Good credit decisions support the return to a

Low Foreclosure

Mortgage Market

Restoring confidence in the

American Dream of Homeownership

SUSTAINABLE AND AFFORDABLE HOUSING: Part 2 of a 4 Part Series

www.RestoreTheDream.com

What is a Credit Decision?

A credit decision is the final approval or denial to loan money to a borrower. This decision should be based on a thorough, well documented review of the borrower's ability and willingness to repay a loan.

Why does a Good Credit decision matter?

Making good credit decisions on every mortgage is vital to the overall mortgage market and broader economy. Sometimes the need for quick approvals and high loan volumes has taken precedence over good credit decisions. In some cases, a complete reliance on technology to review a borrower's entire credit history has resulted in a less than ideal credit decision. So, it all starts with the credit decision on each loan and the benefits of having good credit decisions are substantial:

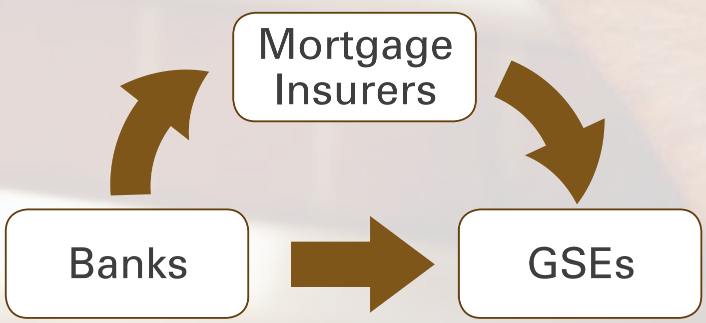
LOW FORECLOSURE NEIGHBORHOODS — When a borrower is approved for a loan he can't afford, his likelihood of losing the property to foreclosure increases drastically. In the case of a borrower overextending himself, the best credit decision is a loan denial because no one wins when a family loses their home, a neighborhood is devalued, and an investor loses money. Credit decisions that are made with the proper tools and processes are more likely to give the appropriate decision to each borrower. This means fewer borrowers in homes they can't afford and fewer neighborhoods with foreclosed properties.

CONFIDENCE — Good credit decisions bring confidence to the mortgage market. When an investor has confidence that the mortgages he's buying were originated with good, thorough credit decisions, he's more likely to make mortgage backed securities a core part of his investment portfolio. That confidence brings more dollars to the mortgage market, in turn helping more Americans buy homes they can afford at lower interest rates. But when that same bond investor is skeptical of the true quality of the underlying mortgages, he will stay on the sidelines.

How is a good

Credit Decision Made?

First, a good credit decision involves more than one party. For low down payment lending which involves higher risk, a good credit decision involves these three parties:



Banks originate the loan and are able to evaluate the documentation and information given by the borrower. GSEs provide technology that helps to categorize and process a loan while giving it a preliminary credit decision. And mortgage insurers provide a thorough review of the loan data and documentation. Plus when they approve a loan, mortgage insurers are putting their capital at risk.

What is needed to make a Good Credit decision?

FULL LOAN FILE

Assumptions and shortcuts don't work when evaluating a borrowers ability to pay the largest loan of his life. Fully documented loan files help drive good credit decisions.

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PROVEN UNDERWRITING METHODOLOGY

A Proven Underwriting Methodology comes from decades of experience underwriting millions of loans. Having proven policies and processes ensures that a loan is evaluated properly and that all parts of a borrower's credit situation and history are appropriately considered.

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SKILLED PERSONNEL

Unfortunately, recent mortgage losses have proven that machines cannot replace human underwriting. Technology is an essential tool but an inadequate substitute for skilled personnel who consider all the information to make good credit decisions.

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"SKIN IN THE GAME"

There is a natural incentive to protecting one's investment. So, shouldn't a borrower getting a loan and the organization approving a loan actually have a financial interest in how that loan performs? Seems to make sense.

= Good Credit Decision

What is in a Full Loan File?

A full loan file contains a variety of documentation which most borrowers can easily obtain. A fully documented file is the best way to evaluate a borrower's ability to pay, and with higher risk loans—like ones where the borrower is putting down less than 20% of the value—a full loan file must be a requirement.

FULL LOAN FILE

1008 *(Uniform Underwriting and Transmittal Summary)*

1003 *(Uniform Residential Loan Application)*

AUTOMATED UNDERWRITING SYSTEM FINDINGS/FEEDBACK

CREDIT

- Credit Reports & Score Information Disclosure
- Verification of Mortgage and/or Rent
- Credit Explanation Letter(s)
- Evidence of Payoffs and Tax Lien Satisfaction
- HUD-1 Statements *(Sale of Previous Property)*
- Related Public Records

INCOME

- Pay Stubs and W-2s
- Verifications of Employment
- Retirement/Social Security/Pensions/Alimony and Child Support
- Military Information
- Rental/Lease Agreements *(Owned Property)*

TAX RETURNS

ASSETS

- Bank and Brokerage Statements
- Verification of Deposits
- Check Copies for Earnest Money Deposits
- Gift Letters and Proof of Receipt

APPRAISAL

- All Appraisal Docs, License, and Clear Photos
- Condo/PUD Information

SALES CONTRACT

- Executed Contract and Supporting Documents

OTHER

- Divorce, Separation, Child Support Agreements
- Any Documents used to make Underwriting Decision

ALT-A LOAN FILE

1008 *(Uniform Underwriting and Transmittal Summary)*

1003 *(Uniform Residential Loan Application)*

In a Stated Income Package, both the 1008 & 1003 are not filled out completely.

CREDIT

APPRAISAL Some Alt A loan programs allow automated property valuations or other reduced collateral valuations.

A Full Package of documentation gives the clearest view of a borrower's ability and willingness to repay a mortgage.

A low down payment borrower deserves a full assessment of their ability to pay a mortgage.

For the 2006 Book Year, Prime loans show a delinquency rate of 3.65% while the Alt A delinquency rate is 17.3%. Documented income is part of a good credit decision.

Source: Standard & Poor's.

How do mortgage insurers support making Good Credit decisions?

Mortgage insurers operate in the greater than 80 loan to value market, so inherently the mortgages they insure are of greater risk than those with higher down payments. By operating in this market for more than 50 years, the industry has developed expertise in evaluating the risk presented by a low down payment loan. MI companies know from experience that low down payment loans can be safe, sound, good risk (or business). Here are some of the ways mortgage insurers support good credit decisions in the low down payment loans:

CAPITAL AT RISK — When a mortgage insurer approves a loan, they are putting capital at risk on the long-term performance of that loan. Also, mortgage insurers reserve 50 cents of every insurance premium dollar for future claims on loans insured.

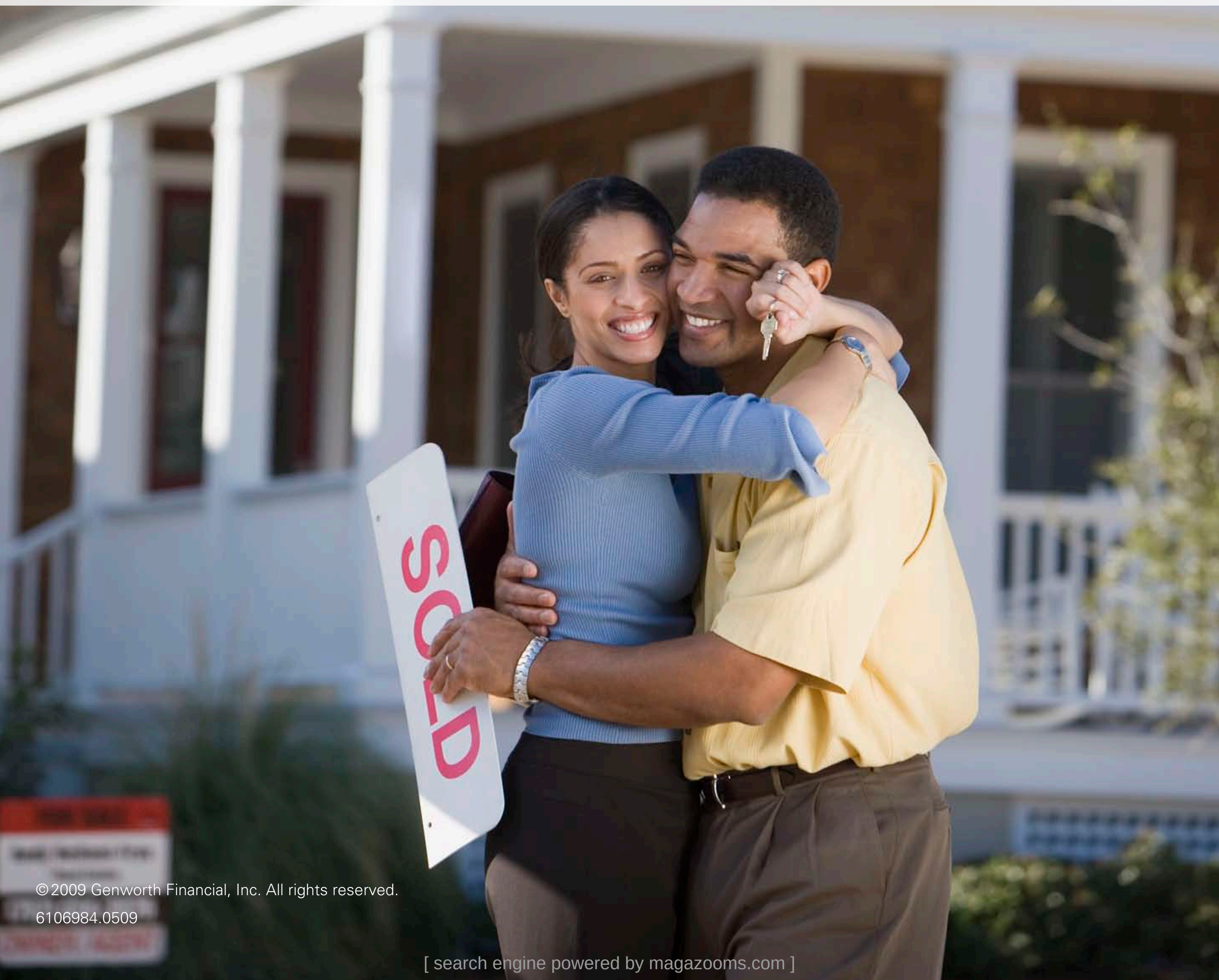
PRUDENT MORTGAGE PROGRAMS — Mortgage Insurers have underwritten loan files of low down payment borrowers for decades. Therefore, they know that exotic loan products like interest only, piggybacks and negative amortization are not right for the low-down payment or first time borrower. This is why mortgage insurers generally avoided insuring these products during the ill-fated boom in exotic loans.

UNDERWRITING EXPERTISE — With over half a century of experience, mortgage insurers are experts at evaluating the low down payment borrower. For example, mortgage insurers structure their guidelines such that the highest risk borrowers will get a complete and thorough review and will require significant documentation. First time borrowers and those only able to put down a small amount deserve the best chance for long-term success in the biggest purchase of their lives. A full review of their entire financial situation is the best way to give them this chance.

Mortgage Insurance Companies currently stand in the first loss position for almost $1 Trillion of mortgage risk. That's roughly 10% of all mortgage loans outstanding.

Restoring *Confidence in the American Dream of Homeownership* starts with making good credit decisions on each and every mortgage that is originated. A good credit decision is good not only for the overall mortgage market and economy but also for the borrower who is given the best chance for long-term success.

To learn more about ***Restoring Confidence in the American Dream of Homeownership,*** visit RestoreTheDream.com



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