Home Financing Basics “Just the Facts”

MARY KRUEGER
NMLS 166430 VA/MD/DC/FL

Understanding the mortgage cycle helps you…

- Increase your credibility with your client base
- Recognize and understand common terms
- Set buyer expectations
- Minimize Buyer anxiety about the home-buying process
- Encourage full Pre Approvals so you can
  “Know Before You Show”

Putting the Pieces Together!

4 C's of Underwriting

CREDIT – willingness to repay

CAPACITY – DEBT to INCOME ratios DTI

CAPITAL – Source & Seasoning

COLLATERAL – Appraisal - LTV

What documents does the lender want and why?

“2”

- Most recent 30 day pay stubs (usually 2)
- Most recent 2 years W-2’s, 1099’s, K-1’s
- Most recent 2 years personal IRS Federal Returns – all pages & schedules (3 years if applying for first time homebuyer programs)
- Most recent 2 years business IRS Returns, Current YTD Profit & Loss Statement - if self-employed
- Most recent 2 months or quarterly asset statements for checking, savings, investment and retirement accounts
- Documentation to support past credit challenges (case by case)
- Documentation on Divorce – alimony/child support
- Photo ID, Driver’s license, Green Card, Social Security card

Upfront Underwriting,
7 day processing and close in 8 days!

Understanding Credit Scores & their impact on the loan

How Credit Scoring Helps You

Credit scores give lenders a fast, objective measurement of credit risk

- People can get loans fast
- Credit decisions are fairer
- Older credit problems count for less
- More credit is available
- Credit rates are lower overall

Your Credit Report- The Basis of Your Score

- **Credit reporting agencies maintain files on millions of borrowers**
  - ***Equifax: (800) 685-1111*** ***www.equifax.com***
  - ***Experian: (formerly TRW) (888) 397-3742*** ***www.experian.com***
  - ***TransUnion: (800) 888-4213*** ***www.transunion.com***

What a FICO Score Considers

<u>Five</u> main categories of information that FICO scores evaluate, along with their general level of importance.

Within these categories is a complete list of the information

that goes into a FICO score.

Please note that:

- **A score takes into consideration <u>all these</u> categories of information, not just one or two.**
- **Your FICO score only looks at information in your credit report.**
- **Your score considers both positive and negative information in your credit report.**

1 = Payment History

What is your track record?

Approximately 35% of your score is based on this category.

Your score takes into account:

- **Payment information on many types of accounts.**
- **Public record and collection items—reports of**
- **events such as bankruptcies, foreclosures, suits, wage attachments, liens and judgments.**
- **Details on late or missed payments ("delinquencies")**
- **How many accounts show no late payments**

2 = Amounts Owed

How much is too much?

Approximately 30% of your score is based on this category.

Your score takes into account:

- **The amount owed on all accounts, and on different types of accounts**
- **How many accounts have balances.**
- **How much of the total credit line is being used on credit cards and other "revolving credit" accounts.**
- **How much of installment loan accounts is still owed, compared with the original loan amounts**

3 = Length of Credit History

How established is yours?

Approximately 15% of your score is based on this category.

Your score takes into account:

- **How long your credit accounts have been established, in general.**
- **How long it has been since you used certain accounts**

4 = New Credit

Are you taking on more debt?

Approximately 10% of your score is based on this category.

Your score takes into account:

- **How many new accounts you have.**
- **How long it has been since you opened a new account.**
- **How many recent requests for credit you have made, as indicated by inquiries to the credit reporting agencies.**
- **Length of time since credit report inquiries were made by lenders.**
- **Whether you have a good recent credit history, following past payment problems.**

5 = Types of Credit in Use

Is it a "healthy" mix?

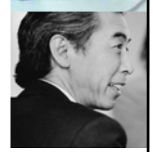
Approximately 10% of your score is based on this category.

Your score takes into account:

- **What kinds of credit accounts you have, and how many of each.**

How Long Does Information Remain On A Credit File?





Chapter 7 – Straight Bankruptcy……………………………………………….10 Years
Chapter 11 – Reconstruction / Business / Individual…………………………..10 Years
Chapter 12 – Farm…………………………………………………………………10 Years
Chapter 13 – Bankruptcy / Wage Earner Plan Complete……………………….7 Years*
Judgements……………………………………………………...7 Years from Date Filed
Foreclosures…………………………………………………7 Years from Date Foreclosed
Collections…………………………………..7 years from Date of Original Delinquency
Paid Tax Liens…………………………………………………….7 years from Paid Date
Unpaid Tax Liens…………………………………...Indefinitely from Date Reported
Tradelines……………………...10 Years from date paid or closed (Non-Derogatory)
Tradelines………………..7 Years from date paid or closed (Derogatory 02 or Higher)
Charge Offs…………………………………7 Years from Date of Original Delinquency
Inquiries……………………………………………………………………………..2 Years

*If successfully completed, if not same as a chapter 7 Bankruptcy

- How quickly can one's score change?

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WAITING PERIODS

Summary — All Waiting Period Requirements

The following table summarizes the waiting period requirements for all significant derogatory credit events.

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Bankruptcy — Chapter 7 or 11	4 years	2 years
Bankruptcy — Chapter 13	• 2 years from discharge date • 4 years from dismissal date	• 2 years from discharge date • 2 years from dismissal date
Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years	3 years from the most recent discharge or dismissal date
Foreclosure	7 years	3 years Additional requirements after 3 years up to 7 years: • 90% maximum LTV ratios[2] • Purchase, principal residence • Limited cash-out refinance, all occupancy types
Deed-in-Lieu of Foreclosure or Preforeclosure Sale	• 2 years — 80% maximum LTV ratios[1] • 4 years — 90% maximum LTV ratios[1] • 7 years — LTV ratios per the *Eligibility Matrix*	2 years — 90% maximum LTV ratios[1]

[2] References to LTV ratios include LTV, CLTV, and HCLTV ratios. The maximum LTV ratios permitted are the lesser of the LTV ratios in this table or the maximum LTV ratios for the transaction per the *Eligibility Matrix*.

How credit scores will impact one’s rate

CONVENTIONAL loan score price bumps

>=740	+0.25%
720-739	+0.50%
700-719	+1.00%
680-699	+1.75%
660-679	+2.75%
620-659	+3.125%

FHA/VA loan score price bumps

>=760	.5% improvement
720-759	.25% improvement
660-719	0
640-659	+.75%
620-639	+1.0%

Trended Credit Data – What to Expect

“Greatest change in our industry since the adoption of the credit score”

- Fannie DU Version 10.0 release on September 24th
- Differentiate “TRANSACTORS” and “REVOLVERS”
- Data provided by Equifax and Transunion
  - 24-month look back period
  - Account balance, Scheduled and Actual payment
  - Not all accounts will have Trended Credit Data
- No change to the score model at this time (H.R. 4211)
- Not factored into the credit score calculation
- What is Fannie Mae doing with this information?

CREDIT LAW credit repair

CREDIT LAW CENTER

Attorney based Credit Repair

You don't pay until is goes away

1-800-994-3070

Questions

LOAN TYPES:

- Conventional

  FHA / VA

  USDA / VHDA

  Jumbo

  Seconds – piggy back

  Fixed
  ARM
  Buydowns
  Balloons
  Interest Only

Loan Limits

Fannie Mae/Freddie Mac Max Loan Limits

WASHINGTON-ARLINGTON-ALEXANDRIA	Conforming	$424,100
	High Balance	$636,150

FHA max Loan Limits

MSA Name	County Name	St.	One-Family	Two-Family	Three- Family	Four- Family	Median Sale Price
WASHINGTON-ARLINGTON-ALEXANDRIA, DC-VA-MD-WV METRO	LOUDOUN	VA	**$636,150**	**$814,500**	**$984,525**	**$1,223,475**	**$780,000**

FHA

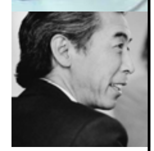
How Does It Work?

- FHA (Federal Housing Administration)-insured mortgages have many advantages for homebuyers and refinancers. Among them; assumability, low down payments and liberal qualifying ratios.

- FHA borrowers do not have to meet maximum income qualifications, as with many other government programs. Maximum loan amounts, however, are set by region across the country.

General Features of The FHA Product





- Fixed Rate or 5 or 7 year ARMS are available
- Borrowers 3.5% required investment may consist of down-payment plus closing cost
- Seller can pay up to 6% sales price toward closing costs, prepaids, interest buydown (not for long)
- 100% gift allowed for down payment with no money from buyer required
- NOW 1.75% UFMIP and .85% monthly
  - *LIFE OF LOAN*

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26

Questions

VA

FEATURES	BENEFITS
No downpayment on loans up to $424,100	Veterans may retain their savings
Monthly Mortgage insurance is NOT required	Monthly payment is less without having to pay a monthly fee
Cash Reserves are NOT required	Veterans may retain their savings
Fixed rate 30 or 15 and 5/1 ARM	The Veteran has a choice as to what program is best suited for his/her needs
4% seller concession limitation does not include most closing costs	Allows seller to contribute MORE toward the transaction
Assumable under original terms	Assumption feature offers attractive resale option, if interest rates at time of resale are higher than the VA loan
An existing VA loan may be refinanced with a Interest Rate Reduction Refinance loan without an appraisal	Provides Veteran with a quick and easy and less costly means to refinance the VA loan to take advantage of lower interest rates.

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Funding Fee Chart

Effective Date	Type of Usage	Down Payment	Active Duty or Veteran	Reservist / National Guard
10/01/04 – 09/30/11	First-time use	0 – 4.99% down payment	2.15%	2.40%
01/01/04 – 09/30/11	Subsequent use	0 – 4.99% down payment	3.30%	3.30%
01/01/04 – 09/30/11	First-time use & subsequent use	5% or more - 9.99%	1.50%	1.75%
01/01/04 – 09/30/11	First-time use & subsequent use	10% or more	1.25%	1.50%

Questions

30

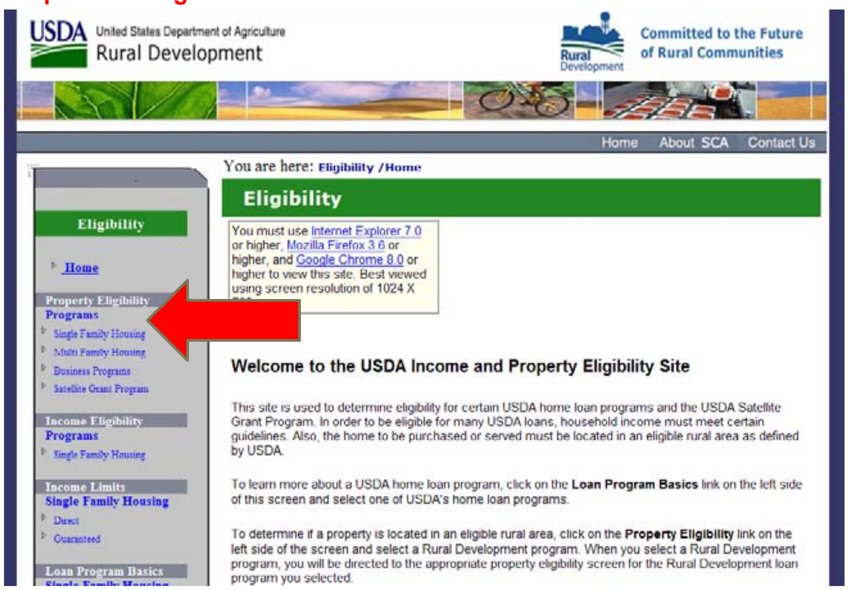
USDA

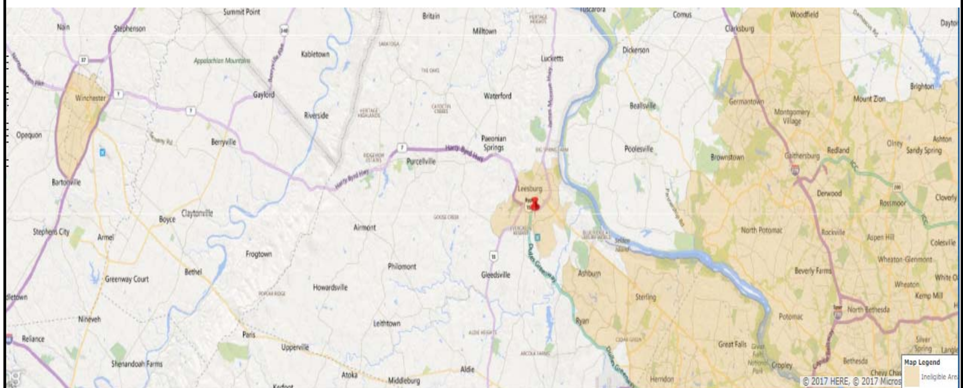
Rural Housing

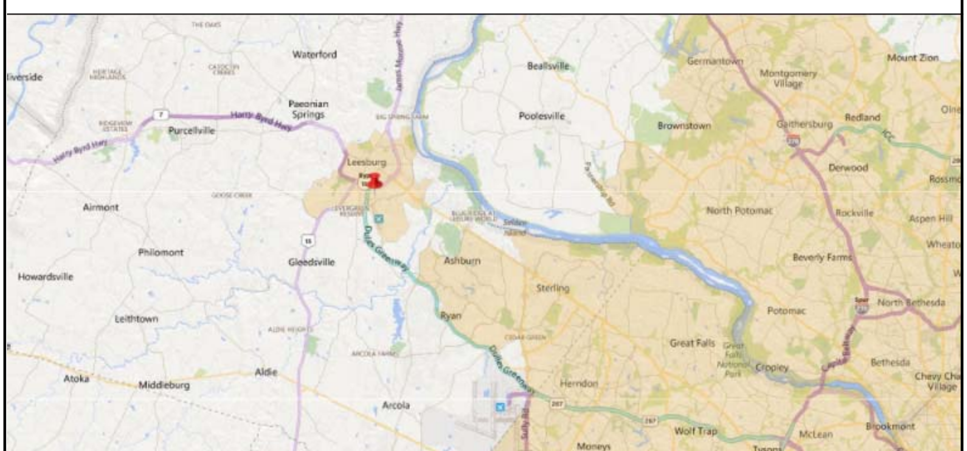
USDA/Guaranteed Rural Housing features and benefits

- Primary Residence only
- Purchase or Rate/Term Refinance
- 100% Maximum Loan to Value
- 620 Min credit score (down to 580 with exception)
- < 680 29% / 41% ratios > 680 ratios 32/41% or 29/44%
- NOT limited to First Time Home Buyers
- Property and Income Eligible –
  property must be located in an eligible rural area, (SFD, PUDS, CONDO)
  household income must not exceed the adjusted income limit based on the number of people who will occupy the home as their primary residence.
- Guarantee Fee = 1% upfront, .35% monthly
- No Reserves

http://rd.usda.gov




Summit Point
Britain
Milltown
Comus
Clarksburg
Woodfield
Stephenson
Kabletown
Dickerson
Winchester
Opequon
Berryville
Gaylord
Riverside
Waterford
Paeonian Springs
Purcellville
Leesburg
Bartonville
Boyce
Claytonville
Stephens City
Greenway Court
Bethel
Frogtown
Airmont
Philomont
Howardsville
Gleedsville
Upperville
Paris
Leithtown
Middleburg
Aldie
Ashburn
Sterling
Ryan
Herndon
Great Falls
Poolesville
Beallsville
Germantown
Montgomery Village
Gaithersburg
Redland
Derwood
North Potomac
Rockville
Beverly Farms
Potomac
Bethesda
Mount Zion
Map Legend


Waterford
Paeonian Springs
Purcellville
Harry Byrd Hwy
Leesburg
Airmont
Philomont
Gleedsville
Howardsville
Leithtown
Atoka
Middleburg
Aldie
Arcola
Ashburn
Sterling
Ryan
Herndon
Great Falls
Beallsville
Poolesville
Brownstown
Germantown
Montgomery Village
Gaithersburg
Redland
Derwood
North Potomac
Rockville
Aspen Hill
Beverly Farms
Potomac
North Bethesda
Bethesda
Cropley
Wolf Trap
McLean
Brookmont
Moneys Corner
Mount Zion

38

Questions

Know it all. © 2009 AllRegs

Mortgage Tax Credit Certificate

- VHDA MCC

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VHDA FHA PLUS
Conv. 97% NO MI
Conv. Low MI
Grants

VHDA Loan Eligibility Requirements

Loan applicants must:
• Be a First Time Homebuyer. (No prior ownership in any principal residence during previous 3 years)

•Intend to occupy the property.

•May not use home in trade or business.

•Lot size limited to 2 acres (waivers may be obtained up to 5 acres).

•Demonstrate creditworthiness.

•Demonstrate stable income and adequate funds for down payment and closing costs.

•Meet program income and sales price limits.

•Complete VHDA's Homeownership Education class.

Loan programs limit borrower income, sales price and loan amount.

Effective 9/2017

VHDA Standard and Grant Income Limits

Area	Maximum Gross Household Income				Sales Price/Loan Limits
	2 or Fewer People		3 or More People		New & Existing Construction
	Standard	With VHDA Down Payment Grant	Standard	With VHDA Down Payment Grant	
Washington-Arlington-Alexandria	$125,700	$100,500	$146,700	$117,300	$500,000
Charlottesville	$90,000	$72,000	$105,000	$84,000	$375,000
Richmond	$88,200	$70,500	$102,900	$82,300	
Norfolk-VA Beach-Newport News	$83,200	$66,500	$97,000	$77,600	
Culpeper	$87,500	$70,000	$102,100	$81,600	$425,000
Rappahannock	$85,200	$68,100	$99,400	$79,500	
Warren	$84,200	$67,300	$98,200	$78,500	
King George	$92,600	$74,000	$106,900	$85,500	$322,900
All Other Areas of Virginia	$76,700	$61,300	$88,200	$70,500	$251,900

Low Down Payment comparison

	FHA 3.5% down	MM M.A.P.	Conventional 97% 28% MI	VHDA Conv 97% 18% MI	VHDA Conv 97% NO Mi
Sales price	$400,000	$400,000	$400,000	$400,000	$400,000
Down payment	$14,000	$12,000 - $12,000	$12,000	$12,000 -$8,000	$12,000 -$8,000
Loan Amount	$386,000/ $392,755	$388,000	$388,000	$388,000	$388,000
RATE	4.25 %	4.5%	4.5 %	4.375 %	4.75 %
P&I	**$1,932**	**$1,966**	**$1,966**	**$1,937**	**$2,024**
Mortgage Insurance	$6,755 $271	$194	$155	$120	-0-
Payment NO tax/ins	**$2,203**	**$2,160**	**$ 2,121**	**$ 2,057**	**$ 2,024**
MCC tax benefit	- $ 278	- $291	- $ 291	- $283	- $307
After tax payment	$ 1,925	$1,869	$ 1,830	$ 1,774	$ 1,717

VHDA Sample Rates as of 11/2017

Fixed FHA, VA

Option Name	Interest Rate	Discount Points
Standard	3.625	1.25
Option 1	3.75	0.25
Option 2	3.825	-0.25

FHA Plus

Option Name	Interest Rate	Discount Points
Standard	3.875	1.250
Option 1	4.000	0.250
Option 2	4.125	-0.250

Conv LOW MI

Option Name	Interest Rate	Discount Points
Standard	4.00	1.25
Option 1	4.375	0.50
Option 2	4.50	-0.125

Conv 97 NO MI

Option Name	Interest Rate	Discount Points
Standard	4.625	0.875
Option 1	4.75	0.5
Option 2	4.875	-0.125

Other Assistance Opportunities for 1st THB

- COUNTY DPCC – 10% of sales price
  - First-time homebuyers purchasing a home either through the Affordable Dwelling Unit (ADU) program or purchasing an existing market value home can borrow up to 10% of the sales price or $25,000, whichever is less, at 5% interest. This loan (used for the down payment and closing costs) is in the form of a second trust, payable over a thirty (30) year period with the first three (3) years of payments deferred and interest free.
  - Funding is limited and available on a first come/first served basis. Applicants must currently live and/or work in Loudoun County for a minimum of 6 months. Household incomes must fall within 30% to 70% of the Area Median Income. Current eligible income range is between $30,800 through $71,900, regardless of family size.
  - For additional information or to apply for the loan program, please call 571-258-3814. Karen Thorson
- County PEG – Public Employee Grant Program
  - 5% of sales price – forgivable over 5 years
- Catholics for Housing
  - Funds may be used in Loudoun, Fairfax, Arlington and Prince William
- M.A.P. Movement Assistance Program
  - Up to 3% Grant for Eligible First Time HomeBuyers

46

Questions

46

THANK YOU FOR YOUR TIME

Contact Me!

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NationalMI

Mortgage Insurance 101

Dulles Area Association of Realtors

HOW IT WORKS
PRIVATE MI DEFINED

- MI provides mortgage payment default protection for the lender on individual loans
- MI insures a portion of:
  - Unpaid principal balance
  - Delinquent interest
  - Certain expenses associated with the default and subsequent foreclosure

Here's How It Works

- Value/Price = $100,000
- Loan Balance = $ 95,000 (95% LTV)
- Coverage Level = 30%

Results:

- MI Coverage = $28,500 ($95,000 x 30%)
- Lender Exposure (on unpaid principal balance) = $66,500 (67%)

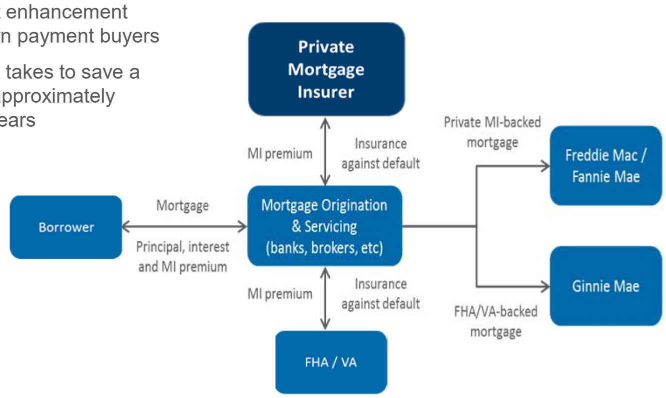
A Less Costly and More Efficient Means of Financing for Borrowers Who do not Make a 20% Down Payment.

MORTGAGE INSURANCE IS NOT:

- **Credit (Mortgage) Life Insurance** – Pays off the mortgage in the event a borrower dies
- **Credit Disability Insurance** - Pays off the mortgage in the event a borrower becomes disabled
- **Job Loss Insurance (Payment Protection Insurance)** – Pays the mortgage payment in the event of unemployment (job loss, medical)
- **Hazard Insurance** – Protects homeowner from losses due to fire, liability and theft
- **Fraud or Appraised Value Coverage** – MI does not generally cover fraud in the loan origination or assure the value of the property as evidenced by the appraisal

WHY IS PRIVATE MI CRITICAL?

- MI promotes home ownership for first-time homebuyers and those with smaller down payments
- 1 in every 2.5 GSE-securitized purchase mortgages currently are first-time homebuyers
- MI provides the credit enhancement needed for lower down payment buyers
- MI reduces the time it takes to save a down payment from approximately 14 years to under 6 years



ADDITIONAL MORTGAGE INSURANCE BENEFITS

What does MI do for the borrower?

A Borrower can buy a home sooner-with a lower down payment.

Regardless of the economy or individual circumstance, prudent consumers always want to know, “What does it do for me?”

With MI, the benefits are many – the ability to buy a home with a lower down payment, tax-deductible premiums for eligible borrowers (through tax year 2016), and a choice of payment options. By protecting the lender from loss in the event of borrower default, MI provides increased home loan opportunities.

For general informational purposes only. Not to be construed as legal or tax advice. Please refer to www.nationalmi.com for a complete description of mortgage insurance terms and requirements.

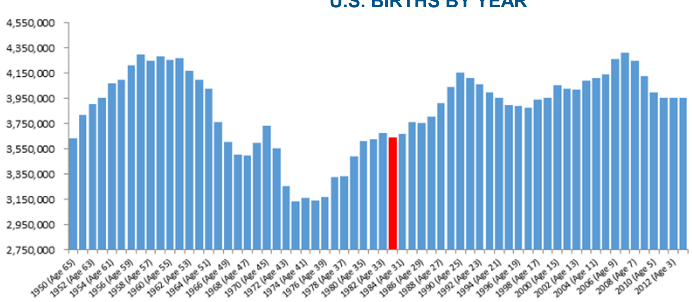
National MI | 4

ource: U.S. Centers for Disease Control and Prevention; NAHB Special Studies "Characteristics of Homebuyers"

HIGHLY FAVORABLE DEMOGRAPHIC TRENDS

- First-time homebuyers represent future opportunity
- 1 in every 3 loans today is to a Millennial homebuyer
- Average age of a first-time homebuyer is 34 years old
  - More Americans will enter the typical first-time homebuyer age nearly every year over the next decade
  - Over 40 MM Americans will reach the age of an average first-time homebuyer over the next decade

U.S. BIRTHS BY YEAR



Source: U.S. Centers for Disease Control and Prevention; NAHB Special Studies "Characteristics of Homebuyers"

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PRIVATE MORTGAGE INSURANCE HISTORY

Private MI Foundations in Post-WWI Housing Needs	Emergence & Growth of a Highly Profitable Industry	Industry Rocked by Lack of Discipline and Economic Events	Return to Profitability/Loss of Discipline	Industry Pummeled by Great Recession	Government Increased Regulations 2008 - Present
▪ The first PMI company was established in NY in 1887, but was not substantial until the post-WWI housing boom. ▪ The **Federal Housing Administration** (FHA) was created in 1934 to revive the housing industry during the Great Depression ▪ The **Federal National Mortgage Association** ("Fannie Mae") was created in 1938 to purchase mortgages from banks	▪ By the 1950s, homebuyers wanted larger homes and prices escalated; lenders needing alternatives to FHA-insured loans turned to Fannie Mae ▪ Profitability and growth = competition; by 1980, there were **15 competitors** in the private MI space ▪ The **Federal Home Loan Mortgage Corporation** ("Freddie Mac") was formed in 1970 in an effort to free the secondary market from its dependence on FHA	▪ The competitive landscape contracted from **15 players to 9** by the 1990s	▪ By the mid 2000s, MIs captured about 80% insured mortgage market (vs. FHA/VA); however, private mortgage insurers were threatened by Piggyback loans and Private securitizations ▪ **Great Recession** starts in late 2007	▪ In 2008, the **Federal Housing Finance Agency** (FHFA) was created ▪ The MI industry was severely impacted as capital was depleted by losses - Triad, PMI, RMIC	▪ FHFA formed and appointed as **conservator** for Fannie Mae and Freddie Mac ▪ Signed legislation enacting **Dodd-Frank Wall Street Reform and Consumer Protection Act** ▪ FHFA has publically stated its plan to "expand reliance on mortgage insurance" ▪ **Introduction of Private Mortgage Insurance Eligibility Requirements (PMIERs)**

WHAT ARE THE PMIERs?

The PMIERs – Private Mortgage Insurer Eligibility Requirements – are requirements for private mortgage insurance companies, in order to be approved by the GSEs. They are designed to ensure sound business practices, so that mortgage insurers are able to pay future MI claims.

"The… PMIERs are intended to mitigate future Enterprise losses, ensure that Approved Insurers maintain sufficient financial strength to withstand a stress macroeconomic scenario and, to the extent possible, create a common set of eligibility requirements for Approved Insurers."

The PMIERs address the following:

- Business Requirements
- Underwriting
- QC Processes
- Lender Approval and Monitoring
- **Financial Requirements**
  - Required assets
  - What counts as assets
  - Credits for reinsurance/risk transfer
  - Reporting Requirements

Source: "Overview of Draft Revised Private Mortgage Insurer Eligibility Requirements", *FHFA*, pg.2, http://www.fhfa.gov/PolicyProgramsResearch/Policy/Documents/PMIERs/PMIERs-Overview.pdf

PMIERs ASSET REQUIREMENTS (EXAMPLE)

Table 4:
Loan Vintage: Post June 2012
Loan Payment Status: Performing (current or not more than one missed monthly payment)
Loan Purpose: non-HARP

Original LTV	Original Credit Score						
	<620	620-679	680-699	700-719	720-739	740-759	760-850
LTV <= 85	13.09%	9.17%	5.85%	4.66%	3.61%	2.73%	1.58%
85 < LTV <= 90	21.22%	14.34%	10.04%	8.14%	6.63%	5.07%	3.07%
90 < LTV <= 95	26.43%	17.45%	12.96%	10.50%	8.95%	6.91%	4.39%
LTV > 95	29.07%	19.20%	14.25%	11.55%	9.84%	7.60%	4.83%

Example (97% LTV/760 FICO): For every $100 of risk, MI must hold $4.83 in assets

Table 5:
Loan Vintage: Post 2008
Loan Payment Status: Performing (current or not more than one missed monthly payment)
Loan Purpose: non-HARP

Multipliers for Post 2008 Loans with Certain Risk Features

Risk Feature	Multiplier
Not underwritten with full documentation	3.00
Investment property at origination	1.75
DTI ratio great than 50%	1.75
Mortgage payment is not fully amortizing	2.00
Cash out refinance	1.50
Original maturity term 20 years or less	0.50
LPMI with Original LTV greater than 90%	1.10
LPMI with Original LTV less than or equal to 90%	1.35

Additional assets required for LPMI Loans

COVERAGE EXAMPLE

Original Loan Amount =

$90,000

Investor Required Coverage =

25%

Pays loan as agreed

Borrower Defaults:
- Unpaid Principal Balance: $88,380

+ Interest From Date of Default to claim filed date (or 60 days after lender takes title)
+ Attorney Fees
+ Property Taxes
+ Hazard Insurance Premiums
+ Preservation Expenses
+ HOA Fees
+ Statutory/Court Costs
+ Escrow Deficit

TOTAL CLAIM = $100,080
$100,080 x 25% = $25,020 Claim Paid

MORTGAGE INSURANCE - FANNIE MAE & FREDDIE MAC COVERAGE REQUIREMENTS

Mortgage Insurance Coverage Requirements

This table provides the mortgage insurance coverage requirements for first-lien mortgages. For certain transactions, the GSEs offers two mortgage insurance coverage level options: standard coverage for the transaction type (noted with ^) and minimum coverage (noted with *) with corresponding pricing adjustments.

Refer to the GSEs websites for detailed information.

MORTGAGE INSURANCE COVERAGE REQUIREMENTS				
	LTV RANGE			
TRANSACTION TYPE	**80.01–85.00%**	**85.01–90.00%**	**90.01–95.00%**	**95.01–97.00%**
Fixed-rate, term ≤ 20 years	6%	12%	16%* + MI LLPA	18%* + MI LLPA
			25%^	35%^
Fixed-rate, term > 20 years; ARMs; and manufactured homes	6%* + MI LLPA	12%* + MI LLPA	16%* + MI LLPA	18%* + MI LLPA
	12%^	25%^	30%^	35%^
HomeReady/Home Possible mortgages, fixed-rate, term ≤ 20 years	6%	12%	16%* + MI LLPA	18%* + MI LLPA
			25%^	25%^
HomeReady/Home Possible mortgage, fixed-rate, term > 20 years; ARMs; and manufactured homes	6%* + MI LLPA	12%* + MI LLPA	16%* + MI LLPA	18%* + MI LLPA
	12%^	25%^	25%^	25%^

BPMI vs LPMI

BPMI	LPMI
▪ Premiums are paid by the borrower ▪ Explicitly disclosed to the borrower ▪ Rates/regulations are based on property state ▪ Subject to Homeowners Protection Act (HoPA) refunds ▪ Premiums can be financed into loan amount (subject to CLTV requirements	▪ Premiums are paid by lender ▪ Funds can be generated through increases in note rate (premium pricing) or increases to origination fees ▪ Premium amount not explicitly disclosed to the borrower • An LPMI disclosure is required (sample is available from National MI) ▪ Rates/regulations based on lender's state of domicile ▪ Not cancellable ▪ Ineligible for Homeowners Protection Act (HoPA) refunds ▪ Cannot be financed into loan amount

CALCULATING MI PAYMENT

MONTHLY EXAMPLE	SINGLE PREMIUM EXAMPLE
▪ Loan Amount: $150,000 ▪ Down Payment: 5% (95% LTV) ▪ Find the MI rate for appropriate LTV, FICO and required percentage of coverage ▪ Example: 95% LTV/30% Coverage/760 FICO Rate = 0.41% (0.41% is an annualized rate) ▪ To calculate monthly payment: • Multiply loan amount ($150,000) x 0.41% • $150,000 x 0.41% = $615 • $615 divided by 12 • $51.25 per month	▪ Loan Amount: $150,000 ▪ Down Payment: 5% (95% LTV) ▪ Find the MI rate for appropriate LTV, FICO and required percentage of coverage ▪ Example: 95% LTV/30% Coverage/760 FICO Rate = 1.70% ▪ To calculate monthly payment: • Multiply loan amount ($150,000) x 1.70% • $150,000 x 1.70% = $2,550

LPMI MECHANICS

Mechanics of LPMI:

- Most lenders use premium pricing (higher note rate) as the source of fund used to pay their LPMI premiums
- Premium pricing usually pays 4x the note bump to the lender when they sell the loan (ex: 0.50% higher note rate = 2.00% higher selling price)
- So a lender wanting to use an LPMI Single (e.g. 1.30%) would divide the LPMI Single rate by 4 and add to the note rate (formula = 1.20% / 4 = ~0.375%)
- This should produce enough price to pay the MI premium
- Example (90% LTV / 770 FICO) LPMI Single Rate = 1.30%:

Note Rate	Selling Price
4.500%	1.00%
4.625%	1.50%
4.750%	2.00%
4.875%	2.50%

+.375%

0.375% note bump pays lender extra 1.50% → Lender pays MI premium out of extra 1.50% → MI premium = 1.30% for 90% LTV / 770 FICO) → Lender retains 0.20% (1.50% - 1.30%)

MI BENEFITS TO LENDERS

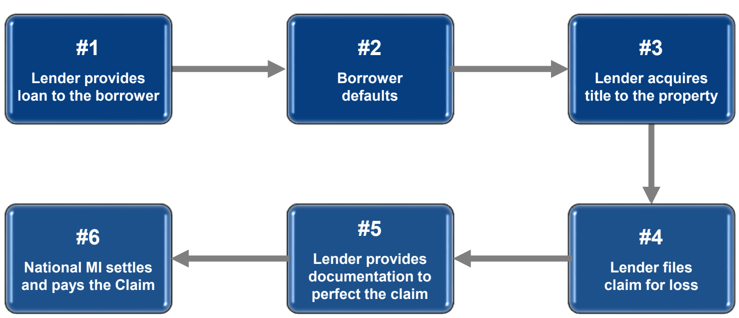
Lenders can benefit from mortgage insurance in the following ways:

- Transfer of risk
- Provides Capital Relief
- Ability to originate and sell high LTV loans on the secondary market
- Training opportunities provided by the MI companies
- **Loss mitigation tool:** the mortgage insurer has a direct interest in engaging with the lender and servicer to prevent default and mitigate a potential claim payment
- Loans with monthly MI are QM friendly as there is no impact to 3% cap on points and fees.

CLAIMS

A claim is a demand payment in accordance with an insurance policy.

Mortgage Insurance claims require a claimable event as defined in the Master Policy.



PRIVATE MI
CANCELLATION vs FHA

Cancellable up to 6 years sooner vs FHA

Unlike private mortgage insurance, cancellable at 78% loan-to-value (LTV), FHA policies for borrowers with LTV ratios greater than 90% cannot be cancelled. For those with LTVs under 90%, policies are cancellable after 11 years versus an average 5 to 7 years with National MI.

CANCELLATION COMPARISONS

LTV	National MI	FHA
> 90% LTV	78% LTV (average 7-10 year term)	Not cancellable
≤ 90% LTV	78% LTV (average 5-7 year term)	Cancellable after 11 years

* Servicer must notify National MI of cancellation.

Assumptions used for above illustrations: purchase transactions, 30-year fixed rate, primary residence. FHA premium rates and cancellation information is from publicly available data. See Mortgagee Letter 2013-04, dated 1/31/2013, and www.fha.gov for latest available FHA information. National MI underwriting guidelines apply. Mortgage insurance is provided by National Mortgage Insurance Corporation.

MI CANCELLATION

Under the Homeowners Protection Act

The Homeowners Protection Act (HoPA) of 1998 established rules for both automatic termination and borrower cancellation of borrower-paid private mortgage insurance (BPMI) on certain home mortgages. The HoPA requires that BPMI be cancelled when a borrower has built up a certain amount of equity in their home. The act covers privately insured first mortgages on single-family primary residences, whose sales were closed on or after July 29, 1999. There are provisions for both borrower-requested cancellation and lender-required automatic termination.

BORROWER-REQUESTED BPMI CANCELLATION — HOMEOWNERS PROTECTION ACT

	Single-Family, Primary Residence
Original Value	Borrower can make a written request for MI termination on the date the mortgage balance is scheduled to reach 80% of the original property value OR the date the mortgage balance has actually reached 80% of the original property value.*
Current Value	Not applicable.

* Borrower must have a good payment history, be current on the loan and satisfy the lender's requirements to demonstrate that there are no subordinate liens on the property and the property value has not declined below its original value.

AUTOMATIC TERMINATION OF BPMI — HOMEOWNERS PROTECTION ACT

	Single-Family, Primary Residence
Original Value	The date the mortgage balance is scheduled to reach 78% of the original property value, if the borrower is current, or, if the borrower is not current, the first day of the month after the date the borrower becomes current.
Current Value	Not applicable.

MI CANCELLATION – CURRENT VALUE

BORROWER-REQUESTED BPMI CANCELLATION — BASED ON CURRENT VALUE*

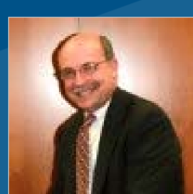
	Single-Family, Primary Residence or Second Home	2-4 Unit Family Principal Residence or 1-4 Unit Investment Property
Fannie Mae®	Borrower can request MI termination on the date the mortgage balance actually reaches • 80% of the current property value, if the seasoning of the mortgage loan is greater than 5 years; • 75% of the current property value, if the seasoning of the mortgage loan is between 2 and 5 years; or • 75% of the current property value if the seasoning of the loan is less than 2 years, but Fannie Mae waived its minimum seasoning requirements.**	The date that the mortgage loan balance actually reaches 70% of the current property value.
Freddie Mac®	Borrower can request MI termination on the date the Loan-to-Value (LTV) ratio is 80% or less, if 5 years or more have elapsed since the origination date of the mortgage; or 75% or less, if 2 or more years, but less than 5 years have elapsed since the origination date of the mortgage.**	Borrower can request MI termination on the date the LTV ratio is 65% or less based on the current value.

* Each GSE has specific requirements with respect to demonstrating current market property value. Consult Fannie Mae and Freddie Mac servicer guides to obtain the most up-to-date requirements.

** Generally, minimum seasoning requirements do not apply if the original borrower on the mortgage loan has made improvements to the property that resulted in an increase in property value

While HoPA only applies to original value, Fannie and Freddie allow for cancellation of MI based on current (appraised) value.

Questions?



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