CUNA MUTUAL GROUP

CMG Mortgage Insurance Company
A Joint Venture between PMI Mortgage Insurance Co. and CUNA Mutual Insurance Society

Guidelines - Effective August 5, 2010
(Supersedes all previous guidelines and updates)

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 to insure loans to 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

CMG MI Mortgage Insurance

- Mortgage insurance coverage may be placed in-force once the construction is complete, final inspections have been made and certified by the appraiser. Premium is not collected and there is no coverage during the construction phase
- Mortgage insurance coverage on the permanent loan is ineligible if the borrower has any 30 day delinquencies on the construction loan during the construction phase
- 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. Commitment/certificate is subject to credit documentation update if greater than 120 days old on the date the mortgage note is signed. Loan must meet published construction-to-perm program guidelines at time of origination and may be subject to pricing updates if loan characteristics, such as loan representative credit score and/or LTV, changes
- Reinstatement/Extension is not permitted. After 12 months, a new MI application, with current borrower information, is required and is subject to current published construction-to-perm program guidelines

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

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

- Ineligible

Territorial Underwriting Guidelines

- **Ineligible:** Puerto Rico

Automated Approvals

- CMG Mortgage Insurance Company (CMG MI) does not automatically approve loans for mortgage insurance based solely on decisions obtained from Agency systems
- Loans submitted and approved by Fannie Mae's Desktop Underwriter® (DU®) and Freddie Mac's Loan Prospector® (LP) must meet CMG MI's Construction-To-Permanent 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®

Loan Amounts up to $417,000

- Owner-Occupied
  - 95% LTV to $417,000
    - Minimum 680 loan representative credit score

Loan Amounts > $417,000

- Owner-Occupied
  - 90% LTV to $625,500
    - Minimum 700 loan representative credit score
  - 90% LTV to $729,750
    - Minimum 720 loan representative credit score

- **Ineligible:** Second Home and Investment Property

(Maximum LTV subject to state/geographic restrictions)

CONSTRUCTION-TO-PERMANENT PROGRAM (cont'd)

- The loan may be treated as a Construction-Purchase or a Construction-Refinance transaction. A Construction-Purchase transaction is defined as a transaction where the borrower is not currently the owner of record of the land and/or is acquiring the lot at the time the construction loan is obtained. A Construction-Refinance transaction is defined as a transaction where the borrower holds title to the lot and is named as the borrower for the construction loan. 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
- Construction-Purchase Transaction – the LTV will be based on the lot purchase price plus the documented costs of improvements; or the current appraised value, whichever is less
- Construction- Refinance Transaction – the LTV will be based on:
  - Lot owned less than 12 months – the lesser of the original lot purchase price plus the documented cost of improvements; or the current appraised value
  - Lot owned 12 months or longer – the LTV is based on the current appraised value
- 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
- Cost of improvements is defined as the documented costs to build the home, the costs to obtain the construction and/or the permanent financing and the cost of the land, or value of the lot depending on when the lot was acquired
  - 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
- Reimbursement of borrower expenses in excess of the construction loan is considered cash out and is not permitted

Loan Type

- Maximum 40 year amortization term
- Fixed rate, fixed payment, fully amortized over term
- Adjustable Rate Mortgage
  - Positively Amortizing Hybrid ARMs (i.e. 5/1, 7/1, 10/1)
  - Short Term ARMs (1 to 3 years fixed period)
    - **Ineligible:** Short Term ARMs less than 1 year fixed period, Loan amounts > $417,000
  - 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

- Ineligible

Temporary/Permanent Buydowns

- Owner-Occupied Only
- 2,1 buydown allowed on Fixed Rate Mortgages (FRMs) and ≥ 5/1 ARMs
- 3,2,1 buydown allowed on FRMs and ≥ 5/1 ARMs
- Financed Permanent Buydowns are permitted; qualifying LTV will be based on the gross loan amount (including buydown funds)
- **Ineligible:** Cash-Out Refinances, Second Homes, Investment Properties, Interest Only, and Loan amounts > $417,000

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

- Construction-Purchase – a transaction where the borrower is not currently the owner of record of the land and/or is acquiring the lot at the time the construction loan is obtained
- Construction-Refinance – a transaction where the borrower holds title to the lot and is named as the borrower for the construction loan
- **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

Age of Credit Documents

- The credit documents must be no more than 120 days old on the date the mortgage note is signed. Credit documents are defined as the documents used for income, assets, credit report, and appraisal

CONSTRUCTION-TO-PERMANENT PROGRAM (cont'd)

Employment History

- **Document Efficiencies (DU/LP only)**
  - One of the following documentation sets will be required (employment gaps explained when required by the findings):
    - A verbal Verification of Employment (completed prior to closing); and
      - Verification of Employment, or
      - One month's paystubs, which contains at least 30 days of year-to-date earnings, and a verbal Verification of Employment; or
      - One paystub and the most recent year's W-2s and a verbal Verification of Employment, or
      - One year's personal federal tax returns, or
      - Two years' personal federal tax returns, or
      - Two years' personal and two years' business federal tax returns (if self-employed)
    - A Documentation Efficiency of only a Verbal Verification of Employment is not acceptable
    - Assets for down payment, closing costs and reserves must meet CMG MI requirements; however, they may be documented using the documentation permitted by DU/LP
  - Ineligible: Loan amount > $417,000
- **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' personal and 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 for each borrower, regardless of DU or LP recommendations
- Although a credit score can be generated with one trade line, CMG MI does not consider the credit score valid unless at least three open and active trade lines are evaluated for a minimum of 12 months. The validity of the credit score and the number of trade lines is of importance if the credit history is "thin" or limited. Thin credit refers to a file of credit information that contains very little data about the borrower's use of credit, most likely because there isn't a long history of credit use upon which to judge repayment ability. The valid credit score policy does not apply to all borrowers. Borrowers who have a lengthy and in-depth credit history (multiple years and multiple active, inactive and closed accounts) do not have a credit score validity issue, and are not required to have three open and active accounts to qualify, although the minimum loan representative credit scores specified in these guidelines nonetheless apply
- The loan representative credit score will be determined using the lower/middle method; the lowest borrower score will be used
- If the minimum payment for a revolving debt is not stated on the credit report, five percent (5%) of the outstanding balance must be used when calculating the debt ratio or supporting documentation must be provided to support actual minimum payment
- If the minimum payment for an installment debt or student loan is not stated on the credit report, a copy of the contract or payment letter must be provided to support actual payment
- Judgments, Liens, Collections, Voluntary or Involuntary Repossessions and Charge-offs for federal and state tax liens must be paid in full at the time of loan closing, especially any debt affecting title. However, collection accounts or charged-off accounts do not have to be paid off at or prior to closing if the balance of an individual account is less than $250 or the total balance of all accounts is $1,000 or less
- 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

CONSTRUCTION-TO-PERMANENT PROGRAM (cont'd)

- 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 New York
  - The credit score is unusable due to inaccurate information

  Loans 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
- 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 Hybrid ARMs qualify at the note rate
- Short Term ARMs (1 to 3 years fixed period) qualify using the greater of the initial rate or the Fully Indexed Accrual Rate (FIAR)

Minimum Down Payment

- Borrower must have a minimum equity or down payment from their own funds as follows:
  - Owner-Occupied
    - Minimum 5% of borrower funds must be verified as part of the transaction
- Additional funds for down payment, closing costs and prepaid escrow may be from any of the following sources:
  - Gift, grant, or down payment assistance from a family member not related to the transaction, a nonprofit charitable organization (non-Nehemiah), government agency, or borrower's employer
  - Unsecured installment loans may only be from an extended family member who is not a party to the transaction (maximum 2% of purchase price)
  - Non-real estate secured loan: terms of the note must be verified and should reflect the borrower's assets used as security (maximum 2% of purchase price)
  - Subordinate financing with grant-like features
- **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

CONSTRUCTION-TO-PERMANENT PROGRAM (cont'd)

- 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

Liquid Assets

- Verification of Deposit with a two month average balance provided, or
- Two months' current bank statements per account, reporting all transactions and end balances, and satisfactory explanation for any large deposits or increases

Maximum Interested Party/Seller Contributions & Concessions

- Maximum of 3% based upon the lesser of the property's sales price or appraised value on:
  - LTVs 90.01 - 95% to $417,000
  - LTVs up to 90% to $625,500
- Maximum of 6% based upon the lesser of the property's sales price or appraised value on:
  - LTVs up to 90% to $417,000

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

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
- The HUD 1 from the original purchase of the lot is required for the refinance transaction when the property has been owned less than 12 months

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

Third Party Originations

- Ineligible

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 (currently insured with CMG MI)

Appraisal

- Appraisals must meet Fannie Mae and/or Freddie Mac standard underwriting criteria available at www.efanniemae.com, www.freddiemac.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
- 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); **AND**

CONSTRUCTION-TO-PERMANENT PROGRAM (cont'd)

- Market Conditions Addendum to the Appraisal Report – Uniform Residential Appraisal Form (Fannie Mae Form 1004MC/Freddie Mac Form 71, dated March 2009)

- The appraisal report should be prepared by a state-certified or state-licensed appraiser in accordance with Uniform Standards of Professional Appraisal Practices (USPAP)
- **Ineligible:** Streamline appraisal forms and waivers are ineligible, such as those driven by DU/LP (e.g. Exterior-only 2055 drive-by inspections, property inspection waivers and DU Refi Plus property fieldwork waiver), regardless of appraisal efficiencies by DU/LP

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 most current 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

CMG MI Underwriting Guidelines Manual

- Please refer to the CMG MI Underwriting Guidelines Manual available at www.cmgmi.com/uwmanual for applications received on or after August 5, 2010. The CMG MI Underwriting Guidelines Manual provides comprehensive information on CMG MI's loan documentation requirements; loan, member, and property eligibility; CMG MI programs and products; CMG MI's risk philosophy; and other general underwriting issues