

C M G M I G U I D E L I N E S

CONSTRUCTION-TO-PERMANENT PROGRAM

The CMG MI Construction-To-Permanent Program is designed for borrowers with a minimum loan representative credit score of 680.

If certificate of occupancy has been issued, loan is not eligible for the Construction-To-Permanent Program.

NOTE: Full documentation loans are required - limited documentation loans are not eligible under this program.

Definition

- A **construction-to-permanent loan** is the loan an individual borrower(s) obtains which finances the interim construction phase and converts to the permanent financing.
- A **construction loan** is the loan an individual borrower(s) obtains that finances the construction cost; the permanent loan is a separate loan.

NOTE: A loan used to purchase a new home from a builder (often referred to as a “turn key” loan) is not considered construction-to-permanent financing; it should be underwritten as a purchase transaction.

Distressed Markets Policy

- Please refer to CMG MI’s Distressed Markets Policy to determine if the property is subject to further guideline restrictions.

Automated Approvals

- All Fannie Mae’s Desktop Underwriter® (“DU”) and Freddie Mac’s Loan Prospector® (“LP”) recommendations must meet CMG Mortgage Insurance Company’s (“CMG MI”) Construction-To-Perm Program Guidelines.

LTV/Loan Amount

Loan amounts equal to conforming Fannie Mae and Freddie Mac loan limits are available at www.efanniemae.com, www.freddiemac.com or via AllRegs®

- Owner-Occupied
 - 95% LTV to \$417,000
 - Minimum 720 loan representative credit score
 - 90% LTV to \$650,000
 - Minimum 680 loan representative credit score
- **Ineligible:** Second Home and Investment Property

(Maximum LTV subject to state/geographic restrictions)

- The loan may be treated as a Purchase or a Refinance transaction. The LTV is based on the appraised value or total acquisition cost, whichever is less, as determined by the length of time the lot has been owned.

- The loan is a Refinance if:
 - The borrower holds title to the lot and is named as the borrower for the construction loan
- The loan is a Purchase if:
 - The acquisition of the lot occurs at the same time as the construction-to-perm or construction loan
- Acquisition costs must be determined. Acquisition costs include the cost of construction plus land value.
 - Construction costs may include, but are not limited to, building permits and architectural, survey, and loan fees, in addition to the cost of labor and materials required to complete the improvements.
 - To establish the value of the land, review the length of time the lot has been owned. If the lot has been owned for 12 months or more, the value of the lot is determined from the appraised value. If the lot has been owned for less than 12 months, the value is the lesser of the purchase price or the appraised value. Determine the value of the lot as described above and add the costs of the improvements (construction loan and any other documented costs paid by the borrower) to determine the acquisition cost. All acquisition costs must be verified either via the construction lender, or if paid by the borrower, with receipts, invoices and a HUD-1 for the purchase of the land.
 - If the land is acquired by gift or inheritance, use the appraised value of the land and document the acquisition and transfer of the land.

Loan Type

- Maximum 40 year amortization term
- Fixed rate, fixed payment, fully amortized over term
- Adjustable Rate Mortgage
 - Positively Amortizing ARM
 - Short term ARM (3 years or less fixed period)
 - Hybrid ARM (i.e. 5/1, 7/1, 10/1)
 - Annual caps not to exceed 2% and lifetime cap not to exceed 6%
- Balloons
 - Term ≥ 5 years
- **Ineligible:** Potential Negative Amortization, Scheduled Negative Amortization, and Option Payment Mortgages

Interest Only

- Fixed rate and ARMs with a fixed period of ≥ 5 years
- Interest only period must be a maximum of 15 years

Temporary/Permanent Buydowns

- Ineligible

CONSTRUCTION-TO-PERMANENT PROGRAM (cont'd)

Subordinate Financing

- Maximum CLTV cannot exceed published maximum LTV stated within the CMG MI Construction-to-Permanent Guidelines (see LTV/Loan Amount)
- Only the first mortgage will be insured by CMG MI
- Rate/Term Refinance Loans - subordinate loan to be repaid or subordinated to the new rate/term refinance mortgage and must be seasoned at least 12 months

Loan Purpose

- Purchase
- Rate/Term Refinance – used to pay off an existing first lien, including reasonable and customary closing costs; pay off of a subordinate lien that is seasoned at least 12 months; maximum cash back to the borrower of 2% of loan amount or \$2,000, whichever is less
- **Ineligible:** Cash-Out Refinance

Eligible Borrowers

- U.S. Citizens
- Inter Vivos Revocable Trusts
- Permanent Resident Aliens (the right to live and work in the US permanently)
- Credit union employee loans are not eligible for delivery via the CMG MI delegated channel. They must be submitted to the CMG MI Underwriting Network for review.
- **Ineligible:** Non-occupant co-borrowers, Non-permanent Resident Aliens, Non-Resident Aliens, Partnerships, Corporations, Syndications, Trusts (*other than Inter Vivos Revocable Trusts*), and Foreign Nationals

Employment History

- **Salaried/Hourly**
 - Minimum 24 months of verified employment in the same or related field
 - Minimum 30 days' current income verification
 - Employment gaps greater than 1 month should be explained
 - If loan is submitted through DU or LP, refer to the DU or LP recommendations regarding documentation requirements in reference to employment gaps
- **Self-Employed**
 - Minimum 24 months' history of self-employment verified by most recent 2 years' business tax returns
 - Business tax returns are not required if the borrower meets all of the following:
 - The borrower has been self employed in the same business for at least five years
 - The borrower's individual tax returns show an increase in income from self-employment in the past two years

- All down payment and closing costs are from the borrower's personal funds; funds from business account(s) cannot be used

Credit History

- Minimum of one credit score is required with a minimum loan representative credit score of 680, regardless of DU or LP recommendations
- The loan representative credit score will be determined using the lower/middle method; the lowest borrower score will be used
- Judgments, Liens, Collections, Voluntary or Involuntary Repossessions and Charge-offs must be paid in full at the time of loan closing
- The Borrower's credit history must reflect 0x30 mortgage late payments in the last 24 months and 0x60 installment or revolving account late payments in the last 12 months
- Minimum 4 years re-established traditional credit after discharge of bankruptcy for borrowers who have had one bankruptcy; 2 years with extenuating circumstances
- Minimum 5 years re-established traditional credit after discharge of bankruptcy for borrowers who have more than one bankruptcy filing in the past 7 years.
- Borrowers with a history of Bankruptcy, Foreclosure, Short Sale or a Deed-in-Lieu must meet Fannie Mae/Freddie Mac standard credit underwriting criteria available at www.efanniemae.com, www.freddiemac.com or via AllRegs®
- Borrowers with a prior foreclosure – loans are not eligible for delivery via the CMG MI delegated channel and must be submitted to the CMG MI Underwriting Network for review
- Comparable Credit Criteria (available at www.cmgmi.com) may be used in lieu of credit score to determine eligibility only if one of the following conditions apply:
 - Property is located in a state where pricing cannot be based on credit score
 - The credit score is unusable due to invalid credit information found on the report
 - Lack of sufficient credit informationLoans using the Comparable Credit Criteria must be submitted to the CMG MI Underwriting Network for review.

Nontraditional Credit

- Ineligible

Debt Ratios

- Maximum 45%, regardless of DU or LP recommendations
- PITI for the new home will be determined using the interest rate established for the permanent financing

CONSTRUCTION-TO-PERMANENT PROGRAM (cont'd)

- If documentation in the loan indicates the borrower's current residence will be sold upon completion of construction but is not under a non-contingent sales agreement, the underwriter must ascertain if there is a ready market for the properties in the area. The following market conditions must be present:
 - Marketing times are no greater than 6 months
 - Property values are stable and increasing
 - The borrower equity in the current residence is sufficient to cover sales and closing costs
 - If a ready market for the property cannot be verified, the full payment on both the borrower's current residence and the new home should be considered.
- If the borrower's current residence is not under binding sales agreement, calculate the current housing debt by subtracting 75% of potential rental income from the PITI. If the result is positive, add it to income; if it is negative, add it to long term debt.

NOTE: Loans that exceed the above debt-to-income ratio criteria are not eligible for delivery via the CMG MI delegated channel and must be submitted to the CMG MI Underwriting Network for review.

Qualifying Rate

- Positively Amortizing ARMs with an initial payment rate that is less than or equal to 300 bps below the Fully Indexed Accrual Rate (FIAR) qualify using the initial payment rate plus the first adjustment
- Positively Amortizing ARMs with an initial payment rate that is more than 300 bps below the FIAR qualify using the FIAR

Minimum Down Payment

- Minimum 5% own funds
- **Ineligible:** "Sweat Equity" as defined by Fannie Mae/Freddie Mac

Cash Reserves

- Reserves cannot be proceeds from subject mortgage
- Single Property
 - Minimum 2 months' PITI
- Multiple Properties
 - Current principal residence is pending sale (transaction will not be closed with title transfer to new owner prior to the close of subject transaction).
 - Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction.
 - Minimum 6 months of PITI for both properties
 - No cash-out refinance in the past 6 months
 - Primary Home Converts to a Second Home
 - Both the current and proposed mortgage payment must be used to qualify the borrower for the new transaction; and

- Minimum 6 months of PITI for both properties; or
- Minimum 2 months of PITI for both properties:
 - ❖ Document equity of at least 30 percent in the existing property (derived from an appraisal, automated valuation model (AVM), or Broker Price Opinion (BPO), minus outstanding liens. Valuation must be current within 30 days of application).
- Primary Home Converts to an Investment Property
 - Documented equity of at least 30 percent in the existing property (derived from an appraisal, automated valuation model (AVM), or Broker Price Opinion (BPO), minus outstanding liens. Valuation must be current within 30 days of application).
 - ❖ Up to 75% of the rental income to be used to offset the mortgage payment in qualifying.
 - Rental income documentation:
 - ❖ Copy of the fully executed lease agreement; and
 - ❖ Receipt of a security deposit from the tenant and deposit into the borrower's account.
 - If equity of at least 30 percent in the existing property CANNOT be documented, rental income may NOT be used to offset the mortgage payment; and
 - ❖ Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction; and
 - ❖ Minimum 6 months of PITI for both properties is required to be in reserves.

Maximum Interested Party/Seller Contributions & Concessions

- Maximum 3% not to exceed the lesser of the property's sales price or appraised value on LTVs greater than 90%
- Maximum 6% not to exceed the lesser of the property's sales price or appraised value for LTVs up to 90%

Eligible Properties

- CMG MI generally insures properties up to 10 acres, provided the property is residential in nature. All property types not explicitly approved are not eligible.
- 1 unit single-family attached or detached
- **Ineligible:** Cooperative Housing Units (Co-ops), Manufactured Homes, Condominiums, 2-4 units, condotels, timeshare/interval ownership, mixed use, builder inventory, and spec homes

CONSTRUCTION-TO-PERMANENT PROGRAM (cont'd)

Additionally Required Documentation

- Contract between the builder and borrower showing material and construction cost, time to complete and draw schedule
- A proposed dwelling survey (Plot Plan) is required
- HUD-1 or other documentation to verify acquisition price of lot

Conversion to Permanent

- When the lender receives the final inspections, final title update, and Certificate of Occupancy (if applicable), conversion to a fully amortized loan will occur. The loan will become fully amortized over the remaining term.
- If the construction is not completed prior to the expiration of the 12 month construction commitment term, a new MI application, with current borrower information, is required and is subject to current published construction-to-perm program guidelines.
- The lender will notify CMG MI of any material changes made to the plans and specifications.

Land Acquisition

- If the borrower does not own the land, the initial draw disbursement may assist in purchasing the land. However, the borrower's down payment must be used towards the purchase of the land before any mortgage proceeds are used.

Construction Draws & Inspections

- The borrower is responsible for any cost overruns and change orders. Any changes to the plans and specifications must be approved by the lender. The lender should obtain a recertification of value from the appraiser reflecting the change.

CMG MI Mortgage Insurance

- Not all lenders require insurance coverage for the construction phase. But lenders do want the assurance that the credit worthiness of the borrower is acceptable when the construction phase is complete and the permanent loan begins without the need to resubmit the additional paperwork. The Construction-to-Permanent commitment meets both these requirements.
- To secure coverage during the construction phase:
 - The lender must remit premium payment within 45 days of the closing date to activate the insurance and secure coverage during the construction period.
 - If the initial premium payment is received past the 45 days, the effective date for coverage will be the premium payment received date.
 - Maintain the premium payment throughout the construction period.
 - Premium is based on the full loan amount, not the drawn amount.

- The property must be complete per the specs and plans to obtain a claim payment as indicated in the Construction Loan Endorsement.
- Losses are not covered for the borrower's inability to obtain a permanent loan or the lenders' failure to roll over or convert the construction loan to a permanent loan.
- To secure coverage after construction is complete:
 - The lender can choose the effective date based on local practices, such as:
 1. Date of closing of the permanent loan
 2. Date of the certificate of occupancy
 3. Date the property is accepted as complete by the borrower
 - The loan cannot be in default as of the date the lender activates the insurance.
 - Premium payment to be remitted within 45 days of the effective date selected to secure coverage after construction is completed.
 - If the initial premium payment is received past the 45 days, the date the premium payment is received will be the effective date for coverage.
 - The Property must be completed according to the plans and specifications on which the appraisal was based. Costs associated with completing construction are not claimable expenses.
 - Losses caused by the borrower's inability to secure permanent financing or the lender's unwillingness to convert the loan to a permanent loan are NOT covered.
- CMG MI's commitment/certificate will be issued for a period of 12 months in the construction lender's name. After 12 months, a new MI application, with current borrower information, is required and is subject to current published construction-to-perm program guidelines. Upon completion of the construction, the mortgage insurance can be assigned to the end lender.

Multiple Loans to a Borrower

- CMG MI will insure up to 3 loans to a borrower with a maximum risk exposure of \$300,000 (maximum risk exposure defined as aggregate of original loan amount x percent of MI coverage)
- Within the 3 loans to a borrower limit, CMG MI will only accept the maximum amount of the following:
 - Primary Home – 1 loan maximum
 - Second Home – 1 loan maximum
 - Investment Property – 1 loan maximum

CONSTRUCTION-TO-PERMANENT PROGRAM (cont'd)

Appraisal

- Appraisals must meet Fannie Mae and/or Freddie Mac standard underwriting criteria available at www.efanniemae.com, www.freddie.mac.com, or via AllRegs®
 - Subject property condition must be “average” or above to be eligible for CMG MI delegated delivery.
 - Generally property condition must be average or above to be eligible for mortgage insurance
 - Loans with recommendations by Fannie Mae’s Desktop Underwriter receiving DU Approve or EA I and or Freddie Mac’s Loan Prospector receiving LP Accept may utilize the appraisal options provided in the recommendation.
- All appraisals must be in writing or electronic. Standard format is as follows:
 - Single-family and Detached PUDs -- Uniform Residential Appraisal Form (Fannie Mae Form 1004/Freddie Mac Form 70, dated 2005)
- The appraisal report should be prepared by a state-certified or state-licensed appraiser in accordance with Uniform Standards of Professional Appraisal Practices (USPAP).

CMG MI Coverages and Premiums

- All premium plans are available for construction-to-permanent loans.
- In order for a claim to be paid for a construction-to-permanent loan, the insurance must be in-force with the premiums paid and the construction must be completed according to the construction plans and specifications on which the appraisal was based.
- For information regarding CMG MI rates and surcharges, please refer to our published rate sheets on our Web site at www.cmgmi.com.
- When CMG MI Single Premium is financed, the maximum CLTV is 105% and is subject to state restrictions.