



## Limitation on Rescission, Claim Denial and Certificate Cancellation

National Mortgage Insurance Corporation  
Mortgage Guaranty Insurance Master Policy (AS08.12.01 03 13)

Upon the Company's issuance of this endorsement to an Insured, the terms of this endorsement shall be applicable to any Loan for which a Certificate is issued under such Insured's Policy on or after the effective date of this endorsement. Capitalized terms used herein shall have the meanings given to them in the Policy.

1. The text of Section I.H. Limitation on Rescission, Claim Denial and Certificate Cancellation is deleted and replaced with the following:

**"H. Limitation on Rescission, Claim Denial and Certificate Cancellation.**

1. No Claim for Loss made under this Policy will be denied, nor will any Certificate be rescinded or cancelled, nor will any Claim be adjusted, for any issue arising out of the origination or closing of the Loan; *provided, however* all the following conditions have been met:
  - a) The Borrower must have made the first twelve (12) consecutive monthly payments of principal, interest and escrow impounds in the amount, and timeliness, required under the Loan with the Borrower's Own Funds and not with funds received from the Seller or any other party to the transaction or through, or with the assistance of, additional financing arrangements designed to make such payments, and every Default must be counted; *provided, however*, the Loan must not have been subject to a forbearance agreement, repayment plan, or otherwise have been modified from its original terms during the first twelve (12) months following the origination date;
  - b) If twelve (12) timely payments are not made as set forth in Section I(H)(1)(a), relief must still be granted after the 36<sup>th</sup> month following the due date of the Borrower's first regular periodic payment on the Loan, provided that the Loan is current at the end of such 36-month period (with allowance for such payment's applicable grace period as specified in the Loan document) and the Borrower had (i) no more than two 30-day delinquencies, and (ii) no 60-day or greater delinquencies, during such 36-month period;
  - c) There shall not have been any intentional and knowing Material Misrepresentation by a First Party with respect to a single Loan where the Company (i) determines upon its evaluation of Credible Evidence that such Material Misrepresentation occurred in the origination or closing of the Loan, and (ii) relied on such Material Misrepresentation in insuring the Loan, subject to the limitations set forth in Section I(H)(2); and
  - d) There shall not have been any Pattern Activity.

2. Provided that the condition in Section I(H)(1)(a) or I(H)(1)(b) is met, the Company will not initiate an investigation or request files (other than those required for Claim filing) of potential Material First Party Misrepresentation in connection with a Loan the Company has insured without Credible Evidence that establishes reasonable grounds for a belief that a First Party intentionally and knowingly participated in the alleged Material Misrepresentation. The Company will not reach a determination that a First Party participated in the Material Misrepresentation unless the Company is in possession of Credible Evidence that the First Party knew of the Material Misrepresentation at the time of the Certificate Effective Date. Examples of Credible Evidence of Material First Party Misrepresentation where the Insured knew of such First Party Misrepresentation include, but are not limited to any one or more of the following:
- a) Misrepresented verifications of income, assets, down payment, deposit or employment, or Misrepresentation in the HUD-1 (as these documents have been within the First Party's or Insured's control). Note that the Company views verifications as important parts of a Loan Originator's control process;
  - b) Undisclosed mortgage to the Borrower by the same Loan Originator as the subject Loan (as the Loan Originator should detect such other loan and ensure it is disclosed);
  - c) A review appraisal indicates a variance of fifteen percent (15%) or more in the value of the Property as compared to the Original Value and there is evidence that the appraiser manipulated or selectively utilized information in producing the appraisal that established the Original Value (e.g., if the sales history of the subject Property or its relation to comparable properties is misrepresented);
  - d) Any situation where a straw buyer is presented as the Borrower for purposes of qualifying an otherwise unqualified Borrower if it can be proven the First Party knew the truth;
  - e) Any situation where the Borrower has presented false identification where it can be shown a First Party knew the truth;
  - f) Any situation where it is determined a First Party's employees or contractors knew of or participated in any manipulation or Misrepresentation of any information that was relied on to obtain coverage on any Loan or group of Loans;
  - g) The Company has Credible Evidence of Pattern Activity;
  - h) An investigation by regulators or law enforcement agencies has established that there was Material intentional and knowing Misrepresentation involving the Loan;
  - i) A First Party, the Servicer, Insured, Third -Party Beneficiary or owner of the Loan have reported such Material Misrepresentation to the Company; and
  - j) The Loan has been repurchased as a result of Material Misrepresentation due to any of the foregoing items (a-i) listed in this section.

In respect to all of the above the Company will consider any evidence provided by the Insured that rebuts the findings and/or the Material nature of the uncovered Misrepresentations.

3. The Company shall provide Rescission relief after twelve (12) payments as set forth in Section I(H)(1)(a) only with respect to information and documents for which it has performed an Independent Validation. If, in conducting its Independent Validation, the Company uncovers discrepancies, errors or any other questionable data or other information which it determines, in its reasonable judgment, is in need of re-verification, the Company shall independently obtain new information to re-verify accuracy and re-assess eligibility of the affected Loan using reasonably reliable third-party sources and records recognized as such in the mortgage origination industry. Any such re-verification shall be deemed to be Independent Validation.
  4. Failure of the Insured or the Servicer to respond to requests for files (outside the ordinary Claim processing under Section V.A (Claim Filing Process)) cannot be grounds for a Rescission or cancellation in cases where relief has otherwise been granted after the conditions are satisfied for the limitations under Section I(H)(1)(a) or (b) above, as applicable.”
2. The definition of **Credible Evidence** is added as a new definition in the Definitions Section, as follows:

“**Credible Evidence** means: (1) the information identified in Section I(H)(2) of this Policy (whether such information was submitted to the Company prior to or after the Certificate Effective Date); (2) information relating to the Loan (whether written, electronic or oral) provided at any time by a First Party to the Company; or (3) any other information (whether written, electronic or oral) received or obtained by the Company at any time from any Person provided that such information would be viewed by a reasonable person familiar with all other Credible Evidence as having a basis in fact and not exhibiting falsity or material internal inconsistency. Credible Evidence shall not include sole reliance on any of the following without corroboration from any evidence proffered under (1), (2) or (3) of this definition: (a) average salary information such as is available from various vendors that is less than the verified income used to qualify the Borrower; (b) information submitted to a bankruptcy court by the Borrower that contradicts the asset and liability representation made by the Borrower on the Loan application; and (c) a written or oral statement made by the Borrower to the Company or the Company’s agents after the Closing that contradicts the income or assets as represented by the Borrower on the Loan application and was properly verified by the Insured, unless such statement was made under penalty of perjury.”
  3. The definition of **Independent Validation** is added as a new definition in the Definitions Section, as follows:

“**Independent Validation** means, with respect to Section I(H) (Limitation on Rescission, Claim Denial and Certificate Cancellation), an independent review by the Company that shall be conducted regardless of whether the Company performs any initial underwriting to grant coverage under this Policy, and shall include, but not be limited to: (i) re-underwriting of all Origination File information and post-closing documents; (ii) comparison of post- closing data and final, post-closing documentation terms to such data and documentation obtained by the Company that describe the Loan prior to date it was Closed; (iii) review of the Borrower’s credit report, signed loan application and the verifications of the Borrower’s income, employment and assets; and (iv) review of the Property appraisal (or other Property valuation deemed acceptable by the Company) for compliance with the Company’s collateral eligibility requirements and to ensure that the estimate of value is adequately supported.”

4. The definition of **Misrepresentation** in the Definitions Section is hereby deleted in its entirety and is replaced with the following:

“**Misrepresentation** means a false statement, misstatement, data inaccuracy or omission respecting a matter of Material fact.”

5. The definition of **Origination File** in the Definitions Section is hereby deleted in its entirety and is replaced with the following:

“**Origination File** means, with respect to a Loan, copies of the following documents and data created or received by the Insured in connection with the origination of the Loan and relied upon by the Insured in making its decision in connection with the Loan, if applicable: the Application; the Borrower’s signed loan application; disclosure statements; original purchase contract; buydown agreement; credit reports; verifications of employment, income, assets and deposit; evidence of the Original Value; and such other documents as may be specified in the Default Reporting and Claims Guide as of the Certificate Effective Date.”

6. The definition of **Pattern Activity** is added as a new definition in the Definitions Section, as follows:

“**Pattern Activity** means two or more occurrences of Material Misrepresentation involving two (2) or more parties (i.e. the Borrower and one or more Pattern Parties, or two or more Pattern Parties) and two (2) or more loans, but only if the specific Loan for which Rescission relief is withheld is insured by the Company, and the Company relies upon Credible Evidence in making its Pattern Activity determination.”

7. The definition of **Pattern Party** is added as a new definition in the Definitions Section, as follows:

“**Pattern Party** means (i) any individual acting with actual or apparent authority for the initial Insured or (ii) any First Party other than the Initial Insured, or (iii) any property seller, property builder, real estate broker or real estate agent.”

This endorsement shall vary, alter, waive or extend any terms, conditions, provisions, agreements or limitations of the above referenced Policy only as noted above.

**NATIONAL MORTGAGE INSURANCE CORPORATION**



Bradley M. Shuster  
PRESIDENT



Christopher G. Brunetti  
SECRETARY