



Arch MI's 2020 Master Policy: Key Differences

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Fannie Mae and Freddie Mac ("GSEs") required all mortgage insurance companies to implement new master policies that conform to the GSE Rescission Relief Principles ("Principles") revised in 2018. This gave Arch MI the opportunity to integrate the insurance policies used by our two GSE-eligible writers, Arch Mortgage Insurance Company and United Guaranty Residential Insurance Company. The GSEs also took it as an opportunity to further align the policies of all eligible mortgage insurers, including with respect to the Physical Damage Exclusion. As required, Arch MI drafted a new master policy and submitted it for approval to state insurance regulators and the GSEs. On March 1, 2020, Arch MI's new Master Policy becomes effective. Loans covered under previous Master Policies will not be impacted. To assist customers in understanding the new 2020 Master Policy, we've highlighted some key differences below.

General Policy Structure

2020 Master Policy

As mentioned, the 2020 Master Policy integrates the insurance policies used by Arch Mortgage Insurance Company and United Guaranty Residential Insurance Company into one policy used by both companies. Having the ability to utilize two companies to write mortgage insurance provides maximum flexibility in addressing customer needs. All Loans with MI Application dates on or after March 1, 2020, will be covered under the 2020 Master Policy.

The 2020 Master Policy mailing includes:

- Policy Commitment Letter.
- Master Policy Form applying to full-file Loans only.
- Declarations Page.
- Separate endorsements for delegated MI, rescission relief and as required by states.

The Policy Commitment Letter structure incorporates all approved underwriting variances, delegation agreements and other lender-specific terms into the insurance policy. Please note: The list above is not all-inclusive. Please refer to your Master Policy for the full set of forms included.

2014 UG Master Policy

The 2014 UG Master Policy consists of substantially the same forms as the 2020 Master Policy. However, delegated submissions were incorporated into the language of the Master Policy instead of a separate delegated endorsement.

2014 Arch Master Policy

A key difference between the 2014 Arch Master Policy and the policies discussed above is that the 2014 Arch Master Policy does not contain a Policy Commitment Letter. Besides this one difference, it is structured similarly to the 2020 Master Policy.

Rescission

2020 Master Policy

Rescission requires Credible Evidence of a Significant Defect. A Significant Defect means that, had the true facts been known, the Loan would not have been eligible for insurance based on the eligibility criteria or Underwriting Requirements applicable at the time of the Insurance Application. The defect must be related to the Loan underwriting, borrower creditworthiness, property or Loan terms, as described in section 1.90 of the policy.

2014 UG Master Policy

Rescission will be issued if the Company determines in its sole judgment that there is Credible Evidence of false or misleading misrepresentations.

2014 Arch Master Policy

The Company has the right to Rescind coverage on a Loan if at any time it concludes in reliance on Credible Evidence that a Material Misrepresentation or Origination Error was made with respect to that Loan or the Loan exhibits a Material Value Variance.

Rescission Relief

2020 Master Policy and Independent Validation Endorsement

The 2020 Master Policy expands the rescission relief options available to lenders. Under the Master Policy, the Company will grant rescission relief for (1) borrower misrepresentation, (2) underwriting guidelines and (3) appraisals upon the earliest of:

- Satisfaction of the Thirty-Six Months Test:
 - (i) The Loan is not in default;
 - (ii) All Loan payments were made from the borrower's own funds;
 - (iii) There were no more than two thirty (30) day late payments and there were no sixty (60) day late payments; and
 - (iv) There were no forbearance agreements, repayment plans or modifications of the Loan in the first thirty-six (36) months.
- Satisfaction of the Sixty Months Test:

- (i) The Loan is not in default or if the Loan is in default at such time, it subsequently becomes current; and
- (ii) Payments were not made by parties associated with the insured, loan originator, servicer or GSE beneficiary.
- Satisfactory completion of a Quality Control Review:
 - (i) No Significant Defects were identified.
- Satisfactory completion of an Independent Validation:
 - (i) No Significant Defects were identified (borrower misrepresentation and occupancy misrepresentation still require 12 months of timely payments before rescission relief applies. Rescission relief is immediately granted for all other subject matters).

2014 Master Policies (Arch and UG) and Independent Validation Endorsements

Under the 2014 Master Policies, the Company will grant rescission relief for (1) borrower misrepresentation, (2) underwriting guidelines and (3) appraisals upon the earliest of:

- Satisfaction of the Thirty-Six Months Test (same criteria as discussed above).
- Satisfactory completion of an Independent Validation after 12 months of timely payments:
 - (i) Credible Evidence of a Material Misrepresentation, Origination Error or Material Value Variance was not identified.

Rescission Alternatives

2020 Master Policy

The 2020 Master Policy, as well as the 2014 Master Policies, allows the Company to reprice a Loan in lieu of rescission. However, the 2020 Master Policy introduces a new Rescission Alternative that is not available under the 2014 Master Policies:

- Indemnification Agreement:
 - In lieu of rescission, the Company may agree to keep the insurance in effect but the insured will reimburse the Company for any claim payments made. Such agreements cannot be longer than 60 months.

Life of Loan Exclusions

2020 Master Policy

Under the 2020 Master Policy, all rescission relief is subject to Life of Loan Exclusions, which provides the Company the right to rescind coverage under several circumstances, including but not limited to the following:

- Single Loan Fraud;
- Pattern Activity; and
- Data Inaccuracies.

Life of Loan Exclusions is applicable even if the Loan was granted rescission relief; however, the exclusions do not apply to borrower misrepresentation or occupancy misrepresentation if the Borrower makes the first twelve (12) monthly payments on time. For a complete list of the Life of Loan Exclusions, please refer to Section 3.3 of the Master Policy.

Self-Reporting

2020 Master Policy

The insured must notify Arch MI in the event it becomes aware that an insured Loan is subject to a Significant Defect, Single Loan Fraud, Pattern Activity, or is required by the GSE or other investor to be repurchased based on a Significant Defect, Single Loan Fraud or Pattern Activity. This notification is called self-reporting and must be made within thirty (30) days of discovery by the insured or within thirty (30) days of a required repurchase.

2014 Master Policies (Arch and UG)

Self-reporting is not required.

Physical Damage Exclusion

2020 Master Policy

The claim will be denied if the damage is the principal cause of default. Damage is deemed the principal cause of default if:

- The damage is estimated to be more than 20% of original value, and
- The property has not been repaired and is not insured sufficiently to cover the damages.

2014 UG Policy

To deny a claim, the physical damage must be at least \$5,000. The claim may be reduced at the Company's option rather than denied.

2014 Arch Policy

The claim will be denied if the damage equals or exceeds 25% of the unpaid balance of the Loan as of the date of Default. If the claim cannot be excluded entirely, the Company may reduce the claim amount by the estimated cost of repairs if it chooses to acquire the property.

The purpose of this document is to highlight the key differences between Arch MI's Master Policies and for general informational purposes only. Please refer to the applicable Master Policies for definitions and full terms of coverage.

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