

May 1, 2017

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# **DELINQUENCY AND CLAIMS**

## Reference Manual

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# ARCH MORTGAGE INSURANCE COMPANY

Arch Mortgage Insurance Company's (Arch MI) delinquency and Claims procedures are based on the terms and conditions of Arch MI's First Lien Master Policy (the "Master Policy") and on our belief that the mortgage lending industry is better served if a claim is averted or minimized. Our goal is to work with you to cure delinquencies on insured Loans within the framework of the Master Policy, if at all possible. If a delinquency cannot be cured, we seek to limit the loss, where appropriate. Arch MI's specialists are professionals committed to working with you to achieve this goal.

The ultimate value of Arch MI's coverage is realized when a Loan goes into Default. To preserve this value, it is important that you understand and follow the delinquency and Claims procedures outlined and summarized in this Delinquency and Claims Reference Manual (the "Manual").

The Manual is based on the Master Policy, but applies to all forms of master policies issued by Arch MI. All capitalized terms in this manual shall have the meaning stated in the Master Policy unless used in reference to a specified form, program, business unit, or otherwise defined herein.

This Manual is intended to explain and assist in following the requirements of the Master Policy, but is not intended to amend or modify the Master Policy and, therefore, in the event of any inconsistency between the Manual and the Master Policy, the terms of the Master Policy will prevail. Updates will be communicated to the Insured with specific timelines for implementation when guidance is significantly changed, added or removed.

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Claims and Loss Mitigation Department  
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Walnut Creek, CA 94597

800.909.4264  
[claims.support@archmi.com](mailto:claims.support@archmi.com)  
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[archmicu.com](http://archmicu.com)

# SERVICING REPORTS AND DELINQUENCY REPORTING

## Monthly Servicing Reports

Section 5.4 of the Master Policy (07/14) requires that, unless otherwise agreed upon in Writing between the Company and the Insured, commencing the second month following the Certificate Effective Date (or such other time agreed to between the Insured and the Company), the Insured shall send the Company a monthly Written Servicing Report for the prior month on or before the last Business Day of each month. As long as coverage is in force on any Loan under the Master Policy, the Insured shall continue to send monthly Servicing Reports to the Company. If the Insured does not send monthly Servicing Reports for a Loan for three (3) consecutive months, the Company has the right to cancel coverage on that Loan with thirty (30) days' prior Written notice to the Insured; provided that if the Company receives all Servicing Reports for the three (3) month period to which the notice relates prior to the expiration of the 30-day notice period, such cancellation shall not take effect. If the Loan is a GSE Loan, the Company shall send any notices required under this Section 5.4 to the GSE Beneficiary and the Insured. A cancellation of coverage on a Loan pursuant to this Section 5.4 shall be effected by way of a Company Initiated Cancellation.

Until further notice, which shall be reasonably supplied, submission of the Servicing Report defined in the Arch MI Master Policy under Section 5.4 is voluntary. If a servicer wishes to voluntarily submit the Servicing Report, Arch MI will accept either the comprehensive or minimum version of the Mortgage Insurance Loan Activity Report (MILAR) template – or any other subset of MILAR the servicer chooses to report.

## DELINQUENCY REPORTING

### When to Report a Delinquency

When the Borrower has missed more than two payments on an insured Loan, you must notify Arch MI by filing a Notice of Default (“NOD”). The best practice for reporting is to file the NOD when the borrower is 45 days in Default. After the NOD is filed, updates are required as described in this Manual.

Information required when reporting the Default includes the Loan’s unpaid principal balance, next payment due date, and the reason for Default. If a foreclosure action is necessary or litigation has taken place, we also need the dates and a description of the steps that have been taken in those processes. If a bankruptcy is filed, we need the case location, name and number and the bankruptcy chapter type and the dates associated with the filing. This information will help us assist you during the servicing of the delinquency. You should consult your own legal counsel as to your rights and obligations if a bankruptcy is filed.

Failure to file an NOD in the time required carries a penalty of the greater of 30 days' interest or all interest accruing in the Loan during the period between the date the Company should have received the NOD and the date it actually received it, which will be deducted from the Claim settlement. For policies prior to October 2014, the curtailment is limited to a maximum of 30 days.

## Update Requirements

After you have submitted the NOD, Arch MI requires a monthly update of the current servicing activity occurring on the Loan as long as the Loan remains in Default. If the Default has cured, notify us that the Loan is no longer in Default. If a delinquent Loan is not updated for 90 days, our system will assume the Loan is no longer in Default and will automatically cure the NOD. If the NOD is reported again, or a Claim is filed with the same Default date, the Calculated Loss, from which the Insurance Benefit is determined will be curtailed by the greater of 30 days of interest or all interest accruing on the Loan during the period between the date the Company should have received the monthly report and the date it actually received it. For policies prior to October 2014, the curtailment is limited to a maximum of 30 days.

## How to File

- Via EDI (Electronic Data Interchange) in the industry standard Automated Default Reporting (ADR) format. If you report by EDI, the standard ADR format provides for the automatic updating of previously reported delinquencies.
- Through ArchMIConnect<sup>®</sup>, which can be found at [archmi.com](http://archmi.com) and [archmicu.com](http://archmicu.com).

# WORKOUT AND LOSS MITIGATION

## Home Retention Workouts

The following workout options should be the first course of action in working with the Borrower(s) to assist in retention of their home, as well as mitigating loss on the Loan.

## Loan Modifications

Modification of the Loan's interest rate and term can be a useful tool in preventing a loss. If your analysis shows that the Borrower has the ability to maintain monthly mortgage payments, but does not have the funds necessary to reinstate the Loan, Arch MI may approve capitalization of past due interest and/or other expenses.

Please note that Arch MI encourages the use of Loan modifications, where appropriate, to achieve our goal of preserving home ownership, not as a means to preserve the Borrowers' credit. If the Borrowers' intent is not to remain in the home, but rather to list the Property for sale, Arch MI does not encourage the use of a Loan modification.

To obtain approval for modification of the terms, changing the Loan type or capitalization of the unpaid principal balance, please submit the request in writing to [claims.support@archmi.com](mailto:claims.support@archmi.com). For more information and the Modification Request Form, please visit our website. Please note that if Arch MI does not send a written notice of disapproval within 10 business days of receipt of a written request for approval of a modification, the modification will be deemed approved.

## Repayment Plans

To help Borrowers keep their homes, Arch MI encourages reasonable attempts to reinstate a Loan through a repayment plan, provided the Borrower can afford the payment plan. Arch MI's approval is required for a repayment plan if the Loan is delinquent six months or more or if you will be changing the original Loan terms.

## Forbearance Agreements

Payment forbearance can be a useful tool to assist a Borrower through a temporary hardship. Arch MI's approval is not required for a forbearance agreement, provided that no other terms of the Loan will be modified and no amount will be capitalized into the Loan balance. If you wish to forbear payments in conjunction with modification of the Loan terms, please submit a Loan Modification Request to [claims.support@archmi.com](mailto:claims.support@archmi.com).

## Assumption of Loan

If the underlying Loan documents permit it, assumption of the Loan by a third party may be an alternative to foreclosure in many distressed situations. If mortgage insurance coverage is to continue after assumption of the Loan, Arch MI must approve the new Borrower(s) prior to transfer of title. Submit the following documentation:

1. Completed and signed Residential Loan Application
2. Credit report
3. Income and employment verification
4. Verification of funds for closing
5. Signed Property purchase/sales agreement

## **FORECLOSURE PREVENTION WORKOUTS**

If a home retention workout is not feasible, Arch MI recognizes that potential loss can be minimized by working with distressed Borrowers to negotiate a sale of the Property in lieu of a foreclosure. Prudent workout standards are always to be observed.

# Third-Party Sale (Presale)

If a Borrower has a hardship, cannot make payments on the mortgage and owes more on the Loan than the Property will sell for, he or she should list the Property for Fair Market Value (FMV). You should submit any offers received by the Borrower to Arch MI for approval. After reviewing the prearranged sale package documentation, Arch MI will review the following information with respect to hardship, claim probability, and loss mitigation:

**Hardship:** Is the delinquency and subsequent Third-Party Sale request caused by factors beyond the Borrower's control? Acceptable hardship reasons include: loss of employment, loss of income, divorce, illness, involuntary job relocation, etc. Doubtful hardship reasons would be loss of equity, tenant problems, and voluntary relocation.

**Claim Probability:** Are you going to suffer a loss on the Property and submit a Claim to Arch MI regardless of whether there is a Third-Party Sale? One good indicator of Claim probability is delinquency status. If the Loan is current, Arch MI finds it difficult to predict if there will be an eventual loss. Illness or losses of employment are other predictors of possible loss.

**Loss Mitigation:** Providing there is a probability of a Claim, Arch MI is always interested in proposals that reduce loss both to the Insured and to Arch MI.

If there is a true hardship, which would result in the Property being foreclosed and if the proposed Third-Party Sale would mitigate loss, Arch MI will generally agree to the sale. If there is hardship and a good probability of a Claim being filed, but no mitigation, Arch MI may approve the Third-Party Sale and pay an Insurance Benefit based on the Percentage. If the Property is nearing a foreclosure sale date and a Third-Party Sale offer is received, please contact Arch MI for instructions. Please note that if Arch MI does not send a written notice of disapproval within 10 business days of receipt of a written request for approval of a Third-Party Sale, the sale will be deemed approved.

## Documentation Requirements for a Third-Party Sale

1. Letter of hardship
2. Payoff statement
3. Borrower's income/expense sheet (budget)
4. Last two paystubs - for each Borrower
5. Most recent tax return - for each Borrower
6. Recent value (Broker's Price Opinion or appraisal)
7. Sales contract
8. Preliminary HUD-1 Settlement Statement (please note that Arch MI limits broker commissions/fees to 5% on all short sales)
9. Current credit report



# Deed in Lieu of Foreclosure

Approval of a Deed in Lieu of Foreclosure (“DIL”) results in a Claim for loss; therefore, Arch MI usually limits approval to truly exceptional circumstances, such as permanent disability, terminal illness, or death. When an extreme hardship does not exist, we require that the Insured demonstrate a reasonable effort to work with the Borrower to mitigate the loss, including Loan modification and/or listing the Property at fair market value for a period of no less than 90 days. Please note that if Arch MI does not send a written notice of disapproval within 10 business days of receipt of a written request for approval of a DIL, the request will be deemed approved.

## **Documentation Requirements for a Deed-in-Lieu of Foreclosure**

1. Letter of hardship
2. Payoff statement
3. Borrower’s income/expense sheet
4. Last two paystubs - for each Borrower
5. Most recent tax return - for each Borrower
6. Recent value (Broker’s Price Opinion or appraisal)
7. Listing history of the Property
8. Current credit report

## Borrower Participation / Promissory Notes

In appropriate circumstances, Arch MI may require Borrower participation in the loss as a condition of approval of a request for a Third-Party Sale or DIL. To make this determination, Arch MI will review the Borrower’s financial position to determine if he or she has the financial ability to continue making Loan payments. If so, Arch MI will determine the amount of the contribution, based on the Borrower’s hardship and ability to pay. The Borrower’s participation may be by way of a one-time cash payment to Arch MI, or through a zero-interest promissory note executed by the Borrower in Arch MI’s favor.

# FORECLOSURE REQUIREMENTS

When the Insured has exhausted all efforts for a Loan workout, it is in both the Insured's and Arch MI's best interest to diligently pursue and conduct a timely foreclosure. To avoid interest curtailments, once foreclosure is initiated, you must diligently pursue the necessary steps to acquire possession of and title to the Property. Unreasonable deviation from the timeframes outlined by Arch MI may result in claimed interest curtailments. If Arch MI elects to acquire the Property, you must be able to tender Good and Merchantable Title. Although many of our monthly Premium products do not require that you forward Premiums once a Loan goes into Default, Arch MI recommends that you forward Premiums until you are certain that the Borrower will not bring the Loan current. Should the Loan result in a Claim, any Premium payments made while the Loan was in Default will be returned with the Claim payment.

## Foreclosure Timetable

The timetable below is an estimate of customary foreclosure periods for each state and the District of Columbia. Arch MI generally requires backup documentation to explain and support foreclosure times beyond those listed and related costs. Supporting documentation should be provided at the time of Claim submission. After the initial review of the submitted Claim, additional information may be required. Required documentation may include, but is not limited to, chronology, collection notes, servicing notes, payment history, loss mitigation notes, current BPO, title transfer documents, and itemized invoices to support claimed expenses.

Estimate of Customary Foreclosure Periods by State					
State	Days	State	Days	State	Days
Alabama	330	Kentucky	510	North Dakota	630
Alaska	330	Louisiana	540	Ohio	510
Arizona	360	Maine	1050	Oklahoma	540
Arkansas	420	Maryland	570	Oregon	1020
California	480	Massachusetts	930	Pennsylvania	690
Colorado	750	Michigan	300	Rhode Island	720
Connecticut	780	Minnesota	390	South Carolina	540
Delaware	930	Mississippi	360	South Dakota	510
District of Columbia	1230	Missouri	330	Tennessee	300
Florida	810	Montana	420	Texas	390
Georgia	360	Nebraska	420	Utah	420
Hawaii	1080	Nevada	780	Vermont	870
Idaho	480	New Hampshire	450	Virginia	360
Illinois	600	New Jersey	1080	Washington	540
Indiana	510	New Mexico	870	West Virginia	390
Iowa	540	New York	1110	Wisconsin	510
Kansas	480	North Carolina	420	Wyoming	360

# Bankruptcy Timeframes

In the event a delinquent Borrower files a bankruptcy petition, Arch MI allows six months from the date of the initial Borrower bankruptcy filing for you to obtain relief from the automatic stay or dismissal of the case. For Chapter 13 bankruptcy filings, Arch MI allows six months from the last post-petition payment to obtain relief. You are required to (re)institute foreclosure action no later than 60 days from the date you obtain relief. Failure to do so may result in a curtailment to a future Claim on the Loan.

# Foreclosure Sale Bidding Instructions

In order to establish foreclosure sale bids and promote legitimate third-party bidding, Arch MI requires you to obtain either a Broker’s Price Opinion (“BPO”) or appraisal, dated no more than 120 days prior to the foreclosure sale date, to determine the current Fair Market Value (“FMV”) of the Property. Arch MI will not accept Automated Valuation Models (“AVMs”). Review the BPO or appraisal for accuracy, reasonableness, and any indication of Physical Damage to the Property. Use the “as-is” value to establish the bid, unless there is a 20% variance between the “as-is” and “repaired” value. In that case, use the “repaired” value.

**For GSE Loans where Freddie Mac** is the GSE Beneficiary, bid according to the applicable Freddie Mac guidelines. **For GSE Loans where Fannie Mae** is the GSE Beneficiary and the foreclosure process permits or requires bidding at the foreclosure sale, bid an amount in accordance with the applicable bidding guidelines as described in the Fannie Mae Servicing Guide.

**On non-GSE Loans**, please follow the table below:

State	Bidding Instructions
FL, NJ, NY	Start at \$100. Continue bidding up to Total Debt or 90% FMV, whichever is less.
KY, LA, OH, OK	Start at 2/3 of the sheriff’s appraisal. Continue bidding up to Total Debt, or 90% of FMV, whichever is less.
ALL OTHER STATES	Bid Total Debt or 90% of FMV, whichever is less.

Total Debt is the sum of the unpaid principal balance, delinquent interest and advances.

If these bidding instructions conflict with either the Investor’s or your mortgage pool insurer’s instructions, if you have any questions about the bidding process or if you require special consideration in establishing a foreclosure sale bid amount, please contact the Arch MI Loss Recovery Department. Please email the foreclosure sale results and BPO/appraisal to Arch MI at [claims.support@archmi.com](mailto:claims.support@archmi.com) within 48 hours of the foreclosure sale.

# POST FORECLOSURE AND REO

## Listing the Property for Sale

Once you have acquired title to the Property, you should list the Property at FMV with a real estate agency of your choice. Arch MI does not require approval to list the Real Estate Owned (“REO”) Property for sale. We do recommend that careful consideration be made relating to repairs or any upgrades to the Property. While these can enhance the marketability, the subsequent Claim will not cover any of these costs for improvements. Your listing agreement should contain a clause precluding payment of a real estate sales commission if Arch MI exercises its option to purchase (acquire) the Property.

## Offers to Purchase

Should you receive an offer to purchase the REO Property prior to Claim payment and you wish to accept it, you must contact your Arch MI for authorization at [claims.support@archmi.com](mailto:claims.support@archmi.com). In the event the net proceeds from the sale of the REO are sufficient to mitigate Arch MI’s Claim loss, additional interest will be paid by Arch MI through the close of escrow. Should the proposed purchase offer fall below the level of fully mitigating the Claim loss, Arch MI will advise you that it is a non-mitigating sale.

Submit the following documentation to Arch MI for all offers that you wish to accept.

1. Purchase contract
2. Preliminary HUD-1 or net sheet
3. Copy of recent BPO or appraisal

## Restoration Damage, Catastrophic Damage

Costs to repair or restore Property beyond normal wear and tear may be subject to the Physical Damage exclusion under the Master Policy. Please contact your Claim Specialist for an explanation of this exclusion.

## Environmental Contamination

Costs to cure environmental contamination may be excluded from coverage under the Pre-existing Environmental Impairment and/or the Physical Damage exclusions in the Master Policy. Please contact your Claim Specialist for an explanation of these exclusions.

# Eligibility—Pricing Adjustment

**Loans in Default Status:** In certain situations, Arch MI may determine after receipt of an NOD that coverage on a Loan could be rescinded under Section 3.1 of the Master Policy and is not subject to any Rescission limitations under Section 3.2, but based on the true facts as determined by the Company, the Loan would have been eligible for coverage at a higher Premium rate under the Underwriting Guidelines in effect on the Certificate Effective Date. In such situations, Arch MI will calculate the total shortfall in premium from the Certificate Effective Date and will send a Notice to the Insured specifying the amount of Premium owed and advising the Insured that the total amount must be paid within 60 days to maintain coverage on the Loan. If the payment is not received within 60 days, Arch MI will rescind coverage on the Loan.

**Loans Not in Default Status:** If Arch MI determines that the attributes of a Loan reported to Arch MI by the Insured were incorrect, but based on the true attributes of the Loan, the Loan would have been eligible for coverage at a higher Premium rate under the Underwriting Guidelines in effect on the Certificate Effective Date, Arch MI will calculate the premium shortfall over a five-year period and will send a Notice to the Insured specifying the amount of the additional premium required and advising the Insured that the additional amount must be paid in a single payment within 60 days to maintain coverage on the Loan. If the payment is not received within 60 days, Arch MI will effect a Company Initiated Cancellation of coverage on the Loan.

**This section of the guide applies only to policies originated after October 2014.**

## CLAIM FOR LOSS

### How to File a Claim

Claims can be submitted to Arch MI using one of the following channels:

1. EDI 260 Claim submissions
2. ArchMIConnect
3. Fax
4. Mail

Arch MI's preferred method for Claim submission is via EDI 260 or ArchMIConnect. Please contact the Claims Department for more information on either of these channels. Claims that are either faxed or mailed can be sent to:

Arch Mortgage Insurance  
Claims Department  
3003 Oak Road  
Walnut Creek, CA 94597  
Fax: 855.621.5290

# Claims Form

If you do not have the ability to file electronically, please contact Arch MI's Claims Department for assistance. They can be reached at 800.909.4264 or at [claims.support@archmi.com](mailto:claims.support@archmi.com).

## When to File a Claim

The Claim along with the Required Claim Documents (listed below) must be filed within 60 days after the earlier of acquiring the Borrower's Title to the Property or a Third-Party Sale. Arch MI must be given access to the Property upon request; failure to provide access when requested may entitle Arch MI to suspend payment of the Claim pending access. In states with post-sale redemption rights, the Insured must submit the Claim to the Company within the 60-day timeframe, once redemption has expired.

## Timeline

Once the Claim is received, an Arch MI Claims Specialist will review the Claim and request any Required Claim Documents that were not submitted with the Claim and any additional Claim Documents (listed below) to process the Claim within 20 days of receipt.

## Supporting Documents

Arch MI recognizes that there are a wide variety of documents associated with both Loan origination and Loan servicing. In order to properly review a Claim many, but not all, of these documents may be required from the Servicer. To that end, we have identified below two categories of documents. The first category, referred to as "Required Claim Documents," includes all documents that must be submitted with every Claim as well as additional documents that may be required to be filed with a Claim in the itemized Claim-specific circumstances. The second category includes the Loan Origination File and Loan Servicing File and itemizes all of the documents and information that may be contained in those files. Subject to the terms of the Master Policy, Arch MI has the right to request some or all of those documents during the period that there is Arch MI mortgage insurance coverage on the Loan. To that end, the Loan Origination File and Loan Servicing File should be maintained by the Servicer and/or the Insured for a period ending one-hundred-twenty (120) days after the Company pays an Insurance Benefit on that Loan or issues a Rescission, Company Initiated Cancellation, or Claim Denial. Arch MI reserves the right to request the Loan Origination File and/or Loan Servicing File, or a subset of documents contained in those files, as necessary and as permitted in the Master Policy. Failure to provide requested documents to Arch MI may result in a delay in the processing and/or payment of a Claim, expense and/or interest curtailment(s), or closure of the Claim without payment.

## Required Claim Documents

To prevent any delay in the handling of the Claim, the Required Claim Documents listed below should be submitted in advance of, or with, every Claim:

### A. Documents required in advance or with all Claims:

- Attorney chronology
- Collection notes
- Servicing notes
- Loss mitigation notes
- Current Broker's Price Opinion (BPO)
- Loan payment history

### B. Additional documents required in advance of or with Claims in the following specific circumstances:

#### Third-Party Sale

- BPO used to bid on Third-Party Sale
- Third-Party Proceeds Check
- HUD-1 related to Sale
- HUD-1 Statement

#### Deed-in-Lieu of Foreclosure

- Deed-in-Lieu of Foreclosure agreement
- Deed-in-Lieu of Foreclosure affidavit
- Release of the deed of trust or mortgage
- Executed deed transferring title to lender

#### Borrower Filed for Bankruptcy

- Bankruptcy notes
- Type and bankruptcy court case number
- Date of filing
- Discharge/release date
- Date of last post-petition payment (Chapter 13 filings only)

#### Claim After Redemption by the Borrower

- BPO used to bid at foreclosure
- Redemption check

## **Physical Damage to the Property**

- Date of loss
- Property photos
- Reason for Default
- Reason hazard claim not filed, where applicable
- Hazard process notes
- Copy of check from hazard insurance carrier representing hazard insurance proceeds
- Hazard insurance denial letter, where applicable

## **Property Located in Jurisdiction Where Arch MI Has the Right to Pursue the Borrower for a Deficiency Judgment Under Its Master Policy Subrogation Rights**

- Bidding results
- Bidding Instructions with sale results
- BPO/valuation within 120 days of sale

## **Loan Origination File and Loan Servicing File**

The Loan Origination File and Loan Servicing File must be maintained by the Insured/Servicer and must be provided to Arch MI upon request. With the exception of the subset of Required Claim Documents, the documents included in these files do not have to be submitted to Arch MI unless specifically requested:

### **A. Loan Origination File**

- Loan Application (1003)
- Origination Appraisal and industry standard supporting documentation
- Completion certificate (1004D)
- Borrower's credit report(s) or alternative credit documentation if used in the Loan underwriting
- Verification(s) of mortgage payment history
- Verifications of rent payment history
- Borrower's letter(s) of explanation and supporting documentation
- Final HUD-1 form for the transaction related to the Loan
- Purchase/sale agreement and escrow instructions
- Documentation related to verification of Borrower's assets used to qualify the Borrower for the Loan, including:
  - Bank statements
  - Verification(s) of deposit
  - Documentation related to gifts of funds to the Borrower
  - Documentation related to the Borrower's sale of real or personal Property assets
  - Documentation regarding any secured borrowed funds



- Documentation of earnest money deposits
- Documentation of cash on hand
- Documentation of funds received by the Borrower from grants or down payment assistance programs
- Documentation related to Borrower's income from salaries, including:
  - Written or verbal verifications of employment
  - Paystubs
  - W-2 forms
  - Offers of employment
- Documentation related to self-employed Borrower's income, including:
  - Personal and business federal income tax returns
  - Profit and loss statements
  - CPA letters
  - Form 1099s
  - IRS form 4506 and/or 4506-Ts
  - Business licenses
- Deed of trust for the Property
- Note related to the Loan
- Underwriting Transmittal Form (1008) or other underwriting worksheet
- Loan approval with conditions
- Final automated underwriting system (DU<sup>®</sup>, Loan Product Advisor<sup>®</sup> or lender's own system) report
- Preliminary title policy with chain of title history
- Property insurance declarations page
- Handwritten or electronic underwriter notes

## **B. Loan Servicing File**

The following documents and information in combination with the documents listed in Section 1 (Required Claim Documents) together constitute the Loan Servicing File. The Loan Servicing File should be maintained and must be provided to Arch MI upon request, subject to the terms of the Master Policy.

### **Additional Documents When Claimed Expenses and/or Advances Are Not Itemized or Appear Excessive:**

- Attorneys' fee invoices
- Statutory costs invoices
- Invoices supporting charges included on final HUD-1
- Homeowners' association (HOA) monthly invoices
- Sheriff's deposit/fee invoice
- BPO/appraisal invoice
- Property preservation invoices
- Date of Property inspections
- Preservation expense explanation

- Property tax information including coverage periods
- Hazard insurance declarations page

**Additional Documents When it Appears That a Modification or Loss Mitigation Activities Occurred Outside of Delegated Guidelines:**

- Borrower financials
- Workout package
- Modification package

**Additional Documents When There is a Discrepancy Between the Property Address in Arch MI's Records and the Property Address Indicated in the Documents Submitted With the Claim:**

- Loan Origination deed
- Loan Origination note
- Loan Origination 1003 (Loan application)
- Lender's title policy obtained in connection with origination of loan
- 442 Notice of Completion
- Origination Appraisal
- Origination final HUD-1
- 911 County/City Update

**Additional Documents When a Title Discrepancy is Discovered:**

- Title transfer deed
- Trustee deed/sheriff's deed
- Cease and desist letter
- Power of attorney
- Name change affidavit
- Quit claim deed
- Divorce decree

**Additional Documents to Review for Acquisition Opportunities:**

- Servicer contact information
- Broker information
- Property marketing status

**Additional Documents Related to Issuance of Final Payment:**

- Investor Loan number
- Repurchase demand
- REO status
- Date of Default
- Description of "other deduction" entered into Claim system

- Escrow deficit clarification
- New Servicer information
- Borrower current mailing address
- Confirmation of interest rate
- Reason for litigation

## Timing of Claim Payment

The Master Policy requires Arch MI to pay your Claim within 60 days of the date the Claim becomes a Perfected Claim. A Perfected Claim is one that includes all of the Required Claim Documents and any additional Claim Documents timely requested by Arch MI. Arch MI is required to settle the Claim within 60 days following the date the Claim becomes a Perfected Claim. If the Claim payment is delayed beyond the 60-day time frame, pursuant to the Master Policy, Arch MI will pay interest on the Claim settlement amount through the Claim settlement date.

## Status

Once a Claim is filed, the status of the Claim is available in real time through Arch MI's eServicing website even if the Servicer did not submit the Claim through this channel. Contact Arch MI's Customer Service Department to obtain a login to access Claim status information.

## Claimable Items

**The following items may be submitted:**

### **Unpaid Principal Balance**

The Unpaid Principal Balance ("UPB") of the Loan as of the date the last regular payment was applied. The amount should match the UPB reported to Arch MI through Default reporting. Loans that have been modified must have been reported as required by the Delegated Servicer Program or approved by Arch MI. If Arch MI is notified and approves the modified UPB, then the existing premium rate will be applied to the modified UPB. As long as premium is remitted based on any new billing amount, the revised UPB will be the basis for the Claim payment.

### **Past Due Interest**

For Policies prior to October 2014, there may be Claim adjustments for unreasonable delays. For Policies after October 2014, up to 36 months of interest accrued on the UPB from the last regular payment due date through the Claim filed date. There may be Claim adjustments for unreasonable delays.

## **Advances**

Advances include reasonable and necessary expenses paid by the Servicer with respect to a Loan after Default for:

1. Normal and customary property insurance premiums for the Property;
2. Taxes, assessments and other public charges imposed upon the Property;
3. Property sales expenses;
4. Reasonable and necessary expenses to protect and preserve the Property, as approved by the Company at the time the Company reviews the Claim, which do not include expenditures to avoid an exclusion from coverage;
5. Condominium fees, homeowner association dues and other pro-rated portions of shared fees related to the common areas attendant to the Property, to the extent ascertainable and advanced or paid by the Servicer in order to maintain the priority of the first lien;
6. Court expenses and attorneys' fees related to the Loan; and
7. Deficiency Expenses, if incurred in accordance with Section 9.3(a) of the Master Policy.

Advances do not include any amounts paid to Persons employed by the Insured or Servicer or other internal costs of the Insured or Servicer.

## **Attorneys' Fees**

Reasonable attorneys' fees are claimable. For policies written prior to October 2014, not to exceed three percent (3%) of the Default Amount plus allowable past due interest, and for policies written after October 2014, attorneys' fees related to the Loan are limited to the lesser of: (i) the actual fees; (ii) five percent (5%) of the sum of the Default Amount and the amount of accrued and accumulated interest; or (iii) \$6,000. For Loans having unpaid principal balances of \$200,000 or greater at the time the Claim is filed, attorneys' fees related to the Loan are limited to the lesser of: (i) the actual fees; or (ii) three percent (3%) of the sum of the Default Amount and the amount of accrued and accumulated interest.

## **Property Insurance Premiums**

Property insurance premiums are claimable from the Default date to the Claim filing date.

## **Preservation Costs**

Reasonable costs incurred to preserve and protect the Property include utilities, re-keying, and normal maintenance necessary to protect and preserve the Property following Default.

## **Broker's Price Opinion (BPO)/Appraisal**

Reasonable and customary BPO and appraisal costs are allowed.

## **HOA Dues**

Homeowner association base monthly dues can be claimed; however, late fees, attorney-related fees, judgments, liens, late charges, tax penalties and interest on homeowners' association dues will generally be disallowed.

## **Non-Claimable Items**

Generally, any amounts not included in the above list of Advances will be excluded from the Calculated Loss.

*The previously listed claimable and non-claimable items are the most common. Please refer to the Master Policy for specific terms and conditions. If the Servicer has a specific item that needs clarification, the Specialist assigned to the Claim is available to review and discuss the details.*

## **Deductions From Claims**

### **Escrow Funds – Balance at Delinquency Deducted**

The Claim filing should report the balance in the escrow account at the date of Default.

A positive balance in the tax and insurance escrow account will be deducted from the Calculated Loss.

### **Pledged Accounts**

Buy down funds or other compensating balances are deducted from the Calculated Loss.

### **Property Insurance Proceeds**

Incomes collected from property insurance proceeds are deducted from the Calculated Loss.

### **Other Income**

Income collected from managing/renting the Property, other suspense/holding accounts, or Borrower contributions are deducted from the Calculated Loss.

### **Net Proceeds From Prearranged Sale**

When the Property is sold through a third-party sale, the net proceeds from the sale, including cash contributions from the borrower, will be applied against the calculated Loss.

Please refer to the Master Policy for more specific information. Contact your Arch MI Claim Specialist to answer questions regarding your claim for loss.

# CLAIM SETTLEMENT

## Claim Settlement Methods

When a Claim is received by Arch MI, the Claim Specialist verifies that coverage is in force and that all documents necessary to perfect the Claim are received. Arch MI then decides upon one of the following three Claims payment options:

### 1. Percentage Option

An amount equal to the Calculated Loss multiplied by the percentage of coverage specified on the related Certificate.

### 2. Third-Party Sale Option

An amount that is equal to the lesser of the Percentage Option or the Insured's Loss on Sale in connection with a prearranged sale of the Property. The Insured's loss on Sale is an amount equal to the Calculated Loss plus all reasonable costs incurred in obtaining and closing the Third-Party Sale, less the proceeds of the Third-Party Sale.

### 3. Acquisition Option

An amount that will equal the Calculated Loss less the amount of any payments of loss previously made by Arch MI with respect to the Loan, payable in exchange for the conveyance of "Good and Merchantable Title" to, and possession of, the Property.

## Closed Without Payment

After the claim has been received, Arch MI may close your Claim file without payment for various reasons, including the following reasons:

### Non-Perfected

Documents necessary to perfect the Claim have not been received within 120 days of the initial Written Request for the Documents by Arch MI.

### Eviction

If a Property is occupied and an eviction is in process, Arch MI cannot evaluate the Acquisition Option potential. Therefore, Arch MI may close the Claim without payment until access to the Property is obtained.

### Request by Claim Filer

At the request of the Claim filer, Arch MI can close out a Claim without payment. This is typically done when the Insured receives enough funds to make the debt whole.

# Supplemental Claims

Payment of a Claim is generally considered the full and final discharge of Arch MI's obligation. However, for previously unsupported or unreported Advances only you may submit a Supplemental Claim request if received within 90 days of the initial Claim payment and the Insured provided additional supporting documentation and explanation of the supplemental claim request. Arch MI will pay the Supplemental Claim within 60 days of receipt of documentation establishing the validity and amount of the Supplemental Claim. Requests for reconsideration of Arch MI's adjustment or curtailment of Claims for reasons unrelated to Advances should be submitted following the procedure explained in Section 8.7 of the Master Policy and should not be submitted as Supplemental Claims.

For Policies prior to October 2014, any Supplemental Claims should be submitted through normal claim submission channels and are not subject to the 90-day submission time limit above.

## Explanation of Benefits

To understand how Arch MI arrived at the Insurance Benefit amount, please refer to the Explanation of Benefits ("EOB") letter provided with every settlement. The EOB letter includes a detailed explanation of the interest and expense calculations and a Claim summary.

**The following sections related to Credible Evidence are found in the First Lien Master Policy (07/14). This section does not apply to Policies written under prior versions of the Master Policy.**

## CREDIBLE EVIDENCE SUPPORTING RESCISSIONS OF COVERAGE

Section 3 of the Master Policy controls Arch MI's Rights to Rescind Coverage on certain Loans. Section 3.1 provides: "This Master Policy does not cover Loans that exhibit, through the Company's reliance on Credible Evidence, one or more Material Misrepresentations, Origination Errors, or Material Value Variances. Accordingly, subject to Sections 3.2 and 3.3, the Company shall have the right to Rescind coverage on a Loan if at any time it concludes in reliance on Credible Evidence that a Material Misrepresentation or Origination Error was made with respect to that Loan, or the Loan exhibits a Material Value Variance."

Section 1.22 of the Master Policy defines "Credible Evidence" and notes that "Examples of Credible Evidence are contained in the Delinquency and Claims Reference Manual the applicable version of which is the one in effect on the Certificate Effective Date of the Loan." The following are examples of various scenarios where Arch MI would or would not rescind

mortgage insurance based on its determination as to whether the issue is material and the facts available regarding the Loan constitute Credible Evidence.<sup>1</sup>

## **Borrower Statement**

- **No Rescission.** *Uncorroborated/unsworn Borrower statement.* Loan delivered through delegated channel. Sufficient payments have been made by the Borrower to achieve Rescission relief. In connection with its investigation of the Loan, Arch MI interviews the Borrower. The Borrower tells Arch MI that although he indicated on the 1003 that the Property was intended to be a primary residence, in fact he did not intend to occupy the Property or pay the mortgage payments and was purchasing it as an investment property, and that the Loan broker was fully aware that the Borrower did not intend to occupy the Property. Arch MI would not have insured the Loan had it known that the Property was being purchased as an investment. The Borrower will not agree to give Arch MI a statement to that effect under oath. The coverage cannot be Rescinded for a Material Misrepresentation by a Borrower as a result of the Rescission relief and Arch MI finds no Credible Evidence corroborating the Borrower's statements implicating the broker. Arch MI will not rescind.
- **Re-price Coverage.** *Same scenario, but Arch MI determines that it would have insured the Loan as an investment Property, at a different interest rate.* Arch MI will request the additional Premium from the Insured under the process set forth in its then current Delinquency and Claims Reference Manual. If the Company receives the additional premium within 60 days, it will not rescind.
- **Rescission.** *Sworn Borrower statement.* Same scenario as above, but the Borrower provides Arch MI with a sworn statement describing circumstances that demonstrate that the Loan officer or broker was aware of and participated in the misrepresented intent to occupy. Arch MI will rescind.
- **Rescission.** *Corroborated Borrower statement.* Same scenario, but Arch MI finds in the file an initial 1003 indicating that the Property was intended to be an investment Property and a note from the Loan broker advising that because of the number of investment properties the Borrower already held, he would not qualify for the Loan unless the Property was going to be his primary residence. Arch MI will rescind. The Borrower's statement was corroborated by documents in the file.
- **Rescission.** *Rescission limitation not yet effective.* Same scenario, but the Loan defaults at six months – before Rescission relief is achieved. No Rescission limitation is applicable to the Loan. Arch MI will rescind for a Material Misrepresentation by a Borrower.

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<sup>1</sup> The scenarios are presented as examples only. Each loan Arch MI investigates presents different facts and situations. Accordingly, the examples in this document should not be considered as dispositive with respect to actual loans. Capitalized terms used in the scenarios have the meaning given to them in the Master Policy and related endorsements.



## Value Variance

- **No Rescission.** *Variance of less than 15%—not material.* In connection with an investigation of an insured Loan, Arch MI obtains a properly performed Review Appraisal. The opinion of value in the Review Appraisal exceeds the opinion of value indicated in the Origination Appraisal by 14%. Arch MI will not rescind for a Material Value Variance because the variance between the Origination Appraisal and the Review Appraisal is not 15% or greater.
- **No Rescission.** *Variance of greater than 15%, but no appraiser misconduct.* Same scenario, but the Review Appraisal indicates a 16% variance between the Origination Appraisal and the Review Appraisal. Arch MI reviews the origination appraiser's comps and finds that although they are not the same as the comps used in the Review Appraisal, there is no indication that there was any misrepresentation, omission, or manipulation of information in selecting the comps. Although the variation is greater than 15%, Arch MI will not rescind coverage because there was no finding of misconduct by the origination appraiser.
- **Rescission.** *Variance of 15% or more with appraiser misconduct.* Same scenario, but the Review Appraisal indicates a 16% variance between the Origination Appraisal and the Review Appraisal, and the review appraiser determines that although there were recent sales of nearly identical properties at lower prices in the same subdivision as the subject Property, the comps selected were in a neighboring subdivision with higher prices and higher quality homes with no reasonable professional justification. Arch MI considers the origination appraiser's use of the more distant comps in the higher priced subdivision to be an inappropriate manipulation of information and, in combination with the greater than 15% variance, will rescind coverage.

## Origination Error

- **No Rescission.** *Harmless Error.* Loan delivered through delegated channel. Arch MI investigates a Loan and discovers that the originator incorrectly calculated the LTV. The LTV disclosed to Arch MI was 86% and the true LTV was 88%. Arch MI determines that it would have insured the Loan at 88% at the same Premium rate. Arch MI considers this to be a Harmless Error and will not rescind coverage on the loan.
- **Re-price Coverage.** *Loan eligible at higher Premium rate.* Same scenario, but the LTV as disclosed to Arch MI was 85% and the true LTV was 88%. Arch MI would have insured the Loan at a higher Premium rate. Arch MI will re-price rather than rescind.
- **Rescission.** *Material Origination Error.* Same scenario, but the LTV disclosed to Arch MI was 92% and the true LTV indicated in the Loan file was 98%. Arch MI would not have insured the Loan at a 98% LTV at any Premium rate. Arch MI considers this to be a material Origination Error (i.e., not Harmless Error) and will rescind coverage on the Loan.
- **No Rescission.** *Arch MI Underwriting Error.* Same scenario, but Arch MI underwrote the mortgage insurance on the Loan. The Arch MI underwriter incorrectly calculated

the LTV as 92% rather than 98%. Arch MI made the error and will not rescind the coverage on the loan.

## Fraud

- **No Rescission. *Lack of Credible Evidence.*** Arch MI investigates an insured Loan. Through the investigation Arch MI finds conflicting evidence as to whether the Verification of Deposit (“VOD”) in the file is false. The VOD itself is handwritten and indicates that the Borrower had \$15,100 on deposit. \$15,000 was needed to close. The verifying bank is a small, single-branch bank. A representative of the bank advises Arch MI orally that the deposit amount on the date of the verification was a lot less than the amount indicated on the VOD, but will not give Arch MI the accurate amount and will not send a written verification. Arch MI would not consider the oral statement of the representative of the verifying bank to be “Credible Evidence” and will not rescind.
- **Rescission. *Credible Evidence.*** Same scenario. The bank provides Arch MI with a written re-verification showing that the account balance on the date of the VOD was \$5,100, not \$15,100. There is no evidence in the file that the VOD was ever out of the chain of custody of the broker or the bank. Arch MI would consider the re-verification to be Credible Evidence that the broker altered the VOD and will rescind.

## Missing Documents

- **No Rescission. *Immaterial Missing Document.*** Arch MI requests the Loan Origination File. The file is missing a copy of the Verification of Employment (“VOE”). Arch MI interviews the employer and confirms that the Borrower was employed as disclosed on the 1003. Arch MI will not rescind coverage on the ground that the document is missing from the file.
- **Rescission. *Material Missing Document.*** Same scenario, but the employer will not provide any information to Arch MI’s investigator. Arch MI has some evidence that the Borrower was not employed as disclosed on the 1003. A copy of the original VOE is essential to Arch MI’s investigation. Arch MI will rescind coverage.

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MCUS-B0183-0517