



# Release Notes

February 17, 2009

Release 2009-1

## Changes to Eligibility and Guidelines

### What's New in This Release?

Based on our continuing review of market conditions, RMIC is making a number of changes to our standard underwriting guidelines. All changes are effective for mortgage insurance applications submitted on or after **March 9, 2009**. In summary, this Release includes the following:

- Updates to our standard underwriting guidelines that apply to all new submissions including new minimum FICOs, updated maximum DTI, ineligible property types, ineligible amortization types, and new FICO / LTV requirements by market status
- Non-Retail Originated Loan Guidelines
- Non-Arm's Length Transaction Guidelines
- Updated Condominium Guidelines
- Clarification to Appraisal Requirements
- Refinances and Representations of the Insured

The policies outlined in this release **supersede all existing waivers and negotiated guidelines previously granted by RMIC, and apply regardless of the findings of any automated underwriting system (AUS)** except where specifically noted. The credit policy changes also apply to all State Housing Finance Programs.

### Standard Underwriting Guideline Changes

The following guideline changes will be effective for all mortgage insurance applications submitted on or after **March 9, 2009**:

- The minimum loan representative FICO score for loans with an LTV/CLTV less than or equal to 95% is 680 (higher FICO requirements remain in place for loans with LTV/CLTVs between 95.01% and 97%, declining markets, high balance loans (1-unit >\$417,000), and construction/permanent loans);
- Construction/permanent loans are limited to a maximum 90% LTV/CLTV and require a minimum loan representative FICO score of 720;
- The maximum Total Debt-to-Income (DTI) ratio is 41%, regardless of AUS recommendation or compensating factors;
- Second homes and 2-Unit properties are ineligible;
- Interest-only loans are ineligible;
- Loan amounts greater than \$417,000 are ineligible in Standard Declining Markets.

### Non-Retail Originated Loan Guideline Changes

Effective **March 9, 2009**, RMIC is adding new guidelines for loans that do not meet RMIC's definition of Retail.

#### Definition of Retail

In order for a loan to qualify as Retail, the same entity, with their own personnel, must perform **ALL** of the following functions:

- Originate and process; and
- Underwrite (contract underwriting or having the loan underwritten by the investor is permissible); and
- Fund and close in their own name; and
- Order mortgage insurance coverage under their own RMIC Master Policy.

Loans must be funded from a warehouse line in the lender's name or using the lender's own funds. "Table-funded" loans are considered non-Retail loans. The originating lender may sell or assign the closed loan to an aggregator or investor and still be considered Retail. A correspondent who performs **ALL** of the above functions is considered Retail.

### Non-Retail Guidelines

Effective **March 9, 2009**, the following guidelines will apply to all loans that do not meet RMIC's definition of Retail:

- Loans in Non-Declining Markets are limited to a maximum 95% LTV/CLTV and require a minimum loan representative FICO score of 700;
- Loans in Enhanced Declining Markets are limited to a maximum 90% LTV/CLTV and require a minimum loan representative FICO score of 720;
- Loans in Standard Declining Markets are limited to a maximum 90% LTV/CLTV and require a minimum loan representative FICO score of 740;
- A-Minus loans are ineligible.

Note: The above guidelines apply to single family detached property loans with a loan amount of \$417,000 or less. Use the more restrictive of the above or RMIC's standard guidelines, depending on market, for condominium, co-operative, and attached property loans and loans with a loan amount greater than \$417,000.

### Identification of Non-Retail Loans

In cases where the origination channel is unclear or a customer has multiple origination channels, RMIC will contact customers for two reasons:

1. to request data on RMIC-insured loans for the purpose of determining the origination channel and identifying the originator, and
2. to discuss the method of informing RMIC of the origination channel and originator on loans to be submitted in the future.

## Non-Arm's Length Transaction Guidelines

RMIC defines a non-arm's length transaction as one in which a personal or business affiliation exists between the borrower and another party to the transaction (e.g., family sales between parent and child, property in an estate, employer and employee, friends, renter and landlord, etc.). The other parties to the transaction may include, but are not limited to, the property seller, realtor, mortgage broker, appraiser, closing agent, builder, etc. Non-arm's length transactions require close scrutiny. The underwriter must be particularly careful to ensure that the borrower has adequate equity in the property, occupancy is correctly represented, seller contributions are acceptable and within guideline limitations, and the sales price and appraised value are accurate. The appraiser must be informed that the transaction is not arm's length and must comment on the buyer's and seller's relationship and its effect on the marketability of the property.

## Condominium Guidelines

Effective **March 9, 2009**, RMIC will adopt the following guideline changes for condominium properties:

- The presale requirement for the number of units in a new project that must be conveyed or under contract to purchasers who will occupy their unit as a primary residence or second home is increased from 51% to 70%;
- A new guideline that no more than 15% of total units in an established project can be 30 or more days delinquent on homeowners' dues.

## Clarifications to Appraisal Requirements

Effective **March 9, 2009**, RMIC is adding two new appraisal paragraphs to Section 301.2 of RMIC's underwriting guidelines to assist customers in reviewing appraisals:

### Selection of Comparables

The appraiser must select comparables that best represent the current value of the property. The comparables should be the most similar recently closed sales. They should be in close proximity to the subject property, contain similar physical characteristics and reflect the same market trends (including any adverse factors in the neighborhood). It may be necessary for the appraiser to expand his analysis to more than three comparables to capture all of the relevant components of the subject property's value. For example, if the subject property is a foreclosure sale and there are other foreclosure sales in the neighborhood, the appraiser should use these other foreclosure sales as comparables. If these sales are not physically similar to the subject property, it may be necessary for the appraiser to provide more than three comparables.

### Analysis / Explanation of Prior Sales of Subject and Comparables

If the appraisal indicates that the prior sales price of the subject or comparables was higher than the most recent sale, this is a strong indicator that the market is declining. If prices are declining but the appraisal does not indicate that property values are declining, the appraiser must thoroughly explain the market trends and provide support for the fact that values are not declining. Conversely, if the sales history on the appraisal indicates that subject property recently sold for significantly less than the current sales price, the appraiser must document the reason for the price increase. If the price increase is the result of substantial improvements or renovations, these must be listed in the appraisal along with the dollar amount of the improvements. The appraiser must comment on the effect of the renovations on the marketability of the property, including any over-improvement for the neighborhood. It is unlikely that renovations will produce a dollar for dollar increase in the value of the property.

## Refinances and Representations of the Insured

With the recent Investor releases of various streamlined refinance programs, RMIC has received questions regarding our position on minimum valuation requirements for insured loans. RMIC has accepted, and will continue to accept, the value as represented by the Insured in accordance with the responsibilities assumed by the Insured in Section 2.2 (a,b) of the Master Policy:

- a. All statements made and information provided to the Company (RMIC) in an Application or in any Commitment or Certificate (including any that is related to continuation of coverage upon assumption of a Loan), whether by it, the Borrower, or any other Person, have been made and presented for and on behalf of the Insured; and
- b. Such statements and information are not false or misleading in any material respect as of the date(s) on which they are made or provided and do not omit any fact necessary in order to make such statements and information not false or misleading in any material respects of such date(s).

Accordingly, any alternative appraisal method, even if AUS driven, does not waive or change the Insured's responsibility for the accuracy of the property value.

## Updated Underwriting Guidelines and Rate Materials

The following materials will be posted to [www.rmic.com](http://www.rmic.com) to assist customers with underwriting and implementation of the credit policy:

- This announcement (Release Notes February 17, 2009)
- Summary of Recent RMIC Guideline and Pricing Changes
- Declining Markets Policy Flyer
- Quick Reference Underwriting Guidelines – Effective March 9, 2009
- Premium Rates Brochure

RMIC's Mortgage Insurance Guidelines are available in electronic format at [www.rmic.com](http://www.rmic.com). If you have any questions regarding RMIC's new guidelines, please contact your RMIC Account Manager at 800-999-7642.