

MORTGAGE GUARANTY INSURANCE MASTER POLICY

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



Mary Lourdes Gibbons, Secretary

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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 relating thereto.

B. Eligibility of Loans for Coverage. Loans that satisfy the Eligibility Criteria set forth below and as otherwise prescribed by the Company shall be eligible for coverage under this Policy.

1. **Compliance with Laws.** Each Loan was originated in material compliance with Applicable Law and regulations including, but not limited to, any applicable “fair lending” laws, and including a reasonably sufficient review to ensure that the Borrower is not at the date of Commitment a “specially designated national” or “blocked person” as designated by the Department of Treasury’s Office of Foreign Assets Control.
2. **First Lien, Property Type.** Each Loan is secured by a first lien interest in a Property located in the United States or its territories.
3. **Manufactured Homes.** Each manufactured home that secures a Loan is built on a permanent chassis in compliance with the National Manufactured Housing Construction and Safety Standards Act and regulations thereunder as promulgated by the Department of Housing and Urban Development, is legally classified as real property, contains no more than one dwelling unit, and is at least twelve (12) feet wide and contains 600 or more square feet of gross living area.
4. **Delinquencies.** Each Loan has a next payment due date even with or after the Certificate Effective Date.

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 on a form furnished by or acceptable to the Company, accompanied by all other information and documentation requested by the Company with respect to such Loan.
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 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 Section 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 as 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.

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 Section 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) 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 Section 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 Section 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 Section 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 web-site at 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 Section I(E)(2) (Certificate Cancellation by Insured); or
- e) The Insured cancels the Policy as permitted by Section I(E)(5) (Cancellation of Master Policy).

2. **Certificate Cancellation by Insured.** The Insured or its Servicer 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 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 "canceled," 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 Section 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, as is then published on

the Company's website at www.essent.us. 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 cancellation. Cancellation of coverage for a Loan will not cancel this Policy.

4. **Certificate Cancellation by Company.** Subject to Section I(F) (Representations of the Insured), Section I(G) (Company's Remedies for Misrepresentation) and Section I(H) (Incontestability for Certain Representations), 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 cancel coverage under any Certificate with respect to the related Loan if the Company reasonably demonstrates that any of the Insured's representations made with respect to such Loan were materially inaccurate at the time they were made or if coverage has lapsed under Section 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. Cancellation under this Section I(E)(4) shall be initiated by written notice within thirty (30) days after making such determination from the Company to the Insured. 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 of cancellation of coverage by the Company under this Section 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 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 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. 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), including the Original Value, whether made by it, 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. 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 (whether innocent or otherwise) 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, and

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.

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.

Without otherwise limiting the scope of this Section I(F), a more-than-nominal breach of Section I(F)(4) relating to Down Payment will be deemed a material misrepresentation for purposes of this Section I(F). The Down Payment representation shall be effective whether or not it is made with the intent to deceive or mislead, or with the knowledge that it is not true and correct.

G. Company's Remedies for Misrepresentation. Subject to Section I(H) (Incontestability for Certain 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, the right to defend against a Claim, or 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). In the case of such 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.

H. Incontestability for Certain Representations. Notwithstanding Sections I(F) (Representations of the Insured) or I(G) (Company's Remedies for Misrepresentation), no Claim for Loss 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 an Application, 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:

1. The misrepresentation must not have been knowingly made or knowingly participated in by a First Party.
2. The Borrower must have made the first twelve (12) consecutive, full installment payments of principal, interest and impound or escrow amounts in the amounts as called for by the Loan, and all of those payments must have been made from the Borrower's Own Funds. A payment will be considered to be "consecutive" only if it is made prior to the date the next scheduled installment becomes due.
3. This Section I(H) will not apply to a Certificate if within twelve (12) months before or after a material misrepresentation by a Borrower or other Person (other than those identified in I(H)(1), above), there are one or more material misrepresentations in an Application (i) with respect to three (3) or more other mortgage Loans insured at any time by the Company for the Insured or any other lender and (ii) which result from the direct or indirect acts or omissions of the same Borrower or some other Person (including any other Person acting directly or indirectly in concert).
4. 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.

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 Section II, except that if the damage to the Company arising from an Exclusion listed in this Section II can reasonably be quantified, the Company shall reduce the Insurance Benefit by the amount of such damage, rather than exclude coverage altogether for the Loan in question. In the event a Claim is excluded pursuant to this Section 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 Section 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. 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(A) 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.

B. 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 Section I(D)(5) (Lapse)), or after coverage is terminated or cancelled with respect to a Loan.

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

D. 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.

E. 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.

F. 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.

G. Fraud, Misrepresentation and Negligence.

1. Any Claim relating to a Default that involved or arose out of, or any Claim where the origination of the Loan or extension of coverage hereunder involved or arose out of, any dishonest, fraudulent, criminal, or knowingly wrongful act (including error or omission) by, or through the negligence of any First-Party, the Servicer, or any agent of the foregoing, which act, error, omission, or negligence is material either to the acceptance of the risk or to the hazard assumed by the Company, or

2. Except as provided by Section I(H) (Incontestability for Certain Representations), any Claim relating to a Default that involved or arose out of any dishonest, fraudulent, criminal or knowingly wrongful act (including error and omission) by the Borrower, which act, error, or omission is material either to the acceptance of the risk or to the hazard assumed by the Company.

H. 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.

I. 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 this Policy that is material to either the continuing acceptance of the risk or the hazard that had been assumed by the Company, or that materially contributes to the Default that results in a Claim, with respect to the Loan that has gone into Default.

J. Physical Damage. Except as otherwise provided in Section II(N) (Pre-Existing Environmental Impairment), any Claim where there is material Physical Damage to the Property, occurring or manifesting itself for whatever reason, after the effective date of the applicable Commitment. Cost estimates relied upon by the Company in connection with this Section II(J) shall be provided in writing by an independent party selected by the Company. The Company shall furnish to the Insured or its Servicer a written estimate of the cost of restoration upon request. The exclusion provided in this Section II(J) will not apply if the Property is restored in a timely and diligent manner to its condition as of the Certificate Effective Date, reasonable wear and tear excepted. However, this exclusion shall apply only if:

1. The Company elects to exercise its Acquisition Option pursuant to Section V(B)(1), in which event the Insured or the Third-Party Beneficiary shall have the option to forego restoration of the Property and to receive an Insurance Benefit reduced by an amount equal to the cost of such restoration; or
2.
 - (i) The Physical Damage occurred prior to the Default and was the most important cause of the Default; and
 - (ii) There are not sufficient hazard insurance proceeds available, net of normal and customary deductibles, to repair such Physical Damage; and the Insured or its agent fails to restore the Property to its condition as of the date the applicable Commitment is issued, reasonable wear and tear excepted.

Otherwise, restoration of the Property is not required if the Company elects to exercise its Percentage Option or Third-Party Sale Option pursuant to Section V(B)(2) or (3). For purposes of this Section II(J), the Property subject to restoration will consist only of the land, improvements or personal property deemed part of the real property under Applicable Law; and chattel items affixed to the real property and identified in the Original Value, whether or not they are deemed part of the real property.

K. 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).

L. Down Payment. Any Claim with respect to a Loan which is for the purchase of the Property, and for which the Borrower did not make a Down Payment as described in the Application.

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 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 suspected existence, of the Environmental Impairment is the most important cause of the Default, and (a) was not disclosed in the Application, and (b) has made the principal Residential structure on the Property uninhabitable. A structure will be considered "uninhabitable" if generally recognized standards for residential occupancy are violated, or if, in the absence of such standards, a fully informed and reasonable person would conclude that such structure was not safe to live in without fear of injury to health or risk to safety.

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 Section 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 canceled. 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 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, except as may be permitted by the terms of the Loan or required by Applicable Law, must first obtain the prior written approval of the Company if such change is adverse to the interests of the Company. 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 either:
 - 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 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 Reports. Following a Notice of Default the Insured or its Servicer shall give the Company monthly reports 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 an 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 twenty (20) days after notice from the Company, and the Company shall pay the Insurance Benefit pursuant to the Percentage Option. 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 Section 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 Section 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 Section 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.

3. Claim Advances. 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, 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 Section 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 twenty (20) 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 Section 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 Section 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 lender 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 lender) 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, which approval may be by telephone if 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 request if it does not notify the Insured or the Servicer of its disapproval within five (5) 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, which approval may be by telephone if 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 request if it does not notify the Insured or its Servicer of its disapproval within five (5) 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. The Insured shall begin Appropriate Proceedings not later than a date upon which the Loan becomes six (6) months in Default unless the Company provides written instructions that some other action be taken, or Applicable Law precludes such action. Subject to Section IV(H) (Mitigation of Loss) below, the Company reserves the right to direct the Insured or the Servicer to institute a specific form or type of Appropriate Proceedings at any time after Default, provided that such direction does not contradict industry standards or Applicable Law. When either defending against or bringing Appropriate Proceedings, the Insured must report their status to the Company as reasonably and expeditiously as possible, and at least monthly. In conducting Appropriate Proceedings, the Insured shall: (1) diligently pursue the Appropriate Proceedings once they have begun; (2) apply for the appointment of a receiver and assignment of rents, if permitted and requested by the Company; (3) furnish the Company with copies of notices and pleadings and other legal documents filed or required in the Appropriate Proceedings as requested by the Company; (4) 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; (5) bid an amount at the foreclosure sale in accordance with Section IV(J) (Foreclosure Bidding Instructions) or as otherwise directed by the Company.

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 Section 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;
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 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; 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 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) 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).

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:
 - (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; and
 - (3) Possession of the Property, but only if the Company has required such Possession in writing;
 - (4) Access to the Property, if requested by the Company under Section V(A)(4) (Claim Settlement Period).
- d) Such other information as the Company may reasonably request.

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 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. For purposes of this Section 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 made 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 Sections VI(B) (Effect of Borrower Bankruptcy) and VI(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 at the contract rate stated in the Loan through the date that the Claim is filed with the Company, but excluding applicable late charges, penalty interest or other changes to the interest rate by reason of Default but in no event in excess of 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;

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;
- 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;
- i) The amount of any payments, if any, previously made by the Company with respect to the Loan pursuant to Section IV(C)(3) (Claim Advances);
- j) The amount of any additional premium owed with respect to an approved Loan modification pursuant to Section III(E) (Modification of Property or of Loan Terms); and
- k) The amount, if any, excluded from coverage pursuant to Section II (Exclusions or Reductions in Coverage).

4. **Claim Settlement Period.** The Claim Settlement Period will be a sixty (60) day period after the Company's receipt of a Claim, calculated as follows:

- 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 all items reasonably required to perfect such Claim ("First Request"). The sixty-day period will be suspended until the Company receives such additional documents and information. The Company may request additional documents and information after such twenty (20) day period, and the Insured or the Servicer must use reasonable efforts to satisfy such request, but the sixty (60) day period will not be suspended. 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 documents or information ("Additional Request(s)"), and the Insured or the Servicer must use reasonable efforts to satisfy such Additional Request(s), but the sixty (60) day period will not be further suspended. If the Company does not make an Additional Request within such ten (10) day period, then the Claim will be deemed to be perfected as of the date the Company received the response to the First Request.
 - (3) **Claim Perfection after Denial of Claim.** If a Claim is denied on the basis that a response to a First Request or an Additional Request is

unsatisfactory, and information is subsequently presented to the Company that perfects the Claim within one-hundred eighty (180) days of the Claim filing date, then the Company will re-open and settle such Claim within the remaining Claim Settlement Period; however the Company shall have no less than ten (10) Business Days to so settle.

(4) **Failure to Perfect a Claim.** If the Insured fails to file a Perfected Claim within one hundred eighty (180) days after the filing of the Claim (or within such longer period of time as the Company may allow in writing), such failure shall be deemed to have been an election by the Insured to waive any right to any Insurance Benefit under this Policy with respect to such Loan, unless the Insured or its Servicer has notified the Company in advance of its intention to perfect the Claim. The Company will not deny coverage or adjust a Claim for failure to comply with this provision unless it has first provided the Insured and Third-Party Beneficiary, if known to the Company, with an opportunity to obtain and provide such information within sixty (60) days from notice to the Insured and Third-Party Beneficiary that the Claim was not perfected within one hundred eighty (180) days.

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 then available, the sixty day period will be suspended from the date such notice was given until the Company receives notice that Access is available. The Company agrees to notify the Third-Party Beneficiary that Access is not available and the sixty-day period has been suspended. If Access is not available when sought by the Company after such notice as described above, the Company will promptly notify the Insured or the Servicer and the Third-Party Beneficiary of such unavailability, and the passage of the sixty day period will remain suspended as if the notice of availability had not been given to the Company. If the Company has elected to acquire the Property in settlement of a Claim, the sixty (60) day period also will be suspended if necessary for there to be a period of ten (10) days after the date on which the Insured materially satisfies all conditions of acquisition, including the required restoration of the Property, for the delivery of a recordable deed and the title policy or opinion evidencing Good and Merchantable Title (not subject to any rights of redemption, unless the Company waives such requirement) and, if applicable, delivery of Possession of the Property and during which the Insured or Third-Party Beneficiary may notify the Company of its election to irrevocably withdraw its Claim in lieu of providing title to the Property.

c) **Multiple Causes for Suspension of Claim Settlement Period.** If the sixty (60) day 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) **Penalty Interest.** 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 at the note rate plus ten percentage points (the latter, "Penalty Interest") accruing from the expiration date of the Claim Settlement Period until the date the Claim is paid. The Company must pursue any investigation expeditiously and in good faith. Penalty Interest shall not be included in the Insurance Benefit if the Company's failure to pay during the Claim Settlement Period 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 amount by which the Insurance Benefit would be reduced in accordance with Section II(J) (Physical Damage), if applicable, payable in exchange for the conveyance of Good and Merchantable Title to and Possession of the Property; provided, however, that if the Insured is unable to perform any conditions precedent to payment of a Claim within the later of thirty (30) days after the redemption period or ninety (90) days after the Claim Settlement Period, then, so long as the Claim is not otherwise excluded, the Insured or Third-Party Beneficiary may 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. The Company shall send such deed for recording within sixty (60) days of receipt thereof and may not rescind its decision to acquire once the Insured has fulfilled the conditions of this Section V(B)(1); 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 Section 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 and any cash contribution by the Borrower.

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. The Company will deduct from its payment of Loss such amounts as may be permitted by this Policy and the aggregate amounts of any payments of Loss which it had previously made. In the event of a Loss on a Loan with renewal premiums due monthly the Company shall deduct from the payment of Loss an amount equal to any unpaid renewal premiums for the subject Loan through the end of the monthly renewal period in which such Default occurred.

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 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 \$100,000 with closing costs of three percent (i.e., Third-Party Sale proceeds of \$97,000) and the Company's opinion of the market value of the Property was \$125,000, then Third-Party Sale proceeds would equal \$121,250 (i.e., \$125,000 less \$3,750) for purposes of calculating Actual Loss.

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 the Insured or 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. **Company's Right of Subrogation.** Upon the discharge of its obligation under V(D) (Discharge of Obligation) with respect to a Loan, the Company shall be subrogated, subject to Section V(E)(2) (Concurrent Subrogation Rights), to the Insured's or Third-Party Beneficiary's rights of recovery against the Borrower and any other Person relating to the Loan or to the Property, unless such subrogation rights are prohibited as a matter of law or pursuant to Section V(E)(3) (Procedures to Preserve Subrogation Rights), the Company has determined not to pursue such rights, or unless the Company shall have agreed to a modification of the Loan that includes forgiveness of a portion of the debt. The Insured or Third-Party Beneficiary shall execute and deliver at the request of the Company such instruments and papers and undertake such actions as may be necessary to transfer, assign and secure such rights. The Insured or Third-Party Beneficiary shall refrain from any action, either before or after the payment of an Insurance Benefit hereunder, that shall prejudice such rights. The Company shall indemnify and hold harmless the Insured or Third-Party Beneficiary for any loss, liability, expenses or costs (including reasonable attorney's fees) arising or resulting from this subsection.

2. **Concurrent Subrogation Rights.** If the Company has paid an Insurance Benefit in accordance with Section V(B)(2) (Percentage Option) or Section V(B)(3) (Third-Party Sale Option), the Company shall be subrogated to all of such rights, unless the Insured or Third-Party Beneficiary shall request that it retain a pro rata share of such rights for its own account. If such a request is made, 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 deficiency judgment. If the Company has paid the Insurance Benefit in accordance with Section V(B)(1) (Acquisition Option), the Company shall be subrogated to all such rights.

3. **Procedures to Preserve Subrogation Rights.** The Company will not require, but may request, that the Insured or Third-Party Beneficiary follow special foreclosure procedures or that the Insured or Third-Party Beneficiary take legal action against the Borrower after the foreclosure sale is consummated, in order to establish or maintain a deficiency judgment against the Borrower. Should the Insured or Third-Party Beneficiary agree to follow such special foreclosure procedures or to take such action solely for the benefit of the Company, the Company shall pay commercially reasonable Deficiency Expenses incurred by the Insured or Third-Party Beneficiary in pursuing such action on behalf of the Company; if the Insured or Third-Party Beneficiary determines to retain an interest in the outcome of such special foreclosure procedure or action, then the Company will pay its pro rata share of such Deficiency Expenses, as determined by Section V(E)(2) (Concurrent Subrogation Rights). Similarly, if the Insured or Third-Party Beneficiary undertakes to preserve and pursue a deficiency judgment without being so requested by the Company, the Company will determine whether to share in such deficiency pursuit and will promptly notify the Insured or Third-Party Beneficiary or the Servicer. If the Company will share in the pursuit, it will pay its pro rata share of the Deficiency Expenses thereof; if not, the Company will not pay any of such expenses. When making such determination, the Company and the Insured or the Third-Party Beneficiary, as the case may be, are each entitled to any information that the other may then have that is material to the likelihood of recovery. Such Deficiency Expenses will be paid within thirty (30) days after receipt by the Company of documentation substantiating the amount of such expenses, unless such expenses were previously submitted.

If the Company seeks to recover a deficiency balance from the Borrower, it shall have complete management and control of such recovery activity, provided, that for any Loan and at any time, the Insured or Third-Party Beneficiary may either (i) join with the Company in pursuit of the rights (i.e., the Company may not pursue the Borrower separately if the Insured or Third-Party Beneficiary chooses a shared pursuit under the Company's management and control) or (ii) pursue its pro rata share of the rights separately, subject in either event to its obligation to bear its pro rata share of Deficiency Expenses applicable to any period of shared pursuit.

When funds recovered, including payments received on any promissory note taken in settlement from a Borrower, are to be divided pro rata in accordance with V(E)(2) (Concurrent Subrogation Rights), the Company shall first pay, or reimburse, all recovery expenses paid to third parties, including legal expenses, if any; shall then retain ten percent (10%) of the remaining amount as compensation for its internal recovery expenses; and then shall divide the remainder between the Company and either the Insured or Third-Party Beneficiary, as the case may be, in accordance with Section V(E)(2) (Concurrent Subrogation Rights), within a reasonable time after such funds are

received; except that payments received on any promissory note during a preceding calendar quarter shall be so divided and the Insured's or Third-Party Beneficiary's share shall be paid within a commercially reasonable time after the close of such calendar quarter.

When the Insured or Third-Party Beneficiary does not request to share in the deficiency, or if the Company's share is equal to or exceeds one hundred percent (100%) under the pro rata formula set forth in Section V(E)(2) (Concurrent Subrogation Rights), the Company shall be entitled to retain all funds it recovers.

In the event of a shared pursuit, the Company shall have full authority to settle with, and release from liability, the Borrower and/or any other Person without the Insured's or Third-Party Beneficiary's consent. The Insured or Third-Party Beneficiary shall cooperate with the Company in the execution and delivery of the documentation reasonably required to bring about settlement of the deficiency and release of the Borrower from liability.

The execution by the Insured or Third-Party Beneficiary of a release and waiver of the right to collect the unpaid balance of a Loan shall release the Company from its obligation under its Certificate to the extent and amount of such release, anything in this Policy to the contrary notwithstanding.

VI. Additional Conditions.

A. Duty of Cooperation. When not 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.

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 Section 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 www.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.

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. 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.

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. The Company and the Insured, as the case may be, shall each bear its own costs and expenses for any litigation under this Section VI(G)(2).

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 rescinded Certificate.

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. 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.

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. A Commitment and Certificate issued as the result of any 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 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 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.

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 determining whether or not to exercise its Acquisition Option under Section V(B)(1) (Acquisition Option) of this Policy.

Acquisition Option means the method of determining the amount of Insurance Benefit with respect to a Loan as set forth in Section 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 Section 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 Section 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 that is binding on a party or its affiliates and that is made or given from time to time by any regulatory, 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.

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, furnished 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 the information, if so furnished to the Company, contained in the Borrower's loan application, appraisal, credit profile, verifications of income 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; 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 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 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 Marketable Title. The deed evidencing such title in the Insured or Third-Party Beneficiary need not be re-ordered 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 instructions posted on the Company's website for determining the appropriate refund of premium for coverage having refundable premiums.

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 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, to receive Insurance Benefits in accordance with Section V(A)(2) (Filing of Claim). A Claim received by the Company containing all information or proof reasonably required by the Company 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 Section V(A)(3) (Calculation of Claim Amount) of this Policy, subject in all cases to Section II (Exclusions or Reductions in Coverage).

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 when the Claim is filed and ending on the date that is sixty (60) days from the date of receipt by the Company of the Claim, or on such later date as may result from an extension of the sixty (60) day period pursuant to Section V(A)(2) (Filing of Claim).

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.

Closed means consummated and will be deemed to have taken place on the later of: (a) the date of 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.

Court Expenses means the commercially reasonable out-of-pocket cost of initiating and conducting Appropriate Proceedings 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.

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

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 Section II (Exclusions or Reductions in Coverage) with respect to reductions in the Insurance Benefit. If 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.

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.

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, except as fully disclosed in writing to the Company prior to the issuance of the

Commitment, towards the purchase price of the Property, or (b) a verifiable equity in the Property vested in the Borrower only, after completion of the improvements in accordance with 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 shall have the meaning set forth under the definition of "Default" in the Glossary to this Policy.

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.

Environmental Impairment means the presence of any "Hazardous Substance" as that term is defined by the federal Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. 9601 *et seq.*, as amended from time to time) or any similar state law, or any "Hazardous Waste" or "Regulated Substance" as those terms are defined by the federal Resource Conservation and Recovery Act (42 U.S.C. 6901 *et seq.*, as amended from time to time) or any similar state law, which terms are deemed to include, but not be limited to, (a) nuclear or radioactive contamination, or (b) contamination by toxic waste, chemicals or other hazardous substances or other pollution, or (c) contamination by electromagnetic fields or radiation, or (d) other environmental or similar hazards or a condition that is generally claimed to be such a hazard affecting the Property. Environmental Impairment does not mean the presence of radon gas, lead paint, or asbestos.

Exclusions mean those exclusions from coverage set forth in Article II.

Fannie Mae means the Federal National Mortgage Association, as created by the Federal National Mortgage Association Charter Act (12 U.S.C. 1715 *et seq.*), together with its successors and assigns (including, without limitation, any successors or assigns with respect to one or more Loan).

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, the Seller, correspondent lender, mortgage loan broker, or other intermediary 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 escrow or closing agent, or any agents 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 successors and assigns (including, without limitation, any successors or assigns with respect to one or more Loan).

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 materially adversely affected by, such restrictions, covenants, regulations or ordinances;

3. Easements, rights or way, sewer and utility rights, mineral, oil or timber rights, or any impediments which will not have a materially 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 Insured is not the Third-Party Beneficiary.

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 Section 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.

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 all documents and data in hard copy and/or electronic format created or received in connection with the origination and closing of the Loan, including as applicable: the signed loan application; disclosure statements; purchase contract; credit reports;

verifications of employment, income and deposit; HUD-1 or other settlement statement; the original note; the executed mortgage (including any riders thereto once returned from the land records); and evidence of the Original Value.

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 Section 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, any Environmental Impairment, 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 \$3,500 such that the estimated cost to repair the Property is \$3,500 or more before the exclusion set forth in Section II(J) (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, unless it is noted in the appraisal or other evidence of Original Value.

Policy means this contract of insurance, together with all Applications, Annexes, face pages, endorsements, 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.

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 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, 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 with respect to a Loan set forth in Section V(B)(3) (Third-Party Sale Option).

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 Physical Damage to the Property.

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.** Section 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 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. Section 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(A) (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.