For Credit Unions

ARCH MI

# Credit Union Underwriting Manual

January 4, 2018

## Summary of Underwriting Manual Updates

Arch MI's Credit Union Underwriting Manual (the UW Manual) has been updated to reflect changes previously announced in Credit Risk Bulletins #2-17-CU, #3-17-CU, #4-17-CU, #6-17-CU and in Customer Announcement CUA 2018-01. The sections of the Manual that have been updated are indicated with a new revision date to the right of the section heading. See the details of the changes below.

- The maximum loan amounts have been changed throughout the Manual as follows:
  - Wherever our current maximum loan amount is $424,100, it has been changed to $453,100.
  - Wherever our current maximum loan amount is $636,150, it has been changed to $679,650.
- All references to full-file submissions have been changed to non-delegated submissions.
- Section 1.03.03, EZ Application, has been updated to remove the Underwriting and Transmittal Summary (Fannie Mae 1008/Freddie Mac 1077) as a required document.
- Section 1.04.01.02, Commitment Term, has been updated to clarify that the length of commitment terms will be as follows:
  - 4-month term for all loans except 12-month term for construction-to-permanent loans.
- Section 1.04.02.02, Conditional Commitment Term, has been updated to increase the term of a conditional commitment from 60 days to 90 days.
- Section 2.01, EZ Decisioning and CU *Swift*Close – LTV/Loan Amount/Credit Score/DTI Requirements, has been updated to allow non-traditional credit members that meet Freddie Mac's Loan Product Advisor® underwriting requirements.
- Section 2.02, EZ Decisioning and CU *Swift*Close – Additional Underwriting Requirements, has been updated as follows:
  - Placed all appraisal information into the appraisal row.
  - Clarified that loans with a prepayment penalty feature are ineligible for insurance.
- Section 3.03.03.01, New Subordinate Financing, has been updated to clarify that 3-4 unit properties, second homes and investment properties are not allowed.
- Section 3.03.03.02, Existing Subordinate Financing, has been updated as follows:
  - Clarified the difference in requirements when the CLTV does not exceed the maximum LTV per the transaction type versus when the CLTV does exceed the maximum CLTV per the transaction type.
  - Clarified that 3-4 unit properties, second homes, investment properties, and cash-out refinances are not allowed when the CLTV exceeds the maximum CLTV per the transaction type.
- Section 3.04, Ineligibility Matrix, has been updated to clarify that loans with a prepayment penalty feature are ineligible for insurance.
- Section 3.05.01, Age of Documentation, has been updated as follows:
  - Clarified that for a non-delegated submission for which the property is appraised "subject to completion" and the appraisal is older than 120 days at the time of the MI application, the credit union will be responsible to obtain the recertification of value prior to closing and retain in the loan file. It does not need to be provided with the MI application.
  - Clarified that for a single-close construction-to-permanent loan there is only one Note date; therefore, the conversion/modification date is not applicable to the age of documentation.
- Section 3.05.03, Documentation for All Loans, has been updated to show we have aligned with Fannie Mae's Employment Offers and Contracts requirements.
- Section 3.06.01.01, Jumbo Loan Amounts $679,651–$850,000, has been updated to allow non-permanent resident aliens.
- Section 3.06.01.02, Jumbo Loan Amounts $850,001–$1,500,000, has been updated as follows:
  - Non-permanent resident aliens are now allowed up to $1,000,000.
  - The following requirements have been removed:
    - The LTV calculation requirement when a property has been owned less than 12 months.
    - The requirement for the refinancing of the permanent financing of a construction-to-permanent loan to have 12 months fully-amortizing payments made before it is eligible.
- Section 3.08.03.02, Construction-to-Permanent Loans – Additional Requirements, has been updated to clarify that newly built manufactured homes that are being attached to a permanent foundation in

 

connection with the subject loan transaction are considered a purchase transaction, not a construction-to-permanent purchase transaction.

- Section 3.08.05, Third-Party Originations, has been removed because eligibility is no longer dependent on whether a loan is third-party originated.
- Section 3.08.06, Seasoned Loans and Closed Loans, has been renumbered to 3.08.05.
- Section 3.09.01.01, Social Security Number, has been updated to allow credit reports with partially displayed social security numbers.
- Section 3.09.01.03, Maximum Number of Insured Loans per Member, has been updated as follows:
    - Clarified that the maximum of 3 loans insured per member is collective with Arch MI and all its affiliates.
    - We now allow 2 second homes per member when no investment properties are insured for the member.
- Section 3.11.01.01, Minimum Contribution from Member's Own Funds, has been clarified to show that Community and Affordable Seconds and Employer Assistance may be used to satisfy the minimum member contribution in some transactions.
- Section 3.11.02.01, Reserves – General, has been updated to clarify that the reserves requirements for a 1-unit primary residence for loan amounts up to $679,650 is the lesser of 2 months PITIA or the Agencies' requirements.
- Section 3.14.03.02, Non-Warrantable Condominiums, has been updated as follows:
    - Clarified that all but one unit in the project must have been conveyed or "under contract for sale" to a primary residence or second home purchaser.
    - Clarified that for units not to be included in the single entity ownership calculation, the units must be:
        - Owned by the project sponsor or developer; and
        - Vacant; and
        - Actively marketed for sale.
    - Removed "kiddie condos" as ineligible. They are now eligible as an investment property.
- Section 3.14.04, Manufactured Homes, has been updated as follows:
    - Clarified how to calculate the LTV.
    - Clarified that newly built manufactured homes that are being attached to a permanent foundation in connection with the subject loan transaction are considered a purchase transaction, not a construction-to-permanent purchase transaction.
- Section 3.15.03, Investment Property, has been updated as follows:
    - Added a definition for "kiddie condo".
    - Added that a kiddie condo must be considered an investment property.

 

# Table of Contents

# 1. Introduction and General Information

The underwriting requirements in this Manual apply only when a Credit Union or Credit Union Service Organization (CUSO) is submitting the loan for mortgage insurance (MI).

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

Within this Manual, “Arch MI” includes Arch Mortgage Insurance Company, United Guaranty Residential Insurance Company, and United Guaranty Mortgage Indemnity Company. When “United Guaranty” is used, it refers to United Guaranty Residential Insurance Company and United Guaranty Mortgage Indemnity Company.

## 1.01. Risk and Underwriting Philosophy (January 4, 2018)

Arch MI’s goal is to ensure that sound underwriting decisions are made on 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 member[1] will be able to repay the loan. These requirements consider the following:

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

Arch MI is committed to insuring quality loans that make sense for everyone involved. When underwriting a loan, the overall risk of the loan should be considered. An individual risk factor within a loan file may not necessarily create an uninsurable risk, especially when compensating factors are present. However, a layering of risk factors within the loan file without offsetting compensating factors will generally increase the likelihood of foreclosure and create an uninsurable risk. We recognize that certain loans may fall outside Arch MI’s underwriting requirements but still represent an insurable risk. When this happens, the credit union should submit the loan as a non-delegated submission. Arch MI will review the loan carefully to identify any compensating factors that may warrant an exception.

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

Arch MI reserves the right to request additional information concerning the loan transaction.

[1] Any reference to “member” within this manual is equivalent to “borrower.”

## 1.02 Fair Housing and Equal Credit Opportunity Acts (March 1, 2017)

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

Arch MI fully supports the letter and the spirit of both of these laws and will not condone discrimination in any mortgage guaranty insurance transaction. It is our objective to help make home ownership 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.

## 1.03 Submission Methods (January 4, 2018)

Arch MI has two submission methods for mortgage insurance applications: non-delegated submissions and delegated data submissions (delegated). Most of the underwriting requirements in this Manual apply to both delegated and non-delegated submissions. When the requirements are different for each submission method they will be clearly identified within the Manual.

Regardless of the submission method used, the credit union is responsible for ensuring that the information provided is true and accurate. The credit union is also responsible for notifying Arch MI of any data changes pertaining to the loan (including, but not limited to, loan terms, credit information, income, debts, appraisal, property value or loan amount).

Please see the details for each submission method below.

### 1.03.01 Non-Delegated Submissions (March 1, 2017)

For a non-delegated submission, the credit union sends a copy of the entire loan underwriting file to Arch MI. With a non-delegated submission, certain underwriting requirements are more expansive than our delegated underwriting requirements (for example, loan amount, and credit score requirements). Underwriting requirements that are more expansive for non-delegated submissions are clearly identified within the Manual.

**If you have a loan you believe is an acceptable risk, but is outside our underwriting requirements, we encourage you to submit the loan non-delegated. Our experienced underwriting staff will evaluate the overall risk of the loan to determine its eligibility for insurance** (items listed as ineligible within section 2 and those listed in the Ineligibility Matrix in section 3 are generally not available for exceptions).

With a non-delegated submission, our skilled underwriting team can weigh all of the individual risk characteristics and compensating factors. Therefore, you will have peace of mind knowing your loan received a comprehensive MI risk review and the correct decision is made for both the credit union and Arch MI.

If Arch MI conducts a non-delegated underwriting review and issues a conditional commitment[2] or suspends or declines the loan for mortgage insurance, a credit union may not exercise its delegated authority to resubmit the loan.

[2] Available for loans submitted under a United Guaranty Master Policy only.

 

### 1.03.02 Delegated Submissions (January 4, 2018)

Delegated is available to approved credit unions. Our delegated option allows reporting of loan data only to Arch MI for mortgage insurance applications. With delegated, Arch MI issues an MI commitment and certificate based on the credit union's representation that the loan meets Arch MI's underwriting requirements. As part of this option, the credit union is responsible for errors and omissions that could otherwise be discovered with a non-delegated submission.

When submitting a loan via a delegated submission, no exceptions are allowed to the delegated underwriting requirements. Loans that do not meet the delegated underwriting requirements may meet the non-delegated underwriting requirements (see non-delegated submissions above).

If Arch MI conducts a non-delegated underwriting review and issues a conditional commitment[3] or suspends or declines the loan for mortgage insurance, a delegated credit union may not exercise its delegated authority to resubmit the loan.

The sections for which the underwriting requirements differ for delegated versus non-delegated submissions include:

- Section 1.04.02 Conditional Commitments – Requirements.
- Section 3.02.01 Unacceptable DU and Loan Product Advisor Recommendations.
- Section 3.03.01 LTV/Loan Amount/Credit Score/DTI Requirements.
- Section 3.06.01.02 Jumbo Loans ($850,001 to $1,500,000).
- Section 3.07.01.02 Maximum Loan Amounts for Adjustable-Rate Mortgages.
- Section 3.12.02.01 Non-traditional Credit.
- Section 3.14.03 Condominiums and Cooperatives (Co-ops).
- Section 3.14.03.02 Non-Warrantable Condominiums.

Customers who use delegated may also elect to send non-delegated submissions to Arch MI.

If you are interested in applying for delegated, please contact your Arch MI Account Executive.

### 1.03.03 EZ Application (January 4, 2018)

The EZ Application submission method is available for credit unions submitting under their Arch Mortgage Insurance Company Master Policy only. The United Guaranty Master Policy does not allow for this submission type.

EZ Application allows credit unions to submit a partial loan file. The credit union is responsible for evaluating the credit documents supporting income, assets, purchase contract (if applicable), and anything not submitted to Arch MI. Arch MI will evaluate the application, credit information, and appraisal report.

Required documentation:

- Fully completed Arch MI application for Insurance, signed and dated by an authorized representative of the Master Policyholder. Click here for the current application.
- Uniform Residential Loan Application (Fannie Mae 1003/Freddie Mac 65) reflecting fully verified figures and updated income/asset information.
- A tri-part merge credit report, a Residential Mortgage Credit Report (RMCR) or a minimum of one-repository, in-file credit report.
- A full Uniform Residential Appraisal Report (URAR).

[3] Available for loans submitted under a United Guaranty Master Policy only.

# 1.04 Commitment/Certificates (January 4, 2018)

## 1.04.01 Final Commitments (September 27, 2017)

### 1.04.01.01 Requirements (March 1, 2017)

To issue a final commitment, Arch MI requires that all pertinent information necessary to underwrite the mortgage loan be documented and verified (see section 3.05.01 for age of documentation requirements):

- Property address.
- Sales agreement.
- Appraisal or alternative as permitted within this Manual.
- Employment.
- Income.
- Assets.
- Credit.

### 1.04.01.02 Terms (September 27, 2017)

- 4-month term for all loans except 12-month term for construction-to-permanent loans.

### 1.04.01.03 Extensions (March 1, 2017)

- Extensions to commitments/certificates are not allowed. If the mortgage loan does not close within the term of the commitment/certificate, a new application for mortgage insurance will be required. All current underwriting requirements and pricing in effect at the time of new application will apply.

### 1.04.01.04 Changes to Commitment (March 1, 2017)

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

## 1.04.02 Conditional Commitments[4] (January 4, 2018)

### 1.04.02.01 Requirements (January 4, 2018)

- Conditional commitments will not be issued for mortgage insurance applications submitted via delegated. All pertinent data must be transmitted in order for a commitment to be issued.
- For non-delegated submissions, conditional commitments may be issued for various reasons when material information or documentation is missing. Conditional commitments are most commonly issued because of missing information or documentation relating to the collateral, sales agreement, or appraisal.
  - For files containing conditional commitments issued for a sales agreement or appraisal, the terms for continued eligibility for mortgage insurance depend on the property acceptability.
  - If any condition received is materially different from the information presented on the original application, continued eligibility for mortgage insurance will be based on the underwriting requirements in effect at the time the condition is received.

### 1.04.02.02 Terms (January 4, 2018)

- 90 days, regardless of the construction status of the property.

### 1.04.02.03 Extensions (March 1, 2017)

- Extensions to conditional commitments are not allowed.

[4] Available for loans submitted under a United Guaranty Master Policy only.

# 2. Underwriting Requirements for Loans Underwritten with Desktop Underwriter® (DU®) or Loan Product Advisor® – EZ Decisioning and CU *Swift*Close

The underwriting requirements in this section apply to both Arch Mortgage Insurance Company's **EZ Decisioning**SM program and United Guaranty's **CU *Swift*Close®** program.

Loans receiving one of the valid DU or Loan Product Advisor recommendations listed below are eligible for mortgage insurance when they meet the underwriting requirements outlined in this section. **Loans that meet all the requirements of this section may be submitted either delegated or non-delegated** (see section 1.03 for details) unless otherwise noted in section 2.01 below.

- DU Approve/Eligible.
- Loan Product Advisor Accept/Eligible.
- DU Approve/Ineligible (only for LTV, loan amount, loan type [when the requirements in section 3.07 are met], or for no first-time home buyer).
- Loan Product Advisor Accept/Ineligible (only for LTV, loan amount, or loan type [when the requirements in section 3.07 are met]).

  **Note:** Loans with an Approve/Ineligible or Accept/Ineligible recommendation are not allowed for loans with non-traditional credit or for which the subject property is a manufactured home.

Arch MI does not approve loans for mortgage insurance based **solely** on the Agency automated underwriting system (AUS) decision. When underwriting to the DU or Loan Product Advisor recommendation, the credit union should perform prudent underwriting and risk assessment on each loan, reviewing all loan documentation to detect any potential red flags or inconsistent information which must be addressed. When the loan is submitted non-delegated, Arch MI's underwriters will also underwrite the loan file in this manner.

Loans that **do not** have one of the recommendations listed above or **do not** meet the requirements detailed in this section must meet all Standard Underwriting Requirements in section 3.

## 2.01 LTV/Loan Amount/Credit Score/DTI Requirements (November 28, 2017)

The following underwriting requirements represent general eligibility limits, used in combination with Arch MI's automated risk evaluation to determine MI eligibility for each loan. Layering of risk attributes may affect the eligibility of loans meeting the general requirements below; this layering will be evaluated when you request your MI rate quote and/or when you submit your loan for MI.

| Eligible Loan Types | Fixed-Rate/Fixed-Payment, ARMs, Buydowns, and Balloon Mortgages | | | | | | |
|---|---|---|---|---|---|---|---|
| Occupancy | Transaction Type | Property Type | Maximum LTV | Maximum CLTV | Maximum Loan Amount | Minimum Credit Score[2] | Maximum DTI |
| Primary Residence | Purchase & Rate/Term Refinance | 1-unit, SFD/SFA, Condos, Co-ops[3] | 97% | 105%[1] | $453,100 | 620 | 50% |
| | | | 95% | 100%[1] | $453,101–$679,650 | | |
| | | Manufactured Homes[4] | 95% | 95% | $453,100 | | |
| | | 2-Units | 95% | 100%[1] | $679,650 | | |
| | | 3–4 Units | 95% | 95% | $679,650 | | |
| | Cash-out Refinance | 1-unit, SFD/SFA, Condos, Co-ops[3] | 95% | 95% | $679,650 | | |
| Second Home | Purchase & Rate/Term Refinance | 1-unit, SFD/SFA, Condos, Co-ops[3] | 90% | 90% | $679,650 | | |
| Investment Property | Purchase & Rate/Term Refinance | 1-unit, SFD/SFA, Condos, Co-ops[3] | 85% | 85% | $679,650 | | |

[1] When the CLTV is greater than the maximum LTV, the subordinate financing must meet Fannie Mae's Community Seconds® or Freddie Mac's Affordable Seconds® requirements. The loan must be identified as an Affordable Housing loan within the MI submission.

[2] Non-traditional credit (a loan for which no member has a credit score) is allowed with a DU Approve/Eligible recommendation or LPA Accept/Eligible when the loan meets all Fannie Mae DU or Freddie Mac LPA requirements. The loan **must be submitted non-delegated**. For loans submitted under a United Guaranty Master Policy, members using non-traditional credit are ineligible when the credit union submitting the MI application is located in NY, SD, WA, or TX. In addition, they are ineligible when the property is located in NY. These limitations do not apply to loans submitted under an Arch Mortgage Insurance Company Master Policy.

[3] For loans submitted under an Arch Mortgage Insurance Company Master Policy, co-op eligibility is limited to CT, DC, IL, MA, MD, NH, NJ, NY and VA. These limitations do not apply to loans submitted under a United Guaranty Master Policy.

[4] Manufactured homes are not allowed with an Approve/Ineligible or Accept/Ineligible recommendation.

For items not addressed in this section, the Agency requirement applies.

## 2.02 Additional Underwriting Requirements (January 4, 2018)

| Category | Underwriting Requirement (January 4, 2018) |
|---|---|
| DU & Loan Product Advisor Response | The final, valid DU Findings or Loan Product Advisor Feedback must be included in the loan file.<br>■ The loan must close according to the terms and conditions of the DU Findings or Loan Product Advisor Feedback.<br>■ The DU or Loan Product Advisor recommendation must be based on accurate data from the credit union. The Agency's resubmission tolerances are permitted for determining whether DU or Loan Product Advisor must be rerun; **however, all data supplied to Arch MI must be the final, accurate data.**<br>■ The DU or Loan Product Advisor recommendation must be based on the Agency's published requirements.[5] Agency variances or waivers issued to a credit union are **ineligible** without prior approval by Arch MI.<br><br>DU and Loan Product Advisor are not capable of evaluating certain aspects of the loan file. For those aspects unable to be evaluated by DU or Loan Product Advisor, the credit union is responsible to ensure the Agency's standard requirements, as listed in its Selling Guide, are met. When Arch MI aligns with the Agencies' requirements, a loan may use a combination of Fannie Mae and Freddie Mac's requirements, regardless of whether the loan was underwritten with DU or Loan Product Advisor. Some examples of items not able to be evaluated by DU or Loan Product Advisor are listed below (not all inclusive):<br>■ Appraisal, property, occupancy intent, employment, income stability and continuance, large asset deposits, and reserves for specific scenarios. |
| Appraisal | ■ Credit unions exercising their delegated authority are responsible for assessing the validity and accuracy of the appraisal report and ensuring the value is supported prior to delegation, including but not limited to, adequacy of the comparables, property condition, market value, and appraised value. This is regardless of any AUS response on the transaction. Numerous tools are available in the marketplace to assist the credit union in this assessment and Arch MI encourages their use. This is particularly important during times of market volatility or fluctuations, especially if there are any indications the subject property and/or comparable properties are located in an area of soft and/or declining property values.<br>■ A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required, unless:<br>　■ A Property Inspection Waiver (PIW) is offered by DU and exercised by the credit union for a 1-unit primary residence or second home with a maximum 90% LTV.<br>　　■ When a PIW is exercised by the credit union, the property value entered in DU will be used. All Fannie Mae PIW requirements must be met.<br>　　■ If an appraisal is obtained by the credit union, the property value and all other information from the appraisal must be used, regardless of whether a PIW is offered and exercised. |
| Ineligible | Member:<br>■ All members without a Social Security number (SSN) are **ineligible**.<br>■ Members who already have the maximum number of loans insured with Arch MI (see section 3.09.01.03) are **ineligible**.<br>Credit:<br>■ A member on a loan for which Arch MI paid a claim.<br>Loan Type:<br>■ Interest-only loans.<br>■ Loans with potential or scheduled negative amortization.<br>Property:<br>■ Single-wide manufactured housing.<br>■ Any property type **ineligible** for sale to the Agencies.<br>■ Property located outside the 50 United States and the District of Columbia (including Puerto Rico, Guam, and the Virgin Islands).<br>Transaction:<br>■ Construction-to-Permanent loans and Renovation Mortgages when the property is a manufactured home.<br>■ Fannie Mae DU Refi Plus and Freddie Mac Relief Refinance Mortgage loans.<br>■ Seasoned loans (see section 3.08.05 for definition).<br>■ Loans with a prepayment penalty feature. |

5 Fannie Mae and Freddie Mac published guidelines are defined as guidelines outlined in the Agency Selling Guides available to all credit unions without the need for a credit union variance or amendment to credit union's Master Agreement.

For items not addressed in this section, the Agency requirement applies.

| Category | Underwriting Requirement (January 4, 2018) |
| --- | --- |
| Other | ▪ Commitment/Certificate – See section 1.04 for requirements.<br>▪ Financed MI – See section 3.03.02 for financed MI requirements.<br>▪ Age of Documentation – See section 3.05.01 for requirements.<br>▪ Affordable Housing – See section 3.06.02 for definition and identification requirements.<br>▪ Construction-to-Permanent loans and Renovation mortgages – See section 3.08.02.01 and section 3.08.03.01 for insurance activation options.<br>▪ Corporate Relocation Loans – See section 3.08.04 for the definition and documentation requirements. |

 

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

# 3. Standard Underwriting Requirements

The underwriting requirements in this section apply to all manually underwritten loans **and** any loan underwritten with DU or Loan Product Advisor that does not meet the underwriting requirements detailed in section 2. **The requirements in this section apply to both non-delegated and delegated submissions.** Most of the requirements for non-delegated and delegated are the same; however, when they differ it will be clearly identified. When a loan does not meet the requirements of this section, but you believe it is an acceptable risk, submit the loan non-delegated and we will evaluate the overall risk of the loan to determine its eligibility for insurance (unless the requirement not met is listed in the Ineligibility Matrix).

## 3.01 General Underwriting Requirements (January 4, 2018)

Arch MI uses a combination of its own specific underwriting requirements and the underwriting requirements of Fannie Mae and Freddie Mac (the Agencies). The information below describes how Arch MI's underwriting requirements work in combination with the Agencies' requirements.

- All Arch MI underwriting requirements listed in section 3 apply, regardless of the Agency requirements for manually or DU/Loan Product Advisor underwritten loans.
- When Arch MI's requirement in section 3 is more liberal than an Agency's requirement, the credit union may choose to use the Agency's requirement in lieu of Arch MI's.
- When an item is not specifically addressed within section 3, it means that Arch MI aligns with the Agencies' published[6] underwriting requirements for that item as follows (see Fannie Mae Selling Guide and/or Freddie Mac Seller/Servicing Guide):
  - Arch MI aligns with the Agencies' AUS underwriting requirements when the loan is underwritten by DU or Loan Product Advisor.
  - Arch MI aligns with the Agencies' manual underwriting requirements when the loan is a manual underwrite (not underwritten by DU or Loan Product Advisor).
  - If the loan is a manual underwrite and is not being sold to Fannie Mae or Freddie Mac, either of the Agency underwriting requirements may be used.
  - When we align with the Agencies' requirements, a loan may use a combination of Fannie Mae and Freddie Mac requirements, regardless of whether the loan was underwritten with DU or Loan Product Advisor, or manually.
  - If the loan **does not** meet Arch MI requirements or the Agency requirements we align with, or includes items not addressed by either Arch MI or the Agencies, a non-delegated submission to Arch MI is required for consideration.
  - Credit union programs containing underwriting requirements that do not meet Arch MI's requirements or the Agency requirements we align with require approval by Arch MI prior to submitting loans for mortgage insurance. **This includes underwriting requirements received through an Agency variance.**

[6] Fannie Mae and Freddie Mac published guidelines are defined as guidelines outlined in the Agency Selling Guide available to all credit unions without the need for a credit union variance or amendment to credit union's Master Agreement.

 

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

## 3.02 Agency AUS Additional Underwriting Requirements (March 1, 2017)

### 3.02.01 Unacceptable DU and Loan Product Advisor Recommendations (March 1, 2017)

Loans receiving one of the following DU or Loan Product Advisor recommendations are **ineligible** for delegated submissions. They will be considered on a loan-by-loan basis when submitted non-delegated.

- DU Refer with Caution.
- Loan Product Advisor Caution 500 A-minus Eligible.
- Loan Product Advisor Caution.

For loans that have been underwritten by both DU and Loan Product Advisor and receive an “unacceptable” recommendation from one and an “acceptable” recommendation from the other, Arch MI will use the “acceptable” recommendation for underwriting.

### 3.02.02 DU and Loan Product Advisor Tolerances (March 1, 2017)

DU and Loan Product Advisor allow specific data tolerances for debt-to-income (DTI) ratios, assets, reserves, etc. For requirements within section 3 of this Manual that are dependent on the DU/Loan Product Advisor decision (such as documentation requirements and reserves), the Agencies’ resubmission tolerances are permitted for determining whether DU or Loan Product Advisor must be rerun; however, all data supplied to Arch MI must be the final accurate data.

## 3.03 LTV/Loan Amount/Credit Score/DTI Requirements (January 4, 2018)

Please see the applicable sections in the Manual for additional information.

The following LTV/Loan Amount/Credit Score/DTI underwriting requirements represent general eligibility limits, used in combination with Arch MI’s automated risk evaluation to determine MI eligibility for each loan. Layering of risk attributes may affect the eligibility of loans meeting the general requirements below; this layering will be evaluated when you request your MI rate quote and/or when you submit your loan for MI.

Loans will be given consideration by Arch MI when the DTI ratio and/or credit score requirements indicated in the Manual are not met, provided:

- The DTI does not exceed the maximum DTI by more than 5 percentage points.
- The representative credit score for the loan is no more than 10 points below the required credit score and is not lower than 620.
- All other Arch MI underwriting requirements and the Agency requirements we align with are met.
- In some cases, a non-delegated submission may be required.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

## 3.03.01 Non-Delegated and Delegated Submissions (November 28, 2017)

| Occupancy | Transaction Type | Property Type | Maximum LTV | Maximum CLTV[1] | Maximum Loan Amount | Minimum Credit Score | Maximum DTI |
|---|---|---|---|---|---|---|---|
| **Loan Amounts up to $850,000** | | | | | | | |
| **Primary Residence** | Purchase & Rate/Term Refinance | 1-unit, SFD/SFA, Condos, Co-ops[3] | 97% | 105%[2] | $453,100 | 620 | 45% |
| | | | 95.01-97% | 97%[4] | $453,101–$850,000[5] | 620 | |
| | | | 95% | 100%[2] | $453,101–$679,650 | 620 | |
| | | | 95% | 95%[4] | $679,651–$850,000[5] | | |
| | | Manufactured Homes[6] | 90% | 90% | $453,100 | 680 | |
| | | 2-Units | 95% | 100%[2] | $679,650 | 660 | |
| | | 3–4 Units | 90% | 90%[4] | $679,650 | 660 | |
| | Cash-out Refinance | 1-unit, SFD/SFA, Condos, Co-ops[3] | 95% | 95%[4] | $679,650 | 660 | |
| **Second Home** | Purchase & Rate/Term Refinance | 1-unit, SFD/SFA, Condos, Co-ops[3] | 90% | 90%[4] | $679,650 | 660 | |
| | | | | | $679,651–$850,000[5] | 720 | |
| **Investment** | Purchase & Rate/Term Refinance | 1-unit, SFD/SFA, Condos, Co-ops[3] | 85% | 85%[4] | $679,650 | 680 | |
| **Loan Amounts $850,001 – $1,500,000[7]** | | | | | | | |
| **Primary Residence (Delegated)** | Purchase & Rate/Term Refinance | 1-Unit, SFD/SFA, Condos | 85% | 85%[4] | $850,001–$1,000,000[8] | 740[9] | 41%[9] |
| **Primary Residence (Non-Delegated)** | Purchase & Rate/Term Refinance | 1-Unit, SFD/SFA, Condos | 90% | 90%[4] | $850,001–$1,000,000[8] | 720[9] | 43%[9] |
| | | 1-Unit, SFD/SFA | 85% | 85%[4] | $1,000,001-$1,500,000[8] | 740[9] | 41%[9] |

[1] Subordinate financing requirements in section 3.03.03 must be met.
[2] When the CLTV is greater than the maximum LTV, the subordinate financing must meet Fannie Mae's Community Seconds® or Freddie Mac's Affordable Seconds® requirements. The loan must be identified as an Affordable Housing loan within the MI submission.
[3] For loans submitted under an Arch Mortgage Insurance Company Master Policy, co-op eligibility is limited to CT, DC, IL, MA, MD, NH, NJ, NY and VA. These limitations do not apply to loans submitted under a United Guaranty Master Policy.
[4] New subordinate financing is **ineligible**.
[5] See section 3.06.01.01 for additional underwriting requirements for loan amounts $679,651 to $850,000.
[6] See section 3.14.04 for specific requirements for Manufactured Home eligibility.
[7] ARMs <5 years, temporary buydowns, balloon mortgages, and biweekly mortgages are **ineligible**.
[8] See section 3.06.01.02 for additional underwriting requirements for these loan amounts.
[9] The credit score and DTI variances described in section 3.03 above do not apply.

 

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

## 3.03.02 Financed MI (March 1, 2017)

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

- The base LTV (before financed MI) cannot exceed the applicable maximum LTV for the transaction.
- The total LTV, including subordinate financing and the financed MI, cannot exceed 103%.
- The base loan amount (before financed MI) cannot exceed the applicable maximum loan amount for the transaction.

## 3.03.03 Subordinate Financing and CLTV (November 28, 2017)

### 3.03.03.01 New Subordinate Financing (November 28, 2017)

Transactions with new subordinate financing are **eligible** for insurance when meeting all of the following requirements. **Other than DTI ratio, no exceptions to these requirements are allowed, including the credit score. The DTI ratio variance of 5 percentage points addressed in** section 3.03 **may be considered.**

- **LTV/Loan Amount/Credit Score/DTI Requirements:**

<table>
<tr><th rowspan="2">Occupancy</th><th rowspan="2">Transaction Type</th><th rowspan="2">Property Type</th><th colspan="2">Maximum</th><th rowspan="2">Maximum Loan Amount</th><th rowspan="2">Minimum Credit Score</th><th rowspan="2">Maximum DTI</th></tr>
<tr><th>LTV</th><th>CLTV[1]</th></tr>
<tr><td rowspan="4">Primary Residence (only)</td><td rowspan="4">Purchase & Rate/Term Refinance</td><td rowspan="2">1-unit, SFD/SFA, Condos, Co-ops</td><td>97%</td><td>105%</td><td>$453,100</td><td>620</td><td rowspan="4">45%</td></tr>
<tr><td>95%</td><td>100%</td><td>$453,101-<br>$679,650</td><td>660</td></tr>
<tr><td>Manufactured Homes</td><td>90%</td><td>90%</td><td>$453,100</td><td>680</td></tr>
<tr><td>2-Units</td><td>95%</td><td>100%</td><td>$679,650</td><td>660</td></tr>
<tr><td colspan="8">[1] When the CLTV is greater than the maximum LTV, the subordinate financing must meet Fannie Mae's Community Seconds® or Freddie Mac's Affordable Seconds® requirements. The loan must be identified as an Affordable Housing loan within the MI submission.</td></tr>
</table>

- **Ineligible:**
  - 3-4 unit properties.
  - Second homes.
  - Investment properties.
  - Cash-out refinance loans.
  - Balloon mortgages.
  - Construction-to-permanent loans.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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### 3.03.03.02 Existing Subordinate Financing (November 28, 2017)

#### 3.03.03.02.01 Rate/Term Refinance (November 28, 2017)

For a rate/term refinance transaction, the existing subordinate financing may be re-subordinated when the following requirements are met.

**CLTV does not exceed the Maximum LTV for the Transaction Type:**

When the CLTV does not exceed the maximum LTV per the transaction type (see the grid in section 3.03.01) all occupancy types, property types and loan amounts are eligible.

**CLTV exceeds the Maximum LTV for the Transaction Type:**

The following requirements apply when the CLTV exceeds the maximum LTV per the transaction type (see the grid in section 3.03.01). **Other than DTI ratio, no exceptions to these requirements are allowed, including the credit score. The DTI ratio variance of 5 percentage points addressed in** section 3.03 **may be considered.**

- The subordinate financing must meet Fannie Mae's Community Seconds® or Freddie Mac's Affordable Seconds® requirements. The loan must be identified as an Affordable Housing Loan within the MI submission.
- **LTV/Loan Amount/Credit Score/DTI Requirements:**

| Occupancy | Transaction Type | Property Type | Maximum | | Maximum Loan Amount | Minimum Credit Score | Maximum DTI |
|---|---|---|---|---|---|---|---|
| | | | LTV | CLTV[1] | | | |
| Primary Residence (only) | Rate/Term Refinance (only) | 1-unit, SFD/SFA, Condos, Co-ops | 97% | 105% | $453,100 | 620 | 45% |
| | | | 95% | 100% | $453,101-$679,650 | 620 | |
| | | 2-Units | 95% | 100% | $679,650 | 660 | |

- The loan must be identified as an Affordable Housing loan within the MI submission.
- **Ineligible**:
  - 3-4 unit properties.
  - Second homes.
  - Investment properties.
  - Cash-out refinance loans.
  - Balloon mortgages.
  - Construction-to-permanent loans.
  - Manufactured homes.

#### 3.03.03.02.02 Cash-Out Refinance (March 1, 2017)

For cash-out refinance transactions, the existing subordinate financing may be re-subordinated. The CLTV may never exceed the maximum LTV per the transaction type (see section 3.03.01).

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

### 3.03.03.03 CLTV – Definition (March 1, 2017)

The following is Arch MI's definition of CLTV:

- CLTV is the equivalent of all other acronyms (i.e., HCLTV, TLTV, etc.) used to describe the ratio of the combined loan amounts for the first-lien and subordinate lien(s) secured by the subject property, whether drawn or not, to the lesser of the sales price or appraised value.
- Example: A property is being refinanced with an appraised value of $140,000. The member obtains a first-lien mortgage of $120,000, and an existing Home Equity Line of Credit with an available line of $10,000 and a balance of $5,000 is re-subordinated.

| **Determining the CLTV:** | |
|---|---|
| First lien | $ 120,000 |
| Plus total available line from Home Equity Line of Credit | + 10,000 |
| Total liens secured by the subject property | $ 130,000 |
| CLTV = ($130,000 ÷ $140,000) | 92.86% |

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

## 3.04 Ineligibility Matrix (January 4, 2018)

The following are **ineligible** for insurance with Arch MI. Please see the individual sections of the Manual for additional information:

| Category | Ineligible Item (January 4, 2018) |
|---|---|
| Amortization | ▪ Interest-only loans.<br>▪ Loans featuring negative amortization (potential or scheduled). |
| Appraisal/Property | ▪ Single-wide manufactured homes.<br>▪ Any property type **ineligible** for sale to the Agencies.<br>▪ Properties located outside the 50 states and the District of Columbia (including Puerto Rico, Guam, and the Virgin Islands).<br>▪ Property with a Condition Rating of C5, C6, Fair, or Poor; when the appraisal is not made subject to the repairs which would improve the property to an acceptable rating.<br>▪ Property with a Quality Rating of Q6 indicated on the appraisal. |
| Assets | ▪ 3–4 unit or investment properties for which funds for the transaction are coming from a source other than the member's own funds.<br>▪ Cash on hand.<br>▪ Sweat equity. |
| Member | ▪ Members without a Social Security number (SSN).<br>▪ Members with an individual tax identification number (ITIN).<br>▪ Members that are corporations, partnerships, syndications, or irrevocable trusts. |
| Credit | ▪ Credit scores lower than 620.<br>▪ A member who was a debtor on a loan for which Arch MI paid a claim.<br>▪ A loan in which all members are unable to document established credit (via traditional or non-traditional credit requirements). |
| Credit Report | ▪ Foreign credit reports. |
| Debt-to-Income Ratio | ▪ Debt-to-income ratios greater than 50%. |
| Documentation | ▪ Limited documentation loans (loans in which income, employment, and/or assets are not verified).<br>▪ Streamlined refinance or purchase transactions. |
| Income | ▪ Rental income from the subject second home. |
| Interested-Party Contribution – Payment Abatements | ▪ Loans with payment abatements of any type are **ineligible** for insurance.<br>▪ **Note:** The payment of up to 12 months of HOA fees is not considered an abatement and is an acceptable financing concession. |
| Loan Amount | ▪ Loan amounts higher than $1,500,000. |
| Loan-to-Value (LTV) | ▪ LTV ratios higher than 97%. |
| Prepayment Penalty | ▪ Loans with a prepayment penalty feature. |
| Transaction | ▪ Construction-only loans.<br>▪ Seasoned loans (see the Seasoned Loans section). |

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

## 3.05 Documentation Requirements (January 4, 2018)

### 3.05.01 Age of Documentation (January 4, 2018)

- **Appraisal:**
  - A recertification of value is required if the appraisal is more than 120 days old on the Note date.
    - The recertification of value must be no more than 120 days old on the Note date.
    - A new, full URAR with interior/exterior inspection is required if recertification of value indicates a decline in the property value since the original appraisal.
  - Non-delegated MI submissions must have a recertification of value dated within 120 days included in the loan file documentation if the appraisal is older than 120 days at the time of MI submission; unless the property is appraised “subject to completion”. If the property is appraised “subject to completion” the credit union will be responsible to obtain the recertification of value prior to closing and retain in the loan file.
  - The appraisal cannot be more than 12 months’ old on the Note date. Recertification of value is not acceptable for appraisals older than 12 months; a new, full URAR with interior/exterior inspection is required.
- **Credit documents:**
  - Credit documents include credit reports and employment, income, and asset documentation. For all mortgage loans (existing and new construction), the credit documents must be no more than 120 days old on the Note date. When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than 120 days old on the Note date.
  - If the credit documents are older than allowed, the credit union must update them.
- **Single-Close Construction-to-Permanent Loans:** For this transaction type there is only one Note date, therefore the conversion/modification date is not applicable to the age of documentation.

### 3.05.02 Required Documentation (March 1, 2017)

Arch MI requires documentation to verify the following:

- The loan transaction.
- The AUS findings/feedback report.
- The member’s credit history.
- The value of the property.
- The terms of the sale (purchase transaction only).
- The member’s employment and income.
- The member’s assets and equity.

 

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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### 3.05.03 Documentation Requirements for All Loans (Manually or Agency AUS Underwritten) (November 28, 2017)

(Also see Additional Requirements for AUS Agency Underwritten Loans below.)

- **Appraisal:**
  - A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required, unless:
    - A Property Inspection Waiver (PIW) is offered by DU and exercised by the credit union for a 1-unit primary residence or second home with a maximum 90% LTV.
      - When a PIW is exercised by the credit union, the property value entered in DU will be used. All Fannie Mae PIW requirements must be met.
      - If an appraisal is obtained by the credit union, the property value and all other information from the appraisal must be used, regardless of whether a PIW is offered and exercised.
    - All other valuation methods are **ineligible**.
  - For loan amounts $1,000,001 to $1,500,000, a third-party field review appraisal is also required.
  - Appraisals originally prepared for FHA financing will be accepted subject to the following:
    - The appraisal must be completed on a standard Fannie Mae or Freddie Mac appraisal form.
    - When the appraisal is completed subject to repairs and/or alterations, Arch MI will require that all repairs and alterations are completed.
- **Verification of Employment/Income:**
  - For loan amounts $679,651 to $1,500,000, the Agencies' manual documentation requirements for income must be followed.
    - If the loan amount is $850,001 to $1,500,000 **and** a VOE is used to document the income, it must be accompanied with a current paystub.
  - Executed employment contracts, confirmation letters, and offer letters:
    - Executed employment contracts, confirmation letters, or offer letters may be used as verification of employment and income when the requirements below are met. Confirmation or offer letters are generally used when the employer does not use a contract when hiring a new employee; they provide confirmation of the terms of employment and acceptance by the member.
      - The contract, confirmation letter, or offer letter must provide the employment and income information required when using the standard forms of employment/income verification (e.g., start date, position, or salary).
      - The contract, confirmation letter, or offer letter must be accepted by the member.
      - The credit union must obtain a Verbal VOE verifying the authenticity of the contract or confirmation letter.
      - For members scheduled to start their new employment prior to closing, the credit union must verify with the employer that the member has started.
      - For members starting their new employment post-closing, the loan must meet one of the following:
        - Freddie Mac's post-close employment requirements in section 5303.2(e) of its Seller/Servicing Guide.
        - Fannie Mae's Employment Offers and Contracts requirement in section B3-3.1-09 of its Selling Guide.
        - Arch MI's Medical and Dental Professionals program requirements (see section 3.06.03).

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For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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- IRS transcripts:
  - IRS transcripts are not required; however, when a credit union has acquired the IRS transcripts, a copy of the transcripts must be provided in the following circumstances:
    - If a loan submitted via delegated is subsequently submitted non-delegated to Arch MI for underwriting.
    - Arch MI requests a copy of the loan file for quality assurance purposes.
  - Any discrepancy between the loan file income documentation and the transcript information must be appropriately explained and documented. If the transcripts do not support the income documentation provided, and the discrepancies cannot be adequately explained and documented, the loan is **ineligible** for mortgage insurance. The IRS transcript(s) and any subsequent explanation or documentation of discrepancies must be permanently retained in the credit union's loan file.
- **Verification of Assets:**
  - For loan amounts $679,651 to $1,500,000, the Agencies' manual documentation requirements for assets must be followed.
  - If the loan amount is $850,001 to $1,500,000 **and** a VOD is used to document the assets, it must be accompanied with one month's bank statement.
- **Sales Contract/Offer to Purchase and Addenda:**
  - Final, signed copies of the contract/offer and addenda are required.

### 3.05.04 Additional Documentation Requirements for Agency AUS Underwritten Loans (March 1, 2017)

In addition to the documentation requirements above, the following requirements apply when DU/Loan Product Advisor underwriting is used for the final underwriting decision.

- **All Agency AUS–Underwritten Loans:**
  - Documentation efficiencies granted by DU or Loan Product Advisor for loans receiving an "Ineligible" purchase decision:
    - Allowed when the only reason for the ineligible purchase decision is the absence of first-time home buyers on the loan.
    - Are not accepted when the loan receives an ineligible purchase decision for any other reason. Documentation requirements for a manual underwrite apply.
  - A minimum one month's bank statement is required when Arch MI requires reserves and reserves are not being required by DU or Loan Product Advisor.
- Fannie Mae Refi Plus™, DU® Refi Plus™, or Freddie Mac Relief Refinance Mortgage℠ loans submitted for new insurance as a rate/term refinance must follow the manual underwriting documentation requirements. (When Arch MI insures the existing loan it is recommended these loans be submitted via Arch MI's HARP program.)

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For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

# 3.06 Products and Programs (January 4, 2018)

## 3.06.01 Jumbo Loans (January 4, 2018)

### 3.06.01.01 Loan Amounts $679,651–$850,000 (January 4, 2018)

In addition to the underwriting requirements outlined elsewhere in this Manual, the following requirements apply to loan amounts of $679,651 to $850,000.

- **LTV/Loan Amount/Credit Score/DTI Requirements:**

| Eligible Loan Types | Fixed-Rate/Fixed-Payment, ARMs, Temporary Buydowns, and Balloons | | | | | | |
|---|---|---|---|---|---|---|---|
| Occupancy | Transaction Type | Property Type | Maximum LTV | Maximum CLTV[1,2] | Loan Amount | Minimum Credit Score | Maximum DTI |
| Primary Residence | Purchase & Rate/Term Refinance | 1-unit, SFD/SFA, Condos, Co-ops[3] | 97% | 97% | $679,651–$850,000 | 620 | 45% |
| Second Home | | | 90% | 90% | | 720 | |

[1] New subordinate financing is **ineligible**.
[2] Existing subordinate financing requirements in section 3.03.03.02 must be met.
[3] For loans submitted under an Arch Mortgage Insurance Company Master Policy, co-op eligibility is limited to CT, DC, IL, MA, MD, NH, NJ, NY and VA. These limitations do not apply to loans submitted under a United Guaranty Master Policy.

- All members must have a credit score.
- For purchase transactions, six months' reserves are required.
- For rate/term refinance transactions, no reserves are required.
- The Fannie Mae/Freddie Mac manual underwriting documentation requirements for income and assets must be followed.
- Maximum interested-party contribution: 3%.
- The following are **ineligible**:
  - Manufactured homes.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

### 3.06.01.02 Loan Amounts $850,001–$1,500,000 (January 4, 2018)

In addition to the underwriting requirements outlined elsewhere in this Manual, the following requirements apply to loan amounts of $850,001 to $1,500,000.

- **LTV/Loan Amount/Credit Score/DTI Requirements:**

| Eligible Loan Types | Fixed-Rate/Fixed-Payment and ARMs ≥5 yrs | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Occupancy | Transaction Type | Property Type | Maximum LTV | Maximum CLTV[1,2] | Loan Amount | Minimum Credit Score | Maximum DTI | Reserves |
| **Primary Residence (Delegated)** | Purchase & Rate/Term Refinance | 1-Unit, SFD/SFA, Condos | 85% | 85% | $850,001-$1,000,000 | 740[3] | 41%[3] | 12 mo |
| **Primary Residence (Non-Delegated)** | Purchase & Rate/Term Refinance | 1-Unit, SFD/SFA, Condos | 90% | 90% | $850,001–$1,000,000 | 720[3] | 43%[3] | 12 mo |
| | | 1-Unit, SFD/SFA | 85% | 85% | $1,000,001-$1,500,000 | 740[3] | 41%[3] | 24 mo |

[1] New subordinate financing is **ineligible**.
[2] Existing subordinate financing requirements in section 3.03.03.02 must be met.
[3] The credit score and DTI variances addressed in section 3.03 do not apply.

- **Loan Type:**
  - **Ineligible**: ARMs with initial fixed rate periods <5 years, buydowns, balloon mortgages, and biweekly mortgages.
- **Documentation:**
  - A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, **and** a third-party field review appraisal are required (the field review applies to loan amounts >$1,000,000).
  - The Agencies' manual underwriting documentation requirements for income and assets must be followed. In addition:
    - If a VOE is used to document income, it must be accompanied with a current paystub.
    - If a VOD is used to document assets, it must be accompanied with one month's bank statement.
- **Credit:**
  - All members must have a credit score.
  - If the member has a previous housing history (mortgage or rent), the most recent 12 months' history must be documented with no late payments. If the history is shorter than 12 months, the entire history must be documented.
  - Foreclosures, deeds-in-lieu of foreclosure, pre-foreclosure sales (short sales), mortgage debt discharged through bankruptcy, and charged-off mortgages require 7 years' seasoning from the completion date, and satisfactory re-established credit must be verified.
  - Bankruptcies require 7 years' seasoning from the discharge or dismissal date, and satisfactory re-established credit must be verified.
  - Previously restructured mortgages (as defined in section 3.12.04.01) require 7 years' seasoning from the restructure date, and satisfactory re-established credit must be verified.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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  - 4 years' seasoning required from the completion date of credit counseling due to derogatory credit.
  - Open judgments, garnishments, and all outstanding liens (including tax liens), must be paid off at or prior to closing.
  - Members with collections and charge-offs of non-mortgage accounts are considered on a case-by-case basis.
  - A refinance that includes the restructure of the current mortgage loan (as defined in section 3.12.04.01) is **ineligible**.
- **Assets:**
  - All funds must come from the member's own funds. Gifts/grants are **ineligible**.
  - Employer assistance programs and trade equity may not be used as a source of assets.
  - Maximum interested-party contribution: 3%.
- **Property:**
  - Maximum condominium investor concentration: 30% (for both established and new projects).
  - **Ineligible**:
    - Co-ops.
    - Manufactured homes.
    - Modular, panelized, and prefabricated homes.
    - Geodesic homes.
    - Group homes.
    - Log homes.
    - Properties flipped within 180 days that result in a price increase.
    - Properties with resale (deed) restrictions.
- **Member:**
  - **Ineligible**:
    - Non-occupant co-borrower/co-signer.
    - Non-permanent resident aliens for loan amounts > $1,000,000.
- **Transaction Type:**
  - **Ineligible**:
    - Construction-to-permanent loans.
    - Renovation mortgages.
    - Installment land contracts.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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### 3.06.02 Affordable Housing – Including Housing Finance Agency (HFA) Loans (March 1, 2017)

Affordable housing loans must meet all Arch MI underwriting requirements. We allow a higher combined loan-to-value ratio for 1–2 unit primary residences when the subordinate financing meets Fannie Mae's Community Seconds® or Freddie Mac's Affordable Seconds® requirements. See section 3.03.03, Subordinate Financing, for complete requirements.

The following are considered affordable housing loans **and must be identified as such within the MI submission**:

- Fannie Mae HomeReady® loans.
- Freddie Mac Home Possible® Mortgage loans.
- HFA loans (first-lien mortgages originated under a state or local housing finance agency program). **The loan must be identified as an HFA loan within the MI submission**.
- Other loan programs that include community assistance (grants, gifts, Community Seconds, or Affordable Seconds, etc.) for first-time home buyers or low- to moderate-income members.
- Loans originated under a credit union's Community Reinvestment Act (CRA) program.

### 3.06.03 Medical and Dental Professionals Program (November 28, 201)

Members who are currently practicing (or who will begin practicing within 60 days of closing) one of the eligible professions below and meet the subsequent requirements are eligible for the exclusion of deferred student loan payments from the DTI ratio calculation and/or employment to begin post-closing.

**The following requirements do not apply when the deferred student loan payments are used in the DTI calculation and/or the member is starting employment prior to closing.**

Other than DTI ratio or credit score variances indicated in the grid, **no exceptions** to the following requirements are allowed.

- **Eligible professions (medical professionals must hold one of the specific designations listed below):**
  - Medical resident.
  - Medical doctor (MD).
  - Doctor of Dental Science (DDS).
  - Doctor of Dental Medicine (DMD) and dental surgeons specializing in oral and maxillofacial surgery.
  - Doctor of Optometry (OD).
  - Doctor of Ophthalmology (MD).
  - Doctor of Podiatric Medicine (DPM).
  - Doctor of Osteopathy (DO).
  - Pharmacist (RPH).

  **Note:** Members not employed in one of the eligible professions and starting their employment post-close may be eligible under Fannie Mae's or Freddie Mac's published post-close employment requirements with which we align. **The Agency's published post-close employment requirements do not allow excluding deferred student loan payments from the DTI calculation.**

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

- **LTV/Loan Amount/Credit Score/DTI Requirements:**

<table>
<tr><th>Occupancy</th><th>Transaction Type</th><th>Property Type</th><th>Maximum LTV</th><th>Maximum Loan Amount</th><th>Minimum Credit Score</th><th>Maximum DTI</th></tr>
<tr><td rowspan="4">Primary Residence (only)</td><td rowspan="4">Purchase & Rate/Term Refinance</td><td rowspan="4">1-unit, SFD/SFA, Condos, Co-ops[3]</td><td>97%</td><td>$453,100</td><td rowspan="2">620</td><td rowspan="4">45%[1]</td></tr>
<tr><td>90%</td><td>$453,101–$679,650</td></tr>
<tr><td>95%</td><td>$453,101–$679,650</td><td rowspan="2">700[1]</td></tr>
<tr><td>90%</td><td>$679,651–$850,000[2]</td></tr>
</table>

1 The 5% DTI variance and 10 point credit score variance as addressed in section 3.03 are allowed.
2 Construction-to-permanent loans are **ineligible** for loan amounts greater than $679,650.
3 For loans submitted under an Arch Mortgage Insurance Company Master Policy, co-op eligibility is limited to CT, DC, IL, MA, MD, NH, NJ, NY and VA. These limitations do not apply to loans submitted under a United Guaranty Master Policy.

- **Student Loan Debt:**

  Student loan debt belonging to the member with the eligible profession may be excluded from the DTI calculation with documentation to evidence deferment or forbearance for at least 12 months after the MI application date.
  - **Medical resident only:** Medical residents with a minimum of 6 months' residency remaining may use the alternative documentation listed below as evidence the student loan will be in deferment for at least 12 months:
    - Letter from employer verifying the medical resident's start date, or
    - Letter from the employer verifying at least 6 months' residency remaining.

- **Post-Closing Employment Start Date:**

  Employment for the member with the eligible profession may begin up to 60 days after loan closing when:
  - Maximum 95% LTV.
  - There is a non-contingent, fully executed (accepted) employment contract or offer letter documented in the loan file.
  - There is a verbal VOE conducted to confirm authenticity of the employment documentation prior to closing.

- **Minimum Member Contribution:**
  - 3% for loans up to $679,650.
  - 5% for loan amounts greater than $679,650.
  - Gifts/grants may be used to satisfy the minimum member contribution when all of the following are met:
    - Maximum $679,650 loan amount.
    - Minimum 740 credit score.
    - Maximum 41% DTI.
    - Fixed-rate/fixed-payment or ARMs greater than 5 years only.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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- **Reserves:**
  - 2 months for loan amounts up to $679,650.
  - 6 months for loan amounts greater than $679,650.
  - When employment **begins post-closing**, the following additional reserve requirement applies:
    - Reserves are required for each month after the Note date until employment begins.
- **Other Requirements:**
  - All members must have a credit score.
  - Construction-to-permanent loans have a maximum $679,650 loan amount.
  - All other Arch MI Standard Underwriting Requirements in section 3 of the Manual apply.
  - **Ineligible**:
    - DU and Loan Product Advisor documentation efficiencies. Manual documentation required.
    - Non-occupant members.
    - Subordinate financing.
    - EZ Decisioning® and CU *Swift*Close® requirements.
    - Manufactured homes.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

# 3.07 Loan Types (January 4, 2018)

## 3.07.01 Adjustable-Rate Mortgages (ARMs) (January 4, 2018)

### 3.07.01.01 Amortization Type (March 1, 2017)

- Only positively amortizing ARMs are eligible.
- Loans that allow for interest-only payments or negative amortization are **ineligible**.

### 3.07.01.02 Maximum Loan Amount (January 4, 2018)

- Non-delegated submissions:
  - ARM with an initial fixed-rate period of 5 years or longer: $1,500,000.
  - ARM with an initial fixed-rate period of less than 5 years: $850,000.
- Delegated submissions:
  - ARM with an initial fixed-rate period of 5 years or longer: $1,000,000.
  - ARM with an initial fixed-rate period of less than 5 years: $850,000.

### 3.07.01.03 Minimum Qualifying Rate (March 1, 2017)

- ARM with an initial fixed-rate period of less than 5 years: Note Rate plus 2%.
- ARM with an initial fixed-rate period of 5 years or greater: Note Rate.

### 3.07.01.04 Maximum Caps (March 1, 2017)

An ARM cap is defined as the amount the interest rate may change in a specified period of time.

- Initial cap:
  - Maximum 1% for an ARM with initial fixed-rate period < 1 year.
  - Maximum 2% for an ARM with initial fixed-rate period from 1 year to < 3 years.
  - Maximum 3% for an ARM with initial fixed-rate period from 3 years to < 5 years.
  - Maximum 6% for an ARM with initial fixed-rate period 5 years or greater.
- Periodic cap:
  - Maximum 1% when the time period is < 1 year.
  - Maximum 2% when the time period is from 1 year to < 3 years.
  - Maximum 3% when the time period is from 3 years to < 5 years.
  - Maximum 6% when the time period is for 5 years or greater.
- Lifetime cap:
  - Maximum 6%.

### 3.07.01.05 Interest Rate Adjustment Periods (March 1, 2017)

- The minimum initial fixed-rate period or any subsequent interest rate adjustment period is 6 months. There are no maximum interest rate adjustment periods.

### 3.07.01.06 Maximum Basis Point Spread (March 1, 2017)

Difference between the initial interest rate of an ARM and the FIAR (Fully Indexed Accrual Rate) at time of closing:

- 300 basis points.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

## 3.07.02 Temporary Interest-Rate Buydowns (January 4, 2018)

### 3.07.02.01 Maximum Loan Amount (January 4, 2018)

- Non-delegated and delegated submissions: $850,000.

### 3.07.02.02 Minimum Qualifying Rate (March 1, 2017)

- ARM loans: Note rate plus 2%.

### 3.07.02.03 Additional Restrictions (March 1, 2017)

- Maximum 2–1 buydown for ARMs with an initial fixed-rate period of less than 5 years.

## 3.07.03 Balloon Mortgages (January 4, 2018)

### 3.07.03.01 Loan Type (March 1, 2017)

- Fixed-rate/fixed-payment only.

### 3.07.03.02 Maximum LTV (March 1, 2017)

- 95% LTV.

### 3.07.03.03 Maximum Loan Amount (January 4, 2018)

- Non-delegated and delegated submissions: $850,000.

### 3.07.03.04 Minimum Balloon Term (March 1, 2017)

- 5 years.

### 3.07.03.05 Additional Restrictions (March 1, 2017)

- New Subordinate financing is **ineligible**.

## 3.07.04 Biweekly Mortgages (March 1, 2017)

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

### 3.07.04.01 Term (March 1, 2017)

- The term used should be the term as defined in the Note and/or Rider incorporating the biweekly payment.

### 3.07.04.02 Monthly Principal and Interest Payment (P&I) (March 1, 2017)

- The monthly P&I payment used to calculate the DTI should be the biweekly P&I converted to a monthly P&I (Monthly P&I = Biweekly P&I x 26/12).

### 3.07.04.03 Maximum Loan Amount (March 1, 2017)

- $850,000.

## 3.07.05 Maximum Term (March 1, 2017)

- Fixed-rate/fixed-payment and ARMs with initial fixed-rate period 5 years or longer: 40 years.
- ARMs with initial fixed-rate period less than 5 years, temporary interest-rate buydowns, and balloon mortgages: 30 years.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

# 3.08 Transaction Type (January 4, 2018)

## 3.08.01 Refinance Transactions (March 1, 2017)

### 3.08.01.01 Rate/Term Refinance[7] (March 1, 2017)

- Refinance transactions paying off a first-lien mortgage **and** a non-purchase money subordinate lien seasoned for a minimum of 12 months will be considered a rate/term refinance.
  - The 12 months' seasoning will be measured from the Note date of the existing subordinate lien to application date of the new loan.
  - If the subordinate lien is a Home Equity Line of Credit (HELOC), total draws within the last 12 months may not exceed $2,000. A loan history is required for the last 12 months to document the total draws.
- For a rate/term refinance with loan amounts $850,001 to $1,500,000, when the property has been owned less than 12 months, the LTV is calculated using the lesser of the purchase price or appraised value (except when the property is located in New York, where the appraised value must be used). The 12 months is measured from the note date of the purchase to the application date of the refinance.
- **Ineligible:**
  - Properties currently listed for sale.
  - For loan amounts $850,001 to $1,500,000, the refinance of the permanent financing of construction-to-permanent loan where less than 12 months' fully amortizing payments have been made.

### 3.08.01.02 Cash-Out Refinance (March 1, 2017)

- 1-unit primary residence only.
- Maximum cash-out:

| Maximum LTV/CLTV | Maximum Cash-Out |
|---|---|
| 90.01–95% | $50,000 |
| 85.01–90% | $100,000 |
| ≤ 85% | $150,000 |

- The following are **ineligible** for a cash-out refinance transaction:
  - Construction-to-permanent loans.
  - Renovation mortgages.
  - New subordinate financing.
  - Properties purchased or listed for sale in the last 6 months.
  - Manufactured homes.
  - Second homes.
  - Investment properties.
  - 2–4 unit properties.
  - Non-traditional credit.

[7] Loans not meeting rate/term refinance eligibility may be considered under Arch Mortgage Insurance Company's Refinance-To-Modification (RTM) program or United Guaranty's Refinance with Certificate Modification Program when Arch MI insures the existing loan.

 

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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#### 3.08.01.03 Fannie Mae's DU Refi Plus and Refi Plus, and Freddie Mac's Relief Refinance Mortgage (March 1, 2017)

Loans under Fannie Mae's Refi Plus™, DU® Refi Plus™, and Freddie Mac's Relief Refinance Mortgage℠ may be considered under Arch MI's HARP program when Arch MI insures the existing loan.

If a Fannie Mae Refi Plus™, DU® Refi Plus™, or Freddie Mac Relief Refinance Mortgage℠ loan is submitted as a new insurance application, the following apply:

- All rate/term refinance underwriting requirements.
- All manual underwriting documentation requirements for a rate/term refinance transaction.

### 3.08.02 Renovation Mortgages (November 28, 2017)

Items not addressed in this section will follow the underwriting requirements for the applicable transaction type (purchase or rate/term refinance).

#### 3.08.02.01 General Requirements (March 1, 2017)

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

#### 3.08.02.02 Additional Requirements (November 28, 2017)

- Maximum LTV:
  - 1–2 unit primary residences: 95% LTV.
  - Second homes: 90% LTV.
- Maximum loan amount:
  - 1-unit primary residences: $850,000.
  - 2-unit primary residence: $679,650.
  - Second homes: $679,650.
- A copy of the contract for cost of improvements must be provided.
- Renovations must be completed by a licensed contractor. The member may not act as the general contractor.
- **Ineligible:**
  - Manufactured homes.
  - 3–4 unit properties.
  - Investment properties.
  - Cash-out refinance.
  - Non-traditional credit.

#### 3.08.02.03 Age of Documentation Requirements (March 1, 2017)

- See section 3.05.01 for age of documentation requirements.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

## 3.08.03 Construction-to-Permanent Loans (January 4, 2018)

Arch MI will provide mortgage insurance for construction-to-permanent transactions under the following terms.

### 3.08.03.01 General Requirements (March 1, 2017)

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

### 3.08.03.02 Additional Requirements (January 4, 2018)

- Maximum LTV:
  - 1-unit primary residences: 95% LTV.
  - Second homes: 90% LTV.
- Maximum loan amount:
  - 1-unit primary residences: $850,000.
  - Second homes: $679,650.
- **Ineligible:**
  - 2–4 unit properties.
  - Investment properties.
  - Cash-out refinance.
  - New subordinate financing.
  - Non-traditional credit.
  - Manufactured homes (newly built manufactured homes that are being attached to a permanent foundation in connection with the subject loan transaction are considered a purchase transaction, not a construction-to-permanent purchase transaction).

### 3.08.03.03 Age of Documentation Requirements (March 1, 2017)

- See section 3.05.01 for age of documentation requirements.

### 3.08.03.04 Determining the Lot Value (March 1, 2017)

- If the lot was received through gift or inheritance, use the value of the lot from the appraisal to determine acquisition costs.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

### 3.08.04 Corporate Relocation Loans (March 1, 2017)

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

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

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

### 3.08.05 Seasoned Loans and Closed Loans (March 1, 2017)

A seasoned loan is defined as a loan for which the first monthly payment has been made.
- Seasoned loans are **ineligible** for insurance with Arch MI. All closed loans must be submitted for insurance to Arch MI prior to the first payment being made. The first payment may not be past due.
- Single closing construction-to-permanent loans that are modifying to the permanent financing for which interest-only payments have been made during the construction period **and** for which the mortgage insurance was not activated at the initial closing are not considered seasoned loans.

 

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

# 3.09 Member (January 4, 2018)

## 3.09.01 Underwriting the Member (January 4, 2018)

### 3.09.01.01 Social Security Number (March 1, 2017)

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

### 3.09.01.02 Individual Tax Identification Number (ITIN) (March 1, 2017)

- Loans to members who have been issued an 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 digits (fourth digit) will always start with a 7 or 8 (i.e., 9xx-7x-xxxx).
- An ITIN is not proof of legal residency in the United States and is not valid proof of identification outside the tax system. An ITIN is a tax identification number issued by the IRS to individuals who are not eligible for a Social Security number and who have an obligation to file a tax return to the IRS. Any person who is employed in the United States is **required** to have a Social Security number.

### 3.09.01.03 Maximum Number of Insured Loans per Member (January 4, 2018)

- Arch MI and its affiliates may collectively insure up to a maximum of three loans per member as follows:
  - Primary residence: 1 loan maximum.
  - Second home: Maximum of 1 second home and 1 investment property or 2 second homes (with no investment properties). When two second homes are insured, they must not be in the same general location.
  - Investment property: 2 loans maximum. When 2 investment properties are insured, then no second homes are allowed.
  - Arch MI will be responsible for determining the number of loans already insured for a member and will notify the credit union when the number is exceeded.

### 3.09.01.04 Loans to Corporations, Partnerships, Syndications, or Irrevocable Trusts (March 1, 2017)

- **Ineligible**.

## 3.09.02 Non-Occupant Borrower/Co-Signer (November 28, 2018)

- For non-occupant borrower transactions, the loan is qualified using the income, liabilities, and assets of all members.
- 1–2 unit primary residence only.
- Maximum LTV: 95% LTV.
- Maximum Loan Amount:
  - 1-unit primary residences: $850,000.
  - 2-unit primary residences: $679,650.
- **Ineligible:**
  - Manufactured homes.
  - 3–4 unit properties.
  - Second homes.
  - Investment properties.
  - Cash-out refinance.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

## 3.10 Income and Employment (March 1, 2017)

### 3.10.01 Income (March 1, 2017)

The Agency requirements for income must be followed.

### 3.10.02 Employment (March 1, 2017)

The Agency requirements for employment must be followed.

## 3.11 Equity and Assets (January 4, 2018)

### 3.11.01 Equity (March 1, 2017)

#### 3.11.01.01 Minimum Contribution from Member's Own Funds (November 28, 2017)

The following are Arch MI's requirements for a minimum contribution from the member's own funds for a purchase transaction:

| Occupancy | Property Type | Maximum LTV | Maximum Loan Amount | Gift/Grant Funds, Community and Affordable Seconds, and Employer Assistance | Minimum Borrower Contribution |
|---|---|---|---|---|---|
| **Primary Residence (only)** | 1-unit, SFD/SFA, Condos, Co-ops | 97% | $453,100 | **May be used to satisfy minimum borrower contribution** | 3% |
| | | 95.01–97% | $453,101–$679,650 | Allowed after minimum contribution is met | |
| | | 97% | $679,651–$850,000 | Allowed after minimum contribution is met | |
| | | 95% | $679,650 | **May be used to satisfy minimum borrower contribution** | |
| | 1-unit, SFD/SFA, Condos | 90% | $850,001–$1,000,000 | All contributions (with the exception of allowable seller/interested-party contributions) must come from the borrower's own funds. | |
| | 1-unit, SFD/SFA | 85% | $1,000,001–$1,500,000 | | |
| | Manufactured Home | 90% | $453,100 | Allowed after minimum contribution is met (for trade equity eligibility, see section 3.14.04) | 3% |
| | 1-unit, SFD/SFA, Condos, Co-ops using Non-Traditional Credit | 95% | $453,100 | Allowed after minimum contribution is met | 3% |
| | 2-Unit | 85% | $679,650 | Allowed after minimum contribution is met | 3% |
| | | 85.01–95% | $679,650 | Allowed after minimum contribution is met | 5% |
| | 3–4 Unit | 90% | $679,650 | All contributions (with the exception of allowable seller/interested-party contributions) must come from the borrower's own funds. | |
| **Second Home** | 1-unit, SFD/SFA, Condos, Co-ops | 90% | $850,000 | Allowed after minimum contribution is met | 5% |
| **Investment Property** | 1-unit, SFD/SFA, Condos, Co-ops | 85% | $679,650 | All contributions (with the exception of allowable seller/interested-party contributions) must come from the borrower's own funds. | |

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

## 3.11.02 Reserves (January 4, 2018)

Arch MI's reserve requirements are listed below.

### 3.11.02.01 Reserves—General (January 4, 2018)

Monthly reserves are calculated by using a specific number of total monthly housing expense payments for the subject property. The monthly housing expense payment (PITIA) includes principal, interest, taxes, insurance, ground rents, cooperative fees, homeowner's association dues, and special assessments. When calculating reserves, the Note rate PITIA should be used for all product types. The following are the minimum reserve requirements.

| Occupancy | Property Type | Transaction Type | DU Approve/Eligible or Loan Product Advisor Accept/Eligible | All Other Loans |
|---|---|---|---|---|
| Primary Residence | 1-unit, SFD/SFA, Condos, Co-ops | Purchase (Loan Amounts up to $679,650) | Aligns with DU/Loan Product Advisor reserve requirements | The lesser of 2 months' PITIA; or the Agencies' reserve requirement |
| | | Purchase (Loan Amounts $679,651 to $850,000) | 6 months' PITIA | |
| | | Rate/Term Refinance (Loan Amounts up to $850,000) | Aligns with DU/Loan Product Advisor reserve requirements | None |
| | 1-unit, SFD/SFA, Condos | Purchase & Rate/Term Refinance (Loan Amounts $850,001 to $1,000,000) | 12 months' PITIA | |
| | 1-unit, SFD/SFA | Purchase & Rate/Term Refinance (Loan Amounts $1,000,001 to $1,500,000) | 24 months' PITIA | |
| | 1-unit, SFD/SFA, Condos, Co-ops | Cash-out Refinance | Aligns with DU/Loan Product Advisor reserve requirements | 2 months' PITIA |
| | 2-units | Purchase & Rate/Term Refinance | Aligns with DU/Loan Product Advisor reserve requirements | 6 months' PITIA |
| | 3–4 units | Purchase & Rate/Term Refinance | 6 months' PITIA | |
| 2nd Home | 1-unit, SFD/SFA, Condos, Co-ops | Purchase & Rate/Term Refinance | Aligns with DU/Loan Product Advisor reserve requirements* | 6 months' PITIA (subject property only) |
| Investment | 1-unit, SFD/SFA, Condos, Co-ops | Purchase & Rate/Term Refinance | Aligns with DU/Loan Product Advisor reserve requirements* | 6 months' PITIA (subject property only) |

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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**Notes:**

***** DU and Loan Product Advisor are unable to account for additional Agency reserve requirements for second homes and investment properties when the member owns other financed second homes and/or investment properties. In these instances, the credit union must manually apply additional reserve requirements per the Fannie Mae and Freddie Mac Seller Guide.

#### 3.11.02.02 Reserves – Acceptable Sources of Funds (March 1, 2017)

- Proceeds from a rate/term refinance or cash-out refinance may be used to satisfy the reserve requirement.

### 3.11.03 Asset Types (March 1, 2017)

#### 3.11.03.01 Seller/Interested-Party Contributions (March 1, 2017)

- Loans that allow interested-party contributions to be used as down payment assistance are **ineligible**.
- Unplanned buydowns (buydowns paid by the builder/seller usually negotiated just before closing on new construction to allow the member to receive the interest rate stated on the sales contract when interest rates have risen) must be included as an interested-party contribution.

#### 3.11.03.02 Gifts (Including Gifts of Equity and Grants) (March 1, 2017)

- A gift from a relative or domestic partner who has lived with the member for the last 12 months, or from a fiancé or fiancée, **is considered the member's own funds** and may be used to satisfy the minimum member contribution requirement, as long as both individuals will use the home being purchased as their primary residence (the requirements listed below for other gift/grants do not apply).
- For all other gifts/grants:
  - The member's minimum contribution must be met (see section 3.11.01.01 for when gifts/grants may be used to satisfy the minimum member contribution).
  - Gift/grants are **ineligible** as a source of funds for:
    - Loan amounts higher than $850,000.
    - 3- to 4-unit primary residences.
    - Investment properties.

#### 3.11.03.03 Uniform Gift to Minor Accounts (March 1, 2017)

- Acceptable, provided one of the following criteria is met:
  - The member is the custodian of the account, or
  - The member is the owner of the account (the minor for whom the account was opened, and who is now of age).

#### 3.11.03.04 Business Assets (March 1, 2017)

Funds from a member's business may be used when the following requirements are met:

- Documentation to show that the member has access to the funds.
- A letter from an accountant stating that the withdrawal of the funds will not have a detrimental effect on the business; or
- The credit union must document a cash flow analysis for the member's business to show there will be no detrimental effect on the business due to the withdrawal of the funds.

#### 3.11.03.05 Lot Equity (March 1, 2017)

See the Construction-to-Permanent section for lot equity requirement

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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### 3.11.03.06 Ineligible Asset Types (March 1, 2017)

The following asset types are **ineligible**:

- Cash-on-hand.
- Sweat equity.
- Gift/grant funds for 3–4 unit primary residences and investment properties.
- The following are **ineligible** asset types for loan amounts higher than $850,000:
  - Gifts/grants.
  - Employer assistance.
  - Trade equity.

 

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

# 3.12 Credit and Liabilities (November 28, 2017)

## 3.12.01 Credit Score Requirements (March 1, 2017)

### 3.12.01.01 Valid Credit Scores (March 1, 2017)

- For a member's credit score to be considered valid, the information on the credit report must be accurate. If any information on the credit report is inaccurate or disputed, see section 3.12.03.03.
- If no members on the loan have a credit score, the loan must meet the non-traditional credit requirements.

### 3.12.01.02 Minimum Number of Scores Required (March 1, 2017)

- Arch MI requires a minimum of two credit scores per member.
  - A member with one credit score is acceptable when the credit union has requested credit scores from all three credit repositories and only one credit score is available.

### 3.12.01.03 Member Representative Credit Score (March 1, 2017)

Each member's representative credit score is used in the determination of the loan representative credit score. A member's representative credit score is determined as follows:

- When only one credit score is obtained (and meets the requirements above in section 3.12.01.02), use that score.
- When two credit scores are obtained for the member, use the lower score.
- When three credit scores are obtained for the member, use the middle score.
- When three scores are obtained for the member and two are identical, one of the identical scores is considered the middle score.

### 3.12.01.04 Loan Representative Credit Score (March 1, 2017)

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

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

## 3.12.02 Types of Credit (November 28, 2017)

### 3.12.02.01 Non-Traditional Credit[8] (November 28, 2017)

A transaction is considered non-traditional credit when NO member has a credit score.

The following are the underwriting requirements for non-traditional credit.

- **LTV/Loan Amount/DTI Requirements – Non-Delegated:**

| **Eligible Loan Types** | **Fixed-Rate/Fixed-Payment, ARMs, Temporary Buydowns and Balloons** | | | | |
|---|---|---|---|---|---|
| **Occupancy** | **Transaction Type** | **Property Type** | **Maximum LTV** | **Maximum Loan Amount** | **Maximum DTI** |
| **Primary Residence (Non-Delegated)** | Purchase & Rate/Term Refinance | 1-Unit, SFD/SFA, Condos, Co-ops | 95% | $453,100 | 45%[1] |
| [1] The 5% DTI variances addressed in section 3.03 are not allowed. | | | | | |

- **Ineligible:**
  - Members who do not contribute 3% of their own funds. Gift/grant funds may not satisfy this requirement.
  - 2–4 unit properties.
  - Manufactured homes.
  - Cash-out refinance.
  - Construction-to-permanent or renovation loans.
  - Second homes.
  - Investment properties.
  - Delegated submissions.
- **Credit References:**
  Each member on an MI application must establish an acceptable credit history through trade lines reported on the credit report or through non-traditional credit references.

  Non-traditional credit references are only acceptable when the traditional credit report does not produce a credit score. Non-traditional credit references may not be used to offset traditional trade lines with derogatory information.

  A minimum of four sources of non-traditional credit with at least 12 months' history must be provided (one housing related, one utility, and two from other sources).

  Credit references must have at least one quarterly repayment requirement.

[8] For loans submitted under a United Guaranty Master Policy, members using non-traditional credit are ineligible when the credit union submitting the MI application is located in NY, SD, WA, or TX. In addition, they are ineligible when the property is located in NY. These limitations do not apply for loans submitted under an Arch Mortgage Insurance Company Master Policy.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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The credit profile must indicate:
- No housing delinquency in the past 24 months.
- No more than 1x30 or 0x60 installment or revolving late payments in the past 12 months.
- No collections or charge-offs (except medical).
- No judgments (they must be satisfied).
- No bankruptcy/foreclosure/deed-in-lieu/short sale.

- **Acceptable Sources of Non-traditional Credit:**
  - Housing-related: Credit unions must obtain at least one housing-related source for a non-traditional credit history. The credit agency must specify in the report whether verification was obtained from a professional management company or from an individual landlord.
  - Utilities (when not included in the rental housing payment): Utilities include: electricity, gas, water, and payments for cable or telephone service.
  - Other payments:
    - Payments for medical insurance coverage, automobile insurance, life insurance policies and rental insurance payments. Payroll deductions for these items are excluded from use as an acceptable trade line.
    - Payments to local department, furniture, appliance, or specialty stores; rental payments related to durable goods (including automobiles); medical; school tuition; child care; loans obtained by an individual (if there is written agreement and the member can provide copies of cancelled checks to indicate payments are consistent with the terms of the agreement); and authorized user accounts (if there is written documentation to support the member has been solely responsible for payments during the most recent 12 months).
  - The consumer reporting agency should provide the credit union all documentation received for each credit reference listed on the credit report.

- **Documentation Requirements:**
  Acceptable documentation for all credit references include:
  - Twelve months of consecutive account statements.
  - A current account statement with 12 months of cancelled checks and/or paid receipts.
  - Credit union direct written verification which must include all of the information required on a non-traditional credit report and a current statement provided by the creditor; or
  - A non-traditional credit report.

#### 3.12.02.02 No Credit History (March 1, 2017)

Transactions in which all members are unable to document established credit (via traditional or non-traditional credit requirements) are **ineligible**.

### 3.12.03 Credit Report (March 1, 2017)

#### 3.12.03.01 Ineligible Credit Reports (March 1, 2017)

Foreign credit reports are **ineligible**.

#### 3.12.03.02 Fraud Alert Messages on Credit Reports (March 1, 2017)

Credit repositories have developed messages to identify potential fraudulent activities perpetrated by individuals misusing others' identity information. The messages may pertain to the member'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.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

### 3.12.03.03 Accuracy of Credit Report (March 1, 2017)

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

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

## 3.12.04 Derogatory Credit (March 1, 2017)

### 3.12.04.01 Restructured Mortgage Loans (March 1, 2017)

A restructured mortgage loan is defined as follows:

Any restructured loan for which the original transaction has been changed, resulting in absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in any of the following:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage;
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness;
- Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage; or
- Conversion of any portion of the original mortgage debt from secured to unsecured.

The following mortgage loans are eligible for insurance when meeting all other Arch MI underwriting requirements (see section 3.06.01.02 for restrictions for loan amounts higher than $850,000):

- A refinance transaction which allows for the restructure of the existing debt as defined above.
- The subsequent refinance of a restructured mortgage loan.
- A purchase transaction with a member who had previously restructured a mortgage loan.

If a restructured mortgage loan is modified instead of refinanced, it may not be submitted as a new insurance application. The loan should be submitted as a modification.

### 3.12.04.02 Deed for Lease (March 1, 2017)

Members may have the opportunity to lease a property for which they have given a deed in lieu of foreclosure. When the member's loan file references a deed for lease, the underwriter must determine the completion date of the deed in lieu of foreclosure to ensure the requirements are met.

### 3.12.04.03 Prior Arch MI Claim (March 1, 2017)

A member who was a debtor on a loan for which Arch MI paid a claim is **ineligible** for insurance with Arch MI.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

#### 3.12.04.04 Credit Counseling (March 1, 2017)

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

See section 3.06.01.02 for additional restrictions for loan amounts higher than $850,000.

#### 3.12.04.05 Past-Due Accounts (March 1, 2017)

All open past-due accounts must be brought current with the following exceptions:

- Collections.
- Charge-offs.
- Garnishments.

Arch MI aligns with the Agencies' requirements to determine whether the above items must be paid off.

### 3.12.05 Liabilities (March 1, 2017)

#### 3.12.05.01 Student Loans (March 1, 2017)

When the required monthly payment for a student loan is not listed on the credit report, the monthly payment may be determined by:

- Requiring copies of the loan documentation; **or**
- Using 1% of the outstanding balance of the student loan.

#### 3.12.05.02 Debts Paid by Business (March 1, 2017)

A debt paid by a business the member owns does not have to be counted as part of the member's recurring monthly obligations when the following requirements are met:

- The account in question does not have **any** history of delinquency.
- The member supplies proof that the business has paid the obligation for the last six months (preferably cancelled business checks).
- The payment of the obligation is reflected in the business cash flow analysis (e.g., reflected as an expense on the Schedule C).

## 3.13 Geographic Requirements (March 1, 2017)

### 3.13.01 Eligible Geographic Areas (March 1, 2017)

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).

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

# 3.14 Property (January 4, 2018)

## 3.14.01 Ineligible Property Types (March 1, 2017)

The following property types are **ineligible**:

- Single-wide manufactured homes.
- Any property type that is **ineligible** for sale to the Agencies (with the exception of non-warrantable condominiums [see section 3.14.03.02 below]).
- See section 3.06.01.02 for additional restrictions for loan amounts higher than $850,000.

## 3.14.02 Two- to Four-Unit Properties (March 1, 2017)

- Primary residence, purchase and rate/term refinance transactions only.
- Non-traditional credit is **ineligible**.
- Gift/grant funds are **ineligible** for 3–4 unit properties.

## 3.14.03 Condominiums and Cooperatives[9] (Co-ops) (January 4, 2018)

For a condominium or co-op to be eligible for insurance, it must:

- Be eligible for sale to either Fannie Mae or Freddie Mac; or
- Meet Arch MI's requirements for a condominium not verified as warrantable per Fannie Mae or Freddie Mac (non-warrantable condominiums)

### 3.14.03.01 Condominiums and Co-ops Eligible for Sale to the Agencies (March 1, 2017)

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

- Projects which include manufactured housing are **ineligible**.
- Non-realty limited common elements (e.g., boat dock slips, cabanas) may not be financed with the property. Assigned parking spaces may be financed as a cost of the property.
- See section 3.06.01.02 for additional restrictions for loan amounts higher than $850,000.

The following condominiums and co-ops salable to the Agencies are **ineligible** for delegated submissions. They will be considered on a loan-by-loan basis when submitted non-delegated:

- A condominium which receives a single loan project eligibility waiver from an Agency because the project does not meet its published requirements.
- A condominium located in a project that received a Project Eligibility Review Service (PERS) approval which allows exceptions to the Agency's published requirements.
- A co-op that received an exception from an Agency to their published requirements.

### 3.14.03.02 Non-Warrantable Condominiums (January 4, 2018)

All non-warrantable condominiums must be submitted non-delegated.

The following are Arch MI's underwriting requirements for non-warrantable condominiums:

**Documentation:**

The loan file should include one or more of the following documents:

- Appraisal: used to determine project characteristics, ownership, pre-sale levels, marketability, and completion levels (required on all files).
- HOA Questionnaire: can be used to determine investor concentration, commercial usage, single entity ownership, and project delinquency levels.

[9] For loans submitted under an Arch Mortgage Insurance Company Master Policy, co-op eligibility is limited to CT, DC, IL, MA, MD, NH, NJ, NY, and VA. These limitations do not apply to loans submitted under a United Guaranty Master Policy.

 

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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- Budget/Balance Sheet: used to verify the financial resources of the HOA. This determines the ability to provide maintenance and upkeep for the project grounds, fund necessary project improvements, and maintain adequate reserves.
- Other documents deemed necessary to validate the marketability and solvency of the condominium project.

**Project Exposure:**

- No more than 33% of any one project will be insured by Arch MI.
- For 2–4 unit projects, Arch MI will insure a maximum of 1 unit.

**Project Eligibility:**

- **Established Projects:**
  - Definition:
    - Fully complete, including all units and common elements and not subject to any additional phasing or annexation.
    - At least 90% of the total units have been conveyed to unit purchasers.
    - Control of the HOA has been turned over to the HOA or unit purchasers.
  - Requirements:
    - For projects with more than 20 units, no single entity (the same individual, investor group, partnership, or corporation) may own more than 10% of the units within the project. For 5–20 unit projects, an investor may own up to 2 units. Units are not included in these calculations if:
      - They are owned by the project sponsor or developer; and
      - Vacant; and
      - Being actively marketed for sale.
    - If the subject property is investor owned (not a primary residence or second home), a minimum 50% of the units in the project must be owner-occupied or second homes.
    - No more than 15% of the total units in the project can be 60 or days past due on condo/association fees (HOA dues).
    - No more than 25% of the project area can be for commercial usage.
- **New Projects:**
  - Definition:
    - The project is not fully complete, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condominium.
    - The project is newly converted; or
    - The project is subject to additional phasing or annexation.
    - Fewer than 90% of the project's total units have been conveyed to unit purchasers.
  - Requirements:
    - The project must be substantially complete (i.e. all the units in the subject property's phase are complete and available for occupancy).
    - At least 50% of the units in the complex/ legal phase must be conveyed or under contract as owner-occupied or second homes.
    - For projects with more than 20 units, no single entity (the same individual, investor group, partnership, or corporation) may own more than 10% of the units within the project. For 5–20 unit projects, an investor may own up to 2 units. Units are not included in these calculations if;
      - They are owned by the project sponsor or developer; and
      - Vacant; and

 

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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        - Being actively marketed for sale.
    - No more than 15% of the total units in the project can be 60 or more days past due on the payment of condominium/association fee payments.
    - No more than 25% of the project area can be for commercial usage.

- **2–4 Unit Projects:**
  - Definition:
    - A project composed of at least two, but no more than four, 1-unit dwellings that are separately owned with separate legal descriptions.
  - Requirements:
    - The project must be 100% complete.
    - All but one unit in the project must have been conveyed or under contract for sale to a primary residence or second home purchaser.
    - Investor ownership of any units is not permitted.
    - No one person or entity may own multiple units.
    - No portion of the project can include commercial usage.

- **Condominium Conversions:**

  Condominium conversions include apartments or improvements built for other uses and converted to condominium projects through legal filing of a Declaration of Condominium or Master Deed. Rehabilitation of the property may or may not have taken place at the time of conversion. It should be noted that condominium conversion projects are higher-risk properties. Additional considerations for conversion projects are as follows:

  - If converted from improvements other than apartments, marketability of units has been firmly established by other projects within like market areas.
  - Quality of construction and utility should be comparable to new condominiums.
  - Amenities should successfully compete with those of surrounding projects.
  - The project should be well located, with convenient access to major thoroughfares.

- **Ineligible:**
  - Projects with pending lawsuits that impact the safety, structural soundness, habitability, or functional use of the project.
  - Projects with outstanding environmental issues.
  - Any project or building that is owned by several owners as tenants-in-common.
  - Condotels.
  - Timeshare, fractional, or incremental ownership.
  - Manufactured housing site condominiums.
  - Multi-dwelling unit condominiums.
  - Houseboat projects.
  - Condo projects that represent a legal, but non-conforming, use of the land.
  - New projects for which the seller is offering excessive sale/financing concessions.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

### 3.14.04 Manufactured Homes (January 4, 2018)

Arch MI defines a manufactured home as a factory-built, multi-sectioned home built on a permanent frame (chassis) with a removable transportation system. The manufactured home is delivered and permanently attached to a site-built foundation.

The following are the underwriting requirements for manufactured homes.

- **Down Payment:**
  Trade equity will be considered only if:
  - The member has contributed the minimum cash down payment prior to consideration of the trade equity; and
  - The maximum permitted equity is calculated based on the length of ownership. If the unit has been owned for 12 or more months, use 90% of the retail value as listed in N.A.D.A.[10] (a copy of the valuation-report must be provided.) If the unit has been owned for less than 12 months, use the lesser of 90% of the retail value as listed in the N.A.D.A. or the lowest sale price within the last 12 months.
- **Purchase Price (New):**
  Generally, the purchase price for a new manufactured home (delivered to the site) should not exceed the state average sale price for a new manufactured home by more than 10% unless upgrades can be documented to support a higher value.
- **Acquisition Cost / LTV Calculation:**
  - For a purchase transaction when the loan is secured by a newly built manufactured home that is being attached to a permanent foundation in connection with the transaction, the LTV will be determined using the lower of:
    - The appraised value; or
    - The purchase price of the manufactured home (as evidenced by the dealer's invoice) plus the land:
      - If the land was purchased less than 12 months prior to the loan application date, use the lowest sales price at which the land was sold during that 12-month period, or
      - If the land was purchased 12 or more months prior to the loan application date, use the current appraised value of the land.
      - If the land was acquired through a gift or inheritance, use the appraised value of the land. Document the acquisition and transfer of the land.
  - For a purchase transaction when the loan is secured by a manufactured house that already exists on its foundation, the LTV will be based on the lowest of:
    - The purchase price of the manufactured home plus the land, or;
    - The current appraised value of the manufactured home and the land, or;
    - If the manufactured home was attached to the foundation less than 12 months prior to the loan application date, the lowest price the home was previously sold for during that 12-month period and the lower of the:
      - Current appraised value of the land, or
      - Lowest price the land was sold for during that 12-month period.

[10] N.A.D.A. – National Automobile Dealers Association, a resource for auto retail professionals, which includes manufactured homes. The website is www.nadaguides.com, where the value for manufactured homes can be determined for a fee.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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

- **Title Information:**
  - All loans must have an ALTA 7 Title Endorsement.
  - The property must be taxed as real property in accordance with the state where the property is located.

- **Property Eligibility:**
  For mortgage insurance eligibility, manufactured homes must meet the following conditions:
  - Manufactured homes must be a minimum of 18 feet wide or a minimum of 600 square feet in floor area. Single-wide homes are **ineligible**.
  - The land and improvements are included under one mortgage or deed of trust.
  - The property (land and structure) is legally classified as real property by the local jurisdiction, taxing authority, and title company.
    - The home is permanently affixed to a foundation that adheres to local building codes and wheel axles and trailer hitches have been removed. Homes on piers must satisfy the manufacturer's recommendation. Anchors must be provided where required by state law.
    - The manufactured house is built under the Federal Home Construction and Safety Standards established by HUD on/after June 1976. The label that confirms this is located on the manufactured home.
    - The land must be owned in fee simple by the member.
    - A minimum of two manufactured home comparable sales must be used by the appraiser to demonstrate conformity within the market and to establish market appeal.

- **Ineligible:**
  The following are **ineligible** when the subject property is a manufactured home:
  - Medical and Dental Professionals program.
  - Cash-out refinances.
  - Renovation mortgages.
  - Construction-to-permanent loans (newly built manufactured homes that are being attached to a permanent foundation system in connection with the purchase transaction are considered a purchase transaction, not a construction-to-permanent purchase transaction).
  - Non-occupant co-members.
  - Non-traditional credit.
  - Second homes.
  - Investment properties.
  - Condominiums and co-ops.

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For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

### 3.14.05 Modular, Panel/Pre-Fab, and Pre-Cut Homes (March 1, 2017)

Modular, panel/pre-fab and pre-cut homes qualify using the same criteria as single-family detached homes.

- **Modular Housing (Modular Home):** A home constructed in a factory assembly line, but with conventional home floor joists and delivered to the site on a trailer. Fully constructed modules are transported to the permanent site on a trailer and anchored to the foundation. Modular homes are not subject to HUD codes, but must adhere to local and regional building codes. These properties qualify using the same criteria as a single-family detached home.
- **Panel/Pre-Fab Housing (Panelized Home):** Factory assembly-line homes constructed with walls, floors, and (often) roof in small panel form, then assembled at the site and attached to the foundation. Panelized homes are not subject to federal standards but must adhere to local and regional building codes. These properties qualify using the same criteria as a single-family detached home.
- **Pre-Cut Home:** Lumber is cut to specific lengths at the factory, and then the home is constructed by workmen at the permanent site. Electrical, plumbing, and other components are added at the site. Pre-cut homes are not subject to federal standards but must adhere to local building codes. These properties qualify using the same criteria as a single-family detached home.

### 3.14.06 Rural Properties (March 1, 2017)

- Marketing time ≤12 months.
- Land value may not exceed 50% of the total property value.
- Adequate sewage, water, and utilities.
- Comparable properties must be in similar rural locations and have similar property styles (e.g., ranch, two story, etc.). Appraiser must adequately explain the use of comparable properties not meeting these requirements.

### 3.14.07 Maximum Acreage (March 1, 2017)

- Maximum 15 acres.
- Comparable properties must have similar acreage and property styles (e.g., ranch, two story, etc.).

### 3.14.08 Properties with Resale Restrictions (March 1, 2017)

- The LTV for purchase transactions involving properties with resale restrictions that do not survive foreclosure will be based on the lower of the purchase price or the appraised value.
- When there is a requirement for a third party to be notified that the member is in default or foreclosure, the credit union must ensure that the third party is notified.
- **Ineligible** for loan amounts higher than $850,000.

### 3.14.09 Property Flips (March 1, 2017)

- If the seller has owned the property less than 180 days from the date of the purchase contract and the new sales price is higher than the price paid by the seller to acquire the property, the increase must be fully documented and explained (these transactions are **ineligible** for loan amounts higher than $850,000).
- The following types of re-sale transactions are not considered property flips and are not required to meet the above criteria:
  - Property being sold by a spouse who acquired the property through a divorce settlement.
  - Property acquired by an employer through a relocation program.
  - Property being sold by an administrator or executor of an estate.
  - Property being sold by a credit union, mortgage investor, or mortgage insurance company that was acquired through foreclosure or deed in lieu of foreclosure.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

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# 3.15 Occupancy (January 4, 2018)

## 3.15.01 Primary Residence (March 1, 2017)

- At least one member on the transaction must occupy the property for the majority of the year and take title to the property; unless:
    - A parent is purchasing a home for a disabled child or a child is purchasing a home for an elderly parent(s) and the Fannie Mae requirements are met.
- For transactions in which not all of the members will occupy the property as their primary residence, see the Non-Occupant Co-Borrower/Co-Signer section.

## 3.15.02 Second Home (March 1, 2017)

- The property must be located in a recreational area.
    - If not in a recreational area, the member must give a satisfactory explanation for the use of the property as a second home.
- Manufactured homes and non-traditional credit are **ineligible**.
- Rental income from the subject property may **not** be used for qualification.

## 3.15.03 Investment Property (January 4, 2018)

- Gift/grant funds, non-traditional credit and manufactured homes are **ineligible**.
- A “kiddie condo” is any property type purchased to provide housing for a family member to occupy while attending college, trade or technical school. Typically, the parent(s) are the buyers and non-occupants and the child is the occupant. Kiddie condos must be considered investment properties.

For items not addressed in this section, the Agency requirement applies.

See section 3.01, General Underwriting Requirements, for more information.

See section 3.03, Loan Amount/LTV/Credit Score/DTI Requirements, for additional requirements that may apply.

## 3.16 Analyzing the Appraisal Report (March 1, 2017)

- The appraisal should fully analyze the neighborhood, site, physical characteristics, and condition of the property.
- The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition. Additionally, when provided, the following Condition and Quality of Construction rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:
  - Condition ratings of C1, C2, C3, or C4 are acceptable in an “as is” condition. Due to the risk associated with condition ratings C5 and C6, any appraisals with a C5 or C6 rating must have the condition items causing the rating on the appraisal be “subject to completion of repairs” in order for the transaction to be eligible for mortgage insurance.
  - Quality of Construction ratings of Q1, Q2, Q3, Q4, or Q5 are acceptable. Due to the risk associated with Quality of Construction rating Q6, any appraisal report with this rating will be **ineligible** for mortgage insurance.
- When the appraisal is made subject to completion, repairs, or inspection, the credit union must ensure that the construction is completed, 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 may be completed after closing.
- Credit unions exercising their delegated authority are responsible for assessing the validity and accuracy of the appraisal report and ensuring the value is supported prior to delegation, including but not limited to adequacy of the comparables, property condition, market value, and appraised value. This is regardless of any AUS response on the transaction. Numerous tools are available to credit unions in the marketplace to assist in this assessment and Arch MI encourages their use. This is particularly important during times of market volatility or fluctuations, especially if there are any indications the subject property and/or comparable properties are located in an area of soft and/or declining property values.

**ARCH MORTGAGE INSURANCE COMPANY** | 230 NORTH ELM STREET | GREENSBORO NC 27401 | **ARCHMICU.COM** **MCUS-B0001CU-0118**