

CMG Mortgage Insurance Company

Guideline Changes Effective 4/14/2008

Frequently Asked Questions for Customers

Effective April 14, 2008, CMG Mortgage Insurance Company (CMG MI) is making changes to our A-Minus (FICO® score <620) guidelines for all markets and restricting maximum financing for properties located in distressed and declining markets. CMG MI has made these decisions based on our analysis of various sophisticated risk modeling tools, home price indices and quarter-over-quarter movements in delinquency rates, which indicate significant market downturns and challenges ahead in many areas of the country.

A-Minus (FICO score <620) Changes in All Markets

- **For all markets, CMG MI will no longer insure loans with a representative FICO score less than 575, regardless of the automated underwriting system (AUS) decisions.**
- **For all markets, for loans with a representative FICO score between 575 and 619, the maximum allowable LTV/CLTV is 95%, regardless of the AUS decisions.**

Guideline Changes for Distressed Markets

- **In distressed and declining markets, CMG MI will require a reduction of five (5) percentage points to the maximum loan-to-value (LTV) ratio and combined loan-to-value (CLTV) ratio allowed by the loan program or product. To be eligible for mortgage insurance from CMG MI in these markets, the loan's maximum LTV/CLTV cannot exceed 95%.**
 - CMG MI will not insure negative-amortizing or option-payment mortgages
 - CMG MI will not insure limited doc products.

- LTV/CLTVs of 90.01% to 95.00% require a minimum representative FICO score of 680.
- LTV/CLTVs of 90% or less require a minimum representative FICO score of 620.
- The maximum LTV/CLTV for condominiums is 90%.
- The maximum LTV/CLTV for cash-out refinancing is 85%.
- These changes supersede previously issued CMG MI Program Variations.

Please review this FAQ and the attached *CMG MI Distressed Markets List* and *CMG MI Distressed Markets Policy* for more details on this decision and its impact on your business processes.

A-Minus Guideline Changes in All Markets

Q.1. Will these changes impact my systems?

A.1. CMG MI cannot assess the impact these changes will have on your systems. We understand that this may initially be a difficult change and we are hoping you will be able to adapt your systems as soon as possible. The Credit Union/underwriter will be expected to ensure the loan product, Member credit profile and property meet CMG MI's new guideline requirements.

Q.2. Why will CMG MI no longer insure loans with FICO scores below 575 regardless of the AUS decision?

A.2. Our experience with loans that have FICO scores below 575 shows they have a much higher likelihood of going to default regardless of the LTV and the AUS decision. In this turbulent mortgage market environment, all of our mortgage insurance product offerings will be geared to support strengthening communities for our Credit Union customers.

Q.3. Why will CMG MI no longer insure loans with LTVs above 95% and FICO's score between 575 and 619?

A.3. In our discussions with many customers, we have found Credit Unions are getting back to basics, and CMG MI supports their desire to facilitate sustainable homeownership for their Members. Loans with little or no equity combined with FICO scores between 575 and 619 entail additional layers of risk and have a higher likelihood of default, which requires CMG MI to make these guideline changes. Our guideline changes emphasize supporting the market for Credit Union Members who have the greatest chance for successful and sustainable homeownership.

Guideline Changes in Distressed Markets

Q.4. Will CMG MI insure a 95% LTV loan in a distressed market if there is a 5% piggyback second on the loan?

A.4. No, since the loan was structured with a 95% first-lien mortgage and a 5% piggyback second, the Combined LTV (CLTV) is 100% and thus exceeds the maximum LTV/CLTV of 95% for properties subject to the *CMG MI Distressed Markets Policy*.

Q.5. Will the maximum LTV/CLTV restrictions for properties in distressed markets apply to CMG MI's HLPR Discount product?

A.5. Yes, the *Distressed Markets Policy* applies to the HLPR product.

Q.6. Why is CMG MI applying these restrictions now?

A.6. CMG MI continues to evaluate the mortgage marketplace and continually monitors the quality of our business. In this mortgage market environment, in areas subject to the Distressed Markets Policy, 100% LTV loans have a much higher probability of failure. CMG MI will continue to monitor market changes in order to be able to support Credit Unions for the long term.

Q.7. How does CMG MI define Distressed Markets?

A.7. Distressed markets are defined as (1) specific geographic areas where property values are declining or are likely to decline, and (2) specific geographic areas where property values are being influenced by foreclosures and unemployment rates, among other factors.

Q.8. What is an MSA/MSAD?

A.8. The Metropolitan Statistical Area (MSA) is a geographical area designated by the U.S. Census Bureau for purposes of collecting and disseminating geographic data. The Metropolitan Statistical Area Division (MSAD) is a subdivision of a larger metropolitan statistical area, which has its own distinct social, economic and cultural area within the larger MSA.

Q.9. What should be done to determine whether the subject property is located in the MSA/MSAD subject to the *CMG MI Distressed Markets Policy*?

A.9. The *CMG MI Distressed Markets Policy* includes Websites that can assist with this determination. To determine whether the subject property is in an affected MSA/MSAD, the following Website may be helpful:

U.S. Census Bureau: www.census.gov/population/www/estimates/metrodef.html

To determine whether the subject property's zip code is in an affected MSA/MSAD, the following Website may be helpful:

Zipcodedownload: <http://zipcodedownload.com> (fee charged)

Q.10. Fannie Mae and Freddie Mac allow a rate/term refinance exception within their Distressed Markets Policies if they own the loan. Will CMG MI insure these loans?

A.10. CMG MI may consider insuring the new loan without implementing the *CMG MI Distressed Markets Policy* if the loan being refinanced is currently insured with CMG MI, and the refinance improves the Member's and CMG MI's positions. The loan must be submitted to the CMG MI Underwriting Network for review and approval:

- Nationwide Telephone Number (888) 746-6264
- Nationwide Fax Number (888)763-2264

To determine whether the loan being refinanced is insured by CMG MI, you may access e-Servicing or you may call Customer Service at (800) 909-4264.

Q.11. What will happen to a loan that doesn't meet CMG MI's new guidelines?

A.11. If a loan does not meet CMG MI's guidelines, it will be assigned a "Pend" status and the credit union will need to modify the loan to fit the new guidelines or withdraw the loan.

Q.12. Will the maximum LTV allowed be enforced in the system?

A.12. Yes, a submitted loan will be pended if it exceeds CMG MI's maximum LTV allowed for a program or product. Once the loan is assigned "Pend" status, the Credit Union will need to modify the loan to fit the new guidelines or withdraw the loan.

Please note: The Credit Union is expected to implement the 5-percentage point LTV/CLTV reduction or the maximum 95% LTV/CLTV requirement prior to submitting the MI request. CMG MI's systems cannot apply either adjustment automatically.

Q.13. What should be done if the subject property is on the *CMG MI Distressed Markets List*?

A.13. The value of the subject property should be well supported. Therefore we recommend obtaining the following documentation with the origination appraisal report:

- Two comparable sales that have closed within the last 90 days prior to the effective date of the appraisal; **and**
- A current listing of a comparable property to demonstrate the subject property's neighborhood is not continuing to decline; **and**
- Detailed explanations as to why property values are declining in the area, and what effect falling home prices have had on the value and marketability of the subject property.

Additionally,

- A 5-percentage point LTV reduction from the maximum financing allowed must be made by the Credit Union; **and**
- The reduced LTV/CLTV may not exceed 95%; **and**
- Payment option ARMS and negative amortizing loans are not eligible; **and**
- Limited documentation products are not eligible; **and**
- LTV/CLTVs of 90.01% to 95.00% require a minimum FICO score of 680; **and**
- LTV/CLTVs of 90% or less require a minimum FICO score of 620; **and**
- The maximum LTV/CLTV for condominiums is 90%; **and**
- The maximum LTV/CLTV for cash-out refinances is 85%.
- These changes supersede previously issued CMG MI Program Variations.

Given the uncertainty around distressed and declining markets, and the increased likelihood of declining property values in those markets, CMG MI believes those types of loans would lead to excessive layering of risk. The probability of mortgage default rises sharply as additional risk factors are added to a loan.

Q.14. What should be done if there are:

No comparables that have closed within 90 days?

A.14.a. The underwriter has discretion to accept a comparable that does not fall within the 90-day timeframe. However, there should be a comment from the appraiser regarding the absence of available comparables within 90 days.

No listings provided with the original appraisal?

A.14.b. The underwriter should request a listing or explanation from the appraiser as to why there are no listings available in the neighborhood.

No detailed explanations from the appraiser?

A.14.c. The loan does not have to be declined, but the Credit Union must request a detailed explanation from the appraiser. The appraiser's explanation must address why property values are declining in the area and what effect falling home prices have had on the value and marketability of the subject property.

Q.15. How often will the *CMG MI Distressed Markets List* be changed?

A.15. The list is scheduled to be updated on a quarterly basis. However, market conditions may warrant more frequent updates. The economic and market data that helps determine property values changes continuously, and CMG MI analyzes the data on an ongoing basis. CMG MI will send e-mail updates that will include MSA/MSADs that were added and/or removed from the list, as well as the effective date of the changes. Additionally, a *New Guidelines Update* and the updated *CMG MI Distressed Markets List* will be posted on www.cmgmi.com/distressed_markets.

Q.16. What does “maximum financing” mean?

A.16. Maximum financing refers to the highest LTV allowed for the loan program or product. For example:

	Maximum Financing LTV/CLTV	Distressed Market Reduced LTV/CLTV
Full Doc Standard	100%	95%
Full Doc Interest Only	95%	90%

Q.17. What is meant by a “Credit Union’s independent research” on the *CMG MI Distressed Markets Policy*? Does this mean the Credit Unions must conduct research for every property?

A.17. Rather than relying on the appraiser, Credit Unions should exercise due diligence to ensure the subject property is not in a declining market. CMG MI strongly urges Credit Unions to implement processes and apply supplemental sources and tools to validate current housing trends. The *Keys to Appraisal Review in Declining and Distressed Markets* document provides links to several available resources that can be used by Credit Unions to independently assess the housing markets’ strengths and weaknesses.

Q.18. What credit score requirement should be followed once the reduction to maximum LTV/CLTV has been applied?

A.18. The loan must meet the underwriting guidelines and credit score requirements for the LTV after the reduction to maximum financing has been applied.

Q.19. What coverage requirement should be followed – the original coverage required for the submitted LTV or the coverage level required on the LTV after the *CMG MI Distressed Markets Policy* is applied?

A.19. Coverage levels will be based on the LTV after the reduction to the maximum LTV has been applied.

Q.20. Can a Credit Union move its Member to a different loan type that allows a higher maximum LTV/CLTV than the initial submission?

A.20. Yes, as long as the requirements for the new loan program are met. For example, if a Limited Documentation loan was submitted with an LTV exceeding the maximum, the

Member could supply the required documentation, changing the loan program to Full Documentation in order to obtain higher maximum financing.

Q.21. Would an exception be made for a high credit score/profile?

A.21. No exceptions will be made for a high credit score/profile. The risk relates to the declining equity in the property and the strain that this would put on a Member who might need to sell the property. A decline in house value would impact all credit profile Members, not just those with lower credit scores, impacting long-term sustainable homeownership. A good credit profile would not compensate for a market decline.

Q.22. Does this new policy affect CMG MI's Construction-to-Perm policy?

A.22. Existing commitments will be honored as long as the construction is completed within the commitment term. Any extensions requested for existing commitments will be reviewed against the *CMG MI Distressed Markets Policy* and may not be approved. All new Construction-to-Perm requests will be subject to the *CMG MI Distressed Markets Policy*.

Q.23. Let's assume the subject property does not appear in a MSA on the Distressed Markets List; if the declining property box is checked on the appraisal report, but there is no declining market message from the automated underwriting system (AUS), will the CMG MI Distressed Markets Policy still apply?

A.23. Yes, the *CMG MI Distressed Markets Policy* will apply since one of the four indicators from the Policy was present.

Q.24. How does the CMG MI Distressed Markets Policy impact HLPR loans?

A.24. For HLPR loans on properties subject to the *CMG MI Distressed Markets Policy*, the maximum LTV/CLTV will be 95% in order to be eligible for mortgage insurance from CMG MI.

Q.25. Does this new policy affect the Housing Finance Agencies?

A.25. Yes, the Housing Finance Agencies must comply with the new policy.

Q.26. Is it possible to process loans with higher LTVs for the Fannie Mae MyCommunityMortgage™ and Freddie Mac Home Possible® products?

A.26. The maximum allowed LTV is 103% for these products and that would be reduced to 95% if the property is subject to the *CMG MI Distressed Markets Policy*.

Q.27. How will the new policy affect the HFA-approved programs?

A.27. All programs and products are subject to the guideline changes, including any HFA-approved programs.

Q.28. Will CMG MI honor a commitment certificate if it is issued for a 100% LTV loan prior to 4/14/08, but is closing after 4/14/08?

A.28. Yes, CMG MI will honor a commitment certificate if it is issued for a 100% LTV loan prior to 4/14/08 and is closing after 4/14/08. However, any extensions to these commitments must be approved by CMG MI.

Q.29. Will the maximum LTV/CLTV restrictions for properties in distressed markets apply to CMG MI's LPMI products (CUCE)?

A.29. Yes, including CU Competitive Edge.

Q.30. How will the *CMG MI Distressed Markets Policy* affect a loan with financed MI?

A.30. Financed MI is added to the net LTV, and only the net LTV must meet the requirements of the policy. For example:

Net LTV	95%
Mortgage insurance	3%
Total LTV	98%

Q.31. How will Members be affected, and which Members will be affected the most? Does this affect policies in force? What about special programs for minority and low-income Members, or annual pay and up-front programs?

A.31. These policy changes will only affect new applications received on or after April 14, 2008. This change has no effect on policies in force. Special programs will continue to be offered when they make sense for all parties involved. CMG MI will continue to support the GSE's Home Possible and MyCommunityMortgage programs as long as they meet the new LTV requirements.