AMAC Reporting Program Manual

September 3, 2024

Summary of AMAC Reporting Program Manual Updates

The Arch Mortgage Assurance Company (AMAC) Reporting Program Manual has been updated to reflect the expansions announced in Customer Announcement CA 2024-02-AMAC. A summary of the changes is listed below.

Section 2.1, Combined Loan-to-Value (CLTV)/Loan Amount/Credit Score/Debt-to-Income (DTI) Requirements

- Expansions to the minimum credit score and maximum DTI requirements, as communicated in Customer Announcement CA 2024-02-AMAC, were added.

Section 2.3, Loan Types

- ARMs with a minimum initial fixed-rate period of 60 months are now permitted for closed-end home equity loans and purchase money second closed-end loans. In addition, the loan types within this section were changed from bullets to section numbers for ease of use.

Section 2.3.4, Adjustable-Rate Mortgages (ARMs) for Closed End Home Equity Loans and Purchase Money Second Closed-End loans

- This new section provides the requirements for the ARM loan type now available for closed-end home equity loans and purchase money second closed-end loans.

Section 2.3.6, Minimum Qualifying Payment

- This section was updated to address that for eligible ARMs the minimum qualifying payment for closed-end home equity loans and purchase money second closed-end loans should be based on the fully amortized payment at the Note rate.

Section 2.7.15, Maximum DTI Ratio

- This section was refreshed to include a link to the updated Section 2.1, Combined Loan-to-Value (CLTV)/Loan Amount/Credit Score/Debt-to-Income (DTI), requirements.

Section 2.12.5, Declining Values

- The guideline requiring that the maximum CLTV must be reduced by 5% when there is indication that the subject property is in a declining market remains. The reference to examples based on credit score have been removed.

Contents

1.0 Introduction and General Information

Thank you for choosing Arch Mortgage Assurance Company (AMAC) as your second-lien mortgage insurance provider. By providing second-lien mortgage insurance and sharing the risk of default for second-lien mortgage lending, AMAC helps lenders and investors expand their lending opportunities.

AMAC offers lenders the capability to insure more of their customers' loans and expand their reach in the housing market. With a parent that represents one of the world's top insurance brands, AMAC offers the nation's lenders unparalleled counterparty strength, institutional risk management expertise, a robust appetite for mortgage business and a practical approach to providing credit enhancement on mortgage loans.

AMAC is limited by regulation to insuring indebtedness secured by second-lien mortgages or second-lien Deeds of Trust. Loan eligibility requirements are maintained that are in compliance with Fair Lending laws and other state and federal requirements.

Loans with the following characteristics, or secured by properties with these characteristics, will not be insured by AMAC:

- Property that includes more than one residential unit.
- 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.
- CLTVs that exceed the state maximum.

1.1 Risk and Underwriting Philosophy

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

Our underwriting requirements are designed to facilitate the assessment of mortgage default and foreclosure risk. The requirements in this Manual establish the boundaries of acceptable risk. The Manual provides a set of comprehensive underwriting requirements to ensure the likelihood that the Account Holder (referenced herein as "borrower") will be able to repay the loan. These requirements consider the following:

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

AMAC 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 default and create an uninsurable risk. We recognize that certain loans may fall outside AMAC's underwriting requirements but still represent an insurable risk. When this happens, the lender should submit the loan following the exception procedures outlined in section 1.4.2 of this Manual. Our underwriters will review the loan carefully to identify any compensating factors that may warrant an exception.

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

AMAC reserves the right to request additional information concerning the loan transaction.

1.2 Fair Housing and Equal Credit Opportunity Acts

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

AMAC fully supports the letter and the spirit 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.

1.3 Compliance with Laws and Predatory Lending

Each Covered Loan must comply with all applicable federal, state and local laws, regulations and ordinances regarding the origination, servicing, sale or purchase of residential mortgage loans, including but not limited to any applicable "fair lending" laws and including a duly diligent review to ensure that the borrower is not at the date of loan closing a "specially designated national" or "blocked person" as designated by the Department of Treasury's Office of Foreign Assets Control.

1.3.1 Predatory Lending

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

1.3.2 Contractual Interest Rate

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

1.3.3 State-Sponsored Address Confidentiality Programs

AMAC supports participants in state-sponsored Address Confidentiality Programs (called "Safe at Home" in some states) and can accept applications from your borrowers who have a state-provided legal address to use as a substitute address for receiving mail.

These programs assist survivors of domestic violence, sexual assault, stalking or other crimes by providing them substitute addresses for their accounts to keep their actual physical addresses undisclosed.

If you have a new mortgage applicant and need to submit a request for insurance or an existing borrower who has notified you of their participation in a state-sponsored program, contact us at 1-800-862-4510.

Alternatively, you may submit notification and evidence of program participation (i.e., a state-provided program ID card or similar document) to the secure NFP website at arch.nfp.com.

If you need to notify us of a borrower's "cancellation of" or "expiration of" their participation in an Address Confidentiality Program, use the contact number or email address provided above.

1.4 Submission Methods

1.4.1 Delegated Submissions

If a loan meets all the AMAC published guidelines within this Manual, a lender may exercise their delegated authority and close the loan without AMAC or its designated agent (NFP) reviewing the loan file. When exercising this delegated authority, all requirements below must be adhered to:

- The lender is responsible for ensuring that the documents used to underwrite the loan are true and accurate and are contained in the loan file.
- The lender must report the loan as an insured loan on the next monthly Account Report.
- All data reported to AMAC or its designated agent (NFP) must be the correct and final data pertaining to the loan as of the loan closing date.

Loans that do not meet all our published guidelines are not eligible to be delegated but may be submitted through our exception review process as detailed below.

1.4.2 Exception Process

We recognize that certain loans may fall outside of our published underwriting requirements but still present an insurable risk. AMAC is committed to insuring quality loans that make sense for both parties. If you have a loan that you believe is an acceptable risk, you may submit the loan for a non-delegated underwriting review. Our underwriters will review the loan carefully to identify any compensating factors that may warrant an exception. The following is the loan submission exception process:

- Upload the completed AMAC Second-Lien Non-Delegated Submission Form and the complete loan file to the secure NFP website at arch.nfp.com.
  - If additional secure upload options are needed, you may contact AMAC or its designated agent (NFP) at 800-862-4510.
- A decision will be communicated to the contact person listed on the AMAC Second-Lien Non-Delegated Submission Form within four hours of receiving a complete loan file.
- If the loan can be approved for insurance, AMAC or its designated agent (NFP) will issue an AMAC Second-Lien Non-Delegated Loan Approval form that must be retained in the loan file.

- In the event the loan is denied for insurance, AMAC or its designated agent (NFP) will issue a denial letter outlining the reason(s) for non-insurability.
- The lender is responsible for ensuring that all documents used to underwrite the file, regardless of whether AMAC or its designated agent (NFP) reviewed the documents, are true and accurate and included in the loan file. This includes any documents obtained to clear stipulations on the AMAC Second-Lien Non-Delegated Loan Approval Form.
- The lender is also responsible for notifying AMAC or its designated agent (NFP) of any data changes pertaining to the loan (including but not limited to loan term, credit information, income, debts, appraisal, property value or loan amount). This can be done via email directly to the approving underwriter. Their name will appear on the original Exception Approval sent via email.
- The loan must be reported as an insured loan on the next monthly Account Report.

If AMAC or its designated agent (NFP) conducts an exception review or non-delegated underwriting review and issues any type of pend decision, suspend decision or declines the loan for mortgage insurance, a lender may not exercise its delegated authority to resubmit the loan.

1.5 Retail Origination

AMAC requires that all second-lien loans be retail-originated. This means that the lender taking the second-lien loan application must also be the lender that requests the insurance for the second lien. If a Credit Union Service Organization (CUSO) performs any of the loan functions, the loan is considered a retail origination.

Third-party originated loans are ineligible.

2.0 Underwriting Requirements

The underwriting requirements in this section apply to all AMAC second-lien loan programs. When a loan does not meet the requirements of this section, but you believe it is an acceptable risk, the complete loan file may be submitted for a full-file review following our exception process outlined in section 1.4.2.

AMAC Second-Lien Underwriting Guidelines do not follow the underwriting requirements of Fannie Mae or Freddie Mac (the Agencies) or utilize Desktop Underwriter® (DU®) or Loan Product Advisor® (LPA℠) recommendations (except for condominium eligibility as addressed in section 2.12.1). All loans are considered a manual underwrite and must adhere to the requirements outlined in this Manual.

If an item is not addressed in this manual, the complete loan file may be submitted for a full-file review following our exception process outlined in section 1.4.2.

2.1 Combined Loan-to-Value (CLTV)/Loan Amount/Credit Score/Debt-To-Income (DTI) Requirements

The following CLTV/Loan Amount/Credit Score/DTI underwriting requirements represent general eligibility limits for all AMAC-insured second liens. For complete underwriting requirements, refer to the applicable sections in this 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 property value as determined by the required AMAC property valuation method outlined in section 2.12.3.

CLTV/Loan Amount/Credit Score/DTI Requirements*

Occupancy	Property Type	Maximum CLTV	Maximum Loan Amount	Minimum Credit Score	Maximum DTI
Primary Residence	1-Unit, SFD/SFA, Condos	95%	$250,000	660	40%
				740	45%

* The above requirements apply to customers utilizing AMAC's new Premium Rate Card. For customers utilizing AMAC's flat-rate pricing, the following restrictions apply:

- Maximum 95% CLTV with a minimum 740 credit score.
- Maximum 90% CLTV with a minimum 680 credit score.
- DTI not to exceed 40%.

Premium Rate Card eligibility is based on the submitting lender's state and the pricing structure indicated on the declaration page. To determine Premium Rate Card eligibility, click here.

2.2 Documentation Requirements

2.2.1 Age of Documentation

- Credit Documents (including income/employment, assets, and credit reports):
  - **Credit Report** — The credit report must be no more than 90 days old on the Note Date.
  - **Verification of employment/income** — The paystub(s) should represent one full month of pay, include year-to-date (YTD) income and should be no more than 30 days from the Note Date. When tax returns are required, they must be the most recent years' tax returns.
  - **Asset Verification** — The date of the asset verification should be no more than 90 days from the Note Date.
  - Third-party income and employment vendor reports should be no more than 90 days from the Note Date and must evidence that the information in the vendor's database was no more than 35 days old as of the Note Date. For complete third-party vendor requirements, see section 2.8.4.
  - If the credit documents are older than allowed, the lender must update them.
- Appraisal:
  - 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 appraisal with interior/exterior inspection is required. If the new appraisal indicates declining values, the CLTV must meet the requirements outlined in section 2.12.5.

- 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 appraisal with interior/exterior inspection is required.
- Automated Valuation Model (AVM):
    - When an AVM is permitted (see section 2.12.3, Property Valuation Methods), the date of the AVM should not be more than 90 days from the Note Date.

2.2.2 Required Loan File Documentation

For all loan files, the following documentation is required.

- Fully completed, signed, final loan application.
- Permanent Resident verification, if applicable.
- Credit report for all borrowers.
- Verification of employment and income for all income used to qualify the loan.
- Asset statements or verification of deposit, if applicable.
- Documentation to support the value of the property (Uniform Residential Appraisal Report, AVM or tax-assessed value as applicable).
- Documentation to support condominium warranty to the Agencies (applicable when the subject property is a condo, see section 2.12.1 for complete details).
- Proof of any excluded debts from the debt ratio, if applicable.
- Final sales contract/offer to purchase and any addendums that are signed and dated, if applicable.
- Basic title search.
- Signed Borrower Authorization Form (required if language allowing reverification of data is not contained on the Loan Application).
- Documentation to support the terms of the new first lien, including documentation to support the principal, interest, taxes, insurance and homeowner association dues as applicable (applies to purchase money seconds).
- Copy of AMAC Loan Exception Approval Form, if applicable.

Once closed, loan files must also contain:

- Copy of the executed Note and recorded Deed of Trust or Mortgage.
- Final Closing Disclosure or Closing/Settlement Statement.
- Proof of controlled payoffs, if applicable.
- Declaration page of the homeowner’s insurance policy showing the lender as loss payee or additional interest as a second lien/mortgagor.
- Evidence of flood insurance, if applicable.
- Borrower attestation signed at closing confirming no new debt and no change to employment and income.
- Copy of Inter Vivos Revocable Trust, if applicable.
- Power of Attorney, if applicable.
- Right to cancel, if applicable.

NOTE: In a Purchase Money Second Mortgage transaction, if the Insured is a bank and the first mortgage is being done by the parent company of the bank or an arm of the bank, it is acceptable for the credit report and/or appraisal to be in the parent company name vs. the Insured's name.

IRS Transcripts

- IRS transcripts are generally not required but may be requested by AMAC based on our review of the income documentation presented in the application.
- When a lender has acquired the IRS transcripts prior to the application for insurance, a copy of the transcripts must be provided.
- Additionally, transcripts must be provided if acquired by the lender when AMAC 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 insurance. The IRS transcript(s) and any subsequent explanation or documentation of discrepancies must be permanently retained in the lender's loan file.

2.3 Loan Types

The following lists the second-lien loan programs that AMAC will insure, including the acceptable loan purpose, maximum draw period (as applicable) and maximum amortization requirements.

All AMAC insured liens must be in second-lien position.

2.3.1 Open-End Home Equity Loan (also known as Home Equity Lines of Credit or HELOCs)

- Primary residence transactions only.
- Allowed for any purpose except Purchase Money Second and business purpose/investment (see section 2.4.1 for definition of business purpose/investment).
- Maximum draw period of 10 years combined with the amortization period cannot exceed 25 years.
- Interest-only payments required during the draw period. Once the draw term has ended, payments calculated based on the unpaid principal balance amortized over the remaining term of the loan.
- CLTV calculated using the full line amount regardless of the initial draw.
- For line management requirements, see section 3.0.

2.3.2 Closed-End Home Equity Loan (also known as Home Equity Loans or HELOANs)

- Primary residence transactions only.
- Allowed for any purpose except Purchase Money Second and business purpose/investment (see section 2.4.1 for definition of business purpose/investment).
- Maximum 20-year amortization.
- Fully amortizing, fixed-rate/fixed-payment and adjustable-rate mortgages (ARMs) with a minimum initial fixed-rate period of 60 months only. See section 2.3.4 for complete ARM requirements.

2.3.3 Purchase Money Second Mortgage (either an open-end line of credit or a closed end loan)

- Primary residence transactions only.
- Maximum 30-year amortization.
- Closed-End Loans must be fully amortizing, fixed-rate/fixed-payment or ARMs with a minimum initial fixed-rate period of 60 months only. See section 2.3.4 for complete ARM requirements.
- Open-end line of credit — maximum draw period of 10 years combined with the amortization period cannot exceed 30 years.
- For line management requirements, see section 3.0.
- The first lien must be a fully amortizing, fixed-rate or an ARM with a minimum initial fixed-rate period of 60 months. Interest-only first liens, first liens with negative amortization, reverse mortgage first liens and open-end lines of credit first liens are ineligible.
- Also allowed as a refinance of an existing second mortgage loan.
- No cash-out is allowed.
- CLTV calculated using the full line amount regardless of the initial draw.
- CLTV based on the lesser of the purchase price or appraised value.
- See section 2.9.1 for asset requirements specific to purchase money seconds.

2.3.4 Adjustable-Rate Mortgages (ARMs) — For Closed-End Home Equity and Purchase Money Second Closed-End Loans

ARMs with a minimum initial fixed-rate period of 60 months are permitted for Closed-End Home Equity Loans and Closed-End Purchase Money Second Mortgages subject to the following requirements:

- Only positive amortizing ARMs are eligible.
- Loans that allow for interest-only payments or negative amortization are ineligible.
- The maximum initial, periodic and lifetime caps may not exceed 6%.
- After the initial interest-rate adjustment, the minimum interest rate adjustment period for any subsequent adjustments is 6 months.
- The difference between the initial interest rate of an ARM and the fully indexed accrual rate at time of closing must not exceed 300 basis points.

2.3.5 Ineligible Loan Types

The following are ineligible for insurance:

- First-lien closed-end Home Equity Loans.
- First-lien Home Equity Lines of Credit.
- Secured Home Improvement Loans (loans based on a future “as is” value such as construction and renovation loans).
- Unsecured Home Improvement Loans.
- Any loan with the potential for negative amortization.
- Any transaction where the borrower(s) does not intend to occupy as their primary residence.

2.3.6 Minimum Qualifying Payment

The minimum qualifying payment as shown below, must be used when calculating the debt-to-income ratio.

Loan Type	Minimum Qualifying Payment
Open-End Home Equity Loan	• Use 1% of the maximum line amount. *Example: If the maximum line amount is $250,000, use $2,500 as the minimum qualifying payment when determining the debt ratio.*
Closed-End Home Equity Loan Purchase Money Second Closed-End Loan	• Use the fully amortized payment for both fixed-rate and eligible ARMs at the Note rate.

2.4 Transaction Types

AMAC requires a basic title search and all liens must be in second-lien position. Payoff of all underlying mortgage loans and other debt paid at closing (see section 2.7.13 for payoff or pay down of debt for qualification requirements) must be controlled by the lending institution. If a mortgage being paid off is a Line of Credit, the line must be closed at the time of payoff and reconveyed.

2.4.1 Ineligible Transaction Types

- Loans whose purpose is for a business purpose/investment:
  - Business purpose can be defined as including but not limited to any purchase or investment that could be related to the borrower's primary source of income or investment into a business. Other purposes could be deemed as business, depending on the unique characteristics of any individual loan.
- Assumptions.
- Bridge loans.
- Construction and renovation loans.
- Closed-end, interest-only loans.
- Third-party originated loans.
- Loans where there is Lender knowledge that the AMAC-insured loan is behind a first lien with the following status:
  - Privately held.
  - Negative Amortization features.
  - Option ARM.
  - Interest-only features.
  - Balloon payment provisions.
  - ARM with a first rate adjustment of less than five years (< 5/1 ARM).
  - Reverse mortgage.
  - Open-end line of credit.
  - Amortization term greater than 360 months.
  - Construction or renovation loan that is still in the construction or renovation phase.

- Land Contracts.
  - Also known as "contract for deed," "agreement for deed," "land installment contract" or an "installment sale agreement." This is a contract between a seller and buyer of real property in which the seller provides financing to the buyer to purchase the property for an agreed-upon purchase price and the buyer repays the loan in installments. Under a land contract, the seller retains the legal title to the property, while permitting the buyer to take possession of it for most purposes other than legal ownership. When the full purchase price has been paid, including any interest, the seller is obligated to convey legal title to the property to the buyer.

2.5 Borrower

2.5.1 Underwriting the Borrower

- All borrowers on a loan are required to have a valid Social Security number (SSN).
- Loans to borrowers who have been issued an Individual Tax Identification Number (ITIN) in lieu of a Social Security number are **ineligible**.
  - An ITIN is set up in the same format as a Social Security number, with nine digits. The first digit is always a 9 and the second group of numbers (fourth digit) will always start with a 7 or 8 (i.e., 9xx-7x-xxxx).
- Maximum two borrowers.
- All borrowers must occupy the property as their primary residence and be on title.
- If a borrower is not on title, they can be added; however, a waiting period of 90 days is required before being eligible.
  - The above does not apply if the borrowers are married and one borrower is not on title.

2.5.2 Citizenship

All borrowers must be U.S. citizens or Permanent Residents.

- Proof of legal U.S residency is required for Permanent Residents. Typical documentation includes a copy of USCIS Form I-551, also known as a Green Card. If the Green Card expires within six months from the date of the loan application, there must be supporting documentation that the borrower has reapplied for another green card.

2.5.3 Inter Vivos Revocable Trust

AMAC will insure loans in which title is held in a Revocable Trust, also known as a "Living Trust."

- The borrower must be a primary beneficiary and trustee of the trust.
- The trust must specifically allow the trustee to take out a mortgage on the property.
- The lender must insure the validity and legality of the trust documentation. Insurance coverage is dependent on the lender obtaining a legally binding and assignable promissory note and mortgage.

2.5.4 Power of Attorney

Use of a Power of Attorney to sign closing docs is acceptable, provided the Power of Attorney is specific to the real estate transaction and includes a valid expiration date. The lender must insure the validity and legality of the

Power of Attorney documentation. Insurance coverage is dependent on the lender obtaining a legally binding and assignable promissory note and mortgage.

2.5.5 Maximum Number of Insured Loans per Borrower

AMAC will insure a maximum of one second-lien loan per borrower.

2.5.6 Separated Borrowers

Separation agreements are not allowed unless otherwise required by law. A final executed divorce decree is required.

2.5.7 Ineligible

- Loans with more than two borrowers.
- Non-Permanent Residents.
- Foreign nationals.
- Non-occupant borrowers.
- Guarantors.
- Co-signer.
- Loans to Corporations, Partnerships, Syndications or Irrevocable Trusts.
- Borrowers with only an ITIN.

2.6 Credit Documentation and Evaluation

2.6.1 Credit Report

A single bureau credit report, including a public record search, is required for each borrower. A classic FICO credit score must be requested. Vantage scores and other score models, such as those used for auto loans and credit cards, are ineligible.

When a lender obtains a bi-merge or tri-merge credit report, all FICO scores must be used to determine the representative credit score.

The credit report should reflect the borrower's overall debt payment history, including 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 debt on the loan application, including an outstanding mortgage loan, the lender should provide separate, direct credit verification.

Foreign credit reports are ineligible.

2.6.2 Valid Credit Score

All borrowers must have a valid FICO score as defined below. Loan files where a borrower does not have a valid FICO score are ineligible.

For a credit score to be accepted by AMAC, the score must be based on sufficient accurate information. Too little information or information that is significantly inaccurate makes the credit score unusable. Although a credit score can be generated with one tradeline, AMAC does not consider the credit score valid unless each borrower has a minimum credit depth of two years of satisfactory credit with at least two installment and two revolving accounts. The credit report should reflect no judgments, repossessions or charge-offs in the last 60 months.

Wherever "credit score" is referred to within this Manual, the reference is to a "valid credit score."

2.6.3 Borrower Representative Credit Score

Each borrower's representative credit score is used in the determination of the loan representative credit score. When more than one score is obtained for each borrower, the borrower's representative credit score is determined as follows:

- When two credit scores are obtained for the borrower, use the lower score.
- When three credit scores are obtained for the borrower, use the middle score.
- When three scores are obtained for the borrower and two are identical, one of the identical scores is considered the middle score.

2.6.4 Loan Representative Credit Score

- For loans with only one borrower, the borrower's representative score is the loan's representative credit score.
- For loans with two borrowers, the lowest borrower's representative score is the loan's representative score.

2.6.5 Fraud Alert Messages

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

2.6.6 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 borrower's credit history, and the credit score as reflected on the credit report meets AMAC'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 borrower'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 borrower's credit history, but the credit score as reflected on the credit report does not meet AMAC'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 AMAC's minimum credit score requirement.
- When the correction or removal of the disputed or erroneous item will worsen the borrower'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.

2.6.7 Credit Evaluation

The borrower's credit history must be carefully evaluated to determine the borrower'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 borrower's capacity (financial ability) to meet the mortgage obligation and compensating factors, such as the loan terms and combined loan-to-value (CLTV) when rendering an underwriting decision. While credit scores are an industry standard for evaluating mortgage eligibility, AMAC will also evaluate the overall credit history of borrowers as part of our risk analysis.

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

- The type and amount of outstanding credit.
- How long the borrower has had credit.
- How the borrower 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 borrower'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 borrower is at risk of becoming overextended. A pattern of high balance-to-limits may also indicate the following risk characteristics:

- The borrower is making minimum payments on revolving accounts rather than reducing the debt and, therefore, may be near his or her credit capacity.
- The borrower relies on credit to meet day-to-day living expenses.
- The borrower 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 setback and possibly mortgage delinquency.
- The borrower lacks the financial experience to manage credit.

Excessive Use of Credit

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

Particular attention should be given to the borrower's credit pattern when underwriting second-lien transactions to ascertain that the borrower does not have a history of credit over-extension, resulting in a pattern of debt consolidation loans.

Housing Payment History

A satisfactory housing payment history, reflecting no late payments for the most recent 24 months, is required for each borrower. A borrower with a shorter housing history (but not less than 12 months) is acceptable, provided all housing payments have been paid as agreed with no late payments.

Recent Inquiries

If the credit report shows recent inquiries, the underwriter should determine if credit has been granted and the impact to the debt ratio and overall risk to the proposed second-lien transaction. An explanation from the borrower 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 borrower is searching for the most favorable second-lien loan terms. It may, however, indicate increased credit risk, such as the following:

- The borrower is shopping for a new first-lien mortgage to acquire a new primary residence.
- For a purchase money second, the borrower intends to borrow funds for the earnest money deposit, down payment or closing costs.
- The borrower is marginally qualified and has been rejected by other second-lien loan lenders; the loan is being "shopped."
- The borrower is attempting to "leverage" his or her financial position.
- The borrower 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 borrower is in danger of over-extension of credit or lacks sufficient financial experience to manage credit, or in the case of a purchase money second, may be using credit for the earnest money deposit, down payment or closing costs.

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 borrower as an authorized user may be considered in the underwriting decision if one of the following exists:

- The owner of the tradeline is an applicant on the second-lien loan transaction; or
- The borrower 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 DTI ratio.

An authorized user tradeline must be considered if the owner of the tradeline is the borrower's spouse, even if the spouse is not a borrower in the second-lien loan transaction and the monthly payment obligation must be included in the DTI ratio.

2.6.8 Slow Payment and Derogatory Credit

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 borrower 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

Borrowers with late housing payments in the past 24 months are ineligible for insurance. If the credit report does not provide the borrower's housing history, a verification of mortgage or verification of rent must be obtained.

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 must be paid in full at or prior to loan closing unless the total balance of all accounts is $1,000 or less. Collection accounts and charge-offs on non-mortgage accounts that exceed these limits must be paid in full at or prior to closing. When $5,000 or more is needed to satisfy the account(s), sufficient assets must be verified with a current bank statement or verification of deposit.

Credit Counseling

Borrowers currently in Credit Counseling are ineligible.

Borrowers who have completed Credit Counseling must have four years' re-established credit supported by a minimum of two installment tradelines and two revolving tradelines with "as agreed" payment histories. There can be no delinquency since the completion of credit counseling.

Judgments, Lawsuits, Litigation and Repossessions

The credit report must reflect no judgments, repossessions or charge-off accounts in the last 60 months. Any balances from such accounts greater than 60 months must be paid in full and satisfied at or prior to closing. When $5,000 or more is needed to satisfy the account(s), sufficient assets must be verified with a current bank statement or verification of deposit.

Borrowers party to pending litigation or a lawsuit are ineligible.

Garnishments

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

Tax Liens

State and federal tax liens must be paid in full, with borrower's own funds, prior to closing. The borrower must furnish a satisfactory letter of explanation and have established other good credit.

If a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the account must be paid in full and satisfied at or prior to closing.

When $5,000 or more is needed to satisfy the account(s), sufficient assets must be verified with a current bank statement or verification of deposit.

Bankruptcy

Previous bankruptcies are required to be discharged a minimum of four years, with four years of re-established credit of at least two installment tradelines and two revolving trade lines paid as agreed. There can be no delinquency since the discharge of the bankruptcy.

Borrowers with multiple filings in the past seven years are ineligible.

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

Borrowers with previous Foreclosures, Deeds-in-Lieu, Settled Mortgage Accounts, Charge-Off of a Mortgage or Short Sales are ineligible.

Forbearance, Deferment, Modification

If the first mortgage is currently in a forbearance, deferment or any type of loan modification program, the second-lien loan is ineligible for insurance.

2.7 Liabilities

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

- Principal, interest, taxes, insurance and assessments (PITIA) on the borrower's primary residence.
- Installment loan debts with a remaining payment term greater than 10 months.
- Revolving or open credit.
- All lease payments.
- PITIA on any non-income producing real estate or net operating losses on investment properties.
- Alimony, child support and separate maintenance payments.
- Taxes and insurance on any properties owned free and clear.
- Loan payments on 401(k) accounts.

Utilities, car insurance, food, clothing, school tuition, etc., are not included in the debt ratio.

2.7.1 Liabilities

For each liability, the underwriter must determine the unpaid balance, repayment terms and the borrower'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 lender must provide separate credit verification.

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

If the credit report indicates a revolving debt with an ECOA code of authorized user, the debt does not need to be included in the debt ratio (unless the tradeline was considered in the underwriting decision as addressed in section 2.6.7).

Some credit reports may indicate both a "scheduled "payment and an "actual "payment. If this is the case, the "scheduled "payment should be used in the debt ratio calculation.

If the borrower lists a payment on their loan application that is higher than what is reporting in the credit report, use the higher payment in the debt ratio calculation.

The following obligations should be considered in underwriting the loan:

2.7.2 Installment Debt

Generally, all installment debt, including student loans, automobile loans and home equity loans, should be considered as part of the borrower'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 borrower's ability to meet his or her credit obligations.

Deferred installment debt must be included as part of the borrower'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 borrower's payment letter or forbearance agreement should be obtained so the payment amount can be determined (see section 2.7.9, Student Loans, for additional information).

2.7.3 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 if the balance is greater than $250. 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 3% of the outstanding balance or $10.

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.

2.7.4 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.

2.7.5 Loans Secured by Financial Assets

Loans secured by the borrower's 401(k) or other financial asset, with more than 10 payments remaining, must be included in borrower's long-term debt.

2.7.6 Alimony/Child Support/Separate Maintenance Payments

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

The debt should be documented with court records (for example, the borrower's Divorce Decree or Legal Separation Agreement). The lender is expected to verify the borrower's long-term debt by whatever means possible.

2.7.7 Payments on Other Real Estate Owned

When the borrower owns additional real estate (other than rental properties reported on the borrower's tax returns, see section 2.8.24 for complete rental income/loss requirements), the monthly payments of principal, interest, taxes, insurance, HOA fees and other associated costs for real estate owned (other than the subject property) must be verified and be included in long-term debt. This will include second homes, vacant land, properties purchased under a land contract, properties owned free and clear and other non-income producing property.

Any mortgage payment that appears on the credit report is assumed to be a principal and interest payment only. Therefore, taxes, insurance and HOA dues (as applicable) for all additional real estate owned must be verified and included in the full PITIA.

Existing Home Equity Loan

- For a fixed-rate/fixed-payment existing closed-end home equity loan (secured on borrower's other real estate owned) the fully amortizing payment should be included in the total monthly obligations.
- For an adjustable-rate existing closed-end home equity loan (secured on borrower's other real estate owned), the qualifying payment included in the total monthly obligations must be calculated using the maximum payment after the first adjustment.

Existing Home Equity Line of Credit

- For an existing home equity line of credit (secured on borrower's other real estate owned) that indicates a monthly payment (either principal and interest or interest only), the payment will be considered as part of the borrower'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.
- If the credit report reflects a balance for an existing home equity line of credit but does not reflect a payment, use 1% of the full line amount.

2.7.8 Business Debt in Borrower's Name

When a self-employed borrower claims an obligation on the personal credit report is being paid by the borrower'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 (six 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 borrower'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 borrower's individual monthly recurring debt.
- When the account in question does have delinquency, the full monthly obligation must be considered as part of the borrower'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.)

2.7.9 Student Loans

Deferred student loans must be included as part of the borrower's recurring monthly debt obligations. The actual verified monthly payment from the credit report, loan statement or forbearance agreement should be used if available.

Income-based payments for student loans are not allowed.

If a student loan payment is listed on the credit report and represents less than a 0.5% of the outstanding balance, a payment of 0.5% of the balance should be used instead of the payment listed.

If the monthly payment cannot be verified, an estimated payment may be used by calculating 0.5% of the current outstanding balance.

2.7.10 Debts Paid by Others

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

When a borrower is obligated on a non-mortgage debt but is not the party who is actually repaying the debt, the lender may exclude the monthly payment from the borrower'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.

In order to exclude non-mortgage debts from the borrower's DTI ratio, the credit report must reflect no late payments in the last 12 months and the lender must obtain the most recent six months' canceled checks (or bank statements) from the other party making the payments.

Co-signed mortgage debt may not be excluded from the DTI ratio, regardless of who is making the payments.

2.7.11 Court-Ordered Liabilities

When a borrower 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 borrower from liability, the borrower has a contingent liability. The lender is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations.

The lender is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The lender cannot disregard the borrower's payment history for the debt before its assignment.

2.7.12 Open 30-Day Charge Accounts

Open 30-day charge accounts require the balance to be paid in full every month. AMAC does not require open 30-day charge accounts to be included in the DTI ratio if there are sufficient assets to pay the debt in full or if evidenced reimbursed by the employer. Lenders must verify borrower has available funds to cover the account balance with a current bank statement or verification of deposit. The verified funds must be in addition to any funds required for closing costs and reserves. If there are insufficient funds verified, a 3% payment must be included in the DTI.

2.7.13 Payoff or Pay Down of Debt for Qualification

When debts are paid off and thus not included in the DTI ratio, the lender must control the disbursement of funds and the accounts must also be closed. If the accounts are not closed, a monthly payment must be included in the DTI ratio. When $5,000 or more is needed to satisfy the account(s), sufficient assets must be verified with a current bank statement or verification of deposit. Paying down debt to qualify is not permitted.

2.7.14 DTI Ratio

The DTI ratio is used to compare the borrower's total monthly obligations to his or her stable monthly gross income. A borrower's total monthly obligations consists of the borrower's housing payment and all other long-term debt obligations as follows:

Housing Payment

The monthly housing payment includes the principal and interest for the mortgage that is secured by the borrower'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:
  - HOA dues.
  - Leasehold payments.
  - Ground rent.
  - Special assessments.
  - Payments required to be made for subordinate financing. See section 2.3.6 for determining the qualifying payment for the subject second lien.

If the borrower is on title to their primary residence but is not obligated on the underlying first lien, the associated PITIA of the first lien must be included in the debt ratio. In such instances, a written verification of mortgage must be obtained to verify a satisfactory payment history as well as the underlying balance.

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, and any installment debt with less than 10 months that materially impact borrower's ability to repay.
- 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 with balances greater than $250, open accounts (when sufficient funds to pay off are not documented) and unsecured lines of credit — calculated at the greater of 3% of the outstanding balance or $10, unless otherwise documented.
- Alimony, child support or separate maintenance payments with more than 10 remaining payments.
- Negative net rental income from investment properties owned by the borrower. See section 2.8.24 for how to determine net rental income/loss.

2.7.15 Maximum DTI Ratio

For the maximum DTI requirements, see section 2.1, Combined Loan-to-Value (CLTV)/Loan Amount/Credit Score/Debt-To-Income (DTI) Requirements.

2.8 Income and Employment Overview

A qualified borrower should have long-term, stable income from employment or other acceptable sources. A minimum two-year history of stable and continuing employment in the U.S. is required. If the borrower has an employment history of less than two years and was previously in school, the lender should provide a copy of the diploma or student transcripts. The borrower must explain any employment gaps that extend beyond three months.

The Verification of Employment (VOE) cannot be the sole source of income verification when a borrower 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 two years and a paystub(s) are required.

Unless the lender 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 lender may conclude that the income is stable, predictable and likely to continue. The lender is not expected to request additional documentation from the borrower.

2.8.1 Verification and Documentation

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

Income should be determined to have a likelihood of continuance for three years. When the income falls in a category that does not have a defined expiration date, such as certain public assistance income (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 income considered in the debt ratio must be verified and documented according to requirements outlined in this section. For age of documentation requirements, see section 2.2.1.

Unless otherwise stated, gross income, prior to income tax deductions, insurance, 401(k), or retirement deductions should be used to qualify. When tax returns are provided, they must be signed by the borrower(s). IRS transcripts are acceptable.

When paystubs and W-2s are referenced as acceptable documentation, AMAC will accept third-party income and employment verifications (such as The Work Number), provided they include comparable income and employment information.

2.8.2 Income Analysis

Stable monthly income considered for qualification is the borrower'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 borrower for at least the past two consecutive years and continuation is probable based on foreseeable circumstances.

2.8.3 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 two-year history of receipt and it should be expected to continue. The year-to-date earnings must be compared to the prior year's earnings. An earnings trend that is level or increasing from year-to-year may be considered stable income.

When earnings show a declining trend, the income may not be stable and additional analysis is required to determine if any of the income can be considered as stable, qualifying income. If the additional analysis supports that income has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the lower amount of income may be used. When the income trend is declining, in no instances may the lower income be averaged with the prior earnings.

2.8.4 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). The paystub(s) 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 year's W-2.

Alternatively, the following may be used to document income:

- Completed VOE.
- Third-party income and employment verifications (such as The Work Number), provided they include comparable income and employment information typically associated with YTD paystubs and W-2s.
- Letter from the employer that includes all the income and employment information normally provided on the VOE form.

Borrowers in certain occupations such as clergy, truck drivers, union workers, contract workers or those paid on a "per job" basis may require additional documentation.

Employment Contracts and Offer Letters

An executed employment contract or offer letter that documents the start date, position and salary is acceptable documentation but must be supported by the borrower's previous employment. Previous W-2s and YTD paystubs must support a similar occupation and income stream. Employment must start prior to the loan closing and only base pay may be used. If a current YTD paystub from the new employer cannot be obtained before closing, the lender must obtain a written VOE or may re-confirm all terms of employment verbally. Employment beginning after closing is not eligible.

2.8.5 Alimony, Child Support and Separate Maintenance

For child support, alimony and separate maintenance payments to be considered as income, it must continue for at least three years beyond the loan close date. A complete copy of the divorce decree 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 over which it will be paid. The borrower must also provide acceptable evidence of his or her consistent receipt of these funds during the most recent six-month period. Documentation can include deposit slips, court records, copies of signed federal incomes tax returns, copies of borrower's bank statements showing regular deposits, copies of the canceled checks or court confirmation reports. The documentation must support stable receipt of income for a minimum of six months. Income received for less than six months or partial payments made on an inconsistent basis are ineligible.

2.8.6 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 three years must be obtained. A government annuity has no defined expiration date; therefore, proof of continuance for three years is not required.

2.8.7 Auto Allowance

Auto allowances that have been received for a minimum of 12 months may be used to offset the borrower's monthly auto payment. The amount of the auto allowance must be documented with a current YTD paystub or a VOE.

2.8.8 Bonus Income

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

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

2.8.9 Capital Gains

Income received from a capital gain is generally a one-time transaction and not always stable monthly income. If the borrower wishes to use this as qualifying income and regularly receives capital gains, it should be documented as follows: two years' tax returns, including Schedule D. When the tax returns show evidence of realized capital gains for the last two years, the lender may develop an average income and use that amount as part of the income as long as the borrower 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.

2.8.10 Commissions

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

- A VOE or the borrower's recent paystub and W-2 forms covering the most recent 2-year period reflecting YTD commission.

The calculation of commission income should be based on a two-year average. See section 2.8.3, Income Calculation, for additional detail.

2.8.11 Dividends and Interest

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

For purchase money second transactions, any assets used for the down payment and closing costs must be subtracted from the total assets before calculating future interest or dividend income.

2.8.12 Family Business/Interested Party

When a borrower is employed by a relative, a 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 two years, W-2s and paystubs are required.

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

Borrowers 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. Borrowers must not be asked about possible future plans for family leave or disability.

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

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

If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three 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 borrower. For additional information on short-term disability, see Temporary Leave Income below.

Required Income Documentation

To assess the income of borrowers on temporary leave, the underwriter should obtain sufficient documentation of the borrower'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 borrower's date of return to active work (for example, an employer-approved leave request, a Family Medical Leave Act document, etc.). The borrower may

provide the employer documentation to the lender if the documentation is reasonably reliable and specific to the individual borrower.

- Full employment income documentation (as per AMAC income requirements).
- Verification of the borrower's assets, if necessary, to qualify the borrower due to unpaid leave or a reduction in income during leave.

Borrowers Returning to Work before the First Payment

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

Borrowers Returning to Work after the First Payment

If the borrower 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 borrower. Temporary leave income should be reviewed as a monthly average over the term of the leave. Accordingly, if the borrower receives a lump-sum leave payment, rather than periodic payments, the underwriter should evaluate the borrower's income level by dividing the lump-sum amount by the number of months during which the borrower will be on leave. Similarly, if the borrower 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 borrower's temporary leave income is less than his or her regular employment income, the borrower'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 borrower intends to return to work after the first payment due date and the borrower's temporary leave is or becomes unpaid or the level of the borrower's temporary leave income is insufficient to qualify, the underwriter should consider any verified assets of the borrower in excess of the amount necessary to close and any reserve requirements.

A borrower 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 borrower 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 June 1	July 1 Oct. 1	$12,000/2 Months = $6,000 $12,000/4 Months = $3,000

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

2.8.14 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 borrower has a minimum two-year history of providing foster care services under a recognized program and is likely, in the foreseeable future, to continue to provide such services for at least three years. 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.

2.8.15 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 borrower should have a documented history of receiving it for at least two years and verify that it will continue for at least three more years.

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

2.8.16 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 2.8.26 and 2.8.29, respectively) may be used to qualify. Such income must be verified by obtaining a copy of the borrower's disability policy or a benefits statement from the benefits payer (insurance company or employer). The policy or other equivalent documentation should verify the borrower'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 three 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 three 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.

2.8.17 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.

2.8.18 Non-Taxable Income

Non-taxable income provides more disposable cash to the borrower and may be increased ("grossed up") by the amount that has been saved by the borrower 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 income.

- Certain types of public assistance payment.
- Certain investments (for example, municipal bonds).
- 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 borrower by adding an amount equal to 25% of the non-taxable income to the borrower'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 borrower's nontaxable income, the lender may use that amount to develop the adjusted gross income. If the borrower 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 statements or any other documents that address the amount of the income and the likelihood of its continuance for at least three years.

2.8.19 Notes Receivable

Stable income from notes receivable, including installment sales and land contracts, may be considered for qualification if the payments will continue for at least three years beyond the date of loan approval. A copy of the executed Note should be provided to establish the duration and amount of the payment. Documentation should also be provided to verify that the funds have been received for the last 12 months. Acceptable evidence includes copies of signed/filed tax returns or copies of the bank statements that show consistent deposits of these funds.

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

2.8.20 Overtime

Overtime may be used to qualify the borrower if the employer verifies that the borrower has been receiving the overtime income for the last two years and indicates that it is likely to continue. Overtime earnings should be averaged over at least two years and should not exceed 25% of the base income. 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.

2.8.21 Part-Time and Second Jobs

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

Consideration should be given to whether the part-time or second job is compatible with the borrower'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.

2.8.22 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 borrower's two most recent bank statements reflecting the amounts deposited. If using tax returns to determine qualifying retirement income, the full amount of income (not just the "taxable" amount reported on Form 1040) may be included.

If the retirement income is from a monthly annuity payment or monthly distribution from a 401(k), IRA or Keogh retirement account, the borrower must have unrestricted access to the accounts without a penalty. Documentation must be provided to determine that the payments will continue for at least three 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.

2.8.23 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 three 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 second-lien loan application.

2.8.24 Rental Income

Rental income (from a maximum of three rental properties) may be considered when the income is reported on the most recent two years' tax returns. A 2–4-unit property is considered one rental property.

Qualifying rental income is determined by calculating a 24-month average of the gross rental income (before expenses) on the borrower's most recent tax returns (Schedule E). A 25% vacancy factor must be applied to the 24-month gross rental income average and then reduced by the rental property's full PITIA.

A lease agreement may only be considered when the property has been owned for less than a year and therefore does not show on the most recent tax return. In such cases the borrower's prior tax returns must support a two-year history of receiving rental income from other rental properties. The lease agreement must reflect a 12-month term and be fully executed. Qualifying rental income is determined by applying a 25% vacancy factor to the gross rent and then reduced by the rental property's full PITIA.

- If the result is a positive number, add to income. Do not include the rental property PITIA in the DTI.
- If the result is a negative number include as a liability. Do not include the rental property PITIA in the DTI.

The mortgage payment that appears on the credit report is assumed to be a principal and interest payment only. Therefore, taxes, insurance and HOA dues (as applicable) must be verified and included in the full PITIA.

Completion of the AMAC Second-Lien Rental/Investment Property Worksheet is required.

Ineligible:

Projected rental income (defined as any type of verification other than an IRS 1040 and the borrower has no history of rental income reflected on the tax return) is ineligible.

2.8.25 Royalty Payments

There must be documented evidence that the borrower has received the royalty payments for at least 12 months and will continue to receive them for at least three years after the date of the loan application. Copies of the royalty contract, agreement or statement confirming amount frequency and duration of the income and the borrower's most recent tax returns, including the IRS Form 1040 and Schedule E, will be required to verify the income.

2.8.26 Social Security

Benefits received from the Social Security Administration may be used to qualify the borrower 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 three years, it cannot be included. If the benefits verification letter (or other equivalent documentation) does not have a defined expiration date within three 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 borrower's disability or medical condition be requested. If verified as non-taxable, Social Security income may be grossed up.

2.8.27 Tip Income

Tip income may be used to qualify the borrower if the employer verifies that the borrower has been receiving the tip income for the last two 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 two 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 two years. It is important to establish a long-term earnings trend.

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

2.8.28 Trust Income

Trust income may be considered for qualification if it will continue for at least three years from the date of loan approval. Trust income should be documented by a copy of the trust agreement or the trustee's statement confirming the amount, frequency and duration of payments.

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 section 2.8.15, Inheritance and Other Guaranteed Income.)

2.8.29 Veterans Administration (VA) Benefits

Benefits received from the VA may be used to qualify, but if any VA benefits are due to expire within three 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 three 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.

2.8.30 IRS Transcripts

IRS transcripts are generally not required but may be requested by AMAC, based on our review of the income documentation presented in the application. However, when a lender has acquired the IRS transcripts prior to the application for second-lien mortgage insurance, a copy of the transcripts must be provided. Additionally, transcripts must be provided if acquired by the lender when AMAC 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 lender's loan file.

2.8.31 Self-Employed Income

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

- The borrower should have been self-employed for at least two years prior to the loan application.
- Personal tax returns should reflect increases in income with likelihood for continued growth.

The income of self-employed borrowers 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 borrower to meet ongoing obligations.
- The length of time self-employed and overall experience in the field must be considered.

Two years' most recent filed IRS Federal 1040 tax returns are required. The self-employment income must be averaged over 24 months using the net income reported on Schedule C or E of the 1040 form. Depreciation and any other expenses may not be added back.

Profit and loss statements may not be used to calculate income. However, if the borrower has filed an IRS extension, proof of the extension must be documented, and a YTD profit-and-loss statement must be analyzed to determine a stable income trend. Income must still be averaged using the two years' most recent filed IRS 1040s.

2.8.32 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 borrower 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, two years' tax returns will be required to establish a long-term history of receipt.

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

2.8.33 Ineligible Income Sources:

- Employment that begins after closing.

- Expense account reimbursements.
- VA education benefits.
- Retained earnings from business.
- Any source of income that cannot be verified by the lender.
- Income that is not likely to continue for at least three years beyond the date of closing.
- Rental income from the subject property, including from an accessory dwelling unit.
- Projected rental income (rental income not supported by tax returns).
- Foreign income.
- Trailing co-borrower income.
- Boarder income.
- Restricted Stock Units (RSUs).
- Deferred compensation.
- Asset Depletion (other than short-term disability income that meets the requirements in section 2.8.13, retirement income that meets the requirements in section 2.8.22 or trust income that meets the requirements in section 2.8.28).

2.9 Assets

Assets are an important factor when determining a borrower's creditworthiness and financial strength. 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.

For all second-lien transactions, if funds are needed for debt payoff, they must be verified if the amount is greater than $5,000. A minimum of one-month current account statement is required and any large deposits must be adequately addressed. See section 2.9.2 for complete requirements for large deposits and section 2.7.13 for payoff requirements for debts paid at closing.

2.9.1 Asset Requirements for Purchase Money Second Transactions

For purchase money second transactions, the borrower must have sufficient liquid assets for the down payment, closing costs and prepaid expenses. All funds for the down payment must come from the borrower's own funds and must be fully documented. Borrowed funds and gift funds are not an acceptable source of down payment. For the complete list of ineligible sources, see section 2.9.3.

Acceptable documentation includes:

- Two months' current and consecutive checking/savings statements or a completed Verification of Deposit (VOD).
- Two months' current and consecutive brokerage statements verifying non-retirement stocks/bonds/mutual funds.
- Two months' current and consecutive retirement statements (such as 401(k) or SEP accounts) supported by evidence of withdrawal supporting sufficient funds needed to close.
- Executed Closing Statement supporting the sale of borrower's prior home with sufficient net proceeds to close on the subject transaction.

Interested Party Contributions and Lender Credits

Interested Party Contributions, including any lender credits, are limited to 3% and may be applied to closing costs and prepaids only and may not exceed the total of closing costs and prepaids.

2.9.2 Large Deposits

For all transactions that require asset verification, large deposits, defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan, must be addressed as follows:

- 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.

2.9.3 Ineligible Source of Funds

- International funds.
- Cryptocurrency.
- Proceeds from secured, unsecured loans or personal loans.
- Gifts.
- 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.

2.10 Geographic Requirements

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

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

2.11 Occupancy

All borrowers on the loan must occupy the subject property as their primary residence.

Second homes, vacation homes and seasonal homes are not considered the borrower's primary residence and are ineligible for insurance.

2.12 Property

Adequacy of the collateral is a critical element of the second mortgage. AMAC maintains standards for residential properties that are considered sound, reasonable and necessary to ensure quality. These standards support AMAC's corporate objectives and provide for compliance with state insurance laws, Fair Lending and Equal Credit Opportunities laws.

All properties must be held in Fee Simple Property Rights. Listed below are the eligible property types that AMAC will insure.

2.12.1 Eligible Property Types

- 1-unit single family detached.
- 1-unit single family attached.
- One-bedroom or larger Condominiums that meet Fannie Mae or Freddie Mac requirements (warrantable condominiums).
  - AMAC does not verify the salability of a condominium to Fannie Mae or Freddie Mac. The lender 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 salable 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.

2.12.2 Ineligible Property Types

- Condominiums that do not meet Fannie Mae or Freddie Mac requirements (non-warrantable condominiums) and:
  - Condominiums that include manufactured homes.
  - Condotels.
  - Studio Condos (units without a complete kitchen and separate bedroom).
- Barndominiums.
- Cooperatives.
- Group Homes.
- Houseboats.
- Illegal use per zoning.
- Investment Homes.
- Leasehold properties.
- Log Homes.
- Manufactured Homes (any dwelling unit built on a permanent chassis and attached to a permanent foundation system and that has evidence of a HUD Data Plate and HUD Certification Label or has/had wheels and an axle).
- Metal Homes.
- Mobile Homes.

- Non-residential property, including commercial or business activity on premises (except for incidental business use).
- Pioneering designs such as underground improvements, irregular floor plans, geodesic dome homes and 3D printed homes.
- Properties held as Life Estates.
- Properties in less than average condition or with a condition rating of C5, C6 or a quality rating of Q5, Q6.
- Properties that are currently listed for sale and properties that have been listed for sale by the borrower in the past six months.
- Properties that include more than one unit.
- Properties appraised “subject to completion per plans and specs” and properties appraised “subject to renovation.”
- Properties with more than 20 acres.
- Properties with resale deed restrictions.
- Seasonal Homes (properties without year-round access).
- Second Homes.
- Timeshare properties.
- Vacant land or lot loans.
- Vacation Homes.

2.12.3 Property Valuation Methods

When determining the adequacy of the collateral, AMAC permits certain property valuation methods based on the loan type and combined loan-to-value (CLTV). The table below outlines the minimum property valuation requirements based on CLTV. However, if an appraisal is obtained, it must be relied upon to determine the acceptance of the collateral. Alternative property valuation methods, such as AVMs or tax assessed values, may not be relied upon when an appraisal has been obtained.

CLTV	Loan Type	Property Valuation Method[1,2]
All CLTVs	• Purchase Money Second	• Uniform Residential Appraisal Report (URAR), complete with all exhibits and interior/exterior photos: – Single-family attached and detached — Fannie Mae Form 1004/Freddie Mac Form 70. – Condominiums — Fannie Mae Form 1073/Freddie Mac Form 465. CLTV based on the lesser of the purchase price or appraised value.
>80%*	• Closed-end home equity loan • Open-end home equity line of credit	• Uniform Residential Appraisal Report (URAR), complete with all exhibits and interior/exterior photos: – Single-family attached and detached — Fannie Mae Form 1004/Freddie Mac Form 70. – Condominiums — Fannie Mae Form 1073/Freddie Mac Form 465. *** For transactions with CLTVs greater than 80% up to a maximum 90% CLTV, and with a minimum 740 FICO, a 2055 Exterior Only Appraisal Inspection, AVM or current-year-tax-assessed value is permitted.**
≤ 80%	• Closed-end home equity loan • Open-end home equity line of credit	• Uniform Residential Appraisal Report (URAR), complete with all exhibits and interior/exterior photos: – Single-family attached and detached — Fannie Mae Form 1004/Freddie Mac Form 70. – Condominiums — Fannie Mae Form 1073/Freddie Mac Form 465. • 2055 Exterior Only Appraisal Inspection, AVM or current-year tax-assessed value.

[1] If the property has been owned for less than one year, the lesser of the purchase price or the original appraised value must be used to calculate the LTV ratio. This value must be supported by one of the property valuation methods listed above based on CLTV.

[2] If the borrower inherited the property and has been on title for less than one year, the value must be supported by one of the methods listed above based on CLTV.

Ineligible Valuation Methods:

- Appraisal Waivers.
- Value Acceptance/Appraisal Waivers plus Property Data.
- Drive-by inspections.
- Property Data Reports.
- 1004D Desktop Appraisals.
- 1004H Hybrid Appraisals.

2.12.4 Appraisal Evaluation

When an appraisal is obtained (see section for 2.12.3 for eligible property valuation methods) it 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.

The following are general parameters under which property is considered acceptable collateral for loans insured by AMAC. Minor deviations to these property standards may be considered in relation to the overall evaluation of the property.

General Property Condition

- 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 quality condition must be rated Q1–Q4. Property ratings of Q5 and 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 that 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 20 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 that 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 AMAC.

- When the appraisal is made subject to repairs or inspection, the lender must ensure that the repairs are made, or the inspection is completed. If the inspection shows that additional repairs are required, those repairs must be completed also. Repairs must be complete prior to closing.
- Properties appraised "subject to completion per plans and specs" and properties appraised "subject to completion of renovation" are ineligible.

2.12.5 Declining Values

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.

If there are any indications the subject property and/or comparable properties are located in an area of soft and/or declining property values, the maximum CLTV must be reduced by 5%.

2.12.6 Multiple Appraisals

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.

2.12.7 Automated Valuation Methods (AVM) and Tax-Assessed Value

When an AVM or tax-assessed value is used (see section 2.12.3 for eligible property valuation methods), the lender must have no knowledge that the property is in less than average condition or has any unsafe or hazardous conditions. If the lender has any questions or concerns about the condition of the property, a traditional appraisal should be requested to confirm the property meets AMAC minimum requirements. If an appraisal is obtained, it must be relied upon to determine the acceptance of the collateral and in determining the CLTV.

AVMs should have a confidence score of 80% or higher and/or a confidence level of Medium or High. AVMs must be based on property data that is current. For example, an AVM utilizing a property data date greater than 30 days prior to the loan application date is not acceptable (also known as retrospective AVMs).

When using a tax-assessed value, the most current year's assessment must be utilized.

3.0 HELOC Line Management Requirements

Lenders must adhere to their documented internal line management procedures. Such procedures must include, at a minimum, routine and periodic credit and valuation reviews to ensure both the credit and property value (including CLTV) continue to be within the acceptable parameters outlined in this Manual. Evidence of credit deterioration and/or value declines must be adequately addressed by the lender and resulting actions must include implementation of line curtailment and/or line freezing when significant deterioration is identified. Lenders must document adherence to their internal line management processes and provide such documentation upon request by AMAC or its designated agent (NFP).

4.0 Claims for Loss

4.1 Claim Adjuster Contact Information

Casey Brien, Claim Adjuster

Email Address: casey.brien@nfp.com

Direct Phone Number: 336-900-2762

Office: 336-285-9056, ext. 22762

If at any time, after the claim has been submitted, or after the claim has been paid, if the borrower should contact the Insured, make any payments or bring the loan current, the Insured should contact the claim adjuster for instruction.

4.2 Initiation of a Claim for Loss

4.2.1 When to File a Claim

A "Claim for Loss" can be filed after a loan is 90 days in Default (unless an earlier time frame is approved by the Company).

"Default" means:

1. The failure by an Account Holder to pay when due a nonaccelerated scheduled periodic payment due under the Eligible Note or
2. The failure by an Account Holder to pay the outstanding balance if the loan has been accelerated by reason of violation by the Account Holder of any due-on-sale clause or
3. A default under any loan secured by a lien or other encumbrance on the Property with priority over the Eligible Note.

A loan is deemed to be in Default for that month as of the close of business on the Installment due date for which a scheduled monthly payment has not been made or on the date the Insured first discovers or should have discovered the violation of a due-on-sale clause. For example, a loan is "three (3) months in Default" if the monthly Installments due on Jan. 1 through March 1 remain unpaid as of the close of business on March 1.

All collection efforts must be exhausted, and the loan determined as uncollectable.

An AMAC Second-Lien Claim for Loss Form must be completed and submitted no later than 180 days from the date of Default along with all the required loan documents.

In the event additional collections efforts need to continue past 180 days, the Insured should request an extension to file a claim by submitting a completed AMAC Second-Lien Claim Extension Form. The extension may be requested by calling or emailing the designated claim adjuster. Once approved, you will receive written documentation that should be kept with the file and presented when the claim is submitted.

In the event the borrower(s) files Chapter 7 bankruptcy, and there is no reaffirmation of debt, the claim filing period may be accelerated with prior NFP approval.

In the event the borrower(s) files Chapter 13 bankruptcy, the lender should file a claim with the bankruptcy court. If the bankruptcy trustee determines that the insured loan will not be part of the repayment plan and there is no reaffirmation of debt, the claim filing process may be accelerated with prior approval from AMAC or its designated agent (NFP).

You are not required to file a judgment against the borrower or foreclose on the mortgage/deed of trust. However, if the Insured wants to pursue legal action in order to avoid filing a claim, the Insured should obtain written approval from AMAC or its designated agent (NFP). The claim coverage will help to cover the prorated legal expense of such actions if prior approval is obtained from the NFP claims adjuster.

The loan should continue to be reported each month on the Account Report during the claim process.

4.2.2 Documents Required to File a Claim

The documents that are required when submitting a claim for loss can vary. The AMAC Second-Lien Claim for Loss Form helps to better identify the documents by grouping the documents as "Required" and "If applicable" and acts as a checklist for the submission.

Required documents:

- A completed AMAC Second-Lien Claim for Loss Form.
- Loan Application.
- Credit bureau file(s) for all borrowers.
- Verification of income for all borrowers.
- Original Note or certified True Copy.
- Recorded mortgage/deed of trust.
- Recorded Assignment of Mortgage.
- Complete pay history on the loan.
- Reason for non-payment as listed in the collection notes.
- Final demand letter, a written demand is required to be sent to all debtors on the note for the full balance unless the borrower(s) have filed bankruptcy or are deceased.
- Lender's Collections guidelines that are currently in place.
- Complete Collection Notes.
- Assignment of Note.

"If applicable" documents:

- Supporting documents if any debts are excluded from the debt ratio calculation.
- Underwriter's worksheet.
- Closing disclosure for the second mortgage.
- Purchase Contract.
- Verification of Deposit.
- Property valuation.
- Copy of First Mortgage Note if lender holds the first mortgage.
- Right to cancel.
- Title Search.
- Bankruptcy notice, schedules, proof of claim or approved plan if Chapter 13.
- Foreclosure notice for the first mortgage.
- Approval endorsement and all documents for stipulated conditions.

- Closing disclosure for the first mortgage on a purchase money or refinance.
- Copy of invoices for any pre-approved collection expenses or attorney fees or court costs being requested.
- Work estimates/bids for home improvements.
- Appraiser’s completion certificate/final inspection.
- Extension to file a claim.
- Documentation to support HELOC line management.

4.2.3 Assignment of Promissory Note

Please use the following Assignment verbiage that can be either typed on the NOTE or attached on the lender's Letterhead.

Assignment of Promissory Note

Loan# ___________

FOR VALUABLE CONSIDERATION, [COMPANY NAME] hereby sells, assigns, transfers and sets over to **Arch Mortgage Assurance Company** whose address is 230 North Elm Street, Greensboro, NC 27401, all of its right, title and interest in and to the (Security Document Name) between **Borrower(s)** to **Lender** dated **[DATE]** in the amount of $_____ and recorded on **[DATE]** at **Doc #:** **Book #: Page #:** in the official records of **[COUNTY NAME] COUNTY, [STATE NAME]** on the following described pieces or parcel of land:

Property Address:

LEGAL DESCRIPTION

Describe here or attach Schedule A

(Company Name)

BY: ______________________________

(Name/Title)

WITNESS:

_____________________ _________________________

(Printed Name) (Printed Name)

Notary

STATE OF_______________

COUNTY OF ___________________________

On ______________ before me,______________________, personally appeared____________________who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of ______ that the foregoing paragraph is true and correct.

WITNESS MY HAND AND OFFICIAL SEAL.

NOTARY PUBLIC:____________________________________ PRINTED NAME:______________________________

My Commission Expires: ____________________________

Prepared by: ____

Phone: ____

4.2.4 Assignment of Mortgage

The Assignment of Mortgage must be recorded in the county in which the original mortgage was recorded and assigned to:

AMAC c/o NFP, 1852 Banking Street, # 9474, Greensboro, NC 27408.

The assignment shall be in the form that is valid in the jurisdiction of the securing property and shall include the transfer of all the lender's rights, title and interest, holdbacks or guaranty relating to the loan.

The recorded assignment of mortgage should be included in the claim for loss submission package.

To expedite the claim payment process, a copy of the assignment, dated and stamped received by a county clerk may be submitted in lieu of the original assignment.

4.2.5 Computation of Loss

The accrued interest, since the date of default, that is payable on the claim is based on the contract interest rate and is calculated using the unpaid principal balance.

The accrued interest is calculated from the date of default to the date of the submission of the claim (this is the date listed on the Claim for Loss form) with 180 days being the maximum number of days.

- The per diem is calculated based on the current principal balance multiplied by the interest rate and divided by 365 days.
- **NOTE**: Additions to the principal balance, such as life insurance or debt protection insurance, will be subtracted from the principal balance.

Any eligible fees or expenses that are being included in the claim computation must be pre-approved by NFP in writing.

The policy does not cover late fees; therefore, they should not be included in the claim computation.

4.2.6 Where to Send Claim Documents

All claim documents should be placed into one zip file and uploaded using the ShareFile instructions below:

The zip file should be labeled as follows before uploading: **CLAIM/Borrower Last Name/Lender Name**.

To send a zip CLAIM FILE, please go to arch.nfp.com and drag your files into the box that says, "Drag files here" and then click the Upload Button.

Upon receipt of the documents, an email will be sent to the submitting contact confirming receipt of the claim. If you need any assistance uploading the zip claim file, please contact Casey Brien at 336-900-2762.

4.2.7 What Happens during the Claims Process

The loan is re-underwritten, utilizing the claim documents provided, to ensure that the established delegated guidelines at the time of origination were met. In addition, if an exception was granted by AMAC or its designated agent (NFP) by an endorsement, the loan will be re-underwritten to confirm the approval conditions, as applicable, were satisfied as well.

AMAC or its designated agent (NFP) will confirm the loan for which a claim has been submitted was previously reported as an insured loan and that premium is current.

If any documents are missing, the claim adjuster will send a trailing documents letter that outlines the documents needed to the submitting contact.

If there are any questions on the documents provided, the claim adjuster will either call or email the submitting contact for assistance.

4.2.8 Receiving the Claim Payment and Next Steps

Claims are paid within 60 days (or applicable state law timelines) of receiving a completed Claim for Loss form and all required documents, as stated in the policy.

The claim adjuster will submit the recommendation to pay the claim to AMAC or its designated agent (NFP) once per month. Once AMAC has completed their review and approval process, the (loss payment) monies are funded to the Insured.

The loss payment shall be delivered in the amount equal to the coverage percentage specified on the policy multiplied by the net unpaid balance of the loan, plus interest, plus any pre-approved fees and cost items incurred by the Insured that are eligible. Any payment is subject to the "Limit of Liability," as listed in the insurance policy, provided such amount is not in excess of the Company's maximum liability for the appropriate policy year.

The Lender Address/City/State/ZIP section on page 1 of the Claim for Loss form should be the address that the loss payment should be mailed to.

A letter will be delivered to the borrower, explaining that AMAC or its designated agent (NFP) now holds the lien and/or note on the previously insured loan. The letter must fulfill the loan transfer and servicing transfer requirements of applicable state and federal law, including TILA and RESPA.

The loan should now be removed as an insured loan on the monthly Account Report.

4.2.9 Appeals

Our Appeals department provides an appeal process for disputed decisions on Cancellations and claim payments. Every appeal will be analyzed by an independent team that will research and consider the basis/merit for every appeal, including supporting documentation.

1. The appeal must be submitted in writing with supporting documentation within 90 days of cancellation or Claim payment. No appeal will be allowed after 90 days from notification or Claim payment.
2. Appeals and supporting documentation may be uploaded through our secure portal at: arch.nfp.com.
3. Each appeal should include the lender loan number, borrower name and property address and should address the specific reason for the appeal and include all supporting documentation. Our appeals department will respond in writing within 90 days.

5.0 Quick Links to Forms and Worksheets

AMAC Second-Lien Non-Delegated Submission Form

Click here to download a fillable form.

AMAC Second-Lien Rental/Investment Property Worksheet

Click here to download a fillable form.

AMAC Second-Lien Claim for Loss Form

Click here to download a fillable form.

AMAC Second-Lien Extension to File a Claim

Click here to download a fillable form.