

ARCH MORTGAGE GUARANTY COMPANY

Credit Union Underwriting Manual

January 4, 2018



Summary of Underwriting Manual Updates

Arch Mortgage Guaranty Company's (AMGC) Credit Union Underwriting Manual (the UW Manual) has been updated to reflect changes previously announced in Credit Risk Bulletins #1-17-CU-AMGC, and in Customer Announcement CUA 2018-01-AMGC.

- [Section 3.1, Portfolio Program](#), has been updated to reflect the increased loan amounts previously announced.
- [Section 3.4.3 Interest-Only Program](#), [Section 5.10.1, Down Payment Requirements](#), and [Section 5.10.11, Source of Funds](#), have been updated to increase the loan amount for which gifts are allowed.
- [Section 4.5, Maximum Insured Loans per Member](#), has been updated as follows:
 - Clarified that the maximum of 3 loans insured per member is collective with AMGC and all its affiliates.
 - Now allow 2 second homes per borrower when no investment properties are insured for the member.
- [Section 5.10.5, Reserves](#), has been updated to increase the loan amounts which determine the amount of reserves required.
- [Section 6.6.3, Non-Warrantable Condominium Project Eligibility](#), has been updated as follows:
 - Clarified that all but one unit in the project must have been conveyed or "under contract for sale" to a primary residence or second home purchaser.
 - Clarified that for units not to be included in the single-entity ownership calculation, the units must be:
 - Owned by the project sponsor or developer; and
 - Vacant; and
 - Actively marketed for sale.

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1. Arch Mortgage Guaranty Company's Underwriting Policy

1.1 Overview

Arch Mortgage Guaranty Company (AMGC) offers Credit Unions the capability to insure more of its customers' loans and expand their reach in the housing market. With a parent who represents one of the world's top insurance brands, Arch Mortgage Guaranty offers the nation's Credit Unions unparalleled counterparty strength, institutional risk management expertise, a robust appetite for mortgage business, and a practical approach to providing credit enhancement on mortgage loans.

Arch Mortgage Guaranty Company believes strongly in the value of residential mortgage lending and extends its broad range of comprehensive mortgage insurance (MI) products and tools to support the segment through Arch Mortgage Guaranty. The company continues to develop lasting relationships by facilitating customer growth opportunities through quality underwriting, superior operational support and personalized attention.

Arch Mortgage Guaranty Company utilizes the significant investment of Arch Mortgage Insurance Company in its operational and systems infrastructure – including the origination and servicing platform – to support our customer's goals. Insuring your loans with Arch Mortgage Guaranty Company is consequently an easy and trouble-free process that integrates easily into your business routine and the LOS you typically use, generating efficiencies that benefit you and the members you serve.

1.2 Arch Mortgage Guaranty Company's Underwriting Philosophy

Arch Mortgage Guaranty Company's approach to underwriting draws on its parent's extensive experience in successful risk management worldwide. The goal is to identify, analyze, and price risk appropriately and efficiently, in order to build and maintain a quality book of business. This is achieved by (1) an understanding of past performance; (2) evaluation of present conditions; and (3) anticipation of future developments.

Each mortgage loan application is reviewed to determine whether it represents an acceptable risk and that the member(s) has the ability to repay the loan. Underwriters are trained to evaluate loans for MI coverage from a complete risk perspective and conformity to the terms of Arch Mortgage Guaranty Company's Underwriting Policy.

Underwriting mortgage loans requires a sensitive analysis of the variables involved in financing a home. The most essential requirement is that the terms of the loan, property value, creditworthiness of the member(s) and the appropriate documentation support the underwriter's judgment that it is probable the member will repay the mortgage debt. The Credit Union is responsible for ensuring the accuracy of the information submitted on the MI application and utilized by the underwriter.

1.3 Arch Mortgage Guaranty Company's Underwriting Manual

The Underwriting Manual reflects Arch Mortgage Guaranty Company's underwriting philosophy and describes its general underwriting approach. The program guidelines presented in the Manual include comprehensive information on Arch Mortgage Guaranty Company's loan documentation requirements, loan, member and property eligibility, MI programs and products, and other general underwriting issues.

Loans which may reside outside the boundaries of specified Agency programs and meeting simple easily understood guidelines can be easily approved under Arch Mortgage Guaranty Company's program guidelines.

Loans outside of Arch Mortgage Guaranty Company's published guidelines can be submitted to the Underwriting Network for case-by-case review.

1.4 Arch Mortgage Guaranty Company's Underwriting Team

Arch Mortgage Guaranty Company maintains a network of seasoned professionals who are committed to evaluating each loan on its merits and underwriting it based on the specific risk factors involved. Field Underwriters are attuned to the nuances of the local markets they support and trained to recommend alternative scenarios that may expedite the approval process while remaining within program guidelines. Arch Mortgage Guaranty Company underwriters pride themselves on delivering fast turnarounds, efficient decisions and practical approaches to the various loan files they encounter. They can be reached at 888.746.6264.

1.5 Arch Mortgage Guaranty Company's Underwriting Policy

Arch Mortgage Guaranty Company's underwriting policy supports corporate Risk Management objectives and complies with all applicable laws and regulations governing the industry, including those of state Insurance Departments, RESPA, and Fair Lending.

All loans submitted for insurance coverage are subject to the Arch Mortgage Guaranty Company Program Guidelines and Rates in effect at the date of the individual loan submission.

1.6 Regulatory Compliance

Fair Housing and Equal Credit Opportunity Acts

Arch Mortgage Guaranty Company believes in fair treatment of all borrowers 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 Mortgage Guaranty Company). 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 Mortgage Guaranty Company 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.

Adverse Action Notices

The federal Fair Credit Reporting Act (FCRA) imposes restrictions on the permissible use of credit report information. FCRA has been interpreted by the FTC staff and federal courts to require mortgage insurance companies to provide "adverse action" notices to consumers in the event an application for mortgage insurance is declined or offered at a premium rate higher than the lowest premium rate available for the loan program applied for based in whole or in part on the consumer's credit report. Arch Mortgage Guaranty Company sends these letters to both borrowers and co-borrowers.

Privacy Policy

Arch Mortgage Guaranty Company is committed to complying with applicable information, privacy and security laws. In the process of underwriting loans for mortgage insurance, Arch Mortgage Guaranty Company underwriters have access to nonpublic personal information relating to individual consumers. Each Arch Mortgage Guaranty Company employee is required to exercise a high degree of care to protect the security, integrity, and confidentiality of nonpublic personal information in our possession. Access to consumer nonpublic personal information is restricted to those employees or contractors who need to know the information in order to provide mortgage insurance.

2. Delivery, Documentation and Coverage

2.1 Delivery

AMGC permits file delivery on a non-delegated basis only through the Underwriting Network.

Standard/Full Submission

All Credit Unions must have an AMGC approved Master Policy to submit loans to the National Underwriting Network for underwriting. This may include loans that are outside eligibility requirements but which may qualify based on other strengths in the file.

The most common way to submit a loan to the National Underwriting Network is by using AMGC's ArchMIConnect[®] system to transmit data related to the application for mortgage insurance, and then to submit the complete loan file package through our ArchMIConnect document upload feature.

ArchMIConnect is AMGC's online delivery channel for products and services on the Internet. It provides fast access to MI origination and policy servicing and works with a variety of loan origination systems and requires no special training. This system is used by Credit Unions to:

- Originate non-delegated MI certificates
- Update information on existing MI certificates
- Upload document images for standard/Full Submission transactions
- View and/or print existing MI certificates

AMGC performs a full underwrite, which includes a review and examination of evidence supporting credit worthiness of the member(s) and the appraisal report reflecting market evaluation of the property. The full underwrite entails a review of:

- The mortgage insurance application, and the loan transmittal (such as the 1008)
- The member's loan application
- Verification of employment and income, including tax returns and the signed IRS 4506T if applicable
- Verification of other income if applicable
- All credit reports, credit scores and history of debt, payment amount and timeliness of payments
- Additional credit information if available, such as rent payment history
- All documents supporting the value of the collateral property (such as purchase contract, appraisal)

After examining supporting documentation, AMGC will evaluate the loan to determine if it is affordable to the member(s) and is in compliance with AMGC's underwriting guidelines and eligibility requirements.

2.2 Documentation

2.2.1 Documentation Requirements

Documentation may be delivered as an original or copies of documents. Documents should be delivered as:

- A copy of a document to be produced by any technology available to the insurer, such as a photocopier, facsimile machine, document scanner, or camera; and
- A member explanation of derogatory credit in the form of a letter from the member, an email from the member, or some other form of written documentation from the member.
- Personal legal documents (e.g. birth certificate, legal status, licenses) should only be delivered as copies

Loans submitted would typically contain the following documentation to be considered as fully documented:

- A fully completed AMGC Application for Insurance, either written or through our ArchMIConnect system.

- Uniform Residential Loan Application (Fannie Mae 1003/Freddie Mac 65), signed and dated by all members; underwriters may accept an unsigned loan application at their discretion
- Uniform Underwriting and Transmittal Summary (Fannie Mae 1008/Freddie Mac 1077)
- Residential Mortgage Credit Report (RMCR), tri-merge credit report, or minimum of two repository, in-file credit report (alternate credit requirements may be applicable based on DU[®]/Loan Product Advisor findings)
- Loan payment history, if not included in credit report
- Verification of Employment and Income (and a verbal verification obtained within 10 days of closing)
- Verification of funds needed to close, plus reserves if required
- Residential appraisal report
- Purchase contract/escrow instructions, if applicable
- Credit Union's loan approval letter
- Signed form 4506 or 4506T – Member's written authorization to obtain copies of the past two years' federal income tax returns from the Internal Revenue Service

Additional documentation as applicable:

- Gift letters and source of gift funds
- Divorce decrees/legal separation agreements
- Lease agreements
- Member's explanation of derogatory credit
- Verification of source of funds deposited into the member's account within the past 60-90 days
- Occupancy statements
- Details of member's employment history

2.2.2 Pre-qualification Underwriting

AMGC's Pre-Qualification Underwriting program is designed to help both Credit Unions and their members determine creditworthiness and the maximum eligible mortgage amount. A file submitted for pre-qualification review should include all required credit documents (excluding the appraisal). Standard Underwriting Guidelines apply, and a prequalification notice is generated. The notice is effective for 120 days and is conditional and is not a commitment of insurance.

2.3 Insurance Coverage

Standard Coverage, the basic mortgage insurance coverage plan, limits the Credit Union's initial exposure on a mortgage loan. Standard Coverage is available for all loan types that AMGC insures.

Under Standard Coverage, a Credit Union selects a specific percentage of coverage (i.e., 20%, 25%, etc.), called the optional settlement percentage. Should a claim occur under Standard Coverage, AMGC will apply the optional settlement percentage to the sum of the outstanding loan balance, delinquent interest, and other claimable expenses, subject to the terms of the insurance policy. AMGC also has the right to acquire the property by paying the total amount of the Calculated Loss under the Master Policy.

Although the actual rates may differ, the products listed below are available on all of the insurable loan types.

2.4 Premium Plans

2.4.1 EZ Monthly/Monthly

EZ Monthly

EZ Monthly requires no mortgage insurance premium payment at loan closing. The insurance coverage is activated when the Credit Union provides the closing date and initial premium is paid with the first loan payment.

Standard Monthly

Standard Monthly requires one month's mortgage insurance premium to be collected upfront at closing. Insurance coverage is activated upon receipt of the initial premium and thereafter premiums are paid monthly in advance.

Written instructions on how to calculate the monthly premium for both EZ and Standard Monthly can be found at

archmicu.com/Portals/2/Documents/amg/AMG_MonthlyNonRefundableRates_CU.pdf

2.4.2 Annual

Level Annual requires the initial premium to be collected and paid upfront at closing. Although renewal premiums are paid to the insurer annually, to ensure adequate funds are available to pay the renewal when due, the servicer generally collects 1/12 of the annual premium on a monthly basis, commencing with the first payment and holds these funds in the member's escrow account.

To calculate the annual premium, subtract the Level Annual Premium discount from the Annualized Monthly base rate (including all other applicable rate adjustments) and multiply by the insured loan balance. Premiums are rounded to the nearest cent.

2.4.3 Split Premium

Split Premium combines a one-time upfront premium paid at closing with a monthly renewal premium due along with the first month's mortgage payment. To calculate the upfront portion, multiply the applicable Split Upfront Premium rate by the insured loan balance. To calculate the monthly renewal premium, multiply the Split Premium Monthly renewal rate by the insured balance and divide by 12. Premiums are rounded to the nearest cent. Under Split Premium, insurance is activated upon receipt of the upfront premium collected at closing.

2.4.4 Renewal Rates: EZ Monthly, Standard Monthly, Level Annual

Amortized renewal rate is applied to the outstanding loan balance from coverage inception date through term.

Constant Renewal Rates for EZ Monthly, Standard Monthly and Level Annual applied to the original loan balance from policy inception date through year 10. The constant renewal rate for years 11 through term is the lower of the original premium rate or 17 basis points (0.17%).

2.4.5 Refunds: EZ Monthly, Standard Monthly and Annual

For Level Annual policies, refunds are pro-rata.

For Standard Monthly Refundable policies, refunds are based on unearned premium. Refundable premium is not available for LPMI.

For EZ Monthly and Standard Monthly Non-Refundable policies, refunds may be applicable if coverage is terminated under the terms of the Federal Homeowners Protection Act of 1998.

For EZ Monthly policies, because the payment is made in arrears, refunds may not be due.

2.4.6 Single Premium

Single Premium offers the insured or member, as applicable, the option to pay the premium in full or, in some cases, to finance the mortgage insurance premium into the loan amount at closing. AMGC Single Premium coverage remains in force for the life of the loan or until coverage is terminated by the policyholder, such as when termination is required under the Federal Homeowners Protection Act.

2.4.7 Refunds – Single Premium

For AMGC Single Premium Refundable policies, if coverage is terminated under the Federal Homeowners Protection Act of 1998, refunds will be processed in accordance with the Act. For all other terminations, refunds are only available if termination occurs within the first five years of coverage and these refunds will be calculated based on the five-year refund schedule.

For AMGC Single Premium Non-Refundable policies, if coverage is terminated under the Federal Homeowners Protection Act, refunds will be processed in accordance with the Act. For all other terminations, there is no refund.

2.4.8 Refunds – Split Premium

For AMGC Split Premium Non-Refundable policies, if coverage is terminated under the Federal Homeowners Protection Act, refunds will be processed in accordance with the Act. For all non-HPA terminations, no refund applies to either the Monthly or Upfront portion of the premium.

3. Loan Matrices, Products and Programs

3.1 Portfolio Program

OCCUPANCY	LOAN PURPOSE	PROPERTY TYPE	MAX LTV/CLTV/HCLTV	MAX LOAN AMOUNT	MIN CREDIT SCORE	MAX DTI
Owner- Occupied	Purchase or Rate/Term Refinance Construction to Permanent and Rehabilitation/Renovation (1-unit Single Family or 2-units only)	1-Unit Single Family (detached & attached), Co-ops, Condominiums	97/97	\$453,100	700	50%
				\$453,100	680	45%
			95/95	\$453,100	660	45%
				\$679,650	680	45%
				\$679,650	720	50%
		90/90	\$679,650	660	45%	
			Manufactured Homes	95/95	\$679,650	720
		90/90		\$453,100	680	45%
		2-units	95/95	\$580,150	680	45%
				\$580,150	700	50%
	3-units	85/85	\$701,250	720	50%	
	4-units	85/85	\$871,450	740	50%	
	Cash-Out Refinance Max \$250,000	1-Unit Single Family (detached & attached), Co-ops, Condominiums	90/90	\$453,100	740	50%
			85/85	\$453,100	700	45%
2-units		90/90	\$580,150	740	50%	
Second Home	Purchase or Rate/Term Refinance Construction to Permanent and Rehabilitation/Renovation (1-unit single family only)	1-Unit Single Family (detached & attached), Co-ops, Condominiums	90/90	\$679,650	700	50%
	Cash-Out Refinance Max \$50,000					
Investment	Purchase or Rate/Term Refinance	1-Unit Single Family (detached & attached), Co-ops, Condominiums	90/90	\$453,100	740	50%
				\$679,650	700	45%

For AK & HI: Max Loan Amount is the FHFA Conforming Loan Limit

Maximum 40 year amortization term

Fully Amortizing Short Term ARMs ≥ 1 year initial fixed period

Cash Out ARM minimum 5 year initial fixed rate; Manufactured Homes Ineligible

MI coverage on Construction to Permanent loans may be activated either during the initial phase of construction or upon completion of the property

Condominiums must meet GSE or AMGC condominium requirements

High Combined Loan to Value (HCLTV) will be equal to maximum CLTV in all categories

Co-ops: Eligibility limited to the states of CT, DC, IL, MA, MD, NH, NJ, NY, and VA

3.2 Super Jumbo Program

OCCUPANCY	LOAN PURPOSE	PROPERTY TYPES	MAX LTV/CLTV/HCLTV	MAX LOAN AMOUNT	MIN CREDIT SCORE	Max DTI
Owner-Occupied	Purchase or Rate/Term Refinance	1-Unit Single Family (detached & attached), Co-ops, Condominiums	95/95	\$650,000 \$850,000	700	45% 45%
			90/90	\$1,500,000	720	41%
			85/85	\$2,000,000	740	38%
	Construction-to-Permanent and Rehabilitation/ Renovation	1-Unit Single Family (detached & attached)	90/90	\$650,000 \$850,000	700 720	45%
	Cash Out	1-Unit Single Family (detached & attached), Co-ops, Condominiums	85/85	\$1,000,000 Max \$250,000 cash out	740	38%
Second Home	Purchase or Rate/Term Refinance	1-Unit Single Family (detached & attached), Co-ops, Condominiums	90/90	\$650,000	700	45%
				\$850,000	720	41%
	Construction-to-Permanent and Rehabilitation/ Renovation		90/90	\$650,000	700	45%
	Cash Out Refinance		85/85	\$650,000 Max \$200,000 cash out	740	41%
Investment	Purchase or Rate/Term Refinance	1-Unit Single Family (detached & attached), Co-ops, Condominiums	85/85	\$650,000	740	38%

Short Term ARMs < 5 year fixed period - Maximum \$1,000,000; Second Homes and Investment - Ineligible

Cash Out: ARM minimum 5 year initial fixed rate term

Condominiums must meet GSE or AMGC condominium requirements

High Combined Loan to Value (HCLTV) will be equal to maximum CLTV in all categories

Co-ops: Eligibility limited to the states of CT, DC, IL, MA, MD, NH, NJ, NY, and VA

3.3 Interest Only Program

OCCUPANCY	LOAN PURPOSE	PROPERTY TYPES	MAX LTV/CLTV/ HCLTV	MAX LOAN AMOUNT	MIN CREDIT SCORE	MAX DTI
Owner- Occupied	Purchase or Rate/Term Refinance	1-Unit Single Family (detached & attached), Co-ops, Condominium	90/90	\$750,000	720	43%
			85/85	\$1,000,000		

Ineligible: Short Term ARMs < 5 year fixed period, properties in NY

Condominiums must meet GSE or AMGC condominium requirements

High Combined Loan to Value (HCLTV) will be equal to maximum CLTV in all categories

Co-ops: Eligibility limited to the states of CT, DC, IL, MA, MD, NH, NJ, and VA

3.4 Loan Programs

3.4.1 Portfolio Program

Portfolio loans under the AMGC program must meet the following requirements:

- Available for 1-4 unit properties
- Maximum 40 year amortization term
- Short term ARMs minimum 1 year initial fixed rate term
- Cash Out ARM: minimum 5 year initial fixed rate period
- Investment properties ineligible for cash out

3.4.2 Super Jumbo Program

Jumbo and Super Jumbo loans under the AMGC program must meet the following requirements:

- Maximum \$2,000,000 loan amount
- Manufactured homes ineligible
- Investment properties ineligible for cash out
- Cash Out ARM: minimum 5 year initial fixed rate period
- Gift or grant funds are not permitted for loan amounts > \$1,000,000

3.4.3 Interest Only Program

Interest only loans under the AMGC program must meet the following requirements:

- Fixed Rate or ARM loans with a minimum 5 year initial fixed rate period
- Maximum 10 year interest only payment term
- Jumbo I/O loans (>\$453,100) do not permit gift or grant funds

3.5 Loan Types

3.5.1 Fixed-Rate/Fixed Payment Mortgages

Fixed-rate/fixed payment loans are fully amortizing and do not contain any provisions for rate or payment adjustments.

3.5.2 Adjustable Rate Mortgages (ARMs)

ARMs provide for a variable interest rate which is tied to an index and adjust at specified periods of time and in an amount which is based on movement of the index. Payments adjust either concurrent with the interest rate adjustments or at other intervals, as specified in the Note. Credit Unions may offer initial interest rate discounts ("teaser rates"), where the initial rate is less than the program rate, which is determined by the current index value plus the margin (i.e., the Fully Indexed Accrual Rate/FIAR).

Following is a description of features and guidelines for ARM loans.

- Short-Term ARMs are defined as loans with a one to five year fixed-rate period.
- Hybrid ARMs start with an initial fixed-rate greater than 5 years (commonly 7 or 10 years) and usually become a traditional one-year ARM for the remainder of amortization period.
- The ARM index must be beyond the control of the Credit Union, easily verifiable by the member, and published on a regular basis. These may include the 1-year Constant Maturity Treasury (CMT) securities and the 12 Month

Treasury Average (MTA); the 11th District Cost of Funds Index (COFI), and the London Interbank Offered Rate (LIBOR) index.

- The Fully Indexed Accrual Rate (FIAR) is the index value plus maximum margin applied during the life of the loan.
- Initial/annual payment increases are limited to a 2% interest rate change (for ARMS with a fixed period < 5 years) and 5% interest rate change (for ARMs with a fixed period ≥ 5 years), whichever is greater. A maximum six percentage point (6%) increase over the initial payment rate during the life of the loan is allowed.
- ARMs with 1st change periods 5 years and over will get Fixed-Rate premiums.
- Qualifying Rates:
 - ARMs with 7 and 10 year terms – qualify at the greater of the fully indexed rate or the note rate
 - ARMs 1 to 5 years – qualify using the greater of the fully indexed rate or the note rate + 2%

3.5.3 Interest Only Payment Mortgages

Loans with an interest only payment option permit making reduced payments based on the interest owed for an initial term of the mortgage loan. After a defined period (generally up to 10 years on an ARM or up to 15 years on a 30 year fixed rate), the loan is recast and payments are fully amortizing for the remaining term of the loan.

For Interest Only (I/O) loans, AMGC has the following requirements:

- The maximum LTV is 90%
- The maximum interest only payment term is 10 years
- The loan term must include a fully amortizing feature (i.e. after the interest only term, the loan payments are fully amortizing over the remaining loan term)
- Qualify using either the fixed rate or the correct ARM payment as noted above

Interest Only loans are not eligible for the following:

- Second home properties
- Investment properties
- Cash-out refinances
- Short term ARMs < 5 years
- 2-4 unit properties
- Manufactured homes
- Properties located in the state of NY

3.5.4 Balloon Payment Mortgages

Balloon payment loans have periodic, level installments of principal and interest that do not fully amortize the loan over the loan term. The balance of the mortgage is due in lump sum at the end of the term. The minimum term for the balloon payment due date is 5 years.

3.5.5 Temporary Buydowns

Loans with temporary buydowns feature money advanced to the Credit Union (often by the builder or seller) to reduce the monthly payment for the initial years of the loan with a temporary interest rate discount. Temporary buydowns are acceptable with the following requirements:

- Fixed Rate mortgages
- Adjustable Rate Mortgages (ARM) with initial fixed rate terms of 5 years or greater
- Owner-occupied, primary residence
- The maximum buydown term is 3 years
- The maximum rate reduction 3%
- The rate increase must not exceed 1% annually

The buydown plan must be documented by a written agreement between the member and the entity providing the buydown funds. Loans with temporary buydown rates will be qualified using the note rate, without consideration of the bought down rate. In the evaluation of file using buydown funds, the use of member funds derived from savings will be viewed more favorably than builder or seller funded buydowns which may pose greater impact to property value.

Temporary buydowns are not eligible for the following:

- Cash-out refinances
- Second home properties
- Investment properties
- LTV > 95% LTV
- Non-conforming loan amounts

3.5.6 Collateral Allocation Mechanisms (CAMs)

Products insuring loans with collateral allocation mechanism ("CAM") exchange provisions in the loan agreement, or with a CAM in the insurance agreement, are available on a negotiated basis. AMGC is not responsible for ascertaining the applicability of tax laws as they relate to the deduction of interest for members or any other matter.

3.5.7 Unacceptable Loan Types

AMGC does not insure the following loan products:

- ARMs with a fixed period less than 1 year
- Bridge (swing) loans
- Graduated Payment Mortgage (GPM)/ Growing Equity Mortgage (GEM)
- Option Payment Mortgage
- Negative Amortization

3.6 Closed Loans

3.6.1 Seasoned Loans

The Seasoned Loan program provides mortgage insurance coverage on loans not insured at closing and a subsequent need has been identified by the Credit Union (i.e., discovery of an oversight or a secondary market requirement). Seasoned loans are defined as closed and having passed the first payment due date.

Loans must be submitted to the AMGC Underwriting Network. ***Loans are considered case by case; special pricing may apply.***

For consideration of a seasoned loan request, AMGC requires the following documentation:

- AMGC Application for Insurance that is signed and dated by the credit union. The application or submission form should indicate "SEASONED LOAN"
- Letter of Explanation for MI request or inquiry letter from the GSE and supporting documentation
- Copy of the original loan application (1003)
- Copy of the original Uniform Underwriting and Transmittal Summary (1008)
- Copy of the current credit report
- A current payment history which indicates no 30-day late payments in the most recent 12 months.
- Current verbal VOE for each member with qualifying income; independent verification of self-employed applicants.
- Copy of the original appraisal and subject property photographs
- Current verification of property value (ex. forms 1004/70, form 2055, recertification of value, retro appraisal); at the underwriter's discretion, a current appraisal may be required

The LTV and mortgage insurance premium will be calculated based on the current unpaid principal balance.

Properties which have been listed for sale in the prior 90 days are not eligible under this program.

The closing will be as of the date the premium is received.

3.6.2 Assumptions

AMGC will continue to insure a mortgage assumption, provided that the assuming member(s) meets current AMGC underwriting criteria. AMGC must approve the assumption in writing. Under the terms of the AMGC First Lien Master Policy, AMGC reserves the right to re-underwrite the risk whenever there is a change in members.

Declined Transactions

The Credit Union/servicer must be made aware that if the property transfers without AMGC approval, coverage will be terminated on the date of transfer.

In the event of termination, a short rate or prorated cancellation (depending on product type) and a refund of appropriate premium are coordinated with the Policy Servicing Department.

3.6.3 Partial Releases

AMGC requires that Credit Union/servicers have a valid first lien on each secured property. The AMGC Commitment and Certificate of Insurance may be invalidated if AMGC has not been notified and approved an easement or encroachment on

the property or if a partial release of collateral has been granted without AMGC's prior written approval. *All Partial Release requests will be completed by the Risk Management (Quality Control) Department.*

A partial release may be requested due to division of the property (a lot split) or condemnation of a portion of the property through eminent domain. Subject to receipt and satisfactory review of all of the following documentation, AMGC may approve a partial release and process the transaction as a request for a modification.

- Partial Release Agreement
- Contract of Sale of the released portion of the land
- Mortgage payment history
- Original appraisal
- Original mortgage and note
- Plat map and surveyor's certificate
- Copy of oil/gas/mineral rights lease (if applicable)
- New appraisal report showing value of the property before and after the release
- The appraiser's statement that the remaining secured property is suitable for residential occupancy
- A detail of the distribution of any cash consideration paid for the release, including the amount that will be applied to the outstanding balance of the loan (or that will be applied to cure any delinquency)
- Re-calculation of the loan-to-value ratio to determine that, after release of the property and any pay down of the outstanding debt, the new LTV does not exceed the original insured loan-to-value ratio

4 Eligibility

4.1 Overview

Loan insured through AMGC are not eligible for sale to the GSEs or the FHLBs. AMGC is limited by regulation to insuring indebtedness secured by first mortgage liens or Deeds of Trust on residential 1 to 4 unit properties. Loan eligibility requirements are maintained that are in compliance with Fair Lending, the Equal Credit Opportunity Act, and other state and federal requirements.

Due to our mortgage insurance charter, licensing, and state insurance department regulatory requirements, loans with the following characteristics, or secured by properties with these characteristics, will not be insured by AMGC:

- Property which includes more than 4 residential units
- Property that is not located in the 50 United States, the District of Columbia, and specified U.S. Territories
- Non-residential use of property, including vacant land, commercial or business activity on premises (except for incidental business use)
- Manufactured housing unit that is less than 18 feet wide or 600 square feet in floor area
- Loan instruments that include scheduled negative amortization
- Property located in New York state where loan-to-value ratio based on the appraised value (or co-op based on the purchase price) is less than or equal to 80%
- LTVs that exceed the state maximum

4.2 Member Eligibility

For the purposes of AMGC's underwriting eligibility criteria, the member is defined as the legal obligor under a mortgage note.

4.2.1 Member

AMGC will insure loans made to natural persons and inter vivos revocable trusts. The following member types are ineligible for mortgage insurance with AMGC:

- Non-resident aliens: non U.S. citizens who don't reside continuously in the United States and are not authorized to work
- Other types of legal entities: examples include corporations, general or limited partnerships, real estate syndications, and trusts

4.2.2 Permanent Resident Alien

Permanent Residence aliens are eligible for mortgage insurance.

A permanent resident alien has the right to live and work permanently in the United States. Evidence of occupancy status for a permanent resident alien will be validated by one of the following documents:

- A current U.S. Citizenship and Immigration Services (USCIS) Permanent Resident Card (USCIS Form I-551). This is commonly referred to as a "Green Card".
- In rare circumstances, a Department of Immigration and Naturalization Services (INS) Alien Registration Receipt Card (Form I-151), issued no earlier than 1979, if the person has a mental or physical disability or is elderly and homebound and was unable to comply with the "Green Card Replacement Project" to replace the I-151 card with an I-551 card.
- Un-expired foreign Passport with a machine-readable immigrant visa (MRIV) with an unexpired temporary I-551 admission stamp or printed notation from United States Customs and Border Protection (CBP) that shows the date the new immigrant entered the United States. The MRIV will usually have the following text on it: "UPON ENDORSEMENT SERVES AS TEMPORARY I-551 EVIDENCING PERMANENT RESIDENCE FOR 1 YEAR."

4.2.3 Non-Permanent Resident Aliens

Non-Permanent Resident Aliens are non-U.S. citizens who are permitted to reside in the U.S. on a temporary basis and may have been granted authorization to work in the U.S. by the U.S. Citizenship & Immigration Services (USCIS). The Credit Union must obtain proof that the member is legally in this country. A variety of Visas exist depending on the situation. We encourage referring to the USCIS website for current information, at <http://www.uscis.gov>

Evidence of occupancy status for a non-permanent resident alien is validated by one of the following documents:

- Unexpired foreign passport containing INS form I-94, stamped "Employment Authorized"
- Temporary Resident Card form I-688
- Employment Authorization Card form I-688 A or O containing applicant's photograph

Additional Underwriting Consideration for Non-Permanent Resident Alien Members

The following items should be given when underwriting loans to non-permanent resident alien members:

- Employee information on the Petition for Non-Immigrant Worker (form I-140) must correspond to the member's Residential Loan Application.
- Loans to non-permanent resident aliens will be considered for coverage subject to the following criteria.

- Member must evidence a 2-year history of residency, employment, and established credit within the U.S.
- Funds for down payment, closing costs, and reserves should be verified on deposit in a U.S. financial institution for at least six months
- The visa status should provide for a remaining duration of at least three years
- Heavy emphasis will be placed on employment history and its likelihood of continuation

4.2.4 Inter Vivos Revocable (“Living”) Trust and Land Trusts

Inter Vivos and Land Trusts are eligible to be insured by AMGC provided that all of the following conditions are met:

- They are customary for the area
- The beneficiary of the trust (member) is a natural person
- Income and assets of the beneficiary (member) are used to qualify for the loan
- Both the beneficiary (member) and trustee, on behalf of the trust, execute the Note, and the beneficiary (member) is personally liable for the obligation
 - The trustee has legal right to grant a mortgage on the subject property
 - The Credit Union will be conveyed clear title in the event of default by the beneficiary (member)

4.2.5 Non-Occupant Co-Borrowers

Non-occupant co-borrowers will be considered if:

- Non-occupant co-borrower is an immediate family member and not a party to the transaction (i.e., builder/developer, seller, Realtor, escrow agent, etc.)
- Non-occupant co-borrower adds strength to the transaction by contributing stability, good credit standing, and a savings history
- Non-occupant co-borrower allowed only for owner-occupied properties; 1-unit owner-occupied property if a non-conforming loan amount
- Occupant member exhibits characteristics associated with potential for growth in employment, income, credit standing, and asset accumulation
- Debt-to-income ratios that include the non-occupant co-borrower's income and obligations should not exceed normally accepted ratios for the loan program being offered (i.e., 45% DTI for AMGC's standard underwriting programs). The current housing expense for the non-occupant co-borrower must be included in long-term debt when calculating the qualifying ratios.

4.2.6 Non-Borrowing Spouse

When a married applicant applies for a mortgage in his/her name alone, without involving the applicant's spouse, the spouse is referred to as a non-member spouse. A non-member spouse may have rights in the property, either as a co-owner of the property or because of state community property or marital rights laws.

Debts and income from the non-member spouse cannot be considered in qualifying the loan.

In determining whether the non-member spouse is required to sign the security instrument or any other loan documents, the Credit Union should refer to the applicable state requirements where the property is located.

4.3 Occupancy

4.3.1 Owner-Occupied Primary Residence

A primary residence is defined as single-family property that is the member's main residence, where the member lives during the majority of the year. A multi-unit property is considered owner-occupied when at least one of the units is occupied as the member's primary residence.

A property is considered a primary residence if it is occupied by the member for at least six months during the year. AMGC may require verification of intent to occupy. AMGC will consider a 1- to 4-unit property to be the member's primary residence, provided:

- The property will be physically occupied by the member(s) within 60 days of closing or completion, AND
- The property is within reasonable commuting distance to the member's place of employment.
- A parent/legal guardian who wants to provide housing for a physically handicapped or developmentally disabled adult child who is unable to work or cannot qualify individually or an adult child wants to provide housing for an elderly parent if that parent is unable to work or cannot qualify individually on their own. The parent/legal guardian or child who is providing assistance is considered the owner/occupant.
- Credit Unions must document the file to support the circumstances of owner/occupant status, e.g., elder parents can't afford the home in which adult child is considered the owner/occupant.

4.3.2 Second Home

A second home is a single-family property which generates no rental income and is occupied by the member in addition to his or her primary residence. A 2-4 unit property is not eligible for second home status. Often located in a vacation/resort area, the property must be suitable for year-round occupancy. A second home should not be in the same market as the member's primary residence. Agreements that require the property to be rented are prohibited. The member may not use a management firm to control the occupancy of the property.

4.3.3 Investment Property

An investment property is generally purchased for the purpose of profit, either from rental income or resale. This definition is used whether or not the property produces revenue.

4.3.4 Conversion of Primary Residence Policy

Arch Mortgage Guaranty Company will require the following when a member is purchasing a new home that requires insurance and has an existing primary residence that will be converted to a second home or investment property instead of being sold.

- The member must qualify using both the current PITIA payment as a debt and the new PITIA payment for the new property, unless the current home is under contract of sale with no financing contingencies.
- The current residence must have been owned for a minimum twelve months, with no cash-out transactions within the prior six months.
- If the property will be converted to an investment property, rental income and documentation will be considered per AMGC rental income guidelines.

Properties Not Eligible for Mortgage Insurance

- The primary residence was previously listed for sale within the past 90 days, and now indicates that it will be a rental.

The member has not owned their current residence for 12 months and is purchasing a new home in the same town with a same or lesser value than their existing home

Additional Issues

- If there is documented evidence of a job transfer, the 90-day listing and ownership of 12-months restrictions will not apply.
- A realistic approach should be utilized when the member is purchasing a new residence but has not owned their current residence for more than twelve months; the member may have genuine reasons for the move, such as living in a duplex and moving to a single-family, or living in a condo and purchasing a single-family. These situations should be considered on a case-by-case basis.

4.4 Non-Arm's Length Transactions

A non-arm's length transaction is one in which the parties involved are not entirely independent of each other (e.g., sales transaction between family members, employee and employer, renter and landlord, or flip transactions).

These loans require close examination to ensure the property is being acquired at fair market value and the equity position is not compromised. Common risks associated with this type of loan include: absence of equity or down payment; a purchase price that does not represent the actual property value; financial bailouts or attempts to hide poor credit; occupancy concerns; and financing of unsold builders' inventory, especially in soft real estate markets.

The appraiser must be informed of the non-arm's length transactions and discuss whether or not the market value has been affected by the relationship of the parties.

4.5 Maximum Insured Loans per Member

AMGC and its affiliates may collectively insure up to 3 loans per member as follows. Within AMGC, there is also a maximum \$500,000 in total risk exposure (product of original loan amount x percent of MI coverage) to a member.

- Primary Residence - 1 loan maximum.
- Second home – 1 second home and 1 investment property, or 2 second homes (with no investment properties). When 2 second homes are insured, they must not be in the same general location.
- Investment property – 2 loans maximum. When 2 investment properties are insured, then no second homes are allowed.

AMGC 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.

4.6 Transaction Types

4.6.1 Purchase

Also known as a purchase money transaction, the funds are used to finance the purchase of the subject property. The proceeds may be used for the following:

- Finance the purchase of a property – both the land and improvements
- Payoff an installment land contract, including documented costs to improve the property. If the new loan exceeds the liens, this transaction must be considered a refinance

- Payoff interim financing from the construction Credit Union, as long as no cash is paid to the member. If the new loan exceeds the recorded liens, this transaction must be considered a refinance. See the Construction-to-Perm section (4.6.4).
- Convert a lease option to purchase into permanent financing. The member cannot receive cash from the new loan.
- Pay off the purchase of a manufactured home and land.

Documentation that the property seller in a purchase transaction is the owner of record for the subject property is required.

For purchase transactions on properties located in the state of New York, LTV/CLTV will be based on the appraised value; for cooperatives (co-op), it's based on the purchase price.

4.6.2 Refinance

A refinance transaction is defined as repayment of a debt from the proceeds of a new mortgage to the benefit of the same member and that uses the same property as security. In some instances, refinance transactions may have cash out.

4.6.2.1 Rate/Term Refinance

The proceeds may be used for the following:

- Payoff of the existing lien, including the related closing costs and prepaid items
- Payoff of a subordinate lien (including prepayment penalty) seasoned < 12 months provided it was used in the purchase of the property. A copy of the Closing Disclosure from the original sale is obtained to verify the entire amount being paid off was used to purchase the property
- Payoff a subordinate lien Seasoned \geq 12 months
- If the lien is a home equity line of credit (HELOC), total draws may not exceed \$2,000 in the prior 12 months.
- The lien is being re-subordinated to the new first lien. There is no cash extracted from the transaction and the total transaction meets current LTV/CLTV/HCLTV guidelines.
- Payoff of a construction loan, the value is based on the current (completed) appraised value
- Incidental funds as long as it does not exceed 2% of the loan amount or \$2000, whichever is less

4.6.2.2 Cash-Out Refinance

A cash-out refinance transaction is defined as repayment of a debt from the proceeds for a new mortgage to the same member using the same property as security, providing cash to the member. The proceeds may be used for:

- Payoff of existing mortgage(s) and closing costs, greater than 2% of the loan proceeds will be distributed to the member
- Payoff obligations not secured by the subject property (i.e., a debt consolidation loan)
- Placing a new loan on a property that is owned by the member free and clear of any mortgage
- Payoff of a subordinate lien seasoned less than 12 months that was not used to purchase the property

Ineligible:

- Interest Only Program
- Short term ARMs with < 5 year initial fixed rate term
- Properties purchased within last 6 months
- Properties listed for sale within last 6 months

- Properties with a prior cash-out refinance within past 12 months

4.6.2.3 Special Purpose Cash-Out Refinance

A loan being refinanced as part of a divorce settlement in which one spouse is required to “buy out” the interests of the other spouse, or any other refinancing in which an owner “buys out” the interests of another owner, is considered, a limited cash-out refinance – as long as the following conditions are satisfied:

- The property must have been jointly owned by all parties for at least 12 months preceding the date of the loan application. (Parties who inherit an interest in the property do not have to satisfy this requirement.)
- All parties must be able to demonstrate that they occupied the subject property as their principal residence, by providing an acceptable source of verification – e.g., driver’s license, bank statement, credit card bill, etc., that was mailed to the individual at the address of the security property. (Parties who inherit an interest in the property do not have to satisfy this requirement.)
- All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinancing transaction. (The member who acquires sole ownership of the property may not receive any of the proceeds of the refinancing.)
- The party who is “buying out” the other party’s interest must be able to qualify for the mortgage under our standard underwriting guidelines

4.6.3 Home Improvement and Rehabilitation Loans

The cost of home improvement, upgrade, or property rehabilitation may be added to funds required to acquire a property (purchase transaction) or may be advanced through a refinance.

- In a purchase transaction, all funds are used to acquire the property and complete improvements. The loan-to-value ratio is determined by using the lesser of the “as completed” appraised value or acquisition cost, plus value of documented cost for improvements and allowable construction-related costs.
- In a refinance transaction, funds are used to satisfy the outstanding lien(s), pay closing costs, and complete improvements; and there is no cash back to the member. The loan-to-value ratio is determined by using the “as completed” appraised value.

The following requirements must be met:

- All improvement or rehabilitation work must be performed by a licensed contractor. The member may not act as general contractor unless that is his or her full-time occupation
- Funds must be controlled by the credit union or its agent and distributed to the contractor upon inspection for every phase of work completed
- Cost of the improvements or rehabilitation will be based on the plans and specifications and the contractor’s bids for all of the work to be done
- Allowable construction-related costs that can be included in the total financing include:
 - Contingency reserve of no more than 10% of total construction costs to cover unforeseen repairs or deficiencies that are discovered during the rehabilitation. All unused contingency reserves must be used to reduce the outstanding loan balance after all work is completed, a title update has been provided, and the Certificate of Occupancy is issued.
 - Escrow for mortgage payments that will become due during the construction period may be included for an owner-occupied primary residence if the property cannot be occupied during rehabilitation

- Other documented construction-related costs, including property inspection fees, title updates, architectural and engineering fees, independent consulting fees, required permits, and other documented fees directly associated with the improvements to the property
- Any amount allocated for “sweat equity” cannot be factored into the rehabilitation costs

4.6.4 Construction-to-Permanent Financing

Financing obtained for construction and permanent financing of a home. This can occur as a “one-time” transaction in which the construction loan financing becomes the permanent financing. Or, it can be a “two-time” transaction in which new permanent financing is written and recorded once the property is completed.

AMGC’s program offers the option to activate mortgage insurance coverage either during the initial phase of construction or upon completion of the property.

One Time Close Construction Financing – Construction-to-permanent financing involving a single construction-to-permanent loan which finances the construction of a structure on a property and which, upon completion of the structure, is converted to a fully amortizing permanent loan.

Two Time Close Construction Financing – Construction-to-permanent financing involving an initial construction loan which finances the construction of a structure on a property which is paid off by the proceeds of a new, fully amortizing permanent loan upon completion of the construction of the construction.

- The new loan is treated as a refinance transaction
- The member for the permanent financing must be the member for the construction loan
- There may be no late payments on construction phase of financing

Construction to Permanent transaction

- Purchase Transaction: The member does not own the lot and is not currently the owner of record at the same time the construction loan is being obtained; the purchase of the lot occurs simultaneously with the construction financing
- Refinance Transaction: The member owns the lot at the time the construction financing is obtained.

Loan-to-Value Calculations

- In a Construction-Purchase transaction, the LTV will be based on the lot purchase price plus the documented cost of improvements, or the appraised value, whichever is less
- In a builder owned transaction, use the lesser of the appraised value or sales price
- If the land is acquired by gift or inheritance, use the appraised value of the land; document the acquisition and transfer of the land
- In a Construction-Refinance transaction, the LTV will be based on the current (completed) appraisal value

Cost of Improvements is defined as the documented costs to build the home, the costs to obtain the construction and/or the permanent financing and the cost of the land, or value of the lot depending on the acquisition date.

- Construction costs may include building permits and architectural drawings, survey, and loan fees, in addition to the cost of labor and materials required to complete the improvements
- All acquisition costs must be verified by the construction Credit Union and a Closing Disclosure for the land purchase
- Member paid expenses which are reimbursed and not documented or exceed the construction loan are considered cash-out and not permitted

The commitment/certificate will be issued for a period of 12 months. Reinstatement/Extension after 12 months is not permitted. A new MI application with current member information will be required and will be subject to current published program guidelines and rates at the time of the new application.

Documentation

Credit Documents

- If activation of the mortgage insurance occurs greater than 120 days from the commitment date, the following document updates are required:
 - Recertification of the property value
 - Verbal Verification of Employment
- If activation occurs within 120 days of the commitment date, no documentation update is required

Appraisal

- Standard appraisal with an interior and exterior review is required
- A final inspection must be provided by the appraiser to indicate construction is complete
- The Credit Union must notify the appraiser of any material changes made to the plans and specifications and the appraiser should certify no negative impact to the property value

The following additional documents should be included in the final loan file

- Contract between the builder and the member showing materials and construction costs, time to complete, and draw schedule
- A proposed dwelling survey (plot plan)

Conversion Date

- *One Time Close Transaction*: the later of (i) the date on which the loan is converted to a permanent, long term, amortizing loan; or (ii) the date all construction work, including any work that could entitle a party to file a mechanics' or materialmen's lien, is completed and paid for, and all mechanics' liens, materialmen's liens, and any other liens and claims that could become liens relating to the construction are fully satisfied; or
- *Two Time Close Transaction*: the later of (i) date on which the new, fully amortizing permanent loan is closed; or (ii) the date all construction work, including any work that could entitle a party to file a mechanics' or materialmen's lien, is completed and paid for, and all mechanics' liens, materialmen's liens, and any other liens and claims that could become liens relating to the construction are fully satisfied

Activation of Mortgage Insurance

Activation of Mortgage Insurance may occur either at inception of the interim/construction loan or upon conversion to permanent financing when the property is completed.

- *One Time Close*: Premium billing begins upon policy activation.
- *Two Time Close*: The loan must be current with zero late payments at the time the commitment is put in-force. Loans that have any 30-day late payments during the construction phase are not eligible for insurance.

In order for a claim to be paid for a construction-to-permanent the construction must be completed according to the construction plans and specifications on which the appraisal was based and the insurance must be in-force with the premiums paid.

Default caused by the member's inability to secure permanent financing or the Credit Union's unwillingness to convert the loan to a permanent loan is NOT a covered event of default for mortgage insurance purposes.

Ineligible:

- Owner/builder transactions
- Manufactured Housing
- Cooperative Housing
- Condominiums

4.6.5 Relocation Loans

A purchase transaction where an employer is relocating an employee and assists in the financing of their new property. The transaction must meet minimum down payment requirements and qualify with the prior home unless the relocation agreement indicates otherwise.

Requirements

The loan file should include documentation from the employer or relocation company to confirm the following:

- The mortgage loan is made to a new or transferred employee of an organization (corporation, military, etc.) to assist in financing the purchase of the primary residence at a new job location
- The mortgage financing assistance from the employer must be applied toward any one or more of the following:
 - Down Payment
 - Closing costs
 - Buydowns or interest rate subsidies
 - Bridge loans
 - Payment differential
- Assistance for items outside of the direct financing of the subject property (ex. moving expenses, temporary housing, or assistance with the current residence), is acceptable provided the employer has contributed to financing in at least one of the above.

4.6.6 Land Contract/Contract of Sale

If the land contract or contract for deed was executed more than 12 months preceding the mortgage application date, the transaction is considered a rate/term refinance transaction. Proceeds from the refinance transaction may include the sum of the outstanding balance of the installment sales contract and the costs incurred for rehabilitation, renovation, or energy improvements. A new appraisal is required and the LTV must be calculated using the appraised value for the new first mortgage transaction.

4.6.7 Secondary Financing/CLTV and HCLTV

Secondary financing is permitted provided the combined loan-to-value (CLTV) or home equity combined loan to value (HCLTV) for the subject property (CLTV) or maximum does not exceed the program maximum.

The mortgage insurance premium coverage and rate will be determined by the insured first lien amount. The underwriter should confirm the terms of the subordinate financing meet the following minimum requirements:

- The second mortgage is either fully amortizing or interest only and payments are no less frequent than annual. If payments are made quarterly, semi-annually, or annually, the monthly equivalent payment should be used for debt to income ratio calculations.
- If the secondary financing is an Equity Line of Credit, the following criteria apply:
 - Terms of the equity line of credit are disclosed in the mortgage insurance application package
 - The HCLTV ratio is calculated using the maximum amount of the equity line of credit

- Repayment terms will include regular payments that cover, at minimum, interest due on the outstanding balance and the loan will not negatively amortize
- The second mortgage must be recorded and subordinate to the insured first lien

5. Underwriting the Member

5.1 Underwriting Overview

AMGC assesses the characteristics indicative of the member's willingness and ability to repay the debt in a timely manner and ensures that the property securing the loan provides sufficient value for recovery if a mortgage default should occur.

When AMGC's underwriting manual is "silent" and does not address a certain underwriting subject matter, the Credit Union may refer to standard agency (Fannie Mae or Freddie Mac) guidelines that would be applicable to that loan and that are in effect at the time the loan was presented for mortgage insurance.

5.2 Loan Application Analysis

The mortgage application is the primary document that is used to establish the initial profile of the member. The member's application for a mortgage loan must be documented on the most current version of the Uniform Residential Loan Application (FNMA 1003/FHLMC 65). The loan application must contain sufficient information for the underwriter to reach an informed decision about whether to approve the loan for mortgage insurance. Additionally, a Uniform Underwriting and Transmittal Summary (FNMA 1008/FHLMC 1077) should be provided to summarize the key data from the loan application.

The initial loan application should be signed and dated by the member. A copy of the Agreement of Sale, Sales Contract, Purchase and Sales Agreement, and/or Escrow Instructions should be provided to verify, clarify, and substantiate the loan application. Information given by the members on the original application, whether handwritten or typed, must be consistent with both the identifying information in the credit report as well as the other verifications provided. All the subsequent documentation provided should support the information contained in the application.

Adding/Removing Members on Application

Additional members may be added by the Credit Union during the application process without the need to resubmit as a new transaction. To remove a member from a transaction, a new application and credit report must be provided for the remaining member only.

5.3 Age of Documents

Verification of income, employment, assets and property value must be aged no more than 120 days on the date that the mortgage note is signed.

For loans where the property is currently under construction, the credit documents (credit report, assets, employment/income, and the property value must be no more than 120 days old on the date of MI activation. Credit documents aged more than 120 days must be updated.

Appraisals must be no more than 120 days old on the date the mortgage note is signed. Appraisals more than 120 days old up to 12 months old must be recertified. A new appraisal is required if the existing appraisal is more than 12 months old.

5.4 Credit Documentation and Evaluation

5.4.1 Credit Report

Minimum of two credit scores are required for each member. Non-traditional credit is not permitted.

The credit report must be no more than 120 days old on the date the mortgage note is signed. A Residential Mortgage Credit Report (RMCR), tri-merge, or a two repository, in-file credit report from an independent credit reporting agency is required.

Individual credit reports for all members are required. Joint credit reports on married couples will be acceptable if the report clearly indicates a search of individual credit. The credit report should reflect the member's overall debt payment history and a public record search for each locality in which the member has lived during the past two years. The legal search must disclose any judgments, foreclosures, litigation, collections, garnishments, or bankruptcies.

The credit report should provide the terms, balances, and ratings for all debts listed on the loan application.

If the credit report does not contain a reference for each significant open debt on the loan application, including an outstanding mortgage loan, the Credit Union should provide separate, direct credit verification.

5.4.2 Credit Evaluation

The member's credit history must be carefully evaluated to determine the member's credit reputation (i.e., his or her willingness to meet financial obligations under the agreed-upon terms). While credit reputation is a significant factor of risk, it is weighed against the member's capacity (financial ability) to meet the mortgage obligation, and compensating factors, such as the loan terms and down payment, when rendering an underwriting decision. Generally, a loan will not be declined for mortgage insurance based on only one component of risk.

When evaluating the credit report, the underwriter should always consider the member's entire credit history. However, more weight should be given to the member's paying habits within the most recent two years. The following factors should be considered:

- The type and amount of outstanding credit
- How long the member has had credit
- How the member uses available credit
- Recent changes in the number of open accounts or overall amount of credit outstanding
- The payment history and status of all open accounts
- Any recent inquiries shown on the credit report
- All public record or collection items

Balance-to-Credit Limit

The underwriter should evaluate the member's ability to manage credit. A pattern of revolving accounts at or near their limits, especially when combined with newly opened accounts, may indicate that the member is at risk of becoming overextended. A pattern of high balance-to-limits may also indicate the following risk characteristics:

- The member is making minimum payments on revolving accounts rather than reducing the debt and, therefore, may be near his or her credit capacity.
- The member relies on credit to meet day-to-day living expenses.
- The member will have no "cushion" for short term interruptions of income or emergencies such as a costly auto repair or replacing a hot water heater. Any such event could trigger a financial set back and possibly mortgage delinquency.
- The member lacks the financial experience to manage credit.

Excessive Use of Credit

Caution must be exercised if the member is carrying a significant amount of consumer debt. Numerous revolving accounts which are at or near their limit may indicate the member is living beyond their income level.

The underwriter should review the spread between the mortgage and total debt-to-income ratios. An excessive spread is generally considered to be an amount greater than 10 to 12 points. Particular attention should be given to the member's credit pattern when underwriting refinance transactions to ascertain that the member does not have a history of debt consolidation through refinancing.

Recent Inquiries

If the credit report shows recent inquiries, the underwriter should determine if credit has been granted and the impact on the loan file as a result of the member's request. An explanation from the member or an update to the credit report may be accepted as verification of the disposition of the credit requests.

Recent inquiries may simply mean that the member is searching for the most favorable mortgage terms. It may, however, indicate increased credit risk, such as the following:

- The member intends to borrow funds for the earnest money deposit, down payment or closing costs
- The member is marginally qualified and has been rejected by other mortgage Credit Unions; the loan is being "shopped"
- The member is attempting to "leverage" his or her financial position
- The member is in danger of over-extending their credit

Age of Accounts

Recently opened accounts or recent, significant increases in account balances may indicate that the member is using credit for the earnest money deposit, down payment, or closing costs for the mortgage, is in danger of over- extension of credit, or lacks sufficient financial experience to manage credit.

Authorized Users of Credit

When a credit account owner permits another person, typically a family borrower who is managing credit for the first time, to have access to and use an account, the user is referred to as an authorized user of the account.

Credit report tradelines that list our borrower as an authorized user may be considered in the underwriting decision if one of the following exists:

- The owner of the tradeline is an applicant on the mortgage transaction; or
- The borrower can provide written documentation (e.g., canceled checks, payment receipts, etc.) that they have been the actual payer on the account for 12 months preceding the date of the application.

If the authorized user tradeline is considered in the underwriting decision, the payment history must be analyzed and the monthly payment obligation must be included in the debt-to-income ratio.

An authorized user tradeline must be considered if the owner of the tradeline is the member's spouse even if the spouse is not a member in the mortgage transaction and the monthly payment obligation must be included in the debt-to-income ratio.

5.4.3 Slow Payment and Derogatory Credit Issues

If derogatory credit appears on the credit report or through direct verification of credit, the underwriter must determine if late payments were related to an isolated event that is not likely to recur or represent a pattern of disregard for the timely payment of obligations.

Slow Payment Patterns on Revolving and Installment Accounts

If deemed relevant to the underwriting decision, the member must provide a written explanation of recent slow payments or an excessive number of slow payments. All accounts should be current at or before closing.

Collections

Collections should be paid in full at or prior to loan closing unless the balance of an individual account is less than \$250 or the total balance of all accounts is \$1,000 or less.

Mortgage Payment History

Delinquent mortgage credit must be closely analyzed. Delinquencies over 30 days reflect the member's inability to pay or disregard for credit obligations. Any late payments on mortgages should be fully explained by the member. A member who has recent late payments over 30 days will generally be ineligible for mortgage insurance approval.

Judgments, Lawsuits, Litigation, Garnishments, and Repossessions

These items must generally be paid in full or satisfied at or prior to closing. The member must furnish a satisfactory letter of explanation and have established other good credit to be eligible for mortgage insurance approval.

Tax Liens

State and federal tax liens should be paid in full at or prior to closing. The member must furnish a satisfactory letter of explanation and have established other good credit.

Bankruptcy

To be considered for mortgage insurance approval, a bankruptcy must be fully discharged for at least two years (or greater based on bankruptcy filing). The member must also reestablish good credit, demonstrating the ability to manage financial affairs. The credit report should not reflect any serious derogatory credit since the date of discharge (i.e., no mortgage or housing-related late payments, no collections, judgments, liens, or garnishments, no revolving or installment accounts 60 or more days late and only isolated incidents of 30-day late payments on revolving accounts).

Minimum 5 years' reestablished traditional credit after discharge of bankruptcy for members who have more than one bankruptcy filing in the past 7 years. Members with multiple bankruptcies are not eligible for Portfolio, Super Jumbo >\$1,000,000 and Interest Only loan programs.

A bankruptcy beyond the member's control, such as one resulting from extended family illness, may receive more favorable consideration than one which occurred due to poor financial management. In all cases, the member should furnish satisfactory written explanation, copies of documentation supporting the event and illustrating factors that contributed to the inability to resolve the problems that occurred from the event have been resolved, copies of the bankruptcy petition, schedule of debts, and evidence of discharge.

Summary of Bankruptcy Waiting Periods

Derogatory Event	Waiting Period Requirements	Waiting Period with Documented Extenuating Circumstances
Chapter 7 or 11	4 years	2 years
Chapter 13	Discharged – 2 years Dismissed – 4 years	Discharged – 2 years Dismissed – 2 years
Multiple Filings	5 years	3 years

Bankruptcy and Foreclosure on the Same Mortgage

When a mortgage debt is discharged through a bankruptcy, even if the foreclosure is completed after the bankruptcy, use the discharge/dismissal waiting periods based on the applicable bankruptcy date and not the foreclosure date.

Letter of explanation for Derogatory Credit Events

When the member has a bankruptcy, foreclosure, deed-in-lieu or short sale, a written letter of explanation must be provided detailing the timelines and circumstances for the event. The underwriter will use the letter and any supporting documentation to determine whether extenuating circumstances existed, which will determine the required waiting time for a new loan with mortgage insurance.

To exercise the reduced waiting periods, the letter of explanation and supporting documents are required.

5.4.4 Foreclosure/Deed-in-Lieu of Foreclosure/Short Sale/Mortgage Charge-Off**Foreclosure**

A member who has been foreclosed upon should be considered as high risk, and the circumstances for the event considered carefully.

The loan to a member, who was foreclosed up to seven years prior to the new loan application date, should be evaluated on a case-by-case basis only. With acceptable documented extenuating circumstances, the new loan can be considered after 3 years, provided the LTV does not exceed 90%. The circumstances surrounding the foreclosure and the member's written explanation must be carefully evaluated. Documentation must be provided to support the member's statements regarding the extenuating circumstances surrounding the foreclosure, and should validate the timelines and events that caused the foreclosure.

Extenuating circumstances will be considered if the foreclosure sale resulted from non-recurring circumstances beyond the control of the member. For example:

- The member suffered a catastrophic event (i.e. death, divorce, major medical issue) and was temporarily unable to maintain their income stream
- Economic downturn that resulted in the loss of property value
- As a result of an unexpected job loss, the member(s) were forced to
 - Accept employment in a lower paying job and/or different industry
 - Relocate in order to find employment in their field

The Credit Union must substantiate the member's claim.

If the member has successfully regained financial strength and demonstrates favorable regard for obligations, positive consideration may be given.

Conversely, if the member has derogatory credit since the foreclosure (even though it might be considered minor), has incurred excessive obligations, or has not demonstrated an ability to save, he/she has not proven to be a favorable risk and should not be considered eligible for coverage.

Deed-in-Lieu / Short Sale

A member who has given a deed-in-lieu of foreclosure or short sale should be considered as high risk, and the circumstances for the event considered carefully.

The loan to a member, who gave a deed-in-lieu/short sale up to four years prior to the new loan application date, should be evaluated on a case-by-case basis only. With acceptable documented extenuating circumstances, the new loan can be considered after 2 years. The circumstances surrounding the deed-in-lieu/short sale and the member's written explanation must be carefully evaluated. Documentation must be provided to support the member's statements regarding the extenuating circumstances surrounding the deed-in-lieu/short sale, and should validate the timelines and events that caused the deed-in-lieu/short sale.

Extenuating circumstances will be considered if the deed-in-lieu/short sale resulted from non-recurring circumstances beyond the control of the member. For example:

- The member suffered a catastrophic event (i.e. death, divorce, major medical issue) and was temporarily unable to maintain their income stream
- Economic downturn that resulted in the loss of property value
- As a result of an unexpected job loss, the member(s) were forced to
 - Accept employment in a lower paying job and/or different industry
 - Relocate in order to find employment in their field

The Credit Union must substantiate the member's claim.

If the member has successfully regained financial strength and demonstrates favorable regard for obligations, positive consideration may be given.

Conversely, if the member has derogatory credit since the foreclosure (even though it might be considered minor), has incurred excessive obligations, or has not demonstrated an ability to save, he/she has not proven to be a favorable risk and should not be considered eligible for coverage.

Summary of Foreclosure / Deed-in-Lieu / Short Sale/Mortgage Charge-Off Waiting Periods		
Derogatory Event	Waiting Period Requirements	Waiting Period with Documented Extenuating Circumstances
Foreclosure	7 years	3 years, maximum 90% LTV
Deed-in-Lieu / Short Sale/ Mortgage Charge-Off	4 years	2 years

5.4.5 Valid Credit Score

For a credit score to be accepted by AMGC, each member should have an established credit history verified through traditional credit repositories. The score must be based on sufficient, accurate information. Too little information or information that is significantly inaccurate makes the credit score unusable.

Although a credit score can be generated with one trade line, AMGC does not consider the credit score valid unless each member has a minimum of three trade lines each evaluated a minimum 12 months or two tradelines each evaluated a minimum 24 months. Trade lines may be open or closed.

Derogatory credit and public records (ex. collections, judgments, charge-offs, repossessions, foreclosures, trades included in a bankruptcy, and credit counseling) and disputed accounts are not acceptable as valid trade lines.

5.4.6 Qualifying Credit Score

- For a single member with two credit scores, use the lowest score.
- For a single member with three credit scores, use the middle score.
- For multiple members where at least one has a valid credit score, determine each member's loan representative credit score using the methods noted in the first two bullets (including members who do not meet the valid credit score requirements) and use the lowest credit score. Members with no score are not considered in the determination of the qualifying credit score.

5.4.7 Credit Bureau Alerts

All three credit reporting bureaus offer fraud detection, which alerts creditors to possible inconsistencies in data between the loan application and the credit report. These inconsistencies can identify issues with the borrowers surname, current residence, invalid addresses or telephone numbers, employment, and Social Security Number. It is important that the underwriter review these notifications/alerts, confirming all information matches the information provided on the loan application, resolving any discrepancies. SSN Discrepancies should be validated by an independent third party (such as 4506T, SSA, SSN trace report).

5.5 Liabilities and Long-Term Debt

The member's liabilities include all debts of a continuing nature, including:

- Housing expense on the member's primary residence
- Installment loan debts with a remaining payment term greater than 10 months
- Revolving or open credit
- All lease payments
- Mortgage and other related expenses on any non-income producing real estate or net operating losses on investment properties
- Alimony, child support, and separate maintenance payments
- Taxes and insurance on any properties owned free and clear

5.5.1 Liabilities

For each liability, the underwriter must determine the unpaid balance, repayment terms, and the member's payment history. The credit report should be used as a resource for obtaining this information. If the credit report does not contain a reference for each significant open debt shown on the Loan Application, including outstanding mortgage debt, bank, student, or Credit Union loans, the Credit Union must provide separate credit verification.

If a current liability appears on the credit report that is not shown on the loan application, the member should provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the member's explanation.

The following obligations should be considered in underwriting the loan:

Installment Debt

Generally, all installment debt that is not secured by a financial asset, including student loans, automobile loans, and home equity loans, should be considered as part of the members monthly debt obligations if there are more than 10 monthly payments remaining to be paid on the account. An installment debt with fewer monthly payments remaining should also be considered as a recurring monthly debt obligation if it significantly affects the member's ability to meet his or her credit obligations.

Loans in forbearance must also be included as part of the member's recurring monthly debt obligations. If the credit report does not indicate a payment amount, a copy of the member's payment letter or forbearance agreement should be obtained so the payment amount can be determined.

Revolving Charge/Open Accounts/Lines of Credit

Revolving charge accounts, open accounts, and unsecured lines of credit are open-ended and should be treated as long-term debts. These trades include credit cards, department store charge cards, and personal lines of credit. The minimum payment should be calculated as the greater of 5% of the outstanding balance or \$10, unless otherwise indicated on the credit report or alternate verification form.

Open 30-day charge accounts require the balance to be paid in full every month. AMGC does not require open 30-day charge accounts to be included in the debt-to-income ratio. Open 30-day charge accounts must be paid off at or prior to closing unless:

- The member has sufficient assets to cover the unpaid balance, or
- The member can document that the charges are, or will be, reimbursed by his or her employer

Flexible Spending Cards, sometimes known as World Cards, Signature Cards and/or No Preset Limit Cards, are a type of revolving credit account and should be treated as long term debt. These have both a revolving component and an open end component.

Auto Lease Payments

Because the expiration of a lease agreement for an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle, auto lease payments should always be included in long-term debt, regardless of the number of remaining months on the lease.

Loans Secured By Financial Assets

Loans secured by the member's savings account, Certificate of Deposit, or other financial asset accounts (ex. IRA, Keogh, 401K, margin account against the member's stock portfolio) need not be considered long-term debt. The security instrument allows the Credit Union the right to access the asset to fulfill the obligation; payment is generally not required.

If there is a loan against any of the member's assets, only the amount net of the outstanding loan balance should be considered in determining the member's assets.

Alimony/Child Support/Separate Maintenance Payments

Alimony, child support, and separate maintenance payments with duration greater than 10 months should be treated as long-term debt.

The debt should be documented with court records (i.e., the member's Divorce Decree or Legal Separation Agreement). The Credit Union is expected to verify the member's long-term debt by whatever means possible.

If there is nothing in the file that would cause the underwriter to believe that there is an obligation, a copy of the legal document is not required if:

- The member answers "no" to question "g.", "Are you obligated to pay alimony, child support, or separate maintenance?" on the Uniform Residential Loan Application, Section VIII., Declarations; **or**
- The member provides a letter stating that he/she has no obligation for alimony, child support, or separate maintenance payments.

Many Credit Unions use loan origination software to prepare the final 1003; certain fields default to the most common response. To be sure that the “no” is not just a typographical error, it is recommended that the underwriter review the member’s handwritten loan application to verify consistency.

Payments on Other Real Estate Owned

When the member owns mortgaged real estate (other than investment property), the monthly payments of principal, interest, taxes, insurance, HOA fees, and other associated costs for real estate owned (other than the subject property) should be included in long-term debt. This will include second homes, vacant land, properties owned free and clear, and other non-income producing property.

Non-reimbursed Employee Expenses

When the member has non-reimbursed business expenses, such as classroom supplies, uniforms, meals, gasoline, automobile insurance and/or automobile taxes, the recurring monthly debt obligation for such expenses must be determined if the member earns a minimum 25% of qualifying income from commissions. This is done by developing a 24-month average using information from the IRS 1040, Schedule A and net out any automobile depreciation claimed on the Employee Business Expense Form 2106. If there is not a 24-month history of these expenses an annualized monthly average should be developed and added to the members recurring monthly expenses.

Consequently, if a member earns base pay and additionally bonus, overtime, or commission income which is less than 25% of the member’s qualifying income, non-reimbursed employee expenses do not need to be considered in liabilities. This includes union dues and other voluntary deductions on the member’s paystub.

The exception to this is automobile lease or loan payments. If the member indicates receipt of auto allowance in the qualifying income, then the automobile payments must be deducted from income or treated as a liability

Business Debt in Member’s Name

When a self-employed member claims an obligation on the personal credit report is being paid by the member’s business, the underwriter must confirm that the obligation is paid out of the company funds and was considered in the cash flow analysis of the business.

- When the account in question does not have a history of delinquency, the business provides acceptable documentation that the business paid the debt (12 months’ cancelled company checks) and the underwriter’s cash flow analysis of the business took the payment into consideration, then the payment need not be counted as a monthly recurring debt.
- If the business does not provide sufficient evidence that the obligation was paid out of company funds, the payment must be considered part of the member’s individual monthly recurring debt.
- If the business does provide acceptable evidence of payment of the debt, but the cash flow analysis does not reflect any business expenses that related to the obligation, it is reasonable to assume the obligation has not been considered in the cash flow of the business. When this is the case, the debt must be considered part of the member’s individual monthly recurring debt.
- When the account in question does have delinquency, the full monthly obligation must be considered as part of the member’s individual monthly recurring debt. (To ensure the debt is only counted once, the net income of the business may need to be adjusted for any expenses related to the obligation.)

Student Loans

Deferred student loans must be included as part of the member’s recurring monthly debt obligations. The actual verified monthly payment from the credit report, loan statement or forbearance agreement should be used if available. The use of an Income Based Repayment (IBR) plan may be used and must be documented. If the monthly payment cannot be verified or the IBR indicates a zero payment, an estimated payment may be used by calculating 1% of the credit report or current balance.

Click [here](#) to help calculate the monthly obligation under an Income Based Repayment (IBR) plan.

Co-signed Accounts

The member may have a contingent liability as the result of co-signing a loan to enable another party (primary obligor) to obtain credit.

Not all contingent liabilities will need to be counted as part of the member's recurring monthly debt obligation. The contingent liability will not be considered a debt of the member if all of the following criteria are met:

- The loan is at least 12 months' old and the primary obligor has made all payments on the loan.
- The most recent 12 months history of payments by the primary obligor is documented.
- The loan is current and there have been no delinquent payments since origination of the loan.

If payment by the primary obligor cannot be verified, or if a sufficient or acceptable payment history has not been established, the loan should be included in the member's monthly recurring debt.

Court-Ordered Liabilities

When a member has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the member from liability, the member has a contingent liability. The Credit Union is not required to count this contingent liability as part of the member's recurring monthly debt obligations. The Credit Union is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The Credit Union cannot disregard the member's payment history for the debt before its assignment.

5.5.2 Payoff or Paydown of Debt for Qualification

Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The member's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. As a rule-of-thumb:

- Installment loans paid off or paid down to 10 or fewer remaining monthly payments should generally not be included in the member's debt-to-income ratio. Paydown of installment debt to remove from the debt ratio should be considered in the member's ability to handle the debt.
- Revolving Accounts -- if a revolving or open account is to be paid off or paid down but not closed, a monthly payment on the current outstanding balance should be considered as long-term debt. Open 30-day charge accounts require the balance to be paid in full every month. AMGC does not require open 30-day charge accounts to be included in the debt-to-income ratio if there are sufficient assets to pay the debt in full or if evidenced reimbursed by the employer.

5.5.3 Debt-to-Income Ratios

Debt-to-income ratios are used to compare the member's anticipated monthly housing expense and total monthly obligations to his or her stable monthly gross income. Historically, Credit Unions have used two different qualifying ratios – a monthly housing expense-to-income ratio and a total monthly obligations-to-income ratio – to assess whether a member is able to meet the expenses involved in homeownership.

Housing Payment

The monthly housing payment includes the following:

Principal and interest for the mortgage that is secured by the member's principal residence;

- Fixed-rate, fixed payment mortgages will be qualified at the Note Rate.
- Adjustable Rate Mortgages (ARMs) should be underwritten at a rate which anticipates "payment shock" to the member, based on the discount (or "spread") between the initial payment rate and the fully indexed rate.
 - ARMs with a fixed rate period of 1 to 5 years qualify using the greater of the Fully Indexed Rate) or the Note Rate + 2%
 - ARMs with a fixed rate period of greater than 5 years (generally 7 or 10 year initial fixed rate period) qualify at the greater of the Fully Indexed Rate or the Note Rate
- Temporary buydowns qualified based on the applicable loan type as noted above the fully indexed rate.

Monthly costs for:

- Hazard insurance, including fire, flood, earthquake, windstorm, etc.
- Real estate taxes
- Mortgage insurance premium; and, when applicable
 - Home owner association dues
 - Leasehold payments
 - Ground rent
 - Special assessments
- Payments required to be made for subordinate financing

Total Debt Ratio

Total monthly obligations are the sum of the following:

- Monthly Housing Payment - as described above
- Installment debts extending beyond ten months, including all deferred student loan payments
- Monthly PITIA for second homes and other non-investment property that are non-income producing
- Lease payments - regardless of remaining lease term
- Revolving charge, open accounts, and lines of credit – calculated at the greater of 5% of the outstanding balance or \$10, unless otherwise documented
- Alimony, child support, or separate maintenance payments - with more than 10 remaining payments
- Negative net rental income - from investment properties owned by the member
- Current real estate taxes hazard insurance premiums and HOA dues (if applicable) for real estate owned free and clear

A monthly homeownership subsidy may be treated as an "offset" to the monthly mortgage payment (that is, reduce the monthly mortgage payment by the amount of the home ownership assistance payment before dividing by the monthly income to determine the payment-to-income and total debt-to-income ratios), but the subsidy payment must not pass through the consumer's hands. Please refer to current program guidelines for specific ratio requirements in [Section 3](#) of this manual.

Home Equity Lines of Credit

A home equity line of credit that indicates a monthly payment (either principal and interest or interest-only), the payment will be considered as part of the members' recurring monthly debt. If the home equity line of credit does not currently have a balance, no recurring monthly payment needs to be considered.

Calculating payments, when none is stated on the Credit Report or HELOC documents:

- The payment calculation should be an amount that will amortize the balance of the equity line of credit over the remaining term at the interest rate currently in effect for the equity line on the date of the new loan application. If the remaining term is not specified, a repayment term of five years should be used.

5.5.4 Compensating Factors

Compensating factors are positive loan characteristics that add strength to a loan profile. Compensating factors may include (but are not limited to) the following factors:

- The member has excellent credit history, represented by a credit score at least 20 points above the product minimum based on multiple high credit accounts from major creditors
- The residual income is substantial. This amount would differ in different areas of the country but should generally be > \$2500 to be considered "substantial"
- There is less than a 10-point spread between the new housing debt and the total debt ratio
- The new mortgage payment does not exceed 110% of the prior/existing mortgage or rental payment and savings history and credit is good
- The member has excellent liquid assets, represented by CDs, savings accounts, stocks and bonds (not retirement accounts) that are equal to at least 12 months' PITIA
- The member has additional short-term income (such as social security, child support, note receivable, trust income, VA benefits, etc.) which was not included as qualifying income
- The member has significant equity in other real estate owned, generally 30% or higher
- The member is purchasing a home as a result of a corporate relocation and there is a trailing co-borrower who, although he or she has not yet obtained employment, has a history of employment in the previous location and is expected to return to work in the new location

If these or any other conditions are considered, adequate documentation should be included in the insurance application package and the compensating factors detailed on the 1008.

5.6 Income Overview

A qualified member should have long-term, stable income from employment or other acceptable sources. Employment should be verified for two full consecutive years. If the member has an employment history of less than two years and was previously in school, the Credit Union should provide a copy of the diploma or student transcripts. The member must explain any employment gaps that extend beyond three months.

When a member is employed by a relative, closely held family business, the seller, real estate agent, title company, mortgage broker, or any other interested third party, the VOE cannot be the sole source of income verification. Signed federal income tax returns and W-2s for two years and pay stubs are required.

The member's probability for continued employment should be evidenced in the file. In the case of negative comments received from the employer, the Credit Union must perform a detailed investigation. A summary of their findings should be

provided in the insurance application package and the underwriting decision should be supported by system comments to the file.

5.6.1 Verification and Documentation

In general, a two year history of income from any source is required to consider the income stable. To demonstrate the likelihood that a consistent level of income will be received for members with less predictable sources of income, information about prior earnings must be verified. Examples of less predictable income sources include commissions, bonuses, substantial amounts of overtime pay, or employment that is subject to time limits, such as contract employees or tradespersons.

Income should be determined to have a likelihood of continuance for three years. When the income falls in a category that does not have a defined expiration date, such as certain public assistance income (e.g. Homeownership Voucher Program fka Section 8), Social Security Income /Supplemental Security Income, or long-term disability (including worker's compensation and benefits received from the Social Security Administration, the Department of Veterans' Affairs, other public agencies or a private disability insurance provider), the income may be considered stable, predictable, and likely to continue and additional documentation is not required. Pending or current re-evaluation of medical eligibility for insurance and/or benefit payments is not considered an indication that the insurance and/or benefit payment is not likely to continue.

All base income from employment is considered for qualification provided proper verification is received and the income can be deemed likely to continue.

AMGC accepts verification from specialized agencies, such as The Work Number, as long as the income and employment are verified.

Income Document Efficiencies (use of DU/Loan Product Advisor)

Income document efficiencies as noted in DU[®] or Loan Product Advisor[®] may be utilized in Portfolio programs provided the recommendation is a DU Approve/Eligible or Loan Product Advisor Accept/Eligible (unless specifically noted). The following documentation will be required:

- A verbal Verification of Employment (completed within 10 business days prior to the note date)
- Income documentation as indicated in the DU or Loan Product Advisor recommendation

A document efficiency of only a verbal Verification of Employment is not acceptable; at a minimum a verification of 30 days' earnings must be provided.

5.6.2 Income Analysis

Stable monthly income considered for qualification is the member's verified gross monthly earnings from primary employment, plus stable acceptable secondary income such as bonuses, part-time employment, commissions, or overtime. Income should be verified in writing by a reliable source.

Verified secondary income may be considered for qualification if it has been received by the member for at least the past two consecutive years and continuation is probable based on foreseeable circumstances.

5.6.3 Income Calculation

Individuals generally receive income in fixed regular increments, usually paid monthly, semi-monthly, bi-weekly, or weekly. Some individuals are paid hourly based on a fixed or fluctuating set of hours per week. Income is best calculated based on the frequency each member is paid. For example:

- Hourly: Hourly rate x number of hours x 52 weeks divided by 12 = Monthly Base Income

- Weekly: Weekly base salary x 52 weeks divided by 12 = Monthly Base Income
- Biweekly: Biweekly base salary x 26 weeks divided by 12 = Monthly Base Income
- Semi-Monthly: Semi-monthly base salary x 24 weeks divided by 12 = Monthly Base Income
- Monthly: Monthly base pay as shown (some professions offer monthly pay for less than 12-month basis ex. Teachers). The term for monthly pay increments should be confirmed as annualized over 12 months

The Hourly, Year-to-Date, and prior year earnings for each payment type should be reviewed to ensure its consistency with the calculated monthly base income. If hours are inconsistent or unreasonable, additional information may be required.

In order to use other income to qualify (overtime, commissions, etc.) there must be a minimum 2-year history of receipt and it should be expected to continue.

It is important to see an earnings trend that is level or increasing from year to year. When earnings show a decline, there must be strong compensating factors to support using the income.

5.7 Sources of Income

5.7.1 Salary and Wages

All base income from employment is considered for qualification provided proper verification is received and the income can be deemed likely to continue. Verification must include:

- Most recent pay stub which reflects all year-to-date gross earnings
- Most recent two years' W-2s (if available)
- Verbal Verification of Employment within 10 days of closing (if available)

Additionally as needed, the following may be used to document income

- Completed Verification of Employment form (VOE)
- Letter from the employer setting forth all of the employment/income information normally provided on the verification form
- Members in certain occupations such as clergy, truck drivers, union workers, contract workers or those paid on a "per job" basis, may require additional documentation
- For members who are employed in the field of education (such as a teacher), additional documentation to verify if income is based on calendar year or school year

All loans must also include documentation showing minimum 1-month income verification and including year- to-date earnings. Verification must be no more than 30 days old on the date the mortgage note is signed.

5.8 Other Variable Income

The following section describes other income that may be variable and therefore must be considered carefully by the underwriter to determine likelihood of continuance at the levels verified. Two years of income from variable sources is required and must be averaged to obtain monthly income to be used for qualifying. If the variable income is decreasing significantly, the underwriter should consider whether the income should be used for qualifications based on the likelihood of continuance. Additional documentation may be required.

5.8.1 Alimony, Child Support, and Separate Maintenance

For child support, alimony, and separate maintenance payments to be considered as income, it must continue for at least three years beyond the loan approval date. A complete copy of the divorce decree or legal separation agreement and or child support order is required to be provided as verification of income; the document must specify the amount of the award and the period of time over which it will be paid. The member must also provide acceptable evidence of his or her consistent receipt of these funds during the most recent 6-month period – documentation can include deposit slips, court records, copies of signed federal incomes tax returns, or copies of member's bank statements showing regular deposits, copies of the canceled checks or court confirmation reports. Underwriter discretion is warranted.

5.8.2 Annuity

Annuity income is similar to pension and social security income except that it may not be payable for life. A copy of the most recent updated annuity renewal statement showing the effective date, amount, frequency, and duration of the benefit payments showing the income will continue for at least 3 years must be obtained. (Refer to Fannie Mae guidelines for requirements on government annuities.)

5.8.3 Auto Allowance

Auto allowances are considered as acceptable stable income for a member, who has been receiving the payments for at least two years, provided all associated business expenses are also included. Auto allowances received for less than two years can sometimes be considered a compensating factor for slightly higher ratios at underwriter discretion.

The underwriter should use either an actual cash flow approach or an income and debt approach to calculate the income associated with automobile allowances, which will be documented on the Employee Business Expenses (Form 2106).

- When the member reports the allowance on the Form 2106 or the Schedule C, the Cash Flow approach should be used to see whether the payments exceed or fall short of the member's actual expenditures. Any funds in excess of the member's monthly expenses are to be included as income. Any expenses in excess of the monthly allowance must be included as a debt.
- When the member does not report the allowance on Form 2106, the Income and Debt approach should be used. In this case, the full amount of the documented allowance is added to the member monthly income. However, the full amount of the lease or financing expenditure for the auto must be added to the member's total monthly debts.

5.8.4 Bonus Income

Bonus income can be paid on a monthly, quarterly, or annual basis; or as part of an incentive plan. It is important to determine the nature and consistency of the bonus to use it as qualifying income. Bonuses received annually, or on another periodic basis, are acceptable even if the amount fluctuates. However, an average for two years must be developed to determine what amount of bonus can be used to qualify. Projected bonus that has no historical basis is not an acceptable source of income.

To be considered for qualification, the VOE and/or tax returns must clearly document receipt of bonus income for a period of at least two years and should establish the likelihood for continuation.

5.8.5 Capital Gains

Income received from a capital gain is generally a one-time transaction and not always stable monthly income. If the member wishes to use this as qualifying income and regularly receives capital gains, it should be documented as follows: two years tax returns including Schedule D. When the tax returns show evidence of realized capital gains for the last two years, the Credit Union may develop an average income and use that amount as part of the income -- as long as the member provides evidence that there is additional property, stock or assets that can be sold to generate additional capital gains. Capital losses don't have to be considered when calculating income or liabilities.

5.8.6 Commissions

Commission income may fluctuate from year-to-year. It is, therefore, important to establish an earnings trend for at least two years. Commission income that is stable or increasing is allowable if substantiated through:

- A VOE or paystub reflecting YTD commission
- Signed federal income tax returns for the past two years, with Form 2106 attached (if > 25% of the individual member's qualifying income)

The calculation of commission income should generally be based on a two year average. All unreimbursed Employee Business Expenses on Form 2106 (reported on Schedule A of the Form 1040 of the U.S. Individual Income Tax Return) must be subtracted from the adjusted gross income.

Commission income received for less than two years, or when earnings show a decline in the current year, should only be considered if:

- There is reasonable explanation for the change in earnings
- Likelihood of future commission income at a consistent level has been established
- There are compensating factors such as a low loan-to-value ratio or substantial cash reserves

Members who receive 25% or more of their monthly income from commission will be required to submit two years tax returns plus a VOE or paystub containing YTD earnings to determine the qualifying income.

5.8.7 Dividends and Interest

Dividend and interest income may be used if properly documented, has been received for the past two years, and the same amount of interest/dividend income is likely to continue for at least three years. Verification should be in the form of two years tax returns, account statements, or the past two years' IRS Dividend Income Form 1099-DIV or Interest Income Form 1099-INT.

The assets must be verified as owned by the member. Any assets used for the down payment and closing costs must be subtracted from the total assets before calculating future interest or dividend income.

5.8.8 Family Business/Interested Party

When a member is employed by a relative, closely held family business, the seller, real estate agent, Title Company, mortgage broker, or any other interested third-party, the VOE cannot be the sole source of income verification. Signed federal income tax returns for two years and W-2's and pay stubs are required.

5.8.9 Family Medical Leave-of-Absence (FMLA) and Short Term Disability

Members may take short duration, temporary leaves from work. Temporary leaves may be due to short-term disability, maternity/paternity or parental leave under the FMLA, or other reasons. Members must not be asked about possible future plans for family leave or disability.

Members on temporary leave may receive income, including short-term disability income or income otherwise received while on leave authorized by the FMLA. When a member is on temporary leave, whether it will be appropriate to consider the members current leave income and/or the member's anticipated income upon returning to work may depend on the relationship between the member's intent to return to work and the schedule of payments due under the loan.

A member does not have to return to work prior to loan closing. If a member will be on temporary leave at the time of closing, and the income from that member is necessary for qualification, the member's income and employment must be confirmed as described below.

Required Income Documentation

To assess the income of members on temporary leave, the underwriter should obtain sufficient documentation of the member's income during the leave and upon return to work. Sufficient documentation typically includes:

1. Written documentation from the applicant stating that the applicant intends to return to active work and the date of the return to active work.
2. Employer documentation that verifies the member's date of return to active work (e.g. an employer approved leave request; a Family Medical Leave Act document, etc.). The member may provide the employer documentation to the Credit Union if the documentation is reasonably reliable and specific to the individual member.
3. Full employment income documentation (as per AMGC income guidelines)
4. Verification of the member's assets, if necessary to qualify the member due to unpaid leave or a reduction in income during leave.

Members Returning to Work before the First Payment

If the member intends to return to work on or before the first payment due date, the member should be qualified using the member's regular employment income. The member's pre-leave regular gross monthly employment income shall be used as the qualifying income unless the member or the employer has provided information indicating a reduction in the income amount upon the return to active work status.

Members Returning to Work after the First Payment

If the member intends to return to work after the first payment due date, income received during the temporary leave, including short-term disability or other income received while on leave, may be used to qualify the member. Temporary leave income should be reviewed as a monthly average over the term of the leave. Accordingly, if the member receives a lump sum leave payment, rather than periodic payments, the underwriter should evaluate the member's income level by dividing the lump sum amount by the number of months during which the member will be on leave. Similarly, if the member receives temporary leave income payments more frequently than monthly (i.e. every two weeks), payments should be combined to determine a monthly equivalent. If the member's temporary leave income is less than his or her regular employment income, the member's available liquid assets may be used as a partial or complete income supplement up to the amount of the regular employment income.

Unpaid Leave or Insufficient Temporary Leave Income

If the member intends to return to work after the first payment due date and the member's temporary leave is or becomes unpaid or the level of the member's temporary leave income is insufficient to qualify, the underwriter should consider any verified assets of the member in excess of the amount necessary to close and any reserve requirements.

A member on temporary leave may qualify using verified assets if the value of available assets is sufficient to resolve any deficiency in temporary leave income from the first payment due date to the date the member will return to work. For example:

Total verified assets = \$20,000

Assets needed for closing costs and/or to hold as reserves = \$8,000

Assets available for income qualification during the leave period = \$12,000

First Payment Date	Return to Work Date	Supplemental Income
May 1 st	July 1 st	\$12,000 / 2 months = \$6,000
June 1 st	October 1 st	\$12,000 / 4 months = \$3,000

The supplemental income attributable to the member's assets should be added to the member's average monthly temporary leave income, if any, to determine whether the member qualifies.

5.8.10 Foster Care

Income received from a state- or county-sponsored organization for the temporary care of one or more children may be considered as acceptable income if the member has a minimum two-year history of providing foster care services under a recognized program and is likely, in the foreseeable future, to continue to provide such services. If the transaction is a purchase, consideration should be given to the functionality and location of the new property in determining the possibility for continuation of foster care income.

5.8.11 Gambling Winnings

These funds are usually considered as a lump sum distribution; and therefore, not considered income unless the member is a professional gambler and there is evidence via their tax returns that the income has been received consistently for at least two years. (Expenses listed on Schedule A must be deducted from the qualifying income.)

5.8.12 Inheritance and Other Guaranteed Income

Ongoing income received from inheritance or other guaranteed sources – such as prize earnings, or lottery winnings - may be used to qualify, provided it can be verified that the income is regular and recurring. Typically, the member should have a documented history of receiving it for at least two years and verify that it will continue for at least 3 more years.

A copy of the inheritance or award letter confirming the amount, frequency, duration of payments, and evidence of receipt for the previous two years is required. Members who do not have a 2-year history of receiving the income may still be considered contingent upon the terms of the pay-out.

5.8.13 Long Term Disability

Long term disability income (excluding disability income received from the Social Security Administration and the Department of Veterans' Affairs, addressed in sections [5.8.24](#) and [5.8.28](#) respectively), may be used to qualify. Such income must be verified by obtaining a copy of the member's disability policy or a benefits statement from the benefits payer (e.g. insurance company or employer). The policy or other equivalent documentation should verify the member's current eligibility to receive benefits, the amount and frequency of payments, and if there is a contractually established termination or medication date. Evidence of consistent receipt for the most recent 2 months must be obtained. If any long-term disability income is due to expire within 3 years, it cannot be included. Required reevaluation is not considered a defined expiration date. If the policy or other equivalent documentation does not have a defined expiration date within 3 years of the application date, the income must be considered acceptable, stable, and likely to continue. Pending or current reevaluation of the benefits is not considered an indication that the income is not likely to continue.

5.8.14 Military Income

Military personnel may be entitled to various types of compensation in addition to base pay. Flight or hazard pay, rations, clothing allowance, quarters allowance and proficiency pay may be treated as part of stable income as long as future continuation can be established through verification.

5.8.15 Mortgage Interest Differential

An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments. These payments may be considered as acceptable income for qualification, provided they are verified in writing by the member's employer stating the amount and duration of the payments. Acceptable forms of documentation include any of the following:

- Request for Verification of Employment form
- An executed copy of the employer's relocation agreement
- A letter from the employer detailing the terms of the employer-paid interest rate subsidy

To be considered for qualification, the remaining duration should be at least three years. The differential payments should be added to gross income when calculating debt ratios; they cannot be used to offset the mortgage payment even if the employer remits directly to the mortgage Credit Union.

If the mortgage interest differential arrangement provides for a step-down feature, the average monthly amount of the differential should be added to the member's income for qualification. For example:

- \$100/month in the first year
- \$ 75/month in the second year
- \$ 50/month in the third year
- \$ 0 after 3 years

The average of \$75 per month can be added to the member's income for qualification.

5.8.16 Non-Taxable Income

Non-taxable income provides more disposable cash to the member and may be increased ("grossed up") by the amount that has been saved by the member in state and/or federal taxes once it has been established that the income is likely to continue and remain untaxed. Examples of such non-taxable income that may be grossed up include:

- Child support payments
- Certain Social Security benefits
- Disability benefits
- Worker's compensation benefits
- Clergy housing allowances
- Foster care incomes
- Certain types of public assistance payment
- Certain investments (i.e., municipal bonds)
- Food Stamps
- Other income that is documented as being exempt from federal income taxes

If the income is verified as non-taxable and the income and its tax-exempt status are likely to continue, you may develop an "adjusted gross income" for the member by adding an amount equal to 25% of the non-taxable income to the member's income. If the actual amount of taxes that would generally be paid by the wage earner in a similar tax bracket is more than 25% of the member's nontaxable income, the Credit Union may use that amount to develop the adjusted gross income. If the member was not required to file a tax return for the previous reporting period, the non-taxable income may be grossed up to 25%. Documentation that can be used for this verification includes award letters, policy agreements, account statement, or any other documents that address the amount of the income and the likelihood of its continuance for at least three years.

5.8.17 Notes Receivable

Stable income from notes receivable, including installment sales and land contracts, may be considered for qualification if the payments will continue for at least three years beyond the date of loan approval. A copy of the executed Note should be provided to establish the duration and amount of the payment. Documentation should also be provided to verify that the funds

have been received for the last 12 months. Acceptable evidence includes copies of signed/filed tax returns or copies of the bank statements that show consistent deposits of these funds.

Payments on a newly executed note that specifies a minimum duration of three years may not be used as stable income.

5.8.18 Overtime

Overtime may be used to qualify the member if the employer verifies that the member has been receiving the overtime income for the last two years and indicates that it is likely to continue. Overtime earnings should be averaged over at least two years. It is important to establish a long-term earnings trend for overtime.

Overtime earnings that are level or increasing from one year to the next are generally acceptable. If, however, the earnings show a decline in the current year, there should be viable extenuating factors for the overtime to be considered for qualification and average of the most recent 12 months may be most accurate.

5.8.19 Part-Time and Second Jobs

Income from part-time and second jobs may be used to qualify if it can be verified as having been uninterrupted for the previous two years and if it has a strong likelihood of continuation.

Consideration should be given to whether the part-time or second job is compatible with the member's primary employment with regard to number of hours worked, work schedule, and type of work.

Verification of part-time or second job income must be supported by IRS W-2 forms, as well as a current VOE or paycheck stub.

5.8.20 Pension/Retirement

Retirement or pension income is an acceptable source of stable income as long as the regular receipt of the payments is confirmed. Retirement income should be verified by letters from the organization providing the income, copies of retirement award letters, copies of the most recent years filed tax returns or Form 1099-R, or copies of the member's two most recent bank statements reflecting the amounts deposited. If using tax returns to determine qualifying retirement income, the full amount of income (not just the "taxable" amount reported on Form 1040) may be included.

If the retirement income is from a monthly annuity payment or monthly distribution from a 401(k), IRA, or Keogh retirement account; documentation must be provided to determine that the payments will continue for at least three years after the date of the loan application. A maximum of 70% of the income will be used if the account(s) include stocks, bonds, or mutual funds.

5.8.21 Public Assistance Income

Income from public assistance programs may be used to qualify if it can be verified by letters or exhibits from the paying agency stating the amount, frequency and duration of benefit payments. The documentation must indicate that the income is expected to continue for at least 3 years. Evidence that the income has been received for the most recent 2 months must be obtained.

The federal Homeownership Voucher Program (formerly known as Section 8) is an acceptable source of qualifying income. There is no requirement for the Homeownership Voucher Program payments to have been received for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application.

5.8.22 Rental Income

Rental income received for a residential property can be considered acceptable stable income, as long as the likelihood of the continuance of the income can be established and the income is properly documented and calculated.

Rent on other real estate owned

When the rental income is from other investment property owned, rental income can be documented by obtaining copies of two years' tax returns, including the schedule E, or copies of the current lease agreements. If the member has owned the properties for more than 12 months, the tax returns are required to determine the property cash flow. Lease agreements may only be used (at 75% of lease amount) when the property was acquired subsequent to the most recently filed tax return.

For purchase transactions where the member(s) intend to rent out their current home, rental income for the conversion property can be considered if supported with a fully executed lease agreement and a 25% vacancy factor applied. A positive net cash flow be added to the member's income. A negative net cash flow amount will be added to the member's long-term debt.

Rental income for the subject property

For a purchase transaction of a 2-4 unit property

- Rent on the units not occupied by the members can be considered as qualifying income
- The appraiser's opinion of fair market rent and if applicable, copies of the current lease agreements should be provided. The gross rental would be the lesser of the appraiser's fair market rent or the lease agreement. Net cash flow will be determined using no more than 75% of the gross monthly rent.

For a refinance transaction on a 2-4 unit property, where rental income from the additional units is being used

- Complete federal income tax returns, including copies of Schedule E and copies of current lease agreements are required to substantiate rental income. The net cash flow will be determined by using the net rental income/loss from the IRS form 1040, Schedule E, plus depreciation expense and PITIA already included property mortgage payment.

Rental income received through a partnership or S corporation

Rental income received through a partnership or an S corporation is permitted to offset the PITIA on an investment property (when the member is personally obligated on the mortgage) by obtaining the member's business tax returns for the most recent year and evaluating IRS Form 8825 in a manner consistent with the evaluation of rental income reported on Schedule E of a member's personal tax returns.

Instructions on how to calculate Rental Income can be found at: archmicu.com/Training/Training-Resources

In order to include positive net rental income in qualifying such members, the income received through a partnership or an S corporation must be evaluated per existing guidelines for business income received from a partnership or corporation.

5.8.23 Royalty Payments

There must be documented evidence that the member has received the royalty payments for at least 12 months and will continue to receive them for at least three years after the date of the loan application. Copies of two years' tax returns including the supplemental Schedule E will be required to verify the income.

5.8.24 Social Security

Benefits received from the Social Security Administration may be used to qualify a member's income if the income is verified by one of the following documents:

- Social Security Administration benefit verification letter (sometimes referred to as a "proof of income letter," "budget letter," "benefits letter," or "proof of award letter")
- Federal tax returns
- The most recent bank statement evidencing receipt of income from the Social Security Administration

The documentation must show consistent receipt of the income for the most recent 2 months. If any Social Security income is due to expire within 3 years, it cannot be included. If the benefits verification letter (or other equivalent documentation) does not have a defined expiration date within 3 years of loan origination, the income must be included and must be considered acceptable, stable and likely to continue. Pending or current reevaluation of medical eligibility for benefits payments is not considered an indication that the benefit payment is not likely to continue. Under no circumstances may information or documentation concerning the nature of the member's disability or medical condition be requested. If verified as non-taxable, Social Security income may be grossed up.

5.8.25 Tip Income

Tip Income may be used to qualify the member if the employer verifies that the member has been receiving the tip income for the last two years and indicates that it is likely to continue. Tip income must be documented by VOE and recent paystubs and W2s. Tip income earnings should be averaged over at least two years. It is important to establish a long-term earnings trend.

Tip Income earnings that are level or increasing from one year to the next are generally acceptable. If, however, the earnings show a decline in the current year, there should be viable extenuating factors for the tip income to be considered for qualification and the most recent 12 month average should be used.

5.8.26 Trust Income

Trust income may be considered for qualification if it will continue for at least three years from the date of loan approval. Trust income should be documented by a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments. However, if this documentation does not include information about the historical level of distributions from the trust, two years complete, signed individual income tax returns may be required.

Lump sum distributions made before the loan closing may be used for the down payment or closing costs, if they are verified by a copy of the check or the trustee's letter that shows the distribution amount. (Also see: "[Inheritance and Other Guaranteed Income](#)")

5.8.27 Unemployment Benefits and Seasonal Employment

Unemployment benefits are generally not considered an acceptable form of income because it is a short-term benefit. An exception may be warranted if the member is employed in a seasonal industry or in an occupation that is typically "jobbed out" by a union or other organization and unemployment benefits are verified as a typical and continuing source of income. In such instances, two years' tax returns will be required to establish a long-term history of receipt.

If unemployment benefits are considered as qualifying income, the financing terms must be closely evaluated to ensure that payment increases or balloon features of a first or second lien will not impair the member's repayment ability. Additionally, the member must exhibit a positive credit and savings pattern.

5.8.28 Veterans Administration (VA) Benefits

Benefits received from the VA may be used to qualify, but if any VA benefits are due to expire within 3 years the payment amount cannot be included. VA benefits must be verified with a distribution form or a verification of VA benefits letter from the VA. If the VA benefits letter (or other equivalent documentation) does not have a defined expiration date within 3 years of loan origination, the income must be considered acceptable, stable and likely to continue. VA education benefits are not acceptable income for qualification because they are offset by education expenses.

5.8.29 Unacceptable Income

The following types of income or compensation are generally considered unacceptable for the purpose of qualifying members. (Exceptions, at underwriter discretion in the application of good, common sense underwriting, will be considered.)

- Expense account reimbursements
- VA education benefits
- Retained earnings from business
- Any source of income that cannot be verified by the Credit Union
- Income that is not likely to continue for at least three years beyond the date of loan approval
- Trailing co-borrower income
- Boarder income

5.9 Self-Employed Member

A member with a 25% or more ownership interest in a business is considered self-employed. If a member is self-employed, the stability of the business concern and the member's income pattern must be established. Consideration must be given to the following:

- The member should have been self-employed for at least two years prior to the loan application. Personal and business tax returns should reflect increases in income and assets with likelihood for continued growth
- A member who has been self-employed between one and two years must have at least two years of previous successful employment in the same occupation in order to be considered favorably
- A member who has been self-employed for less than one year has not established a history of stable self-employment earnings and cannot be used to qualify

The income of self-employed members must be analyzed differently due to the nature of self-employment.

- The growth of the business is crucial
- The viability, and therefore stability, of the business field is critical to the ability of the member to meet ongoing obligations
- The length of time self-employed and overall experience in the field must be considered

Documentation

The following documentation should be provided for all self-employed members:

- Signed individual federal income tax returns (1040s), including all schedules for the previous two years.
- If the AMGC approval date is more than 120 days after the business year-end, a current financial statement including a balance sheet and year-to-date profit/loss statement should be provided. Audited statements are preferred, but if not audited, must be signed by the preparer and member.
- If the business is a Corporation, S-Corp., or a Partnership, copies of signed federal business tax returns for the last two years, complete with all schedules and current financial statements, should be provided.
- For loans originated between January 1 and April 15, where prior year's tax returns have not been filed, the Credit Union must determine if alternative documentation (e.g., Form 1099, W-2, Profit & Loss Statement, etc.) is sufficient to document the income for that year. Consideration business expenses deducted from earnings, the underwriter must develop an average monthly net income for qualifying purposes. This average is compared to prior years' tax returns to determine business stability and qualifying income.

- For loans originated after April 15 where an extension has been filed, provide a copy of the signed filed extension form.

Cash Flow Analysis Method – This method uses a “top down” approach to determine average income for self- employed members based upon recent past performance. The form lists sources of allowable income and encourages a close examination and evaluation of the tax returns and financial statements.

Self Employed Income Analysis Click here, [Tax Return Analysis Calculator and Instructions](#)

5.10 Member’s Assets

Assets are an important factor when determining a member’s creditworthiness and financial strength. The member must have sufficient liquid assets for the down payment, closing costs, prepaid expenses, and reserves. Assets should be reviewed in conjunction with income and credit to determine the reasonableness of the transaction. A pattern of savings and an ability to manage assets should be demonstrated as well as confirmation that the funds are from an acceptable legal source.

5.10.1 Down Payment Requirements

AMGC requires the member to use his or her own funds/savings or other liquid assets to make a minimum cash down payment of 3%. For certain products and loan types, a larger down payment is required. Member funds must be verified as part of the transaction. Once the minimum down payment for the program has been met, the remainder of the funds can come from other acceptable sources, such as gift funds, grants, etc.

On owner-occupied and second home properties, gifts or grants can be applied towards closing costs after the minimum member funds have been applied. Gift, grant or down payment assistance from a “family member” defined as related by blood, marriage, adoption or legal guardianship, domestic partner or fiancé/fiancée, a nonprofit charitable organization (non-Nehemiah), government agency, or member’s employer. Gifts and grants are not permitted on investment properties.

The following Down Payment requirements apply:

Portfolio PowerSM

- Owner occupied requires initial 3% from member’s own funds; Second homes require 5%; Investment requires 10%
- Gifts permitted for additional funds from an immediate family member or a future spouse/domestic partner who will reside in the property

Super Jumbo

- Owner occupied requires initial 3% from borrower’s own funds; Second homes require 5%; Investment requires 10%
- Loan amounts ≤ \$1,000,000
 - Gifts permitted for additional funds from an immediate family member or a future spouse/domestic partner who will reside in the property
- Loan amounts > \$1,000,000
 - All initial down payment must be from borrower’s own funds
 - Gifts/grants are not permitted

Interest Only

- Loan Amounts up to/including \$453,100
 - Initial 5% from member’s own funds
 - Additional funds from gifts or grants
- Loan Amounts greater than \$453,100: all funds from member’s own funds

5.10.2 Deposit on Sales Contract/Earnest Money Deposit

The source of funds from the deposit on the sales contract must be verified as the member’s own if the funds are needed to qualify. If it cannot be determined that these funds were withdrawn from the member’s account, additional verification of the source and evidence that funds have actually changed hands from the member to the seller, Realtor®, escrow agent, or

settlement attorney should be provided. If funds are not needed to qualify, then they need not be verified. Large earnest money deposits and deposits that exceed the amount customary for the area should be closely evaluated.

5.10.3 Closing Costs

Closing costs are expenses that are incidental to the sale of real estate, such as loan fees, title fees, appraisal fees, etc. In most instances, the closing costs are paid by the member; however, others may pay these costs, when it is customary for the area and subject to limitations per Interested Party Contributions.

For refinance transactions, the closing costs may be included in the loan amount.

5.10.4 Prepaid Items

Prepaid items such as taxes, hazard insurance, ground rent, etc. are expenses that are paid in advance and usually prorated upon the sale.

Typically, the following prepaid settlement costs are paid by the member, but can be paid by other parties (if paid by other parties the Interested Party/Seller Contributions maximums apply):

- Interest charges covering any period after the settlement date;
- Real estate taxes covering any period after the settlement date (if impounded);
- Hazard insurance premiums;
- HOA dues covering any period after the settlement date and
- Escrow accruals required for renewal of the mortgage insurance premium (unless the premium is being financed as part of the mortgage amount).

5.10.5 Reserves

The member should have a minimum two months PITIA (principal, interest, taxes, insurance, and association dues) in the form of liquid assets remaining as reserve funds after closing. These cannot be proceeds from the subject property. Cash reserves are of particular importance to loans with high loan-to-value ratios, properties in need of repair, and multi-unit properties.

The following Cash Reserve requirements apply

Portfolio Power

- Owner-Occupied or Second Home: 2 months PITIA
- Investment: 6 months PITIA

Super Jumbo Programs

- > \$453,100 (\$ not including AK & HI) to \$650,000 = 4 months PITIA
- > \$650,000 (> \$679,650 in AK and HI) to ≤ \$850,000: 6 months PITIA
- > \$850,000 to \$1,500,000: 12 months PITIA
- > to \$1,500,000 to 2,000,000: 24 months PITIA

Interest Only

- ≤ \$453,100: 2 months PITIA
- > \$453,100 to \$750,000 = 6 months PITIA
- > \$750,000 to \$1,000,000 = 12 months PITIA

5.10.6 Interested Party/Seller Contributions/Third-Party Contributions (IPCs)

Third-party contributions/IPCs may either be a financing concession or a sales concession, or both. IPCs are limited to interest rate buydowns, reasonable and customary closing costs that are normally paid by the member but which, in the subject transaction, are paid by the seller or other interested party such as the builder, developer, or real estate agent and any other payments or credits related to acquiring the property.

Financing Concessions include, but are not limited to, the following:

- Any third-party funds that are contributed to an interest rate buydown plan for the purpose of temporarily or permanently lowering the member's payment and/or interest rate on the mortgage
- Contributions and payments in any form, such as:
 - Discount points
 - Commitment fees
 - Origination fees
 - Appraisal costs
 - Transfer taxes, stamps or attorney's fees
 - Interest rate shortfalls
 - Title insurance
 - Survey charges
 - Prepaid items such as hazard insurance premiums, interest charges, real estate taxes
- Donations by interested parties to a non-profit organization when the receipt of the funds directly entitles the member to a grant or down payment assistance will be considered a third-party contribution.

5.10.7 Maximum Allowable Financing Contributions

Maximum allowable financing contributions may not exceed the actual amount of closing costs and prepaids and are subject to Excessive Contributions requirements.

Owner-Occupied

- Maximum 3% based on the property's sales price for LTVs 90.01% - 97%
- Maximum 6% based on the property's sales price for LTVs up to 90%

Second Home

- Maximum 6% based on the property's sales price for LTVs up to 90%

Investor

- Maximum 2% based on the property's sale price for LTVs up to 90%

5.10.8 Sales Concessions

Sales concessions are interested party contributions (IPCs) that take the form of non-realty items, such as furniture, decorator allowance, giveaways (vacations, cars) and excess financing concessions. The terms of the sale as detailed in the purchase contract must be closely evaluated to determine the effect of any sales concessions. Sales concessions must be deducted from the purchase price.

The Loan amount is to be calculated using the adjusted value and the maximum LTV for the product or program.

Decorator Allowances

A decorator allowance may be included in seller-paid closing costs rather than considered a sales concession if there is an offsetting upgrade to the improvements (i.e., ceramic tile instead of linoleum, thermal pane windows, upgraded insulation,

etc.). The sales contract must describe the upgrades. The Maximum Allowable Contributions limitations for third-party contributions, including these decorator allowances, will apply.

If the amount is a direct cash credit to the member on the CLOSING DISCLOSURE, it must always be treated as a sales concession and deducted from value.

If the loan amount is reduced to an adjusted LTV the Credit Union must verify sufficient funds to close. Otherwise, the loan should be underwritten and insured at the pre-adjusted LTV.

5.10.9 Other Third-Party Contributions

Contributions made by the member's employer or a family member are not included in the Maximum Allowable Contributions limitation. A family member's contribution is considered a gift and must comply with requirements for gift funds. Employer contributions are permissible if verified under the terms and conditions of an employee relocation agreement. Credit Union contributions for temporary interest-rate buydowns and closing costs are subject to the same limitations as builder/seller contributions.

5.10.10 Pooled Savings

Funds from a community savings account or any other type of pooled savings may be used for the down payment if the member can document regular contributions to the fund.

Acceptable documentation includes written confirmation from the party managing the pooled savings fund and documentation of regular member contributions.

The member's obligation to continue making contributions to the fund must be considered as part of the member's debt when calculating the total debt-to-income ratio.

5.10.11 Source of Funds

Various types of assets and the appropriate treatment for loan qualification are detailed below. The insurance application package must verify the availability and source of these funds.

Borrowed Funds Secured by an Asset

Borrowed funds secured by an asset are an acceptable source of funds for the down payment, closing costs, and reserves. Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets, such as savings accounts, certificates of deposit, stocks, and bonds. When using borrowed funds as an asset, the repayment amount must be included as a debt, unless the borrowed funds are secured by a financial asset, in which case the repayment amount may be excluded from debt.

Secured Loans as Debt

When qualifying the member, the Credit Union must consider monthly payments for secured loans as a debt. If a secured loan does not require monthly payments, the Credit Union must calculate an equivalent amount and consider that amount as a recurring debt. If the loan is secured by a financial asset, any repayment amount may be excluded from debt.

Unsecured loans are unacceptable sources of funds.

Business Accounts

To utilize funds from the member's business accounts for the down payment, a letter must be obtained from the CPA stating the member has access to the funds, and that there will be no detrimental impact to the business so that it may continue to operate profitably if the funds are withdrawn.

Checking and Savings Accounts/Certificates of Deposit

A completed Verification of Deposit (VOD) form or bank statements for the most recent two months should be provided as verification of liquid funds on deposit in checking, savings and/or CD accounts. Bank statements should clearly identify the member as the account holder and include the account number, the time period covered by the statement and all deposits and withdrawals made during the period covered.

A recently opened account or large increase in the average balance must be investigated; the source of funds should be explained by the member and documented as needed.

If the member has taken a loan against their savings, the asset may be accessed for fulfillment of the obligation. Only the amount net of the outstanding loan balance should be considered in determining the member's assets.

Cash-on-Hand

Generally, cash-on-hand is not an acceptable source of funds for the down payment or closing costs.

Collateral Pledge Account

Combined Asset Mortgage (CAM) programs include a pledged collateral account as additional security for the mortgage loan. Prior approval by AMGC is required.

The type of pledged asset (Certificate of Deposit, Life Insurance, Annuity, etc.) and minimum cash equity will vary. The member's ability to fund the collateral account should be verified in the same manner as funds for down payment and closing costs. Collateral pledge funds cannot be used to make the monthly payments and cannot be released without AMGC's prior approval.

Gifts

For the Super Jumbo Program and the Portfolio Program, gifts are permitted for loan amounts \leq \$1,000,000, after the minimum requirement for member's own funds has been met. Additional down payment, reserves, prepaid escrow or closing costs can be provided by a gift. Gift funds should be disclosed in the loan application and the following criteria must be met:

- A gift letter is provided that specifies the amount of the gift, the date funds were transferred (or will be transferred), and the donor's relationship to the member. The gift letter must state that repayment is not required or expected.
- The donor of the gift should be a relative family member related by blood, marriage, adoption or legal guardianship, domestic partner, fiancé/fiancée. If other than a relative, the motivation of the donor must be carefully evaluated.
- Verification of transfer and receipt of gift funds is required

Additionally, if the member's family member, domestic partner, fiancé/fiancée has resided with the member for at least 12 months prior to the application and will continue to reside with the member after loan closing, their funds may be pooled with the member's and not be treated as a gift. This will be documented as follows:

- Certifications from the donor stating that the/she has lived with the member for the past 12 months and will continue to do so in the new residence
- Documents demonstrating history of member and donor shared residency showing current address. These may include a copy of personal identification document, a bank statement or a billing statement.

Items noted as ineligible under the Gifts section are applicable to all gift types (i.e. gifts of equity, gifts/grants from a public/non-profit). The gift donor may not be a party to the transaction (i.e., seller, builder/developer, Realtor, mortgage broker).

The use of gift funds is not eligible for the following:

- Loan amounts $>$ \$1,000,000

- Interest Only Program with loan amounts greater than \$453,100
- Investment properties

Gifts of Equity

A gift of equity from an immediate family member may be treated as a cash gift (i.e., it need not be deducted from the purchase price of the subject property), if the following conditions are met:

- The insurance application package clearly shows the amount of gifted equity, relationship of the donor, and states that the amount is, in fact, a gift and repayment is neither required nor expected.
- The Purchase Contract details the gift of equity.
- The executed Purchase Contract indicates the purchase price as the gross amount including the gift equity.
- The member has contributed a minimum down payment of his or her own saved funds based on the gross purchase price of the property.
- The settlement is completed by an independent third party (i.e., Escrow Company or real estate attorney) who can confirm the final equity exchange and ensure the Closing Disclosure is documented as such, and the appraiser should note he is aware of the transaction terms.

If the gift of equity is from someone other than an immediate family member (i.e., the builder/developer) it will be considered a sales concession and must always be deducted from the lesser of purchase price or appraised value before calculating the loan-to-value ratio.

The underwriter should beware of cash-out refinances being disguised as sales/gift transfers. This technique is often used to “bail out” a delinquent homeowner. While we cannot require verification of the seller’s paying habits, clues may be taken from a Preliminary Title Report that shows delinquent property taxes, a recorded notice of default, and/or other liens and attachments to the property.

Gifts (or Grants) from a Public or Non-Profit Organization

A gift or grant from a government agency or member’s employer is acceptable for a portion of the down payment or closing costs after minimum down payment requirements have been satisfied through use of the member’s own funds. The gift must be documented by a copy of the award letter which includes all of the following:

- The terms and amount of the gift or grant, if from an employer, should be as part of an established program
- Acknowledgment that repayment is not required or expected
- Disclosure of how funds will be transferred (i.e., to the member, the Credit Union, or closing agent), and documentation showing receipt of the funds

Lease with Option to Buy

Only that portion of monthly lease payments that exceed fair market rent may be credited toward the down payment/closing costs. The insurance application package must contain a copy of the Lease/Option Agreement. Evidence of regular monthly payments is required. Underw market rent should be determined by and included in the appraisal report. The member must contribute a minimum 5% cash down payment in addition to rent credits.

Proceeds from Sale of Assets

Cash from the sale of the member’s personal or real property may be used for the down payment and closing costs as long as the member can provide evidence that she/he:

- Owned the asset

- Has documentation to support the value of the asset
- Can prove the Transfer of Ownership (a copy of a bill or sale or statement from the purchaser), and
- Provides the receipt of the purchase proceeds (deposit slips or bank statement)

Proceeds from Sale of Real Estate

Proceeds from real property being sold prior to, or concurrent with, closing of the subject transaction may be considered a qualifying asset. A copy of the Closing Disclosure Settlement Statement to verify sales expense, payoff of liens, and net proceeds to the member is required (or may be a Credit Union's closing condition).

To show the anticipated proceeds an estimated Settlement Statement (or other breakdown of costs and verification of lien payoff amounts) prepared by the escrow officer, attorney, or other settling agent may be accepted to verify and document down payment funds.

Calculate the anticipated proceeds as follows:

$$\text{Listing Price/ Sales Price} - (10\% \text{ of price} + \text{All liens}) = \text{Estimated proceeds}$$

Sales costs are typically 8 to 10%, which includes sales commission and closing costs paid by seller.

Trade Equity on Manufactured Home

Trade equity will be considered only if:

- The member has contributed the minimum cash down payment prior to the 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 more than 12 months, use 90% of the retail value as listed in the NADA (National Automobile Dealers Association) (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 the NADA or the lowest sales price in the last 12 months.

Stocks and Bonds

Only stocks of publicly traded companies may be considered as liquid assets. The stocks of small, privately held companies may have limited marketability and, therefore, will only be considered if liquidated and receipt of funds is verified.

The value of stocks may be verified by copies of current statements from a brokerage firm. If, however, stocks are held by the member and not "on account" with a brokerage, value should be determined by receipt of certified true copies of original stock certificates and current statements of value from the newspaper or other independent and reliable source. (Date of the Credit Union's certification is recommended to ascertain that the stocks are currently owned by the member.)

Bonds should be valued at their purchase price unless the redemption value can be determined and verified. Bonds may be verified by receipt of recent brokerage statements or certified copies of the bonds together with a recently dated public source/Internet quote.

If used for reserves, down payment, or closing costs 100% of the value of the asset may be used.

For the down payment or closing costs, documentation of the member's actual receipt of funds realized from the sale or liquidation is not required if the Credit Union documents the value of the asset is $\geq 20\%$ more than the funds needed. Otherwise, confirmation of the sale or redemption and receipt of funds should be verified.

Retirement Accounts

Vested funds from Individual Retirement Accounts (IRAs), Keogh Accounts, Elective Deferral - Section 401(k), Tax-Sheltered Annuity - Section 403(B), and Defined Benefit Pension Plans may be used as a source of the down payment, closing costs,

and financial reserves. A statement from the plan administrator is generally required to determine the percentage vested (and available for withdrawal) and the anticipated net amount of the distribution detailing any penalties and income tax payments.

If used for reserves, 100% of the value of the asset may be used. If used for down payment or closing costs, use the vested balance.

For the down payment or closing costs, documentation of the member's actual receipt of funds realized from the sale or liquidation is not required if the Credit Union documents the value of the asset is $\geq 20\%$ more than the funds needed. Otherwise, confirmation of the sale or redemption and receipt of funds should be verified.

If the member has taken a loan against their tax-favored retirement savings account, only the amount net of the outstanding loan balance should be considered in determining the member's assets.

Trust Accounts

Trust account funds may be used for the down payment and closing costs if the member is a beneficiary of the trust and has access to the assets. A statement from the trustee should be provided to verify the liquidity and availability of funds to the member. If trust income is used for qualification, the effect of the withdrawal of these funds on future trust income must be documented.

Unsecured Loans

Unsecured loans are generally considered an unacceptable source of funds for down payment and closing. Examples of unacceptable borrowed funds include signature loans, lines of credit, cash advances on credit cards, and overdraft protection on checking accounts.

1031 Property Exchange

A 1031 Exchange – Tax Deferred or Like Property Exchange – is an exchange of real property in which no taxable gain or loss is recognized at the time of sale. Section 1031 of the Internal Revenue Code allows investors to defer the payment of state and federal capital gains taxes by exchanging one qualified property with another, rather than selling it.

A 1031 Exchange is an exchange of qualified property. A 1031 Tax Deferred Exchange can be used as the down payment for the purchase of an investment property with the following requirements:

- There is no subordinate financing.
- A qualified intermediary must handle the loan closing. A qualified intermediary is an entity (usually a subsidiary of a title company) who enters into a written agreement with the taxpayer. The qualified intermediary cannot be an agent, attorney, accountant, investment banker, or broker. This exchange agreement requires the qualified intermediary to acquire and transfer the relinquished property and acquire and transfer the replacement property. The relinquished property is the property "sold" and the replacement property is the property "acquired".
- Copies of all closing documents – including the 1031 Exchange Agreement, Settlement Statement, and Title Transfer – and the Purchase Agreement on the relinquished property must be obtained.
- Both Purchase Agreements on the relinquished and replacement properties must contain appropriate language to identify the 1031 exchange.

5.10.12 Verifying Assets

Assets must be verified to ensure the member has sufficient funds to complete the mortgage transaction, and if required, adequate reserves after closing. Assets may be verified with a completed/signed/dated Verification of Deposit, copies of bank statements or investment portfolio statements that cover activity in the member's account(s) and, if applicable, copies of the most recent retirement account statement that is available, which may be obtained directly from the member.

All asset documents must clearly identify the member as an owner of the asset account. If there are additional parties on the account, a letter may be required explaining the person's relationship to the member and availability of the funds to be used in the transaction.

Two month's current bank statements per account are required, reporting beginning and end balances and all transactions within the month.

Direct verification by a third-party asset verification vendor is acceptable as long as:

- The member provided proper authorizations for the Credit Union to use the verification method,
- The verified information provided must conform with the information that would be provided on the Verification of Deposit or on bank statements,
- The date of the completed verification is in compliance with allowable age of documents, and
- The Credit Union understands its responsibility for the integrity of the information obtained from this source.

Large Deposits: Defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. Large deposits indicated on the account statements require a written explanation and documentation of the source of this deposit if those funds are needed to complete the transaction. If the source of the large deposit is identified on the account statement (ex. Direct deposit where the source is specifically indicate), further information is not required. However if there are still questions regarding the source/terms of the deposit, then further documentation/information should be obtained.

Internet Downloads: Documents that are obtained from the Internet must clearly identify the member as owner of the account, show account numbers, and identify the institution holding the account. The source of the information must be included in the Internet "banner" on the document. Printed web pages must show the Uniform Resource Locator (URL) address and the date and time printed. Existence of the website from which the documents were derived should be verified.

5.10.13 Ineligible Source of Funds

The following sources of funds may not be used in the calculation of assets:

- Proceeds from unsecured loans or personal loans
- Gifts which must be repaid in full or partially
- Sweat equity
- Cash on Hand
- Cash advances from a credit card or other revolving account
- Salary/bonus advances received against future earnings
- 1031 Tax Deferred Exchange proceeds on owner-occupied property or second home

6. Underwriting the Property

6.1 Appraisal Requirements

All appraisals must be in writing. Electronic appraisals are acceptable but must be in a standard format as detailed below for all manually underwritten loans.

- Single-family and Detached PUDs -- Uniform Residential Appraisal Form (FNMA Form 1004/FHLMC Form 70)
- Condominiums -- Individual Condominium or PUD Unit Form (FNMA Form 1073/FHLMC Form 465)
- 2-4 Unit Properties – The Small Residential Income Property Appraisal Report (FNMA Form 1025/FHLMC Form 72)
- Manufactured Homes – Manufactured Home Appraisal Report (FNMA Form 1004C/FHLMC Form 70B)
- Cooperative Housing Units -- Individual Cooperative Interest Appraisal Report - FNMA Form 2090

The appraisal report should be prepared by a state-certified or state-licensed appraiser in accordance with Uniform Standards of Professional Appraisal Practices (USPAP), and Federal Housing Finance Agency (FHFA) Appraisal Independence Requirements (AIR). Appraisals originally ordered for an FHA loan are acceptable.

Streamlined appraisal forms and property inspection waivers are ineligible, (e.g. Exterior-only 2055 drive-by inspections, property inspections).

6.2 Property Evaluation

Adequacy of the collateral is a critical element of the mortgage loan. AMGC maintains standards for residential properties that are considered sound, reasonable, and necessary to ensure quality. These standards are consistent with Fannie Mae and Freddie Mac property eligibility criteria, support AMGC's corporate objectives, and provide for compliance with state insurance laws, Fair Lending and Equal Credit Opportunities laws.

Each appraisal must be reviewed in detail to evaluate the following:

- Adequate support for the value of the property by the appraiser
- Present and future marketability of the property
- Completeness and correctness of the appraisal forms and exhibits
- Applicability and timeliness of the data used to determine marketability
- Consistency, logic and accuracy of the appraisal
- Any and all narrative commentary on adverse or positive factors in assessing value

All property evaluations must be made in relation to the marketing conditions of each respective property territory. Real estate factors which affect property valuation include:

- Inventory/housing supply levels
- Demand
- Appreciation/depreciation rates
- Type and availability of financing

All appraisal reports must be carefully analyzed to ensure that value is supported. Also, if comments regarding the improvements or comparative market data indicate that the property is in poor condition, the extent of repairs to be made should be documented.

6.3 Property Standards

AMGC's property standards vary by market acceptance for each property type. The following are general parameters under which property is considered acceptable collateral for loans insured by AMGC. Minor deviations to these property standards may be considered in relation to the overall evaluation of the property.

General Property Conditions

- Appraisal reports must express an opinion about the condition of the improvements. The property condition must be rated C1-C4.
- Design and material usage should be typical of the market area. Pioneering designs such as underground improvements, irregular floor plans, and geodesic domes which lack a ready resale market are generally not acceptable.
- The site should be typical of the neighborhood and sufficient in size to adequately support all improvements. The following should be evident in the Site section of the appraisal report (any deviations should be adequately explained in Comments).
 - Maximum lot size is 10 acres (unless otherwise typical in the market.) The property must be residential in nature. Agricultural-type properties are not eligible for mortgage insurance

- Loans in which multiple parcels are encumbered must be noted in the final valuation; the value of both the improved and unimproved parcels must be evident.
- The Highest and Best Use as improved must be the present use and residential
- There should be no easements or encroachments which adversely affect the market value.
- Any adverse location or site conditions (i.e., special assessments, slide areas, illegal or legal non-conforming zoning use) or superior site conditions (i.e., view) that would affect value or marketability should be addressed.
- The site cannot have soil conditions designated as “dangerous to health” or “unsupportive of improvements.” The item(s) must be satisfactorily addressed for the loan to be eligible for insurance with Arch MI.

The cost approach is useful in cases where complex properties are being appraised. (e.g. older homes, unique properties/property locations).

When the Cost Approach is provided, it is based on the principle of substitution which estimates maximum value of the property by the cost of acquiring an equally desirable and valuable substitute property, assuming that no delay is encountered in making the substitution. This value is determined by utilizing a reproduction cost which anticipates construction of an exact duplicate of the subject building at current prices, or a replacement cost which involves construction of a property of equal utility using current design and materials. Land value should be typical for the market and supported within the comparables.

6.4 Appraisal Review

It is critical to review and analyze the appraisal for every loan to ensure that the property value is supported. This review should be completed regardless of any AUS, collateral assessment model, or other messaging received. A poor, inaccurate, or incorrect appraisal report is not corrected by a reduction in the LTV.

From a lending perspective, greatest risk occurs when a property is overvalued. The overvaluing of a property results in the understatement of the (LTV) ratio and/or insufficient collateral. The possibility of overvaluation increases in a distressed/declining market.

There are a number of factors found on the appraisal report that can be used to determine if a property is located in an area where prices are falling. These factors include the property’s location, comparable sales, neighborhood characteristics, and current market trends. The degree to which these factors influence the subject property’s value should be fully disclosed and supported by the appraiser on the appraisal report.

Underwriter’s Responsibilities

It is the underwriter’s responsibility to complete a thorough evaluation of the appraisal to ensure that the report is complete, accurate, and consistent and that it provides a reasonable determination of the property value.

When multiple appraisals are obtained, the underwriter must select and use the most accurate appraisal. In cases where a second appraisal is completed by the same appraiser, the most recent one should be used. In cases where a second appraisal is completed by a different appraiser, use the appraisal deemed most accurate. The method of selection (for example similarity of comps, appraiser commentary, and cost approach) should be documented in the loan file.

6.5 Multi-Unit Properties

Small residential income properties (2-4 units) require additional consideration for the following factors:

- The vacancy rate of the neighborhood is low and stable

- The neighborhood is at least 50% built-up or is showing steady growth
- No sales or rental concessions (i.e., give-a-ways, free trips, decorator allowances, etc.) are being offered
- Land is owned in fee-simple estate, or leaseholds must meet standard requirements (see [Section 6.11](#))
- Floor plan and unit sizes are functional
- Size and shape of the lot adequately support all improvements
- Site is typical of competing 2-4 units and the market area
- Design and material usage are typical of the neighborhood. No pioneering designs should be accepted.
- The improvements section should indicate that features of the property, including modernization, on-site parking facilities, appliances, and insulation are typical for the market area
- The Small Residential Income Property Analysis Report must provide comparable rental data from which the potential economic rents of the subject property can be accurately projected.

In reviewing the Sales Comparison Analysis for 2-4 unit properties, consideration should also be given to the following:

- Units of value to include:
 - Sales Price per square foot of Gross Building Area
 - Gross Monthly Rent Multiplier
 - Sales Price per Unit
 - Sales Price per Room
- Financing or other sales concessions must be considered in relation to typical market acceptance and appropriate adjustments should be made to the comparable sales to reflect the value of these concessions
- The final reconciliation of value should consider any unadjusted units of value reported in the Sales Comparison Analysis
- Total expenses and replacement reserves should be typical to those of competing properties
- The appraiser's comments should indicate that there are no conditions which could detrimentally affect the market value or marketability of the property
- All new construction or major remodeling should be completed prior to insuring the loan

6.6 Condominiums

AMGC does not approve condominium projects. The review of the appraisal and compliance with AMGC guidelines does not constitute a project approval. AMGC insures condominiums that meet the following criteria:

6.6.1 General Condominium Requirements

All condominium projects must meet the following guidelines:

- Fannie Mae or Freddie Mac Guidelines for project warrantability; or
- AMGC requirements for condominiums located in projects not verified as warrantable per Fannie Mae or Freddie Mac requirements ("non-warrantable condo")

When determining condo project acceptability, AMGC expects the Credit Union will:

- Determine that the project meets standard Fannie Mae or Freddie Mac guidelines OR
- Determine that the condominium unit project meets AMGC requirements AND
- Provide supporting documentation for the determination

AMGC Project Exposure

- No more than 33% of any one project will be insured by AMGC
- For 2-4 unit projects, AMGC will insure a maximum of 1 unit

Detached Site Condominiums

- Follow single family residence guidelines
- The Credit Union is not required to determine condominium project eligibility

6.6.2 Condominium Project Documentation Requirements

Warrantable Condominiums

AMGC does not verify condominium project warrantability as defined by the GSE's. The Credit Union is required to indicate the type of review completed to determine condominium project eligibility and include the documentation supporting the determination in the loan file.

Generally condominium projects which are warrantable per the GSEs will include one or more of the following documents:

- Condo Project Manager (CPM)
- Project Eligibility Review Service (PERS)
- Appraisal
- HOA Questionnaire
- Budget/Balance Sheet
- Other documents used to validate eligibility of the condominium project under the applicable review type completed

6.6.3 Non-Warrantable Condominium Project Eligibility

If condominium project warrantability is not determined by the Credit Union, the file submitted to the Underwriting Network must 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
- Budget/Balance Sheet - utilized to verify the financial resources of the HOA. 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

Established Projects

An established project is defined as

- Fully complete, including all units and common elements and not subject to any additional phasing or annexation
- At least 90% of the total units have been conveyed to unit purchasers
- Control of the HOA has been turned over to the HOA or unit purchasers

Established Project Requirements

- No single entity (same individual, investor group, partnership, or corporation) may own more than 10% of the units within the project. For 5-20 unit projects, they may own up to 2 units. Units are not included in these calculations if:
 - They are owned by the project sponsor or developer; and

- Vacant; and
- Being actively marketed for sale.
- If the subject property is investor owned (not a primary residence or second home), a minimum 50% of the units in the project must be owner occupied 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)
- No more than 25% of the project area can be for commercial usage

New Projects

A new project is defined as

- The project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condominium
- The project is newly converted; or
- The project is subject to additional phasing or annexation
- Fewer than 90% of the project's total units have been conveyed to the unit purchasers

New Project Requirements

- The project must be substantially complete (i.e. all the units in the subject property's phase are complete and available for occupancy)
- At least 50% of the units in the complex/ legal phase must be conveyed or under contract as owner-occupied or second homes
- No single entity (the same individual, investor group, partnership, or corporation) may own more than 10% of the units within the project. For 5-20 unit projects an investor may own up to 2 units. Units are not included in these calculations if:
 - They are owned by the project sponsor or developer; and
 - Vacant; and
 - Being actively marketed for sale.
- 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
- No more than 25% of the project area can be for commercial usage

2-to 4- Unit Project

Project Requirements

- The project must be 100% complete
- All but one unit in the project must have been conveyed or under contract for sale to a primary residence or second home purchaser.
- Investor ownership of any units is not permitted
- No one person or entity may own multiple units
- No portion of the project can include commercial usage

6.6.4 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

6.6.5 Ineligible Projects/Types

- Projects with pending lawsuits impacting safety, structural soundness, habitability or functional use
- Projects with outstanding environmental issues
- Any project or building that is owned by several owners as tenants-in-common
- Condotels
- Kiddie condos (condominiums purchased for student occupancy)
- Timeshare, fractional or incremental ownership
- Manufactured housing site condominiums
- Multi-dwelling unit condominiums
- Houseboat projects
- Condo projects that represent a legal, but non-conforming use of the land
- New projects where the seller is offering excessive sale/financing concessions

6.7 Manufactured Housing

AMGC defines a manufactured home as a factory-built, multi-sectioned home built on a permanent frame (chassis) with a removable transportation system. The manufactured home is delivered and permanently attached to a site-built foundation.

6.7.1 Property Eligibility

or mortgage insurance activation, manufactured homes must meet the following conditions:

- Manufactured homes must be a minimum of 18 feet wide or minimum 600 feet in floor area
- The land and improvements are included under one Mortgage or Deed of Trust
- The property (land & 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 manufacturer's recommendation. Anchors must be provided when required by state law.

- The manufactured home is built under the Federal Home Construction and Safety Standards established by HUD on/after June 1976. The label to confirm this is located on the exterior of the manufactured home.
- 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

Purchase Transaction

Generally, the purchase price for a new manufactured home (delivered to the site) should not exceed the state average sales price for a new manufactured home by more than 10% unless upgrades can be documented to support a higher value.

If the property is (newly built, not affixed to the foundation as of the application, the LTV will be determined by using the purchase price of the unit (as evidenced by the dealers invoice) plus the land OR the current appraised value, whichever is less;

If the property is affixed to the foundation as of the application date), the LTV will be based on the lower of:

- Purchase price of the unit (as evidenced by the dealers invoice) plus the land; or
- The current appraised value of the unit and the land

Down Payment:

- A minimum down is required as noted in [section 5.10.1](#) of this manual.
- 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. (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 the N.A.D.A., or the lowest sales price within the last 12 months.
 - **N.A.D.A.** – National Automobile Dealers Association, a resource for auto retail professionals, which includes manufactured homes. The website is <http://www.nadaguides.com>, where the value for manufactured homes can be determined for a fee.

Refinance Transaction

For a refinance of an existing unit already permanently affixed to the land, the LTV will be based on the current appraised value

Improvements

As noted above, manufactured homes should generally adhere to GSE requirements. If there is evidence of unpermitted additions/changes, the following guidance applies:

- If the additions/changes noted do not impact the living areas or marketability of the property (ex. carport, deck), verification of permits is not required
- The appraiser should offer comments regarding the observed changes
- A comment should be made identifying and approving the issue

6.8 Modular, Panel/Pre-Fab and Pre-cut Homes

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

- **Modular Housing (Modular Home)** - A home constructed in a factory assembly line, but with conventional home floor joists and delivered to the site on a trailer. Fully constructed modules are transported to the permanent site on a trailer and anchored to the foundation. Modular homes are not subject to HUD codes, but must adhere to local and regional building codes. These properties qualify using the same criteria as a single-family detached home.
- **Panel/Pre-Fab Housing (Panelized Home)** – These factory assembly-line homes constructed with walls, floors, and (often) roof in a small panel form, and 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. These properties qualify using the same criteria as a single-family detached home.
- **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. These properties qualify using the same criteria as a single-family detached home.

6.9 Planned Unit Developments (PUDs)

A Planned Unit Development (PUD) is a comprehensive development plan for a large land area. It usually includes residences, roads, schools, recreational facilities, and service areas in addition to commercial, office, and industrial areas. A subdivision having lots or areas owned in common and reserved for the use of some or all of the owners of the separately-owned lots may also be considered a PUD.

Planned unit developments may be detached, attached, townhouse or rowhouse.

In detached properties, the homeowner is deeded the land on which the improvements lie which includes landscaping.

In attached, rowhouse, semi-detached, and townhouse properties, homeowners are deeded a specific portion of land on which the improvements lie. Minimal common elements may include landscaping, sidewalks, and common walls.

Any Homeowners' Association dues or monthly maintenance fees (or the monthly equivalent of quarterly or annual fees) should be included in the monthly housing expense when calculating debt-to-income ratios.

These properties qualify using the same criteria as a single family attached or detached home.

6.10 Cooperative Housing Units

Cooperative housing (co-ops) is a form of multiple ownership of real estate in which a corporation, trust, or business entity holds title to a property and grants occupancy rights through purchase of stock representing the value of a particular apartment or unit. Title to the apartment or unit is evidenced through issuance of a Proprietary Lease.

Cooperative housing should be reviewed based on current GSE requirements. AMGC is currently approved to insure co-ops in Connecticut, District of Columbia, Illinois, Massachusetts, Maryland, New Hampshire, New Jersey, New York, and Virginia.

6.11 Leasehold Properties

A leasehold estate grants the lessee (member) the right to use and occupy real estate for a stated term and under certain conditions. This right is granted through execution of a Lease or subsequent Assignment of Lease.

Lease terms, restrictions, and additional leasehold payment expense makes these less widely accepted or marketable as fee-simple estates. To consider leasehold properties, the following conditions must apply:

- Comparable sales of leasehold estates must be readily available as an indication of marketability.
- The remaining term of the land lease must exceed the term of the insured loan.

- If the insured loan has provisions for term extensions, the land lease must have the same provisions.
- Monthly lease payments (or the monthly equivalent of quarterly or annual lease payments) must be added to the member's monthly housing expense when calculating debt-to-income ratios.

6.12 Rural Properties

Rural neighborhoods are typically less than 25% developed and exhibit slow growth. When evaluating rural property, just as with urban or suburban properties, the underwriter must ascertain that the property is readily marketable and constitutes sufficient security for the mortgage loan in the event of default.

Rural properties must demonstrate the nature of the property is primarily residential and the member does not intend to use the property for commercial purposes such as a farm, orchard, or ranch. Agricultural-type properties are not eligible for mortgage insurance.

Manufactured homes are acceptable in rural areas. The appraiser should use similar manufactured home comparables as available.

Rural Property Appraisal Review

The following are considerations in the rural property appraisal report:

- Marketing time for rural properties should be less than twelve months
- Lot size generally cannot exceed 10 acres nor should land value exceed 50% of total estimated value
- Utilities to the site should be standard for the community and support year-round use
- The appraiser should provide satisfactory explanation when all comparable sales are located > 5 miles from the subject property

6.13 Property Flipping

Properties acquired by the seller less than 180 days from the date of the purchase contract. The Credit Union should confirm that the seller on a purchase or the member on a refinance show as the owner of record. Examples of documentation:

- The appraiser's analysis and conclusions in the appraisal report
- A copy of a recorded deed or mortgage
- A recent property tax bill or tax assessment notice
- A title commitment or binder or full title report
- A property sale history report

Analysis should include review of the sales of the subject property and the sales price trend in relation to the appraiser's opinion of value to confirm they are reasonable and representative of the market. The analysis should determine:

- Any improvements and that they've been completed in a professional and workmanlike level
- If the appraiser indicates the improvements meet local codes
- If the neighborhood supports the improvements (could be over-improved); and
- That the appraiser justified the added value given for the improvements by the comparables

The following property sales/transfers are not considered property flipping:

- A Credit Union, mortgage investor, or a mortgage insurance company that acquired the property as a result of a foreclosure, or a deed in lieu of foreclosure
- A spouse who acquired the property through a divorce settlement
- An employer that acquired the property through its relocation program
- An administrator, executor, or personal representative selling property of an estate

6.14 Ineligible Properties

The following properties are ineligible for mortgage insurance coverage by AMGC:

- Single-wide manufactured homes
- Vacant Land or Lot Loans
- Condotels
- Kiddie Condos
- Time-Share or Incremental Ownership
- Pioneering designs
- Illegal use per zoning