



Arch Mortgage Insurance Company
United Guaranty Residential Insurance Company
230 N Elm Street
Greensboro NC 27401

T: 800 334 8966

www.archmi.com

**INDEPENDENT VALIDATION ENDORSEMENT TO
FIRST LIEN MASTER POLICY
FORM ARCH 3800.00 (03/20)**

It is understood and agreed that:

- A. The Policyholder intends to deliver Loans to the Company for coverage under the Master Policy as amended by this Independent Validation Endorsement. By delivering a Loan to the Company under the Independent Validation Endorsement, the Policyholder is deemed to acknowledge, understand and agree to the terms and conditions set forth herein.
- B. The Master Policy, as amended by this Independent Validation Endorsement, shall apply to each Loan submitted for Independent Validation (as defined below) under the Independent Validation Endorsement (each a "Independent Validation Loan").
- C. The Master Policy shall be deemed to be amended as set forth below only with respect to Independent Validation Loans and shall not be amended by this Independent Validation Endorsement in connection with any Loan that is not an Independent Validation Loan. The Master Policy is amended as follows for each Independent Validation Loan:

1. The following provisions are added as new defined terms in Section 1 (Glossary):

"Automated Tools" means any system or tool appropriate for use in underwriting a Loan or validating certain Loan or Collateral property information, provided that the Company has first conducted its own due diligence on, and approved such system or tool in its sole discretion as acceptable for insurance decisions.

"Independent Validation" means an independent review conducted by the Company in connection with its potential provision of Rescission relief pursuant to Section 3.1. Independent Validation shall include the following with respect to each of the following three subject matters (the ***"Subject Matters"***):

- a) **Defects/Significant Defects**. A post-close, full-file underwriting of the Borrower and of the Loan for compliance with the Company's eligibility criteria and Underwriting Requirements, which includes a review of (i) the Loan Origination File; (ii) the Post-Close Documents and Data; and (iii) any other documents reasonably requested by the Company.

However, if the Company has previously performed a Mortgage Insurance Underwrite prior to issuing the Commitment or Certificate of insurance then the Company may choose to review Post-Close Documents and Data only. If the Policyholder has been granted the Post-Closing Exception by the Company, then the Post-Close Documents and Data need not be reviewed for Loans subject to a Mortgage Insurance Underwrite prior to an Independent Validation. In such a case, the Rescission relief described in Section 3.2 will apply only after the First Twelve Loan Payments.

- b) Property Eligibility and Property Valuation. A pre- or post-close verification of all documents and information supporting the value of the Property (e.g., purchase contract, Origination Appraisal, valuation verification generated by an Automated Tool or other property valuation deemed acceptable by the MI) for compliance with the Company's property eligibility requirements and to ensure that the estimate of value is adequately supported. The Company may choose to accept a waiver of the Appraisal delivery requirements from a GSE as validation of its property eligibility requirements.
- c) Automated Tools. Verification for a component of a Loan provided by an Automated Tool (e.g., if the Borrower's income is validated by an Automated Tool but the co-borrower's income is not, then relief may be granted only with respect to the Borrower's income). This verification may be conducted by the Company, or by the Insured if documentation evidencing the results from the Automated Tool is provided to the Company.

The Subject Matter(s) for which the Company shall conduct Independent Validation shall be agreed to in Writing by the Policyholder and the Company prior to the date the Company accepts any Loans for coverage under the Independent Validation Endorsement. Such Written agreement shall apply to each and all Independent Validation Loans submitted to the Company and may only be amended by mutual agreement of the parties in Writing with respect to all Independent Validation Loans submitted thereafter.

If, in conducting its Independent Validation, the Company uncovers discrepancies, errors or any other questionable data or other information which it determines, in its reasonable judgment, is in need of re-verification, the Company must conduct such additional independent re-verification for compliance with the Company's eligibility criteria and Underwriting Requirements and/or of the documents and information supporting the value of the Property, including through the use of Automated Tools (if any), and/or reasonably reliable third-party sources and records recognized as such in the mortgage origination industry, as appropriate.

"Post-Close Documents and Data" means with respect to a Loan, complete copies of the final closing disclosure (HUD-1, or other closing disclosure), executed mortgage or deed of trust, original promissory note with any riders, title insurance commitment or attorney's opinion of title, the final application for the Loan from Closing (fully completed, signed and dated by the Borrower), and any other closing documents or information that the Company may reasonably request that it would otherwise review at the time of Claim.

"Post-Close Documents Exception" means the Company's ability to waive a review of the Post-Close Documents and Data for non-delegated full-file underwritten loans in conducting an Independent Validation. The Company may grant or withdraw this exception at its discretion. For loans that pass Independent Validation under this exception, the Rescission relief provisions of Section 3 will apply only after the First Twelve Loan Payments.

2. Section 3 (Significant Defects) is deleted and replaced in its entirety with the following new Section 3:

3. SIGNIFICANT DEFECTS

3.1 Company's Rights to Rescind

This Master Policy does not cover Loans that exhibit, through the Company's reliance on Credible Evidence, one or more Significant Defects. Accordingly, subject to Sections 3.2-3.4, the Company shall have the right to Rescind coverage on a Loan, or provide a Rescission Alternative, if at any time it concludes in reliance on Credible Evidence that a Loan exhibits a Significant Defect. The Company shall not have the right to Rescind coverage on a Loan for a Defect that is not a Significant Defect, but may impose a Price Adjustment as defined in Section 1.84 of this Master Policy on such a Loan.

3.2 Rescission Limitations

Except with respect to Life of Loan Exclusions (as defined in Section 3.3 below), the Company shall not Rescind coverage on a Loan nor issue a Company Initiated Cancellation or Claim Denial pursuant to Section 3.1 following the earlier of:

- a) *Independent Validation.* *Completion of an Independent Validation of the Loan, and only with respect to the Subject Matter(s) for which the Company completes an Independent Validation to its satisfaction.*
 - (i) *To perform an Independent Validation, the Company must receive all documents requested within one hundred twenty (120) days of the later of the Loan Closing Date or completion of the Property, if applicable, or such other period as may be specified in the Policy Commitment Letter. If the Company does not receive all documents requested in the time specified by this Section, then it will not perform an Independent Validation.*
 - (ii) *If, in the course of an Independent Validation prior to the Certificate Effective Date, the Company finds Credible Evidence of a Significant Defect, the Loan shall be ineligible for coverage under the Master Policy, or, if the Company determines that the Loan represents an acceptable risk, it may cover the loan at a Premium reflecting that risk. If such Credible Evidence is found during Independent Validation after the Certificate Effective Date, but prior to the effect of any Rescission limitation under Section 3.2, the Company shall have the right to Rescind coverage on the Loan or provide a Rescission Alternative.*
 - (iii) *If the Company does not find Credible Evidence of a Significant Defect, then the Rescission limitation of this Section shall apply to the Subject Matter of the Independent Validation. However, such Rescission limitations will not apply to Significant Defects relating to occupancy status of the Borrower until the Borrower has made the First Twelve Loan Payments.*
- b) *Thirty-Six Months Test.* *The satisfaction of the First Thirty-Six (36) Months Test.*
- c) *Sixty Months Test.* *The satisfaction of the Sixty (60) Months Test.*
- d) *Quality Control Review.* *The satisfactory completion of a Quality Control Review of the Loan, in the Company's sole discretion, by the Company; or a review by one of the GSEs, if acceptance of*

GSE reviews is agreed to in Writing by the Policyholder and the Company prior to the date the Company accepts any Loans. Such Written agreement shall require the Servicer, or other party as agreed, to submit its GSE reviews, or summaries thereof, for all Loans submitted to the Company and may only be amended by mutual agreement of the parties in Writing with respect to all Loans submitted thereafter.

3.3 Life of Loan Exclusions

The Rescission limitations in Section 3.2 shall not apply in the following circumstances:

- a) Single Loan Fraud. Either an adjudicated finding by a court, arbitrator, or tribunal or a finding by the Company based on clear and convincing evidence of a knowing misstatement, misrepresentation, or omission by any party in connection with the Origination or Closing of a Loan, the Loan Application, or the Insurance Application intended to: (i) defraud any party involved in the transaction; or (ii) obtain any moneys, funds, credits, assets, securities, insurance or other properties from any party involved in the transaction by means of fraudulent pretenses, representations, or promises.*

This Life of Loan Exclusion shall not apply for misstatements, misrepresentations, or omissions by the Borrower if:

- (i) The Loan has been subject to a successful Independent Validation or Quality Control Review by the Company and the Borrower has made the First Twelve Loan Payments; or the Independent Validation or Quality Control Review of the Loan was successfully conducted after the Loan has seasoned at least twelve (12) months, without regard to the delinquency status of the Loan prior to or at the time of such review;*
- (ii) The satisfaction of the First Thirty-Six (36) Months Test; or*
- (iii) The satisfaction of the Sixty (60) Months Test.*

- b) Pattern Activity. A finding of Pattern Activity.*
- c) Data Inaccuracies. Any inaccurate data submitted by or on behalf of the Loan Originator to the Company for purposes of obtaining insurance, if and to the extent such data inaccuracy:*
 - (i) Involves five (5) or more Loans insured by the Company and Originated by the same Loan Originator; and*
 - (ii) Involves the same delivery data element(s); and*
 - (iii) Differs from the information in the Loan Origination File used as the basis of the Insurance Application; and*
 - (iv) The Company determines that, had it known the correct information, either: (i) the Loan would not have been eligible for insurance at the time of Origination; or (ii) the Loan would have been eligible for insurance, but under different terms.*

The only data inaccuracies covered by this Section are those that occur as a result of an operational or system issue involving the electronic transmission of data to the Company.

- d) Non-Compliance with Laws. Any non-compliance with Applicable Law to the extent such non-compliance (i) impairs the enforceability of the Loan, note, bond, instrument or other evidence of indebtedness, mortgage, deed of trust, or other similar instrument, which constitutes or is equivalent to a lien or charge on the Property; (ii) materially increases the amount of the Insurance Benefit; or (iii) the Loan is found by a court or regulatory body to have been in violation of, or if the Company reasonably believes, based on Credible Evidence, that a violation has occurred with respect to, one or more laws or regulations relating to the insurability of the Loan.
- e) Not Secured by First Lien. If the Loan is not secured by a valid, enforceable first lien against the Property.
- f) Unacceptable Mortgage Product. Any Loan that the Company is not permitted to insure under Applicable Law at the time the Loan was Originated.

If a Life of Loan Exclusion applies, the Company shall have the right to Rescind coverage or pursue a Rescission Alternative, at its discretion.

3.4 GSE Repurchase Review Option

- a) In the event that one of the Rescission Limitations in Section 3.2 apply and the Loan is then subject to a repurchase from a GSE for Single Loan Fraud or Pattern Activity (as defined in Section 3.3), the Company shall be permitted to conduct an Independent Validation of the Loan, even if one has already been performed. If, during this review, the Company identifies Single Loan Fraud or Pattern Activity, it may Rescind coverage of the Loan, regardless of whether a Rescission Limitation previously applied or a Rescission Alternative was accepted.
- b) The Insured shall notify the Company in the event that a Loan is required by the GSEs to be repurchased based on Single Loan Fraud or Pattern Activity.

3.5 Rescission/Investigation Parameters

- a) The Company shall not take any of the following actions with respect to a Loan at any time:
 - (i) Rescind coverage solely on the ground that the Insured has failed to provide to the Company a document or other information requested by the Company, if that document or information is not relevant to the Company's investigation as to whether there was a Defect or Significant Defect with respect to that Loan;
 - (ii) Rescind coverage for any reason unless the Rescission is supported by Credible Evidence;
 - (iii) Rescind coverage for misrepresentations which are not Significant Defects;
 - (iv) Rescind coverage when the sole basis for such Rescission is an eligibility and/or underwriting error committed by the Company in the course of its Mortgage Insurance Underwrite or Independent Validation (e.g., a miscalculation by the Company of the Borrower's debt-to-income ratio or a misapplication by the Company of its own underwriting or eligibility requirements). Provided, however, that if the Company determines that there is a basis for Rescission unrelated to the Company's error, the Company shall Rescind coverage on the Loan unless a Rescission limitation has taken effect by operation of Section 3.2.

- b) *Subject to Section 3.5(c), the Company shall not take any of the following actions with respect to a Loan after a Rescission limitation has taken effect by operation of Section 3.2:*
 - (i) *Rescind coverage for a breach of Section 3.1, other than for a Life of Loan Exclusion;*
 - (ii) *Request any documents or information from the Insured for the purpose of investigating a potential breach of Section 3.1;*
 - (iii) *Rescind coverage for failure of the Insured to provide the Loan Origination File, or other documents relating to the Origination of the Loan, unless such documents are required by the Delinquency and Claims Reference Manual. This Section shall not affect the Insured's obligation to provide servicing documents, or other documents not related to the Origination of the Loan, upon request by the Company.*
- c) *Section 3.5(b) shall not apply to the Company's request for documents or information, investigation of a Loan, or Rescission of coverage where such action relates to:*
 - (i) *a Subject Matter for which a Rescission limitation has yet to take effect by operation of Section 3.2; or*
 - (ii) *the Company becomes aware of Credible Evidence of a Life of Loan Exclusion; or*
 - (iii) *documents required under Section 8.1 for the filing of a Claim.*

3.6 *Withdrawal or Limitation of Independent Validation Endorsement*

The Policyholder's authorization to deliver Loans for coverage under the Independent Validation Endorsement is at the Company's sole discretion. The Company has the absolute right to withdraw or limit the Policyholder's authorization to deliver Loans for coverage under the Independent Validation Endorsement for any reason with or without cause. Such withdrawal or limitation shall be effective immediately upon Written notice to the Policyholder.