

## **Non-Delegated Underwriting Endorsement to Mortgage Guaranty Insurance Master Policy with *Clarity of Coverage*<sup>®</sup> EGI-1003.001 (07/14)**

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

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

1. A new Subsection I(C)(1X) (Responsibilities Regarding Underwriting) shall be inserted after Subsection I(C)(1) (Applying for Coverage):

"1X. Responsibilities Regarding Underwriting. Regarding the obligations of the Insured and the Company with respect to the underwriting of the Loan,

a. The Insured is responsible for:

- 1) Underwriting and satisfying all conditions for the Loan in full accordance with the Insured's underwriting guidelines and Applicable Law;
- 2) Providing the Company with the Origination File;
- 3) Providing accurate and verified documentation as of the Certificate Effective Date, required in accordance with the Company's Underwriting Guidelines in effect as of the Application date; and,
- 4) Retaining the Origination File and the Closing File, or a complete and true copy thereof, until the end of the period during which the Certificate relating to the Loan remains in force.

b. The Company is responsible for:

- 1) Determining the eligibility as an insurable risk based on the creditworthiness and financial capacity of the Borrower and the collateral for mortgage insurance by performing a full review, prior to issuance of a Commitment or Certificate, of the Application and of all the documents contained in the Origination File that were provided by the Insured to the Company, which review shall include but not be limited to:
  - (a) Borrower's loan application;
  - (b) Verification of Borrower's income, including the Borrower's signed 4506-T and the Borrower's actual tax returns;
  - (c) Verifications of assets, deposit/Down Payment, and employment, as applicable;
  - (d) All Borrower credit reports/verification of debts and credit scores;
  - (e) All documents supporting the Original Value (e.g., purchase contract, appraisal);
  - (f) Verification of all applicable loan calculations (e.g., debt-to-income, loan-to-value, etc.);

- (g) Verification of the Borrower's mortgage or rent payment history, as applicable;
  - (h) The Borrower's letter of explanation, including occupancy explanations, as applicable;
  - (i) Confirmation of the loan's compliance with the Company's Underwriting Guidelines; and,
  - (j) Other requirements as may apply under the Company's Underwriting Guidelines with respect to the loan.
- 2) Working directly with the Insured's underwriter to communicate (i) additional underwriting conditions and (ii) denials of coverage;
- 3) If Enhanced *Clarity of Coverage* — Collateral is sought, determining the eligibility as an insurable risk based on the collateral for mortgage insurance by performing a full review, prior to issuance of a Commitment or Certificate, of the Original Value and of all the related documents that were provided by the Insured to the Company, for Independent Validation of the eligibility of the Property and identification of valuation defects which review shall include but not be limited to, performing such analysis as the Company deems necessary and appropriate to make a reasonable determination that the Original Value is supported;
- 4) In the event the Company determines that a Loan qualifies for Enhanced *Clarity of Coverage* — Collateral, the Company shall indicate such enhanced coverage on the related Commitment and Certificate."
2. The following text shall be added to the end of Subsection I(G)(1) (Company's Remedies for Misrepresentation):
- "Moreover, if the Company, in performing its mortgage insurance underwriting with respect to an Application, mistakenly fails to identify a Material fact or Misrepresentation which would have been readily apparent to a prudent mortgage insurance underwriter such that the Application should not have been approved for mortgage insurance, and such Material fact or Misrepresentation is later identified, the Company will not issue a Rescission on the sole basis that the Insured's underwriters erred in failing to identify the same Material fact or Misrepresentation prior to submitting the loan to the Company for mortgage insurance. However, if in addition to the Company's mistake, the Company determines there is a basis for Rescission unrelated to the Company's mistake, then the Company may invoke its remedies for Misrepresentation with respect to such Loan."
3. The opening text of Section I(H)(1) (Incontestability) through Section I(H)(1)(d) is deleted in its entirety and is replaced with the following, including the addition of new Subsection (2):
- 1) "Except for any Article II (Exclusions or Reductions in Coverage) Exclusions determined to relate to a Loan other than Section II(H)(3) (Fraud, Misrepresentation) or as may be further limited by Subsection (2) below, no Certificate's coverage will be rescinded pursuant to Section 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:

- (i) thirty (30) days Past Due with any payment required under the Loan on more than two (2) occasions; nor,
      - (ii) 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.
  - 2) Except for any Article II (Exclusions or Reductions in Coverage) Exclusions determined to relate to a loan other than Section II(H)(3) (Fraud, Misrepresentation), no Certificate's coverage will be rescinded pursuant to Section I(G)(1) (Company's Remedies for Misrepresentation) on the basis of a Material Misrepresentation of the Original Value but only if the Company has completed a satisfactory review in accordance with Section I(C)(1X)(b)(3), provided that all of the following requirements, conditions and circumstances, are satisfied:
    - a) First Party must not have intentionally and knowingly made the Misrepresentation(s);
    - b) The Loan must not be a part of Pattern Activity;
    - c) The Borrower must have made the first twelve (12) months of Consecutive Full Payments, and all of those payments must have been made from the Borrower's Own Funds;
    - d) The Loan has not been subject to a forbearance agreement, repayment plan or otherwise been modified from its original terms during the twelve (12) months following the due date of the Borrower's first payment of principal, interest, and escrow impounds as required under the Loan.
4. A new Section VI(L) (Monitoring and Escalation Process) shall be inserted:
- "L. Monitoring and Escalation Process
- The Company's commitments are conditioned on qualifying the original Insured via upfront due diligence focusing on an evaluation of the Insured's loan manufacturing processes. Once an Insured has been qualified, the Company will monitor and provide periodic feedback to the Insured on observed performance. Material issues identified during the ongoing performance monitoring process may require the development of mutually agreeable remediation plans. The components of the monitoring and escalation process are:
- (1) Upfront evaluation and ongoing monitoring of the Insured's loan manufacturing processes;
  - (2) Quality Assurance testing on initial Loan submissions and periodic samples on an ongoing basis;
  - (3) Monitoring of insured Loan portfolio profile, Loan performance trends (e.g., delinquency and rates of early payment defaults), concentrations of risk and other factors indicative of loan quality and performance;
  - (4) Ongoing monitoring of the Insured's financial condition and counterparty strength; and
  - (5) Evaluative feedback to the Insured on a periodic basis with respect to Loan performance, risk profiles, manufacturing issues, loss mitigation, and other relevant factors affecting performance of the Insured's portfolio overall and in relation to the Company's expectations.
5. The following new definitions shall be added to the Glossary:

“**Consecutive Full Payments** means full payments of principal, interest and escrow impounds in the amount, and with the timeliness required under the Loan, with each such payment made prior to the date the next scheduled installment becomes due. Loans that have been subject to a forbearance agreement, repayment plan or which have otherwise been modified from its original terms do not qualify as Consecutive Full Payments.

**Enhanced Clarity of Coverage — Collateral** means coverage for collateral eligibility and valuation defects with respect to which Section I(H)(2) applies.

**Independent Validation** means, with respect to Enhanced Collateral Coverage, a pre-Closing review by a qualified underwriter who is employed or engaged on a contract basis directly by the Company, and who is independent of the Insured, of the Original Value for compliance with the Company’s collateral eligibility requirements and to ensure that the estimate of value is adequately supported.”

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

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

**ESSENT GUARANTY, INC.**

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Mark A. Casale, President



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Mary Lourdes Gibbons, Secretary