Freddie Mac Single-Family | Credit Risk Transfer

Private Mortgage Insurance Handbook

September 2021

Index

Introduction to Private Mortgage Insurance

What is Private Mortgage Insurance (PMI)?

- Freddie Mac's Charter* requires credit enhancement for any loans greater than 80% LTV. PMI is the most commonly used form of credit enhancement.
- PMI is a guaranty tied to the mortgage payment performance of a borrower and provides coverage in the event that borrowers default on their mortgage obligations leading to a claim event such as a foreclosure sale, deed in lieu or third-party sale.
- PMI is provided by privately-owned mortgage insurers that are separate from the insurance or guarantees provided on government-backed loans insured or guaranteed by FHA or VA.
- Supporting homeownership:
    - While mortgage insurance (MI) is an added insurance policy for homeowners that put down less than 20% of the purchase value, it enables borrowers to buy now and begin building equity versus waiting to build enough savings for a 20% down payment.
- Freddie Mac is able to purchase low-down-payment mortgages because the mortgage insurance helps protect against losses from a credit default.

*12 U.S.C. Section 1454(a)(2)

Standard Freddie Mac MI Coverage Requirements

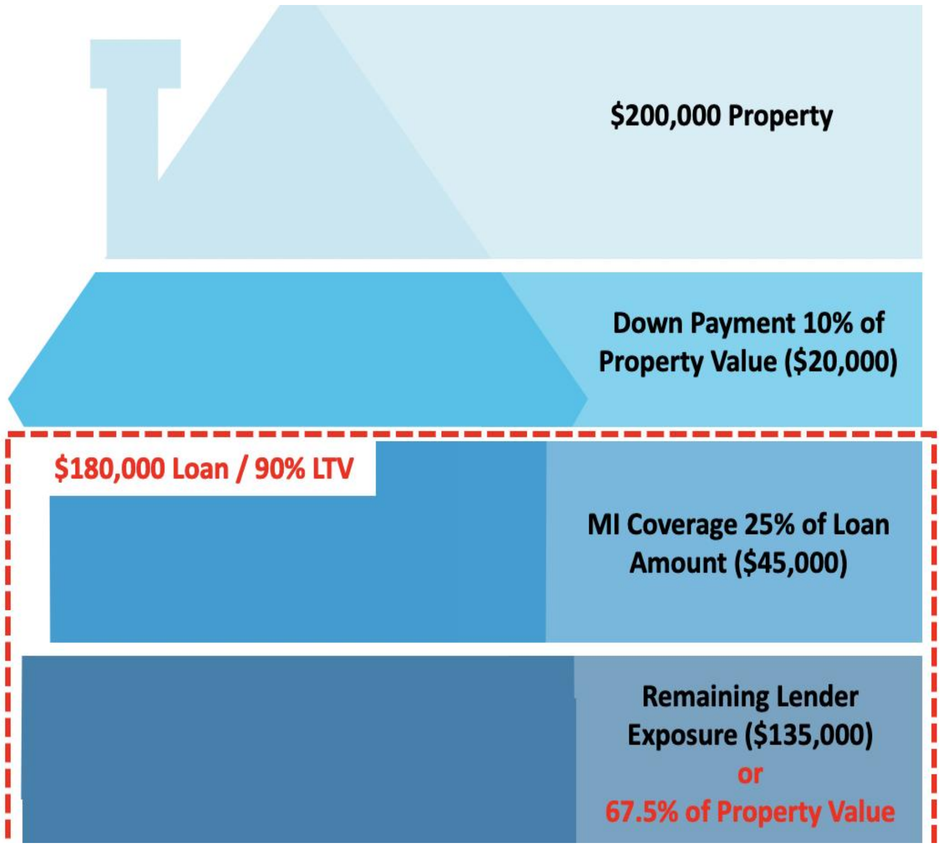
Standard Loan to Value (LTV) and MI Coverage		
LTV Ratios	**Fixed Rate Term ≤ 20 Years**	**Fixed Rate Term > 20 Years, ARMs and MH**
>80% ≤ 85%	6%	12%
>85% ≤ 90%	12%	25%
>90% ≤ 95%	25%	30%
>95% ≤ 97%*	35%	35%
Property Types	1-4 unit Primary Residence, 1-4 unit Investment Property, 1-unit Second Home	
Transaction Type	Purchase, No cash-out refinance, Cash-out refinance	

*Home Possible Mortgages >95% ≤ 97% MI Coverage is capped at 25%

MI Reduces Freddie Mac's Loss Exposure

Example: Percentage Option

- Freddie Mac requires 25% MI coverage on a fixed-rate mortgage with 90% loan-to-value (LTV).
- In the event of a claim, the MI Company is responsible for paying 25% of the outstanding balance plus claimable expenses, reducing the ultimate loss exposure to the lender or investor to 67.5% of the original property value.



MI Claim Amount Calculation Example*

Freddie Mac		
Claim Amount Components		**Total Amount**
A	**Defaulted UPB**	$200,000
B	**Eligible Expenses**	$20,000
C	**Accrued Interest**	$6,000
D = A+B+C	**Claim Amount**	**$226,000**

*Stylized example with specific details found in the master policies

MI Payment of Insurance Benefit Options and Example

Options	Calculation	Notes
Percentage Option	Claim Amount multiplied by the MI Coverage Percentage	▪ Most commonly used
Third Party Sale Option	The lesser of (i) the Claim Amount less Net Proceeds of such Third-Party Sale and ii) Percentage Option	▪ Applicable only if the MI approves a Third-Party Sale within the Claim Settlement Period
Acquisition Option	100% x Claim Amount	▪ For any claim the MI may, at its option, exercise its right to acquire the property in settlement of the claim. The MI is most likely to exercise this option in strong housing markets when the MI believes it can sell the property at a price that would reduce its loss relative to what it would pay under the Percentage Option or Third-Party Sale Option.

Payment of Insurance Benefit Options Examples	
Claim Amount	**$226,000**
Options	**MI Payout**
Percentage Option: (25% MI Coverage) = Claim Amount x 25%	$56,500
Third Party Sale Option: (Net Proceeds $200,000) Lesser of Claim Amount - Net Proceeds ($226,000-$200,000) or Percentage Option ($56,500)	$26,000
Acquisition Option: Claim Amount	$226,000

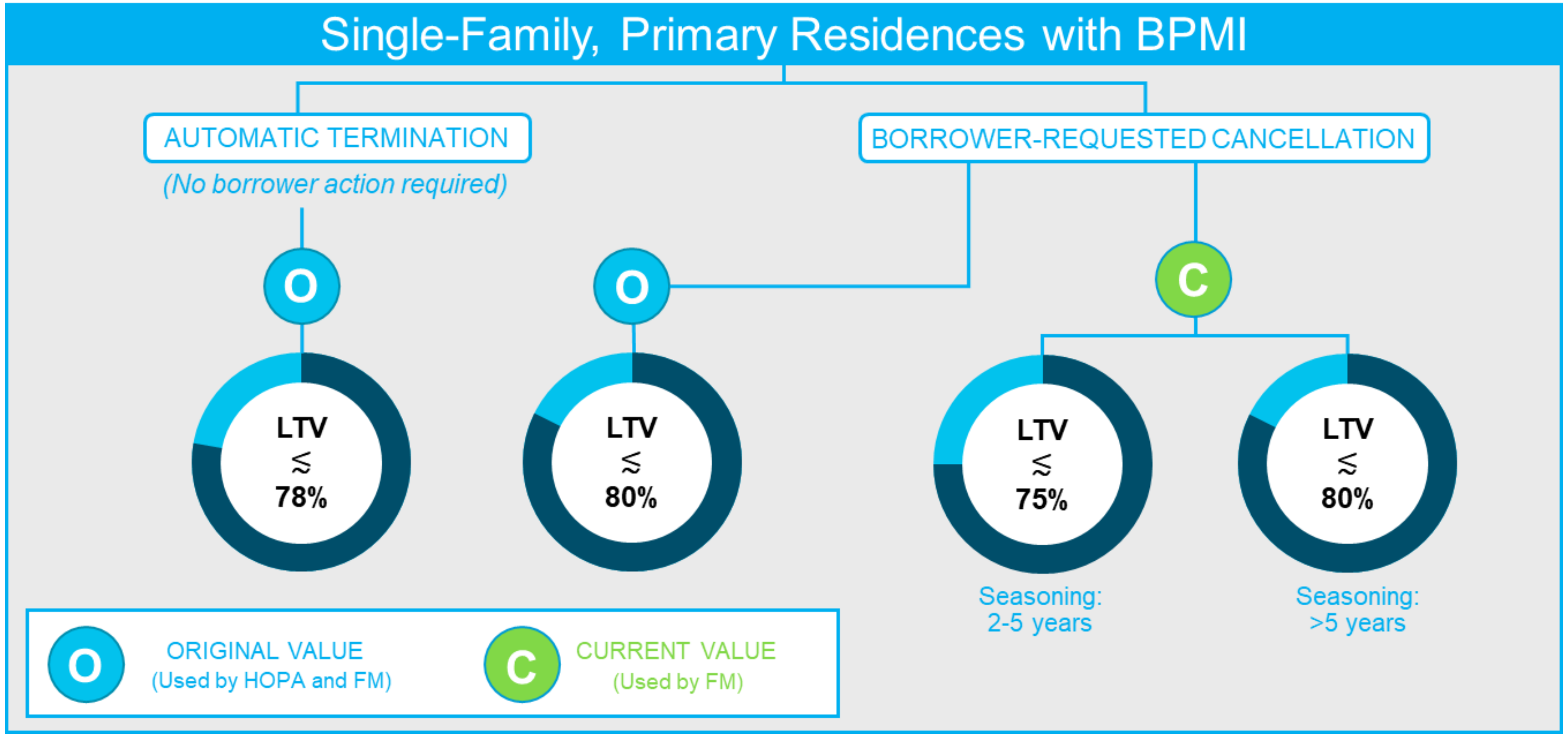
How Borrowers Pay for MI

	Monthly Premiums	Annual Premiums	Single Premiums	Split Premiums
Borrower Paid MI (BPMI)*	▪ Paid on monthly basis as part of principal, interest, taxes and insurance (PITI) payments, usually as part of the borrower's escrow payments	▪ An annual premium is paid in advance, with annual renewal premiums paid thereafter	▪ Borrowers pay a one-time, single payment up front at closing or finance it into the loan amount	▪ Split Premiums give borrowers the option of paying part of the MI premium up front in order to reduce the monthly MI premium paid along with their mortgage payment.
Lender Paid MI (LPMI)	▪ Lender pays a one-time single premium payment upfront ▪ Lender-paid premiums are usually built into the mortgage interest rate payment through a higher note rate or the origination fee. ▪ Lender-paid single premiums are not cancellable			

*90% of New Insurance Written today uses borrower-paid Monthly Premiums with the remaining 10% consisting of BPMI & LPMI Single Premiums. Annual and Split Premiums are rarely used by lenders in the current environment.

PMI Cancellation Types

- The Homeowners Protection Act (HoPA) of 1998 established rules for the automatic termination of borrower-paid private mortgage insurance (BPMI) on certain home mortgages. The HoPA requires that BPMI be automatically cancelled by the servicer when a borrower has built up a certain amount of equity in their home. Freddie Mac's Selling/Servicing Guide establishes the criteria for a borrower to request the mortgage insurance be cancelled.



Section 8203.2(a) and Section 8203.2(b) of the Freddie Mac Single-Family Seller Servicer Guide provide more details on requirements and eligibility criteria

PMI Industry Counterparties

Freddie Mac Approved PMI Counterparties

- Exhibit 10* of the Freddie Mac Single-Family Seller/Servicer Guide provides the list of Freddie Mac-approved Mortgage Insurers (MIs) that Seller/Servicers may use when a Mortgage sold to Freddie Mac requires mortgage insurance.

PMI Company	Overview
Arch Mortgage Insurance	The mortgage insurance subsidiary of Arch Capital Group Ltd. (NASDAQ; ACGL), a Bermuda-based, global insurer that writes insurance and reinsurance on a worldwide basis.
Enact Mortgage Insurance (Previously Genworth)	Enact, operating principally through its wholly owned subsidiary Genworth Mortgage Insurance Corporation since 1981, is a leading U.S. private mortgage insurance group Enact is headquartered in Raleigh, North Carolina
Essent Guaranty	The principal operating company of Essent Group Ltd. (NYSE: ESNT), a Bermuda-based holding company. Essent offers private mortgage insurance for single-family mortgage loans in the United States. Essent also offers mortgage-related insurance, reinsurance and advisory services through its Bermuda-based subsidiary, Essent Reinsurance Ltd.
Mortgage Guaranty Insurance Corp (MGIC)	The principal subsidiary of MGIC Investment Corporation (NASDAQ: MTG), headquartered in Milwaukee, WI, which provides private mortgage insurance services. MGIC also provides reinsurance through its wholly-owned subsidiary MGIC Assurance Corp.
National MI (NMI)	NMI Holdings, Inc. (NASDAQ: NMIH), is the parent company of National Mortgage Insurance Corporation (National MI), a U.S.-based, private mortgage insurance company.
Radian Group	Radian Guaranty is the primary operating company of Radian Group Inc. (NYSE: RDN), a Philadelphia, PA-based provider of private mortgage insurance. Radian Group also provides mortgage credit reinsurance through its Radian Reinsurance subsidiary and other real estate settlement services through its Homegenius division.

*Active Freddie Mac-approved MIs as of September 2021

Private Mortgage Insurer Eligibility Requirements (PMIERs)

PMIERs

The Private Mortgage Insurer Eligibility Requirements (PMIERs), developed under the oversight of FHFA, reflects the aligned GSE requirements that an MI must meet in order to become an approved mortgage insurer and be eligible to provide mortgage guaranty insurance on loans delivered to or acquired by the GSEs. The PMIERs were made effective in December 2015 and revised in March 2019.

- As a result of the last financial crisis, the GSEs developed an aligned set of counterparty eligibility requirements to strengthen the operating and financial standards used by the GSEs to manage their counterparty risk exposures to their mortgage insurance counterparties.

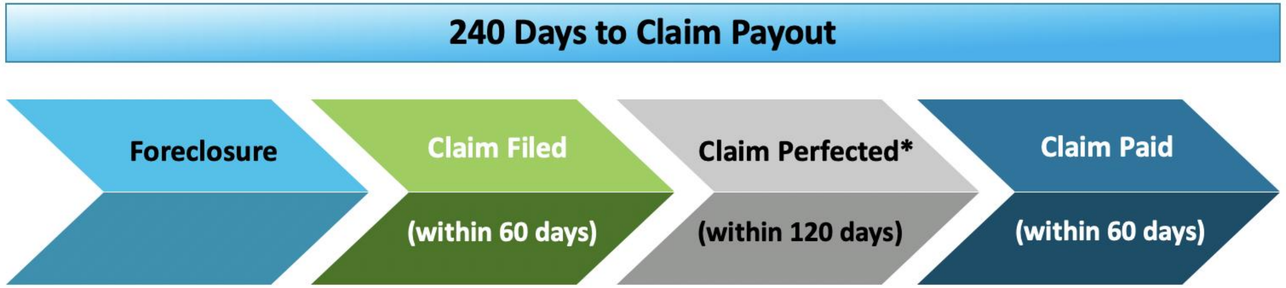
- The PMIERs are intended to enhance the safety and soundness of the GSEs as well as provide greater confidence to market participants and policymakers in the long-term value and role of the MI industry.

- The PMIERs establish minimum business and financial requirements a mortgage insurer must meet as well as the requirements for new companies seeking to apply for approved mortgage insurer status. A key element of the PMIERs is a loan-level, risk-based framework that determines the Minimum Required Assets that an approved insurer must hold as of the end of each calendar quarter. The PMIERs also defines Available Assets which are those liquid, fungible assets that a mortgage insurer can use to meet its Minimum Required Asset requirement.

MI Master Policy and Claims Process

Master Policy

- Master Policy is the Freddie Mac approved form of primary insurance contract defining the terms of MI coverage on eligible loans that is executed between MI companies and Seller/Servicers. Freddie Mac is the beneficiary of such coverage for loans it has purchased.
- In conjunction with their loan origination process, Seller/Servicers secure MI on behalf of the borrower. The Seller/Servicers subsequently submit data about the MI coverage to Freddie Mac via Loan Selling Advisor (LSA) at time of loan delivery.
- Freddie Mac is responsible for filing claims with the MI company with cooperation from the Seller/Servicers. Pursuant to their Guide-based obligations, Seller/Servicers provide relevant servicing or foreclosure information, as may be needed by Freddie Mac or requested by the MI company, typically within 60 days* from the time the loan with MI has had had a claim event (e.g., foreclosure sale, deed in lieu or third-party sale).
- Generally, the claim filed must be perfected* within 120 days and the payment on the perfected claim is remitted by the MI company to the beneficiary within 60 days of the perfection date.



*Perfected Claim means a Claim received by the MI which contains all information or supporting documentation required by the MI and for which all requirements of the Master Policy applicable to payment of a Claim are satisfied. Assumes successful claim without curtailment or dispute

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