

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 who take out a loan that provides the financing for the interim construction phase and then converts it into permanent financing. 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

- Creation of a long-term mortgage to replace an interim construction loan that an individual borrower obtained to finance construction of a residence (and, possibly, to concurrently finance the purchase of the lot). The long-term financing used to pay off the interim construction loan is often referred to as a “take-out” loan, and the transaction involves two separate closings: one for the interim construction loan and one for long-term financing. The lender providing the long-term mortgage may or may not be the same as the lender that provides the interim construction financing. Both the interim financing and take-out loan may be insured by CMG Mortgage Insurance Company (“CMG MI”).
OR
- Creation of interim financing for an individual borrower that allows the loan proceeds to be disbursed over time to pay builders, contractors, subcontractors, suppliers, or other providers of materials or services that will automatically become a permanent long-term mortgage upon completion of construction (i.e., a single-closing). This is often referred to as a “construction roll-over” 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 \$650,000
- **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)

CONSTRUCTION-TO-PERMANENT PROGRAM (cont'd)

- Annual caps not to exceed 2% and lifetime cap not to exceed 6%
- Balloons
 - Term \geq 5 years
- **Ineligible:** Potential Negative Amortization, Scheduled Negative Amortization, and Option Payment Mortgages

Interest Only

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

Temporary/Permanent Buydowns

- Ineligible

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)
- **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
 - 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; 2 years with extenuating circumstances
- 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 a CMG MI underwriting office 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 should be submitted to a CMG MI underwriting office for review.

Nontraditional Credit

- Ineligible

CONSTRUCTION-TO-PERMANENT PROGRAM (cont'd)

Debt Ratios

- Maximum 50%, regardless of DU or LP recommendations
- PITI for the new home will be determined using the interest rate established for the permanent financing
- 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 a CMG MI underwriting office for review.

Qualifying Rate

- Positively Amortizing ARMs with an initial payment rate that is less than or equal to 300 bps below the 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

Cash Reserves

- Minimum 2 months' PITI
- Reserves cannot be proceeds from subject mortgage

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%

Construction Fees (Closing Costs)

- Up to 2% construction fee
- Inspection and survey fees

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, timeshare/interval ownership, mixed use, builder inventory, and spec homes

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 construction term, an extension may be granted.
- 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.

CONSTRUCTION-TO-PERMANENT PROGRAM (cont'd)

- For coverage during the construction phase:
 - The lender must select the effective date for the loan as “the date the loan was closed.”
 - Maintain the premium payment through the construction period.
 - 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.
- Approval of borrower without coverage during the construction phase:
 - The lender can select the effective date for the loan as “the date the borrower accepted the property as complete” or “the date a Certificate of Occupancy was issued for the property or the property became habitable under the applicable law.”
 - Make payment of the premium within 45 days of the effective date selected.
 - 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.
- CMG MI’s commitment/certificate will be issued for a period of 12 months in the construction lender’s name. Upon completion of the construction, the mortgage insurance can be assigned to the end lender.
- 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.

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

CMG MI Coverages and Premiums

- All premium plans are available for construction-to-permanent loans.
- CMG MI EZ Monthly coverage is available for construction-to-permanent loans only if election of the coverage effective date is deferred to the date of conversion to permanent financing.
- 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.