

ARCH MORTGAGE GUARANTY COMPANY

# Credit Union Underwriting Manual

February 23, 2023



## Summary of Underwriting Manual Updates

The Arch Mortgage Guaranty Company (AMGC) Credit Union Underwriting Manual (UW Manual) has been updated to reflect the changes announced in CUA 2023-01-AMGC, as well as other miscellaneous updates and clarifications. See details of the changes below.

### [Section 3.1, Portfolio Program, LTV/Loan Amount/Credit Score/DTI Requirements](#)

- Loan limits have been updated as announced in CUA 2023-01-AMGC.

### [Section 3.1.2, Additional Underwriting Requirements for Loan Amounts Higher than \\$1,100,000](#)

- Loan amounts \$1,100,001 to \$1,500,000 require a 5% minimum member contribution (formerly \$1,000,000 to \$1,500,000).

### [Section 3.3.3, Medical and Dental Professionals Program, Additional Underwriting Requirements](#)

- The bullets outlining the minimum member contribution requirements have been reorganized for clarity.

### [Section 3.4, AMGC Community Program](#)

- The maximum loan amount has increased to \$726,200.

### [Section 3.5.1, AMGC EqualAccess Homeownership Program, LTV/Loan Amount/Credit Score/DTI Requirements](#)

- The LTV/Loan Amount/Credit Score/DTI table has been reorganized to clarify that the minimum LTV is 95.01%.
- The maximum loan amount has increased to \$726,200.
- The expanded requirements allowed for 95.01%–97% LTV transactions have been renamed expanded flexibilities.
- Clarification has been added that for a member's credit score to be considered valid, the information on the credit report must be accurate. AMGC's requirement for a minimum of 3 tradelines evaluated for a minimum of 12 months (or 2 tradelines evaluated for a minimum of 24 months) does not apply to the AMGC EqualAccess Homeownership Program.
- Clarification has been added that manufactured homes must meet all AMGC requirements. Single-wide manufactured homes continue to be ineligible for AMGC.

### [Section 3.6, Financed MI](#)

- The bullets have been updated to reflect that the gross LTV, which includes the base loan amount and the financed MI, cannot exceed 103%.

### [Section 3.7.2, Adjustable-Rate Mortgages](#)

- The maximum loan amount for ARMs with an initial fixed-rate period less than 5 years is \$1,100,000 (formerly \$1,000,000).

### [Section 3.7.3, Balloon Payment Mortgages](#)

- The maximum loan amount for a balloon payment mortgage is \$1,100,000 (formerly \$1,000,000).

### [Section 3.7.4, Temporary Buydowns](#)

- The maximum loan amount for a loan with a temporary buydown is \$1,100,000 (formerly \$1,000,000).

### [Section 3.7.6, Maximum Loan Term](#)

- Clarified that the maximum loan term for the AMGC EqualAccess Homeownership Program is 30 years

### [Section 3.7.8, Unacceptable Loan Types](#)

- ARMs with a fixed-rate period less than 6 months are ineligible.

### [Section 3.8, Closed Loans without a Previous AMGC Commitment](#)

- Updated language to clarify that this section does not apply to single-close construction-to-permanent loans with an unexpired AMGC Commitment that are modifying to the permanent financing for which interest-only payments have been made during the construction period, and for which the mortgage insurance was not activated at the initial closing.

#### [Section 4.2.2, Individual Tax Identification Number \(ITIN\)](#)

- Language related to ITINs has been updated. Loans to members who have been issued an ITIN in lieu of a Social Security number continue to be ineligible.

#### [Section 4.2.4, Non-Permanent Residents, Additional Underwriting Consideration for Non-Permanent Resident Member Borrowers](#)

- Updated our requirements to accept an unexpired visa for non-permanent residents, provided that if the visa will expire within 6 months from the Note date, documentation must be provided to support acceptable renewal status and employer sponsorship. All other requirements for non-permanent residents including a 2-year residence history, 2-year employment history and established credit in the United States continue to apply.

#### [Section 4.2.6, Non-Occupant Borrower](#)

- The maximum loan amount for a 1-unit primary residence transaction with a non-occupant member has increased to \$1,100,000 (formerly \$1,000,000).

#### [Section 5.3, Age of Documents](#)

- Updated language to clarify that appraisals older than 120 days up to 12 months require a recertification of value. Loans with appraisals older than 12 months require a new appraisal.

#### [Section 5.4.9.4, Multiple Bankruptcy Filings](#)

- Members with multiple bankruptcies are not eligible for loan amounts greater than \$1,100,000 (formerly \$1,000,000).

#### [Section 5.4.9.6, Prior AMGC Claim](#)

- A member who was a debtor on a loan for which AMGC (or one of its affiliates) paid a claim may be considered for insurance on an exception basis (formerly ineligible).

#### [Section 5.8.31, Post-Close Employment](#)

- Post-close employment is ineligible for loan amounts greater than \$1,100,000 (formerly \$1,000,000).

#### [Section 5.9.1, Minimum Member Contribution](#)

- The bullets outlining the minimum member contribution requirements have been reorganized into tables for clarity.

#### [Section 5.9.5, Reserves](#)

- 2 months' reserves are required for Portfolio Program, 1-unit, primary residence transactions with loan amounts up to \$1,100,000 (formerly \$1,000,000).
- 9 months' reserves are required for Portfolio Program, 1-unit, primary residence transactions with loan amounts \$1,100,000 to \$1,500,000 (formerly \$1,000,000 to \$1,500,000).

#### [Section 5.9.8, Source of Funds](#)

- Updated bullets to clarify that use of gifts funds for the Medical and Dental Professionals Program with loan amounts greater than \$850,000 continues to be ineligible.

#### [Section 6.7.1, Property Eligibility](#)

- Updated language to clarify that single-wide manufactured homes continue to be ineligible.

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# 1. Arch Mortgage Guaranty Company's Underwriting Policy

## 1.1 Overview

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

AMGC offers credit unions the capability to insure more of their members'<sup>1</sup> loans and expand their reach in the housing market. With a parent that represents one of the world's top insurance brands, AMGC 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.

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

AMGC utilizes the significant investment of Arch Mortgage Insurance Company in its operational and systems infrastructure — including the origination and servicing platform — to support our customers' goals.

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 laws and other state and federal requirements. **AMGC-insured loans are not saleable to Fannie Mae, Freddie Mac or the FHLB (Federal Home Loan Banks).**

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 that includes more than 4 residential units.
- Property that is not located in the 50 United States or the District of Columbia.
- Non-residential use of property, including vacant land, commercial or business activity on premises (except for incidental business use).
- Loan instruments that include potential or scheduled negative amortization.
- Property located in New York state where the loan-to-value ratio based on the appraised value (or co-op based on the purchase price) is less than 80%.
- LTVs that exceed the state maximum.

## 1.2 AMGC's Risk and Underwriting Philosophy

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

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

- Credit: The member's willingness and ability to repay obligations (credit history).
- Capacity (Income): The stability and amount of the member's income in relationship to the member's obligations.
- Capital (Assets and Equity): The member's total assets, savings history, reserves and investment into the property.

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<sup>1</sup> Any reference to "member" within this manual is equivalent to "borrower."

- Collateral (Property): The condition, marketability and value of the property.
- Economic and housing conditions present in the property's market area.
- Loan transaction: Term, amortization type, adjustable vs. fixed, documentation type, etc.

AMGC is committed to insuring quality loans that make sense for everyone involved. When underwriting a loan, the overall risk of the loan should be considered. An individual risk factor within a loan file may not necessarily create an uninsurable risk, especially when compensating factors are present. However, a layering of risk factors within the loan file without offsetting compensating factors will generally increase the likelihood of foreclosure and create an uninsurable risk.

We recognize that certain loans may fall outside AMGC's underwriting requirements but still represent an insurable risk. When this happens, the credit union may submit the loan for a loan-level exception. AMGC will review the loan carefully to identify any compensating factors that may warrant the exception.

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

### 1.3 AMGC's Credit Union Underwriting Manual

The Credit Union UW Manual reflects AMGC's underwriting philosophy and describes its general underwriting approach. The program requirements presented in the UW Manual include comprehensive information on AMGC's loan documentation requirements, loan, member and property eligibility, MI programs and products and other general underwriting topics.

All loans submitted for insurance coverage are subject to the AMGC Credit Union Underwriting Requirements in effect on the date of the MI application.

When AMGC's Credit Union UW Manual is "silent" and does not address a certain underwriting requirement topic, the credit union must follow either Fannie Mae's or Freddie Mac's published requirements (see [Fannie Mae Selling Guide](#) or the [Freddie Mac Seller/Servicer Guide](#)) for that topic that is in effect at the time the loan was presented for MI.

**AMGC is an affiliate of Arch Mortgage Insurance Company (Arch MI). It is important to note that any loan that meets the published Arch MI Credit Union Underwriting Requirements is eligible for insurance by AMGC when submitted non-delegated (full-file), provided the credit union has an AMGC Master Policy and understands AMGC-insured loans are not saleable to Fannie Mae, Freddie Mac or the Federal Home Loan Bank system. AMGC loans that meet the Arch MI published requirements are not subject to additional requirements or restrictions contained within this UW Manual (with the exception of co-op property state eligibility). Co-mingling of Arch MI and AMGC underwriting requirements is not allowed — the submitted loan must meet one or the other entirely.**

### 1.4 Regulatory Compliance

#### Fair Housing and Equal Credit Opportunity Acts

AMGC believes in fair treatment of all members in accordance with applicable law. We operate in accordance with the provisions of the Fair Housing Act as well as the Equal Credit Opportunity Act (though this law is not directly applicable to AMGC). 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.

AMGC 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 homeownership 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 Federal Trade Commission (FTC) staff and federal courts to require mortgage insurance

companies to provide “adverse action” notices to consumers in the event an application for MI 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. AMGC sends these letters to both members and co-borrowers.

## Privacy Policy

AMGC is committed to complying with applicable information, privacy and security laws. In the process of underwriting loans for MI, AMGC underwriters have access to nonpublic personal information relating to individual consumers. Each AMGC 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 MI.

## 2. Delivery, Documentation and Commitments

### 2.1 Delivery

AMGC requires all loans submitted for insurance to be underwritten by AMGC. Delegated authority is not available.

#### 2.1.1 Non-Delegated (Full-File) Submission

All credit unions must have an AMGC approved Master Policy to submit loans to AMGC for insurance. This includes loans that are outside published eligibility requirements but may be considered for a loan level exception by AMGC.

The most common way to submit a loan is by using AMGC’s **CONNECT** system to transmit data related to the application for MI, and then to submit the complete loan file package through our **CONNECT** document upload feature.

**CONNECT** 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. This system is used by credit unions to:

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

AMGC performs a complete underwrite of the entire insurance application, including all required documentation as outlined below.

After examining all documentation, AMGC will evaluate the loan to determine if the transaction represents an insurable risk to AMGC.

The credit union is responsible for ensuring that the information provided is true and accurate. The credit union is also responsible for notifying AMGC of any data changes pertaining to the loan (including, but not limited to: loan terms, credit information, income, debts, appraisal, property value or loan amount) that may occur after the initial submission to AMGC for underwriting.

#### 2.1.2 Origination Channel Definitions

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

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

## 2.2 Documentation

### 2.2.1 Documentation Requirements

Loans submitted would typically contain the following minimum documentation to be considered as a fully documented loan file:

- A completed AMGC Application for Insurance, either written or through **CONNECT**.
- 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.
- 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 (full URAR).
- Purchase contract/escrow instructions, if applicable.
- Credit union's loan approval letter.

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 for any large amounts deposited into the member's account within the past 60–90 days.
- Occupancy statements.
- Details of member's employment history.
- Third-party field review appraisal or a second full URAR, with interior and exterior inspections, is required for loan amounts > \$2,000,000.
- AMGC underwriters reserve the right to request any additional documentation needed to evaluate the insurance application.

#### Ineligible:

- Limited documentation loans.

## 2.3 Commitments

### 2.3.1 Final Commitments

#### Term

The standard commitment term is 4 months.

- A 12-month commitment term will be issued for construction-to-permanent loans.

#### Extensions

Extensions to commitments are considered on a case-by-case basis. Please contact Servicing at [servicingreinstatements@archmi.com](mailto:servicingreinstatements@archmi.com), or call 877-642-4642 (Option 3). Generally, if the mortgage loan does not close within the term of the commitment, a new application for MI will be required. All current underwriting requirements and pricing in effect at the time of the new application will apply.

#### Changes

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

### 2.3.2 Conditional Commitments

A Conditional Commitment is issued when the subject property is known, but various material information or documentation is missing and needed to decision the MI application.

Conditional Commitments are most commonly issued because of missing information or documentation relating to the collateral, sales agreement or appraisal.

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

#### Term

- The Conditional Commitment term will be 90 days regardless of the construction status of the loan.

#### Extensions

- Extensions to Conditional Commitments are not allowed. If the additional information is not provided to AMGC within the original term, a new application is required.

### 2.3.3 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. The MI application typically occurs prior to an offer to purchase a property. A file submitted for pre-qualification review should include all required credit documents. All AMGC Underwriting Requirements apply, and a Pre-Qualification Notice is generated.

#### Term

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

#### Extensions

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

### 3. Loan Programs

AMGC is an affiliate of Arch Mortgage Insurance Company (Arch MI). It is important to note that any loan that meets the published Arch MI Credit Union Underwriting Requirements is eligible for insurance by AMGC when submitted non-delegated (full-file), provided the credit union has an AMGC Master Policy and understands AMGC-insured loans are not saleable to Fannie Mae, Freddie Mac or the Federal Home Loan Bank system. AMGC loans that meet the Arch MI published requirements are not subject to additional requirements or restrictions contained within this UW Manual (with the exception of co-op property state eligibility). Co-mingling of Arch MI and AMGC underwriting requirements is not allowed — the submitted loan must meet one or the other entirely.

#### 3.1 Portfolio Program

##### 3.1.1 LTV/Loan Amount/Credit Score/DTI Requirements

Occupancy	Loan Purpose	Property Type	Maximum LTV/CLTV	Maximum Loan Amount	Minimum Credit Score	Maximum DTI
Primary Residence	Purchase and Rate/Term Refinance	1-Unit SFD/SFA, Condos, Co-ops <sup>1</sup>	97%/97%	\$1,100,000	620	50%
			95%/95%	\$1,100,001–\$1,500,000 <sup>2</sup>	660	45%
			90%/90%	\$1,500,001–\$2,000,000 <sup>2</sup>	660	45%
			85%/85%	\$2,000,001–\$2,500,000 <sup>2</sup>	660	45%
		Manufactured Homes	95%/95%	\$850,000	660	45%
		2 Units	95%/95%	\$1,500,000 <sup>2</sup>	620	50%
		3–4 Units	90%/90%	\$1,500,000 <sup>2</sup>	660	45%

Primary Residence	Cash-Out Refinance (Max \$250,000)	1-Unit SFD/SFA, Condos, Co-ops <sup>1</sup>	95%/95%	\$850,000	620	50%
				<b>\$850,001– \$1,100,000</b>	660	45%
		2 Units	90%/90%	\$850,000	620	45%
Second Home	Purchase and Rate/Term Refinance	1-Unit SFD/SFA, Condos, Co-ops <sup>1</sup>	90%/90%	<b>\$1,100,000</b>	660	50%
		Manufactured Homes	90%/90%	\$750,000	680	45%
	Cash-Out Refinance (Max \$200,000)	1-Unit SFD/SFA, Condos, Co-ops <sup>1</sup>	85%/85%	\$850,000	700	45%
Investment	Purchase and Rate/Term Refinance	1-Unit SFD/SFA, Condos, Co-ops <sup>1</sup>	90%	<b>\$1,100,000</b>	680	45%
<b>Construction-to-Permanent Loans</b>						
Primary Residence	Purchase and Rate/Term Refinance	1-Unit SFD/SFA, Detached Condos	97%/97%	\$850,000	680	45%
			95%/95%	<b>\$1,100,000</b>	620	45%
			90%/90%	<b>\$1,100,001– \$1,500,000<sup>2</sup></b>	660	45%
		Manufactured Homes	95%/95%	\$850,000	660	45%
		2 Units	95%/95%	<b>\$1,500,000<sup>2</sup></b>	680	45%
Second Home	Purchase and Rate/Term Refinance	1-Unit SFD/SFA Detached Condos	90%/90%	<b>\$1,100,000</b>	660	45%
		Manufactured Homes	90%/90%	\$750,000	680	45%

<b>Renovation Loans</b>						
<b>Primary Residence</b>	<b>Purchase and Rate/Term Refinance</b>	1-Unit SFD/SFA, Condos, Co-ops <sup>1</sup>	97%/97%	\$850,000	680	45%
			95%/95%	<b>\$1,100,000</b>	620	45%
			90%/90%	<b>\$1,100,001–\$1,500,000<sup>2</sup></b>	660	45%
		2 Units	95%/95%	<b>\$1,500,000<sup>2</sup></b>	660	45%
<b>Second Home</b>	<b>Purchase and Rate/Term Refinance</b>	1-Unit SFD/SFA, Condos, Co-ops <sup>1</sup>	90%/90%	<b>\$1,100,000</b>	660	45%

<sup>1</sup> Co-op eligibility limited to the states of CA, CT, DC, IL, MA, MD, NH, NJ, NY, VA and WA.

<sup>2</sup> See [section 3.1.2](#) for additional underwriting requirements for these loan amounts.



### 3.1.2 Additional Underwriting Requirements for Loan Amounts Higher Than \$1,100,000

The following additional underwriting requirements apply to loan amounts greater than \$1,100,000.

#### Loan Type

- Ineligible: ARMs with initial fixed-rate periods < 5 years, buydowns and balloon mortgages.

#### Documentation

- Appraisal:
  - A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required for all loans.
  - For loan amounts > \$2,000,000, a third-party field review appraisal or a second full URAR, with interior and exterior inspections, is also required.
- Income and Employment:
  - If a Verification of Employment (VOE) is used to document income, it must be accompanied with a current paystub.
- Assets:
  - If a Verification of Deposit (VOD) is used to document assets, it must be accompanied with 1 month's bank statement.
- All other AMGC documentation requirements apply.

#### Credit

- If the member has a previous housing history (mortgage or rent), the most recent 12 months' history must be documented with no late payments. If the history is shorter than 12 months, the entire history must be documented.
- Foreclosures, deeds-in-lieu of foreclosure, pre-foreclosure sales (short sales), mortgage debt discharged through bankruptcy and charged-off mortgages require 7 years' seasoning from the completion date, and satisfactory re-established credit must be verified.
- Bankruptcies require 7 years' seasoning from the discharge or dismissal date, and satisfactory re-established credit must be verified.
- 4 years' seasoning required from the completion date of credit counseling due to derogatory credit.
- Members with collections and charge-offs of non-mortgage accounts are considered on a case-by-case basis.

#### Income/Employment

- **Ineligible:**
  - Post-close employment.

#### Assets

- Minimum member contribution requirements:
  - Loan amounts \$1,100,001 to \$1,500,000 — 5%.
  - Loan amounts greater than \$1,500,000 — All funds must come from the member.
  - The use of gift funds is not eligible for loan amounts greater than \$1,500,000.
- Employer assistance programs and trade equity may not be used as a source of assets.
- Maximum interested-party contribution: 3%.

#### Property

- Maximum condominium investment property concentration: 30% (for both established and new projects).
- **Ineligible:**
  - Manufactured homes.
  - Modular, panelized and prefabricated homes.
  - Geodesic homes.
  - Group homes.

- Log homes.
- Properties with resale (deed) restrictions.

## Member

- **Ineligible:**
  - Non-occupant borrower/co-signer.

## Transaction Type

- **Ineligible:**
  - Payoff of installment land contracts.

## 3.2 Interest-Only Program

Loans with an interest-only payment option permit the member to make reduced payments based on the interest owed for an initial term of the mortgage loan. After a defined period, the loan is recast and payments are fully amortizing for the remaining term of the loan.

### 3.2.1 LTV/Loan Amount/Credit Score/DTI Requirements

Eligible Loan Types — Fixed-Rate/Fixed-Payment and ARMs ≥ 5 Years						
RateStar and Rate Card Pricing						
Occupancy	Loan Purpose	Property Types	Maximum LTV/CLTV	Maximum Loan Amount	Minimum Credit Score	Maximum DTI
Primary Residence	Purchase and Rate/Term Refinance	1-Unit SFD/SFA, Condos, Co-ops <sup>1</sup>	90%/90%	\$850,000	720	43%
			85%/85%	\$1,000,000		

<sup>1</sup> Co-op eligibility limited to the states of CA, CT, DC, IL, MA, MD, NH, NJ, NY, VA and WA.

### 3.2.2 Additional Underwriting Requirements

The following additional underwriting requirements apply to the Interest-Only Program:

- Interest-Only Payment Terms:
  - Minimum 5 years.
  - Maximum 10 years.
- Maximum 30-year loan term.
- The terms of the Note must include a fully amortizing feature (for example, after the interest-only term, the loan payments are fully amortizing over the remaining loan term).
- Interest-only loans > \$500,000 — gifts or grant funds are **ineligible**.
- Qualifying payment:
  - For a fixed-rate loan, the member is qualified with the fully amortized PITIA payment.
  - For ARM loans, the member is qualified with the fully amortized PITIA payment using the ARM qualifying interest rate (see [section 3.7.2](#) to determine the qualifying interest rate to be used in calculating the payment).
- Reserves:
  - < \$500,000: 2 months' PITIA.
  - > \$500,001 to \$850,000 = 6 months' PITIA.
  - > \$850,001 to \$1,000,000 = 12 months' PITIA.

- **Ineligible:**

- Desktop Underwriter® (DU®) and Loan Product Advisor® (LPA) documentation efficiencies.
- Second homes.
- Investment properties.
- 2–4 unit properties.
- Manufactured homes.
- Cash-out refinances.
- ARMs with an initial fixed-rate period < 5 years.
- Temporary interest-rate buydowns.
- Balloon mortgages.
- Construction-to-permanent loans.
- Renovation loans.
- Post-close employment.
- Medical and Dental Professionals Program.
- AMGC Community Program.
- AMGC EqualAccess Homeownership Program.

### 3.3 Medical and Dental Professionals Program

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

#### 3.3.1 Reduced Coverage Medical and Dental Professional Program

##### MI Pricing and Coverages Available

- RateStar® pricing, Lender-Paid MI (LPMI) Singles only.
  - Available Coverage:
    - 97.01–100% LTV — 12%.
    - 95.01–97% LTV — 8%.
    - 90.01–95% LTV — 6%.
  - MI coverage will be terminated by AMGC upon the earlier of the scheduled or actual amortization of the loan amount down to an LTV less than 90%.
    - Prior to participation in the program, the credit union must execute an acknowledgement form directing AMGC to cancel coverage at the designated LTV level. Please contact your [Account Manager](#) to obtain the form.
- This program has not been approved for credit unions with home offices in the following states: AK, HI, NY, OH and WA.

##### General Information

- When submitting a loan for MI or requesting a rate you must enter the program name: **Reduced Coverage Medical/Dental Program.**
- **No exceptions** to the following requirements are allowed.

## LTV/Loan Amount/Credit Score/DTI Requirements

Eligible Loan Types — Fixed-Rate/Fixed-Payment and ARMs							
RateStar Pricing Only							
Occupancy	Transaction Type <sup>1</sup>	Property Type	LTV	Maximum Loan Amount	Minimum Credit Score	Maximum DTI	PITIA Reserves <sup>2</sup>
Primary Residence	Purchase and Rate/Term Refinance	1-Unit SFD/SFA, Condos, Co-ops <sup>5</sup>	97.01%–100% <sup>3, 4</sup>	\$650,000	720	43%	2 Months
				\$650,001–\$850,000	740		
			90.01%–97%	\$650,000	620	45%	
				\$650,001–\$850,000	680		
90.01%–95%	\$850,001–\$1,000,000	700	45%	6 Months			

<sup>1</sup> Construction-to-perm and renovation loans are also included.

<sup>2</sup> See “Additional Reserves” below.

<sup>3</sup> Pharmacists without a Pharm.D. and chiropractors are ineligible for LTVs > 97%.

<sup>4</sup> Construction-to-permanent loans and renovation loans are ineligible for LTVs > 97%.

<sup>5</sup> Co-op eligibility limited to the states of CA, CT, DC, IL, MA, MD, NH, NJ, NY, VA and WA.

### Additional Underwriting Requirements

- The additional underwriting requirements in [section 3.3.3](#) apply.

### 3.3.2 Standard Medical and Dental Professionals Program

#### General Information

- Both RateStar and Rate Card pricing are available for this program, including:
  - Borrower-Paid MI (BPMI) and Lender-Paid MI (LPMI).
  - All coverage levels offered by AMGC.
  - All plans offered by AMGC, for example — monthly, annual, singles.
  - Available in all 50 states and the District of Columbia.
- When submitting a loan for MI or requesting a rate, you must enter the program name: **Standard Medical/Dental Program**.
- No exceptions** to the following requirements are allowed.

## LTV/Loan Amount/Credit Score/DTI Requirements

Eligible Loan Types — Fixed-Rate/Fixed-Payment and ARMs							
RateStar and Rate Card Pricing							
Occupancy	Transaction Type <sup>1</sup>	Property Type	Maximum LTV	Maximum Loan Amount	Minimum Credit Score	Maximum DTI	PITIA Reserves <sup>2</sup>
Primary Residence	Purchase and Rate/Term Refinance	1-Unit SFD/SFA, Condos, Co-ops <sup>3</sup>	97%	\$650,000	620	45%	2 Months
			90.01%–97%	\$650,001–\$850,000	680		
			80.01%–90%	\$650,001–\$850,000	620		
			95%	\$850,001–\$1,000,000	700	45%	6 Months
			90%	\$1,000,001–\$1,500,000	720	41%	9 Months

<sup>1</sup> Construction-to-perm and renovation loans are also included.

<sup>2</sup> See “Additional Reserves” below.

<sup>3</sup> Co-op eligibility limited to the states of CA, CT, DC, IL, MA, MD, NH, NJ, NY, VA and WA.

### Additional Underwriting Requirements

- The additional underwriting requirements in [section 3.3.3](#) apply.

### 3.3.3 Additional Underwriting Requirements

The following additional underwriting requirements apply to the Medical and Dental Professionals Program:

#### Eligible Professions

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

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

\*A pharmacist must have a Pharm.D. to be eligible for LTVs > 97%.

\*\*Chiropractors are ineligible for LTVs > 97%.

#### Student Loan Debt

- Student loan debt belonging to the member with the eligible profession may be excluded from the DTI calculation with documentation to evidence deferment or forbearance for at least 12 months after the MI application date. Student loan debt for all other members must be included in the DTI.

- Medical resident only: Medical residents with a minimum of 6 months' residency remaining may use the alternative documentation listed below as evidence the student loan will be in deferment for at least 12 months:
  - Letter from employer verifying the medical resident's start date, or
  - Letter from the employer verifying at least 6 months' residency remaining.

### Post-Closing Employment Start Date

Employment for the member with the eligible profession may begin up to 90 days after loan closing when:

- There is a non-contingent, fully executed (accepted) employment contract or offer letter documented in the loan file; and
- There is a verbal VOE conducted to confirm authenticity of the employment documentation prior to closing.

### Minimum Member Contribution

- 97.01%–100% LTV — No minimum contribution required.
- Loan amounts up to \$850,000 — 3% minimum member contribution
  - Gifts/grants may be used to satisfy the minimum member contribution when all the following are met:
    - Maximum \$850,000 loan amount.
    - Minimum 740 credit score.
    - Maximum 41% DTI.
    - Fixed-rate/fixed-payment or ARMs greater than 5 years only.
- Loan amounts > \$850,000 — All funds must come from member.

### Additional Reserves

- When employment begins post-closing, the following additional reserve requirement applies:
  - Reserves are required for each month after the Note date until employment begins.

### Other Requirements

- All members must have a credit score.
- Construction-to-permanent loans and renovation loans:
  - Maximum 97% LTV.
- All other AMGC underwriting requirements apply.
- **Ineligible:**
  - DU and LPA documentation efficiencies.
  - Non-occupant borrowers.
  - Subordinate financing.
  - Interest-Only Program loans.
  - AMGC Community Program loans.
  - AMGC EqualAccess Homeownership Program loans.
  - Manufactured homes.

## 3.4 AMGC Community Program

### 3.4.1 LTV/Loan Amount/Credit Score/DTI Requirements

Eligible Loan Types — Fixed-Rate/Fixed-Payment and ARMs ≥ 5 Years							
RateStar Pricing Only							
Program	Occupancy	Transaction Type	Property Type	LTV	Maximum Loan Amount	Minimum Credit Score	Maximum DTI
AMGC Community Experts	Primary Residence	Purchase	1-Unit SFD/SFA, Condos	97.01%–100%	\$726,200*	720	41%
AMGC Community Heroes				97.01%–99%			

\*\$1,089,300 for properties located in AK or HI.

### 3.4.2 Additional Underwriting Requirements

The following additional underwriting requirements apply to the AMGC Community Program:

- **Underwriting Method:**
  - All AMGC credit union underwriting requirements apply unless additional requirements are outlined herein.
  - DU or LPA recommendations are not applicable. The credit union may run the loan through either of those systems but the results will not apply.
- **Maximum Term:**
  - 30 years.
- **Pricing and MI Coverage Options:**
  - Rates are available through the RateStar pricing option only.
  - Single premium plans are not available for this program.
  - The correct program name, Community Experts or Community Heroes, must be selected in RateStar in order to receive a quote.
  - The following coverage options are available: 35%, 30%, 25%, 20% and 18%.
- **Maximum Risk In-Force:**
  - Loans insured under the AMGC Community Program will be capped at a maximum 25% of the new insurance written (NIW) annually per credit union, to be reviewed quarterly.
- **Documentation:**
  - All AMGC documentation requirements apply. DU or LPA documentation efficiencies may not be used.
- **Member:**
  - All members must occupy the property.
  - All members must have a Social Security number (SSN).
  - No other real estate may be owned by the member(s) at time of closing, including property retained for pending sale at a later date, regardless of equity in the current residence.

- **AMGC Community Experts professions:** At least one member must be currently employed full-time in one of the following eligible professions:
    - Certified Public Accountants (CPAs).
    - Chartered Financial Analysts (CFAs).
    - Ph.D.s.
    - Architects.
    - Certified Mortgage Bankers (CMBs).
    - Actuaries with the following designations:
      - Associate of the Casualty Actuarial Society (ACAS).
      - Fellow of the Casualty Actuarial Society (FCAS).
      - Associate of the Society of Actuaries (ASA).
      - Fellow of the Society of Actuaries (FSA).
      - Member of the American Academy of Actuaries (MAAA).
      - Member, Society of Pension Actuaries (MSPA).
      - Fellow, Society of Pension Actuaries (FSPA).
  - **AMGC Community Heroes:** At least one member must be currently employed either full-time or part-time in one of the following eligible professions (see exception for military personnel) or employed within one of the named organizations:
    - Any employee of one of these organizations:
      - Public or private educational institution.
      - Fire Department.
      - Federal, state or local government law enforcement agency.
      - Medical care provider, including, but not limited to:
        - Hospitals.
        - Physicians' offices and medical practices.
        - Inpatient and outpatient care centers and clinics.
        - Assisted living facilities.
        - Skilled nursing facilities.
        - Home health agencies.
    - Nurses (all designations, including a Certified Nursing Assistant [CNA]).
    - Emergency Medical Technicians (EMTs) and Paramedics.
    - Active or former military personnel will qualify when at least one documents one of the following:
      - Current income derived from active duty or military retirement; or
      - Military service with DD Form 214 — Certificate of Release or Discharge from Active Duty (dishonorable discharge is ineligible); or
      - Eligibility for a Veterans Administration (VA) mortgage with a current VA Certificate of Eligibility.
  - Employment documentation or other acceptable documentation is required verifying the member's position (see exception for military personnel). For example, the member's position/designation may be identified on the paystub or VOE. If not identified on these documents, then copies of diplomas, certifications, licenses, etc. should be obtained.
  - Employment and/or income starting post-close are ineligible.
  - Student loan debt will be included in the total monthly obligations for qualifying purposes.
- **Credit:**
    - Each member must have a valid credit score. A credit score is considered valid when a member has a minimum of 3 tradelines each evaluated a minimum of 12 months or 2 trade-lines each evaluated a minimum of 24 months. Trade-lines may be open or closed.
    - A minimum of 2 credit scores are required for each member.
      - A member with 1 score is acceptable when the credit union has requested credit scores from all 3 credit repositories and only 1 credit score is available.
    - All bankruptcies, foreclosures, deed-in-lieu of foreclosures and short sales require 7 years' seasoning.
    - No judgments or charge-off accounts within the last 7 years.



▪ **Assets/Minimum Member Contribution:**

- No minimum member contribution required. Down payment may be satisfied by a gift/grant from an eligible donor.
- Gift/Grants allowed for down payment, closing costs and reserves. If any funds are secured by a recorded mortgage, they are considered subordinate financing and are ineligible.
- Maximum 3% interested-party contributions (IPCs) are allowed toward eligible closing costs, not to exceed actual costs.
- Credit union credit allowed for MI premiums.
- IPCs, credit union credits, gifts/grants and/or employer assistance cannot exceed cash required to close (no cash back to the member).
- IPCs and credit union credits cannot satisfy the down payment requirement.
- Minimum 2 months' reserves required.

▪ **Ineligible**

- Interest-only, balloons, temporary buydowns and ARMs with less than a 5-year initial fixed-rate term.
- Subordinate financing (including Community Seconds<sup>®</sup> and Affordable Seconds<sup>®</sup>).
- Non-occupant borrowers.
- Non-permanent residents.
- Construction-to-permanent loans and renovation loans.
- Second homes or investment properties.
- 2–4 units, manufactured homes, co-ops, properties not located within the 50 states or the District of Columbia.
- AMGC EqualAccess Homeownership Program.

## 3.5 AMGC EqualAccess Homeownership Program

This affordable housing program is designed to assist low-income members to attain homeownership.

### 3.5.1 LTV/Loan Amount/Credit Score/DTI Requirements

Eligible Loan Types — Fixed-Rate/Fixed-Payment and ARMs ≥ 5 Years							
RateStar Pricing Only							
Occupancy	Loan Purpose	Property Type	Minimum LTV <sup>1</sup>	Maximum LTV <sup>1</sup> /CLTV <sup>2</sup>	Maximum Loan Amount	Minimum Credit Score	Maximum DTI
Primary Residence	Purchase and Rate/Term Refinance	1-Unit SFD/SFA, Condos, Co-ops	95.01%	97% <sup>1</sup> /105%	\$726,200	660	45%
				99%/105%			
		Manufactured Homes	95.01%	97% <sup>1</sup> /105%			

<sup>1</sup> See expanded flexibilities for 95.01%–97% LTVs below

<sup>2</sup> All subordinate financing must meet Fannie Mae's Community Seconds<sup>®</sup> or Freddie Mac's Affordable Seconds<sup>®</sup> requirements.

### 3.5.2 Additional Underwriting Requirements

The following additional underwriting requirements apply to the AMGC EqualAccess Program:

• **Maximum Volume Allotment:**

- Loans insured under the AMGC EqualAccess Homeownership Program will be limited to 10% of new insurance written (NIW) on a go-forward basis. The 10% applies to NIW under the credit union's Arch MI and AMGC

Master Policies combined. Arch MI will track this limit and notify the credit union if concerns arise that require future correction.

- **Member Eligibility:**
  - Total qualifying income for all members must be less than or equal to 100% of the Area Median Income (AMI) for the property location. For determining eligibility, credit unions must refer to [Fannie Mae's Area Median Income Look Up Tool](#) or [Freddie Mac's Home Possible® Income and Property Eligibility Tool](#).
  - All member(s) eligible income must be used to determine eligibility for the program.
  - No other real estate may be owned by the occupying member(s) at the time of closing, including property retained for pending sale at a later date, regardless of equity in the current residence. See requirements for non-occupying members below.
  
- **Homeownership education** is required when:
  - All occupying members are first-time homebuyers; or
  - All occupying members are relying on non-traditional credit.
  
- **State Restrictions:**
  - This program is not available for credit unions with home offices in the following states: AK, HI, NY and WA. (See "Pricing and MI Coverage Options" section below for coverage option restrictions in OH.)
  
- **Underwriting Method:**
  - All AMGC underwriting requirements apply unless otherwise detailed within these Additional Requirements.
  - DU or LPA recommendations are not applicable.
  
- **Documentation:**
  - All AMGC documentation requirements apply.
  - DU or LPA documentation efficiencies do not apply.
  
- **Eligible Loan Type:**
  - Fixed-rate/fixed-payment.
  - ARMs with an initial fixed-rate period  $\geq$  5 years.
  
- **Maximum Term:**
  - 30 years.
  
- **Pricing and MI Coverage Options:**
  - Rates are only available through the RateStar<sup>SM</sup> pricing option.
  - All rate plans are available, including lender-paid, member- paid, monthlies and singles.
  - The following coverage options are available:
    - 25%, 20% and 18%.
    - 12% Reduced Coverage:
      - MI coverage will be terminated by AMGC upon the earlier of the scheduled or actual amortization of the loan amount down to an LTV less than 90%.
      - Prior to participation in this coverage type, the credit union must execute an acknowledgment form directing AMGC to cancel coverage at the designated LTV level. Please contact your Account Manager AMGC to obtain the form.
      - This coverage type is not allowed for credit unions with home offices in OH.

- **Credit:**

- Valid Credit Score:

- For a member's credit score to be considered valid, the information on the credit report must be accurate. AMGC's requirement for a minimum of 3 tradelines evaluated for a minimum of 12 months (or 2 tradelines evaluated for a minimum of 24 months) does not apply to the AMGC EqualAccess Program.
- Wherever "credit score" is referred to within this document, the reference is to a "valid credit score."
- If no members on the loan have a credit score, the loan must meet non-traditional credit requirements (maximum 97% LTV). See the complete non-traditional credit requirements in the "Expanded Flexibilities for loans with 95.01%–97% LTVs" section below.

- Loan Representative Credit Score:

- For loans with only one member, the member's representative score is the loan's representative credit score.
- For loans with multiple members, when every members has a credit score, the lowest of all member representative scores is the loan's representative score.
- For loans with multiple members, when at least one member has a credit score and at least one member does not, the lowest member representative score of those members with scores is the loan's representative score. Members with no score are not considered in the determination of the loan representative score.
  - If the member without a credit score is the primary wage earner (contributes > 50% of the qualifying income), then non-traditional credit references must be documented for this member (see non-traditional credit references below). Because at least one member has a credit score, no other non-traditional credit requirements apply (including maximum 97% LTV).

- **Assets/Minimum Member Contribution:**

- Minimum Member Contribution: None required.
- Interested-Party Contributions (IPCs): Maximum 3% of the purchase price.
- Reserves: None required.

- **Expanded Flexibilities for Loan with a 95.01%-97% LTV:**

The following expanded underwriting flexibilities are allowed for loans with a 95.01%–97% LTV. Only one of these expanded flexibilities is allowed in each loan file.

- **Manufactured Home:**

- All AMGC manufactured home requirements apply up to a maximum 97% LTV (instead of 95% LTV).
- The manufactured home does not need to meet Fannie Mae's MH Advantage® or Freddie Mac's CHOICEHome® requirements.

- **Non-Occupant Member:**

- The occupying member does not need to contribute 3% from their own funds.
- The occupying member(s) must contribute income to the transaction.
- The non-occupant member must have a valid credit score.
- All other AMGC non-occupant member requirements apply.

- **Boarder Income:**

The rental payments that any member receives from one or more individuals who reside with the member (who may or may not be related to the member) may be considered as acceptable stable income in an amount up to 30% of the total gross income that is used to qualify the member for the mortgage if the boarder:

- Is not obligated on the mortgage loan and does not have an ownership interest in the property;
- Has lived with the member for the last 12 months;
- Can provide appropriate documentation to demonstrate a history of shared residency (such as a copy of a driver's license, bill or bank statement that shows the boarder's address as being the same as the member's address); and
  - Can demonstrate the payment of rental payments (such as with copies of canceled checks) to the member for the last 12 months, or
  - at least 9 of the most recent 12 months, provided the rental income is averaged over a 12-month period.

Payment of rent by the boarder directly to a third party is not acceptable.

- **Non-Traditional Credit:**

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

- **Credit References:**

- Each member on an MI application must establish an acceptable credit history through tradelines reported on the credit report or through non-traditional credit references.
- Non-traditional credit references are only acceptable when the traditional credit report does not produce a credit score. Non-traditional credit references may not be used to offset traditional tradelines with derogatory information.
- A minimum of four sources of non-traditional credit with at least 12 months' history must be provided (one housing-related, one utility and two from other sources).
- Credit references must have at least one quarterly repayment requirement.
- The credit profile must indicate:
  - No housing delinquency in the past 24 months.
  - No more than 1x30 or no more than 0x60 installment or revolving late payments in the past 12 months.
  - No collections or charge-offs (except medical).
  - No judgments (they must be satisfied).
  - No bankruptcy/foreclosure/deed-in-lieu/short sale.

- **Acceptable Sources of Non-Traditional Credit:**

- Housing-related: Credit unions must obtain at least one housing-related source for a non-traditional credit history. The credit agency must specify in the report whether verification was obtained from a professional management company or from an individual landlord.
- Utilities (when not included in the rental housing payment): Utilities include electricity, gas, water, cable and phone service.
- Other payments:
  - Payments for medical insurance coverage, automobile insurance, life insurance policies and rental insurance payments. Payroll deductions for these items are excluded from use as an acceptable tradeline.
  - Payments to local department, furniture, appliance or specialty stores; rental payments related to durable goods (including automobiles); medical; school tuition; child care; loans obtained by an individual (if there is written agreement and the member can provide copies of canceled checks to indicate payments are consistent with the terms of the agreement); and authorized

user accounts (if there is written documentation to support the borrower has been solely responsible for payments during the most recent 12 months).

- **Documentation Requirements:**

Acceptable documentation for all credit references include:

- 12 months of consecutive account statements.
- A current account statement with 12 months of canceled checks and/or paid receipts.
- Credit Union direct written verification, which must include all the information required on a non-traditional credit report and a current statement provided by the creditor; or
  - A non-traditional credit report.
  - The consumer reporting agency should provide the credit union all documentation received for each credit reference listed on the credit report.

- **Ineligible:**

- Second homes and investment properties.
- 2–4 unit properties.
- Single-wide manufactured homes.
- Cash-out refinance.
- Construction-to-permanent and renovation loans.
- ARMs with an initial fixed-rate period of < 5 years, temporary buydowns, balloon mortgages and interest-only loans.
- Sweat equity and cash on hand.

### 3.6 Financed MI

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

- The base LTV (before financed MI) cannot exceed the applicable maximum LTV for the transaction.
- The gross LTV, which includes the base loan amount and the financed MI, cannot exceed 103%.
- The base loan amount (before financed MI) cannot exceed the applicable maximum loan amount for the transaction.

## 3.7 Loan Types

### 3.7.1 Fixed-Rate/Fixed-Payment Mortgages

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

### 3.7.2 Adjustable-Rate Mortgages (ARMs)

ARMs provide for a variable interest rate that is tied to an index and adjusts at specified periods of time and in an amount 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 (for example, the Fully Indexed Accrual Rate/FIAR).

The following is a description of features and requirements for ARM loans.

- **ARM Index:** The ARM index must be beyond the control of the credit union, easily verifiable by the member and published on a regular basis.
- **Maximum Loan Amount:** \$1,100,000 for ARMs with an initial fixed-rate period less than 5 years.
- **Qualifying Rate:**
  - ARM with an initial fixed-rate period of less than 5 years: Note Rate plus 2%.
  - ARM with an initial fixed-rate period 5 years or greater: Note Rate.
- **Maximum ARM Interest-Rate Caps:**  
An ARM cap is defined as the amount the interest rate may change in a specified period of time.
  - Initial Cap:
    - Maximum 1% for an ARM with initial fixed-rate period < 1 year.
    - Maximum 2% for an ARM with initial fixed-rate period from 1 year to < 3 years.
    - Maximum 3% for an ARM with initial fixed-rate period from 3 years to < 5 years.
    - Maximum 6% for an ARM with initial fixed-rate period 5 years or greater.
  - Periodic Cap:
    - Maximum 1% when the time period is < 1 year.
    - Maximum 2% when the time period is from 1 year to < 3 years.
    - Maximum 3% when the time period is from 3 years to < 5 years.
    - Maximum 6% when the time period is for 5 years or greater.
  - Lifetime Cap: Maximum 6%.
- **Interest-Rate Adjustment Periods:**
  - The minimum initial fixed-rate period or any subsequent interest-rate adjustment period is 6 months. There are no maximum interest-rate adjustment periods.
- **Maximum Basis Point Spread:** 300 basis points.
  - The maximum basis point spread is the difference between the initial interest rate and the Fully Indexed Accrual Rate (FIAR). The FIAR is the index value plus maximum margin applied during the life of the loan.

### 3.7.3 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 a lump sum at the end of the term.

- The minimum term for the balloon payment due date is 5 years.
- Fixed-rate/fixed-payment loans only.
- Maximum loan amount: \$1,100,000.

### 3.7.4 Temporary Buydowns

Loans with temporary buydowns feature money advanced to the credit union (often by the builder or seller or via premium pricing) to reduce the monthly payment for the initial years of the loan with a temporary interest-rate discount. The buydown plan must be documented by a written agreement between the member and the entity providing the buydown funds. In the evaluation of a loan application using buydown funds, the use of member funds derived from savings will be viewed more favorably than builder- or seller-funded buydowns, which may have a greater impact on property value.

Temporary buydowns are acceptable with the following requirements:

- Maximum loan amount \$1,100,000.
- **Eligible Loan Types:**
  - Fixed-Rate Mortgages.
  - Adjustable-Rate Mortgages (ARMs) with initial fixed-rate terms of 5 years or greater.
- Primary residence only.
- The maximum buydown term is 3 years.
- The maximum rate reduction is 3%.
- The rate increase must not exceed 1% annually.
- **Qualifying Rate:** Mortgage loans subject to temporary interest-rate buydowns must be qualified without consideration of the bought-down rate, based on the loan type as specified below:
  - Fixed-Rate Loans: Note rate.
  - ARM with an initial fixed-rate period of 5 years or greater: Note rate.
- **Ineligible:**
  - Cash-out refinances.
  - Second home properties.
  - Investment properties.
  - LTV > 95% LTV.
  - Loan amounts greater than \$1,100,000.
  - ARMs with initial fixed-rate periods less than 5 years.

### 3.7.5 Biweekly Mortgages

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

- The term used should be the term as defined in the Note and/or Rider incorporating the biweekly payment.
- The monthly P&I payment used to calculate the DTI should be the biweekly P&I converted to a monthly P&I (Monthly P&I = Biweekly P&I x 26/12).

### 3.7.6 Maximum Loan Term

- Interest-only Program: 30 years.
- AMGC Community Program: 30 years.
- AMGC EqualAccess Homeownership Program: 30 years.
- All other Programs:
  - Fixed-rate/fixed-payment and ARM with initial fixed-rate period 5 years or longer: 40 years.
  - ARM with initial fixed-rate period less than 5 years, temporary interest-rate buydowns and balloon mortgages: 30 years.

### 3.7.7 Minimum Loan-to-Value (LTV) Ratio

- LTV ratios less than or equal to 80% are ineligible for Borrower-Paid Mortgage Insurance (BPMI).

### 3.7.8 Unacceptable Loan Types

AMGC does not insure the following loan products:

- ARMs with a fixed-rate period less than 6 months.
- Bridge (swing) loans.
- Graduated Payment Mortgage (GPM)/ Growing Equity Mortgage (GEM).
- Option Payment Mortgage.
- Negative Amortization Loans (Potential or Scheduled).
- Loans that allow payment abatements (with the exception of up to 12 months' homeowners association [HOA] fees).
- Loans with a prepayment penalty feature.
- Temporary construction-only loans.

## 3.8 Closed Loans without a Previous AMGC Commitment

Closed loans that did not previously have an AMGC Commitment issued are eligible for insurance with AMGC if no payments have been made and the first payment is not 30 days past due. The Age of Documentation requirements in [section 5.3](#) must be met.

Closed loans that did not previously have an AMGC Commitment issued and where at least one mortgage payment has been made are considered on a case-by-case basis. Please contact Servicing at [servicingreinstatements@archmi.com](mailto:servicingreinstatements@archmi.com), or call 877-642-4642 (Option 3).

For loans that have an expired AMGC Commitment and a payment has been made, [see section 2.3.1, Extensions](#).

This section does not apply to single-closing construction-to-permanent loans with an unexpired Arch MI Commitment that are modifying to the permanent financing for which interest-only payments have been made during the construction period **and** for which the mortgage insurance was not activated at the initial closing.



## 4. Eligibility

### 4.1 Overview

Loans insured through AMGC are not eligible for sale to Fannie Mae, Freddie Mac or the FHLBs (GSEs).

While AMGC loans are not saleable to the GSEs, AMGC recognizes that both Fannie Mae and Freddie Mac determine many underwriting (credit file and property/appraisal evaluation) standards in the domestic mortgage industry. As a result, AMGC may elect to align our underwriting requirements with these entities to avoid repetitive sections within this UW Manual.

When AMGC's credit union UW manual is "silent" and does not address a certain underwriting requirement topic, the credit union must follow either Fannie Mae's or Freddie Mac's published requirements (see the [Fannie Mae Selling Guide](#) or the [Freddie Mac Seller/Servicer Guide](#)) for that topic that are in effect at the time the loan was presented for MI.

**AMGC is an affiliate of Arch Mortgage Insurance Company (Arch MI). It is important to note that any loan that meets the published Arch MI Credit Union Underwriting Requirements is eligible for insurance by AMGC when submitted non-delegated (full-file), provided the credit union has an AMGC Master Policy and understands AMGC-insured loans are not saleable to Fannie Mae, Freddie Mac or the Federal Home Loan Bank system. AMGC loans that meet the Arch MI published requirements are not subject to additional requirements or restrictions contained within this UW Manual (with the exception of co-op property state eligibility). Co-mingling of Arch MI and AMGC underwriting requirements are not allowed — the submitted loan must meet one or the other entirely.**

### 4.2 Member

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

- Non-residents: Non-U.S. citizens who do not 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.

#### 4.2.1 Social Security Number

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

#### 4.2.2 Individual Tax Identification Number (ITIN)

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

#### 4.2.3 Permanent Residents

Permanent Residents are eligible for MI.

A permanent resident has the right to live and work permanently in the United States. Evidence of occupancy status for a permanent resident 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) 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.

- Unexpired 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."

#### 4.2.4 Non-Permanent Residents

Non-permanent residents are non-U.S. citizens who are permitted to reside in the United States on a temporary basis and may have been granted authorization to work in the United States 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 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 Members

The following items should be given when underwriting loans to non-permanent resident 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 residents 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 United States
  - Funds for down payment, closing costs and reserves should be verified on deposit in a U.S. financial institution for at least 6 months.
  - Unexpired visa status, provided that if the visa will expire within 6 months from the Note date, documentation must be provided to support acceptable renewal status and employer sponsorship.
  - Heavy emphasis will be placed on employment history and its likelihood of continuation.

#### 4.2.5 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:

- The beneficiary of the trust (member) is a natural person.
- Income, assets, credit and debts 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 the 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).

#### 4.2.6 Non-Occupant Borrowers

- Non-occupant borrower must be an immediate family member and not a party to the transaction (for example, builder/developer, seller, Realtor®, escrow agent, etc.).
- Non-occupant borrower must add strength to the transaction by contributing stability, good credit standing and a savings history.
- Non-occupant borrowers are allowed for 1–2 unit primary residences only.
- Maximum Loan Amount:
  - 1-unit primary residence: \$1,100,000.
  - 2-unit primary residence: \$750,000.
- For non-occupant borrower transactions, the loan is qualified using the income, liabilities and assets of all borrowers. However, the occupant member must:

- Contribute a minimum of 3% from their own funds; and
- Contribute qualifying income to the transaction.
  - In other words, the non-occupant borrower cannot be the sole source of creditworthiness on the transaction. If that is the case, the loan may not be considered a primary residence.
- **Ineligible:**
  - Manufactured homes.
  - 3–4 unit properties.
  - Second homes.
  - Cash-out refinance.

### 4.2.7 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-borrowing spouse. A non-borrowing 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-borrowing spouse cannot be considered in qualifying the loan (with the exception of properties located in Wisconsin where state law must be followed).

In determining whether the non-borrowing 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 Primary Residence

A primary residence is defined as a 1–4 unit property that is the member's main residence.

AMGC will consider a 1–4 unit property to be the member's primary residence, provided:

- The member occupies for at least 6 months during the year. AMGC may require explanation and/or verification of intent to occupy.
- The property will be physically occupied by the member(s) within 60 days of closing or completion.
- A 2–4 unit property may be considered a primary residence when at least one of the units is occupied by the member.
- 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 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. This is subject to:
  - 1-unit property.
  - Maximum 95% LTV to maximum \$850,000 loan amount.
  - Credit unions must document the file to support the circumstances of owner/occupant status (for example, 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 is occupied by the member for some portion of the year in addition to his or her primary residence. Second homes are subject to the following:

- If the property is not located in a resort area, the member must give a satisfactory explanation for the use of the property as a second home.
- The property must be suitable for year-round occupancy.
- A second home should not be in the same vicinity as the member's primary residence.
- Agreements that require the property to be rented are prohibited.
- Rental income from the subject property may not be used to qualify.

- The member may not use a management firm to control the occupancy of the property.
- **Ineligible:**
  - 2–4 unit properties.

### 4.3.3 Investment Property

Investment properties are generally purchased for the purpose of profit, either from rental income or resale and are not occupied by the member. Investment properties are subject to the following:

- Kiddie condos must be considered investment properties for eligibility and pricing purposes. A “kiddie condo” is any property type purchased to provide housing for a family member to occupy while attending college, trade or technical school. Typically, the parent(s) are the buyers/owners and non-occupants and the child is the occupant (non-owner). If the child who will occupy the property is a borrower on the loan, the loan may qualify as a primary residence non-occupant borrower transaction.
- **Ineligible:**
  - Manufactured homes.
  - 2–4 unit properties.
  - Gifts/grants; all funds must come from the member’s own funds.

### 4.3.4 Conversion of Primary Residence Policy

AMGC will require the following when a member is purchasing a new home that requires insurance and has an existing primary residence that is:

#### **Pending Sale**

If the member’s current primary residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction and the member is purchasing a new primary residence, the current PITIA and the proposed PITIA must be used in qualifying the member for the new mortgage loan, unless the following documentation is provided:

- The executed sales contract for the current residence, and
- Confirmation that any financing contingencies have been cleared.

#### **Converting to a Second Home**

The PITIA of the second home must be counted as part of the member’s recurring monthly debt obligations.

#### **Converting to an Investment Property**

If the current primary residence is being converted to an investment property, the member must qualify in accordance with AMGC’s rental income requirements or the entire payment (PITIA) must be included in the recurring monthly debt obligations.

## 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 (for example, 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 transaction 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 a maximum of 3 loans per member as follows.

- 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

For a purchase transaction, the proceeds may be used for the following:

- Finance the purchase of a property.
- Finance the acquisition and rehabilitation of the subject property.
- A single-close construction-to-permanent loan when the member purchases the lot as part of the loan closing.
- Builder-owned properties that are sold to members prior to or during construction are not considered construction-to-permanent loans. They are considered purchase transaction.
- Payoff of an installment land contract that was executed within the 12 months preceding the date of the loan application.
- Convert a lease option to purchase into permanent financing. The member cannot receive cash from the new loan.
- For purchase transactions of properties located in the state of New York the following requirements apply:
  - For all properties except cooperatives (co-ops):
    - If the LTV based on the appraised value only is less than 80%, then MI may not be placed on the loan.
    - If the LTV based on the appraised value only is greater than or equal to 80%, then MI may be placed on the loan. The LTV for MI eligibility is calculated using the lesser of the purchase price or appraised value.
  - For co-ops:
    - If the LTV based on the purchase price only is less than 80%, then MI may not be placed on the loan.
    - If the LTV based on the purchase price only is greater than or equal to 80%, then MI may be placed on the loan. The LTV for MI eligibility is calculated using the lesser of the purchase price or appraised value.

### 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 property may not be currently listed for sale.

The proceeds may be used for the following:

- Payoff of the existing first lien, including the related closing costs and prepaid items.
- Payoff of a subordinate lien (including prepayment penalty) seasoned < 12 months provided it was used entirely for 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 of 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.
- Payoff of an unseasoned, non-purchase money subordinate lien documented to be used entirely for home improvements. The applicable requirements for renovation rate/term refinance loan in [section 3.1.1](#) must be met.
  - All improvement costs must be documented.
  - The appraisal must confirm that the improvements documented by the member have been completed.
- Cash back to the member may not exceed the lesser of 2% of the loan amount or \$2,000.

#### Other rate/term refinance transactions:

- A single-close construction-to-permanent loan when the member owns the lot prior to the loan closing.
- Payoff of an interim construction loan of a two-closing construction-to-permanent transaction.
- Payoff of an installment land contract that was executed more than 12 months prior to the date of the loan application.
- Refinance to buy out an owner's interest.
  - A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.
  - All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.
  - Members who acquire sole ownership of the property may not receive any of the proceeds from the refinancing. The party buying out the other party's interest must be able to qualify for the mortgage pursuant to AMGC's underwriting requirements.

#### 4.6.2.2 Cash-Out Refinance

A cash-out refinance transaction is defined as repayment of a debt from the proceeds of 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, and greater than 2% of the loan proceeds will be distributed to the member.
- Payoff obligations not secured by the subject property (for example, 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.

#### Maximum Cash Out:

- 1–2 unit primary residences: \$250,000.
- Second homes: \$200,000.

#### Ineligible:

- Interest-Only Program.
- Medical Dental Professionals Program.
- AMGC Community Program.
- AMGC EqualAccess Homeownership Program.
- ARMs with an initial fixed-rate period less than 5 years.
- 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.
- Construction-to-permanent loans.
- Renovation loans.
- Payoff of an installment land contract.
- Manufactured homes.
- Investment properties.
- 3–4 unit properties.
- New subordinate financing.

#### 4.6.3 Renovation 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 documented cost for improvements and allowable construction-related costs.
- In a refinance transaction, all funds are used to satisfy the outstanding lien(s), pay closing costs and complete improvements. Cash back to the member may not exceed the lesser of 2% of the loan amount or \$2,000. 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 contractor (must be a licensed contractor when the State or locality requires it). The member may not act as general contractor unless that is his or her full-time occupation.
- 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.
  - Escrow for up to 6 months’ PITIA may be included for a 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.

### Insurance Activation

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

### Ineligible:

- Interest-Only Program.
- AMGC Community Program.
- AMGC EqualAccess Homeownership Program.
- Manufactured homes.
- 3–4 unit properties.
- Investment properties.
- Cash-out refinances.

### 4.6.4 Construction-to-Permanent Financing

Financing obtained for the construction and permanent financing of a home. This can occur as a “one-time” transaction in which the construction loan financing converts to the permanent financing. Or, it can be a “two-time” transaction in which there are two separate and distinct loans; one to finance the construction of the property that is subsequently paid off with new permanent financing. Each loan has its own Note and recorded mortgage.

Builder-owned properties that are sold to members prior to or during construction are not considered construction-to-permanent loans. They are considered a purchase transaction.

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

- **Purchase Transaction:** The loan is considered a purchase transaction when the purchase of the lot occurs simultaneously with the closing of construction financing.
- **Refinance Transaction:** The member owns the lot prior to the closing of construction financing.

**Two-Time Close Construction Financing** — Construction-to-permanent financing involving an initial construction loan that 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.

- 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.

### Insurance Activation

- Single-closing transactions:
  - The credit union may choose to activate at the initial closing or upon modification/conversion to the permanent loan. Once activated, premiums will become due and payable.
- Two-closing transactions:
  - Insurance is not allowed for the interim construction-only loan.
- Mortgage insurance coverage is ineligible if the member had any delinquencies (greater than 30 days) during the construction phase (unless the insurance had already been activated).

### Loan-to-Value (LTV) 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.
- 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 “as completed” appraisal value.
- If the property is a manufactured home, see [section 6.7](#) for additional LTV calculation requirements.

Cost of Improvements is defined as the documented costs to build the home including the costs to obtain the construction and/or the permanent financing.

- 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.
- For purchase transactions, 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 are considered cash-out and not permitted.

### Commitment Term

The Commitment will be issued for a period of 12 months.

Reinstatement/Extension after a Commitment expires is not permitted. A new MI application with current member information will be required and will be subject to current published program requirements and rates at the time of the new application.

### Documentation

#### Age of Documents:

See [section 5.3](#) for the age of documentation requirements for construction-to-permanent loans.

#### Additional Documentation for Construction-to-Permanent Financing:

- For a purchase transaction, the contract between the builder and the member showing materials and construction costs, time to complete and draw schedule.
- A proposed dwelling survey (plot plan).
- 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.



- A final inspection must be provided by the appraiser and maintained in the credit union's final loan file to indicate construction is complete.

**Ineligible:**

- Interest-Only Program.
- AMGC Community Program.
- AMGC EqualAccess Homeownership Program.
- 3–4 unit properties.
- Investment properties.
- Cash-out refinances.
- Cooperative housing.
- Attached condominiums.

### 4.6.5 Relocation Loans

A purchase transaction where an employer is relocating an employee and assists in the financing of and/or the relocation to their new property.

**Requirements**

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

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

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

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

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

### 4.6.6 Payoff of an Installment Land Contract/Contract of Sale

- When the proceeds of a mortgage loan are used to pay off the outstanding balance on an installment land contract (also known as contract or bond for deed) that was executed within the 12 months preceding the date of the loan application, the loan will be considered a purchase transaction.
  - The LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the lesser of the total acquisition cost (defined as the purchase price indicated in the land contract, plus any costs the purchaser incurs for rehabilitation, renovation or energy improvements) or the appraised value of the property at the time the new mortgage loan is closed.
  - The expenditures included in the total acquisition cost must be fully documented by the member.
- When the installment land contract was executed more than 12 months before the date of the loan application, the loan will be considered a rate/term refinance.
  - In this case, the LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the appraised value of the property at the time the new mortgage loan is closed.
- Cash-out refinance transactions involving installment land contracts are not eligible.

## 4.6.7 Subordinate Financing/CLTV

Subordinate financing is generally permitted provided the combined loan-to-value (CLTV) does not exceed the program maximum as outlined within this UW Manual.

CLTV is used as the equivalent of all other acronyms (HCLTV, TLTV, etc.) used to describe the ratio of the combined loan amounts for the first-lien and subordinate lien(s) secured by the subject property, whether drawn or not, to the lesser of the sales price or appraised value. The MI 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 subordinate financing must be 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.
- With the exception of Home Equity Line of Credits (HELOC), when the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate lien mortgage. (For HELOCs, the monthly payment does not have to remain constant.)
- If the subordinate financing is a HELOC, the following criteria apply:
  - Terms of the equity line of credit are disclosed in the mortgage insurance application package.
  - The CLTV 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.
- If the subordinate financing calls for a balloon payment, the term of the second lien cannot be less than five years.
- The subordinate financing mortgage must be recorded and subordinate to the insured first lien.

### Ineligible:

- Cash-out refinances.
- Medical and Dental Professionals Program.
- AMGC Community Program.

## 5. Underwriting

### 5.1 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 Credit Union UW Manual is "silent" and does not address a certain underwriting requirement topic, the credit union must follow either Fannie Mae's or Freddie Mac's published requirements (see the [Fannie Mae Selling Guide](#) or the [Freddie Mac Seller/Servicer Guide](#)) for that topic that are in effect at the time the loan was presented for MI.

**AMGC is an affiliate of Arch Mortgage Insurance Company (Arch MI). It is important to note that any loan that meets the published Arch MI Credit Union Underwriting Requirements is eligible for insurance by AMGC when submitted non-delegated (full-file), provided the credit union has an AMGC Master Policy and understands AMGC-insured loans are not saleable to Fannie Mae, Freddie Mac or the Federal Home Loan Bank system. AMGC loans which meet the Arch MI published requirements are not subject to additional requirements or restrictions contained within this UW Manual (with the exception of co-op property state eligibility). Co-mingling of Arch MI and AMGC underwriting requirements are not allowed — the submitted loan must meet one or the other entirely.**

### Desktop Underwriter (DU) and Loan Product Advisor (LPA) Recommendations

DU or LPA recommendations (for example, Approve/Eligible or Accept/Eligible) are not used to determine MI eligibility when underwriting to AMGC underwriting requirements. All loans must meet the requirements within this UW Manual.

However, loans which meet the published Arch MI underwriting requirements that are submitted under the credit union's AMGC Master Policy (as previously mentioned within this UW Manual) may use the DU or LPA recommendations as detailed in the Arch MI Underwriting Manual. The AMGC requirements would not apply in that case.

## 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 (Fannie Mae Form 1003/Freddie Mac Form 65). The loan application must contain sufficient information for the underwriter to reach an informed decision about whether to approve the loan for MI. Additionally, a Uniform Underwriting and Transmittal Summary (Fannie Mae Form 1008/Freddie Mac Form 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. 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.

## 5.3 Age of Documents

### Appraisal

- At the time of submission to AMGC for underwriting, the appraisal must be dated within 120 days; otherwise a recertification of value is required to also be provided to AMGC. However, if the property is appraised "subject to completion," the credit union will be responsible to obtain the recertification of value prior to the Note date and the document must be retained in the loan file.
- The appraisal must be dated within 120 days of the Note date. Appraisals older than 120 days up to 12 months require a recertification of value.
  - The recertification of value must be no more than 120 days old on the Note date.
  - If the recertification of value indicates a decline in value, a new, full URAR with interior/exterior inspection is required.
- The appraisal cannot be more than 12 months old on the Note date. Recertification of value is not acceptable for appraisals older than 12 months; a new, full URAR with interior/exterior inspection is required.

### Credit Documents

Credit documents include credit reports and employment, income and asset documentation. For all mortgage loans (existing and new construction), the credit documents must be no more than 120-days old on the Note date.

When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than 120 days old on the Note date.

If the credit documents are older than allowed, the credit union must update them.

### Single-Close Construction-to-Permanent Loans

For this transaction type there is only one Note date, therefore, the conversion/modification date is not applicable to the age of documentation.

If the credit union updates documentation (even if not required) prior to the MI activation, and information has materially changed, the credit union must report the new information to AMGC.

### Properties Located in a FEMA-Declared Disaster Area

When the subject property is located in a FEMA-declared disaster area, all age of documentation requirements listed as "no more than 120 days old on the Note date" will be expanded to "no more than 180 days old on the Note date."

## 5.4 Credit Documentation and Evaluation

### 5.4.1 Credit Report

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.

Foreign credit reports are ineligible for AMGC.

### 5.4.2 Valid Credit Score

All members must have a valid credit score (see definition below). The following are ineligible for insurance:

- Non-traditional credit — loan files for which no member has a valid credit score.
- Loan files where at least one member has a valid credit score and at least one member does not have a 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 1 tradeline, AMGC does not consider the credit score valid unless each member has a minimum of 3 tradelines each evaluated a minimum 12 months or 2 tradelines each evaluated a minimum 24 months. Tradelines may be open or closed.

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

### 5.4.3 Member Representative Credit Score

- A minimum of 2 credit scores per member are required.
  - A member with 1 credit score is acceptable when the credit union has requested credit scores from all 3 credit repositories and only 1 credit score is available.
- For a member with 2 credit scores, use the lowest score.
- For a member with 3 credit scores, use the middle score
- When 3 scores are obtained for a member and 2 are identical, one of the identical scores is considered the middle score.

### 5.4.4 Loan Representative Credit Score

- For loans with only one member, the member's representative score is the loan's representative credit score.
- For loans with multiple members, the lowest of all member representative scores is the loan's representative score.

### 5.4.5 Credit Bureau Alerts

All 3 credit reporting bureaus offer fraud detection that alerts creditors to possible inconsistencies in data between the loan application and the credit report. These inconsistencies can identify issues with the member's surname, current residence, invalid addresses or telephone numbers, employment and Social Security number (SSN). 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 tax transcripts, SSA, SSN trace report).

### 5.4.6 Accuracy of Credit Report

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

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

### 5.4.7 Credit Evaluation

The member's credit history must be carefully evaluated to determine the member's credit reputation (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. While credit scores are an industry standard for evaluating mortgage eligibility, AMGC will also evaluate the overall credit history of members as part of our risk analysis.

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 2 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.

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. This is especially true when reviewing a cash-out refinance transaction.

## 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 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 and 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 member 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 member 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 member can provide written documentation (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.

## 5.4.8 Slow Payment and Derogatory Credit Issues

If derogatory credit appears on the credit report or through direct verification of credit, the underwriter must determine whether 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.

### 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 MI approval.

## Past Due Accounts

Accounts that are reported as past due (not reported as collection or charged off accounts) must be brought current.

## Collections and Charge-Offs of Non-Mortgage Accounts

Collections and charge-offs of non-mortgage accounts 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. Collection accounts and charge-offs on non-mortgage accounts that exceed these limits do not have to be paid off at or prior to closing, provided the member demonstrates a strong credit profile, and has reserves exceeding the minimum requirements.

See [section 3.1.2](#) for additional restrictions for loan amounts higher than \$1,100,000.

## Credit Counseling Due to Derogatory Credit

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

See [section 3.1.2](#) for additional restrictions for loan amounts higher than \$1,100,000.

## Judgments, Lawsuits, Litigation 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 MI approval.

## Garnishments

All garnishments with more than 10 months remaining must be included in the member's recurring monthly debt obligations for qualifying purposes.

## 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.

When a member has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the credit union may include the monthly payment amount as part of the member's monthly debt obligations (in lieu of requiring payment in full) if:

- There is no indication that a Notice of Federal Tax Lien has been filed against the member in the county in which the subject property is located.
- The credit union obtains the following documentation:
  - An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
  - Evidence the member is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.

## 5.4.9 Significant Derogatory Credit Events — Waiting Periods and Re-Established Credit

The presence of significant derogatory credit events dramatically increases the likelihood of a future default. Examples of significant derogatory credit events include bankruptcies, foreclosures, deeds-in-lieu of foreclosure, pre-foreclosure sales, short sales and charge-offs of mortgage accounts.

The credit union must determine the cause and significance of the derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information and confirm that the member has re-established an acceptable credit history.

This section describes the amount of time that must elapse (the “waiting period”) after a significant derogatory credit event before the loan is eligible for insurance. The waiting periods are different for significant derogatory credit when the event is caused by extenuating circumstances vs. financial mismanagement. The waiting period commences on the completion, discharge or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date.

This section also details the requirements for re-establishing credit.

See [section 3.1.2](#) for additional restrictions for loan amounts higher than \$1,100,000.

### 5.4.9.1 Summary of Significant Derogatory Credit Waiting Periods

The following table summarizes the waiting period requirements for all significant derogatory credit events. See [section 3.1.2](#) for additional restrictions for loan amounts higher than \$1,100,000.

Derogatory Event	Waiting Period Requirements	Waiting Period with Documented Extenuating Circumstances
Bankruptcy — Chapter 7 or 11	4 Years	2 Years
Bankruptcy — Chapter 12	<ul style="list-style-type: none"> <li>• 2 Years from Discharge Date.</li> <li>• 4 Years from Dismissal Date.</li> </ul>	<ul style="list-style-type: none"> <li>• 2 Years from Discharge Date.</li> <li>• 2 Years from Dismissal Date.</li> </ul>
Bankruptcy — Chapter 13	<ul style="list-style-type: none"> <li>• 2 Years from Discharge Date.</li> <li>• 4 Years from Dismissal Date.</li> </ul>	<ul style="list-style-type: none"> <li>• 2 Years from Discharge Date.</li> <li>• 2 Years from Dismissal Date.</li> </ul>
Multiple Bankruptcy Filings	5 Years	3 Years from the Most Recent Discharge or Dismissal Date.
Foreclosure	7 Years	3 Years, However, the Following Additional Requirements Apply from 3 Years up to 7 Years: <ul style="list-style-type: none"> <li>• 90% Maximum LTV Ratio.</li> <li>• Purchase, Primary Residence or Rate/Term Refinance, All Occupancy Types.</li> </ul>
Deed-in-Lieu / Short Sale / Mortgage Charge-Off	4 Years	2 Years

### 5.4.9.2 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 MI.

If no letter of explanation or supporting documentation is provided, it will be assumed that the event was caused by financial mismanagement, and the longer waiting periods will apply.

### 5.4.9.3 Bankruptcy

To be considered for MI approval, the waiting period requirements detailed below must be met. The member must also re-establish good credit, demonstrating the ability to manage financial affairs. The credit report should not reflect any serious derogatory credit since the date of discharge/dismissal (for example, 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).

See [section 3.1.2](#) for additional restrictions for loan amounts higher than \$1,100,000.

### Chapter 7 or Chapter 11:

A 4-year waiting period is required, measured from the discharge or dismissal date of the bankruptcy action.

#### Exceptions for Extenuating Circumstances

A 2-year waiting period is permitted if extenuating circumstances can be documented and is measured from the discharge or dismissal date of the bankruptcy action.

### Chapter 12 and Chapter 13:

A distinction is made between Chapter 12 and Chapter 13 bankruptcies that were discharged and those that were dismissed. The waiting period required for Chapter 12 and Chapter 13 bankruptcy actions is measured as follows:

- 2 years from the discharge date, or
- 4 years from the dismissal date.

The shorter waiting period based on the discharge date recognizes that members have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 12 or Chapter 13 plan and subsequent discharge. A member who was unable to complete the Chapter 12 or Chapter 13 plan and received a dismissal will be held to a 4-year waiting period.

#### Exceptions for Extenuating Circumstances

A 2-year waiting period is permitted after a Chapter 12 or Chapter 13 dismissal if extenuating circumstances can be documented.

#### 5.4.9.4 Multiple Bankruptcy Filings

For a member with more than one bankruptcy filing within the past 7 years, a 5-year waiting period is required, measured from the most recent dismissal or discharge date.

**Note:** The presence of multiple bankruptcies in the member's credit history is evidence of significant derogatory credit and increases the likelihood of future default. Two or more members with individual bankruptcies are not cumulative, and do not constitute multiple bankruptcies. For example, if the member has one bankruptcy and the co-borrower has one bankruptcy this is not considered a multiple bankruptcy.

Members with multiple bankruptcies are not eligible for loan amounts > \$1,100,000 or Interest-Only Program loans.

#### Exceptions for Extenuating Circumstances

A 3-year waiting period is permitted if extenuating circumstances can be documented and is measured from the most recent bankruptcy discharge or dismissal date. The most recent bankruptcy filing must have been the result of extenuating circumstances.

#### 5.4.9.5 Bankruptcy and Foreclosure on the Same Mortgage

If a mortgage debt was discharged through a bankruptcy and a foreclosure is completed after the bankruptcy, the bankruptcy waiting periods may be applied if the credit union obtains the appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.

#### 5.4.9.6 Foreclosure

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

A 7-year waiting period is required and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the member.

See [section 3.1.2](#) for additional restrictions for loan amounts higher than \$1,100,000.

#### Exceptions for Extenuating Circumstances

A 3-year waiting period is permitted if extenuating circumstances can be documented and is measured from the completion date of the foreclosure action. Additional requirements apply between 3 and 7 years, which include:

- Maximum LTV/CLTV ratios of the lesser of 90% or the maximum LTV/CLTV ratios for the transaction type.
- The purchase of a primary residence only.
- Limited cash-out refinances are permitted for all occupancy types pursuant to the eligibility requirements in effect at that time.

**Note:** The purchase of second homes or investment properties and cash-out refinances (any occupancy type) are not permitted until a 7-year waiting period has elapsed.

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.

#### Prior AMGC Claim

A member who was a debtor on a loan for which AMGC (or one of its affiliates) paid a claim will be considered for insurance on an exception basis.

#### 5.4.9.7 Deed-in-Lieu of Foreclosure, Pre-Foreclosure Sale (Short Sale) and Charge-Off of a Mortgage Account

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

These transaction types are completed as alternatives to foreclosure:

- A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the credit union/servicer.
- A pre-foreclosure sale or short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was pre-approved by the credit union/servicer. These are typically identified on the credit report through Remarks Codes such as "settled for less than full balance."
- A charge-off of a mortgage account occurs when a creditor has determined that there is little (or no) likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status and is often identified on the credit report with a manner of payment (MOP) code of "9."

A 4-year waiting period is required from the completion date of the deed-in-lieu of foreclosure, pre-foreclosure sale or charge-off as reported on the credit report or other documents provided by the member.

See [section 3.1.2](#) for additional restrictions for loan amounts higher than \$1,100,000.

#### Exceptions for Extenuating Circumstances

A 2-year waiting period is permitted if extenuating circumstances can be documented.

**Note:** Deeds-in-lieu and pre-foreclosure sales may not be accurately or consistently reported in the same manner by all creditors or credit reporting agencies.

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 deed-in-lieu of foreclosure or short sale (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.

#### 5.4.9.8 Extenuating Circumstances for Derogatory Credit

Extenuating circumstances are non-recurring events that are beyond the member's control that result in a sudden, significant and prolonged reduction in income or a catastrophic increase in financial obligations.

If a member claims that derogatory information is the result of extenuating circumstances, the credit union must substantiate the member's claim. Examples of documentation that can be used to support extenuating circumstances include:

- Documents that confirm the event, such as a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc.; and
- Documents that illustrate factors that contributed to the member's inability to resolve the problems that resulted from the event, such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.

The credit union must obtain a written explanation from the member explaining the relevance of the documentation. The written explanation must support the claim of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action and illustrate that the member had no reasonable options other than to default on his or her financial obligations. The written explanation may be in the form of a letter from the member, an email from the member or some other form of written documentation provided by the member.

## 5.5 Liabilities and Long-Term Debt

The member's liabilities include all debts of a continuing nature, including but not limited to:

- 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 (alimony [but not child support or separate maintenance] may instead be deducted from income).
- 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 tradeline for each significant open debt shown on the Loan Application, 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 member's 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.

Deferred installment debt must be included as part of the member's recurring monthly debt obligations. For deferred installment debt other than student loans, if the credit report does not indicate a payment amount that will be due at the end of the deferment period, a copy of the member's payment letter or forbearance agreement should be obtained so the payment amount can be determined (see [Student Loans](#) for additional information).

### 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. If the payment is not documented either on the credit report or by other account verification, the minimum required payment will be calculated as the greater of 5% of the outstanding balance or \$10.

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 (IRA, Keogh, 401(k), 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 (alimony [but not child support or separate maintenance] may instead be deducted from income).

The debt should be documented with court records (for example, 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.

### 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.

### 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' canceled 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, an estimated payment may be used by calculating 1% of the current outstanding balance.

## Debts Paid by Others

Certain debts can be excluded from the member's recurring monthly obligations and the DTI ratio:

- When a member is obligated on a non-mortgage debt but is not the party who is actually repaying the debt, the credit union may exclude the monthly payment from the member's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt but is not applicable if the other party is an interested party to the subject transaction (such as the seller or Realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support and separate maintenance. See below for treatment of payments due under a federal income tax installment agreement.
- When a member is obligated on a mortgage debt, but is not the party who is actually repaying the debt, the credit union may exclude the full monthly housing expense (PITIA) from the member's recurring monthly obligations if:
  - The party making the payments is obligated on the mortgage debt; and
  - There are no delinquencies in the most recent 12 months; and
  - The member is not using rental income from the applicable property to qualify.

In order to exclude non-mortgage or mortgage debts from the member's DTI ratio, the credit union must obtain the most recent 12 months' canceled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

## 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 Pay Down of Debt for Qualification

Payoff or pay down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. This is especially true in the case of a cash-out refinance transaction. 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. Pay down 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.

### 5.5.3 Open 30-Day Charge Accounts

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. Credit unions must verify member has available funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.

### 5.5.4 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 principal and interest for the mortgage that is secured by the member's primary residence and monthly costs for:

- General hazard fire/insurance or any specialty policy covering events including flood, earthquake, windstorm, etc.
- Real estate taxes.
- Mortgage insurance premium; and, when applicable:
  - Home-owners 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 10 months, including all deferred student loan payments.
- Monthly PITIA for second homes and other non-investment property, including real estate taxes, hazard insurance and HOA fees (if applicable) for real estate owned free and clear.
- Lease payments, regardless of remaining lease term.
- Revolving charge, open accounts (when sufficient funds to pay-off are not documented) and unsecured 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 (alimony [but not child support or separate maintenance] may instead be deducted from income).
- Negative net rental income from investment properties owned by the member.

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 homeownership 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 requirements for specific ratio requirements in [section 3](#) of this UW Manual.

#### Home Equity Lines of Credit (HELOC)

For 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 member's 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 5 years should be used.

## 5.6 Income and Employment Overview

A qualified member should have long-term, stable income from employment or other acceptable sources. Employment should be verified for 2 full consecutive years. If the member has an employment history of less than 2 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 3 months.

The VOE cannot be the sole source of income verification when a member is employed by any of the following: relative, closely held family business, the seller or any interested third party (for example, real estate agent, mortgage broker, etc.). Signed federal income tax returns, W-2s for 2 years and a paystub(s) are required.

Unless the credit union has knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented (per the specific income type), the credit union may conclude that the income is stable, predictable and likely to continue. The credit union is not expected to request additional documentation from the member.

### 5.6.1 Verification and Documentation

In general, a 2-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 3 years. When the income falls in a category that does not have a defined expiration date, such as certain public assistance income (for example, Homeownership Voucher Program aka 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 third-party income and employment verifications from specialized agencies, such as The Work Number, as long as the income and employment are verified.

### Desktop Underwriter (DU) and Loan Product Advisor (LPA) Documentation Efficiencies for Income and Employment

Income and/or employment documentation efficiencies, as noted in the DU Findings Report or LPA Feedback may be used for **Portfolio Program** loans when the loan receives a DU Approve/Eligible or LPA Accept/Eligible. The DU or LPA documentation efficiencies are not allowed for any other AMGC loans. The use of documentation efficiencies to verify income and employment is subject to the following:

- The credit union entering all information into DU or LPA accurately.
- A documentation efficiency of only a Verbal Verification of Employment is not allowed.

However, loans which meet the published Arch MI credit union underwriting requirements that are submitted under the credit union's AMGC Master Policy (as previously mentioned within this UW Manual) may use the DU or LPA documentation efficiencies if the Arch MI credit union underwriting requirements allow it.

## 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 2 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.

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 should 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 an acceptable explanation or 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 paystub(s) dated no earlier than 30 days prior to the initial loan application and it must include all year-to-date earnings. The paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained.
- Most recent 2 years' W-2s.
- Verbal Verification of Employment within 10 days of closing.

Alternatively, the following may be used to document income:

- Completed Verification of Employment form (VOE). (See [section 3.1.2](#) for additional requirements for loans > \$1,100,000.)
- 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 may be required to verify whether income is based on calendar year or school year.

## 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. 2 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 qualification 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 3 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, 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. A government annuity has no defined expiration date; therefore, proof of continuance for 3 years is not required.

### 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 2 years, provided all associated business expenses are also included. Auto allowances received for less than 2 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 2 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 income documentation must clearly document receipt of bonus income for a period of at least 2 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: 2 years' tax returns including Schedule D. When the tax returns show evidence of realized capital gains for the last 2 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 remaining, post-closing, that can be sold to generate additional capital gains. Capital losses do not have to be considered when calculating income or liabilities.

### 5.8.6 Commissions

Commission income may fluctuate from year-to-year. It is important to establish an earnings trend for at least 2 years. Commission income that is stable or increasing is allowable if substantiated through:

- A VOE or the member's recent paystub and W-2 forms covering the most recent 2-year period reflecting YTD commission.
- Signed federal income tax returns for the past 2 years, with Form 2106 attached are required if commission income equals 25% or more of the individual member's qualifying income.

The calculation of commission income should generally be based on a 2-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 when commission income is 25% or more of the member's total income.

Commission income received for less than 2 years (but no less than 1 year), or earnings which 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.

### 5.8.7 Dividends and Interest

Dividend and interest income may be used if properly documented, has been received for the past 2 years and the same amount of interest/dividend income is likely to continue for at least 3 years. Verification should be in the form of 2 years' tax returns, account statements or the past 2 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, mortgage broker or any other interested third party, the VOE cannot be the sole source of income verification. Signed federal income tax returns for 2 years and W-2s and paystubs are required.

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

Members may take short-duration, temporary leaves from work. A temporary leave 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 member's 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.

If a member is currently receiving short-term disability payments that will decrease to a lesser amount within the next 3 years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the member. For additional information on short-term disability, see Temporary Leave Income 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:

- Written documentation from the applicant stating that the applicant intends to return to active work and the date of the return to active work.

- Employer documentation that verifies the member’s date of return to active work (for example, 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.
- Full employment income documentation (as per AMGC income requirements).
- 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 (for example, 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	July 1	\$12,000 / 2 Months = \$6,000
June 1	October 1	\$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 2-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 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 2 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 2 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 payout.

### 5.8.12 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 [5.8.23](#) and [5.8.27](#) 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 (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 modification date. If any long-term disability income is due to expire within 3 years, it cannot be included. Required re-evaluation 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 re-evaluation of the benefits is not considered an indication that the income is not likely to continue.

### 5.8.13 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.

### 5.8.14 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 3 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 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.

### 5.8.15 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 (for example, 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 3 years.

### 5.8.16 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 3 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 3 years may not be used as stable income.

### 5.8.17 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 2 years and indicates that it is likely to continue. Overtime earnings should be averaged over at least 2 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.

### 5.8.18 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 2 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 paystubs and IRS W-2 forms, or a current VOE.

### 5.8.19 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 2 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, the member must have unrestricted access to the accounts without a penalty. Documentation must be provided to determine that the payments will continue for at least 3 years after the date of the loan application. Eligible retirement account balances (401(k), IRA or Keogh) may be combined for the purpose of determining whether the three-year continuance requirement is met.

### 5.8.20 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.

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.

### 5.8.21 Rental Income

AMGC aligns with the GSEs underwriting requirements for the use of rental income to qualify the member. Credit unions may follow either Fannie Mae's or Freddie Mac's rental income requirements. See the rental income sections of the [Fannie Mae Selling Guide](#) or the [Freddie Mac Seller/Servicer Guide](#).

Links to the Fannie Mae and Freddie Mac Rental Income Worksheets can be found at [Rental Income Calculators](#).

### 5.8.22 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 3 years after the date of the loan application. Copies of the royalty contract, agreement or statement confirming amount frequency and duration of the income and the member's most recent tax returns including the IRS Form 1040 and Schedule E will be required to verify the income.

### 5.8.23 Social Security

Benefits received from the Social Security Administration may be used to qualify the member 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.

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 re-evaluation 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.

### 5.8.24 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 2 years and indicates that it is likely to continue. Tip income must be documented with a VOE or recent paystubs and W-2s or the most recent 2 years' tax returns with IRS Form 4137, Social Security and Medicare Tax on Unreported Tip Income to verify tips not reported by the employer. Tip income earnings should be averaged over at least 2 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.

### 5.8.25 Trust Income

Trust income may be considered for qualification if it will continue for at least 3 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.

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."](#))

### 5.8.26 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 covering brief gaps between jobs. In such instances, 2 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.

### 5.8.27 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.

### 5.8.28 Deductions Reported on IRS Form 2106

#### Business Expenses

When evaluating commission income that represents 25% or more of the member's total annual employment income, the credit union must consider certain tax deductions reported on IRS Form 2106 (Employee Business Expenses) when conducting the cash flow analysis:

- Out-of-pocket, unreimbursed business expenses must be deducted from the member's income.
- For actual expenses for a leased automobile, rather than the standard mileage rate, the credit union must analyze the "Actual Expenses" section of IRS Form 2106 to determine the amount of the lease payments and make sure the lease expense is counted only once in its cash flow analysis, either as an expense on IRS Form 2106 or as a monthly obligation.

#### Automobile Depreciation

If a member claims a "standard mileage" deduction, the business miles driven should be multiplied by the depreciation factor for the appropriate year, and the calculated amount added to the member's cash flow.

If a member claims an “actual depreciation expense” deduction, the amount the member claimed should be added to the member’s cash flow.

### 5.8.29 IRS Transcripts

IRS transcripts are generally not required but may be requested by AMGC based on our review of the income documentation presented in the application. However, when a credit union has acquired the IRS transcripts prior to the application for mortgage insurance, a copy of the transcripts must be provided. Additionally, transcripts must be provided if acquired by the credit union when AMGC requests a copy of the loan file for quality assurance purposes.

Any discrepancy between the loan file income documentation and the transcript information must be appropriately explained and documented. If the transcripts do not support the income documentation provided, and the discrepancies cannot be adequately explained and documented, the loan is ineligible for mortgage insurance. The IRS transcript(s) and any subsequent explanation or documentation of discrepancies must be permanently retained in the credit union’s loan file.

### 5.8.30 Self-Employed Income

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 2 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 1 and 2 years must have at least 2 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 1 year has not established a history of stable self-employment earnings and income 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.

AMGC aligns with the GSEs underwriting requirements for the use of self-employed income to qualify the member. Credit unions may follow either Fannie Mae’s or Freddie Mac’s self-employed income requirements. See self-employed income sections of the [Fannie Mae Selling Guide](#) or the [Freddie Mac Seller/Service Guide](#).

The following is the link to AMGC’s tax return analysis calculators: [Tax Return Analysis Calculator and Instructions](#).

### 5.8.31 Post-Close Employment

If a member is scheduled to begin employment after the loan closes, the following requirements apply:

- Purchase transaction only.
- 1-unit primary residence only.
- The member may not be employed by a family member or by an interested party to the transaction.
- The member is qualified using base salary only.
- The employment start date as shown on the employment offer or contract must be within 90 days of the note date.
- In addition to the normal reserves required for the transaction, the credit union must document an additional month’s reserves for every month between the Note date and the employment start date, plus one.

The credit union must obtain and review the member’s offer or contract for future employment. The employment offer or contract must:

- Clearly identify the employer and the member, be signed by the employer, and be accepted and signed by the member;
- Clearly identify the terms of employment, including position, type and rate of pay and start date; and



- Be non-contingent. Note: If conditions of employment exist, the credit union must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file.

**Ineligible:**

- Loan amounts > \$1,100,000.
- Interest-Only Program.
- AMGC Community Program.

**5.8.32 Unacceptable Income**

The following types of income or compensation are generally considered unacceptable for the purpose of qualifying members.

- 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 3 years beyond the date of loan approval.
- Trailing co-borrower income.
- Boarder income.
- Asset depletion (other than short-term disability income that meets the requirements in [section 5.8.9](#), retirement income that meets the requirements in [section 5.8.19](#) or trust income that meets the requirements in [section 5.8.25](#)).

## 5.9 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.

### 5.9.1 Minimum Member Contribution

AMGC requires a minimum contribution from the member's own funds for a purchase transaction. For certain transactions, once the minimum member contribution has been met, the remainder of the funds can come from other acceptable sources, such as gift funds, grants, etc. For complete gift and grant requirements, [see section 5.9.8 – Source of Funds](#).

Refer to the tables below for the minimum member contribution requirements that apply for each AMGC program.

#### Portfolio Program

Portfolio Program	Occupancy	Loan Amount	Minimum Member Contribution
	Primary Residence	≤ \$1,100,000	3%
		\$1,100,001–\$1,500,000	5%
		\$1,500,001–\$2,500,000	All funds must come from the borrower.
	Second Home	All Eligible Loan Amounts	5%
Investment	All Eligible Loan Amounts	All funds must come from the borrower.	

#### Interest-Only Program

Interest-Only Program	Occupancy	Loan Amount	Minimum Member Contribution
	Primary Residence	≤ \$500,000	3%
		> \$500,000	All funds must come from the borrower.

#### Medical Dental Professional Program

Medical Dental Professionals Program*	Occupancy	Loan Amount	Minimum Member Contribution
	Primary Residence	≤ \$850,000	3%
		> \$850,000	All funds must come from the borrower.

\*See [section 3.3.3 Medical and Dental Professionals Program, Additional Underwriting Requirements](#) for details.

#### AMGC Community Program and AMGC EqualAccess Homeownership Program

Community Program and EqualAccess Homeownership Program*	Occupancy	Loan Amount	Minimum Member Contribution
	Primary Residence	All Eligible Loan Amounts.	No minimum contribution applies.

\* See [section 3.4.2, AMGC Community Program Additional Underwriting Requirements](#) and [section 3.5.2, AMGC EqualAccess Homeownership Program Additional Underwriting Requirements](#), for details.

## 5.9.2 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.

## 5.9.3 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.

## 5.9.4 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.
- Escrow accruals required for renewal of the mortgage insurance premium (unless the premium is being financed as part of the mortgage amount).

### 5.9.5 Reserves

The member should have adequate liquid assets remaining as reserve funds after closing. 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 minimum reserve requirements (PITIA) apply. Proceeds from a rate/term refinance or cash-out refinance may be used to satisfy the reserve requirement.

#### Portfolio Program

Occupancy	Property Type	Loan Amount	Reserves
Primary Residence	1-Unit, SFD/SFA, Condos, Co-ops, Manufactured Homes	≤ \$1,100,000	2 Months
		\$1,100,001–\$1,500,000	9 Months
		\$1,500,001–\$2,500,000	12 Months
	2–4 Unit	All Eligible Loan Amounts	6 Months
Second Home	1-Unit, SFD/SFA, Condos, Co-ops, Manufactured Homes	All Eligible Loan Amounts	6 Months (Subject Property Only)
Investment	1-Unit, SFD/SFA, Condos, Co-ops	All Eligible Loan Amounts	6 Months (Subject Property Only)

#### Interest-Only Program

Occupancy	Property Type	Loan Amount	Reserves
Primary Residence	1-Unit, SFD/SFA, Condos, Co-ops	≤ \$500,000	2 Months
		\$500,001–\$850,000	6 Months
		\$850,001–\$1,000,000	12 Months

#### Medical Dental Professional Program

Occupancy	Property Type	Loan Amount	Reserves
Primary Residence	1-Unit, SFD/SFA, Condos, Co-ops	≤ \$850,000	2 Months
		\$850,001–\$1,000,000	6 Months
		\$1,000,001–\$1,500,000	9 Months
<b>Note:</b> When employment begins post-closing, an additional month's reserve is required for each month after the Note date until employment begins.			

#### AMGC Community Program

Occupancy	Property Type	Loan Amount	Reserves
Primary Residence	1-Unit, SFD/SFA, Condos	All Eligible Loan Amounts	2 Months

## Desktop Underwriter (DU) and Loan Product Advisor (LPA) Reserve Requirements

Reserve requirement, as noted in the DU Findings Report or LPA Feedback are not acceptable substitutes for the reserve requirements for AMGC loans.

However, loans which meet the published Arch MI credit union underwriting requirements that are submitted under the credit union's AMGC Master Policy (as previously mentioned within this UW Manual) may use the DU or LPA reserve requirements as detailed in the Arch MI Credit Union Underwriting Manual. The AMGC requirements would not apply in that case.

### 5.9.6 Interested Party/Seller Contributions/Third-Party Contributions (IPCs)

Interested party contributions (IPCs) are costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest in or can influence the terms and the sale or transfer of the subject property.

Interested parties to a transaction include, but are not limited to, the property seller, the builder/developer, the real estate agent or broker or an affiliate who may benefit from the sale of the property and/or the sale of the property at the highest price possible. A credit union or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction. An affiliation exists when there is direct common ownership or control by the credit union over the interested party or vice versa, or when there is direct common ownership or control by a third party over both the credit union and the interested party. A typical ongoing business relationship (for example, the relationship between a builder and a credit union) that serves as its financial institution does not constitute an affiliation.

Third-party contributions/IPCs may either be considered a financing concession or a sales concession.

### Financing Concessions

Financing concessions typically include origination fees, discount points, commitment fees, appraisal costs, transfer taxes, stamps, attorneys' fees, survey charges, title insurance premiums or charges, real estate tax service fees and funds to subsidize a temporary or permanent interest-rate buydown (if these fees are not considered common and customary fees or costs based on local custom, as described above). Financing concessions can also include prepaid items, such as:

- Interest charges (limited to no more than 30 days of interest).
- Real estate taxes covering any period after the settlement date (only if the taxes are being impounded by the servicer for future payment).
- Property insurance premiums (limited to no more than 14 months).
- Homeowners association (HOA) assessments covering any period after the settlement date (limited to no more than 12 months).
- Initial and/or renewal MI premiums.
- Escrow accruals required for renewal of member-purchased MI coverage.
- Donations by interested parties to a nonprofit 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.

Typical fees and/or closing costs paid by a seller in accordance with local custom, known as common and customary fees or costs are not subject to IPC limits. Financing concessions that exceed the limits listed below are considered sales concessions.

## Maximum Allowable Financing Concessions

Maximum allowable financing concessions may not exceed the actual amount of closing costs and prepaids.

### Primary Residence:

- Maximum 3% of the property's sales price for LTVs 97.01%–100% (see [section 3.4, AMGC Community Program](#)).
- Maximum 3% of the property's sales price for LTVs 90.01%–97%.
- Maximum 6% of 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%.

### Investment Property:

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

## 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) as well as 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 when calculating the LTV.

### 5.9.7 Credit Union Contributions/Credits

The credit union may provide the member with a contribution to fund member-paid closing costs (including temporary buydowns) and prepaid fees in the following cases:

- A credit union credit derived from premium pricing. These credit union credits do not have to be counted as an IPC even if the credit union is an interested-party to the transaction.
- A credit union credit sourced directly from credit union funds with no expectation for repayment or financial obligation apart from the subject mortgage do not have to be counted as an IPC unless the credit union is an interested-party to the transaction.
- Funds passed to the credit union from a third party for the purpose of providing a credit union credit are not eligible as a credit union contribution.

The credit union credit cannot be used to fund any portion of the member's down payment and should not exceed the amount needed to offset the member's closing costs and prepaids.

### 5.9.8 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. Unsecured loans are unacceptable sources of funds. If the loan is secured by a financial asset, any repayment amount may be excluded from debt.

## Business Accounts

To utilize funds from the member's business accounts for the down payment the following requirements must be met:

- Documentation to show that the member has access to the funds; and
- A letter from an accountant stating that the withdrawal of the funds will not have a detrimental effect on the business; or
- The credit union must document a cash-flow analysis for the member's business to show there will be no detrimental effect on the business due to the withdrawal of the funds. In order to assess the impact, the credit union may require a level of documentation greater than what is required to evaluate the member's business income (for example, several months of recent business asset statements in order to see cash flow needs and trends over time, or a current balance sheet).

## Checking and Savings Accounts

A completed Verification of Deposit (VOD) form or bank statements for the most recent 2 months should be provided as verification of liquid funds on deposit in checking and savings. 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.

The source of funds for newly opened accounts, a large increase in the average balance on the VOD or large deposits on a bank statement (defined as a single deposit that exceeds 50% of the total qualifying income for the loan) 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

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

## Gifts

Gifts are permitted for certain transactions 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 must be evidenced by a letter signed by the donor. The gift letter must:
  - Specify the amount of the gift, the date funds were transferred (or will be transferred) and the donor's relationship to the member.
  - State that repayment is not required or expected.
- The donor of the gift should be a relative, defined as:
  - The member's spouse, child or other dependent, or by any other individual who is related to the member by blood, marriage, adoption or legal guardianship; or
  - A fiancé, fiancée or domestic partner.
- The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent or any other interested party to the transaction.
- Verification of transfer and receipt of gift funds is required.

Additionally, if the member receives a gift from a relative or domestic partner who has lived with the member for the last 12 months, or from a fiancé/fiancée the gift is considered the member's own funds and may be used to satisfy the minimum member contribution requirement as long as both individuals will use the home being purchased as their primary residence. This must be documented as follows:

- A certification from the donor stating that he/she has lived with the member for the past 12 months and will continue to do so in the new residence.
- Documents demonstrating a history of member and donor shared residency showing current address. Examples include but are not limited to a copy of a driver's license, a bank statement or a billing statement.

Items noted as ineligible under the Gifts section are applicable to all gift types (for example, gifts of equity, gifts/grants from a public/non-profit).

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

- Loan amounts > \$1,500,000.
- Interest-Only Program with loan amounts greater than \$500,000.
- Investment properties.
- Medical and Dental Professionals Program with loan amounts greater than \$850,000.

## Gifts of Equity

A gift of equity from an eligible gift donor may be treated as a cash gift (it need not be deducted from the purchase price of the subject property) for a primary residence or second home if the following conditions are met:

- A signed gift letter.
- 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 minimum member contribution has been made from his or her own funds based on the property type and loan amount.
- The settlement is completed by an independent third party (for example, 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 acceptable gift donor (for example, 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 Nonprofit Organization

A gift or grant from a government agency or member’s employer is acceptable for certain primary residence transactions 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 (to the member, the credit union or closing agent) and documentation showing receipt of the funds.

Acceptable entities include churches, municipalities, nonprofit organizations (excluding credit unions), regional Federal Home Loan Banks under one of their affordable housing programs, federally recognized Native American tribes and their sovereign instrumentalities and public agencies. Gifts and grants from Nehemiah type organizations are ineligible.

## 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. Fair market rent should be determined by and included in the appraisal report. Rent credits may only be used after the member’s minimum contribution requirement is met.

## Proceeds from Sale of Assets

Cash from the sale of the member’s personal 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 of sale or statement from the purchaser).
- 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 8–10%, which includes sales commission and closing costs paid by seller.

### Trade Equity on Manufactured Home

Trade equity will be considered only if:

- The minimum member contribution has been met 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). 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 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 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 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, internet 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 pension plan administrator is generally required to determine the percentage vested (and lump sum 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 account.

## 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, 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.

## 5.9.9 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 (see [section 3.1.2](#) for additional restrictions for loan amounts higher than \$1,100,000), 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 bank statements are used, 2 months of current statements per account are required, reporting beginning and ending 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.
- The credit union understands its responsibility for the integrity of the information obtained from this source.

## Desktop Underwriter (DU) and Loan Product Advisor (LPA) Documentation Efficiencies for Assets

Asset documentation efficiencies, as noted in the DU Findings Report or LPA Feedback may be used for **Portfolio Program** loans when the loan receives a DU Approve/Eligible or LPA Accept/Eligible. The DU or LPA documentation efficiencies are not allowed for any other AMGC loans. The use of documentation efficiencies for verifying assets is subject to the credit union entering all information into DU or LPA accurately.

However, loans that meet the published Arch MI credit union underwriting requirements and that are submitted under the credit union's AMGC Master Policy (as previously mentioned within this UW Manual) may use the DU or LPA documentation efficiencies if the Arch MI credit union underwriting requirements allow it.

### 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 (for example, direct deposit where the source is specifically indicated), 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.

### Asset Information Obtained from the Internet

Asset information that is obtained as downloads from the Internet must clearly identify the member as owner of the account, show account numbers or partially identifiable numbers matching the loan application 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.

### 5.9.10 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 primary residences or second homes.

## 6. Underwriting the Property

When AMGC's Credit Union Underwriting Manual is "silent" and does not address a certain underwriting requirement topic, the credit union must follow either Fannie Mae's or Freddie Mac's published requirements (see the [Fannie Mae Selling Guide](#) or the [Freddie Mac Seller/Servicer Guide](#)) for that topic that are in effect at the time the loan was presented for MI.

**AMGC is an affiliate of Arch Mortgage Insurance Company (Arch MI). It is important to note that any loan that meets the published Arch MI Credit Union Underwriting Requirements is eligible for insurance by AMGC when submitted non-delegated (full-file), provided the credit union has an AMGC Master Policy and understands AMGC-insured loans are not saleable to Fannie Mae, Freddie Mac or the Federal Home Loan Bank system. AMGC loans that meet the Arch MI published requirements are not subject to additional requirements or restrictions contained within this UW Manual (with the exception of co-op property state eligibility). Co-mingling of Arch MI and AMGC underwriting requirements are not allowed — the submitted loan must meet one or the other entirely.**

### 6.1 Appraisal Requirements

Credit unions must obtain a full appraisal report including interior and exterior inspections to determine the current value and evaluate the property. All appraisals must be in writing. Electronic appraisals are acceptable but must be in a standard format as detailed below:

- Single-family and Detached PUDs — Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70). **For loan amounts > \$2,000,000, a third-party field review appraisal is also required.**
- Condominiums — Individual Condominium or PUD Unit Form (Fannie Mae Form 1073/Freddie Mac Form 465).
- 2–4 Unit Properties — The Small Residential Income Property Appraisal Report (Fannie Mae Form 1025/Freddie Mac Form 72).
- Manufactured Homes — Manufactured Home Appraisal Report (Fannie Mae Form 1004C/Freddie Mac Form 70B).
- Cooperative Housing Units — Individual Cooperative Interest Appraisal Report (Fannie Mae 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 when completed on one of the appraisal reports above.

Streamlined appraisal forms are ineligible (exterior-only 2055 drive-by inspections, property inspections, etc.).

### Desktop Underwriter (DU) and Loan Product Advisor (LPA) Appraisal Waivers and Desktop Appraisals

Appraisal waivers and desktop appraisals are ineligible as a substitute for a Uniform Residential Appraisal Report for loans underwritten to the AMGC credit union underwriting requirements.

However, loans that meet the published Arch MI credit union underwriting requirements that are submitted under the credit union's AMGC Master Policy (as previously mentioned within this UW Manual) may use an appraisal waiver or desktop appraisal in place of a Uniform Residential Appraisal Report when offered by DU or LPA as detailed within the Arch MI Credit Union Underwriting Manual. The AMGC requirements would not apply in that case.

### 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 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

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. If repairs are required to bring the property to a C1-C4 condition, the appraiser must make the appraisal subject to those repairs. Property ratings of C5-C6 are ineligible for insurance.
- Appraisal reports must express an opinion about the quality of the improvements. The property condition must be rated Q1-Q5. Property ratings of Q6 are ineligible for insurance.
- 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 15 acres. The property must be residential in nature. Agricultural-type properties are not eligible for MI.
  - Loans in which multiple parcels are encumbered must be noted in the final valuation; the value of both the improved and unimproved parcels is 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 (for example, special assessments, slide areas, illegal or legal non-conforming zoning use) or superior site conditions (for example, 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” or language to that effect. The item(s) must be satisfactorily addressed for the loan to be eligible for insurance with AMGC.

The cost approach is useful in cases where complex properties are being appraised (for example, 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 that anticipates construction of an exact duplicate of the subject building at current prices, or a replacement cost that 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.

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 Two-to-Four-Unit (2–4 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 (for example, giveaways, free trips, decorator allowances, etc.) are being offered.
- Land is owned in fee-simple estate or leaseholds (see [section 6.11](#)).
- Floor plan and unit sizes are functional.
- 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.
- In the case of 3–4 unit properties, 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 requirements does not constitute a project approval. AMGC insures condominiums that meet the following criteria.

### 6.6.1 General Condominium Requirements

All condominiums must meet the following requirements:

- Fannie Mae or Freddie Mac published underwriting requirements (saleable to the GSEs). See the [Fannie Mae Selling Guide](#) or the [Freddie Mac Seller/Service Guide](#); or
- AMGC requirements for condominiums located in projects not verified as saleable to Fannie Mae or Freddie Mac ("non-warrantable condo").

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

- Projects that include manufactured housing are ineligible.
- Non-realty limited common elements (for example, boat dock slips, cabanas) may not be financed with the property. Assigned parking spaces may be financed as a cost of the property.
- See [section 3.1.1](#) for additional restrictions for loan amounts higher than \$1,100,000.

### AMGC Project Exposure

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

### Detached Condominiums

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

### 2–4 Unit Projects

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

## 6.6.2 Condominium Project Documentation Requirements

### Condominiums meeting the GSE Requirements

AMGC does not verify the salability of a condominium to the GSEs. 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 condominiums that are saleable to the GSEs will include one or more of the following documents in the loan file to determine the project eligibility for the condominium:

- 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 Eligibility

If the credit union does not verify the condominium is saleable to the GSEs, the MI application 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 — used 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. Any budget issues must be addressed by the credit union.
- Other documents deemed necessary to validate the marketability and solvency of the condominium project.

## Ineligible Condominiums

A non-warrantable condominium cannot be an ineligible condominium as listed in [section 6.6.6](#).

## Established Projects

A project is considered an established project if:

- At least 75% of the total units have been conveyed to unit purchasers;
- The project is 100% complete, including all units and common elements;
- The project not subject to any additional phasing or annexation; and
- Control of the HOA has been turned over to the unit owners.

Established Project Requirements:

- If the subject property is an investment property, a minimum 50% of the units in the project must be primary residences or second homes.
- No more than 15% of the total units in the project can be 60 or more days past due on condo/association fees (HOA dues).

## New Projects

A project is considered a new project if:

- Fewer than 75% of the project's total units have been conveyed to the unit purchasers;
- The project is not fully 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;
- The project is subject to additional phasing or annexation; or
- HOA is still in the developer's control.

New Project Requirements:

- The project must be substantially complete:
  - A certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or subject phase; and
  - All the units and buildings in the legal phase in which the unit securing the mortgage is located are complete, subject to the installation of buyer selection items, such as appliances.
- At least 50% of the units in the project/legal phase must be conveyed or under contract for sale to primary residence or second home purchasers:
  - For a specific legal phase or phases in a new project, at least 50% of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed or be under contract for sale to principal residence or second home purchasers.
  - For the purposes of this review process, a project consisting of one building cannot have more than one legal phase.
- 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.

## 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 Kiddie Condos

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

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

### 6.6.6 Ineligible Condominium Properties and/or Projects

- Manufactured housing site condominiums.
- **Condotels** — A project may not be operated or managed as a hotel, motel or similar commercial entity as evidenced by meeting one or more of the following criteria:
  - The HOA is licensed as a hotel, motel or hospitality entity.
  - The HOA or project’s legal documents restrict owners’ ability to occupy the unit during any part of the year.
  - The HOA or project’s legal documents require owners to make their units available for rental pooling (daily or otherwise).
  - The HOA or project’s legal documents require unit owners to share profits from the rental of units with the HOA, management company, resort or hotel rental company.
- Timeshare, fractional or incremental ownership.
- Projects with properties that are not real estate, such as houseboat projects.
- **Commercial space** — Projects where more than 35% of the project area can be for commercial usage. Commercial parking facilities can be excluded from the commercial space calculation.
- **Single-entity ownership** — Projects in which a single entity (the same individual, investor group, partnership or corporation) owns more than the following total number of units in the project:
  - Projects with 5 to 20 units — 2 units.
  - Projects with 21 or more units — 20%.
  - Units currently subject to any rental or lease arrangement must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of units such as lease-purchase and rent-to-own arrangements.

The following may be excluded from the single-entity ownership calculation:

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

The single-entity ownership requirement may be waived when the transaction is a purchase transaction that will result in a reduction of the single-entity ownership concentration. In such instances, the following requirements must be met:

- Units owned by the single entity represent no more than 49% of the units;
- Evidence is required that the single entity is marketing units for sale to further reduce single-entity ownership, with the goal of reducing the concentration to 20% or less of the project units;
- The single entity is current on all HOA assessments; and
- There are no pending or active special assessments in the project.
- Multi-dwelling unit condominiums.
- Projects that are operated as a continuous care facility.

- Projects with mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, owned by an outside party (including the developer or builder). Membership fees paid for the use of recreational amenities owned exclusively by the HOA or master association are acceptable.
- Projects with covenants, conditions and restrictions that split ownership of the property or curtail an individual member's ability to utilize the property.
- Projects with outstanding environmental issues or budget issues.
- Any project or building that is owned by several owners as tenants-in-common.
- Projects with non-incidentally business operations owned or operated by the HOA including, but not limited to, a restaurant, spa or health club.
- Projects in which the HOA or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability or functional use of the project.
- New projects where the seller is offering excessive sale/financing concessions.
- Units in condo projects with significant deferred maintenance or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions. Such projects remain ineligible until all significant deferred maintenance and unsafe conditions have been adequately remedied and deemed safe per the regulatory authority or inspection agency.

## 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 which is subsequently delivered and permanently attached to a site-built foundation. A manufactured home is built under the Federal Home Construction and Safety Standards established by HUD on/after June 1976. The label that confirms this is located on the manufactured home. The HUD Data Plate and HUD Certificate Label are required to confirm compliance with these standards.

### 6.7.1 Property Eligibility

For MI activation, manufactured homes must meet the following conditions:

- Manufactured homes must be a minimum of 18 feet wide or minimum 600 square feet in floor area. Single-wide manufactured homes are ineligible.
- The land and improvements are included under one Mortgage or Deed of Trust.
- The property (land and structure) is legally classified as real property by the local jurisdiction, taxing authority and Title Company.
- All loans must have an ALTA 7 Title Endorsement.
- The property must be taxed as real property in accordance with the municipality/state where the property is located. 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 land must be owned in fee-simple by the member.
- A minimum of 2 manufactured home comparable sales must be used by the appraiser to demonstrate conformity within the market and to establish market appeal.

### 6.7.2 Purchase Transactions

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

## Sales Price of the Manufactured Home:

In addition to the cost of the manufactured home and land, the sales price may include the cost of bona fide and documented transportation to the site, site preparation costs and dwelling installation costs.

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

## New Manufactured Homes:

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

## Existing Manufactured Homes:

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

## Trade Equity

- Trade equity will be considered only if:
  - The member has contributed the minimum cash down payment prior to consideration of the trade equity; and
  - The maximum permitted equity is calculated based on the length of ownership. If the unit has been owned for 12 or more months, use 90% of the retail value as listed in NADA. 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 NADA, or the lowest sales price within the last 12 months.
    - **NADA** – 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.

## 6.7.3 Refinance Transactions

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

### 6.7.4 Ineligible for Manufactured Homes

- Medical and Dental Professionals Program.
- AMGC Community Program.
- Interest-Only Program.
- Cash-out refinances.
- Renovation mortgages.
- Non-occupant borrowers.
- Second homes.
- Investment properties.
- Condominiums and co-ops.
- Home located on leasehold estates.
- A manufactured home may not be an accessory unit.
- Single-wide manufactured homes

## 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 sections in a factory assembly line. Fully constructed modules are transported to the permanent site and anchored to the foundation. Modular homes are not subject to HUD codes, but are built in accordance with the Uniform Building Code administered by the state agencies in which the modular home is installed and must adhere to any local and regional building codes. In some cases modular homes are built on a permanent chassis (on-frame modular) similar to a manufactured home. These on-frame modular homes are built in accordance with the Uniform Building Codes of the state and not to the HUD codes, therefore they are treated as modular homes.
- **Panel/Pre-Fab Housing (Panelized Home)** — 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 row house.

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

In attached, row house, 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 homeowner 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 California, Connecticut, District of Columbia, Illinois, Massachusetts, Maryland, New Hampshire, New Jersey, New York, Virginia and Washington.

## 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 may 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 12 months.
- The land value should not exceed 50% of total estimated value.
- Utilities to the site should be standard for the community and support year-round use.
- Comparable properties must be in similar rural locations and have similar property styles (ranch, two-story, etc.). Appraiser must adequately explain the use of comparable properties not meeting these requirements.

## 6.13 Maximum Acreage

- Maximum 15 acres.
- Comparable properties must be in similar acreage and have similar property styles (ranch, two story, etc.). Appraiser must adequately explain the use of comparable properties not meeting these requirements.

## 6.14 Properties with Resale Restrictions

- The LTV for purchase transactions involving properties with resale restrictions that do not survive foreclosure will be based on the lower of the purchase price or the appraised value.
- When there is a requirement for a third party to be notified that the member is in default or foreclosure, the credit union must ensure that the third party is notified.
- Ineligible for loan amounts higher than \$1,100,000.

## 6.15 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).
- That the appraiser justified the added value given for the improvements by the comparables.

If the seller has owned the property less than 180 days from the date of the purchase contract and the new sales price is higher than the price paid by the seller to acquire the property, the increase must be fully documented and explained.

The following 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.

## 6.16 Accessory Units

AMGC aligns with the Agencies' requirements for accessory units with the following exception:

- A manufactured home may not be an accessory unit.

## 6.17 Ineligible Properties

The following properties are ineligible for MI coverage by AMGC:

- Single-wide manufactured homes.
- Vacant land or lot loans.
- Ineligible condominiums as listed in [section 6.6.6](#).
- Properties located outside the 50 states and the District of Columbia (including Puerto Rico, Guam and the Virgin Islands).
- Pioneering designs such as underground improvements, irregular floor plans and geodesic domes.
- Illegal use per zoning.
- Non-residential property, including commercial or business activity on premises (except for incidental business use).
- Properties that include more than 4 residential units.