Arch | MI

CUSTOMER ANNOUNCEMENT

CA 2025-01-AMAC | JULY 1, 2025

Arch MI Equity Secure Announces Guideline Updates

Arch Mortgage Assurance Company (AMAC) insures home equity lines of credit and home equity loans, including purchase money seconds, through Arch MI Equity Secure®.

Effective Aug. 1, Arch MI Equity Secure guidelines will be expanded to allow additional loan types, including three-year adjustable-rate mortgages (ARMs), balloon payment mortgages and 30-year terms for home equity lines of credit and home equity loans. In addition, we are updating guidelines and adding clarification that will simplify our underwriting requirements and align more closely with industry-standard, first-lien requirements.

See below for details of the upcoming guideline expansions, updates and clarifications.

Expanded Loan Terms and Loan Types — Effective Aug. 1

Maximum Loan Terms

Open-End Home Equity Line — The maximum loan term will be expanded as follows:

- Maximum 30-year loan term consisting of a maximum 10-year draw period and a 20-year repayment period. Prior to this update, the maximum loan term was 25 years.

Closed-End Home Equity Loan — The maximum loan term will be expanded as follows:

- Maximum 30-year loan term. Prior to this update, the maximum loan term was 20 years.

ARMs

ARMs with an initial fixed-rate period of 36 months (formerly 60 months) will be eligible for both Closed-End Home Equity Loans and Purchase Money Second Closed-End Mortgages.

The minimum qualifying payment for ARM loans is based on the following:

- ARMs with a minimum initial fixed-rate period of 36 months up to 59 months qualify using the fully amortized payment at the note rate plus 2%.
- ARMs with a minimum initial fixed-rate period of 60 months and greater qualify using the fully amortized payment at the note rate.
- All other ARM requirements remain the same.

Balloon Payment Mortgages

Closed-End Home Equity Loans (including Purchase Money Closed-End Second Mortgages) with a balloon mortgage payment term will be permitted, provided the following requirements are met:

- Maximum 80% CLTV.
- Maximum 30-year loan term consisting of a balloon payment mortgage with a minimum term for the balloon payment due date of five years.
- Balloon repayment terms must be fixed-rate/fixed-payment.
- Balloon repayment (and qualifying payment) is based on the fully amortized fixed-rate/fixed-payment based on the loan's term.

For example, a Closed-End Home Equity loan may have a total loan term of 30 years, including a five-year balloon term with balloon term repayments calculated using a fully amortized fixed-rate/fixed-payment based on the 30-year loan term.

Open-End Home Equity Line of Credit (including Purchase Money Second Open-End Mortgages) with balloon payment terms beginning after the initial draw period ends will be permitted, provided the following requirements are met:

- Maximum 80% CLTV.
- Maximum 30-year loan term consisting of a maximum 10-year draw period and a 20-year repayment period.
- The 20-year repayment term may consist of a balloon term, provided the minimum term for the balloon payment due date is five years and the following additional requirements are met:
  - Balloon repayment terms must be fixed-rate/fixed-payment.
  - Balloon repayment is based on the fully amortizing fixed-rate/fixed-payment based on the loan's remaining term (after the initial draw period).

For example, a home equity line of credit may have a total loan term of 30 years that includes a 10-year draw term and a five-year balloon term. The balloon term payments are calculated using a fully amortized fixed-rate/fixed-payment based on the remaining 20-year loan term.

- The qualifying payment is calculated using 1% of the maximum line amount.

Guideline Updates and Clarifications — Effective Aug. 1

Additional updates and clarifications are detailed below.

Underwriting the Borrower

Guideline Topic	Guideline Update/Clarification
Underwriting the borrower	The maximum number of borrowers will increase from two to four borrowers. The requirement that all borrowers occupy the subject property as their primary residence will remain. The loan representative credit score will continue to be based on that of the borrower with the lowest score.

Determining Borrowers' Monthly Liabilities

Guideline Topic	Guideline Update/Clarification
Revolving debt	If the payment for a revolving debt is not verifiable through credit reports or other means, the minimum required payment is the higher amount of 5% of the outstanding balance or $10. The former requirement allowing a payment of 3% for balances $250 and higher will be removed.
Loans secured by financial assets	Loans secured by financial assets (such as 401(k) loans) will not be required to be included in the borrower's total liabilities.
Alimony and separate maintenance payments	Alimony and separate maintenance payments with duration greater than 10 months may continue to be treated as a long-term debt or the lender may choose to reduce the qualifying income by the obligation amount.
Business debt	To omit a business debt that is reported on a borrower's personal credit report, 12 months' (formerly six months') canceled company checks will be required. In addition, the file must document a satisfactory payment history and an acceptable cash-flow analysis.
Open 30-day charge accounts	If the credit report reflects an open 30-day charge account, a 5% payment must be included in qualifying (formerly 3%) unless sufficient assets are verified to pay the debt in full.

Eligible Sources of Qualifying Income

Guideline Topic	Guideline Update/Clarification
Self-employment income calculation	Borrowers with a two-year history of self-employment continue to remain eligible. In addition to documenting self-employment income with the most recent two years' personal returns, two years' most recent business returns will be required. Self-employment income may be calculated using Fannie Mae's Cash Flow Analysis (Form 1084), Freddie Mac's Self-Employed Income (Form 91), Arch MI's Tax Return Analysis Calculator (AMITRAC) or other equivalent form. The former calculation requirement using a net average will be retired.
Rental income	The requirement limiting rental income from a maximum of three rental properties will be removed. A 24-month history of rental income is still required and must be documented with two years' federal tax returns. Clarification will be added that rental income received for less than 24 months and reliance on lease agreements, including rental income from a departing residence, is ineligible. Rental income may be calculated using Fannie Mae Form 1038, Freddie Mac Form 92 or other equivalent form. The former AMAC Second-Lien Rental/Investment Property Worksheet will be retired.
Auto allowance	The requirements to consider an auto allowance as qualifying income will be updated to require a minimum 24-month history (formerly 12 months) and minimum three-year continuance. The full amount of the auto allowance should be added to the borrower's monthly income and the full amount of the auto loan (or lease payment) must be included in the borrower's monthly liabilities. The former requirement allowing the auto allowance to offset the borrower's monthly auto payment will be removed.
Trust income	Trust income that will continue for at least three years remains an eligible income source. Documentation requirements to support trust income will be updated to clarify that a fully executed copy of the trust agreement and bank statements to support sufficient assets remain in the trust to support a three-year continuance are required. In addition, an acceptable history of receipt of the trust income must be documented as follows: ▪ Trust income with fluctuating payments: – A two-year history of receipt is required. Documentation should include the most recent two years complete federal tax returns. ▪ Trust income with predetermined fixed payments: – Most recent 12-month history of receipt is required. Documentation should include the most recent 12 months of consecutive, personal bank statements.

Items Not Addressed in the Manual

The AMAC Reporting Program Manual will be updated to clarify that when an item is not specifically addressed, the lender must follow Fannie Mae's or Freddie Mac's published "manual underwriting" requirements. Automated underwriting recommendations, including Fannie Mae's Desktop Underwriter® (DU®) and Freddie Mac's Loan Product Advisor® (LPA℠), do not apply to AMAC second-lien transactions.

The AMAC Reporting Program Manual and all related Quick References will be updated Aug. 1.

Contact your Arch MI Account Manager for questions about this announcement.

MCUS-B1743SL-25A-0625