Policy and incorporated herein by reference.
4. **Declination of Coverage.** The Company shall have the right, in its sole discretion, to decline to issue a Commitment with respect to any Application. In such event, the Company shall notify the Insured in writing. If the Insured subsequently denies the loan application received by it from the applicant, the Insured shall, and by submitting such Application, agrees to, bear full responsibility for notifying the applicant of the denial in compliance with Applicable Law.
5. **Multiple Offices.** If the Insured has more than one office or location from which Applications are submitted by it to the Company under this Policy, the Company shall have the right, from time to time, in its sole discretion, to decline to accept Applications from any one or more of such offices or locations by providing written notice of such action to the Insured.

### **D. PREMIUMS**

1. **Initial Premium.** Within thirty (30) days after the Certificate Effective Date, or such other date as the Company and the Insured may agree to in writing, the Insured must forward to the Company the appropriate initial premium (as indicated in the related Certificate), except that if the Insured submits an Application under a premium plan which allows a later initial premium payment the Insured shall comply with the terms of that premium plan. Payment of the initial premium shall be a condition precedent to coverage being extended to the Loan. Subject to cancellation by the Insured, or Certificate Cancellation by the Company as provided in this Policy, coverage shall remain in full force and effect for the period covered by the initial premium (as indicated in the related Certificate).

2. Timing. Notwithstanding the foregoing Subsection I(D)(1) (Initial Premium), with respect to any Loan where the initial premium is received more than thirty (30) days after the Certificate Effective Date, the Company shall have the right, without waiving any other rights the Company may have under this Policy, to request from the Insured, no later than thirty (30) days after receipt of premium, evidence satisfactory to the Company that all payments then due under the applicable Loan have been made when due or within any grace period customary in the industry or specified in the Loan and, if such evidence is not received within forty-five (45) days of the Company's written request therefore, or if such evidence indicates that payments due under the Loan have not been timely made, the Company shall have the right to return the premium payment to the Insured, and no coverage shall commence or take effect hereunder. If the evidence indicates that payments due under the Loan have been made when due or within any applicable grace period, the Loan shall be insured under this Policy.
3. Premiums for Loans in Default. The obligation to pay premiums shall cease as of the date of Default; however, premiums must continue to be paid to maintain coverage in the event a Loan in Default cures until it may subsequently go into Default. Otherwise, when the Loan cures, the Company is under no obligation to reinstate the coverage on the previously delinquent Loan.
4. Renewal. If it wishes to continue coverage beyond the initial term of this Policy, the Insured or its Servicer shall pay renewal premiums to the Company for each Loan insured under this Policy for which the Insured wishes to continue such coverage, calculated at the rate specified in the related Certificate and in accordance with Subsection I(D)(7) (Calculation of Renewal Premiums) hereof. The Company shall give thirty (30) days notice of the renewal due date to the Insured or its Servicer, and renewal premiums shall be due and payable on or before the last day of the period covered by the previous premium payment.
5. Lapse. Coverage with respect to any Loan under this Policy shall terminate, effective as of 12:01 a.m. on the first day following the last day of the period covered by the previous premium payment attributable to such Loan if there has been no further payment made (the "Lapse Date"), except in the following events:
  - a) Coverage shall continue uninterrupted if payment is received within sixty (60) days after the Lapse Date, or, if a non-payment notice is required by Applicable Law, within whatever period is specified in such non-payment notice or may be required by Applicable Law (either, the "Grace Period"); and
  - b) Only in cases where there has been a transfer of servicing, coverage shall be reinstated retroactive to the Lapse Date if payment is received by the Company after the Grace Period but within one hundred twenty (120) days of the Lapse Date. Otherwise, coverage shall be reinstated retroactive to the Lapse Date if payment is received by the Company after the Grace Period but within one hundred twenty (120) days of the Lapse Date and the Insured or its Servicer provides a payment history with respect to the Loan which demonstrates that the Loan has been paid in accordance with its terms during the period of lapse.

Subject to the provisions of Subsection I(D)(6) (Transfer, Seizure or Surrender of Servicing), any Loss resulting from a Default occurring after the Lapse Date will not be covered unless the entire renewal premium is paid in accordance with the terms of this Subsection I(D)(5).

6. Transfer, Seizure or Surrender of Servicing. Notwithstanding the foregoing, if the renewal premium attributable to a Loan is not paid by the Lapse Date described in Subsection I(D)(5) (Lapse) above, and such Loan is among a group of Loans whose coverage has lapsed due to the transfer, seizure or surrender of the servicing for such Loans, the Company shall permit the Insured to reinstate coverage of the Loans contained in the group that are insured under this Policy, provided that the following conditions are met: (i) the Insured shall reinstate coverage with respect to all Loans insured under this Policy affected by such transfer, seizure or surrender; (ii) the renewal premiums are paid, in all events, no later than one hundred twenty (120) days after the applicable premium due date; and (iii) the Insured agrees to pay interest on the renewal premiums due from the renewal premium due date until the date that such renewal premiums are paid at the three month Treasury Bill rate established by the Federal Reserve Board's H.15 release for the week in which the renewal premium becomes due as published on the Treasury Department's website at [www.federalreserve.gov/releases/H15/update](http://www.federalreserve.gov/releases/H15/update), or such other similar commercially reasonable measure as the Company shall determine and communicate by notice in accordance herewith.
7. Calculation of Renewal Premiums. Renewal premiums due with respect to a Loan shall be payable in accordance with the method and at the rate specified in the related Certificate.
8. Receipt of Premium. The Insured acknowledges that the Company deposits all payments (whether made by check, wire transfer, or other acceptable means) immediately upon receipt thereof; accordingly, the Insured agrees that the receipt and deposit of a premium payment by the Company does not constitute acceptance thereof by the Company until final reconciliation by the Company of the Company's records with such premium, which shall be made within a reasonable time. In no event shall the receipt and deposit by the Company of any premium payment constitute or be deemed a waiver of any conditions specified in the Commitment. Notwithstanding the foregoing, the Insured and its Servicer shall remit premiums in a manner that permits the Company to ascertain the specific Loans to which such premiums relate.
9. Responsibility for Premium Payments. The Insured acknowledges and agrees that the payment of the appropriate premium to the Company is the sole responsibility of the Insured, regardless of whether the Insured is reimbursed for any such amounts by the Borrower, the Servicer or other Persons.

## **E. COVERAGE TERM, CANCELLATION**

1. Term of Coverage. Provided that all applicable premiums are paid with respect to a Loan, including all renewal premiums earned through the term of coverage, coverage of that Loan shall continue until, and shall automatically terminate upon, the first to occur of the following events:
  - a) The Loan is paid in full; or
  - b) The Company pays the Insured or the Third Party Beneficiary the complete Insurance Benefit with respect to the Loan; or
  - c) The Servicer notifies the Company that the coverage is cancellable or must be terminated pursuant to the Homeowners Protection Act (12 U.S.C. 4901 et seq., as amended from time to time, the "HPA Act") or other similar Applicable Law, or the established guidelines of the Insured or the Third Party Beneficiary, pertaining to the HPA Act or other similar Applicable Law; or
  - d) The Insured cancels coverage on the Loan as permitted in Subsection I(E)(2) (Certificate Cancellation by Insured); or
  - e) The Insured cancels the Policy as permitted by Subsection I(E)(5) (Cancellation of Master Policy).



2. Certificate Cancellation by Insured. The Insured, its Servicer, or the Third Party Beneficiary may cancel coverage under this Policy with respect to any Loan at any time by returning the related Certificate or providing direction in a form and in a medium acceptable to the Company to cancel the Certificate. Such cancellation shall relieve the Company of liability for any Default unless a Claim has been submitted prior to such Certificate Cancellation. The Insured covenants and agrees that it shall not, and covenants and agrees that it shall cause its Servicer to not, request cancellation of any Certificate unless:

- a) The Insured is the current owner of such Loan or is acting on behalf of and pursuant to the instructions of the Third Party Beneficiary; and
- b) The original Certificate has been returned to the Company, or destroyed or marked "cancelled," which may be denoted exclusively in its electronic records.

The Insured further covenants and agrees that neither it nor its Servicer on its behalf will sell a Loan as to which coverage has been cancelled pursuant to this Subsection I(E)(2) with any statement, express or implied, that the Loan is insured under this Policy.

3. Refund of Premium upon Cancellation. Upon receipt of a cancellation request, for coverage having refundable premiums, the Company shall refund the appropriate portion of the premium pursuant to the Cancellation Schedule. However, no refund shall be remitted if a Notice of Default has been submitted, unless the Insured or Third Party Beneficiary, as the case may be, waives its rights to the Insurance Benefit with respect to such Loan, and no refund shall be made retroactively effective more than sixty (60) days from the date of receipt by the Company of a cancellation notice from the Insured or its Servicer. The Company reserves the right to collect any unpaid or deferred premiums due at the time of Certificate Cancellation. Cancellation of coverage for a Loan will not cancel this Policy.
4. Certificate Cancellation by Company. The Company shall have the right, at its option and to the extent permitted by Applicable Law, and without limitation or waiver of any other rights or remedies available to the Company at law or in equity, to issue a Certificate Cancellation with respect to the related Loan if coverage has lapsed under Subsection I(D) (5) (Lapse) or if the Insured has otherwise materially breached any of its obligations hereunder in connection with such Loan or related Certificate. A Certificate Cancellation issued under this Subsection I(E)(4) shall be initiated by written notice within thirty (30) days after making such determination from the Company to the Insured. Cancellation of coverage under the Certificate Cancellation shall be effective on the 30th day after notice is sent by the Company, unless such breach has been cured in all material respects. In the event a Certificate Cancellation is issued by the Company under this Subsection I(E)(4), the Company shall return to the Insured or its Servicer all related premium for the time period after the occurrence of the event giving rise to the right of Certificate Cancellation.
5. Cancellation of Master Policy. Once a Certificate has become effective with respect to a Loan, this Policy may not be cancelled by the Company for as long as any Certificate issued under this Policy remains in force. The Company is under no obligation to issue Commitments or Certificates under this Policy and may cease issuing new Commitments and Certificates without prior notice to the Insured. If the Insured desires to cancel this Policy, it may do so by cancelling all outstanding Certificates that have been previously issued under this Policy, in which case (a) any premium previously paid that is unearned (after application of the Cancellation Schedule) as of the effective date of cancellation shall be returned to the Insured or its Servicer and (b) any premium earned but not paid as of the effective date of cancellation shall be paid to the Company. In calculating any such premium refund, the Company may net out amounts due to the Company pursuant to this Policy.

## **F. REPRESENTATIONS OF THE INSURED**

Representations of the Insured. All statements made and information provided to the Company in any part of the Application for the purpose of obtaining any Commitment or Certificate (including any that is related to continuation of coverage upon assumption of a Loan), whether made by the Insured, the Borrower, the Loan Originator, the Seller, the Servicer, or any other Person, shall be deemed to have been made and presented for and on behalf of the Insured, and the Commitment and Certificate shall be deemed to have been issued in reasonable reliance thereon. The Insured recognizes it is in the position of collecting, determining, analyzing and verifying all of the information the Company will use to decide whether the risk as presented is acceptable for mortgage insurance coverage. In addition, the Insured represents to the Company that:

1. Each Loan meets the Eligibility Criteria in Section I(B) (Eligibility of Loans for Coverage) in all Material respects;
2. The Insured accepts the risk of any Material Misrepresentation made in matters presented to it, or to another Person on behalf of the Insured, by the Borrower or any other Person in the loan application and in the appraisal, the plans and specifications, and other exhibits and documents submitted therewith or at any time thereafter;
3. Such statements and information are not false or misleading in any Material respect as of the date(s) on which they are made or provided and do not omit any fact necessary in order to make such statements and information not false or misleading in any Material respects as of such date(s);
4. For each Loan used directly or indirectly to purchase a Property, the Borrower has made a Down Payment as was required in the loan application and the Application for coverage hereunder; and
5. Tender of the initial premium will constitute a representation by the Insured that, as of the date of such tender, any special conditions included by the Company in the related Commitment have been satisfied and that no payment which is then due under the Loan is more than thirty (30) days Past Due.

It is understood and agreed that such statements and information in the aggregate are, and in certain instances individually may be, Material to the Company's decision to offer, provide, or continue coverage of the related Loan; the Company issues the related Commitment and Certificate or continues coverage in reasonable reliance upon the accuracy and completeness of such statements and information and without any obligation to verify independently the statements and information submitted to it; and the Company's reasonable reliance upon the representations in this Section I(F) survive the issuance of a Commitment and Certificate or continuation of such coverage.

## **G. COMPANY'S REMEDIES FOR MISREPRESENTATION**

1. Subject to Section I(H) (Incontestability), if any of the Insured's representations as described in Section I(F) (Representations of the Insured) are found, based upon Company's evaluation of Credible Evidence, to be Material Misrepresentations with respect to a Loan and the Company reasonably relied upon such Material Misrepresentation, the Company will, to the extent permitted by Applicable Law, issue a Rescission under any Certificate retroactively to commencement of coverage (or if the Material Misrepresentation occurs with respect to continuation of coverage upon assumption of a Loan, to issue a Rescission retroactively to the date of such continuation). Notwithstanding the foregoing, the Company will not issue a Rescission if it determines, in its sole judgment, that such Misrepresentation is not Material.
2. In the case of Rescission, the Company shall return to the Insured or Servicer at that time all premiums paid with respect to such Certificate retroactively to the Certificate Effective Date or the date of the continuation of coverage as the case may be. The Company agrees that the receipt and deposit of a premium refund by the Insured or its Servicer does not constitute acceptance thereof by the Insured.
3. Notwithstanding the Company's right to issue a Rescission under Subsection I(G)(1) above, the Company will not issue a Rescission on a Loan if all of the following conditions are met:

- a) Based upon Company's evaluation of Credible Evidence, the Loan would have been eligible for coverage as of the Certificate Effective Date, but would have received a different premium rate; and
- b) The Insured, within sixty (60) days following written notice from the Company that the conditions of this Subsection I(G)(3)(b) have been met and that it has determined to bill for the additional premium, pays the Company in a single payment the additional premium owed (i.e., the premium that would have been charged but for the Material Misrepresentation, less the premium actually charged) as reasonably calculated by the Company.

If the Insured does not timely pay such additional premium, the Company will promptly issue a Rescission on the associated Loan.

## H. INCONTESTABILITY

1. Except for any Article II (Exclusions or Reductions in Coverage) Exclusions determined to relate to a Loan other than Subsection II(H)(3) and (4) (Fraud Misrepresentation), no Certificate's coverage will be rescinded pursuant to Subsection I(G)(1) (Company's Remedies for Misrepresentation), provided that all of the following requirements, conditions and circumstances, are satisfied:
  - a) As determined by the Company from Credible Evidence, a First Party must not have intentionally and knowingly made the Material Misrepresentation(s);
  - b) The Loan must not be a part of Pattern Activity;
  - c) The Loan is not thirty (30) days Past Due as of the date which is thirty-six (36) months following the due date of the Borrower's first payment of principal, interest, and escrow impounds as required under the Loan; provided, however:
    - (1) All ensuing payments must have been made from the Borrower's Own Funds; and
    - (2) The Loan must not have been:
      - (a) Thirty (30) days Past Due with any payment required under the Loan on more than two (2) occasions; nor,
      - (b) Past Due by sixty (60) days or greater with a payment required under the Loan;
  - d) The Loan has not been subject to a forbearance agreement, repayment plan or otherwise been modified from its original terms during the thirty-six (36) months following the due date of the Borrower's first payment of principal, interest, and escrow impounds as required under the Loan.

## I. INVESTIGATIONS RELATING TO REPRESENTATIONS

The Company will investigate Loans for Misrepresentation in the Application in accordance with the following standards:

1. In the event that the Loan is not in Default as of the date which is thirty-six (36) months following the due date of the Borrower's first payment of principal, interest, and escrow impounds as required under the Loan, and all ensuing payments have been from the Borrower's Own Funds, and in the course of the thirty-six (36) months following the due date of the Borrower's first payment of principal, interest, and escrow impounds as required under the Loan, the Borrower must neither have been:
  - a) Thirty (30) days Past Due with any payment required under the Loan on more than two (2) occasions; nor,
  - b) Past Due by sixty (60) days or greater with a payment required under the Loan; then,the Company will not initiate an investigation of potential Material Misrepresentation in connection with a Loan except where the Company becomes aware of Credible Evidence to support a reasonable belief that:
  - c) A First Party intentionally and knowingly made the Material Misrepresentation(s); or,
  - d) The Loan is part of Pattern Activity.

Nothing herein shall limit the Company's ability to request Loan files in accordance with Article V (Loss Payment Procedure). Failure of the Insured or the Servicer to respond to requests for files (outside of the ordinary Claim processing under Article V (Loss Payment Procedure)) will not be grounds for a Rescission or Certificate Cancellation in cases where relief has otherwise been granted after the conditions are satisfied for the limitations under Subsection I(H) (Incontestability).

2. The Company will not reach a determination that a Material Misrepresentation by a First Party was knowing and intentional unless it has Credible Evidence that the First Party knew of such Misrepresentation at the time of the Certificate Effective Date. Examples of Credible Evidence of knowing and intentional First Party Misrepresentation include, but are not limited to:
  - a) Misrepresented verifications of income, assets, down payment, deposit or employment, or Misrepresentation in the HUD -1 (as these documents have been within the Insured's control). Note that the Company views verifications as important parts of a Loan Originator's control process;
  - b) Undisclosed mortgage to the Borrower by the same Loan Originator as the subject Loan (as the Loan Originator should detect such other loan and ensure it is disclosed);
  - c) A review appraisal indicates a variance of fifteen percent (15%) or more in the value of the Property as compared to the Original Value and there is evidence that the appraiser manipulated or 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); Any situation where a straw buyer is presented as the Borrower for purposes of qualifying an otherwise unqualified Borrower if it can be proven the First Party knew the truth; and,
  - d) An investigation by regulators or law enforcement agencies has established that there was Misrepresentation involving the Loan. In respect of all of the above the Company will consider any evidence provided by the Insured that rebuts the findings and/or Material nature of the uncovered Misrepresentation(s).
3. The Company will not consider any finding from any of the following investigative practices to be sufficient, by itself, to establish knowing and intentional First Party Misrepresentation:
  - a) That average salary information, such as is available from various vendors, is less than the verified income used to qualify the Borrower;
  - b) That information submitted to a bankruptcy court by the Borrower refutes asset and liability representations made by the Borrower on the Loan application; and,
  - c) That Borrower statements not made under penalty of perjury made after coverage is issued and not made available to the Insured by the Borrower contradict the income or assets as represented by the Borrower on the Loan application and properly verified by the lender.

## II. Exclusions or Reductions in Coverage

Even if a particular Loan satisfies the Eligibility Criteria, the Company shall not be liable for, and the Policy shall not apply to, extend to, or cover Loans described in the Exclusions listed in this Article II, except that if the damage to the Company arising from an Exclusion listed in this Article II can reasonably be quantified, the Company shall reduce the Claim Amount or Insurance Benefit, as appropriate, by the amount of such damage, rather than exclude coverage altogether for the Loan in question. The Company shall specify the cause and amount of any Exclusion or Claim curtailment in a related explanation of benefits notice. In the event a Claim is excluded pursuant to this Article II, the Company will refund any applicable premium and/or renewal premium, prorated to the date of the event giving rise to the Exclusion. Refunds of premium will only be made under this Article II in the event an Exclusion of coverage is the result of enforcement of an Exclusion as of a particular date and the Company has collected premium with respect to such Loan for a term beyond such date giving rise to the Exclusion.

### A. COMPLIANCE WITH LAWS

Any Claim resulting from a Default on a Loan that was not originated in material compliance with Applicable Law.

### B. BALLOON PAYMENT

Any Claim arising out of or in connection with the failure of the Borrower to make a payment of principal and interest due under a Loan, which payment becomes due when the Insured exercises its right to call the Loan when not in default (i.e., other than the acceleration by the Insured of payments due under the Loan on account of the Default of the Borrower) or because the term of the Loan is shorter than the amortization period, and which payment is for an amount more than twice the regular periodic payment of principal and interest that is set forth in the Loan (commonly referred to as a "Balloon Payment"); provided, however, that this Exclusion shall not apply if the Insured offers the Borrower in writing, before the due date of the Balloon Payment, a renewal, refinance, or extension of the Loan at then-current market rates (such market rate to be reasonably determined taking into consideration the payment history of the Borrower and the credit-related characteristics of the Borrower and of the renewal, refinance, or extension offered to such Borrower) and in an amount not less than the then-outstanding principal balance and with no decrease in the remaining amortization period. Subject to the Company's approval, any renewal, refinance or extension made to the Borrower pursuant to the terms of this Section II(B) shall, if the Insured so requests, be insured under this Policy at the premium rates applicable at the time of such renewal, refinance or extension.

### C. DEFAULT BEFORE EFFECTIVE DATE OR AFTER LAPSE OR CANCELLATION

Any Claim resulting from a Default that occurs before the Policy Effective Date or Certificate Effective Date, or after the cancellation of the Policy after the Lapse Date applicable to a Loan (unless coverage is reinstated pursuant to Subsection I(D)(5) (Lapse)), or after coverage is terminated or cancelled with respect to a Loan.

### D. NOT RESIDENTIAL PROPERTY

Any Claim where the property securing the Loan was not Residential on the Certificate Effective Date.

### E. FIRST LIEN STATUS

Any Claim, if the Loan did not provide the Insured with a first lien on the Property as of the Certificate Effective Date.

## **F. INCOMPLETE CONSTRUCTION**

Any Claim when, as of the date of such Claim, construction of the Property is not substantially completed in accordance with either the plans relied upon in determining Original Value or the construction plans and specifications approved by the Loan Originator at the time the Loan was originated, and a Certificate of Occupancy has not been issued with respect to the Property.

## **G. UNAPPROVED ASSUMPTIONS AND TRANSFERS OF THE PROPERTY**

Any Claim, if a Loan is assumed or if a Property is transferred and the Borrower is released from liability under the Loan, unless advance written approval is obtained from the Company. The Company shall not unreasonably withhold approval of an assumption of a Loan, and shall be deemed to have approved such assumption if it does not notify the Insured or its Servicer within ten (10) Business Days of the Company's receipt of such request. It is understood that coverage will continue, and that this Exclusion shall not apply, if the Insured is prohibited by Applicable Law or the standards of the Third Party Beneficiary from exercising its rights under a Due on Sale Clause or is obligated by Applicable Law or the standards of the Third Party Beneficiary to consent to such assumption.

## **H. FRAUD, MISREPRESENTATION**

1. Any Claim relating to a Default where the origination of the Loan or extension of coverage hereunder involved or arose out of knowing and intentional Material Misrepresentation by any First Party as determined by the Company from Credible Evidence;
2. Any Claim relating to a Default where the origination of the Loan or extension of coverage hereunder involved or arose out of Pattern Activity; or,
3. Any Claim relating to a Default where the origination of the Loan or extension of coverage hereunder involved or arose out of Material Misrepresentation (including those made by negligence) by any First Party or by the Borrower. The Company's right to exclude under this Subsection II(H)(3) shall be limited by, and subject to, the provisions of Section I(H) (Incontestability).

## **I. UNAPPROVED SERVICER**

Any Claim, if the servicing rights with respect to a Loan are sold, assigned or transferred to a Servicer that is not approved by the Company in accordance with Section III(C) (Change of Servicing), provided, however, that this Exclusion shall not apply to any Loan for which a Default occurs within ninety (90) days after the Company withdraws approval of the Servicer for such Loan.

## **J. BREACH OF CONDITIONS AND INSURED'S OBLIGATIONS**

Any Claim resulting from a Default occurring after any breach by the Insured or its Servicer of the obligations, or failure to comply with the conditions, set forth in Article III (Policy Administration), Article IV (Conditions Precedent to Payment of a Claim) and Article VI (Additional Conditions) of this Policy that is Material, or that materially contributes to the Default that results in a Claim, with respect to the Loan that has gone into Default.

## **K. PHYSICAL DAMAGE**

Except as otherwise provided in Section II(N) (Pre-Existing Environmental Impairment), any Claim with respect to which there is Physical Damage to the Property, occurring or manifesting itself for whatever reason, after the date the Company issued the Commitment, and the Physical Damage is the proximate cause of the Default. The Exclusion provided in this Section II(K), however, will not apply if the Property is restored to its condition as of the date the Company issued the Commitment, reasonable wear and tear excepted, prior to the payment of the Insurance Benefit.

If the Physical Damage is not the proximate cause of the Default (i.e., a complete Exclusion does not apply) and the Property is not restored to its condition as of the date the Company issued the Commitment, reasonable wear and tear excepted, and the Company elects to exercise:

1. The Acquisition Option or Third Party Sale Option pursuant to Subsection V(B)(1) or V(B)(3), then the Company shall reduce the Insurance Benefit payable to the Insured or the Third Party Beneficiary by an amount equal to the cost of such restoration; or
2. The Percentage Option pursuant to Subsection V(B)(2), then for purposes of this Subsection II(K)(2) no adjustment to the Insurance Benefit shall apply.

In establishing the cost to restore the Property in connection with clause 1 above, the Company may either obtain a repair estimate from an independent third party of its choosing or rely on repair estimates obtained by the Insured, the Servicer or the Third Party Beneficiary, provided, however, that all such estimates will be based on review of both the interior and exterior of the Property from having obtained Access to the Property. If the Company relies on a repair estimate not provided by the Insured, the Servicer or the Third Party Beneficiary, the Company will provide a copy of the estimate to the Insured, the Servicer or the Third Party Beneficiary upon request. The Company will specify the amount of any reduction in the Insurance Benefit on account of Physical Damage in an explanation of benefits notice provided to the Insured, its Servicer or a Third Party Beneficiary, and any such reduction may be appealed in accordance with Subsection VI(F)(1) (Appeals).

#### **L. UNAPPROVED MODIFICATION OF LOAN OR PROPERTY**

Any Claim relating to a Loan with respect to which a material change or modification of its terms or to the Property was permitted by the Insured or its Servicer. This Exclusion does not apply if (a) the change is not adverse to the interests of the Company; (b) such change is permitted by the terms of the Loan or required by Applicable Law; (c) prior written approval of the Company was obtained; or (d) such change is permissible without the prior written approval of the Company or is deemed approved, in accordance with Section III(E) (Modification of Property or of Loan Terms).

#### **M. RELEASE OF INDEBTEDNESS / BORROWER DEFENSES**

Any Claim relating to the portion of the Default Amount attributable to the amount of the indebtedness from which the Borrower is released, or any portion of any Default Amount against which the Borrower successfully asserts defenses that have the effect of releasing, in whole or in part, the Borrower's obligations to repay the Loan. However, this Exclusion shall not apply where the release of the Borrower is the result of the Loan having been divided into secured and unsecured portions pursuant to proceedings under the federal bankruptcy laws (i.e., a so-called "cram-down") so long as the Insured has continued to pay premium on the full outstanding indebtedness created by the Loan and that all other conditions of this Policy have been met. See Section VI(B) (Effect of Borrower Bankruptcy).

#### **N. PRE-EXISTING ENVIRONMENTAL IMPAIRMENT**

Any Claim to the extent of any Environmental Impairment to the Property which has not been removed or remedied in accordance with Applicable Law and which existed prior to the Certificate Effective Date if the existence or reasonably suspected existence of the Environmental Impairment is the proximate cause of the Default, and (a) was not disclosed in the Application, and (b) has made the principal Residential structure on the Property Uninhabitable.



## III. Policy Administration

### A. SERVICING REPORTS

Following the Policy Effective Date, the Insured or its Servicer shall provide the Company with a Servicing Report on a monthly basis, within fifteen (15) days from the end of the month to which the report relates, in any form or via any medium approved by the Company, reflecting the status of each Loan insured pursuant to this Policy, and containing at a minimum the unpaid principal balance, the coupon rate, and the last paid-to date. These monthly reports shall continue until the Policy is cancelled in accordance with Subsection I(E)(5) (Cancellation of Master Policy).

### B. LOAN INFORMATION

The Company must, upon request of the Third Party Beneficiary, furnish reasonably accessible information pertaining to the Loan insured pursuant to the Policy. The Insured waives any objections to the furnishing of this data directly to the Third Party Beneficiary by the Company.

### C. CHANGE OF SERVICING

If the servicing of a Loan is sold, assigned or transferred, coverage hereunder will continue in accordance with the terms hereof, provided that the Loan is thereafter serviced by a Servicer approved by the Company. The Company shall be automatically deemed to have approved as a Servicer any Person to whom a Master Policy of Mortgage Guaranty Insurance has been issued by the Company if such policy has not been cancelled. The Company may revoke its approval of a Servicer, thereby requiring a change of Servicer for Loans serviced by such Servicer if the Insured wishes to continue to insure them under this Policy; provided, however, that the Company must first have: (1) identified in writing to the Insured the material performance deficiencies necessitating the revocation; and (2) allowed a period of up to sixty (60) days after notice to the Insured for the Insured to remedy those deficiencies to the Company's satisfaction. If the deficiencies are not so remedied, the Company may notify the Insured in writing that the servicing must be transferred and allow the Insured a minimum of ninety (90) days following the sixty (60) day remedy period to complete the transfer to another Servicer or sub-servicer that is approved by the Company to service the Loan.

### D. CHANGE OF INSURED

The Company and the Insured acknowledge that if a Loan is sold, assigned or transferred by the Insured, the purchaser of the Loan shall be the intended Third Party Beneficiary of this Policy with respect to the related Certificate ("Third Party Beneficiary") effective as of the date of such sale, assignment or transfer. The Company and the Insured further acknowledge that such Third Party Beneficiary shall be entitled, upon written request to the Company, to have assigned to it the coverage under the Policy with respect to that Certificate if (a) such Third Party Beneficiary is an institutional investor approved by the Company in advance, in which case such assignment shall be effective as of the date on which such Loan was sold, assigned or transferred by the Insured to such Third Party Beneficiary, or (b) such Third Party Beneficiary is approved in writing by the Company, in which case such assignment shall be effective as of the date on which the Company approves such assignment, provided that the Loan is thereafter serviced by a Person approved in writing by the Company. For purposes of this Section III(D), Fannie Mae and Freddie Mac are considered approved institutional investors.



## **E. MODIFICATION OF PROPERTY OR OF LOAN TERMS**

An Insured desiring to effect any material change or modification to the Property or of the terms of the Loan, must first obtain the prior written approval of the Company, except (1) as may be permitted by the terms of the Loan, (2) required by Applicable Law, or (3) conforms to Company-issued guidelines. The Company shall be deemed to have approved such change if it does not notify the Insured or its Servicer within ten (10) Business Days after it receives such request. In the event a Loan is modified with the Company's approval, the premium rate shall remain the same as it was before the Loan was modified, but such rate will be applied to the modified Loan amount; however in the event that the principal is reduced, the Insured may, at its option, pay premium on the unmodified Loan amount, in which case, provided all other requirements for filing of a Claim are complied with, the Insured will be entitled to include in the Claim Amount the amount of the principal balance of the Loan which was forgiven. In no event will any expenses or other amounts associated with the amount by which the principal balance of the Loan was forgiven be includable in the Claim Amount, directly or by addition to the principal balance includable in the Claim Amount. If the modified loan later goes into Default, the Claim is perfected, and the Company has not received premium on the amount, if any, by which the principal balance of the Loan was forgiven, such premium (from the date of modification to the date of Default) may be offset from the payment of Insurance Benefits. Change or modification covered by this Section III(E) includes, but is not limited to, a change in the amount of the indebtedness, the interest rate, the use of escrow funds or other funds, the term or the amortization schedule, or a change to the Property or other collateral securing the Loan.

## **F. COORDINATION OF BENEFITS**

1. If any portion of the Loan is uninsured, all payments made by the Borrower under the terms of the Loan shall be allocated to the insured portion of the Loan in the same ratio as the insured principal amount bears to the total principal amount of the Loan. Any payment of a Loss hereunder shall likewise be allocated on the same pro-rata basis.
2. The coverage under this Policy shall be excess over any other insurance which may apply to the Property or to the Loan regardless of the type of or the effective date of such other coverage, except for mortgage guaranty pool insurance or supplemental mortgage guaranty insurance.

## IV. Conditions Precedent to Payment of a Claim

The following procedures shall constitute conditions precedent to, and additional limitations upon, the Company's obligation to pay Insurance Benefits under this Policy.

### A. NOTICE OF DEFAULT

The Insured or its Servicer must give the Company written notice in accordance with Section VI(D) (Notice) hereof (such notice, a "Notice of Default"):

1. Within forty-five (45) days of an Early Default with respect to a Loan; or
2. Within ten (10) days of the first to occur of:
  - a) The date when the Borrower becomes three (3) months in Default on the Loan; or
  - b) The date when any Appropriate Proceedings which affect the Loan or the Property or the Insured's, the Third Party Beneficiary's or Borrower's interest therein have been commenced, whichever occurs first.

The Insured or its Servicer shall provide the Company with written notice within fifteen (15) days after the Insured has knowledge of any proceeding, including Appropriate Proceedings, which affects the Loan, the Property, or the Insured's, the Third Party Beneficiary's or the Borrower's interest therein.

If the Insured or its Servicer fails to file the Notice of Default within the time period specified in this Section IV(A), any additional interest or Advances (as hereinafter defined in Section IV(I) (Advances)) accruing during the interim period of such failure shall not be includable in the Claim Amount.

### B. MONTHLY DEFAULT REPORT REQUIREMENT

Following a Notice of Default the Insured or its Servicer shall give the Company monthly reports, by the twenty-fifth (25th) calendar day of the following month, in any form or via any medium acceptable by the Company on the status of the Loan and on the servicing efforts undertaken to remedy the Default or conclude the Appropriate Proceedings. These monthly reports shall continue until the Borrower is no longer in Default, the Appropriate Proceedings terminate, or until title to the Property has been transferred to the Insured or to a third party in connection with a Third Party Sale.

### C. COMPANY OPTION AFTER NOTICE OF DEFAULT

1. Borrower Contact. If the Company so requests, the Insured shall permit the Company to cooperatively assist the Insured and its Servicer in Borrower contact activities, including but not limited to, activities such as obtaining information from the Borrower, attempting to develop payment schedules acceptable to the Insured, conducting Property inspections and requesting appraisals of the Property. The Insured shall make available to the Company such information relating to Borrower contact efforts by it or the Servicer as the Company shall reasonably request.
2. Accelerated Claim. If the Company so directs, at any time after receiving a Notice of Default, the Insured, the Third Party Beneficiary or the Servicer shall file a Claim within sixty (60) days after notice from the Company, and the Company shall pay the Insurance Benefit pursuant to the Percentage Option. Failure of the Insured, the Third Party Beneficiary or the Servicer to file an accelerated Claim within the sixty (60) day time period shall relieve the Company of any obligation to include in the Claim Amount interest accruing on the Loan after such period has expired. In order to meet the requirements for a Perfected Claim as set forth in Article V (Loss Payment Procedure), the Company shall require the filing only of those Core Claim Documents that exist at the time of the notice from the Company to the Insured of the Company's exercise of its option to accelerate the Claim under this Subsection IV(C)(2). Any Core Claim Documents not in existence at the time of the Company's notice with respect to accelerating the Claim shall be required to be filed by the Insured at the time of the filing of any supplemental Claim.

Thereafter, following the Insured's or Third Party Beneficiary's acquisition of Borrower's Title to the Property, approved Voluntary Conveyance or Third Party Sale, the Insured or Third Party Beneficiary shall be entitled to file a supplemental Claim in an amount equal to the sum of the Advances not included in the initial Claim, plus any Deficiency Expenses (see Section V(E) (Subrogation)) subject to the limitations and deductions of Subsection V(A)(3) (Calculation of Claim Amount) and such supplemental Claim shall be paid by the Company in accordance with the Percentage Option. No interest shall be includable in the Claim Amount under this Subsection IV(C)(2) after the date that the accelerated Claim is filed, except that the Company shall pay interest on the amount of the Insurance Benefit if it does not pay the accelerated Claim within the Claim Settlement Period as provided in Subsection V(A)(4) (Claim Settlement Period). If a Loan for which the Company has paid a Claim is subsequently brought current by the Borrower, the Insured, the Third Party Beneficiary or the Servicer shall refund to the Company the Loss paid by the Company with respect to that Loan, and the coverage with respect to such Loan shall be reinstated (provided that premiums were paid with respect to such Loan during the period it was in Default) if such refund was agreed to in writing by the Insured, or the Third Party Beneficiary if the Insured is not the owner of the Loan, prior to the payment of the accelerated Claim.

3. Claim Advances. Subject to the prior written approval of the Insured, or the Third Party Beneficiary if the Insured is not the owner of the Loan, at any time following a Notice of Default on a Loan, the Company may advance to the Insured, its Servicer or the Third Party Beneficiary a partial Insurance Benefit on terms and conditions specified by the Company. If such Claim advance is to be made to the Insured or its Servicer, then the Company shall notify any Third Party Beneficiary prior to the time the Claim advance is paid. If, in such case, the existing Certificate is maintained, the amount of such Claim advance will be deducted from any future Insurance Benefit with respect to such Loan.
4. Option to Acquire Loan.
  - a) Option. At any time following a Notice of Default on a Loan, and before the Insured has obtained title to the Property, the Company or its assignee (which may collectively be referred to in this Subsection IV(C)(4) as the "Purchaser") shall have the right to purchase the Loan from the Insured, subject to the Insured having the legal right to sell the Loan, free from all liens, claims or encumbrances, for a purchase price equal to the sum of:
    - (1) The unpaid principal balance on the Loan;
    - (2) Any accumulated unpaid interest thereon computed at the note rate; and
    - (3) Amounts expended by the Insured pursuant to Section IV(I) (Advances) (and not reimbursed or covered by amounts contained in any related escrow account) for payment of Advances.
  - b) Exercise of Option; Insured's Obligations. Within sixty (60) days after notice to the Insured or its Servicer (or such longer period specified by the Purchaser in its notice) that the Purchaser has elected to purchase the Loan pursuant to Subsection IV(C)(4)(a) of this Policy, the Insured shall tender and deliver or cause to be delivered to an escrow agent designated by the Purchaser, against receipt of the purchase price as set forth in Subsection IV(C)(4)(a) above:
    - (1) One or more assignments (as shall be necessary or appropriate) to the Purchaser, containing customary representations and warranties, duly and properly executed and in recordable form, of all of the Insured's ownership right, title and interest in and to the Loan and related documents and, unless otherwise agreed to between Purchaser and the Insured, sale and servicing transfer agreements containing such representations, warranties and covenants as the Purchaser shall reasonably require;
    - (2) The note, bond or other instrument evidencing the Loan, properly endorsed in blank;
    - (3) An assignment to the Purchaser of coverage under this Policy and the related Certificate, subject to all of the terms and conditions contained herein and therein; and

- (4) The originals (or in the case of recorded documents which have not been returned by the recording office, certified copies) of any and all documents delivered to the Insured under such Loan, and copies of all documents delivered to the Borrower or by the Borrower to third parties under such Loan (if copies were delivered to the Insured) including, but not limited to, the following:
- (a) Mortgages, deeds of trust or other security instruments;
  - (b) Policies of title insurance or opinions of title and surveys;
  - (c) Certificates and/or policies evidencing private mortgage insurance and hazard insurance;
  - (d) Assignments of the foregoing to the extent necessary; and
  - (e) Copies of state and/or federal disclosure and/or consumer credit documents contained in the Origination File.

The assignment or transfer of the Loan, any other collateral or security, and all related documents by the Insured to the Company shall constitute a warranty by the Insured that it has good title to such Loan, collateral, security and related documents, free and clear of all liens and encumbrances, and that it knows of no setoffs or counterclaims which may be asserted by the Borrower, and that the Insured has done nothing to impair the validity and enforceability of its rights with respect to such Loan, such collateral or security and such related documents.

#### **D. VOLUNTARY CONVEYANCE**

The Insured may accept a Voluntary Conveyance only if the prior approval of the Company has been obtained. Approval from the Company shall be requested by the Insured in writing. Approval from the Company may be by telephone if thereafter confirmed by the Company in writing within two (2) Business Days. Such approval shall neither constitute nor be deemed an acknowledgment of liability by the Company with respect to such Loan. The Company will be deemed to have approved a written request if it does not notify the Insured or the Servicer of its disapproval within ten (10) Business Days of receipt of such request.

#### **E. SHORT SALE**

The Insured may agree to a Third Party Sale arranged by the Borrower for less than the amount of the Borrower's indebtedness only if the prior approval of the Company has been obtained. Approval from the Company shall be requested by the Insured in writing. Approval from the Company may be by telephone if thereafter confirmed by the Company in writing within two (2) Business Days. Such approval shall neither constitute nor be deemed an acknowledgement of liability by the Company with respect to such Loan. The Company will be deemed to have approved a written request if it does not notify the Insured or its Servicer of its disapproval within ten (10) Business Days of receipt of such request.

#### **F. THIRD PARTY SALE AT FORECLOSURE**

The Insured may agree to a Third Party Sale at foreclosure for less than the amount of the Borrower's indebtedness only if the prior written approval of the Company has been obtained or if such Third Party Sale is in accordance with the Company's foreclosure bidding instructions in accordance with Section IV(J) (Foreclosure Bidding Instructions) (unless otherwise required by Applicable Law). Such approval shall neither constitute nor be deemed an acknowledgement of liability by the Company with respect to such Loan.

## **G. APPROPRIATE PROCEEDINGS**

Unless: (i) delayed by a court order or a moratorium of general applicability to a specific jurisdiction imposed by a government agency; or (ii) prohibited by Applicable Law; or (iii) the Insured is actively and diligently pursuing loss mitigation efforts or has placed a borrower into a loss mitigation solution, in either case, in accordance with Sections IV(D) (Voluntary Conveyance), (E) (Short Sale), (F) (Third Party Sale at Foreclosure) or (H) (Mitigation of Loss); or (iv) the Company provides written instructions that some other action not precluded by Applicable Law be taken, the Insured must commence Appropriate Proceedings (by filing a complaint in the appropriate court, publishing a notice of sale, or by such other process as required by Applicable Law to initiate Appropriate Proceedings) by the later of (a) thirty (30) days after the date the Loan remains in Default for a period of six (6) consecutive months, or (b) sixty (60) days after the earliest date that Appropriate Proceedings may be commenced under Applicable Law; provided, however, that with respect to Loans with respect to which Fannie Mae or Freddie Mac is the Insured or Third Party Beneficiary, any written instructions from the Company must be approved in writing by Fannie Mae or Freddie Mac, as appropriate, prior to the Company communicating them to the Insured.

In conducting Appropriate Proceedings, the Insured shall: (1) diligently pursue the Appropriate Proceedings once they have begun; (2) act in accordance with Section V(E) (Subrogation) so that its ability to preserve, transfer and assign to the Company its rights against the Borrower is not impaired and so that the rights of the Company under this Policy against the Borrower are not adversely affected, including any rights to obtain a Deficiency Judgment; and (3) bid an amount at the foreclosure sale in accordance with Section IV(J) (Foreclosure Bidding Instructions) or as otherwise directed by the Company.

Notwithstanding any other provision of this Policy to the contrary: (x) if the Insured fails to commence Appropriate Proceedings in accordance with this Section IV(G) (Appropriate Proceedings) the Company's remedy in connection with any resulting Claim shall be limited to the curtailment of accrued and unpaid interest and Advances for the period beginning on the date Appropriate Proceedings should have been commenced and ending on the date that is eighteen (18) months following the date of Default; and (y) if the Insured fails to commence Appropriate Proceedings by the date that is eighteen (18) months following the date of Default, the Company's remedy in connection with any resulting Claim may be either the continued curtailment of accrued and unpaid interest and Advances or the issuance of a Claim Denial, as the Company deems appropriate. For the avoidance of doubt, if the Company determines there is a breach of one or more specified terms of this Policy unrelated to the commencement of Appropriate Proceedings, the Company's remedies for such other breaches are not limited by this Section IV(G) (Appropriate Proceedings).

## **H. MITIGATION OF LOSS**

The Insured shall, and shall cause the Servicer to, use its respective commercially reasonable efforts to limit and mitigate loss by adhering to customary servicing standards applicable to delinquent Loans, which may include in appropriate cases, but is not limited to, trying to obtain a cure of Defaults, inspecting and appraising the Property, and trying to effect a Third Party Sale or Voluntary Conveyance of the Property. The Insured shall permit the Company to participate in workout activities for any Loan in Default. The Company shall have the right to: (i) perform on-site audits of servicing efforts during normal business hours and to request and receive evidence of servicing efforts at any time upon reasonable request after a Loan is reported in Default, and (ii) engage a specialty servicer or additional loss mitigation resources of the Company's selection and at its expense to oversee the Insured or its Servicer's activity or to perform some activities supportive of and in coordination with the Servicer's activities, with respect to the Loans, subject to the direction of the Insured or the Third Party Beneficiary, as the case may be. Failure of the Insured to materially comply with this Section IV(H) with respect to any Loan shall entitle the Company to adjust the Claim Amount by the amount the Company was damaged by such non-compliance, in which case the Company must specify the amount and reason for such adjustment. This Section IV(H) shall not be interpreted to and does not require the Insured or Third Party Beneficiary to mitigate the Company's obligation to pay a Claim payable under the Policy in absence of this provision, if to do so causes the Insured or Third Party Beneficiary to incur the loss in lieu of the Company paying such loss.

The Company shall act in good faith to limit and mitigate any loss to the Insured or Third Party Beneficiary which will not be covered by the Insurance Benefit provided under this Policy. Nothing in this Section IV(H) shall be construed to permit the Company to direct the Insured or Third Party Beneficiary to undertake particular mitigation actions, or to delay initiation of Appropriate Proceedings.

## **I. ADVANCES**

The Insured must advance, each as due and payable, unless otherwise prohibited by Applicable Law (the following collectively, "Advances"):

1. Normal and customary hazard insurance premiums;
2. Taxes, assessments and other public charges imposed upon the Property;
3. Solely in instances of a Default, commercially reasonable and necessary expenses necessary for protection and preservation of the Property, as approved by the Company at the time the Company reviews the Claim, which shall not include expenditures to remove an Exclusion from coverage under Article II;
4. Condominium fees, homeowner association dues and other pro-rated portions of shared fees related to the common areas attendant to the Property, to the extent ascertainable by the Servicer and necessary to preserve the lien priority of the mortgage, deed of trust or other security instrument securing the Loan;
5. Commercially reasonable costs to complete Appropriate Proceedings and eviction of occupants (and moving expenses where required by law to be paid by the evicting party), including related Court Expenses, and actual attorney's fees not to exceed: (i) the lesser of six thousand dollars (\$6,000) or five percent (5%) of the sum of the unpaid principal balance and the accrued and accumulated interest due at the time a Claim is filed, if the unpaid principal balance is less than two hundred thousand dollars (\$200,000); or (ii) three percent (3%) of the sum of the unpaid principal balance and the accrued and accumulated interest due at the time a Claim is filed, if the unpaid principal balance is two hundred thousand dollars (\$200,000) or more; provided, however, that commercially reasonable attorney's fees incurred pursuant to Section V(E) (Subrogation) shall not be so limited.

## **J. FORECLOSURE BIDDING INSTRUCTIONS**

Unless otherwise instructed by the Company, in those states where the foreclosure process permits or requires bidding at the foreclosure sale, the Insured shall bid, or cause its Servicer to bid as follows:

1. When the Third Party Beneficiary with respect to the Loan is either Fannie Mae or Freddie Mac, in an amount in accordance with the then-applicable bidding guidelines required by such Third Party Beneficiary; and
2. When the Insured or Third Party Beneficiary is other than Fannie Mae or Freddie Mac, in accordance with the following instructions:
  - a) If the current market value of the Property is unknown, the Insured or the Servicer shall make an opening bid at no more than eighty percent (80%) of the Default Amount plus accrued and unpaid interest due on the Loan computed at the note rate plus Advances not yet reimbursed (collectively, the "Total Debt"). In the event of competitive bidding, the Insured or the Servicer shall continue to bid until it is the successful bidder or until the bidding reaches the Total Debt, whichever comes first.

b) If the current market value of the Property is known, i.e., within the past ninety (90) days the Property has been appraised or has been the subject of a “broker price opinion,” the Insured or the Servicer shall make an opening bid at the lesser of (i) one hundred percent (100%) of such known value or (ii) the Total Debt. In the alternative, if the Insured or the Servicer may bid a lesser amount if it so desires and such bid amount is permissible under Applicable Law. In the event of competitive bidding, the Insured or the Servicer shall continue to bid until the Property is sold to a third party, it is the successful bidder or until the bidding reaches the Total Debt, whichever comes first. Notwithstanding the foregoing, the Insured or the Servicer may not discontinue bidding and allow sale to a third party until the bidding has reached the known value.

In the event the Insured’s or Third Party Beneficiary’s foreclosure bidding instructions conflict with the above, Servicers shall be required to receive the Company’s prior written consent prior to disregarding this Section IV(J).

#### **K. BORROWER CONTRIBUTIONS**

In the event that the Borrower(s) agree to make a payment in order to gain the Insured’s and the Company’s approval of a Short Sale or Voluntary Conveyance (“Foreclosure Prevention Alternative”), the net contribution amount (i.e., net of any commercially reasonable expenses incurred in documenting and collecting such contribution), whether made contemporaneously with the Foreclosure Prevention Alternative or over time pursuant to a promissory note, shall be shared pro-rata by the Insured and the Company, no matter which of the Insured, Servicer or Company negotiated the Foreclosure Prevention Alternative. The pro-rata share of the Company shall be a fraction, the numerator of which shall be the amount of Insurance Benefit paid, and the denominator of which shall be the amount of the Total Loss.

## V. Loss Payment Procedure

### A. CLAIM FILING PROCESS

1. Claim Information. The Insured, or if it elects to file the Claim directly, the Third Party Beneficiary must provide the Company with:
  - a) A completed form furnished by or acceptable to the Company for payment of a Claim;
  - b) If the Property is not being acquired by the Company: if requested by the Company, a copy of an executed trustee's or sheriff's deed (which may be unrecorded) conveying Borrower's Title to the Property to the Insured or the Third Party Beneficiary (or satisfactory evidence that the foreclosure sale has been completed if the Borrower's right of redemption has not expired); or a deed from the Borrower (which may be unrecorded) if a Voluntary Conveyance has been approved by the Company, conveying to the Insured or the Third Party Beneficiary the title that was required by the Company in the approval of the conveyance.
  - c) If the Property is being acquired by the Company, following the Company's determination that a Claim is deemed to be Perfected Claim:
    - (1) A recordable deed in normal and customary form containing the customary warranties and covenants conveying to the Company or its designee Good and Merchantable Title to the Property;
    - (2) A title insurance policy reasonably acceptable to the Company or an attorney's opinion of title reasonably acceptable to the Company, confirming that the Insured or the Third Party Beneficiary has and can convey to the Company Good and Merchantable Title to the Property;
    - (3) Possession of the Property; and
    - (4) Access to the Property, if requested by the Company under Subsection V(A)(4) (Claim Settlement Period).
  - d) The following documents (referred to herein as "Core Claim Documents") shall be required for a Perfected Claim:
    - (1) Complete Origination File and Closing File (but only if requested by the Company; requests for such files may be made by the Company after the earlier of the Insured acquiring Borrower's Title to the Property or a Third Party Sale);
    - (2) Complete Servicing File (but only if requested by the Company);
    - (3) The identity of any Third Party Beneficiary; and
    - (4) Such other Servicing File documents as may be specified in the Company's Default and Claims Servicing Guide as of the date the Claim is submitted to the Company.
  - e) The Company shall consider permitting the Insured or Third Party Beneficiary to submit alternative documents to those set forth in Subsection V(a)(1)(d) above, if a required document is unavailable and such determination by the Company on whether to accept alternative documents is made in a commercially reasonable manner.
2. Filing of Claim. The Insured or, where it does so directly, the Third Party Beneficiary, shall file a Claim no later than sixty (60) days (or such longer period as the Company and the Insured, or the Company and the Third Party Beneficiary if the Insured is not the owner of the Loan, may agree to in writing) after the earlier of acquiring the Borrower's Title to the Property, or a Third Party Sale, or if the Insured or the Third Party Beneficiary so elects, after expiration of the Borrower's right of redemption, if any. Notwithstanding the foregoing, if a Third Party Sale is approved following the submission of a Claim, the Company will re-establish the Claim filing date to such Third Party Sale date. For avoidance of doubt, re-establishment of the Claim submission date means that the Claim must be submitted no later than sixty (60) days after the consummation of the Third Party Sale, and Advances incurred and paid subsequent to the date of the original submission of the Claim, and through the date of resubmission of the Claim, shall be considered as part of the Claim Amount under Subsection V(A)(3)(c), including unpaid and accrued interest through the date of consummation of the Third Party Sale.



For purposes of this Subsection V(A)(2), the Insured or the Third Party Beneficiary shall not be deemed to have acquired Borrower's Title until all procedures mandated by Applicable Law for transfer of title have been completed and the Insured or the Third Party Beneficiary has full rights to the Property. Failure of the Insured or the Third Party Beneficiary to file a Claim within this time period shall relieve the Company of any obligation to include in the Claim Amount interest and Advances accruing on the Loan after such sixty (60) day period has expired. Unavailability of Company forms is not a valid reason to delay filing a Claim. Within ninety (90) days after payment of the Claim by the Company, the Insured or, where it does so directly, the Third Party Beneficiary shall be entitled to submit a supplemental Claim in an amount equal to Advances incurred and paid pursuant to Section IV(I) (Advances) of this Policy subsequent to the commencement of the Claim Settlement Period that were not included in the initial Claim, and such supplemental Claim shall be paid by the Company within sixty (60) days after receipt thereof.

3. Calculation of Claim Amount. Subject to Section VI(B) (Effect of Borrower Bankruptcy) and Subsection IV(C)(2) (Accelerated Claim), the Claim Amount will be an amount equal to the sum of:
  - a) The amount of unpaid principal balance due under the Loan as of the date of Default without capitalization of delinquent interest, penalties or Advances, but including amounts added to the Loan balance as a result of (i) Negative Amortization provided for in the Loan documents or (ii) a loan modification approved by the Company; and
  - b) The amount of accrued and unpaid interest due on the Loan computed: (i) if the Loss is paid pursuant to Section V(B)(2) (Percentage Option), at the contract rate stated in the Loan through the date that the Claim is filed with the Company; or (ii) if the Loss is paid pursuant to Section V(B)(1) (Acquisition Option), at the contract rate stated in the Loan through the date that the Insurance Benefit is paid by the Company; or (iii) if the Loss is paid pursuant to Section V(B) (Company Options for Payment of Insurance Benefit, Access Unavailable Settlement), at the contract rate stated in the Loan through the date that the Insurance Benefit is paid by the Company, but excluding the amount of accrued and unpaid interest for the period during which the Company gave notice under Section V(A)(4)(b) (Access to the Property) that Access and possibly Possession of the Property is required but that such Access and/or Possession of the Property was not provided to the Company; or (iv) if the Loss is paid pursuant to Section V(B)(3) (Third Party Sale Option), at the contract rate stated in the Loan through the date on which the Third Party Sale closed; provided, however, that: (x) any applicable late charges, penalty interest, liquidated damages, or other changes to the interest rate by reason of Default are excluded; and (y) if a Rescission is issued after the Claim is filed, and coverage is later reinstated without the production of any new information by the Insured, the amount of accrued and unpaid interest due on the Loan shall be computed at the contract rate stated in the Loan through the date the Insurance Benefit is paid by the Company; and (z) in no event will the time for which accrued and unpaid interest is included in the Claim Amount exceed three (3) years; and
  - c) The amount of Advances incurred by the Insured or the Third Party Beneficiary under Section IV(I) (Advances) prior to filing of the Claim (except to Persons employed or controlled by the Insured or the Third Party Beneficiary or their other internal costs) provided that payment of such Advances other than attorney's fees are prorated through the earlier of the date the Claim is submitted, or required to be submitted, to the Company or the Third Party Sale of the Property; provided, however, in the case of a Claim where eviction proceedings are required to obtain Good and Merchantable Title to and Possession of the Property, and the Company elects the Acquisition Option, the Claim Amount will include Advances paid by the Insured or Third Party Beneficiary in connection with such eviction proceedings through the date such eviction proceedings are completed; less:
  - d) The amount of all rents and other payments (excluding proceeds of fire and extended coverage insurance and proceeds of a Third Party Sale) collected or received by the Insured or the Third Party Beneficiary, prior to the earlier of the date the Claim is submitted, or required to be submitted, which are derived from or in any way related to the Property;

- e) The amount of cash remaining in any escrow account to which the Insured or the Third Party Beneficiary has a right, as of the last payment date;
  - f) The amount of cash or other collateral to which the Insured or the Third Party Beneficiary has retained the right of possession as security for the Loan;
  - g) The amount paid under applicable fire and extended coverage policies which has not been applied to either the restoration of the Property, if the Property suffered Physical Damage, or to the payment of the Loan; and
  - h) The amount expended by the Insured or the Third Party Beneficiary for Advances requiring approval by the Company which have not been approved by the Company.
4. Claim Settlement Period. The Claim Settlement Period will be a sixty (60) day period after the Company's receipt of a Perfected Claim.
- a) Information Requests.
    - (1) First Request. If the Company needs additional information in order to process a Claim filed by the Insured, the Third Party Beneficiary or the Servicer, the Company shall within twenty (20) days of receipt of such Claim, notify the Insured or the Servicer of any Core Claim Documents not received and required to perfect such Claim ("First Request"). The Claim will be deemed to be perfected as of the date the Company receives all such documents, and the time frame for Additional Requests as authorized under Subsection (2) will not commence until each such Core Claim document is received by the Company. If the Company does not make a First Request within the twenty (20) day period following receipt of the Claim by the Company, then the Claim shall be deemed to be perfected as of the date the Company received the Claim.
    - (2) Additional Requests. The Company shall have an additional ten (10) day period after receipt of a response to a First Request within which to make any additional requests for new documents or information ("Additional Request(s)"), and the Insured or the Servicer must use reasonable efforts to satisfy such Additional Request(s).
    - (3) Courtesy Reminder. If the Company makes a First Request and does not receive a response within thirty (30) days of such request, the Company shall promptly send a courtesy reminder. Further, the Company shall provide any Third Party Beneficiary a copy of such reminder, if requested by such Third Party Beneficiary.
    - (4) Claim Denial. The Company will not issue a Claim Denial in less than one hundred twenty (120) days following the date the Claim is filed due to failure to receive the Core Claim Documents.
    - (5) Failure to Perfect a Claim. If the Insured fails to file a Perfected Claim within one hundred twenty (120) days after the filing of the Claim (or, with the concurrence of the related Third Party Beneficiary, within such longer period of time as the Company may allow in writing only with respect to Claims filed by a Third Party Beneficiary if the Insured is not the owner of the Loan), the Company shall issue a Claim Denial to the Insured that sets forth such failure as the reason for the Claim Denial.
  - b) Access to the Property. No later than the fortieth (40th) day of the Claim Settlement Period, the Company may notify the Insured or the Servicer that it will require Access to the Property. If the Company does not provide such notice by that date, its right to such Access will be deemed waived. If such notice is given, the Insured or the Servicer will use its best efforts to provide Access to the Company and, if Access is not provided within two hundred ten (210) days following the date of Claim filing, the Company shall settle the Claim by paying the Anticipated Loss in accordance with the Access Unavailable Settlement.
  - c) Multiple Causes for Suspension of Claim Settlement Period. If the sixty (60) day Claim Settlement Period is suspended for more than one reason, the resulting suspended periods will only be cumulative if in fact they occur at different times; to the extent they occur simultaneously, they will not be cumulative.

d) Liquidated Damages. In the event that the Company does not settle the Claim within the Claim Settlement Period, the Company shall notify the Insured and the Third Party Beneficiary, if one, of any pending investigation with respect to the Loan or the Property and shall add to any later Insurance Benefit paid with respect to the Loan at issue, simple interest on the Insurance Benefit from the expiration of the Claim Settlement Period until the date the Claim is paid, computed as follows: (1) at the note rate from the expiration of the Claim Settlement Period until the date that is sixty (60) days after the expiration of the Claim Settlement Period; and (2) at the note rate plus ten percentage points (the ten percentage points shall be referred to as, "Liquidated Damages") from and after the date that is sixty-one (61) days after the expiration of the Claim Settlement Period. The Company must pursue any investigation expeditiously and in good faith. Liquidated Damages shall not be added to the Insurance Benefit to the extent the Company's failure to pay is the result of (1) failure of payment systems beyond the control of the Company, or (2) a Rescission of coverage with respect to a Loan that the Company later determines to reinstate.

## **B. COMPANY OPTIONS FOR PAYMENT OF INSURANCE BENEFIT**

Within the Claim Settlement Period, but only if the Insured has satisfied all requirements for payment of Loss and if the Company has received a Perfected Claim, the Company shall at its sole option exercise one of the options below and pay either:

1. Acquisition Option. An amount equal to the Claim Amount, less the amount of any payments of Loss previously made by the Company with respect to the Loan, and less any amounts by which the Insurance Benefit would be reduced in accordance with Section II(K) (Physical Damage), if applicable, payable in exchange for the conveyance of Good and Merchantable Title to and Possession of the Property. The Company shall: (i) pay the Insurance Benefit within five (5) Business Days of receiving the deed; and (ii) send such deed for recording within sixty (60) days of receipt thereof. The Company may not rescind its decision to acquire once the Insured or Third Party Beneficiary has fulfilled the conditions of this Subsection V(B)(1). If the Company elects the Acquisition Option and the Insured or Third Party Beneficiary is unable to convey to the Company Good and Merchantable Title to and Possession of the Property within two hundred ten (210) days following filing of the Claim under Section V(A) (Claim Filing Process), then the Insured or Third Party Beneficiary shall retain title to the Property, and the Insurance Benefit under this Acquisition Option shall be an amount equal to the Company's Anticipated Loss in connection with such Property; or
2. Percentage Option. The Claim Amount multiplied by the Coverage Percentage; or
3. Third Party Sale Option. An amount equal to the lesser of the Percentage Option or the Actual Loss in connection with a Third Party Sale of the Property. For purposes of this Subsection V(B)(3), "Actual Loss" means an amount equal to the Claim Amount, plus all commercially reasonable costs incurred in obtaining and closing such sale, less the proceeds of the Third Party Sale. Any Borrower contribution received in connection with a Third Party Sale shall be shared pro rata by the Insured and the Company in accordance with Section IV(K) (Borrower Contributions).

Access Unavailable Settlement. If (i) the Insured has satisfied all requirements for payment of Loss, (ii) the Company has received a Perfected Claim, and (iii) the Company requests Access to the Property pursuant to Section II(K) (Physical Damage) or Section V(A)(4)(b) (Access to the Property) and the Insured or Third Party Beneficiary is unable to provide Access within two hundred ten (210) days following filing of the Claim under Section V(A) (Claim Filing Process), then (x) the date as of which the Claim is considered a Perfected Claim shall be reset to be the earlier of the date Access is provided or the date which is the last day of such two hundred ten (210) days period, and (y) the Company shall, notwithstanding the foregoing options of Section V(B)(1) through (3), settle the Claim by paying the Anticipated Loss.

In addition to payment under one of the foregoing options, the Company will pay whatever Deficiency Expenses are payable to the Insured or Third Party Beneficiary pursuant to Section V(E) (Subrogation). The Company will also refund any and all premiums paid for coverage after the date of Default and such refund will appear as a credit on the explanation of benefits notice and be paid to the Insured, or to the Third Party Beneficiary if the Insured is not the owner of the Loan, in addition to and at the same time the Insurance Benefit is paid. The Company shall deduct from its payment of Insurance Benefits such amounts, if any, as may be permitted by this Policy, including:

(1) payments of Loss previously made; (2) payments previously made by the Company with respect to the Loan pursuant to Subsection IV(C)(3) (Claim Advances); (3) any premium that is due but unpaid through the date of Default or any premium previously returned to the Insured or Third Party Beneficiary; (4) additional premium owed with respect to any approved Loan modification pursuant to Section III(E) (Modification of Property or of Loan Terms); and (5) amounts excluded from coverage pursuant to Article II (Exclusions or Reductions in Coverage). All such credits or deductions shall be explained in detail in the explanation of benefits notice to be sent by the Company to the Insured or its Servicer.

In the event the Third Party Sale Option has been selected and the Third Party Sale fails to close prior to the end of the Claim Settlement Period, the Company may postpone payment of the Insurance Benefit for up to ninety (90) days or, if earlier, until such Third Party Sale closes or is terminated, provided that interest on the Default Amount at the rate due on the Loan during such postponement is paid to the Insured or Third Party Beneficiary.

In the event Borrower contributions are obtained as provided in Section IV(K) (Borrower Contributions), such payments shall be paid by the Company (or to the Company, as the case may be), pursuant to the provisions of Section IV(K) (Borrower Contributions).

In the event the Property is sold by the Insured or the Third Party Beneficiary without the Company's approval for an amount that Company determines based on reasonable evidence was less than its opinion of the market value of the Property, the Company shall pay the Third Party Sale Option instead of denying the Claim. Actual Loss shall be calculated as if the Property had sold for the market value determined by the Company. For example, if the Property sold for one hundred thousand dollars (\$100,000) with closing costs of three percent (3%) (i.e., Third Party Sale proceeds of \$97,000) and the Company's opinion of the market value of the Property was one hundred and twenty-five thousand dollars (\$125,000), then Third Party Sale proceeds would equal \$121,250 (i.e., \$125,000 less \$3,750) for purposes of calculating Actual Loss.

The Company shall explain any Claim Curtailment, Claim Denial, Certificate Cancellation, or Rescission for each Loan with respect to which a Claim is received by the Company in an explanation of benefits notice provided to the Insured, its Servicer or a Third Party Beneficiary.

The Company's payment of Insurance Benefits will not limit any rights which the Company has against the Borrower or any other Person (other than the Insured and the Third Party Beneficiary) for any Misrepresentation.

### **C. REFUND IN THE EVENT OF REDEMPTION**

In the event the Property is redeemed by the Borrower after the payment of the Percentage Option, the Insured or Third Party Beneficiary, as the case may be, shall be obligated to promptly refund to the Company the amount, if any, by which the redemption price plus the Insurance Benefit exceeds the Claim Amount.

### **D. DISCHARGE OF OBLIGATION**

Payment by the Company of the Insurance Benefit due in accordance with Section V(B) (Company Options for Payment of Insurance Benefit) and, if applicable Section V(E) (Subrogation), taking into account appropriate adjustments, or such other amount as may be paid by the Company and accepted by either the Insured or a Third Party Beneficiary in settlement of any dispute regarding a defense to or denial of coverage with respect to a Loan or the computation of the Claim Amount with respect to a Loan, shall be a full and final discharge of the Company's obligations with respect to the related Loan under this Policy. Notwithstanding the preceding sentence, the Company shall not be relieved of its obligation to pay any appropriate supplemental Claim filed pursuant to Section IV(C) (Company Option after Notice of Default) or as may otherwise be agreed to by the Company.

## **E. SUBROGATION**

1. Subrogation. The Company will be subrogated, upon payment of an Insurance Benefit, in the amount thereof in equal priority to all of the Insured or Third Party Beneficiary's rights of recovery, if any, against a Borrower or any other Person relating to the applicable Loan or Property. Upon the Company's request, or a request by the Company's designee on its behalf, the Insured or Third Party Beneficiary shall provide such information and execute and deliver to the Company or its designee such documents and instruments and undertake such actions as may be necessary to transfer, assign and secure such rights. The Insured and Third Party Beneficiary of the Loan shall not, and shall cause their agents not to, either before or after payment of an Insurance Benefit, prejudice such rights.
2. Pursuit of Deficiency Judgment. If either the Insured, or the Third Party Beneficiary if the Insured is not the owner of the Loan, or the Company desires to pursue a Deficiency Judgment against a Borrower in connection with a Loan insured under this Policy, the Party seeking to pursue such Deficiency Judgment shall contact the other party to determine whether the Deficiency Judgment should be sought for the account of both parties or only for its own account; provided, however, that if under the laws of the applicable jurisdiction, pursuit of a Deficiency Judgment will substantially increase the expenses associated with foreclosure, the Insured shall contact the Company prior to the initiation of a form of foreclosure proceedings that would increase the costs of foreclosure to determine whether a Deficiency Judgment is to be sought and, if so, whether such Deficiency Judgment is to be sought for the account of both parties or only for the account of the Company or the Insured. In connection with the determination regarding pursuit of a Deficiency Judgment, each of the Insured and the Company must provide the other with all information it may have concerning the assets of the Borrower, possible defenses, and other information material to the decision.
3. Parties' Determination. If the parties determine that the Deficiency Judgment shall be pursued solely for the account of the Company, the Company shall be subrogated to all of the Insured's rights of recovery against the Borrower and any other Person relating to the Loan or the Property with respect to which the Company has paid a Claim for Loss and shall be responsible for all costs associated with pursuing such Deficiency Judgment. If the parties determine that the Deficiency Judgment shall be pursued solely for the account of the Insured, or if the Company is prohibited by law from pursuing the Deficiency Judgment, the Company shall not be subrogated to any of the Insured's rights of recovery against the Borrower and any other Person relating to the Loan or the Property with respect to which the Company has paid a Claim for Loss and the Insured shall be responsible for all costs associated with pursuing the Deficiency Judgment. If the parties determine that the Deficiency Judgment shall be pursued for the account of both parties, the Company shall be subrogated pro rata to such right of recovery and shall be responsible for a pro rata portion of the associated costs. The pro-rata share of the Company shall be a fraction, the numerator of which shall be the amount of Insurance Benefit paid, and the denominator of which shall be the amount of the Total Loss.
4. Cooperation. The Insured shall cooperate with the Company in any action or proceeding to enforce any rights of recovery or other remedies that the Company may have or may have acquired pursuant to this Subsection V(E)(4) against the Borrower or any other Person and shall refrain from any action, either before or after payment of a Loss hereunder, that shall in any manner prejudice such rights.
5. Deficiency Collection Activities. Outside the pursuit of formal court judgments in accordance with Sections V(E)(2), V(E)(3) and V(E)(4), the Company and the Insured or Third Party Beneficiary are free, subject to Section V(E)(1), to independently pursue collection activities against the Borrower that comply with Applicable Law for the recovery of any post-foreclosure deficiency.

## VI. Additional Conditions

### A. DUTY OF COOPERATION

Whenever reasonably requested by the Company, whether or not a Notice of Default has been submitted, the Insured shall cooperate with the Company and furnish all reasonable aid, evidence and information in the possession of the Insured or to which the Insured has access with respect to any Loan, including, but not limited to, all documents, files, computer data or other information as reasonably requested by the Company upon reasonable notice. The Company's remedy for non-compliance under this Subsection VI(A) shall be limited by, and subject to, the provisions of Section I(I) (Investigations Relating to Representations).

### B. EFFECT OF BORROWER BANKRUPTCY

If under Applicable Law, a Loan's principal balance secured by a Property is reduced after all appeals of such reduction are final or the time for such appeals has lapsed without appeal (a so-called, "cram-down"), the portion of such principal balance of the Loan not secured by the Property, and related interest, will be includable in the Claim Amount, as provided in this Section VI(B). If Default occurs on the Loan, the Insured or Third Party Beneficiary has acquired Borrower's Title or Good and Merchantable Title to the Property as required by this Policy, the Insured has continued to pay premium on the full amount of the indebtedness, and all other requirements for filing of a Claim are complied with, the Insured or Third Party Beneficiary will be entitled to include in the Claim Amount (a) the amount of the principal balance of the Loan which was deemed unsecured under Applicable Law, less any collections or payments on such unsecured principal balance received by the Insured or Third Party Beneficiary, and (b) interest thereon at the rate and as computed in Subsection V(A) (3) (Calculation of Claim Amount), from the date of Default giving rise to the Claim (but for no prior period). In no event will any expenses or other amounts associated with the amount by which the principal balance of the Loan became unsecured be includable in the Claim Amount, directly or by an addition to the principal balance includable in the Claim Amount.

### C. EMINENT DOMAIN

In the event that part or all of the Property is taken by eminent domain, condemnation or by any other proceeding by a federal, state or local governmental unit or agency, the Insured shall require that the Borrower apply the maximum permissible amount of any compensation awarded in such proceedings to reduce the outstanding principal balance and interest due under the Loan, in accordance with the law of the jurisdiction where the Property is located, or as required in the Loan documents.

### D. NOTICE

All written notices required or otherwise given to the Company pursuant to this Policy shall be (1) transmitted by posting to the Company's internet portal at [essent.us](http://essent.us), (2) transmitted in an alternative, commercially reasonable, electronic manner, e.g., secure e-mail, as shall have been agreed to in advance, in writing, by the Company, or (3) sent by regular mail postpaid, to the Company's Operations Office address as shown on the face page of this Policy. Except where the Policy requires that notice be provided to the Insured and the Servicer, all notices to the Insured shall be given to the Servicer and shall be either (1) sent by overnight mail or other commercially reasonable method of delivery, (2) transmitted in a commercially reasonable, electronic manner (e.g., secure e-mail, posting to a web portal, etc.), or (3) sent by regular mail postpaid, to the Person, at the address shown on the Certificate, or to the last known address for that Person as reflected in the records of the Company. Either party may notify the other of a change in address in the same manner provided for giving notice. All notices required to be submitted to the Company, the Insured, or the Third Party Beneficiary shall be deemed to have been given five (5) days after the same is sent in the manner described above, unless actually received earlier. Upon request by a Third Party Beneficiary, the Company will provide such Third Party Beneficiary with copies of any notices that it sends to the Insured or Servicer.



## **E. GOVERNING LAW; CONFORMITY TO STATUTE**

This Policy, including the Certificate, and the Claim or Insurance Benefit related to any Loan, shall be governed by the law of the jurisdiction in which the named Insured is located as shown on the face of this Policy. Any provision of this Policy that is in conflict with the laws of such jurisdiction is hereby amended to conform to the minimum requirements of that law, it being the intention of the Insured and the Company that the specific provisions of this Policy shall be controlling whenever possible.

## **F. APPEALS, ARBITRATION**

1. Appeals. An Insured or Third Party Beneficiary may appeal a Claim Curtailment, Claim Denial, Certificate Cancellation, Exclusion, or a Rescission by utilizing the procedures set forth in the Company's Default and Claims Servicing Guide; however, the Company will make a determination with respect to any such appeal no later than one hundred eighty (180) days following a Claim Curtailment, Claim Denial, Certificate Cancellation, Exclusion or a Rescission. If these procedures are changed over time, the version that applies to a given Loan is the version in effect on the Certificate Effective Date for such Loan.
2. Arbitration. Unless prohibited by applicable law, any controversy or dispute, including any Claim made hereunder, arising out of or relating to this Policy, or the breach, interpretation or construction thereof, may, upon the mutual consent of all parties to the dispute, be settled by binding arbitration in accordance with the rules of the American Arbitration Association deemed most appropriate by such association, or other such rules as are mutually agreed to by all parties to the dispute. If this remedy is elected by all parties to the dispute, then the decision of the arbitrator(s) shall be final and binding on all the parties, and shall be enforceable in any court of competent jurisdiction in the United States of America. Neither this Subsection VI(F)(2) nor any other provision of this Policy shall be construed to require any Third Party Beneficiary to submit to arbitration hereunder, and any decisions rendered by an arbitrator pursuant to this Policy shall have no applicability to or be of any force or effect against any Third Party Beneficiary unless such Third Party Beneficiary consented in writing to the arbitration.
3. Reinstatement After Appeal or Arbitration. If a Claim had been filed prior to the initiation of an appeal or arbitration and coverage is reinstated as a result of such appeal or arbitration, such Claim will be deemed a Perfected Claim as of the date that coverage is reinstated, and the Company shall be obligated to settle such Claim within the remaining Claim Settlement Period.

## **G. SUIT; LIMITATION OF ACTIONS**

1. No suit or action (including arbitration) for recovery of any Insurance Benefit under this Policy shall be sustained in any court of law or equity or by arbitration unless the Insured has materially and substantially complied with the terms and conditions of this Policy, except a suit or action where the issue is whether the Insured materially and substantially complied with the terms and conditions of the Policy, and unless the suit or action in equity is commenced within two (2) years, or such longer period of time as may be permitted by Applicable Law, after the Insured or Third Party Beneficiary has acquired Borrower's Title to the Property or the sale of the Property approved by the Company is completed, whichever is later, and thereafter any such claim shall be barred.
2. No suit or action on a Claim or Insurance Benefit may be brought against the Company until the Claim Settlement Period shall have elapsed, as applicable to a Loan, except with respect to suits or actions regarding a dispute related to a Certificate for which a Rescission has been issued.

3. If the Insured or the Servicer becomes aware of a dispute that concerns a Loan and involves either the Property or the Insured or the Servicer, then the Insured shall promptly notify the Company of such dispute and, in each such case, the Company shall have the right to protect its interest by defending any action arising from such dispute, even if the allegations involved are groundless, false or fraudulent. The Company is not required to defend any lawsuit involving the Insured, the Servicer, the Property, or a Loan. The Company shall also have the right to direct the Insured to institute a suit on the Insured's behalf, at the Company's sole expense, if this suit is necessary or appropriate to preserve the Company's rights.
4. If, under Applicable Law, the Borrower successfully asserts defenses which have the effect of releasing, in whole or in part, the Borrower's obligation to repay the Loan, the Company shall be released to the same extent and amount from its liability under this Policy, except as provided in Section VI(B) (Effect of Borrower Bankruptcy).
5. No right or remedy of either the Company or the Insured or Third Party Beneficiary provided for by this Policy will be exclusive of, or limit, any other rights or remedies set forth in this Policy or otherwise available to the Company or the Insured or Third Party Beneficiary at law or equity.

#### **H. ENTIRE AGREEMENT**

1. This Policy, together with the Application, the Commitment and the Certificate, the applicable Underwriting Guidelines and the Default and Claim Servicing Guide, shall constitute the entire agreement between the Insured and the Company. In the event of a conflict between the terms of this Policy and the terms of a document incorporated into this Policy by reference, the terms of this Policy shall govern. No provision, requirement or condition of this Policy or the Certificate shall be deemed to have been waived, altered or amended or otherwise changed unless stated in writing and duly executed by the Company.
2. The Company reserves the right to amend the terms and conditions of this Policy from time to time; provided, however, that any such amendment will be effective only after the Company has given the Insured or the Third Party Beneficiary ninety (90) days written notice thereof by endorsement setting forth the amendment. Such amendment will only be applicable to those Certificates where the related Commitment was issued on or after the effective date of the amendment. Additionally, the Company and the Insured or Third Party Beneficiary, as the case may be, may modify or amend this Policy in any respect whatsoever or cancel this Policy without the consent of or notice to the Borrower or any other Person. The Company intends that with respect to each Certificate issued pursuant to the terms of this Policy that the Policy will be endorsed at least by either its Non-Delegated Underwriting Endorsement or its Delegated Underwriting Endorsement (which are mutually exclusive).
3. The Company reserves the right to amend the terms and conditions of referenced guidelines in this Policy from time to time including the Application, Underwriting Guidelines and the Default and Claim Servicing Guide, provided, however, that any amendment to the Application and the Default and Claim Servicing Guide will be effective only after the Company has given the Insured or the Third Party Beneficiary sixty (60) days written notice. Such amendment will only be applicable to those Certificates where the related Commitment was issued on or after the effective date of the amendment, which shall be sixty (60) days after delivery of the amended guidelines.

#### **I. NO WAIVER**

No condition or requirement of this Policy will be deemed waived, modified or otherwise compromised unless that waiver, modification or compromise is stated in writing properly executed on behalf of the Company. Each of the conditions and requirements of this Policy is severable, and a waiver, modification or compromise of one will not be construed as a waiver, modification or compromise of any other.



## **J. PARTIES IN INTEREST; BENEFICIARIES; AGENCY**

1. Subject to Section III(D) (Change of Insured), this Policy shall be binding upon and inure to the benefit of the Company and its successors and assigns and the Insured, any Third Party Beneficiary and their permitted successors and assigns.
2. Any Commitment and Certificate issued as the result of an Application submitted hereunder and the coverage provided under this Policy with respect to Loans insured hereunder, shall be for the sole and exclusive benefit of the Insured and any Third Party Beneficiary of the related Loan, and in no event will any Borrower or other Person be deemed a party to, or intended beneficiary of, this Policy or any Commitment or Certificate.
3. No payments made under this Policy to the Insured or a Third Party Beneficiary shall affect or lessen the Insured's or Third Party Beneficiary's rights of recovery against any Borrower.
4. None of the Insured, its Servicer, the Loan Originator, the Third Party Beneficiary or any of their respective employees or agents shall be or shall be deemed to be agents of the Company, nor shall the Company or any of its employees or agents be or be deemed to be an agent of the Insured, its Servicer or the Third Party Beneficiary, except to the extent of the recovery rights assigned to the Company pursuant to Section V(E) (Subrogation).
5. An approved Servicer is deemed to be an agent of the Insured or an authorized representative of the Third Party Beneficiary with respect to all matters under this Policy, including but not limited to, giving and receiving notices, cancellation of coverage under a Certificate, payments of premiums and Insurance Benefit, receipt of any premium refund that may become due under this Policy, settling Claims, and performing acts required of the Insured under this Policy excepting for receipt of notices required under Section III(C) (Change of Servicing). The Insured or Third Party Beneficiary shall be bound by the acts and omissions of the Servicer with respect to the Policy as if they were the Insured's or Third Party Beneficiary's, as the case may be, own acts and omissions, provided, however that the effect on the Third Party Beneficiary of being so bound is limited to nonpayment of the Insurance Benefit as permitted by Applicable Law and the terms of the Policy, and the Third Party Beneficiary shall have no other liability of any nature or kind whatsoever to the Company for any action or omission by the Insured or the Servicer. Notwithstanding the foregoing, if the Third Party Beneficiary is an approved institutional investor pursuant to Section III(D) (Change of Insured), including a Servicer that is also the Insured, the Servicer is not deemed an agent of such Third Party Beneficiary for purposes of payment of the Insurance Benefit or settlement of Claims or entering into any arrangement, contract, agreement or providing any consent, including without limitation any agreement or consent to arbitrate a dispute, with the Company regarding any Loan or group of Loans serviced for the Third Party Beneficiary not specifically required as a condition of coverage under the terms of the Policy and the Third Party Beneficiary shall not be bound thereby. Moreover, the Servicer, including a Servicer that is not the Insured, is not deemed an agent for or authorized representative of Fannie Mae or Freddie Mac with respect to management and disposition of Property securing a Loan.

## **K. ELECTRONIC DATA STORAGE**

It is understood that the Company, the Insured, the Third Party Beneficiary and the Servicer may exchange and store information, and the contents or images of documents or other data, on electronic media or other media that may, from time to time, be generally accepted for business records. The data stored on such electronic or other media are equally acceptable between the parties for all purposes as information, documents or other data maintained in printed or written form, including but not limited to, for the purposes of litigation or arbitration. Such data and other information may constitute "electronic records" and may include "electronic signatures" within the meaning of The Electronic Signature in Global and National Commerce Act ("ESIGN") and the Uniform Electronic Transactions Act ("UETA") as adopted in the jurisdiction in which the Insured is located. The Company agrees that ESIGN and UETA apply to any such electronic records and signatures and further agrees to be bound thereby.

## VII. Glossary

**Access** means physical access to the Property sufficient, in the Company's reasonable judgment, to permit the Company or its agent to evaluate the Property for purposes of (i) evaluating the Claim under Section V(A)(4)(b) (Access to the Property), and (ii) determining the exercise of the Company's rights under Section II(K) (Physical Damage) of this Policy.

**Access Unavailable Settlement** means the method of settling a Claim as described in Section V(B) (Company Options for Payment of Insurance Benefits).

**Acquisition Option** means the method of determining the amount of Insurance Benefit with respect to a Loan as set forth in Subsection V(B)(1) (Acquisition Option).

**Annex** means the relevant Annex attached to, incorporated into and made part of, this Policy.

**Anticipated Loss** means, in connection with a Claim, an amount equal to the Company's cost of paying the full Claim Amount (net of Physical Damage to the Property) calculated in accordance with Subsection V(A)(3) (Calculation of Claim Amount), less the amount the Company reasonably anticipates receiving as net proceeds of the sale of the Property (including all anticipated costs of the sale and holding costs), but in any event, such amount shall never be greater than the Insurance Benefit calculated under the Percentage Option in accordance with Subsection V(B)(2) (Percentage Option).

**Applicable Law** means (i) any law, statute, constitution, regulation, ordinance, or subordinate legislation in force from time to time to which a party or its affiliates is subject; (ii) the common law as applicable to the parties from time to time; (iii) any court order, judgment, or decree that is binding on a party or its affiliates; and (iv) any directive, policy, rule, or order (including, without limitation, any foreclosure or eviction moratorium) that is binding on a party or its affiliates and that is made or given from time to time by any regulator, government or government agency of, in the case of items (i) through (iv) above, any (x) country, or other national, federal, commonwealth, state, provincial, or local jurisdiction or (y) any exchange, association or non-governmental entity that is charged with monitoring or overseeing the business practices or other activities of a party or its affiliates whose regulations are binding on either party pursuant to a self-regulating mechanism approved by a government entity. This definition shall include, but is not limited to, any applicable "fair lending" laws, and laws or regulations regarding a "specially designated national" or "blocked person" as designated by the Department of Treasury's Office of Foreign Assets Control.

**Application** means a request by the Insured for coverage under this Policy on a Loan, on a form or in a format provided by or acceptable to the Company, and all other statements, documents or information, submitted to the Company by the Insured or any other Person in connection with the insuring of the Loan, all of which, with respect to the Loan identified, are hereby made a part of, and are incorporated by reference into, this Policy. An Application will include, if applicable, the information contained in the Borrower's loan application, purchase contract, appraisal, credit reports, verifications of employment, income, assets and deposit, plans and specifications for the Property, and all other exhibits and documents, including any data transferred by electronic means.

**Appropriate Proceedings** means any legal, administrative or non-judicial action or proceeding permissible under the laws of the jurisdiction where the Property is located, to enforce the Borrower's obligations under a Loan or to apply the Property to the satisfaction of the Borrower's obligations under a Loan, including, but not limited to: enforcing the terms of the Loan; the commencement of foreclosure proceedings (but not the mere referral of the Loan to an attorney to commence the foreclosure proceedings); eviction proceedings; preserving a deficiency recovery by making a bid at the foreclosure sale and pursuing a Deficiency Judgment until the end of the Claim Settlement Period, where appropriate and where directed by the Company; acquiring Borrower's Title or Good and Merchantable Title to the Property, as either may be required under this Policy, but excluding such title as may be acquired by a Voluntary Conveyance from the Borrower unless the Company's written consent is first obtained; or asserting the Insured's or Third Party Beneficiary's interest in the Property in a Borrower's bankruptcy or similar proceeding.

**Borrower** means any Person required to repay the debt obligation created pursuant to the Loan. The Borrower may be more than one Person, and the term shall include any co-borrower, co-signer, co-obligor, guarantor or other maker of the note, mortgage, or other instrument of indenture, whether or not specifically listed on the Application and/or Certificate.

**Borrower's Own Funds** means any funds saved and/or earned by the Borrower and gifts from family members to Borrower where there is no promise or expectation of repayment. Borrower's Own Funds do not mean a non-family gift or third party payment to Borrower or to the Insured on behalf of Borrower, whether or not characterized as a gift, with the exception of any escrows which are fully disclosed in writing to the Company prior to issuance of the Commitment, regardless of whether such non-family gift or third party payment is used to make payment to the Insured or is used for other purposes by Borrower so Borrower can use his or her funds for payment to the Insured.

**Borrower's Title** means such title to a Property as was vested in the Borrower at the time of a conveyance to the Insured or Third Party Beneficiary or to a third party extinguishing all of the Borrower's rights in the Property; provided, however, if the Insured or Third Party Beneficiary so elects, the redemption period need not have expired. Borrower's Title to a Property may be, but need not be, the equivalent of Good and Merchantable Title. The deed evidencing such title in the Insured or Third Party Beneficiary need not be recorded unless required by Applicable Law, but Borrower's Title shall not be deemed to have been conveyed until any and all necessary legal proceedings have been completed, giving the Insured or Third Party Beneficiary rights to the Property.

**Business Day** means any day that the Company is normally scheduled to be open for business.

**Cancellation Schedule** means the Company's schedule for determining the appropriate refund of premium for coverage having refundable premiums and posted on the Company's website at [essent.us](http://essent.us), as such schedule may be amended from time to time in accordance with Subsection VI(H)(3) (Entire Agreement).

**Certificate** means the document (whether paper or electronic), which may be on the same form as the Commitment, issued by the Company pursuant to this Policy and extending the coverage indicated therein to a specified Loan.

**Certificate Cancellation** means written notification by the Company to the Insured, as more fully described in Subsection I(E)(4) (Certificate Cancellation By Company), that the Company has cancelled coverage in connection with a specified Loan as of a specified date due to a breach of one or more specified provisions of this Policy.

**Certificate Effective Date** means, providing that the premium has been paid as required herein: (a) for new Loans, 12:01 a.m. on the date the Loan was Closed; or, (b) for other Loans, 12:01 a.m. on the date of coverage as indicated on the Certificate; or, (c) a later date requested by the Insured and accepted by the Company. A new Loan is a Loan which was not Closed as of the date the Insured submitted an Application for coverage under this Policy.

**Certificate of Occupancy** means a permit issued in accordance with Applicable Law evidencing approval of completion of construction-related work on the Property and certifying that the Property may be occupied for Residential purposes.

**Claim** means the timely filed written request, made on a form or in a format provided or approved by the Company, together with all applicable Core Claim Documents as set forth in Subsection V(A)(1)(d) (Liquidated Damages), to receive Insurance Benefits in accordance with Subsection V(A)(2) (Filing of Claim). A Claim received by the Company containing all Core Claim Documents and for which all requirements of this Policy applicable to payment of a Claim are satisfied shall be called a **Perfected Claim**.

**Claim Amount** means the amount calculated in accordance with Subsection V(A)(3) (Calculation of Claim Amount) of this Policy, subject in all cases to Article II (Exclusions or Reductions in Coverage).

**Claim Denial** means written notification by the Company to the Insured that it will not pay a Claim filed in connection with a specified Loan due to a breach of one or more specified provisions of this Policy.

**Claim Settlement Options** means those options identified in Section V(B) (Company Options for Payment of Insurance Benefit) that may be exercised by the Company in settlement of a Claim.

**Claim Settlement Period** means, with respect to a given Claim, the period beginning on the date the Claim is perfected and ending on the date that is sixty (60) days thereafter.

**Closed** means the date the loan is consummated and will be deemed to mean the later of: (a) the date on which all Loan documents were executed and delivered; or (2) the date on which the funds under the Loan were initially disbursed to or for the account of the Borrower.

**Closing File** means, with respect to a Loan: the final HUD-1 or other settlement statement; the original note; and the executed mortgage (including any riders thereto once returned from the land records); the signed Form 4506-T; signature and name affidavits; errors and omissions or compliance agreements; servicing disclosure; power of attorney, each as applicable and as signed by the Borrower; the title insurance commitment; and such other documents and data as may be specified in the Default and Claims Servicing Guide as of the Certificate Effective Date.

**Commitment** means the document, in paper or electronic form, issued by the Company pursuant to this Policy indicating the terms and conditions under which the Company will extend the insurance coverage option to a specified loan and which will become a Certificate subject to the terms and conditions specified therein and in this Policy. Commitments and Certificates must reference the form number of the policy, including any applicable endorsements, under which a Loan is insured.

**Court Expenses** means the commercially reasonable out-of-pocket cost of initiating and conducting Appropriate Proceedings (excluding Deficiency Expenses) and any eviction proceedings, and moving expenses, if moving expenses are required by law to be paid by the evicting party. These expenses include costs of filing or serving pleadings, conducting discovery and enforcing judgment. These expenses do not include reimbursement for any time spent by the Insured, the Third Party Beneficiary or their respective employees, officer or agents, nor do these expenses include attorney's fees.

**Coverage Percentage** means the specified percentage of coverage with respect to a Loan set forth on the related Certificate.

**Credible Evidence** means (a) information contained in the Origination File, Closing File, or Servicing File (whether such information was submitted to the Company prior to or after the Certificate Effective Date); (b) information relating to the Loan (whether written, electronic or oral) provided at any time by a First Party to the Company; or (c) any other information (whether written, electronic or oral) received or obtained by the Company at any time from any Person provided that such information would be viewed by a reasonable person familiar with all other Credible Evidence as having a basis in fact and not exhibiting falsity or material internal inconsistency, and provided further that evidence which consists solely of statements made by the Borrower that are not made under penalty of perjury shall not constitute Credible Evidence without corroboration from any evidence proffered under (a), (b) or (c) of this definition.

**Default** means the failure by a Borrower to pay when due a nonaccelerated amount equal to or greater than one (1) regular periodic payment due under the terms of a Loan or the failure by a Borrower to pay all amounts due under a Loan after the exercise by the Insured or Third Party Beneficiary of the Due on Sale Clause of such Loan. Default does not mean any non-monetary default or violation of any other term or condition of the Loan that would allow for acceleration of the debt or foreclosure or other action to realize upon the security provided by the Loan. A Loan is deemed to be in Default for the period for which, as of the close of business on the installment due date, a scheduled installment payment has not been made (see the definition of **Early Default** in this Glossary).

**Default Amount** means the unpaid principal balance of a Loan as of the date of Default (including any Negative Amortization or increase in the principal balance), subject to the provisions of Article II (Exclusions or Reductions in Coverage) with respect to reductions in the Insurance Benefit. In the event a Loan has been divided into secured and unsecured portions pursuant to proceedings under the federal bankruptcy laws, the Default Amount shall include the unpaid principal balance due under the unsecured portion of the Loan, provided that the premium paid has been calculated based on both the secured and unsecured portions of the Loan. In the event a Loan has been modified in accordance with Section III(E) (Modification of Property or of Loan Terms), such that the principal has been reduced, the Default Amount shall include the principal balance of the Loan which was forgiven, provided the Insured has paid premium on the forgiven principal and all other requirements for filing of a Claim are complied with. If the Insured has not paid premium on the forgiven principal, the forgiven principal shall not be included in the Default Amount.

**Default and Claims Servicing Guide** means the document containing the Company's requirements and procedures for reporting Loans that are in Default and for filing Claims under this Policy, which document is posted on the Company's website at [essent.us](http://essent.us) and may be modified from time to time by the Company in writing in accordance with Subsection VI(H)(3) (Entire Agreement).

**Deficiency Expenses** means commercially reasonable attorney's fees and necessary court costs incurred by the Insured or Third Party Beneficiary for those Appropriate Proceedings necessary to pursue or establish a deficiency against the Borrower and which are in addition to those incurred in standard and customary foreclosure proceedings, plus additional interest accruing on the Loan, real estate taxes, casualty insurance premiums, and Property preservation expenses incurred during such Appropriate Proceedings and any additional related redemption period as necessitated by such deficiency pursuit.

**Deficiency Judgment** means a court judgment imposing personal liability on the Borrower for the unpaid amount remaining under the terms of a Loan when the proceeds of a foreclosure sale of the Property securing the Loan were insufficient to fully satisfy the outstanding debt.

**Down Payment** means (a) a cash contribution made by the Borrower with the Borrower's Own Funds, or a non-cash form of equity in the Property provided by the Borrower, prior to or contemporaneously with the Loan being Closed, towards the purchase price of the Property, or (b) a verifiable equity in the Property vested in the Borrower only, after completion of any improvements and based on the Original Value.

**Due on Sale Clause** means a contractual provision granting to the Insured or Third Party Beneficiary the right to accelerate the maturity of the Loan upon a transfer of title to or an interest in the Property.

**Early Default** means the failure of the Borrower to make any of the initial twelve (12) monthly payments, or any portion thereof, in accordance with the terms of the Loan.

**Eligibility Criteria** means the criteria set forth in Section I(B) (Eligibility of Loans for Coverage), as such criteria may be modified from time to time by the Company in writing in accordance with Subsection VI(H)(3) (Entire Agreement).

**Environmental Impairment** means the presence of: (a) any condition giving rise to liability under the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. 9601 et seq., as amended from time to time) or any similar federal law or law of the state or locality where the Property is located; (b) any "Hazardous Waste" or "Regulated Substance" as those terms are defined by the Resource Conservation and Recovery Act (42 U.S.C. 6901 et seq., as amended from time to time) or any similar federal law or law of the state or locality where the Property is located; (c) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants" or "pollutants" or words of similar meaning and effect under Applicable Law; or (d) any other substance or condition that renders the principal Residential structure on the Property Uninhabitable. The presence of radon gas, lead paint, or asbestos in the principal Residential structure on the Property is not an Environmental Impairment.

**Exclusions** mean those exclusions from coverage set forth in Article II (Exclusions or Reductions in Coverage).

**Fannie Mae** means the Federal National Mortgage Association, as created by the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 et seq.), together with its conservator, successors and assigns (including, without limitation, any successors or assigns with respect to one or more Loans).

**First Party** means (1) the Insured or any officer, employee or agent of the Insured or (2) any of the following Persons: the Loan Originator, Seller, loan officer, mortgage loan broker, correspondent lender, as the case may be, or any vendor performing origination services including underwriting or processing the Loan on behalf of the Insured, or (3) anyone under contract with the Loan Originator in connection with the origination of such Loan such as an appraiser, an appraisal company, an escrow or closing agent, a title insurance company or representative, or any other vendor, agent of or broker for, the Insured, or Loan Originator with respect to the Loan or the related Property transaction.

**Freddie Mac** means the Federal Home Loan Mortgage Corporation as created by the Federal Home Loan Mortgage Corporation Act (12 U.S.C. 1451 et seq.), together with its conservator, successors and assigns (including, without limitation, any successors or assigns with respect to one or more Loans).

**Good and Merchantable Title** means title to the Property, free and clear of all liens and encumbrances, covenants, conditions, restrictions, easement and rights of redemption, except for:

1. Any lien established by public bond, assessment or tax, when no installment, call or payment of or under such bond, assessment or tax is delinquent; and
2. Any municipal or zoning ordinances, building restrictions or other restrictions, covenants, or regulations of use, provided that the Property is in compliance with and or its use is permitted by, and its intended and normal use and occupancy is not adversely affected in a Material way by, such restrictions, covenants, regulations or ordinances;
3. Easements, rights of way, sewer and utility rights, mineral, oil or timber rights, or any impediments which will not have a material adverse effect on either the transferability of the Property or the sale thereof to a bona fide purchaser; and
4. Any conditions or defects which will not have a material adverse effect on either the transferability of the Property or the sale thereof to a bona fide purchaser.

The Property must have, at a minimum, the following characteristics to establish Good and Merchantable Title: (i) adequate means of ingress and egress; (ii) the right to use public or private water and sewer facilities appertaining to the Property, whether such rights be by virtue of public easement or private grant; and (iii) the Property must be free of any lien for any toxic waste or environmental contamination or similar hazard or claim of such hazard pursuant to the Comprehensive Environmental Response Compensation and Liability Act (42 U.S.C. Section 9601 et seq., as amended from time to time), or similar federal or state law providing for liens in connection with the clean-up of environmental conditions, and no proceedings to initiate such a lien may be noticed, commenced or pending, unless otherwise agreed to by the Company.

**Insurance Benefit** means the liability of the Company with respect to a Loan calculated in accordance with this Policy. A right to receive an Insurance Benefit shall be deemed to have arisen when a Default occurs while the Policy is in force for a Loan, notwithstanding that the amount of the Insurance Benefit is not then either presently ascertainable or due and payable.

**Insured** means with respect to any Loan, (a) the Person designated on the face page of this Policy, either for its own benefit or as trustee for the benefit of a third party, or (b) the Third Party Beneficiary upon request by the Third Party Beneficiary to become the Insured, or (c) the Servicer if the Third Party Beneficiary has not requested to become the Insured.



**Loan** means any note, bond, or other evidence of indebtedness secured by a mortgage, deed of trust, or other similar instrument, which satisfies the Eligibility Criteria, and which has been approved by the Company for insurance and which is insured under this Policy, or intended to be insured in accordance with the terms of a Commitment.

**Loan Originator** means the Person that originated the Loan.

**Loss** means the liability of the Company with respect to a Loan for payment of a Perfected Claim which is calculated in accordance with Subsection V(A)(3) (Calculation of Claim Amount). A Loss will be deemed to have occurred when a Default on a Loan occurs, even though the amount of Loss is not then either presently ascertainable or due and payable.

**Material** means, within the context of a representation in an Application relating to a Loan, a representation with respect to which had the truth been known to the Company at the Certificate Effective Date, the Loan would not have been eligible for coverage or the Company would either not have accepted the risk or the hazard assumed, or would not have accepted the risk or assumed the hazard at the premium rate at which the coverage was written.

**Misrepresentation** means a false statement, misrepresentation, omission or data inaccuracy respecting a matter of fact.

**Negative Amortization** means the additions to the principal amount of a Loan arising from the insufficiency of regularly scheduled payments to cover interest as it accrues against the principal amount of the Loan as provided for therein.

**Original Value** means the lesser of the sales price of the Property (only applicable in the case of a Loan to finance the purchase of such Property) or the value of the Property established by appraisal or alternative method used to determine value in accordance with customary origination practices, which value was obtained by the Loan Originator in connection with the Loan at the time it was originated and establishes the fair market value of the Property at that time.

**Origination File** means, with respect to a Loan, copies of the following documents and data in hard copy and/or electronic format created or received by the Insured in connection with the origination of the Loan and relied upon by the Insured in making its decision in connection with the Loan, if applicable: the Application; the Borrower's signed Loan application; automated underwriting system findings, disclosure statements; original purchase contract; buy-down agreement; credit reports; letters of explanation; evidence or verification of employment, income, assets, deposit, rent and other outstanding mortgage(s); evidence of the Original Value; evidence of project approval for condominium or cooperative Properties; and such other documents and data as may be specified in the Default and Claims Servicing Guide as of the Certificate Effective Date.

**Past Due** means the failure to pay a scheduled installment payment as of the close of business on the installment due date; a loan is considered thirty (30) Days Past Due if its scheduled monthly installment payment remains unpaid as of the close of business on the day immediately preceding the installment due date for the subsequent month; a Loan's Past Due status increases by thirty (30) days if its scheduled monthly installment payment remains unpaid as of the close of business on the day immediately preceding the installment due date for any subsequent month.

**Pattern Activity** means a pattern of activity in which a Misrepresentation involves two (2) or more parties (e.g., the Borrower and one or more Pattern Parties, or two (2) or more Pattern Parties) and two (2) or more loans, and the Company relies upon Credible Evidence in making its Pattern Activity determination.

**Pattern Party** means (i) any individual acting with actual or apparent authority for the initial Insured (the Person named on the face page of this Policy), or (ii) any First Party other than the initial Insured, or (iii) any property seller, property builder, real estate broker or real estate agent. "Initial Insured" means the Person named on the face page of this Policy.

**Percentage Option** means a method of determining the amount of the Insurance Benefit payable with respect to a Loan in Default that results in the Insured or Third Party Beneficiary retaining title to the Property as set forth in Subsection V(B) (2) (Percentage Option).

**Perfected Claim** shall have the meaning set forth under the definition of "Claim" in the Glossary to this Policy.

**Person** means any individual, or any corporation, partnership, association or other legally recognized entity.

**Physical Damage** means any tangible injury to a Property that materially adversely affects the use, marketability, or value of the Property, whether caused by accident, natural occurrence, or any other reason, including but not limited to damage caused by reason of defects in construction, land subsidence, earth movement or slippage, fire, flood, earthquake, war, riot, civil insurrection, vandalism, and the destruction or removal of chattel items that are considered part of the Property. For purposes of this definition, "material" shall mean an amount equal to or greater than five thousand dollars (\$5,000), such that the estimated cost to repair a Property is in excess of such threshold before the Exclusion set forth in Section II(K) (Physical Damage) would apply to exclude coverage for a Loan. The presence of radon gas, lead paint or asbestos in the dwelling on the Property shall not be deemed to be Physical Damage.

**Policy** means this contract of insurance together with all Applications, Annexes, face pages, endorsements, Commitments and Certificates relating hereto, all of which are incorporated herein and made a part of this Policy with respect to the Loans to which they relate.

**Policy Effective Date** means the date designated as such on the face page of this Policy.

**Possession of the Property** means actual, physical and undisputed occupancy and control of the Property, subject only to possessory rights of third parties, if any, contemplated by the Application for coverage submitted to the Company with respect to the related Loan.

**Property** means the Residential real property and all improvements thereon securing a Loan, including any chattel items (including any built-in appliances) which are an element of the value stated in the Original Value including all replacements or additions thereto, together with all easements and appurtenances, all rights of access, all rights to use (as well as any co-ownership interests in) common areas, recreational and appurtenant facilities, and all replacements or additions thereto.

**Rescission** means written notification by the Company to the Insured that the coverage provided in connection with a specified Loan breaches one or more of the Insured's representations and warranties of this Policy with the result that coverage is deemed never to have been in force and the Company is concurrently returning to the Insured all premiums paid in connection with such Loan.

**Residential** means:

1. A type of building which is designed for occupancy by not more than four families; or
2. A one-family condominium or unit in a planned unit development; or
3. Any other one-family residence unit as to which Good and Merchantable Title may be held or conveyed freely under law (including but not limited to manufactured housing); or
4. A unit in a building owned by a cooperative corporation (in which case this Policy shall include the additional terms and conditions in Annex A relating to units in cooperative corporation); or
5. A mixed-use building, provided that the mixed-use represents a legal, permissible use of the Property under local zoning requirements, the neighborhood is primarily residential, the Property contains only a one-family dwelling unit that the Borrower occupies as a principal residence, the Borrower is both the owner and operator of the business, and the Property is primarily residential in nature.

**Seller** means any seller of Loans approved by the parties to deliver Loans to the Insured for coverage hereunder.

**Servicer** means that Person, other than a natural Person, who at a given time is servicing a Loan (as a master servicer, if subservicing is also involved) on behalf of the Insured or, the Third Party Beneficiary, and pursuant to any applicable delegation of authority that the Insured or Third Party Beneficiary may have made to the Servicer to perform loss mitigation without the prior approval of the Insured or Third Party Beneficiary.



**Servicing File** means, with respect to a Loan, copies of the following documents in hard copy or electronic format created or received by the Servicer in connection with the servicing of the Loan, if applicable: pay history; primary servicing screen print display (including collection screens/notes, unpaid principal balance, last payment date, due date, interest rate, principal and interest payment amount, Borrower name(s), and Property address; rent or receiver account history; assumption agreement; loss mitigation documents (e.g., forbearance agreement, repayment plan, modification agreement, pre-foreclosure sale, deed-in-lieu of foreclosure, etc.); foreclosure documents; bankruptcy documents; documents pertaining to preservation and/or establishment of a Deficiency Judgment; Property valuation since origination (e.g., appraisal, alternative valuation model, broker's price opinion, etc.); hazard insurance claim settlement; and such other documents as may be specified in the Default and Claims Servicing Guide as of the date the Claim is filed.

**Servicing Report** means monthly loan level transaction detail for all Certificates in force pursuant to this Policy, reported in an electronic format approved by the Company.

**Third Party Beneficiary** shall have the meaning set forth in Section III(D) (Change of Insured).

**Third Party Sale** means a sale of a Property, with the prior approval of the Company, arranged by the Servicer and/or by the Borrower, and approved by the Insured or Third Party Beneficiary (or by the Servicer on behalf of the Insured or Third Party Beneficiary and pursuant to a delegation of authority from such party), prior to foreclosure because of a Default by the Borrower; or a foreclosure or trustee's sale of a Property to a third party at a price equal to or greater than the minimum amount specified by the Company to be bid at such sale; or a sale of a Property by the Insured or Third Party Beneficiary after foreclosure and before the expiration of the Claim Settlement Period.

**Third Party Sale Option** means a method of determining the amount of the Insurance Benefit payable with respect to a Loan in Default as set forth in Subsection V(B)(3) (Third Party Sale Option).

**Total Loss** means the Claim Amount plus: (i) in the case of a Third Party Sale, the amount of all commercially reasonable costs incurred in obtaining and closing the Third Party Sale, less the proceeds of the Third Party Sale; (ii) in the case of a Voluntary Conveyance, the amount of all commercially reasonable costs incurred in obtaining and closing the Voluntary Conveyance, if any, less the estimated value of the Property as agreed to by the Company and the Insured or the Third Party Beneficiary; and (iii) in the case of a Deficiency Judgment, the amount of all expenses (including Advances actually paid by the Servicer or Third Party Beneficiary) associated with the preservation and pursuit of the Deficiency Judgment in excess of those expenses associated with the normal and customary foreclosure process, to the extent such expenses are not already included in Claim Amount, minus the estimated value of the Property as agreed to by the Servicer or the Third Party Beneficiary and the Company.

**Underwriting Guidelines** means those underwriting manuals, guidelines, bulletins and announcements as shall be provided by the Company to the Insured as the same may be amended, approved or replaced by the Company in writing from time to time in accordance with Subsection VI(H)(3) (Entire Agreement).

**Uninhabitable** means that an Environmental Impairment to the principal Residential structure on the Property exceeds generally recognized standards for safe residential occupancy or, if there are no such standards, that a fully-informed and reasonable person would conclude that such structure does not provide a reasonably safe place to live without fear of injury to health or risk to safety.

**Uninsured Casualty** means Physical Damage to a Property, which is either not covered by casualty insurance or not covered in an amount sufficient to restore such Property to its condition prior to the occurrence of such Physical Damage.

**Voluntary Conveyance** means a conveyance of title to the Property from the Borrower in lieu of foreclosure or other proceeding.

## Annex A: Terms and Conditions Related to Cooperative Properties

The following terms and conditions will apply only to a Loan if the Application submitted by the Insured identifies the Loan as being secured by ownership or membership in a cooperative housing corporation and the lease of a residential unit by such corporation to the stockholder or member.

1. The following defined terms are added to the Glossary of the Policy:

**Collateral** means (a) the stock or membership certificate issued to a tenant-stockholder or resident-member by a fee simple or leasehold cooperative housing corporation; and (b) the proprietary lease relating to one (1) unit in the cooperative housing corporation executed by said tenant-stockholder or resident-member and any other rights of said stockholder or member relating to any of the foregoing.

2. The following definitions are amended as follows:

**Good and Merchantable Title** means a first mortgage lien on the entire real estate owned by the cooperative housing corporation, which has been disclosed to the Company in an Application for the Loan secured by the Collateral.

**Property** means the Residential real property and all improvements thereon which is owned by the cooperative housing corporation, and which is leased to the Borrower who holds an ownership or membership interest in such cooperative housing corporation, which lease and interest secure the related Loan, together with all easements and appurtenances, all rights of access, all rights to use common areas, recreational and other facilities, and all replacements or additions to any of the foregoing.

3. The following Sections are amended, deleted, or otherwise changed, as indicated below:

- a) For purposes of the Policy, wherever the term "Property" is used and instead refers to the stock or membership certificate, the lease, or any other asset or right related thereto, it shall be deemed to be changed to "Collateral," including for purposes of provisions relating to foreclosure, valuation or redemption; acquisition of title, lien or ownership; or purchase, acquisition, sale, disposition or other conveyance by any Person.

- b) Subsection IV(I)(4) (Advances) is deleted in its entirety and the following text substituted:

Maintenance fees, cooperative association dues and other pro-rated portions of shared fees related to the building mortgage and common areas attendant to the Property, to the extent ascertainable by the Servicer.

## Annex B: Terms and Conditions Related to Construction Loans

The following terms and conditions will apply only to a Loan if the Application submitted by the Insured identifies the Loan as being a Construction Loan. "Construction Loan" shall mean a loan which is Closed prior to completion of, or restoration of substantial Physical Damage to, the Residential structure on the Property.

1. The following definition in the Glossary is amended as follows:

**Effective Date** means, for new Loans that are Construction Loans, 12:01 a.m. on the later to occur of one of the following events: (i) the date the Loan was Closed; (ii) the date the Borrower accepted the Property as complete; or (iii) the date a Certificate of Occupancy was issued for the Property or the Property became habitable under Applicable Law, provided the Insured or Third Party Beneficiary gives notice to the Company of the occurrence of one of the above within forty-five (45) days of the end of the Commitment period.

2. Subsection I(D)(1) (Initial Premium) is deleted in its entirety and replaced with the following:

1. Initial Premium. Within forty-five (45) days from the end of the Commitment period of any Loan, the Insured shall forward the appropriate initial premium due to the Company to establish coverage for that Loan as of the Effective Date.

3. The following provision is hereby added to the end of Section II(B) (Balloon Payment):

In addition to the foregoing provisions of this Exclusion, any Claim relating to a Construction Loan where the Default arose from the failure of the Insured, its Servicer or any other lender to rollover or convert the Construction Loan to a "permanent" or long term Loan for a term not shorter than that specified in the Application, or to offer the Borrower in writing before the due date of the Balloon Payment, a renewal or extension of such Construction Loan, or a new loan or take out loan at then current market rates, in an amount not less than the then outstanding principal balance and all anticipated accrued interest, for a term not shorter than that specified in the Application for the "permanent" or long term financing of the Property. If no term is specified in the Application for the "permanent" or long term financing of the Property then the term will be presumed to be thirty (30) years from the date the Loan Closed.

