

**DELEGATED UNDERWRITING AND CLARITY OF COVERAGE<sup>SM</sup> ENDORSEMENT TO  
MASTER POLICY OF MORTGAGE GUARANTY INSURANCE, EGI-1002.001 (01/11)**

It is understood and agreed that:

- A. This Delegated Underwriting and Clarity of Coverage<sup>SM</sup> Endorsement ("Endorsement") shall apply to a Loan (where applicable, "Loan" or "Delegated Underwritten Loan") only if the Certificate (where applicable, "Certificate" or "Delegated Underwritten Certificate") for the Delegated Underwritten 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 Master Policy of Mortgage Guaranty Insurance ("Policy");
- B. The Delegated Underwriting Program created by this Endorsement shall apply to the issuance of each Delegated Underwritten Certificate and the coverage for the Delegated Underwritten Loan listed thereon; and
- C. The Policy shall be deemed to be amended as set forth below only with respect to Delegated Underwritten Loans and the related Delegated Underwritten Certificates, and shall not be amended by this Endorsement in connection with any Loans that are not Delegated Underwritten Loans.

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

1. The following has been added to Section I(B) (Eligibility of Loans for Coverage):

"Further Eligibility Requirements. Each Delegated Underwritten Loan meets the Underwriting Guidelines applicable at the time of origination of such loan in all material respects, as such Underwriting Guidelines may be established or amended from time to time by the Company."

2. The text of Section I(C) (Application and Certificate) is deleted in its entirety and is replaced with the following:

"Application and Delegated Underwritten Certificate. To extend coverage to a Loan under this Policy, the Insured shall submit within seven (7) Business Days after it approves the loan or such other period as may be agreed to in writing by the Insured and the Company, a completed Delegated Underwriting Transmittal Form or other form or medium for transmitting data as may be approved by the Company ("Delegated Underwriting Transmittal"), which requests or directs the Company to issue its Delegated Underwritten Certificate with respect to the identified

Delegated Underwritten Loan, and which shall include or be deemed to include the Insured's consent to the Company's reasonable reliance on the truthfulness and accuracy of the Application in extending coverage under this Policy to the Delegated Underwritten Loan. In reasonable reliance on the truthfulness and accuracy of such Application, the Company shall issue a Delegated Underwritten Certificate extending coverage to the Delegated Underwritten Loan pursuant to the terms of both this Policy and the Delegated Underwritten Certificate, within one (1) Business Day of receipt of the Delegated Underwriting Transmittal or other approved form of transmittal."

3. A new Section I(FX) (Investigations Relating to Representation) shall be inserted after Section I(F) (Representations of Insured):

"FX. Investigations Relating to Representations. The Company will investigate Loans for misrepresentation in the Application in accordance with the following standards:

In the event that the first thirty-six (36) months' Loan payments have been paid on time and from the Borrower's Own Funds, the Company will not initiate a further investigation (i.e., beyond the Application, Origination file, closing file and servicing file) with respect to fraud or misrepresentation, except where the Company has evidence to support a reasonable belief that:

- a) a first Party knew or should have known of such fraud or misrepresentation; or
- b) there is evidence of a pattern or practice of such fraud or misrepresentation or activity consistent with a fraud ring; or
- c) regulators or law enforcement agencies are involved.

Nothing herein shall limit the Company's ability to request Loan files in accordance with Section VI(A) (Duty of Cooperation)."

4. The text of Section I(G) (Company's Remedies for Misrepresentation) shall be deleted in its entirety and replaced with the following:

"G. Company's Remedies for Misrepresentation.

1. Subject to Section I(H) (Incontestability for Certain Representations) and Section I(FX) (Investigations Relating to Representations), if any of the Insured's representations as described in Section I(F) (Representations of the Insured) are materially false or misleading with respect to a Loan and the Company reasonably relied upon such material misrepresentation, the Company will have at its option:

- a. the right to defend against a Claim, or
- b. to the extent permitted by Applicable Law, to rescind coverage 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 so defend, cancel or rescind retroactively to the date of such continuation).

2. The Company generally considers misrepresentations (whether they arise out of knowingly wrongful acts, including error or omission, or through the negligence of a First Party) to be material if, had the true facts been known, the Loan would not have been eligible for coverage at the time of origination or would have received a different premium rate.
  3. Notwithstanding the foregoing, the Company will not rescind coverage if, after finding evidence of misrepresentation in the Application, the Company determines, in its sole judgment, that such misrepresentation is immaterial.
  4. In the case of rescission, the Company shall return at that time all paid premiums retroactively to such applicable date in a manner that permits the Insured to ascertain the specific Loan to which such premiums relate. 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.
  5. Subject to Subsection (3) above, if a representation is inaccurate (whether fraudulently or not) and based on the true facts the Loan would have been eligible for coverage but would have received a different premium rate, the premium owed will be required to be paid to the Company or, if the Company shall so determine, be offset from Insurance Benefits otherwise payable.”
5. The text of Section I(H) (Incontestability for Certain Misrepresentations) is deleted in its entirety and is replaced with the following:
- “H. Incontestability for Certain Representations
1. Notwithstanding Sections I(F) (Representations of the Insured), I(FX) (Investigations Relating to Representations) or I(G) (Company’s Remedies for Misrepresentation), no Claim for Loss payable under this Policy with respect to a Delegated Underwritten Loan arising from a Default otherwise covered under the Policy, will be denied or adjusted, nor will the Certificate’s coverage be rescinded or cancelled, by reason of any misrepresentations other than those related to the Down Payment (whether by statements made or omitted) contained in the Delegated Underwritten Transmittal or in any application documents for the Loan, provided that all of the following requirements, conditions and circumstances, to the extent not waived in writing at the option of the Company, are satisfied:
    - a. The misrepresentation must not have been knowingly made, or knowingly participated in, by a First Party.
    - b. The Company’s payment of a Claim will not limit any rights which the Company has against the Borrower or any other Person (other than the Insured) for any misrepresentation.
  2. The Company will not reach a determination that a First Party knowingly made or knowingly participated in the fraud or misrepresentation of a Borrower unless the Company has credible evidence that the First Party knew or should have known of the fraud or misrepresentation at the time of the Certificate Effective Date. Examples of credible evidence of First Party misrepresentation and/or fraud include, but are not limited to:

- a. Fraudulent VOE, VOD or HUD -1 (as these documents should not be within the Borrower's control). Note that while the Company views verifications as important parts of a lender's control process, the Company would be open to investigative findings submitted by the Insured that rebut the presumption of First Party knowledge or participation founded on a fraudulent VOE, VOD or HUD-1;
  - b. Undisclosed mortgage to the Borrower by same originator as the subject Loan (as the originator should detect such other loan and ensure it is disclosed); and
  - 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 selectively utilized information in producing the appraisal that established the Original Value (e.g., if the sales history of the subject property or relating to comparable properties is misrepresented).
3. The Company will not consider findings from the following investigative practices to be sufficient, by itself, to establish First Party misrepresentation and/or fraud:
  - 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 mortgage application;
  - 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."
6. The following provision is added as a new Section in (C) (Exclusions or Reductions in Coverage):

"O. Non-Complying Loans Exclusion. Any Claim for a Loan (a) if such Loan did not meet the Eligibility Criteria in effect at the time the related Delegated Underwriting Transmittal was submitted to the Company in all material respects, (b) if the terms of this Policy were materially breached for that Loan when coverage was extended to the Loan or thereafter, or (c) if the Delegated Underwritten Loan file record for such Delegated Underwritten Loan is not furnished for review or audit within forty-five (45) days after the Company's written request. However, this exclusion shall be limited as follows:

  1. In the event that the first thirty-six (36) months' payments have been paid on time and from the Borrower's Own Funds, the Company will deem underwriting errors or failure to comply with the underwriting guidelines to be immaterial to the underwriting determination and will not rescind coverage. Note, however, that the Company may always request Loan files in accordance with Section VI(A) of the Policy, and a misrepresentation of a Material Eligibility Factor (i.e., Documentation Type, FICO, Loan Amount, Loan Purpose, LTV/CLTV, Occupancy, Prior Bankruptcy, Prior Foreclosure, Prior Voluntary Conveyance, Pre-Foreclosure Sale or Short Sale, Product Type, Property Type, Seller Contribution) hereto may be deemed to be material even after thirty-six (36) months of timely payments from the Borrower's Own Funds. The Company will not rescind coverage if, after finding

evidence of a misrepresented Material Eligibility Factor, the Company determines, in its sole discretion, that such misrepresentation is immaterial.

2. Unfulfilled requests for documents and other information will not by themselves be a cause for rescission or denial unless the failure to produce such documents or information has, in the Company's reasonable judgment, materially prejudiced the Company's ability to conduct a complete, proper and timely review of the Loan. Where possible, the Company may rely on alternative documentation to enable its full review of the Loan. As non-exhaustive examples,

- a) Loan instrument (*i.e.*, note, bond or other evidence of indebtedness). A request for a missing Loan instrument may be satisfied if the Insured produces a copy of the payment history, provided the Company is able to verify the original Loan amount, the note type and interest rate from that payment history;
- b) Mortgage, deed of trust, or similar instrument. In the event a mortgage, deed of trust, or similar instrument is missing, the Company may be able to check public records to verify the lien;
- c) Employment. Missing verifications of employment may be remedied by re-verifying with the applicable employer, the employment and salary representations. Missing tax returns may be remedied by providing executed IRS Form 4506 to verify that the income was correct.
- d) Assets. Missing banking statements and verifications of deposit may be remedied by re-verifying with the bank that the Borrower did have the assets as represented.
- e) Appraisal. Missing original appraisal may be remedied by the Company verifying the Original Value of the Property utilizing a historical or current broker price opinion or appraisal. An historical valuation can be used to validate the Original Value, and current valuations can also be used to so validate if market trends are also considered. Property type and the status of completion of construction may be verified with a current broker price opinion or appraisal."

7. The following provision is added as a new subsection (e) to Section V(A)(1) (Claim Information):

"(e) Unless already requested by the Company, copies of all documents, writings, and memoranda of communications relating to the Delegated Underwritten Loan which are in the possession or under the control of the Insured or the Servicer."

8. The following provision is added as a new Section VI(L):

"L. Delegated Underwriting Program Provisions. The Company shall, pursuant to the terms of the Delegated Underwriting Program as disclosed to the Insured at the time the Insured is approved or continued as a participant in the Delegated Underwriting Program, extend coverage

under this Policy for those Loans submitted to the Company via a Delegated Underwriting Transmittal or other approved form of transmittal via the Company's internet portal, accessible at [www.essent.us](http://www.essent.us) or other approved medium for transmission. Because the Delegated Underwriting Transmittal or other approved form or transmittal contains or is deemed to contain a representation to the Company that each Delegated Underwritten Loan insured under the Delegated Underwriting Program complies with the Underwriting Guidelines in all material respects (unless a prior approval to an exception has been granted by the Company and noted on the Delegated Underwriting Transmittal), the Company reserves the rights to rescind coverage with respect to a Delegated Underwritten Loan or deny a Claim for a Delegated Underwritten Loan if the Delegated Underwritten Loan file record for such Delegated Underwritten Loan is not furnished for review or audit within forty-five (45) days after the Company's written request for the same."

9. The following provision is added as a new Section VI(L)(1):

"1. Term of the Delegated Underwriting Program. The Company shall continue to extend coverage to Delegated Underwritten Loans originated by the Insured under the terms of the Delegated Underwriting Program until the Company either terminates the Delegated Underwriting Program by giving thirty (30) days prior written notice of such termination, or cancels this Policy in accordance with Section I(E)(5) (Cancellation of Master Policy). Such termination of the Delegated Underwriting Program or cancellation of the Policy shall not affect coverage that has been extended to a Delegated Underwritten Loan, prior to the effective date of such termination or cancellation. Termination of the Delegated Underwriting Program will not cancel the Policy."

10. The following provision is added as a new Section VI(L)(2):

"2. Changes in the Guidelines. The Company retains the right to change the Underwriting Guidelines, at any time, and from time to time by giving the Insured forty-five (45) days written notice of such changes. Any Loans with a Commitment date more than forty-five (45) days after notice of such changes must comply in all material respects with the Underwriting Guidelines, as so amended, to be eligible for coverage under the Policy. Loans with a Commitment date prior to the expiration of the forty-five (45) day notice period shall comply in all material respects with the Underwriting Guidelines in effect at the time such Loans received a Commitment."

11. The following provision is added as a new Section VI(L)(3):

"3. Auditing Procedures. The Company shall have the right to periodically audit, during normal business hours upon reasonable advance notice, the records, books and accounts of the Insured or the Servicer pertaining to the Delegated Underwritten Loans for compliance with the terms of the Policy and the Underwriting Guidelines. In addition, the Insured or the Servicer shall, upon written request of the Company, forward a complete copy of the file on any Delegated Underwritten Loan, including the Borrower's loan application, purchase contract, appraisal, credit report, verifications of employment, income and deposit, and HUD-1 or other settlement statement. Further, the Company shall have the right to review and copy the Insured's or the Servicer's file and records pertaining to any Delegated Underwritten Loans insured under the Policy pursuant to the Delegated Underwriting Program."



12. The following provision is added as a new Section VI(L)(4):

“4. Monitoring and Escalation Process. The Company’s commitments in this Endorsement are conditioned on qualifying the original Insured through 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:

- a) Upfront evaluation and ongoing monitoring of the Insured’s loan manufacturing processes;
- b) Quality assurance testing on initial Loan submissions and periodic samples on an ongoing basis;
- b) Monitoring of insured Loan portfolio profile, Loan performance trends (e.g., delinquency and Early Default rates), concentrations of risk and other factors indicative of loan quality and performance;
- c) Ongoing monitoring of the Insured’s financial condition and counterparty strength, and
- d) 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.

In the event that an Insured’s performance, in the Company’s sole discretion, does not meet expectations, the Company will meet with the Insured and confer on recommendations to improve performance. The Company reserves the right to escalate unresolved performance issues if satisfactory progress is not made and to take such other remedial action as the Company deems reasonable or appropriate including, but not limited to, product or underwriting guideline revisions, revocation of delegated underwriting authority, or refusal to accept new Applications for mortgage insurance, as may authorized under Section VI(L)(5) hereof.

13. The following provision is added as a new Section VI(L)(5):

“5. Suspension and Termination.

- a. In addition to adherence to the Underlying Guidelines, the Insured has an ongoing obligation to comply with the Company’s counterparty monitoring requirements. From time to time, the Company will review the Insured’s performance and compliance with its then-current counterparty monitoring requirements, which may include but shall not be limited to the components of the monitoring and escalation process detailed in Section VI(L)(4) hereof. The Company may perform quality assurance testing on initial loan submissions and/or periodic samples on an on-going basis. If the Company determines, after providing evaluative feedback to the Insured on a periodic basis and conferring with the Insured on recommendations to improve portfolio performance, that the Insured has not been complying with the Underwriting Guidelines in all material respects, has not maintained conformity with Company’s counterparty approval requirements (including but not limited to those detailed in this Section VI(L)(5)), 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 either:

- (1) notify the Insured of the Company's intention to terminate the Insured's participation in the Delegated Underwriting Program after thirty (30) days unless the Company's concerns have been adequately addressed. If the Company does not discontinue the suspension within thirty (30) days after written notice of suspension, the Insured's ability to extend coverage to new Loans under the Delegated Underwriting Program shall terminate at the end of that thirty (30) day period or
- (2) suspend or terminate the Insured's ability to extend coverage under the Policy to new Loans upon three (3) Business Days written notice. In this context, "new Loans" means Loans having Loan Applications which are dated more than three (3) Business Days after the date of the notice of suspension."

14. The following provision is added as a new Section VI(L)(6):

"6. Insured's Obligations. The Insured shall retain or direct the Servicer to retain the original Delegated Underwritten Loan file or a complete and true copy thereof for each Delegated Underwritten Loan Insured under the Policy for the longer of (i) the period during which the Delegated Underwritten Certificate relating to the Delegated Underwritten Loan remains in force, or (ii) the period ending one hundred and twenty (120) days after a Claim is paid pursuant to such Delegated Underwritten Certificate. The Insured's failure to maintain such records or to make such records available to the Company after the Company's written request with respect to any Delegated Underwritten Loan, as provided for herein, constitutes a waiver of benefits for such Delegated Underwritten Loan. In addition, the Company shall have the right to set off or recoup any Insurance Benefit which it pays on a Delegated Underwritten Loan for which the Insured has failed to maintain or make available the related Delegated Underwritten Loan file records."

15. The definition of **Application** in the Glossary is hereby deleted in its entirety and is replaced with the following:

"**Application** means the executed documents (including the Delegated Underwriting Transmittal) and the representations made by the Borrower in applying for the Loan which are used by the Insured in determining the eligibility of the Loan for coverage under this Policy, whether or not reviewed by the Company, and any statements and representations made by the Insured, both oral and written (whether transmitted by paper, telephonically, electronically or otherwise), relative to the Loan made in connection with obtaining coverage under this Policy for the Loan, as may be evidenced by documents, writings, electronic media transfers, telephone data transmissions and the like."

16. The following is added to the Glossary as a new definition:

"**Underwriting Guidelines** means those underwriting guidelines as shall be provided by the Company to the Insured at the time the Insured is approved for the Delegated Underwriting Program, as the same may be amended, approved or replaced by the Company from time to time."



This Endorsement does not apply to any Certificate that is not a Delegated Underwritten Certificate nor does it modify the Policy or extend coverage on any Loan that is not a Delegated Underwritten Loan. 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.**



Mark A. Casale, President



Mary Lourdes Gibbons, Secretary

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