For Credit Unions

ARCH MI

Credit Union Underwriting Manual

June 1, 2020

Summary of Underwriting Manual Updates

Arch MI's Credit Union Underwriting Manual (the UW Manual) has been updated to reflect the following changes:

- Section 1.04.03, EZ Application, has been removed as this submission method was discontinued on May 31, 2020.
- The Origination Channel Definition section has been renumbered from 1.04.04 to 1.04.03.
- Section 3.06.02.03, Medical and Dental Professionals Program, Additional Underwriting Requirements, has been updated to remove reference to the EZ Application submission type.

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1. Introduction and General Information

The underwriting requirements in this Manual apply only when a Credit Union or Credit Union Service Organization (CUSO) is submitting the loan for mortgage insurance (MI).

Thank you for choosing Arch MI as your mortgage insurance provider. By providing mortgage insurance and sharing the risk of default for mortgage lending, Arch MI helps credit unions and investors expand their lending opportunities. Arch MI promotes the expansion of viable home ownership opportunities through the use of fair and reasonable underwriting requirements that support our objective of making home ownership affordable and sustainable.

Within this Manual, “Arch MI” includes Arch Mortgage Insurance Company and United Guaranty Residential Insurance Company.

1.01. Risk and Underwriting Philosophy (January 4, 2018)

Arch MI’s goal is to ensure that sound underwriting decisions are made on mortgage insurance applications. Specifically, (1) the loan transaction must represent an insurable risk, (2) the loan transaction and collateral must be accurately represented, (3) reasonable judgment must be used and reasonable due diligence applied and (4) the risk associated with the loan transaction can be adequately priced.

Our underwriting requirements are designed to facilitate the assessment of mortgage default and foreclosure risk. The requirements in this Manual establish the boundaries of acceptable risk. The Manual provides a set of comprehensive underwriting requirements to ensure the likelihood that the member[1] will be able to repay the loan. These requirements consider the following:

- Credit: The member’s willingness and ability to repay obligations (credit history).
- Capacity (Income): The stability and amount of the member’s income in relationship to the member’s obligations.
- Capital (Assets and Equity): The member’s total assets, savings history, reserves and investment into the property.
- Collateral (Property): The condition, marketability and value of the property.
- Economic and housing conditions present in the property’s market area.
- Loan transaction: Term, amortization type, adjustable versus fixed, documentation type, etc.

Arch MI is committed to insuring quality loans that make sense for everyone involved. When underwriting a loan, the overall risk of the loan should be considered. An individual risk factor within a loan file may not necessarily create an uninsurable risk, especially when compensating factors are present. However, a layering of risk factors within the loan file without offsetting compensating factors will generally increase the likelihood of foreclosure and create an uninsurable risk. We recognize that certain loans may fall outside Arch MI’s underwriting requirements but still represent an insurable risk. When this happens, the credit union should submit the loan as a non-delegated submission. Arch MI will review the loan carefully to identify any compensating factors that may warrant an exception.

The credit union is responsible for ensuring that the loan information provided within the MI submission is true and accurate. Misrepresentation or fraud presents a serious risk to the likelihood of loan repayment. The credit union should have robust procedures in place to prevent misrepresentation and fraud from any party involved with the loan transaction.

Arch MI reserves the right to request additional information concerning the loan transaction.

[1] Any reference to “member” within this manual is equivalent to “borrower.”

1.02 Fair Housing and Equal Credit Opportunity Acts (March 1, 2017)

Arch MI believes in the fair treatment of all members in accordance with applicable law. We operate in accordance with the provisions of the Fair Housing Act as well as the Equal Credit Opportunity Act (though this law is not directly applicable to Arch MI). The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap or familial status. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction on the basis of sex, race, color, religion, national origin, marital status, age (provided the applicant has the capacity to enter into a binding contract), receipt of public assistance or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

Arch MI fully supports the letter and the spirit of both of these laws and will not condone discrimination in any mortgage guaranty insurance transaction. It is our objective to help make home ownership affordable and attainable.

Our commitment to you and the housing finance industry is a responsibility we take seriously, as we work to encourage fair lending, open new markets, and expand our insurance services.

1.03 Compliance with Laws and Predatory Lending (March 1, 2020)

Arch MI has two submission methods for mortgage insurance applications: non-delegated submissions and delegated data submissions (delegated). Most of the underwriting requirements in this Manual apply to both delegated and non-delegated submissions. When the requirements are different for each submission method they will be clearly identified within the Manual.

1.03.01 Compliance with Laws (March 1, 2020)

Each Covered Loan must comply with all applicable federal, state and local laws, regulations and ordinances regarding the origination, servicing, sale or purchase of residential mortgage loans, including, but not limited to, any applicable “fair lending” laws and including a duly diligent review to ensure that the member 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.

1.03.02 Predatory Lending (March 1, 2020)

Each Covered Loan is not a “High-Cost Mortgage” under the Federal Truth in Lending Act and Regulation Z (15 USC §1601 et seq.; 12 CFR Part 1026), as the same may be amended from time to time, or subject to the Home Ownership and Equity Protection Act of 1994 (“HOEPA”), or any implementing regulations.

1.03.03 Contractual Interest Rate (March 1, 2020)

Each Covered Loan has a contractual rate of interest which does not exceed legal or regulatory maximums.

1.04 Submission Methods (June 1, 2020)

Arch MI has two submission methods for mortgage insurance applications: non-delegated submissions and delegated data submissions (delegated). Most of the underwriting requirements in this Manual apply to both delegated and non-delegated submissions. When the requirements are different for each submission method they will be clearly identified within the Manual.

Regardless of the submission method used, the credit union is responsible for ensuring that the information provided is true and accurate. The credit union is also responsible for notifying Arch MI of any data changes pertaining to the loan (including, but not limited to, loan terms, credit information, income, debts, appraisal, property value or loan amount).

Please see the details for each submission method below.

1.04.01 Non-Delegated Submissions (November 15, 2018)

For a non-delegated submission, the credit union sends a copy of the entire loan underwriting file to Arch MI. With a non-delegated submission, certain underwriting requirements are more expansive than our delegated underwriting requirements (for example, loan amount and credit score requirements).

Underwriting requirements that are more expansive for non-delegated submissions are clearly identified within the Manual.

If you have a loan you believe is an acceptable risk, but is outside our underwriting requirements, we encourage you to submit the loan non-delegated. Our experienced underwriting staff will evaluate the overall risk of the loan to determine its eligibility for insurance (items listed as ineligible within section 2 and those listed in the Ineligibility Matrix in section 3 are generally not available for exceptions).

With a non-delegated submission, our skilled underwriting team can weigh all of the individual risk characteristics and compensating factors. Therefore, you will have peace of mind knowing your loan received a comprehensive MI risk review and the correct decision is made for both the credit union and Arch MI.

If Arch MI conducts a non-delegated underwriting review and issues a conditional commitment or suspends or declines the loan for mortgage insurance, a credit union may not exercise its delegated authority to resubmit the loan.

1.04.02 Delegated Submissions (March 1, 2020)

Delegated is available to approved credit unions. Our delegated option allows reporting of loan data only to Arch MI for mortgage insurance applications. With delegated, Arch MI issues an MI commitment and certificate based on the credit union's representation that the loan meets Arch MI's underwriting requirements. As part of this option, the credit union is responsible for errors and omissions that could otherwise be discovered with a non-delegated submission.

When submitting a loan via a delegated submission, no exceptions are allowed to the delegated underwriting requirements. Loans that do not meet the delegated underwriting requirements may meet the non-delegated underwriting requirements (see non-delegated submissions above).

If Arch MI conducts a non-delegated underwriting review and issues a conditional commitment or suspends or declines the loan for mortgage insurance, a delegated credit union may not exercise its delegated authority to resubmit the loan.

The sections for which the underwriting requirements differ for delegated versus non-delegated submissions include:

- Section 1.05.02 Conditional Commitments – Requirements.
- Section 2.01 LTV/Loan Amount/Credit Score/DTI Requirements.
- Section 3.02.01 Unacceptable DU and Loan Product Advisor Recommendations.
- Section 3.03.01 LTV/Loan Amount/Credit Score/DTI Requirements.
- Section 3.03.01.02 Jumbo Loans ($850,001 to $1,500,000).
- Section 3.06.03 Medical and Dental Professionals Program.
- Section 3.07.01.02 Maximum Loan Amounts for Adjustable-Rate Mortgages.
- Section 3.12.02.01 Non-Traditional Credit.
- Section 3.14.03 Condominiums and Cooperatives (Co-ops).
- Section 3.14.03.02 Non-Warrantable Condominiums.

Delegated submissions may be submitted to Arch MI via **CONNECT,** electronic data interchange (EDI) or a loan origination system (LOS).

Customers who use delegated may also elect to send non-delegated submissions to Arch MI.

If you are interested in applying for delegated, please contact your Arch MI Account Manager.

1.04.03 Origination Channel Definitions (October 7, 2019)

The following are Arch MI's origination channel definitions to be used when requesting a rate quote or submitting the MI application.

- **Retail:** Credit unions who make loans to consumers directly and order the MI in their own name. The credit union taking the mortgage loan application also orders the MI.
  - If a Credit Union Service Organization performs any of the loan functions, the loan is considered a Retail origination.
- **Correspondent:** Credit Union originates, processes and closes the loan, however the MI is ordered by the Lender/Investor purchasing the loan, for example a non-delegated correspondent loan.
- **Wholesale:** Loan that involves a Broker acting as intermediary between the consumer and Wholesale Credit Union. The Broker takes the mortgage loan application, however, generally does not underwrite, fund or service the loan. MI is generally ordered by the Credit Union/Investor purchasing the loan, it is generally not ordered in the Broker's name.

1.05 Commitment/Certificates (August 17, 2019)

1.05.01 Final Commitments (April 25, 2018)

1.05.01.01 Requirements (March 1, 2017)

To issue a final commitment, Arch MI requires that all pertinent information necessary to underwrite the mortgage loan be documented and verified (see section 3.05.01 for age of documentation requirements):

- Property address.
- Sales agreement.
- Appraisal or alternative as permitted within this Manual.
- Employment.
- Income.
- Assets.
- Credit.

1.05.01.02 Terms (August 17, 2019)

- The standard commitment term is 4 months.
  - A 12-month commitment term will be issued for construction-to-permanent loans.

1.05.01.03 Extensions (March 1, 2017)

- Extensions to commitments/certificates are not allowed. If the mortgage loan does not close within the term of the commitment/certificate, a new application for mortgage insurance will be required. All current underwriting requirements and pricing in effect at the time of new application will apply.

1.05.01.04 Changes to Commitment (March 1, 2017)

- Any change to the loan information must be submitted to Arch MI. The new information will be evaluated based on the underwriting requirements in effect at the time of the change. The MI pricing will be updated based on the new loan information when applicable.

1.05.02 Conditional Commitments (November 15, 2018)

1.05.02.01 Requirements (January 4, 2018)

- Conditional commitments will not be issued for mortgage insurance applications submitted via delegated. All pertinent data must be transmitted in order for a commitment to be issued.
- For non-delegated submissions, conditional commitments may be issued for various reasons when material information or documentation is missing. Conditional commitments are most commonly issued because of missing information or documentation relating to the collateral, sales agreement or appraisal.

- For files containing conditional commitments issued for a sales agreement or appraisal, the terms for continued eligibility for mortgage insurance depend on the property acceptability.
- If any condition received is materially different from the information presented on the original application, continued eligibility for mortgage insurance will be based on the underwriting requirements in effect at the time the condition is received.

1.05.02.02 Terms (January 4, 2018)

- 90 days, regardless of the construction status of the property.

1.05.02.03 Extensions (March 1, 2017)

- Extensions to conditional commitments are not allowed.

1.05.03 Pre-Qualification Underwriting Program[2] (November 15, 2018)

1.05.03.01 Requirements (November 15, 2018)

Arch MI's Pre-Qualification Underwriting program is designed to help both credit unions and their members determine creditworthiness and the maximum eligible mortgage amount. The MI application typically occurs prior to an offer to purchase a property. A file submitted for pre-qualification review should include all required credit documents. All Arch MI underwriting requirements apply and a Pre-Qualification Notice is generated.

1.05.03.02 Terms (November 15, 2018)

- The Pre-Qualification Notice is effective for 120 days, is conditional and is not a commitment of insurance.

1.05.03.03 Extensions (November 15, 2018)

- Extensions to the Pre-Qualification Notice are not allowed. If additional information is not provided to Arch MI within the original term, a new application is required.

[2] Available for loans submitted under an Arch MI Master Policy only.

2. EZ Decisioning – Underwriting Requirements for Loans Underwritten with Desktop Underwriter® (DU®) or Loan Product Advisor®

The underwriting requirements in this section apply to our **EZ Decisioning℠** program.

Loans receiving one of the valid DU or Loan Product Advisor recommendations listed below are eligible for mortgage insurance when they meet the underwriting requirements outlined in this section. **Loans that meet all the requirements of this section may be submitted either delegated or non-delegated** (see section 1.03 for details) unless otherwise noted in section 2.01 below.

- DU Approve/Eligible or Loan Product Advisor Accept/Eligible.
- DU Approve/Ineligible or Loan Product Advisor Accept/Ineligible where the ineligibility is due to the following reasons **only**:
  - LTV.
  - Loan amount.
  - Loan type (when the requirements in section 3.07 are met).
  - None of the members are first-time homebuyers.

  Note: Loans with an Approve/Ineligible or Accept/Ineligible recommendation are not allowed for loans with non-traditional credit or for which the subject property is a manufactured home.

Arch MI does not approve loans for mortgage insurance based **solely** on the Agency automated underwriting system (AUS) decision. When underwriting to the DU or Loan Product Advisor recommendation, the credit union should perform prudent underwriting and risk assessment on each loan, reviewing all loan documentation to detect any potential red flags or inconsistent information which must be addressed. When the loan is submitted non-delegated, Arch MI's underwriters will also underwrite the loan file in this manner.

Loans that **do not** have one of the recommendations listed above or **do not** meet the requirements detailed in this section must meet all Standard Underwriting Requirements in section 3.

2.01 LTV/Loan Amount/Credit Score/DTI Requirements (March 1, 2020)

The following underwriting requirements represent general eligibility limits, used in combination with Arch MI's automated risk evaluation to determine MI eligibility for each loan. Layering of risk attributes may affect the eligibility of loans meeting the general requirements below; this layering will be evaluated when you request your MI rate quote and/or when you submit your loan for MI.

Eligible Loan Types	**Fixed-Rate/Fixed-Payment, ARMs, Buydowns, and Balloon Mortgages**						
Occupancy	**Transaction Type**	**Property Type**	**Maximum**		**Maximum Loan Amount**	**Minimum Credit Score[1]**	**Maximum DTI**
			LTV	**CLTV**			
Primary Residence	Purchase and Rate/Term Refinance[2]	1-Unit, SFD/SFA, Condos, Co-ops	97%	105%[3]	$510,400	620	50%
			95%	105%[3]	$510,401–$765,600		
		Manufactured Homes[4]	95%	95%	$510,400		
		2-Unit	95%	100%[3]	$980,325		
		3-Unit	95%	95%	$789,950		
		4-Unit	95%	95%	$981,700		
	Cash-out Refinance	1-Unit, SFD/SFA, Condos, Co-ops	95%	95%	$765,600		
Second Home	Purchase and Rate/Term Refinance[2]	1-Unit, SFD/SFA, Condos, Co-ops	90%	90%	$765,600		
		Manufactured Homes[4]	90%	90%	$510,400		
Investment Property	Purchase and Rate/Term Refinance[2]	1-Unit, SFD/SFA, Condos, Co-ops	85%	85%	$765,600		

[1] Non-traditional credit (a loan for which no member has a credit score) is allowed with a DU Approve/Eligible recommendation or LPA Accept/Eligible when the loan meets all Fannie Mae DU or Freddie Mac LPA requirements. The loan **must be submitted non-delegated**. Members using non-traditional credit are ineligible when the credit union submitting the MI application is located in WA.

[2] **Includes construction-to-permanent and renovation loans for both purchase and rate/term refinance transactions. Renovation loans are not allowed for manufactured homes.**

[3] When the CLTV is greater than the maximum LTV, the subordinate financing must meet Fannie Mae's Community Seconds® or Freddie Mac's Affordable Seconds® requirements. The loan must be identified as an Affordable Housing loan within the MI submission.

[4] The following are ineligible for manufactured homes:

- Approve/Ineligible or Accept/Ineligible recommendations.
- Single-wide properties.
- Renovation loans.
- Investment properties.

For items not addressed in this section, the Agency requirement applies.

2.02 Additional Underwriting Requirements (October 7, 2019)

Category	Underwriting Requirement (October 7, 2019)
DU and Loan Product Advisor Response	The final, valid DU Findings or Loan Product Advisor Feedback must be included in the loan file. ▪ The loan must close according to the terms and conditions of the DU Findings or Loan Product Advisor Feedback. ▪ The DU or Loan Product Advisor recommendation must be based on accurate data from the credit union. The Agency's resubmission tolerances are permitted for determining whether DU or Loan Product Advisor must be rerun; **however, all data supplied to Arch MI must be the final, accurate data.** ▪ The DU or Loan Product Advisor recommendation must be based on the Agency's published requirements.[3] Agency variances or waivers issued to a credit union are **ineligible** without prior approval by Arch MI. DU and Loan Product Advisor are not capable of evaluating certain aspects of the loan file. For those aspects unable to be evaluated by DU or Loan Product Advisor, the credit union is responsible to ensure the Agency's standard requirements, as listed in its Selling Guide, are met. When Arch MI aligns with the Agencies' requirements, a loan may use a combination of Fannie Mae and Freddie Mac's requirements, regardless of whether the loan was underwritten with DU or Loan Product Advisor. Some examples of items not able to be evaluated by DU or Loan Product Advisor are listed below (not all inclusive): ▪ Appraisal, property, occupancy intent, employment, income stability and continuance, large asset deposits and reserves for specific scenarios.

Appraisal	▪ Credit unions exercising their delegated authority are responsible for assessing the validity and accuracy of the appraisal report and ensuring the value is supported prior to delegation, including, but not limited to, adequacy of the comparables, property condition, market value and appraised value. This is regardless of any AUS response on the transaction. Numerous tools are available in the marketplace to assist the credit union in this assessment and Arch MI encourages their use. This is particularly important during times of market volatility or fluctuations, especially if there are any indications the subject property and/or comparable properties are located in an area of soft and/or declining property values.
	▪ A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required, unless:
	  ▪ An Appraisal Waiver is offered by DU and exercised by the credit union for a rate/term refinance transaction, 1-unit primary residence or second home, with a maximum 90%/90% LTV/CLTV.
	    ▪ When an Appraisal Waiver is exercised by the credit union, the property value entered in DU will be used. All Fannie Mae Appraisal Waiver requirements must be met.
	    ▪ If an appraisal is obtained by the credit union, the property value and all other information from the appraisal must be used, regardless of whether an Appraisal Waiver is offered and exercised.
	  ▪ Fannie Mae's Rural High-Needs Appraisal Waiver is ineligible.
	▪ Arch MI **does not** provide relief from representation of the property value based on the Agencies' automated collateral evaluation tools. The credit union must underwrite the appraisal to determine value is adequately supported.

Ineligible	Assets:
	▪ Sweat equity is not allowed when:
	  ▪ The LTV is greater than 95%.
	  ▪ The loan is not a HomeReady or Home Possible loan.
	  ▪ The member does not contribute a minimum of 3% of their own funds towards the down payment (gifts/grants may not satisfy this amount).
	  ▪ Sweat equity exceeds 2% of the purchase price.
	Member:
	▪ All members without a Social Security number (SSN) are **ineligible**.
	▪ Members who already have the maximum number of loans insured with Arch MI (see section 3.09.01.03) are **ineligible**.
	▪ Corporations, partnerships, syndications and irrevocable trusts are ineligible borrowers.
	Credit:
	▪ A member on a loan for which Arch MI paid a claim.
	Loan Type:
	▪ Interest-only loans.
	▪ Loans with potential or scheduled negative amortization.

[3] Fannie Mae and Freddie Mac published guidelines are defined as guidelines outlined in the Agency Selling Guides available to all credit unions without the need for a credit union variance or amendment to credit union's Master Agreement.

For items not addressed in this section, the Agency requirement applies.

Category	Underwriting Requirement (October 7, 2019)
Ineligible (cont.)	Property: ■ Single-wide manufactured housing. ■ Any property type **ineligible** for sale to the Agencies. ■ Property located outside the 50 United States and the District of Columbia (including Puerto Rico, Guam and the Virgin Islands). Transaction: ■ Renovation Mortgages when the property is a manufactured home. ■ Fannie Mae High Loan-to-Value Refinance Option loans and Freddie Mac Enhanced Refinance Mortgage loans. ■ Seasoned loans (see section 3.08.05 for definition). ■ Loans with a prepayment penalty feature.
Other	■ Commitment/Certificate – See section 1.04 for requirements. ■ Financed MI – See section 3.03.02 for financed MI requirements. ■ Age of Documentation – See section 3.05.01 for requirements. ■ Affordable Housing – See section 3.06.02 for definition and identification requirements. ■ Construction-to-Permanent loans and Renovation mortgages – See section 3.08.02.01 and section 3.08.03.01 for insurance activation options. ■ Corporate Relocation Loans – See section 3.08.04 for the definition and documentation requirements.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3. Standard Underwriting Requirements

The underwriting requirements in this section apply to all manually underwritten loans **and** any loan underwritten with DU or Loan Product Advisor that does not meet the underwriting requirements detailed in section 2. **The requirements in this section apply to both non-delegated and delegated submissions.** Most of the requirements for non-delegated and delegated are the same; however, when they differ it will be clearly identified. When a loan does not meet the requirements of this section, but you believe it is an acceptable risk, submit the loan non-delegated and we will evaluate the overall risk of the loan to determine its eligibility for insurance (unless the requirement not met is listed in the Ineligibility Matrix).

3.01 General Underwriting Requirements (January 4, 2018)

Arch MI uses a combination of its own specific underwriting requirements and the underwriting requirements of Fannie Mae and Freddie Mac (the Agencies). The information below describes how Arch MI's underwriting requirements work in combination with the Agencies' requirements.

- All Arch MI underwriting requirements listed in section 3 apply, regardless of the Agency requirements for manually or DU/Loan Product Advisor underwritten loans.
- When Arch MI's requirement in section 3 is more liberal than an Agency's requirement, the credit union may choose to use the Agency's requirement in lieu of Arch MI's.
- When an item is not specifically addressed within section 3, it means that Arch MI aligns with the Agencies' published[4] underwriting requirements for that item as follows (see Fannie Mae Selling Guide and/or Freddie Mac Seller/Servicing Guide):
  - Arch MI aligns with the Agencies' AUS underwriting requirements when the loan is underwritten by DU or Loan Product Advisor.
  - Arch MI aligns with the Agencies' manual underwriting requirements when the loan is a manual underwrite (not underwritten by DU or Loan Product Advisor).
  - If the loan is a manual underwrite and is not being sold to Fannie Mae or Freddie Mac, either of the Agency underwriting requirements may be used.
  - When we align with the Agencies' requirements, a loan may use a combination of Fannie Mae and Freddie Mac requirements, regardless of whether the loan was underwritten with DU or Loan Product Advisor, or manually.
  - If the loan **does not** meet Arch MI requirements or the Agency requirements we align with, or includes items not addressed by either Arch MI or the Agencies, a non-delegated submission to Arch MI is required for consideration.
  - Credit union programs containing underwriting requirements that do not meet Arch MI's requirements or the Agency requirements we align with require approval by Arch MI prior to submitting loans for mortgage insurance. **This includes underwriting requirements received through an Agency variance.**

[4] Fannie Mae and Freddie Mac published guidelines are defined as guidelines outlined in the Agency Selling Guide available to all credit unions without the need for a credit union variance or amendment to credit union's Master Agreement.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.02 Agency AUS Additional Underwriting Requirements (March 1, 2017)

3.02.01 Unacceptable DU and Loan Product Advisor Recommendations (March 1, 2017)

Loans receiving one of the following DU or Loan Product Advisor recommendations are **ineligible** for delegated submissions. They will be considered on a loan-by-loan basis when submitted non-delegated.

- DU Refer with Caution.
- Loan Product Advisor Caution 500 A-minus Eligible.
- Loan Product Advisor Caution.

For loans that have been underwritten by both DU and Loan Product Advisor and receive an “unacceptable” recommendation from one and an “acceptable” recommendation from the other, Arch MI will use the “acceptable” recommendation for underwriting.

3.02.02 DU and Loan Product Advisor Tolerances (March 1, 2017)

DU and Loan Product Advisor allow specific data tolerances for debt-to-income (DTI) ratios, assets, reserves, etc. For requirements within section 3 of this Manual that are dependent on the DU/Loan Product Advisor decision (such as documentation requirements and reserves), the Agencies’ resubmission tolerances are permitted for determining whether DU or Loan Product Advisor must be rerun; however, all data supplied to Arch MI must be the final accurate data.

3.03 LTV/Loan Amount/Credit Score/DTI Requirements (March 1, 2020)

Please see the applicable sections in the Manual for additional information.

The following LTV/Loan Amount/Credit Score/DTI underwriting requirements represent general eligibility limits, used in combination with Arch MI’s automated risk evaluation to determine MI eligibility for each loan. Layering of risk attributes may affect the eligibility of loans meeting the general requirements below; this layering will be evaluated when you request your MI rate quote and/or when you submit your loan for MI.

Loans will be given consideration by Arch MI when the DTI ratio and/or credit score requirements indicated in the Manual are not met, provided:

- The DTI does not exceed the maximum DTI by more than 5 percentage points.
- The representative credit score for the loan is no more than 10 points below the required credit score and is not lower than 620.
- All other Arch MI underwriting requirements and the Agency requirements we align with are met.
- In some cases, a non-delegated submission may be required.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.03.01 Non-Delegated and Delegated Submissions (March 1, 2020)

Occupancy	Transaction Type	Property Type	Maximum LTV	Maximum CLTV[1]	Maximum Loan Amount	Minimum Credit Score	Maximum DTI
Primary Residence	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Condos, Co-ops	97%[2]	105%[3]	$510,400	620	45%
			95.01–97%[2]	97%[4]	$510,401–$850,000[5]	620	
			95%	100%[3]	$510,401–$765,600	620	
			95%	95%[4]	$765,601–$850,000[5]	620	
		Manufactured Homes[6]	90%	90%	$510,400	680	
		2-Unit	95%	100%[3]	$980,325	660	
		3-Unit	90%	90%[4]	$789,950	660	
		4-Unit	90%	90%[4]	$981,700	660	
	Cash-out Refinance	1-Unit, SFD/SFA, Condos, Co-ops	95%	95%[4]	$765,600	660	
Second Home	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Condos, Co-ops	90%	90%[4]	$765,600	660	
					$765,601–$850,000[5]	720	
		Manufactured Homes[6]	90%	90%[4]	$510,400	700	
Investment	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Condos, Co-ops	85%	85%[4]	$765,600	680	
Construction-to-Permanent Loans							
Primary Residence	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Detached Condos	95%	95%[4]	$850,000	620	45%
		Manufactured Homes[6]	90%	90%[4]	$510,400	680	
Second Home	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Detached Condos	90%	90%[4]	$765,600	660	
		Manufactured Homes[6]	90%	90%[4]	$510,400	700	
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For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

Occupancy	Transaction Type	Property Type	Maximum LTV	Maximum CLTV[1]	Maximum Loan Amount	Minimum Credit Score	Maximum DTI
Renovation Loans							
Primary Residence	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Condos, Co-ops	95%	105%[3]	$510,400	620	45%
			95%	100%[3]	$510,401–$765,600		
			95%	95%[4]	$765,601–$850,000[5]		
		2-Unit	95%	100%[3]	$980,325	660	
Second Home	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Condos, Co-ops	90%	90%[4]	$765,600	660	
Loan Amounts $850,001 – $1,500,000 for 1-Unit Properties[7]							
Primary Residence (Delegated)	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Condos	85%	85%[4]	$850,001–$1,000,000[8]	740[9]	41%[9]
Primary Residence (Non-Delegated)	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Condos	90%	90%[4]	$850,001–$1,000,000[8]	720[9]	43%[9]
		1-Unit, SFD/SFA	85%	85%[4]	$1,000,001–$1,500,000[8]	740[9]	41%[9]

[1] Subordinate financing requirements in section 3.03.03 must be met.
[2] Balloon mortgages are ineligible for LTVs > 95%.
[3] When the CLTV is greater than the maximum LTV, the subordinate financing must meet Fannie Mae's Community Seconds® or Freddie Mac's Affordable Seconds® requirements. The loan must be identified as an Affordable Housing loan within the MI submission.
[4] New subordinate financing is **ineligible**.
[5] See section 3.03.01.01for additional underwriting requirements for 1-unit properties with loan amounts $765,601 to $850,000.
[6] The following are ineligible for Manufactured homes:

- Single-wide properties.
- Renovation loans.
- Investment properties.

See section 3.14.04 for specific requirements for manufactured home eligibility.
[7] ARMs < 5 years, temporary buydowns, balloon mortgages, biweekly mortgages, construction-to-permanent loans and renovation loans are **ineligible** for these loan amounts.
[8] See section 3.03.01.022 for additional underwriting requirements for these loan amounts.
[9] The credit score and DTI variances described in section 3.03 above do not apply.

3.03.01.01 Loan Amounts $765,601-$850,000 for 1-Unit Properties – Additional Underwriting Requirements (November 26, 2019)

In addition to the underwriting requirements outlined elsewhere in this Manual, the following requirements apply to loan amounts of $765,601 to $850,000 for 1-unit properties.

- All members must have a credit score.
- For purchase transactions, 6 months' reserves are required.
- For rate/term refinance transactions, no reserves are required.
- The Fannie Mae/Freddie Mac manual underwriting documentation requirements for income and assets must be followed.
- Maximum interested-party contribution: 3%.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

- **Ineligible:**
  - Cash-out refinance.
  - Manufactured homes.
  - Investment properties.

3.03.01.02 Loan Amounts $850,001–$1,500,000 for 1-Unit Properties – Additional Underwriting Requirements (October 7, 2019)

In addition to the underwriting requirements outlined elsewhere in this Manual, the following requirements apply to loan amounts of $850,001 to $1,500,000 for 1-unit properties.

- **Loan Type:**
  - **Ineligible**: ARMs with initial fixed-rate periods <5 years, buydowns, balloon mortgages and biweekly mortgages.
- **Documentation:**
  - A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, **and** a third-party field review appraisal are required (the field review applies to loan amounts >$1,000,000).
  - The Agencies' manual underwriting documentation requirements for income and assets must be followed. In addition:
    - If a VOE is used to document income, it must be accompanied with a current paystub.
    - If a VOD is used to document assets, it must be accompanied with one month's bank statement.
- **Credit:**
  - All members must have a credit score.
  - If the member has a previous housing history (mortgage or rent), the most recent 12-months' history must be documented with no late payments. If the history is shorter than 12 months, the entire history must be documented.
  - Foreclosures, deeds-in-lieu of foreclosure, pre-foreclosure sales (short sales), mortgage debt discharged through bankruptcy and charged-off mortgages require 7 years' seasoning from the completion date, and satisfactory re-established credit must be verified.
  - Bankruptcies require 7 years' seasoning from the discharge or dismissal date, and satisfactory re-established credit must be verified.
  - 4 years' seasoning required from the completion date of credit counseling due to derogatory credit.
  - Open judgments, garnishments and all outstanding liens (including tax liens), must be paid off at or prior to closing.
  - Members with collections and charge-offs of non-mortgage accounts are considered on a case-by-case basis.
- **Assets:**
  - All funds must come from the member's own funds. Gifts/grants are **ineligible**.
  - Employer assistance programs and trade equity may not be used as a source of assets.
  - Maximum interested-party contribution: 3%.
- **Property:**
  - Maximum condominium investor concentration: 30% (for both established and new projects).
  - **Ineligible**:
    - Co-ops.
    - Manufactured homes.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

    - Modular, panelized and prefabricated homes.
    - Geodesic homes.
    - Group homes.
    - Log homes.
    - Properties with resale (deed) restrictions.
- **Member:**
  - **Ineligible**:
    - Non-occupant co-borrower/co-signer.
    - Non-permanent resident aliens for loan amounts > $1,000,000.
- **Transaction Type:**
  - **Ineligible**:
    - Construction-to-permanent loans.
    - Renovation mortgages.
    - Installment land contracts.

3.03.02 Financed MI (March 1, 2017)

The underwriting requirements for a loan with financed MI are determined using the base LTV and base loan amount (the LTV and loan amount before the financed MI is added to the loan amount).

- The base LTV (before financed MI) cannot exceed the applicable maximum LTV for the transaction.
- The total LTV, including subordinate financing and the financed MI, cannot exceed 103%.
- The base loan amount (before financed MI) cannot exceed the applicable maximum loan amount for the transaction.

3.03.03 Subordinate Financing and CLTV (November 26, 2019)

3.03.03.01 New Subordinate Financing (November 26, 2019)

Transactions with new subordinate financing are **eligible** for insurance when meeting all of the following requirements. **Other than DTI ratio, no exceptions to these requirements are allowed, including the credit score. The DTI ratio variance of 5 percentage points addressed in** section 3.03 **may be considered.**

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

- **LTV/Loan Amount/Credit Score/DTI Requirements:**

Occupancy	Transaction Type	Property Type	Maximum LTV	Maximum CLTV[1]	Maximum Loan Amount	Minimum Credit Score	Maximum DTI
Primary Residence (only)	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Condos, Co-ops	97%	105%	$510,400	620	45%
			95%	100%	$510,401–$765,600	660	
		Manufactured Homes	90%	90%	$510,400	680	
		2-Unit	95%	100%	$980,325	660	

[1] When the CLTV is greater than the maximum LTV, the subordinate financing must meet Fannie Mae's Community Seconds® or Freddie Mac's Affordable Seconds® requirements. The loan must be identified as an Affordable Housing loan within the MI submission.

- **Ineligible:**
  - 3–4 unit properties.
  - Second homes.
  - Investment properties.
  - Cash-out refinance loans.
  - Balloon mortgages.
  - Construction-to-permanent loans.

3.03.03.02 Existing Subordinate Financing (November 26, 2019)

3.03.03.02.01 Rate/Term Refinance (November 26, 2019)

For a rate/term refinance transaction, the existing subordinate financing may be re-subordinated when the following requirements are met.

CLTV does not exceed the Maximum LTV for the Transaction Type:

When the CLTV does not exceed the maximum LTV per the transaction type (see the grid in section 3.03.01) all occupancy types, property types and loan amounts are eligible.

CLTV exceeds the Maximum LTV for the Transaction Type:

The following requirements apply when the CLTV exceeds the maximum LTV per the transaction type (see the grid in section 3.03.01). **Other than DTI ratio, no exceptions to these requirements are allowed, including the credit score. The DTI ratio variance of 5 percentage points addressed in section 3.03 may be considered.**

- The subordinate financing must meet Fannie Mae's Community Seconds® or Freddie Mac's Affordable Seconds® requirements. The loan must be identified as an Affordable Housing Loan within the MI submission.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

- **LTV/Loan Amount/Credit Score/DTI Requirements:**

Occupancy	Transaction Type	Property Type	Maximum LTV	Maximum CLTV	Maximum Loan Amount	Minimum Credit Score	Maximum DTI
Primary Residence (only)	Rate/Term Refinance (only)	1-Unit, SFD/SFA, Condos, Co-ops	97%	105%	$510,400	620	45%
			95%	100%	$510,401-$765,600	620	
		2-Unit	95%	100%	$980,325	660	

- The loan must be identified as an Affordable Housing loan within the MI submission.
- **Ineligible**:
  - 3–4 unit properties.
  - Second homes.
  - Investment properties.
  - Cash-out refinance loans.
  - Balloon mortgages.
  - Construction-to-permanent loans.
  - Manufactured homes.

3.03.03.02.02 Cash-Out Refinance (March 1, 2017)

For cash-out refinance transactions, the existing subordinate financing may be re-subordinated. The CLTV may never exceed the maximum LTV per the transaction type (see section 3.03.01).

3.03.03.03 CLTV – Definition (March 1, 2017)

The following is Arch MI's definition of CLTV:

- CLTV is the equivalent of all other acronyms (i.e., HCLTV, TLTV, etc.) used to describe the ratio of the combined loan amounts for the first-lien and subordinate lien(s) secured by the subject property, whether drawn or not, to the lesser of the sales price or appraised value.

- Example: A property is being refinanced with an appraised value of $140,000. The member obtains a first-lien mortgage of $120,000, and an existing Home Equity Line of Credit with an available line of $10,000 and a balance of $5,000 is re-subordinated.

Determining the CLTV:	
First lien	$ 120,000
Plus total available line from Home Equity Line of Credit	+ 10,000
Total liens secured by the subject property	$ 130,000
CLTV = ($130,000 ÷ $140,000)	92.86%

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.04 Ineligibility Matrix (January 4, 2018)

The following are **ineligible** for insurance with Arch MI. Please see the individual sections of the Manual for additional information:

Category	Ineligible Item (January 4, 2018)
Amortization	■ Interest-only loans. ■ Loans featuring negative amortization (potential or scheduled).
Appraisal/Property	■ Single-wide manufactured homes. ■ Any property type **ineligible** for sale to the Agencies. ■ Properties located outside the 50 states and the District of Columbia (including Puerto Rico, Guam and the Virgin Islands). ■ Property with a Condition Rating of C5, C6, Fair or Poor; when the appraisal is not made subject to the repairs which would improve the property to an acceptable rating. ■ Property with a Quality Rating of Q6 indicated on the appraisal.
Assets	■ 3–4 unit or investment properties for which funds for the transaction are coming from a source other than the member's own funds. ■ Cash on hand. ■ Sweat equity.
Member	■ Members without a Social Security number (SSN). ■ Members with an individual tax identification number (ITIN). ■ Members that are corporations, partnerships, syndications or irrevocable trusts.
Credit	■ Credit scores lower than 620. ■ A member who was a debtor on a loan for which Arch MI paid a claim. ■ A loan in which all members are unable to document established credit (via traditional or non-traditional credit requirements).
Credit Report	■ Foreign credit reports.
Debt-to-Income Ratio	■ Debt-to-income ratios greater than 50%.
Documentation	■ Limited documentation loans (loans in which income, employment and/or assets are not verified). ■ Streamlined refinance or purchase transactions.
Income	■ Rental income from the subject second home.
Interested-Party Contribution – Payment Abatements	■ Loans with payment abatements of any type are **ineligible** for insurance. ■ **Note:** The payment of up to 12 months of HOA fees is not considered an abatement and is an acceptable financing concession.
Loan Amount	■ Loan amounts higher than $1,500,000.
Loan-to-Value (LTV)	■ LTV ratios higher than 97%.
Prepayment Penalty	■ Loans with a prepayment penalty feature.
Transaction	■ Construction-only loans. ■ Seasoned loans (see the Seasoned Loans section).

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.05 Documentation Requirements (November 26, 2019)

3.05.01 Age of Documentation (November 15, 2018)

- **Appraisal:**
  - At the time of submission to Arch MI for underwriting, the appraisal must be dated within 120 days; otherwise, a recertification of value is required. However, if the property is appraised "subject to completion," the credit union will be responsible for obtaining the recertification of value prior to the Note Date and the document must be retained in the loan file.
  - The appraisal must be dated within 120 days of the Note Date; otherwise, a recertification of value is required.
    - The recertification of value must be no more than 120 days old on the Note Date.
    - If the recertification of value indicates a decline in value, a new, full URAR with interior/exterior inspection is required.
  - The appraisal cannot be more than 12 months old on the Note Date. Recertification of value is not acceptable for appraisals older than 12 months; a new, full URAR with interior/exterior inspection is required.
- **Credit Documents:**
  - Credit documents include credit reports and employment, income and asset documentation. For all mortgage loans (existing and new construction), the credit documents must be no more than 120 days old on the Note Date.
  - When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than 120 days old on the Note Date.
  - If the credit documents are older than allowed, the credit union must update them.
- **Single-Close Construction-to-Permanent Loans:**
  - For this transaction type there is only one Note Date, therefore the conversion/modification date is not applicable to the age of documentation. If the credit union updates documentation prior to activating the mortgage insurance (for example, to satisfy Agency requirements), any material differences discovered must be reported to Arch MI per the Master Policy requirements.
- **Properties Located in FEMA-Declared Disaster Areas:**
  - When the subject property is located in a FEMA-declared disaster area, all age of documentation requirements listed as "no more than 120 days old on the Note date" will be expanded to "no more than 180 days old on the Note Date."

3.05.02 Required Documentation (March 1, 2017)

Arch MI requires documentation to verify the following:

- The loan transaction.
- The AUS findings/feedback report.
- The member's credit history.
- The value of the property.
- The terms of the sale (purchase transaction only).
- The member's employment and income.
- The member's assets and equity.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.05.03 Documentation Requirements for All Loans (Manually or Agency AUS Underwritten) (November 26, 2019)

(Also see Additional Requirements for AUS Agency Underwritten Loans below.)

- **Appraisal:**
  - A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required, unless:
    - An Appraisal Waiver is offered by DU and exercised by the credit union for a rate/term refinance transaction,1-unit primary residence or second home, with a maximum 90%/90% LTV/CLTV.
      - When an Appraisal Waiver is exercised by the credit union, the property value entered in DU will be used. All Fannie Mae Appraisal Waiver requirements must be met.
      - If an appraisal is obtained by the credit union, the property value and all other information from the appraisal must be used, regardless of whether an Appraisal Waiver is offered and exercised.
    - All other valuation methods are **ineligible**, including Fannie Mae's Rural High-Needs Appraisal Waiver.
  - For loan amounts $1,000,001 to $1,500,000, a third-party field review appraisal is also required.
  - Arch MI **does not** provide relief from representation of the property value based on the Agencies' automated collateral evaluation tools. The credit union must underwrite the appraisal to determine value is adequately supported.
  - Appraisals originally prepared for FHA financing will be accepted subject to the following:
    - The appraisal must be completed on a standard Fannie Mae or Freddie Mac appraisal form.
    - When the appraisal is completed subject to repairs and/or alterations, Arch MI will require that all repairs and alterations are completed.
- **Verification of Employment/Income:**
  - For 1-unit properties with loan amounts $765,601 to $1,500,000, the Agencies' manual documentation requirements for income must be followed.
    - If the loan amount is $850,001 to $1,500,000 **and** a VOE is used to document the income, it must be accompanied with a current paystub.
  - Executed employment contracts, confirmation letters and offer letters:
    - Executed employment contracts, confirmation letters or offer letters may be used as verification of employment and income when the requirements below are met. Confirmation or offer letters are generally used when the employer does not use a contract when hiring a new employee; they provide confirmation of the terms of employment and acceptance by the member.
      - The contract, confirmation letter or offer letter must provide the employment and income information required when using the standard forms of employment/income verification (e.g., start date, position or salary).
      - The contract, confirmation letter or offer letter must be accepted by the member.
      - The credit union must obtain a Verbal VOE verifying the authenticity of the contract or confirmation letter.
      - For members scheduled to start their new employment prior to closing, the credit union must verify with the employer that the member has started.
      - For members starting their new employment post-closing, the loan must meet one of the following:
        - Freddie Mac's post-close employment requirements in section 5303.2(e) of its Seller/Servicing Guide.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

            - Fannie Mae's Employment Offers and Contracts requirement in section B3-3.1-09 of its Selling Guide.
            - Arch MI's Medical and Dental Professionals program requirements (see section 3.06.03).
    - IRS transcripts:
        - IRS transcripts are not required but may be requested by Arch MI based on our review of the income documentation presented in the application.
            - When a credit union has acquired the IRS transcripts prior to the application for mortgage insurance, a copy of the transcripts must be provided.
            - Additionally, transcripts must be provided if acquired by the credit union when Arch MI requests a copy of the loan file for quality assurance purposes.
        - Any discrepancy between the loan file income documentation and the transcript information must be appropriately explained and documented. If the transcripts do not support the income documentation provided, and the discrepancies cannot be adequately explained and documented, the loan is **ineligible** for mortgage insurance. The IRS transcript(s) and any subsequent explanation or documentation of discrepancies must be permanently retained in the credit union's loan file.
- **Verification of Assets:**
    - For 1-unit properties with loan amounts $765,601 to $1,500,000, the Agencies' manual documentation requirements for assets must be followed.
    - If the loan amount is $850,001 to $1,500,000 **and** a VOD is used to document the assets, it must be accompanied with one month's bank statement.
- **Sales Contract/Offer to Purchase and Addenda:**
    - Final, signed copies of the contract/offer and addenda are required.

3.05.04 Additional Documentation Requirements for Agency AUS Underwritten Loans (October 7, 2019)

In addition to the documentation requirements above, the following requirements apply when DU/Loan Product Advisor underwriting is used for the final underwriting decision.

- **All Agency AUS–Underwritten Loans:**
    - Documentation efficiencies granted by DU or Loan Product Advisor for loans receiving an "Ineligible" purchase decision:
        - Allowed when the only reason for the ineligible purchase decision is the absence of first-time home buyers on the loan.
        - Are not accepted when the loan receives an ineligible purchase decision for any other reason. Documentation requirements for a manual underwrite apply.
    - A minimum one month's bank statement is required when Arch MI requires reserves and reserves are not being required by DU or Loan Product Advisor.
- Fannie Mae High Loan-to-Value Refinance Option and Freddie Mac Enhanced Relief Refinance[SM] Mortgage loans submitted for new insurance as a rate/term refinance must follow the manual underwriting documentation requirements. (When Arch MI insures the existing loan, it is recommended these loans be submitted as a modification to the existing certificate to Arch MI's Servicing department.)

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.06 Products and Programs (June 1, 2020)

3.06.01 Affordable Housing – Including Housing Finance Agency (HFA) Loans (March 1, 2017)

Affordable housing loans must meet all Arch MI underwriting requirements. We allow a higher combined loan-to-value ratio for 1–2 unit primary residences when the subordinate financing meets Fannie Mae's Community Seconds® or Freddie Mac's Affordable Seconds® requirements. See section 3.03.03, Subordinate Financing, for complete requirements.

The following are considered affordable housing loans **and must be identified as such within the MI submission**:

- Fannie Mae HomeReady® loans.
- Freddie Mac Home Possible® Mortgage loans.
- HFA loans (first-lien mortgages originated under a state or local housing finance agency program). **The loan must be identified as an HFA loan within the MI submission**.
- Other loan programs that include community assistance (grants, gifts, Community Seconds, Affordable Seconds, etc.) for first-time home buyers or low- to moderate-income members.
- Loans originated under a credit union's Community Reinvestment Act (CRA) program.

3.06.02 Medical and Dental Professionals Program (June 1, 2020)

Arch MI offers expanded underwriting requirements for medical and dental professionals with high debt-to-income (DTI) ratios due to student loans and/or employment beginning post-closing when the following requirements are met. A 100% LTV option is also available.

If an eligible member for the Medical and Dental Professionals program qualifies under our EZ Decisioning or Standard Underwriting Requirements, the requirements in this section do not apply.

3.06.02.01 90.01-100% LTV, LPMI Singles Reduced Coverage Program (March 1, 2020)

- **MI Pricing and Coverages Available**
  - RateStar pricing, Lender-Paid MI (LPMI) Singles only.
    - Available Coverage:
      - 97.01–100% LTV — 12%.
      - 95.01–97% LTV — 8%.
      - 90.01–95% LTV — 6%.
    - MI coverage will be terminated by Arch MI upon the earlier of the scheduled or actual amortization of the loan amount down to an LTV less than 90%.
      - Prior to participation in the program, the credit union must execute an acknowledgement form directing Arch MI to cancel coverage at the designated LTV level. Please contact your Account Manager to obtain the form.
  - This program is not available for credit unions with home offices in the following states: AK, HI, KS, LA, MO, NM, NY, OH, PA, SD, TX, VA and WA.
  - **This program is designed for portfolio credit unions only as the reduced coverage and early cancellation of coverage does not meet Agency MI requirements.**
- **General Information**
  - When submitting a loan for MI or requesting a rate you **must** enter the program name: **Arch LPMI Medical Down to 90%.**
  - Other than the DTI ratio or credit score variances indicated in the grid below, **no exceptions** to the following requirements are allowed.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

- **LTV/Loan Amount/Credit Score/DTI Requirements:**

RateStar Pricing Only							
Occupancy	**Transaction Type**	**Property Type**	**LTV**	**Maximum Loan Amount**	**Minimum Credit Score[1]**	**Maximum DTI[1]**	**PITIA Reserves[2]**
Primary Residence (only)	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Condos, Co-ops	97.01–100%[3, 4] **Non-Delegated Only**	$500,000	720	43%	2 Months
				$500,001–$750,000	740	43%	2 Months
			90.01–97%	$500,000	660	45%	2 Months
				$500,001–$750,000	680	45%	2 Months
			90.01–95%	$750,001–$850,000	700	45%	4 Months

[1] The 5% DTI variance and 10-point credit score variance as addressed in section 3.03 of the Credit Union Underwriting Manual are allowed for LTVs ≤97% only.
[2] See Additional Reserves below.
[3] Pharmacists without a Pharm D and chiropractors are ineligible for LTVs > 97%.
[4] Construction-to-permanent loans and renovation loans are ineligible for LTVs > 97%.

- **Additional Underwriting Requirements:**
  - The additional underwriting requirements in section 3.06.03.03 apply.

3.06.02.02 Standard Medical and Dental Professionals Program (March 1, 2020)

- **General Information**
  - Both RateStar and Rate Card pricing are available for this program including:
    - Borrower-Paid MI (BPMI) and LPMI.
    - All coverage levels offered by Arch MI.
    - All plans offered by Arch MI, for example – monthly, annual, singles.
    - Available in all 50 states and the District of Columbia.
  - When submitting a loan for MI or requesting a rate you **must** enter the program name: **Arch Medical Program**
  - Other than the DTI ratio or credit score variances indicated in the grid below, **no exceptions** to the following requirements are allowed.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

- **LTV/Loan Amount/Credit Score/DTI Requirements:**

RateStar and Rate Card Pricing							
Occupancy	**Transaction Type**	**Property Type**	**Maximum LTV**	**Maximum Loan Amount**	**Minimum Credit Score[1]**	**Maximum DTI[1]**	**PITIA Reserves[2]**
Primary Residence (only)	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Condos, Co-ops	97%	$500,000	620	45%	2 Months
			90.01%–97%	$500,001–$750,000	680	45%	2 Months
			80.01–90%	$500,001–$750,000	620	45%	2 Months
			95%	$750,001–$850,000	700	45%	4 Months
			90%	$850,001–$1,000,000[3]	720	41%	6 Months
			85% **Non-Delegated Only**	$1,000,001–$1,500,000[3]	720	41%	6 Months

[1] The 5% DTI variance and 10-point credit score variance as addressed in section 3.03 of the Underwriting Manual are allowed for loan amounts ≤ $850,000 only.
[2] See Additional Reserves below.
.
[3] Construction-to-permanent loans and renovation loans are **ineligible** for loan amounts greater than $850,000

- **Additional Underwriting Requirements:**
  - The additional underwriting requirements in section 3.06.03.03 apply.

3.06.02.03 Additional Underwriting Requirements (June 1, 2020)

- **Eligible Professions:**

  Members who are currently practicing (or who will begin practicing within 90 days of closing) one of the eligible professions below and meet all program requirements are eligible for the exclusion of deferred student loan payments from the DTI ratio calculation and/or employment to begin post-closing.

  - Medical resident.
  - Medical fellow.
  - Medical doctor (MD).
  - Doctor of Dental Surgery (DDS).
  - Doctor of Dental Medicine (DMD).
  - Doctor of Optometry (OD).
  - Doctor of Ophthalmology (MD).
  - Doctor of Podiatric Medicine (DPM).
  - Doctor of Osteopathy (DO).
  - Pharmacist (RPH).*
  - Chiropractor (DC).**
  - Doctor of Veterinarian Medicine (DVM).

  *A pharmacist must have a PharmD to be eligible for LTVs > 97%.
  **Chiropractors are ineligible for LTVs > 97%.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

- **Student Loan Debt:**
  Student loan debt belonging to the member with the eligible profession may be excluded from the DTI calculation with documentation to evidence deferment or forbearance for at least 12 months after the MI application date.
  - **Medical resident only:** Medical residents with a minimum of 6-months' residency remaining may use the alternative documentation listed below as evidence the student loan will be in deferment for at least 12 months:
    - Letter from employer verifying the medical resident's start date, or
    - Letter from the employer verifying at least 6 months' residency remaining.
- **Post-Closing Employment Start Date:**
  Employment for the member with the eligible profession may begin up to 90 days after loan closing when:
  - There is a non-contingent, fully executed (accepted) employment contract or offer letter documented in the loan file.
  - There is a verbal VOE conducted to confirm authenticity of the employment documentation prior to closing.
- **Minimum Member Contribution:**
  - 3% for loans up to $750,000. Not applicable for loans with an LTV 97.01–100%.
  - 5% for loan amounts greater than $750,000.
  - Gifts/grants may be used to satisfy the minimum member contribution when all of the following are met:
    - Maximum $750,000 loan amount.
    - Minimum 740 credit score.
    - Maximum 41% DTI.
    - Fixed-rate/fixed-payment or ARMs greater than 5 years only.
- **Additional Reserves:**
  - When employment **begins post-closing**, the following additional reserve requirement applies:
    - Reserves are required for each month after the Note date until employment begins.
- **Other Requirements:**
  - All members must have a credit score.
  - Construction-to-permanent loans and renovation loans:
    - Maximum 97% LTV.
    - Maximum $850,000 loan amount.
  - All other Arch MI Standard Underwriting Requirements in section 3 of the Manual apply.
  - **Ineligible**:
    - DU and Loan Product Advisor documentation efficiencies. Manual documentation required.
    - Non-occupant members.
    - Subordinate financing.
    - EZ Decisioning requirements.
    - Manufactured homes.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.07 Loan Types (November 15, 2018)

3.07.01 Adjustable-Rate Mortgages (ARMs) (January 4, 2018)

3.07.01.01 Amortization Type (March 1, 2017)

- Only positively amortizing ARMs are eligible.
- Loans that allow for interest-only payments or negative amortization are **ineligible**.

3.07.01.02 Maximum Loan Amount (January 4, 2018)

- Non-delegated submissions:
  - ARM with an initial fixed-rate period of 5 years or longer: $1,500,000.
  - ARM with an initial fixed-rate period of less than 5 years: $850,000.
- Delegated submissions:
  - ARM with an initial fixed-rate period of 5 years or longer: $1,000,000.
  - ARM with an initial fixed-rate period of less than 5 years: $850,000.

3.07.01.03 Minimum Qualifying Rate (March 1, 2017)

- ARM with an initial fixed-rate period of less than 5 years: Note Rate plus 2%.
- ARM with an initial fixed-rate period of 5 years or greater: Note Rate.

3.07.01.04 Maximum Caps (March 1, 2017)

An ARM cap is defined as the amount the interest rate may change in a specified period of time.

- Initial cap:
  - Maximum 1% for an ARM with initial fixed-rate period < 1 year.
  - Maximum 2% for an ARM with initial fixed-rate period from 1 year to < 3 years.
  - Maximum 3% for an ARM with initial fixed-rate period from 3 years to < 5 years.
  - Maximum 6% for an ARM with initial fixed-rate period 5 years or greater.
- Periodic cap:
  - Maximum 1% when the time period is < 1 year.
  - Maximum 2% when the time period is from 1 year to < 3 years.
  - Maximum 3% when the time period is from 3 years to < 5 years.
  - Maximum 6% when the time period is for 5 years or greater.
- Lifetime cap:
  - Maximum 6%.

3.07.01.05 Interest Rate Adjustment Periods (March 1, 2017)

- The minimum initial fixed-rate period or any subsequent interest rate adjustment period is 6 months. There are no maximum interest rate adjustment periods.

3.07.01.06 Maximum Basis Point Spread (March 1, 2017)

Difference between the initial interest rate of an ARM and the FIAR (Fully Indexed Accrual Rate) at time of closing:

- 300 basis points.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.07.02 Temporary Interest-Rate Buydowns (November 15, 2018)

3.07.02.01 Maximum Loan Amount (January 4, 2018)

- Non-delegated and delegated submissions: $850,000.

3.07.02.02 Minimum Qualifying Rate (November 15, 2018)

- Fixed-rate loans: Note Rate.
- ARM with an initial fixed-rate period of less than 5 years: Note Rate plus 2%.
- ARM with an initial fixed-rate period of 5 years or greater: Note Rate.

3.07.02.03 Additional Restrictions (March 1, 2017)

- Maximum 2–1 buydown for ARMs with an initial fixed-rate period of less than 5 years.

3.07.03 Balloon Mortgages (January 4, 2018)

3.07.03.01 Loan Type (March 1, 2017)

- Fixed-rate/fixed-payment only.

3.07.03.02 Maximum LTV (March 1, 2017)

- 95% LTV.

3.07.03.03 Maximum Loan Amount (January 4, 2018)

- Non-delegated and delegated submissions: $850,000.

3.07.03.04 Minimum Balloon Term (March 1, 2017)

- 5 years.

3.07.03.05 Additional Restrictions (March 1, 2017)

- New Subordinate financing is **ineligible**.

3.07.04 Biweekly Mortgages (March 1, 2017)

A biweekly mortgage is a mortgage for which a biweekly payment is mandatory per the Note or Rider **and** will continue throughout the life of the loan. Biweekly mortgages are eligible for insurance with Arch MI.

3.07.04.01 Term (March 1, 2017)

- The term used should be the term as defined in the Note and/or Rider incorporating the biweekly payment.

3.07.04.02 Monthly Principal and Interest Payment (P&I) (March 1, 2017)

- The monthly P&I payment used to calculate the DTI should be the biweekly P&I converted to a monthly P&I (Monthly P&I = Biweekly P&I x 26/12).

3.07.04.03 Maximum Loan Amount (March 1, 2017)

- $850,000.

3.07.05 Maximum Term (March 1, 2017)

- Fixed-rate/fixed-payment and ARMs with initial fixed-rate period 5 years or longer: 40 years.
- ARMs with initial fixed-rate period less than 5 years, temporary interest-rate buydowns and balloon mortgages: 30 years.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.08 Transaction Type (January 13, 2020)

3.08.01 Refinance Transactions (January 13, 2020)

3.08.01.01 Rate/Term Refinance[5] (January 13, 2020)

Arch MI aligns with the Agencies' requirements for rate/term refinances except for the following:

- Cash back to the member may not exceed the lesser of 2% of the new refinance loan amount or $2,000. If the member receives cash back in excess of this amount, the loan will be considered a cash-out refinance.
- Refinance transactions paying off a first-lien mortgage **and** a non-purchase money subordinate lien seasoned for a minimum of 12 months will be considered a rate/term refinance.
  - The 12-months' seasoning will be measured from the Note date of the existing subordinate lien to application date of the new loan.
  - If the subordinate lien is a Home Equity Line of Credit (HELOC), total draws within the last 12 months may not exceed $2,000. A loan history is required for the last 12 months to document the total draws.
- **Ineligible:**
  - Properties currently listed for sale.

3.08.01.02 Cash-Out Refinance (March 1, 2017)

- 1-unit primary residence only.
- Maximum cash-out:

Maximum LTV/CLTV	Maximum Cash-Out
90.01–95%	$50,000
85.01–90%	$100,000
≤ 85%	$150,000

- The following are **ineligible** for a cash-out refinance transaction:
  - Construction-to-permanent loans.
  - Renovation mortgages.
  - New subordinate financing.
  - Properties purchased or listed for sale in the last 6 months.
  - Manufactured homes.
  - Second homes.
  - Investment properties.
  - 2–4 unit properties.
  - Non-traditional credit.

[5] Loans not meeting rate/term refinance eligibility may be considered under Arch MI's Refinance-To-Modification (RTM).

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.08.01.03 Fannie Mae's High Loan-to-Value Refinance Option, and Freddie Mac's Enhanced Relief Refinance Mortgage (October 7, 2019)

Fannie Mae's High Loan-to-Value Refinance Option loans and Freddie Mac's Enhanced Relief Refinance[SM] Mortgage loans may be submitted as a modification to the existing certificate to Arch MI's Servicing department when Arch MI insures the existing loan.

If a Fannie Mae High Loan-to-Value Refinance Option loan or Enhanced Relief Refinance Mortgage loan is submitted as a new insurance application, the following apply:

- All rate/term refinance underwriting requirements.
- All manual underwriting documentation requirements for a rate/term refinance transaction.

3.08.02 Renovation Loans (October 7, 2019)

Items not addressed in this section will follow the underwriting requirements for the applicable transaction type (purchase or rate/term refinance).

3.08.02.01 General Requirements (March 1, 2017)

- Insurance activation:
  - Loans for which all funds are disbursed at closing and placed into an escrow account:
    - The insurance must be activated upon closing.
  - Loans for which funds are disbursed in increments and only interest is charged during the renovation phase:
    - The credit union may choose to activate at the initial closing or upon modification/conversion to the permanent loan. Once activated, premiums will become due and payable.
- Mortgage insurance coverage is **ineligible** if the member had any delinquencies (greater than 30 days) during the renovation phase (unless the insurance had already been activated).

3.08.02.02 Additional Requirements (October 7, 2019)

- A copy of the contract for cost of improvements must be provided.
- **Ineligible:**
  - Manufactured homes.
  - 3–4 unit properties.
  - Investment properties.
  - Cash-out refinance.
  - Non-traditional credit.

3.08.02.03 Age of Documentation Requirements (March 1, 2017)

- See section 3.05.01 for age of documentation requirements.

3.08.03 Construction-to-Permanent Loans (October 7, 2019)

Arch MI will provide mortgage insurance for construction-to-permanent transactions under the following terms.

3.08.03.01 General Requirements (March 1, 2017)

- Insurance activation (coverage during the construction phase):
  - Single-closing transactions:
    - The credit union may choose to activate at the initial closing or upon modification/conversion to the permanent loan. Once activated, premiums will become due and payable.
  - Two-closing transactions:
    - Insurance is not allowed for the interim construction-only loan.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

- Mortgage insurance coverage is **ineligible** if the member had any delinquencies (greater than 30 days) during the construction phase (unless the insurance had already been activated).

3.08.03.02 Additional Requirements (October 7, 2019)

- **Ineligible:**
  - 2–4 unit properties.
  - Attached condominiums.
  - Cooperatives.
  - Investment properties.
  - Cash-out refinance.
  - New subordinate financing.
  - Non-traditional credit.

3.08.03.03 Age of Documentation Requirements (March 1, 2017)

- See section 3.05.01 for age of documentation requirements.

3.08.03.04 Determining the Lot Value (March 1, 2017)

- If the lot was received through gift or inheritance, use the value of the lot from the appraisal to determine acquisition costs.

3.08.04 Corporate Relocation Loans (March 1, 2017)

A loan qualifies as a corporate relocation loan when it meets the following requirements:

- Made to a transferred employee (new or existing) to purchase a primary residence at a new location.
- Made pursuant to a relocation program administered by the corporate employer or its agent.
- Involves an employer contribution of at least 3% of the loan amount.

Employer contributions must consist of one or more of the following:

- Payment of the member’s closing costs on the new primary residence and/or the previous residence.
- Payment of expenses related to the member’s move (for example, relocation allowances, movement of household goods and automobiles, temporary housing expenses, etc.).
- Payment of the difference between the property tax and/or mortgage interest rate obligation on the employee’s previous primary residence and the employee’s new primary residence.
- A buydown or subsidy of the mortgage interest rate.
- Funding of a below-market-rate or no-interest bridge loan.

A copy of the relocation agreement or other documentation must be provided to show the detail of the employer’s contribution toward the member’s loan transaction.

3.08.05 Seasoned Loans and Closed Loans (March 1, 2017)

A seasoned loan is defined as a loan for which the first monthly payment has been made.

- Seasoned loans are **ineligible** for insurance with Arch MI. All closed loans must be submitted for insurance to Arch MI prior to the first payment being made. The first payment may not be past due.
- Single-closing construction-to-permanent loans that are modifying to the permanent financing for which interest-only payments have been made during the construction period **and** for which the mortgage insurance was not activated at the initial closing are not considered seasoned loans.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.09 Member (November 26, 2019)

3.09.01 Underwriting the Member (January 4, 2018)

3.09.01.01 Social Security Number (March 1, 2017)

- All members on a loan are required to have a valid Social Security number (SSN).

3.09.01.02 Individual Tax Identification Number (ITIN) (March 1, 2017)

- Loans to members who have been issued an ITIN in lieu of a Social Security number are **ineligible**.
- An ITIN is set up in the same format as a Social Security number, with nine digits. The first digit is always a 9, and the second group of digits (fourth digit) will always start with a 7 or 8 (i.e., 9xx-7x-xxxx).
- An ITIN is not proof of legal residency in the United States and is not valid proof of identification outside the tax system. An ITIN is a tax identification number issued by the IRS to individuals who are not eligible for a Social Security number and who have an obligation to file a tax return to the IRS. Any person who is employed in the United States is **required** to have a Social Security number.

3.09.01.03 Maximum Number of Insured Loans per Member (January 4, 2018)

- Arch MI and its affiliates may collectively insure up to a maximum of three loans per member as follows:
  - Primary residence: one loan maximum.
  - Second home: Maximum of one second home and one investment property or two second homes (with no investment properties). When two second homes are insured, they must not be in the same general location.
  - Investment property: two loans maximum. When two investment properties are insured, then no second homes are allowed.
  - Arch MI will be responsible for determining the number of loans already insured for a member and will notify the credit union when the number is exceeded.

3.09.01.04 Loans to Corporations, Partnerships, Syndications or Irrevocable Trusts (March 1, 2017)

- **Ineligible**.

3.09.02 Non-Occupant Borrower/Co-Signer (November 26, 2019)

- For non-occupant borrower transactions, the loan is qualified using the income, liabilities and assets of all members.
- 1–2 unit primary residence only.
- Maximum LTV: 95% LTV.
- Maximum Loan Amount:
  - 1-unit primary residences: $850,000.
  - 2-unit primary residences: $980,325.
- **Ineligible:**
  - Manufactured homes.
  - 3–4 unit properties.
  - Second homes.
  - Cash-out refinance.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.10 Income and Employment (March 1, 2017)

3.10.01 Income (March 1, 2017)

The Agency requirements for income must be followed.

3.10.02 Employment (March 1, 2017)

The Agency requirements for employment must be followed.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.11 Equity and Assets (November 26, 2019)

3.11.01 Equity (November 26, 2019)

3.11.01.01 Minimum Contribution from Member's Own Funds (November 26, 2019)

The following are Arch MI's requirements for a minimum contribution from the member's own funds for a purchase transaction:

Occupancy	Property Type	Maximum LTV	Maximum Loan Amount	Gift/Grant Funds, Community and Affordable Seconds, and Employer Assistance	Minimum Member Contribution
Primary Residence (only)	1-Unit, SFD/SFA, Condos, Co-ops	97%	$510,400	**May be used to satisfy minimum member contribution**	3%
		95.01–97%	$510,401–$765,600	Allowed after minimum contribution is met	
		97%	$765,601–$850,000	Allowed after minimum contribution is met	
		95%	$765,600	**May be used to satisfy minimum member contribution**	
	1-Unit, SFD/SFA, Condos	90%	$850,001–$1,000,000	All contributions (with the exception of allowable seller/interested-party contributions) must come from the member's own funds.	
	1-Unit, SFD/SFA	85%	$1,000,001–$1,500,000		
	Manufactured Home	90%	$510,400	Allowed after minimum contribution is met (for trade equity eligibility, see section 3.14.04)	3%
	1-Unit, SFD/SFA, Condos, Co-ops using Non-Traditional Credit	95%	$510,400	Allowed after minimum contribution is met	3%
	2-Unit	85%	$980,325	Allowed after minimum contribution is met	3%
		85.01–95%	$980,325	Allowed after minimum contribution is met	5%
	3-Unit	90%	$789,950	All contributions (with the exception of allowable seller/interested-party contributions) must come from the member's own funds.	
	4-Unit	90%	$981,700		
Second Home	1-Unit, SFD/SFA, Condos, Co-ops	90%	$850,000	Allowed after minimum contribution is met	5%
Investment Property	1-Unit, SFD/SFA, Condos, Co-ops	85%	$765,600	All contributions (with the exception of allowable seller/interested-party contributions) must come from the member's own funds.	

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.11.02 Reserves (November 26, 2019)

Arch MI's reserve requirements are listed below.

3.11.02.01 Reserves—General (November 26, 2019)

Monthly reserves are calculated by using a specific number of total monthly housing expense payments for the subject property. The monthly housing expense payment (PITIA) includes principal, interest, taxes, insurance, ground rents, cooperative fees, homeowner's association dues and special assessments. When calculating reserves, the Note rate PITIA should be used for all product types. The following are the minimum reserve requirements.

Occupancy	Property Type	Transaction Type	DU Approve/Eligible or Loan Product Advisor Accept/Eligible	All Other Loans
Primary Residence	1-Unit, SFD/SFA, Condos, Co-ops	Purchase (Loan Amounts up to $765,600)	Aligns with DU/Loan Product Advisor reserve requirements	The lesser of 2 months' PITIA; or the Agencies' reserve requirement
		Purchase (Loan Amounts $765,601–$850,000)	6 months' PITIA	
		Rate/Term Refinance (Loan Amounts up to $850,000)	Aligns with DU/Loan Product Advisor reserve requirements	None
	1-Unit, SFD/SFA, Condos	Purchase and Rate/Term Refinance (Loan Amounts $850,001–$1,000,000)	12 months' PITIA	
	1-Unit, SFD/SFA	Purchase and Rate/Term Refinance (Loan Amounts $1,000,001–$1,500,000)	24 months' PITIA	
	1-Unit, SFD/SFA, Condos, Co-ops	Cash-out Refinance	Aligns with DU/Loan Product Advisor reserve requirements	2 months' PITIA
	2-Unit	Purchase and Rate/Term Refinance	Aligns with DU/Loan Product Advisor reserve requirements	6 months' PITIA
	3–4 Unit	Purchase and Rate/Term Refinance	6 months' PITIA	
Second Home	1-Unit, SFD/SFA, Condos, Co-ops	Purchase and Rate/Term Refinance	Aligns with DU/Loan Product Advisor reserve requirements*	6 months' PITIA (subject property only)
Investment	1-Unit, SFD/SFA, Condos, Co-ops	Purchase and Rate/Term Refinance	Aligns with DU/Loan Product Advisor reserve requirements*	6 months' PITIA (subject property only)

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

Notes:

* DU and Loan Product Advisor are unable to account for additional Agency reserve requirements for second homes and investment properties when the member owns other financed second homes and/or investment properties. In these instances, the credit union must manually apply additional reserve requirements per the Fannie Mae and Freddie Mac Seller Guide.

3.11.02.02 Reserves – Acceptable Sources of Funds (March 1, 2017)

- Proceeds from a rate/term refinance or cash-out refinance may be used to satisfy the reserve requirement.

3.11.03 Asset Types (March 1, 2017)

3.11.03.01 Seller/Interested-Party Contributions (March 1, 2017)

- Loans that allow interested-party contributions to be used as down payment assistance are **ineligible**.
- Unplanned buydowns (buydowns paid by the builder/seller usually negotiated just before closing on new construction to allow the member to receive the interest rate stated on the sales contract when interest rates have risen) must be included as an interested-party contribution.

3.11.03.02 Gifts (Including Gifts of Equity and Grants) (March 1, 2017)

- A gift from a relative or domestic partner who has lived with the member for the last 12 months, or from a fiancé or fiancée, **is considered the member's own funds** and may be used to satisfy the minimum member contribution requirement, as long as both individuals will use the home being purchased as their primary residence (the requirements listed below for other gift/grants do not apply).
- For all other gifts/grants:
  - The member's minimum contribution must be met (see section 3.11.01.01 for when gifts/grants may be used to satisfy the minimum member contribution).
  - Gift/grants are **ineligible** as a source of funds for:
    - Loan amounts higher than $850,000.
    - 3–4 unit primary residences.
    - Investment properties.

3.11.03.03 Uniform Gift to Minor Accounts (March 1, 2017)

- Acceptable, provided one of the following criteria is met:
  - The member is the custodian of the account, or
  - The member is the owner of the account (the minor for whom the account was opened, and who is now of age).

3.11.03.04 Business Assets (March 1, 2017)

Funds from a member's business may be used when the following requirements are met:

- Documentation to show that the member has access to the funds.
- A letter from an accountant stating that the withdrawal of the funds will not have a detrimental effect on the business; or
- The credit union must document a cash flow analysis for the member's business to show there will be no detrimental effect on the business due to the withdrawal of the funds.

3.11.03.05 Lot Equity (March 1, 2017)

See the Construction-to-Permanent section for lot equity requirement

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.11.03.06 Ineligible Asset Types (March 1, 2017)

The following asset types are **ineligible**:

- Cash-on-hand.
- Sweat equity.
- Gift/grant funds for 3–4 unit primary residences and investment properties.
- The following are **ineligible** asset types for loan amounts higher than $850,000:
  - Gifts/grants.
  - Employer assistance.
  - Trade equity.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.12 Credit and Liabilities (November 26, 2019)

3.12.01 Credit Score Requirements (May 7, 2019)

3.12.01.01 Valid Credit Scores (May 7, 2019)

- For a member's credit score to be considered valid, the information on the credit report must be accurate. If any information on the credit report is inaccurate or disputed, see section 3.12.03.03. Wherever "credit score" is referred to within this Manual, the reference is to a "valid credit score."
- If no members on the loan have a credit score, the loan must meet the non-traditional credit requirements.

3.12.01.02 Minimum Number of Scores Required (March 1, 2017)

- Arch MI requires a minimum of two credit scores per member.
  - A member with one credit score is acceptable when the credit union has requested credit scores from all three credit repositories and only one credit score is available.

3.12.01.03 Member Representative Credit Score (March 1, 2017)

Each member's representative credit score is used in the determination of the loan representative credit score. A member's representative credit score is determined as follows:

- When only one credit score is obtained (and meets the requirements above in section 3.12.01.02), use that score.
- When two credit scores are obtained for the member, use the lower score.
- When three credit scores are obtained for the member, use the middle score.
- When three scores are obtained for the member and two are identical, one of the identical scores is considered the middle score.

3.12.01.04 Loan Representative Credit Score (March 1, 2017)

- For loans with only one member, the member's representative score is the loan's representative credit score.
- For loans with multiple members, when every member has a credit score, the lowest of all member representative scores is the loan's representative credit score.
- For loans with multiple members, when at least one member has a credit score and at least one member does not, the lowest member representative score of those members with scores is the loan's representative score. Members with no score are not considered in the determination of the loan representative score.
  - If the member without a credit score is the primary wage earner (contributes >50% of the qualifying income), then non-traditional credit references must be documented for this member (see Non-Traditional Credit References section). Because at least one member has a credit score, no other non-traditional credit requirements apply.
- If no members on the loan have a credit score, the loan must meet the non-traditional credit requirements.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.12.02 Types of Credit (November 26, 2019)

3.12.02.01 Non-Traditional Credit[6] (November 26, 2019)

A transaction is considered non-traditional credit when NO member has a credit score (see section 3.12.01.04 when at least one member has a credit score and at least one member does not have a credit score).

The following are the underwriting requirements for non-traditional credit.

- **LTV/Loan Amount/DTI Requirements – Non-Delegated:**

Eligible Loan Types	Fixed-Rate/Fixed-Payment, ARMs, Temporary Buydowns and Balloons				
Occupancy	**Transaction Type**	**Property Type**	**Maximum LTV**	**Maximum Loan Amount**	**Maximum DTI**
Primary Residence (Non-Delegated)	Purchase and Rate/Term Refinance	1-Unit, SFD/SFA, Condos, Co-ops	95%	$510,400	45%[1]
[1] The 5% DTI variances addressed in section 3.03 are not allowed.					

- **Ineligible:**
  - Members who do not contribute 3% of their own funds. Gift/grant funds may not satisfy this requirement.
  - 2–4 unit properties.
  - Manufactured homes.
  - Cash-out refinance.
  - Construction-to-permanent or renovation loans.
  - Second homes.
  - Investment properties.
  - Delegated submissions.
- **Credit References:**
  Each member on an MI application must establish an acceptable credit history through trade lines reported on the credit report or through non-traditional credit references.

  Non-traditional credit references are only acceptable when the traditional credit report does not produce a credit score. Non-traditional credit references may not be used to offset traditional trade lines with derogatory information.

  A minimum of four sources of non-traditional credit with at least 12-months' history must be provided (one housing related, one utility and two from other sources).

  Credit references must have at least one quarterly repayment requirement.

[6] Members using non-traditional credit are ineligible when the credit union submitting the MI application is located in WA.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

The credit profile must indicate:

- No housing delinquency in the past 24 months.
- No more than 1x30 or 0x60 installment or revolving late payments in the past 12 months.
- No collections or charge-offs (except medical).
- No judgments (they must be satisfied).
- No bankruptcy/foreclosure/deed-in-lieu/short sale.

- **Acceptable Sources of Non-Traditional Credit:**
  - Housing-related: Credit unions must obtain at least one housing-related source for a non-traditional credit history. The credit agency must specify in the report whether verification was obtained from a professional management company or from an individual landlord.
  - Utilities (when not included in the rental housing payment): Utilities include: electricity, gas, water, cable and telephone service.
  - Other payments:
    - Payments for medical insurance coverage, automobile insurance, life insurance policies and rental insurance payments. Payroll deductions for these items are excluded from use as an acceptable trade line.
    - Payments to local department, furniture, appliance or specialty stores; rental payments related to durable goods (including automobiles); medical; school tuition; child care; loans obtained by an individual (if there is written agreement and the member can provide copies of canceled checks to indicate payments are consistent with the terms of the agreement); and authorized user accounts (if there is written documentation to support the member has been solely responsible for payments during the most recent 12 months).
  - The consumer reporting agency should provide the credit union all documentation received for each credit reference listed on the credit report.

- **Documentation Requirements:**
  Acceptable documentation for all credit references include:

  - 12 months of consecutive account statements.
  - A current account statement with 12 months of canceled checks and/or paid receipts.
  - Credit union direct written verification which must include all of the information required on a non-traditional credit report and a current statement provided by the creditor; or
  - A non-traditional credit report.

3.12.02.02 No Credit History (March 1, 2017)

Transactions in which all members are unable to document established credit (via traditional or non-traditional credit requirements) are **ineligible**.

3.12.03 Credit Report (March 1, 2017)

3.12.03.01 Ineligible Credit Reports (March 1, 2017)

Foreign credit reports are **ineligible**.

3.12.03.02 Fraud Alert Messages on Credit Reports (March 1, 2017)

Credit repositories have developed messages to identify potential fraudulent activities perpetrated by individuals misusing others' identity information. The messages may pertain to the member's Social Security number, address, telephone number, etc. All fraud alert messages appearing on the credit report need to be satisfactorily addressed to ensure the information presented on the loan application is true and correct.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.12.03.03 Accuracy of Credit Report (March 1, 2017)

It is possible for a credit report to include disputed items or erroneous information. The following requirements apply based on the individual circumstances:

- When the correction or removal of the disputed/erroneous item will improve the member's credit history, **and** the credit score as reflected on the credit report meets Arch MI's minimum credit score requirement for the transaction:
  - A corrected credit report and credit score may be provided for use; **or**
  - Documentation must be provided to substantiate the member's claim for the disputed or erroneous item(s), and the original credit report and credit score must be used.
- When the correction or removal of the disputed or erroneous item will improve the member's credit history, but the credit score as reflected on the credit report does not meet Arch MI's minimum credit score requirement for the transaction:
  - A corrected credit report and credit score **must** be provided for use. No attempt should be made to adjust the credit score or assume the correction will increase the score enough to meet Arch MI's minimum credit score requirement.
- When the correction or removal of the disputed or erroneous item will worsen the member's credit history:
  - A corrected credit report and credit score **must** be provided for use. No attempt should be made to adjust the credit score.

3.12.04 Derogatory Credit (November 15, 2018)

3.12.04.01 Restructured Mortgage Loans (November 15, 2018)

A restructured mortgage loan is defined as follows:

Any restructured loan for which the original transaction has been changed, resulting in absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in any of the following:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage;
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness;
- Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage; or
- Conversion of any portion of the original mortgage debt from secured to unsecured.

The following mortgage loans are eligible for insurance when meeting all other Arch MI underwriting requirements:

- A refinance transaction that allows for the restructure of the existing debt as defined above.
- The subsequent refinance of a restructured mortgage loan.
- A purchase transaction with a member who had previously restructured a mortgage loan.

If a restructured mortgage loan is modified instead of refinanced, it may not be submitted as a new insurance application. The loan should be submitted as a modification.

3.12.04.02 Deed for Lease (March 1, 2017)

Members may have the opportunity to lease a property for which they have given a deed in lieu of foreclosure. When the member's loan file references a deed for lease, the underwriter must determine the completion date of the deed in lieu of foreclosure to ensure the requirements are met.

3.12.04.03 Prior Arch MI Claim (March 1, 2017)

A member who was a debtor on a loan for which Arch MI paid a claim is **ineligible** for insurance with Arch MI.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.12.04.04 Credit Counseling (March 1, 2017)

Members who have received credit counseling as a result of derogatory credit should have satisfactory re-established credit from the conclusion of the counseling.

See section 3.06.01.02 for additional restrictions for loan amounts higher than $850,000.

3.12.04.05 Past-Due Accounts (March 1, 2017)

All open past-due accounts must be brought current with the following exceptions:

- Collections.
- Charge-offs.
- Garnishments.

Arch MI aligns with the Agencies' requirements to determine whether the above items must be paid off.

3.12.05 Liabilities (March 1, 2017)

3.12.05.01 Student Loans (March 1, 2017)

When the required monthly payment for a student loan is not listed on the credit report, the monthly payment may be determined by:

- Requiring copies of the loan documentation; **or**
- Using 1% of the outstanding balance of the student loan.

3.12.05.02 Debts Paid by Business (March 1, 2017)

A debt paid by a business the member owns does not have to be counted as part of the member's recurring monthly obligations when the following requirements are met:

- The account in question does not have **any** history of delinquency.
- The member supplies proof that the business has paid the obligation for the last six months (preferably canceled business checks).
- The payment of the obligation is reflected in the business cash flow analysis (e.g., reflected as an expense on the Schedule C).

3.13 Geographic Requirements (March 1, 2017)

3.13.01 Eligible Geographic Areas (March 1, 2017)

Loans secured by properties located in the following geographic areas are eligible for insurance.

- Eligible: All 50 states located in the United States and the District of Columbia.
- **Ineligible:** All other countries and U.S. territories (including Puerto Rico, Guam and the Virgin Islands).

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.14 Property (March 1, 2020)

3.14.01 Ineligible Property Types (March 1, 2017)

The following property types are **ineligible**:

- Single-wide manufactured homes.
- Any property type that is **ineligible** for sale to the Agencies (with the exception of non-warrantable condominiums [see section 3.14.03.02 below]).
- See section 3.06.01.02 for additional restrictions for loan amounts higher than $850,000.

3.14.02 Two- to Four-Unit Properties (March 1, 2017)

- Primary residence, purchase and rate/term refinance transactions only.
- Non-traditional credit is **ineligible**.
- Gift/grant funds are **ineligible** for 3–4 unit properties.

3.14.03 Condominiums and Cooperatives (Co-ops) (March 1, 2020)

For a condominium or co-op to be eligible for insurance, it must:

- Be eligible for sale to either Fannie Mae or Freddie Mac See the Fannie Mae Selling Guide or the Freddie Mac Seller/Servicer Guide; or
- Meet Arch MI's requirements for a condominium not verified to be eligible for sale to Fannie Mae or Freddie Mac (non-warrantable condominiums).

3.14.03.01 Condominiums and Co-ops Eligible for Sale to the Agencies (March 1, 2017)

For condominiums and co-ops that are eligible for sale to the Agencies, Arch MI aligns with the Agencies' published requirements with the following restrictions:

- Projects which include manufactured housing are **ineligible**.
- Non-realty limited common elements (e.g., boat dock slips, cabanas) may not be financed with the property. Assigned parking spaces may be financed as a cost of the property.

See section 3.06.01.02 for additional restrictions for loan amounts higher than $850,000. The following condominiums and co-ops salable to the Agencies are **ineligible** for delegated submissions. They will be considered on a loan-by-loan basis when submitted non-delegated:

- A condominium which receives a single-loan project eligibility waiver from an Agency because the project does not meet its published requirements.
- A condominium located in a project that received a Project Eligibility Review Service (PERS) approval which allows exceptions to the Agency's published requirements.
- A co-op that received an exception from an Agency to their published requirements.

3.14.03.02 Non-Warrantable Condominiums (January 13, 2020)

A non-warrantable condominium is a condominium not verified to be eligible for sale to Fannie Mae or Freddie Mac. All non-warrantable condominiums must be submitted **non-delegated**.

The following are Arch MI's underwriting requirements for non-warrantable condominiums:

Documentation:

The loan file should include one or more of the following documents:

- Appraisal: used to determine project characteristics, ownership, pre-sale levels, marketability and completion levels (required on all files).
- HOA Questionnaire: can be used to determine investor concentration, commercial usage, single entity ownership and project delinquency levels.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

- Budget/Balance Sheet: used to verify the HOA's financial resources. This determines the ability to provide maintenance and upkeep for the project grounds, fund necessary project improvements and maintain adequate reserves.
- Other documents deemed necessary to validate the marketability and solvency of the condominium project.

Project Exposure:

- Arch MI reserves the right to limit project exposure at any time.

Project Eligibility:

- **Established Projects:**
  - A project is considered an established project if:
    - At least 75% of the total units have been conveyed to unit purchasers.
    - The project is 100% complete, including all units and common elements.
    - The project is not subject to any additional phasing or annexation; and
    - Control of the HOA has been turned over to the unit owners.
  - Established Project Requirements:
    - If the subject property is an investment property, a minimum of 50% of the units in the project must be primary residences or second homes.
    - No more than 15% of the total units in the project can be 60 or more days past due on condo/association fees (HOA dues).
- **New Projects:**
  - A project is considered a new project if:
    - Fewer than 75% of the project's total units have been conveyed to the unit purchasers;
    - The project is not fully complete, such as proposed construction, new construction or the proposed or incomplete conversion of an existing building to a condominium;
    - The project is newly converted;
    - The project is subject to additional phasing or annexation; or
    - The HOA is still in the developer's control.
  - New Project Requirements
    - The project must be substantially complete:
      - A certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or subject phase; and
      - All the units and buildings in the legal phase in which the unit securing the mortgage is located are complete, subject to the installation of buyer selection items, such as appliances.
    - At least 50% of the units in the project/legal phase must be conveyed or under contract for sale to primary residence or second homes purchasers.
      - For a specific legal phase or phases in a new project, at least 50% of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed or be under contract for sale to principal residence or second home purchasers.
    - No more than 15% of the total units in the project can be 60 or more days past due on the payment of condominium/association fee payments.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

- **Detached Condominiums:**

  The credit union is not required to determine project eligibility for a detached condominium regardless if in a new or established condominium project.

- **2–4 Unit Projects:**
  - A project composed of at least two, but no more than four 1-unit dwellings that are separately owned with separate legal descriptions.
  - The credit union is not required to determine project eligibility for a condominium unit located in a 2–4 unit project regardless if in a new or established condominium project.
    - The project cannot be a condo hotel or motel, houseboat project, a timeshare or segmented ownership project.
- **Condominium Conversions:**

  Condominium conversions include apartments or improvements built for other uses and converted to condominium projects through legal filing of a Declaration of Condominium or Master Deed. Rehabilitation of the property may or may not have taken place at the time of conversion. It should be noted that condominium conversion projects are higher-risk properties. Additional considerations for conversion projects are as follows:

  - If converted from improvements other than apartments, marketability of units has been firmly established by other projects within like market areas.
  - Quality of construction and utility should be comparable to new condominiums.
  - Amenities should successfully compete with those of surrounding projects.
  - The project should be well located, with convenient access to major thoroughfares.

- **Kiddie Condos:**

  Kiddie condos must be considered investment properties for eligibility and pricing purposes.

  A “kiddie condo” is defined as any property type purchased to provide housing for a family member to occupy while attending college, trade or technical school. Typically, the parent(s) are the buyers/owners and non-occupants and the child is the occupant (non-owner). If the child who will occupy the property is a borrower on the loan, the loan may qualify as a primary residence non-occupant borrower transaction.

- **Ineligible Condominium Properties and/or Projects:**
  - Manufactured housing site condominiums.
  - Condotels – A project may not be operated or managed as a hotel, motel or similar commercial entity as evidenced by meeting one or more of the following criteria:
    - The HOA is licensed as a hotel, motel or hospitality entity.
    - The HOA or project’s legal documents restrict owners’ ability to occupy the unit during any part of the year.
    - The HOA or project’s legal documents require owners to make their units available for rental pooling (daily or otherwise).
    - The HOA or project’s legal documents require unit owners to share profits from the rental of units with the HOA, management company, resort or hotel rental company.
  - Timeshare, fractional or incremental ownership.
  - Multi-dwelling unit condominiums.
  - Projects with properties that are not real estate, such as houseboat projects.
  - Commercial space – Projects where more than 35% of the project area can be for commercial usage. Commercial parking facilities can be excluded from the commercial space calculation.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

- Single-entity ownership – Projects in which a single entity (the same individual, investor group, partnership or corporation) owns more than the following total number of units in the project:
  - Projects with 5 to 20 units – 2 units.
  - Projects with 21 or more units – 25%.
  - Units currently subject to any rental or lease arrangement must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of units such as lease-purchase and rent-to-own arrangements.

  The following may be excluded from the single-entity ownership calculation:
  - Units that are owned by the project sponsor or developer and are vacant and being actively marketed for sale; or
  - Units that are controlled or owned by a nonprofit entity for the purpose of providing affordable housing, units held in affordable housing programs (including units subject to non-eviction rent regulation codes) or units held by higher education institutions for a workforce housing program.

  The single-entity ownership requirement may be waived when the transaction is a purchase transaction that will result in a reduction of the single-entity ownership concentration. In such instances, the following requirements must be met:
  - Units owned by the single entity represent no more than 49% of the units;
  - Evidence is required that the single entity is marketing units for sale to further reduce single-entity ownership, with the goal of reducing the concentration to 20% or less of the project units;
  - The single entity is current on all HOA assessments; and
  - There are no pending or active special assessments in the project.
- Projects in which the HOA or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability or functional use of the project.
- Projects with outstanding environmental issues or budget issues.
- Projects that are operated as a continuous care facility.
- Projects with mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, owned by an outside party (including the developer or builder). Membership fees paid for the use of recreational amenities owned exclusively by the HOA or master association are acceptable.
- Projects with covenants, conditions and restrictions that split ownership of the property or curtail an individual member's ability to use the property.
- Projects with non-incidental business operations owned or operated by the HOA including, but not limited to, a restaurant, spa or health club.
- Any project or building that is owned by several owners as tenants-in-common.
- New projects for which the seller is offering excessive sale/financing concessions.

3.14.04 Manufactured Homes (October 7, 2019)

Arch MI defines a manufactured home as a factory-built, multi-sectioned home built on a permanent frame (chassis) with a removable transportation system. A manufactured home is built under the Federal Home Construction and Safety Standards established by HUD on/after June 1976. The label that confirms this is located on the manufactured home. The HUD Data Plate and HUD Certificate Label are required to confirm compliance with these standards.

The manufactured home is delivered and permanently attached to a site-built foundation.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

The following are the underwriting requirements for manufactured homes.

3.14.04.01 Property Eligibility (November 15, 2018)

For mortgage insurance eligibility, manufactured homes must meet the following conditions:

- Manufactured homes must be a minimum of 18 feet wide or a minimum of 600 square feet in floor area. Single-wide homes are **ineligible**.
- The land and improvements are included under one mortgage or deed of trust.
- The property (land and structure) is legally classified as real property by the local jurisdiction, taxing authority and title company.
- All loans must have an ALTA 7 Title Endorsement.
- The home is permanently affixed to a foundation that adheres to local building codes and wheel axles and trailer hitches have been removed. Homes on piers must satisfy the manufacturer's recommendation. Anchors must be provided where required by state law.
- The land must be owned in fee simple by the member.
- A minimum of two manufactured home comparable sales must be used by the appraiser to demonstrate conformity within the market and to establish market appeal.

3.14.04.02 Purchase Transactions (November 15, 2018)

Purchase transactions are those in which the mortgage proceeds are used to finance the purchase of the manufactured home or the manufactured home and the land. The land may be previously owned by the member, either free of any mortgage or subject to a mortgage that will be paid off with the proceeds of the new purchase money mortgage.

- **Sales Price of the Manufactured Home:**
  In addition to the cost of the manufactured home and land, the sales price may include the cost of bona fide and documented transportation to the site, site preparation costs and dwelling installation costs.

  Any personal property items (non-realty items) purchased in conjunction with the manufactured home must be deducted from the sales price and cannot be financed as part of the mortgage.

- **LTV Calculation:**
  For a purchase transaction when the loan is secured by a **newly built** manufactured home that is being attached to a permanent foundation in connection with the transaction, the LTV will be determined using the lower of:
  - The "as completed" appraised value; or
  - The sales price of the manufactured home (as evidenced by the dealer's invoice) plus the land:
    - If the land was purchased less than 12 months prior to the loan application date, use the lowest sales price at which the land was sold during that 12-month period, or
    - If the land was purchased 12 or more months prior to the loan application date, use the current appraised value of the land.
    - If the land was acquired through a gift or inheritance, use the appraised value of the land. Document the acquisition and transfer of the land.

  For a purchase transaction when the loan is secured by a manufactured home that **already exists** on its foundation, the LTV will be based on the lowest of:
  - The sales price of the manufactured home and the land, or
  - The current appraised value of the manufactured home and the land, or
  - If the manufactured home was attached to the foundation less than 12 months prior to the loan application date, the lowest price the home was previously sold for during that 12-month period and the lower of the:
    - Current appraised value of the land, or
    - Lowest price the land was sold for during that 12-month period.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

- **Trade Equity:**
  Trade equity will be considered only if:
  - The member has contributed the minimum cash down payment prior to consideration of the trade equity; and
  - The maximum permitted equity is calculated based on the length of ownership. If the unit has been owned for 12 or more months, use 90% of the retail value as listed in N.A.D.A.[7] (a copy of the valuation report must be provided). If the unit has been owned for less than 12 months, use the lesser of 90% of the retail value as listed in N.A.D.A. or the lowest sale price within the last 12 months.

3.14.04.03 Refinance Transactions (November 15, 2018)

- **LTV Calculation:**

  For a rate/term refinance of an existing unit already permanently affixed to the land, the LTV will be based on the lowest of the following:
  - The current appraised value of the manufactured home and land; or
  - If the manufactured home was owned by the member for less than 12 months on the loan application date; and
    - The home and the land are secured by separate liens, use the lowest price at which the home was previously sold during that 12-month period plus the lower of the current appraisal value of the land, or the lowest sales price at which the land was sold during that 12-month period (if there was such a sale).
    - The home and land are secured by a single lien, use the lowest price at which the home and land were previously sold during that 12-month period.
    - The land was acquired through gift or inheritance, use the appraised value of the land. Document the acquisition and transfer of the land.

3.14.04.04 Ineligible for Manufactured Homes (July 29, 2019)

The following are **ineligible** when the subject property is a manufactured home:

- Medical and Dental Professionals program.
- Cash-out refinances.
- Renovation mortgages.
- Non-occupant co-members.
- Non-traditional credit.
- Investment properties.
- Condominiums and co-ops.

[7] N.A.D.A. – National Automobile Dealers Association, a resource for auto retail professionals, which includes manufactured homes. The website is www.nadaguides.com, where the value for manufactured homes can be determined for a fee.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.14.05 Modular, Panel/Pre-Fab, and Pre-Cut Homes (November 15, 2018)

Modular, panel/pre-fab and pre-cut homes qualify using the same criteria as single-family detached homes.

- **Modular Housing (Modular Home):**
  A home constructed in sections in a factory assembly line. Fully constructed modules are transported to the permanent site and anchored to the foundation. Modular homes are not subject to HUD codes, but are built in accordance with the Uniform Building Code administered by the state agencies in which the modular home is installed and must adhere to any local and regional building codes. In some cases, modular homes are built on a permanent chassis (on-frame modular) similar to a manufactured home. These on-frame modular homes are built in accordance with the Uniform Building Codes of the state and not to the HUD codes, therefore, they are treated as modular homes.
- **Panel/Pre-Fab Housing (Panelized Home):**
  Factory assembly-line homes constructed with walls, floors and (often) roof in small panel form, then assembled at the site and attached to the foundation. Panelized homes are not subject to federal standards but must adhere to local and regional building codes.
- **Pre-Cut Home:**
  Lumber is cut to specific lengths at the factory, and then the home is constructed by workmen at the permanent site. Electrical, plumbing and other components are added at the site. Pre-cut homes are not subject to federal standards but must adhere to local building codes.

3.14.06 Rural Properties (March 1, 2017)

- Marketing time ≤12 months.
- Land value may not exceed 50% of the total property value.
- Adequate sewage, water and utilities.
- Comparable properties must be in similar rural locations and have similar property styles (e.g., ranch, two story, etc.). Appraiser must adequately explain the use of comparable properties not meeting these requirements.

3.14.07 Maximum Acreage (March 1, 2017)

- Maximum 15 acres.
- Comparable properties must have similar acreage and property styles (e.g., ranch, two story, etc.).

3.14.08 Properties with Resale Restrictions (October 12, 2018)

- When there is a requirement for a third party to be notified that the member is in default or foreclosure, the credit union must ensure that the third party is notified.
- **Ineligible** for loan amounts higher than $850,000.

3.14.09 Property Flips (November 15, 2018)

- If the seller has owned the property less than 180 days from the date of the purchase contract and the new sales price is higher than the price paid by the seller to acquire the property, the increase must be fully documented and explained.
- The following types of re-sale transactions are not considered property flips and are not required to meet the above criteria:
  - Property being sold by a spouse who acquired the property through a divorce settlement.
  - Property acquired by an employer through a relocation program.
  - Property being sold by an administrator or executor of an estate.
  - Property being sold by a credit union, mortgage investor or mortgage insurance company that was acquired through foreclosure or deed in lieu of foreclosure.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.15 Occupancy (October 7, 2019)

3.15.01 Primary Residence (May 7, 2019)

- At least one member on the transaction must occupy the property for the majority of the year and take title to the property; unless:
  - A parent or legal guardian is purchasing a home for their disabled adult child **or** a child is purchasing a home for their parent(s).
- For transactions in which not all of the members will occupy the property as their primary residence, see the Non-Occupant Co-Borrower/Co-Signer section.

3.15.02 Second Home (October 7, 2019)

- The property must be located in a recreational area.
  - If not in a recreational area, the member must give a satisfactory explanation for the use of the property as a second home.
- Non-traditional credit is **ineligible**.
- Rental income from the subject property may **not** be used for qualification.

3.15.03 Investment Property (November 15, 2018)

- Gift/grant funds, non-traditional credit and manufactured homes are **ineligible**.
- A “kiddie condo” is defined as any property type purchased to provide housing for a family member to occupy while attending college, trade or technical school. Typically, the parent(s) are the buyers and non-occupants and the child is the occupant. Kiddie condos must be considered investment properties. If the child who will occupy the property is a borrower on the loan, the loan may qualify as a primary residence non-occupant borrower transaction.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

3.16 Analyzing the Appraisal Report (March 1, 2017)

- The appraisal should fully analyze the neighborhood, site, physical characteristics and condition of the property.
- The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition. Additionally, when provided, the following Condition and Quality of Construction rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:
  - Condition ratings of C1, C2, C3 or C4 are acceptable in an "as is" condition. Due to the risk associated with condition ratings C5 and C6, any appraisals with a C5 or C6 rating must have the condition items causing the rating on the appraisal be "subject to completion of repairs" in order for the transaction to be eligible for mortgage insurance.
  - Quality of Construction ratings of Q1, Q2, Q3, Q4 or Q5 are acceptable. Due to the risk associated with Quality of Construction rating Q6, any appraisal report with this rating will be **ineligible** for mortgage insurance.
- When the appraisal is made subject to completion, repairs or inspection, the credit union must ensure that the construction is completed, the repairs are made, or the inspection is completed. If the inspection shows that additional repairs are required, those repairs must be completed also. Repairs may be completed after closing.
- Credit unions exercising their delegated authority are responsible for assessing the validity and accuracy of the appraisal report and ensuring the value is supported prior to delegation, including but not limited to adequacy of the comparables, property condition, market value and appraised value. This is regardless of any AUS response on the transaction. Numerous tools are available to credit unions in the marketplace to assist in this assessment and Arch MI encourages their use. This is particularly important during times of market volatility or fluctuations, especially if there are any indications the subject property and/or comparable properties are located in an area of soft and/or declining property values.

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