Lending Guide

Chapter 18 | Mortgage Insurance

Generally, mortgage insurance (MI) is required on loans with a loan-to-value (LTV) ratio in excess of 80%. However, the amount of coverage required varies by product, transaction type, LTV, and occupancy. To determine the amount of required coverage, refer to the MI coverage chart in this guideline or to the specific product and program requirements.

MI guidelines are subject to change; it is the underwriter's responsibility to check the applicable MI company underwriting guidelines and verify MI eligibility at the time of underwriting and prior to sending out a loan approval. MI may not be available for all properties located in all markets, including declining or distressed markets. Check with the MI provider for eligibility on properties located in specific markets.

Cardinal accepts only Standard Coverage amounts. Reduced, Lower Cost, and Minimum MI as approved by Desktop Underwriter (DU) or Loan Product Advisor (LPA) are not eligible when those coverage amounts require a delivery fee or loan-level price adjustment.

Refer to the Mortgage Insurance Certificate Procedure for instructions on ordering MI.

Approved MI Companies

Cardinal will accept coverage from the following MI companies. The requirements and policies of the specific MI providers may be accessed below. Note: Attached housing in the state of FL requires Genworth prior approval.

- Arch (previously United Guaranty)
- Essent
- Enact Mortgage Insurance (previously Genworth)
- MGIC

- National MI
- Radian

Homeowners Protection Act Requirements

The Homeowners Protection Act (HPA) applies to residential mortgage loans, including loans for single-family homes, condos, and other multi-unit residential housing. The Act does not cover government loans. In compliance with the HPA, Cardinal will not originate loans with MI coverage on loans with an LTV less than or equal to 80%.

Disclosure of Monthly Mortgage Premiums

Federal law requires the monthly mortgage insurance premium to be disclosed in the payment stream on the Loan Estimate (LE) or Closing Disclosure (CD).

Qualified Mortgage (QM) Points and Fees

Inclusion of MI in the QM

Cardinal's policy is to include all borrower-paid up-front premiums in the QM Points and Fees Test regardless of ability to refund and regardless of the refund schedule. All borrower-paid up-front premiums must be included in the QM Points and Fees Test.

Points and Fees Test

Borrower paid up-front premiums that must be included in the QM Points and Fees Test:

- Cash single premium
- Financed single premium
- Upfront portion of split premium plans (split premium not permitted by Cardinal)

CARDINAL
FINANCIAL COMPANY LIMITED PARTNERSHIP, NMLS 66247

Properties Located in New York State

Under New York State statute, a mortgage insurer may not issue mortgage insurance if the mortgage amount is less than 80% of the original "fair market" value of the property. The term "fair market value" is not defined in the statute but has been defined by the regulator as being the appraised value. To determine when to require mortgage insurance for a mortgage secured by a property in New York, use the "appraised value" of the property instead of using the lower of the sales price or current appraised value. The underwriter should note on the AUS Feedback Certificate and the 1008 if the appraised value was used as the basis for calculating whether mortgage insurance was required.

Borrower Eligibility

DACA Status

Borrowers who are classified under Category C-33 status (Deferred Action for Childhood Arrivals - DACA) are only eligible with FHA and VA financing or with conventional financing through Fannie Mae utilizing Desktop Underwriter.

Please refer to Chapter 2 Citizenship Requirements for all VISA requirements and eligibility.

Eligible MI Premium Payment Plans

MI premium plans other than Borrower Paid Monthly Premium (BPMI) may have additional requirements or restrictions. Not all MI companies offer all types/plans. In addition to the information below, refer to Cardinal's product and program guidelines for any additional restrictions.

Borrower Paid Monthly Premiums (BPMI)

With BPMI there are no upfront costs, the premium is paid monthly through the borrower's escrow account. Coverage is based on the LTV. This option offers the lowest note rate, but the borrower's monthly payment is generally the highest. BPMI monthly policies should be ordered using the deferred payment or Zero Monthly option which provides for the first MI payment to be due the first full month after the loan closes.

Borrower-Paid Single Premium (BPSP)

BPSP allows borrowers to purchase a life-of-loan policy with a single payment at closing instead of making monthly MI payments. For purchase transactions with seller concessions or rate and term refinances where the borrower has sufficient funds to pay the premium at closing, this may be an option. The total premium is paid at closing. The MI may be financed (subject to restrictions) based on the loan-to-value ratio (LTV), or paid in cash by the borrower or seller. This option offers a lower monthly payment than monthly MI and may be eligible for cancellation.

Financed Single Premium - Borrower Paid (FSPMI)

FSPMI is a form of borrower-paid single premium MI where the borrower purchases a life-of-loan policy by financing the full premium payment in the loan amount instead of making monthly MI payments.

Financed MI Endorsement

All loans with financed single premiums must have a Financed MI endorsement attached to the MI policy. This endorsement must provide that the insurance benefit paid pursuant to the "percentage option" in satisfaction of a claim be calculated as:

- The claim amount minus the unamortized portion of the financed MI premium multiplied by the applicable coverage percentage,
- **PLUS** the unamortized portion of the financed MI premium.

Financed Single Premium Requirements

- Primary residence or second home only
- Purchase or Rate and Term only

- Financed MI is not eligible for Freddie Mac Super Conforming mortgages

The use of single premium MI requires two different calculations of the LTV:

- The amount of MI coverage is determined by the base LTV prior to the inclusion of any financed MI
- The total LTV, including the amount of the financed MI, is then calculated to determine program eligibility
- Program eligibility and loan-level price adjustments are based on the total LTV

Lender-Paid MI

The MI premium is built into the interest rate and financed into the loan at closing. The interest rate is generally higher than with borrower-paid monthly MI but there is not a separate monthly payment.

Split Premium MI

Carinal does not offer split premium mortgage insurance.

MI Coverage Requirements

The below tables illustrate the MI requirements for the products listed. Refer to the individual program requirements and product snapshots for additional requirements. Cardinal accepts only standard coverage amounts. Reduced, lower cost and minimum MI as provided by DU® or LPA® Is not eligible.

Standard Conventional Products

Required Coverage for Conventional Fixed and ARM Products		
LTV Ranges	Less than a 20-Year Term	25 & 30-Year Term
95.01 – 97%	35%	35%
90.01 – 95%	25%	30%

85.01 – 90%	12%	25%
80.01 – 85%	6%	12%

HomeReady and Home Possible Programs

Mortgage Insurance Coverage - HomeReady and Home Possible		
LTV Ranges	Less than a 20 -Year Term	25 & 30-Year Term
95.01 – 97%	25%	25%
90.01 – 95%	25%	25%
85.01 – 90%	12%	25%
80.01 – 85%	6%	12%

Note on QM: Cardinal includes all-cash single, financed-single, and up-front in points and fees regardless of the refund schedule.

Approved MI Providers

The MI companies that have been approved for modified/transferred MI are as follows:

- ARCH
- Genworth
- Radian
- MGIC

Eligible MI Types

- Borrower paid:

- Monthly with constant or declining renewal
- Single paid cash
- Single paid financed

- Lender paid:
  - Single lender-paid MI

Ineligible MI Types for Freddie Home Possible

- Monthly lender-paid
- Annual lender-paid
- Annual borrower-paid

Note: If the original MI certificate indicates one of the ineligible MI types as listed above, an exception may be requested from the company to keep the existing type of MI in place on the new transaction. All exception requests are subject to MI company's approval. The MI coverage percentage must remain and the borrower must qualify with the monthly MI payment, if applicable.

MI Documentation Required

Cardinal requires that the MI certificate be retained in the loan file. The MI certificate terms must match the loan terms. The MI certificate must contain:

- Expiration Date - the expiration date must be at least two weeks beyond the funding date or the purchase date for correspondent loans
- Commitment number
- Loan Type
- LTV

- Occupancy
- Insured amount
- Appraised value
- Term of loan
- MI coverage %
- Premium due (any amount owed at closing and subsequent monthly payments)
- Tax/Assessment rate and any tax/assessment due, if applicable

MI Cancellation

All borrower-initiated inquiries regarding the cancellation of MI should be addressed by referring the borrower to the servicer.

In general, the Homeowners Protection Act (HPA) requires that the borrower can no longer be required to pay for mortgage insurance premiums in the following circumstances.

Borrower-Requested Cancellation at 80% Loan-to-Value (LTV)

When the principal balance of the loan reaches 80% of the original value of the property (whether under the loan's amortization schedule or before then due to additional payments), the borrower can request in writing that the lender or designated servicer cancel the premium payment obligation. The borrower must have a Good Payment History, as defined in the HPA, and may be required to show that the current value of the home has not declined below the original value and certify that the borrower's equity in the property is not subject to a subordinate lien.

Lender-Initiated or Designated Servicer-Initiated "Automatic Termination" at 78% LTV

Once the LTV, based on the property's original value and the loan's amortization schedule, reaches 78%, the lender or designated servicer can no longer require the borrower to pay the mortgage insurance premium and must initiate coverage cancellation.

The above HPA requirements do not apply to FHA and VA government-guaranteed loans, or to lender-paid mortgage insurance. For loans with mortgage insurance, lenders and designated servicers are subject to a series of borrower notice requirements under the HPA, beginning at the time of loan origination. Please refer to the specific text of the HPA to determine which requirements apply.

References

Reference List
Arch (previously United Guaranty)
Compliance Loan Exception Policy
Essent
Genworth
MGIC
Mortgage Insurance Certificate Procedure
Radian

Revision History

Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record.

Date	Verison	Description	Approver

2.6.24	-	Updated Eligible MI Premium Payment Plans to specify Split MI is ineligible	Kristen Bellon
12.17.21	-	Immaterial changes. Corrected grammar and formatting to align with company standards	
1.25.21	-	Added DACA citizenship now available with FHA financing	Kristen Bellon
8.31.20	-	See Google Version History for previous updates	
12.2019	-	• Removed requirement that Lender Paid Mortgage Insurance is only available when determining FICO Score < 700 and DTI > 45% through ARCH, Radian and Essent • Added Borrower Eligibility section providing guidance on borrowers with a DACA citizenship classification	Kristen Bellon
11.2019	-	Provided clarification for MI requirements under the Homeowners Protection Act Requirements section	Ellen Clayson
11.2018	-	FICO and DTI Restrictions on LPMI	Erica Price
9.2017	-	Initial approval	Erica Price