

**AMENDED AND RESTATED GSE RESCISSION RELIEF PRINCIPLES
FOR IMPLEMENTATION OF MASTER POLICY REQUIREMENT #28
(RESCISSION RELIEF/INCONTESTABILITY)**

September 10, 2018

Background

These amended and restated GSE Rescission Relief Principles (“Principles”) revise the GSE Rescission Relief Principles issued on December 21, 2017 to add clarity and more closely align the Principles with the Fannie Mae and Freddie Mac (“GSEs”) Representation and Warranty Framework, which is set forth in the GSEs’ seller/servicer guides. The Principles, associated illustrations, and other information are provided to the mortgage insurers (“MIs”) as guidance for re-structuring those provisions of their 2014 master policies that pertain to relief from rescissions, also referred to as incontestability provisions. In addition, certain aspects of the Principles may be addressed by an MI in its underwriting guide, servicing guide or similar documents or required by the GSEs in the PMIERS (as defined below).

I. Defined Terms

Adjudicated Claim – means a legal finding, judgment, decree, ruling, verdict, decision or other determination by a court, tribunal or arbitrator having proper jurisdiction over the matter in dispute.

Automated Tool – means any non-MI system or tool appropriate for use in underwriting a loan or validating certain loan or collateral property information, provided that the MI has first conducted its own due diligence on such system or tool in accordance with PMIERS Section 404 to confirm its acceptability for insurance decisions.

Borrower – means, with respect to a loan, each person identified in the loan documentation as legally obligated to repay the debt obligation created by the loan, including any co-signor or guarantor.

Closing Document Exception – means the exception described in Section IV.D. to the requirement contained in Section IV.C.1. to review Closing File Documents in connection with Non-Delegated Underwritten Loans.

Closing File Documents – means those documents set forth in item 7 of Exhibit A attached hereto.

Credible Evidence – means evidence that would be viewed by a reasonable person as being reliable and having a basis in fact, as further defined or illustrated by each MI in its master policy. For example, a post-closing Borrower statement not under oath is not Credible Evidence in isolation, but such statement may be used as part of Credible Evidence where there is other information or documentation to corroborate the statement. Credible Evidence is a lower standard than clear and convincing evidence.

Defect – means a misstatement, misrepresentation, omission, or data inaccuracy in connection with the origination or closing of a loan, or the application for mortgage insurance. Defects may be subject to repricing under Section VII, but only Significant Defects are subject to rescission. An MI’s determination of a Defect must be based on Credible Evidence.

Delegated Underwritten Loan – means a loan where the MI has delegated to the Initial Insured authority to underwrite on behalf of the MI its eligibility for issuance of a commitment/certificate of insurance.

Independent Validation – means a loan-level review completed in accordance with Section IV.

Initial Insured – means the originating lender identified on the cover page of the MI’s master policy.

Insured – means the current servicer of the loan.

Non-Delegated Underwritten Loan – means a loan where the MI retains authority to underwrite its eligibility for issuance of a commitment/certificate of insurance.

Non-Random QC Review – means a non-random (i.e., targeted or discretionary) quality control review performed in accordance with PMIERS Sections 501 and 502, with the following modifications:

1. the requirement to complete the review no later than 120 days following the latest insurance effective date of the loan is not applicable;
2. the MI need only re-verify questionable information; and
3. the requirement for the re-verification of the appraisal or property data with a field review for a 10% subset of the QC loan sample is not applicable.

Participating Lenders – means those lenders eligible for participation in the Closing Document Exception as set forth in Section IV.D.1.

PMIERS – means the GSEs' Private Mortgage Insurer Eligibility Requirements dated December 21, 2015 as such requirements may be amended.

Price Adjustment – means the premium rate adjustment specified in Section VIII.A.

QC Review – means a random (not discretionary or targeted) quality control review of a loan performed in accordance with PMIERS Sections 500-506, including the random sampling methodology specified in Section 503.

Rescission Relief – means the MI will not issue a rescission with respect to any representations and warranties made by the Initial Insured and the Insured to the MI in the master policy that relate to the underwriting of the Borrower, the loan or the property. Such relief should be granted by an MI pursuant to these Principles with respect to a loan, or to a component of a loan as set forth in Section II.

Significant Defect – means a Defect if, had the true facts been known, the loan would not have been eligible for insurance based on the eligibility criteria or underwriting requirements applicable at the time of the application for insurance and related to one or more of the following:

1. the underwriting of the Borrower's creditworthiness and capacity (e.g., Borrower's income, Borrower credit/liabilities, and Borrower assets) or Borrower eligibility and qualification (e.g., area median income, first-time homebuyer, lawful presence in the United States), or Borrower's identity (e.g., correct name, date of birth, and social security number if required);
2. the underwriting criteria related to property or project eligibility (e.g., residential use, intent to occupy, and/or condo eligibility), the property appraisal, or the physical or environmental condition of the property;
3. loan terms and criteria (e.g., products that may require special approval as a prerequisite for insurance and the criteria described in the master policy such as loan-to-value (LTV) ratio, occupancy, credit score, loan purpose, and loan product and terms such as ineligible transaction types and limitations on cash out to the Borrower that determines the type of refinance) or any terms and criteria set forth in any negotiated provision);
4. a life-of-loan exclusion (as described in Section VI) or an exclusion described in the MI's master policy for which rescission is the remedy;
5. requirements applicable to the closing and sale of the loan (e.g., no defaults, all taxes and insurances have been paid or escrows established and no modification, encumbrance, subordination or release of mortgage); or
6. the form and/or execution of required loan and mortgage documents without which the loan would be ineligible for insurance or the enforceability of the mortgage terms would be limited (e.g., Uniform Residential Loan Application, power of attorney, Texas 50(a)(6) Mortgage documents, or nonstandard and special purpose documents such as Living Trusts).

An MI's determination that a Defect is a Significant Defect must be based on Credible Evidence, except as set

forth in Section VI.A.2. where clear and convincing evidence is required. Subject to the provisions herein, an MI must rescind coverage on loans with Significant Defects unless it chooses to offer a rescission alternative under Section VIII or to exercise its rights under its master policy.

II. Rescission Relief for Components of a Loan based on Automated Tools

An MI may grant Rescission Relief for a component of a Delegated Underwritten Loan or a Non-Delegated Underwritten Loan at the specific level of validation provided by an Automated Tool (e.g., if the borrower's income is validated by an Automated Tool but the co-borrower's income is not, then relief may be granted only with respect to the borrower's income), even if it is unable to grant Rescission Relief with respect to the loan as a whole, if:

- A. the MI has validated such component through an Automated Tool, or
- B. the Initial Insured has validated such component through an Automated Tool, and has provided the MI with documentation evidencing the results from the Automated Tool.

Rescission Relief granted under this section will be effective at the time the component is validated, and will be subject to the life-of-loan exclusions set forth in Section VI, except that the life-of-loan exclusion with respect to a knowing misstatement, misrepresentation, or omission by a Borrower may sunset as set forth in Section IX.A.

III. Rescission Relief Based on Payment History

A. 36 Months Following the Due Date of the Borrower's First Payment

Rescission Relief ***must*** be granted with respect to Delegated Underwritten Loans and Non-Delegated Underwritten Loans after 36 months if the following conditions are met:

1. payments are timely and consecutive from the loan's origination based on the first payment due date, except for (i) no more than two 30-day delinquencies and (ii) no 60-day or greater delinquencies during the first 36 months following the due date of the Borrower's first payment on the loan; and
2. the loan is current as of the date which is 36 months following the due date of the Borrower's first payment on the loan; and
3. payments were not made by parties associated with the origination of the loan or mortgage servicer (giving room for MIs to define permissible gifts/contributions in their credit policies, including temporary buy-downs, or other payment assistance programs such as job loss protection); and
4. the loan was not subject to a forbearance agreement or repayment plan and was not modified from its original terms during the first 36 months following the due date of the Borrower's first payment; provided, however, that if the loan was subject to a disaster-related forbearance agreement during the first 36 months and is subsequently brought current through a lump sum reinstatement or a completed repayment plan, or is permanently modified, each in a manner that is materially consistent with the GSE Representation and Warranty Framework (whether or not the loan was sold to a GSE), the loan must still be granted Rescission Relief if and when it would be eligible for relief under the GSE Representation and Warranty Framework.

The MI must have Credible Evidence that payments were made by parties associated with the origination of the loan or mortgage servicer in order for condition 3 not to be satisfied.

B. 60 Months Following the Due Date of the Borrower's First Payment

Rescission Relief ***must*** be granted with respect to Delegated Underwritten Loans and Non-Delegated

Underwritten Loans after 60 months if the following conditions are met:

1. either the loan is current at the time the 60th payment is made, or if the loan is not current at such time, it subsequently becomes current; and
2. payments were not made by parties associated with the origination of the loan or mortgage servicer (giving room for MIs to define permissible gifts/contributions in their credit policies, including temporary buy-downs, or other payment assistance programs such as job loss protection).

The MI must have Credible Evidence that payments were made by parties associated with the origination of the loan or mortgage servicer in order for condition 2 not to be satisfied.

IV. Rescission Relief Upon Satisfactory Completion of an Independent Validation

For Rescission Relief under this Section IV, the Insured must comply with the requirements established by the MI for conducting the Independent Validation. Upon the completion of an Independent Validation that does not identify any Significant Defect, Rescission Relief ***must*** be granted without regard to the delinquency status of the loan prior to or at the time of the Independent Validation.

A. General Requirements for all Independent Validations

1. **Re-Verification.** If the Independent Validation reveals questionable information that the MI reasonably determines requires independent re-verification, the MI ***must*** conduct such additional independent re-verification using Borrower/loan underwriting and/or collateral valuation review processes/procedures, Automated Tools (if any) and reasonably reliable third-party sources and records recognized as such in the mortgage origination industry, which may be part of an escalation procedure subject to GSE review.
2. **Automated Tools.** In completing an Independent Validation, the MI may use, defer to, or rely upon Automated Tools, in which case the documentation evidencing the Automated Tool results may be used in lieu of the corresponding documentation required in Exhibit A.
3. **Underwriting Independence.** In conducting its Independent Validation, the MI must have a process for reviewing each loan and such review must be conducted (a) by a qualified underwriter who has no association of any kind with (i) the originator, (ii) the originator's underwriting or origination of the loan, or (iii) any individual involved at any point in the originator's underwriting or origination of the loan and/or (b) by an automated process (which may include Automated Tools).
4. **Timing.** Rescission Relief under this Section IV must be granted upon completion of an Independent Validation that does not identify any Significant Defect and will be effective on the date the MI notifies the Initial Insured that it has satisfactorily completed its Independent Validation. For loans subject to the Closing Document Exception, Rescission Relief may be granted upon completion of an Independent Validation that does not identify any Significant Defect *and* only after the Borrower has timely made the first 12 monthly payments due under the loan and will be effective only after such payments have been made.
5. **Completion.** All Independent Validations must be completed within a reasonable time in compliance with these Principles and before the point at which the Rescission Relief is granted. Further, while the MI may provide Rescission Relief for both its Delegated Underwritten Loans and Non-Delegated Underwritten Loans, the MI must take into account the timeframe within which it anticipates receiving the Closing File Documents (as required for Borrower/loan eligibility and underwriting relief) and/or the results of the Independent Validation.

6. **Record Retention.** For Rescission Relief under this Section IV, the MI must retain, on its own data storage system or in a system through which it controls access, a copy of any underwriting and Closing File Documents it reviewed in determining that a loan met the MI's eligibility and underwriting requirements.
7. **Reporting.** For those loans acquired or securitized by a GSE, the MI must report on a timely basis to the applicable GSE:
 - a. all Significant Defects, and/or
 - b. all Defects and Significant Defects related to those loans agreed to by the GSE and the MI for purposes of QC calibration and data analysis,in either case, if and when requested and in the manner prescribed by the applicable GSE.

B. Independent Validation for Delegated Underwritten Loans

To grant Rescission Relief under Section IV for a Delegated Underwritten Loan, the MI must conduct an Independent Validation with respect to either or both of the following:

1. **Borrower/Loan Eligibility and Underwriting.** A post-close, full-file underwriting of the Borrower and of the loan for compliance with the MI's eligibility criteria and underwriting requirements, which includes, at a minimum, the underwriting processes and document/information review set forth in Exhibit A. The review of the Closing File Documents must ensure that the loan was closed consistent with the MI's commitment/certificate of insurance and reveal no material discrepancies that would constitute a Significant Defect.
2. **Collateral Eligibility and Collateral Valuation.** A pre- or post-close underwriting of all documents and information supporting the value of the collateral property (e.g., purchase contract, appraisal, valuation verification generated by an Automated Tool or other property valuation deemed acceptable by the MI) for compliance with the MI's collateral eligibility requirements and to ensure that the estimate of value is adequately supported. For the avoidance of doubt, if a Delegated Underwritten Loan receives a waiver of the appraisal delivery requirements from a GSE, the MI may accept such waiver as validation of its collateral eligibility requirements.

C. Independent Validation for Non-Delegated Underwritten Loans

To grant Rescission Relief under Section IV for a Non-Delegated Underwritten Loan, the MI must conduct an Independent Validation with respect to either or both of the following:

1. **Borrower/Loan Eligibility and Underwriting.** A post-close, full-file underwriting of the Borrower and of the loan for compliance with the MI's eligibility criteria and underwriting requirements, which includes, at a minimum, the underwriting processes and document/information review set forth in Exhibit A. However, if the MI has previously performed a non-delegated full-file underwriting of the loan origination package prior to issuing the commitment/certificate of insurance that included the underwriting processes and document/information review set forth in Items 1 through 6 of Exhibit A, then the MI can omit a post-close review of such items and need only complete a post-close review of the Closing File Documents. The review of the Closing File Documents must ensure that the loan was closed consistent with the MI's commitment/certificate of insurance and reveal no material discrepancies that would constitute a Significant Defect.
2. **Collateral Eligibility and Collateral Valuation.** A pre- or post-close underwriting of all documents and information supporting the value of the collateral property (e.g., purchase contract, appraisal, valuation verification generated by an Automated Tool or other

property valuation deemed acceptable by the MI) for compliance with the MI's collateral eligibility requirements and to ensure that the estimate of value is adequately supported. For the avoidance of doubt, if a Non-Delegated Underwritten Loan receives a waiver of the appraisal delivery requirements from a GSE, the MI may accept such waiver as validation of its collateral eligibility requirements.

D. Closing Document Exception for Non-Delegated Underwritten Loans

The requirement set forth in Section IV.C.1. to conduct a post-close review of the Closing File Documents may be omitted by an MI with respect to a Participating Lender for the current quarter if the following conditions are met:

1. The MI must determine the Initial Insureds eligible for participation in the Closing Document Exception (the "Participating Lenders") based on qualifying parameters as determined by the MI (including, at a minimum, that Initial Insureds must be non-delegated lenders).
2. Each quarter, based upon QC Reviews of insured loans of the Participating Lenders, the MI will calculate a Significant Defect rate which reflects the percentage of loans in the sampled population that have been determined, following the exhaustion of any appeal by the Insured, to contain Significant Defects. For avoidance of doubt, the random sampling methodology for such QC Reviews may result in a sample that does not include loans from every Participating Lender.
3. To grant the Closing Document Exception for any given quarter, the average of the two most recently available Significant Defect rates for the Participating Lenders must be less than or equal to 1.5%. For example, if on July 1, 2017 the two most recently available Significant Defect rates for the Participating Lenders are for 4Q2016 and 1Q2017, then the Closing Document Exception will apply to loans insured during 3Q 2017 for the Participating Lenders provided the average of such Significant Defect rates for 4Q2016 and 1Q2017 is less than or equal to 1.5%. If such average is greater than 1.5%, the MI may not offer the Closing Document Exception to any Participating Lender, or it must withdraw the exception from a sufficient number of Participating Lenders so that the average Significant Defect rate for the remaining Participating Lenders is less than or equal to 1.5%; and
4. The MI must closely monitor all Participating Lenders in accordance with PMIERs Section 601 and any additional surveillance the MI may reasonably conduct to evaluate the continued acceptability of the risk. Notwithstanding Section IV.D.1., if such monitoring reveals concerns that cause the MI to believe that allowing a Participating Lender to continue receiving the Closing Document Exception would represent an unacceptable risk, the MI must withdraw the Closing Document Exception from such Participating Lender. The Closing Document Exception may be reinstated for such Participating Lender once the MI has verified that the concerns that caused its withdrawal have been remedied to the MI's satisfaction.

If the MI omits reviewing the Closing File Documents for a particular loan pursuant to this Closing Document Exception, the Borrower must have timely made the first 12 monthly payments due under the loan before Rescission Relief is granted.

Either GSE may terminate this Closing Documentation Exception with respect to an MI if it reasonably determines that such MI has not correctly calculated the Significant Defect rate for the Participating Lenders or has not correctly applied the conditions of this Closing Documentation Exception. In such case, the termination would apply prospectively following the MI's receipt of at least 90 days prior written notice.

V. Rescission Relief upon Satisfactory Completion of a QC Review

- A. Rescission Relief for MI QC Reviews. Unless the loan has already received Rescission Relief, the MI ***must*** grant Rescission Relief, if no Significant Defect is discovered upon completion of

1) a QC Review in respect of that loan or 2) a Non-Random QC Review. In either case, relief must be granted without regard to the delinquency status of the loan prior to or at the time of the review.

- B. Rescission Relief for GSE QC Reviews. Unless the loan has already received Rescission Relief, an MI **may** grant Rescission Relief based on a GSE's completion of a random or non-random (i.e., targeted or discretionary), full-file quality control review that does not identify any Significant Defect provided, however, that the MI has conducted reasonable due diligence on the GSE's quality control process. Such due diligence might include, on a periodic basis, each MI comparing its QC Review results on a sample of loans with each GSE's quality control review results on the same loans for purposes of identifying and reconciling variances, determining adherence to applicable standards and best practices, and adjusting applicable standards and best practices going forward, as necessary.

VI. All Rescission Relief is Subject to Life-of-Loan Exclusions

All Rescission Relief and all rescission alternatives accepted under Section VIII are subject to the following life-of-loan exclusions:

A. Single Loan Fraud.

1. An Adjudicated Claim confirming a knowing misstatement, misrepresentation, or omission by any party in connection with the origination or closing of a loan, or the application for mortgage insurance, intended to: (i) defraud any party involved in the transaction; or (ii) obtain any moneys, funds, credits, assets, securities, or other properties from any party involved in the transaction by means of fraudulent pretenses, representations, or promises; or
2. The MI finding clear and convincing evidence of a knowing misstatement, misrepresentation, or omission by any party in connection with the origination or closing of a loan, or the application for mortgage insurance, intended to: (i) defraud any party involved in the transaction; or (ii) obtain any moneys, funds, credits, assets, securities, insurance or other properties from any party involved in the transaction by means of fraudulent pretenses, representations, or promises. However, an MI may sunset this life-of-loan exclusion for a knowing misstatement, misrepresentation, or omission by a Borrower in accordance with Section IX.A.

B. Pattern Activity. Any misstatement, misrepresentation, or omission by any party that is made with or without the knowledge of the Initial Insured, and that:

1. involves 3 or more loans insured by the MI and originated by the same Initial Insured; and
2. was made pursuant to a common pattern of activity in connection with the origination or closing of a loan, or the application for mortgage insurance, based on information in the loan file or other facts or circumstances that existed at the time that involves at least 1 party common to all of the loans: (i) if the Initial Insured is the common party, involves the same individual; or (ii) if any other party is the common party, involves the same individual or entity; and
3. constitutes a Significant Defect.

C. Data Inaccuracies. Any inaccurate data submitted by or on behalf of the Initial Insured to the MI for purposes of obtaining insurance, if and to the extent such data inaccuracy:

1. involves 5 or more loans insured by the MI and originated by the same Initial Insured; and
2. involves the same delivery data element(s); and
3. differs from the information in the Initial Insured or Insured's loan files used as the basis

of the application for mortgage insurance; and

4. the MI determines that, had the information from the loan file been used to qualify the loan it either: (i) would not have been eligible for insurance under the terms of the Initial Insured's master policy in effect at the time of origination; or (ii) would have been eligible for insurance, but under different terms.

The only data inaccuracies covered by this Section VI.C. are those that occur as a result of an operational or system issue involving the electronic transmission of data to the MI. For avoidance of doubt, inaccuracies identified in the loan file are subject to Section VI.A. or Section VI.B., as applicable.

- D. Non-Compliance with Laws. Any failure by the Insured to comply with applicable federal, state, and local laws if:
1. such failure could be expected to impair the ability of the loan's investor or its servicer to enforce the note or mortgage;
 2. such failure could be expected to materially increase the Insurance Benefit payable by the MI over what it would have been had the failure not occurred; or
 3. the loan is found by a court or regulatory body to have been in violation of, or if the MI reasonably believes, based on Credible Evidence, that a violation has occurred with respect to, one or more laws or regulations relating to the insurability of the loan, including without limitation the following:
 - a. Office of Foreign Assets Control of the Department of Treasury;
 - b. Fair Housing Act;
 - c. Anti-discrimination provisions of the Equal Credit Opportunity Act;
 - d. Unfair, Deceptive or Abusive Acts or Practices under federal and state law; or
 - e. Securities Exchange Act of 1934.
- E. Not Secured by First Lien. Any loan that is not secured by a valid, enforceable first lien against the property.
- F. Unacceptable Mortgage Products. Any loan product that the MI is not permitted to insure under applicable federal, state, and local laws and regulations at the time the loan was originated. Examples of these include, but are not limited to, the following:
1. A loan that is not secured by property that is residential in nature; or
 2. A loan that has a loan-to-value ratio at origination that exceeds any applicable state maximum in order to consider the loan secured by real estate; or
 3. A loan that is secured by an ineligible property type such as properties with more than 4 units.

An MI may not expand this list of life-of-loan exclusions. If, however, it determines that one of these exclusions applies, an MI may rescind coverage, pursue repricing under Section VII, or pursue a rescission alternative under Section VIII.

VII. Repricing Option for Loans with Defects

If, in the process of conducting an Independent Validation, a QC Review or any other review, an MI identifies a Defect, it **may** reprice the coverage if the loan would have been otherwise eligible for coverage had the true facts been known, but would have received a different premium rate.

If the MI elects to reprice the coverage, it must bill the Initial Insured or Insured, as applicable, for the differential premium based upon the premium rate that would have been charged at the time of the

insurance application. The MI may charge the differential premium as a supplemental, single premium or over such period as may be mutually agreed by the MI and the Initial Insured or the Insured, as applicable. If the Initial Insured or Insured does not pay the supplemental premium within 60 days of its receipt of the payment notice from the MI, such failure may be treated as non-payment of premium under the applicable master policy and result in rescission of coverage, which rescission may be appealed under Section IX.G.

VIII. Rescission Alternatives for Loans with Significant Defects

Where the MI has conducted an Independent Validation, a QC Review or any other review and has identified a Significant Defect on an individual loan, the MI **may** choose to offer either or both of the following alternatives in lieu of rescission:

- A. **Price Adjustment.** If the MI makes a commercially reasonable determination that the risk presented by the unresolved Significant Defect is acceptable, and the MI is able to determine a premium in accordance with rates filed with and approved (if required) by its regulator that the MI reasonably determines will compensate it for the added risk of the loan with Significant Defects (“Price Adjustment”), the MI **may** choose either to impose a Price Adjustment or to exercise its rights under its master policy. The Price Adjustment will equal the difference between the new premium and the original premium. The following conditions must be met when offering a Price Adjustment as an alternative to rescission:
1. the MI must bill the Initial Insured or Insured, as applicable, for the Price Adjustment; and
 2. if the Initial Insured or Insured does not pay the Price Adjustment within 60 days of its receipt of the payment notice from the MI, the MI may then rescind coverage, which rescission may be appealed under Section IX.G.; and
 3. upon receipt of payment of the Price Adjustment from the Initial Insured or Insured, the MI must grant Rescission Relief.
- B. **Indemnification.** In lieu of or in addition to a Price Adjustment, the MI may elect to offer the Initial Insured an indemnification agreement as an alternative to rescission. The length of the indemnification period will be determined by the MI, but in no case can it exceed 60 months from the indemnity agreement date unless the loan covered by the indemnification agreement is in Default at the time the indemnification agreement expires, in which case the indemnification agreement will expire when the loan subsequently becomes current. The following conditions must be met when offering an indemnification agreement as an alternative to rescission:
1. the MI must obtain a signed indemnification agreement from the Initial Insured or Insured, as applicable, accepting the terms of the indemnification; and
 2. the MI must establish criteria to assess the counterparty risk of the Initial Insured or Insured with whom the indemnification agreement will be executed (the counterparty assessment criteria will be subject to GSE review) and determine that the counterparty meets those criteria before executing the indemnification agreement; and
 3. the MI acknowledges that irrespective of the performance of the Initial Insured or Insured under the indemnification agreement, the MI will not rescind or deny a claim for coverage and must fulfill its obligations under its master policy in respect of the payment of claims for which the GSEs are a beneficiary; and
 4. upon execution of the indemnification agreement, the MI must grant Rescission Relief.

GSE prior approval is not required for, and the requirements of Section 306 of the PMIERS do not apply to, indemnification agreements covered by this Section VIII.B., provided such agreements are entered into on an individual, loan-by-loan basis in the ordinary course of business, and are not part of a broader program with the Insured and do not commit the MI to

accepting such agreements in the future.

- C. **Regulatory Approval.** In addition to the requirements set forth in this Section VIII, any and all rescission alternatives must be in compliance with all regulatory requirements.
- D. **GSE Reporting.** Upon request from a GSE, the MI must provide reporting on those loans for which the MI has provided a rescission alternative. The reporting should be in the form specified by the GSE.

IX. **Other Provisions**

- A. **Life-of-Loan Exclusion with Respect to Borrower Misrepresentations.** The life-of-loan exclusion with respect to a knowing misstatement, misrepresentation, or omission by a Borrower may sunset following:
 - 1. satisfaction of the Section III.A. or III.B requirements for Rescission Relief based on payment history; or
 - 2. the completion of an Independent Validation, a QC Review or a Non-Random QC Review that does not identify any Significant Defect, provided that either:
 - i. the Borrower has timely made 12 consecutive monthly payments under the original loan terms, or
 - ii. the Independent Validation, QC Review or Non-Random QC Review is completed or updated by the MI after the loan has seasoned at least 12 months, without regard to the delinquency status of the loan prior to or at the time of such review.
- B. **Underwriting and Independent Validation Mistakes.** If the MI performs an Independent Validation of the loan in accordance with Section IV and it is discovered that, despite accurate data provided to the MI, the MI made an eligibility and/or underwriting mistake and erroneously insured such loan (e.g., the MI miscalculated the debt-to-income ratio or misapplied its own eligibility or underwriting requirements), the MI cannot rescind coverage on the basis of such mistake.
- C. **Completion of Random Full-File QC Reviews, Independent Validation and Non-Random QC Reviews.** For avoidance of doubt, the Principles generally do not allow an MI to reserve the right to rescind or to communicate any similar response to the Initial Insured or the Insured if it identifies a Significant Defect.

If the Initial Insured or Insured desires Rescission Relief on less than the whole loan (e.g., component relief under Section II, IV.B., or IV.C.) but submits the entire loan file to the MI for Independent Validation, the MI must review the entire loan file and determine whether or not it is willing to grant Rescission Relief with respect to the whole loan. Once an MI begins a QC Review, Independent Validation or Non-Random QC Review, it must in a timely manner (i) complete its review or validation and reach a determination of whether there are Defects or Significant Defects and (ii) take the action(s) permitted or required under these Principles.

If the MI's QC Review, Independent Validation or Non-Random QC Review identifies one or more concerns that do not amount to Credible Evidence of a Defect or a Significant Defect, it must promptly either: 1) grant Rescission Relief with no further investigation and/or re-verification; or 2) conduct further investigation and/or re-verification and, upon completion of such investigation and/or re-verification, either grant Rescission Relief, reprice the loan, provide an alternative to rescission or rescind coverage. Except as provided for below, the MI may not continue to insure a loan about which it has concerns while reserving its right to later rescind

coverage.

For Independent Validations exclusively, the MI may elect to reserve its right to rescind coverage at a later date only for concerns related to occupancy status that the MI has been unable to resolve, provided that this right to rescind will expire if the Borrower has timely made 12 consecutive monthly payments under the original loan terms. In conducting its validation of the occupancy status of a Borrower(s), the MI must employ all reasonable efforts, methods and tools it has at its disposal. Should the MI's reasonable efforts prove insufficient and confirmation is not possible without the MI incurring significant additional expense (e.g., having to hire a private investigator), the MI may choose to forego the additional expense and otherwise grant Rescission Relief while retaining its right to rescind coverage at a later date solely as it pertains to occupancy should it obtain Credible Evidence that there was a Significant Defect with the original occupancy status. Should a loan for which the MI has reserved its right to rescind coverage qualify for Rescission Relief under Section III, the MI's reservation of its right to rescind coverage must terminate upon granting the Rescission Relief.

D. **GSE Repurchase Review Option.** An MI may conduct a second review of any loan on which it previously granted Rescission Relief if such loan was repurchased from a GSE for Single Loan Fraud or Pattern Activity. If, during its second review, the MI identifies Single Loan Fraud or Pattern Activity conforming to the requirements of Section VI.A. or VI.B. above, it may reverse its prior grant of Rescission Relief and rescind coverage. This second opportunity to review GSE repurchases applies whether or not the MI has granted Rescission Relief or has accepted a rescission alternative under Section VIII. Each MI must include in its master policy a requirement that the Insured must notify the MI of loans required by the GSEs to be repurchased based on Single Loan Fraud or Pattern Activity. Each GSE will notify the applicable MI of each insured loan that is repurchased due to Single Loan Fraud or Pattern Activity.

E. **Additional Document Requests.** Once Rescission Relief is granted, an MI must not request additional documents unless it becomes aware of Credible Evidence, based upon its own investigation, information in the public realm, or notification in accordance with Section IX.D., of:

1. a Section VI life-of-loan exclusion that would reasonably be expected to apply to one or more loans, or
2. Single Loan Fraud or Pattern Activity with respect to a loan, in which case the request for documents must relate to such loan or other loans originated by the same Initial Insured and involving at least one party common to all the loans.

In either event, the MI must not rescind coverage based solely on the Insured's failure to produce the requested documents unless such documents are required by the MI's underwriting or servicing guides. Notwithstanding the foregoing limitations, nothing contained herein is intended to limit an MI's right to request files and documents that are required under its master policy in connection with an Insured's filing of a claim or an MI's ability to pursue any remedies available under the master policy for the Insured's failure to produce such files or documents.

F. **Treatment of High LTV Refinances.** For existing loans where the MI has granted Rescission Relief and such loan is subsequently refinanced under one of the GSE high LTV refinance programs, the new loan must be granted Rescission Relief if and when it would be eligible for relief under the GSE Representation and Warranty Framework, subject to the MI continuing its coverage on the new loan and treating the new loan as a modification of the existing loan.

G. **Appeals and Cures.** The Initial Insured or Insured, as applicable, may challenge the MI's determinations under these Principles as incorporated into its master policy, including, if applicable, the litigation and arbitration provisions set forth in the master policy.

H. **GSE Right to Withdraw Rescission Relief.** The GSEs reserve the right to withdraw on a

prospective basis an MI's ability to grant Rescission Relief under Sections II, IV and V.B. in whole or in part should a GSE determine through its operational risk reviews, quality control calibration results, or through some other means that the MI is not in full compliance with such sections or the PMIERS QC Review requirements. Further, the GSEs reserve the right to withdraw on a prospective basis the Closing Document Exception provision under Section IV.D. in its entirety in the event that the GSE determines, in its sole discretion, that such Closing Document Exception presents undue risk to the GSE. Should either GSE determine a need to exercise any such rights, the MI will be provided with at least 90 days prior written notice.

Exhibit A

Minimum Underwriting Processes and Document/Information Reviews That Must Be Satisfactorily Completed for Independent Validation

Following are the minimum underwriting processes and document/information reviews that must be satisfactorily completed in order to grant Rescission Relief based on Independent Validation:

Underwriting Processes

1. Review of evidence in the loan file of:
 - a. Verification of all Borrowers' income, employment, credit (including credit report, credit score, debts, etc.), assets to meet reserve requirements, deposit/down payment, and occupancy;
 - b. Verification of Borrower's mortgage or rent payment history, if applicable (e.g., seasoned loans, first-time homebuyer loans);
2. Confirmation of the loan's compliance with the MI's eligibility criteria and underwriting requirements, including applicable loan calculations (e.g., debt-to-income ratio, loan-to-value ratio); and
3. For high-risk loans (as defined by the MI), satisfactory application of the MI's fraud prevention process/tools.

Document/Information Review

4. Initial Insured's application for mortgage insurance;
5. Borrower's(s') signed loan application (Fannie Mae Form 1003/Freddie Mac Form 65);
6. Borrower's occupancy statement and, if relevant to the MI's validation of eligibility, Borrower's letter of explanation (LOX), if any; and;
7. For loans for which the Initial Insured/Insured is not subject to the Closing Document Exception, copies of the final closing disclosure (formerly HUD-1), executed mortgage or deed of trust, original promissory note with any riders, title insurance commitment or attorney's opinion of title, and any other closing documents or information that the MI would otherwise review at the time of claim (e.g., documents/information required to satisfy underwriting or closing conditions that the MI has not previously reviewed).